



PYRENEES SHIRE COUNCIL

Decision on application for a higher cap 2017-18 and
2018-19

May 2017

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1. OUR DECISION

This is the second year of the Fair Go Rates System (FGRS) and councils can apply for higher caps for up to four years.

Pyrenees Shire Council (Pyrenees) applied for a higher cap of 3.5 per cent in each of 2017-18 and 2018-19, which is 1.5 per cent higher than the 2 per cent rate cap set by the Minister for Local Government for 2017-18.

The Essential Services Commission (the Commission) assessed Pyrenees's application, and decided to approve its proposed higher caps of 3.5 per cent for 2017-18 and 2018-19.

The Commission is satisfied that the higher caps are appropriate for 2017-18 and 2018-19 because Pyrenees's overall finances are constrained and it has demonstrated a long term funding need to renew assets, particularly gravel roads.

However, in light of the ongoing financial challenges that Pyrenees faces in maintaining service levels and meeting community expectations, the Commission has identified a range of necessary improvements to Pyrenees's approaches to asset management, service reviews and community engagement. These are detailed in section 5.

2. BACKGROUND

Under the FGRS, established in the *Local Government Act 1989* (the Act), councils must limit their average annual rate increases to a rate cap determined by the Minister for Local Government.¹ For the 2017-18 rating year, the cap has been set at 2 per cent.

Councils wishing to increase their average annual rates by more than 2 per cent in 2017-18 must first obtain approval from the Commission. We are responsible for approving, rejecting or approving in part the higher cap sought by a council. From this

¹ Sections 185B and 185C of the *Local Government Act 1989* define rates for the purposes of the cap.

year, councils can apply for up to four years of higher caps. We may approve caps for part or all of the period for which they are sought.

This paper outlines our decision in response to an application by Pyrenees for a higher cap of 3.5 per cent (which includes the Minister's rate cap of 2 per cent) to apply in 2017-18 and 2018-19.

In assessing applications, we are required to have regard to the six legislative matters² and the statutory objectives³ of the FGRS (box 1).

The six legislative matters are:

- the proposed higher cap for each specified financial year
- the reason 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.

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.

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.

3. WHAT DID THE COUNCIL APPLY FOR AND WHY?

Pyrenees sought a 3.5 per cent rate cap for each of 2017-18 (inclusive of the Minister's rate cap of 2 per cent) and 2018-19. Pyrenees has estimated that this would result in additional revenue of \$116 000 in 2017-18. The application assumes that the Minister's cap will remain at 2 per cent in 2018-19. A rate cap increase of 1.5 per cent higher than this in the second year represents additional revenue of \$120 000 for 2018-19. The overall effect of the higher caps in these two years is estimated as \$356 000 by 2018-19.⁴

The council resolved to quarantine the additional funds from the higher rate caps in these two years to renew road infrastructure with an emphasis on unsealed pavements (gravel roads) over the next three years. Pyrenees's need for additional funding for gravel roads is identified in their gravel roads strategy. This strategy forecasts a total shortfall of \$404 525 between the average renewal demand and the projected budget required to meet community expectations in the years from 2016-17 to 2019-20.⁵ Additional funds generated by the higher caps for each of 2017-18 and 2018-19 will fund this shortfall in 2017-18, 2018-19 and 2019-20 (refer to Figure 1).

