FLINDERS
COUNCIL

2017- 18 Budget Summary

1. Executive Summary

Under Section 82 of the *Local Government Act 1993* ("the Act "), Council is required to prepare Budget Estimates of the Council's revenue and expenditure for each financial year.

The Budget Estimates are to contain details of the following:-

- the estimated Revenue of the Council;
- the estimated Expenditure of the Council;
- the estimated Borrowings by the Council;
- the estimated Capital Works of the Council; and
- any other details required by the Minister.

In accordance with the Act the Budget Estimates must be adopted by **31 August** each year, but cannot be adopted more than one (1) month before the start of the financial year to which they relate.

A high level long-term financial plan covering the period up to 10 years has been developed to assist Council in adopting Budget Estimates within the longer term prudent financial framework.

The key objective of the financial plan is financial sustainability in the medium to long term, while still achieving Council's strategic objectives as specified in the 2015 four year Strategic Plan.

The 2017-2018 Budget Estimates presented in this report have been developed through a rigorous process of consultation and review with Councillors and Council Officers. It is Council's opinion that the Budget Estimates are financially responsible, contribute to achievement of the operational objectives and support the strategies included in the Strategic Plan 2015. It is also forward looking in that it fits within a longer term framework which seeks to achieve financial sustainability in the medium to long term.

A key influencing factor in the development of the 2017-18 Budget Estimates in line with the rebuild of the Council long term financial plan has highlighted the significant challenges Council faces in relation to asset renewals and financial sustainability and the need to invest in vital asset renewal in particular and infrastructure development projects and programs. The delivery of these projects will have a short term impact on the operating position of Council but with strong cash reserves prudent investment into asset renewal and development is required to secure the ongoing sustainability of these assets

The 2017-2018 Budget Estimates forecast an operating deficit of $1,556,624 after generating rate and charges revenue of $1,595,573 and Operating Grants contributions of $1,368,694.

Council's financial position continues to be challenged by a static rate base that constrains the ability to generate own source revenue and low interest rate returns. The ongoing growth in the regulatory compliance costs will have further negative impacts on the financial sustainability of Council in the year ahead.

It is necessary for Council to obtain future revenue growth whilst containing costs in order to achieve a breakeven operating position in the long term. The development of the investment strategy and strategic plan are actions designed to stimulate increases in long term revenue

opportunities while also balancing service standards to an affordable level within the existing financial constraints that are evident.

The total Capital Works Program will be $1,565,305 and any carried forward projects are fully funded within the 2017-18 Budget Estimates. Of the $1,565,305 of capital funding, $50,000 will come from external grants and contributions and the balance from working capital.

The Capital Works Program has been set and prioritised based on a process of consultation that has enabled Council to assess needs and develop sound project management business cases for each individual project.

2. Budget Estimates Overview

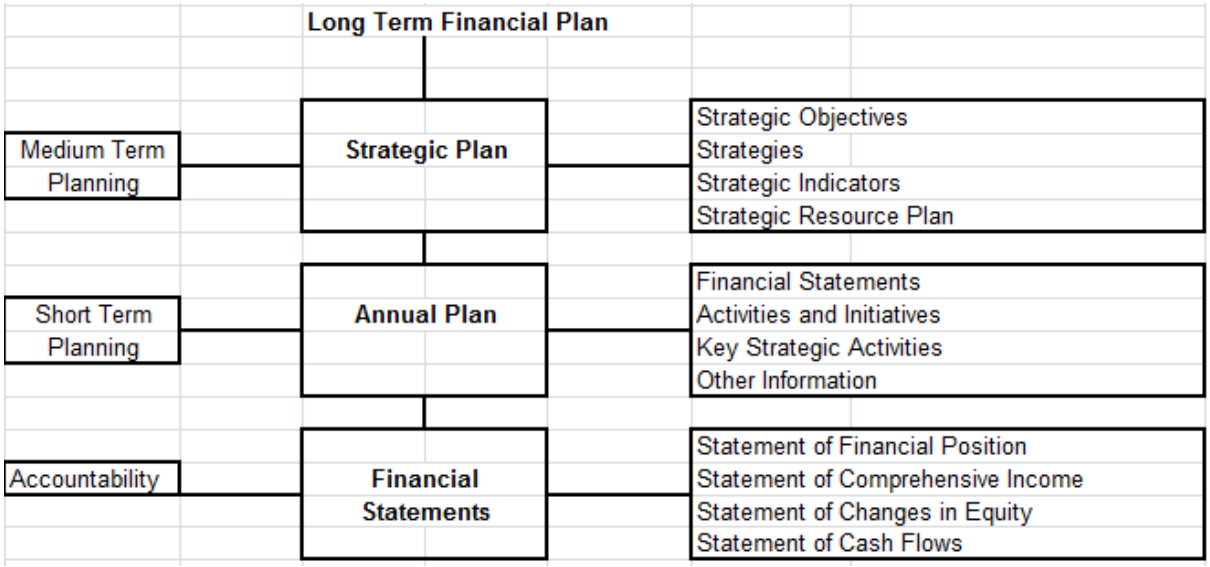
This section describes how the Budget Estimates are linked to the achievements of the Annual Plan within an overall planning framework. This framework guides the Council in identifying community needs and aspirations over the long term, medium term (Strategic Plan) and short term (Annual Plan) and then holding itself accountable (Audited Financial Statements).

