

Hepburn

SHIRE COUNCIL

Financial Vision

2024-2027





Acknowledgement of Country

Hepburn Shire Council acknowledges the Dja Dja Wurrung as the Traditional Owners of the lands and waters on which we live and work. On these lands, Djaara have performed age-old ceremonies of celebration, initiation and renewal. We recognise their resilience through dispossession and it is a testament to their continuing culture and tradition, which is strong and thriving.

We also acknowledge the neighbouring Traditional Owners, the Wurundjeri to our South East and the Wadawurrung to our South West and pay our respect to all Aboriginal peoples, their culture, and lore. We acknowledge their living culture and the unique role they play in the life of this region.

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Summary of Outcomes

Outcomes outlined within the financial modelling and strategy include:

- That the current and projected financial outlook of Council must be a key consideration in the development of the Council Plan 2025-29 and Financial Plan 2025-34, and that these plans must be adopted in accordance with its engagement policy including deliberative engagement and by no later than 31 October 2025 as per the Local Government Act 2020;
- That Council must consider operational savings, services changes and revenue opportunities in the development of the 2025/26 budget, and by 30 June 2025;
- That Council prepare and submit an application to the Essential Services Commission for a rate cap variation applicable for the 2025/26 financial year of 10% including the applicable rate cap to be announced by the Minister for Local Government;
- That for the 2025/26 financial year and subject to a successful application for a rate cap variation, the rebate on rate charges for pensioners who qualify under the State Government's Pensioner Rate Remission scheme will be doubled. This initiative will increase Councils rebate from \$21 to \$42 to assist pensioners in their rate payments;
- That Council prepare and submit an application to the Essential Services Commission (ESC) for a rate cap variation for the 2025/26 financial year that ensures that waste service charges comply with the new Local Government Ministerial guidelines, noting that this will be revenue neutral to Council and of no net cost to ratepayers;
- The Chief Executive Officer will work with Councillors to analyse all services offered by Council, so as to ensure that the Council Plan 2025-2029 and Budget 2025/26 identify operational saving and/or new revenue opportunities (estimated at \$2.44 million per annum) needed to realise the Financial Vision;
- That the funding of asset renewal is a priority, and that capital works expenditure is limited to effectively renewal works only. Council will actively seek State and Government funding, if new or extended assets are to be considered.
- Creation of a 'grant funding reserve' which will mean funds will be available to allocate to government grant applications as 'matching' funds.



Executive summary and background

The Financial Vision 2024–2027 for Hepburn Shire Council, created in partnership with Council and the community, acts as a strategic guide to detail the provision of services, priorities, and projects that meet community needs, while ensuring the Council’s financial stability over the next ten years.

The Financial Vision serves as a guide for the elected Council, set to be appointed in October 2024, providing a strategic direction to ensure that the next Council Plan remains aligned with and fulfills the community vision, all while operating within the financial constraints that the Council will encounter.

As outlined in the 2024/25 adopted budget for Hepburn Shire Council, a \$1.5 million reduction in operational budgets was necessary. Projections for the long-term financial plan indicate that from 2024/25, a combination of strategies (such as rate variations, additional revenue, operational budget cuts, borrowing, and asset reviews) will be needed to address a \$4 million cash shortfall. Operational savings or increased revenue to be found from 2025/26 will be ongoing. The Financial Vision has been created to ensure that this balance of strategies is realistic, transparent, and effective in securing the Council’s sustainability over the next decade.

As the scope of capital works programs have already been curtailed to renewal works and the tight cash environment constrains the ability to service any additional borrowings, the options to address the cash shortfall are the further reduction of operation costs through service reductions and changes and seeking a rate variation from the Essential Services Commission or a combination of the two.

Council is committed to transparency and accountability in executing its financial plan and service delivery, emphasising the responsible management of public funds to maintain financial sustainability. The primary objective of the long-term financial plan is to ensure financial stability over the medium and long-term, while fulfilling the Council’s strategic objectives. Continuous community involvement is crucial in assessing and prioritising services, allocating resources to support these services, establishing sustainable spending levels, identifying key assets necessary for delivering prioritised services, considering the sale of surplus assets, evaluating borrowing strategies, and exploring additional revenue sources, including the potential for applying for a rate variation to State Government.

To protect Council’s long-term financial stability, a thorough review of the ten-year Financial Plan, along with a wide-ranging assessment of service provisions, has been conducted by the Council. Balancing financial limitations, community expectations, and statutory duties presents a significant challenge, especially in light of the State Government rate cap and the variability of government grant funding.

In July 2024, we engaged with the community to gain insights into their priorities regarding service delivery, infrastructure investment, and a rate adjustment. The feedback gathered during this process was integrated within the financial modelling. It is important to note that before making any future decisions about service changes, additional community consultation will be conducted as we proceed with the analysis of services and the development of the next Council Plan in 2025.

As part of the recent community engagement, the Council created its first-ever service catalogue and map, outlining how and where budget allocations are made, statutory requirements for services, and how their success and benefits are measured. Management will update this catalogue annually to ensure ongoing transparency and clarity regarding service models, operations, and budget adjustments. The success metrics within the Service

Catalogue are based on comprehensive data sources. Council considered feedback from the engagement period, and this will provide guidance to the incoming Council in 2024.

Within this Financial Vision 2024–2027, the strategy includes borrowings of \$5.528 million as identified in the 2024/25 adopted budget, but no further anticipated new debt. Despite the increase in debt, Council will maintain a low debt ratio, adhering to the standards established by the Victorian Auditor General, and the long-term financial strategy will incorporate repayment plans.

Hepburn Shire Council has traditionally been a low-rating Council. In 2024, Hepburn Shire Council ranks 61 out of 79 Councils based on 2022/2023 results. Due to the State-imposed rate cap, rates cannot be raised to meet the increasing demands on the Council without applying to the ESC for a rate cap variation. Council has carefully evaluated the rate cap and the balance of other financial levers available.

Councils, particularly in regional and rural areas, have very limited alternate income streams to generate, thereby heavily relying on revenue solely from rates and government funding through grants.

To ensure a balance between effective and responsive service delivery, applying for a 10% rate variation with the Essential Services Commission (ESC) for the 2025/26 period is crucial to sustaining as much service provision as possible throughout the Shire. This variation is inclusive of the State Government determined rate percentage allocation each year.

