

Mansfield Shire Council

Decision on application for a higher cap 2019–20

29 May 2019

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Summary

Mansfield Shire Council applied for a higher cap of 13.94 per cent for 2019–20 (inclusive of the minister's rate cap of 2.50 per cent) to transition revenue previously collected through its waste service charges into its general rates. Mansfield estimated this would generate \$1.2 million of additional rates revenue (above the Minister's cap) in 2019–20, which would offset forgone revenue of \$1.2 million from the reduction of its waste service charges to cost-reflective levels.

The financial modelling included with the application indicates that the change in the average rates notice under each property class will be between a decrease of \$2 and an increase of \$10.¹

The Essential Services Commission assessed Mansfield's application and has decided to approve the higher cap of 13.94 per cent for 2019–20 (11.44 percentage points above the minister's cap).

Having regard to all of the legislative matters and our statutory objectives, we are satisfied that the higher cap is appropriate, allowing the council to collect the \$1.2 million of revenue under the appropriate category (general rates). We are satisfied that the application shows a long-term funding need for the council to retain this revenue to continue delivering services and infrastructure in the long-term interests of ratepayers and the community. This is supported by the council's long-term financial planning and community engagement.

Our decision

We have approved a higher cap of 13.94 per cent in 2019–20 for Mansfield Shire Council.

¹ Note: The financial modelling relates to the change in the median rates notice for each property class. Individual rates notices may decrease or increase by amounts greater than this range.

1. Background

Under the Fair Go Rates system, established under the Local Government Act 1989, councils must limit their average rate increase to a cap set by the Minister for Local Government. The minister set a 2.50 per cent rate cap for the 2019–20 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 assessing applications, we must take into account the six legislative matters² and the statutory objectives³ of the Fair Go Rates system (box 1). We must also consider a council's compliance with previous years' caps.

Box 1 The Fair Go Rates system

The **legislative matters** are:

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

The **statutory objectives** are:

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

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

³ Local Government Act 1989 Section 185A.

Each year, we publish guidance to help councils plan for and make higher cap applications.⁴ This guidance also aims to help councils understand how we interpret the legislative provisions when assessing applications, including:

- the guiding principles we follow
- the nature of the material we expect to find in an application and the supporting documents that councils should provide.

While our guidance provides information in general terms about how applications will be assessed, it should not be considered a set of fixed rules. We will assess each application on its merits and determine the appropriateness of a higher cap having regard to all relevant factors and the unique circumstances of the applicant council.

Affordability

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

We do not assess affordability in councils' higher cap applications. The legislation does not require us to do so.⁵ Councils are best placed to determine their community's capacity to pay rates after taking into account all major factors that may affect their communities. The decision on the appropriate trade-off between service impacts and the level of rates rightly sits within the council's jurisdiction.

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

⁴ Essential Services Commission 2019, Fair Go Rates system – applying for a higher cap: Guidance for councils 2019–20, January

⁵ Affordability is not one of the matters listed in the legislation that councils must address in their applications — Local Government Act 1989 Section 185E(3).

2. What did the council apply for and why?

Mansfield Shire Council applied for a higher cap of 13.94 per cent for 2019–20, which is 11.44 per cent above the rate cap set by the Minister for Local Government. The council estimates this will generate \$1.2 million of extra revenue (above the minister’s cap) in 2019–20.

Mansfield applied for a higher cap to offset \$1.2 million in forgone revenue from the reduction of its waste service charges to cost-reflective levels. The council intends to reduce its waste service charges to align with the recent decision by the Victorian Ombudsman on Wodonga City Council’s waste service charges.⁶

Effectively, the higher cap would allow the council to transition \$1.2 million of revenue, on a revenue neutral basis, from waste service charges into general rates revenue.

The application indicates that Mansfield must retain this \$1.2 million of revenue so it can continue to deliver the service levels required by its community, while ensuring that the revenue is captured under the correct category (and subject to the rate cap).

While we do not assess affordability when considering higher cap applications, we note that the council has stated its intention to modify its differential rates to minimise the average impact across property classes caused by shifting the revenue from service based charges (eg. charge per bin size or collection type) to a Capital Improved Value based charge. The financial modelling included with the application indicates that the change in the median rates notice under each property class will be between a decrease of \$2 and an increase of \$10.⁷

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

⁶ The Ombudsman found that Wodonga City Council had been over-charging its ratepayers (above the actual costs of waste management services), and using those excess funds to pay for other council operations. The Ombudsman recommended that the council reduce its waste charges to only recover the reasonable cost of its waste services.

⁷ Note: The financial modelling relates to the change in the median rates notice for each property class. Individual rates notices may decrease or increase by amounts greater than this range.

3. How did we reach our decision?

As required under the Fair Go Rates system, we examined each of the six legislative matters addressed in Mansfield Shire Council's application. Our observations on the extent to which the application addresses each of the legislative matters are summarised in Appendix B. Further, the Act requires us to have regard to a council's record of compliance with previous years' caps.⁸

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

To assist in our assessment we sought external advice from Deloitte Access Economics (Deloitte) which is published on our website. The advice provides technical analysis on the council's financial capacity.

Our assessment is set out below.

3.1. What is the underlying financial position?

The higher cap will offset a reduction in waste charges (it is revenue neutral)

The council is seeking a higher cap to transition \$1.2 million of revenue that it has previously been collecting through waste service charges into general rates. The application states that the higher cap is revenue neutral when taken in conjunction with the reduction in the council's waste service charges. That is, the application indicates that the council is not collecting more revenue than it otherwise would have collected without the higher cap and the reduction in waste service charges.

