



Our ref: EK:ek

29 March 2016

Dr Ron Ben-David
Chairperson Essential Services Commission
Level 37 2 Lonsdale Street
Melbourne Vic 3000

Dear Dr Ben-David

RE: HIGHER CAP APPLICATION

On the 15th March 2016 at an Ordinary Meeting of Council, the Pyrenees Shire Council resolved to apply for a Higher Cap. The resolution of Council was:

Part 1:

That Council apply for a rate variation to 3.83% for the 2016-17 Financial Year, being half of Council's proposed increase above the cap for this year. That the additional 1.33% rate rise be put exclusively into road renewal works in future years.

Part 2:

That Council work with the other 37 rural councils and Rural Councils Victoria to undertake a targeted State and Federal Government lobbying program detailing the following:

- a. Capacity of the community to pay rates, charges, fees, fines and other revenue;
- b. Impact of population sparsity, dispersion and remoteness on the cost of delivering services in a rural context;
- c. The financial challenge of maintaining a significant road network.

Part 3:

That Council seek the support of MAV to continue to:

- a. advocate for a fairer federal funding model for low rate, high infrastructure councils
- b. to pursue the range of cost impediments, beyond CPI that the State imposes on local government, and
- c. to continue to address the range of service cost shifts by the State, which reduce councils capacity to fund its infrastructure through rating.

.....continued

Pyrenees Shire Council



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Beaufort Vic. 3373
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www.pyrenees.vic.gov.au

In accordance with The Fair Go Rates System – Guidance for Councils (2016-17) please accept this application for a 1.33% higher CAP for the 2016-17 financial Year.

Should you require clarification or further information please contact Evan King on 5349 1105.

Yours sincerely

A handwritten signature in blue ink that reads "Evan King". The signature is written in a cursive style with a large, stylized 'K'.

Evan King
Acting Chief Executive Officer





ESSENTIAL SERVICES COMMISSION
Local Government

Higher cap – Application cover sheet (2016/17)

Council name

Pyrenees Shire Council

Contact person and phone number

Evan King 03 5349 1105 / 0407 168 070

Base Average Rate (\$): (e.g. \$1,800)

\$1,252.87

Proposed increase for 2016-17: (e.g. 5%, \$4,000,000)

Proposed increase in Average Rate (%)	3.83% (2.50% Plus 1.33%)
Proposed increase in prescribed rate revenue (\$)	\$330,256

Summary of the key reason(s) for the application: (Please limit response to two pages)

See Attached

+ Please attach evidence of council sign-off/approval of application.

Summary of Key Reasons for the Application

Council is applying for a cap of 3.83%. That is an increase of 1.33% above the limit determined by the Minister in December 2015. The extra 1.33% rate income represents an amount of \$97,970.

Council's average rate increase over the last 14 years has been 5.86%. Through the annual adoption of the Long Term Financial Plan (LTFP) Council has put in place a strategic financial management plan to address the competing demands of ageing infrastructure and increasing service standards. For the 2014-15 Financial Year Pyrenees Shire's rates per assessment were \$1,388 which was 21% lower than the average for small council's and 27% lower than the state average.

Council is not proposing to use the additional funds generated from the higher cap to fund current levels of renewal expenditure. The basis behind the higher cap submission is to use the additional funds to increase the spending on road infrastructure asset renewal.

Council will be utilising these funds on road infrastructure asset renewal, in particular Sealed Surfaces. The additional funds will be used to reduce the infrastructure renewal gap, which is the gap between what Council is currently investing in road infrastructure asset renewal and the depreciation of these assets.

In December 2015 Council's road infrastructure was assessed by Moloney Asset Management Systems (MAMS). The condition survey of Council's road infrastructure is conducted every three years.

At a funding level of 52% of the consumption rate, Council is losing around \$1,843,292 per annum in the value of its road network. In the longer term the present renewal funding level of \$2,030,000 per annum will need to rise to the consumption rate of \$3,873,292 per annum and at some point will need to go beyond even that level to make up for past shortfalls.

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.

Based on the MAMS survey Council has determined to apply the above rate cap variation to Sealed Surfaces as degradation of Sealed Surfaces can have a dramatic impact on Sealed Pavements in the future.

Council's current renewal expenditure on Sealed Surfaces is:

Sub Asset Description	2015-16 Expenditure	Recommended Expenditure
Sealed Surfaces	\$700,000	\$912,000

The overall condition of Sealed Surfaces has worsened since the last survey. The percentage of the sealed road network that is above condition 6 has increased from 12.7% to 16.1% since October 2011 (3.4%).

Council recognises the importance of maintaining its road assets below intervention levels. If road asset condition levels are allowed to deteriorate, the capital replacement cost is many times the cost of a well-managed intervention level renewal program. Council places a high level of importance in maintaining its sealed roads and gravel road re-sheeting programs. It recognises that if these classes of assets are allowed to deteriorate to a level requiring complete reconstruction, Council would struggle to finance such expenditure. Ultimately, this would result in Council having to reprioritise its

entire road hierarchy and close roads which are unsafe, as Council can no longer afford to be maintain them.

It is clear from Council's Community Satisfaction Survey that the community are dissatisfied with Council's roads with 56% saying that the Sealed Roads are average to very poor. Without the higher cap, further degradation will occur and the community will become even more dissatisfied with the condition of Sealed Roads.

2015 Community Satisfaction Survey

Satisfaction with Sealed Local Roads declined one point from 56 to 55

10% believed the condition was very good

33% believed the condition was good

33% believed the condition was average

15% believed the condition was poor

8% believed the condition was very poor

1% believed they couldn't say

The rate cap of 2.5% set by the Minister is lower than the rate rise proposed in Pyrenees Shire Council's Long Term Financial Plan which proposed future rate increases over the 10 year period to be 5.15% (2016/2017) reducing to 4% (2020/2021). The result is a significant shortfall in revenue and therefore reduced capacity for Council to renew and maintain assets and deliver services. One percent rate rise equates to approximately \$73,000. The difference in revenue for Pyrenees Shire Council in 2016/2017 as a result of the cap is approximately $(2.65\% \times \$73,000) = \$193,450$.

The higher rate cap on its own will not address the infrastructure gap and backlog issues on its own. To appropriately address this issue a range of actions need to be implemented. These include:

- Reinstatement of the indexation of Financial Assistance Grants
- Continuance of the allocation of fuel excise to Roads to Recovery
- Certainty of Roads to Recovery Funding
- Guaranteed State Road Infrastructure Funding to address the Infrastructure Gap and Back Log
- Council efficiency and best value program

As stated in the Whelan Report – Local Government Financial Sustainability (Focus on Small Rural Councils), "The eighteen small rural councils identified in this Report do not have the capacity to adequately service their communities. The provision of guaranteed long term operating entitlements, as recommended by this Report, is essential to their future sustainability".



Pyrenees Shire Council

The Fair Go Rates System

Application for Higher Rate Cap



Condition 0 – 1 Seal in Excellent near new condition



Condition 5 Cracking but seal not too oxidized



Condition 6.5 - 7 Oxidized and Stripping



Condition 8 Fully Oxidized and falling apart

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1. SHIRE PROFILE

Location

Pyrenees Shire is located in the Central West of Victoria, about 130 kilometers North West of Melbourne. It is heavily dependent on primary industry and is renowned for its wool, viticulture and forestry activity. Thirty percent of the workforce is involved in agriculture. Key areas of production are wool, cereal, hay crops and meat. Grape and wine production has recently expanded significantly. Gold, along with sand, gravel and slate all contribute to the economy.

Characteristics

The Pyrenees Shire comprises an area of nearly 3,500 square kilometres with 2,015 km's of roads (723 km's of sealed roads and 1,292 km's of unsealed roads) and a population of 6,979 residents. Pyrenees Shire is in the bottom 10% of the Victorian SEIFA Index for Socio-Economic Disadvantage.

The Shire takes its name from the ranges in the north that hold similarity to the Pyrenees Ranges in Europe.

Council administration is based in the township of Beaufort, and a number of Council services also operate from the township of Avoca. These services include health and aged care, library and information centres and works depots.

Excellent educational facilities are available in Pyrenees Shire, including integrated children's centres, primary schools, a secondary college and Community Resource and Information Centres incorporating adult education and library services.

Recreational activities are available in the region, giving community members and visitors opportunities to experience new pastimes. Most townships in the Shire have their own sporting facilities, such as football fields and netball courts. Avoca and Beaufort also have skate parks.

Tourism is ever growing throughout the region. Hang-gliding from Mount Cole and the French game of Petanque in Avoca, attract large numbers of visitors year round. In recent years, the action sport of mountain bike riding has risen in popularity.

In addition to the sporting opportunities, the Pyrenees is known for its wineries and culinary delights. Community markets are a popular attraction, as are the region's antique fairs, picnic horse races and music festivals.

2. CRITERION RESPONSES

2.1 CRITERION ONE — PROPOSED HIGHER CAP

The size of the higher cap being sought

Council is applying for a cap of 3.83%. That is an increase of 1.33% above the limit determined by the Minister in December 2015. Council resolved at its Ordinary Meeting on the 15th March 2016:

Part 1:

That Council apply for a rate variation to 3.83% for the 2016-17 Financial Year, being half of Council's proposed increase above the cap for this year. That the additional 1.33% rate rise be put exclusively into road renewal works in future years.

