1.1.1 The funding ask

This business case is seeking $5.0 million ($4.5 million in present value) in funding over 3 years to implement the Hume Regional Councils Transformation Program. The grant application is submitted to Local Government Victoria as part of the Rural Council Transformation Program.

1.1.2 Background

Local councils play a vital role in the livelihood of Victoria's regional and rural communities. They serve their communities through the provision of essential services, development and maintenance of local assets and infrastructure, enforcement of local laws and engagement with their communities.

Ensuring the long-term financial and operational stability and sustainability of Victoria's rural and regional councils is crucial to protect the continued delivery of these services and to support community needs into the future.

RURAL AND REGIONAL GOVERNMENT SUSTAINABILITY

Regional and rural local government sustainability rests on councils' ability to deliver efficient, quality services to local communities, both now and into the future

As part of the 2018-2019 Victorian State Budget, $20 million was committed to the Rural Councils Transformation Program to explore and implement options to improve the long-term financial and operational sustainability for rural and regional councils. The program aims to:

1. Improve the financial sustainability of rural and regional councils by achieving economies of scale including through regional service delivery or collaborative procurement;
2. Promote more efficient and improved service delivery through collaboration and innovation;
3. Facilitate benefits for rural and regional communities, with priority given to those for rural communities; and
4. Demonstrate potential efficiencies to be gained through regional service delivery.

Following an *Expressions of Interest* phase in November 2018, the Hume Region was successful in gaining support to develop a business case to provide further justification for investment in 5 planned transformation initiatives to be implemented across 11 municipalities in the Hume Region. The business case (this document) will be submitted by 31 March 2019, and funding outcomes will be decided by LGV in June 2019.

1.1.3 Guiding principles for councils' commitment

The following guiding principles from council CEOs and councillors were identified throughout the business case process to guide the development of the Hume Region Transformation Project. These are outlined below:

- *Council staff considerations* – Councils have indicated there should be no intended loss of existing staff (aside from regular attrition) under the proposed project transformation. Future planning of staff roles may change to better suit the collaborative cross regional approaches to working arrangements being implemented as part of the project.
- *Improved financial sustainability for councils* - It is expected that individual councils will need to conduct further financial due diligence to assess impacts of up-front or on-going costs of each. It is not intended that participating councils would be subject to costs beyond their expenditure forecasts provided for the recommended solution. The project aims to provide savings rather than additional costs.
- *Flexibility in implementation* – Participating councils will need flexibility in their commitment to making transformational changes within their organisations, subject to further detail and costs of solutions being provided during the implementation stage.
- *Positive community impact* – Councils will seek to ensure all changes under the RCTP will have a positive impact on the delivery of services to local communities.
- *Equitable distribution of benefits* - Benefits are to be shared equitably amongst participating councils.
- *Avoidance of centralisation* – Enabling flexible shared services will facilitate staff who live anywhere in the region to provide services to other councils, avoiding centralisation of services towards the larger council and away from regional shires.

- *'Future proofing' the Hume Region councils* - Efficiencies will be reinvested into improved service delivery and asset maintenance, renewal and development.

1.1.4 Problems

The project is seeking to address the following problems, identified during the investment logic mapping workshop with council participants in January 2019:

- ***Problem 1: Siloed council operating systems are causing inefficient service delivery and inconsistent service quality across councils*** - Councils in the Hume Region are using different business systems and processes to meet their respective residents' needs. This is preventing effective council collaboration in service delivery resulting in an inconsistent level of services provided to residents across the region.
- ***Problem 2: Increasing cost pressure on councils is leading to unsustainable council operations*** - Increasing service delivery costs and relatively high asset maintenance costs are placing financial pressure on the Region's councils. This financial pressure is amplified by the increasing scope and complexity of council services and their reduced capacity to generate additional revenue.
- ***Problem 3: Increasing community expectations of council services are causing demand beyond current council capabilities -*** The Hume Region has experienced difficulty attracting skilled staff to the region, reducing councils' ability to keep up with increasing community expectations of council services and community engagement.

1.1.5 Recommended Solution

To address the Hume Region's identified problems and improve financial performance and sustainable capacity of councils, the following strategic responses have been identified:

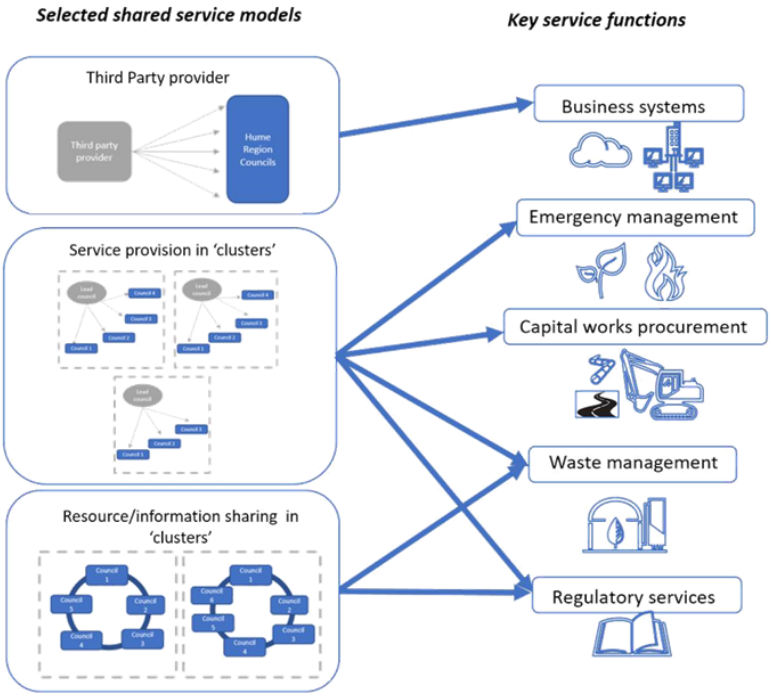
- Align business systems and processes across councils
- Enable resourcing sharing and flexible working to attract and retain highly skilled staff
- Coordinate service delivery across appropriate functions.

