

Request for information

West Wimmera Shire Council

West Wimmera Shire Council (Council) applied for a higher rate cap of 3.5 per cent for four years. This is 1.5 per cent higher than the rate cap set by the Minister for Local Government of 2.0 per cent for 2017-18. The Commission received the application on 23 May 2017.

The questions and issues listed in this document represent areas in the original application where we need further information or clarification to assist our assessment. They concern the six legislative matters that Council must specify under the Local Government Act 1989 when seeking a higher cap.

We have structured this information request around the legislative matters, since the Commission must have regard to them in determining whether the higher cap is appropriate.

Please note we have assumed that Council already has the information we request available, as part of its existing management and reporting systems. However, if you consider our request is too difficult or time-consuming, please provide the best you can and identify the constraints that you face.

Council should clearly indicate any confidential information in its response to this request for further information.

185E(3)(a) – Higher Cap

This legislative matter requires the Council to specify a proposed higher cap for each specified financial year.

In its application, Council has asked for a higher rate cap of 3.5 per cent. The application (p.3) and coversheet (p.1) state that this represents the following rate revenue:

Rate revenue figures from the application and coversheet					
	2016-17	2017-18	2018-19	2019-20	2020-21
Rate Revenue	6,533,354	6,762,021	6,998,692	7,243,646	7,497,174
Additional to previous year	n/a	228,667	236,671	244,954	253,528

However, the Budget Baseline Information ('SRP and LTFP' sheet) includes the following rate revenue figures (from general rates and municipal charges):

Rate revenue figures from the Budget Baseline Information					
	2016-17	2017-18	2018-19	2019-20	2020-21
Rate Revenue	6,533,213	6,760,886	6,997,517	7,242,430	7,495,915
Additional to previous year	n/a	227,673	236,631	244,913	253,485

- 1. Could Council explain why there is a difference between the two sets of figures, and which figures the Commission should be using? Council may wish to provide an updated application and coversheet consistent with the Budget Baseline Information.***

Council Response:

When undertaking the final calculation Council had run through a small negative supplemental rate batch, slightly reducing the 2016-17 rates. The updated base was included in the baseline data template by I had unfortunately forgotten to adjust the narrative and cover sheet which had been written before the supplemental adjustment. My apologies for this I will adjust the coversheet and the narrative and re-submit.

185E(3)(b) – Reasons

This legislative matter requires the Council to specify the reasons for which the Council seeks the higher cap.

In the application coversheet (p.2), Council proposes that “all additional rate income generated by the 3.5% rate increase will be channelled in to capital spending to arrest the decline in Council’s asset conditions.”

2. Can Council please confirm whether it is proposing to quarantine or reserve this additional rate revenue for capital expenditure purposes, or otherwise how this revenue is to be managed for capital expenditure?

Council Response:

It is Council’s intention to quarantine these works for capital expenditure. For the 2017-18 budget year the additional funds will be allocated to unsealed road re- sheeting.

From the Budget Baseline Information (‘SRP and LTFP’ sheet), it appears that Council has a significant amount of unrestricted cash (\$8.78m). Council’s liquidity indicators for 2017-18 are well above the target bands: with working capital at 323 per cent and unrestricted cash at 287 per cent. These indicators are also projected to remain above the target bands.

3. Can Council please comment on the high level of liquidity, in particular the significant level of unrestricted cash, and whether this trend is temporary or permanent?

Council Response:

Council believes that the measures of liquidity and in particular unrestricted cash do necessarily show a true picture of Council’s position.

Unrestricted cash in particular is measured according to the model budget and accounts methodology of only including statutory reserves, which do not show a true measure of Council’s commitments. Council has been advised by its VAGO representatives that the only reserves which should be shown as statutory reserves are the Car Park Reserve (cash held in lieu of parking requirements from developments) and the Open Space Reserve (cash held in lieu of public open space from developments). Council, like many other Small Rural Councils, does not hold any cash in these reserves. Council does however hold approximately \$1.0 million in other discretionary reserves, which reduces the unreserved cash level.