Part 2:

That Council

1. Work with the other 37 rural councils and Rural Councils Victoria to undertake a targeted State and Federal Government lobbying program detailing the following:
 - a. Capacity of the community to pay rates, charges, fees, fines and other revenue;
 - b. Impact of population sparsity, dispersion and remoteness on the cost of delivering services in a rural context;
 - c. The financial challenge of maintaining a significant road network.

Part 3:

That Council seek the support of MAV to continue to:

- a. advocate for a fairer federal funding model for low rate, high infrastructure councils
- b. to pursue the range of cost impediments, beyond CPI that the State imposes on local government, and
- c. to continue to address the range of service cost shifts by the State, which reduce councils capacity to fund its infrastructure through rating.

The 1.33% variation above the cap equates to an additional \$97,970 for Pyrenees Shire. Council had proposed to raise rates by 5.15% in 2016-17 (2015-16 Strategic Resource Plan). The mathematical formula for determining the 1.33% is $(5.15\% - 2.50\% = 2.65\%, 50\% \text{ of } 2.65\% = 1.33\%)$.

Council undertook community consultation on a 2.00% variation above the cap and based on feedback from the community resolved to apply for a 1.33% variation above the cap.

The years for which the higher cap will apply (for 2016-17 this will be one year only)

Council is applying for a cap of 3.83% for the 2016/17 year.

2.2 CRITERION TWO — REASONS FOR WHICH COUNCIL SEEKS THE HIGHER CAP

The reason(s) for which the council seeks the higher cap.

Council is applying for a cap of 3.83%. That is an increase of 1.33% above the limit determined by the Minister in December 2015. The extra 1.33% rate income represents an amount of \$97,970.

Council's average rate increase over the last 14 years has been 5.86%. Through the annual adoption of the Long Term Financial Plan (LTFP) Council has put in place a strategic financial management plan to address the competing demands of ageing infrastructure and increasing service standards. The below table shows the percentage rate increase over the last 14 years.

Table 1

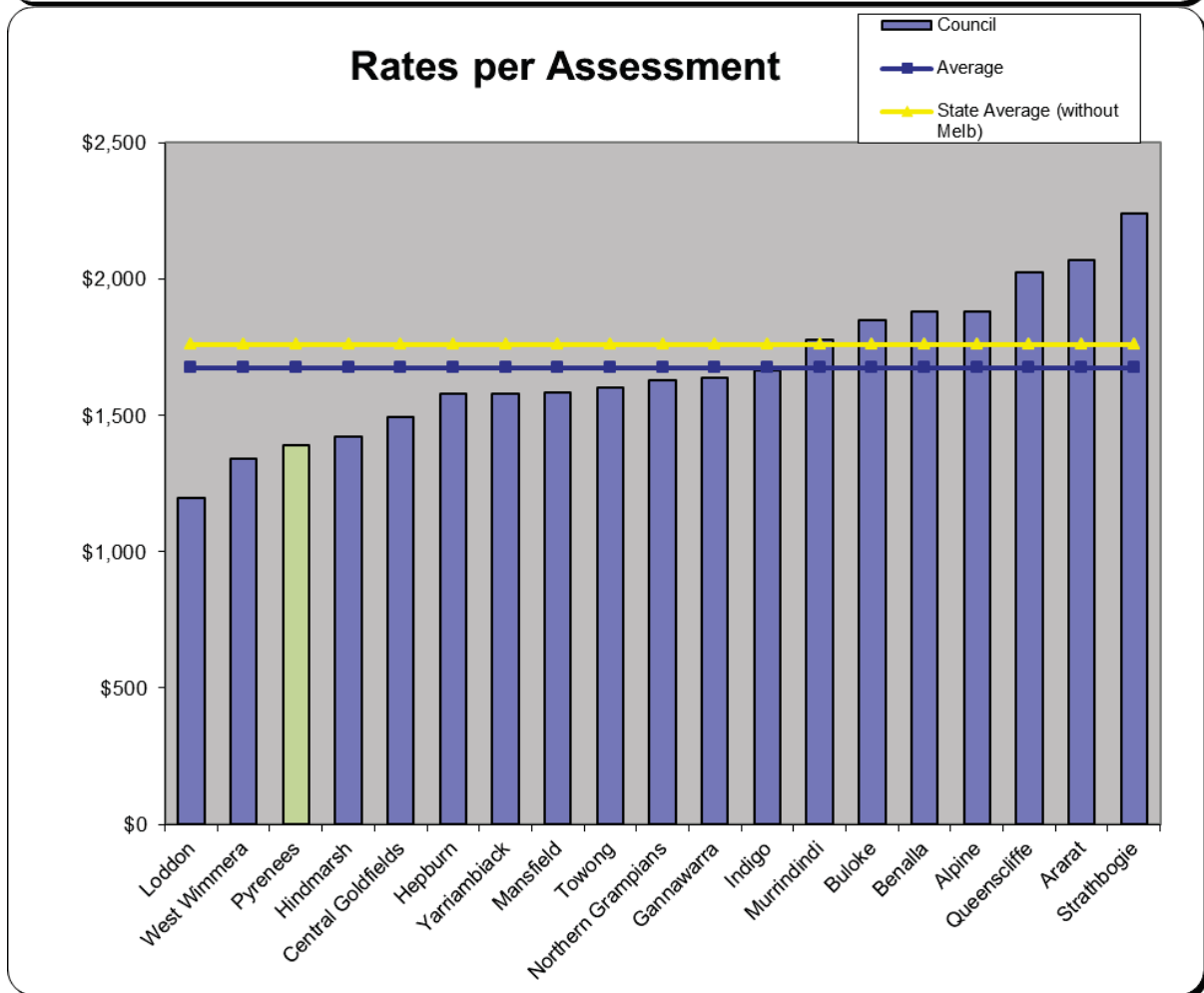
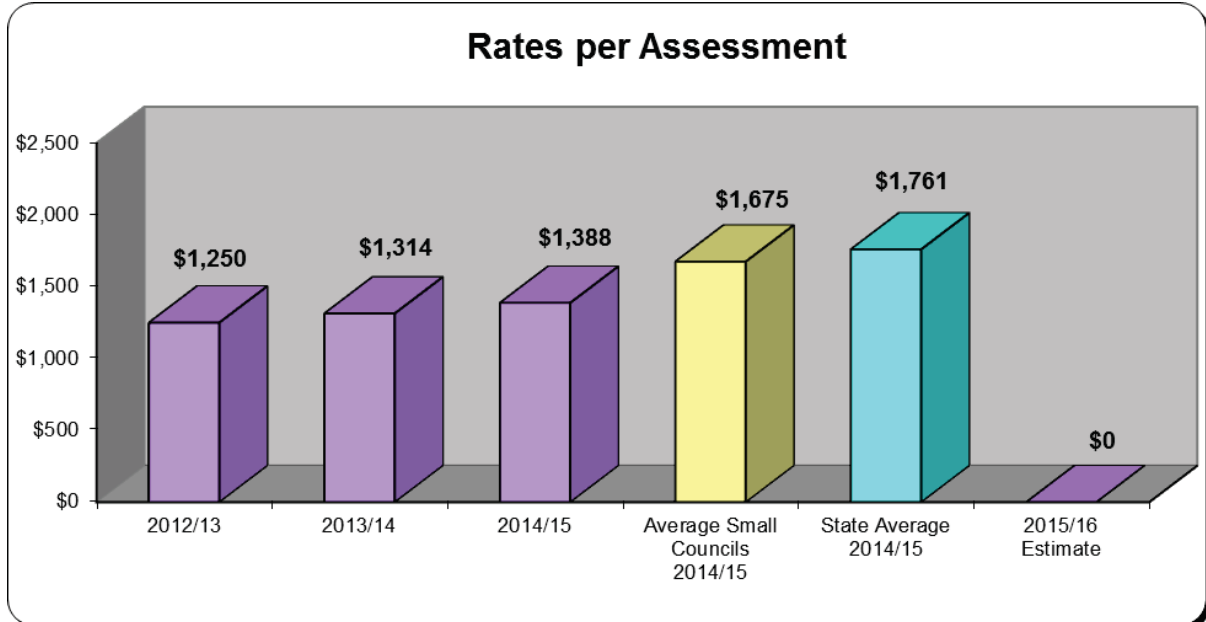
Year	Pyrenees Shire Council
2002/2003	4.50%
2003/2004	4.50%
2004/2005	6.50%
2005/2006	6.75%
2006/2007	7.50%
2007/2008	7.00%
2008/2009	6.50%
2009/2010	6.00%
2010/2011	6.50%
2011/2012	5.25%
2012/2013	5.25%
2013/2014	5.25%
2014/2015	5.25%
2015/2016	5.25%
Average increase over 14 years	5.86%

Council's 2015-16 Strategic Resource Plan forecasted that rate rises over the next 3 years would be as follows:

Year	General Rate Increase %	Municipal Charge Increase \$'000	Rates Raised Increase \$'000	Service Charges Increase \$'000	Total Rates Raised \$'000
2014/15	5.25	0.00	385	63	8,149
2015/16	5.25	0.00	328	75	8,552
2016/17	5.15	0.00	405	92	9,049
2017/18	5.00	0.00	418	95	9,562
2018/19	4.75	0.00	423	97	10,082

For the 2014-15 Financial Year Pyrenees Shire’s rates per assessment were \$1,388 which was 21% lower than the average for small council’s and 27% lower than the state average.

