Sunshine Coast Council

Community Budget Report 2012/13




Australia's most sustainable region

Contents

Table of Figures

Mayor's Message

The 2012/13 budget is significant for Sunshine Coast Council in many respects. Firstly, the budget represents the starting point for the new Council and while we are faced with some significant challenges, we have inherited solid financial foundations from our predecessors.

Secondly, while the inaugural Sunshine Coast elected body was faced with the mammoth task of consolidating and laying a foundation for the amalgamated Council, we now have the opportunity to refocus and grow the region and continue towards the goal of being Australia's most sustainable region.

Thirdly, the need to address the downturn in local economic conditions has seen the push to ensure that operating efficiencies are translated into real savings internal to the organisation, and also to identify opportunities to work with the private sector and other levels of government to create an environment of growth.

Specifically, Council is building a sustainable Sunshine Coast by supporting local business and strengthening the economic foundations of the region.

Building on the *Natural Advantage* campaign to attract and retain business to the local area, and providing stimulus through a targeted business incentive initiative, Council also aims to improve accessibility through a restructure of fees and a streamlining of administrative processes.

The Sunshine Coast has a unique opportunity in the next few years to leverage major projects to benefit the whole region. Council recognises the significance of region-building projects such as the development of the Maroochydore Central Precinct, including the newly acquired Horton Park site; expansion of the Sunshine Coast Airport; and the impact of the Sunshine Coast University Hospital development at Kawana.

Council is also mindful of the need to ensure service levels for existing areas of operation remain high and continue to meet expectations in the areas of quality roads and infrastructure, environmental and recreational parks, and cultural services and facilities. The capital investment in community infrastructure during the four-year term of the current Council represents a total injection of funds into the local economy to the tune of $600 million, with an equitable split between renewal and refurbishment of existing infrastructure and investment in the growth of the Sunshine Coast.

Environmental programs remain a significant focus for Sunshine Coast Council, with significant investment into targeted land acquisitions, environmental planning, waterways protection and other environmental operations. Council acknowledges the opportunities provided through environmental tourism and, to this end, will continue to support Sunshine Coast Destination Ltd in its regional promotion efforts.

Support for community organisations and events through the Community Grants and Community Events Programs continues, and remains a priority for the new Council.

We are building a sustainable Sunshine Coast through responsible financial management. In framing this 2012/13 budget, Council has had to balance the recognition that people in the region are doing it tough – with the need to ensure the ongoing financial strength of the organisation. Since day one there has been a strong push for efficiencies and productivity gains from all areas of Council, and much of this has been achieved through the consolidation of systems and a commitment to continuous improvement.

We will continue to be sharply focussed on addition efficiencies and reform within the organisation throughout 2012/13. Although economic conditions have caused a decline in some areas of revenue, this budget has ensured efficiencies are translated into real operating cost reductions across all areas. Rate increases have been kept as low as possible. It is recognised that there will be an impact from the introduction of the Carbon Tax across a range of services and, in particular, on Council's waste operations.

I commend my fellow Councillors for their support, commitment and contributions through what has been a compressed and challenging budget process. The need to consolidate partnerships with both the State and Federal Governments cannot be understated as we establish a framework for growth through this budget. I also commend staff for their support and efforts in the production of this budget and their commitment to helping Council achieve its objective of making the Sunshine Coast ***Australia's most sustainable region – vibrant, green, diverse***.

Cr Mark Jamieson
Mayor

Introduction

This 2012/13 budget is aimed at strengthening the economic foundations of the Sunshine Coast that have been laid over the initial term of the amalgamated Council.

There have been a number of strong initiatives identified by the incoming Council that will provide a stimulus to businesses and economic activity across the Region and will ensure that Council maintains its strong credit standing.

Over the coming period Council has mandated reviews of the previously adopted Community and Corporate Plans, as well as reviews of the effectiveness and efficiency of previously accepted business paradigms as a means of driving ongoing cost savings.

The ten-year financial forecast has identified moderate increases in general rates required to finance increasing costs associated with growth of the asset base and scope of activities required. The forecast identifies the investment in infrastructure assets of almost $1.5 billion, funded from the operating surplus, capital contributions from State and Commonwealth Government grants, developers, and moderate loan funding.