We note that the budget baseline information included with the application estimates a \$1.12 million decrease in revenue from waste service charges (from \$3.22 million in 2018–19 to \$2.10 million in 2019–20).⁹ However, the budgeted revenue for 2019–20 includes an increase in waste costs of \$78,311 (to be recovered through its waste service charges) and an increase of \$3,589 from additional revenue collected outside of the waste service charges (through commercial arrangements or grants).¹⁰

Therefore, we note the forgone revenue that has been removed from the council's waste service charges is \$1.2 million, which corresponds with the additional revenue from the higher cap

⁸ In 2016–17, 2017–18 and 2018–19, Mansfield complied with the rate caps set by the Minister for Local Government.

⁹ Mansfield Shire Council, Budget Baseline Information Template 2019–20, May 2019.

¹⁰ Mansfield Shire Council, Response to request for information, April 2019, pp. 2-3.

estimated by the council. As such, we accept that the higher cap is revenue neutral when taken in conjunction with the reduction in the waste service charges.

The council must retain the \$1.2 million of revenue to maintain the level of services it provides

The application states that the council is unable to absorb the loss of \$1.2 million of revenue from the reduction of its waste service charges, and must maintain this revenue so it can continue to deliver services and maintain infrastructure at the levels required by its community. The council believes there are no further expenditure reductions available without impacting severely on the level and mix of services provided to the community (see section 4.2).

The application identifies capital expenditure for 2019–20 that would be cut if the higher cap is not approved (contribution towards an indoor sports stadium and upgrade of a pavilion). However, we note that these are one-off capital expenditure savings, and the council would need to find recurrent expenditure savings, or further capital expenditure savings in future years, to offset the forgone revenue each year.

Advice from Deloitte notes:

Mansfield's submission and supporting documents indicate that they have genuinely worked hard to date to improve their long-term financial sustainability. Further savings may be more difficult to achieve and...they are potentially likely to have additional financial challenges in future.¹¹

Without the higher cap, the council is unsustainable

The council's long-term financial plan indicates that even with the cuts in capital expenditure in 2019–20, the council would be unsustainable if it is unable to retain the \$1.2 million of revenue. We note that if the higher cap is not approved, the council forecasts an ongoing negative adjusted underlying result (figure 1), with the council forecast to run out of cash by 2023 (figure 2). This means that the council would be unsustainable, and would need to find further expenditure reductions (likely through cuts to services) in future years.

The application also notes that the council has engaged an asset management provider to undertake an assessment of the council's asset renewal requirements. The council anticipates that its asset renewal requirements will increase as a result of this review. We note that if the council has indeed underestimated its asset renewal requirements, this means the council's financial position would in fact be even worse than indicated by the forecasts in its long-term financial plan.

¹¹ Deloitte Access Economics, Assistance with review of 2019–20 rate cap application – Mansfield Shire Council, May 2019, p.5.

How did we reach our decision?

We are satisfied that the application demonstrates the council has a long-term funding need to retain the forgone revenue from reduction of its waste service charges. We accept that without this \$1.2 million of revenue, the council would be unsustainable and would be unable to maintain services and infrastructure at the levels required by its community.

Figure 1 - Adjusted underlying result

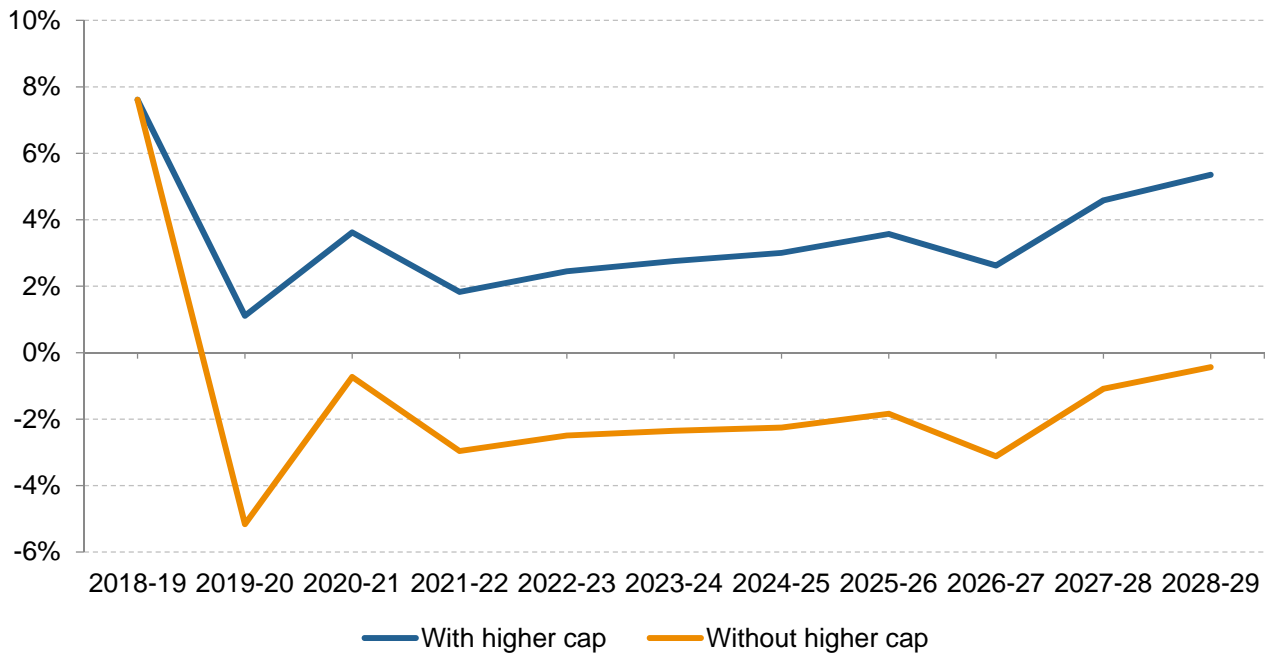
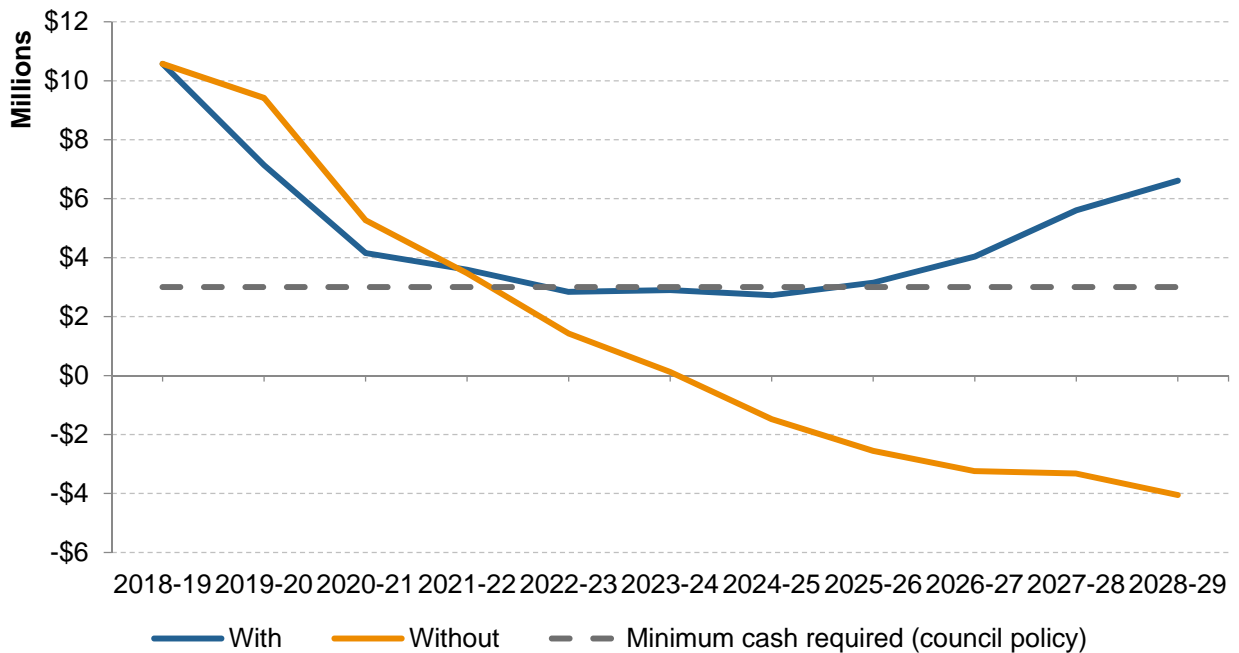


