2018/19 Budget Estimates

16 August 2018

Contents

INTRODUCTION

Under the *Local Government Act 1993 (the Act)* Councils have a range of functions and powers including, but not limited to, the following:

S20(1)	(a)	to provide for the health, safety and welfare of the Community
	(b)	to represent and promote the interests of the Community
	(c)	to provide for the peace, order and good government of the municipal area

In terms of achieving these and other objectives Council is required to develop a range of strategic and operational plans and documents that underpin the operations of the Council; the importance of which should not be underestimated.

S68	Strategic Plan
S70	Long Term Financial Management Plan
S70A	Financial Management Strategies
S70B	Long Term Strategic Asset Management Plan
S70C	Asset Management Policies
S70D	Asset Management Strategies
S71	Annual Plan
S82	Estimate (Budget)

This document addresses S82 as highlighted which requires the Council to prepare Budget Estimates of the Council's revenue and expenditure for each financial year which include the estimated revenue, expenditure, borrowings and capital works plus other details required by the Minister.

2018 /19 BUDGET OUTLINE

The 2018/19 Budget needs to consider through the various Asset and Financial Management Strategies, the future before landing on the present through an adopted Budget and Annual Plan. However, past actions should also be considered if for no other reason than to put the current situation into context. There have been many positive actions undertaken over a number of years that have improved the performance of the Council and the Community, equally a number of opportunities have not been taken up, in part through lack of sufficient resources.

Previous Actions

Capital Works

Over recent years there has been an acceleration in new and replacement infrastructure, plant and equipment as well as some strategic land purchases. These have been important and creditable initiatives and included but not limited to the following:

(a) Upgrades of the Flinders Arts and Entertainment Centre, Lady Barron Hall and Emita Hall, in part through successful grant applications.

These have been well received and now patronised with increased community use. Through Council's policy of not charging community users, little revenue has been derived. Council's operational expenditure has however increased, without any additional revenue created to fund this additional expense.

(b) Construction of new playgrounds and improved BBQ's and public toilets facilities.

Again, projects have been well received and welcomed by the Community and enhance Flinders as a tourist destination, but Council's operational expenditure has increased without any additional revenue created to fund this additional expense.

(c) Strategic purchase of key plant and equipment such as a new bituminous sprayer.

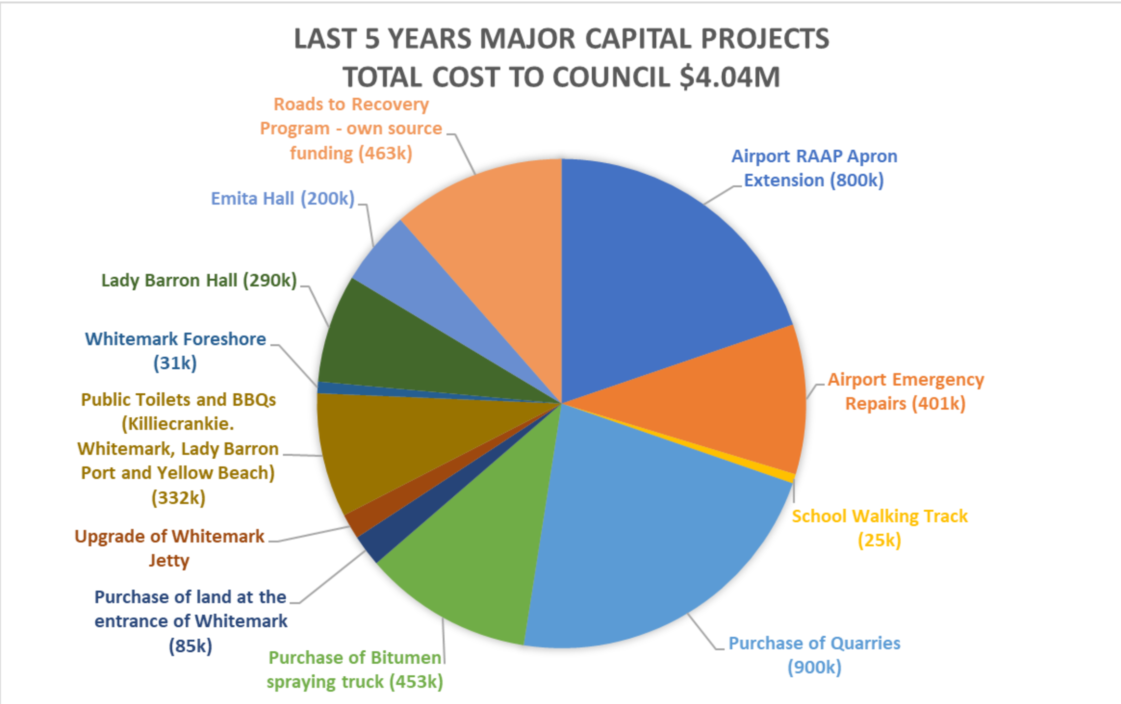
Council borrowed for this item which effectively repaid for itself inside 18 months through Council being able to undertake its own bituminous sealing works instead of using external contractors. Although this has not seen a reduction in Council's overall expenses on Capital Works, the net result is that Council has been able to undertake more roadmaking, including for the first time in over 30 years actually extending the sealed road network. Local employment has also benefited. Repayment of the loan is still required.