Further to this, the measurement of unrestricted cash does not fully account for provisions for employee entitlements (due to Australian Accounting Standards not requiring a statutory reserve or a discretionary reserve to equal the exact liability). Council has provisions of approximately \$2.4 million in its Balance Sheet which significantly reduces this unrestricted cash holding.

Council enjoys a strong current ratio due to strong management of liabilities, including debt. Council has been able to manage this by using cash from a mixture of rates and government grants in the past. With government grant programs drying up Council will be forced to draw down on cash if it is to keep its asset renewal positive.

Council's long term asset renewal program remains relatively steady from 2021-22 until 2025-26, however depreciation is increasing steadily over this period until the shortfall is over \$2 million in 2025-26. If Council kept renewal spending equal to depreciation then the current ratio would be significantly lower by 2025-26. I will submit a revised LTFP extract showing this.

In the Draft Budget (p.6), 'other income' is estimated to be \$2.2m-\$2.4m per year until 2019-20. In 2020-21, this drops to \$0.6m. The Long Term Financial Date Extract (p.1) projects other income to remain at this lower level for the rest of the ten year period.

4. Can Council please comment on its source/s of other income, and why it is projected to decrease abruptly in 2020-21 and remain at this lower level for the foreseeable future?

Council Response:

Part of this response is confidential

In the Budget Baseline information ('SRP and LTFFP' sheet), the increase in employee costs due to the EBA has been assumed to be 3.5 per cent per annum. This is in addition to a 0.8 per cent increase in employee costs assumed for progression.

However, in Council's Annual Budget Report for 2016-17 (p.56), the minimum increase in salary costs under the EBA is noted to be 2.7 per cent.

- 5. Can Council please explain the difference between the two figures for the increase in employee costs associated with the EBA, and which of these figures has been used for Council's Long Term Financial Plan?**
- 6. Can Council please indicate the timing of future EBA renegotiations, and whether this has been factored into Council's employee costs in its Long Term Financial Plan?**

Council Response:

Council has estimated an allowance for movement between bandings and the payment of a top of band bonus annually to employees who are at the maximum banding level for their grading into the employee cost calculations. From past experience Council estimates this additional cost to be 0.8%.

Council's current EBA is due to expire at the end of June 2018. At this stage it is unknown what the escalation rate of the new EBA will be. As the SRP and LTFFP has been prepared on a conservative basis, the worst case scenario of an EBA escalation rate of equal to the existing EBA has been applied.

185E(3)(c) – Engagement

This legislative matter requires the Council to specify how it has taken account of the views of the community. It is expected that Council provide evidence of how it sought to engage with the community, what were the outcomes of the engagement (i.e. what were community views) and, crucially, how these were considered in determining the higher cap.

The higher cap application does not include an engagement plan.

7. Can Council provide a copy of its engagement plan and/or other policy or materials that set out how Council manages engagement with its community?

Council Response:

A copy of Council's Community Engagement Policy and Framework is attached for the Commission's information.

In its application (pp.6-7), Council notes that it held two community forums specifically on the subject of rate increases. Council notes that participants liked the commitment to the provision of aged care services, however there was resistance to the proposed rate increase.

However the application does not provide any evidence to demonstrate that ratepayers were consulted on the major trade-offs between increasing rates or reducing service levels. The application also does not explain how the views of participants were taken into account in making the decision to apply for a higher cap.

- 8. Can Council please advise whether there was discussion about what would happen to services if additional funds could not be obtained, and whether the community was encouraged to discuss the major trade-offs and what their preferred options might be?**
- 9. Can Council please provide a copy of the information or material presented to its community on the proposed rate increase, including any information on the major trade-offs between increasing rates or reducing service levels?**
- 10. Can Council please provide further detail on the feedback received from the community, including any detailed summary of views expressed at the public forums?**
- 11. Can Council please provide detail on the process it has followed in considering the views of participants, and how these views were taken into account in making the decision to apply for a higher cap?**

Council Response:

During the two public forums held there was a discussion around reducing services as a trade-off for lower rate increases.

The community was invited to discuss the services they would like to see maintained. Invariably this conversation turned to the renewal and maintenance of roads and the provision of Aged Care services.