Figure 2 - Council cash



How did we reach our decision?

3.2. What has been done to manage the underlying position?

The council has policies and procedures to ensure efficiency and value for money

The application provides examples of policies and procedures that Mansfield has adopted to achieve efficiencies and deliver value for money. This includes the recent implementation of a service review program that requires the council to review each service at least once every four years. The application also explains how the council's Procurement Policy and its Financial Strategy 2018 support the council's goal to deliver procurement savings and allocate revenue with consideration of the Best Value Principles.

The application highlights recent cost saving initiatives by the council, and notes that Mansfield has a low level of expenditure. In 2017–18, Mansfield's expenses per property were lower than the Victorian average (all councils) and the lowest of all small shire councils.¹² In the same year an organisational review found \$694,000 in recurrent operational savings that was enacted in the 2018–19 budget. The review resulted in an organisational restructure, reduced equivalent full time positions and the outsourcing of services where it proved to be more effective.

We are satisfied that the application demonstrates that the council is taking appropriate steps to manage its underlying financial position, achieve efficiencies and deliver value for money. Advice from Deloitte notes that "*Mansfield is doing the key things (focussing on opportunities to improve efficiency and better asset management) to preserve its ongoing financial sustainability.*"¹³

However, we note that some of the council's initiatives, such as the service review program, new asset management processes and the organisational restructure, have only recently been implemented. We would expect the council to see demonstrable results from these organisational changes over time.

Mansfield's response to our request for information states that the hiring of two new directors will modernise the council's corporate structure and further support these processes and initiatives.

The council has considered alternative funding options and offsets

The application discusses the following alternative funding options and outlines why the council considers that they are not appropriate:¹⁴

¹² Local Government Victoria, 'Know your council', Local Government Victoria, accessed 14 May 2018, <https://knowyourcouncil.vic.gov.au/>

¹³ Deloitte Access Economics, Assistance with review of 2019–20 rate cap application – Mansfield Shire Council, May 2019, p.5.

¹⁴ Mansfield Shire Council, Higher rate cap application 2019–20, March 2019, p, 15-17.

How did we reach our decision?

- The council's policy position is that asset sales are only to be used to fund capital works, and asset sales have previously been opposed by the community.
- The council's policy position is that borrowings should not be used to fund ongoing operational costs, and should only be used for capital expenditure in longer-lived assets.
- Outside of rates, the council has limited opportunity to raise own-source revenue from alternative sources (such as user fees).
- The council has already reduced operational expenditure (as mentioned above), and believes that "...there are no further cost cuts that can be made that will not impact the level or mix of services that are delivered to the community."¹⁵
- Capital expenditure cuts are unsustainable over the long-term. The application states that the council's capital works program is primarily focused on asset renewal, and any one-off savings from cuts to other capital projects (such as the dual court basketball stadium) would only provide relief in the short-term.

We are satisfied that the application demonstrates the council has reasonably considered alternative funding options and trade-offs.

