

Hepburn Shire Council

Decision on application for a higher cap 2025–26

12 May 2025

Acknowledgement

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities, and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

An appropriate citation for this paper is:

Essential Services Commission 2025, *Hepburn Shire Council: Decision on application for a higher cap 2025–26*, 12 May

© Essential Services Commission, 2025



This work, Hepburn Shire Council, is licensed under a Creative Commons Attribution 4.0 licence [creativecommons.org/licenses/by/4.0]. You are free to re-use the work under that licence, on the condition that you credit the Essential Services Commission as author, indicate if changes were made and comply with the other licence terms.

The licence does not apply to any brand logo, images or photographs within the publication.

Contents

Summary	iii
1. Background	1
1.1 Our assessment approach	1
1.2 Our guidance to councils	2
1.3 Submissions	3
2. What did the council apply for and why?	5
3. How we reached our decision	7
3.1 Is there an underlying financial need?	8
3.2 Has the council taken steps to manage the financial need?	10
3.3 Have ratepayer and community views been taken into account?	13
3.4 Are plans, policies and processes in place consistent with a need for a higher cap?	15
3.5 Does the council have a satisfactory rate cap compliance history?	16
3.6 Has the council complied with our directions?	16
3.7 Our decision	16
Appendix A: Our integrated assessment approach	17
Appendix B: Summary of communications with Hepburn Shire Council	18
Appendix C: Summary of legislative matters	19
Appendix D: Financial indicators	28

Summary

Hepburn Shire Council (Hepburn) has applied to the Essential Services Commission (the commission) for a higher cap of 10 per cent for the 2025–26 financial year. This is 7 percentage points above the 3 per cent rate cap set by the Minister for Local Government. Hepburn estimates the proposed higher cap would generate \$1,361,000 of extra revenue above the minister's cap in 2025–26, which equates to an average increase of approximately \$2.20 per rateable assessment per week or \$114.50 per assessment for the 2025–26 financial year.¹

We have approved Hepburn's proposed higher cap of 10 per cent for the 2025–26 financial year

The financial information presented in the application and in Hepburn's Financial Vision indicate that the council is currently in an unsustainable financial position and has a financial need for the proposed higher cap. The proposed higher cap is a key element of Hepburn's long-term financial strategy, as outlined in its Financial Vision, and it has indicated its forthcoming Council Plan and other planning documents will be consistent with this.

There is evidence Hepburn has already limited its capital expenditure to renewals and reduced its operating expenses and will make further ongoing reductions in its 2025–26 budget. There is also evidence that it has considered all alternative ways of generating additional revenue and will leverage these to the extent possible in achieving the further \$2.53 million of operational savings or additional revenue required. Although the higher cap will improve Hepburn's financial position, the application states it will still likely require significant government grant funding for new assets or upgrade capital projects going forward.²

Without a higher cap, to achieve its financial sustainability goals, Hepburn would need to cut a further \$1.36 million from its operating expenditure, which would be in addition to the \$4.04 million it has cut or is planning to cut in 2024–25 and 2025–26.³ The application demonstrates that Hepburn has considered the trade-off between increasing rates (through the 10 per cent higher cap) and further service reductions and determined that service levels would fall below a level that was acceptable to its community if it did not apply for a higher cap. This decision was informed by engagement with its community.

¹ The additional \$1.36 million in rates revenue will increase Hepburn's forecast total revenue by 3.34 per cent. Hepburn Shire Council, *Higher cap information template 2025–26*, March 2025.

² Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 35.

³ The \$4.04 million reduction in ongoing operating expenditure (comprising \$1.5 million in 2024–25 and \$2.53 million in 2025–26) represents a 12 per cent reduction in Hepburn's annual operating expenditure from 2025–26. Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 4.

Even with the higher cap, Hepburn will still need to do further work to reach and maintain a financially sustainable position that will enable it to achieve sustainable outcomes in the delivery of services and critical infrastructure in the long-term interests of their communities.

Hepburn's proactive approach to its long-term planning and its willingness to be transparent with its community about its financial position should make it easier to undertake this task.

1. 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 3 per cent rate cap for the 2025–26 financial year.

Councils wishing to increase their average rate by more than the minister's cap must get approval from the Essential Services Commission. We assess each council's application and can either approve, approve in part or not approve the higher cap proposed by the council. We may also approve an alternative higher cap, as long as this is not higher than the higher cap proposed by the council. Councils can apply for higher caps for up to four years in the same application.

1.1 Our assessment approach

In assessing whether a higher cap is appropriate, we will have regard to the matters specified in an application (see Box 1.1) and the statutory purposes of the Fair Go Rates system (see Box 1.2).⁴ We will also consider a council's compliance with previous years' rate caps and any directions we have given in relation to the application.⁵ Our integrated approach to assessing whether a higher cap is appropriate is shown in the diagram in Appendix A and our guidance for councils provides further detail.⁶

Having regard to the statutory purposes of the Fair Go Rates system, we generally only consider a higher cap appropriate where a council can demonstrate a long-term funding need that justifies a higher cap, and that the higher cap promotes the long-term interests of ratepayers and the community. We assess this based on the application as a whole, including the responses to all six legislative matters.

We consider whether the application demonstrates that sustainable outcomes in service delivery and critical infrastructure will be achieved by approving a higher cap and how this is in the long-term interests of ratepayers and the community. This may include matters relating to value for money, net impact on ratepayers, ratepayer and community views and outcomes (including relating to services, service levels and infrastructure).

⁴ *Local Government Act 1989* Section 185E(3) and (6); and see section 10E(7) of the *Essential Services Commission Act 2001* which requires the commission to promote the purposes of Part 8A of the *Local Government Act 1989*.

⁵ *Local Government Act 1989* Section 185E(6)(b) and (c).

⁶ Essential Services Commission 2024, *Fair Go Rates system – Applying for a higher cap: Guidance for councils 2025–26*, December.

Box 1.1 Six legislative matters an application for a higher cap must specify

- a proposed higher cap for each specified financial year (**‘Proposed higher cap’**)
- the reasons for which the council seeks the higher cap (**‘Reasons’**)
- how the views of ratepayers and the community have been taken into account in proposing the higher cap (**‘Engagement’**)
- how the higher cap is an efficient use of council resources and represents value for money (**‘Efficiency and value for money’**)
- whether consideration has been given to reprioritising proposed expenditure and alternative funding options and why those options are not adequate (**‘Alternative funding and offsets’**)
- 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 (**‘Long-term planning’**).

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

Box 1.2 Purposes of the Fair Go Rates system

The **statutory purposes** of the Fair Go Rates system 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, and
- to ensure that a council has the financial capacity to perform its duties and functions and exercise its powers.

Source: Section 185A *Local Government Act 1989*.

1.2 Our guidance to councils

Each year, we publish guidance to help councils plan for and make higher cap applications.⁷ This guidance aims to help councils understand our approach when assessing applications, including:

- the purpose of specifying the information in each legislative matter
- our general and specific expectations for each matter

⁷ Essential Services Commission 2024, *Fair Go Rates system – Applying for a higher cap: Guidance for councils 2025–26*, December.

- the supporting documents that councils could provide in relation to each matter.

While our guidance provides information in general terms about how applications will be assessed, each application is assessed on a case-by-case basis with regard to relevant factors and the unique circumstances of the applicant council.

1.3 Submissions

The Fair Go Rates system does not prescribe a process for how we should consider submissions from interested parties. Instead, the framework anticipates that councils will engage with their communities before applying and demonstrate in their applications how they have considered those views.

However, because we recognise that interested parties may still want to share their views on a council's application with us, we published Hepburn's application and supporting material on our website and invited submissions. We asked that submissions focus on the matters we must have regard to in our assessment. Submissions were open for 30 days. We received 24 submissions. Unless confidentiality was requested, these are available on our website.

