



Budget Forum

Wednesday 3 September 2019



Basis of the Budget 2019/2020 Is Based on achieving CASH SUSTAINABILITY

The focus and basis underlying the preparation of the Budget 2019/2020 is to ensure that the Council's short and long-term financial objectives are achieved:

- 6.2 (i) the community's finances will be managed to provide sustainable and responsible management of the community's resources.
- 6.2 (v) the Financial Management Strategy aims to support the intention of Flinders Island remaining autonomous, and therefore demonstrates ongoing sustainability.



BUDGET 2019/2020

Flinders Council, as a small local council, has a limited rateable base and is therefore heavily reliant on grant support. Council currently faces challenges of:

- maintaining its large infrastructure (\$52 million assets) ;
- keeping up with regulatory demands;
- tackling environmental issues such as waste;
- delivering major projects such as the Telstra and Airport Runway upgrades; and
- providing solutions to prevalent issues such as the lack of affordable housing.

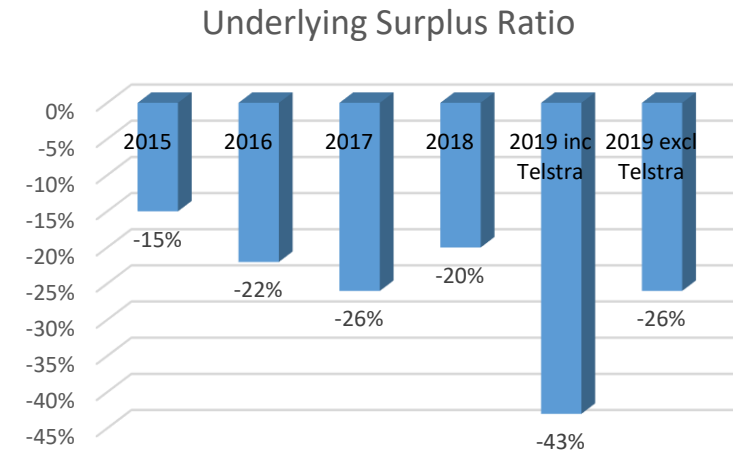
Cash Sustainability

For any budget to have credence, the ability to meet cash obligations is of prime importance.

How did we ‘suddenly’ arrive at a cash-critical point? - It is clearly historical. The negative Underlying Surplus Ratios indicate that Council has generated insufficient revenue to fulfil its operating requirements – **it is living beyond its means**

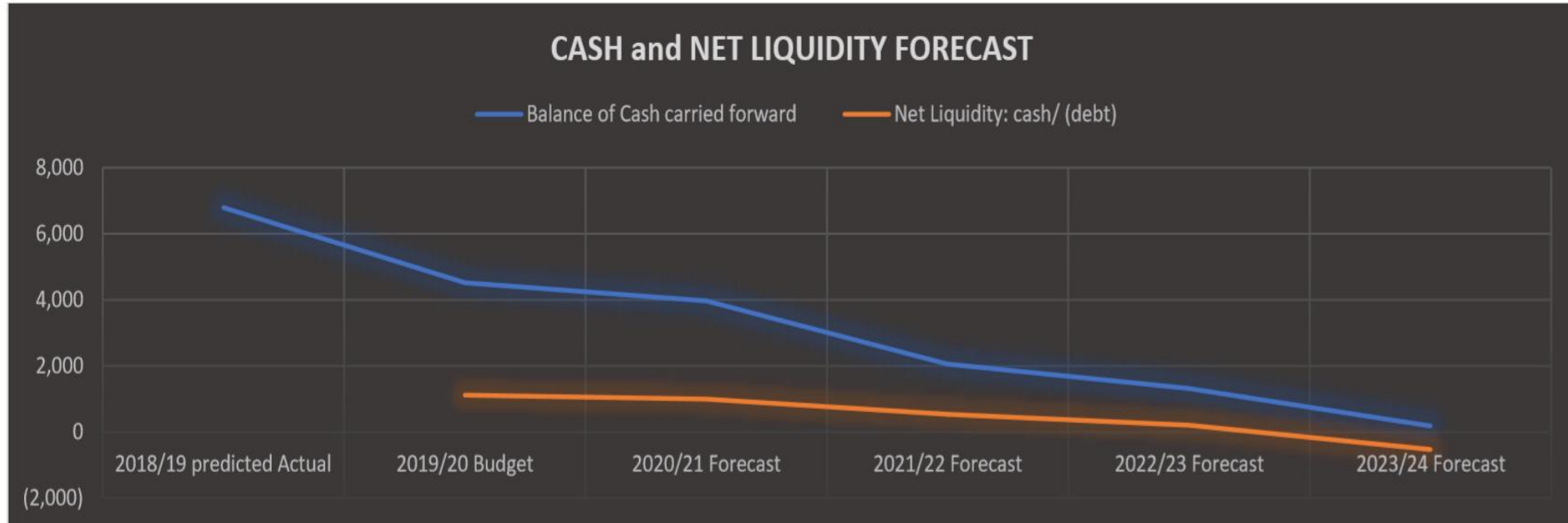
Why didn’t Council see the cash problem sooner?

- **No long-term plan** - historically there had been no long-term plan for asset renewals
- **Past decision-making was not made using long-term cashflow forecasting**
- **Major project works on Telstra and Airport Upgrade have significant impacts**
- **Large conversion of cash into fixed assets/infrastructure over the last four years**
- **Changes in waste regulations and running out of landfill** – this means we can no longer ‘bury our problem’
- **Failure to understand the real operational impacts the Airport was having on the financials**



Cash Forecast

Council is currently facing a declining cash flow situation, as it has historically converted its cash reserves into fixed assets (that now require up-keep and maintenance).