(d) Purchases of land associated with two quarries (Lughrata and Cannes Hill) and land at the entrance to Whitemark.

All have strategic value. Lughrata and Cannes Hill secures valuable sources of quarry material with reductions in ongoing expenses which will be realised in the long-term. Cannes Hill also has excellent sub divisional potential. However there has been no allocation of additional revenue to restore the level of these financial reserves.

(e) Northern Tasmanian Economic Stimulus Loan package to advance $1.447m in infrastructure with all loan interest payments to be refunded.

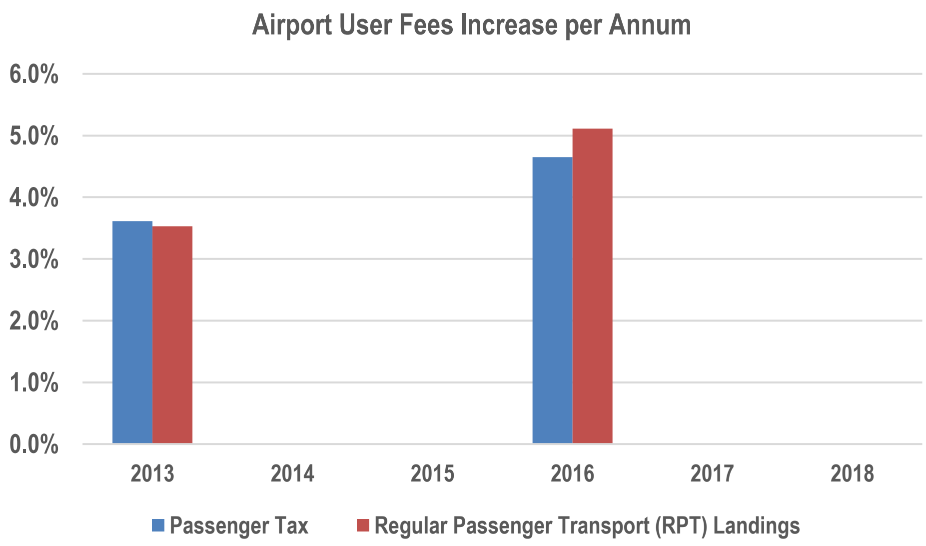
Whilst a sound strategic and cost-effective decision, Council's Net Financial Reserves are effectively overstated as these loans need to be repaid; some at the end of the life of the loan.

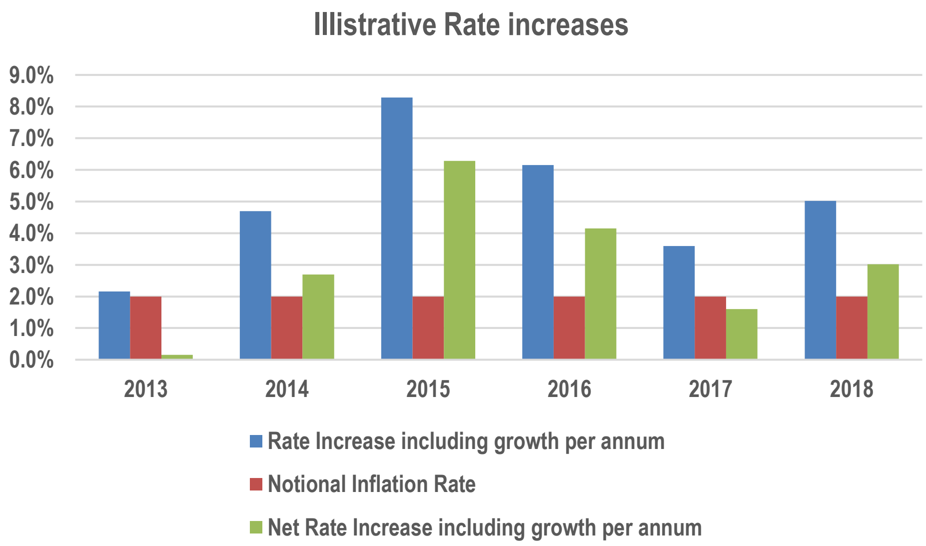


Revenue

Council's operating revenue is broadly made up of Rates and Charges, Statutory Fees and Fines, User Fees, Grants, Contributions, Interest and Other Income. Council has minimal direct control of most elements other than Rates and Charges and User Fees where decisions are totally within the Council's control. With respect to User Fees the most significant effect relates to Airport Fees and Charges.