Additionally, there are a number of key region building projects that will require additional external funding, but which represent strategic opportunities and core priorities for Council and the economic stability of the region as a whole. These projects include the continued implementation of the Sunshine Coast Airport Master Plan; the creation of a new city heart in Maroochydore; and the Sunshine Coast University Hospital at Kawana.

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 $604 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 3.6%, which is based on the Local Government Association Qld (LGAQ) Council Cost index, and which represents the weighted average of the Brisbane CPI and Queensland Roads and Bridges Construction Cost Index.

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 decrease by an average of 4.7% since the last review. 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, it is important to note that with a majority of properties falling under the minimum rate for each category, total rates should only move by the targeted increase of 4.3%.

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

There have been no changes to rates early payment discounts (held at 5%); although there have been minor changes to Council's pensioner rebate scheme. Changes to the pensioner rebate scheme are aimed at standardising the application of the policy across the Region, and have also removed the rebate from waste charges. With the majority of pensioners previously receiving the maximum rebate, there has been minimal impact from changes to the policy.

Waste Management Charges are scheduled to increase by an average of 9.2% for the majority of users, partially as a result of the impact of carbon tax, and partially as a result of funding the adopted waste strategy, together with the increased cost of operations.

Additional loans of $44 million will be raised during the year, and $13 million will be repaid against existing loans. The loans are applied to Council's $146 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.

Financial Statements

The following budgeted Financial Statements have been prepared in accordance with legislative requirements, and reflect the anticipated operational activities of Council over the 2012/13 financial year, plus forecasts for the ensuing 4 years. The anticipated financial position of Council remains sound over the duration of this budget, building on the strong foundation previously laid.

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.

Statement of Income and Expenses

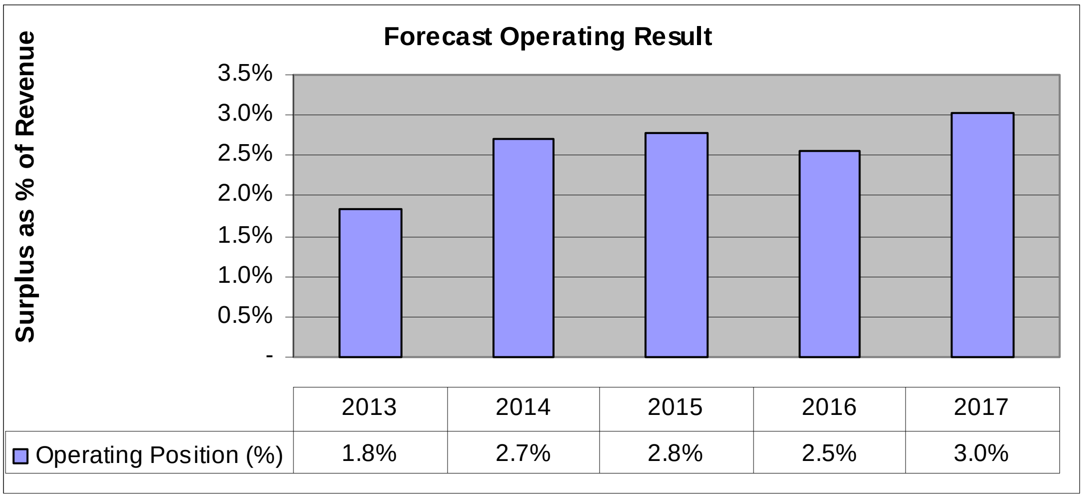


Figure 1 – Forecast Operating Result

The above graph shows that Council is forecasting an operating surplus in each year. Any business that consistently spends more than it earns by running an operating 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 thereby providing necessary funds for investment in regional growth.