3.3. How were the community views taken into account?

Mansfield's community engagement focused on its financial position and a higher cap

Mansfield's application presents the community engagement it undertook for the 2017–18 and 2018–19 budget processes and an 'engagement campaign' in late 2018 and early 2019 which focussed on the proposal to seek a higher rate cap and the council's Draft Rating Strategy 2019–20. The council's consultations on the annual budget processes in 2017 and 2018 follow a traditional process of community forums in Melbourne and Mansfield and the receipt of formal submissions and, in 2017, feedback from an online survey. Based on the information provided by the council, we are satisfied that feedback from the community during these annual processes appears to have been genuinely considered by the council and changes were made to the council plan and budgets as a result. We note that the engagement undertaken in 2017 also contributed to the service review that was undertaken later that year.¹⁶

We also note that the council's 2018–19 engagement campaign about the need to apply for a higher cap appears to have utilised a range of methods in order to reach as many community members as possible. While the council's approach appears quite comprehensive, the level of formal feedback from the community was quite low relative to the community's size. Much of the

¹⁵ Mansfield Shire Council, Higher rate cap application 2019–20, March 2019, p. 16.

¹⁶ Mansfield Shire Council, Higher rate cap application 2019–20, March 2019, p. 10; Mansfield Shire Council, Council Minutes 27 June 2017: Adoption of the Mansfield Shire Council 2017-18 Budget , p. 15.

How did we reach our decision?

feedback consisted of suggestions that council cut services and find other efficiencies rather than increase rates. Due to the nature of the feedback there was not a clear preference for how services should be modified if a reduction of \$1.2 million in annual operating revenue was required.¹⁷

Overall, we are satisfied that the application demonstrates the council's community engagement meets the engagement principles set out in our guidance. While there were gaps in the council's approach to community engagement (see below), reasonable efforts were made to undertake community engagement appropriate to the council's size and resource constraints. The council appears to have genuinely attempted to engage with its community on its financial position and, once the waste issue arose, the impacts of transitioning waste charges into general rates and the impacts of not getting approval to do so.¹⁸

There are opportunities for Mansfield to improve its community engagement

There are, however, opportunities for the council to enhance its existing engagement practices and we encourage the council to consider developing a community engagement policy or framework and consider ways of receiving feedback from the community other than formal submissions or surveys, particularly when considering such complex issues as service trade-offs.

The number of direct submissions we received from Mansfield ratepayers and the issues they raised indicated to us that there were gaps in the community's understanding of the information supporting the application and the need for the higher cap.¹⁹ A more strategic view of the contribution that engagement can make to the council's decision-making processes may mitigate some of the issues the council appears to have with a number of ratepayers who came directly to the commission with claims that they are not being communicated with adequately.

3.4. Do plans, policies, processes show a long-term funding need?

Mansfield's long-term planning shows a long-term funding need to retain the \$1.2 million of revenue

The application includes a number of financial and strategic planning documents, including the council's:

¹⁷ Mansfield Shire Council, Higher rate cap application 2019–20, March 2019, p, 13.

¹⁸ Mansfield Shire Council, Budget forum presentation 2018-19, pp. 23-25.

¹⁹ We received submissions from four stakeholders. As our higher cap assessment process does not include a formal submission process, we have not made these submissions public. Our approach for taking into account these submissions is to include relevant quotes and extracts in our request for information to council, and providing an opportunity for the council to respond to these issues. In this way, we are able to have regard to the issues raised by the submissions and the council's response to them. For further details, see Mansfield Shire Council, Response to request for information, April 2019, pp. 5-13.

How did we reach our decision?

- Draft Council Plan for 2017–21 (revised March 2019)
- Draft Strategic Resource Plan for 2019–23
- Draft Rating Strategy for 2019–20
- Rating Strategy Modelling (confidential)
- Proposed Budget for 2019–20
- Financial Strategy 2018
- Long Term Financial Plan for 2019–20 to 2028–29
- Feasibility study for indoor court sports facilities
- Stakeholder Engagement and External Communications Plan.

The council's annual report for 2017–18 and budget for 2018–19 were also available on the council's website.

The application shows how the development of the council's first long-term financial plan in 2016–17 resulted in the adoption of the Financial Strategy 2018 and an increased focus on asset renewal. The council's asset management functions have recently been outsourced to ensure that the council's asset renewal targets are sustainable. More broadly, the Financial Strategy 2018 helps the council make decisions that are consistent with its long-term strategic direction.

Overall, we are satisfied that the application is consistent with and supported by the council's plans, policies and processes.

There are opportunities for Mansfield to improve its long-term planning

We have identified (through submissions we received from ratepayers and our own analysis) some areas of improvement that the council should consider as it further develops its long-term planning capabilities. These primarily relate to the assumptions underlying the long-term financial plan and the capital expenditure forecasts.²⁰ The council will be better able to understand its long-term funding need if the plan and its underlying assumptions are regularly monitored and updated to reflect the most accurate estimates available.

3.5. Our decision

We have approved Mansfield Shire Council's higher cap of 13.94 per cent for 2019–20, which is 11.44 percentage points above the rate cap set by the Minister for Local Government.

Although we have identified some areas for improvement relating to community engagement and long-term financial planning, we are satisfied that the higher cap is appropriate.

²⁰ See 185E(3)(f) in table B1 of appendix B.

How did we reach our decision?

We are satisfied that the application shows a long-term funding need for Mansfield to retain the forgone revenue from the reduction in its waste service charges, and that the council requires the higher cap to continue delivering services in the long-term interests of ratepayers and the community.

Mansfield's application is well supported by the following:

- a clearly identified financial sustainability challenge (if it is unable to retain the revenue)
- demonstrated efforts to achieve efficiencies and deliver value for money
- adequate consideration of reprioritising expenditure and alternative funding options
- robust long-term financial planning that is informed by technical expertise and community views
- community engagement that overall met the engagement principles set out in our guidance (despite some gaps and areas for improvement).