In this respect the growth in each of these two specific areas has been unspectacular as shown by the following:



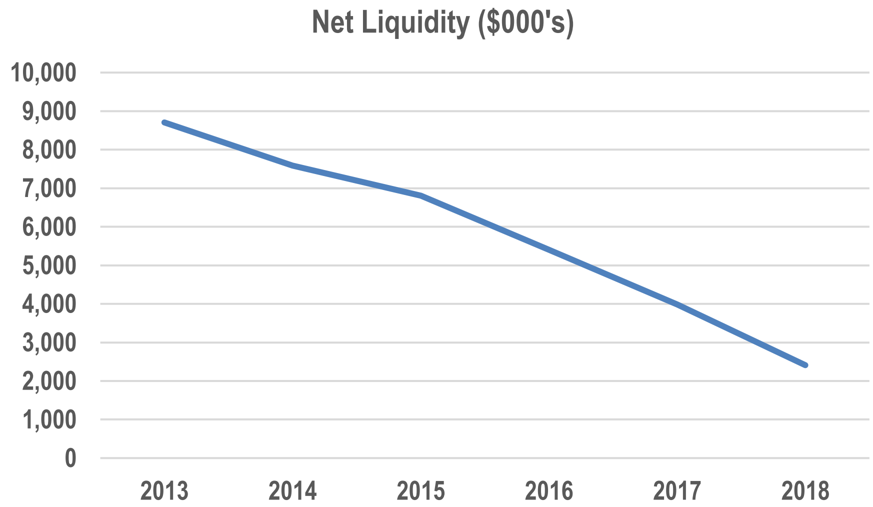


It is difficult to ascertain exactly what transpired in the past without detailed modelling of previous years rates data but essentially what appears to have occurred is that there has been barely above inflation increases in rates, with growth in rates income masked by growth in development.

For a very small municipality such as Flinders, this becomes problematical.

Financial Reserves

The overall result of these decisions has seen a significant decline in the level of Council's Financial Reserves as highlighted by Council's Net Liquid Position (Financial Reserves less Loan Commitments) as follows:



Current Situation

During the past two years, as part of a continuous improvement development program, Council has undertaken a number of important projects that have provided Council and the Community with a potential positive future to face a number of significant challenges. Some of the most significant of them include the following:

(a) Telecommunications Upgrade on Flinders and Cape Barren Islands.

At the second attempt, Council secured funding for a $10.6m project to allow Telstra to significantly upgrade its telecommunications network to a 4GX standard. Without Council's dogged pursuit and financial commitment of $0.77m based on $1000 per person living in the Finders Municipality plus contributions of $7.88m by the Australian Government through the Building Better Regions Program, $1.6m Telstra and $0.35m State Government; an upgrade on Flinders would likely never have occurred. The positive impact on existing and future residents cannot be underestimated.

This project was not included in the initial 2017/18 budget. Given Council's very limited base and level of financial reserves, there is simply no alternative to recover this expenditure through increased rates and charges. There is also a significant cost with reduction in investment interest in order to fund the progress contract payments.

(b) Flinders Municipal Disadvantage

The structural and financial operation of Flinders Council and the Furneaux Islands generally is significantly disadvantaged due to our remoteness as we are not connected to land, are made up of some 52 islands and have a very small population and rate base relative to our size and population.

Intuitively, all residents know and understand this and adapt lifestyle and operations to suit. In some instances, due to our unique lifestyle and generally low housing and accommodation costs, we are seen somewhat counterintuitively as less disadvantaged. Governments also understand this and from time to time fund facilities, programs and subsidies that recognise their overarching "community service obligation," much like that exists between the Australian Mainland and other remote and less populated states such as Tasmania.

In recognition of this and with the assistance of funding through the Australian Government's Building Better Regions Program, Council is proceeding with an independent analysis though the Flinders Business Economic and Social Structural

Review Project. The aim of this study is to quantify both relative lifestyle advantages which are essentially attractors to the Island and structural disadvantages that exist to a level that can be useful for Council, and local organisations, to objectively advance our case to governments in the future.