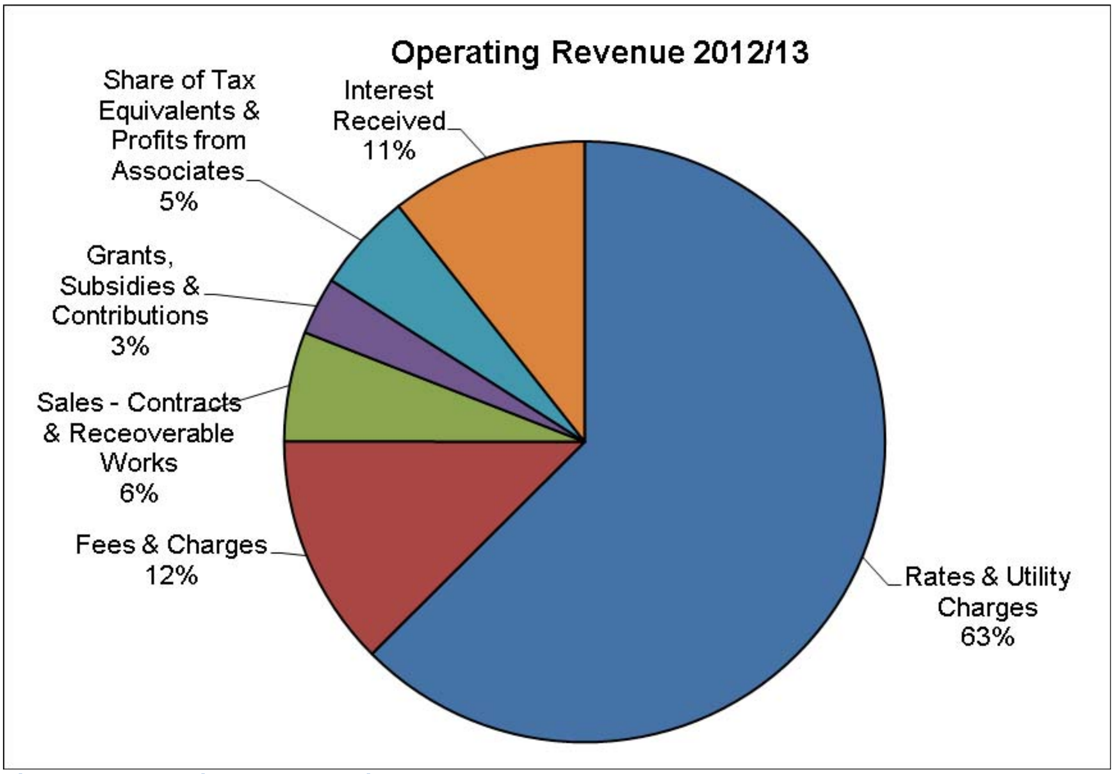


Figure 2 – Operating Revenue Elements

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. Total operating revenue is forecast to be $424.6 million for 2012/13.

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 $51.2 million in this budget.