The alignment of business systems and processes creates the required environment to facilitate responsive resource sharing and coordination of service delivery across the region. These responses will be applied to the following functions:

- Business systems
- Capital work procurement
- Regulatory services
- Waste management
- Emergency management.

Through the application of the strategic responses, the Hume Region will benefit from the solutions identified in the Investment Logic Map: common specifications, strategic resource sharing and clear governance around multi-council activities and collaboration. The planned response is outlined in the figure below.

Figure 1: Key transformation functions and service models



Source: EY analysis, 2019

1.1.6 Benefits

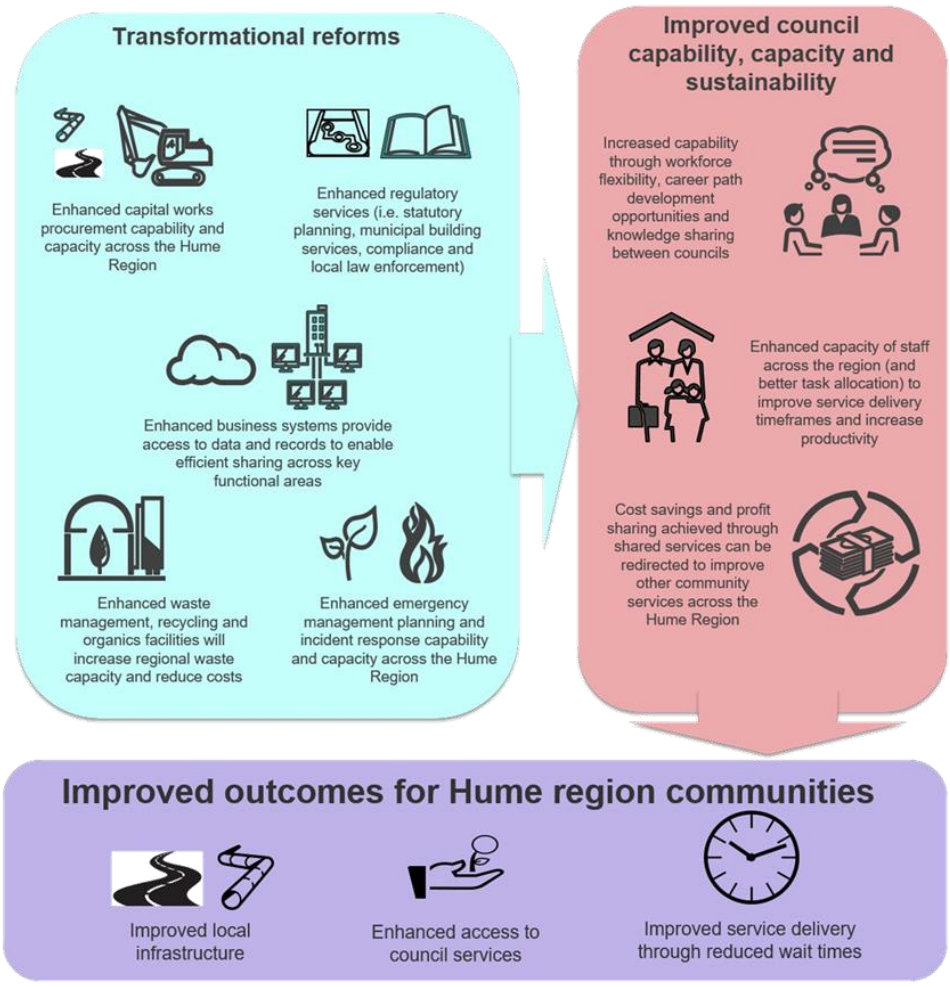
The recommended shared service solution will see resource and information sharing deliver better service to the community and enable councils to run their core functions at a better capacity.

The preferred solution will deliver benefits to the community through transformational reforms to council functions. Four major benefit categories have been identified as being critical to the success of the project, including:

- Creating greater capacity for the workforce to deliver consistently high-quality services
- Providing greater access to skilled workforce required
- Improving local community liveability
- Increasing the cost-effectiveness of delivery of services

The diagram below outlines the key benefit streams for the preferred solution. Further discussion of benefits is provided in section 4.