In local government rating terms, Flinders Council has a very low rate base with a large portion of its area consisting of Parks and Reserves with are non rateable.

(c) Sustainability

All Councils are required to address issues associated with long term sustainability, through Strategic, Annual, Asset Management and Long Term Financial Management Strategies and Plans. Sustainability may be in financial as well as operating terms. For smaller Councils without economies of scale this becomes a challenge.

This is highlighted in Council's Annual Financial Statements as expressed by the Underlying Surplus or Deficit and Underlying Surplus Ratio.

In Tasmania there are no set adopted recommended limits for these management indicators but as a guide we have used those adopted by Victorian Local Government as follows:

Risk	**Management Indicator - Net Result %**
High	Less than negative 10% Insufficient revenue is being generated to fund operations and asset renewal
Medium	Negative 10%-0% A risk of long-term run down to cash reserves and inability to fund asset renewals
Low	More than 0% Generating surpluses consistently

As indicated in Council's Financial Reports, Council is in the High-Risk bracket in relation to its underlying surplus or net result.

Management Indicator	**2014**	**2015**	**2016**	**2017**
Underlying Surplus or Deficit ($000's)	(1,183)	(635)	(1,004)	(1,124)
Underlying Surplus Ratio	-49%	-15%	-22%	-26%

Having a negative Underlying Surplus, especially one of such a size, and also a negative Underlying Surplus Ratio over a sustained period raises questions of sustainability as insufficient revenue is being generated to fund operations and asset renewal.

From an operational perspective, sustainability also refers to a Council's ability to react and support financially, those works that the Community may turn to as a partner.

In our case, due to our particular circumstances as previously described, this sustainability is not just on a long-term basis but is now a short to medium term issue. This needs to be acutely addressed in the 2018/19 budget as well as the next 20 years. Without this being done there is a real risk to Council's financial viability.

2018/19 BUDGET SUMMARY

In preparing the 2018/19 Budget for Council consideration, Council staff have firstly put in a significant and time-consuming amount of work to actively review the nature of the information, streamlining projects and underlying costing methodologies including oncost, plant and quarry allocations, to more accurately reflect Council's operations. This has been a very significant task but also undertaken to highlight more accurately the operation and nuances of the Council's operation. Councillors have long requested that this work be carried out and welcome the opportunity to have this consolidated at this time.

Council has stripped the 18/19 operational budget down to the bare minimum whilst still maintaining the required outputs. Every expenditure line has been reviewed and re-reviewed and generally only includes expenditures based on the previous year's actuals or known increases. Several one-off, committed operational projects that will not be repeated also need to be included.

In doing so, it also became evident that historically some of Council's building works were classified incorrectly as capital expenditures when they were operational repairs and maintenance and as a result this increased the Council's Budget 2018/19 operating expenses.

Capital works have also been reduced to the minimum whist still recognising that Council has commitments to co-fund some community building facility works as well as ensuring that it acquits its Roads to Recovery program commitments, which means an increase in 2018/19 of our own source recovery expenses.

Council understands the financial pressures facing ratepayers but has decided that we cannot afford to stop investment into community facilities, parks and roads or providing crucial services to many of our ratepayers.

Council operations are governed and regulated by the *Local Government Act 1993* along with other State and Federal government legislation. Some of our annual regulated requirements include the Dog Control Act, CASA Regulation (Airport), Public Health Act, Environment Protection Agency (EPA) regulations, Food Act and Buildings Control Act. These, along with many others, have been the contributing factor to employment numbers and corporate expenses increasing in local government generally.

Council has recently undertaken an organisational review of all Council staff which has seen streamlined operations with a decrease in high level positions. However, staffing levels must be maintained to meet our legal requirements as well as deliver the fantastic services to the Community that we currently do.

The Budget has been prepared using a bottom up approach whereby all cost elements such as employee costs, materials and services etc. are distributed to each project and the relevant cost centre with Cost Centre and Project budgets being established. Budget documents are detailed with accompanying explanatory notes.

The Telstra Project, which is an operational expense, is separately highlighted for given its size and one-off nature to highlight Councils "normal" operation. Council's $770k contribution will be accounted for in the 2018 and 2019 financial years and beyond.

In addition, the budget should be seen in context with a more up to date *Asset Management and Long Term Financial Plan*. Although not as detailed as required under the relevant Ministerial Orders, it nevertheless provides a sound way forward.