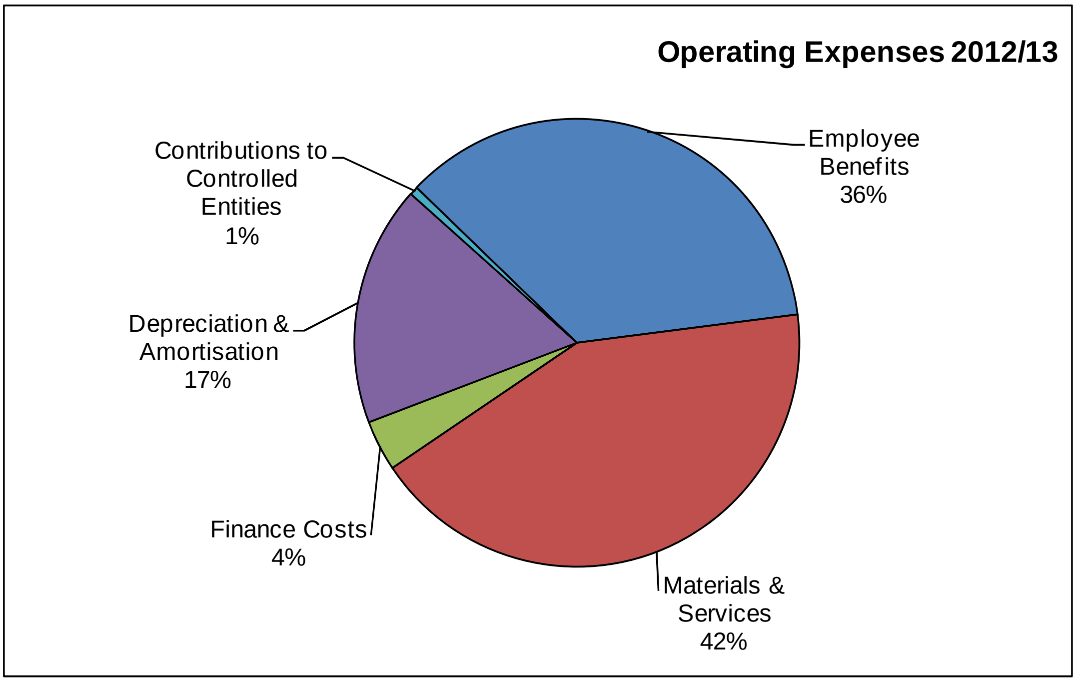
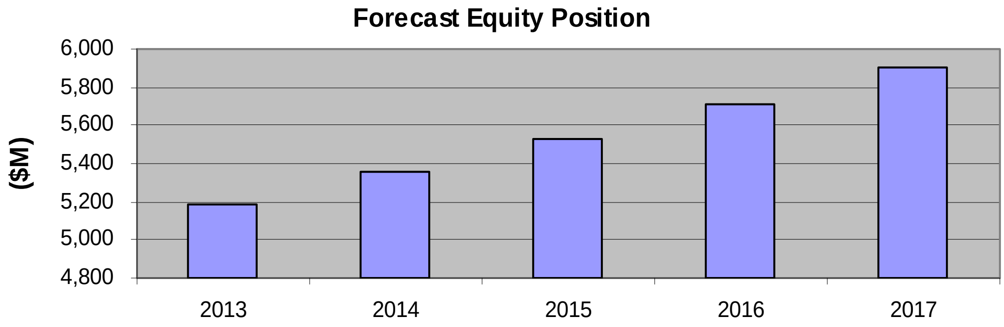


Figure 3 – Operating Expenses Breakdown

The above graph shows where the money is spent. *Materials and Services* represent payments made to external agencies and contractors. Council's Procurement Policy has an underlying principle to encourage the development of competitive local business and industry and this leads to a significant investment in the regional economy. Payments to staff are identified as *Employee Costs.* The increases in operating costs are a reflection of CPI, additional costs from the carbon tax, and the growth in assets. The focus for management remains on controlling costs and driving efficiencies. Total operating expenses are forecast to be $416.3 million for 2012/13.

Statement of Financial Position

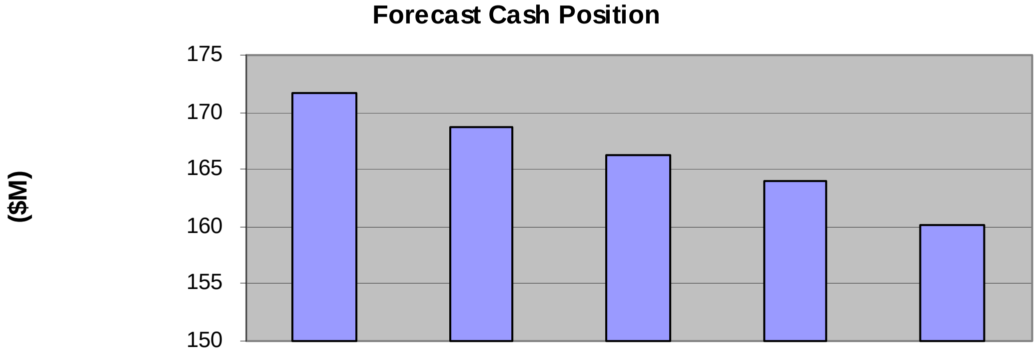
The 2012/13 Budget includes the adoption of a 10-year indicative capital works program. This represents an investment of almost $1.5 billion in community infrastructure assets, establishing a platform for regional growth and providing a sustained boost to local economy activity.