The Following graphs are from Strategy Plus 2014-15 Financial Statement Analysis and show that Pyrenees Shire has historically managed the level of rates responsibly.

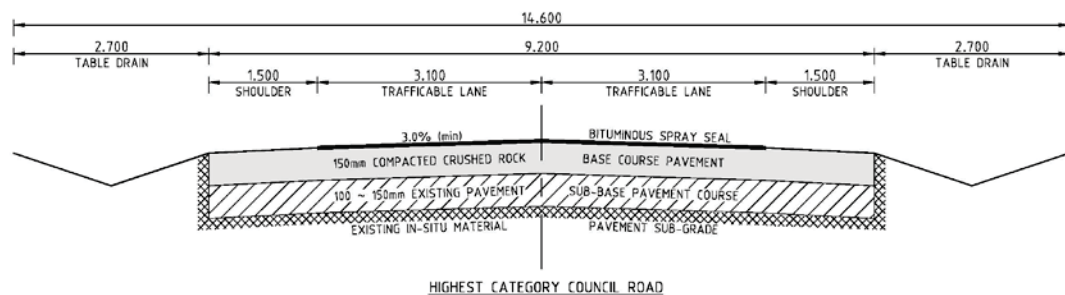


Council is not proposing to use the additional funds generated from the higher cap to fund current levels of renewal expenditure. The basis behind the higher cap submission is to use the additional funds to increase the spending on road infrastructure asset renewal.

Council will be utilising these funds on road infrastructure asset renewal, in particular Sealed Surfaces. The additional funds will be used to reduce the infrastructure renewal gap, which is the gap between what Council is currently investing in road infrastructure asset renewal and the depreciation of these assets.

Sub Asset Description	Present total Annual Capital Renewal Expenditure	Annual Depreciation or Average Long term Annual Demand	% of Annual Depreciation Being Met
Sealed Pavements	\$404,000	\$1,901,516	21%
Sealed Surface	\$850,000	\$1,012,259	84%
Unsealed Pavement	\$720,000	\$852,089	84%
Kerbs	\$10,000	\$70,420	14%
Footpaths	\$46,000	\$37,007	124%
Totals	\$2,030,000	\$3,873,292	52%

The Sealed Surface of the road is the “Bituminous Spray Seal” as illustrated below.



In December 2015 Council’s road infrastructure was assessed by Moloney Asset Management Systems (MAMS). (Appendix 1 – Moloney Asset Management System Report) The condition survey of Council’s road infrastructure is conducted every three years. A summary of the findings are:

- At a high level it is estimated that Pyrenees Shire has lost around 1.13% of the value within its full road network since the last survey in 2011.
- 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 grow any further, or reducing the figure slowly with time.

- Renewal demand is predicted to rise slowly but steadily over the next 10 - 20 years and modelling indicates that council will need to lift its present total renewal expenditure of \$2,030,000 by 1.0% compounding for the next 10-years in order to reduce the present total level of over intervention assets at 2.38% back to around 2.0% after 10-years. (All figures in today's dollars).
- Renewal demand in years 10 - 20 is predicted to continue to rise. With the present planned renewal expenditure level at only 52% of the consumption rate (annual depreciation) this should be understood and planned for.
- The sealed road pavements were found to be in fair overall condition and had experienced a condition decline since 2011.
- The sealed surface assets (re-seals) were found to be in fair overall condition and had experienced a quite measurably condition decline since 2011.
- The Unsealed road pavement assets were found to be in excellent overall condition and had experienced a quite measurable condition improvement since 2011. This is due to the additional funding received from various sources over the period since the last condition survey.
- The Kerb assets were found to be in very good overall condition and had experienced a condition improvement since 2011.
- The footpath assets were found to be in good overall condition and had experienced an overall condition decline since 2011.
- Pyrenees Shire has made some very significant progress in the management and funding of its road network since our first survey in 2010. Back in 2010 council was funding its road asset renewals at 30% of the consumption rate. This had moved to 36% by 2011 and is currently at 52%.
- At a funding level of 52% of the consumption rate, council is losing around \$1,843,292 per annum in the value of its road network. In the longer term the present renewal funding level of \$2,030,000 per annum will need to rise to the consumption rate of \$3,873,292 per annum and at some point will need to go beyond even that level to make up for past shortfalls.
- The rising renewal demand within the road network over the last 20 years has two basic causes. Firstly the ageing of the assets and secondly the very strong rise in unit renewal costs.
- Council is not alone in facing a growing renewal demand on its road network. It has come a long way since 2010 but it must be aware of the predicted future growth in renewal demand and take steps to address this.
- All financial reporting within this document is based in today's values with no allowance for any CPI movement. The Moloney software has the capacity to adjust all outputs for an adopted annual CPI increase, but it is felt that this can present some very misleading and difficult to interpret results.

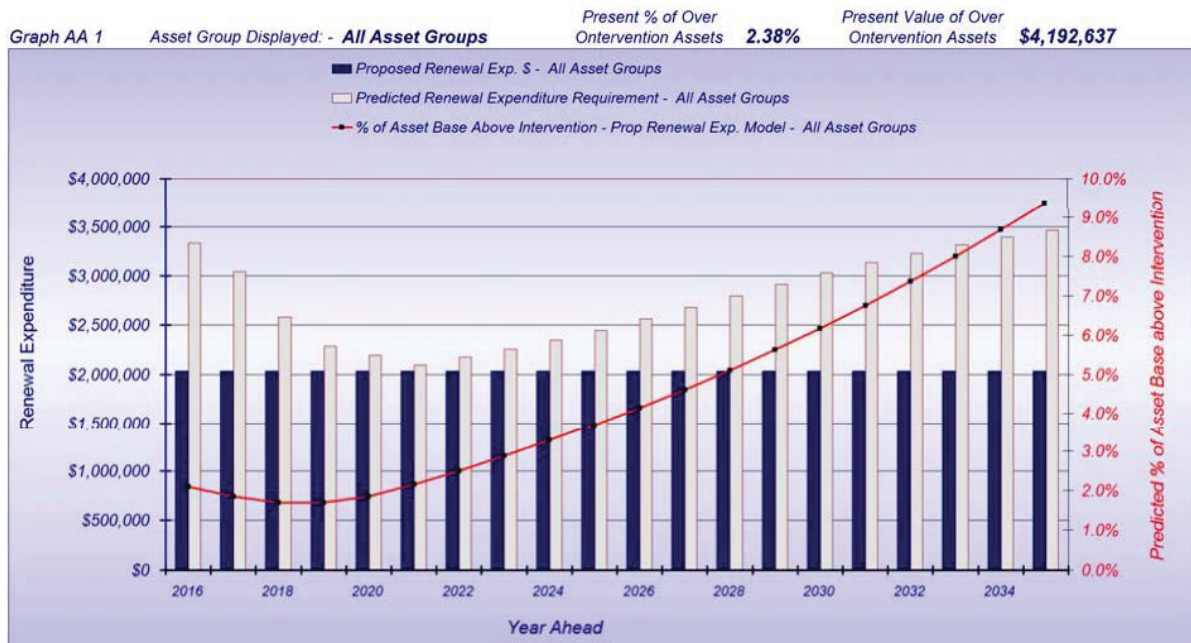
The table below provides a very simple assessment of how certain key condition indicators have changed since the previous survey. The overall asset condition is a single condition factor representing the condition of the whole asset set. The extent of poor condition assets is the extent of the asset base at and above condition 6 - 8 depending upon the asset class.

Asset Description	Asset Condition Change Since Last Inspection 2011
Sealed Pavements	Worse
Sealed Surfaces	Worse
Unsealed Pavements	Better
Kerbs	Better
Footpaths	Same
Bridges	Better

The Moloney Condition rating system is consistent across all asset types and commences at zero with a new asset and ends in the 8 to 10 range when there is no remaining life in the asset.

Condition	Generalised Generic Description of Asset Condition
0	<i>A new asset or recently rehabilitated back to new condition.</i>
1	<i>A near new asset with no visible signs of deterioration often moved to condition 1 based upon the time since construction rather than observed condition decline.</i>
2	<i>An asset in excellent overall condition. There would be only slight condition decline but it would be obvious that the asset was no longer in new condition.</i>
3	<i>An asset in very good overall condition but with some early stages of deterioration evident, but the deterioration is minor in nature and causing no serviceability problems.</i>
4	<i>An asset in good overall condition but with some obvious deterioration evident, serviceability would be very slightly impaired.</i>
5	<i>An asset in fair overall condition. Deterioration in condition would be obvious and there would be some serviceability loss.</i>
6	<i>An asset in fair to poor overall condition. The condition deterioration would be quite obvious. Asset serviceability would now be affected and maintenance costs would be rising.</i>
7	<i>An asset in poor overall condition. Deterioration would be quite severe and would be starting to limit the serviceability of the asset. Maintenance costs would be high.</i>
8	<i>An asset in very poor overall condition with serviceability now being heavily impacted upon by the poor condition. Maintenance costs would be very high and the asset would be at the point where it needed to be rehabilitated.</i>
9	<i>An asset in extremely poor condition with severe serviceability problems and needing rehabilitation immediately. Could also be a risk to remain in service.</i>
10	<i>An asset that has failed and is no longer serviceable and should not remain in service. There would be an extreme risk in leaving the asset in service.</i>

Based on current expenditure levels for all asset groups, (Footpaths, Kerbs, Unsealed Road Pavements, Sealed Surfaces and Sealed Road Pavements) by 2028, just over 5% of Council’s road network will be above intervention level.