A snapshot of some of the key features within the budget are highlighted as follows.

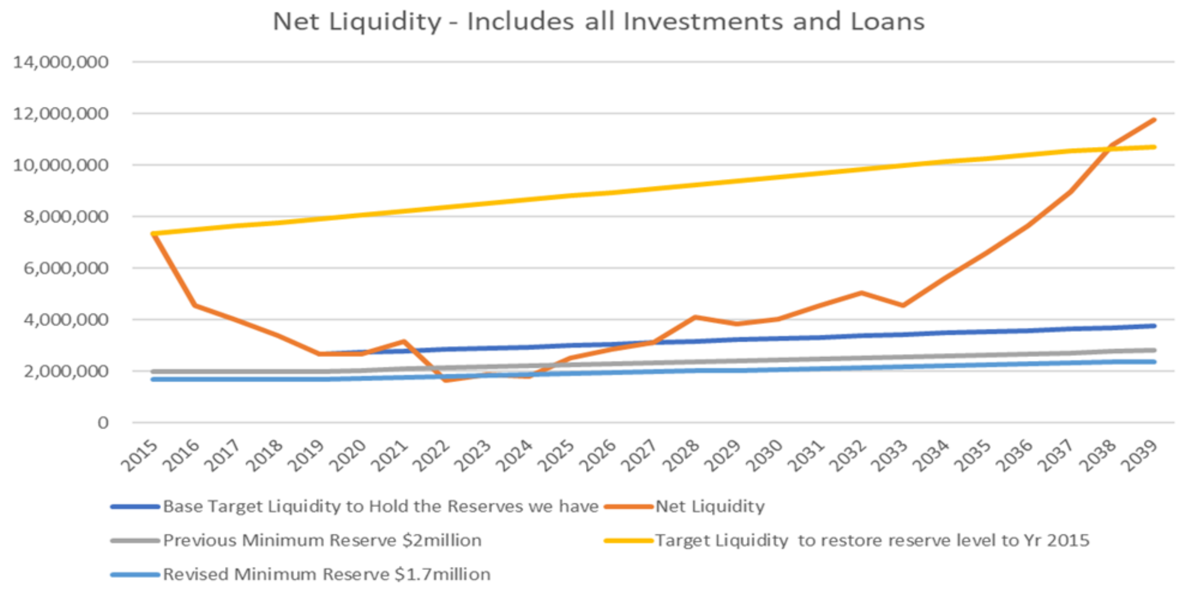
Cash Management

Starting the reversal of the decline in Council's cash position is the key feature of the Budget. It is a feature that Council has been working on for some time. As indicated in Budget Documents this must be started now but cannot be achieved for a number of years. For 2018/19 this includes consideration of various one-off expenditure impacts the most significant of which is the Telstra Telecommunications Project, increased rates and airport income and the short-term deferral of a number of capital projects into the out years.

The Impact of the assumptions on the Liquidity of the Council funds, indicate that the years between 2022 and 2024 will hover on the base minimum reserve of $1.7 million. This is due to the cost of the Airport Runway ($1.8million). The decline of funds since 2015 has impacted the future liquidity, and it will take 19 years to restore the levels of Investments held at 2015.

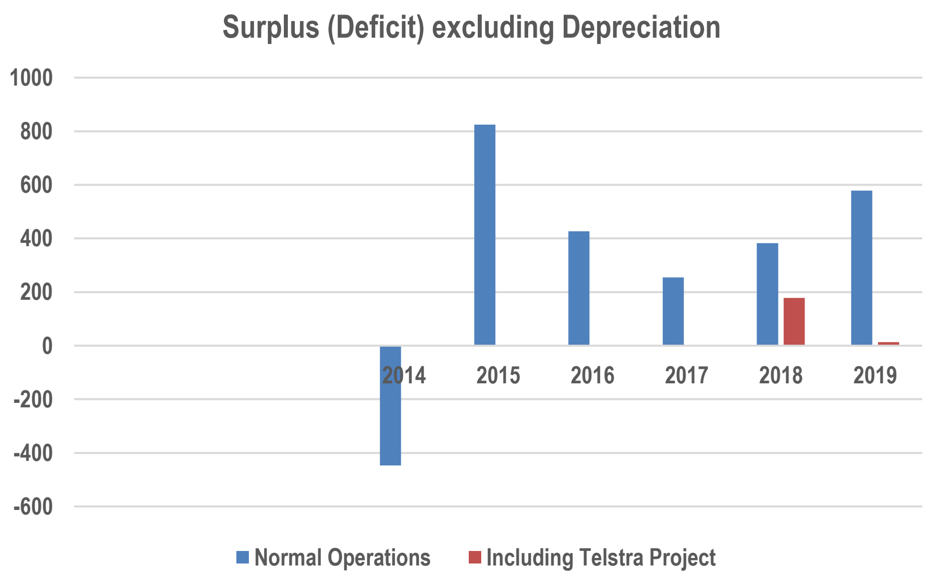
The Minimum Reserve of $2m has been revised to $1.7m as the Budget 2018/19 depreciation has been reduced by $300k to align with the finalised year end 2018 depreciation. The reduction of depreciation therefore sets a new reference point for the break-even level.