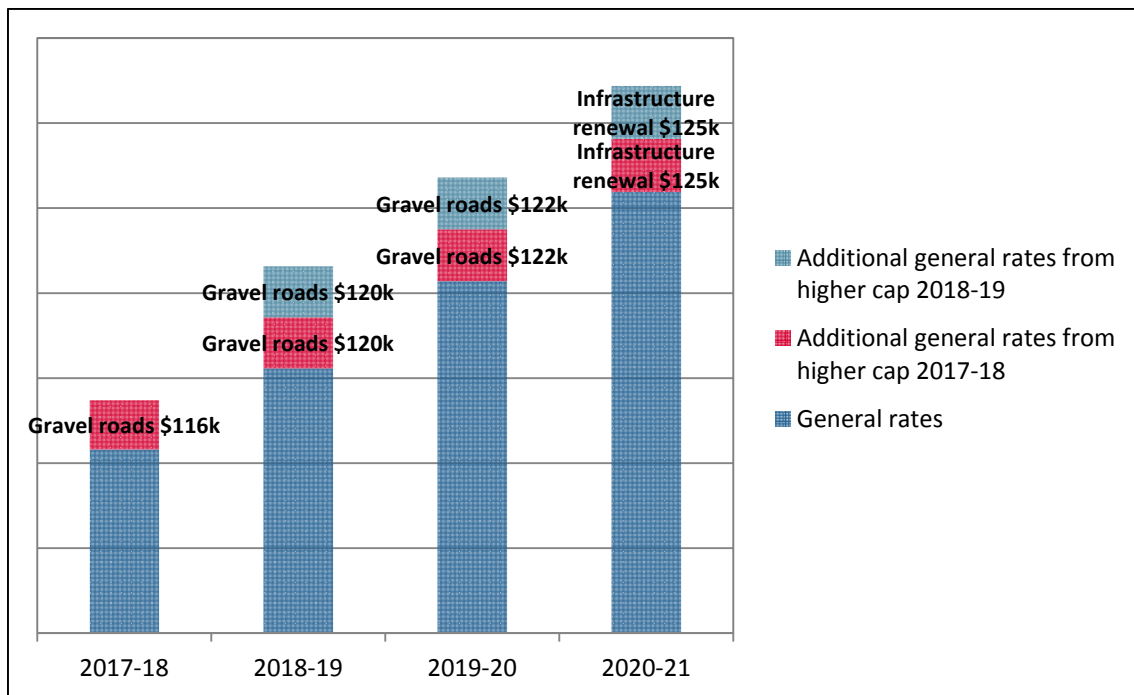
Additional funds generated by the higher caps in the out years (i.e. beyond the third year) will be quarantined to road infrastructure indefinitely in order to reduce the road infrastructure renewal gap. According to Pyrenees's Council Plan 2013-2017, the council has a road infrastructure renewal gap in the order of \$1.5 million annually.⁶ The trends in the council's asset renewal gap demonstrate that council assets are deteriorating faster than they are being renewed (refer Table 1).

⁴ This comprises \$116 000 in 2017-18 and \$240 000 (\$120 000 from the 3.5 per cent escalation of the higher base in 2017-18 plus the \$120 000 from the additional higher rate cap for 2018-19) in 2018-19.

⁵ Pyrenees Shire Council 2017, *Higher cap application, Appendix H – Gravel Roads Strategy*, p.8, March.

⁶ Pyrenees Shire Council 2017, *Higher cap application, Appendix P – Council Plan 2013-17*, p. 6, March.

FIGURE 1 HOW THE FUNDS FROM THE HIGHER CAPS WILL BE SPENT



Data sources: Pyrenees Shire Council 2017, *Higher cap application, Appendix H –Gravel Roads Strategy*, March; Pyrenees Shire Council 2017, *Higher cap application, Budget Baseline Information Template*, March.

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

4. HOW DID WE REACH OUR DECISION?

Table 1 summarises the Commission’s observations on how Pyrenees has addressed each of the legislative matters in its 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 by the council in its application. ^a
185E(3)(b) — reason(s) for which the council seeks the higher cap	<p>The Commission is satisfied that Pyrenees’s application demonstrates a need to increase funding for infrastructure renewal.</p> <p>The council’s application noted that Pyrenees has a large road infrastructure network including 723 kilometres of sealed roads and 1 292 kilometres of unsealed roads (gravel roads).^b A 2015 assessment undertaken by Moloney Asset Management Systems (MAMS) supports Pyrenees’s need to increase its asset renewal expenditure in order to prevent more costly reconstruction expenses in the future.^c According to the MAMS report, ‘The total present renewal shortfall or backlog in over intervention assets for the whole roads group is estimated at \$4,192,637 representing 2.38% of the total road asset valuation. This is considered to be a reasonable figure by industry standards but Council should focus on not allowing the backlog to grow any further, or reducing the figure slowly with time’.^d The council notes that, the gap between the renewal demand over the next twenty years is significantly higher than the council’s current renewal budget and that ‘if Council continues to invest in Road Infrastructure at its current levels, by 2035 9.37% of Road Infrastructure will be outside of the Council’s intervention levels’.^{e,f,g}</p> <p>Whilst the MAMS report found that gravel roads (referred to in the MAMS report as ‘unsealed road pavement assets’) ‘were in excellent overall condition,^d the council advises that the condition of gravel roads is consistently an issue of community dissatisfaction due to the difference between what is considered as technically sound and what the community expect (which would involve additional grading, additional resheeting, increased drainage, increased slashing and tree maintenance and the use of better quality materials).^c This report was also referenced in Pyrenees’s application for a higher cap in 2016. Council notes that these asset assessments occur every three years with the next one scheduled for 2018.</p> <p>Pyrenees has taken a reasonable approach in applying for a higher cap for two years considering the number of uncertain factors facing the council in the next two years. These include uncertainty around state and Commonwealth funding, and the council’s next asset assessment in 2018.^h</p>