Some of the issues raised in submissions fall outside what we must consider in assessing a higher cap application. We must assess applications based on specific legislative matters and the statutory purposes of the Fair Go Rates system. We do this based on information contained in the application or provided in support of the application. We also consider relevant matters raised in submissions. The key themes raised in submissions, and our responses are summarised below:

- **Cost of living pressures and lack of affordability for a rate rise within the shire.** This included a lack of support for a higher cap and calls for Hepburn to adjust its rate in the dollar for investment properties, holiday homes and agricultural land to better reflect capacity to pay. We understand that Hepburn will be engaging with its community prior to adopting a new Revenue and Rating Plan.⁸ We expect Hepburn to have considered ratepayer affordability issues in making the application and to take a proactive approach to supporting ratepayers experiencing vulnerability. We note that Hepburn has an existing Revenue Collection and Financial Hardship Policy setting out how it will assist people who are unable to pay rates, fees and debts because they are experiencing financial hardship, and is proposing to double its current pensioner rebate if the higher cap is approved.⁹ We would also expect Hepburn to take a proactive approach to supporting ratepayers facing affordability issues. We are satisfied that

⁸ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 32.

⁹ Hepburn Shire Council, *Revenue Collection and Financial Hardship 2021*, May 2021; Hepburn Shire Council, *Response to request for information*, April 2025, p. 24.

Hepburn has demonstrated a need for a higher cap and that it has adequately considered the trade-offs between increasing rates, service cuts and its financial position (see section 3.1).

- **Poor financial management practices of council (both past and present).** This included concerns about the council making poor decisions (for example, the redevelopment of the Rex theatre), not operating within its means, and spending on consultancies and non-essential capital projects. In assessing the need for a higher cap, we looked at what Hepburn has done to manage its financial need. We must consider the information that is in front of us, based on the council's current circumstances and we don't revisit previous council decisions. We are satisfied that Hepburn has appropriate policies and processes in place to ensure the efficiency and value for money of its spending going forward (see section 3.2).
- **Inadequate community engagement on the proposed higher cap.** This included concerns about:
 - low community awareness of council engagement
 - poor communication around the decision to apply
 - leading survey questions
 - consultation fatigue with other major engagement projects occurring at the same time.

How Hepburn engaged with its community and ratepayers is a key part of our assessment (see section 3.3). We are satisfied that Hepburn made reasonable efforts and has genuinely attempted to engage with its community on its financial position and matters relevant to the application and has had regard to community views in making the application.

2. What did the council apply for and why?

Hepburn applied for a higher cap of 10 per cent for the 2025–26 financial year.

Hepburn's 'primary driver for [the higher cap application] is council's inability to fund essential services within the current cap'.¹⁰

The application outlines how the higher cap would help Hepburn address a projected annual cash shortfall of \$4 million from the 2025–26 financial year. This shortfall was identified in Hepburn's 2024–25 Budget and later highlighted in the Financial Vision that it adopted in September 2024.

The application lists what Hepburn sees as the key contributors to its financial challenges, including:

- impacts from natural disasters and covid
- high inflation driving up capital and operating costs
- annual rate caps well below CPI
- an ambitious 2021–25 Council Plan
- delivery of several key large intergenerational capital projects.¹¹

Rates account for over 60 per cent of Hepburn's revenue and the application states that with a historically low-rate base, council has not been 'able to generate the income [it needs] to deliver the services that [its] community needs and expects, whilst maintaining and renewing community assets to the level required'.¹²

Hepburn has noted that its application for a higher cap has been made only after considering:

- alternative revenue streams (which are limited for a small rural council)
- borrowing funds
- significantly reducing capital works
- reducing services
- analysing its property portfolio.¹³

¹⁰ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 1.

¹¹ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, pp. 1–2.

¹² Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 10.

¹³ Hepburn Shire Council, *Response to request for information*, April 2025, p. 18.

What did the council apply for and why?

Hepburn's application and its responses to our request for information are available on our website (www.esc.vic.gov.au). Appendix B shows our communications with Hepburn during the assessment period.

3. How we reached our decision

As required under the Fair Go Rates system, we considered the following matters in reaching our decision:¹⁴

- the statutory purposes of the Fair Go Rates system
- the six legislative matters that the council is required to address in its application
- the council's compliance history in relation to previous rate caps
- the council's compliance with any directions we have given in relation to its application.

Appendix C summarises how Hepburn addressed each of the legislative matters in its application and supporting documents.

We took an integrated assessment approach to considering the six legislative matters and the statutory purposes when assessing whether a higher cap was appropriate. These considerations were framed in terms of four questions:

- Is there an underlying financial need (including consideration of the **Proposed higher cap** and the **Reasons** for which it is required)?
- Has the council taken steps to manage the financial need (including consideration of **Efficiency and value for money**, and **Alternative funding and offsets**)?
- Have ratepayer and community views been taken into account (including consideration of **Engagement**)?
- Are plans, policies and processes in place consistent with a need for a higher cap (including consideration of **Long-term planning**)?

We also asked the following two questions:

- Does the council have a satisfactory rate cap compliance history?
- Has the council complied with our directions?

Our consideration of these questions led us to a conclusion about the appropriateness of a higher cap and whether there is a long-term funding need that justifies a higher cap, and whether the higher cap promotes the long-term interests of ratepayers and the community. Our overall

¹⁴ *Local Government Act 1989* Section 185E(6). If we consider a higher cap is appropriate, we may make a special Order.

assessment approach is consistent with our published guidance for councils (which sets out our assessment approach in further detail).¹⁵

To inform our assessment, we obtained independent advice from consultants CT Management. This advice is published on our website and provides technical analysis on Hepburn's financial sustainability.

3.1 Is there an underlying financial need?

Hepburn's key financial performance indicators (including its adjusted underlying result, working capital ratio, asset renewal ratio and unrestricted cash) show a decline in the council's financial sustainability over recent years.¹⁶

Although the \$1.5 million of operational savings Hepburn included in its 2024–25 budget has improved its forecast operating position and adjusted underlying result for 2024–25, the financial indicators show that Hepburn is forecast to remain in an unsustainable financial position.¹⁷

Hepburn has recognised the unsustainable nature of its financial position, and its Financial Vision maps out a path to financial sustainability. The Financial Vision outlines how the council will address a projected \$4 million shortfall starting from 2025–26 through two main strategies:

- \$1.36 million in additional rates revenue from the proposed higher cap
- \$2.53 million in operational savings or increased revenue from non-rates sources.

However, Hepburn has confirmed that it remains committed to the objectives set out in its Financial Vision and, if its proposed higher cap is not approved, will seek to address the full \$4 million shortfall through operational savings or additional revenue.¹⁸

For the purposes of our assessment, we have considered what Hepburn's financial position would look like if we did not approve the higher cap and it did not find an additional \$1.36 million in savings on top of the planned \$2.53 million.¹⁹ That is, we looked at what Hepburn's financial position would be like if it was \$1.36 million short of addressing the cash shortfall.

¹⁵ Essential Services Commission 2024, *Fair Go Rates system – applying for a higher cap: Guidance for councils 2025–26*, December.

¹⁶ 'Performance Reporting', Local Government Victoria, accessed 14 April 2025, <https://www.localgovernment.vic.gov.au/strengthening-councils/performance-reporting>.

¹⁷ Hepburn Shire Council, *Higher cap information template 2025–26*, March 2025.

¹⁸ Hepburn Shire Council, *Response to request for information*, April 2025, p. 4.

¹⁹ These are the forecasts under the 'without higher cap' scenario that Hepburn has included in the LTFP sheet of the higher cap information template (the financial model) provided as part of its application. The projections provided in the financial model (under both the 'with higher cap' and 'without higher cap' scenarios) reflect the \$2.53 million in operational reductions in 2025–26 that Hepburn has committed to in its Financial Vision.

The forecasts provided by Hepburn indicate it would remain financially unsustainable over the long term, with most indicators falling well below the council's performance targets (see Appendix D):²⁰

- adjusted underlying results would remain below –2.5 per cent for the next 6 years, averaging –3 per cent over the 10-year forecast period
- working capital ratios would decline, reaching below 60 per cent from 2028–29 to 2030–31, averaging 81 per cent over the 10-year period
- asset renewal ratios would stay below 100 per cent, averaging 81 per cent over the 10-year period
- unrestricted cash ratios would remain negative, averaging –45.7 per cent over the 10-year period.²¹

We observe that the long-term projections indicate some improvement in the financial indicators in the final years of the 10-year forecast period as current debt is repaid and cash reserves are restored. This is reflective of other steps the council is taking to improve its financial position (see section 3.2). However, even with these improvements, most indicators would remain below Hepburn's target levels at the end of the 10-year forecasts (see Appendix D).²²

The application indicates that obtaining approval of a higher cap for 2025–26 is a key lever in enabling the council to achieve the objectives outlined in its Financial Vision:²³

- ensuring sufficient cash reserves to sustain service delivery
- building a financial buffer to respond to unforeseen emergencies
- establishing a reserve in the long-term for matching government grants to fund new intergenerational assets and upgrade projects.