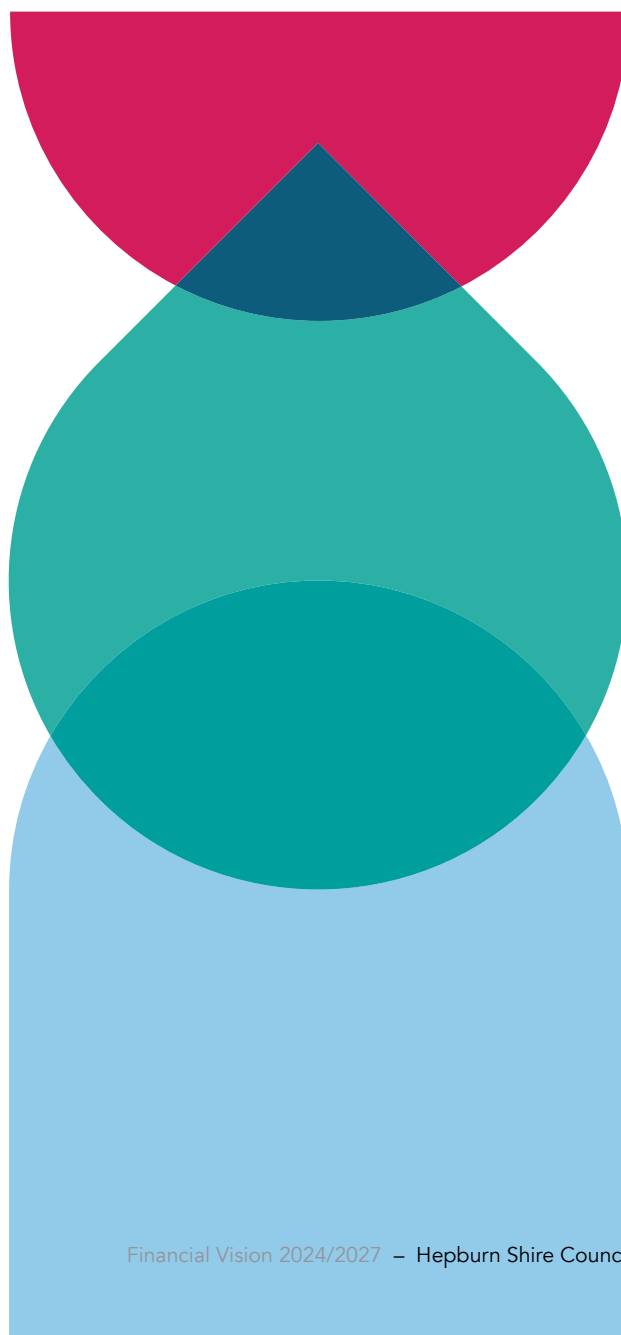
Council has a very limited range of assets for potential disposal to fulfill the cash shortfall expected in 2024/25. This Financial Vision works to achieve on stability for the Council and community with limited need for the disposal of community assets.

We acknowledge the significance of community infrastructure and renewal for our residents. Starting from 2026/27, the Financial Vision includes allocating funds to a reserve dedicated to upgrading existing facilities and developing new community infrastructure. Grant funding from other government levels often requires Council to provide matching contributions. This reserve will seek to guarantee that we are prepared to seize funding opportunities, allowing us to deliver assets that meet community expectations.

From a cashflow perspective Council has three key objectives.

- Firstly we aim to ensure that cash reserves are sufficient to sustain service delivery for the community and fulfill our obligations.
- Secondly, we strive to have an amount of unallocated cash to provide a buffer so that we can adequately respond to unforeseen emergencies.
- And in the long term, the goal is to also establish a reserve that can provide matching funds for grants received from other tiers of government.

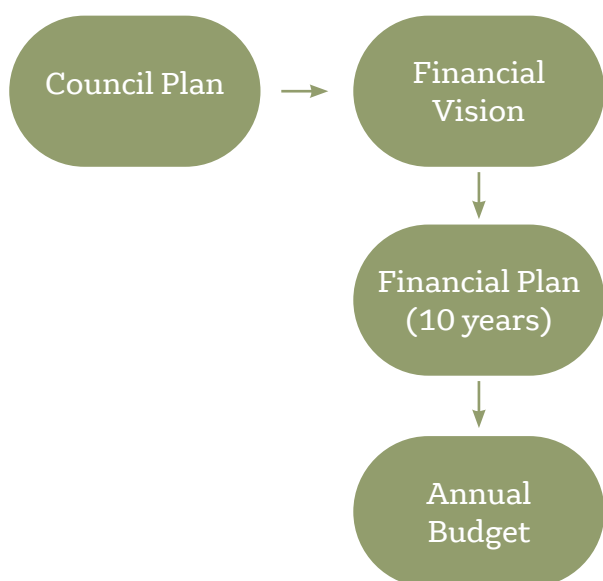
Council is resolute in its commitment to transparency and accountability in both its financial plan and service delivery. We are dedicated to the responsible management of public funds to ensure long-term financial stability. The Financial Vision 2024–2027 will play a crucial role in helping Hepburn Shire Council achieve these objectives.



Strategic Framework

Financial Vision

- A Financial Vision is not a mandatory document as required by the Local Government Act. The Financial Vision has been proactively created to support this Council's obligations towards financial sustainability and outlines for the next Council the parameters for the development of the next Council Plan and the Financial Plan. The Financial Vision illustrates that a comprehensive review of services must be completed. The Financial Vision outlines actions that will ensure responsible financial management through evidence-based cost controls and resources management.
- The Financial Vision 2024–2027 does not determine the scope or quality of service delivery, but instead provides a plan for substantial reforms to achieve financial sustainability.
- The following diagram depicts the relationship between key documents.



Integrated Strategic Planning and Reporting Framework

Council employs an integrated approach to planning, monitoring, and performance reporting. The Financial Vision 2024–2027 outlines the 10-year financial resources required to achieve the goals and aspirations of the Council Plan and realise the Community Vision. This Financial Vision aligns with the Council's obligations under the Local Government Act 2020 to manage public funds strategically and with foresight. The Financial Vision 2024–2027 updates the previously adopted Hepburn Shire Council Financial Plan 2021-2031.

The delivery of Council services is maintained through legislation and performance measures to ensure Council achieves against service performance principles including:

- Services are provided in an equitable manner and are responsive to the diverse needs of the community. The Council Plan is designed to identify and prioritise the key services and projects to be delivered to the community. The Financial Plan provides the mechanism to demonstrate how the service aspirations within the Council Plan may be funded.
- Services are accessible to the relevant users within the community.
- Council provides quality services that provide value for money to the community. The Local Government Performance Reporting Framework (LGPRF) is designed to communicate Council's performance regarding the provision of quality and efficient services.
- Council maintains a performance monitoring framework to continuously improve its service delivery standards.
- Council is developing a service delivery framework that considers and responds to community feedback in regards to service provision.