Impact is as illustrated below.



Significant One-Off Projects

Whilst not necessarily representing the complete picture, the significance of Council's $770k contribution to the Telstra Telecommunications Project to the challenges that it has placed on Council's budget is illustrated in the following analysis of Council's underlying surplus (deficit). Depreciation, which as a non-cash item, has been excluded.



Rate Revenue

As indicated in *Council's Rating Strategy Overview August 2019* document, Council has carefully analysed its rating structure, growth in valuations and level of rating including benchmarking with other local governments before concluding that there is justification for above inflation increases in 2018/19 and potentially beyond.

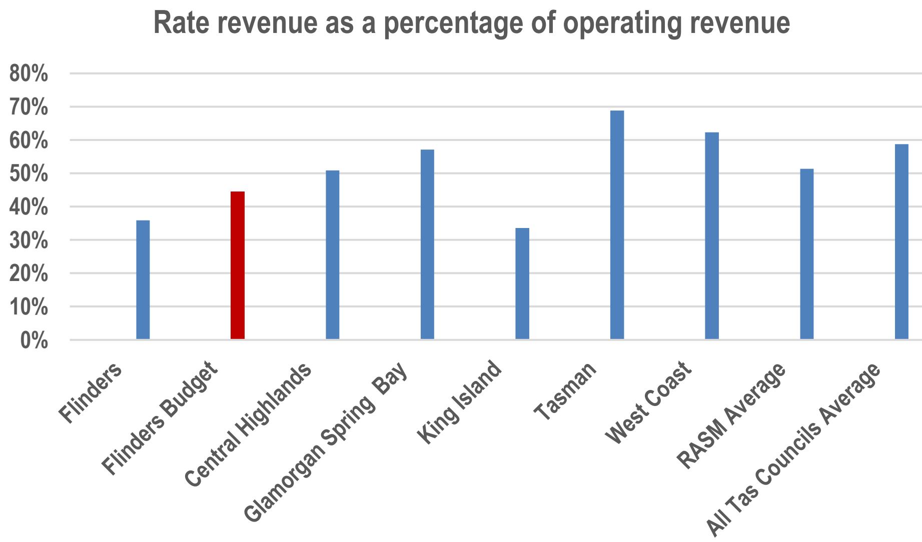
In determining the General Rate increase, Council considered numerous factors including the existing projected level of cash reserves, benchmarking with other Councils, inflationary impacts, previously committed projects and Enterprise Bargaining Increases.

Before incorporating an increase in rates by an amount, excluding natural growth, of 9.0% into the budget, options for having a reduced figure and phasing this in over several years were considered and preferred.

However, given the significance of the level of decline in Council's financial reserves and budget commitments over the next 3-4 years, this option is not considered viable as it would have hamstrung future operations and put the financial viability of the Council at significant risk.

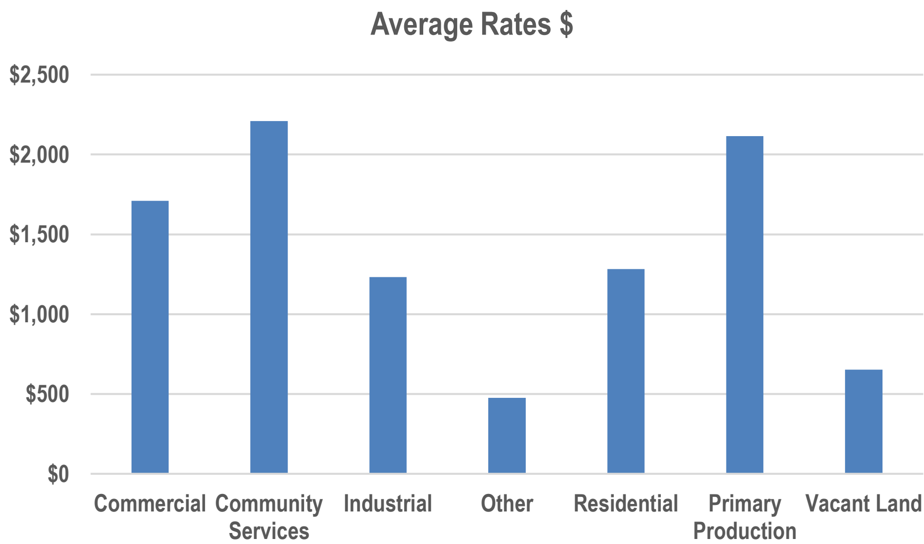
Council is also required under the *Fire Service Act 1979* to collect funds for fighting services throughout the State. The amount generated, less legislated costs, will be forwarded to the State Fire Commission .

