BALLARAT CITY COUNCIL

Decision on application for a higher cap for 2016-17

May 2016

An appropriate citation for this paper is:

Essential Services Commission 2016, *Ballarat City Council — Decision on application for a higher cap 2016-17*, May.

CONTENTS

1. OUR DECISION

The Fair Go Rates System (FGRS), established in the *Local Government Act 1989* (the Act) requires local councils to limit their average annual rate increases to a rate cap, determined annually by the Minister for Local Government (the Minister).[1] For the 2016-17 rating year, the cap has been set at 2.5 per cent.

Councils wishing to increase their average annual rates by more than 2.5 per cent in 2016-17 must first obtain approval from the Essential Services Commission (the Commission). We are responsible for approving, rejecting or approving in part the higher cap sought by a council. This paper outlines our decision in response to an application by the Ballarat City Council (Ballarat or Council) for a higher cap of 3.7 per cent (which includes the Minister's 2.5 per cent rate cap) to apply in 2016-17.

In assessing applications, we are required to have regard to the six legislative matters[2] and the statutory objectives[3] of the FGRS (box 1).

The six legislative matters are:

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

---

1 Sections 185B and 185C of the Local Government Act define rates for the purposes of the cap.

2 Section 185E of the Local Government Act.

3 Section 10E(7) of the *Essential Services Commission Act 2001* and section 185A of the Local Government Act.

BOX 1 OBJECTIVES OF THE FAIR GO RATES SYSTEM

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

The Act also requires the Commission to have regard to a council's record of compliance with previous years' caps.[4] However, as this is the first year of the FGRS, this has not been a relevant consideration when assessing applications for higher caps in the 2016-17 rating year.

4 Section 185E(6)(c) of the Local Government Act.

BOX 2 COMMISSION'S DECISION ON BALLARAT CITY COUNCIL'S APPLICATION

Ballarat has applied for a higher cap of 3.7 per cent that is, 1.2 per cent higher than the Minister's rate cap for 2016-17.

The Commission has assessed Ballarat's application, and decided not to approve its proposed higher cap of 3.7 per cent for 2016-17. Ballarat will be required to keep its average rate increase for 2016-17 within the 2.5 per cent cap set by the Minister.

The Commission is not satisfied that Ballarat's application supports a higher cap for 2016-17. The Commission reached this decision for the following reasons:

- The Commission found Ballarat's capital planning and processes do not adequately support its application for a higher cap.
- The Commission does not consider that it is in the long-term interests of ratepayers to fund the one-off cost or funding shortfall identified by Ballarat with a permanent increase to the rate base as this would result in ratepayers continuing to pay higher rates after the short-term need had been addressed.
- The Commission was not satisfied that Ballarat has demonstrated how it had taken into account the views of its ratepayers and the community in forming its application for a higher cap.

2. WHAT DID THE COUNCIL APPLY FOR AND WHY?

Ballarat sought a 3.7 per cent rate cap for 2016-17 (inclusive of the Minister's rate cap of 2.5 per cent). Ballarat estimated that this would result in additional revenue of $1.03 million.

Two reasons were specified for the higher cap:

1. To increase funding for asset renewal (0.53 per cent or $448 000) and
2. To fund a shortfall associated with the cost of infrastructure required for the Ballarat West Developer Contributions Plan (DCP) (0.67 per cent or $585 000).

A copy of Ballarat's application and its response to our request for information (RFI) is available on our website (www.esc.vic.gov.au). Appendix A shows the communications between the Commission and Ballarat during the assessment period.

3. HOW DID WE REACH OUR DECISION?

Table 1 summarises our observations on each of the relevant legislative matters specified in the Ballarat's application.