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TABLE 1 CONTINUED

Legislative matter	Summary
185E(3)(b) (continued)	<p>During 2016-17 the council developed a gravel roads strategy in consultation with its community.ⁱ Council intends to fund this strategy with the additional funds received through the higher cap. This strategy, the council notes, attempts to respond to both community expectations and the MAMS report. It proposes an increase in expenditure on gravel road resheeting using high quality materials. The additional funds are needed because the cost of achieving the standard of resheeting that the council would like to provide through the implementation of this strategy would result in a total of \$404 524 or an average funding shortfall of \$101 131 per year in the years from 2016-17 to 2019-20 compared with the presently budgeted long term financial plan.^j</p> <p>Pyrenees completed our budget baseline information template, which indicated that the only difference between the ‘with higher cap’ and ‘without higher cap’ scenarios would be higher asset renewal expenditure with a higher cap. This is consistent with figures contained in Pyrenees’s recent draft 2017-18 annual budget and long term financial plan (LTFP) 2017-18 to 2026-27 (both showing ‘with’ and ‘without’ higher cap scenarios).^k However, Pyrenees also indicated that in the event that the proposed higher caps were not approved, Pyrenees will reconsider whether to reduce capital spending or reduce service provision.^l</p>
185E(3)(c) — how the views of ratepayers and the community have been taken into account in proposing the higher cap	<p>The Commission is generally satisfied that Pyrenees’s application demonstrates that council has taken the views of ratepayers and the community into account in proposing the higher caps.</p> <p>Pyrenees’s application describes two types of engagement it conducted in support of its higher rate cap application. They were the annual budget process and the consultation around the development of the gravel roads strategy.</p> <p>The annual budget process included two community workshops in Avoca and Beaufort which attracted 12 people to each session. These workshops included an overview of the council’s financial position and long term financial plan, the proposed budget, and key issues. Feedback from these sessions centred around new initiatives and suggestions for other initiatives. In Avoca one participant raised concerns regarding higher than inflation rate rises and the pressure they place on the community.⁹ It does not appear, from the application, that discussing the key budgetary trade-offs and community feedback about these trade-offs was included in these sessions.</p>

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TABLE 1 CONTINUED

Legislative matter	Summary
185E(3)(c) (continued)	<p>Council states that the condition of unsealed roads in its municipality is consistently an issue of community dissatisfaction. Council cites results of the 2016 Community Satisfaction Survey (CSS) in support of this.^m Results of the CSS indicated that unsealed roads were rated second highest in importance but lowest in performance. Council undertook an engagement program around the development of a gravel roads strategy in August 2016.^{n,o,p,q} The application describes the methodology, content and results of the engagement program. The council held 5 consultation sessions with a total of 66 participants. Participants were asked 5 questions including whether they would be prepared to pay additional rates to improve the condition of gravel roads in the shire. An online survey asked the same questions. However, it is not evident that trade-offs between gravel roads and other services were fully considered or understood in the engagement program. While the majority of participants (77 per cent) said they were dissatisfied with the current levels of service associated with gravel roads, the majority of participants also said they were not willing to pay additional rates (74 per cent).^r The council has ultimately formed the view that it is its responsibility to seek a higher cap in order to balance lower rates with the need to invest in community assets for the long term.</p> <p>The council has undertaken engagement activities appropriate to the development of the gravel roads strategy that has informed the application at hand. However, there appears to be little evidence in this application, aside from the Community Satisfaction Survey results, that if the council were to achieve more funding through a higher rate increase, then gravel roads would be preferred by the community compared with other services. We consider that council should continue to improve its community engagement to encompass the broader issues around rate rises compared with service levels in order to get feedback on what the community believes is fair and acceptable. Pyrenees's engagement program would be strengthened by being embedded in a framework which addresses the engagement objectives, engagement program, council requirements and the information sharing process that was undertaken. This approach, together with a stated council policy on engagement, would then help to demonstrate that engagement is part of the council's planning and decision making continuum and that it addresses differing views. The Commission notes that Pyrenees acknowledges it is still in the process of improving and updating its community engagement policy.^h</p>

