Sunshine Coast Council
Financial Sustainability Plan 2015-2025

Corporate Services Department

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Acknowledgements

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1. INTRODUCTION

The Sunshine Coast Council (SCC) vision is '*to be Australia's most sustainable region – vibrant, green, diverse'*. To be a leader and driver towards this vision, the SCC organisation must be sustainable in its own right.

The SCC Financial Sustainability Plan is an essential tool the organisation will use to achieve and maintain sustainable operations, asset management, and service delivery to our community into the future.

The Financial Sustainability Plan defines the high level financial policies, commitments, positions, and parameters that guide the development of service levels, rating and other income, expenditure, and treasury management.

In their April 2010 review of Council's financial position, the Queensland Treasury Corporation (QTC) rated Council as *"strong with a developing outlook."* Council's 2010/2011 budget further strengthened the financial position and in October 2010 QTC upgraded Council's rating to *"strong with a neutral outlook"*.

The November 2014 review by QTC, has continued the October 2010 rating of "*strong with a neutral outlook".*

QTC state:

*"The **strong** rating describes a local government with a strong capacity to meet its financial commitments in the short, medium and long-term. It generally has a record of operating surpluses and may occasionally report minor operating deficits. It is able to address its operating deficits, manage major unforeseen financial shocks and any adverse changes in its business, with minor revenue and/or expense adjustments. The expense adjustments are likely to result in only minor changes to the range of and/or quality of services offered. Its capacity to manage core business risks is strong"*

*"The **neutral** outlook indicates that there are no known foreseeable events that would have a direct impact on the local government's capacity to meet its financial commitments. It may be possible for a rating upgrade or downgrade to occur from a neutral outlook, if such an event or circumstance warranted as such."*

2. SCOPE

The *Local Government Regulation 2012* and *Financial Management (Sustainability) Guideline 2013* Version 1 contain direction for financial sustainability and accountability:

Local Government Regulation 2012

- Section 164 (1) requires Council to *'keep a written record stating the following:*
  a) *the risks the local government's operations are exposed to, to the extent they are relevant to financial management;*
  b) *the control measures adopted to manage the risks.'*
- Section 169 (2) requires Council's budget for each financial year to '*include a long-term financial forecast; and a revenue statement; and a revenue policy.*'
- Section 169 (4) states that '*the budget must include each of the relevant measures of financial sustainability for the financial year for which it is prepared and the next 9 financial years.'*
- Section 169 (5) defines the relevant measures of financial sustainability.
- Section 191 requires Council to prepare and adopt an investment policy.
- Section 192 requires Council to prepare and adopt a debt policy for a financial year.

Financial Management (Sustainability) Guideline 2013 Version 1

- Attachment 1 sets out the minimum data set that ten year financial forecasts should typically contain.

The Financial Sustainability Plan will be a ten year rolling plan with the annual budget. This Financial Sustainability Plan will be applied for the period 1 July 2015 to 30 June 2025.

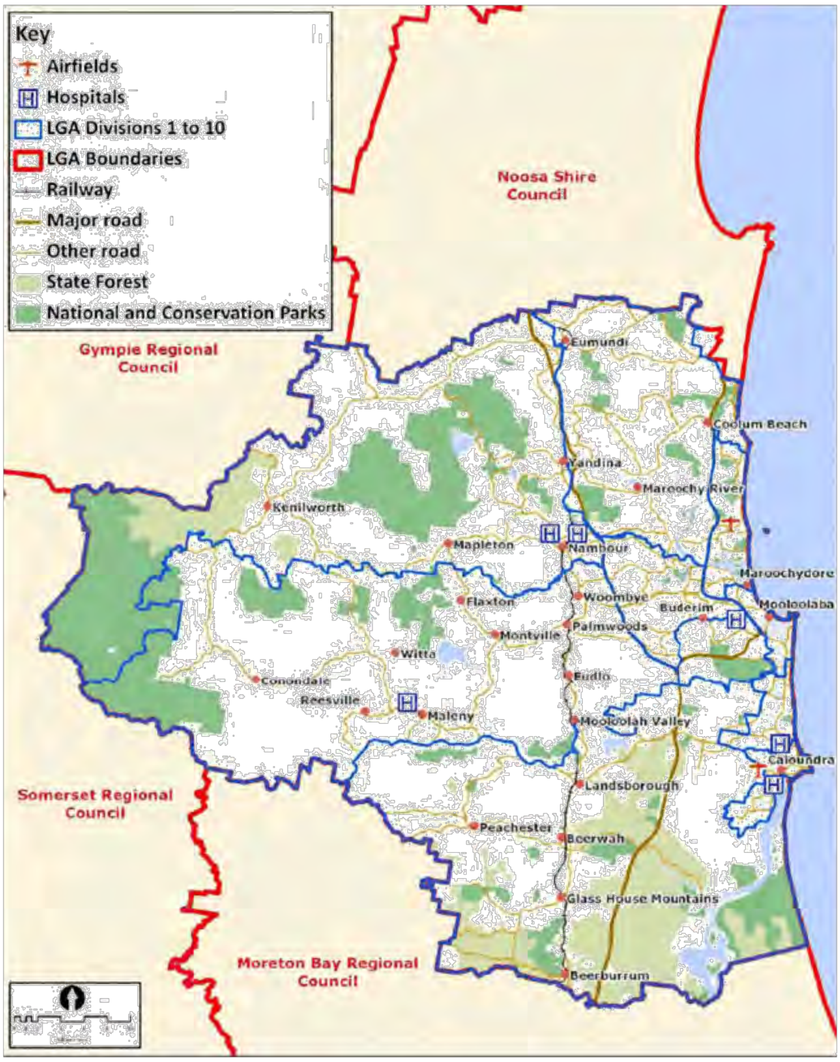
As part of the annual budget process, all the data and assumptions that are used in the development of the Financial Sustainability Plan will be reviewed and reset if necessary.

All policies and commitments will also be reviewed annually to ensure they reflect the current requirements of the community and desires of Council.

3. BACKGROUND

The Sunshine Coast region covers an area of 2,291square kilometres, including over 3,700 kilometres of waterways. The region has more than 130 kilometres of coastline, over 2,900 kilometres of roads, nearly 1,200 kilometres of pathways, and over 6,800 hectares of parks and environmental reserves.

Map of the Sunshine Coast Council (SCC) region.



The SCC has approximately 1,545 full time equivalent employees and has forecasted annual operating revenues of in excess of $386 million.

4. STRATEGIC ALIGNMENT

The Sunshine Coast Council (SCC) is committed to an integrated approach to strategic planning. The overall direction for the SCC is provided by the community.

The SCC Corporate Plan 2014-2019 was adopted by Council on 12 May 2014. The goals and priorities in the Corporate Plan 2014-2019 have been guided by the policy foundations already laid down by Council, which have been considered and developed through broad community consultation processes. These foundations support council's aspirational vision for the Sunshine Coast:

"To be Australia's most sustainable region – vibrant, green, diverse"

Considering the opportunities and challenges that are shaping our future and the vision it has embraced, council has identified five goals that it will pursue over the period 2014-2019.

Each goal is supported by defined outcomes which will be achieved through a set of priority actions each year that are responsive to the needs of the community.

Sunshine Coast Council's 5 Corporate Goals:

1. **A new economy**
   Providing the regional policy, regulatory settings and identity that shape a globally competitive economy

   Outcomes for 2014-2019

   1.1 Strong economic leadership, collaboration and identity
   1.2 New capital investment in region
   1.3 Investment and growth in high-value industries
   1.4 Strong local to global connections
   1.5 A natural, major and regional event destination

2. A strong community

Supporting an engaged, resilient and inclusive community that embraces diversity

Outcomes for 2014-2019

2.1 Safe and healthy communities
2.2 Resilient and engaged communities
2.3 Culture, heritage and diversity are valued and embraced
2.4 People and places are connected

3. An enviable lifestyle and environment

Maintaining and enhancing the region's natural assets, liveability and environmental credentials

Outcomes for 2014-2019

3.1 Healthy natural ecosystems and protected remnant vegetation
3.2 Well-managed and maintained open space, waterways and foreshore assets
3.3 A reputation for innovative environmental practices
3.4 A region shaped by clever planning and design

4. Service excellence

Providing value-for-money services responsive to the needs of the community

Outcomes for 2014-2019

4.1 Customer focussed services
4.2 Services and assets are efficient, appropriately maintained and managed to meet the needs of a growing community
4.3 Sustainable waste and resource management services

5. A public sector leader

Delivering a high performance organisation, supported by good governance and robust decision-making

Outcomes for 2014-2019

5.1 Robust and transparent decision-making
5.2 A financial sustainable organisation
5.3 An employer of choice
5.4 Productive, professional partnerships

Strategy 5.2.1 under this goal of our Corporate Plan requires Council to:

"Develop and implement long-term financial and asset management plans to guide the optimal utilisation of resources".

Annually, Council produces a budget and operational plan to guide the organisation through the delivery of services, activities and projects for the year. The Financial Sustainability Plan provides the linkage between all underlying plans and overarching organisational strategies.

5. FINANCIAL SUSTAINABILITY DEFINED

The Sustainability and Reporting process for Queensland local governments commenced in 2009 with the implementation of the *National Frameworks for Sustainability*. These Frameworks seek to ensure that all local governments in Australia adopt long-term financial and asset management planning processes.

In Queensland, the *Local Government Act 2009* promotes longer term planning by councils, and includes separate but related planning requirements:

- a 5-year corporate plan that incorporates community engagement
- a long-term asset management plan
- a long-term financial forecast
- an annual budget including revenue statement
- an annual operational plan.

The Queensland Government Financial Management (Sustainability) Guideline 2013 details the key indicators of Sustainability that have been adopted in Queensland.