TABLE 1 LEGISLATIVE MATTER SUMMARY

Legislative matter	Summary
185E(3)(a) — proposed higher cap	The Commission verified that the higher cap was appropriately calculated.
185E(3)(b) — reason(s) for which the Council seeks the higher cap	Two reasons were specified for seeking the higher cap. A discussion of the Commission's observations of these reasons appears below. **Asset renewal funding** In its application, Council argued that it is committed to increasing infrastructure renewal spending by 4 per cent per year in order to address its asset renewal gap. According to both the Victorian Auditor General's Office and the Local Government Performance Reporting Framework asset renewal measures, Council appears to be currently spending less than depreciation and may be at risk of underinvestment in maintaining and renewing assets over time.[a] The asset data provided in support of the application, including the budget baseline data and the Asset Management Plans (AMPs), indicated that some Council assets may have exceeded intervention levels (useful lives) and require renewal, particularly road assets. The Commission's analysis of Ballarat's recent and forecast capital works expenditure, and its AMPs identified a number of issues that called into question the need for a higher cap in 2016-17. These issues are discussed in greater detail in section 3.1. **Ballarat West Developer Contribution Plan** In its application, Council argued that the increased revenue is needed following 'reindexing of the Council's developer contribution scheme' that has led to additional costs to Council and a funding shortfall of $585 000 for 2016-17. In reviewing the information provided in support of this reason, the Commission noted the following inconsistencies that made it difficult for the Commission to assess the reason and corresponding funding need: • In the application coversheet it was initially claimed that a 'contingency component' was required for the DCP that Council was now able to quantify at $585 000 .[b] Council subsequently clarified that the additional revenue was for the funding shortfall, not a contingency. • In two tables provided by Ballarat, comparing the initial DCP cost with the increased cost following indexation, the additional cost to Council was shown as $513 000, not $585 000.[c] • Council also cited that there was a delay in the receipt of some anticipated developer contributions, putting increased pressure on council cash flows. Ballarat cited $3 million in the coversheet and $4 million in the application. Ballarat subsequently confirmed the figure was $4 million in its response to our Request for Information (RFI).

Continued next page

TABLE 1 (CONTINUED)

Legislative matter	Summary
185E(3)(b) (continued)	• The application cited three different figures when referring to the long-term cost to Council of the DCP ($46 million, $40 million and $60 million).[j] These inconsistencies appear to be a result of differing estimations of when the infrastructure is required, when DCP revenues will be collected and the timeframe of forward planning. It was not clear from the application whether Council has modelled the long-term funding necessary to manage these infrastructure costs, taking into account service costs and the additional revenue generated by growth. Ballarat has stated that the DCP funding component is only needed for 2016-17 and that future costs will be managed through borrowings and cash-flow management, yet it is seeking a permanent increase in the rate base to fund this need. Over the life of the DCP (40 years), the cumulative impact of a rate increase of 0.67 per cent, or $585 000 in the rate base, would result in an estimated additional $38 million in rate revenue (assuming annual inflation of the rate base by CPI of 2.5 per cent). Using Ballarat's latest estimate of the long-term cost of providing DCP infrastructure, re-indexation of developer charges resulted in an estimated additional cost to Council of $5 053 089 over the life of the DCP.
185E(3)(c) — how the views of ratepayers and the community have been taken into account in proposing the higher cap	In addressing this legislative matter, Council cited consultation completed for the Council Plan, and past budgets and Strategic Resource Plans (SRP). Council did not undertake consultation on the proposed rate increase prior to submitting the application, stating that there was not sufficient time to do so.[d] Council used a number of different methods, including seven community consultation sessions, a survey on community preferences regarding $4.5 million of funding for discretionary capital projects, and briefings with key stakeholder groups. These documents demonstrated that increasing expenditure on capital works, in particular what it defines as 'core infrastructure', by 4 per cent per year, was a priority for Council. These documents projected future rate increases of 5.5 per cent.[e] Based on the information provided, the application was not able to sufficiently demonstrate the outcomes of this past engagement and how it took the views of the community into account in seeking a higher cap. Community responses to the capital projects survey or feedback from the community panels was not provided. Council stated that, in regard to previous budget submissions, 'there was little comment about proposed rate increases, comments were centred around additional infrastructure projects to be considered and more work should be completed to deal with the infrastructure funding'.[f] When discussing funding increases in the application and in past consultation materials, Council often used the term 'core infrastructure' interchangeably with asset renewal. The Commission notes that over 50 per cent of planned expenditure in Ballarat's 'core infrastructure' budget will be for new and upgraded assets over the next 20 years. From the material provided, it does not appear that the community was presented with clear options or trade-offs between rate increases and service levels, or increased short-term borrowings. The Commission was concerned that the proposed higher cap and supporting capital works plan diverged from what was previously presented to the community in two ways.