For a sparsely populated region with Agriculture as its main economic driver the provision of quality transport links has been nominated repeatedly by the community as one of the most important services Council provides. There was lengthy discussion at each community meeting about the effect of reducing capital expenditure (renewal) on our road network. The general feeling was that we could not let our roads 'get any worse'. The recent Customer Satisfaction Survey results show that our community already has a low opinion of Council's sealed local roads (score of 45, down from 48 previously), and it was made clear that the community would not be happy with any reduction in spending on roads. This parallels discussions held at Council's regular Community Council Meetings, held quarterly in the more remote areas of the municipality, where roads are often a matter of discussion.

Aged Care services were also raised as an item at the community forums with the community overwhelming supporting Council's continued provision of Aged Care Services. Some discussion was held in concern to the costs involved in the transition from the State HACCC funding model to the Federal CHSP model and the potential implementation of NDIS in our region. The consensus for the assembled community members was that, given the shire has an ageing population, that Council's continued provision of Aged and Disability services was highly valued and was not a service that our residents would like to see cut.

There was some discussion at both public meetings that perhaps Council could cut its staffing levels to reflect its lower revenue levels. As this discussion progressed, Council representatives pressed for more information about what staff and services residents would accept reductions in. The community members did not provide any specific services/staff which they were happy to see reduced. Council pointed out two specific examples where we do not employ staff to undertake a full service – in the Human Resources function and the Risk Management function where Council does not employ dedicated resources, this seemed to meet with general approval. There was also a suggestion from one attendee that we could reduce our customer service and contact staff, by either reducing dedicated customer service staff or closing one of our customer service centres (Kaniva and Edenhope). This actually met with some strong opposition from other members of the community who value the face to face contact with Council. In fact the recently released Customer Satisfaction Survey results show Council has received an extremely high customer service satisfaction result (74).

The most negative feedback was from the older members of the community who are predominately pensioners on fixed incomes. There was discussion that these community members found it difficult to meet obligations when they were increasing at a rate above their income growth (i.e pension indexation rate). However, all of this group were adamant that there can be no reduction in Aged Care services by Council.

Overall, whilst there was some opposition to the increased rate, particularly from the older community members on fixed income (i.e Pension), Council was satisfied that the majority of our community members who attended the sessions left supporting the application for an increased

rate increase after exploring alternatives and have clearly indicated that they do not accept a reduction in service levels.

Council made a conscious decision not to formally minute these public meetings. This was in result to longstanding community commentary that many people feel intimidated by the formal settings of Council meetings and assemblies, and are less likely to contribute if their names are going to be recorded. To combat this and make people feel at ease these sessions were made as informal as possible.

Four of our Five Councillors attended these public forums (with the fifth unfortunately unable to attend either due to long standing clashes with other events). Of these four who attended, it is fair to say that they had been initially reluctant to apply for a rate cap variation, with a resolution passed that no decision on applying for a rate cap variation would be made prior to assessing the views of our community. After attending the meetings and listening to the community's views, all Councillors agreed to make an application to vary the rate cap.

Council intends to hold further public meetings as part of its ongoing draft budget consultation process, and will continue to take our community's views into consideration until the formal adoption of the budget.

A copy of the powerpoint presentation provided to lead and inform the discussion at these public meetings is provided for the Commission's information.

In its application (p.8), Council notes that “community feedback was taken up to the time of adoption of the budget.” However the application does not explain the process by which this feedback was received and how the community was made aware of it (with the Council noting that the community is not internet savvy). The application also does not explain how the feedback was taken into account in making the decision to apply for a higher cap.

12. Can Council please provide information on the process by which it accepted community feedback (outside of the public forums), and how community was made aware of this process?

13. Can Council please provide detail on the feedback that was received from the community (noting any confidentiality, where appropriate) and how these views were taken into account in making the decision to apply for a higher cap?