Sources of funding	An appropriate reliance on the use of debt and own-source revenues.
Asset management and renewal	The long-term financial forecast incorporates the long-term asset management financial forecasts.
Infrastructure capital sustainability	There are no apparent financial difficulties in funding the required long-term infrastructure asset renewals. The infrastructure asset base is being renewed at a rate that is consistent with its long-term consumption.
Financial capital sustainability/viability	Balanced budgets or consistent operating surpluses are expected on average, over the long-term.

Income generating efforts

<u>Rates:</u>

The following characteristics indicate a need for closer examination:

- Where adopted rate increases that have fluctuated substantially
- Where rates are at a level that are considerably different to a group median of comparable councils, particularly where councils indicate a long term inability to maintain and renew assets, have persistent underlying operating deficits, and significant debt.

(Note: At annual budget discussions, a comparison of Council general rates with four similar councils will be undertaken and presented for consideration).

<u>Other own sources income:</u>

The following characteristics may indicate a need for closer examination:

- Where there is a lack of transparency in the determination of the pricing of services.

<u>Operating costs:</u>

The following characteristics may indicate a need for closer examination:

- Where significant and continuous annual increases in operating costs per assessment have been incurred
- Where operating costs are well above the group median.

<u>Operating results:</u>

For these purposes the operating result refers to a surplus or deficit, calculated on an accrual basis, excluding asset revaluations, developer contributions, capital grants and accounting corrections.

The following characteristics may indicate a need for closer examination:

- Where operating deficits have been consistently incurred
- Where a resource plan has been adopted that does not make adequate provision to rectify the situation.

Efficiently delivered services that are appropriate to needs

Councils should be delivering services appropriate to the needs of their communities in an efficient manner. Use of best value type assessments may be considered together with changes in operating costs.

The following characteristics may indicate a need for closer examination:

- Where there is an absence of robust community engagement processes to determine appropriate service standards and levels.

Short and long term cash and debt management

<u>Liquidity:</u>

The following characteristics may indicate a need for closer examination:

- Where difficulty in meeting short term financial obligations is being experienced
- Where no prospect of improvement is evident.

<u>Debt:</u>

Councils may be considered less sustainable if they:

- Have debt which limits their capacity to fund essential needs and negatively impacts on the capacity to provide operational services
- Leave future generations of ratepayers facing an unimaginable bill for services provided for current ratepayers
- The level of net interest costs associated with debt cannot be met comfortably from a council's operating revenue.

Ability to maintain, renew and upgrade assets

The following characteristics may indicate a need for closer examination:

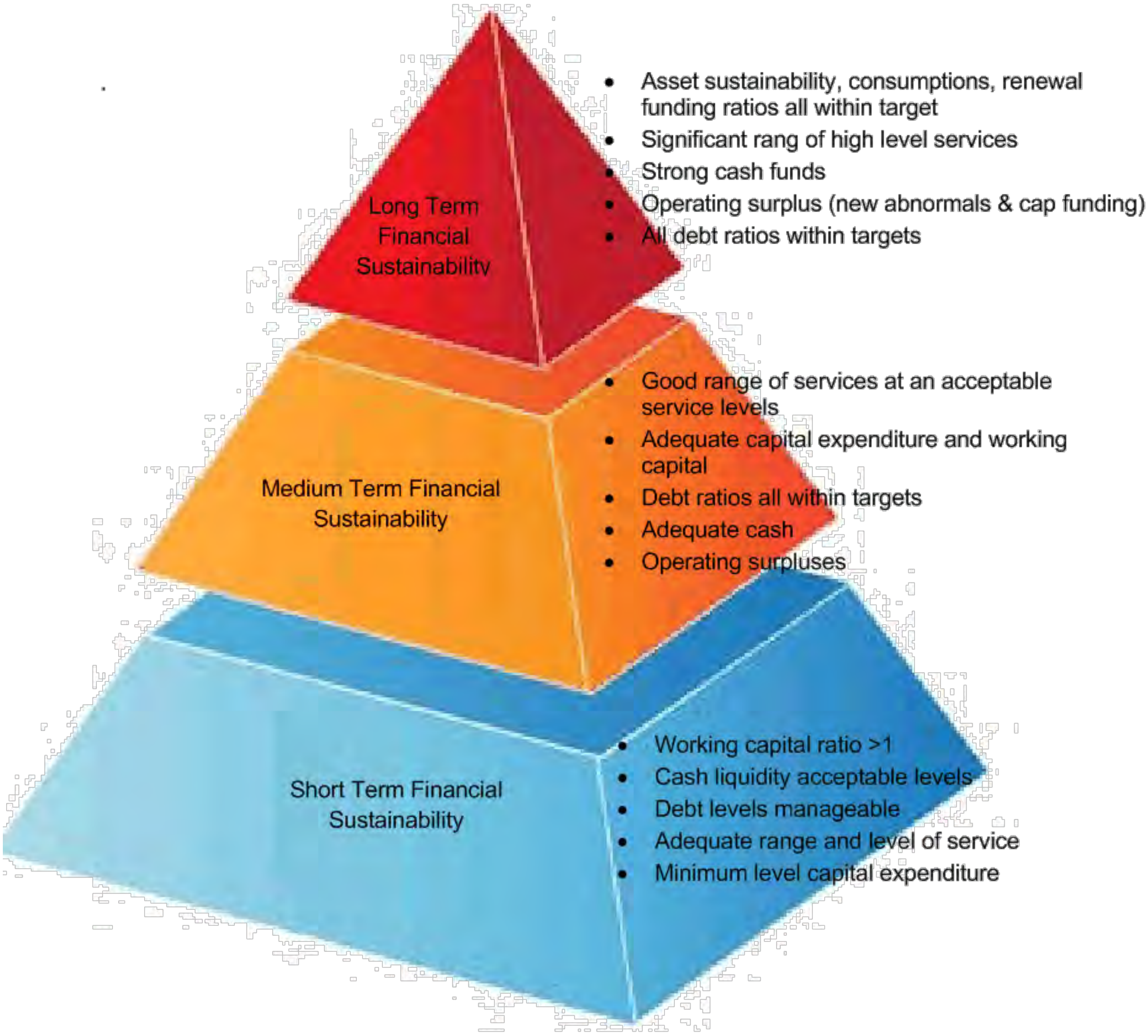
- Where spending is considerably less on capital works compared to depreciation expense; or (preferably)
- Where renewal levels as stipulated in asset management plans are not being met, that is, there is a renewal gap that is not being considered.

SCC's current and projected financial performance is included as ten year financial statements in Attachments A and B including results against financial performance measures and indicators.

The Queensland State Government has defined financial sustainability for Queensland Local Governments as:

*"A local government is **financially sustainable** if the local government is able to maintain its financial capital and infrastructure capital over the long-term."*

The Financial Sustainability Pyramid



Council is committed to working towards achieving all asset sustainability ratios (refer to Section 9.3). Until that time, Council is considered to be achieving medium term sustainability.

6. FINANCIAL OBJECTIVES AND OUTCOMES

Consistent with Council's vision, the key objective of the Financial Sustainability Plan is:

"To ensure the organisation is financially sustainable in the short, medium, and long term".

Specifically, Council will maintain:

- Council is committed to working towards achieving all asset sustainability ratios.
- Council's ability to pay short term obligations.
- Net operating surpluses exclusive of abnormal items or capital revenues.
- Council's ability to service its net liabilities.
- Council's capacity to meet interest expense payments.

A financially sustainable council will provide assurance to ratepayers and the community that:

- Council is only raising enough rating revenue to meet the delivery of expected services at desired service levels and standards.
- Assets are being well maintained and renewed to meet current and future needs
- Services and service levels and standards provide the best possible value for money that council can provide.
- Capital expenditure is targeted at those projects that provide the best value for the organisation and the community.
- The organisation is operating as efficiently as possible.
- Financial management within council is open and accountable.

7. FINANCIAL RISKS

The *Local Government Regulation 2012* requires Council to keep a written record of 'the risks the local government's operations are exposed to, to the extent they are relevant to financial management' and 'the control measures adopted to manage the risks.'

Under each financial policy area in Section 9 of this Financial Sustainability Plan, risks will be identified that exist or may arise that will impact on council's ability to implement its financial policies or deliver the outcomes expected. If a risk is classified as a high (orange) or extreme (red) risk, a risk treatment strategy will be put forward and implemented.

The treatment strategy will detail how the risk can be:

- Avoided – eliminated or withdrawn from
- Reduced – mitigated or optimised
- Shared – transferred, insured against, or outsourced
- Retained – accepted and budgeted for.

Council's Risk Management approach applies consequences/likelihood matrixes to evaluate risks under the categories of:

- Economic
- Financial
- Legislative
- Environmental
- Community and Social
- Political
- Workplace and Public Safety
- Business Activities
- Assets
- Reputation and Public Image.

The Risk Matrix will be used in this Financial Sustainability Plan. Council's risk assessment methodology follows AS/NZS ISO 31000:2009 Risk Management.