2.1 Strategic Planning Framework

The Budget Estimates have been developed within an overall planning framework, which guides the Council in identifying and meeting community needs and aspirations over the long term, converting these into medium term and short term objectives, strategies, initiatives, activities and resource requirements and then holding itself accountable by the audit of the Financial Statements.

The 2015 Strategic Plan summarises the key objectives, strategies and actions that Council plans to pursue over the next four (4) year period. The operational objectives form part of this Annual Plan and is framed within the context of the draft Strategic Plan. These objectives outline the operating environment, key initiatives/actions and resource requirements for each of Council's program areas. The operational objectives then form the basis for the Annual Budget Estimates.

The diagram below depicts the Strategic Planning Framework of Council:-



2.2 Strategic Plan Outcomes

The Annual Plan includes the activities and initiatives to be funded that will contribute to achieving the strategic objectives specified in the 2015 Strategic Plan. It identifies both the physical and financial resources required to undertake these activities and initiatives. The Budget Estimates convert these resource requirements into financial terms to allow Council to make fully informed decisions when allocating scarce resources.

2.3 Budget Estimates Preparation

Under Section 82 of the Local Government Act 1993, Council is required to prepare and adopt Budget Estimates for each financial year. The Estimates are required to include estimated revenue, expenditure, borrowings, capital works and any other detail required by the Minister.

The first step in the Budget Estimates process is for the Council Officers to prepare a first draft of the Budget Estimates in accordance with the Local Government Act 1993 and submit the draft to Council for discussion, amendment and eventual adoption. Workshops are held with Council to discuss and refine the document. The Budget Estimates must be adopted by 31 August each year but not more than one (1) month before the start of the relevant financial year.

The 2017-2018 Budget Estimates, are for the financial year 1 July 2017 to 30 June 2018 and are prepared in accordance with the Local Government Act 1993. The Budget Estimates include an Estimated Income Statement and an Estimated Capital Works Program.

These statements have been prepared for the year ended 30 June 2018 in accordance with applicable Australian Accounting Standards, other mandatory professional reporting requirements and the Local Government Act 1993. They also include detailed information about the rates and charges to be levied, the Capital Works Program to be undertaken and other financial information the Council requires in order to make an informed decision about the adoption of the Budget Estimates.

The Budget Estimates include consideration of a number of long term strategies to assist Council in considering these Estimates in a proper financial management context

2.4 Budget Estimates Process

The key dates for the 2016-17 Budget Estimates process are summarised below:

Budget Estimates Process	Month
1. Commence drafting estimates & operational objectives.	April
2. Workshops with Council.	May/June
3. Budget estimates adopted by Council.	July
4. Advertise new Rates and Charges within 21 days.	August
5. Provide copies to listed persons and organisations.	July
6. Public Display	July

2.5 Budget Estimates Influences

2.5.1 External Influences

In preparing the 2017-2018 Budget Estimates a number of external influences likely to impact significantly on the services delivered by Council have been taken into considerations. These include:-

- Feedback from Treasury indicates State Grants Commission funding.
- Prevailing economic conditions, which will affect interest rates relating to both borrowings and investments.
- Continued growth in regulatory compliance costs.
- Ongoing Asset replacements and upgrades.
- Amendments to the *Local Government Act 1933* so that all Tasmanian Councils must have an adopted Long-Term Financial Management Plan and an Asset Management Plan, Strategy & Policy and Audit Panel in place.

2.5.2 Rates Revenue

Rating Methodology

In preparation for and later as a result of the 2017/18 Council wide revaluation undertaken by the Office of the Valuer General, a detailed best practice review was undertaken into the rating system that operated in the municipality.

In part this action was promoted by the Local Government Division of Premier and Cabinet who have advised that the government supports a general industry move away from the use of Annual Value (**AAV**) towards a Capital Value (**CV**) system of rating. The general intent is that, once a majority of Councils have made the change to CV, AAV's will not be provided by the Office of the Valuer General. When this occurs, revaluation costs for all Councils will reduce.

Council has also received significant feedback questioning the fairness and application of certain aspects of our current rates system, particularly with respect to the Waste Levy, where lowly valued properties and vacant land are specifically affected as those ratepayers question the equity for perceiving to pay for Waste Management Infrastructure on the same basis as those that use the facilities to a greater extent. Council staff have had difficulty explaining AAV based rating and have had to resort to CV to explain how rates are calculated.

As a result, a Rating Information Paper was prepared and reviewed by Council in April 2017. This provided a sound basis to review all of the aspects under the Act associated with rating; for there are many options available. In addition, Council's current methodology which uses of AAV, a Minimum Rate and a Waste Levy was compared against the principles of taxation which the Act uses to underpin local government rating (see s.86A of the Act).

From a "principle policy based perspective" the current system was seen as significantly inferior with some inequities and at the April 2017 Council Meeting Council resolved, as indicated above, to examine detailed rate modelling and examine the effects for a variety of options. These included comparing AAV and CV modelling with a minimum and fixed charge, use of differential rating for land use and island locations and the potential removal / repositioning of the Waste Levy. Benchmarking with other Councils was also commissioned.

This work was undertaken and reports examined and discussed in detail at two subsequent workshops within the context of a potential rate increase to fund the 2017/18 Budget. Key aspects included the following:

(a) There are many factors in play such that rates modelling has and will invariably throw up changes at a revaluation, some major and some minor both up and down reinforcing the current timing of a thorough review.

