

West Wimmera Shire Council

Decision on application for higher caps 2017-18 to 2020-21

July 2017

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1. Our decision

This is the second year of the Fair Go Rates system and councils can apply for higher caps for up to four years.

West Wimmera Shire Council (West Wimmera) applied for higher caps of 3.5 per cent for four years (2017-18, 2018-19, 2019-20 and 2020-21), which is inclusive of the Minister's rate cap. West Wimmera estimates the extra 1.5 per cent above the Minister's rate cap for 2017-18 will generate approximately \$97 000 of additional revenue in 2017-18. It estimates the overall effect of the higher caps over the four years being approximately \$1.04 million of additional revenue compared to the Minister's rate cap.¹

The Essential Services Commission (the Commission) assessed West Wimmera's application, and approves the proposed higher caps of 3.5 per cent for each of the four years.

We are satisfied the higher caps are appropriate because the application demonstrates a long-term funding need and planning which includes engagement with the community. The application shows West Wimmera has a large asset renewal gap, while facing ongoing operating deficits.

As the approval applies for four years, we expect council to continue to engage with its community on major service and financial trade-offs as part of its corporate planning and budget processes.

¹ A higher cap represents a permanent increase in a council's rate base that will continue to apply in each subsequent year. The additional revenue has been calculated based on an assumption that the Minister's rate cap will remain at 2 per cent over the four years.

2. Background

Under the Fair Go Rates system, established under the *Local Government Act 1989* (the Act), councils must limit their average rate increase to a cap set by the Minister for Local Government. The Minister set a 2 per cent rate cap for the 2017-18 financial year.

Councils wishing to increase their average rate by more than the cap must get approval from the Essential Services Commission. From this year, councils can apply for up to four years of higher caps. We assess each council's application and we either approve, approve in part or do not approve the higher cap(s).

In assessing applications, the Commission must take into account the six legislative matters² and the statutory objectives³ of the Fair Go Rates system (box 1). We must also consider a council's compliance with previous years' caps.

Box 1 The Fair Go Rates system

The **legislative matters** are:

- the proposed higher cap for each specified financial year
- the reasons for which the council seeks the higher cap
- how the views of ratepayers and the community have been taken into account in proposing the higher cap
- how the higher cap is an efficient use of council resources and represents value for money
- whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate
- that the assumptions and proposals in the application are consistent with the council's long-term strategy and financial management policies set out in the council's planning documents and annual budget.

The **statutory objectives** are:

- to promote the long-term interests of ratepayers and the community in relation to sustainable outcomes in the delivery of services and critical infrastructure
- to ensure that a council has the financial capacity to perform its duties and functions and exercise its powers.

² *Local Government Act 1989* Section 185E(3).

³ *Local Government Act 1989* Section 185A.

Affordability

Affordability is an important consideration for a council when setting its rates. We expect that councils take this into account when they make their decisions about whether to apply for a higher cap.

We do not assess affordability in councils' higher cap applications. The legislation does not require us to do so, nor is it appropriate.⁴ Councils are best placed to determine their community's capacity to pay after taking into account all major factors that may affect their communities. The decision on the appropriate trade-off between service impacts and the level of rates rightly sits within the council's jurisdiction.

Our role, as defined in legislation, is limited to ensuring that the higher cap application process undertaken by councils is robust and transparent.

Monitoring outcomes

Each year we report on each council's compliance with its rate cap, and every two years we report on outcomes from the Fair Go Rates system. When doing so, we will monitor and report on whether councils have spent the extra revenue from a higher cap in line with the expenditure needs cited in their applications. While we approve rates and not expenditure, it is important that the community and ratepayers receive confirmation that councils have met their commitments. If the extra revenue is redirected to other areas, we will seek and publish a council's explanation for the reallocation of those funds.

⁴ Affordability is not one of the matters listed in the legislation that councils must address in their applications — section 185E(3).

3. What did the council apply for and why?

West Wimmera applied for higher caps of 3.5 per cent (inclusive of the Minister's rate cap) for each of 2017-18, 2018-19, 2019-20 and 2020-21. West Wimmera estimates the extra 1.5 per cent above the Minister's rate cap would generate approximately \$97 000 of additional revenue in 2017-18. Council estimates the overall effect of the proposed higher caps over the four years to be approximately \$1.04 million of additional revenue compared to the Minister's rate cap.⁵

Council applied for a higher cap to help it to maintain services and asset renewal at the levels expected by ratepayers and the community, while assisting council to achieve financial sustainability.

The application identifies a need for additional funding for asset renewal, as council has a large annual asset renewal gap and is facing significant deterioration of its assets (in particular, its road network). At the same time, council is facing significant ongoing operating deficits. It projects an underlying operating deficit over the four years covered by the proposed higher caps. These deficits are projected to continue for the foreseeable future under council's ten year long-term financial plan.