As indicated below this increase starts the process of lifting Council's rating effort to be more in line with other Council's classified in the rural agricultural small and medium (RASM) classification.



Source Rates Snapshot 2016-17 – Local Government Division Department of Premier in Cabinet
Flinders Council's 2018/19 Budget

Distribution of rates throughout the community is shown in the following graph



Rates are understandingly potentially an emotive issue but in context the value for money proposition is significant. For instance:

A Ratepayer's contribution to maintain and use over $62m value in assets and facilities plus access a range of operational services is as follows

- Average Residential Property (approx. CV $242,000)

  Rates Total $1,282 equates to a $24.64 per week, an increase of $1.92 per week from 2017/18.
- Average Primary Production Property (approx. CV $442,000)

  Rates Total $2,115 equates to $40.67 per week, an increase of $3.50 per week from 2017/18.

Following modelling the general rate has also been varied with a higher differential applying for various commercial properties with slight reductions for residential land uses and for land located at Cape Barren Island. Rates for individual properties will naturally be affected by any changes to property valuation plus the level of valuation and changes via the rating system.

Details of amounts of Rate Revenue are shown in *Budget Appendix 1*. The following Rates and Charges Summary has been incorporated into the 2018/19 Budget.

Rate Type		
Fire Services Levy		
Minimum amount	$40	
Rate cents in the $ of Assessed Annual Value	0.362090	
General Rate		
Fixed Charge	$380	
General Rate cents in the $ of Assessed Capital Value	0.392697	
Variations from General Rate		
Location	**Land Use**	**Rate c in $ per CV**
Flinders Island Bass Strait Islands	Commercial General	0.471236
	Commercial - Hotel / Motel	0.510506
	Commercial Transport - Aviation	0.530141
	Residential	0.373062
Cape Barren Island	Commercial General	0.431966
	Residential	0.333792
	Community Services, Industrial, Primary Production & Vacant Land	0.353427

Airport Operations

At the June 2019 Council Meeting in reviewing its overall fees and charges, Council increased the Passenger Tax from $6 to $9. This was the first increase for 3 years and is well within the range of charges set at similar airports. This has been incorporated into the 2018/19 Budget. Council considered that the impact of this increase and the level of fees charged to be extremely modest compared with the general $188 - $255 airfare. Other fees such as landing fees have remained at current levels.

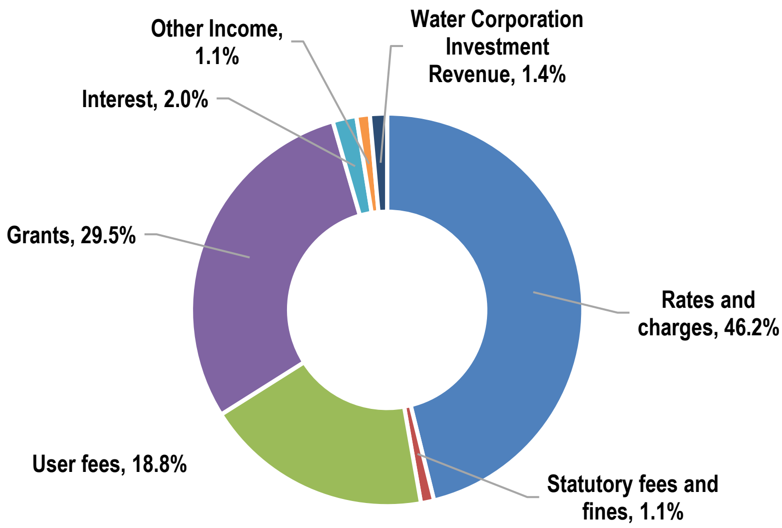
Council's Airport Operations has a $196k Annual Operating loss which over time will need to be addressed in part through a more regular review of Airport Fees and Charges. On a cash basis however, operations show a $138k surplus. As always however the potential Achilles heel is the significant costs to reconstruct the Airport Runway, a situation which places significant burden on Council's meagre resources; even with a potential 50% grant subsidy via the Australian Government's Remote Airport Access Scheme.

