

Introduction

Sunshine Coast Council's responsible financial management has delivered a budget with a focus on community and infrastructure capital investment; service delivery; public realm investment; ongoing refinement of asset management plans; implementation of the Community Plan; and strategic policy development.

This budget delivers for the whole region and builds on the platforms laid in previous years, with significant operating efficiencies leading to direct savings across all areas.

The following budgeted Financial Statements have been prepared in accordance with legislative requirements, and reflect the anticipated operational activities of Council over the 2011/2012 financial year, plus forecasts for the ensuing 4 years. The anticipated financial position of Council remains sound over the duration of this budget, laying a strong foundation for regional community growth.

Financial Statements contained within this report include:

- **Statement of Income and Expenses** – presents Council's consolidated operational revenues and expenses (where the money comes from and how it is spent); along with a summary of capital expenditure and funding sources.
- **Statement of Financial Position** – identifies the predicted financial position of Council, including Assets (what we own); Liabilities (what we owe); and Equity (our net worth).
- **Statement of Cash Flows** – reports how revenue received and expenses paid impact on Council's cash balances.
- **Statement of Changes in Equity** – presents a summary of transfers from Equity accounts.
- **Financial Sustainability Ratios** – key financial indicators that measure Council's financial performance.

Budget at a Glance

Sunshine Coast Council is forecasting a balanced budget which includes a modest operating surplus for each of the 5 years.

Total budgeted expenditure is \$638 million, with approximately a third of total expenditure representing an investment in capital assets and community infrastructure.

Whilst Council is subject to the same inflationary pressures from water, electricity and other base costs, General rates have been increased by 3.5%, which is below CPI (3.6% for Brisbane) and well below the Local Government Association Qld (LGAQ) Cost index (recommended at 7.5%).

It is noted that the revaluation of all properties during the last year by the Department of Environment and Resource Management (DERM) has seen property valuations increase by an average of 5.5% since the last review in 2008. The rate applied for each rating category has been adjusted to reflect the overall movement in valuations, but where individual properties have moved more than the average (either up or down), individual rates accounts may see a movement of more (or less) than the budgeted increase.

However, with a majority of properties falling under the minimum rate for each category,

total rates should only move by the targeted increase of 3.5%.

There has been no increase in key levies, such as Environment, Public Transport, Tourism or Heritage.

Importantly, there have been no changes to either rates early payment discounts (held at 5%), or Council's pensioner rebate scheme.

Efficiency savings in employment costs (less than 1% increase since last year) and further savings in materials and services have been identified in the 2011/2012 budget demonstrating a focus on managing costs and driving efficiency. This adds to earlier savings from both 2009/10 and 2010/11 budget periods. These savings have been achieved whilst maintaining or enhancing existing service levels.

Additional loans of \$40.9 million will be raised during the year, and \$11.5 million will be repaid against existing loans. The loans are applied to Council's \$189.7 million capital works program funding growth, and represent a significant and sustainable investment in the local economy. Loan funding assists to spread the cost of infrastructure over the life of the assets, meaning that those deriving a benefit from the assets acquired will pay for them.