Council resolves to quarantine the additional funds from the higher caps for capital expenditure to arrest the decline in its assets. For example, the additional funds generated in 2017-18 would be allocated to unsealed road re-sheeting.

West Wimmera's application and its responses to our request for information (RFI) and additional questions are available on our website (www.esc.vic.gov.au). Appendix A shows the communications between the Commission and West Wimmera during the assessment period. We thank council for providing information in response to our requests during the assessment period.

⁵ A higher cap represents a permanent increase in a council's rate base that will continue to apply in each subsequent year. The additional revenue has been calculated based on an assumption that the Minister's rate cap will remain at 2 per cent over the four years.

4. How did we reach our decision?

As required under the Fair Go Rates system, we examined each of the six legislative matters addressed in West Wimmera's application. Our observations on the extent to which the application addresses each of the legislative matters is summarised in Appendix B. Further, the Act requires the Commission to have regard to a council's record of compliance with previous years' caps.⁶

Our assessment takes into account the statutory objectives and legislative matters that applications must address. This approach ensures that the assessment includes all relevant factors covered by the legislation that impact on whether the application demonstrates a long-term financial need that should be funded through a higher cap.⁷

To assist in our assessment we sought external advice from Deloitte Access Economics (Deloitte), KJA and MosaicLab, which is published on our website. The advice covers technical areas of financial capacity and community engagement.

Our assessment is set out below.

4.1. What is the underlying financial position?

Significant ongoing adjusted underlying deficits

The application provides forecasts of council's local government performance reporting framework financial indicators (table 1). These forecasts show that, even with the proposed higher caps, West Wimmera will operate with a significant negative adjusted underlying result over the four years. This adjusted underlying deficit continues at a relatively constant level for the remainder of council's ten year long-term financial plan, with an average forecast deficit of over 16 per cent from 2018-19 onwards (figure 1).

We note council's adjusted underlying result forecast in 2017-18 (-6.5 per cent) is better than in other years, while still being a significant deficit. This is due to large non-recurrent operating grants it will receive in response to floods that occurred in 2016.⁸ If these non-recurrent grants were removed from the adjusted underlying result, council would have a forecast deficit of over 19 per cent for 2017-18.

Our consultant, Deloitte, concludes that *'even with the [higher cap], West Wimmera is still likely to have significant ongoing financial challenges in the medium to longer term.'*⁹

⁶ In 2016-17, West Wimmera complied with the 2.5 per cent rate cap set by the Minister for Local Government.

⁷ Our earlier decision on Pyrenees Shire Council differs in terms of presentation; we followed the same approach in assessing all applications.

⁸ The adjusted underlying result excludes non-recurrent capital grants, but includes non-recurrent operating grants.

⁹ Deloitte Access Economics 2017, *Assistance with review of 2017-18 rate cap applications — West Wimmera Shire Council*, June, p.4.

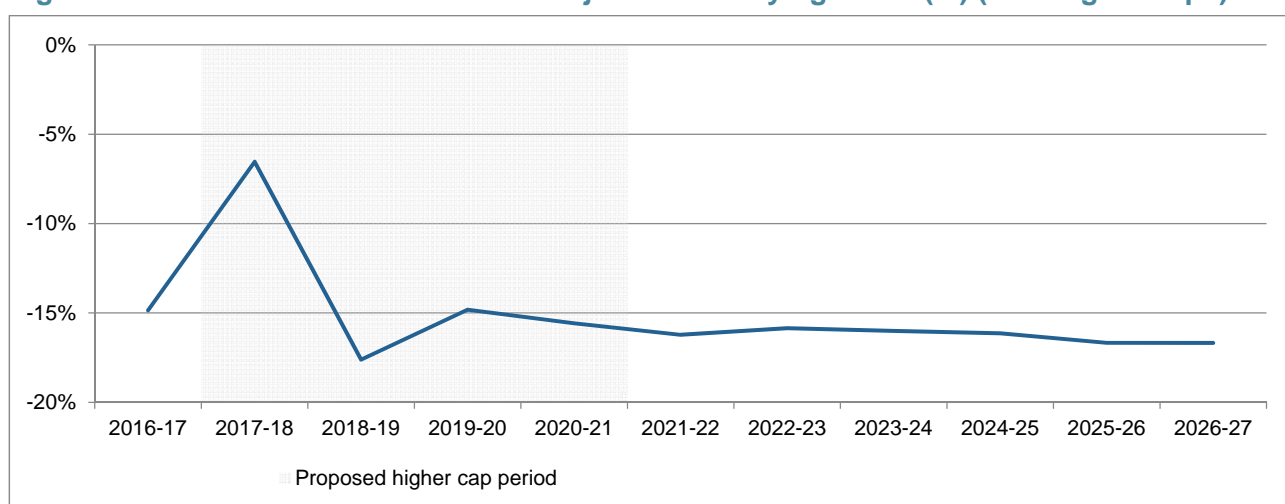
Table 1 West Wimmera’s forecast local government performance reporting framework indicators (with higher caps)^a

LGPRF indicator ^b	2015-16 actual	2016-17 forecast actual	2017-18 budget	2018-19 forecast	2019-20 forecast	2020-21 forecast
Adjusted underlying result (%)	-5.2	-14.9	-6.5	-17.6	-14.8	-15.6
Asset renewal (%)	85	135	185	95	80	80

^a See Appendix C for definitions. ^b Table only includes local government performance reporting framework indicators considered in making our decision.