Council Response:

Council has and will accept community feedback up to the time of the formal adoption by Council of the 2017-18 Budget. This will be facilitated by a variety of means:

- Council's facebook page
- Council's public budget submission process
- Continued public meetings on the draft budget and rate cap variation to be held in July
- A Community Council meeting to be held in Lillimur on 19 July
- Direct contact to Council

All public meetings are advertised in the local media with at least one week's notice (likely more as some recent feedback has highlighted that more notice is sometimes needed), on Council's website, and facebook page.

Council points out that the original public meetings were to ascertain the community's support for an *application* to vary the rate cap increase. Council has made it clear at these meetings and in all Council resolutions that they will make a final decision on the actual rate increase on adoption of the budget after taking into consideration all community feedback received up to that point.

Council holds these various forms of consultation session in order to engage as much of its community is possible, but also highlights the point that as a low resourced Council and given demographics of the municipality especially our low population and high population dispersion that it is often not feasible or cost effective for Council to engage in expensive or long running consultation processes such as citizen juries or the like.

Council was clear in its discussions and resolutions on the rate cap variation that it would not apply for a variation unless it was satisfied that the community on average agreed to a higher rate cap. As stated earlier, four of our five Councillors attended the public meetings and were satisfied from this and the responses on Council's facebook page that there was sufficient understanding and support from the community to formally apply for a variation.

185E(3)(d) – Value and efficiency

This legislative matter requires councils to ensure that they can demonstrate they have sufficient policies and processes in place (and have taken specific actions) to ensure that the additional revenue raised will be used efficiently and that the outcomes being pursued represent value for money for ratepayers.

In the application (p.10), Council noted that it is committed to a continuous improvement program with the aim of long term cost savings. However it also noted that it is committed to maintaining service levels, stating that “reducing services runs contrary to the purpose of Council which is to provide for the wellbeing of our community.”

Council noted (p.12) that it “has initiated a review of its building assets and road networks to identify potential duplication with an aim to reduce the renewal requirements for those assets”, and has provided an example of new capital expenditure to reduce Council’s renewal liability as a result of this review.

- 14. Could council provide further information on how it has come to the view that reducing service levels is not appropriate?**
- 15. Could council provide further details of its service review processes, and whether it has undertaken any service reviews in relation to service levels?**
- 16. Could Council explain how any service reviews were prioritised, and the outcomes these service reviews?**

Council Response:

Council has based its view that is not appropriate to reduce service levels on the following principles:

- Legislative or governance requirements
- Community involvement and feedback
- Intergenerational equity and best value

Council understands that it has certain legislative requirements it must fulfil, these range from certain services that Council must provide (maintenance of local roads, etc) and from applications of base legislation such as the *Local Government Act 1989*, the *Fair Work Act*, *Road Management Act*, etc. All service reviews Council has undertaken highlight legislative and governance compliance requirements to maintain those services. Council also takes public liability into consideration when reviewing a service.

Community involvement has been a major driving factor in identifying services. As mentioned earlier, Council has been repeatedly told that road maintenance and the provision of aged care services are highly important to our community and no reductions in those services are acceptable.

As part of our service reviews all affected stakeholders are identified and a community engagement & feedback service level is defined. This can involve ongoing feedback form users of the service or formal meetings.

Council is cognisant when setting service levels of the effect of intergenerational cost shifting and best value. Council makes it clear in its service level discussions that ongoing maintenance and renewal planning must be a part of all service provision costing so that future generations are not left with the renewal burden.

Council's service review process is ongoing, all services will be reviewed over a rolling 4 year period with a number already carried out. The reviews are undertaken in house where the service is relatively straightforward and the necessary technical expertise is available in house (i.e IT, finance, etc) or externally where some additional technical expertise is required (i.e roads, etc). Some services have already been reviewed, with more scheduled to occur in the near future.

Service reviews are often prioritised where there is a legal requirement or a best value requirement (i.e roads where they have a statutory requirement under the Road Management Act and a best value requirement concerning capital renewal and maintenance, etc). All reviews include a section on risks, opportunities and challenges and make recommendations on future service provision.

An example of a Council service review is attached for the Commission's information.

185E(3)(e) – Trade-offs and alternative funding

This legislative matter requires councils to demonstrate that they have considered the prioritisation of services and different funding options before seeking a higher cap.