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TABLE 1 CONTINUED

Legislative matter	Summary
185E(3)(d) — how the higher cap is an efficient use of Council resources and represents value for money	<p>The Commission is satisfied that Pyrenees’s application demonstrates it is continuing to achieve the efficient use of council resources and value for money through a range of means. These have included an ongoing program of service reviews and utilisation of shared services.</p> <p>Council notes that it has undertaken eleven service reviews in the last three years and is currently undertaking a series of further service reviews to identify opportunities for savings and efficiencies in the delivery of its services.^{h,s} Outcomes of past reviews have included outsourcing service delivery to contractors, revising internal processes, generation of savings through process improvements and reduction in service provision with the redirection of savings elsewhere.^{h,t}</p> <p>Pyrenees has indicated that its current service review program was developed on a range of factors including: the risk register, statutory responsibility, business continuity, continuous improvement opportunity, audit committee priorities and opportunity (resignation or retirement).^h Whilst the forward looking service review program is yet to commence, its development demonstrates that council is taking a strategic approach in reviewing its services.</p> <p>Since last year’s higher cap application, the council has continued to conduct service reviews. Of note is the review of community resource centres and tourism services.^u This review was conducted in the 2016-17 financial year and resulted in the reduction of the operating hours of the Avoca and Beaufort Resource Centres from 56 hours to 41 hours per week delivering an estimated annual saving of \$65 303.^u</p> <p>Council continues to be a member of the Central Highlands Regional Procurement Network which was highlighted in last year’s decision and which the council says is an example of the way it has demonstrated improved efficiencies through collaborative procurement processes.^{a,v}</p>

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TABLE 1 CONTINUED

Legislative matter	Summary
<p>185E(3)(e) (continued)— whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate</p>	<p>The Commission is satisfied that Pyrenees’s application demonstrates consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate.</p> <p>In exploring trade-offs and alternative funding options, the council has explored increases in fees and charges, or reductions in operating expenditure, capital spending or service provision internally (rather than in consultation with their community).[†] Council concluded that there is little scope to increase fees and charges, with most being determined by legislation or commercial competition.</p> <p>Given this, the council notes that the only way of achieving the additional funds a higher cap would provide would be through service level reductions.[‡] Given that the levels of isolation and disadvantage experienced in the shire (Pyrenees is in the bottom 10 per cent of the Victorian Socio-Economic Index for Areas (SEIFA) for Socio-Economic Disadvantage) the council feels this would be inappropriate. ^{a,‡,w} Council notes that if unsuccessful in its application it may need to consider reducing capital spending or reducing service provision.[‡]</p> <p>In 2016, the council became debt-free and adopted a treasury management policy which outlines the council’s approach to debt.^{‡,x} Council does not consider borrowing for road infrastructure renewal is appropriate as an alternative to a higher cap as it would limit its long term strategy of using borrowings to fund large unforeseen expenditure items and large investment projects that are intergenerational.</p>
<p>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</p>	<p>The Commission is satisfied that Pyrenees’s application for a higher cap is consistent with its long term strategy and financial management policies and it has provided supporting documentation demonstrating this.</p> <p>Council’s vision is ‘we want the Pyrenees Shire to be a healthy, vibrant, prosperous and connected community’.^{y,z,aa} Linked to the delivery of this vision is for the council to ‘provide quality road and built infrastructure for the community’.^{y,z,aa} One of the council’s strategic objectives (strategic objective 3) is in the area of roads and townships – ‘we will plan, manage, maintain and renew roads and community infrastructure in a sustainable way that responds to the needs of residents and visitors.’^{y,z,aa} These objectives are reflected throughout Pyrenees’s council plan, budget and annual report.^c Pyrenees’s application links its need to increase its asset renewal expenditure to a report prepared by MAMS, which found that the council was currently meeting 52 per cent of annual depreciation expenses across all road assets (unsealed pavements being 84 per cent).^c With renewal demand expected to rise, the MAMS report recommended the council increase investment in road infrastructure renewal to avoid larger costs in the future.^c</p>