The present extent of over intervention assets (backlog) on the whole roads group is estimated at \$4,192,637, which represents 2.38% of the network. This is currently within the acceptable range, the above graph indicates that the planned renewal funding level, if maintained over the next 20 years will result in a steady rise in the total extent of over intervention assets over the whole roads group from its present level of 2.38% up to 9.37% after 20 years. This would be a disastrous outcome and clearly an increase in renewal funding is needed in future years.

The graph below demonstrates the impact of increased funding across the whole road network. The three variables used are detailed below:

- Desired extent of over intervention assets - Same as present level of: 2.38%
- Time to achieve this: 10 Years
- Annual percentage increase in renewal expenditure: 1.00%



The graph above represents the minimum annual renewal expenditure to achieve the desired condition outcome within the nominated time frame and indicates that Council’s present total renewal expenditure level of \$2,030,000 per annum if adopted as the commencing point in 2016 will require a 1.0% (excluding CPI) compounding annual increase for the next 10 years to deliver the same extent of over intervention assets (2.38%) as presently exists after 10 years.

Sub Asset Description	Average Planned renewal expenditure next 10 Years	Annual Depreciation or Average Long term Annual Demand	Present Capital Renewal Demand From Modelling	Peak Capital Renewal Demand From Modelling	Year of Predicted Peak Demand	Recommended Commencing funding with 1.0% Compounding annual increase for next 10-years
Sealed Pavements	\$404,000	\$1,901,516	\$682,000	\$1,650,000	2035	\$800,000
Sealed Surfaces	\$850,000	\$1,012,259	\$1,593,000	\$1,593,000	2016	\$912,000
Unsealed Pavements	\$720,000	\$852,089	\$915,000	\$915,000	2016	\$265,000
Kerbs	\$10,000	\$70,420	\$88,000	\$88,000	2016	\$28,000
Footpaths	\$46,000	\$37,007	\$55,000	\$55,000	2016	\$25,000
Totals	\$2,030,000	\$3,873,292	\$3,333,000	\$3,462,000	2035	\$2,030,000

Based on the MAMS survey Council has determined to apply the above rate cap variation on Sealed Surfaces as degradation of Sealed Surfaces can have a dramatic impact on Sealed Pavements in the future.

Council’s current renewal expenditure on Sealed Surfaces is:

Sub Asset Description	2015-16 Expenditure	Recommended Expenditure
Sealed Surfaces	\$700,000	\$912,000

The overall condition of Sealed Surfaces has worsened since the last survey. As can be seen from the table below the percentage of the sealed road network that is above condition 6 has increased from 12.7% to 16.1% since October 2011 (3.4%).

Key Cond. Indic. No.	Sealed Surface Condition Indicator	Figures from Last Survey in Oct-11	Figures from Current Survey in Dec-15	Change between Surveys New Minus Old	% Change Between Surveys	Better or Worse Since last Survey
1	Weighted Average Asset Condition	3.434	3.744	-0.311	-4.4%	Worse
2	% of Asset Base above Condition 5	28.916	35.845	-6.929	-24.0%	Worse
3	% of Asset Base above Condition 6	12.702	16.110	-3.409	-26.8%	Worse
4	% of Asset Base above Condition 7	3.226	5.152	-1.927	-59.7%	Worse
5	% of Asset Base above Condition 8	0.331	0.593	-0.262	-79.2%	Worse
Renewal Demand Being Met For:		% of Long Term Demand Being Met				
Sealed Surface Asset Group		84%				

The weighted average asset condition of Sealed Surfaces is within the worst 30% of those assessed by MAMS (59 Victorian Councils).

With an overall annual percentage increase of 1% established for the whole of the road group the Moloney model was used to find the year one starting point requirement for the sealed surfaces that would deliver a maximum of 7.9% of the asset base as over the intervention level after 10 years. It was found that a starting expenditure of \$912,000 combined with an annual compounding increase of 1.00% would deliver this outcome.

The sealed surface assets were found to be in fair overall condition but had declined in overall condition by 4.3% since the last survey. These are really important assets and should always be fully funded as the top roads group funding priority as failure to do so will cost heavily in the long run. It is recommended that the funding level next year commence at \$912,000 and then increased by 1.00% compounding for at least the next 10 years.

Council recognises the importance of maintaining its road assets below intervention levels. If road asset condition levels are allowed to deteriorate, the capital replacement cost is many times the cost of a well-managed intervention level renewal program. Council places a high level of importance in maintaining its sealed roads and gravel road re-sheeting programs. It recognises that if these classes of assets are allowed to deteriorate to a level requiring complete reconstruction, Council would struggle to finance such expenditure. Ultimately, this would result in Council having to reprioritise its entire road hierarchy and close roads which are unsafe, as Council can no longer afford to be maintain them.

It is clear from Council’s Community Satisfaction Survey that the community are dissatisfied with Council’s roads with 56% say that the Sealed Roads are average to very poor. (Appendix 2 – Community Satisfaction Survey 2015) Without the higher cap and further degradation the community will become even more dissatisfied with the condition of Sealed Roads.

- 2015 Community Satisfaction Survey

- Satisfaction with Sealed Local Roads declined one point from 56 to 55
- 10% believed the condition was very good
- 33% believed the condition was good
- 33% believed the condition was average
- 15% believed the condition was poor
- 8% believed the condition was very poor
- 1% believed they couldn't say

The rate cap of 2.5% set by the Minister is lower than the rate rise proposed in Pyrenees Shire Council's Long Term Financial Plan which proposed future rate increases over the 10 year period to be 5.15% (2016/2017) reducing to 4% (2020/2021). The result is a significant shortfall in revenue and therefore reduced capacity for Council to renew and maintain assets and deliver services. One percent rate rise equates to approximately \$73,000. The difference in revenue for Pyrenees Shire Council in 2016/2017 as a result of the cap is approximately $(2.65\% \times \$73,000) = \$193,450$.

The higher rate cap on its own will not address the infrastructure gap and backlog on its own. To appropriately address this issue a range of actions need to be implemented. These include:

- Reinstatement of the indexation of Financial Assistance Grants
- Continuance of the allocation of fuel excise to Roads to Recovery
- Certainty of Roads to Recovery Funding
- Guaranteed State Road Infrastructure Funding to address the Infrastructure Gap and Back Log
- Council efficiency and best value program

As stated in the Whelan Report – Local Government Financial Sustainability (Focus on Small Rural Councils), “The eighteen small rural councils identified in this Report do not have the capacity to adequately service their communities. The provision of guaranteed long term operating entitlements, as recommended by this Report, is essential to their future sustainability”. (Appendix 3 – Whelan Report)

Council is not applying for the higher cap to fund operations, operational savings have been made in order for Council to operate within the 2.5% rate cap. This submission is based on the need to increase the spending on Road Infrastructure to prevent the degradation of Council roads and the subsequent reduction in service levels.

Victorian Auditor General Reports

Renewal gap ratio – Local Government 2014-15 Snapshot

The renewal gap compares the rate of spending through renewing, restoring and replacing existing assets with the rate assets are depreciated. Spending more than the rate an asset is used indicates that an entity is sufficiently renewing its assets.

Again the sector average of 1.05 for 2014–15 has fallen below the five-year sector average of 1.10, primarily due to a decline for the small shire local councils (1.50 in 2013–14 to 1.04 in 2014–15). Small shire local councils cap must actively monitor their rate of spend and remain focused on maintaining their assets at serviceable levels as they age, to enable them to service community needs and expectations. The Victorian Auditor General's recommendation was that local councils actively manage and monitor their rate of capital and renewal spending to at least meet the consumption of their assets .

Asset Management & Maintenance by Councils – February 2014

The following observations were made by the Victorian Auditor General:

- Council spending on renewing or replacing existing assets is not keeping pace with their rate of deterioration, resulting in cumulative renewal gaps that grow each year.
- A 1998 report to government warned that unless steps were taken to address councils' asset renewal gaps, the budget councils require for renewal would more than double by 2012. These predictions have materialised despite this warning, and the renewal gap has almost doubled as a proportion of total asset value over the past 16 years.
- There is a pressing need for councils to address growing asset renewal gaps. Councils are generally budgeting less than is required to renew their assets and consequently the funding needed for asset renewal continues to grow each year. Without appropriate and concerted corrective action, the provision of council services to communities is likely to be put at risk. While this may require some hard financial decisions and trade-offs, failure to address this problem now will only lead to more difficult decisions in the future.

Pyrenees Shire's financial sustainability risk indicators for 2013-14 as determined by the Victorian Auditor General show the renewal gap issue as being a medium level of risk.:

Pyrenees Shire Council

Small shire councils	Average Underlying result (%)	Liquidity	Indebtedness (%)	Self-financing (%)	Capital replacement	Renewal gap	Sustainability assessment
Pyrenees Shire Council	-3.01	2.25	19.84	3.07	1.27	0.83	

2.3 CRITERION THREE — ENGAGEMENT

Engagement – Historical Involvement of the Community in Council Budget and Long Term Financial Planning Processes.