Continued next page

TABLE 1 (CONTINUED)

Legislative matter	Summary
185E(3)(c) (continued)	• First, the proposed capital works plan submitted to the Commission included a significant increase in expenditure over the next three years from what had been forecast and consulted on in the 2015-16 SRP. • Second, the 2015-16 SRP stated that Council's strategy for managing the costs of the Ballarat West DCP would be to utilise increased borrowings.[g] To increase rates to fund a shortfall in the DCP would represent a substantial change of strategy given the cumulative revenue impacts of a permanent increase in the rate base.
185E(3)(d) — how the higher cap is an efficient use of Council resources and represents value for money	Ballarat argued that a rate increase above the rate cap for asset renewal in 2016-17 was an efficient use of funds because it would cost the community more to replace the assets if they are not appropriately funded to allow for renewal. With regard to the DCP component, Ballarat stated that it is legally obliged to provide the infrastructure. Raising revenue to match the increased cost of the infrastructure was the most efficient means of funding this cost. Otherwise, Council claimed it would need to reduce funding for services to offset the DCP cost or delay some infrastructure, which Council argued could negatively impact growth. Ballarat noted that each year it tries to identify operational savings and direct these towards its capital program. Council identified and quantified a number of specific efficiency savings, though it was not clear when some of these measures were undertaken and whether they were continuing to deliver operational savings. Council advised that it adheres to Best Value Principles in regard to procurement and tendering practices. It has worked with the Municipal Association of Victoria on best practice and has lowered its own tendering thresholds below guidelines.[h] No evidence of the relative efficiency of Council operations or capital works, such as benchmarking against peer councils or internal performance measures, was provided.
185E(3)(e) — whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate	The application provided a brief discussion of alternative funding options and potential offsets that were considered by Council. Ballarat discussed a number of factors that have adversely affected revenue, such as the freezing of the Financial Assistance Grants, and non-discretionary cost pressures that have limited its capacity to offset the rate increase. Council stated that there was not sufficient time to review its services and operations but it intends to undertake service reviews over the coming 12 months to identify further efficiencies to offset the need for a rate increase. In response to a request for further information by the Commission, Council provided a more detailed discussion of the alternative options and trade-offs it considered but did not pursue. The funding alternatives and potential offsets discussed by Ballarat included increasing user fees; increasing borrowings; using current financial assets; delaying, reprioritising or revising the scope of projects within its capital works budget. This analysis indicated that if rates revenue increased by 2.5 per cent over the next 20 years and there were no changes to Ballarat's current operating and capital expenditure trends and no funding alternatives or expenditure offsets were pursued, Council would, over the long-term, begin to record deficits and experience a deterioration in its liquidity or an unsustainable increase in its debt levels to fund operating expenses.[c]

Continued next page

TABLE 1 (CONTINUED)

Legislative matter	Summary
185E(3)(f) — that the assumptions and proposals in the application are consistent with the Council's long-term strategy and financial management policies set out in the Council's planning documents and annual budget	In addition to its Council Plan, recent budgets and SRPs (2014-15 and 2015-16), Council provided a copy of its Long-Term (20 year) Financial Plan, Capital Works Budget, its AMPs, and additional modelling on the impacts of the rate increase and cash-flow demands of the DCP. Council provided two forward projections of key local government financial indicators with and without the higher cap (see table 2).[i] Both scenarios see Council recording small negative adjusted underlying results over the short to medium-term, with other financial indicators remaining healthy. These documents were found to be broadly consistent, with some exceptions discussed below. Three figures were quoted in the application regarding the long-term cost to Council for the DCP (discussed above). The LTFP contains a growth factor of 1.5 per cent per annum to account for growth in the rate base and Ballarat has claimed that approximately 75 per cent of additional revenue from growth in the rate base is allocated to outdoor services. Despite this, it was not evident that Ballarat has modelled the long-term revenue impacts of growth associated with the Ballarat West DCP and the extent to which growth should offset the infrastructure costs over time. Ballarat's AMPs are currently drafts, with some notable information gaps about the condition of its assets and incomplete sections related to the process for selecting and prioritising projects. The factors discussed above reduce the Commission's confidence in the capacity of Council to accurately estimate its renewal demand and long-term funding requirements.