²⁰ Hepburn Shire Council, *Higher cap information template 2025–26*, March 2025; See: Hepburn Shire Council, *Response to request for information*, April 2025, p. 2. Hepburn's performance targets are outlined in Appendix D, together with an explanation of how these align with the target performance ranges that were historically included within the Local Government Performance Reporting Framework.

²¹ We note that Hepburn uses a different definition of 'unrestricted cash' to that used in the Local Government Performance Reporting Framework (excluding non-discretionary reserves in addition to trust funds and deposits, and statutory reserves). For comparison, we recalculated the unrestricted cash ratio based on the reporting framework definition and found that the indicator would still remain below the target range. Hepburn outlined its definition of unrestricted cash on page 22 of its Financial Vision.

²² We note that council is currently reviewing its asset needs as part of preparing its 2025–34 Asset Plan, and the renewal expenditure included in these forecasts may underestimate the amount needed to maintain the health of council's assets at an appropriate level. If renewal expenditure were increased without additional funding, it may take longer for the financial indicators to improve.

²³ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 17.

These objectives reflect Hepburn's focus on improving its unrestricted cash position to a positive figure.²⁴

If the proposed higher cap is approved, and Hepburn can address the full \$4 million shortfall, its key financial indicators are forecast to stabilise over the short to medium term and improve over the longer term (after current debt is repaid). With the proposed higher cap, Hepburn forecasts its unrestricted cash balance will be positive from 2026–27, enabling allocations to a grant matching reserve to commence in 2026–27 and asset renewal funding to increase in the later years of the long-term forecast.²⁵ The council would also be in a better position to borrow funds and obtain grants to fund new and upgrade capital projects.

As outlined above, if the proposed higher cap is not approved, Hepburn notes that it will need to find an additional ongoing \$1.36 million of savings from its operating budget, which it states 'would be detrimental to [its] community [as] some services will need to be stopped'.²⁶

There is evidence Hepburn has considered the trade-offs between higher rates and service delivery, stating 'while we acknowledge the potential burden on ratepayers that a higher rate cap represents, we have balanced this against the compounding negative impact of further service cuts on our community's quality of life if a higher cap is not approved'.²⁷

Based on our analysis outlined above, we consider that Hepburn is currently in an unsustainable financial position and has a financial need for the proposed higher cap.

3.2 Has the council taken steps to manage the financial need?

Hepburn has taken significant steps over the last two years to improve its financial sustainability, announcing in its 2023–24 Budget that it would undertake a broad review of its service offerings and a full review of its 2021–31 (10-year) Long-Term Financial Plan.²⁸ As part of this review, the council considered the financial levers available to it to improve its financial position before including in its 2024–25 Budget:²⁹

- a \$1.5 million reduction in operating expenditure, through operational efficiencies with minimum service impacts

²⁴ Hepburn Shire Council, *Response to request for information*, April 2025, p. 2.

²⁵ Hepburn Shire Council, *Higher cap information template 2025–26*, March 2025.

²⁶ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 31.

²⁷ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 4.

²⁸ Hepburn Shire Council 2023, *Final Budget 2023–24*, p. 5.

²⁹ Hepburn Shire Council 2024, *Final Budget 2024–25*, pp. 6–7.

- new borrowings of \$5.53 million to support the delivery of capital projects and provide upgraded and new infrastructure for the community
- a reprioritisation of the council's capital works program to focus on the delivery of previous commitments and asset renewal.

Hepburn's 2024–25 Budget also quantified its long-term financial challenges, identifying a need for an additional \$4 million in permanent savings or increased revenue from the 2025–26 financial year. Following the budget, Hepburn engaged with its community to prepare a revised Long-Term Financial Plan and financial strategy, adopting its Financial Vision in September 2024.³⁰

Hepburn's Financial Vision outlines how the council plans to use the remaining levers available to it, including:³¹

- seeking approval of an application for a 10 per cent higher cap in the 2025–26 financial year, generating \$1.36 million in additional rates revenue
- achieving \$2.53 million in further operational savings, service changes and additional revenue opportunities
- actively seeking state and federal government funding for new assets, with the creation of a grant matching reserve with funds available to allocate to grant applications as 'matching funds'.

While Hepburn's Financial Vision and its application indicate that the council will continue to look for additional revenue opportunities (including increases in user fees and charges, rental income and asset sales), we acknowledge that these alternative revenue streams are constrained and unlikely to have a material impact on Hepburn's ongoing revenue shortfall.

Hepburn has also demonstrated its willingness to borrow funds to support its capital program. While its capacity to borrow further funds to address the current shortfall is limited due to its cash position, future borrowing to fund large inter-generational assets is an appropriate strategy included within Hepburn's Financial Vision. With revenue from a higher cap, Hepburn will be able to build its cash reserves and be in a better position in the future to both match grants and borrow funds to upgrade or build new assets.

In its report on Hepburn's financial position, CT Management observed that the council could have partially alleviated its cash shortfall by extending the period of each of its current loans by

³⁰ Hepburn Shire Council, *Financial Vision 2024–2027*, September 2024.

³¹ The amounts of \$1.36 million and \$2.53 million are updates on the estimates that were included in the modelling when the Financial Vision was released. The Financial Vision referred to \$1.56 million in additional rates revenue and \$2.44 million in operational savings and/or additional revenue opportunities. Hepburn Shire Council, *Financial Vision 2024–2027*, September 2024, pp. 3 and 14.

5 years.³² This is something Hepburn could still consider to reduce the service impacts of finding the \$2.53 million of operational savings or additional revenue needed in the 2025–26 budget. However, we note community feedback both through the Financial Vision engagement and in submissions to us that the repayment of debt should be prioritised.

The application and supporting material show Hepburn has been transparent with its community about its financial challenges, the services it delivers (including costs), and its path to financial sustainability. The development of a detailed service catalogue to inform ratepayers and community members about the council’s service offerings has and should continue to facilitate meaningful dialogue about community and ratepayers’ service preferences, willingness to pay and associated trade-offs. Further, Hepburn’s commitment to implementing a program of service reviews, combined with regular reviews of its service catalogue, will help ensure that services continue to be delivered efficiently and offer value for money to ratepayers and community members.³³

We have received some submissions from community members and ratepayers expressing concerns about the council’s expenditure, including past mismanagement of capital projects and misalignment with community preferences. In recent media releases, Hepburn has acknowledged its past failures and outlined steps it’s taken to address past shortcomings.³⁴ Based on our assessment, there is evidence that Hepburn has appropriate policies and processes in place to ensure the efficiency and value for money of its capital spending. We note that while the current budget includes planning work for major capital projects, the council has indicated this work is unlikely to proceed unless grant funding is secured.³⁵

We consider that Hepburn either has taken, or is currently taking, sufficient steps to manage its financial position. It has reprioritised its expenditure, improved the efficiency of its expenditure, considered alternative funding options and considered the long-term interests of its community in determining the appropriate balance between the higher cap and operational savings.

Even with the higher cap and \$2.53 million of operational savings or additional revenue, council will still likely require significant government grant funding for new or upgrade capital projects going forward.

³² CT Management Group, *Hepburn Shire Council Higher Rate Cap Assessment*, April 2025.

³³ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, pp. 26 and 34.

³⁴ Hepburn Shire Council, ‘Statement by the Mayor, Councillors and Chief Executive Officer’, Daylesford, 25 March 2025; Hepburn Shire Council, ‘Hepburn Shire Council; ‘Leaked report on Hepburn Hub at The Rex Project’, Daylesford, 17 March 2025.

³⁵ Hepburn Shire Council, *Response to request for information*, April 2025, pp. 5–6.

3.3 Have ratepayer and community views been taken into account?

Hepburn engaged with its community in the development of its Financial Vision. While this engagement was not specific to the higher cap application, it did seek community views on relevant key issues including the trade-off between rate increases and operational savings, service preferences, service levels, asset maintenance and funding of capital works.³⁶

The engagement program for the Financial Vision had clear goals that were consistently communicated, and it was promoted in a range of ways that were designed to reach a wide audience of community members and both resident and non-resident ratepayers.