Council has promoted and nurtured community involvement in its financial decision making processes for more than ten years. Council conducts at least two workshops with the community in developing its annual budget. These workshops are informal evenings and are attended by all Councillors and senior staff.

The workshop commences with a detailed review of Council's current financial position, proposed budget projects, issues and an overview of Council's long term financial plan. The community are invited to provide feedback and discuss Council's asset management plans. The evening concludes with an informal question and answer session where community members are encouraged to contribute comments on the direction of future budgetary strategies. The numbers attending these sessions vary from year to year. These sessions are generally well received by the community.

For the past ten years, Council has developed and updated a ten year financial plan. This plan is reviewed by Councillors and Officers in November/December at a briefing session each year, the plan is then reviewed again as part of the budget process and adopted by Council when the Annual Budget is adopted. The community through the budget consultation and the statutory submission process have the ability to provide feedback on both the Annual Budget and Long Term Financial Plan. (Appendix 4 – 2015-16 Budget and Long Term Financial Plan)

Like all other councils in Victoria, Pyrenees Shire Council advertises its Budget, Council Plan and Strategic Resource Plan for public comment and submissions each year.

Engagement – The Fair Go Rates System

The Minister for Local Government, Natalie Hutchins, announced on 22 December 2015 that Council rate rises will be capped to 2.5% for the 2016/2017 year.

This announcement was consistent with the pre-election commitment by the Andrews Government to cap council rate rises to the Consumer Price Index (CPI), and followed a consultation process with the sector, undertaken by the Essential Services Commission (ESC), and an amendment to the Local Government Act which provides for the Fair Go Rates System (FGRS).

Under this system, Victorian councils will not be able to increase rates by more than the rate cap set by the Minister unless they successfully apply to the Essential Services Commission for a higher cap.

Since the setting of the rate cap the following actions have occurred at Pyrenees Shire Council:

- Council at a Special Council meeting on 19th January 2016 resolved to prepare a submission for a higher cap for the 2016/17 year. (Appendix 5 – Council Report) The resolution was:
 1. That Council advise the ESC of its intention to "at this stage" apply for a higher variation to the prescribed 2016-17 rate cap.
 2. Council staff met with the Essential Services Commission to better understand the process and the justification required to apply for a higher cap.
 3. Present to the February meeting of Council a rating scenario which involves the maintaining of current service levels and staffing arrangements for the 2016-17 year, mindful of Councils enterprise agreement and the current freeze to FAG's funding for Council.
 4. Seek a meeting with the Minister to relay the difficulties the "one size fits all" variations approach creates with small rural municipalities.
 5. Work with other stakeholders in the sector to try and achieve a simpler variation model for the 2016-17 year and beyond, and
 6. Continue to advocate individually and through RCV, MAV and ALGA for a sustainable funding model for rural councils.

- The Pyrenees Shire Council notified the ESC of its intention to make a submission under the Fair Go Rates System.

- Council at its Ordinary Meeting on the 16th February 2016 adopted the Fair Go Rates Submission Plan incorporating the community engagement program. (Appendix 6 - Fair Go Rates Submission Plan). Council also adopted a proposed 2.0% higher rate cap for the purpose of seeking community Consultation. (Appendix 7 – Council Report) The resolution was:
 1. That Council undertake community consultation on the higher cap based on a variation of 2.00% to be invested into road infrastructure renewal; and
 2. Request a report be presented at the March 2016 Ordinary Meeting of Council to hear submissions on the higher cap and feedback from the community consultation sessions.

- Council at its Ordinary Meeting on the 15th March 2016 resolved to make a submission to the Essential Services Commission for a higher cap. (Appendix 8 – Council Report) The resolution was:

Part 1:

That Council apply for a rate variation to 3.83% for the 2016-17 Financial Year, being half of Council's proposed increase above the cap for this year. That the additional 1.33% rate rise be put exclusively into road renewal works in future years.

Part 2:

That Council

Work with the other 37 rural councils and Rural Councils Victoria to undertake a targeted State and Federal Government lobbying program detailing the following:

- a. Capacity of the community to pay rates, charges, fees, fines and other revenue;
- b. Impact of population sparsity, dispersion and remoteness on the cost of delivering services in a rural context;
- c. The financial challenge of maintaining a significant road network.

Part 3:

That Council seek the support of MAV to continue to:

- a. advocate for a fairer federal funding model for low rate, high infrastructure councils;
- b. pursue the range of cost impediments, beyond CPI that the State imposes on Local Government, and
- c. address the range of service cost shifts by the State, which reduce Councils capacity to fund its infrastructure through rating.

The timing of the announcement of the cap and the 31st March submission date has provided Council and the community with limited time to prepare and consider its submission. However, Council has worked extremely diligently in the past two months to implement an extensive community consultation process. The consultation with the community invited feedback on the proposed increase in Council's rate cap from 2.5% to 4.5% under The Fair Go Rates System.

Detailed below are the community engagement strategies Council implemented in February and March of this year.

Council convened public meetings to discuss the increase in Council's rate cap from 2.5% to 4.5% under The Fair Go Rates System held on the following dates and locations:

The community engagement undertaken included the following:

Date	Activity	Responsibility
17-Feb-16	Advertisements and Press Releases developed to advise the community of Council's consultation processes in relation to the FGRS. These items to be guided by the community engagement reference material listed on the ESC website.	Communications
29-Feb-16	Officers Available in Beaufort and Avoca Visitor Information Centres to assist/discuss/provide information on Council's Annual Budget and the budget process and Council FGRS submission. 9.00am to 5.00pm	Community/Council/Project Working Group
29-Feb-16	Council/Community meeting on Budget and FGRS options	Community/Council/Project

	7pm - Lexton	Working Group
01-Mar-16	Council/Community meeting on Budget and FGRS options 7pm - Beaufort	Community/Council/Project Working Group
02-Mar-16	Council/Community meeting on Budget and FGRS options 7pm - Avoca	Community/Council/Project Working Group
03-Mar-16	Council/Community meeting on Budget and FGRS options 7pm - Snake Valley	Community/Council/Project Working Group
04-Mar-16	Council/Community meeting on Budget and FGRS options 7pm - Landsborough	Community/Council/Project Working Group

To inform the community on the proposed engagement activities the following communication was undertaken:

- Your Rates – Have Your Say brochure was developed and distributed across the shire. (Appendix 9 – Your Rates Brochure)
- A full page notice was placed in the Pyrenees Advocate on the 26th February. (Appendix 10 – Advocate Page)
- Notice placed on Council’s Facebook page informing community of consultation sessions. (Appendix 11 – Facebook notice)
- Online/hardcopy survey was conducted. (Appendix 12 – Survey)

The community consultation sessions commenced with Council officers providing information on the reasons for Council’s application for a proposed rate cap increase for the purpose of providing funding for Council’s road asset renewal program. General discussion then followed between Councillors and members of the public.

These meetings allowed members of the public to discuss the merits of the proposed increase in Council’s rate cap from 2.5% to 4.5% under The Fair Go Rates System.

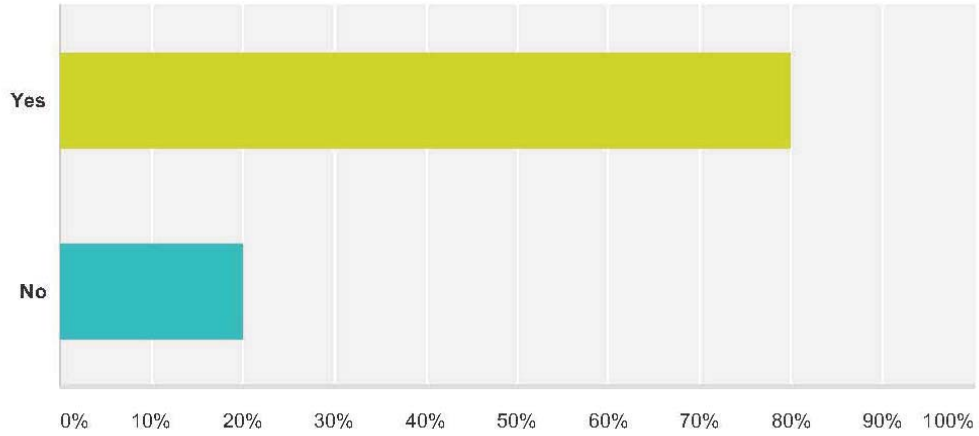
Attendance at the drop in sessions and community meeting were:

Engagement Type	Attendance
Avoca Drop in Session	5
Beaufort Drop in Session	5
Lexton Community Session	2
Beaufort Community Session	4
Avoca Community Session	4
Snake Valley Community Session	1
Landsborough Community Session	2

The online/hardcopy survey generated 18 responses. The results of the survey were as follows:

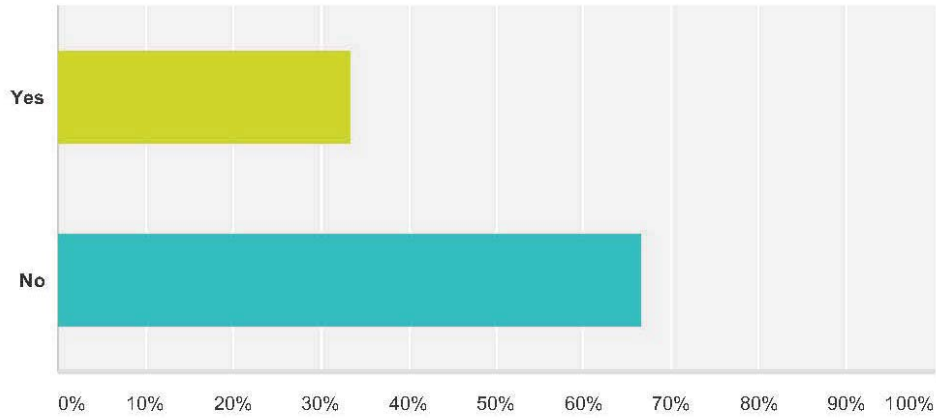
Q1 Are you happy with the overall condition of the local roads in the Pyrenees Shire?