Sunshine Coast Council Risk Matrix:

		Consequences				
	Financial	**Insignificant** **Corporate Focus:** Zero $ loss – low (i.e. <$100K) **Economic**: None to minimal impact or inconvenience to single business	**Minor** **Corporate Focus:** Low to Medium $ loss (i.e. $100K-$1M) **Economic**: Inconvenience to a group of businesses in one sector or locally within the SCC region	**Moderate** **Corporate Focus:** Medium to High $ loss (i.e. $1M-$10M) **Economic**: Group of businesses in one sector or locally within the SCC region put at risk	**Major** **Corporate Focus:** Major $ loss (i.e. $10M-$25M) **Economic**: A minor industry or whole sector of the SCC region put at risk	**Catastrophic** **Corporate Focus:** Huge $ loss (i.e. >$25M) **Economic**: One or more major industries (eg Tourism, Agriculture, Education, Construction, Manufacturing, Retail, Fishing) within the SCC region threatened
Likelihood	**Almost Certain** *is expected to occur at most times (e.g. several times a year)*	M-28	M-40	H-60	E-88	E-100
	Likely *will probably occur at most times (e.g. about once per year)*	L-16	M-36	H-56	E-84	E-96
	Possible *might occur at some time (e.g. once every 5 years)*	L-12	M-32	M-52	H-72	E-92
	Unlikely *could occur at some time (e.g. once every 5 to 15 years)*	L-8	L-24	M-48	H-68	H-80
	Rare *may occur in rare circumstances (e.g. unlikely during the next 15 years)*	L-4	L-20	M-44	H-64	H-76

8. ECONOMIC SETTING

Council's 2015-2025 Financial Sustainability Plan takes effect at a time of significant economic challenges for all levels of government in Australia and across the world. Some key issues that will continue to have an impact on Council's capacity to reach and maintain a financially sustainable position include:

Global Economic Trends

The International Economy
The global economy is still struggling to gain momentum as many high-income countries continue to struggle with legacies of the global financial crisis, and emerging economies are less dynamic than in the past.

Global growth in 2014, at 2.6% is expected to rise moderately to 3.0% in 2015, and average about 3.3% through 2017.

The Australian Economy
With the GDP growth history released for the financial year 2013/14 at 2.2%, the forecasted increase is expected to be between 2.7% - 3.3% over the next 4 years and an inflation increase of 1.7% over the same period (statistical data extracted from Reserve Bank of Australia at 25 February 2015).

With business investment expected to be weak for the remainder of 2015, the Australian economy is expected to grow at a below-trend pace of 2.75% for most of 2015. With the labour market forecasted to tighten and with interest rate cuts currently being best policy to support domestic demand and maintain downward pressure on the Australian dollar.

Building a strong future

As well as providing essential, day to day services, Council is also building a strong future for the Sunshine Coast by progressing a number of major regional projects:

- Maroochydore City Centre Project
- Sunshine Coast Solar Farm
- Sunshine Coast Airport Expansion.

Maroochydore City Centre Project

Maroochydore is fast tracked to become the business, community and employment hub of the Sunshine Coast. The state government announced in July 2013 that the Maroochydore City Centre will be a Priority Development Area (PDA). This declaration was made on 19 July 2013, at the request of council. The declaration of a PDA at Maroochydore will renew the region by:

- supporting economic development,
- providing much needed infrastructure,
- creating a new central business district for the Sunshine Coast. Council adopted the Maroochydore Principal Activity Centre Structure Plan and Planning Scheme Policy on 15 December 2010. The adopted amendments took effect on 17 December 2010.

On 11 July 2014 the Maroochydore City Centre PDA Development Scheme was approved by the State Government marking a significant milestone in this 'game changing' project for the Sunshine Coast.

The Maroochydore City Centre will be instrumental in building and strengthening the region, providing a mix of residential, commercial, retail, civic and community uses in order to develop a thriving and vibrant business district and city centre, complementing and enhancing Maroochydore's existing business offering.

Artist impression – Maroochydore City Centre

The project will also enable the delivery of much needed infrastructure to the Sunshine Coast community as well as creating significant opportunities for economic development and employment.

The project:

- Creates employment opportunities through the allocation of 150,000 m2 of new commercial floor space by 2031
- Allocates 65,000 m2 of new retail floor space by 2031
- Proposes 4000 new dwellings within the principal activity centre
- Retains 40 per cent of the golf course site as public open space
- Proposes significant community facilities such as a regional arts and entertainment centre, a transit plaza, regional library, public amphitheatre and civic plaza and urban open space
- Mandates sub-tropical design that embraces Maroochydore's unique sub-tropical, coastal and waterfront qualities.

There will be visible signs of project commencement at the site as early as the second half of 2015. The entire development is anticipated to take 20 years to complete. Upon completion, the project will provide almost $300m of interconnected public open space and infrastructure for the community. The development will establish Maroochydore as the business, community and employment hub of the Sunshine Coast, and provide a CBD for more than 9,600 workers in the next 25 years.

Development of the Maroochydore City Centre is projected to be cash neutral over the life of the project. It is anticipated to yield $300 million worth of public realm assets such as roads, parks waterways and community infrastructure. Council expects to invest $400 million over the life of the project, which will be recouped from land sales.

Refer to Attachment C for Maroochydore City Centre Project financial statements.

Solar Farm

Sunshine Coast Council has taken the next step in becoming Australia's first local government organisation to build a solar farm.

Project scope:

The project will see a 15 megawatt (MW) solar farm installed at 909 Yandina-Coolum Road in Valdora. It will be installed on 24 hectares of a 49 hectare site.

The project will:

- See council proactively take control of its electricity supply
- Provide council facilities and operations with renewable electricity
- Combat rising electricity costs
- Reduce council's carbon footprint
- Contribute to council's goal to become carbon neutral by 2020
- Complement the Sunshine Coast's 30,000 solar rooftops.

The solar farm is estimated to save Sunshine Coast Council millions of dollars over a 30-year period, based on today's electricity costs, which are anticipated to increase substantially in the future.

Indicative perspective concept 1 for completed Stage 1 and 2. Image extracted from GHD Report to Council - Development Application for Material Change of Use at 909 Yandina

Construction will commence during the 2015/16 financial year and be completed within 1 year. It is proposed that the solar farm will offset Sunshine Coast Council's entire electricity consumption at is facilities and operations.

Sunshine Coast Airport – Airport Expansion Project

The existing main runway (Runway 18/36) at Sunshine Coast Airport (SCA) first opened in 1961 and has been instrumental in the development of the Sunshine Coast economy over the past 50 years.

The challenge for Sunshine Coast Council (SCC) is to ensure the airport can support a growing Sunshine Coast economy. As identified in the 2007 SCA Master Plan, the current runway infrastructure, due to its length and width (1,797m x 30m) constrains airline services to Sunshine Coast residents.

In adopting the 2007 SCA Master Plan, SCC determined the preferred option for the future of SCA was to develop a new, fully compliant main runway of 2,450m x 45m, aligned in a south- east / north-west direction.

A possible change of orientation for the airport's main runway has been discussed since the early 1980s. The length, width and orientation of the existing runway were recognised as constraints to growth in passenger numbers, destinations and freight capacity.

Artist's impression of the proposed Sunshine Coast Airport Expansion Project

<u>The proposed Sunshine Coast Airport Expansion Project includes:</u>

- A new 2,450m long x 45m wide runway aligned to the
- north- west/south-east (Runway 13/31)
- Two runway end taxiway loops and navigation aids
- Expansion of the apron at the existing terminal
- A combined new Air Traffic Control tower and Aviation Rescue and Fire Fighting station, access road and utilities.

If the Project is approved, this would lead to:

- Use of the existing Runway 18/36 for General Aviation
- (light aircraft) only when weather dictates
- Closure of the existing secondary runway (Runway 12/30)
- Relocation of navigational aids
- Revised flight paths.

<u>The proposed new runway:</u>

The new runway would be able to cater for existing B737 and A320 aircraft without constraints, and other aircraft such as the A330 and Boeing 787. It would have an orientation of 128 degrees/308 degrees magnetic, giving the runway its 13/31 designation.

Runway 13/31 would have two, end-taxiway loops. The end taxiway loops allow for more efficient movement of aircraft on the runway, as an aircraft can be waiting on the taxiway loop while another aircraft is using the runway to land or take-off. The new runway would be served by the existing terminal.

To accommodate larger aircraft, the apron at the existing terminal would be extended.

While the new runway is designed to cater for existing and larger aircraft, light aircraft and helicopters would continue to operate from the airport.

Runway 13/31 would intersect the existing Runway 18/36 slightly north of the current connection to the cross runway. The alignment of the new runway was chosen to avoid topographical constraints including Mt Coolum and Mt Ninderry.

The location of the runway within the site was influenced by the following factors:

- Meeting all aviation standards
- Reducing the number of residents affected by aircraft noise
- Avoiding poor geotechnical conditions immediately east of the
- Sunshine Motorway at the north-west end of the runway
- Reduction of potential flood impacts.

No capital expenditure has been included in the adopted 2015/16 budgeted 10 year financial statements for the Sunshine Coast Airport Runway development, as Council are awaiting the outcome of an Environmental Impact Statement. Further information will be provided to Council throughout 2015/16.

Caloundra South and Palmview

In June 2008, the SEQ Greenfield Land Supply Review identified Caloundra South and Palmview as "bring forward" Greenfield areas.

Caloundra South:
The Caloundra South Urban Development Area Development Application was designed to accommodate a population of 50,000 people and includes details of future land use including a new town centre, four district centres, 20,000 new dwellings, new road networks, community facilities and open space areas.

Palmview:
As part of the structure planning for Palmview, council has negotiated an infrastructure agreement package with the landowners to deliver $600 million worth of infrastructure at no cost to ratepayers.

The final plan and agreement will deliver:

- 615 hectares of land for ecological protection and rehabilitation
- more than 130 hectares of land for local, district and regional community, sport and recreation facilities
- a dedicated public and active transport link or 'greenlink' to encourage residents to use alternatives to private vehicles, connecting Palmview to Sippy Downs and to Kawana
- 12.5 per cent of dwellings to be provided for affordable housing
- extensive road, water, sewer, pedestrian, bicycle and telecommunications infrastructure
- energy and water efficient urban design, which aims to reduce water consumption by 80 per cent on the site.

Council has fought hard for the best outcomes for community amenity and environmental sustainability within the confines of the state government's conditions.

Population Demographics

The Sunshine Coast is home to approximately 285,000 people. The last census data showed that the median age of the population in the Sunshine Coast region was 41 years compared to the State median of 36 years. The data also showed that the proportion of the population over 65 years of age was 18% compared to the State average of 13%. The percentage of the region's population over 65 years of age at the 2001 census was 15.8%.