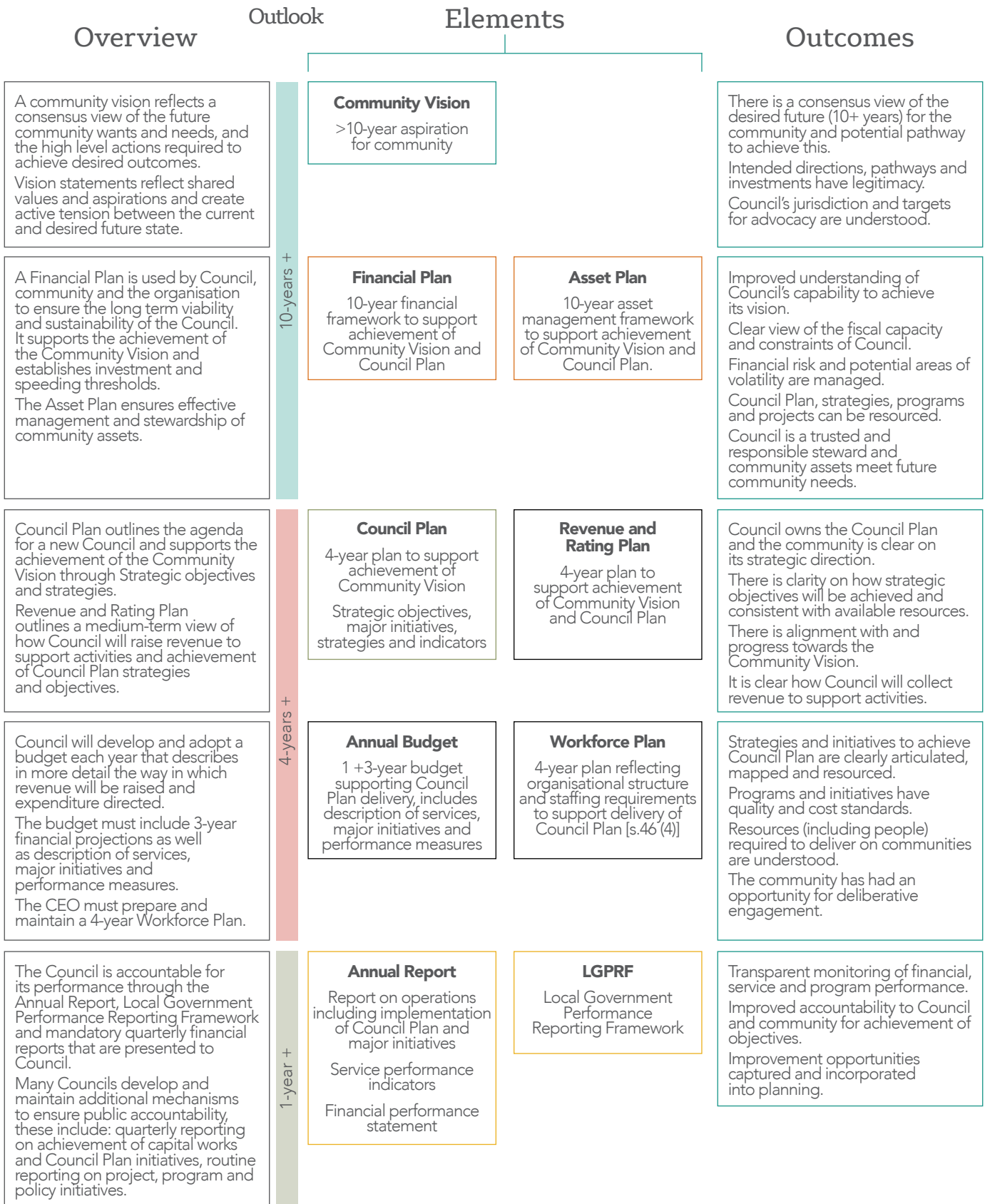


Figure 1: Integrated Strategic Planning and Reporting Framework and outcomes overview (Department of Jobs, Precincts and Regions 2020)

The Hepburn Shire Council Service Catalogue is a living document, subject to review and updates as service requirements evolve or new Council Plans are introduced every four years. This ongoing review ensures that our service delivery remains responsive to the changing needs of our community and will support the review of annual budgets allocated to service areas of Council.

The Annual Report produced by the Council details performance against the Council Plan and Community Vision. Additionally, the Victorian Government Local Government Performance Reporting Framework (LGPRF) offers insights into the Council's success across various metrics, with annual data published on the Victorian Government's website. Another key measure of success is the Community Satisfaction Survey.

In accordance with the Act, Hepburn Shire Council must submit a revised Council Plan, Community Vision, Municipal Health and Wellbeing Plan, Asset Plan, and Long-Term Financial Plan to the State Government by no later than October 2025. The annual budget is required to be submitted by June 2025. These strategic documents are designed to shape and potentially modify service delivery in response to evolving priorities of the Council and the community.



Background and Context

Hepburn Shire, located in a rural landscape, covers 1,473 square kms and includes towns such as Clunes, Creswick, Daylesford, Hepburn Springs, and Trentham, along with various smaller settlements, each with their own unique character. The Shire currently has a population of 16,157, projected to grow to 17,700 by 2036. The region has a rich cultural heritage, with the Dja Dja Wurrung People recognised as the Traditional Owners.

Hepburn Shire Council is committed to transparency and efficiency in delivering services to our community. However, financial pressures are mounting across all levels of government, businesses, and communities, particularly affecting Victoria's local government sector. These pressures are likely to necessitate adjustments to council services and infrastructure investment. Challenges such as rate-capping below CPI, a relatively small population, dispersed settlements, and a limited rating base all constrain the Shire's financial prospects.

Councils typically allocate substantial portions of their funds to specific purposes, such as infrastructure projects, rather than maintaining large unrestricted cash reserves. Rising costs, including inflation, construction materials, and services, as well as ongoing capital works programs, add to the financial strain. Additionally, increasing expenses related to employees, insurance, regulatory compliance, and external factors like natural disasters, legislative changes, and events such as COVID-19 further complicate financial management for Hepburn Shire and the broader sector.

The JLT Public Sector Risk Report from 2018 to 2024 identifies 'financial sustainability' as the top risk for local governments in Victoria and nationwide. The cumulative impact of past events and the interconnectedness of various risks contribute to financial pressure on councils, affecting their financial stability and their ability to effectively serve their communities.

With aging infrastructure, increasing demands for new services, and rising community expectations, Hepburn Shire faces challenges in reconciling these demands with limited State and Federal Government support for local government. As a small rural shire with a limited rate-paying base and fewer opportunities for alternative revenue streams, Council must implement a strategy to enhance income opportunities through rates while also reducing operational costs to ensure financial viability.

The 2022 international report by Rural Councils Victoria (RCV), titled *Alternative Sources of Income for Local Government*, underscores the challenges faced by small councils in generating additional income. The report reveals that despite extensive searches across Australia and overseas, no single idea or combination of ideas emerged as a substantial alternative revenue source for small councils, particularly those representing small communities. Existing alternative sources only marginally cover the funding requirements necessary for Hepburn Shire's long-term financial sustainability.

Hepburn Shire Council operates as a low-rating council and has historically imposed modest rate increases to maintain service levels and operational efficiency, even before the introduction of the Fair Go Rates system. The following was provided to Council in 1997 following the amalgamations, and creation of Hepburn Shire Council, which indicated Council commenced with the second lowest rate base per capital in the State.

All Councils including Hepburn Shire have undergone significant change in the last few years. This change has in part impacted on short term service delivery e.g. cuts in local road construction in order to secure the longer term financial viability. Restructuring has now occurred and the benefits should be evident in the 30th June balance sheet. The Council commenced with the second lowest rate base per capita in the State of Victoria. To enhance future service delivery the Shire may find its inherited rate base which has been capped by legislation an impediment to future improvement of Service delivery.

- 1997 audit report

In line with the broader Victorian local government sector, Hepburn Shire Council is confronting significant issues that need to be addressed to ensure the successful delivery of Council objectives and the community vision.



Local Government Financial Levers

There are a limited number of levers available to a Council, in order to secure financial sustainability. Each of the levers, the current situation at Hepburn and planned action through the Financial Vision will be discussed in greater detail. Levers available include:

- Revenue – rates and rating
- Revenue – other fees, fines, grants
- Operational costs – service delivery
- Capital works – infrastructure
- Capital works – generational infrastructure
- Borrowings
- Asset Sales

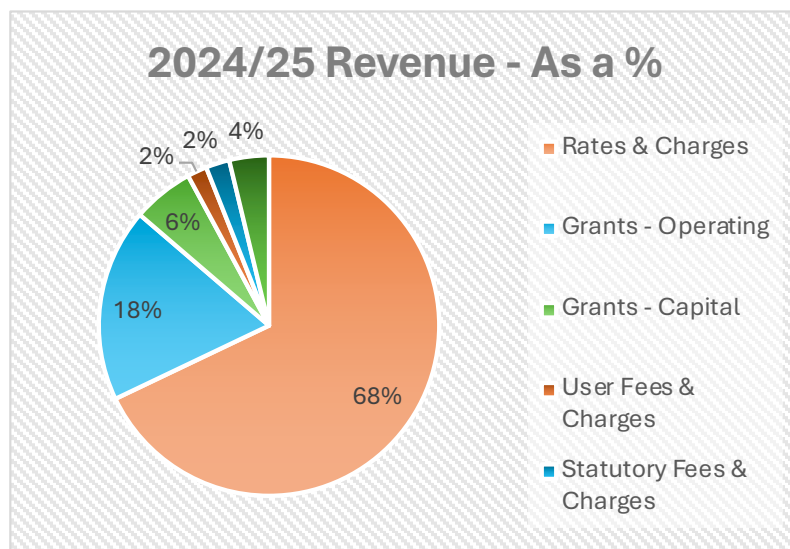
Hepburn Shire Council operates as a low-rating council and has historically imposed modest rate increases to maintain service levels and operational efficiency, even before the introduction of the Fair Go Rates system. The state-mandated rate cap, applied uniformly across all councils, has disproportionately affected Hepburn Shire by applying this cap to its already low revenue base. Consequently, Hepburn Shire Council ranks 61 out of 79 Victorian councils in terms of average rates per property assessment based on 2022/2023 results.