Data source: West Wimmera Shire Council 2017, *Budget baseline information template*, May.

Figure 1 West Wimmera’s estimated adjusted underlying result (%) (with higher caps)



Data source: West Wimmera Shire Council 2017, *Budget baseline information template*, May.

Identified asset renewal funding need

The application estimates council’s asset renewal requirement (which council bases on depreciation) at \$6.8 million in 2016-17, which is 31 per cent of total operating expenses. Deloitte notes this represents a very large rate of asset consumption.¹⁰ This figure compares to a group average for small rural councils of 23.3 per cent.

Council’s asset management strategy identifies a total asset renewal gap of \$2.8 million annually, consisting largely of a \$2.3 million per year renewal gap for its road infrastructure. This indicates council assets are deteriorating faster than they are being renewed.¹¹

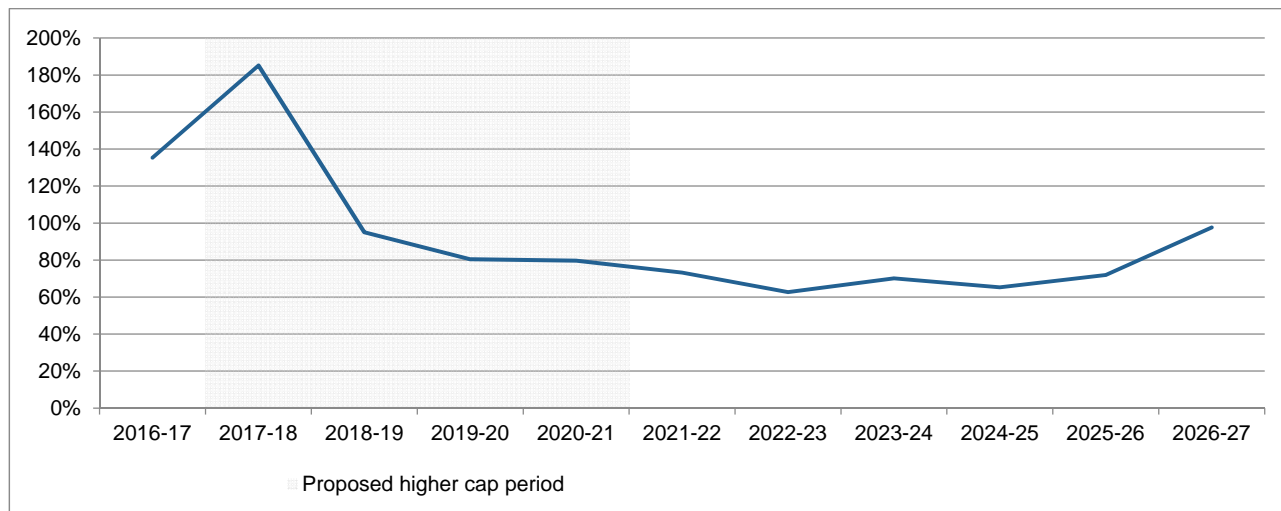
The application provides forecasts that show council’s asset renewal ratio will be high (over 100 per cent of depreciation) in 2016-17 and 2017-18, due to significant capital expenditure from non-recurrent flood recovery grants (table 1). However, council’s asset renewal ratio is forecast to return to 80 per cent over the four years of the proposed higher cap.

¹⁰ Deloitte Access Economics, Op. Cit., p.4.

¹¹ This calculation assumes no change in the portfolio of assets owned by council.

We note that under council's long-term financial plan, its asset renewal is forecast to drop below 80 per cent over the following five years — to as low as 63 per cent in 2022-23 (figure 2). This sustained underfunding of asset renewal, even with the proposed higher caps, is consistent with council's increasing asset renewal needs while facing ongoing operating deficits.

Figure 2 West Wimmera's estimated asset renewal (%) (with higher caps)



Data source: West Wimmera Shire Council 2017, *Budget baseline information template*, May.

Major causes of the underlying financial position

The major causes of West Wimmera's underlying financial position are its relatively large road network, relatively small and declining population, and its heavy reliance on grants.

Council has a small population¹² and a relatively large road network.¹³ Its low population per length of road¹⁴ means it is harder for council to raise enough funds for asset renewal through rates.

