

SPECIAL MEETING OF COUNCIL

Minutes of a
Special Meeting of Council held at
the James Young Room, Lerderderg Library,
215 Main Street, Bacchus Marsh on
Wednesday 26 August 2015,
at 5:30 p.m.

Members:

Cr. Paul Tatchell (Mayor)	Central Ward
Cr. Allan Comrie	East Moorabool Ward
Cr. David Edwards	East Moorabool Ward
Cr. John Spain	East Moorabool Ward
Cr. Tonia Dudzik	East Moorabool Ward
Cr. Tom Sullivan	West Moorabool Ward
Cr. Pat Toohey	Woodlands Ward

Officers:

Mr. Rob Croxford	Chief Executive Officer
Mr. Phil Jeffrey	General Manager Infrastructure
Mr. Satwinder Sandhu	General Manager Growth and Development
Mr. Danny Colgan	General Manager Community Services

Rob Croxford
Chief Executive Officer

AGENDA

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1. OPENING OF MEETING

The Mayor, Cr. Paul Tatchell, opened the meeting at 5.35 pm.

2. ACKNOWLEDGEMENT TO COUNTRY

We respectfully acknowledge the traditional owners of this land, their spirits and ancestors.

3. PRESENT

<i>Cr. Paul Tatchell</i>	<i>Central Ward</i>
<i>Cr. John Spain</i>	<i>East Moorabool Ward</i>
<i>Cr. Tonia Dudzik</i>	<i>East Moorabool Ward</i>
<i>Cr. Allan Comrie</i>	<i>East Moorabool Ward</i>
<i>Cr. David Edwards</i>	<i>East Moorabool Ward</i>
<i>Cr. Tom Sullivan</i>	<i>West Moorabool Ward</i>

Officers:

<i>Mr. Rob Croxford</i>	<i>Chief Executive Officer</i>
<i>Mr. Phil Jeffrey</i>	<i>General Manager Infrastructure</i>
<i>Mr. Danny Colgan</i>	<i>General Manager Community Services</i>
<i>Mr. Steve Ivelja</i>	<i>Manager Finance</i>

4. APOLOGIES

<i>Cr. Pat Toohey</i>	<i>Woodlands Ward</i>
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5. DISCLOSURE OF CONFLICT OF INTEREST

Under the Local Government Act (1989), the classification of the type of interest giving rise to a conflict is; a direct interest; or an indirect interest (section 77A and 77B). The type of indirect interest specified under Section 78, 78A, 78B, 78C or 78D of the Local Government Act 1989 set out the requirements of a Councillor or member of a Special Committee to disclose any conflicts of interest that the Councillor or member of a Special Committee may have in a matter being or likely to be considered at a meeting of the Council or Committee.

Definitions of the class of the interest are:

- a direct interest
 - (section 77A, 77B)
- an indirect interest (see below)
 - indirect interest by close association (section 78)
 - indirect financial interest (section 78A)
 - indirect interest because of conflicting duty (section 78B)
 - indirect interest because of receipt of gift(s) (section 78C)
 - indirect interest through civil proceedings (section 78D)

Time for Disclosure of Conflicts of Interest

In addition to the Council protocol relating to disclosure at the beginning of the meeting, section 79 of the Local Government Act 1989 (the Act) requires a Councillor to disclose the details, classification and the nature of the conflict of interest immediately at the beginning of the meeting and/or before consideration or discussion of the Item.

Section 79(6) of the Act states:

While the matter is being considered or any vote is taken in relation to the matter, the Councillor or member of a special committee must:

- (a) leave the room and notify the Mayor or the Chairperson of the special committee that he or she is doing so; and
- (b) remain outside the room and any gallery or other area in view of hearing of the room.

The Councillor is to be notified by the Mayor or Chairperson of the special committee that he or she may return to the room after consideration of the matter and all votes on the matter.

There are important reasons for requiring this disclosure immediately before the relevant matter is considered.

- Firstly, members of the public might only be in attendance for part of a meeting and should be able to see that all matters are considered in an appropriately transparent manner.
- Secondly, if conflicts of interest are not disclosed immediately before an item there is a risk that a Councillor who arrives late to a meeting may fail to disclose their conflict of interest and be in breach of the Act.

6. PRESENTATIONS / DEPUTATIONS

The Council has made provision in the business of the Special Meeting of the Council for the making of presentations or deputations to Council in relation to matters presented on the agenda for Council consideration.

Presentations or deputations are required to be conducted in accordance with the requirements contained within the **Presentation/Deputations Protocols and Procedural Guidelines**.

Persons wishing to make a presentation or deputation to the Council on a matter included in the agenda shall inform Council by 1pm on the Friday prior to the meeting by contacting the Chief Executive Officer's Office and registering their name and agenda item being spoken to.

At the meeting the Mayor will invite the persons wishing to make a presentation or delegation to address the Council on the agenda item.

The person making the presentation or deputation is to stand and address the Council on the item. No debate on the item is permitted between the person making the presentation or delegation and the Council.

A maximum of three minutes per presentation or delegation will be allocated. An extension of time may be granted at the discretion of the Mayor.

Councillors, through the Mayor, may ask the person making the presentation or delegation for clarification of matters presented.

The Mayor may direct that a member of the gallery ceases speaking if the above procedure is not followed.

List of Persons making Presentations/Deputations other than in relation to a planning item listed on the agenda:

As listed.

7. BUSINESS

7.1 Consideration of Submission to the Essential Services Commission's Local Government Rates Capping & Variation Framework Review.

File No.: 09/02/101
Author: Rob Croxford

Introduction

This report provides an opportunity for the Council to make a formal submission to the recently released Rates Capping and Variation Framework review.

Background

In January 2015 the Essential Services Commission (ESC) received Terms of Reference from the State Government to conduct a review and report on a Local Government rate capping and variation framework.

The ESC released a consultation paper in April 2015 on the principles of a rate capping framework. Moorabool Council did not make a submission at that stage as the detail of a proposal was still under development.