The current rate capping policy, which enforces a uniform cap across all councils, and at annual adjustments below the rate of CPI, presents significant challenges, particularly for rural and regional councils like Hepburn.

Revenue – Rates and Rating

General rates

Rates and charges accounts for 68% of Council revenue in 2024/2025, being our most significant source of revenue.



Fair Go Rates System

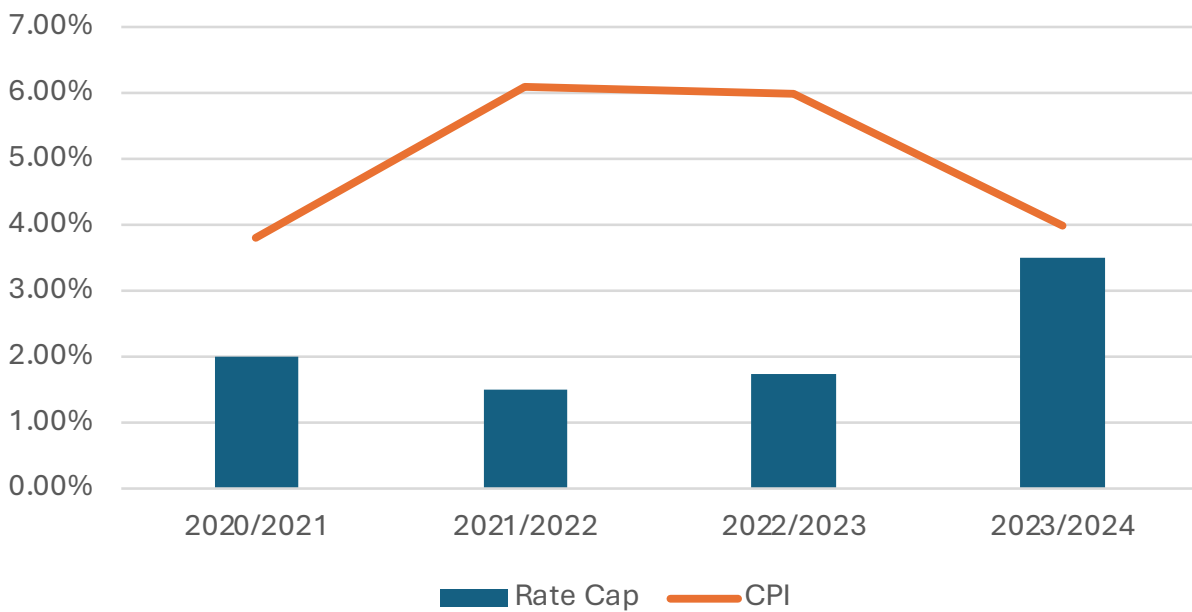
The Fair Go Rates system established by the Victorian Government limits the amount Victorian Councils can increase rates in a year without seeking additional approval. The Minister for Local Government, each year sets the average rate cap for the following rating year taking into account advice from the Essential Services Commission and the forecast change in the consumer price index (CPI). The annual rate cap cannot be increased without the permission of the Essential Services Commission.

The Fair Go Rates system has challenged Council's long-term financial sustainability, and it continues to restrict Council's ability to raise revenue to maintain service delivery levels and invest in community assets.

The rate cap does not accurately reflect increases in costs faced by councils because they have a significantly different composition of expenditure compared to households. Key council expenditures (wages, construction, utilities) required to provide council services and deliver infrastructure projects have been increasing faster than household CPI.

The rate cap presents a significant concern for Hepburn Shire in 2024/2025 and beyond. The rate cap from 2020/2021 has consistently been set below the CPI forecast. The rate cap set below the actual CPI has resulted in a \$5.8 million impact to Council for 2020/2021 onwards.

Rate Cap vs CPI



A key question asked of stakeholders through the community engagement phase of the Financial Vision project, was whether they would find a rate variation acceptable, and if so at what level. Full details are included in the engagement report, but it was noted that:

The result of the engagement identified that 61.56% of the community were open to a rate variation (at various percentages), and 38.44% of community were not open to a rate variation.

Council acknowledges the challenges faced by the community due to rising household living costs and inflation. In consideration of rate variation forming part of the Financial Vision, Council carefully considered the impact on individuals and took into account community feedback regarding the proposed rate increase.

Financial modelling within the Financial Vision has been based on an approved 10% rate variation inclusive of the annual rate cap allowed by the State in 2025/26 (estimated at 2.50%). The additional revenue generated through a rate variation application of up to 10% will see a further \$1.56M of rates being recovered to support the delivery of services across Hepburn Shire in 2025/26.*

**Based on assumed annual rate cap of 2.5%.*

On average, the rate variation will increase general rates by \$132 per annum (\$175 per annum including the forecast rate cap) for the average individual property - the equivalent of \$2.53 per week. This is of course relative to the valuation on properties. Rate capping limits the percentage increase in the average capped rate. It does not apply to the dollar amount of annual increases, nor the percentage increase in individual ratepayers' capped rates and charges.

Individual properties may experience different percentage increases because the:

- Property increases or decreases in value relative to other properties within the municipality.
- Classification of the property changes (i.e. residential, commercial etc).
- Council changes the distribution of rates between property classes by changing its rating strategy.

All properties are revalued annually for local government rating purposes through an independent process separate to Council. This revaluation changes the relative value of properties which can cause significant differences in rate increases between properties.

Other Rates

Consideration was made in the development of the Financial Vision for other potential changes to rates, that may generate additional revenue. Such things as the introduction of a Short Stay Levy, re-introduction of a Municipal Charge and changes to rating differentials. The rating system is complicated, and many have made strong arguments that property-based taxation, such as Council rates, may not be the best taxation system to take into account ratepayers' capacity to pay.

It is important to note that changes to rating differentials does not increase the total rates received by Council, but rather just changes the distribution between all ratepayers.

A Council must prepare and adopt a Revenue and Rating Plan by the next 30 June after a general election for a period of at least the next four financial years. Therefore, Council will be engaging with the community to adopt an updated Revenue and Rating Plan by 30 June 2025, and this engagement and decision making is where changing the rating system will be best considered.

Given the uncertainty of the implementation of a statewide Short Stay Levy by the State Government, any decisions were not incorporated into the Financial Vision and can be considered at a future point in time.

Waste Management

In late December 2023, the Victorian Government introduced new and unexpected Ministerial Good Practice Guidelines for Local Government Service Rates and Charges, set to take effect in the 2025-26 financial year. These changes, particularly those affecting waste management charges, necessitate a reassessment of how Hepburn Shire allocates service rates.

Historically, Hepburn Shire has set its waste service charges based on long-term cost recovery models, consistent with many other councils. Council carefully monitors these charges over several years to ensure an appropriate long-term financial position, despite potential annual fluctuations.

The charges for kerbside services in the Council's budget currently comply with the Local Government Minister's Good Practice Guidelines on waste service charges and can continue to do so under these new guidelines. The annual Waste Management Charge funds essential services such as the operation of transfer stations, monitoring old landfill sites, and servicing street litter bins. This charge is structured to cover only the costs of these activities, avoiding any surplus generation over time, a practice common across local governments.