Council also has one of the lowest rate levels in the state, with rates representing 0.41 per cent of its total valuation base (compared to 0.55 per cent for similar councils). It generates only 39 per cent of its underlying revenue through rates (compared to 58 per cent for similar councils). The application indicates that with its low and declining population council has limited ability to raise revenue through other means, such as user charges or special charge schemes. As a result, council has a particularly high reliance on grant funding.

The application suggests council has been significantly affected by real-term reductions in grant funding in recent years. It also provides examples of recurrent grant funding and contract revenue which council believes it is likely to lose, or that may revert to a significantly lower amount.

The impact of all of the above is that West Wimmera is not able to maintain its services and asset renewal at current levels without incurring ongoing operating deficits. Council has sought higher caps over four years to fund this asset renewal and contain its growing operating deficits.

¹² Its population of 3 855 compares to the group average for small rural councils of 9 386 (or 9 737 excluding the significant outlier Queenscliffe).

¹³ Its road network of 2 809 kilometers compares to the group average for small rural councils of 2 250 kilometres (or 2 373 excluding the significant outlier Queenscliffe).

¹⁴ Its population per length of road of 1.4 compares to the group average for small rural councils of 9.5 (or 6.1 excluding the significant outlier Queenscliffe).

4.2. What has been done to manage the underlying financial position?

Policies and procedures to ensure efficiency and value for money

The application outlines a number of avenues through which council seeks efficiency and value for money. These include the introduction of a new project management methodology, its use of a major projects plan to identify and prioritise resources, and an ongoing service review process. The application also notes council has initiated a review of assets to identify potential asset rationalisation and consolidation opportunities.

The application highlights a number of cost saving initiatives council has implemented, or is pursuing, as a result of its planning and review processes. These include shared service arrangements with other councils, electricity cost savings through replacement of street lighting, and plans for a new community hub to replace three existing community facilities.

Overall, the application adequately demonstrates council has policies and processes in place in relation to efficiency and the pursuit of value for money outcomes. This process is ongoing, and West Wimmera will need to continue seeking cost savings and efficiency improvements — as stated by council, higher caps are only *'one piece in the sustainability puzzle'*.¹⁵

This is consistent with Deloitte's finding that the higher caps will not solve council's sustainability issues. Deloitte concludes that unless grant levels increase, further rate increases or expenditure and service level reductions will be necessary for council to achieve financial sustainability.¹⁶

Reprioritisation of expenditure and alternative funding options

The application demonstrates council considered options for reducing services and reducing maintenance and renewal of assets. Council does not consider such reductions to be appropriate, noting its community is heavily opposed to service level reductions. In particular, the application notes the community views road maintenance and aged care services as major priorities, and emphasises council's focus on maintaining its services and asset renewals at current levels.

The application also demonstrates council considered alternative funding options. These include: borrowing, leasing of major plant and equipment, income from user rates and charges or special charge schemes, seeking grant funding or running down its cash reserves. The application provides adequate explanations for why council considers these funding options are not suitable.

We are satisfied the application demonstrates council has policies and procedures in place to seek efficiencies and cost reductions, and reasonable consideration of alternate funding sources.

4.3. How were community views taken into account?

Community engagement undertaken by West Wimmera

The application notes council held two public forums on applying for higher caps, and also accepted feedback online through its Facebook page. It also describes a number of community engagement activities council regularly undertakes, including local dinners and surveys.

¹⁵ West Wimmera Shire Council 2017, *Higher cap application — Coversheet*, May, p.3.

¹⁶ Deloitte Access Economics, *Op. Cit.*, p.6.

The application demonstrates council presented a good analysis of its budget constraints to its community at the forums. Council clearly articulated what the higher cap will mean for ratepayers and discussed alternative options, including discussion to identify potential service level reductions.

Our consultant, KJA, notes 'council has related the content of the discussions at the forums back to findings from other engagement activities such as the Customer Satisfaction Survey and its regular community council meetings.'¹⁷ KJA also assesses the application as providing 'good descriptions of the reasons for the sorts of tools generally used by the council', however notes it 'would be useful to know how the outcomes of these face to face meetings are managed and in particular how they lead to influencing council decision making.'¹⁸

Gaps in community engagement

While the application demonstrates West Wimmera made efforts to engage with its community in relation to applying for higher caps, we have identified a number of gaps. Council investment is required to improve the identified gaps in its approach to, and documentation of, its community engagement as part of its corporate planning and budgeting processes (see Appendix B for more detailed discussion of the identified gaps).

In particular, these areas for improvement include:

- utilising tools and strategies to maximise the inclusiveness of engagement and ensure feedback is representative of the whole community
- more detailed consideration of trade-offs to ensure the community is more fully informed to make choices, and
- better recording of feedback from the community for evidential support of ratepayer views.

Despite these gaps, on balance, the application demonstrates council made reasonable efforts to undertake engagement activities appropriate to the size and resource constraints of council.