Figure 2: Key benefit streams for the Hume Regional Transformation program



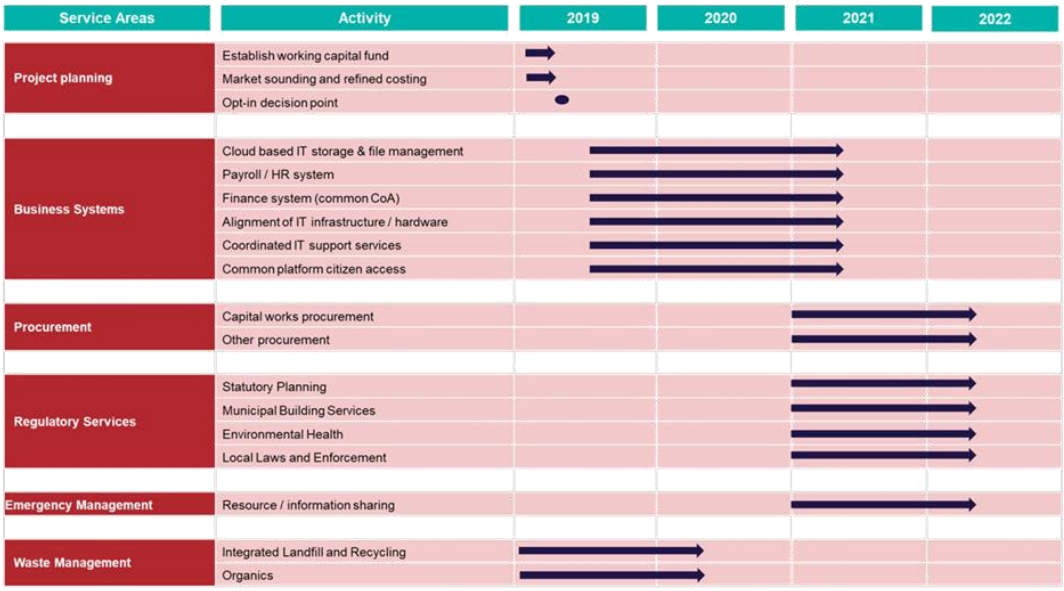
Source: EY, 2019

1.1.7 Delivery of recommended solution

The shared services program is planned to be rolled out over a four year period, from 2019 to 2022, with efficiencies analysed over a five-year period. The implementation will begin with further due diligence and market assessment to better determine the cost impacts to individual councils. This initial work allows a further decision point (to proceed or not to proceed) to be considered by each council to ensure that the solutions being implemented will be of mutual benefit and not place an undue cost on short or long-term budgets of councils.

The Business Systems category is scheduled to be introduced across councils from 2019, with other service areas commencing shared services in 2021. Waste management solutions can be implemented without delay, and the remaining categories (Procurement, Regulatory Services and Emergency Management) will all be implemented from 2021-22. All service categories are expected to be operating in full efficiency (achieving maximum cost savings) by mid-2022. Outlined below is the scheduled delivery timeline of the different service categories.

Figure 3: Schedule delivery timeline of service categories



Source: EY analysis, 2019

1.1.8 Return on Investment

Table 1 below presents the present value of expected efficiency savings, estimated at $10.9 million, and the 5-year Net Present Value (NPV) of the project, which has been estimated at $6.2 million, based on the 'Medium' efficiency scenario and using a discount rate of 4 percent.

Table 1: Net present value cash flow analysis: Medium efficiency savings, discounted @ 4%

Indicative project savings	*Present value*	*FY19*	*FY20*	*FY21*	*FY22*	*FY23*	*FY24*
Indicative project savings							
Medium efficiency savings	$10.87m	-	-	-	$2.87m	$5.10m	$5.34m
Estimated Implementation cost							
Business systems	$2.9m	$0.70m	$2.00m	$0.50m	-	-	-
Waste management	$0.2m	$0.26m					
Project Management costs	$0.5m	$0.22m	$0.22m	$0.21m			
Legal advisors	$0.19m	$0.20m					
Consultants	$0.58m	$0.60m					
Working Capital Fund	$0.10m	$0.10m					
Total implementation costs	$4.67m	$2.08m	$2.22m	$0.71m			
Indicative net financial impact (savings less costs)						-	-
Net Value		-$2.08m	-$2.22m	-$0.71m	$2.87m	$5.10m	$5.34m
Net present value (NPV)	**$6.2m**						

Source: EY analysis, 2019

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Note: these savings include potential value of efficiency savings for councils, but do not include quantitative estimates of benefits to the community, which are described qualitatively in the benefits section above.

1.1.9 Project Cases Summary Statistics

Description	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	5-year total	Ongoing
Deliverables - Implementation costs ($ 000's)								
Business Systems	1,000	1,700	500	-	-	3,200	-	-
Waste Management	260	-	-	-	-	260	-	-
Project Management	215	215	210	-	-	640	-	-
Legal advisors	100	100	-	-	-	200	-	-
Consultants	200	200	200	-	-	300	-	-
Working Capital Fund	100	-	-	-	-	100	-	-
Total implementation costs	**1,875**	**2,215**	**910**	**-**	**-**	**-**	**5,000**	**-**
Net RCTP funds sought ($ 000's)	**1,875**	**2,215**	**910**	**-**	**-**	**-**	**5,000**	**-**
Performance Measures								
Number of sealed local road requests received by council per 100 kilometres of sealed local road	22.0	24.9	23.5	24.0	23.5	23.5	n/a	n/a
Percentage of sealed local roads that are below the renewal intervention level set by council and therefore do not require renewal	96%	96%	96%	96%	96%	97%	n/a	n/a
Direct cost to council of sealed local road resealing per square metre resealed	$3.18	$6.36	$6.34	$6.29	$6.25	$6.21	n/a	n/a
Community satisfaction rating out of 100 with how council has performed on the condition of sealed local roads	50	49	50	50	51	51	n/a	n/a
Percentage of VicSmart planning application decisions made within 10 days and regular planning application decisions made within 60 days	78%	-1%	+2%	0	0	+1%	n/a	n/a
Direct cost to council of the statutory planning service per planning application received	$2,120	78%	77%	79%	79%	79%	n/a	n/a
Direct cost to council of the kerbside garbage bin collection service per kerbside garbage collection bin	$104	$2,083	$2,076	$2,058	$2,046	$2,032	n/a	n/a
Amount of council expenditure for each property	$3,200						n/a	n/a
Expenses divided by the population of the municipality	$2,027	$98	$97	$97	$96	$95	n/a	n/a
Community satisfaction rating out 100 with how council has performed in making decisions in the interests of the community	50	+2	-1	+1	0	+1	n/a	n/a
Frontline staff	-	135.9	139.3	142.8	146.4	150.0	n/a	0.0
Back office staff	-	245.0	243.8	242.6	241.3	240.1	n/a	0.0
Contractors	-	3.0	3.0	3.0	0.0	0.0	n/a	0.0
Total staff	**-**	**383.9**	**386.1**	**388.3**	**387.7**	**390.1**	**n/a**	**0.0**

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2. Problem identification

2.1 Background

Local councils play a vital role in the livelihood of regional and rural communities. They serve their communities through the provision of essential services; development and maintenance of local assets and infrastructure; enforcement of local laws; and engagement with their communities. Ensuring the long-term financial and operational stability and sustainability of Victoria's rural and regional councils is crucial to ensuring the continued delivery of these services and support of community needs into the future.