The consultation paper and feedback from other Councils, ratepayer groups and industry representative bodies has now led to the final draft for the ESC, titled, "A Blueprint for Change, Local Government Rates Capping & Variation Framework Review, Draft Report - Volume 1". This was released on 1 August and since then a Volume 2 Report has been released that provides a more in-depth commentary and response to feedback at the consultation stage.

It is proposed that now that more detail and sector discussion has taken place that Moorabool is now in a position, following formal Council consideration, to make a submission to the Draft Framework Review.

Submissions are due in a tight deadline by 28 August 2015. As such this Special Meeting of Council has been called for Councillors to consider the Officers draft response.

The MAV has recently completed a draft response on a sector wide basis. This is included as Attachment 1 for Councillor's information. Key aspects are also referenced in this report.

Proposal

This Report is in the format followed by the ESC Report for ease of reference and to aid in making a formal submission. Submission points will be italicised in each section and summarised in the conclusion.

2 The Rate Cap

It is clear that the State Government will follow through on its election commitment and introduce a rate cap and variation framework to commence in the 2016/17 financial year.

2.1 One Cap or Many

The application of a single cap does not recognise the variability and unique circumstance of each of the 79 Councils across the State.

Moorabool is a Peri Urban Shire that has similar characteristics to seven others that ring Melbourne. The population growth and infrastructure gap pressures are a significant issue in the preparation of annual budgets.

Similarly metropolitan, interface, regional cities, large rural and small rural Shires will be impacted in different ways by the introduction of a cap. It is acknowledged that some Councils have accumulated large cash reserves without strategic plans or projects in long term financial plans to utilise capacity in balance sheets. Other Councils are not financially viable now and this will be further exacerbated by capping.

The Commission argues that the unique circumstances of each Council can be addressed by making an application of a variation.

As can be seen later in this report, the significant energy and cost in proving the need for a variation and the black and white assessment process proposed by the ESC would suggest that variations are going to be the exception rather than the norm.

Submission

Moorabool Shire Council submits that the rate capping framework needs to take account of the distinct needs of Peri Urban Councils in the setting of the rate cap. A one size fits all cap does not recognise the ongoing challenges facing various groupings of Councils across the State.

Moorabool submits that there should be greater transparency to the community on the levels of reserves and surplus cash that some municipalities maintain.

2.2 Revenues Covered Under the Cap

General rates and charges are covered by the cap.

Service Rates and Charges are not covered, however will be scrutinised to ensure they represent value for money to ratepayers.

Special Rates and Charges are not covered by the cap. There is a separate process required to implement special rates that is cumbersome. This is likely to be a key source of infrastructure funding in the future, and as such it is suggested that the statutory requirements around special rates and charges also be reviewed.

Revenue in lieu of rates are not covered. This is for separate negotiated agreements to make a contribution to rate income where the property is exempt or not covered by the LGA. An example would be wind turbines.

Interestingly the State Government driven Fire Services Levy and State Landfill Levy are not included in the cap even though they appear on the Council rate notice. The FSL last year increased by around 7%. This is considered inequitable when the average rates per assessment analysis is calculated by property owners.

Submission

Moorabool submits that the statutory processes around special rates and charges need to be reviewed to provide a streamlined path for the delivery of key infrastructure projects following a consultation process.

Moorabool submits that the FSL and State Landfill Levy should also be covered by the cap or at least be aligned with the cap.

2.3 Total Revenue or Revenue per Assessment

Currently, most Councils calculate general rates on a total revenue basis. Broadly, in any given year, supplementary valuations for the prior year are annualised, added to the revenue base and then a percentage increase (or a rate increase) is applied to this base to determine total rate revenue for the following year.

Under the proposed rate capping framework, the ESC is proposing the framework cap rate revenue per assessment rather than total rate revenue as this most closely reflects most ratepayers experience with the Council rating. Whilst the ESC proposal has the value of including a measure of service / tenement growth in the calculation base, it is noted that this proposal differs from the way that a Council would ordinarily calculate its rate revenue, and as such could produce revenue volatility not previously experienced in the calculation of rate revenue outcomes.

In relation to the treatment of supplementary rates, it is noted the ESC proposal to exclude supplementary rates from the rate cap in the year that they occur is correct.

Whilst average revenue per assessment is considered the appropriate methodology, even under a rate cap, individual ratepayers will experience rate changes that differ from the capped rate of increase. There are numerous reason for these differences that are beyond the control of a rates and variation framework, including;

- Market forces altering the relative values of properties within an individual municipality;
- Owner actions altering the value of properties, for example, through renovation or subdivision; or
- Council policies such as altering the differential rates at which different classes of properties are rated.

The MAV has completed significant analysis on whether the rates per assessment or rates per head of population is the most appropriate methodology. As the result is different for each municipality it is suggested that the ESC takes account of the submission by the MAV.

Submission

Moorabool submits that the ESC pay particular attention to the work of the MAV on the implications of calculating average rates per assessment or per head of population for the local government sector.

2.4 Calculating the Cap

The proposal to use Department of Treasury and Finance (DTF) forecasts increases the level of certainty in preparing long term and annual Council plans and budgets. The formula of the cap is, however, of concern.

The ESC has been made very aware that the use of CPI is not an accurate reflection of the cost structure of local government given the high labour content of services and the large capital and maintenance programs that use contractors and construction industry cost profiles.

It is acknowledged that the ESC has included a wages price index in the calculation. The formula weights the index with 40% of the wage forecast by DTF. This takes no account of the local Councils EBA or Local Government Award, whereby there is progression through the band for those employees that meet certain performance criteria.

Additionally, the allocation in balance sheets for employee provisions such as annual leave, long service leave and insurances use a discount factor that is often above CPI. It is suggested the DTF forecast needs to take account of this and add at least 0.8% (i.e. 4.3%) to the forecast.