3 SOURCES OF INCOME

RATES

USER FEES and CHARGES

GRANTS



RATES

METHODOLOGY OF RATES for Council uses CAPITAL VALUE of a property as the base

Council applies two calculations:

- Rate in the \$ x Capital Value
- Fixed Charge – applies to all properties

Every 6 years the Office of Valuer General gives a FULL valuation on property Capital Values

Every 2 Years they apply an Adjusted Value on the Capital Values

This Year we had the 2 year Adjusted Value, which affected different categories of properties ranging between 0% and 20%

And

Council passed a 5% rise in the Rate in the \$ and the Fixed Charge



RATES

Effects on properties:

Worst Case:

The OVG Capital Value adjustment was 20%:
Results in a 20% rise in the rates from the OVG, plus a 5% rise in the rates in the dollar and fixed charge = **25%**

Best Case:

The OVG Capital Value adjustment was Zero%:
Results in a Zero% rise in the rates from the OVG, plus a 5% rise in the rates in the dollar and fixed charge = **5%**

RATES

Impact on Properties:

No. of Properties			Highest %	Average %	Lowest %
349	Flinders Island	General Rates -Primary	23%	15%	5%
327	Flinders Island	General Rates -Vacant	5%	4%	0%
61	Flinders Island	Non-Vacant Commercial	13%	7%	5%
2	Flinders Island	Non-Vacant Hotel Motel	12%	12%	12%
3	Flinders Island	Non-Vacant Commercial	12%	11%	11%
528	Flinders Island	Non-Vacant Residential	12%	10%	5%
54	Flinders Island	Other	0%	0%	0%
4	Cape Barren Island	Non- Vacant Commercial	12%	10%	9%
83	Cape Barren Island	Non- Vacant Residential	14%	7%	6%
67	Cape Barren Island	Non- Vacant Community Services, Non - Vacant Primary Production and Vacant Land	23%	7%	6%



Income

Income & Expenditure	Appendix	2018/19 Budget	2018/19 Preliminary Actual	2019/20 Budget
		000's	000's	000's
Income from continuing operations				
Recurrent Income				
Rates and charges	1	1,768	1,759	2,048
Statutory fees and fines	2	30	40	40
User fees	3	731	966	1,144
Grants - Operational	4	1,128	1,741	949
Interest Income	5	75	127	70
Other Income	6	42	128	56
Investment revenue from water corporation	7	54	36	36
		3,828	4,796	4,342
Capital Income				
Grants Capital	8	428	351	2,099
Net gain/(loss) on disposal of property, infrastructure, plant and equipment		30	(126)	-
		458	225	2,099
Total Income from continuing operations		4,287	5,021	6,441

- Rate's Increases from OVG ranges between 0% and 20% on properties , plus a rate rise of 5% passed
- User Fee Increases – due mainly to increases in Airport passenger taxes and landing fees (generates 70K) and Sale of Aviation Fuel (we make no profits)

OPERATING EXPENDITURE

Expenditure	2019 Predicted year End at Mar 19 000's	2018/19 Budget 000's	2018/19 Preliminary Actual 000's	2019/20 Budget 000's
Expenses excluding Telstra				
Employee Costs	(2,188)	(2,188)	(2,174)	(2,090)
Materials and services	(2,281)	(2,097)	(1,887)	(1,928)
Impairment of debts	0	0	(1)	0
Depreciation and amortisation	(1,618)	(1,618)	(1,609)	(1,602)
Finance costs	(101)	(101)	(87)	(88)
Other expenses	(1)	-	(1)	-
Total Expenses from continuing operations	(6,188)	(6,004)	(5,759)	(5,708)
Net Surplus/(Deficit) - excluding Telstra Project	(1,805)	(1,717)	(738)	733

- Employee Costs reduced by Down \$170k / 3.3FTES
- Consulting Costs halved saving \$150k
- Other Costs in Council minimized to bare minimum requirements



CAPITAL EXPENDITURE

Budget 2019/20 - Capital Expenditure

FLINDERS COUNCIL

Description	Capital Type	2018/19	2018/19	2019/20
		Budget	Preliminary Actual	Budget
		000's	000's	000's
Roads		574	506	826
Plant - Municipal		42	40	12
Plant - Airport		30	-	3,630
Buildings & Facilities		497	475	89
Waste		250	174	100
IT Computers, Telephones and Furniture & Fittings		39	31	8
TOTAL CAPITAL		1,432	1,227	4,665

- Airport Runway Upgrade of \$3.6 million is a major contributing factor to the cash decline. A grant of \$1.8 million was received towards the upgrade, leaving \$1.8 million for Council to fund. A government loan has been approved to alleviate the immediate impact, but requires payment over five years
- The Cost of Road capital expenditure has increased over the next 5 years due to the reduction of the Roads to recovery funding by \$400k over the next 5-year period



WHAT THE FUTURE HOLDS

The Budget 2019/2020 has been very difficult, and in order to address the rapid decline in cash in the next three years ,drastic measures were required.

The significant measures to correct the balance between our Income and Expenditure required hard decisions around increasing Rates and reducing Employment Costs and Operating Costs. This **has reshaped the structure of the Council to allow the rates in the next four years to be limited to CPI.**

Although major steps were taken to address the cash sustainability issue, the high cost of the Airport Runway still poses a challenge for the future, as repayment of the \$1.8 million loan is not proving viable . As such we are working with the State Government to find alternative solutions.

Future Capital Programs and Asset Investments will be reviewed with much stricter due diligence to ensure that they are BENEFITS to the Island – NOT BURDENS.