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TABLE 1 CONTINUED

Legislative matter	Summary
185E(3)(f) (continued)	<p>In support of its higher cap application, the council also provided a number of strategic planning documents:</p> <ul style="list-style-type: none"> • Draft budget 2017-18^y • Long term financial plans 2017-18 to 2026-27 (one without the higher caps and one with the higher caps)^k • Gravel road strategy 2017ⁱ • Road management plan 2015^{bb} • Road asset management plan 2013^z • Annual report 2015-16^{aa} • Council plan 2013-17 ^{i,k,y,z,aa,bb,cc} <p>Council's draft long-term financial plan (with a higher cap) and budget show an increase in expenditure on unsealed road over the long-term and the quarantining of additional revenue from the higher cap for this purpose.</p>

^a Pyrenees Shire Council 2017, *Higher cap application*, March, p.3. ^b Pyrenees Shire Council 2017, *Higher cap application*, March, p.13 ^c Pyrenees Shire Council 2017, *Higher cap application, Appendix F – 2015 Moloney Asset Management Systems Condition Survey*, March. ^d Pyrenees Shire Council 2017, *Higher cap application, Appendix F – 2015 Moloney Asset Management Systems Condition Survey*, March, p.4. ^e Pyrenees Shire Council 2017, *Higher cap application*, March, p.15. ^f 'Intervention levels' are the point at which the council chooses to intervene to renew or replace an asset. According to the MAMS report, intervention levels will have a material impact on the forecasted renewal demand. According to the MAMS report 'High intervention level equates to low level of service while low intervention level relates to a high level of service.' ^g Pyrenees Shire Council 2017, *Higher cap application, Appendix F – 2015 Moloney Asset Management Systems Condition Survey*, March, p.32. ^h Pyrenees Shire Council, *response to request for information – community engagement and services reviews*, April. ⁱ Pyrenees Shire Council 2017, *Higher cap application, Appendix H –Gravel Roads Strategy*, March. ^j Pyrenees Shire Council 2017, *Higher cap application, Appendix H –Gravel Roads Strategy*, p.8, March. ^k Pyrenees Shire Council 2017, *Higher cap application, Appendix I – Long Term Financial Plan*, March. ^l Pyrenees Shire Council 2017, *Higher cap application*, p.25, March. ^m Pyrenees Shire Council, *Higher cap application, Appendix G – 2016 Community Satisfaction Survey*, March. ⁿ Pyrenees Shire Council 2017, *Higher cap application*, March, pp.19-20. ^o Pyrenees Shire Council 2017, *Higher cap application, Appendix H –Gravel Roads Strategy*, March. ^p Pyrenees Shire Council 2017, *Higher cap application, Appendix J – Gravel Road Strategy Council Report*, March. ^q Pyrenees Shire Council 2017, *Higher cap application, Appendix K – Gravel Road Presentation*, March. ^r Pyrenees Shire Council 2017, *Higher cap application, Appendix H –Gravel Roads Strategy*, March p.3. ^s Pyrenees Shire Council 2017, *Higher cap application*, March, pp.21-24. ^t Pyrenees Shire Council 2017, *Higher cap application*, March, pp.25-26. ^u Pyrenees Shire Council 2017, *Higher cap application*, March, p.21. ^v Essential Services Commission, *Decision on application for a higher cap 2016-17 – Pyrenees Shire Council*, May. ^w Australian Bureau of Statistics 2017, *Socio-Economic Indexes for areas by local government area*, http://stat.data.abs.gov.au/Index.aspx?DataSetCode=ABS_SEIFA_LGA#. ^x Pyrenees Shire Council 2017, *Higher cap application, Appendix L – Treasury Management Policy*, March. ^y Pyrenees Shire Council 2017, *Higher cap application, Appendix A – Budget*, March. ^z Pyrenees Shire Council 2017, *Higher cap application, Appendix O – Annual Report 2015-16*, March. ^{aa} Pyrenees Shire Council 2017, *Higher cap application, Appendix P – Council Plan 2013-17*, March. ^{bb} Pyrenees Shire Council 2017, *Higher cap application, Appendix M – Road Management Plan 2013*, March. ^{cc} Pyrenees Shire Council 2017, *Higher cap application, Appendix N – Road Asset Management Plan 2012*, March.

