Mr Michael Baker,
Secretary – Legislative Council Committees
Department of the Legislative Council

Dear Mr Baker,

Submission and Evidence by Crs Lording and Healy

Thank you for your email of 18 November 2018 providing Council with the opportunity to respond to the issues raised in the submission and evidence.

Please find attached Council’s response to the matters raised. Council appreciates the opportunity to respond to the points made in the submission and evidence and thanks the Committee for the opportunity to respond.

If the Committee has any further questions in relation to the matter raised, Council would be very happy to provide any further clarification.

Yours faithfully,

Margaret Abbey
Chief Executive Officer
Introduction

Council thanks the Legislative Council’s Environment and Planning Committee for the opportunity to respond to concerns raised with the Committee in relation to Council’s adopted long term financial planning, its annual budgets and its application to the Essential Services Commission for a variation to the rate cap for 2016-2017.

Council apologises that it was not aware of any timeline for the completion of the Third Report of the Committee. Had it been, it would have ensured that this response was received by the Committee before publication of that report. The comments of the Essential Services Commission (ESC) on 17 and 24 November 2016 endorse the accuracy of the financial information provided by Council to the ESC. In particular the ESC’s Chief Executive Officer notes that “the Commission is satisfied that it made its assessment on reliable and meaningful data” (Parliament of Victoria Legislative Council Environment and Planning Committee: Third Report into rate capping policy, letter to Committee 17 November 2016 - page 99).

It is not intended that this response will address every matter raised in both the written and oral presentations to the Committee as much of that commentary involves conjecture and supposition unrelated to the factual matters before the Committee. Rather, this response addresses allegations which question the integrity of Council’s financial planning processes and decision making.

Over the past 8 years (two terms of Council) there have been continued efforts to:

- Undertake long term planning to better identify Council’s longer term asset renewal obligations, the impacts of the operating, maintenance and renewal costs of the new and gifted assets as well as its long term financial sustainability.
- Initiate a number of strategies including to raise revenue from a range of sources and reduce its expenditure across a number of areas.

These are outlined in Council’s submission to the ESC and include:

- Major services review in 2011-2012 followed by 11 individual business unit services reviews.
- Financial and asset management review conducted on behalf of Local Government Victoria.
- Participation in a range of shared services and joint procurement projects with other local governments, state government and private providers.
- Establishment and implementation of Council’s Expenditure Review Project.
- Development of detailed asset management policies, strategies and plans leading to Council being one of only 12 councils in Victoria that achieved Core Competency within the targeted timeline with the National Asset Management Assessment Framework.
While the impacts of the February 2009 bushfires created particular challenges for Council’s long term financial sustainability, Council must also work to address the financial sustainability issues which it, and all small rural councils, face.

The recent report of the Victorian Auditor General of 24 November 2016 provides a report on matters arising from the 2015-2016 financial and performance report audits of the 79 Councils, 11 regional library corporations and 14 associated entities that make up the Victorian local government sector.

The Auditor General made specific comment on the financial sustainability of small rural councils and commented that “the 19 small shire councils have emerging financial sustainability risks.” (VAGO: Local Government: 2015-2016 Audit Snapshot – page ix)

In particular the Auditor General noted that looking into the future, “the small shire council cohort is expecting to experience a decline in capital grant revenue over the next three financial years. From our review of the cohort councils’ unaudited budgets, this loss of revenue – combined with a steady level of expenditure – will have the following impact:

- a decline in the net result of the cohort
- a reduction of funds available for investment in property, plant and equipment – with the number of councils within this cohort forecast to spend less than depreciation on their assets over each of the three financial years.” (VAGO: Local Government: 2015-2016 Audit Snapshot – page ix)

Overall, the Auditor General commented that small shire councils are facing additional pressures due to smaller year on year revenue increases and steady increases in expenditure.

Council’s particular situation is best described in the conclusion of the report by Deloitte in their review of Council’s application for a rate cap variation.