This ageing population for the region brings with it a range of issues for SCC such as the possible need for different social infrastructure and the reduced number of residents available for the Sunshine Coast's workforce.

Government Funding and Cost Shifting

Policy decisions at both State and Federal level over the past few years have seen a reduction in funding to Local Government in real terms. This reduction, together with a general trend of moving more services under Local Government responsibility without commensurate funding has put pressure on SCC's operating position.

The government funding arrangements as at 1 July 2014 are assumed to continue for the duration of the Financial Sustainability Plan.

9. FINANCIAL COMMITMENTS

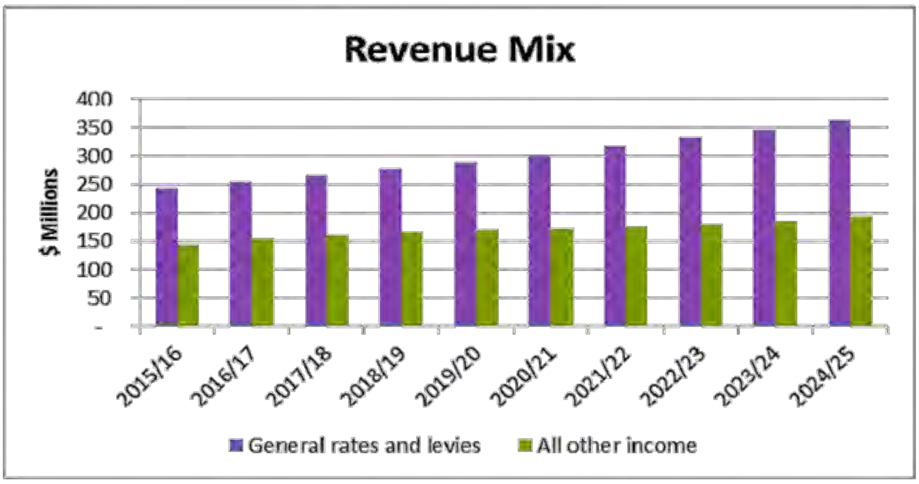
Commitment
Council will target an operating surplus each year rather than just a balanced budget position.

Outcomes
An operating surplus will guarantee additional funds for capital works expenditure beyond existing sources.

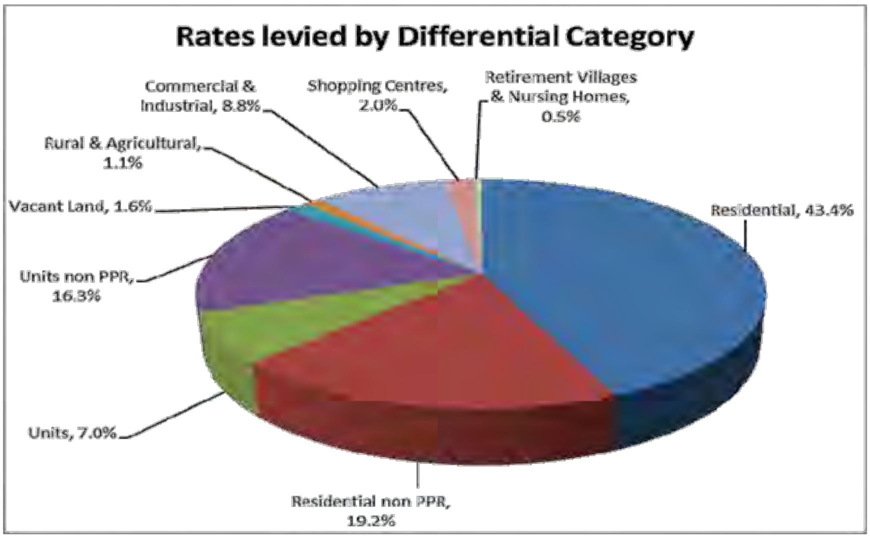
Comments
Council collects operating revenue in the form of separate and special rate levies that incur capital expenditure commitments. An overall operating surplus ensures a breakeven position in other operating areas.

9.1. Revenue

The total operating revenue of council increases from $386 million in 2015/16 to $555 million in 2024/25.



9.1.1. Rates and Utility Charges



Rates & Utility Charges are levied on ratepayers to provide revenue for a broad range of services. This revenue category includes special and separate rates that are levied on specific ratepayers or for a specific purpose. The 2015/16 revenue from Rates & Utility Charges is estimated to be $253.3 million.

From the above graph, the four rating categories that generate the most rates are

1. Residential (permanent place of residence [PPR]) 43.4%
2. Residential (non PPR) 19.2%
3. Units (non PPR) 16.3%
4. Commercial and Industrial 8.8%

From a financial perspective, these four rating categories will have the highest impact on Council's financial sustainability.

9.1.1.1 <u>Commitment</u>

The parameter used in the Long Term Financial Model (LTFM) to assist in the determination of the annual general rate increase will be the Local Government Association Queensland (LGAQ) Council Cost Index (CCI).

<u>Outcomes</u>

The use of a tailored price index that reflects the movement in local government costs will ensure that general revenues and costs will move in unison.

<u>Comments</u>

The LGAQ Council Cost Index is published each year based on the December quarter cost indices published by the Australian Bureau of Statistics.

9.1.1.2 **Commitment**

Early payment discounts will be maintained at 5% of the general rate or $200 per annum, whichever is the lesser amount. Any future loss of discount will be offset by a reduction in the general rate take equal to the total discount that would have applied.

Outcomes

All ratepayers will be levied a rate that reflects their rating category.

The overall impact on Council revenue will be neutral.

Operational efficiencies may be achieved through not having to manage the discount scheme, whilst encouraging early payment to optimise cash flow opportunities.

Comments

The management of early payment discounts is time consuming, costly, and creates significant issues for Councillors and staff in dealing with ratepayer complaints when discount is missed.

The Local Government Regulation 2012 (s133) provides for overdue interest to be charged on late rate payments at 11%. This raises the question as to whether any other incentive is required to ensure cash flows are maintained.

9.1.1.3 **Commitment**

Council will maintain its support of pensioners by continuing the pensioner rebate on rate payments. The annual Revenue Statement will define the quantum and eligibility for this rebate.

Outcomes

Pensioners will receive continued support by Council to offset rate payments.

Comments

Council's pensioner rebate is in addition to the rebate supplied by the State Government.

9.1.1.4 **Commitment**

a) Council will use a differential rating system to levy general rates.

b) Council will aim to have two thirds of residential ratepayers on the minimum general rate

c) When Council sets rates in the dollar, consideration will be given to the contribution to the total rate take by the seven key rating groups, currently within the following ranges:

- **Rural & Agricultural 1% to 1.2%**
- **Commercial & Industrial 8.0% to 10.0%**
- **Residential (PPR and Non PPR) 62% to 64%**
- **Vacant Land 1.5% to 1.9%**
- **Retirement Villages & Nursing Homes 0.3% to 0.5%**
- **Shopping Centres 1.6% to 2.0%**
- **Units (high and low rise, PPR and Non PPR) 23% to 25%.**

d) Non PPR Residential will be set at 20% above PPR Residential

Outcomes

A more equitable distribution of general rates charges is achieved.

Comments

Council applies a differential rate to 30 sub-categories.

9.1.1.5 **Commitment**

Council supports the use of levies through special charges where appropriate for ratepayers who benefit by the provision of a specific service, facility, or activity.

Legislation for special charges requires an overall plan for charges and expenditure to be presented at the annual budget meeting.

Council supports the use of separate charges that will be levied on all ratepayers. A schedule of projected charges and expenditure will be presented at the annual budget meeting for each separate charge.

Outcomes

Applying charges that reflect specific benefits received supports council's rating principle of equitable distribution of the general rates burden as broadly as possible.

Comments

Council continues to support this commitment with 11 special or separate levies.

9.1.2. Fees and Charges

Fees and charges account for 14% of total Council revenue. Council's business activities account for 58% of all fees and charges. Fees and charges can be classified as either:

- Regulatory fees that Council levies under a statutory power. These fees must not be charged at greater than the full cost to council to administer the fee.
- Commercial charges that Council is able to charge for any service other than regulatory fees. These charges may contain a commercial margin.

9.1.2.1 **Commitment**

All fees and charges will be set with reference to full cost pricing. Cost recovery fees will be charged at a maximum of full cost. Commercial charges will be at commercial rates.

Outcome

Council will maximise its revenue from fees and charges. Recipients of services related to regulatory fees and commercial charges will be charged appropriately.

Comment

Whilst many regulatory activities are constrained through State legislative parameters, Council currently adopts the principle of user pays for fees and charges. Systems and process must be in place to support cost recovery practices.

9.1.3. Business Activities

Council operates four business activities in accordance with Chapter 3 Part 2 Division 2 of the Local Government Act 2009.

Business activity structure based on the annual business activity review and identification conducted in accordance with the legislation is to:

- Apply the Full Cost Pricing in accordance with section 44(1)(b) of the *Local Government Act 2009* to the Waste and Resource Management significant business activity.
- Apply the Code of Competitive Conduct to the following activities, in accordance with sections 47 of the *Local Government Act 2009*:
    - Sunshine Coast Airport
    - Sunshine Coast Holiday Parks and
    - Quarries.

Sunshine Coast Airport is a Commercialised Business, Waste Operations is a Type 2 Business and Sunshine Coast Holiday Parks, and Quarries, are Type 3 business activities subject to the Code of Competitive Conduct.

Business Activity Target Return on Capital	
Business Activity	**Target***
Sunshine Coast Airport	12.1%
Waste and Resource Management	9.5%
Sunshine Coast Holiday Parks	12.2%
Quarries	11.2%

* Note: Targets revised annually. The 2015/16 Target Rate of Return is shown above.

Return on capital reflects the cost of the business activity's capital, incorporating the cost of debt and the cost of/return on shareholder equity. Essentially, it reflects the actual and opportunity cost of one investment over another.