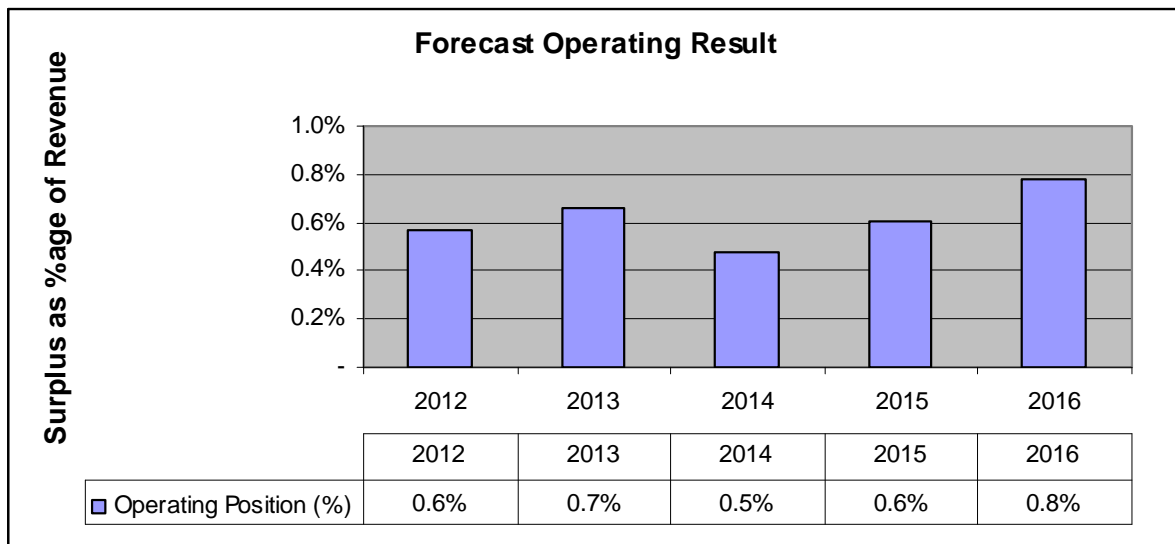
Budget Principles

The 2011/2012 Budget has been developed upon the following key principles:

- Responsible financial management;
- Shared ownership of Council's financial constraints;
- Delivery of a sustainable surplus operating result;
- Cost effective allocation of resources;
- Clearly defined operational service levels;
- Budgets based upon capacity to deliver;
- Capital expenditure based around Council priorities supported by sustainable asset management plans that focus on renewal and rehabilitation of existing assets; and
- Operational expenditure based around Council's operational plan, with priorities derived from adopted strategies and policies.

Budget Financial Statements

Statement of Income and Expenses

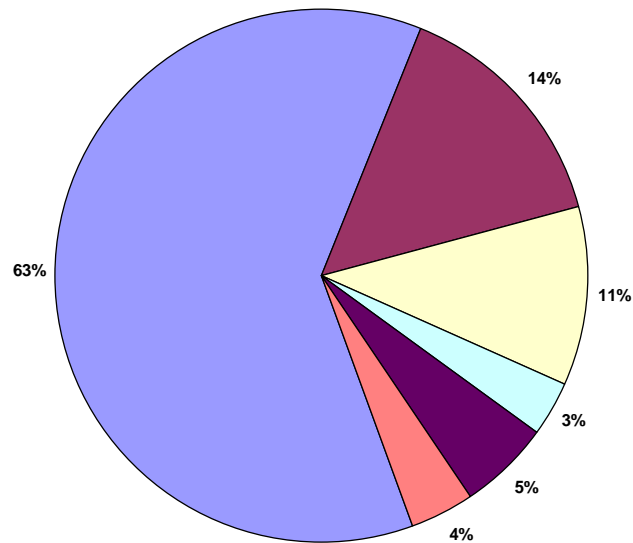


The above graph shows that Council is forecasting an operating surplus in each year. Any business that consistently spends more than it earns and running a budget deficit is living beyond its means. For Council, any surplus generated in the budget is reinvested back into our region via the capital works program.

An operating surplus is required to fund ongoing operations and maintenance, as well as providing necessary funds towards investment in public realm infrastructure. An operating surplus means that Sunshine Coast Council is not spending more than we earn and providing necessary funds for investment in regional growth.

Sunshine Coast Council

- Rates & Utility Charges
- Fees & Charges
- Interest on Investments
- Operating grants and subsidies
- Dividends Received
- Other Revenue

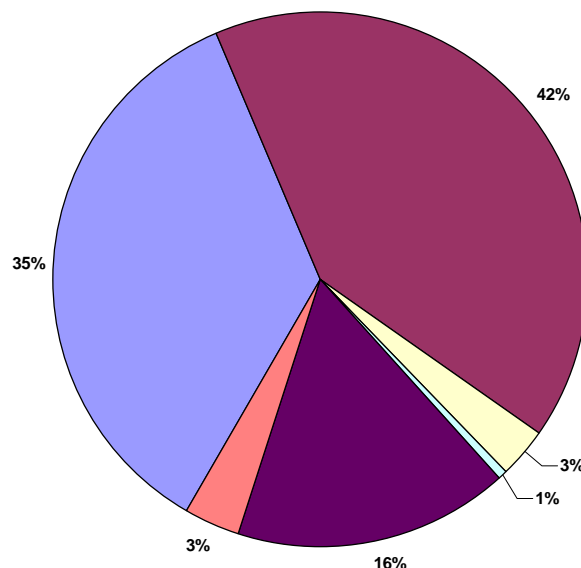


The graph above shows the break-down of Council revenue. It is important to note that Council does not rely heavily on funds from other tiers of government, and therefore has a high level of control over funding sources. Council continues to invest in Sunshine Coast Airport and Sunshine Coast Holiday Parks with revenue from these businesses reducing reliance on rates and supporting the local economy. Moderate increases in rates and charges enables Council to maintain relativity with movements in inflation, as measured against the consumer price index (CPI). Total operating revenue is forecast to be almost \$419 million for 2011/2012.