	2013	2014	2015	2016	2017
Equity	5,187	5,354	5,529	5,708	5,899

Figure 4 – Forecast Equity Position

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 $5.9 billion over the next 5 years.



	2013	2014	2015	2016	2017
Cash at year end	172	169	166	164	160

Figure 5 – Forecast Cash Position

Whilst the above table shows a slightly decreasing cash position for Council over the forecast period to reflect the utilisation of cash reserves held for investment in community infrastructure. The operating surplus achieved allows a minor replenishment of cash in the early years, while in future years Council will rely more on loans raised to fund growth and capital works and will benefit from any increase in economic activity during the forecast period.

External Loan Liabilities

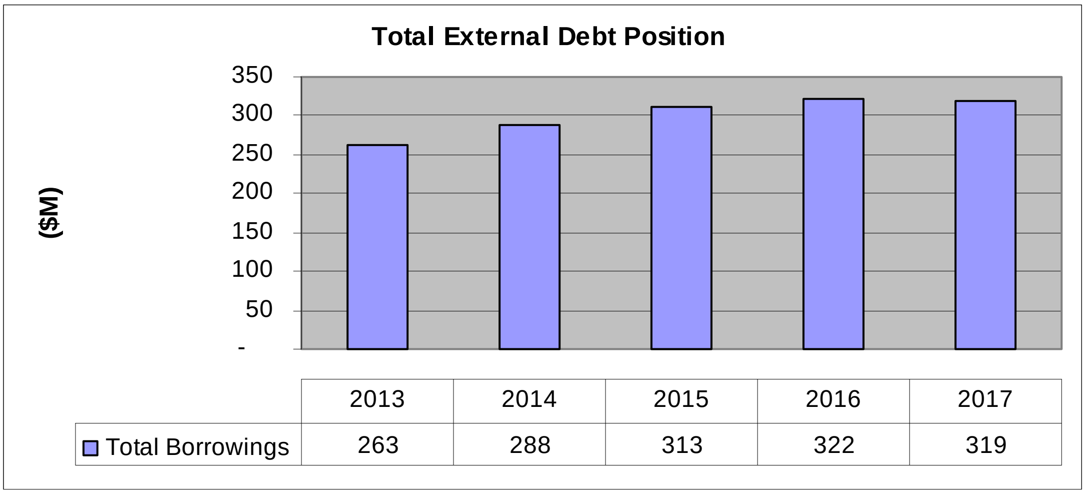


Figure 6 – Total External Debt Position

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 sustainable 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Working Capital Ratio	1:1 - 4:1	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Operating Surplus Ratio	0% - 10%	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Net Financial Liabilities Ratio	< 60%	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Interest Coverage Ratio	< 5%	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Asset Sustainability Ratio	> 90%	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘
Asset Consumption Ratio	40% - 80%	✘	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔

Figure 7 – Financial Sustainability Performance

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. For the Asset Consumption Ratio, the relatively young life of the infrastructure base means a value above the benchmark range. Specific values for each ratio are shown below.

Financial Sustainability Ratios		Year Ending 30 June										
Measure	Target	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Working Capital Ratio	1:1 - 4:1	2.8	2.7	2.6	2.3	2.2	2.2	2.0	2.0	1.9	1.8	1.7
Operating Surplus Ratio	0% - 10%	12.3%	13.9%	14.6%	14.5%	13.7%	14.1%	13.5%	13.2%	12.5%	12.8%	12.8%
Net Financial Liabilities Ratio	< 60%	21.3%	30.0%	35.0%	40.0%	41.0%	38.0%	38.0%	34.0%	32.0%	30.0%	25.0%
Interest Coverage Ratio	< 5%	(8.7)%	(7.3)%	(6.4)%	(5.6)%	(5.0)%	(4.7)%	(4.4)%	(4.3)%	(4.2)%	(4.1)%	(4.0)%
Asset Sustainability Ratio	> 90%	72%	70%	73%	69%	64%	61%	61%	61%	59%	62%	60%
Asset Consumption Ratio	40% - 80%	81%	80%	80%	79%	78%	78%	77%	76%	76%	75%	74%