5 ASSESSMENT

As required under the FGRS, we have examined each of the six legislative matters addressed in Pyrenees'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.

Further, the Act requires the Commission to have regard to a council's record of compliance with previous years' caps.⁷ In 2016, Pyrenees applied for a higher cap of 3.83 per cent for 2016-17. The Commission approved this higher cap because, on balance, we were satisfied that a higher cap was appropriate since the council did not otherwise have sufficient options to increase its road renewal expenditure for 2016-17. Pyrenees was compliant in its implementation of this higher cap in 2016-17.⁸

In last year's decision, the Commission considered that Pyrenees should undertake a more strategic infrastructure needs assessment, including seeking views from the community and ratepayers on infrastructure need and affordability as part of its long term financial planning as a matter of urgency.⁹ We consider that Pyrenees has made positive efforts in assessing its infrastructure needs, engaging with the community, developing its service review program, and integrating the outcomes of these efforts into the long term financial plans.

The Commission is satisfied that the higher caps proposed by Pyrenees for 2017-18 and 2018-19 are appropriate on the grounds that a clear funding need has been demonstrated.

- Pyrenees's overall finances are constrained (as evidenced by negative adjusted underlying results over the next four years, with and without the approved higher caps – see next section).

⁷ Section 185E(6)(c) of the Local Government Act.

⁸ Essential Services Commission 2016, *How Councils Set Their Rates*, December.

⁹ Essential Services Commission 2016, *Pyrenees Shire Council — Decision on application for a higher cap for 2016-17*, May.

- After Pyrenees made a decision to prioritise the renewal of its gravel roads (based on the results of the Community Satisfaction Survey and community feedback), it was evident that additional funds would be needed in the absence of other offsets.
- Pyrenees investigated other options and adopted some minor offsets. However, Pyrenees was of the view that it was significantly constrained in its ability to reduce service levels as this would severely affect its community.
- Pyrenees undertook some community engagement on the higher caps, specifically on the gravel roads strategy (with some limitations which we have highlighted in table 1).
- The higher revenues generated by the higher caps in 2017-18 and 2018-19 will be quarantined to address a clearly identified need, to fund the renewal of gravel roads over the next three years, and as part of an overall financial strategy to reduce the renewal gap of all assets over time.
- The proposed higher caps are consistent with Pyrenees's long term financial plans.

The level of effort in community engagement, service reviews and asset management undertaken by Pyrenees is appropriate for the current application (i.e. based on a specific asset need and for increases over only two years). However, going forward, the Commission considers that Pyrenees should increasingly adopt a more strategic and comprehensive approach to asset management, service reviews and community engagement. In particular, we expect Pyrenees to:

- undertake a comprehensive program of service reviews
- update its asset information, given the last asset review was completed three years ago, and adopt a more strategic approach to maintaining and renewing its assets to reflect community preferences
- undertake strategic community engagement that encompasses discussion of broader financial and services trade-offs, and
- integrate the outcomes of the above processes into council's long term financial plan.

How Pyrenees responds to the points above will be taken into account by the Commission in assessing any future higher cap applications.

5.1 UNDERLYING FINANCIAL POSITION AND DEMONSTRATED NEED FOR A PERMANENT INCREASE TO THE RATE BASE

To justify a permanent increase to the rate base, a council should demonstrate a long-term financial need that is consistent with the long-term interests of its ratepayers and community for sustainable outcomes in service delivery and critical infrastructure.