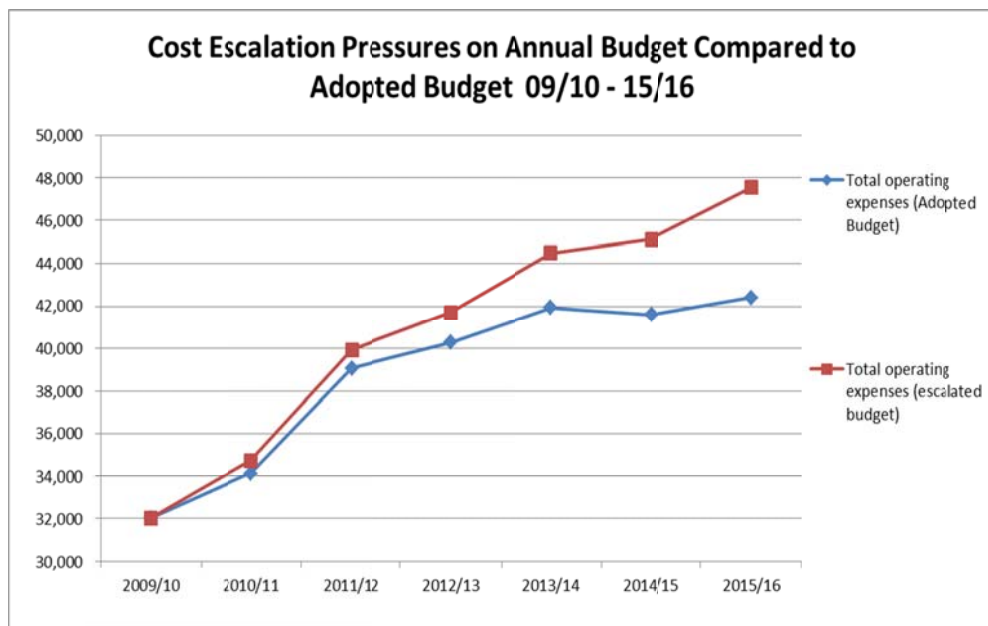
Further, around 10% of labour costs account for the capitalised value of projects. Thus the construction industry indexes need to have a category and weighting in the ESC model to reflect this impact on Local Government finances.

The efficiency dividend included in the final draft was a surprise to many in Local Government.

The dividend appears to have been implemented because there is a mindset of the ESC or State Government that Local Government does not drive efficiency. Nearly every Council has a continuous improvement program in place.

Councillors and Audit Committees also drive improved outcomes through enquiry and a desire to have lower rates.

Moorabool has made a significant effort to reduce operating costs over the longer term. As an indication of the extent to which Council has driven efficiency and cost savings over the last few years, a table has been presented below to show the increase in total operating expenditure over the last 6 years. The following graph compares the Adopted Budget Operating Expenses from 2009/10 to 2015/16 (blue line) with Total Operating Expenses for 2009/10 to 2015/16 (red line) if total operating expenses continued to grow based on the annual cost escalation pressures of CPI, Enterprise Bargaining Agreements and salary banding movements, population growth and the impact of other external factors (such as the impact of carbon tax, landfill levy increases and the annual impact of new staff and new initiatives).



The above table indicates that a high level of rigour has been placed on cost control in the 2015/16 Budget, as indicated by the fact that the total Operating Budget is at similar levels to the 2013/14 Budget. This result has been achieved in spite of the twin pressures of CPI and population growth, which are predicted to increase at around 2.5%-3.0% and 2.5% respectively. Additionally, this result has been achieved whilst at the same time accommodating \$0.864M in new initiatives for the benefit of the community.

Further, the Council's Audit committee was requested to comment on the rate capping proposal. Set out later in this report is detail on how over the last five years the Council's financial sustainability has improved from high risk to low/medium risk depending on the indicator and one off factors that have occurred at 30 June.

For this and other reasons, of great concern is the cumulative impact of the 0.05% efficiency dividend when Moorabool Shire is driving its own continuous improvement and efficiency programs. The ESC acknowledges that a 0% increase in year one is justified on the basis that it does not have data on the effort of Councils to operate efficiently. It is also questioned whether the ESC has gone beyond its brief in this instance.

Submission

Moorabool submits that a construction industry index and weighting needs to be incorporated into the cap formula to recognise that CPI and Labour indexes will not be sufficient to recognise increases in the costs to deliver capital works.

Moorabool submits that the WPI component on the ESC formula needs to be increased by a further 0.8% to 1.0% to take account of EBA and Award provisions that require banding increments to be paid to employees and to address the true costs of recognising provisions for employee entitlements in Council balance sheets.

Moorabool is disappointed that the Commission finds a need to include an efficiency dividend in the formula. Moorabool, like other Councils across the State, has a continuous improvement framework in place and a rigorous internal audit program. Local Government does not need the ESC to monitor this aspect of its operations. Further, the cumulative impacts of the dividend will further exacerbate the financial sustainability issues facing many Councils.

2.5 Base Year

It is acknowledged that 2015/16 is the base year for the application of cap performance comparisons.

2.6. Information Required Each Year

The ESC will require even greater reporting than the onerous LGRP that comes into effect this year. Councils already report via external and internal audit, Victorian Grants Commission, annual reports and quarterly public reporting.

Local Government is increasingly becoming a creature of the State Government and compared in league tables. The words "compliance" and "monitoring" are used regularly in the document. Elected Councillors are responsible to their electorates and keep them informed via annual and quarterly reporting. Admittedly Moorabool's reporting can be improved, but it does not need third party intervention for this to occur.

Submission

Moorabool submits that the statutory reporting requirements of the Local Government Act, Audit, VGC and LGRPF, plus the regular communications to all residents by Council are more than sufficient and does not need the intervention and monitoring of the ESC.

3 The Variation Process

3.1 Why is a Variation Process Needed?

It is encouraging that the ESC recognises the "diversity, differing needs and legacies faced by individual Councils".

The ESC comments that if Council finds its revenue is insufficient then a variation process is available.

Notably the report states that when faced with budgetary pressures, Councils can:

- Scrutinise its full suite of operations.
- Ask the community what are its highest priorities.
- Seek alternate funding and financing.
- Increase rates and charges.

The ESC has no appreciation of the process Officers and Councillors undergo each year to achieve a balanced outcome for ratepayers and the long term sustainability of Moorabool.