Answered: 15 Skipped: 3



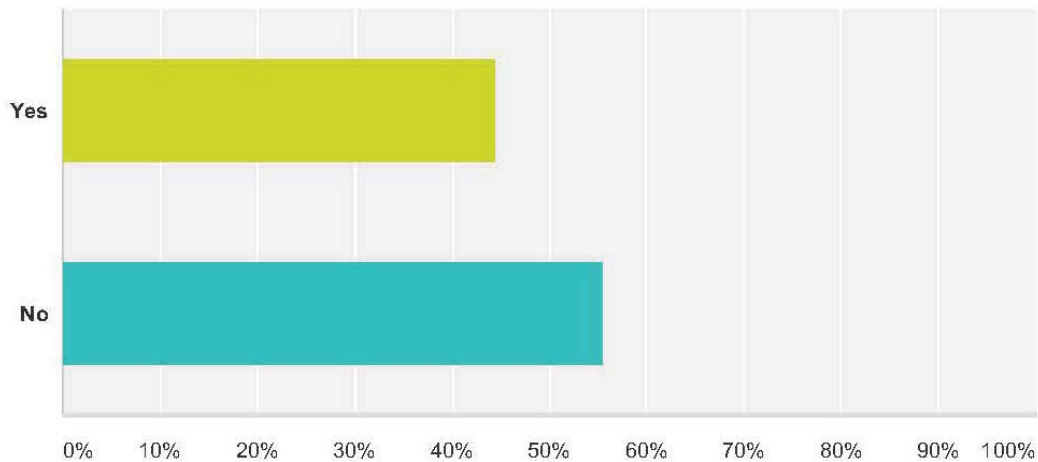
Q2 If Council's roads were not funded to the extent they are presently, would you be satisfied for them to be maintained at a lower standard?

Answered: 15 Skipped: 3



Q3 Are you prepared to pay an additional 2% in rates in 2016/2017 to retain the condition of the shires roads?

Answered: 18 Skipped: 0



The attendance at the drop in centres, community sessions and completion of the survey represent a small proportion of the Pyrenees Shire population and were heavily weighted to the farming community. Most respondents were heavily influenced by their own circumstances and found it very difficult to take a whole of shire view. What was clear from the consultation is that roads are incredibly important to rural communities and reductions in service standards will impact them. What is unclear from the consultation is whose responsibility is it to fund the renewal of roads. Is it rate payers or is it State and Federal Governments? The farmers of Pyrenees Shire are currently dealing with a prolonged drought and were very clear in their message that they do not have the capacity to pay additional rates above the cap. Non farming residents had a very different view and supported a higher rate cap for the purpose of investing additional funds into road infrastructure.

2.4 CRITERION FOUR — VALUE AND EFFICIENCY

Value and Efficiency

The Pyrenees Shire Council is classified as a small rural council by the Victorian Grants Commission. As a small council with limited resources the Council continues to deliver value for money services to its community. Detailed below is an overview of how Council is delivering value for money for its ratepayers.

a) Review of Community Resource Centres and Tourism Services (March 2016)

Council is currently reviewing the operation of its Community Resource Centres throughout the Shire to ensure that it is providing the best value for money in this area. The screenshot below is an extract from Council's website which details the current review and the community feedback questionnaire.



- HOME
- YOUR COUNCIL
- WHAT WE DO
- COMMUNITY SERVICES
- TOURISM & EVENTS
- BUILDING & PLANNING
- 🔍

In this section...

I want to

- [Contact Council](#)
- [Pay My Rates](#)
- [Pay My Animal Registration](#)
- [Apply For Planning Permit](#)
- [Apply For Building Permit](#)
- [Apply For Permit To Burn](#)
- [Register My Animal](#)
- [Lodge An Action Request](#)
- [Snap Send Solve](#)
- [View Community Directory](#)
- [View Business Directory](#)
- [Work For Council](#)
- [Apply For Council Tenders](#)
- [Move To Pyrenees Shire](#)
- [Hold An Event](#)
- [View Agendas/Minutes](#)
- [Lodge A Complaint](#)
- [View Emergency Information](#)

Have Your Say on Community Resource Centres

Monday 29 February 2016, 2:33 PM

Pyrenees Shire Council is asking for community input into the operation of the Avoca and Beaufort Community Resource Centres.

With a new cap on municipal rates due at the start of July, Council is keen to investigate the impact of alternative hours of operation at the two centres while continuing to provide services that meet community expectations. The two resource centres employ an equivalent 5.3 full and part time staff (and supported by volunteers) who provide tourist information and library services, booking of various community buildings, public internet access, computer training and services for local businesses like photocopying and faxing.



Several options are available to Council including the cancellation of its accreditation of the Victorian Tourist Information Council which requires the two centres to be open from 9am to 5pm every day of the year except Christmas.

A recent report to Council revealed that tourism customers represent a relatively low percentage of clients using the two facilities.

The review will seek feedback from users on the current operating hours and services provided at the centres and prepare recommendations on alternative servicing arrangements.

Mayor, Michael O'Connor, said community views would play a large part in the review.

"This is part of our ongoing review of the services we provide to ensure we get value for money and that we are providing services in line with what the community expect and are using," he said.

"It's very important that we maintain an appropriate service for the local community and this is the ideal opportunity for people to give us feedback on how these facilities should operate," Cr O'Connor said.

Members of the public are welcome to contribute to the review, please [click here](#) to give us your feedback.

Feedback can be submitted by using the link above. Alternatively you can download the Feedback form below and email to pyrenees@pyrenees.vic.gov.au or submit the completed form to the Pyrenees Shire offices at 5 Lawrence Street Beaufort or the Avoca or Beaufort Resource Centres.

[Feedback Form - Community Resource Centres \(PDF, 379KB\)](#)



Have your say

on Community Resource Centres

Pyrenees Shire Council is asking for community input into the operation of the Avoca and Beaufort Community Resource Centres.

With a new cap on municipal rates due at the start of July, Council is keen to investigate the impact of alternative hours of operation at the two centres while continuing to provide services that meet community expectations.

The two resource centres employ an equivalent 5.3 full and part time staff (and supported by volunteers) who provide tourist information and library services, booking of various community buildings, public internet access, computer training and services for local businesses like photocopying and faxing.

Several options are available to Council including the cancellation of its accreditation of the Victorian Tourism Industry Council which requires the two centres to be open from 9am to 5pm every day of the year (56 hours per week) except Christmas Day. A recent report to Council revealed that tourism customers represent a relatively low percentage of clients using the two facilities.

This questionnaire seeks your feedback on the current operating hours and services provided at the centres to inform Council about the most appropriate servicing arrangements.

Please tick or circle the answers appropriate to your circumstances for the following questions. Which of the resource centres do you normally use?

Avoca



Beaufort



1. What days do you normally attend the centre?
 - Sunday
 - Monday
 - Tuesday
 - Wednesday
 - Thursday
 - Friday
 - Saturday

2. How frequently do you visit the centre?
 - Occasionally (less than weekly)
 - Every week
 - Most days
 - Daily

3. What is your preferred time to call at the centre?
 - Before 10.00 a.m.
 - 10.00 a.m.- midday
 - Midday - 2.00 p.m.
 - 2.00 p.m.- 4.00 p.m.
 - Between 4.00 p.m. and 5.00 p.m.
 - Other specific time.....

4. What services do you use?

- Visitor information
- Library – borrowing, requesting and returning books
- Social – reading the daily newspapers, magazines and books; Book Club/Movie Club
- Computer services – desktop computers, WiFi
- Community House
- U3A
- Centrelink
- Venue hire
- Meeting rooms
- Community Car
- Council business
- Other.....

The table below compares hours of operation of other libraries/multi-purpose centres in the area.

LOCATION	Ararat	Avoca	Ballarat	Beaufort	Clunes	Creswick	Wendouree
HRS P/WK	40.00	56.00	52.75	56.00	34.00	45.50	38.50

The table below shows alternative operating hours, based on traffic level data collected at each site:

Day	Current Hours (both centres)	Suggested Alternative Hours of Operation	
		Avoca	Beaufort
Monday	9am-5pm	10am-4pm	10am-5pm
Tuesday	9am-5pm	10am-4pm	10am-1pm*
Wednesday	9am-5pm	10am-4pm	10am-5pm
Thursday	9am-5pm	10am-4pm	10am-5pm**
Friday	9am-5pm	10am-4pm	10am-5pm
Saturday	9am-5pm	10am-1pm	10am-1pm
Sunday	9am-5pm	10am-1pm	10am-1pm
TOTAL HOURS P/WK	56	36	37

* Reduced hours to allow for outreach services to housebound customers and mobile library to Landsborough, Lexton and Snake Valley

** Open until 6pm during local football season

How satisfied are you with the alternative operating hours shown in the table above?