In addition to the above operating revenue, Council receives capital contributions from developers and specific capital grants from both State and Federal Governments. Capital revenue from these sources represents a further \$47.9 million in this budget.

Sunshine Coast Council

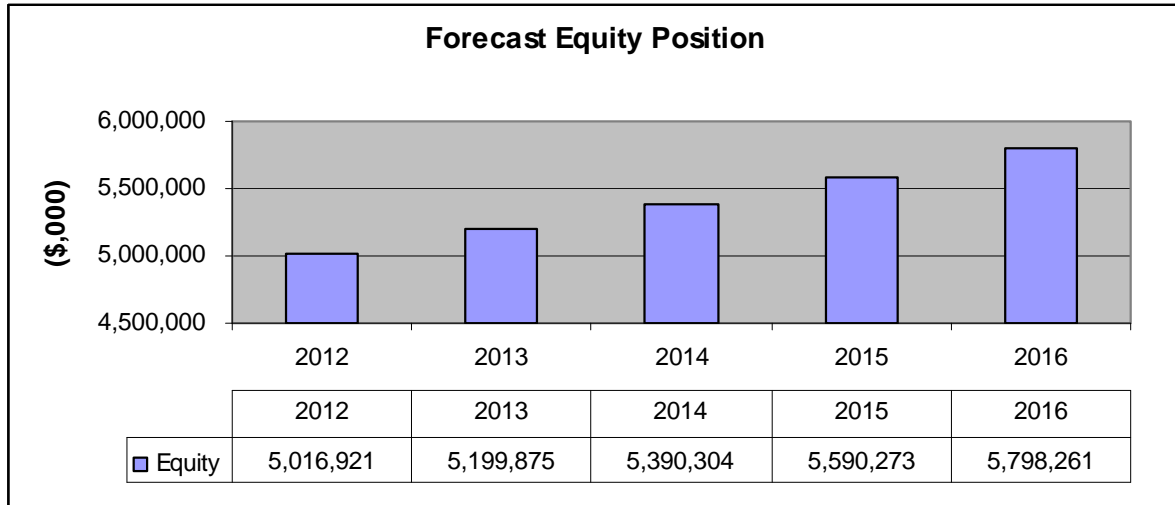
- Employee costs
- Materials & Services
- Finance Costs
- Company Contributions
- Depreciation
- Other Expenses



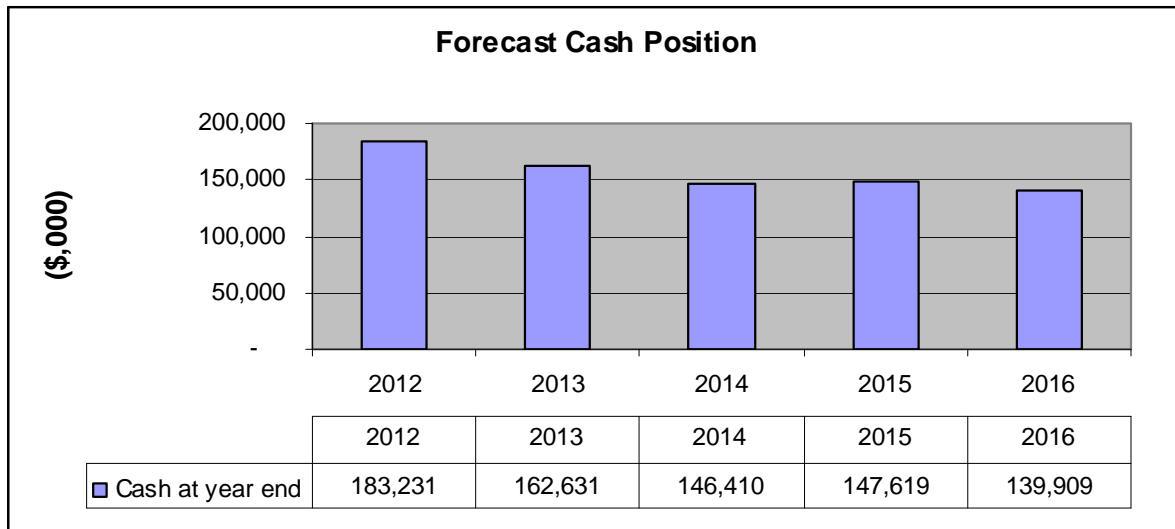
The above graph shows where the money is spent. *Materials and Services* represent payments made to external agencies and contractors; with a strong local preference identified in Council's Procurement Policy. This represents a significant investment in the regional economy. Further, payments to staff, identified as *Employee Costs* have increased by less than 1% since last year, demonstrating a focus on managing costs and driving efficiencies. Total operating expenses are forecast to be \$416.6 million for 2011/2012.