(b) Flinders has a very small rates base and a large operational deficit and additional rates associated with additional properties and new developments and extensions that have arisen since the start of the previous financial year represent "natural growth" is of particular significance.

(c) Under the Act rates are a form of taxation - not a 'fee for service'. As such there are a number of principles of taxation that need to be considered. These include the following:

- The Capacity to Pay Principle broadly measured by a property's valuation.
- The Benefit Principle which identifies that all ratepayers, regardless of valuation, receive some benefit from the services provided by Council on an equal basis. The Fixed Charge component of the rate reflects this.
- The User Pays Principle which is virtually he who uses pays. A waste collection service, if offered in the future, would be such an example

(d) CV is viewed as more truly representative of a ratepayer's capacity to pay under the Act, unlike AAV, which is essentially a theoretical rental value. There are also no distortions due to artificial minimum caps imposed under AAV and the data that underpins the valuation is more transparent. Being much easier to explain to ratepayers is an advantage and this change would be in line with the State Government desires to eventually eliminate AAV and thereby reduce Council's revaluation costs.

(e) From an equity or fairness consideration the use of a Fixed Charge is preferable to a Minimum Rate. A Minimum Rate arbitrarily assigns a minimum amount to a property but it only applies to a percentage of properties as determined under the Act whereas a fixed charge treats everyone the same to a certain extent; all ratepaying properties are considered to derive similar benefit from <u>all</u> of the services and activities of Council.

(f) The previous and not well liked Waste Levy was applied to all properties and was set at levels that coincided with the costs to operate waste management facilities. As there was no waste collection component this element was not included.

It however had no regard to the fact that each property's waste management needs varied yet they were charged the same amount. Effectively it acted like a Fixed Charge except that unlike a Fixed Charge it applied at a 100% level rather than the much lower cap that is required to be met for a Fixed Charge under the Act. It was also considered land unfairly landed on lower valued properties, especially those on a minimum rate.

An important consideration is the waste levy did not recover all of the medium and long term operational costs for waste management and, if retained and applied in its current form, retention would have invariably meant significant increases in waste levy costs thereby compounding the situation.

(g) As previously indicated and highlighted by the Office of the Valuer General, AAV tends to hit higher on commercial properties and when CV is applied there can be a

significant redistribution. The redistribution is not also equal with some types of properties tending to have significant higher AAV's as a percentage of their CV; which in reality was found to be difficult to justify. Use of an increased commercial differential was identified as a legitimate option.

(h) In reviewing the issue of the sea access issues associated with the outer islands it was considered that Cape Barren Island warranted some consideration as they provide some of the traditional municipal services at their cost

(i) Benchmarking with King Island and other Northern Tasmanian Councils also indicated that by and large rates on Flinders were on average around levels set elsewhere with a few exceptions as follows:

- higher for vacant land and in the residential sector;
- lower in the Primary Production sector; and
- where there are separate Waste Infrastructure charges Flinders was inordinately high.

Dealing with the effects of the vagaries of a revaluation as well as a change in methodology is always a challenge and in this respect a snapshot of rates modelling has been included in the proposed budget, but as indicated above moving to CV based rating with a Fixed Charge, eliminating the waste levy and introducing differential rating has a number of upsides namely:

(i) significantly improving equity and fairness along sound policy lines;

(ii) facilitating the growth of the rates base naturally and fairly at a greater rate than would otherwise be the case;

(iii) changing to CV based rating will be welcome by the State Government and supports the push for reduced valuation costs; and

(iv) providing the Council with more direct influence in the rates distribution through the use of differential rating.

<u>Rate Increase</u>

Flinders has a very small rates base and a large operational deficit and additional rates associated with additional properties and new developments and extensions due to a number of supplementary valuations that have arisen since the start of the previous financial year represent "natural growth" is of particular significance.

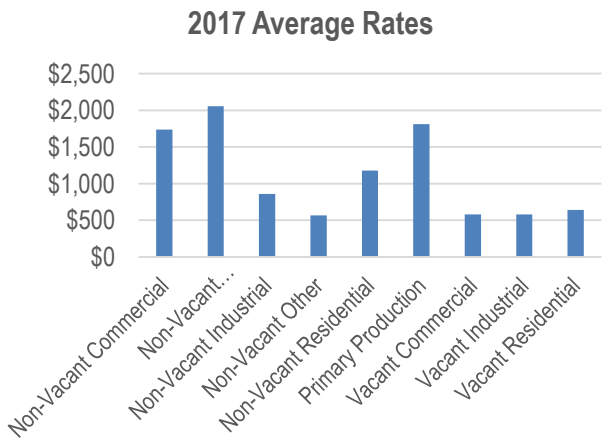
Budget and rating has been set with an increase in rates by an amount, excluding natural growth, of 3.5%. Rates for individual properties will naturally be affected by changes to property valuation (some went up and others went down) plus the level of valuation and changes via the rating system. Increasing the rates annually by CPI will continue to produce an annual operating deficit. In order to achieve long term financial sustainability, an annual CPI increase will not have the desired impact.