RURAL AND REGIONAL GOVERNMENT SUSTAINABILITY

Local governments having the capacity to meet the agreed service and infrastructure needs of their community and absorb foreseeable changes and unexpected shocks into the future[1]

The two key drivers affecting councils' sustainability are financial performance and sustainable capacity to meet future demand. These are distinctly different aspects of sustainability, with each requiring different means of assessment. In line with rural and regional councils across the state, local governments in the Hume Region have reported revenue constraints, operational capability and capacity issues and relatively high service delivery and asset maintenance costs.

Through assessment of financial performance of Victorian councils, it is evident that the Hume Region's local councils have a strong asset to liability ratios, with the average assets as a percentage of current liabilities being 358% (compared to 317% for Victoria as a state-wide average).[2] While financial metrics provide a sound indication of the financial performance of councils, they are not the principal indicator of a council's ability to maintain financial and operational sustainability to meet future demand.

Two of the major factors affecting the ongoing sustainability of Hume Region councils are:

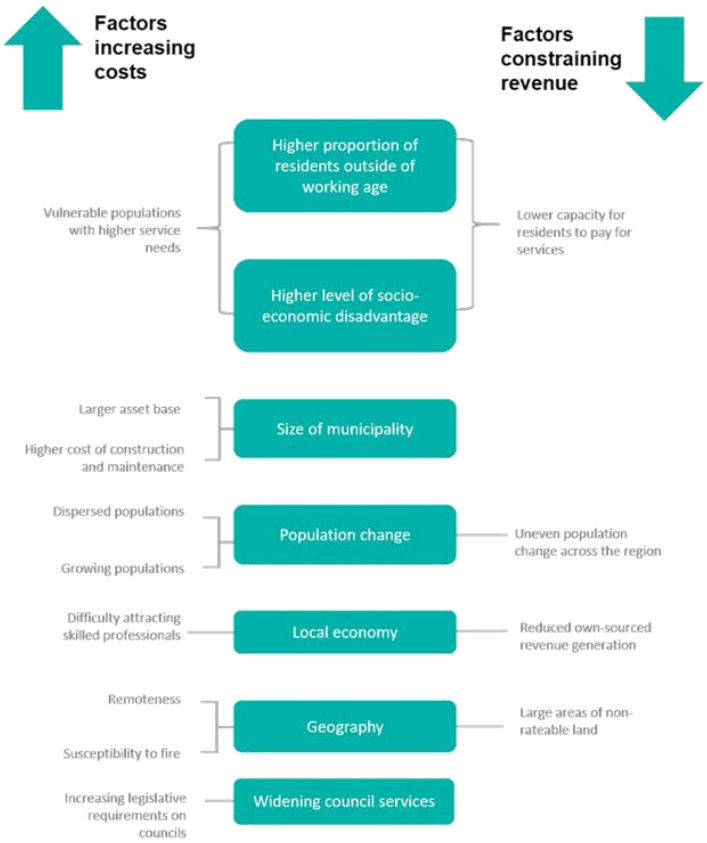
- Increased service costs; and
- Pressure on revenue sources.

The Hume Region is experiencing an interplay of opposing forces: increasing costs and declining available revenue. The factors leading to increasing costs include large asset bases, dispersed populations, government grants falling short of real cost increases and increasingly vulnerable populations with higher service demands. Council revenue in real terms is at risk of declining due to diminishing and ageing populations, the unpredictability of grant funding and disadvantaged residents with lower capacity to pay.

[1] Department of Environment, Land, Water and Planning 2012, Local Government Performance Reporting Framework

[2] Department of Environment, Land, Water and Planning 2018, Know Your Council information

Figure 4: Factors increasing costs and constraining revenue for the Hume Region



Source: EY Analysis of Parliament of Victoria Environmental, Natural Resources and Regional Development Committee graphic, 2018

Over the past decade, national and state public inquiries have investigated the operational and financial pressures experienced by local government municipalities in Australia. These inquiries reported that local councils across the country are experiencing difficulties meeting the service needs of their communities into the future, with financial pressures and operational difficulties most acute in small regional, rural and remote local authorities.[3]

Current population trends show that asset/liability ratios are likely to decline across Victoria, with the expectation of increased service levels and a constrained capacity to draw increased revenues from local communities. This constraint will test the limits of councils' ability to deliver against their service obligations.

2.1.1 Victorian Government policies and initiatives

Regional council sustainability has been acknowledged as a growing issue by the Victorian Government, with policies and initiatives in place to increase support and improve outcomes for local councils, businesses and communities in rural and regional areas. Examples of recent initiatives are outline in Table 2 below.