While we recognise West Wimmera's size and resource constraints, council needs to continue to make improvements in its approach to, and documentation of, its community engagement. Strong community engagement is particularly important in relation to a multi-year application, as proposed higher caps over multiple years have greater impacts on the community into the future. We expect West Wimmera to improve the identified areas of its community engagement as part of its corporate planning and budget processes.

West Wimmera's community engagement is discussed in more detail in our consultant reports.¹⁹

4.4. Are plans, policies and processes in place sufficient to demonstrate a long-term funding need?

The application includes council's draft budget and strategic resource plan, as well as a long-term financial plan and council's draft asset management strategy. Council also has a draft council plan for 2017-21, which is available on its website. Council's application for higher caps is consistent and integrated with these plans.

¹⁷ KJA 2017, *Essential Services Commission — Advice from Independent Engagement Expert: West Wimmera*, July, p.3.

¹⁸ *Ibid*, p.4.

¹⁹ MosaicLab, *Op. Cit.* and KJA, *Op. Cit.*

Given West Wimmera's application is for higher caps over the next four years, we have reviewed council's strategic resource plan and long-term financial plan, and the key assumptions that underpin them. Council's asset management strategy clearly identifies council's asset renewal needs, and this ongoing funding need is incorporated in council's long-term financial plan.

We are satisfied West Wimmera's strategic resource plan and long-term financial plan are based on the best available information and reasonable assumptions. They appear to reflect community preferences, as far as we can determine from the evidence submitted in the application.

Deloitte finds that council appears to be at a relatively early stage in utilising long-term financial planning and asset management planning to achieve financial sustainability. For example, Deloitte notes West Wimmera's asset management strategy doesn't quantify specified asset service levels or variation in forecast expenditure needs from varying service levels, and that *'financial decisions seem to focus more on levels of cash needed for particular expenditure outcomes rather than to eliminate the operating deficit.'*²⁰

Nonetheless, Deloitte concludes that *'it is highly likely that [West Wimmera] will necessarily be underfunding asset renewal over the next decade'*, and that West Wimmera's *'predicted ongoing operating deficit even with the rate increase suggests further decline will occur over this period.'*²¹

Council needs to continue to invest in and improve its long-term planning, including integration of outcomes from community engagement, service reviews and asset management planning.

4.5. What have we concluded?

To justify a permanent increase in the rate base, an application should demonstrate a long-term financial need that is consistent with the long-term interests of the council's ratepayers and community for sustainable outcomes in service delivery and critical infrastructure.

West Wimmera's application for a higher cap demonstrates a clear long-term funding need, supported by the following:

- clear reasons for the funding need, with an identified asset renewal gap and ongoing deficits
- appropriate policies and processes in place to reduce costs and increase efficiencies
- reasonable consideration of alternative funding options
- long-term financial planning based on reasonable assumptions, and
- community engagement activities reasonable for the size and resource constraints of council.

Accordingly, we approve West Wimmera's application for higher caps of 3.5 per cent for each of the next four years.

As the approval applies for four years, we expect council to continue to engage with its community in implementing the higher caps approved for future years. This includes ongoing consideration of major service and financial trade-offs as part of its corporate planning and budget processes.

²⁰ Deloitte Access Economics, Op. Cit., p.5.

²¹ Ibid., pp.5-6.

Appendix A: Summary of communications with West Wimmera

West Wimmera submitted its application for a higher cap on 23 May 2017. In response to its application, the Commission sought additional information from West Wimmera (table A1). West Wimmera's application and its response to our requests for further information can be found on our website.

Table A1 Communications between West Wimmera and the Commission

Date (2017)	Nature of communication
23 May	West Wimmera submitted its higher cap application.
23 May	The Commission acknowledged receipt of the application.
24 May	The Commission requested minor clarifications regarding the budget baseline information template.
31 May	West Wimmera responded to the request for clarifications and submitted a revised budget baseline information template.
1 June	The Commission requested further minor clarifications regarding the budget baseline information template.
2 June	West Wimmera responded to the request for clarifications and submitted a revised budget baseline information template.
9 June	The Commission submitted a Request for Further Information (RFI) in relation to the application.
15 June	West Wimmera submitted its response to the RFI, including revised documentation and supplementary supporting documents.
29 June	The Commission requested further information related to community engagement.
4 July	West Wimmera submitted its response to the request for further information, including supplementary supporting documents.
4 July	The Commission requested minor clarifications regarding the application.
4 July	West Wimmera responded to the request for clarifications and submitted revised documentation.
11 July	The Commission requested minor clarifications regarding the application.
11 July	West Wimmera responded to the request for clarifications.

Appendix B: Summary of legislative matters

Table B1 summarises the Commission’s observations on how West Wimmera addressed each of the legislative matters in its application.