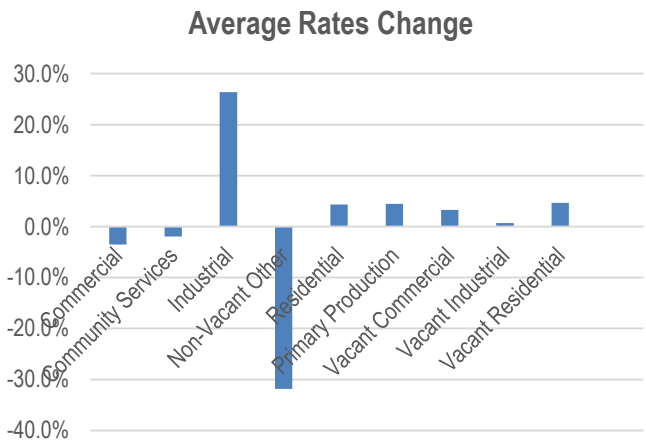
Waste Management

The removal of the waste levy for infrastructure will be unlikely to return for the reasons stated but as part of a current Waste Management Review, Council is looking at the possibility of introducing a new kerbside waste and recycling collection service in the future. This process will also involve significant community consultation but if a future new service was introduced then like most other Councils a separate user pays charge waste collection charge may result. If introduced it would only apply to only those properties that are actually provided with the service.

General Rates

Following modelling the general rate has been varied with a higher differential applying for Commercial properties with slight reductions for residential land uses and at Cape Barren. The $350 Fixed Charge component represents around 27% of the General Rates levied, well within the 50% limit imposed by the *Local Government Act 1993.* The combined effects of these changes are shown as follows





Fire Services Contribution

Pursuant to the *Fire Service Act 1979*, Council is required to collect funds for firefighting services throughout the State. The amount generated, less legislated collection costs, will be forwarded to the State Fire Commission who have indicated that the minimum levy will be $39 per assessment.

RATES HISTORY

Summary of rates data over recent years

RATE TYPE	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
COUNCIL REVENUE							
General Rates							
Valuation Method	AAV	AAV	AAV	AAV	AAV	AAV	CV
Valuer General Revaluation	revaluation		adjustment		adjustment		revaluation
General Rate cents in $	8.0709	8.5310	8.9512	9.4704	9.6598	9.6598	0.35830
Minimum	450.00	400.00	375.00	385.00	435.00	425.00	N/A
Fixed Charge	N/A	N/A	N/A	N/A	N/A	N/A	350.00
% of Rate Revenue raised from Fixed Charge							27.2%
Differential Rates							
% variation from General Rate							
Non-Vacant Commercial Land Use							+20.0%
Non-Vacant Residential Land Use							-4.0%
Cape Barren Island General							-10.0%
Cape Barren Island Non-Vacant Commercial							+10.0%
Cape Barren Island Non-Vacant Residential							-14.0%
Waste Management Rates							
Waste Infrastructure Fee	116.50	123.00	140.00	148.00	152.00	152.00	0.00
Waste Collection Fee	N/A	N/A	N/A	N/A	N/A	N/A	N/A

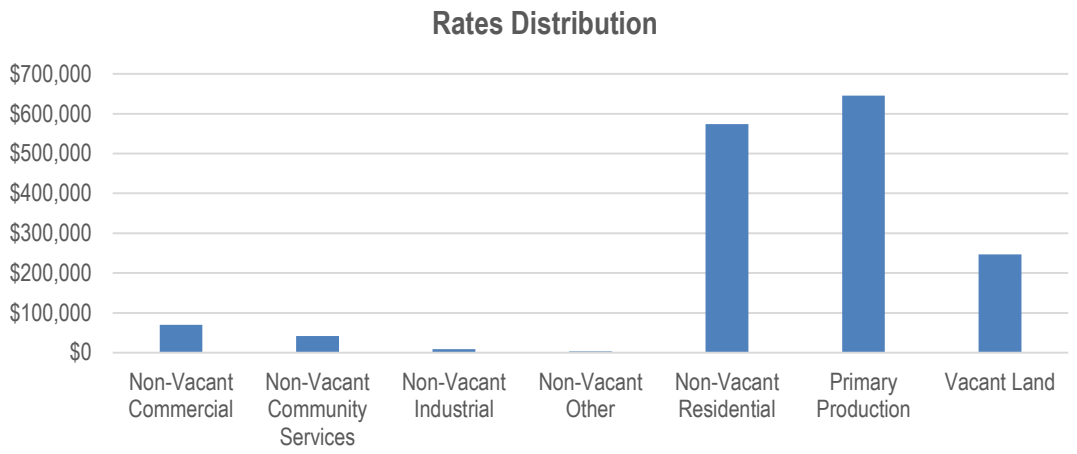
Other

Fire Service Collection Fee	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
% of Fire Levy							

FIRE COMMISSION REVENUE

Fire Levy

AAV Rate cents in $	0.32270	0.33210	0.33210	0.33210	0.32960	0.32960	0.349865
Minimum	35.00	36.00	36.00	37.00	38.00	38.00	39.00
As per Fire Commission Letter							



Sample Properties

The following sample of properties located within the municipality are provided to further highlight the changes brought about through the municipal wide revaluation and changes in rating methodology.