Submission

Moorabool submits that it is encouraged that the ESC recognises the "diversity, differing needs and legacies faced by individual Councils" and questions how Councils that are disadvantaged and have a low rate base can be assisted without the need to apply for a costly variation each year.

3.2 Seeking Variation and 3.3 Demonstrating Need

The framework for seeking a variation is still being finalised, however table 3.2 in the report sets out the quite onerous requirements for a variation to be approved. This will come at a significant impost in terms of officer time and costs. It will result in other tasks not being undertaken, or in some cases expensive consultants being engaged to respond to the framework. Capacity and competency will need to be built in smaller Councils to prepare rigorous variation applications.

Of concern is the detail that is emerging on how Councils will need to consult with their communities to apply for the cap.

Moorabool and many other Councils have policy and community engagement frameworks that ensure issues and projects are consulted upon. Further, elected Councillors know their communities best and can gauge the level of consultation needed on issues.

In relation to service priorities and funding options, Moorabool is undertaking level of service reviews to check with its communities on appropriate standards and opportunities for varying cost structures. The ESC is obviously unaware of the work many Councils are doing in this space.

Funding options is a misnomer for taking on more debt. Comments made by the Commission at forums recently claimed that the Local Government sector had low levels of debt and very healthy balance sheets. To use this capacity to fund service delivery and projects whilst risking Auditor General financial sustainability scores it counter intuitive.

Submissions

Moorabool submits that the onerous task of applying for a variation to the cap will come at significant cost to officer time and ratepayer funds. In some cases, in order to provide cost benefit analysis and business cases, Councils with low levels of resources will need to engage costly consultants.

Moorabool submits that if Councils are required to make application for a rate cap variation that a grant program be provided by the State Government to assist in creating capacity and competency in making a submission to the ESC.

Moorabool submits that it has a consultation policy, frameworks and local Councillor knowledge of its communities and does not need to be told how to consult with its communities.

Moorabool submits that it and many other Councils across the State has, and will continue to undertake, levels of service reviews which check with the community the value and performance of each service. Local Government does not need intervention of the ESC in this space to justify a rate increase request.

3.4, 3.5, 3.6 Who Decides? And how difficult is a variation request?

It is of great concern that the ESC is proposing to provide a black and white yes / no response to a request to vary the rate cap. It is also concerning that a non-elected third party will be able to over-ride the wishes of the Council.

As a minimum the Minister for Local Government must be the arbiter based on a recommendation from the ESC. Further, the Minister should be able to vary the rate cap request, not accept or reject it based on the case submitted.

Submission:

Moorabool submits that the Minister for Local Government should be the arbiter in a rate cap variation request and should have the ability to vary the rate level request from each Council.

4 Monitoring and Reporting

The report talks about a "regime" to monitor and report on Local Government. As mentioned in earlier sections, the LGA, Audit, VGC and LGRPF, plus internal audit and regular reporting to communities is considered sufficient.

It is also questioned if a monitoring and reporting regime was beyond the initial scope of the Commission.

5 Implementing the Framework

5.1, 5.2 Timelines and Transition

The implementation framework is very tight.

Councils will need to bring forward their budget preparation timeframes by several months to accommodate the legislated 30 June budget adoption deadline.

It is also of concern that the ESC has allowed time for its deliberations, but the one month consultation with the community post budget document preparation appears at odds with community engagement principles espoused elsewhere in the document.

The “up front” community consultation as suggested by the ESC should enable a variation of the current process prescribed in the Act and Regulations.

It will also be extremely difficult for a new Council to be elected in November 2016 to be brought up to speed and pursue a rate cap variation in its first six months after the election.

It is encouraging that multiple year exemptions to the cap are allowable after year two and beyond of the framework.

Councils are encouraged to be strategic and are required to adopt at least a four year financial plan for the future. Annual caps and reviews are not conducive to the long term strategic focus required of a modern and progressive Council.

Submission

Moorabool submits that in the first two years of implementation, the Minister grant an exemption until 31 July for Councils to complete the rate cap variation and budget adoption process as a transitional measure to allow for adequate community engagement post budget document preparation and the induction of a new Council in 2016.

Moorabool submits that annual caps and reviews are not conducive to the long term strategic focus required of a modern and progressive Council.

5.3 Costs

ESC has canvassed the issue relating to its base costs to administer the framework, costs of assessing variation requests and compliance costs.

As mentioned earlier the costs of Moorabool officers focussing on a variation process will result in lost opportunity for other projects or additional consultancy costs. The costs could run into the tens of thousands of dollars.

There are costs for all parties in the rate capping framework.

In any scenario Local Government should contend that rate capping is a system devised by the ESC and the State Government and any costs should be borne by them and not ratepayers.

Further, the State Government may wish to provide a grant program for the first three years to assist Councils in securing the skill sets to provide appropriate variation applications.

Submission

Moorabool submits that in no circumstances should the ratepayers of Moorabool be required to meet the ESC costs of implementing, analysing or monitoring the rate capping system devised by the ESC and State Government.

6. Longer Term

6.2 Really Drive Efficiency

This appears to be the heart of the matter re rate capping. The mindset of the Commission is that Councils are inefficient and wasteful. As mentioned earlier, Local Government is continually undertaking a balancing act of rate levels and service levels. Section 2.4 set out the cost reduction achievement over the past few years at Moorabool. It is acknowledged that in a continuous improvement philosophy there is always room for improvement. At a point however, there are only incremental gains in operating cost reduction that can be made. The next step in the efficiency outcomes required by the ESC will be reductions in levels of service to the community and reduction in capital works programs.

As shown above, Moorabool does not need an ESC system to force continued efficiency and cost saving measures.

6.3 Guidance on Financing Options

As mentioned earlier, it is apparent that the State Government and the ESC view the Local Government sector as having a low level of debt and healthy balance sheets.

On average this assumption could be made. The average, however, would be buoyed significantly by very large metro Councils.

In the current environment, debt servicing costs are low. It is well documented that interest rates will rise in the mid-term, and as such level of debt undertaken in the current paradigm may prove unserviceable in the future.