The main engagement activity was a survey, which could be completed online or in hard copy format. This survey sought responses to broad questions regarding the financial levers and strategies Hepburn was considering and allowed respondents to enter free text. The survey format and questions were appropriate to inform the high-level decisions being made in the development of Hepburn's Financial Vision.

Survey participants were given information about Hepburn's financial position and advised that the council was seeking to find an additional \$4 million in long-term savings and/or revenue. The council outlined how it had explored all financial levers available to it and how a higher cap would support its ability to deliver projects and maintain services. This information is consistent with the information in Hepburn's application. Hepburn also developed a detailed service catalogue to help ensure responses relating to service preferences were informed.

An engagement report containing survey results was presented to councillors to inform the development of Hepburn's Financial Vision, including the appropriate balance between rate increases and operational savings. Although the engagement report did not show majority support for the 10 per cent higher cap sought by Hepburn (7 per cent above the minister's cap), it did indicate the majority of respondents were open to a higher cap (of varying percentages).

In response to our request for further information, Hepburn advised that the Financial Vision engagement report had been an input to the decision-making process but was not the sole factor. We note that the council's decision to apply for a higher cap of 10 per cent (inclusive of the minister's cap) rather than the recommendation of council staff for a higher cap of 10 per cent plus the minister's cap, was due to the council's consideration of all factors including ratepayers' capacity to pay and community sentiment.³⁷

³⁶ Hepburn Shire Council, *Financial Vision Survey*, July 2024.

³⁷ Hepburn Shire Council, *Response to request for information*, April 2025, p. 17.

During the Financial Vision engagement and in submissions to us, ratepayers raised concerns about their ability to pay and the impact a higher cap might have on top of current cost of living pressures. In response to our request for further information, Hepburn confirmed it had considered deferring the application or spreading the rate increase over multiple years, but its decision to apply for a single-year higher cap in 2025-26 was driven by its poor unrestricted cash position combined with its desire to provide clarity on its financial position and approach going in to the 2024 council elections.³⁸

We received a number of submissions that were critical of Hepburn's engagement, raising questions about the clarity, effectiveness or reach of the council's messaging and engagement, with some submitters stating they had been unaware of Hepburn's Financial Vision survey.

We acknowledge that not all interested parties are satisfied with the engagement undertaken, and that a focus on the Future Hepburn consultation that occurred around the same time may have impacted some people's awareness or capacity to engage on the Financial Vision.³⁹ However, given the time and resources available and Hepburn's financial constraints, we consider the engagement was appropriate. We also note that Hepburn currently has a deliberative engagement process underway to determine the savings reductions and priorities going forward.⁴⁰

Many of the submissions we received suggested there was a lack of awareness or understanding in the community about the outcomes of the council's engagement on the Financial Vision. Given this, we consider Hepburn could have done more to tell its ratepayers and community about the outcomes of its engagement, how feedback was taken into account, about the different levers of its financial strategy and about further opportunities to engage on service delivery as part of the council plan.

Nevertheless, there is evidence that Hepburn made reasonable, genuine efforts to engage with its community on its financial position and matters relevant to the application and has had regard to community views when deciding to apply.

³⁸ Hepburn Shire Council, *Response to request for information*, April 2025, p. 23.

³⁹ Future Hepburn was a suite of major projects encompassing five Township Structure Plans, 'Rural Hepburn: Agricultural Land and Rural Settlement Strategy, and the Integrated Transport Strategy, which were developed to guide future growth and appropriate development in the shire. Community feedback on draft Town Structure Plans and Rural Hepburn was open between 1 May and 26 June 2024. Hepburn Shire Council, *Participate Hepburn: Future Hepburn*.

⁴⁰ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 24.

3.4 Are plans, policies and processes in place consistent with a need for a higher cap?

The reasons for Hepburn's higher cap application and the assumptions that underpin it are consistent with the council's current long-term planning.

Hepburn's legislated long-term planning documents from 2021 and 2022 (Council Plan, 10-year Financial Plan, Asset Plan and Revenue and Rating Plan) show that ongoing financial sustainability has been a key issue for the council. Hepburn detailed low rating income, the financial impacts of Covid, natural disaster recovery costs, an ambitious 2021–25 Council Plan and several large intergenerational capital projects as leading contributors to its current financial position.⁴¹

In its 2023–24 budget, Hepburn announced a review of its long-term financial plan, which led to the adoption of its 2024–27 Financial Vision. The Financial Vision aims to ensure Hepburn's long-term financial sustainability by providing strategic direction to the council around the provision of services, priorities and projects while operating within the council's financial constraints.⁴²

Hepburn's decision to apply for a higher cap of 10 per cent for the 2025–26 financial year is consistent with its long-term planning outlined in its Financial Vision.

By developing its Financial Vision ahead of the planning cycle currently underway, Hepburn has been transparent with its community about its financial situation and been able to have important conversations to ensure the next tranche of plans is principally concerned with financial sustainability, and focuses on the services that are most important to the community.

The application outlines how Hepburn is aiming to bring forward the adoption of its new Council Plan, Asset Plan, Long-term Financial Plan, and Revenue and Rating Plan to occur at the same time as it adopts its 2025–26 budget to ensure alignment with the strategies outlined in its Financial Vision and reflected in its application.⁴³

Based on the information provided by Hepburn, the proposed higher cap is a key element of its long-term financial strategy, as outlined in its Financial Vision, and it has indicated its forthcoming Council Plan and other planning documents will be consistent with this.

⁴¹ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, pp. 1–2.

⁴² Hepburn Shire Council, *Financial Vision 2024–2027*, September 2024, pp. 4–5.

⁴³ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 24.

3.5 Does the council have a satisfactory rate cap compliance history?

Hepburn has not applied for a higher cap in the past and has complied with the rate cap set by the Minister for Local Government in each year since the Fair Go Rates system was introduced.

3.6 Has the council complied with our directions?

The commission did not issue any formal directions in relation to Hepburn's application.

The application was submitted in the manner and form set out in our published guidance.⁴⁴

Hepburn also provided us with information considered relevant to the application (consistent with our guidance) and complied with all requests for further information.

3.7 Our decision

In accordance with section 185E(6), the commission is satisfied that the higher cap proposed by Hepburn Shire Council is appropriate having regard to:

- the six legislative matters specified in section 185E(3) of the Act
- whether the directions given under section 185E(5) have been complied with
- the council's compliance history in relation to previous rate caps
- the statutory purposes of the Fair Go Rates system.

The commission has decided to make a special Order for a higher cap of 10 per cent (comprising the 3 per cent average rate cap set by the minister plus an additional 7 percentage points) for the 2025–26 financial year.

⁴⁴ Essential Services Commission 2024, *Fair Go Rates system – Applying for a higher cap: Guidance for councils 2025–26*, December.

Appendix A: Our integrated assessment approach

Legislative purpose and ESC objectives	Financial capacity of council to perform its duties and functions and exercise its powers s 185A(b)					Long-term interests of ratepayers and community relating to sustainable outcomes in services and infrastructure. s 185A(a)				
What should be demonstrated	Long-term funding need consistent with long-term interests of the ratepayers and community for sustainable outcomes in services and infrastructure.									
Key questions	1. Is there an underlying financial need?				2. Has the council taken steps to manage the financial need?		3. Have ratepayer and community views been taken into account?		4. Are the plans, policies and processes in place consistent with a long-term funding need?	
Legislative matters	Proposed higher cap and reasons specified s 185E(3)(a)–(b)				Efficiency, value for money s 185E(3)(d)	Alternative funding and offsets s 185E(3)(e)	Engagement s 185E(3)(c)		Long-term planning s 185E(3)(f) s 185E(3)(c)–(e)	
How it can be demonstrated	LGPRF Financial indicators (historical and projected) particularly the Adjusted Underlying Result	LGPRF Financial indicators (historical and projected) and VAGO historical performance	Higher cap information template	Relevant asset management plans if applying for renewal, upgrade or expansion	Relevant service level data if applying to increase services or improve service levels	Records of efforts to: reduce costs, align services with community's views, dispose of unwanted assets, ensure effective procurement and tendering	Evidence that council has explored other options such as alternative funding or service delivery and reasons why higher cap is most appropriate. This should include consideration of ratepayer affordability.	How the council engaged with community and what information was provided	How the council took account of views and dealt with unmet expectations	Need for higher cap consistently demonstrated in council long-term plans, including financial plans, council plan, asset management plan, revenue & rating plan.