Accordingly, we approve Mansfield's application for a higher cap of 13.94 per cent for 2019–20.

Appendix A: Summary of communications with Mansfield Shire Council

Mansfield Shire Council submitted its application for a higher cap on 29 March 2019. In response to its application, we sought additional information from the council. Mansfield's application and its response to our requests for further information can be found on our website.

Table A1 Communications between Mansfield and the commission

Date (2019)	Nature of communication
29 March	Application submitted via email from Mansfield Shire Council.
1 April	We acknowledged the receipt of the application via email.
1 April	We emailed Mansfield about uploading the Long Term Financial Plan to our website.
2 April	Mansfield emailed through questions about public submission procedures.
2 April	We emailed Mansfield to clarify the public submission procedures.
5 April	We emailed Mansfield about the online survey results.
5 April	Mansfield emailed in a revised online survey results spreadsheet.
16 April	We sent a request for information to Mansfield.
23 April	We emailed Mansfield about the budget baseline information template and Long Term financial plan.
24 April	Mansfield emailed in a revised budget baseline information template and Long Term financial plan.
29 April	Mansfield submitted a response to our request for information.
29 April	We emailed Mansfield about the budget baseline information template.
1 May	Mansfield emailed in a revised budget baseline information template.

Appendix B: Summary of legislative matters

Table B1 summarises our observations on how Mansfield Shire Council's application addresses each of the legislative matters.

Table B1 How the application addresses the legislative matters

Legislative matter	Summary
185E(3)(a) — proposed higher cap	<p>The council proposed a higher cap of 14.94 per cent for 2019–20</p> <p>Mansfield Shire Council applied for a one-off higher cap of 13.94 per cent for 2019–20 (11.44 percentage points above the minister's cap of 2.5 per cent) for a permanent increase in the rate base. This is estimated to raise \$1.2 million in additional revenue, or on average, \$154.12 per ratable assessment.^a</p> <p>The extra rates revenue will offset \$1.2 million in foregone waste service charge revenue (on a revenue neutral basis), from the reduction of the council's waste service charges to cost-reflective levels.^a</p> <p>While we do not assess affordability, we note that the council intends to modify its differential rates to minimize the average impact across property classes.^b</p>
185E(3)(b) — reason(s) for which the council seeks the higher cap	<p>The higher cap would transition \$1.2 million of revenue from waste charges to general rates (on a revenue neutral basis)</p> <p>The higher cap is intended to transition \$1.2 million of revenue from waste charges into general rates, on a revenue neutral basis. This allows the council to reduce its waste charges to align with the recent decision by the Victorian Ombudsman on Wodonga City Council's waste service charges.^a</p> <p>In that decision, the Ombudsman found that Wodonga City Council had been overcharging ratepayers (above the actual costs of waste management services), and recommended Wodonga City Council reduce its waste charges to only recover the reasonable costs of the waste services.^c</p> <p>The council must retain the \$1.2 million of revenue from the reduction in its waste charges to continue delivering its services</p> <p>The application indicates that Mansfield must retain the \$1.2 million of revenue so it can continue to deliver the service levels required by its community, while ensuring that the revenue is captured under the correct category (and subject to the rate cap).^d</p> <p>The application notes that the development of the council's first long-term financial plan has identified a number of financial issues including a \$0.7 million asset renewal gap, sustained underlying deficits and reduction in cash.^e</p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(b) (continued)	<p>The council must retain the \$1.2 million of revenue from the reduction in its waste charges to continue delivering its services (continued)</p> <p>The application demonstrates that the council has considered alternative funding options, and concluded that a variation to the minister’s rate cap was necessary as these options were inadequate.^f</p> <p>The council has conducted operational expenditure cuts over the past two financial years, including reduced equivalent full time positions, restructured the organization and outsourced services.^g The application states that any further reductions will impact the level of services provided to the community.^g</p> <p>Without the higher cap, the council would be unsustainable</p> <p>The application identifies capital expenditure for 2019–20 that would be cut if the higher cap is not approved (contribution towards an indoor sports stadium and upgrade of a pavilion).^e</p> <p>However, the long-term financial plan shows that even with these capital expenditure cuts, the council would be unsustainable, with an ongoing negative adjusted underlying result. The long-term financial plan forecasts that the council would run out of cash by 2023.^e</p> <p>The council would need to find further cuts in future years, which would impact the level and mix of services provided to the community.</p> <p>Advice from Deloitte notes:</p> <p>...without the proposed increased rate revenue to offset the reduction in waste service charges Council’s liquidity will quickly markedly deteriorate. It would not have the revenue necessary to meet planned outlays over the medium term. Without additional revenue it would need to severely reduce expenditure. (It could borrow in the short term as part of a transitional program but this would not be a long-term or even medium term solution).^h</p>
185E(3)(c) — how the views of ratepayers and the community have been taken into account in proposing the higher cap	<p>The application sets out the council’s community engagement</p> <p>Mansfield’s application presents the community engagement it has undertaken over the three financial years leading up to its application for a higher cap in support of its application.ⁱ</p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(c) (continued)	<p>The council used its budget processes in 2017 and 2018 to identify community priorities</p> <p>In 2017, the council used the statutory process around the annual budget to engage with the community on its financial sustainability in the long-term and to identify priorities for the council plan and budget. This was a two stage process:</p> <ol style="list-style-type: none"> 1. community budget sessions in Melbourne and Mansfield and an online survey in February and March 2017 to assist the council in developing their council plan and draft budget, followed by 2. further budget sessions with the community in April and May 2017 once the draft budget was publicly exhibited for consultation.^{j,k} <p>Information given to attendees at the budget sessions indicated that there would be issues with the council's financial sustainability in the long-term and presented some options that the council and the community would have to consider including:</p> <ul style="list-style-type: none"> • increasing revenue from rates and applying for a higher cap • reducing operating costs • reducing asset renewal • increased debt • selling assets.^l <p>The council encouraged public submissions to consider these issues.^m This process appears to have been undertaken with the genuine intention of building upon each previous stage and it appears to have done so. The council considered public submissions and made changes to the budget and strategic resource plan as a result.^{n,o,p,q,r} The council also asked the Chief Executive Officer to undertake a service review to identify further efficiencies. This service review, reported to the council in October 2017, resulted in \$694,000 in savings.^o</p> <p>In 2018 the council again used the statutory process around the annual budget to engage with the community and held its traditional budget forums in Melbourne and Mansfield. According to Mansfield's application, attendees were informed of the current financial situation, the impact of the Ombudsman's report and the need to identify which services the community was willing to reduce or cut if a higher cap was not sought and waste service revenue was reduced to cost recovery.^{s,t}</p> <p>At the forums, attendees were encouraged to ask questions and raise issues for discussion, and encouraged to make a formal submission to the draft budget.^u The application notes that while there was support for some of the services proposed by the council, there was not a clear direction for the ways the community should reduce services to give up rate revenue.^{v,w,x}</p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(c) (continued)	<p>Community priorities informed the decision to apply for a higher cap</p> <p>Once the decision was made to recover the funds that would be lost by reducing waste charges to reflect actual costs, the council decided to run a campaign to inform the community about this decision and why it was appropriate. It is evident from the information provided by the council that this campaign was well-considered in the information it provided and the way it was undertaken.^{y,z,aa}</p> <p>The methods the council utilised were appropriate for its community demographics and included YouTube, Facebook, the council's website and print media (local newspaper) as well as an online engagement portal and face-to-face drop-in sessions and an online survey.^{y,z,aa,bb,cc,dd} The timing was potentially an inhibitor to further community participation, but given the timeframes of the higher cap application process, this is understandable.</p> <p>There are opportunities for the council to improve its engagement</p> <p>The council did not have an overarching engagement framework or strategy to inform the annual budget engagement processes, nor were engagement plans developed for the public budget sessions themselves.^k These strategic documents have the potential to assist the council with more strategically planning for and implementing its public consultations.</p> <p>Further, whilst it is understood that formal submissions to the budget are what the council must consider, information that may be useful to the council can also be gathered and recorded more informally to assist the council in its decision-making. This could include records of the questions, concerns and discussions during the budget sessions or other engagement activities.</p> <p>Whilst the online survey assisted the council to understand community views and priorities it could have been framed in a way where the trade-off discussion was had in a more meaningful way.</p> <p>There was some effort to elicit community views on what should happen to council services if the higher cap application was not approved.^{aa,dd} The way this was done (through requests for ideas in formal submissions and asking for which services should be cut via the online survey) did not produce useful information. Complex discussions about cost, service and infrastructure trade-offs could be better framed.</p>