In Moorabool's case, our debt levels are relatively high at 55+% of rate revenue, and our liquidity levels in the balance sheet are not forecast to improve for some time. Many of our reserves are statutory and non-discretionary. As such, the assumption that Moorabool can borrow more or use its reserves and cash is erroneous.

Submission:

Moorabool rejects any suggestion made at forums by LGV or ESC that Local Government as a sector has the capacity to borrow more to fund capital projects or to use cash reserves to fund capital projects and operations. Many Councils are already financially unsustainable.

6.4 Cost Reflectivity in Rates and Charges

It appears that the impending review of the Local Government Act may require Councils to ensure that their rates and charges reflect the efficient cost of providing the underlying service.

It is encouraging to note the realisation that some statutory services such as town planning fees do not reflect the cost of providing them. This was the subject of a MAV State Council Resolution placed by Moorabool Shire Council and one that the MAV is pursuing.

Submission:

Moorabool Shire welcomes any review to ensure that statutory fees such as town planning applications reflect the efficient cost of providing those services. The outcome must be in place before the implementation of any cap.

Further Information for Councillors**Assessment of the Improvement in the Council's Financial Position**

The following is a trend on Moorabool's sustainability extracted from VAGO Reports on Local Government.

Year Ended 30/6/07:

Moorabool rated overall High Risk.
Only two Large Shires were rated this high.

Underlying Result (U/L) Mean for previous 5 years:
-12.18% and had been negative for each of the five years from 2003 to 2007.

Rated High Risk in each of those years

Liquidity Medium risk for 4 out 5 years.

Investment Gap (Capital Spend/Depreciation).
Mean 1.03 (Medium risk) Rated High Risk in 2004 (0.87) and 2006 (0.72).
Rated Medium Risk in the other three years.

Year Ended 30/6/12:

Moorabool Rated overall Low Risk.

Underlying result ratio.
2 years where ratio was Medium Risk 2008 (-5.07) and 2010 (-9.10) with mean over 2008 to 2012 at (-0.66)

Capital Replacement:

Mean over 5 years rated Medium Risk at 1.42 with only 1 year as Low Risk during the 5 year period.

Renewal gap mean over 5 year at 1.08 with 3 of the 5 years rated as Medium Risk.

Year Ended 30/6/14:

Moorabool Rated overall Low Risk.

Underlying result ratio.

Mean - 0.85 Medium Risk with 4 out of 5 years as Low but with 2014 as Medium at -6.46 (year-end adjustment influence).

Capital Replacement:

Mean over 5 year rated Low Risk at 1.55 but with 2010 & 2011 as Medium Risk. Improvements made.

Renewal gap:

Mean over 5 years at 1.25 but again 2010 & 2011 at Medium Risk. Improvements made.

In summary the above measures demonstrate that Moorabool has positioned itself into a reasonable financial sustainability position since 2007.

There is undoubtedly risk associated with the introduction of rate capping on the financial sustainability of the Moorabool Shire Council.

Financial Modelling

Based on the recommendations contained within the ESC blueprint, some preliminary modelling has been conducted to show the impact of the rate cap on the 10 year Strategic Financial Plan.

Three models have been separately prepared (and compared to the current SFP) to demonstrate the likely impact of the ESC rate cap and some potential consequential actions that may be required to ensure that Council can continue to operate sustainably into the future. The following summary highlights the 4 models.

	Existing	Model 1	Model 2	Model 3
	Current SFP	ESC Rate Model 1	ESC Rate Model 2	ESC Rate Model 3
Rate Increase	5.00%	3.05%	3.05%	3.05% + 1% variation
Summary of scenario	This is a summary of the current SFP based on a 5% rate increase.	This is a summary of revised SFP based on Council utilising loans	This is the summary of the revised SFP based on the ESC rate cap	This is the summary of the revised SFP based on the ESC Model with a

		/ debt funding to make up the shortfall in rate revenue under the ESC proposal.	model and highlights budget austerity measures required to make up the shortfall in rate revenue.	1% variation over the cap.
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The existing SFP based on the 2015/16 budget is shown as above and is based on a 5% rate increase for each year of the 10 year plan.

Under Model 1, Officers have modelled the impact of the current assumptions in the SFP if it were to use loan borrowings to make up the shortfall / loss in rate revenue with the aim of understanding if its current business model is viable under a rate capping scenario.

Under Model 2, Officers have modelled the impact of the ESC rate capping proposal and has modified the assumptions in the Strategic Financial Plan (for example level of new staff, new initiatives etc.) to make up for the shortfall / loss in rate revenue to understand the extent to which it would be required to vary its business model to cope with a rate cap.

Under Model 3, Officers have modelled the impact of the ESC rate cap on the assumption that it was successful in achieving an additional 1% increase in rates over and above the rate cap and what impact this would have on the Strategic Financial Plan.

Based on the scenarios presented, the following summary below has been produced **based on a ten year timeframe:**

		Model 1	Model 2	Model 3
	Current SFP	ESC Rate model 1	ESC Rate model 2	ESC Rate model 3
Rate Increase	5.00%	3.05%	3.05%	3.05% + 1% variation
Total Rates and Charges	390,809	354,501	352,293	368,912
Total rates and Charges foregone	0	-36,308	-38,516	-21,897
Potential to fund Capital Works	176,557	157,261	175,965	175,725
Current 10 Year CIP				
Moorabool Major Projects	60,002	60,002	60,002	60,002
New Infrastructure Projects	8,060	8,060	8,060	8,060
Asset Renewal Program	70,964	70,964	70,964	70,964
Plant Replacement Program	18,222	18,164	18,164	18,164
Total	157,248	157,190	157,190	157,190
Capital Surplus / (shortfall)	19,310	71	18,775	18,534
Capacity to fund the 10 year CIP	Yes	No	*Yes	Yes
Capacity to accelerate Asset renewal program	Yes	No	*Yes	Yes
Capacity to increase New Infrastructure program	Yes	No	*Yes	Yes
Capacity to increase Major Projects	Yes	No	*Yes	Yes
Loan borrowings required	21,967	61,205	21,967	21,967
Debt servicing costs required	8,395	14,535	8,395	8,395
Long Term Sustainability	Improves	Declines	*Improves	Improves
Implication of rating decisions	Council has capacity to proceed with the CIP program and accelerate capital and service priorities as required.	Level of borrowings to fund planned activities not feasible. Major deferral of CIP projects required or major cutbacks in service levels	Council has the capacity to proceed with the CIP program and accelerate capital priorities as required but is contingent on service levels remaining substantially unchanged for the next 10 years. For example, service growth in some areas need to be funded by service cutbacks in other areas.	Council has capacity to proceed with the CIP program and accelerate capital priorities as required. Council has the capacity to accommodate a modest level of service growth based on the 1% rate variation.
* there is a greater risk that budget cutbacks may not be achieved under Model 2				