[3] S Valle de Souza and B Dollery 2011, Shared Services in Australian Local Government: The Brighton Common Service Model

Table 2: State Government policies and initiatives with a focus on Regional Victoria

State Government initiative	Description
The Victorian Government's Regional Statements	The Regional Statement (2016) shows a clear commitment to work with regional communities to overcome challenges and realise growth. The previous year's statement, Victoria's Regional Statement (2015) outlines the State's plan for greater engagement in regional areas leading to the establishment of nine Regional Partnerships (2016) to better understand the challenges and opportunities faced by their region
Victoria's 30-year Infrastructure Strategy (2016)	Victoria's 30-year Infrastructure Strategy, released in 2016 by Infrastructure Victoria, makes recommendations to improve the supply, operation, maintenance and access to infrastructure in regional and rural Victoria
Regional Jobs and Infrastructure Fund	A $500m Victorian Government grant package that feeds into the following programs: o The Regional Infrastructure Fund ($250 million) o The Regional Jobs Fund ($200 million) o Stronger Regional Communities Plan ($50 million)
Connecting Regional Communities Program (2017)	After all nine Regional Partnerships identified digital inclusion and improvements as crucial for social and economic development, the $45 million Connecting Regional Communities Program was launched (2017) with the aim to bring regional Victoria improved broadband, mobile coverage and Wi-Fi hubs.
FAST program (2016)	LGV established the FAST program to improve the financial sustainability of councils. The $3.2 million program over four years is targeted at three streams: 1. Expert financial support to individual rural councils 2. Grants to groups of rural and regional councils to support the development of shared services, procurement and service improvements 3. Sector-wide better practice guidance on planning and financial management, including guides and templates for preparing council plans, strategic recourse plans, and revenue and rating strategies.
Rural and Regional Councils Sustainability Reform Program (2017)	A $1 million commitment from the 2017-2018 Victorian State Budget provided for the establishment of the Rural and Regional Councils Sustainability Reform Program. The program highlighted the difficulties and barriers faced by rural and regional to the achievement of ongoing sustainability, including: • Financial pressures and revenue constraints, • Higher infrastructure and service delivery costs per unit than metropolitan municipalities, • Capability and operational capacity issues, • Ageing populations, and • Lower level and quality of digital connectivity in regional and rural areas. The report noted that rural and regional councils are likely to face the following issues: 1. Reduced ability to invest for the long term 2. Increased dependency of shire councils on the government for financial support Continued difficulty attracting and retaining skilled, professional staff equipped for specialist roles.

State Government initiative	Description
Fair Go Rates System (2016)	The State Government introduced the Fair Go Rates System on the 1 July 2016 which caps the amount councils can raise the general rate by in any given year. For the 2019-20 financial year, council rate rises have been capped at 2.50%, with councils having the ability to apply for a higher cap if they can demonstrate critical need.

2.1.2 Rural Councils Transformation Program

As part of the broader reforms, the 2018-2019 Victorian State Budget committed $20 million to the Rural Councils Transformation Program (RCTP) for the 2018-19 financial year to explore and implement options to improve the long-term financial and operational sustainability for rural and regional councils. The program aims to:

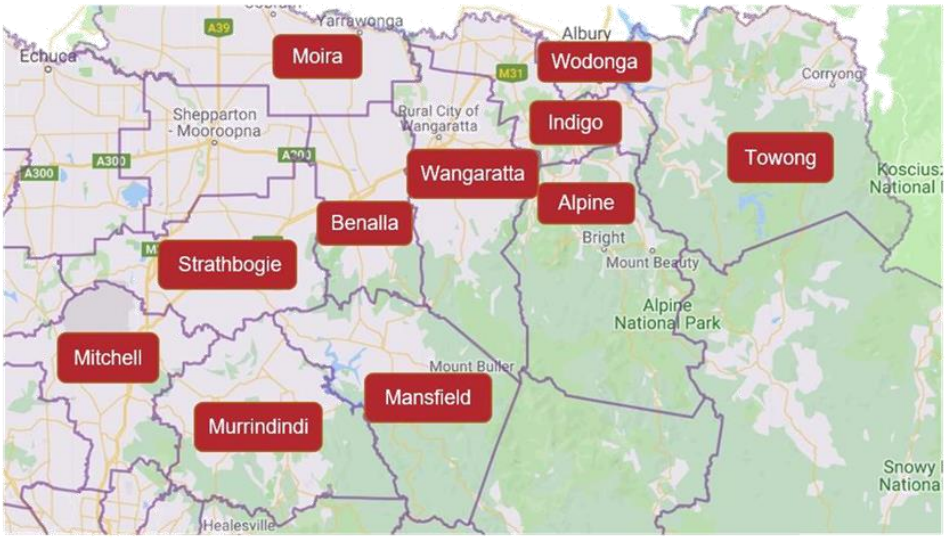
1. Improve the financial sustainability of rural and regional councils by achieving economies of scale including through regional service delivery or collaborative procurement;
2. Promote more efficient and improved service delivery through collaboration and innovation;
3. Facilitate benefits for rural and regional communities, with priority given to those for rural communities; and
4. Demonstrate potential efficiencies to be gained through regional service delivery.

The program is designed to fund projects that target the provision of shared services between three or more rural or regional councils. Final project funding allocation decisions are to be made in May of 2019.

2.1.3 The Hume Region Expression of Interest

The Hume Region, comprising 11 municipalities, submitted an *Expression of Interest* highlighting the evidence of need and expected benefits to be gained through the program (RCTP). The region consists of predominately small shires, with some large shires and regional centres (as categorised by the Victorian Auditor General's Office), as outlined below in Figure 5 below.

Figure 5: Hume Region Municipalities



Small Shires	Large Shires	Regional Centres
• Alpine Shire • Towong Shire • Mansfield Shire • Indigo Shire • Benalla Rural City • Murrindindi Shire • Strathbogie Shire	• Mitchell Shire • Moira Shire	• Wodonga City • Wangaratta Rural City

Source: EY analysis, Vic Councils map

Throughout the Hume Region, local governments are often the main employer, and council policies and strategies help to attract businesses to the area to keep people living and working locally. Over the past decade, the region's councils have been under pressure to drive efficiencies and economies, often with constrained income levels and with higher expectations from the community about the services and levels of service they deliver, enable or advocate for.

By way of an integrated service response through strengthened working partnerships, the participating Hume Region councils are committed to fundamental strategic and operational transformation to support the ongoing viability and sustainability of the region's councils and the provision of responsive, quality services to meet the changing needs of the community.