Very satisfied Somewhat satisfied Not satisfied

If not satisfied, what change would you suggest?

.....

.....

.....

Any other comments

.....

.....

.....

Thank you for taking the time to complete this survey. Please return it to your Resource Centre or the Pyrenees Shire Office, located at 5 Lawrence Street, Beaufort.

b) Involvement in Central Highlands Regional Procurement Network

Council has been an active member of the above network since 2011. Significant advancements for value for money have been achieved as a result of the establishment of this network. The focus of this group is reflected in its terms of reference reproduced below.

TERMS OF REFERENCE

Central Highlands Procurement Network

Chair:	To be rotated across each of the Central Highlands region councils
Purpose:	To support the region's capacity for strategic procurement and to network and collaborate on common procurement issues and provide a forum for information exchange and professional development.
Membership:	<p>Procurement council representatives from the Central Highlands region group of councils:-</p> <ul style="list-style-type: none"> • Ararat Rural City Council • Ballarat City Council • Golden Plains Shire Council • Hepburn Shire Council • Moorabool Shire Council • Pyrenees Shire Council • Invitations to host GM/Director to be extended for each meeting • Other invitees – Subject to agreement, industry experts may also be invited to present to the network
Role of the Network:	<ul style="list-style-type: none"> • Guide the development and implementation of strategic procurement within the Central Highlands region. • Provide a forum for information exchange. • Facilitate and implement joint procurement training opportunities • Agree and support the implementation of a shared reporting framework, including the ability to undertake benchmarking in the region • Support the implementation of individual Road Maps by sourcing and sharing information, experiences, templates and documentation • Collaborate on a range of procurement issues and have an action/outcome focus in order to progress strategic procurement activities in the region • Identify commonalities in Road Maps, and where appropriate undertake joint projects to progress these issues in collaboration • Share spend data to inform and leverage regional procurement opportunities and progress collaborative procurement
Meeting Schedule:	<ul style="list-style-type: none"> • Meetings are held bi-monthly and hosted at member municipal offices. • The agreed day is the second Monday of the month • Agenda is to be distributed by the hosting Council 14 days prior to the meeting
Reporting	<ul style="list-style-type: none"> • Action items and outcomes to be distributed by hosting Council within 14 days of the meeting
Resourcing:	<ul style="list-style-type: none"> • Rotated through the Central Highlands region councils.

One example of the Network achieving value for money for rate payers was a coordinated bituminous road reseal project in 2012. The collaborative procurement achieved substantial savings of \$3.1 Million over five years for the participating councils, and a streamlined tender process provided savings to tendering businesses.

The Network identified a large variation in the documents, standards and approaches of like councils in undertaking the same activities. Consequently, a set of generic documents and templates were developed as part of the project and have been made available to the broader sector.

A further initiative of the Network was in response to the situation where inconsistent data across the sector made it difficult to evaluate potential collaborative projects. The Network agreed to the implementation of a process to convert comparable data sets to allow an evaluation on price.

This resulted in enhanced procurement practices for each of the councils, particularly in relation to overcoming perceived hurdles for major contracts, including:

- different end dates for existing contracts
- difference in specifications for works and services required by the participating councils
- need for some participants to move from a lump sum to a schedule of rates contract

The procurement process was highly transparent and signed off by an independent procurement auditor, verifying council and supplier confidence in the process.

Participants in the Network have committed to presenting their experiences at Regional Procurement Excellence Network (RPEN) meetings across Victoria.

Evaluation of the Network project highlighted that collaborative procurement allows for greater networking innovation and information sharing, which supports best practice in procurement. The project was awarded Procurement Australia's 2012 Innovation and Collaboration in Procurement Award.

c) Adoption of Best Value Principles and Service Reviews.

Service Reviews – History

- In 2011, Council conducted a service review of its family day care service. The outcome of the review was the service being contracted out to an external provider. While Council experienced some immediate restructure costs, the long term savings achieved represented value for money improvements for ratepayers.
- In 2015 a review of Council's Quality Accreditation System and Internal Tendering was conducted. The outcome of the review was to discontinue the Quality Accreditation and Internal Tendering process which will save money and improve efficiency and quality.
- In 2015 a review of Council's Customer Action Request System was conducted. The review identified a range of improvements that have enhanced customer response time.
- In 2014 a review of the OH&S and Quality Assurance department generated savings of \$80,000 per year. Savings were generated through process improvements and reassignment of duties performed by a contractor to existing staff.

- 2015 Waste Review has identified a number of initiatives that are being considered including reducing hours of operation for the transfer stations.
- In 2015 Council undertook a review of Home and Community Care Services and Local Government Act 1989 Compliance. These reviews identified process improvements which once implemented delivered improved service delivery.

Service Reviews – ‘The Future’

Council is currently conducting or has scheduled the following Best Value Service Reviews.

- Community Resource Centres and Tourism Services - March 2016
- Review of Council’s Rates and Valuations Processes and Strategies – May 2016
- Review Building Services – May 2016
- Review of Council’s Fleet and Plant Management Processes and Systems – November 2016
- Review of Council’s Procurement and Contract Management Processes and Systems – November 2016
- Review of Council’s Road Management Plan and Compliance Performance – May 2017
- Review of Council’s OH&S Systems and Statutory Compliance – May 2017

d) Rate cap and Freezing of Financial Assistance Grants

The Freezing of the Financial Assistance Grants and the 2.5% rate cap has reduced the forecasted Pyrenees Shire Council’s income by in excess of \$500,000. This is the equivalent of a 6.9% rate rise. These reductions in income to date have not impacted service delivery.

Savings have been found through service review efficiencies, improved procurement practices, shared services and a continuous improvement program. Pyrenees Shire Council is not applying for a higher cap to fund day to day operations. The higher cap application is driven by the need to invest increased renewal spending on an ageing road network to prevent future degradation of the network and subsequent impact on service standards.

2.5 CRITERION FIVE — TRADE-OFFS AND ALTERNATIVE FUNDING

Trade-Offs and Alternative Funding Options

a) Trade-Offs

Council's additional 1.33% rate cap request equates to \$97,970. In any budgetary considerations, there are a number of alternatives available to Council to increase spending on Road Infrastructure Renewal.

Operating Expenditure

Council has reviewed and continues to monitor all operating expenditure throughout the organisation. The impact of the rate cap and the freeze on Financial Assistance Grants has been absorbed by Council through operational savings and capital reprioritising. Savings have been achieved in the management of Council's fleet, reduction in staff and consultant costs, improved utilisation and efficiency of plant, utilisation of shared services, joint procurement activities and improved procurement processes. These savings have allowed Council to absorb the significant revenue reductions forced upon it by rate capping and the Freezing of Financial Assistance Grants.

With a small population and rate assessment base, Council is limited in the services it can provide to the community in comparison to larger Councils. With this in mind, Council believes the only way of achieving the additional level of funds required for infrastructure renewal that the 1.33% cap increase provides would be through service level reductions. Given the isolation and level of disadvantage in the Pyrenees Shire any reduction in service will be felt by those least able to cope.

A trade-off option could be the reduction of the community grants annual budget allocation of \$40,000 per annum. These grants provide community groups throughout the shire with the capacity to build and maintain essential community related infrastructure and services. These grants also have a significant multiplier effect with community groups contributing funds and in-kind support. There are many examples of potential items that could be cut from the budget, but all have a corresponding impact on service delivery and the community.

Council believes that there are no further opportunities in the operational budget to trade off the rate cap variance without negatively impacting on the level of services provided to the community.

b) Reduction in capital spending or service provision

If Council is unsuccessful with the higher cap application consideration will have to be given to either reducing capital spending or reducing service provision. From the information provided in this submission the impact of reducing capital spending is clear with the long term impact not only being significant to the road network but also significantly more expensive as the pavements deteriorate. Consideration would also need to be given to a reduction in other services like community grants, provision of School Crossing Supervisors and Home and Community Services. The cost benefit of the provision of all Council services would need to be considered with a focus on those services that have suffered from state and federal government cost shifting.

c) Alternative Funding Options

Council has considered alternative funding options.

Borrowings

Council does not view borrowings as an alternative, as it considers it would limit its long term financial strategy of using borrowings to fund large unforeseen expenditure items and large capital investment projects that are intergenerational (pools and community facilities). The funding of required road infrastructure renewal from debt would place a significant burden on ratepayers now and in the future and limit Council's ability to fund large unforeseen expenditure in the future.