Private Works

Due to the decline in capital works required by the Department of State Growth due to less reconstruction work on Lady Barron Road, Private Works fees have declined by some $273k.

Operating Income

Council continues to look at opportunities for increasing revenue. Council's operating income is made up of the following:

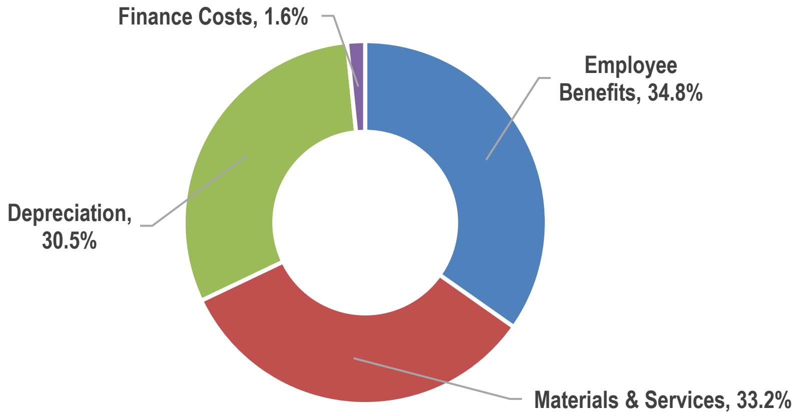


Operating Expenses

A thorough review of all operating expenses has been undertaken including the following:

- Optimising staff resources through reductions in the costs for senior management being taken up with a slight increase in lower level staff members. Council has a very small contingent of full-time employees (13) compared to its FTE of 26.1 *(Budget Appendix 6).*
- Reducing recurrent contractor expenses and including a number of one-off consultant expenses associated with pre-committed projects such as the Flinders Business Economic Social Structural Review Project, Strategic Planning Actions and New Elected Member Training *(Budget Appendix 7).*
- Rationalisation of works, especially for expenses on Buildings and Facilities that were previously classified as capital renewal / replacement but should be correctly included in operating expenses.
- Desktop review of depreciation expenses. Further analysis will be required during the year.

Council's operating expenses are made up of the following:



Income and Expenditure by Function

Detailed explanation of the following Income and expenditure by function on a total and cash basis is detailed in *Appendix 5.*

Capital Works

Detailed explanation of Council's Capital Works Program is detailed under the *Budget CAPITAL BUDGET.* Excluding the Telstra Telecommunications Project ($770k), which is an operational expense, the Capital Budget includes the following:

- Footpaths and Kerb and Channel Program ($128k)
- Buildings & Facilities Upgrade to Emita Hall, Airport Fence and Whitemark Playground ($352k)
- Roads Resheeting $298k
- Waste Management improvements to build a new putrescible cell, rehabilitate the existing cell and purchase of a second-hand baler ($250k). This is the first stage of a potential revamped waste management strategy that can be migrated to a final configuration in the next few years as details are further developed. It is the minimal approach that needs to be taken now to avoid non-compliance with the Environment Protection Authority waste licence conditions.
- Other Roads to Recovery Road expenses which are required to acquit Council's 2004-2009 Roads to Recovery Grant obligations.

Loans

Council is not proposing to take out any loans during the year. Council's current loans are as follows:

Loan	Amount	Start Date	End Date	Interest Type	Loan Balance as at 30th June 2018
Northern Tasmanian Economic Stimulus Package	$170,000	1/06/2017	1/06/2019	Interest periodically refunded	$170,000
	$155,000	1/06/2017	1/06/2020		$155,000
	$80,000	1/06/2017	1/06/2020		$80,000
	$567,000	1/06/2017	1/06/2022		$567,000
	$350,000	1/06/2017	1/06/2022		$350,000
	$125,000	1/06/2017	1/06/2022		$125,000
Tasmanian Public Finance Corporation	$700,000	18/11/2015	18/11/2030	Interest Plus Principle	$609,481
Totals	**$2,147,000**				**$2,056,481**

Other Budget Information

A raft of other budget related documents including 20-year long term operational income and expenses, capital works, and cashflow program and analysis is also included in the Budget Estimate documents.

Reference Documents

Council's Budget has been prepared in conjunction with various Council Reference Documents including the *Rating Strategy Overview* and *Asset & Financial Management Strategies & Plans.*

Budget Documents