Table B1 How the application addresses the legislative matters

Legislative matter	Summary
185E(3)(a) — proposed higher cap	<p>The Commission verified that the higher caps are appropriately calculated by council in its application.</p> <p>West Wimmera is seeking higher caps of 3.5 per cent for 2017-18 (1.5 per cent above the Minister’s rate cap for 2017-18), 2018-19, 2019-20 and 2020-21. Council estimated that the extra 1.5 per cent above the Minister’s rate cap for 2017-18 would generate additional revenue of approximately \$97 000 in 2017-18.^a</p> <p>Council estimated the overall effect of the proposed higher caps over the four years to be approximately \$1.04 million of additional revenue compared to the Minister’s rate cap.^b This has been calculated based on an assumption that the Minister’s rate cap will remain at 2 per cent over the four years. This estimate takes into account the permanent increase to the rate base from each higher cap, which continues to compound each subsequent year.</p>
185E(3)(b) — reason(s) for which the council seeks the higher cap	<p>West Wimmera applied for a higher cap because it is facing significant issues in meeting its increasing asset renewal requirements, while facing ongoing operating deficits.^a</p> <p>Ongoing operating deficits</p> <p>A relatively large land area and large road network means council costs are high, which coupled with a relatively low population and low rate base results in ongoing operating deficits.^a</p> <p>Asset renewal gap</p> <p>Council identified a substantial asset renewal gap of \$2.8 million per year (consisting largely of a \$2.3 million per year gap for roads).^c At current funding levels, council stated that its asset renewal ratio would drop to 56 per cent in ten years (from 86 per cent)^a, and its roads would deteriorate to 79.8 per cent in average or worse condition by 2025 (from 21.6 per cent).^b</p> <p>Its annual asset renewal requirements will increase by \$1.1m per year over the 4 years, which the application indicates will be funded by the estimated increase of \$1m in annual rates charges over that same period.^d</p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(b) (continued)	<p>What the additional revenue will be used for</p> <p>Council stated that all additional rate revenue generated from the higher rate cap will be quarantined for capital spending ‘to arrest the decline in council’s asset conditions’.^{e,f} Services and asset renewals are to be maintained at the current levels.^g</p> <p>Council noted the proposed higher cap ‘will not on its own solve all of Council’s problems, but will halt a further decline and provide a solid base upon which Council can build with efficiency and asset management gains.’^e</p>
185E(3)(c) — how the views of ratepayers and the community have been taken into account in proposing the higher cap	<p>Public forums</p> <p>West Wimmera held two public forums in relation to applying for a higher cap. The application provides detailed information on the two public forums, including a copy of its presentation and a written commentary on the outcomes of the forums.^{h,i}</p> <p>While there was opposition to the proposed higher cap, council is satisfied that the majority of attendees supported a higher cap after exploring alternatives.^h In particular, it notes attendees were strongly opposed to the identified opportunities for service level reductions.^h</p> <p>The application also states that the four councillors in attendance at the public forums, who had been reluctant to apply for a higher cap, subsequently agreed to make the application after listening to the community’s views.^j</p> <p>Other community engagement</p> <p>In addition to the public forums, council accepted feedback online through its Facebook page. The application also describes a number of community engagement activities that it regularly undertakes, including local dinners and surveys.^k</p> <p>Council also provides a copy of its general engagement policy^l which KJA assessed as being very thorough.^m</p> <p>Gaps in stakeholder engagement</p> <p>On balance, the application demonstrates that council made reasonable efforts to undertake engagement activities appropriate to the size and resource constraints of council. However, we have identified a number of significant gaps in the community engagement that are in need of improvement.</p> <p>The gaps in West Wimmera’s community engagement are discussed in more detail in our consultant reports.^{n,o}</p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(c) (continued)	<p>Maximising inclusiveness of engagement and representativeness of community views</p> <p>The application notes very low attendance at the public forums.^p It also notes feedback from the community that, while they were happy with the nature of the consultation, they were unhappy with the timing and notice period provided for the public forums.^q Additionally, our consultants note there was a lack of evidence of community views provided through other engagement methods.^{r,s} The application identifies limitations in web based engagement.^p All of these factors may have limited the representativeness of the community views considered by council.</p> <p>While we recognise the size and resource constraints of the council, West Wimmera should consider alternative tools and strategies to maximize the level of community engagement and ensure that its engagement is more inclusive. For example, MosaicLab suggested expanding the number and coverage of engagement activities across the shire, as well as enhanced use of online engagement, surveys and meetings with local groups to target a broader demographic.^t This will assist in ensuring that the community feedback considered by the council is representative of the views of the whole community.</p> <p>More detailed discussion of trade-offs</p> <p>MosaicLab noted council’s discussion of trade-offs with its community was limited, and that trade-offs should be more explicitly defined, with clear examples and quantified changes to service levels and rates.^u KJA also noted that the application does not provide evidence that that these issues were discussed more broadly with the community, beyond those who attended the forums.^v</p> <p>A clear discussion of trade-offs will ensure that the community is more informed and understands the complex financial implications of their desired service levels. This will facilitate the community to make informed choices in relation to trade-offs in service levels and the prioritisation of expenditure.</p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(c) (continued)	<p>Better record keeping and evidential support</p> <p>Both KJA and MosaicLab identified the need for stronger evidential support, with a lack of formal record keeping of ratepayer views and supporting statistical data (eg attendance figures or survey data).^{w,x}</p> <p>While the application notes that council chose not to minute the public forums because it believes this limits free flowing discussion^y, both KJA and MosaicLab note that a formal record of ratepayers views should nevertheless be kept.^{u,z} A formal record of ratepayers views will assist the council to better demonstrate that it has taken on board the views of its community, and will also assist the council to report the outcomes of engagement back to its community.</p> <p>We note any record of ratepayers views need not identify individuals, and comments from the community can remain confidential.</p> <p>Other statistical data, such as survey results, would provide evidential support that the views considered by the council and presented in the application are accurate and representative of the community.</p>
185E(3)(d) — how the higher cap is an efficient use of Council resources and represents value for money	<p>Policies and procedures</p> <p>The application outlines the policies and processes West Wimmera has in place to ensure that it delivers services in a cost-effective and efficient way.^{aa} These include:</p> <ul style="list-style-type: none"> • the introduction of a new project management methodology with ‘defined trigger points for assessing project value and affordability’ • its use of a Major Projects Plan to identify and prioritise resources • an ongoing service review process, with all services to be reviewed over a rolling 4 year period, and • a review of assets to identify potential asset rationalisation and consolidation opportunities. <p>Examples of cost saving initiatives</p> <p>The application highlights a number of cost saving initiatives it has implemented, or is pursuing, as a result of its planning and review of council processes.^{aa} These include:</p> <ul style="list-style-type: none"> • a shared service arrangement with Hindmarsh Shire for an environmental health service • plans for a shared human resources function with the Rural City of Horsham, that could save council up to \$50 000 per year • replacement of incandescent street lighting with LED lights, which produces an electricity cost saving of \$18 000 per year • miscellaneous cost reductions of \$89 000 for 2017-18 (including equipment purchases, travel costs, catering and subscriptions), • plans for a new community hub to replace three existing community facilities, significantly reducing renewal liabilities.