However, the Minister's Guidelines recommend that waste management charges be directly linked to services provided to properties and suggest that other waste-related charges should be incorporated into General Rates rather than Waste Management Charges. This implies that Council should consider transferring income currently recovered through the Waste Management Charge into General Rates—particularly costs related to waste-associated services like the operation of transfer stations, waste minimisation education, and public bin waste management.

To fully comply with the Guidelines, the current Waste Management Charge will need to be reviewed, with a portion of the charge being transferred to General Rates. Under Victoria's Rate Capping system, this change would require an application to the Essential Services Commission (ESC) to ensure that the transition is handled appropriately and does not adversely impact ratepayers or the Council.

It is proposed that an application be made to the ESC to transfer the Waste Management Charge to General Rates ensuring no net change in overall revenue and no additional cost to ratepayers.

In the 2024/25 Annual Budget, Council identified the need to achieve \$1.5 million in operational savings. To contribute to these necessary savings, the Waste Management department has been tasked with undertaking a comprehensive review of its service model in 2024. This review aims to identify and implement efficiencies that will help meet the financial targets set by the Council.

The Waste Management Review will explore various avenues to streamline operations, reduce costs, and improve service delivery without compromising the quality of essential services provided to the community. This may involve reassessing current waste collection processes, optimising routes, exploring new technologies for waste processing, and evaluating staffing and resource allocation. The department will explore innovative approaches to waste reduction and recycling that could further enhance efficiency and reduce operational costs.

The outcomes of this review are expected to contribute significantly to the broader financial sustainability goals of the Council, ensuring that essential services can continue to be delivered effectively while adhering to the budgetary constraints identified for the upcoming financial year. The review will be conducted with a focus on maintaining environmental responsibility and community satisfaction, ensuring that any changes align with both Council's strategic objectives and the community's expectations.

Community Support for Payment of Rates

In 2013, Hepburn Shire Council implemented an additional pension rebate of \$21 available to those in receipt of the State Government funded Municipal Rates Concession. Ratepayers who hold eligible pensioner concession cards may be entitled to receive a State Government funded concession on their rates and charges for their principal place of residence otherwise known as the Municipal Rates Concession.

To support pensioners across the Shire, this Financial Vision includes an increase of the pension rebate to double that amount to \$42 to those that are eligible to receive the Municipal Rates Concession. The increase will be adopted in the 2025/26 budget period and community members notified of the change. This increase will only be made available if Council are successful in a rate variation application to the ESC for the 2025/26 annual budget.

The cost to Council to provide this additional rebate is budgeted at \$38,000 for 2024/2025 and the expectation is that a further \$38,000 will be set aside in 2025/2026 to fund this concession subject to an approved rate variation application.

Revenue – other fees, fines, grants

Although local government has limited alternate income streams, Council will continue to look at innovation and opportunities to increase revenue and limited the reduction of services. There may be opportunities in future for rental income, sustainable and environmental revenue or options to extend services deliver.

Advocacy to other tiers of government is a key activity of Council and assists in the funding of services and capital works. Council will continue to actively seek government grant funding, and advocacy for key projects to be funded. Often a co-contribution is required for Council to 'match' funding government grants, and given the reduced cash position, the ability to 'match' funding is becoming, and will remain difficult. The Financial Vision creates a 'grant funding reserve' which will mean funds will be available to allocate to government grant applications.



A 'Grant Funding Reserve' has been created with the proposed funds allocated in each of the following financial years:

\$200,000 - 2026/27 and 2027/28

\$250,000 - 2028/29 through to 2031/31

\$500,000 - extra financial year after

Operational costs – service delivery

The Financial Vision does not address matters such as the quality or the prioritisation of services. The aim of the strategic vision is to ensure Council can achieve on financial sustainability. The vision will serve as an outline for future decisions, enabling Council to transparently ensure financial sustainability, deliver efficient services and infrastructure, and fulfill financial obligations over the next three years.

Council delivers services that are either legislated or non-discretionary. Regardless of their status the services strive to ensure communities remain healthy, active and engaged. Decisions on service models and delivery are directed by priorities identified within the Council Plan. Hepburn Shire Council's service map identifies 42 services delivered by Council.

Legislative adjustments and the shifting of costs from State and Federal Governments to local councils complicates local administration and exacerbate fiscal imbalances. Increasing responsibilities without corresponding financial support inevitably forces local governments to reassess their service delivery capabilities.

The key areas where cost-shifting has significantly impacted Hepburn Shire and other rural communities include insufficient funding for community programs such as maternal and child health services, libraries, and emergency management. Rising service delivery costs and higher community expectations put significant pressure on our small rural Council, making it difficult to match the service levels of neighbouring councils. This disparity creates significant inequity for our community, and dissatisfaction, who expect the same level of service for their rates.

Hepburn Shire faces a financially challenging landscape due to rising service costs, rate capping, stagnant grant income, natural disasters, pandemic management, and increasing community expectations. Council is currently exploring options for shared services with neighbouring local governments, but there are limitations to the services that can be provided under partnering models.

In 2024, Council introduced a comprehensive Service Catalogue and map, detailing the delivery of Council services, including the legislated responsibilities and performance measurement, including the State Government's Local Government Reporting Framework (LGPRF). This catalogue, designed for annual review, was released in conjunction with community engagement on the Financial Vision.

During the engagement process, the community expressed support for reducing spending on some services if it allowed for the continuation of the same range of services, albeit with reduced scope of provision, frequency, or availability. Specifically, 47.54% agreed with this approach, 35.08% were uncertain, and 17.38% were opposed.

To achieve the operational savings required for the 2025/26 budget and the Financial Vision, management will need to assess service delivery models. This assessment may include finding savings in materials and services, adjusting opening hours and service delivery periods, managing staffing costs, or potentially cancelling services. The savings target is substantial at \$2.44 million, per annum, equating to 7% of Council's cash based operating costs, and is dependent on a successful application to the ESC for a rates variation. This fact illustrates the breadth and depth of change that must be implemented.

Operational savings could also be realised through efficiencies and business transformation. With new technologies, including AI, Council will explore how innovation in technology can be integrated into service models to enhance customer service and optimise financial expenditure. Initiatives such as the 'open access' model observed in sectors like Libraries, which provides a higher level of service to the community at minimal cost, will be considered.

The Financial Vision is based on the following in relation to operations services:

- *\$2.44 million in operational savings or revenue opportunities be achieved.*
- *The organisation will work with Councillors to analyse all services offered by Council, in the development of the Council Plan 2025-2029 in order to identify operational savings, and revenue opportunities.*
- *The operational savings, services changes and revenue opportunities will be considered in the development of the 2025/26 budget, by 30 June 2025.*
- *That any future service changes will be conducted in collaboration with the Council and communicated with community thoroughly.*

Workforce Attraction and Retention

Hepburn Shire, located between Bendigo and Ballarat, faces competition for skilled workers due to superior pay, career prospects, and housing availability in these larger centres. This dynamic poses a significant recruitment challenge for small regional councils, as skilled professionals are drawn to opportunities in the private sector and larger municipalities. High turnover rates are particularly pronounced in roles such as Environmental Health, Town Planning, Building Surveying, Asset Engineering, Community Safety, Local Laws, and Senior Finance positions, further complicating the situation. Recruitment and a transitional workforce places strain on the finances within a small rural shire. Council is mitigating risks in this area through the offer of staffing to balance working from home and office, and focussing on a workforce attraction and retention plan.

The Chief Executive Officer will develop an updated Workforce Plan, post the adoption of the Council Plan 2025-29, that responds to challenges and opportunities within the sector, the recruitment market and ensure the workforce supports the implementation of the Council Plan.

Climate Change, Emergency Management and Recovery from Natural Disasters

Hepburn Shire has experienced three natural disasters since 2021, significantly impacting community infrastructure. Given the high risks of future fires, storms and floods, Council is prioritising mitigation infrastructure and will work to ensure we can react to emergencies in a measured way working through state and federal grants programs.