[a] This assumes that current service levels are optimal and consistent with the preferences of the community. [b] Ballarat City Council 2016, *Higher Cap Application*, March, p. 2. [c] Ballarat City Council, *Response to Request for Information*, April, pp. 35-36. [d] Ballarat City Council 2016, *Higher Cap Application*, March, p. 5. [e] Though not provided in support of the application, the Commission acknowledges that Council has undertaken quite comprehensive engagement with the community for its Ballarat 2040 strategy. The Commission also notes that Council has released a 2016-17 draft budget for consultation that includes four possible rating scenarios and that Council has published a new community engagement strategy. [f] Ballarat City Council 2016, *Response to Request for Information*, April, p.38.
[g] Ballarat City Council 2016, *Higher Cap Application — Attachment "Budget 2015-16, Summary",* p. 21*;* and *"Budget 2015-16, Introduction"*, March, p. 11. [h] Though not provided in support of the application, the Commission has reviewed the Council's procurement policy, sourced from the Council website.
[i] Comparison of these two scenarios is limited as they are based on quite different revenue and expenditure assumptions. The higher cap scenario assumed rate increases of 3.6 per cent for each year after 2016-17 while the rate cap scenario fixed rate increases at 2.5 per cent but reduced capital expenditure to ensure the forward projections remain sustainable. [J] The actual DCP forecasts this figure to be $55 806 911 over 40 years. Following indexation of the developer contributions in July 2015, this figure was estimated by Council to be $59 488 139, according to its website.

3.1 ASSESSMENT

As required under the FGRS, we have examined each of the six legislative matters addressed in Ballarat's application. The legislation also requires the Commission to (i) promote the long-term interests of ratepayers and the community in relation to sustainable outcomes in the delivery of services and critical infrastructure and (ii) ensure that a Council has the financial capacity to perform its duties and functions and exercise its powers.

Taking into account all of the relevant factors above, the Commission has considered Ballarat's application and decided not to approve the proposed higher cap for 2016-17. Ballarat's application did not sufficiently demonstrate a long-term funding need and we were not satisfied that the proposed rate increase was in the long-term interests of ratepayers. The Commission based this decision on three reasons:

1. The Commission found Ballarat's capital planning and processes did not adequately support its application for a higher cap. Its asset management plans (AMPs) are not fully developed, its processes for classifying and prioritising expenditure lack transparency, and recent expenditure does not align with its plans. The discrepancy between planned and actual capital expenditure was not clearly explained.
2. The Commission does not consider that it is in the long-term interests of ratepayers to fund the one-off cost or funding shortfall identified by Ballarat with a permanent increase to the rate base as this would result in ratepayers continuing to pay higher rates after the short-term need had been addressed.
3. The Commission was not satisfied that Ballarat demonstrated how it took into account the views of its ratepayers and the community in forming its application for a higher cap. No new community engagement has been undertaken for the proposed higher cap. Council is relying on past consultation but there have been some notable shifts from the approach and capital expenditure that Council consulted on; and the reasons for these shifts have not been adequately explained.

We are confident that, at least in the short-term, Council has the financial resources to manage its immediate budget needs.

The following section provides further discussion of the reasons for our decision.

CAPITAL WORKS PLANNING AND EXPENDITURE

The reasons provided by Ballarat for the higher cap relate to two key elements of its capital expenditure program. The Commission's assessment of the application identified a number of shortcomings related to Ballarat's capital program that reduced our confidence that an increase in rates above the cap set by the Minister for 2016-17 was appropriate.