Appendix B: Summary of communications with Hepburn Shire Council

Hepburn Shire Council (Hepburn) submitted its application for a higher cap on 6 March 2025. In response to its application, we sought additional information from the council. Hepburn's application and its responses to our requests for further information can be found on our website.

Table B1 Communications between Hepburn and the commission

Date (2025)	Nature of communication
6 March	Hepburn submitted its application
6 March	ESC sponsoring commissioner sent letter of introduction to Hepburn
11 March	Hepburn sought clarification on whether it could correct typing errors and submit an updated version of its application document (statement addressing the legislative matters)
18 March	We provided clarification of the likely timing of the commission's decision, and arranged a visit by the sponsoring commissioner
19 March	Hepburn resubmitted its application (statement addressing legislative matters)
26 March	We issued Hepburn a request for further information (RFI)
26 March	Hepburn sought clarification of the purpose and any specific issues to be discussed during sponsoring commissioner visit to Hepburn
28 March	We sent an additional information request to Hepburn
28 March	Hepburn confirmed receipt of our RFI
1 April	Sponsoring commissioner, ESC staff visited Hepburn
10 April	Hepburn sent a partial response to our RFI
11 April	Hepburn sent a response to our RFI
17 April	We advised likely delay of the commission's decision and followed up on information missing from Hepburn's response to our RFI
17 April	Hepburn provided further confidential information in response to our RFI
24 April	We sent a further request for information
28 April	Hepburn provided further confidential information in response to our RFI

Appendix C: Summary of legislative matters

This appendix summarises how Hepburn Shire Council (Hepburn) addressed each of the legislative matters in its application and supporting documents.

185E(3)(a) — proposed higher cap

Hepburn applied for a higher cap of 10 per cent for the 2025–26 financial year. This is 7 percentage points above the rate cap set by the Minister for Local Government. The application indicates that the proposed higher cap would generate \$1,361,000 more in rate revenue in 2025–26 than would be generated through the minister’s cap alone.⁴⁵ This represents, on average, an additional \$114.53 per rateable assessment in 2025–26.⁴⁶

185E(3)(b) — reason(s) for which the council seeks the higher cap

The application states ‘the primary driver for [the higher cap application] is council’s inability to fund essential services within the current cap’.⁴⁷ It further notes that the application is necessary to ensure compliance with ‘the council’s obligation under the *Local Government Act 2020*’ to ‘ensure long-term financial sustainability’.⁴⁸

The application lists a range of factors that have impacted the council’s financial position over the long term, including:⁴⁹

- a heavy reliance on revenue from rates and government grants, with limited alternate income streams
- a relatively small and dispersed population with no major town as its centre, resulting in duplication of services and costs
- the council’s low-rate base (with average rates ranking the council 60 out of 79 in 2024).

The application states that Hepburn’s financial position has been further impacted by the following in recent years:

- ‘State Government rate cap well below costs and CPI
- natural disasters – approximately \$3.5 million unbudgeted cost to council

⁴⁵ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 1.

⁴⁶ Hepburn Shire Council, *Higher cap information template 2025–26*, March 2025.

⁴⁷ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 1.

⁴⁸ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 1.

⁴⁹ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 1.

- Covid pandemic
- significant increase to construction (buildings and roads in particular)
- ambitious Council Plan 2021–25 – particularly in strategic planning to ensure appropriate housing and land protection into the future
- growing legislative requirements
- delivery of a number of key large, intergenerational capital projects (10-years plus planning) – [which] have come at increased cost and resulted in significant borrowings to finalise'.⁵⁰

The application states the council has 'a rapidly declining underlying result, a forecast negative unrestricted cash position and the consequent need to significantly increase revenue or decrease expenditure over the coming years'.⁵¹ The application further notes that without a higher cap, the council would have negative unrestricted cash every year for the next 10 years, and that the extremely low forecast cash levels in June 2031 would mean the council was insolvent.⁵²

The application describes how the council's Audit and Risk Committee has identified a high residual risk for council's financial sustainability strategic risk 'failure to maintain [council's] long-term financial sustainability to deliver on [its] business objectives'. To respond to this risk, Hepburn adopted its Financial Vision in September 2024.⁵³ This Financial Vision commits the council to addressing a \$4 million shortfall through a range of measures, including an application for a higher cap (to raise \$1.36 million in additional rates revenue) and \$2.53 million of additional operational savings or revenue from non-rates sources.⁵⁴

The application states, 'if the higher cap is not approved, [the council] will need to cut back further on [its] operating and capital budgets', noting that 'any further reductions will impact the equitable access to services across [its] communities'.⁵⁵

185E(3)(c) — how the views of ratepayers and the community have been taken into account in proposing the higher cap

The application outlines how the council undertook relevant engagement during the development of its Financial Vision.⁵⁶ Hepburn provided copies of the associated Engagement Plan and

⁵⁰ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, pp. 1–2.

⁵¹ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 10.

⁵² Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 16.

⁵³ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 13.

⁵⁴ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, pp. 16–17; Hepburn Shire Council, *Financial Vision 2024–2027*, September 2024, p. 4.

⁵⁵ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 17.

⁵⁶ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, pp. 18–25.

Communications Plan and stated these had been ‘developed and followed in line with council’s Community Engagement Policy’ available on its website.⁵⁷

The primary form of engagement was a survey, which was promoted using a range of methods including an e-newsletter, the council’s website, social media, posters and newspaper advertisements and articles. Hepburn provided copies of advertisements and promotional material either as attachments to its submission or in response to our request for information.⁵⁸ The council supported participation in the survey through in-person drop-in sessions across the shire and engagement stations at its libraries and the Daylesford customer service centre.⁵⁹ 315 responses were received across 2.5 weeks.⁶⁰

Hepburn attached relevant documents and information about the engagement to its application, including copies of the survey and contextual information provided to respondents. The contextual information included relevant background about Hepburn’s financial situation and the steps it had taken or was taking to ensure its long-term financial viability.⁶¹

Respondents were shown how Hepburn’s \$4 million cash shortfall could be met through various combinations of rate increases (higher caps) and operational savings. The survey sought their views at a high level on the appropriate balance between these options.⁶²

The survey also sought information about respondents’ use of services and service preferences, and asked about their willingness to pay for upgrades to community assets. To help inform responses, the council released a service catalogue, which described its current services and outlined the associated costs, resources and funding sources.⁶³

The application refers to the Financial Vision Engagement Report, which was considered by councillors in the development of the Financial Vision and included in the agenda of the 10 September 2024 special council meeting where the Financial Vision was adopted.

The application notes that there had ‘not been significant negative feedback to the decision made by council [to apply for a 10 per cent higher cap]’ and that ‘all Councillors who re-stood at the

⁵⁷ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 18.

⁵⁸ Copies of these promotional materials are available on [our website](#).

⁵⁹ *The Local – Council News*, 27 June 2024 (provided as Appendix 2 in Hepburn Shire Council, *Response to request for information*).

⁶⁰ Hepburn Shire Council, *Financial Vision – Engagement Report*, August 2024, p. 3.

⁶¹ Hepburn Shire Council, *Financial Vision Survey*, July 2024.

⁶² Hepburn Shire Council, *Financial Vision Survey*, July 2024.

⁶³ Hepburn Shire Council, *Service catalogue 2024–2025*.

[October council elections] were re-elected to council even following their decision to adopt the Financial Vision and apply for the [higher cap]'.⁶⁴

Hepburn is now nearing completion of a more in-depth engagement exercise to inform the development of its major strategic plans for this council term, including the 2025–29 Council Plan and the 2025–35 Financial Plan. This engagement has included the formation of a deliberative panel to help the council identify and refine its objectives and priorities prior to gaining feedback on draft documents from the wider community.⁶⁵

185E(3)(d) — how the higher cap is an efficient use of council resources and represents value for money

The application outlines how Hepburn's 2024–25 budget incorporates \$1.5 million of ongoing operational savings, including from reductions in staff training and development, communication grants, swimming pool and library opening hours, and the use of external expertise.⁶⁶ These savings represent a 4.5 per cent reduction in operating expenditure and a 5.1 per cent reduction in staff numbers.⁶⁷ To achieve these savings, Hepburn examined every service to identify potential efficiencies and considered community preferences obtained during engagement on the 2021–25 Council Plan.⁶⁸

The application indicates that when it adopted the Financial Vision in September 2024, the council resolved to identify a further \$2.53 million in ongoing operational savings or new revenue opportunities in the 2025–26 budget.⁶⁹ This is a further 7.6 per cent of Hepburn's operating expenditure.⁷⁰ The application notes these savings and any associated service reductions will be informed by Hepburn's engagement activities, including its engagement on the 2021–25 Council Plan, the Financial Vision and the 2025–29 Council Plan.⁷¹

⁶⁴ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 24.