9.1.3.1 Commitment

Each business activity classified under Chapter 3 Part 2 Division 2 of the Local Government Act 2009 will target a return to Council equal to an appropriate pre-tax weighted average cost of capital for the business by June 2015. Actual performance against budgeted targets will be published annually in the Community Financial Report.

Outcomes

The community is receiving the maximum allowable financial benefits from council's business activities.

Comments

Council's Competition Reform Policy defines the Return on Capital and Return on Cost Calculations to apply to business activities, having regard to the nature of business activity (whether a regulated activity as compared to commercial business operations).

9.1.4. Investment Returns

Council's external investment returns are from:

- Investments of surplus cash
- Loans to Unitywater under the categories of Working Capital Loan, Senior Debt, and Subordinated Debt
- Participation Rights in Unitywater
- Property investments.

The controls and policy direction for the investment of surplus cash is comprehensively covered in Council's Investment Policy. The Investment Policy is adopted annually with Council's budget. In accordance with legislation, the Investment Policy will form part of the Financial Sustainability Plan and is an attachment to this document.

9.1.4.1. <u>Commitment</u>

As per the Investment Policy, Council will maintain an active investment strategy with the following goals:

- **Maximise investment returns from investment activities.**
- **Exceed the current QTC benchmark.**
- **Invest only in investments as authorised under current legislation.**
- **Invest only with approved institutions.**
- **Invest to protect capital value of investments.**

<u>Outcomes</u>

Council's investment returns from surplus cash will be maximised with minimised credit risk.

<u>Comment</u>

These policy commitments are currently being strictly adhered to.

Unitywater Investments

9.1.4.2. <u>Commitment</u>

Unitywater revenue streams will be reviewed annually in conjunction with the release of the Unitywater annual audited financial statements

<u>Outcomes</u>

Council will maximise these returns and will adhere to the principles of fairness and equity.

<u>Comment</u>

Under the South East Queensland Water (Distribution and Retail) Restructuring Act 2009, Council has been granted Participation Rights in Unitywater as compensation for transferring its remaining water and sewerage assets to this entity. Returns from these Participation rights will be in the form of loans to Unitywater that will earn interest, and access to annual Participation Returns.

Loans to Unitywater are subject to certified deeds and arrangements that control and direct the management of the loans and are categorised as Senior and Subordinated Loans. Senior and Subordinated loans are interest only, with interest received quarterly. Currently the interest rates applying to all these loans are greater than Council is paying QTC on its borrowings.

Council will receive an annual Participation Return in relation to its Participation Rights in Unitywater. All aspects of this revenue to Council are contained in the certified Unitywater document Participation *Returns (Dividend) Policy*.

Property Investments
Council owns a number of properties that are leased or rented to external parties.

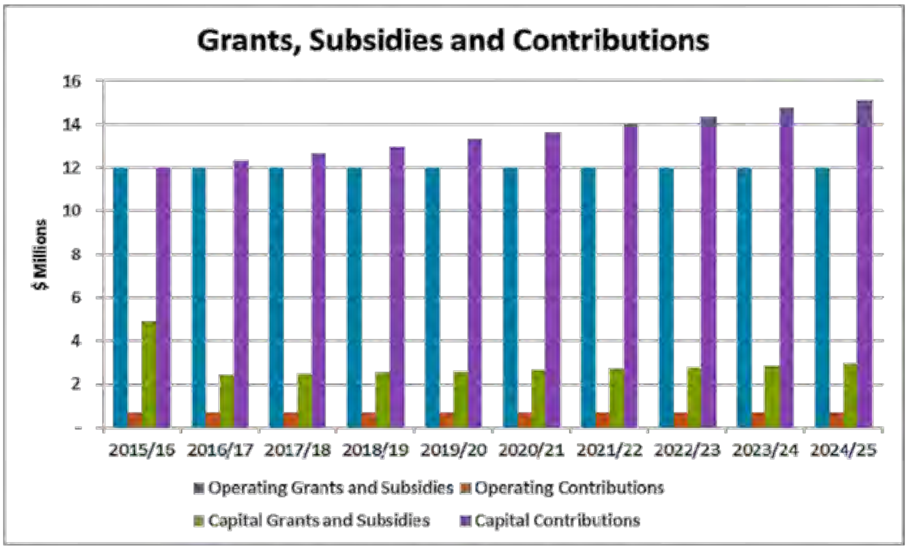
9.1.4.3. <u>Commitment</u>

All returns from Council owned properties will be at commercial rates and on commercial terms with the exception of leased community use assets.

<u>Outcome</u>
Council will maximise these returns and will adhere to the principles of fairness and equity.

<u>Comment</u>
All such Council leases comply with this policy commitment.

9.1.5. Grants, Subsidies and Contributions



Council actively identifies, manages and advocates for capital and operational grants and subsidies to assist fund capital works and provide services to the community. Capital contributions are also received through development applications and are to be spent in accordance with the infrastructure agreements or local government infrastructure plans under which they were received.

Due to its direct link with expenditure, capital funding is considered further under Section 9.3.2 Capital Expenditure of this Financial Sustainability Plan.

9.1.5.1 Commitment

Council will continually seek out federal and state government contributions, grant funding and subsidy opportunities and explore partnership funding opportunities with the private and not-for-profit sector to deliver projects before allocating general revenue.

Outcome

All external funding sources for delivery of capital and operating programs and projects is maximised.

Comment

Council currently employs a Coordinator - Funding Partnerships to research, identify, consider and source funding opportunities.

9.1.6. Revenue Risks

Risk	Likelihood	Consequence	Rating
1. Change of Council direction after election impacts revenue raising	Likely	Moderate	H-56
2. State legislative changes resulting in reduced revenues	Possible	Moderate	M-52
3. LGAQ CCI lower than expected	Possible	Moderate	M-52
4. LGAQ CCI higher than expected	Possible	Minor	M-32
5. Cessation of government funding	Possible	Major	H-72
6. Unitywater dividends less than expected	Unlikely	Major	H-68
7. Regional growth rates lower resulting in lower general rates	Possible	Minor	M-32
8. Development slower than expected resulting in reduced developer contributions	Likely	Moderate	H-56

Risk Control Measures

- **Revenue Risk 1** – Change of Council direction after an election impacts revenue raising.

Control Measure – Mitigate. Include a comprehensive induction and training program with the new council on the Financial Sustainability Plan policy commitments and implications of changes.

- **Revenue Risk 5** – Cessation of government funding.

Control Measure – Mitigate. Include a reduced reliance on grants and subsidies across the 10 year financial forecasts. Operating grants and subsidies, which

30

mainly come from Federal and State Governments, are estimated to reduce from 2.6% of operating revenue in 2014/15 to 1.8% in 2023/24. Capital Grants and Subsidies increase from 2.0% of capital works in 2014/15 to 2.6% of capital works in 2023/24.

- **Revenue Risk 6** – Unitywater dividends are less than expected.

Control measure – Retain and budget. The 10 year financial model has very conservative forward estimates for Unitywater dividends, reducing from 7.1 % of operating revenue in 2014/15 to 4.4% of operating revenue in 2023/24.

- **Revenue Risk 8** – Development slower than expected resulting in reduced developer contributions.

Control measure – Eliminate. Align related capital expenditure directly with developer contributions received, that is, expenditure is capped at the level of contributions.

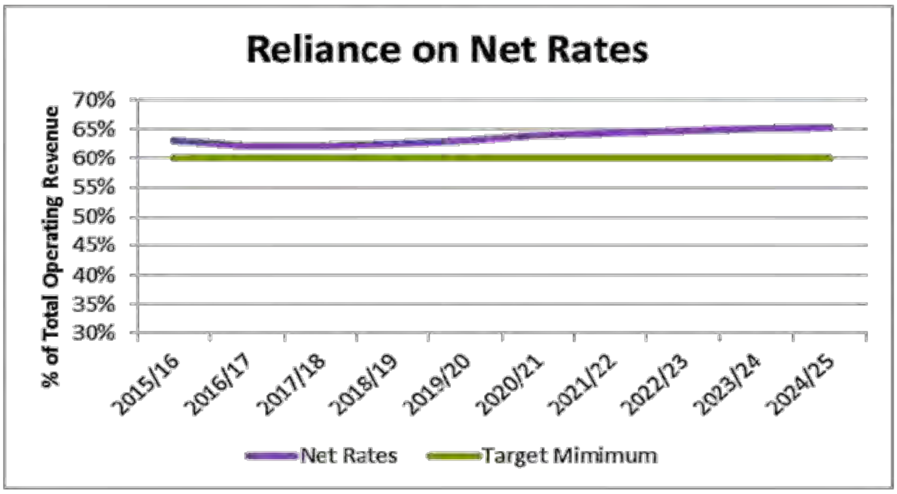
9.1.7. Assumptions, Parameters and KPIs

The revenue assumptions and parameters included in the Ten Year Financial Model are:

- General rates and fees and charges will increase in line with the LGAQ CCI.
- Rental and other income will increase in line with the Brisbane underlying CPI.
- Operating grants and subsidies will remain static from 2015/16.
- A growth factor of 1.5% in line with the low level Planning Information and Forecasting Unit (PIFU) projections has been applied to rates, utility charges, and fees and charges.
- All other revenue related policies except those expressly addressed in the Financial Sustainability Plan will continue in their current form for the life of the Financial Model.