We have examined Pyrenees's underlying financial position. Pyrenees has provided forecasts of the impacts on its Local Government Performance Reporting Framework (LGPRF) financial indicators (under both 'with' and 'without' higher cap scenarios). These forecasts show that Pyrenees continues to operate with a significant negative adjusted underlying result in the short- and medium-term. The forecasts also show that its asset renewal ratio will be slightly higher under the 'with higher cap' scenario, consistent with its commitment to quarantine additional revenue from the higher cap to implementing its gravel road strategy (table 2).

TABLE 2 LOCAL GOVERNMENT PERFORMANCE REPORTING FRAMEWORK INDICATORS

LGPRF indicator ^a	2015-16 (Actual)	2016-17 (Forecast actual)	2017-18 (Budget)	2018-19 (Forecast)	2019-20 (Forecast)	2020-21 (Forecast)
Operating position^b						
Adjusted underlying result (%)						
pre-application	-40.3	-18.0				
'without' higher cap (a)			-7.0	-15.8	-15.6	-7.4
'with' higher cap (b)			-6.4	-14.6	-14.3	-6.1
difference (b-a)			0.6	1.2	1.3	1.3
Obligations^b						
Asset renewal (%)						
pre-application	60.2	200.2				
'without' higher cap (a)			77.6	66.0	72.6	73.9
'with' higher cap (b)			79.3	69.4	76.0	77.3
difference (b-a)			1.7	3.4	3.4	3.4

Note: Without higher cap forecasts assume a rate increase of 2.0 per cent per year beyond 2017-18 (Pyrenees Shire Council 2017, *Budget 2017-18, Proposed budget — 2.0 per cent rate rise*, p. 40). With higher cap forecasts assume a rate increase of 2.0 per cent per year beyond 2018-19 (Pyrenees Shire Council 2017, *Budget 2017-18, Proposed budget — 3.5 per cent rate cap exemption rate rise*, p. 40). We noted minor discrepancies in the LGPRF indicators for 2015-16 as reported in the 2016 annual report and the draft budget for 2017-18. Council has explained that these are due to differences in the way each of these are calculated (Source: Pyrenees Shire Council, *response to request for further information — indicators*, April). ^a Table only includes LGPRF indicators considered in making our decision. ^b See Appendix B for definitions of these indicators.

Data sources: Pyrenees Shire Council 2017, *Higher cap application Appendix I, Budget 2017-18, Proposed budget — 2.0 per cent rate rise*; Pyrenees Shire Council 2017, *Higher cap application Appendix I, Budget 2017-18, Proposed budget — 3.5 per cent rate cap exemption rate rise*.

5.2 MONITORING OF OUTCOMES

Under the FGRS framework, we are required to report annually on Pyrenees's compliance with its rate cap and every two years on outcomes from the FGRS. When doing so, we will monitor and report on whether Pyrenees has spent the funds from a higher cap in accordance with the expenditure needs cited in its application. While we approve rates and not individual expenditures, it will be important that community and ratepayers receive confirmation that Pyrenees has fulfilled its expenditure commitments. In the event that those additional funds have been redirected to other areas of expenditure, we will seek and publish Pyrenees's explanation for the reallocation of those funds.

APPENDIX A: SUMMARY OF COMMUNICATIONS WITH PYRENEES

Pyrenees submitted its application for a higher cap on 29 March 2017. In response to its application, the Commission sought additional information from Pyrenees (table 3). Pyrenees's application and its response to our requests for further information can be found on our website.

TABLE 3 COMMUNICATIONS BETWEEN PYRENEES AND THE COMMISSION

Date (2017)	Nature of communication
29 March	Pyrenees submitted its application
29 March	Commission acknowledged receipt of application
31 March	Commission contacted Pyrenees to confirm information in the budget baseline information (BBI) template
5 April	Pyrenees responded to the Commission's 31 March request and provided an updated BBI template
7 April	Commission met with Pyrenees
24 April	Commission contacted Pyrenees with a request for further information about community engagement and services reviews
28 April	Pyrenees responded to the Commission's 24 April request
2 May	Commission contacted Pyrenees to confirm information in the BBI template
15 May	Commission contacted Pyrenees with a request for further information about indicators
16 May	Pyrenees responded to the Commission's 15 May request

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. **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.