Capital works – infrastructure

Meeting the growing community infrastructure needs is becoming increasingly challenging due to critical limitations in asset renewal. Several key factors contribute to this issue.

The dollar value of grants does not keep pace with rising costs due to inadequate indexation. This results in a funding shortfall that hampers the completion and maintenance of infrastructure projects, exacerbating financial constraints. Given uncertainties in the timing and total pool of key Federal Government grants (particularly the Roads to Recovery and the Financial Assistance Grants programs) that status-quo has been assumed for this vision – as greater clarity becomes available the modelling will be updated.

Local governments operate within tight budgetary limits, which restrict their ability to fund essential infrastructure projects. This financial pressure is compounded by rate caps that limit the revenue councils can generate through local taxes.

Infrastructure maintenance costs have risen 10-30% over the past three years without corresponding income increases, forcing Council to cover shortfalls.

In the community engagement completed in July 2024, responders told us that maintaining current assets at their current standard, with any significant upgrades to be funded in full by grants was a priority.

The Financial Vision details that the funding of asset renewal focuses on managing and maintaining existing community facilities, excluding new capital works.

In 2025, Council will develop a new Asset Plan by October 2025. This high-level plan will provide a long-term (10-year) outlook, vision, and action plan for the management of Council's assets. Council will actively seek State and government funding, if new or extended assets are to be considered.

A 'Grant Funding Reserve' has been included to support Council's co-contribution towards grant funding aimed at community infrastructure renewal.

Asset renewal focuses on managing and maintaining existing community facilities, excluding new capital works or building redevelopments. In 2025, Council will develop a new Asset Plan, which is required to be submitted to the Victorian Government by October 2025. This high-level plan will provide a long-term (10-year) outlook, vision, and action plan for the management of Council's assets.

Hepburn Shire Council remains dedicated to delivering for the community by completing ongoing capital projects, managing projects through appropriate oversight and controls, investing in asset renewal and community infrastructure, and ensuring effective and efficient service delivery aligned with community priorities.

Throughout the engagement, community identified a need for Council to maintain current assets at existing standards, with any significant upgrades to be fully funded by grants (53% response). Additionally, 47.54% of respondents supported reducing spending on certain services if it allowed the same range of services to be offered, even if at a reduced level or availability.

Capital works – generational infrastructure

The Financial Vision does not include any direct allocation for new upgrades, or new assets – often referred to as generational assets.

Funding of these assets would be considered on a case-by-case basis and will likely require significant government grant funding. Council would be able to utilise its reserve balances and consider borrowings to proceed this large, and complex infrastructure projects subject to positive evaluation of a comprehensive business case.

Borrowings

Consideration of debt levels, particularly the propose of undertaking new debt was considered during the development of the Vision. The Financial Vision is based on the assumption of no new debt from 2025/26 onwards, debt funding will be considered for capital expenditure, where appropriate, but will not be used to fund operational activities. In any case the absence of surplus cash will limit the scope of any new borrowings and the ability to service them.

Asset Sales

The disposal of surplus assets such as land and buildings were considered in the preparation of this Vision. While the asset register is subject to ongoing strategic review the identification and disposal of such assets is not likely to be of material benefit to the cash position in the short term and in any case the few options that may become available will not address the underlying nature of the projected cash shortfall.

Any land or building sale would be subject to requirements of the Local Government Act and Council's Disposal and Acquisition of Land Policy (2023) which includes requirements for current valuations and community engagement.



Financial Position

This section intends to provide a contextual snapshot of the key structural components of Council's finances.

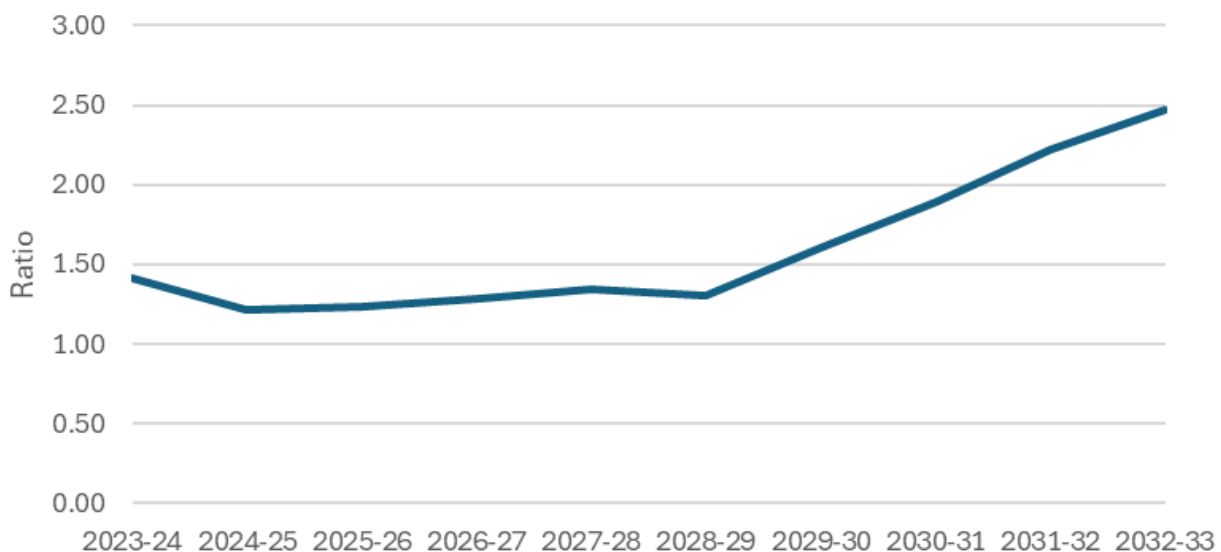
Working Capital Ratio

Working Capital compares Council's current assets to its current liabilities, a sufficient working capital ratio is required to meet Council's obligations as and when they fall due. A high or increasing level of working capital suggests an improvement in liquidity.

The chart below illustrates Council's working capital ratio as per projections in the Financial Vision. A ratio in the 1 to 1.50 range is adequate. Although a consistent ratio exists and it improves in later years (due to the repayment of borrowings), strong budget review and management of Council's finances will be required to ensure sufficient funds are available to maintain existing (and plan for future) levels of service, maintain and improve Council facilities and infrastructure and re-pay borrowings.