As demonstrated in the preliminary models shown above, the impact of the ESC proposal will have a significant impact on the revenue raising capacity of the Council going forward. As demonstrated in Model 1 and Model 2, the loss of revenue over the 10 years of the SFP is estimated to be between \$36.31M (Model 1) and \$38.52M (Model 2), in comparison with the current Strategic Financial Plan which is based on an annual 5% rate increase. Under Model 3, which is based on an assumption of an ESC approved 1% variation above the rate cap, the loss of revenue equates to \$21.89M over a 10 year period in comparison the current Strategic Financial Plan.

At a high level, the analysis indicates that under the ESC rate cap proposal, the current assumptions in Moorabool Shires Strategic Financial Plan are not sustainable. That is, if under Model 1 Council were to continue with the current assumptions in its Strategic Financial Plan and borrow funds to make up the shortfall in rate revenue, Council would likely experience significant financial distress in the medium term.

If as demonstrated in Model 2, it chose to not pursue a rate variation above the rate cap, the Council would have to alter the basis of its Strategic Financial Plan to accommodate a rate cap. As an example, Model 2 recommends:

- Wage growth / EBA growth would need to reduce.
- Minimal capacity to invest in new staff.
- No capacity to invest in new initiatives or services.
- An annual efficiency dividend would need to be imposed
- Significant increase in fees generated from user fees and controllable charges would be required.

Notwithstanding some of the theoretical trade-offs that have been provided for the purpose of the analysis, there remains a possibility that the Council may not be able to achieve the budget austerity measures required by Model 2. As a result, if the Council were to adopt such a model going forward, the ability to accelerate capital and service priorities as required is contingent on service levels remaining substantially unchanged for the next 10 years. For example, service growth in some areas need to be funded by service cutbacks in other areas.

The commentary above relates to changes in operating expenditure. It will also be necessary to curtail capital expenditure. Each reduction of \$1M in the capital budget will mean that an AFL or soccer oval will not be built. Further, for a \$1M reduction, 20 kilometres of gravel road resurfacing would also not be undertaken.

Each pavilion required at several of our sporting facilities cost in the order of \$3.5M. These needed facilities could also not be funded under a rate capping scenario.

If as demonstrated in Model 3, the Council chose to pursue a rate variation of 1% above the cap year on year, whilst the Council would still experience a \$21.89M reduction in rate revenue earning capacity over the 10 year plan, this model would afford Council a greater level of flexibility in setting capital and service provision priorities in comparison to Model 1 and 2.

Level of Service Reviews

Service reviews and plans are ongoing processes to ensure Council is delivering what the community needs in the best possible way. Establishing a review process builds the capacity of staff and the community to think critically and systemically about current and future service needs. It leads to innovation in service provision. It also builds on the work to date in Business Excellence.

In a nutshell we are continuously improving public value.

Importantly, the service review and planning process will be informed by strategic plans set out in the Integrated Planning and Delivery Framework and in turn influences the other strategic plans.

An iterative process over many years will ensure there is a holistic approach to planning and service delivery to Moorabool communities.

A draft service review and planning policy is currently being drafted for consideration by Council and is expected to be presented to the Council for adoption in November. A framework for the conduct of service reviews and planning is also being prepared that would be used by service units to guide the process. The draft framework is expected to be completed by November to ensure it is reflective of the policy.

Community Engagement

In applying for a variation to Rate Capping, the Council would be required demonstrate that the views of communities have been identified and to address any concerns raised.

The Council's Community Engagement Policy and Framework adopted in 2012 is based on the principles of the International Association for Public Participation model, which is an internationally recognised best practice model. Currently, this Framework is used for community engagement activities for projects and strategies.

For a rate capping variation, there are two levels of community engagement that could be used to demonstrate community input into the budget process:

1. Community Engagement activities undertaken in the development of strategic plans that then inform the budget i.e. Capital Improvement Program and New Initiatives. However, Community Engagement is currently not mandatory within the organisation, so this may need to be made mandatory to ensure a consistent approach.
2. Community Engagement for the Budget Process
It would be expected that targeted stakeholder engagement would have been undertaken at the strategic planning stage. Therefore, the aim for community engagement during the budget process would be to target the general community and aim for a large volume of responses with quality data provided.

Some examples of how this might be undertaken include:

- Focus groups – with monetary or voucher incentives (a common market research strategy to increase participation).
- Phone survey (this would involve sampling of each community with a target response rate).
- Online engagement (e.g. budget allocator tool).
- Door knock – also with a voucher incentive to participate.

These engagement activities will need to be carefully planned and targeted and will require resources and time to implement. The Community Engagement team currently consists of one full time position. Therefore, to undertake the required level of engagement activities, the current work plan would need to be re-prioritised to accommodate this requirement and/or additional resources allocated.

Submission

Moorabool submits that it estimates that it will need to appoint a new community engagement officer to accommodate the engagement requirements required to satisfy the ESC for a cap variation.

Principles of Sound Financial Management.

Discussions at the Audit Committee recently led to the provisions of section 136 of the Local Government Act, 1989.

These include consideration of the level of debt, management and maintenance of assets, management of liabilities and changes to the structure of the rates and charges base.