Figure 8 – Financial Sustainability Ratios

Revenue from Unitywater

The budget has been prepared to incorporate revenue from Unitywater, created by the State Government to manage the distribution and retail of water throughout the region. Included in the Statement of Income and Expenditure are the following:

- Senior debt interest payments;
- Subordinate debt interest payments;
- Repayments of interest on working capital loan;
- Repayments of principal on working capital loans;
- Tax equivalents;
- Unitywater profits received as dividends; and
- Operating contributions towards activity undertaken in accordance with Service Level Agreements

	2013 ($,000)	2014 ($,000)	2015 ($,000)	2016 ($,000)	2017 ($,000)
Senior debt	17,927	17,927	17,927	17,927	17,927
Subordinate debt	16,148	16,148	16,148	16,148	16,148
Working capital loan interest	807	516	0	0	0
Working capital loan principal	4,181	4,472	0	0	0
Tax equivalents	4,500	4,545	4,590	4,636	4,683
Dividends	18,124	18,305	18,489	18,674	18,860
Service level agreements	410	424	439	455	470
Total Unitywater Revenue	**62,097**	**62,337**	**57,593**	**57,840**	**58,088**

Figure 9 – Unitywater Revenue

Note that the above assumes that revenue from the Senior and Subordinate debt continues at the current interest rates for the subsequent 5-year term of the loan which will be reviewed at July 2013.

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 4.3% - 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. Council has standardised the pensioner remissions policy such that it applies to both full and part-pensioners. The change achieves more consistency across the region with the result being a reduction for some existing pensioners while others who previously were not entitled to a remission will now receive a rebate.

It should be noted that the number of residential properties affected by a minimum general rate is 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 4.3%.

Rate Notice for a Residential Property on the Minimum General Rate

Service	2011/12	2012/13	Variation $	Variation %
Minimum General Rate	$ 944.00	$ 978.00	$ 34.00	3.6%
240 Litre Wheelie Bin	$ 209.70	$ 229.00	$ 19.30	9.2%
Transport Levy	$ 20.00	$ 20.00	$ -	0.0%
Environment Levy	$ 60.00	$ 60.00	$ -	0.0%
Heritage Levy	$ 5.00	$ 5.00	$ -	0.0%
Gross Rates	**$ 1,238.70**	**$ 1,292.00**	**$ 53.30**	**4.3%**
Discount	-$ 47.20	-$ 48.90	-$ 1.70	3.6%
(5% on General Rates Only)	5%	5%		
Net Rates	**$ 1,191.50**	**$ 1,243.10**	**$ 51.60**	**4.3%**

Figure 10 – Rating comparison

For the purpose of comparison the State Fire Levy has been omitted in the above example.

Note that there have been minor changes in the application of the rebate offered to eligible pensioners to standardise the application of the concessions policy across the region, and also to remove the concession from Waste charges.

Conclusion

This 2012/13 budget is aimed at building a sustainable Sunshine Coast, building on the foundations that have been laid over the initial term of the amalgamated Council. There have been some difficult decisions to be made in the allocation of funding across competing priorities, coupled with the push for real savings from operating efficiencies identified by Council.

During the 2012/13 to 2016/17 budget period, the Sunshine Coast region continues to battle against 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 and challenges exist for Council, including:

- A continued decline in key revenue streams including general rates, interest from investments and development related fees.
- The investment of significant funds into capital works as a result of ongoing growth which requires general rate increases at or above CPI.
- Uncertainty around the returns that council will receive from Unitywater into the future.
- The potential for de-amalgamation of the former Noosa Council area.
- The need for major funding and alternative financing options to deliver key region building projects.
- The continued management of new and identified strategic risks such as the infrastructure impacts at 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 Corporate Plan; and strategic policy development remains the core focus for Sunshine Coast Council.

The 2012/13 Budget represents a responsible position by Council towards building a sustainable Sunshine Coast, by supporting business, with quality community infrastructure and services, proactive environmental management and conservation, and through sound financial management.