The Commission recognises that Council is taking steps to improve its asset management and information systems. However, the AMPs provided by Council were drafts, with key sections yet to be completed and containing some significant information gaps. Most notably, Council does not currently have data on the condition and lifetime performance of approximately 70 per cent of transport assets under management, with an estimated value of $615 million.[5]

The plans show that Council has yet to adopt a formal process for selecting and prioritising capital projects and expenditures. The basis for Ballarat's current classification of its capital works expenditure into 'core' and 'non-core' infrastructure was not clear. Currently, the only projected 'non-core' expenditure is related to the Ballarat West DCP, which Council has a statutory obligation to provide. Further, in the application and in past consultation, Council often used 'core infrastructure' interchangeably with asset renewal, despite the 'core' program containing significant expenditure on acquiring or constructing new assets and upgrading existing assets.

Our analysis of Ballarat's recent capital expenditure indicates that the delivery of its Capital Works Program has not closely aligned with planned expenditures. Over the past four years, Ballarat has underspent on its budget allocation for asset renewal by 25 per cent on average. Over the same 4 year period, its expenditure on new assets exceeded its budget allocation by an average of 76 per cent.[6] In dollar terms, the underspend on asset renewal far exceeds the additional revenue requested in 2016-17 through the higher cap. The Commission also identified some material fluctuations in Ballarat's budgeted and reported depreciation and amortisation expenses over the past 4 years. This reduced our confidence in the accuracy of Council's forecasts of its

---

5 Ballarat City Council 2015, *Asset Management Plan: Transport*, April, p. 18. The asset sheet of the budget baseline information also indicated that Council lacks condition data about a range of other asset classes.

6 Council has been the recipient of significant State and Federal Government capital grant funding over the past three years which was dedicated to a number of major projects, including Eureka Stadium and a new indoor sport and recreation centre that has impacted these figures.

depreciation and renewal expenditure. [7] Despite Ballarat's advice that its LTFP is based on increasing renewal spending by 4 per cent per year[8], the proposed capital works budget for 2016-17 shows a 4 per cent reduction in renewal funding from 2015-16.

BUDGETING AND LONG-TERM FINANCIAL PLANNING

As outlined in the Commission's guidance document, *Fair Go Rates System: Guidance for Councils 2016-17*, councils are expected to be able to manage short-term cash-flow challenges or costs within existing financial and budgetary means under the rate cap set by the Minister.[9] For the DCP funding component of the application, Ballarat sought a higher cap to fund a shortfall in 2016-17 only, stating that '[t]he indexation of the DCP resulted in additional costs over the life of the scheme. Those costs in future can be accommodated within Council's borrowing strategy and long-term cash flows.'[10] Ballarat has not been able to explain the reasons for altering the funding strategy for the DCP that it developed last year. It is now seeking higher rates rather than debt fund costs associated with the DCP. Last year, it advised its community that it would debt fund this project and recover those costs over the life of the plan. While Council explained to the Commission that it did not want to increase its borrowings because it wanted to retain capacity to borrow for future projects and to manage financial adversity, it is unclear why there has been a shift in strategy since Council consulted with its community last year — especially as the funding shortfall is relatively small (less than one per cent) compared to the estimated lifetime cost of the DCP.[11]

We note that the LTFPs provided in the application did not sufficiently demonstrate that Ballarat had considered the long-term revenue impacts of growth associated with the DCP and the extent to which growth could offset the infrastructure costs over time.

---

7 For each year between 2011-12 to 2014-15 Ballarat has reduced its depreciation expense by 2 per cent, 14 per cent, 24 per cent and 17 per cent, respectively.

8 Ballarat City Council 2016, *Higher Cap Application*, March, p. 3.

9 Essential Services Commission 2015, *The Fair Go Rates System: Guidance for Councils 2016-17*, December, p. 35.

10 Ballarat City Council 2016, *Higher Cap Application*, March, p. 4.

11 Analysis of Council's debt position indicated that it will remain in a low risk position (according to VAGO's risk indicators) over the 20 year financial plan. Debt is forecast to peak at $69 million in 2020 and be progressively reduced thereafter. According to Council's self-imposed debt ceiling it has capacity to increase borrowings further and remain in a sustainable financial position.