It is suggested that the Council's ability to comply with the Act is likely to be impinged by the introduction of a rates cap.

Policy Implications

The 2013 - 2017 Council Plan provides as follows:

Key Result Area	Representation and leadership of our community
Objective	Advocate for services and infrastructure that meets the Shire's existing and future needs. Sound long term financial management.
Strategy	Advocate on behalf of the community to improve services and infrastructure within the Shire. Develop and maintain a long term financial plan, management and reporting systems, which to deliver services and manage Councils assets.

Financial Implications

The implication of a rate capping scenario will result in significant changes to the long term financial sustainability of Moorabool.

If a variation to the rate cap is unsuccessful and significant changes cannot be made to operating costs, levels of services to the community or alternative revenue streams sourced then significant reductions to services, staffing levels and the capital program will need to be made.

The face of local government across Victoria is likely to change in the years ahead as the cumulative effects of a rates cap is felt.

Risk & Occupational Health & Safety Issues

There are no direct Risk or Occupational Health and Safety issues that need to be considered as part of this report.

Community Engagement Strategy

This report sets out the significant additional community engagement beyond Moorabool's policy and community engagement framework that may need to be undertaken to justify a rate variation to the ESC.

Victorian Charter of Human Rights and Responsibilities Act 2006

In developing this report to Council, the officer considered whether the subject matter raised any human rights issues. In particular, whether the scope of any human right established by the Victorian Charter of Human Rights and Responsibilities is in any way limited, restricted or interfered with by the recommendations contained in the report. It is considered that the subject matter does not raise any human rights issues.

Officer's Declaration of Conflict of Interests

Under section 80C of the Local Government Act 1989 (as amended), officers providing advice to Council must disclose any interests, including the type of interest.

Author – Rob Croxford

In providing this advice to Council as the Author, I have no interests to disclose in this report.

Conclusion

This report demonstrates that the introduction of a rate cap and variation framework by the ESC and State Government will have significant impacts on Moorabool Council's ability to deliver services and capital projects.

The extent of the impact will depend on Council's ability to continue to achieve cost reductions, generate user pays fees, reduce or curtail the growth in levels of services to the community and reduce the number of key community infrastructure projects needed by our growing population.

Requests to the cap variation process will be required to serve the needs of our communities. This will come at a cost and may not be approved by the ESC.

It is essential that a submission be made to the framework review to the ESC setting out the impacts explained in this report.

Recommendation:

1. That the Mayor and CEO be authorised to develop a communications plan to inform the community of the developments on the State Government's planned rate capping and variation framework setting out examples and implications for services and capital projects if a variation above the proposed rate cap is not approved by the ESC or Minister for Local Government.
2. That the CEO be authorised to make a formal submission to the ESC based on the content of the above report and incorporating the following submission points:
 - i. *Moorabool Shire Council submits that the rate capping framework needs to take account of the distinct needs of Peri Urban Councils in the setting of the rate cap. A one size fits all cap does not recognise the ongoing challenges facing various groupings of Councils across the State.*
 - ii. *Moorabool submits that there should be greater transparency to the community on the levels of reserves and surplus cash that some municipalities maintain.*
 - iii. *Moorabool submits that the statutory processes around special rates and charges need to be reviewed to provide a streamlined path for the delivery of key infrastructure projects following a consultation process.*
 - iv. *Moorabool submits that the FSL and State Landfill Levy should also be covered by the cap or at least be aligned with the cap.*
 - v. *Moorabool submits that the ESC pay particular attention to the work of the MAV on the implications of calculating average rates per assessment or per head of population for the local government sector.*
 - vi. *Moorabool submits that a construction industry index and weighting needs to be incorporated into the cap formula to recognise that CPI and Labour indexes will not be sufficient to recognise increases in the costs to deliver capital works.*
 - vii. *Moorabool submits that the WPI component on the ESC formula needs to be increased by a further 0.8% to 1.0% to take account of EBA and Award provisions that require banding increments to be paid to employees and to address the true costs of recognising provisions for employee entitlements in Council balance sheets.*

- viii. ***Moorabool is disappointed that the Commission finds a need to include an efficiency dividend in the formula. Moorabool, like other Councils across the State, has a continuous improvement framework in place and a rigorous internal audit program. Local Government does not need the ESC to monitor this aspect of its operations. Further, the cumulative impacts of the dividend will further exacerbate the financial sustainability issues facing many Councils.***
- ix. ***Moorabool submits that the statutory reporting requirements of the Local Government Act, Audit, VGC and LGRPF, plus the regular communications to all residents by Council are more than sufficient and does not need the intervention and monitoring of the ESC.***
- x. ***Moorabool submits that it is encouraged that the ESC recognises the "diversity, differing needs and legacies faced by individual Councils" and questions how councils that are disadvantaged and have a low rate base can be assisted without the need to apply for a costly variation each year.***
- xi. ***Moorabool submits that the onerous task of applying for a variation to the cap will come at significant cost to officer time and ratepayer funds. In some cases, in order to provide cost benefit analysis and business cases, Councils with low levels of resources will need to engage costly consultants.***
- xii. ***Moorabool submits that if councils are required to make application for a rate cap variation that a grant program be provided by the state government to assist in creating capacity and competency in making a submission to the ESC.***
- xiii. ***Moorabool submits that it has a consultation policy, frameworks and local Councillor knowledge of its communities and does not need to be told how to consult with its communities.***
- xiv. ***Moorabool submits that it and many other Councils across the State has, and will continue to undertake, levels of service reviews which check with the community the value and performance of each service. Local Government does not need intervention of the ESC in this space to justify a rate increase request.***
- xv. ***Moorabool submits that the Minister for Local Government should be the arbiter in a rate cap variation request and should have the ability to vary the rate level request from each Council.***