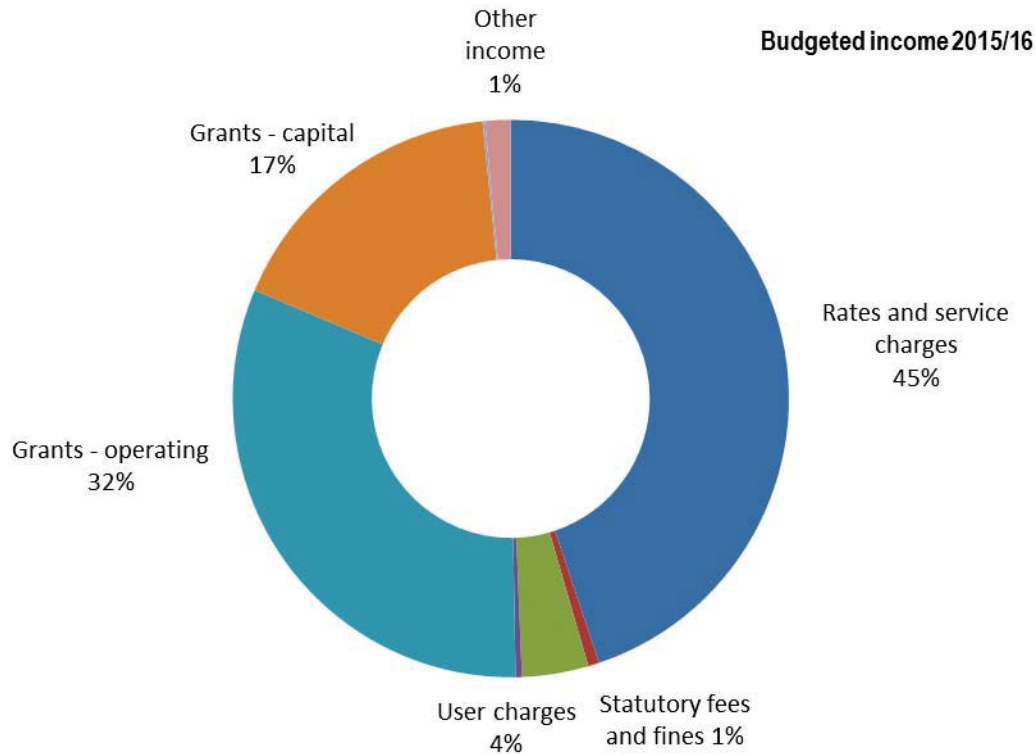
In recent years, Council has made a concerted effort to limit the use of new borrowings. The reasoning for this is that if borrowings are kept to a minimum, it retains the resources to meet large unforeseen expenditures that occur from time to time. An example of unexpected expenditure occurring is the most recent defined benefits superannuation call. Pyrenees's payment for this call was \$1.8M.

In recent times, Council used loan funds to part fund the Snake Valley sewerage scheme. This project cost in the order of \$3.0 million. Council's contribution of \$650,000 was funded by loan funds.

Fees and Charge Increases

Council has limited revenue through fees and charges. Most fees and charges are determined by legislation or commercial competition. For instance caravan park fees are largely determined by competitive forces in the local tourism market. Consequently, Council considers there are no funding alternatives in this area. A list of fees and charges is listed in the 2015-16 Budget Document included as Appendix 4. Below is an analysis of the Pyrenees Shire Council's Budgeted Income for 2015-16. As can be seen from the graph:

- 49% of income comes from grant funding
- 45% of income comes from rates and service charges
- Statutory fees & fines, user charges and other income only make up 6% of council income

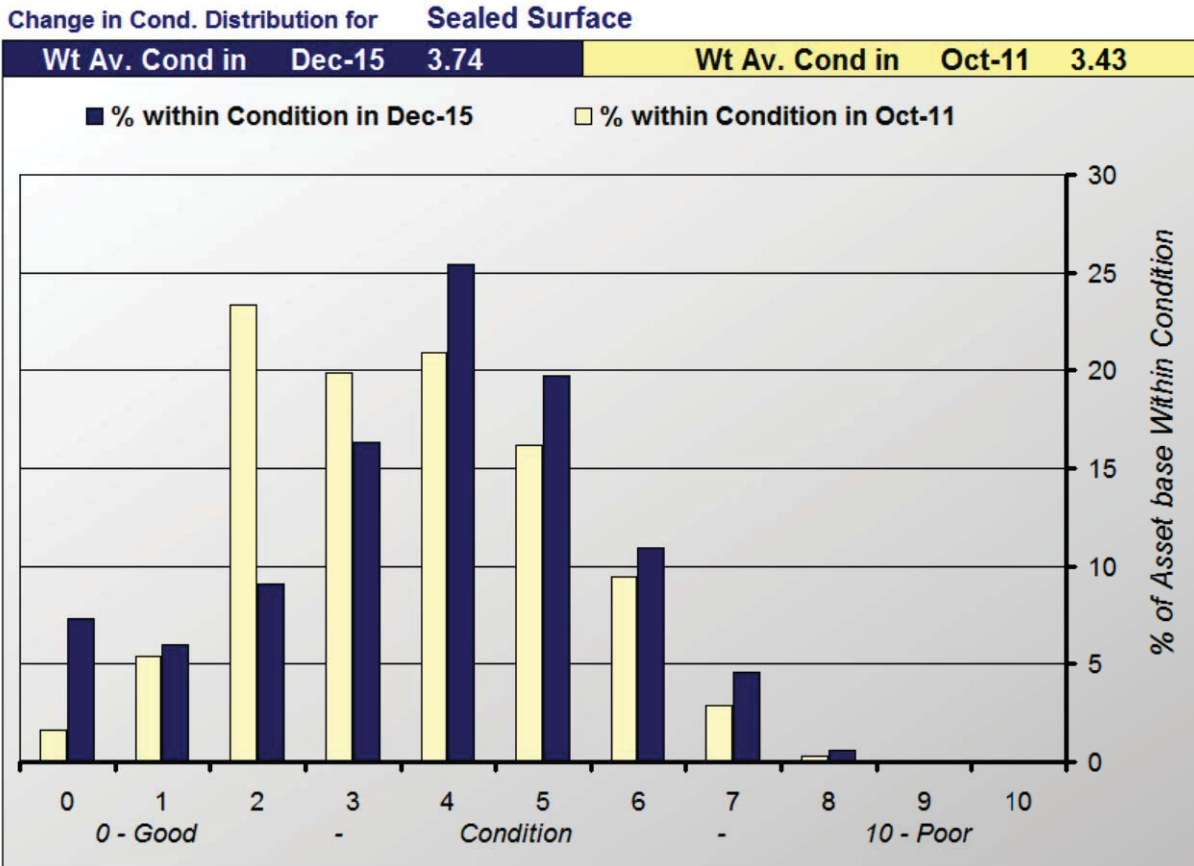


2.6 CRITERION SIX — LONG-TERM PLANNING

Long Term Planning

The rate cap of 2.5% set by the Minister is lower than the rate rise proposed in the Pyrenees Shire Council's Long Term Financial Plan which provided for future rate increases over the 10 year period to be 5.15% (2016/2017) reducing to 4% (2020/2021). This result is a significant shortfall in revenue and therefore reduced capacity for Council to renew and maintain assets and deliver services. One percent rate rise equates to approximately \$73,000. The difference in revenue for Pyrenees Shire Council in 2016/17 as a result of the rate cap is approximately $(2.65\% \times \$73,000) = \$193,450$.

Council has \$286,000,000 (Fair Value 30 June 2015) of road infrastructure assets. The life of the sealed surface component of sealed roads in the Pyrenees Shire is currently estimated to be 17 years. Council is currently resealing its roads every 24 years which means the condition of Council's sealed road network is deteriorating, as can be seen from the below graph.



The reduction in funding as a result of the rate cap will remove Council’s ability to increase investment in road reseals and work towards resealing roads every 17 years and not the current 24 years. The long term ramifications of the delaying of scheduled resealing works is that Council runs the risk of the road network deteriorating over time to an extent that the structure of the road collapses. If this was to occur the financial impact would be severe.

Copies of Council’s Long Term Financial Plan and Annual Budget have been included as appendices of this submission. Rather than repeating the contents of these documents in this submission, Council encourages the readers of the submission to study these documents to obtain a financial overview of Council’s current and future financial strategies.

3. CONCLUSION

Council has a population base of fewer than seven thousand people. As at the 30th June 2016, it is estimated that Council will have 5,866 rateable assessments. With such a small revenue base the continuing challenge for Council is the maintenance and renewal of its infrastructure assets. Council has in excess of four hundred and five million (\$405,000,000 Fair Value 30 June 2015) worth of assets. In the past fifteen years, Council has made a concerted effort to renew and maintain its asset base at a reasonable level. Council recognizes that if the road assets are allowed to deteriorate the long term renewal/reconstruction costs will be far greater than any orderly renewal and replacement program.

Council recognises and understands the government’s direction to reduce the quantum of rate increases on the community year on year. This application recognises this and works to strike an

effective balance between this imperative and Council's need to invest for the long term in the communities assets.

The rate cap of 2.5% set by the Minister is 2.65% lower than the rate rise proposed by the Pyrenees Shire Council. If Council is required to implement an increase of only 2.5%, Council sees no alternative but to either reduce services provided to the community and invest those savings into asset renewal or reduce asset renewal and suffer the long term consequences.

The road infrastructure assets are crucial to the general wellbeing of the Pyrenees community and in attracting visitors to the region. The revenue provided through the request for an additional 1.33% of rate revenue will be used to maintain these road assets on the community's behalf.

4. APPENDICES

- Appendix 1 Moloney Asset Management System Report
- Appendix 2 Community Satisfaction Survey 2015
- Appendix 3 Whelan Report
- Appendix 4 2015-16 Budget and Long Term Financial Plan
- Appendix 5 Council Report – 19 January 2016
- Appendix 6 Fair Go Rates Submission Plan
- Appendix 7 Council Report – 16 February 2016
- Appendix 8 Council Report – 15 March 2016
- Appendix 9 Your Rates Brochure
- Appendix 10 Advocate Page
- Appendix 11 Facebook notice
- Appendix 12 Survey