Using Council's latest estimate of the total cost of meeting its infrastructure obligations under the DCP, the long-term budgetary effect of indexing developer contributions resulted in an estimated additional cost to Council of $5 053 089 over the life of the DCP.[12] The cumulative effect of a rate increase of 0.67 per cent, or $585 000, would result in additional revenue of approximately $38 million over the 40 year life of the DCP.[13] We do not consider that it is in the long-term interests of ratepayers to fund the one-off cost or funding shortfall identified by Ballarat in relation to the DCP with a permanent increase to the rate base as this would result in ratepayers continuing to pay higher rates after the short-term need has been addressed.

COMMUNITY ENGAGEMENT

The Commission is not satisfied that Ballarat's application sufficiently demonstrated that it took into account the views ratepayers and the community in relation to the proposed higher cap. Ballarat's application relied on past consultation undertaken for its Council Plan, and 2014-15 and 2015-16 budgets and SRPs. Ballarat did not consult with ratepayers and the community about the proposed higher cap, prior to submitting its application. In examining the past engagement materials, the Commission identified two notable shifts in Ballarat's capital expenditure program and strategic approach proposed in the application, from what had been consulted on in the past. The reasons for these changes were not clearly explained in the application.

First, Ballarat's proposed capital works budget for the next 3 years has increased by an average of 36 per cent (or $17.6 million) per year above what was projected and consulted on in the 2015-16 budget and SRP.

Second, in the 2015-16 budget, Council advised the community that its strategy for managing the costs and cash flow challenge associated with the Ballarat West DCP would be to increase its borrowings.[14] The proposal to increase rates to fund this shortfall represents, in the view of the Commission, a substantive change in strategy given the on-going consequences of higher rates.

---

12 The actual DCP, which came into effect July 2014, forecast the total cost to Council to be $55 806 911 over 40 years. Following indexation of the developer contributions in July 2015, this figure was estimated by Council to have increased $59 488 139, according to its website. In response to our information request, Council stated that it now estimates the cost to Council to be $60 860 000 over the life of the DCP.

13 This assumes general rates and charges growth at CPI of 2.5 per cent per annum.

14 Ballarat City Council 2016, *Higher Cap Application — Attachment "Budget 2015-16, Summary"*, p. 21; and "*Budget 2015-16, Introduction"*, March, p. 11.

FINANCIAL POSITION FOR 2016-17

In making this decision, the Commission has examined Ballarat's current and projected financial position and considered the potential impact on the financial capacity of Council. We are confident that, at least in 2016-17, Council has the financial resources to manage these short-term budget pressures. Table 2 below shows the impacts with and without the higher cap on Ballarat's key financial performance indicators based on data provided by Council in support of the application.[15] While Council is projecting a small negative adjusted underlying result under both scenarios, the other financial indicators indicate that Council is in a sound financial position in the short to medium-term without the higher cap.[16] The Commission also notes that, in the draft SRP released for consultation by Ballarat on 16 May 2016, Council is now projecting small adjusted underlying surpluses over the next four years, improved liquidity and improved asset renewal performance based on a rate increase of 2.5 per cent.[17]

15 The higher cap scenario assumed rate increases of 3.6 per cent for each year after 2016-17 while the rate cap scenario fixed rate increases at 2.5 per cent but reduced capital expenditure to ensure the forward projections remain sustainable.

16 Deloitte Access Economics' advice provided to the Commission. In April 2016, the Commission engaged Deloitte Access Economics to assist the Commission in examining the underlying financial position of those councils that have applied for a higher cap.