2.2 Definition and evidence of the problem

Three core problems have been identified as part of the Business Case:

1. *Inefficiency and inconsistency* – Siloed council operating systems are causing inefficient service delivery and inconsistent service quality across councils
2. *Increasing operational costs* – Increasing cost pressure on councils is leading to unsustainable council operations
3. *Effectiveness/ capability issues* – Increasing community expectations of council services is causing demand beyond current council capabilities

These problems are limiting the ability of the Hume Region councils to effectively meet the service needs of their communities now, and into the future.

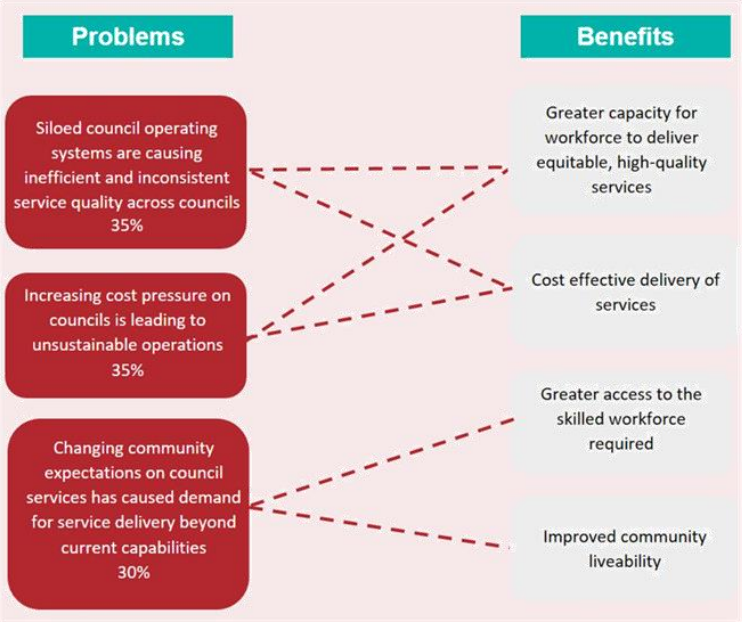
This Section of the Business Case describes these problems, their causes and effects.

Identifying and examining the problems

To improve decision-making in relation to complex major projects, Victoria's Department of Treasury and Finance (DTF) developed the Investment Management Standard. Central to the Standard is the Investment Logic Map (ILM) which provides the basis for exploring in detail the reasons behind an investment. The ILM for the Hume Regional Transformation Project was co-developed by council participants from the Hume Region, with support from EY.

The ILM identifies three existing problems that this business case seeks to address, and weights these according to the level of importance. The ILM also outlines potential strategic solutions and associated benefits that would result from addressing the reported problems. The potential strategic solutions are discussed in Section 3.

Figure 6: Investment Logic Map for Rural Council Transformation Program 2019-20



2.2.1 Problem 1: Siloed council operating systems are causing inefficient service delivery and inconsistent service quality across councils

Councils in the Hume Region are using different process, systems and functions to try and meet the needs of residents spread over a large distance. This is preventing council collaboration in service delivery resulting in an inconsistent level of services provided to residents across the region.

Table 3: Summary of key causes and impacts for Problem

Cause	What does this mean?
Siloed council operating systems are causing inefficient service delivery and inconsistent service quality across councils, specifically: • Use of different business systems and processes across councils • Difficulties delivering services over a large region	• Duplication of business systems and associated costs • Variation in reporting and forecasting of information across the region and lack of information sharing • Inconsistent experiences from council services across the region

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• Diluted negotiating power in procurement processes	• Competition for skilled staff • Unsustainable spending on procurement

2.2.1.1 Causes

Use of different business systems and processes across councils

Councils in the Hume Region are currently using different business systems and processes. In many cases, the same (or similar) tasks are being completed in varying digital systems. For example, there are 12 different software programs used for building services across seven of the councils in the region (see Table 4).

Table 4: Building Services Systems

System	Alpine	Benalla	Indigo	Moira	Towong	Wangaratta	Wodonga
Microsoft Office		x				x	x
Open Office	x	x	x	x	x	x	x
Trim		x	x		x		x
Map Info		x					x
Synergy Soft		x					
RM8				x			
Tech 1						x	x
Authority	x		x	x	x		x
Intramaps	x		x		x	x	x
Spark	x				x		
Trapeze	x				x		
Shadow Draw	x				x		x

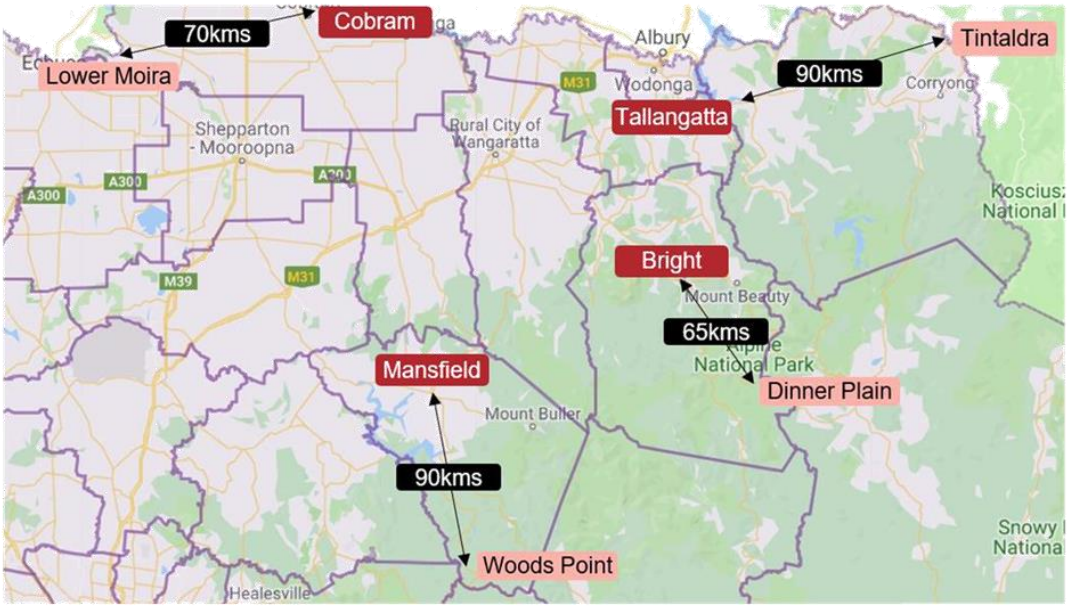
Source: Information provided by Hume Region councils