Sample Property	2018 CV	AV % of CV	CV Change	%	AV Change	%	Fire Levy Rates	Rates incl Fire Levy	Change $	Change %
Commercial										
Commercial 1	110,000	6.0%	5,500	5.3%	900	15.8%	$39.00	$861.96	$119.35	16.1%
Commercial 2	185,000	4.8%	9,000	5.1%	-316	-3.5%	$39.00	$1,184.43	$110.49	10.3%
Commercial 3A	390,000	4.6%	-6,000	-1.5%	-400	-2.2%	$63.15	$2,089.99	$92.95	4.7%
Commercial 4A	370,000	5.5%	7,000	1.9%	2,200	12.1%	$71.20	$2,012.05	$44.97	2.3%
Commercial 5	775,000	11.2%	-50,000	-6.1%	3,000	3.6%	$304.38	$3,986.57	-$4,558.51	-53.3%
Commercial 6	875,000	10.0%	22,500	2.6%	10,000	12.9%	$306.13	$4,418.28	-$3,477.49	-44.0%
Industrial										
Industrial 1	320,000	4.0%	94,500	41.9%	4,600	56.1%	$44.78	$1,541.34	$557.24	56.6%
Industrial 2	175,000	6.0%	15,500	9.7%	1,800	20.7%	$39.00	$1,016.03	-$16.38	-1.6%
Industrial 3	260,000	5.0%	7,000	2.8%	1,500	13.0%	$45.48	$1,327.06	$24.18	1.9%
Industrial 4	380,000	4.0%	154,500	68.5%	7,000	85.4%	$53.18	$1,764.72	$780.62	79.3%
Primary Production										
Rural Property 1-2	900	4.0%	100	12.5%	4	12.5%	$39.00	$392.22	-$234.78	-37.4%
Rural Property 2	170,000	4.0%	-6,000	-3.4%	-240	-3.4%	$39.00	$998.11	$126.06	14.5%
Rural Property 3	260,000	4.0%	-4,000	-1.5%	-160	-1.5%	$39.00	$1,320.58	$108.50	9.0%
Rural Property 4	450,000	4.0%	10,000	2.3%	400	2.3%	$62.98	$2,025.33	$113.20	5.9%
Rural Property 5	500,000	4.0%	-6,000	-1.2%	-240	-1.2%	$69.97	$2,211.47	$35.61	1.6%
Rural Property 6-3	600,000	4.0%	22,500	3.9%	900	3.9%	$83.97	$2,583.77	$122.22	5.0%
Rural Property 7	950,000	4.0%	15,000	1.6%	600	1.6%	$132.95	$3,886.80	-$3.23	-0.1%
Rural Property 8-1	7,200,000	4.0%	-60,000	-0.8%	-2,400	-0.8%	$1,007.61	$27,155.21	-$2,007.94	-6.9%

Vacant Land										
Residential 1-CB	30,000	4.0%	4,800	19.0%	192	19.0%	$39.00	$481.87	-$145.13	-23.1%
Residential 2-K	260,000	4.0%	-15,000	-5.5%	-100	-1.0%	$39.00	$1,283.32	$77.04	6.4%
Residential 3	100,000	6.4%	-4,500	-4.3%	1,820	39.3%	$39.00	$732.97	$93.91	14.7%
Residential 4-P	185,000	4.0%	-2,000	-1.1%	260	3.6%	$39.00	$1,025.34	$143.63	16.3%
Residential 5	225,000	4.3%	-44,500	-16.5%	-512	-5.0%	$39.00	$1,162.93	-$22.87	-1.9%
Residential 6-W	245,000	4.1%	-13,500	-5.2%	168	1.7%	$39.00	$1,231.72	$86.49	7.6%
Residential 7-LB	290,000	4.0%	-18,000	-5.8%	-160	-1.4%	$40.58	$1,388.09	$59.34	4.5%
Residential 8	340,000	4.0%	-12,000	-3.4%	160	1.2%	$47.58	$1,567.07	$70.50	4.7%
Residential 9	470,000	4.0%	-25,000	-5.1%	-100	-0.5%	$65.77	$2,032.42	-$9.57	-0.5%
Residential 10	925,000	4.0%	-10,000	-1.1%	1,741	4.9%	$130.99	$3,662.69	-$57.41	-1.5%
Vacant Land										
Vacant 1-LB	34,000	4.0%	-600	-1.7%	-24	-1.7%	$39.00	$510.82	-$116.18	-18.5%
Vacant 2-W	57,500	4.0%	-200	-0.3%	-8	-0.3%	$39.00	$595.02	-$31.98	-5.1%
Vacant 3-K	70,000	4.0%	-8,700	-11.1%	-348	-11.1%	$39.00	$639.81	$12.81	2.0%
Vacant 4	90,000	4.0%	800	0.9%	32	0.9%	$39.00	$711.47	$84.47	13.5%
Vacant 5	175,000	4.0%	-3,500	-2.0%	-140	-2.0%	$39.00	$1,016.03	$134.32	15.2%
Vacant 6	250,000	4.0%	-2,000	-0.8%	-80	-0.8%	$39.00	$1,284.75	$119.04	10.2%

2.5.3 Internal Influences

The Flinders Council Enterprise Agreement 2019 came into effect as of 1st October 2016. Adjustment to wages, allowance etc. have been factored into the 2017/18 Budget.

2.5.4 Depreciation

Depreciation is an annual expense in accordance with Australian Accounting Standards which has a substantial impact on Council's Operating Surplus/Deficit.