“It could get by in 2016-17 without an increase in rates beyond the cap but this would only delay an improvement in its circumstances. Even if the requested increase is approved in 2016-17 the council will face significant (but manageable) future financial challenges and is likely to seek further rate increases beyond the rate cap in subsequent years.” (Deloitte: Assistance with review of 2016-17 rate cap variation applications Murrindindi Shire Council – page 4)

1. Introduction of a rate increase versus an increase in rate revenue

Council has spent considerable time during its own deliberations and its discussions with the community to make clear the difference between a rate increase and an increase in rate revenue. Its submission to the ESC identified a number of occasions where this has been explained to residents through a range of methods including community meetings, councillor presentations and local media releases and comment.
This distinction has become particularly necessary with the introduction of the Victorian Government’s Fair Go Rates Scheme and the imposition of rate capping. Rate revenue will be greater than the rate increase due to a number of sources of revenue, including some elements of rate revenue, not currently being capped.

Page 9 of the Essential Services Commission 2015, The Fair Go Rates System: Guidance for Councils (2016-17), documents what elements of the rating system are contained within the rate cap as follows:

“Unless prescribed by the Minister, the following sources of revenue are not currently capped and are not included in the calculation to find the base average rate or the capped average rate:

- service rates and charges
- revenue in lieu of rates
- special rates and charges
- recreational cultural land
- the fire services levy, and
- actual supplementary revenue (from general rates and municipal charges).

Any actual supplementary revenue received in the base year is not to be included. Instead, the annualised supplementary revenue in the base year is included in the calculation of the base average rate as this most closely reflects the contribution of valuation changes in a municipal district and a council’s rate base.”

The submission to this Committee by Crs Healy and Lording suggests that it was ‘By an accounting trick’ that the amount of rate revenue collected by Council was greater than the rate cap variation granted by the Essential Services Commission. (Rates Submission No. 75 - point 3) This is clearly not correct. Further, this distinction between an increase in the rate (ie rate cap variation) and rate revenue was pointed out to both Councillors on a number of occasions.

The ESC has confirmed to this Committee that the information submitted by Council to the Commission was ‘reliable and meaningful data.’ Further, Council’s budget for 2016-2017 has complied with the calculation of the base average rate as stated by the ESC. This is verified in the ESC’s report on Council Compliance with 2016-2017 Rate Caps of 12 December 2016, which found that Murrindindi Shire Council’s budget for 2016-2017 was ‘compliant’ with the rate cap of 4.3%.

As indicated above, supplementary rates are excluded from the rate cap. This has been explained to Councillors (and the community) on a number of occasions, including through use of the example of other councils (such as growth councils) where the increase in rate revenue is significantly greater than the rate increase which complies with the rate cap set by the Minister for Local Government.
Council has had a policy for many years which aims for an increase in rateable properties, through supplementary rates, of at least 1% per annum. It can be confirmed that past budgets have always included supplementary revenue – although it is acknowledged that in some years they have not been separately identified in budget tables.

The treatment of all rates and charges and the compliance with the decision of the ESC is clearly demonstrated by the total collection of rates and charges being shown in the 2013-2017 Council Plan (2016 Review) in the Budgeted Comprehensive Income Statement of the Strategic Resource Plan. The total collection of rates and charges is shown as $19,237,000 which is the figure contained in Table 7.10 of the 2016-2017 budget (page 37 of 77) as follows:

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  7.10 The estimated total amount to be raised by all rates and charges compared with the previous financial year

<table>
<thead>
<tr>
<th>Type of Charge</th>
<th>2015/16</th>
<th>2016/17</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>General rates</td>
<td>12,741,386</td>
<td>13,288,510</td>
<td>4.3%</td>
</tr>
<tr>
<td>Municipal charge</td>
<td>2,838,215</td>
<td>2,958,840</td>
<td>4.3%</td>
</tr>
<tr>
<td>Agreement in lieu of rates (Power Station)</td>
<td>60,368</td>
<td>61,575</td>
<td>2.0%</td>
</tr>
<tr>
<td>Supplementary rates (pro-rata within the year)</td>
<td>N/A</td>
<td>154,769</td>
<td>N/A</td>
</tr>
<tr>
<td>Supplementary Municipal Charge (pro-rata)</td>
<td>N/A</td>
<td>3,080</td>
<td>N/A</td>
</tr>
<tr>
<td>Kerbside collection and recycling</td>
<td>2,659,686</td>
<td>2,770,443</td>
<td>4.2%</td>
</tr>
<tr>
<td><strong>Rates and charges</strong></td>
<td>18,299,635</td>
<td>19,237,317</td>
<td>5.1%</td>
</tr>
</tbody>
</table>
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Supplementary rate revenue and municipal charge revenue that was generated in 2015/16 is included in the base rates and charges that are used to calculate the rate increase of 4.3% for 2016/17. All supplementary rate and municipal charge revenue forecast to be raised during 2016/17 only relates to new property developments, improvements or sub-divisions that are forecast to occur in 2016/17 - and do not impact the average rate increase of 4.3% that is applied for the budgeted financial year. A 1.0% growth target is reflective of the objective highlighted in the Council Plan to grow the rate base by 1.0% each year."