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Table B1 (continued)

Legislative matter	Summary
185E(3)(e) — whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate	<p>The application outlines council’s consideration of reprioritizing proposed expenditures and alternative funding options, and why it considers that those options are not appropriate.^{bb}</p> <p>Reprioritising proposed expenditure</p> <p>The application demonstrates that West Wimmera considered possible areas for service level or asset maintenance and renewal reductions. It notes that the community is opposed to service level reductions, in particular viewing road maintenance and aged care services as major priorities.^{cc} It also notes the financial risks and intergenerational inequity of reducing asset maintenance.^{cc}</p> <p>The application emphasises council’s focus on maintaining services and asset renewal at current levels.^{dd}</p> <p>Alternative funding options</p> <p>The application demonstrates that West Wimmera considered a number of means for reducing expenditure or increasing revenue:</p> <ul style="list-style-type: none">• While council states that it is committed to seeking grant opportunities, its high level of grant dependency leaves it highly exposed to government risk. It also notes the significant cost contributions from council that may be associated with grant funding.^{cc}• Council considers borrowing to be inappropriate for non-revenue producing or community enhancing works.^{ee}• Council considers leasing to be financially beneficial for minor office equipment, but not major plant items.^{ee}• Council notes that it has little ability to generate income outside of rates and grants, with a low and declining rural population resulting in low income from user fees and charges, and little opportunity to provide infrastructure through special charge schemes.^{bb}• Council notes that if it uses its cash reserves to fund asset renewal, it would run out of cash within ten years. As such, using its cash reserves is not a sustainable solution.^{ee}

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Table B1 (continued)

Legislative matter	Summary
<p>185E(3)(f) — that the assumptions and proposals in the application are consistent with the council's long-term strategy and financial management policies set out in the council's planning documents and annual budget</p>	<p>The application includes the following strategic planning documents in support of its proposed higher cap:</p> <ul style="list-style-type: none"> • a draft budget for 2017-18 and strategic resource plan for 2017-18 to 2020-21^{ff} • a long-term financial plan for 2017-18 to 2026-27^{gg} • a draft asset management strategy for 2017^{hh} <p>West Wimmera's annual report 2015-16ⁱⁱ, budget for 2016-17^{jj} and draft council plan for 2017-21^{kk} were also available on council's website.</p> <p>The application is consistent with council's commitment to maintaining services and asset renewal at current levels. Council's planning documents demonstrate it adhered to principles of sound financial management, and support its need for additional asset renewal funding, while facing ongoing operating deficits.</p>