Working Capital Ratio

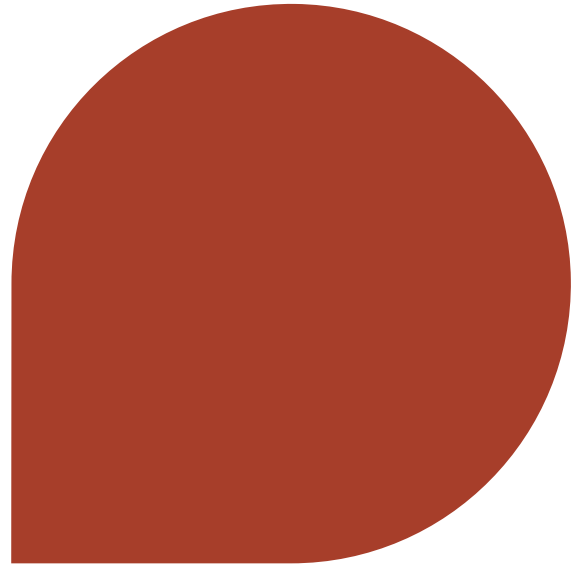


Borrowings

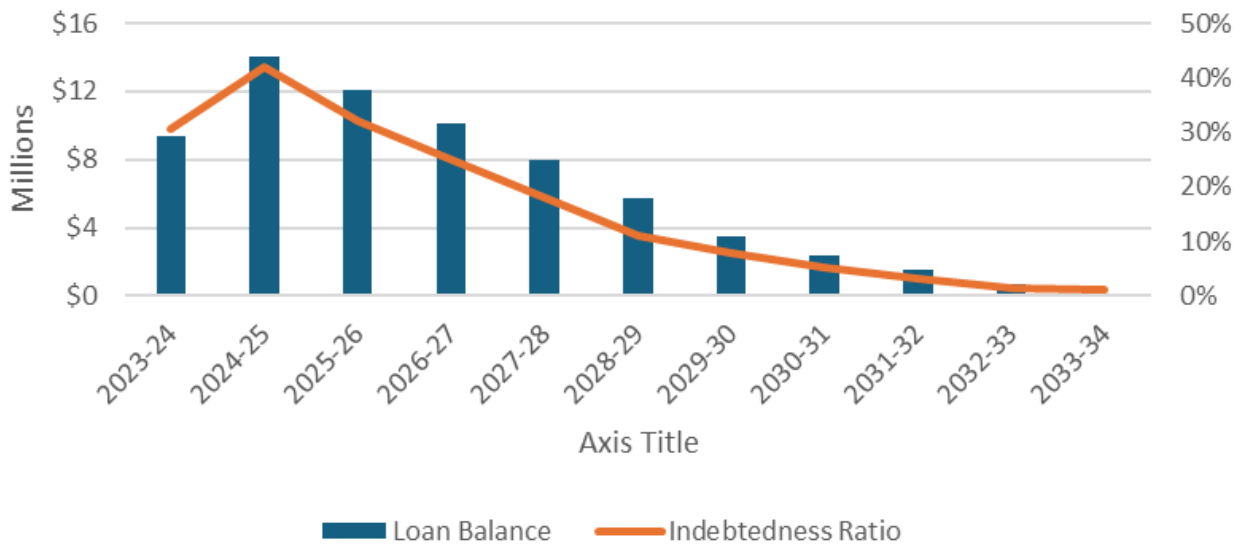
Council has traditionally held a relatively low level of borrowings but has borrowed in recent years to complete key projects such as the Daylesford Town Hall roof and electrical repairs, the Djuwang Baring (Creswick Trails) project and other capital projects.

There are no new borrowings anticipated in the Financial Vision, however, the capacity does exist to assist the funding of major, multi-generational assets.

The chart below illustrates Council's loan balance and indebtedness ratio as per projections in the Financial Vision. The indebtedness ratio compares Council's non-current liabilities (mainly borrowings) to its own-source income. The Victorian Auditor General Officers (VAGO) notes a ratio below 40% is a low financial risk. Council remains in the low risk in all years, except 2024/25 where it marginally increases to the medium risk category (40-60%).



Borrowings

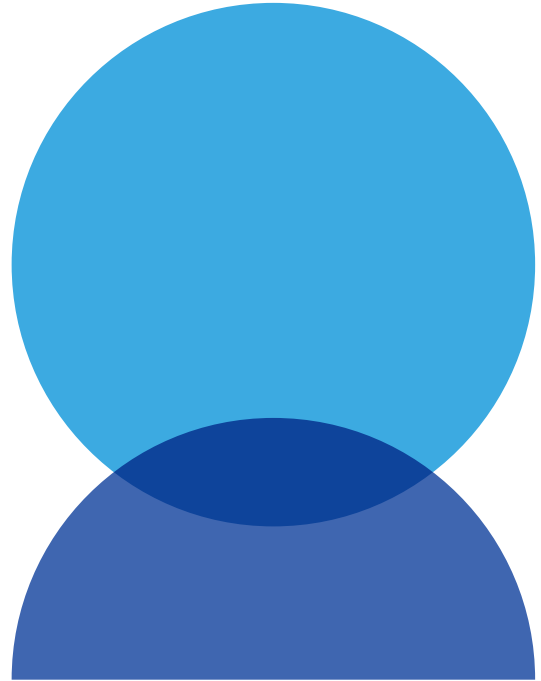


5.1 Unrestricted Cash Balance

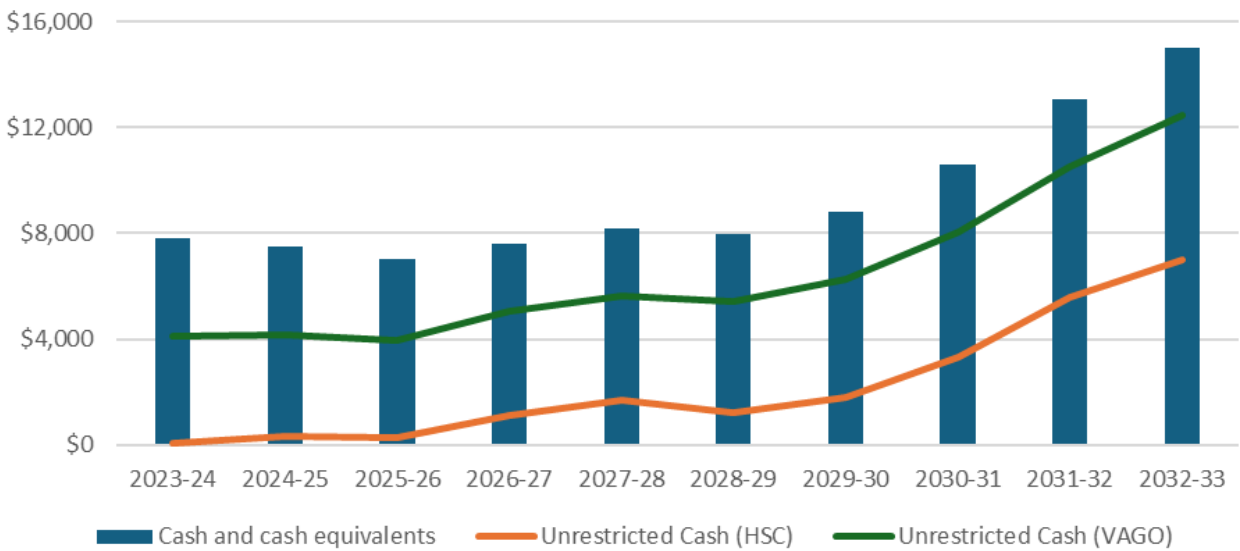
Identified in the previous long-term financial plan adopted in 2021, and in Council's annual budgets, as a small rural shire with limited opportunities for alternate income streams, Council continues to face a significant challenge with its cash and investments balance.

The State Government and VAGO ratio for unrestricted cash does not exclude discretionary reserves in their calculation. Discretionary reserves are funds that Council has allocated for a specific purpose, however, could (although unlikely to) be used for other purposes by a Council resolution. Council feels the unrestricted cash ratio including discretionary reserves provides a clearer picture of uncommitted funds.

The 2024/25 adopted budget projects \$6.95 million in cash reserves at 30 June 2025 and unrestricted cash is forecast as \$290,000. This is an extremely modest buffer and has required Council to consider thoroughly the most effective means to ensure financial stability and sustainability. The Financial Vision improves projects an improved unrestricted cash position of Council, as indicated in the below graph.