Difficulties delivering services over a large region

The 11 councils in the Hume Region cover a combined area of over 34,000km^2 covering different landscapes including urban, peri-urban and rural. Much of the eastern part of the region is covered by mountainous terrain, which is an attractive asset for tourism but a barrier for service delivery.

With the region covering such a vast area, the distance between major towns is much larger than metropolitan councils. This provides difficulties for both councils and residents. Not only is the area for service delivery far greater (a problem for councils), but residents may have to travel greater distances to access a service. For example, Indigo Shire has 5 (small) outdoor pools for a population of 16,000, while Wodonga has one (larger) outdoor pool (and one indoor) for 40,000 residents. In Towong Shire, residents living in Tintaldra are approximately 90 kilometres from Tallangatta, which is considered the major township in the municipality as council headquarters are located here. This scenario is not uncommon for residents living in the Hume Region, as highlighted in Figure 7.

Figure 7: Distance between towns in municipalities



Diluted negotiating power and lack of expertise in procurement processes

Traditionally, local government has had a low level of procurement capability compared to Commonwealth or State governments or even private businesses. This is even more pertinent in rural and regional councils, who have less expertise and negotiating power in the procurement of goods and services.[4]

In many cases, councils undertake procurement processes on an individual basis. When councils act on their own, they have less leverage in procurement agreements. Findings from local government procurement processes include:

- Local government has acknowledged that their level of procurement capability is low
- The capability is even lower for regional councils compared to those in metropolitan councils
- Regional councils have difficulty attracting experienced procurement staff
- There is limited sharing of procurement strategies between councils
- Coordinated management of a cluster of councils could lead to lower prices and superior service levels for those councils.[5]

2.2.1.2 Effects

Duplication of business systems and associated costs

[4] Local Government Victoria 2008, Local Government Procurement Strategy

[5] Ibid.

Councils across the Hume Region use different business systems, templates and processes for various service areas. Not only does this make comparisons of information across the region difficult, but it means that councils are all dependent on different external providers (meaning increased service costs for installation or service assistance). Software licensing costs account for approximately 50% of overall IT expenditure for councils in the region.[6] Approximately 80% of this cost is charged on a per-user basis[7], resulting in multiple accounts and duplication of unnecessary expenses. If common systems were used across the region, it is likely that licensing and user costs could be shared across councils to achieve some savings. However, the majority of the savings would derive from the resource and information sharing that common specifications facilitate.

Variation in reporting and forecasting of information across the region and lack of information sharing

While local councils need to duplicate certain services and facilities across numerous towns in order to ensure that they are accessible to residents, multiple strategies, compliance frameworks, back-office functions and processes create unnecessary inefficiencies. Without a common platform to develop initiatives, forming a collaborative arrangement to allow pooling of resourcing is largely not possible.

The Hume Region's current reliance on siloed operations and technology makes interactions between the Region's councils complex, even though councils routinely deliver similar services. The current environment leads to:

- Processes that are not accessible by other Hume Region councils
- A culture of 'isolation' and 'protecting turf'
- Closed technology infrastructure that fails to enable common service delivery between councils.

In addition, the use of varying reporting tools, systems and processes make analysis and benchmarking across the region's municipalities very difficult. LGV data such as 'Know Your Council' information provides common metrics for a set of common indicators, but further analysis that interrogates business performance and facilitates information sharing is stymied.

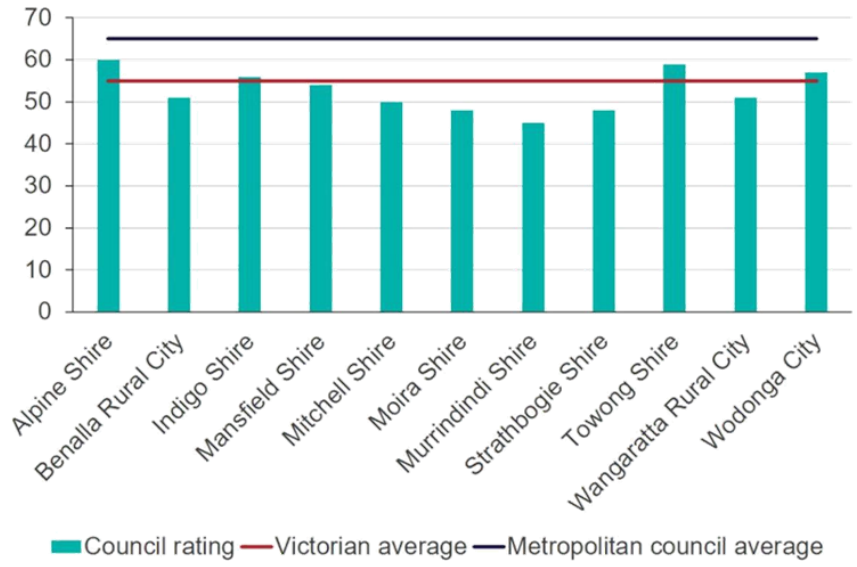
Inconsistent Community experience

There is a discrepancy across the Hume Region in overall community satisfaction with councils, which partly reflects the differing nature of each council's operations, processes and functions. As outlined in Figure 8, community satisfaction with council decision making varied from 45 (in Murrindindi Shire) to 60 (in Alpine Shire) in 2017-18. The majority of councils in the region have a rating below the Victorian average (55), and no council is achieving the average rating of Metropolitan residents (65).