2. Development of the 2015-2016 Budget

There has been considerable comment to the Committee on the development of Council's 2015-2016 Budget. Page 7 of the Strategic Resource Plan 2013-2017 (reviewed in 2015) provided a clear breakdown on the three factors which led to the increase in rate revenue in the 2015-2016 budget. These were:

- An increase in the general rate of 6%
- The introduction of two new differential rating categories in 2015-2016
- An additional 1% growth in the rate base (supplementary income).
The introduction of the two new differential rating categories was the result of the adoption by Council of the Murrindindi Rating Strategy in March 2015. The Strategy was adopted following extensive discussion by Council and two rounds of community consultation. The timeline occurred as follows:

- In March 2011 Councillors receive a briefing from an independent economic advisor on the steps required to review its Rating Strategy 2009 and as a result included an amount of $40,000 in its 2011-2012 budget to undertake this review.
- In February 2012 a discussion was held with Councillors to confirm the project brief for the review of the Rating Strategy and MacroPlan Dimasi was appointed to undertake this work.
- Briefings in March 2012 discussed the draft issues paper prepared for Council and in April 2012 and June 2012 Councillors considered the report from MacroPlan Dimasi on its Rating Strategy Review prior to agreeing for it being placed on public exhibition.
- The Review was subsequently placed on public exhibition and three public consultation meetings were held, including two specifically directed to business and commercial groups and the rural industry sector.
- Twenty submissions were received, which were considered by Council in August 2012 and discussed by Council with representatives of MacroPlan Dimasi in September 2012. Given the imminent Council election it was considered that this work should be referred to the new Council.
- Councillors were briefed on four occasions (in February 2013, August 2013, October 2013 and February 2014) to provide them with the background information on the work that had been undertaken on the review of the Rating Strategy and then again in December 2014 to discuss the proposed structure of a new Rating Strategy prior to its preparation.
- In January 2015 the new Rating Strategy was discussed with Councillors and at its meeting on 28 January 2015 Council resolved to place the Rating Strategy on public exhibition.
- As well as broad public notification, Council conducted consultation sessions with the property and real estate sector as well as the rural industry sector. It also met with Murrindindi Inc. the umbrella organisation for all tourism and trader organisations in the Shire and also participated in an information session conducted by the Alexandra Tourism and Traders Association. It is estimated that these sessions were attended by around 120 people.

As a result of this public consultation process, Council received 47 submissions and at the Special Meeting of Council held on 11 March 2015, eight people provided oral submissions on the Rating Strategy. Council gave detailed consideration of all submissions received not only at this Special Meeting but at a further briefing on 18 March 2015 prior to final consideration of the Rating Strategy.

The allegation made in the Submission to this Committee regarding the Council’s motivation in adopting the Rating Strategy, supposedly to “outsmart” the introduction of rate capping is not supported by the evidence of the process Council undertook on this issue, including Council briefings and reports. (Rates Submission No. 75 - point 2)
The time between the commencement of the review in 2011 and its adoption in 2015 indicates that it was a careful and methodical approach by Council to consider the various options to be included in the Rating Strategy plus the input from the business, rural and development sectors as well as the broader community.

In the report to the Special Council Meeting of 11 March 2015 where submissions to the Rating Strategy were considered by Council, the ongoing discussions with the community were highlighted as follows:

"In taking a responsible approach to its forward financial planning, Council has been indicating to all ratepayers and residents over the last 12 months via a variety of communications methods, that it would be necessary to evaluate a range of potential measures that might be applied to ensure Council’s future financial sustainability. The Rating Strategy is one such measure that aims to address part of the challenging task that faces Council at present." (Murrindindi Shire Council: Special Council Meeting Agenda – page 3)

Furthermore the comment to the Committee that the increase in the total amount to be raised by general rates “was a figure that they just pulled out of the air...” is also incorrect. (Transcript of inquiry into rate capping policy hearing 18 October 2015 – page 41) To better understand the range of differential rates that were applied in Victoria, Council undertook extensive benchmarking of other small rural and regional councils, as well as other councils that had differential rates equivalent to the two proposed by Council. Using that benchmarking information, Council adopted in its budget for 2015-2016 a differential rate for vacant land of 150% and a differential rate for commercial / industrial properties of 125%.