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Table B1 (continued)

Legislative matter	Summary
<p>185E(3)(d) — how the higher cap is an efficient use of Council resources and represents value for money</p>	<p>Mansfield Shire Council is a low expenditure council</p> <p>The application cites the Know Your Council data for 2017–18, noting that the council’s expenditure per property assessment is well below the average for both the small shire councils, and all council categories.^{ee}</p> <p>The council has implemented a number of cost saving initiatives</p> <p>The application highlights examples of cost saving initiatives the council has implemented or is currently implementing. These include:</p> <ul style="list-style-type: none"> • Operating expenditure reductions – The application cites recent operational savings, including recurrent operational savings of \$694,000 enacted in the 2018–19 budget. Some examples of savings identified include:^{ff} <ul style="list-style-type: none"> – savings from implementing a new organisational structure of \$394,000 – a reduction in equivalent full time positions in Tourism and Economic Development of \$118,000 – the elimination of free waste disposal vouchers of \$65,000 – savings of \$90,000 biennially from Valuer General taking over responsibility for land revaluations – savings of \$30,000 from increased VicRoads funding for school crossing supervisory service – a reduction in fleet of \$25,000 – a reduction in community grants program of \$20,000 – savings of \$20,000 from the introduction of a printed rate notices delivery fee – the cancellation of medium to rare event sponsorship of \$2,000. • Service reviews – The application highlights a strategic and planned approach to cyclical service reviews. The council plans to review each service at least once every four years.^{gg} • Procurement savings – The application noted that the council will deliver procurement savings by adhering to the Best Practice Principles and Framework for procurement.^{hh}

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Table B1 (continued)