Depreciation is the difference between the value of the Council's assets at the beginning of a stipulated period and the end. If no maintenance is performed on assets they have a finite life. That is they will depreciate over time and their value will decrease. With ongoing maintenance the life of these assets is extended. For some assets, if components are renewed on a regular basis the life can be further extended.

It is recommended that an amount be spent on renewing or replacing asset components equivalent to depreciation expense. This would ensure their value is maintained.

2.6 Budget Estimates Principles

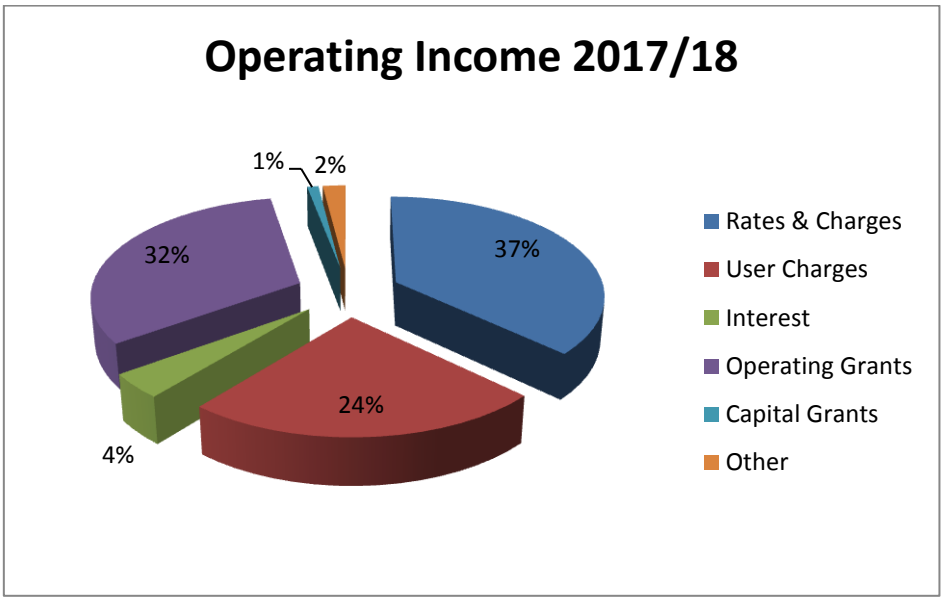
In response to these influences, Council Officers prepared Budget Estimates based on the following principles:-

- Grants to be based on confirmed funding levels;
- New revenue sources to be identified where possible;
- Service levels to be maintained at 2017-2018 levels with an aim to use less resources with an emphasis on innovation and efficiency;
- Contract labour is used where possible to minimise staff costs.
- New initiatives or projects which are not cost neutral to be justified through a business case;
- Real savings in expenditure and increases in revenue identified in 2016-2017 to be preserved;
- Operating revenue and expenses arising from incomplete 2016-2017 Capital Works Projects to be included; and
- A 3.5 percent increase in the 2017/18 rates.

3. 2017-18 FINANCIAL BUDGET OVERVIEW

Where does the money come from?

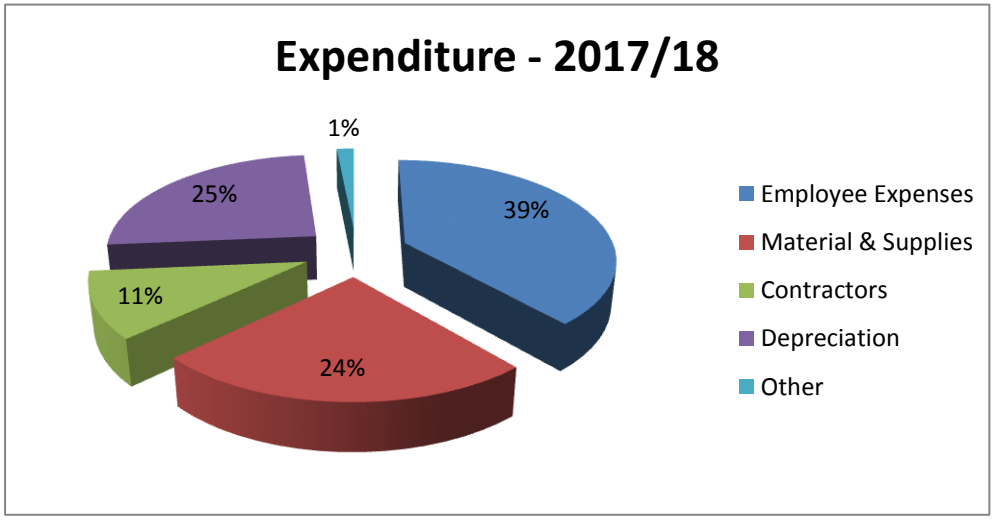
Flinders Council's cash funding originates from a range of sources with the majority generated from Rates at 37%, Operating Grants at 32% and User Charges at 24%.



Capital and Operating Grants and contributions are forecast to total 33% of cash funding and this revenue assists Council in delivering a variety of capital programs and various operational maintenance activities. Additionally, User Charges from the issue of permits, landing fees and passenger taxes, consideration of applications and private works contribute approximately 24% of funds.