Statement of Financial Position

The 2011/2012 Budget includes the adoption of a 10-year indicative capital works program. This represents an investment of over \$1.3 billion in community infrastructure assets, establishing a platform for regional growth and providing a sustained boost to the local economy.

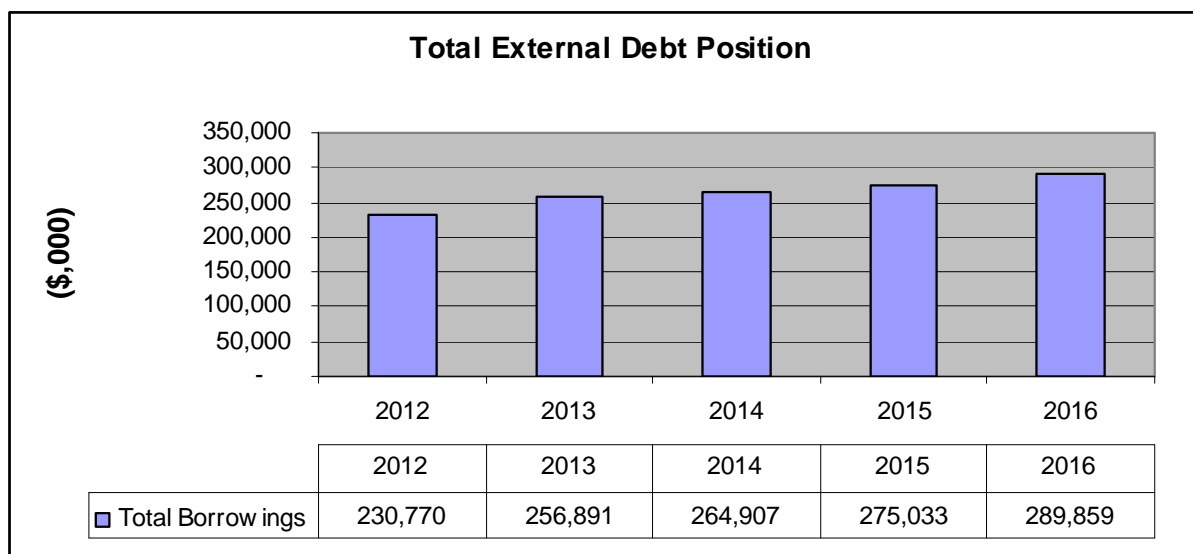


The Equity position shown in the graph above represents Council's net worth. As can be seen from the figures in the table, Council currently has a net worth of approximately \$5 billion, and this is forecast to grow to \$5.8 billion over the next 5 years.



Whilst the above table shows a falling cash position for Council over the forecast period, this represents the utilisation of cash reserves held for investment in community infrastructure. As cash funds are depleted, Council will rely more on loans raised to fund growth and capital works. However, any increase in development activity during the forecast period will see higher contributions towards this growth which will preserve Council's cash reserves.

External Loan Liabilities



Whilst it is planned to increase borrowing during the forecast period, the above table shows that overall debt levels remain affordable as regular debt payments hold the outstanding balance at relative levels. (This is further reinforced by reference to the interest coverage ratio in the following section).

Borrowing for long term assets is an effective way of spreading the cost of community infrastructure over the life of the assets in such a way that those deriving a benefit from the investment pay for it as it is being used.

Financial Sustainability Ratios

The Queensland Government has adopted a range of sustainability ratios that assist to provide a snapshot of Council's relative performance against other regions, as well as against accepted industry benchmarks.

Financial Sustainability Ratios		Year Ending 30 June											
Measure	Target	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Working Capital Ratio	> 1:1	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Operating Surplus Ratio	0% - 10%	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Net Financial Liabilities Ratio	< 60%	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Interest Coverage Ratio	< 5%	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Asset Sustainability Ratio	> 90%	✓	→	→	→	→	→	→	→	→	→	→	
Asset Consumption Ratio	40% - 80%	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	

The above table shows whether Sunshine Coast Council is performing within accepted target ranges. It clearly indicates that Council is achieving or out-performing the identified benchmarks in a majority of areas. For the Asset Sustainability ratio, there is an ongoing review of asset management plans that will confirm the desired level of expenditure on the renewal and refurbishment of Council assets. This will enable a review of the capital program to ensure an appropriate level of work is scheduled for existing assets. Specific values for each ratio are shown below.