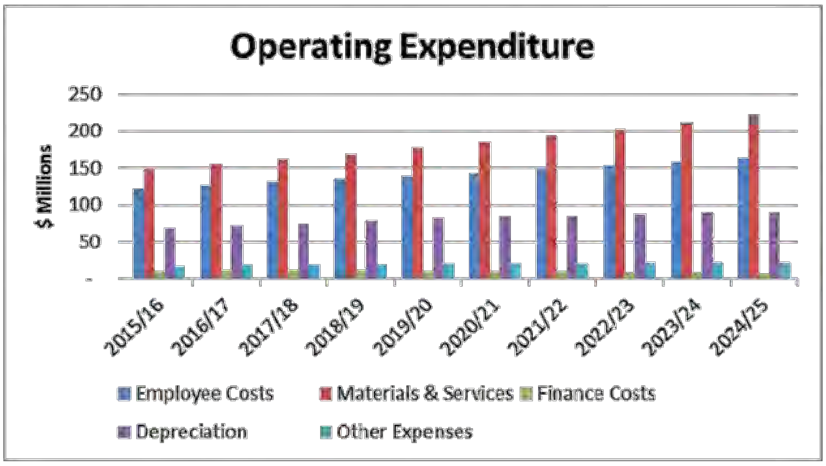
The only financial key performance indicator related directly to revenue is the Council Controlled Revenue Ratio. This ratio measures net rates as a percentage of total operating revenue and indicates the degree of reliance on external funding sources such as operating subsidies, donations and contributions. Council's financial flexibility improves the higher the level of its council controlled revenue with the optimum target being greater than 60%.

The ratio is above the target amount of 60% across all years of the Financial Model.



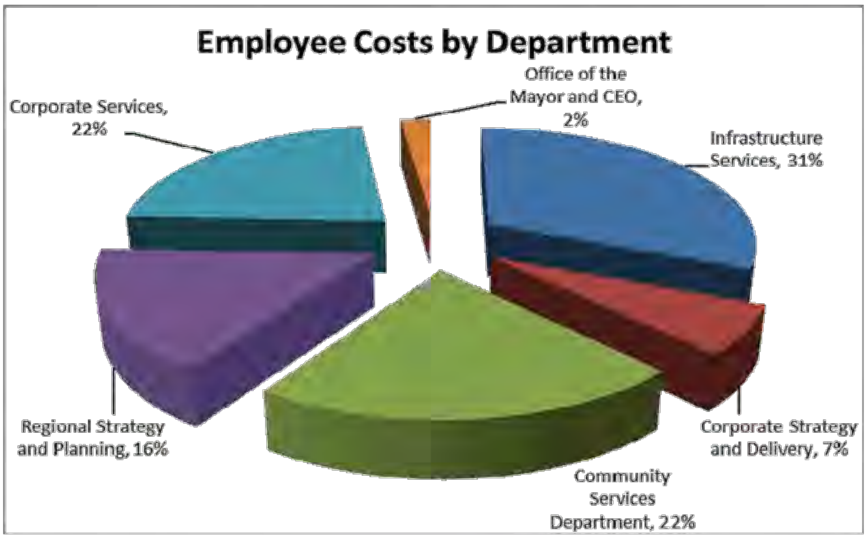
9.2. Operating Expenditure

Total operating expenditure is estimated to increase from $364.6 million in 2015/16 to $504.0 million in 2024/25. Interest expense will be considered under Section 9.5, Debt Management.



9.2.1 Employee Costs

Employee costs in the financial model reflect estimated pay increases associated with certified agreement negotiations. The increases are based largely on Brisbane CPI forecasts. Limited growth components for establishment numbers have been applied to forward years.



9.2.1.1 **Commitment**

Growth of employee numbers will need to be requested on an annual basis.

Outcome

Council will recognise the costs involved in providing services to a growing community.

Comment

Note that growth is considered separate to any increments associated with wages indexation under the Certified Agreements.

9.2.1.2 **Commitment**

In each year, a vacancy factor of 3% will be deducted from the full establishment costs to produce budgeted employee costs.

Outcome

The estimated employee costs will more closely reflect reality. Revenue will not be raised from the community unnecessarily.

Comment

Each year Council will experience a turnover in staff of from 5% and up to 12% depending on economic circumstances. In 2014 the annual turnover of permanent staff was 8%. In most instances, positions are unfilled from the time of vacancy to new employment. A reduction of employee costs from full establishment costs will reflect this.

There is capacity, as directed by the Executive Leadership Team, for certain council areas to be exempt from this commitment.

9.2.1.3 **Commitment**

Council is committed to continuously review services delivered, service levels and standards.

Outcome

Services provided by Council will be those that are appropriate for Council to deliver and will be at service levels and standards required by the community.

Comment

The benefits arising from the Organisation Review are expected to be realised over a number of years.

9.2.2 Materials and Services

Materials and services make up 41% of the 2015/16 operating expense budget and are the largest component of costs. The Operating Expenditure graph above shows materials and services increasing from $148.3 million in 2015/16 to $221.4 million in 2024/25.

The program of implementation of asset management plans and the subsequent link between these plans and operating expenses will have an impact on future expenses.

Ongoing implementation of establishing sound contracts with suppliers of goods and services and capturing what otherwise might be considered contract leakage from ad hoc procurement. Efficiencies will be achieved both in dollar terms and performance.

9.2.2.1 **Commitment**

Council is committed to balancing long term financial sustainability with the recognition and inclusion of all operating costs directly evolving from asset management plans into budgets.

Outcome

All operating costs arising from new or existing assets will be budgeted for where possible, with regard to long term financial sustainability.

Comment

All asset management plans will contain forward schedules of costs. A process will be developed to ensure these costs are clearly identified in future budgets.

9.2.2.2 **Commitment**

Growth of materials and services costs needs to be requested on an annual basis and limited to half of general rates growth for forward years.

Outcome

Council will recognise the costs involved in providing services to a growing community.

Comment

Note that growth is considered separate to any price indexation associated with materials and services costs.

9.2.2.3 **Commitment**

Council is committed to continuously review services delivered, service levels and standards.

Outcome

A program of continuous improvement to all facets of service delivery will become the norm for Council.

Comments

Services, and related delivery methods are to be continuously reviewed.

9.2.2.4 **Commitment**

Ongoing review of goods and services expenditure will be carried out to identify opportunity for appropriate contract control for identified operating expenses.

Outcome

The benefit of establishing contracts for expenditure which is otherwise carried out on an ad hoc basis will directly impact Council's operating budget.

Comment

Council's procurement policy identifies the principles, objectives and strategies that apply to achieve effective, efficient and sound contracts with suppliers.

9.2.2.5 **Commitment**

Operating projects that are known to be delayed to a future year will be incorporated into regular budget reviews and reconsidered in the following year.

Outcomes

Cash and debt management will be improved. Projects that have not commenced and are delayed to a future year will be reprioritised against the future year projects.

Comment

A specific component of the budget review process will be the identification of delayed or saved operating costs.

9.2.3 Depreciation

Depreciation is generally defined as the consumption of future economic benefits or service potential embodied in non-current assets with limited useful lives. This consumption of future economic benefit is recognised as an expense in the Operating Statement.

With long-lived infrastructure and other assets valued in excess of $4 billion, annual depreciation expense ($67 million in 2015/16) has a significant impact on Council's annual operating result.

There has been considerable discussion within local government circles on the appropriateness of the current depreciation methodology on infrastructure assets. These assets usually have a very long life, are complex in nature (some assets are made up of numerous parts), and they are constantly rehabilitated during the course of their lives.

9.2.3.1 <u>**Commitment**</u>

A comprehensive review of all components and variables used to determine annual depreciation will be undertaken during 2015/16, with any outcomes incorporated into the budget, having regard to the outcome of adopted asset management plans.

<u>Outcome</u>

Depreciation expense will reflect the best possible estimate of the annual use and service potential of assets.

<u>Comment</u>

The infrastructure asset management plans will provide input into this depreciation review.

9.2.4 Operating Expense Risks

Risk	Likelihood	Consequence	Rating
1. Inflation is significantly higher than estimated	Likely	Moderate	H-56
2. Future Certified Agreements may limit the capacity of service reviews	Likely	Moderate	H-56
3. The unemployment rate is higher or lower than expected	Possible	Moderate	M-52
4. The unemployment rate is lower than expected	Possible	Moderate	M-52
5. Cost Shifting from other levels of government occurs without commensurate funding	Likely	Major	E-84

<u>Risk Control Measures</u>

- **Operating Expense Risk 1** – Inflation is significantly higher than estimated.
  <u>Control Measure</u> – Accept and budget for. While higher than expected inflation will increase operating costs, it will also flow through to general rate and fees and charges increases, minimising the impacts.
- **Operating Expense Risk 2** – Future Certified Agreements may limit the capacity of service reviews.
  <u>Control Measure</u> – Mitigate. Future Certified Agreements should include clauses to allow for service review efficiencies to be realised. A basic principle of these Agreements is to offset wage increases by productivity improvements.
- **Operating Expense Risk 5** – Cost Shifting from other levels of government occurs without commensurate funding.
  <u>Control Measure</u> – Mitigate. Strongly support existing LGAQ and Council of Mayors campaigns on this issue.