^a West Wimmera Shire Council 2017, *Higher cap application*, May, p.1. ^b West Wimmera Shire Council 2017, *Higher cap application*, May, p.4. ^c West Wimmera Shire Council 2017, *Higher cap application — Asset Management Strategy (Draft)*, February, pp.19-20. ^d West Wimmera Shire Council 2017, *Higher cap application*, May, p.3. ^e West Wimmera Shire Council 2017, *Higher cap application — Coversheet*, May, p.3. ^f West Wimmera Shire Council 2017, *Higher cap application — Response to RFI*, June, p.3. ^g West Wimmera Shire Council 2017, *Higher cap application*, May, p.2. ^h West Wimmera Shire Council 2017, *Higher cap application — Response to RFI*, June, pp.7-8. ⁱ West Wimmera Shire Council 2017, *Higher cap application — Rates Cap Variation Presentation*, May. ^j West Wimmera Shire Council 2017, *Higher cap application — Response to RFI*, June, p.8. ^k West Wimmera Shire Council 2017, *Higher cap application — Response to RFI*, June, p.9. ^l West Wimmera Shire Council 2015, *Higher cap application — Community engagement policy and framework*, June. ^m KJA 2017, *Essential Services Commission — Advice from Independent Engagement Expert: West Wimmera*, July, p.3. ⁿ Mosaiclab 2017, *Fair Go Rates system — Assessment of Application for Higher Rate Cap: Community Engagement, West Wimmera Shire Council*, July. ^o KJA 2017, *Essential Services Commission — Advice from Independent Engagement Expert: West Wimmera*, July. ^p West Wimmera Shire Council 2017, *Higher cap application — Response to additional questions*, June, p.1. ^q West Wimmera Shire Council 2017, *Higher cap application*, May, p. 8. ^r MosaicLab 2017, *Fair Go Rates system — Assessment of Application for Higher Rate Cap: Community Engagement, West Wimmera Shire Council*, pp.2 & 8. ^s KJA 2017, *Essential Services Commission — Advice from Independent Engagement Expert: West Wimmera*, July, pp.3-4. ^t MosaicLab 2017, *Fair Go Rates system — Assessment of Application for Higher Rate Cap: Community Engagement, West Wimmera Shire Council*, pp.8-10. ^u MosaicLab 2017, *Fair Go Rates system — Assessment of Application for Higher Rate Cap: Community Engagement, West Wimmera Shire Council*, pp.4-5 & 8. ^v KJA 2017, *Essential Services Commission — Advice from Independent Engagement Expert: West Wimmera*, July, p.4. ^w MosaicLab 2017, *Fair Go Rates system — Assessment of Application for Higher Rate Cap: Community Engagement, West Wimmera Shire Council*, pp.6-8. ^x KJA 2017, *Essential Services Commission — Advice from Independent Engagement Expert: West Wimmera*, July, pp.3-5. ^y West Wimmera Shire Council 2017, *Higher cap application*, May, p.10. ^z KJA 2017, *Essential Services Commission — Advice from Independent Engagement Expert: West Wimmera*, July, pp.4-5. ^{aa} West Wimmera Shire Council 2017, *Higher cap application*, May, p.10. ^{bb} West Wimmera Shire Council 2017, *Higher cap application*, May, pp.11-12. ^{cc} West Wimmera Shire Council 2017, *Higher cap application*, May, p.11. ^{dd} West Wimmera Shire Council 2017, *Higher cap application*, May, p.13. ^{ee} West Wimmera Shire Council 2017, *Higher cap application*, May, p.12. ^{ff} West Wimmera Shire Council 2017, *Higher cap application — Annual Budget Report 2017-18 (Draft)*, May. ^{gg} West Wimmera Shire Council 2017, *Higher cap application — Long-term Financial Data Extract*, May. ^{hh} West Wimmera Shire Council 2017, *Higher cap application — Asset Management Strategy (Draft)*, February. ⁱⁱ West Wimmera Shire Council 2016, *Higher cap application — Annual Report 2015-16*, November. ^{jj} West Wimmera Shire Council 2017, *Higher cap application — Annual Budget Report 2016-17*, June. ^{kk} West Wimmera Shire Council 2017, *Higher cap application — Draft Council Plan 2017-21*, April.

Appendix C: Local government performance reporting framework indicator definitions

- a) **Adjusted underlying result** is adjusted underlying surplus (deficit) as a percentage of adjusted underlying revenue. A surplus or increasing surplus suggests an improvement in the operating position.

Adjusted underlying revenue is total income less non recurrent capital grants used to fund capital expenditure, non-monetary asset contributions and other contributions to fund capital expenditure.

Adjusted underlying surplus is adjusted underlying revenue less total expenditure.

- b) **Asset renewal** is asset renewal expenditure as a percentage of depreciation. This indicates whether assets are being renewed as planned. High or increasing level of planned asset renewal being met suggests an improvement in the capacity to meet long-term service obligations.

Asset renewal expenditure is expenditure on an existing asset or on replacing an existing asset that returns the service capability of the asset to its original capability.