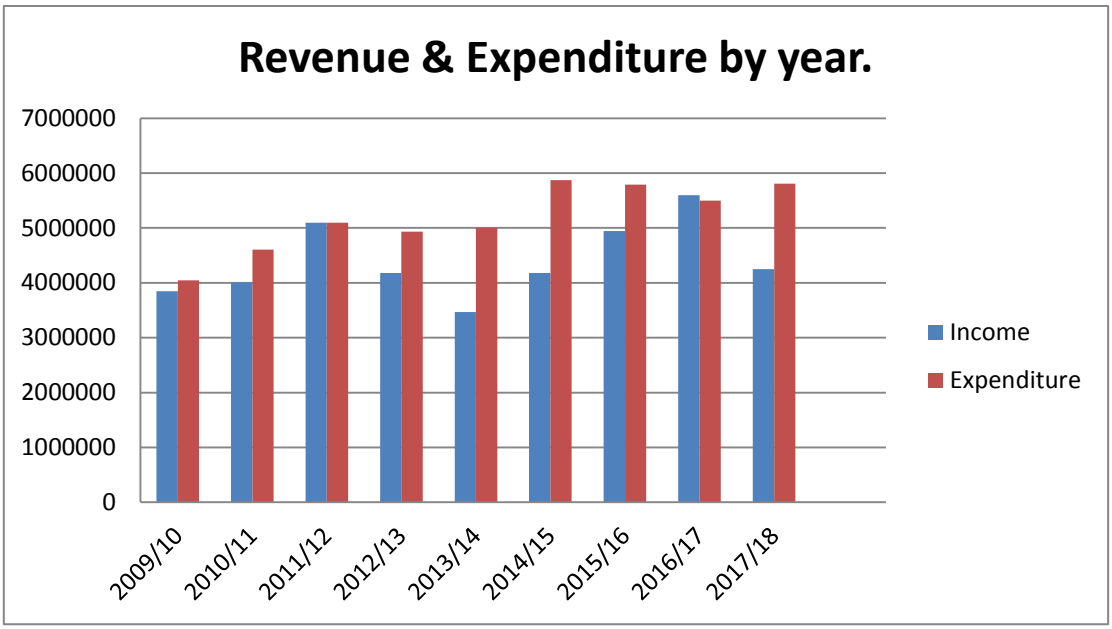
Where does the money go?

In 2017-18, 24% of the budget has been allocated towards materials and supplies needed to support the Flinders Community and 25% towards depreciation which allows Council to carry out the annual Capital Works Program. A further 39% is required for Council employees to carry out Council activities, services and programs.

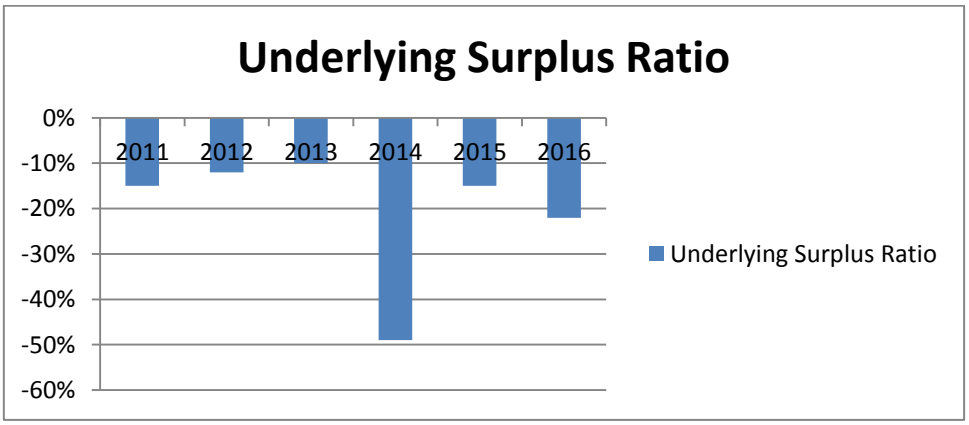


Financial Position

The following graph shows the level of Income and Expenditure over the past nine years. The recurring trend reflects the cyclical nature at an expenditure level of asset investment and renewal cycles. Council has in the past three years invested heavily in asset planning, renewals and new works.

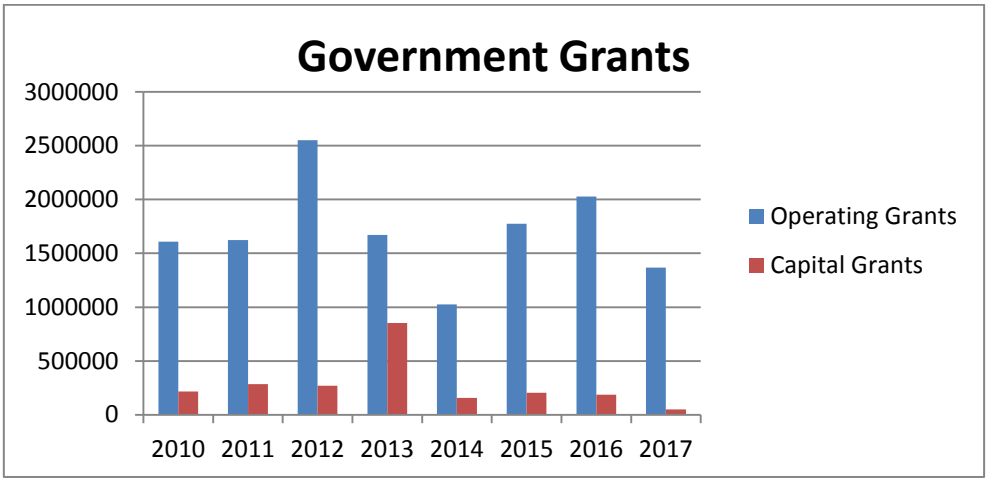


The Underlying Surplus Ratio highlights that the cost of services provided to the community exceeds revenue generated. Negative indicators show the percentage increase in total rates that would be required to achieve a breakeven operating result.