3. Asset Management Planning

Council has, due to the necessity of receiving a large and diverse range of assets following the February 2009 bushfires, undertaken considerable detailed analysis of the operating, maintenance and renewal costs of all assets but especially the new and gifted assets. Council engaged Assetlink, a specialist consulting firm to independently assess the operating and maintenance costs of buildings. Consultant Neil Harris provided a similar assessment of parks and gardens. This information is available on Council’s website so that community members are able to view and test the veracity of the data.

This work has been the subject of expert peer review including by [redacted] on behalf of Local Government Victoria (whose report is referenced in Council’s application to the ESC) and by [redacted] of CT Management. [redacted] is the President of the Institute of Public Works Engineering Australasia and facilitated the Municipal Association of Victoria’s STEP Program with Victorian councils.

Council has used the Moloney Model to undertake its asset management planning and relied on a number of methods for storing, accessing and assessing Asset Management (AM) data. Predominately AM data has been recorded or managed using Microsoft Excel spreadsheets. Other systems are also used to collect and store information including AssetAsyst software and the Civica Authority system. While Council has recently funded the
purchasing of an Integrated Asset Management System to improve the integration and functionality of its Asset Management data, the quality of that data, its comprehensiveness and its integrity has been tested by the various peer reviews and found to be robust and accurate.

As a result, Council has developed a detailed understanding of its asset cost base, which has been peer reviewed by Mr Goyne to be one of the most detailed held by a Council in the State.


The Council Plan 2013-2017 (reviewed in 2016) includes within the Strategic Resource Plan (page 26) the projected renewal expenditure chart to 2025/2026 and identifies a renewal gap of $22 million in 2025/2026. This chart is reproduced below.

![Renewal Expenditure Chart](image)

**Figure 1: Proposed / Predicted Renewal Expenditure Chart – 2025/26**

Comment was made to the Committee in discussions regarding the asset renewal gap that "the gap is about $1.6 million, $1.7 million currently". (Transcript of Inquiry into rate capping policy hearing 18 October 2016 – page 45) There was also comment from the submitters to the Committee that the Reserves held by Council would cover the operating, maintenance and renewal of the new and gifted assets (estimated at $1.76m) per annum "10 times over". (Transcript of Inquiry into rate capping policy hearing 18 October 2016 – page 41) Also there was comment that the "reserves in 2016 are three times that required by the SRP". (Transcript of Inquiry into rate capping policy hearing 18 October 2016 – page 39) These
three comments are all incorrect as is shown by an analysis of the data in both the Strategic Resource Plan and the Annual Report.

Further, there appears to be some confusion in the submitters' understanding of the asset renewal gap and the calculation of the cost of operating, maintenance and renewal of new and gifted assets received following the February 2009 bushfires which are two separate matters.

The asset renewal gap, as outlined in the Strategic Resource Plan addresses the renewal needs of all assets, not only those that are new and gifted assets. It also only deals with the renewal of assets and not the operating and maintenance costs of current assets. The long term asset renewal gap, as illustrated by this chart from page 28 of the Council Plan 2013-2017 (2016 review) and reproduced below clearly illustrates the impact of the assets received following the 2009 bushfires upon the long term asset renewal gap.