Legislative matter	Summary
<p>185E(3)(e) — whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate</p>	<p>The council has considered alternative funding options and trade-offs</p> <p>The application outlines the options and trade-offs the council has considered as an alternative to applying for a higher cap, and why those options are not adequate.</p> <p>Reduced capital expenditure in the short-term</p> <p>The application notes that opportunities to reduce capital expenditure are limited as the majority of capital expenditure is on asset renewal. The council also notes that it has engaged Assetic, an asset management provider, which is currently undertaking an assessment of the council's asset renewal requirements. The council anticipates that the asset renewal requirements will increase as a result of this review. It is therefore not considered prudent to reduce asset renewal spending.ⁱⁱ</p> <p>The application notes that it will consider this option if the higher cap application is not successful (and outlines the capital expenditure cuts that would be made in 2019–20 if the higher cap is not approved).^{jj}</p> <p>Asset sales</p> <p>The application notes that income from asset sales should only be used to fund capital works, and asset sales are not a prudent way to manage ongoing operational deficits. This is consistent with the council's Financial Strategy on income from the sale of fixed assets.^{kk}</p> <p>Previous asset sales proposals, such as the sale of land on Minerva Street and the Saleyards, have been strongly objected to by the community.^{ll}</p> <p>Borrowings</p> <p>The application notes that borrowings should only be used to fund capital works, and borrowings are not a prudent way to manage ongoing operational deficits. This is consistent with the council's Financial Strategy on borrowings.^{mmm}</p> <p>The application notes that the council's debt levels are higher than the average for both small shire councils and all council categories.^d</p> <p>Own source revenue</p> <p>The application notes that own source revenue opportunities are limited, and the council remains heavily reliant on grant revenue.⁹</p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(e) (continued)	<p>The council has considered alternative funding options and trade-offs (continued)</p> <p>Reduced operational expenditure</p> <p>The council has conducted some operational expenditure cuts over the past two financial years, including reduced equivalent full time positions, restructured the organization and outsourced services.⁹ The application states that any further reductions will impact the level of services provided to the community.⁹</p>
185E(3)(f) — that the assumptions and proposals in the application are consistent with the council's long-term strategy and financial management policies set out in the council's planning documents and annual budget	<p>The higher cap is consistent with the council's planning documents</p> <p>The application includes the following strategic planning documents in support of its proposed higher cap:</p> <ul style="list-style-type: none"> • A confidential copy of the Rating Strategy Modelling^b • Draft Council Plan for 2017–21 (revised March 2019)ⁿⁿ • Draft Rating Strategy for 2019–20^{oo} • Financial Strategy 2018^{pp} • Feasibility study for indoor court sports facilities^{qq} • Long Term Financial Plan for 2019–20 to 2028–29^e • Proposed Budget for 2019–20^{rr} • Draft Strategic Resource Plan for 2019–23^{ss} • Stakeholder Engagement and External Communications Plan.^z <p>Mansfield Shire Council's annual report for 2017–18, budget for 2018–19 were also available on the council's website.</p> <p>The information provided in the application is consistent with the council's financial planning documents. The council's planning documents demonstrate that the council has made improvements to its long-term planning by implementing its first long-term financial plan, and outsourcing its asset management function.</p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(f) (continued)	<p>There are opportunities for the council to improve its long-term planning</p> <p>We have identified (through submissions we received from ratepayers, advice from Deloitte and our own analysis) some limitations to the council’s long-term financial planning. For example, the long-term financial plan shows that:</p> <ul style="list-style-type: none"> • employee costs are forecast to increase by 2.0 per cent per annum over the next 10 year (based on the council’s most recent employment bargaining agreement).^r The council should consider if this is accurate, particularly in the later years of the long-term financial plan, given staff progression and historical wage increases in the local government sector. • capital expenditure forecasts may be understated. It appears that some line items have not been adjusted for inflation.^r In addition, the application also states that the council’s asset renewal targets are likely to increase once the council completes its review of asset renewal requirements review.^{tt} <p>The assumptions underlying the long-term financial plan should be based on the most accurate estimates available, reflecting regular service reviews, up-to-date strategic planning documents and past experience (assessing the accuracy of previous forecasts). Ongoing monitoring and updating of the council’s long-term planning will ensure that the council is better able to understand its long-term funding need.</p>

^a Mansfield Shire Council, *Higher rate cap application 2019–20*, March 2019, p. 3. ^b Mansfield Shire Council, *Higher rate cap application 2019–20, Rating Strategy Modelling*, March 2019. ^c Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 1 — Victorian Ombudsman: Investigation into Wodonga City Council’s overcharging of a waste management levy*, April 2018, p. 22. ^d Mansfield Shire Council, *Higher rate cap application 2019–20*, March 2019, p. 6. ^e Mansfield Shire Council, *Higher rate cap application 2019–20, Long Term Financial Plan for 2019–20 to 2028–29*, March 2019. ^f Mansfield Shire Council, *Higher rate cap application 2019–20*, March 2019, pp. 15-17. ^g Mansfield Shire Council, *Higher rate cap application 2019–20*, March 2019, p. 16. ^h DeloitteAccess Economics, *Assistance with review of 2019–20 rate cap application – Mansfield Shire Council*, May 2019, p. 5. ⁱ Mansfield Shire Council, *Higher rate cap application 2019–20*, March 2019, pp. 8-13. ^j Mansfield Shire Council, *Higher rate cap application 2019–20*, March 2019, pp. 8-11. ^k Mansfield Shire Council, *Response to request for information*, April 2019, pp. 3-5. ^l Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 10 — Budget forum presentation 2017–18*, March 2019, p. 15. ^m Mansfield Shire Council, *Response to request for information*, April 2019, p. 4. ⁿ Mansfield Shire Council, *Higher rate cap application 2019–20*, March 2019, p. 10. ^o Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 3b — Council Minutes 27 June 2017: Adoption of the Mansfield Shire Council 2017–18 Budget*, March 2019, p. 15. ^p Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 8 — Council Minutes 30 May 2017: Consideration of submissions to the 2017–18 Budget*, March 2019. ^q Mansfield Shire Council, *Higher rate cap application 2019–20, Council responses to submissions to 2017–18 Budget*, March 2019. ^r Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 7 — Council Minutes 18 April 2017: Endorsement of proposed budget 2017–18 for public consultation*, March 2019. ^s Mansfield Shire Council, *Higher rate cap application 2019–20*, March 2019, pp. 10–11.