⁶⁵ 'Participate Hepburn: Hepburn Together 2025-29', Hepburn Shire Council, accessed 28 April 2025, <https://participate.hepburn.vic.gov.au/hepburn-together-2025-2029>.

⁶⁶ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 27.

⁶⁷ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 27.

⁶⁸ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 26; Hepburn Shire Council, *Response to request for information*, April 2025, p. 16.

⁶⁹ In the Financial Vision and council meeting minutes, this was an amount of \$2.44 million. Since the Financial Vision was adopted in September 2024, Hepburn has revised its forecasts and has updated this figure to \$2.53 million.

⁷⁰ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 4.

⁷¹ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 24; Hepburn Shire Council, *Response to request for information*, April 2025, p. 16.

The application states that if \$2.53 million of operational savings is found in 2025-26, 'council will have reduced its operational expenditure permanently by \$4.04 million or 12 per cent annually' from 2025-26 onwards.⁷²

The application states that 'any further reductions to service levels [beyond those already included in the forecasts] would impact the equitable access to services across [the shire's] communities'.⁷³ It also notes that any further reduction in capital spending would significantly impact the council's asset renewal gap.⁷⁴

The application also outlines how Hepburn continues to look at its internal operations to achieve efficiencies and find savings, including through a 'dollars and sense' staff suggestions initiative, alternative delivery models and potential opportunities for shared service arrangements with neighbouring councils.⁷⁵

The application includes a list of service reviews Hepburn is currently undertaking and notes that the council commenced an ongoing program of service reviews in the 2024–25 financial year.⁷⁶ The application states these reviews are being based on the service performance principles in the Local Government Act 2020 to ensure '[council] limit[s] the impact to [its] community while also maintaining good value'.⁷⁷

In response to our request for information about the efficiency and value for money of its capital spending, council advised it:

- has a Project Management Framework, 'which is designed to ensure appropriate governance, oversight and reporting exists on capital projects to ensure efficiency and value for [its] communities'
- has a Procurement Policy, which 'ensures that council's contracting, purchasing and contract management activities achieves demonstrable value for money'
- was 'part-way through implementing an Enterprise Project Management Office'.⁷⁸

⁷² Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 34.

⁷³ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 17.

⁷⁴ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 17.

⁷⁵ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 28. Council recently announced it had commenced an arrangement with Mount Alexander Shire Council to consolidate its building services team into a shared service arrangement servicing both shires.

⁷⁶ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 26.

⁷⁷ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 26.

⁷⁸ Hepburn Shire Council, *Response to request for information*, April 2025, pp. 20-21.

Hepburn also noted that ‘all projects need to demonstrate their alignment with the Council Plan, which is currently being developed in conjunction with the community’.⁷⁹

185E(3)(e) — whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate

The application outlines how Hepburn has reprioritised its capital expenditure in line with its Financial Vision, effectively limiting forecast capital expenditure over the next 10 years to asset renewal works.⁸⁰ The application notes that funding of new upgrades or new generational assets ‘would be considered on a case-by-case basis and will likely require significant government grant funding’ in conjunction with future built up reserves and borrowings.⁸¹

The application notes that, as a small rural council, Hepburn is heavily reliant on rates revenue and grant funding, with limited alternative sources of revenue. The application outlines the alternative funding options that Hepburn has considered and why the council considers these are insufficient:⁸²

- **Borrowing** – Hepburn has secured new borrowings of \$15.93 million over the last five financial years, including a new \$5.53 million loan as part of its 2024–25 budget. Its forecast indebtedness ratio for 2024–25 is 42 per cent, which the application notes is in the Victorian Auditor–General’s Office’s medium risk category (40 to 60 per cent).⁸³ The forward projections included in the application include no new debt, with the application noting ‘council’s tight cash environment constrains the scope of any new borrowings and council’s capacity to service them’.⁸⁴ In response to our request for information, Hepburn advised ‘debt funding will be considered for capital expenditure, where appropriate in specific project funding plans, but will not be used to fund operational activities’.⁸⁵
- **Asset sales** – The application notes that Hepburn has limited assets available for potential disposal as most of the land and buildings it controls are not owned by the council. In response to our request for information, Hepburn advised that any asset sales would take some time to

⁷⁹ Hepburn Shire Council, *Response to request for information*, April 2025, p. 21.

⁸⁰ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 3.

⁸¹ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 35.

⁸² Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, pp. 31–37.

⁸³ While the Victorian Auditor–General’s Office no longer uses target bands in its annual audit reports, these remain a useful guide when looking at the financial indicators.

⁸⁴ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 36.

⁸⁵ Hepburn Shire Council, *Response to request for information*, April 2025, p. 23.

complete, are subject to community consultation and would only yield one-off gains that are unlikely to have a material impact on its cash position.⁸⁶

- **User fees and charges** – Revenue estimates provided by Hepburn indicate that user fees and charges will account for just 3.6 per cent of Hepburn’s revenue in 2024–25, with the majority of these being either statutory fees and fines (which are set by the state government) or related to waste management.⁸⁷ The application notes that Hepburn will continue to explore opportunities to increase user fees where appropriate, but this is unlikely to materially improve the council’s financial position. It also notes that Hepburn will consider introducing new fees as part of its service reviews, but the revenue generated would have to offset any additional expenditure associated with collection.⁸⁸
- **Government grants** – The application states that ‘council will continue to pursue government grant funding and advocate for the funding of key projects’.⁸⁹ However, the application notes that the council’s reduced ability to provide matching funds may affect its ability to secure future grants. For this reason, Hepburn has committed to establishing a reserve fund for grant matching, allocating part of the revenue obtained as a result of the higher cap to this fund from 2026–27 onwards.⁹⁰

The application states that the council acknowledges the impact a higher cap would have on ratepayers and outlines the council’s resolution to double its current pensioner rebate from \$21 to \$42 for eligible pensioners.⁹¹ This rebate is in addition to the state government rebate under the Pensioner Rate Remission scheme.⁹²

⁸⁶ Hepburn Shire Council, *Response to request for information*, April 2025, p. 22.

⁸⁷ Hepburn Shire Council, *Higher cap information template*, March 2025; Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 32.

⁸⁸ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 33.

⁸⁹ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 33.

⁹⁰ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 33.

⁹¹ Hepburn Shire Council, *Response to request for information*, April 2025, p. 24; Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 30.

⁹² Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 23.

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

Hepburn provided the following supporting documents with its application:⁹³

- Financial Vision 2024–27
- Council Plan 2021–25
- Community Vision 2021–31
- Financial Plan 2021–31
- Asset Plan 2022–32
- 2024–25 Budget
- 2023–24 Annual Report
- Revenue and Rating Plan 2021–25.

The application explains that Hepburn's Financial Vision 2024–27 was developed as 'a pre-cursor to the development of the Council Plan 2025–2029 and updated Financial Plan 2025–2034'.⁹⁴ It 'sets out a clear and financially responsible plan to ensure [the council's] long-term planning remains aligned with and delivers on [Hepburn's] Community Vision while operating within current financial constraints'.⁹⁵

The application lists the objectives of the Financial Vision as:

- 'Ensure that cash reserves are sufficient to sustain service delivery for the community and to fulfill [the council's] obligations
- Strive to have an amount of unallocated cash to provide a buffer so that [council] can adequately respond to any unforeseen emergencies
- In the long-term, establish a reserve that can provide matching funds for grants received from other tiers of government to deliver for future generations.'⁹⁶

⁹³ These documents are available on [our website](#).

⁹⁴ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 4.

⁹⁵ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 4.

⁹⁶ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 17.

Key features of the Financial Vision include:⁹⁷

- an application for a 10 per cent higher cap for the 2025–26 financial year
- an analysis of all services offered by the council to identify an estimated \$2.44 million of operational savings and/or new revenue opportunities needed to realise the Financial Vision⁹⁸
- the prioritisation of funding for asset renewal, with capital works expenditure effectively limited to renewal works
- the creation of a ‘grant funding reserve’ to ensure funds will be available to allocate to government grant applications as ‘matching’ funds
- repayment of debt and no anticipated new debt in the short to medium term.