![Graph showing long term asset renewal requirements]

**Figure 2: Long term asset renewal requirements**

The ESC in its decision regarding Council's application for a variation to the rate cap specifically addressed this issue and stated:

"We note that it would be unrealistic for Council to raise $7.75 million in a single financial year to meet its renewal needs. Therefore we consider that Murrindindi's approach to allocate funds to an infrastructure renewal reserve progressively over time would allow Murrindindi to responsibly address future renewal expenditure without rate shocks." (ESC: Murrindindi Shire Council Decision on application for a higher cap for 2016-17 - page 11)

Council's Reserves are $13,946,845 (as reported in the 2015-2016 Annual Report (Note 28 (b) page 35). Of these funds, $423,754 is held in the Public Open Space Reserve, and listed as being a Statutory Reserve, with the remainder being held within Discretionary
Reserves. The single largest of these ‘discretionary’ reserves is the Garbage Reserve of $5,620,300 which is required for significant upgrades to Council’s landfill in Alexandra and its five resource recovery centres. The Ten Year Capital Funding Profile which is an input into the Strategic Resource Plan identifies that $10,425,000 will be required in the next 10 years (2016/17 – 2025/26) to meet Council’s obligations in waste management.

Additional Reserves relate to specific community and public infrastructure such as the Alexandra Community Leisure Centre (a facility jointly managed with the Department of Education and Training) the Marysville Caravan Park and the Yea Saleyards.

Council also maintains reserves to support its internal operations such as the Defined Benefits Superannuation Reserve. This Reserve was originally established to meet Council’s long service leave obligations and was used when there was a call on 1 July 2013 for $1,980,896, representing Council’s contribution to the Local Government Defined Benefits Plan in Vision Super. It has been Council policy to rebuild the Reserve to a maximum of $1,200,000 by allocating $300,000 per annum (reduced to $150,000 in 2016-2017) to meet any future call.

Collectively, the largest amount held in Reserve is for asset renewal and for the operating, maintenance and renewal of the gifted assets. As a total, these Reserves held $6,399,323 as reported in the 2015-2016 Annual Report. The Ten Year Capital Funding Profile identifies that $3,860,000 of these reserves will be drawn down between 2017/18 and 2025/26 to partly fund Council’s capital works program.

By the use of some figures and statements made by the submitters to the Committee, there appears to be confusion between Reserves (as identified in the Annual Report) and ‘Cash and Cash Equivalent’ which includes not only the Reserves, but also other cash holdings. The submission to the Standing Committee at points 4, 8 and 10 refers to ‘reserves (cash and cash equivalents),’ ‘reserve in 2008/09 (Cash and Cash Equivalents)’ and ‘Reserve (C&CE)’ respectively. These two items are not the same, as has been previously explained to the Councillors.

The Cash and Cash Equivalent includes not only the Reserves (as identified above) but also:

- Trust funds and deposits (Murrindindi Shire Council Annual Report 2015-2016: Note 26 – page 31 of 44)
- Cash held to fund carried forward capital works (Murrindindi Shire Council Annual Report 2015-2016: Note 16 – page 22 of 44)
- Grant Funds received in advance (Murrindindi Shire Council Annual Report 2015-2016: Note 16 – page 22 of 44)
- Portion of Long Service Leave Liability (Murrindindi Shire Council Annual Report 2015-2016: Note 16 – page 22 of 44)
This leaves unrestricted cash and cash equivalents of $2,234,672 (at 30 June 2016) to fund the operations of Council from 1 July until such time as its major revenue source (rates) is received through the first instalment in September of each financial year.

5. Use of ‘surplus’ capital works funds

There has been presentation to the Committee regarding the management of Council’s capital works program and a criticism that unspent funds are placed into ‘reserves’ and not made available in the following year’s capital works program. The statement is as follows: “Another thing that is happening is that there is a sizeable unused infrastructure. Sizeable – large – infrastructure rate funds are diverted to reserves each year rather than being used the following year. This has bloated the reserves but lowered the service levels and needed infrastructures for ratepayers who have actually paid for them.” (Transcript of Inquiry into rate capping policy hearing 18 October 2016 – page 40)

In August 2013 Council adopted a Capital Works Expenditure Policy which provides a “procedure which outlines the management of savings from capital works projects including any unspent contingency budgets.” This Policy provides for the reallocation of savings from projects and the reallocation of budgets for projects that are not delivered.

The Policy specifically provides that “those projects not started within an annual program will be reassessed during the development of the following year’s capital works program as part of the annual budget preparation.” It also provides that “funding for projects that are not delivered in the planned year and that will not proceed will also be reallocated to other Council projects or the Infrastructure Reserve...”.

This Policy is implemented through a quarterly report to Council where Council resolves on the reallocation of funds.