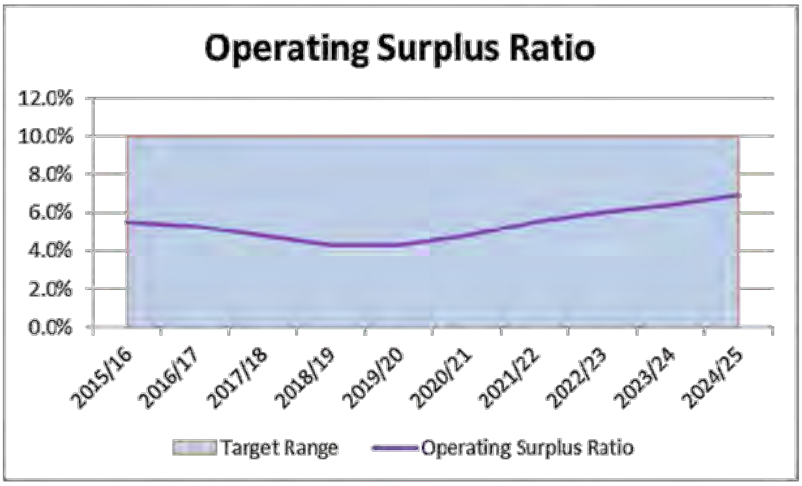
9.2.5 Operating Expense Assumptions, Parameters, KPIs

The Operating Expense assumptions and parameters included in the ten year Financial Model are:

- Certified Agreement pay increases will be used to escalate employee costs across the forward years.
- Escalation factors for water, electricity and fuel are specific to the types of costs. The Council CPI will be used to escalate general goods and services
- A growth factor of 0.7% (half general rates growth) will be applied to employee costs and materials and services from 2015/16. No growth or cost reduction factors are applied to any operating costs.
- A vacancy factor of 3% will be deducted from full establishment costs to produce budgeted employee costs each year

The KPI applying to operating costs and operating surpluses is:

- Operating Surplus Ratio (excluding capital revenues) – measures the extent to which operating revenues raised cover operational expenses only or are available for capital funding purposes or other purposes.
  - Calculation: Operating Result (excluding capital items) divided by total operating revenue, expressed as a %.
  - Target: between 0% and 10%.



9.3 Asset Management and Capital Expenditure

9.3.1 Asset Management Plans

Section 167 of the Local Government Regulation 2012 requires Council to prepare a long-term asset management plan. Section 168 of this Regulation stipulates that the long-term asset management plan must:

- Provide for strategies to ensure the sustainable management of the assets mentioned in the local government's asset register and infrastructure of the local government; and
- State the estimated capital expenditure for renewing, upgrading and extending assets for the period covered by the plan; and
- Be part of, and consistent with, the long-term financial forecast.

Council adopted an Asset Management Policy in April 2010 that states 'Council will develop asset management plans in accordance with the guidelines set out in the International Infrastructure Management Manual 2006 (IIMM 2006). Plans will apply to all built and natural assets under its stewardship. The asset management plans will:

- Identify asset quantities and asset conditions
- Give consideration to the whole of life costs of the asset and/or service
- Provide information on current and future maintenance, operational and capital works requirements
- Identify the level of service that will be delivered by the asset and how the service will be monitored
- Identify funding needs on a short term and long term basis, and provide guidance to develop programs to optimise the asset value and minimise funding commitments
- Provide the basis for long term financial planning for assets under the custodianship of Council.

9.3.1.1 Commitment

Council will continue to advance asset management through the further development and update of asset management plans, asset management systems and processes.

Outcome

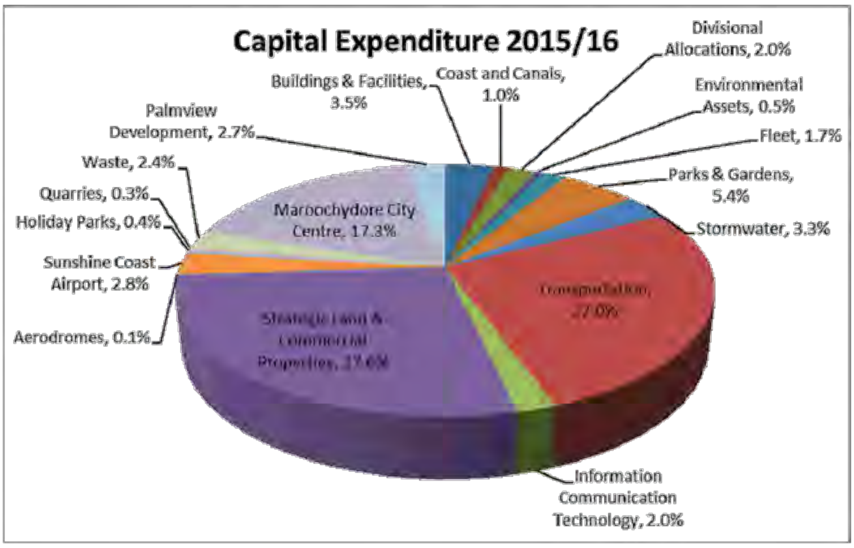
Council will have a robust and compliant asset management system. Council's financial model will reflect the costs of asset renewal, upgrades, and maintenance.

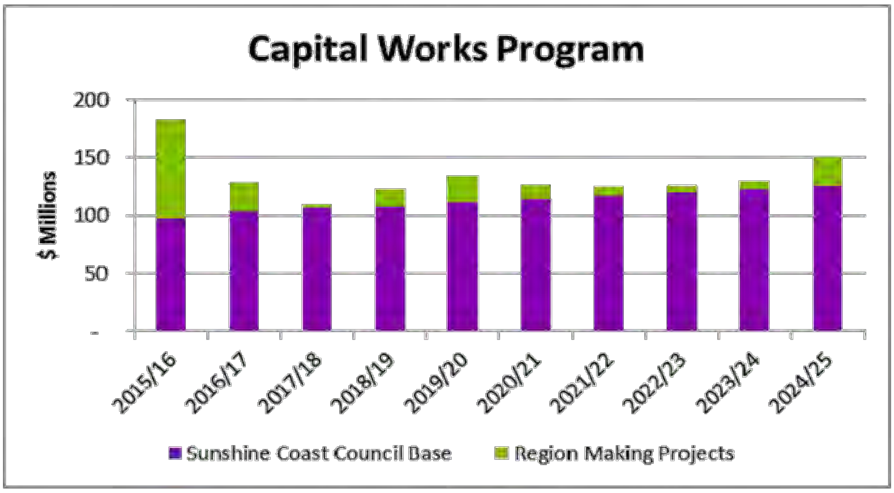
Comment

It is expected that the ten year financial model will reflect all expenditure defined in Asset Management Plans by June 2016.

9.3.2 Capital Expenditure

Council has budgeted to outlay $183 million on capital expenditure in 2015/16.





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9.3.2.1 **Commitments**

Council's Asset Management Policy adopted in April 2010 contains the following commitments:

- **All assets will be managed from a whole of life perspective in accordance with the IMM2006.**
- **A ten year Capital works program will be developed and reviewed annually as part of Council's budget process.**
- **New assets will only be approved where there is the required growth, a Council commitment or a deficient level of service.**
- **Development and commitment to long term capital works and financial plans that support and are responsive to the needs of the community and meet State Government legislation will be incorporated into Asset Planning (Capital Works).**
- **The ongoing review of opportunities for additional funding sources and partnerships e.g. benefited areas levies, external grants and funding partnerships.**

Outcomes

These commitments will ensure a robust approach to the allocation of capital expenditure.

Comments

The completion of advanced asset management plans will complement these commitments.

9.3.2.2 **Commitment**

The capital works model will contain estimates by project or major expenditure type for ten years and will form an integral part of the ten year financial model and will include whole of life cost analysis. Overall management of the integrated models will be undertaken by the Financial Services Unit. Each Department will be responsible for the maintenance of any capital expenditure forecasts under their control. These forecasts will only be updated during budget review or annual budget processes and will align with formal approvals.

Outcome

Responsibilities for data within the model will be clearly defined.

Comment

This commitment strengthens the integration of the financial model and capital works model but does not reduce the key responsibility for ownership of capital forecasts.

9.3.2.3 **Commitment**

New developments will pay Infrastructure Charges and provide contributed trunk and non-trunk assets under conditioning powers vested in Council's Local Government Infrastructure Plan (LGIP) and the Planning Scheme respectively. Additionally, Infrastructure Agreements may call up land, works or monetary contributions over and above that identified through the

LGIP and the Planning Scheme. This ensures that development contributes appropriately to fund its share of the cost of trunk infrastructure. (Where a developer provides trunk infrastructure, Council reimburses the cost in full to avoid "double dipping".) Council will fund infrastructure directly related to bringing existing infrastructure to desired standards of service. A separate and distinct section of the capital works model will be established solely for growth related trunk infrastructure, (LGIP), transparently showing development and Council funding for capital expenditure.

Infrastructure Charges will be used only for identified trunk infrastructure projects.

As a general principle, no capital expenditure related to growth infrastructure will be expended unless sufficient available funding exists in the External Restricted Cash account(s), or unless a clear funding stream has been identified.

Outcome

Developments will pay the full cost of the growth component of the infrastructure required as a consequence of the development.

Comment

This timing of LGIP capital expenditure and the receipt of Infrastructure Charges and other cash contributions from development will be across different years. The commitment will be met by considering the receipt of Charges and the proposed LGIP capital expenditure over the ten year timeframe of the forecast. A full review of the general rate contribution to LGIP capital expenditure will need to be undertaken.

Where assets are constructed by developers and contributed to Council as part of any development, Council will ensure that the assets are of a required standard having regard to the whole of life cost and sustainable asset principles.

9.3.2.4 **Commitment**

All capital expenditure projects will be evaluated, ranked, and selected in line with current Council evaluation methods, asset management plans, adopted strategies and policies during the annual budget process or regular budget reviews.

Outcome

Asset sustainability will be enhanced.

Comment

Current council project ranking methodologies will have to be revised to consider asset management plans' requirements along with prioritisation of adopted strategies.

9.3.2.5 **Commitment**

Capital expenditure related to projects that are known to be delayed to a future year will be incorporated into regular budget reviews and reconsidered in future years as a first priority. Final year end carried forward capital expenditure will be limited to those projects that were not able to be completed within the financial year.

Outcomes

Cash and debt management will be improved. Projects that have not commenced and are delayed to a future year will be reprioritised against the future year projects. This also caters for projects that span more than one financial year and have been staged in both the adopted budget and capital works program.

Comment

A specific component of the regular budget review process will be delayed capital projects.

9.3.2.6 **Commitment**

Council is committed to working towards achieving all asset sustainability ratios.

Outcomes

Council can claim to have achieved long term sustainability by maintaining all ratios within or better than targets related to renewal expenditure and asset management plans. Annual targets will be developed based on estimated renewals.