[6] Based on financial information provided by councils

[7] Ibid.

Figure 8: Community Satisfaction with councils (out of 100)



Source: Know your Council data, 2017-18

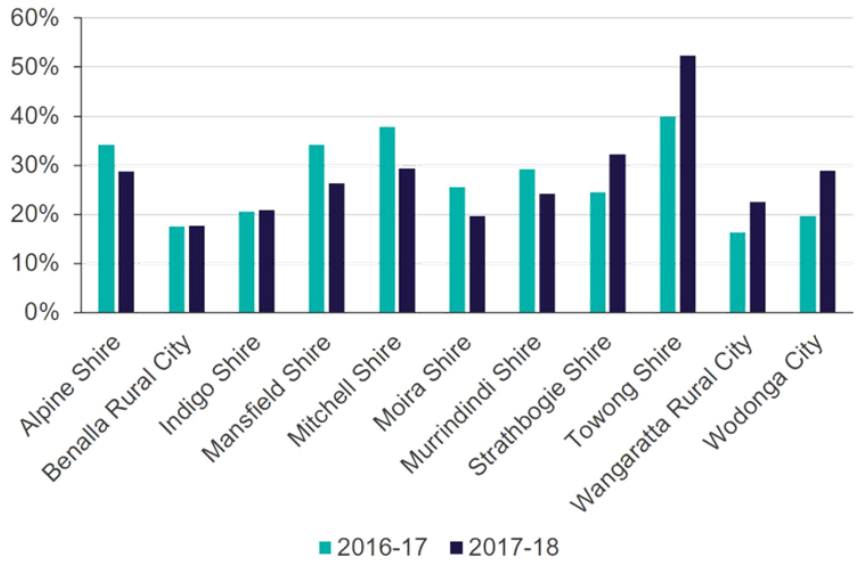
Competition for skilled staff

Rural councils have generally experienced greater difficulty in attracting skilled staff than metropolitan councils.[8] With councils in the Hume Region generally working alone to deliver services, and a smaller pool of specialist staff available, they are competing against one another for resources. This can drive up the market price of service providers. This is particularly evident for building surveyors, with limited supply in the area causing councils to pay higher fees for the required expertise.[9] When councils cannot access the skilled staff required for delivery, the overall standard of service in that municipality can be affected.

Unsustainable spending on procurement

Reduced negotiating power for individual councils could be leading to unsustainable expenditure on procurement. As illustrated in Figure 9, the ratio of procurement expenditure as a total of council expenditure increased in six municipalities in the Hume Region in 2017-18. This may suggest that councils in the region are required to pay a higher price for procurement than other councils.

Figure 9: Procurement expenditure as a percentage of total council expenditure



Source: Council financial information and annual reports

Problem 2: Increasing cost pressure on councils is leading to unsustainable council operations

Increasing service delivery costs and relatively high asset maintenance costs are placing financial pressure on Hume Region's councils. This financial pressure is amplified by the increasing scope and complexity of council services and their reduced capacity to generate additional revenue.

[8] Parliament of Victoria: Environment, Natural Resources and Regional Development Committee 2018, Inquiry into the sustainability and operational challenges of Victoria's rural and regional councils

[9] Based on financial information provided by councils

2.2.1.3 Causes

Hume Region's expenditure is focused on relatively high asset maintenance and renewal costs

Hume Region council's expenditure is not able to cover all asset renewal required, leaving very limited funds for the development of new assets and services. The fact the region is spending less than what is required to cover asset renewal requirements is illustrated in the 'asset renewal gap' – which refers to the difference between expenditure and the amount required to maintain infrastructure to an acceptable standard. The 'asset renewal gap' was a council sustainability challenge acknowledged in the Inquiry into the sustainability and operational challenges of Victoria's rural and regional councils.[10]

In Wangaratta Rural City's submission into the Inquiry, the municipality noted that renewal expenditure in their 2016/17 budget was curtailed below that required by their modelling. By 2020,
the renewal gap would have been $1.8m and growing had these trends and processes continued.[11]

Figure 10 below outlines the actual and forecast asset renewal ratio for the Hume Region. This ratio is the potential renewal gap between planned expenditure on asset renewal compared to the forecast cost of depreciation. It is an indicator of whether council spending on asset renewal is keeping pace with the rate of consumption of those assets, and a ratio of 100% or greater is desirable. This data shows nine of the 11 councils have lower levels of expenditure on renewing existing assets or replacing existing assets to their original capability than the amount spent of depreciation on all assets. This sees their asset renewal ratio fall below the desired level of 1:1 renewal spend against depreciation.

Figure 10: Actual and forecast asset renewal ratio

Source: Know your Council Data, 2018

Having large asset bases relative to population size results in numerous challenges for Hume Region councils, with the primary issue being that the burden of asset renewal that does not leave capacity or capital for development of new assets which reflect contemporary needs. For many councils, this challenge is becoming greater, with asset portfolios growing to meet modern community needs. Substantial costs are associated with monitoring, assessing and maintaining council-owned infrastructure. A larger, and often ageing, asset base places a disproportionate asset management burden on regional councils in comparison to metropolitan councils. This results in larger service delivery cost per capita.

[10] Parliament of Victoria, Environment, Natural Resources and Regional Development Committee 2018, Inquiry into the sustainability and operational challenges of Victoria's rural and regional councils

[11] Wangaratta Rural City Council, Submission 7, p.5