Therefore it is not correct to say that funds are not made available in the following year’s capital works program because (as outlined in the Policy) funds are reallocated to other projects, reassessed during the development of the following year’s capital works program or allocated to the Infrastructure Reserve, all based upon the decision of Council. For example, from the 2015-2016 capital works program almost $1.5m of savings were achieved. From these savings $870,000 was reinvested within the year to bridge renewal and $170,000 carried forward to the following year for allocation to the sealed roads program if needed. With this allocation 94.6% of the adopted capital works budget was expended or reallocated to the following year’s capital works program. Only 5.4% of funds (achieved through savings) went to the infrastructure reserve.
It is also incorrect to say that the transfer of funds has led to a lowering of service levels. It should also be noted that at no time have Councillors, including the submitters to this Committee, raised concerns about the implementation of this Policy.

In addition to the Policy, Council has a 10 year capital improvement program which is reviewed each year by Councillors. In that program, which is an input into the Strategic Resource Plan, provision is made for the drawing-down of these reserves to fund capital works project. Hence while funds may not be allocated in the subsequent year they are used for capital works projects in subsequent years as required and do not go into general revenue. For example, the current Ten Year Capital Funding Profile anticipates that $1,018,000 will be drawn down from the Infrastructure Reserve over the next 10 years to fund the Capital Works Program.

6. Rebuilding of Murrindindi Shire

Comment was made to the Committee that the presentation of the Chief Executive Officer to this Committee on 21 July 2016 had ‘inferred that the rates had decreased’. That is not correct. The Committee further addressed this claim in its Third Report by reporting that the presentation of the two Councillors had suggested that the “loss of residential properties during the 2009 bushfires had led to a reduction in the rates base and that the rates had therefore decreased, which the councillors suggested was actually untrue.” (Parliament of Victoria Legislative Council Environment and Planning Committee: Third Report into rate capping policy - page 112). There was no inference in the information provided by the Chief Executive Officer to this Committee that either total rate revenue had decreased or that the general rate had decreased. The total rate revenue received by Council could not have decreased because of a range of factors including the annual rate increase, the introduction of two differential rates in the 2015-2016 and the Council policy to grow the rate base through supplementary rates.

Council’s application to the ESC and the presentation of the Chief Executive Officer to this Committee was very clear in outlining that the removal of properties from the rate base through the Bushfire Buyback scheme, the shortfall in revenue as a result of the slow rebuilding process and the overall loss of Capital Improved Value (CIV) had all contributed to the reduction in CIV and a much slower growth in rate revenue.

Extracts from the application to the ESC below clearly illustrate the issue which Council has been facing since 2009 and which were presented to this Committee by the Chief Executive Officer.

“Reduced Ratebase
Following the fires the Capital Improved Value (“CIV”) of rateable assessments within the Shire declined by over $201 million, a 6.26% decrease at a time when Council’s post-fires costs commenced their significant increase as discussed further throughout
this submission. Council had just seen an increase in CIV levels across the Shire of 8.02% for the 2008/09 rating year, an indication of solid growth levels in the Shire at the time. The reduction in CIV was further exacerbated by the State Government Buyback Scheme that removed 85 properties from the ratebase or prohibited rebuilding.

The total value of CIV for rateable assessments within the Shire did not surpass the pre-bushfire levels of $3.216 billion until 2012/13, and remain substantially behind conservative projected growth figures that were utilised prior to the 2009 bushfires. A very conservative increase of 4% per annum in CIV levels since 2008/09 (which would allow for both new developments, capital improvements on properties and pricing increases) would have seen Council’s CIV levels for 2015/16 equate to $4.23 billion, a level that is $330 million above the amount recorded in Council’s current budget.” (Murrindindi Shire Council Application for Higher Rate Cap - pages 19 -20 )

“To date only 55% of owners of properties where dwellings were destroyed by the fires have sought approval to rebuild, significantly lowering the amount of rates that Council would have otherwise generated from these properties if developed. The graph below shows rebuilding progress since 2009. The estimated shortfall in rate revenue due to properties destroyed or damaged in the fires for the 2015/16 financial year is $343,663, which is equivalent to 1.9% of total budgeted rating revenue for the year.
Buyback Scheme