Financial Sustainability Ratios		Year Ending 30 June											
Measure	Target	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Working Capital Ratio	1:1 - 4:1	3.6	2.7	2.5	2.3	2.3	2.0	1.8	1.6	1.4	1.2	1.1	
Operating Surplus Ratio	0% - 10%	22.3%	11.5%	11.1%	10.6%	10.5%	10.2%	10.1%	9.7%	9.5%	9.1%	8.9%	
Net Financial Liabilities Ratio	< 60%	6.0%	27.0%	34.0%	36.0%	35.0%	38.0%	40.0%	41.0%	41.0%	42.0%	43.0%	
Interest Coverage Ratio	< 5%	(9.8)%	(7.9)%	(7.8)%	(7.2)%	(6.9)%	(6.6)%	(6.3)%	(6.1)%	(6.1)%	(6.0)%	(5.9)%	
Interest Cover Ratio (exclude UW)	< 5%	(1.1)%	0.4%	(0.2)%	-	(0.2)%	(0.3)%	(0.3)%	(0.4)%	(0.7)%	(0.9)%	(1.0)%	
Asset Sustainability Ratio	> 90%	92%	75%	68%	76%	68%	63%	62%	62%	62%	62%	62%	
Asset Consumption Ratio	40% - 80%	79%	78%	78%	77%	77%	76%	76%	76%	75%	75%	74%	

Rating comparison

The following table shows a comparison of rates for a base level property paying the minimum general rate. Note that the overall rate increase is only 3.5% - reflecting the movement in the minimum general rate, waste management and levies. Note that there has been no increase in key levies, such as Environment, Public Transport, Tourism or Heritage. There has also been no change to the early payment discount or Council's pensioner rebate scheme.

It should be noted that the number of residential properties affected by a minimum general rate is 70% (up from 67%). Note that individual properties paying more than the minimum rate may find that movements in their valuation above or below the average for each class of property may result in a rate increase of more or less than the average of 3.5%.

Rate Notice for a residential property on the Minimum General Rate				
Service	2010/11	2011/12	Variation \$	Variation %
Minimum General Rate	\$912.00	\$944.00	\$32.00	3.5%
240 litre Wheelie Bin	\$199.90	\$209.70	\$9.80	4.9%
Transport Levy	\$20.00	\$20.00	\$0.00	0.0%
Environment Levy	\$60.00	\$60.00	\$0.00	0.0%
Heritage Levy	\$5.00	\$5.00	\$0.00	0.0%
Gross Rates	\$1,196.90	\$1,238.70	\$41.80	3.5%
Discount	\$45.60	\$47.20	\$1.60	3.5%
General rates only	5%	5%		
Net Rates	\$1,151.30	\$1,191.50	\$40.20	3.5%

Conclusion

During the 2011/2012 to 2015/2016 budget period, Council will be faced with a number of challenges, including the ongoing impacts of the downturn in development activity following the global financial crisis. However, Council remains focused on long term financial sustainability and to achieving operating surpluses in each year.

Risks exist for Council regarding the potential for changes in Government policy with the forthcoming State election, and with the impact of recent decisions including capped infrastructure charges, water reform and Caloundra South.

However, regardless of these risks, community and infrastructure capital investment; service delivery; public realm investment; ongoing refinement of asset management plans; implementation of the Community Plan; and strategic policy development remains the core focus for Sunshine Coast Council.

Implementation of Council corporate strategies includes funding of \$15.3 million, allocated to both operating and capital expenditure in 2011/2012.

Key operational activities planned for the year focus on the following Strategic areas:

- New Town Plan;
- Affordable Living;
- Aquatic Centres;
- Biodiversity;
- Climate Change and Peak Oil;
- Economic Development;
- Sustainable Centres and Employment;
- Energy Transition;
- Open Space;
- Sport and active Recreation;
- Social Infrastructure;
- Sustainable Transport;
- Waste Minimisation;
- Waterways and Coastal Management;
- Social Planning; and
- Youth.

Accordingly, the 2011/2012 Budget represents a responsible position by Council towards achieving the vision of becoming:

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Australia's most sustainable region – vibrant, green, diverse.