The 10-year forecasts of revenue, expenditure and the key financial indicators outlined in the application and accompanying financial model are consistent with those in the Financial Vision.

The application outlines how Hepburn is aiming to bring forward the adoption of its 2025–29 Council Plan, 2025–34 Asset Plan, 2025–34 Financial Plan, and 2025–29 Revenue and Rating Plan to occur at the same time as it adopts its 2025–26 budget to ensure alignment.⁹⁹

⁹⁷ Hepburn Shire Council, *Financial Vision 2024–2027*, September 2024, pp. 4–5; Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 3.

⁹⁸ Since the Financial Vision was adopted in September 2024, Hepburn has revised its forecasts and has updated this figure to \$2.53 million.

⁹⁹ Hepburn Shire Council, *Higher cap application 2025–26*, March 2025, p. 24.

Appendix D: Financial indicators

This Appendix shows the key financial indicators under the two different forecast scenarios included in the financial model submitted with Hepburn's application:¹⁰⁰

- 'with higher cap' – the financial indicators reflect an additional \$1.36 million in rates revenue in 2025-26 included in the forecasts¹⁰¹
- 'without higher cap' – the financial indicators reflect forecasts of rate revenue based on the minister's cap.¹⁰²

Both scenarios reflect a \$2.53 million reduction in operational expenditure in 2025-26 (and ongoing), which Hepburn has committed to in its Financial Vision.

In examining Hepburn's financial position under the two different scenarios, we have looked at five key financial indicators that are included in the Local Government Performance Reporting Framework (the framework).¹⁰³

The framework previously specified targets for each indicator. Councils are now required to set their own targets. These previous framework targets remain a useful guide when examining a council's financial performance. Hepburn indicated that it has adopted these target ranges and aims to operate within the target ranges included under each of the figures below.¹⁰⁴ The Victorian Auditor-General's Office (VAGO) also previously used target bands as part of its local government audits. Hepburn's targets for each indicator sit within the previous VAGO low risk band.

Adjusted underlying result

The adjusted underlying result is defined as the adjusted underlying surplus (or deficit) as a percentage of adjusted underlying revenue, where:

- adjusted underlying surplus is adjusted underlying revenue less total expenditure

¹⁰⁰ Hepburn Shire Council, *Higher cap information template 2025–26*, March 2025.

¹⁰¹ The higher cap will result in a permanent increase to the rate base.

¹⁰² While we note Hepburn's commitment to find an additional \$1.36 million in operational savings or additional non-rates revenue if we did not approve a higher cap, for the purposes of our assessment Hepburn has based its 'without higher cap' forecasts in its financial model on a hypothetical scenario where it did not receive additional rates revenue, nor did it achieve the equivalent amount (\$1.36 million) in operational savings or additional non-rates revenue.

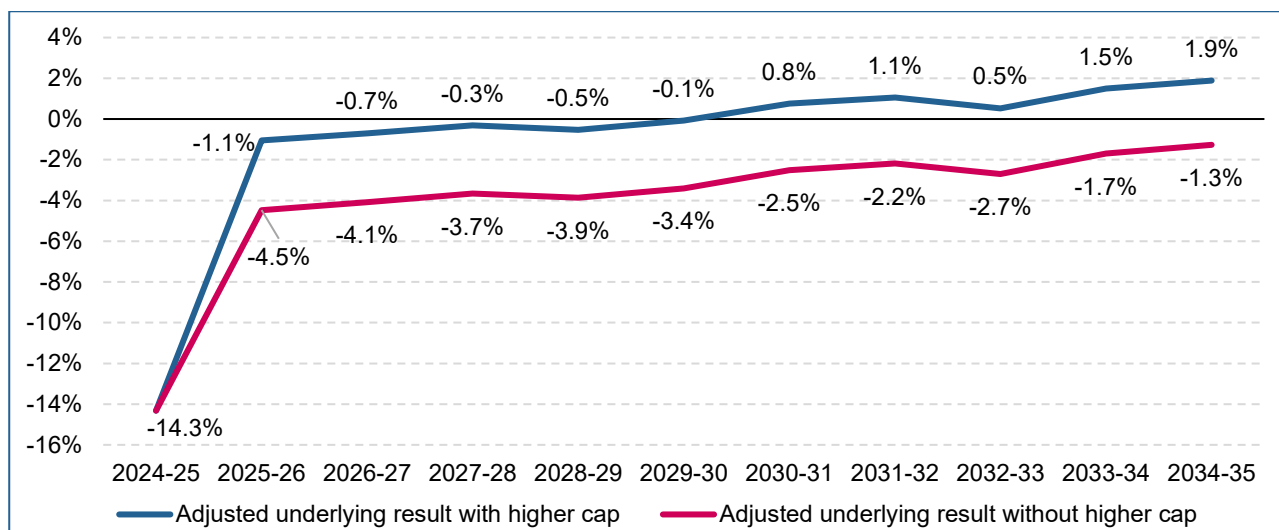
¹⁰³ See <https://www.localgovernment.vic.gov.au/strengthening-councils/performance-reporting> for more details.

¹⁰⁴ Hepburn Shire Council, *Response to request for information*, April 2025, p. 2.

- 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.

Hepburn has indicated a target range of between 0 per cent and 10 per cent for this indicator.¹⁰⁵ The previous framework target for this indicator was a result greater than 0.

Figure D1 Hepburn's forecast adjusted underlying result



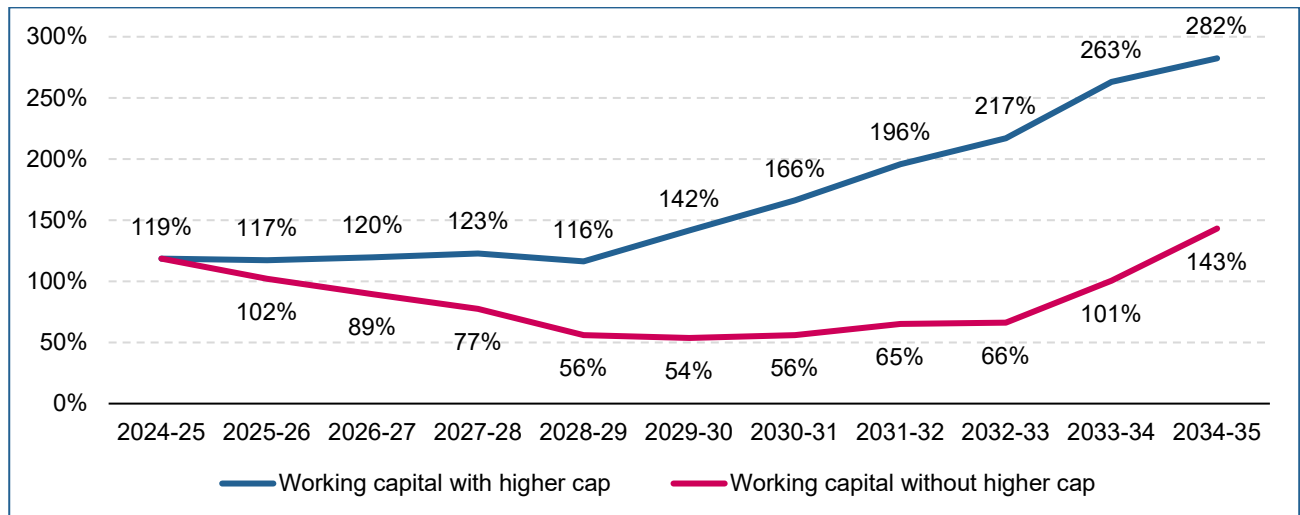
Working capital ratio

The working capital ratio is defined as current assets as a percentage of current liabilities. Hepburn considers a ratio in the range between 100 per cent and 150 per cent is adequate.¹⁰⁶ The previous framework target for this indicator was between 120 per cent and 200 per cent.

¹⁰⁵ Hepburn Shire Council, *Response to request for information*, April 2025, p. 2.

¹⁰⁶ Hepburn Shire Council, *Financial Vision 2024–2027*, September 2024, p. 20.