3.1.1 Capital Grants and Contributions

Capital grants and contributions include monies received from State, Federal and other sources for the purpose of funding the Capital Works Program.



3.1.2 Reserve Cash and Investments

The council has significant cash reserves, which it is currently using to fund its annual Capital Works Plan.

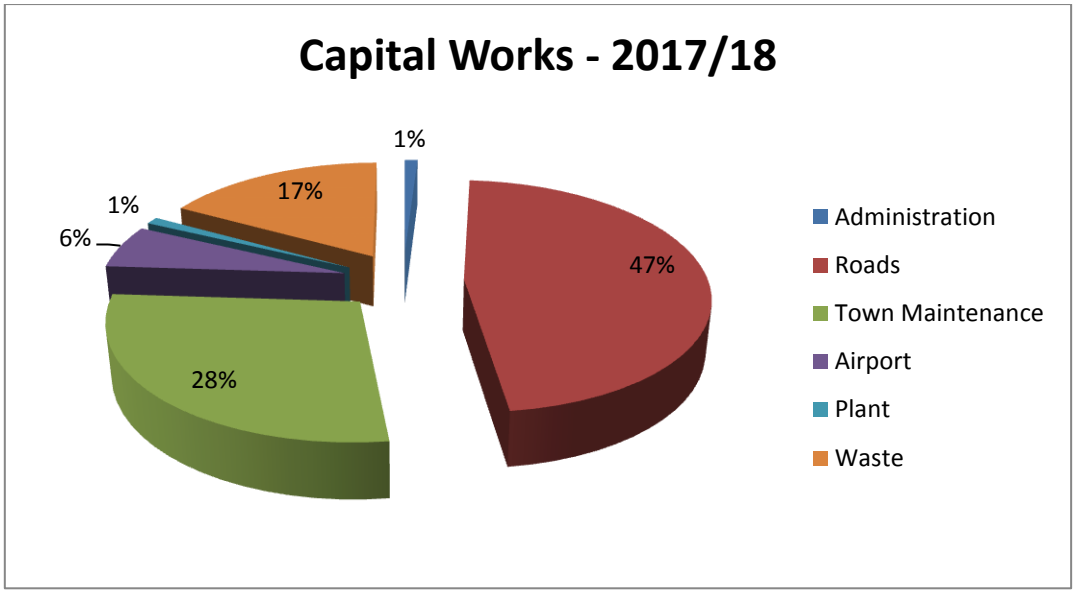
3.1.3 Working Capital

In addition to reserve investments Council also has uncommitted cash and investments which represent working capital and funds preserved from the previous year.

3.2 Loan Funds

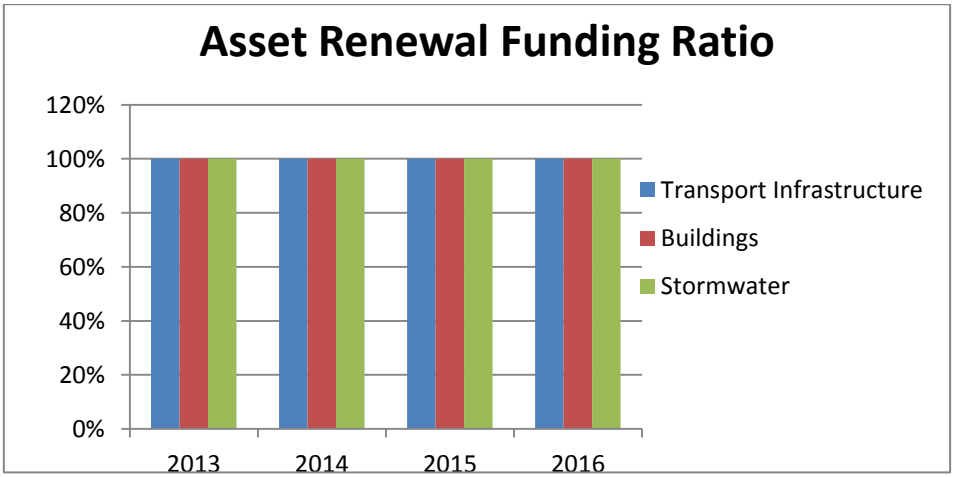
Council has loans of $2,058,338 as at 30 June 2016. The loans represent two loans, one being for the purchase of plant and equipment and the other one is the Economic Stimulus Loan that was released by the State Government.

The current balance of the loan for plant and equipment is $611,339 maturing in 2025. The Economic Stimulus Loan is for $1,447,000 which is repayable over the next five years, however is interest free.



3.3 Asset Renewal Funding Ratio

The following graph highlights that the Council has the capacity to fund asset renewals as required.



3.4 Asset Sustainability Ratio

The Asset Sustainability Ratio highlights the extent to which Council is maintaining operating capacity through renewal of its existing asset base.

The extensive works on the roads, airport and other infrastructure have improved the sustainability ratio percentage.