^t Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 10 — Budget forum presentation 2018–19*, March 2019. ^u Mansfield Shire Council, *Response to request for information*, April 2019, p. 5. ^v Mansfield Shire Council, *Higher rate cap application 2019–20*, March 2019, pp. 11. ^w Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 11 — Council Minutes 26 June 2018: Adoption of the 2018–19 Budget*, March 2019. ^x Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 12 — Council responses to submissions to the 2018–19 Budget*, March 2019. ^y Mansfield Shire Council, *Higher rate cap application 2019–20*, March 2019, pp. 12–13. ^z Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 13 — Stakeholder Engagement and External Communications Plan*, March 2019. ^{aa} Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 14 — Council Minutes – consideration of submissions to the rate variation proposal and draft Rating Strategy 2019–20*, March 2019. ^{bb} Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 15 — Mansfield Shire Council Rates and Waste Allocation 2019–20*, <https://www.youtube.com/watch?v=swp5oI5Ef6I>, March 2019. ^{cc} Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 16 — Council Budget Rates And Waste Charge Distribution – Have your say online portal*, <https://www.mansfield.vic.gov.au/consultations/council-budget-rates-and-waste-charge-distribution>, March 2019. ^{dd} Mansfield Shire Council, *Higher rate cap application 2019–20, Online Survey results*, March 2019. ^{ee} Mansfield Shire Council, *Higher rate cap application 2019–20*, March 2019, p. 14. ^{ff} Mansfield Shire Council, *Response to request for information*, April 2019, pp. 18-19. ^{gg} Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 19 — Financial Strategy 2018*, March 2019, p. 8. ^{hh} Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 18 — Procurement Policy and Procedures*, March 2019, pp. 14-15. ⁱⁱ Mansfield Shire Council, *Higher rate cap application 2019–20*, March 2019, p. 17. ^{jj} Mansfield Shire Council, *Higher rate cap application 2019–20*, March 2019, p. 19. ^{kk} Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 19 — Financial Strategy 2018*, March 2019, pp. 2-3. ^{ll} Mansfield Shire Council, *Response to request for information*, April 2019, p.16. ^{mmm} Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 19 — Financial Strategy 2018*, March 2019, p. 5. ⁿⁿ Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 24 — Draft Council Plan for 2017–21*, March 2019. ^{oo} Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 5 — Draft Rating Strategy for 2019–20*, March 2019. ^{pp} Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 19 — Financial Strategy 2018*, March 2019. ^{qq} Mansfield Shire Council, *Response to request for information (attachments)*, April 2019. ^{rr} Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 21 — Proposed Budget 2019–20*, March 2019. ^{ss} Mansfield Shire Council, *Higher rate cap application 2019–20, Appendix 22 — Draft Strategic Resource Plan for 2019–23*, March 2019. ^{tt} Mansfield Shire Council, *Higher rate cap application 2019–20*, March 2019, p. 5.

Appendix C: Local government performance indicators

Table C1 Mansfield Shire Council's local government performance indicators

Indicators	Average rate cap	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Adjusted underlying result	13.94%	7.6%	1.1%	3.6%	1.8%	2.4%	2.8%	3.0%	3.6%	2.6%	4.6%	5.4%
	2.5%	7.6%	-5.2%	-0.9%	-3.1%	-2.6%	-2.5%	-2.4%	-2.0%	-3.3%	-1.2%	-0.6%
Working capital	13.94%	296.2%	212.7%	134.3%	120.2%	101.9%	102.3%	98.0%	107.1%	125.8%	160.3%	191.0%
	2.5%	296.2%	243.0%	134.9%	91.2%	42.2%	11.4%	-25.4%	-49.5%	-64.2%	-65.7%	-85.5%
Unrestricted cash	13.94%	224.6%	149.5%	82.5%	68.4%	50.1%	50.7%	46.4%	55.5%	74.3%	108.6%	136.4%
	2.5%	241.3%	181.1%	84.5%	40.8%	-8.2%	-38.8%	-75.7%	-99.7%	-114.2%	-116.0%	-138.5%
Asset renewal	13.94%	121.6%	94.1%	189.8%	101.3%	104.3%	94.4%	87.2%	105.6%	105.8%	84.9%	98.4%
	2.5%	121.6%	94.1%	202.1%	107.7%	110.6%	99.9%	92.1%	111.3%	111.5%	89.3%	103.4%
Loans and borrowings	13.94%	17.5%	15.6%	13.8%	12.0%	10.2%	8.5%	6.8%	5.1%	3.5%	1.8%	0.3%
	2.5%	17.5%	17.1%	15.0%	13.0%	11.1%	9.2%	7.4%	5.5%	3.8%	2.0%	0.3%
Indebtedness	13.94%	16.9%	15.0%	13.1%	11.4%	9.7%	7.9%	6.3%	4.6%	2.9%	1.4%	1.1%
	2.5%	16.9%	16.2%	14.2%	12.3%	10.5%	8.6%	6.8%	5.0%	3.2%	1.6%	1.2%

Note: These forecasts are based on the assumption that the higher waste recycling costs will be ongoing after 2019-20 as noted in the higher cap application.

Appendix D: Local government performance indicator definitions

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

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

Adjusted underlying surplus is adjusted underlying revenue less total expenditure.

b) **Working capital** is current assets as a percentage of current liabilities. This indicates whether a council has sufficient working capital to pay bills as and when they fall due. High or increasing level of working capital suggests an improvement in liquidity.

c) **Unrestricted cash** is unrestricted cash as a percentage of current liabilities. This indicates whether a council has sufficient cash which is free of restrictions to pay bills as and when they fall due. High or increasing level of unrestricted cash suggests an improvement in liquidity.

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

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

e) **Loans and borrowings** is interest bearing loans and borrowings as a percentage of rate revenue. This indicates whether the level of interest bearing loans and borrowings is appropriate for the size and nature of a council's activities. Low or decreasing level of loans and borrowings suggests an improvement in the capacity to meet long-term obligations.

f) **Indebtedness** is non-current liabilities as a percentage of own source revenue. This indicates whether the level of long-term liabilities is appropriate for the size and nature of a council's activities. Low or decreasing level of long-term liabilities suggests an improvement in the capacity to meet long-term obligations.

Own source revenue is rates and charges plus user fees, statutory fees and fines and other minor revenues.