Figure D2 Hepburn's forecast working capital ratio



Unrestricted cash ratio

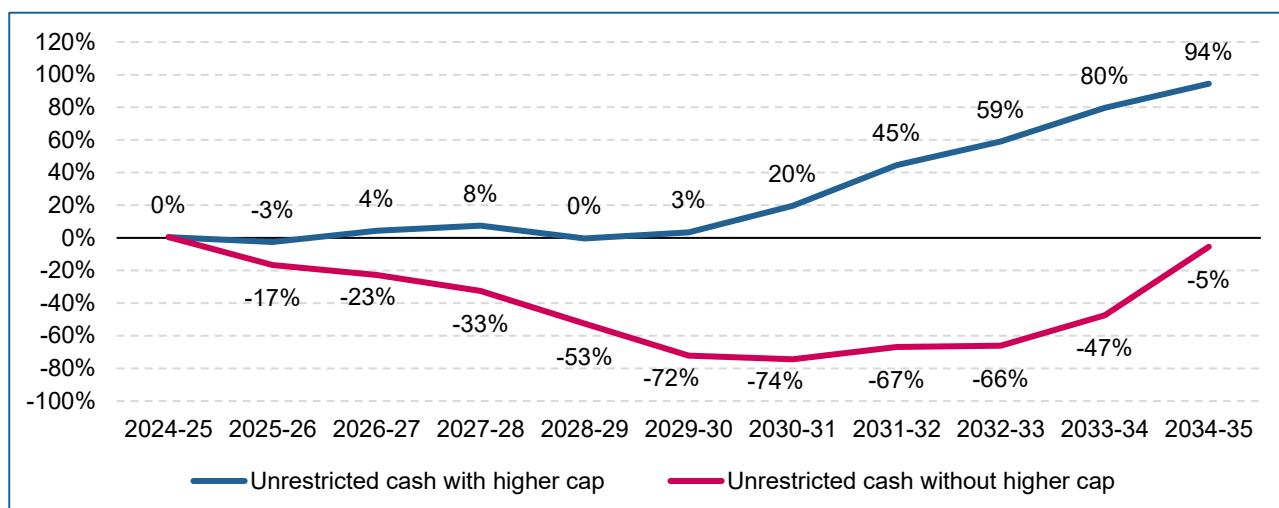
Hepburn defines the unrestricted cash ratio as 'unrestricted cash as a percentage of current liabilities' where:

- unrestricted cash is all cash and cash equivalents, less trust funds and deposits, statutory and non-statutory reserves, cash held to fund carry forward capital works, and conditional grants unspent.¹⁰⁷
- current liabilities are obligations or liabilities that are due to be settled or paid within one year.

Hepburn has adopted a target range of between 50 per cent and 100 per cent for this indicator. The previous framework target for this indicator was between 50 per cent and 100 per cent.

¹⁰⁷ We note that Hepburn has also excluded non-discretionary reserves from its calculations of unrestricted cash.

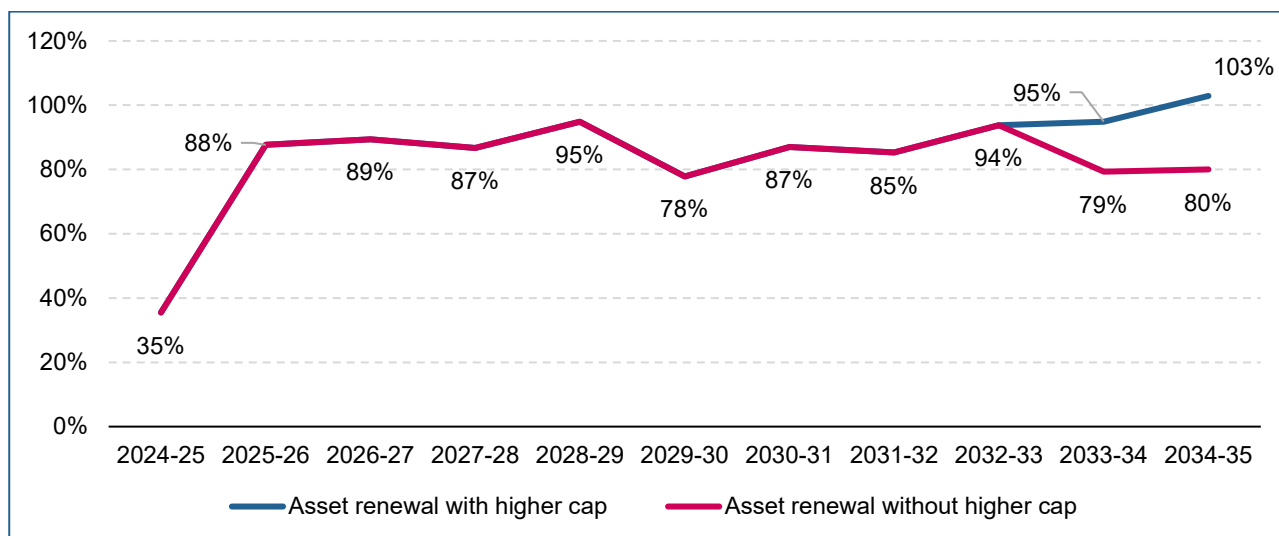
Figure D3 Hepburn's forecast unrestricted cash ratio



Asset renewal ratio

The asset renewal ratio is defined as asset renewal and upgrade expenditure as a percentage of depreciation. In its 2024–25 Council Budget, Hepburn notes that ‘a percentage greater than 100 per cent indicates there is a lesser risk of insufficient spending on council’s asset base’.¹⁰⁸ The previous framework target for this indicator was between 90 per cent and 110 per cent.

Figure D4 Hepburn's forecast asset renewal ratio



¹⁰⁸ Hepburn Shire Council 2024, *Final Budget 2024–25*, p. 57.

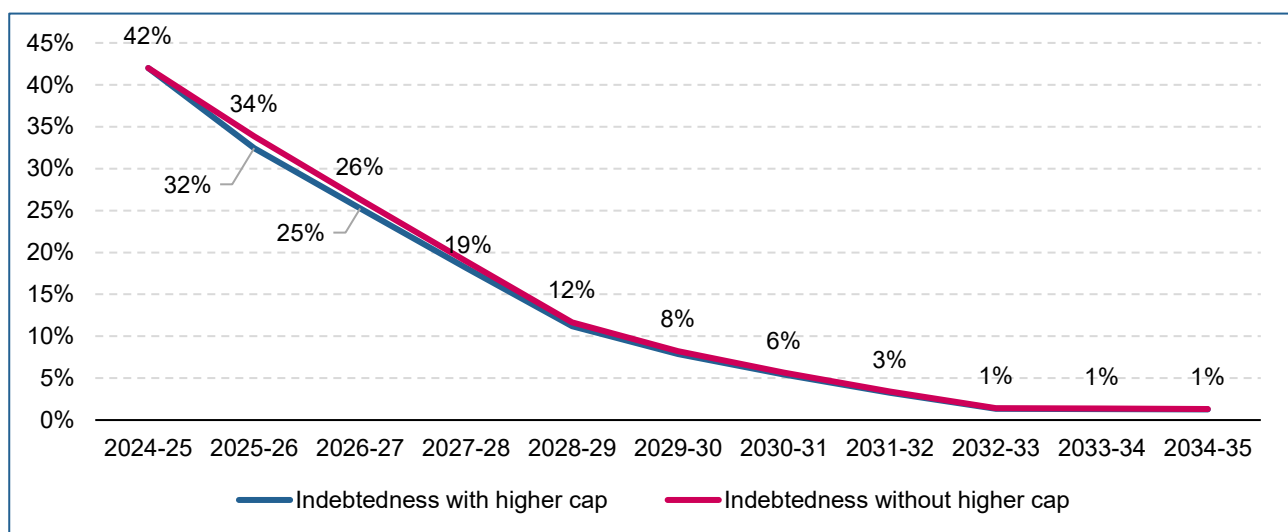
Indebtedness ratio

The indebtedness ratio is defined as non-current liabilities as a percentage of own source revenue where:

- non-current liabilities are those that are not due for settlement within 12 months after the reporting period
- own source revenue is rates and charges plus user fees, statutory fees and fines and other minor revenues.

Hepburn has indicated a target range of between 0 per cent and 40 per cent for this indicator.¹⁰⁹ The previous framework target for this indicator was between 10 per cent and 40 per cent.

Figure D5 Hepburn's forecast indebtedness ratio



¹⁰⁹ Hepburn Shire Council, *Response to request for information*, April 2025, p. 2.