- xvi. Moorabool submits that in the first two years of implementation, the Minister grant an exemption until 31 July for Councils to complete the rate cap variation and budget adoption process as a transitional measure to allow for adequate community engagement post budget document preparation and the induction of a new Council in 2016.**
- xvii. Moorabool submits that annual caps and reviews are not conducive to the long term strategic focus required of a modern and progressive council.**
- xviii. Moorabool submits that in no circumstances should the ratepayers of Moorabool be required to meet the ESC costs of implementing, analysing or monitoring the rate capping system devised by the ESC and State Government.**
- xix. Moorabool rejects any suggestion made at forums by LGV or ESC that Local Government as a sector has the capacity to borrow more to fund capital projects or to use cash reserves to fund capital projects and operations. Many Councils are already financially unsustainable.**
- xx. Moorabool Shire welcomes any review to ensure that statutory fees such as town planning applications reflect the efficient cost of providing those services. The outcome must be in place before the implementation of any cap.**
- xxi. Moorabool submits that it estimates that it will need to appoint a new community engagement officer to accommodate the engagement requirements required to satisfy the ESC for a cap variation.**

Resolution:

Crs. Dudzik/Comrie

- 1. That the Mayor and CEO be authorised to develop a communications plan to inform the community of the developments on the State Government's planned rate capping and variation framework setting out examples and implications for services and capital projects if a variation above the proposed rate cap is not approved by the ESC or Minister for Local Government.**
- 2. That the CEO be authorised to make a formal submission to the ESC based on the content of the above report and incorporating the following submission points:**

 - i. Moorabool Shire Council submits that the rate capping framework needs to take account of the distinct needs of Peri Urban Councils and those**

councils with responsibilities for windfarms in the setting of the rate cap. A one size fits all cap does not recognise the ongoing challenges facing various groupings of Councils across the State.

- ii. Moorabool submits that the differential rating system and in particular the constraint of the four (4) times principal needs to be reviewed in the context of average rates per assessment proposed by the ESC.***
- iii. Moorabool submits that there should be greater transparency to the community on the levels of reserves and surplus cash that some municipalities maintain.***
- iv. Moorabool submits that the statutory processes around special rates and charges need to be reviewed to provide a streamlined path for the delivery of key infrastructure projects following a consultation process.***
- v. Moorabool submits that the FSL and State Landfill Levy should also be covered by the cap or at least be aligned with the cap.***
- vi. Moorabool submits that the ESC pay particular attention to the work of the MAV on the implications of calculating average rates per assessment or per head of population for the local government sector.***
- vii. Moorabool submits that a construction industry index and weighting needs to be incorporated into the cap formula to recognise that CPI and Labour indexes will not be sufficient to recognise increases in the costs to deliver capital works.***
- viii. Moorabool submits that the WPI component on the ESC formula needs to be increased by a further 0.8% to 1.0% to take account of EBA and Award provisions that require banding increments to be paid to employees and to address the true costs of recognising provisions for employee entitlements in Council balance sheets.***
- ix. Moorabool is disappointed that the Commission finds a need to include an efficiency dividend in the formula. Moorabool, like other Councils across the State, has a continuous improvement framework in place and a rigorous internal audit program. Local Government does not need the ESC to monitor this aspect of its operations. Further, the cumulative impacts of the dividend will further exacerbate the financial sustainability issues facing many Councils.***


- x. ***Moorabool submits that the statutory reporting requirements of the Local Government Act, Audit, VGC and LGRPF, plus the regular communications to all residents by Council are more than sufficient and does not need the intervention and monitoring of the ESC.***
- xi. ***Moorabool submits that it is encouraged that the ESC recognises the "diversity, differing needs and legacies faced by individual Councils" and questions how councils that are disadvantaged and have a low rate base can be assisted without the need to apply for a costly variation each year.***
- xii. ***Moorabool submits that the onerous task of applying for a variation to the cap will come at significant cost to officer time and ratepayer funds. In some cases, in order to provide cost benefit analysis and business cases, Councils with low levels of resources will need to engage costly consultants.***
- xiii. ***Moorabool submits that if councils are required to make application for a rate cap variation that a grant program be provided by the state government to assist in creating capacity and competency in making a submission to the ESC.***
- xiv. ***Moorabool submits that it has a consultation policy, frameworks and local Councillor knowledge of its communities and does not need to be told how to consult with its communities.***
- xv. ***Moorabool submits that it and many other Councils across the State has, and will continue to undertake, levels of service reviews which check with the community the value and performance of each service. Local Government does not need intervention of the ESC in this space to justify a rate increase request.***
- xvi. ***Moorabool submits that the Minister for Local Government should be the arbiter in a rate cap variation request and should have the ability to vary the rate level request from each Council.***
- xvii. ***Moorabool submits that in the first two years of implementation, the Minister grant an exemption until 31 July for Councils to complete the rate cap variation and budget adoption process as a transitional measure to allow for adequate community engagement post budget document preparation and the induction of a new Council in 2016.***

- xviii. Moorabool submits that annual caps and reviews are not conducive to the long term strategic focus required of a modern and progressive council.**
- xix. Moorabool submits that in no circumstances should the ratepayers of Moorabool be required to meet the ESC costs of implementing, analysing or monitoring the rate capping system devised by the ESC and State Government.**
- xx. Moorabool rejects any suggestion made at forums by LGV or ESC that Local Government as a sector has the capacity to borrow more to fund capital projects or to use cash reserves to fund capital projects and operations. Many Councils are already financially unsustainable.**
- xxi. Moorabool Shire welcomes any review to ensure that statutory fees such as town planning applications reflect the efficient cost of providing those services. The outcome must be in place before the implementation of any cap.**
- xxii. Moorabool submits that it estimates that it will need to appoint a new community engagement officer to accommodate the engagement requirements required to satisfy the ESC for a cap variation.**

CARRIED.

Report Authorisation

Authorised by:

Name: Rob Croxford 
Title: Chief Executive Officer
Date: Friday, 21 August 2015.

8. FURTHER BUSINESS AS ADMITTED BY UNANIMOUS RESOLUTION OF COUNCIL

Nil.

9. CLOSED SESSION OF THE MEETING TO THE PUBLIC

Nil.

10. MEETING CLOSURE

The meeting closed at 5.56pm.

Confirmed.....Mayor.