In the application (p.12), Council states that it has considered the option of funding its renewal works by running down its cash reserve. The application states that doing so is not sustainable, as Council would be out of cash within ten years.

The additional income that would be provided by Council's target annual rate increase of 3.5 per cent is estimated to be \$6.36m over the ten years (p.4). This has been calculated relative to a 2 per cent rate increase per annum over the ten years. However we note that the Budget Baseline Information ('SRP and LTFP' sheet) assumes forecast CPI to increase at a rate of 2.5 per cent.

This estimated additional revenue compares to Council's forecast actual unrestricted cash of \$8.78m in 2016-17 in its Budget Baseline Information.

- 17. Could council please provide further information to support its view that it would run out of cash within ten years if it used its cash reserve to fund renewal works, including any estimates or modelling that it has used to form this view?**
- 18. Could council please comment on why it has used a 2 per cent rate increase for future years (beyond 2017-18) as the base of comparison to estimate the additional income from its target 3.5 per cent rate increase, rather than using a 2.5 per cent rate increase consistent with the assumed rate of increase to forecast CPI?**

Council Response

Council believes that if it is to maintain capital renewal at 90% or above each year over the next ten years then it would run out of cash at the end of those ten years (a LTFP extract showing this can be supplied). Council had decided to maintain asset renewal at steady levels over much of the LTFP period so as to ensure Council retained cash to cover its operations (as per the provided LTFP option). However, this would lead to significant asset deterioration. The trade off for Council then is to remain operationally viable by maintaining cash but with significantly deteriorating assets, or to maintain its assets and run down its cash reserves.

Council has opted to use a 2.0% rate escalation rate for future years as opposed to a 2.5% CPI rate as the Minister for Local Government has in the past clearly stated that there would be an 'efficiency factor' calculated into the rate cap amount. This 0.5% difference represents that 'efficiency factor'. Again, in the interests of producing a conservative forecast, Council has opted to model the worst case scenario.

185E(3)(f) – Long term planning

This legislative matter requires that the assumptions and proposals in the application are consistent with those in the council's long-term strategy and financial management policies set out in the council's planning documents and annual budget.

In its Annual Reports for previous years, Council has reported receiving non-recurrent grants each year. However, in the Long Term Financial Data Extract (p.1), and reflected in the Budget Baseline Information ('SRP and LTFFP' sheet), it is projected that Council will not receive any further non-recurrent grants after 2017-18.

19. Could Council please comment on its non-recurrent grants, and advise on why it has projected that it will not receive any non-recurrent grants in future years?

Council Response:

Council's non-recurrent operating grants have historically predominately related to the provision of funding for the upgrade of community held facilities which are not Council assets (i.e football clubrooms, etc). Council intends to concentrate on maintaining and renewing its own assets in future and has no plans to be involved in the upgrade of non Council owned community assets.

Whilst it is possible that there may be one off additional operating funding for projects which fit under Council's ongoing services (such as the mosquito control program which is included in Council's current public health service), these cannot be planned and hence are not included. It is highly probable that any of these would require matching expenditure which would result in a net zero effect to Council's financials in any case.

In the Long Term Financial Data Extract (p.1), and reflected in the Budget Baseline Information ('SRP and LTFP' sheet), it is projected that Council will not receive any further operating cash contributions grants after 2017-18.

20. Could Council please comment on its operating cash contributions, and advise on why it has projected that it will not receive any operating cash contributions in future years?

Council Response:

Again, historically any operating cash contributions received by Council have predominately related to Council being involved in the upgrade of public assets which are not owned by Council. As Council has no plans to engage in these activities in the foreseeable future, no operating contributions have been budgeted for.

As previously noted, the Long Term Financial Data Extract provided with the higher cap application appears to be outdated, differing slightly from the information provided in the Budget Baseline Information.

21. Along with an updated application and coversheet, Council may wish to submit an updated Long Term Financial Data Extract, to reflect the data in its application and Budget Baseline Information.

Council Response:

Council will provide an updated LTFP extract.