17 Ballarat City Council 2016, *2016-17 Draft Strategic Resource Plan*, pp. 44 & 102.

TABLE 2 LOCAL GOVERNMENT PERFORMANCE REPORTING FRAMEWORK INDICATORS

LGPRF indicator[a]	2014-15 (Actual)	2015-16 (Budget)	2016-17 (Forecast)	2017-18 (Forecast)	2018-19 (Forecast)
Operating position[b]					
Adjusted underlying result (%)					
pre-FGRS	9.8	12.4			
'without' higher cap (a)			-2.3	-2.2	-2.2
'with' higher cap (b)			-1.7	-1.6	-1.7
difference (b-a)			0.6	0.6	0.5
Liquidity[b]					
Working capital (%)					
pre-FGRS	201.1	126.7			
'without' higher cap (a)			133.5	125.6	125.5
'with' higher cap (b)			133.0	124.2	123. 2
difference (b-a)			-0.5	-1.4	-2.3
Unrestricted cash (%)					
pre-FGRS	158.9	80.6			
'without' higher cap (a)			77.6	68.3	68.3
'with' higher cap (b)			77.0	66.9	65.9
difference (b-a)			-0.6	-1.4	-2.4
Obligations[b]					
Loans and borrowings (%)					
pre-FGRS	36.4	49.0			
'without' higher cap (a)			46.5	47.5	52.8
'with' higher cap (b)			46.0	46.5	51.2
difference (b-a)			-0.5	-1	-1.6
Loans and borrowing repayments (%)					
pre-FGRS	7.2	10.2			
'without' higher cap (a)			6.0	5.8	6.2
'with' higher cap (b)			5.9	5.7	6.0
Difference (b-a)			-0.1	-0.1	-0.2
Indebtedness (%)					
pre-FGRS	17.8	29.0			
'without' higher cap (a)			29.9	30.6	33.8
'with' higher cap (b)			29.7	30.2	33.1
difference (b-a)			-0.2	-0.4	0.7

Continued next page

TABLE 2 (CONTINUED)

LGPRF indicator[a]	2014-15 (Actual)	2015-16 (Budget)	2016-17 (Forecast)	2017-18 (Forecast)	2018-19 (Forecast)
Obligations[b] (continued)					
Asset renewal (%)					
pre-FGRS	48.8	66.9			
'without' higher cap (a)			67.0	65.0	63.0
'with' higher cap (b)			68.8	68.5	68.1
difference (b-a)			1.8	3.5	5.1

Note: Under the Local Government Performance Reporting Framework (LGPRF), Councils are required to report annually on their performance against a number of financial and output measures. [a] Table only includes LGPRF indicators considered in making our decision. [b] See Appendix B for definitions of these indicators.

Data source: Ballarat City Council 2016, *Response to Request for further information*, April.

APPENDIX A: SUMMARY OF COMMUNICATIONS WITH BALLARAT

Ballarat submitted its application for a higher cap on 9 March 2016. In response to its application the Commission sought additional information from Ballarat (table 3). Ballarat's application and its response to our request for further information can be found on our website.

TABLE 3 COMMUNICATIONS BETWEEN BALLARAT AND THE COMMISSION

Date	Nature of communication
9 March	Council submitted its application.
17 March	Council and the Commission met to discuss the application.
24 March	Commission sent Council minutes to the 17 March meeting and an update on when a request for further information (RFI) would be sent.
30 March	The Commission sent a RFI to Council.
31 March	Council provided its response to the RFI.
13 April	The Commission contacted Council to clarify LGPRF indicators.
13 April	Council reviewed Commission's 'Council profile' providing suggestions.

APPENDIX B: LGPRF INDICATOR DEFINITIONS

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

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

   Adjusted underlying surplus is adjusted underlying revenue less total expenditure.

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

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

   Unrestricted cash is all cash and cash equivalents that are not tied to a particular use hence can be used for any purpose and is extremely liquid.

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

   Rate revenue is revenue from general rates, municipal charges, service rates and service charges.

e. **Loans and borrowing repayments** is interest and principal repayments on interest bearing loans and borrowings as a percentage of rate revenue. This indicator measures whether the level of interest and principal repayments on interest bearing loans and borrowings is appropriate relative to the size and nature of a council's activities.

f. **Indebtedness** is non-current liabilities as a percentage of own source revenue. This indicates that the level of long-term liabilities is appropriate to the size and nature of a council's activities. Low or decreasing level of long-term liabilities suggests an improvement in the capacity to meet long-term obligations.
   Own source revenue is adjusted underlying revenue excluding revenue which is not under the control of council (including government grants).
g. **Asset renewal** is asset renewal expenditure as a percentage of depreciation. This indicates whether assets are being renewed as planned. High or increasing level of planned asset renewal being met suggests an improvement in the capacity to meet long-term service obligations.
   Asset renewal expenditure is expenditure on an existing asset or on replacing an existing asset that returns the service capability of the asset to its original capability.