A recommendation of the Bushfire Royal Commission, later endorsed by the State Government, was to institute a voluntary Bushfire Buy-back Scheme which enabled landowners to sell to the Government properties in some bushfire-affected areas. The Government’s Bushfire Buyback Scheme resulted in 85 revenue-generating properties being transferred into state ownership in 2012/13, which resulted in an immediate loss of $87,000 of rating revenue based on the capital improved valuation of these properties prior to the bushfire occurring. This annual loss of revenue continues as Council cannot collect any rates from these properties unless they are re-sold to adjacent property owners. If and when this land is sold into private ownership, the new rate value of this land will be assessed only as site value as part of the consolidated property, as housing cannot be built on Buyback land.” (Murrindindi Shire Council Application for Higher Rate Cap - pages 9 – 10)

There was also comment to the Committee that “As well as the increases in future years, Council received a significant Rate Assistance Package from the State Government to cover any loss in rate income.” (Rates Submission No. 75 - point 12)

While Council did receive the Murrindindi Assistance Package from the State Government, this package only covered the period from 2009-2013. The Package comprised two components, firstly, assistance for the rebuilding and reform of the Council ($4m) and secondly, compensation for revenue loss ($2m).

Council’s 2012-2013 budget describes the short term, although valuable, contribution of the Assistance Package.

“The rate assistance package which has been an essential outcome to compensate for the revenue loss of Council whilst the rebuild occurs will conclude in 2012-2013. The rate of rebuild and restoration of Councils valuation and revenue base will have a significant impact on council’s long term ability to maintain the range and levels of services. Whilst the rate assistance package has assisted in the short to medium term, it will not address the longer term impact of the new and enhanced facilities being constructed following the 2009 Bushfires.” (Murrindindi Shire Council: Budget 2012-13 - page 5)

7. Submission by Council to the Essential Services Commission

Comment was made in the Committee regarding the preparation of Council’s application to the Essential Services Commission for a rate cap variation and the suggestion that ‘external experts’ were engaged in the preparation of Council’s application. (Transcript of Inquiry into rate capping policy hearing 18 October 2016 – page 44) This is not correct. As was indicated in Council’s submission to this Committee of 1 April 2016:
"Murrindindi Shire Council was not able to devote any resources, other than officer time, to the preparation of its application. Whilst we are aware that some Councils have engaged communications consultants to carry out communications and engagement projects, or write a submission to the ESC on their behalf, we believe that the Murrindindi community would not enjoy the irony of council spending tens of thousands of dollars on a communications cap (sic) about a rate cap variation which seeks to increase their rates above the cap." (Murrindindi Shire Council: Submission 1 April 2016 – page 4)

Further information was provided by Council in the June 2016 rate capping survey by the Committee as to the estimated officer time devoted to the preparation of the application to the Essential Services Commission.

A question was raised by Mr Melhem (Transcript of Inquiry into rate capping policy hearing 18 October 2016 – page 41) as to what figures were used in Council's application to the ESC. The figures used were from Council's adopted budgets and annual reports. The Essential Services Commission required Councils to provide data in their Budget Baseline Information Template which, along with Council's application, is available on the Commission's website.

The Budget Baseline Information Template included a breakdown of all forecast revenue and expenditure for 2016/17 and provided comparison to the 2015/16 financial year. The template also shows the required calculations to determine the impact of the rate cap of 2.5% on rate revenue, as well as the higher cap scenario that formed the basis for Council's submission for a variation to the rate cap.

Like all Victorian Councils, Murrindindi Shire Council was required to submit an annual baseline information template by 31 October 2016, detailing its compliance with the rate cap for the 2016/17 financial year. As indicated earlier in this response, this was discussed in the ESC's paper published on 12 December 2016 that detailed that Murrindindi Shire Council, like all Victorian Councils, was found to be compliant with the applicable rate cap in 2016/17.

As indicated in the introduction to this response, the Chief Executive Officer of the Commission, in correspondence to the Committee of 17 November 2016 that the Commission was satisfied "that it had made its assessment on reliable and meaningful data."

**Conclusion**

Council trusts that the provision of this further context, clarification and additional information will assist the Committee in understanding the comprehensive and detailed manner in which Murrindindi Shire Council has dealt with its financial challenges over the past 8 years.
In doing so, it has maintained a prudent and fiscally-conservative approach to its financial management in line with best practice recommendations from the Victorian Auditor General's Office and in accordance with its obligations under the Local Government Act.