Total Cash and Cash Equivalents



	Actual 2023-24	Forecast 2024-25	Budget 2025-26	Budget 2026-27	Budget 2027-28	Budget 2028-29	Budget 2029-30	Budget 2030-31	Budget 2031-32	Budget 2032-33
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cash and cash equivalents	\$7,832	\$7,486	\$7,022	\$7,586	\$8,194	\$7,984	\$8,800	\$10,595	\$13,060	\$14,985
Less:										
Trust funds and deposits	\$1,736	\$1,736	\$1,736	\$1,736	\$1,736	\$1,736	\$1,736	\$1,736	\$1,736	\$1,736
Total statutory reserves	\$1,967	\$1,609	\$1,309	\$809	\$809	\$809	\$809	\$809	\$809	\$809
Total discretionary reserves	\$4,037	\$3,811	\$3,711	\$3,911	\$3,961	\$4,211	\$4,461	\$4,711	\$4,961	\$5,461
Unrestricted Cash (HSC)	\$92	\$330	\$266	\$1,130	\$1,688	\$1,228	\$1,794	\$3,339	\$5,554	\$6,979
Unrestricted Cash (VAGO)	\$4,129	\$4,141	\$3,977	\$5,041	\$5,649	\$5,439	\$6,255	\$8,050	\$10,515	\$12,440

The unrestricted cash position still remains modest under these projects and will need to be continually monitored. There is a need to further improve Council's unrestricted cash position to be better prepared, financially, for unexpected environmental (natural disasters, climate change) or other challenges (pandemic etc).



Implementation

It is important that the objectives within the Financial Vision are realised in the short-term, to ensure the medium and long-term financial sustainability of Council. The following table outlines the estimated timing associated with the implementation of the Financial Vision.

Financial Year	Action	Timing
2024/25	Adoption of Financial Vision	September 2024
2024/25	Review of services and revenue opportunities	By June 2025
2024/25	Application to the Essential Services Commission for applicable rate variation	By 31 March 2025 at the latest
2024/25	Adoption of 2025/26 budget	By June 2025
2025/26	Implementation of service and revenue opportunities	Commencing the second half of 2024/25 then ongoing
2025/26	Adoption of Council Plan 2025-29 and Financial Plan (10-year Long-Term Financial Plan)	No later than October 2025
2026/27	Financial Vision implemented, continued monitoring and review required	



Appendix

The following statements are the projected outcomes based on Councils current financial position and implementation of the Financial Vision.

Income Statement

	Actual 2023-24	Forecast 2024-25	Budget 2025-26	Budget 2026-27	Budget 2027-28	Budget 2028-29	Budget 2029-30	Budget 2030-31	Budget 2031-32	Budget 2032-33
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Income/Revenue										
Rates and charges	26,038	26,936	29,854	30,778	31,725	32,696	33,691	34,711	35,757	36,829
Statutory fees and fines	915	894	916	939	963	987	1,011	1,037	1,063	1,089
User fees	788	741	767	794	822	851	880	911	943	976
Grants - operating	4,168	7,785	7,659	7,957	8,267	8,589	8,924	9,272	9,634	10,010
Grants - capital	3,710	7,296	1,497	2,059	1,572	1,612	1,086	1,113	1,141	1,779
Contributions - monetary	753	520	520	520	520	520	520	520	520	520
Contributions - non monetary	1,135	0	0	0	0	0	0	0	0	0
Net gain (or loss) on disposal of property, infrastructure, plant and equipment	-1,910	24	302	311	336	367	45	80	82	84
Other income	1,673	1,492	1,496	1,531	1,567	1,603	1,641	1,679	1,719	1,759
Total income/revenue	37,270	45,688	43,011	44,889	45,772	47,225	47,798	49,323	50,859	53,046
Expenses										
Employee costs	18,051	17,269	16,759	17,373	18,011	18,659	19,331	20,027	20,748	21,494
Materials and services	17,354	15,738	13,344	13,670	14,072	14,553	14,847	15,080	15,508	16,072
Deprecation	10,380	10,533	10,804	11,106	11,374	11,623	11,875	12,119	12,377	12,637
Allowance for impairment losses	144	15	15	15	15	15	15	15	15	15
Borrowing costs	141	401	641	553	461	364	263	157	112	72
Other expenses	1,081	1,099	1,127	1,171	1,184	1,446	1,244	1,293	1,307	1,602
Total expenses	47,151	45,055	42,690	43,888	45,117	46,660	47,575	48,691	50,067	51,892
Surplus/(deficit) for the year	-9,881	633	321	1,001	655	565	223	632	792	1,154

Balance Sheet

	Actual 2023-24	Forecast 2024-25	Budget 2025-26	Budget 2026-27	Budget 2027-28	Budget 2028-29	Budget 2029-30	Budget 2030-31	Budget 2031-32	Budget 2032-33
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Assets										
Current Assets										
Cash and cash equivalents	7,831	7,486	7,022	7,586	8,194	7,984	8,800	10,595	13,060	14,985
Trade and other receivables	7,704	3,717	3,926	3,990	4,057	4,125	4,194	4,266	4,339	4,414
Inventories	5	5	5	5	5	5	5	5	5	5
Other assets	80	80	80	80	80	80	80	80	80	80
Total current assets	15,620	11,288	11,032	11,661	12,335	12,193	13,079	14,946	17,484	19,484
Non Current Assets										
Trade and other receivables	0	0	0	0	0	0	0	0	0	0
Property, infrastructure, plant and equipment	484,726	491,489	489,742	488,133	486,022	484,600	481,571	479,268	476,704	475,160
Total non-current assets	484,726	491,489	489,742	488,133	486,022	484,600	481,571	479,268	476,704	475,160
Total Assets	500,346	502,277	500,774	499,794	498,357	496,793	494,650	494,213	494,187	494,644
Liabilities										
Current Liabilities										
Trade and other payables	4,147	2,930	2,531	2,563	2,576	2,649	2,584	2,644	2,662	2,745
Trust funds and deposits	1,736	1,736	1,736	1,736	1,736	1,736	1,736	1,736	1,736	1,736
Unearned income	1,629	0	0	0	0	0	0	0	0	0
Provisions	2,680	2,680	2,680	2,680	2,680	2,680	2,680	2,680	2,680	2,680
Interest-bearing liabilities	883	1,925	2,013	2,105	2,202	2,303	1,132	836	781	726
Total current liabilities	11,076	9,271	8,960	9,084	9,194	9,368	8,133	7,897	7,859	7,888
Non Current Liabilities										
Provisions	536	536	536	536	536	536	536	536	536	536
Interest-bearing liabilities	8,499	12,102	10,089	7,984	5,782	3,480	2,348	1,512	731	5
Total non-current liabilities	9,035	12,638	10,625	8,520	6,318	4,016	2,884	2,048	1,267	541
Total liabilities	20,111	21,909	19,585	17,604	15,512	13,384	11,017	9,945	9,127	8,429
Net Assets	480,235	480,868	481,189	482,189	482,844	483,410	483,634	484,268	485,061	486,215
Equity										
Accumulated surplus	141,787	143,006	143,727	145,027	145,632	145,947	145,922	146,306	146,849	147,503
Reserves	338,448	337,862	337,462	337,162	337,212	337,462	337,712	337,962	338,212	338,712
Total equity	480,235	480,868	481,189	482,189	482,844	483,410	483,634	484,268	485,061	486,215

Capital Works

	Actual 2023-24	Forecast 2024-25	Budget 2025-26	Budget 2026-27	Budget 2027-28	Budget 2028-29	Budget 2029-30	Budget 2030-31	Budget 2031-32	Budget 2032-33
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Total capital works expenditure	16,205	17,507	9,471	9,932	9,863	11,024	9,248	10,537	10,533	11,851
<i>Funding sources represented by:</i>										
Grants	3,710	7,296	1,497	2,059	1,572	1,612	1,086	1,113	1,141	1,779
Contributions	624	40	-	-	-	-	-	-	-	-
Council cash	5,984	4,643	7,974	7,872	8,291	9,412	8,162	9,424	9,412	10,073
Borrowings	5,887	5,528	-	-	-	-	-	-	-	-
Total capital works expenditure	16,205	17,507	9,471	9,932	9,863	11,024	9,248	10,537	10,553	11,851



Hepburn

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