Comment

Council also maintains other key financial ratios in addition to those defined under State legislation.

9.3.3 Asset Management/Capital Expenditure Risks

Risk	Likelihood	Consequence	Rating
1. Development slower than expected resulting in reduced developer contributions	Likely	Moderate	H-56
2. Assets are not maintained, renewed, or rehabilitated resulting in public liability claims	Likely	Moderate	H-56
3. Major asset failure due to inadequate maintenance, renewal, or rehabilitation	Unlikely	Major	H-68
4. Inflation is significantly higher than estimated	Likely	Moderate	H-56

Risk Control Measures

- **Asset Management/Capital Expenditure Risk 1 -** Development slower than expected resulting in reduced developer contributions.

  Control Measure - Eliminate. Align related capital expenditure directly with developer contributions received, that is, expenditure is capped at the level of contributions.
- **Asset/Management/Capital Expenditure Risk 2** - Assets are not maintained, renewed, or rehabilitated resulting in public liability claims.

  Control Measure –Transfer. Maintain adequate insurance cover.

- **Asset Management/Capital Expenditure Risk 3 –** Major asset failure due to inadequate maintenance, renewal, or rehabilitation.
  Control Measure – Mitigate. Strictly maintain asset management policies.
- **Asset Management/Capital Expenditure Risk 4 –** Inflation is significantly higher than estimated.
  Control Measure – Accept and budget for. While higher than expected inflation will increase capital expenditure costs, it will also flow through to general rate and fees and charges increases, minimising the impacts. Note that the rating for this risk should be reviewed in line with changing economic conditions.

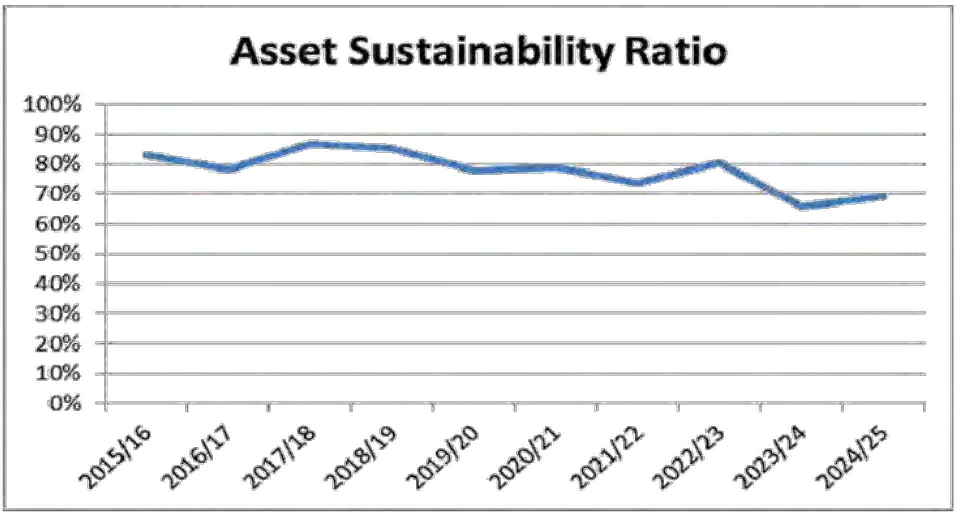
9.3.4 **Capital Expenditure Assumptions, Parameters, KPIs**

The capital expenditure assumptions and parameters included in the ten year Financial Model are:

- Capital expenditure is shown in forward estimates in the dollars of the year it has been scheduled.

The KPIs applying to operating costs and operating surpluses are:

- Asset Sustainability Ratio – This ratio reflects the extent to which the infrastructure assets managed by Council are being replaced as they reach the end of their useful lives.
  - Calculation: capital expenditure on the replacement of infrastructure assets (renewals) divided by depreciation expense, expressed as a %.
  - Target: Council is committed to working towards achieving all asset sustainability ratios.



The above graph is based on the 2015/16 adopted budget and associated forward estimates.

9.4 Cash Management

9.4.1 Working Capital

An organisation is said to be insolvent if they are unable to pay their debts when they fall due.

The working capital of an organisation is the difference between current assets and current liabilities at a point in time. If this difference is positive, the organisation can be said to be solvent at that time. Thus, management of working capital is a fundamental requirement for any organisation.

The key components of working capital are cash, inventories, debtors, and creditors. Cash will be considered under section 9.4.2 of this Plan.

Council's inventories are mainly stores and are less than 1% of current assets.

Debtors are mainly related to rates and utility charges. Council has an absolute right under legislation to collect all outstanding rates through a number of means. Additionally, any overdue rates and utility charges will attract an interest rate of 11%. Financially, outstanding rates debtors are not a burden on the organisation.

Council has to weigh up its obligation to be a good corporate citizen by paying its creditors in an appropriate timeframe against the obligation to manage its cash advantageously for ratepayers.

9.4.1.1 **Commitment**

Council will use all options under legislation to recover overdue rates and utility charges.

Outcome

All ratepayers will be treated fairly in relation to payment of rates.

Comment

Council's rates debtors at 30 June 2015 of $5.5 million are 1.4% of total operating revenue.

9.4.1.2 **Commitment**

Council will pay creditors strictly in accordance with commercial trading terms of 30 days from invoice date or in accordance with any contractual obligations.

Outcome

Council will fulfil its obligations to the community in this area.

Comment

Council currently operates on these terms.

9.4.1.3 **Commitment**

Council will always maintain a working capital ratio of greater than 1.

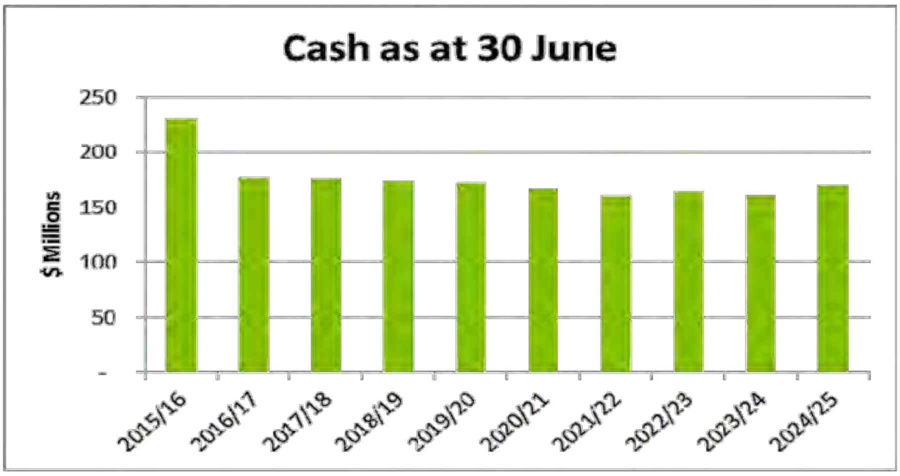
Outcome

Council will be able to pay debts when they are due.

Comment

Council's working capital ratio is well above this requirement across all years of the forecast.

9.4.2 Cash Balances – Restricted and Unrestricted



Maintaining adequate cash balances is a fundamental requirement of every organisation.

For a local government, a number of factors must be considered when determining what is the correct level of cash to hold. These include:

- The timing of the rating cycle, that is, three monthly, six monthly, or annual
- The level of restricted cash
- The ease or otherwise of borrowing funds.

Council currently operates on a six-monthly rating cycle. This means that the main cash inflows will also be on a six-monthly cycle.

Council's cash balance is subject to a number of internal and external restrictions that limit the amount of cash available for discretionary or future use. If Council wishes to identify an amount of the cash balance for a specific use, it can create a restricted cash obligation for that purpose. These restrictions were previously allocated as reserves. Thus, when determining an amount that may be classed as 'surplus' cash, amounts assigned to restricted cash must be taken into consideration.

Once created (by Council resolution of inclusion in the original budget), movements to restricted cash reflect revenue and expenditure directly related to the purpose of the restricted cash obligation.

Council uses a number of rating levies to raise revenue for specific purposes. This revenue is either spent for the specific purpose over the next and future years, or can be used to repay debt when expenditure has been made in advance of receiving the revenue.

Council currently sources all loan funds from the Queensland Treasury Corporation (QTC). Borrowing applications and approvals are finalised with QTC prior to the commencement of a financial year. Loans can be drawn down during a year at Council's discretion (for the purposes defined in the approval), subject to minimum drawdown amounts. Thus, Council has a very flexible availability of loan funds for defined capital works.

With cash investment rates usually lower than borrowing rates, maintaining excess cash balances is an inefficient use of this resource.

Investment of surplus cash was considered under Section 9.1.3 of this Plan.

9.4.2.1 **Commitment**

During a year, Council will maintain a cash balance of between at least three and five months of cash operating requirements.

Outcome

An efficient level of cash will be maintained and will be in line with the main cash receipts cycle.

Comment

This commitment is aligned to operating requirements. Closing cash balances at year end will also consider restricted cash requirements.

9.4.2.2 **Commitment**

A restricted cash account will be created for every separate or special rating levy. All rating revenues for each levy will be accounted for as movements to the appropriate restricted cash account and expenditures related to the specific purpose will be accounted for as movements from the appropriate restricted cash account. All special or separate rating levy restricted cash accounts will be classified as externally restricted for the purposes of considering cash surplus to requirements.

Outcome

A transparent process will be in place for the management of separate and special rating levies.

Comment

Standard accounting processes will be in place to meet these requirements.

9.4.2.3 **Commitment**

Closing cash balances at year end will be maintained at greater than the minimum balances as per the QTC Cash Management Review for determining optimum cash levels. This will be subject to annual review.

Outcome

Council will be able to meet the commitments of externally restricted cash.

Comment

This consideration will be a part of standard practices leading up to year end.

9.4.3 Cash Management Risks

Risk	Likelihood	Consequence	Rating
1. Investment rates lower than expected	Likely	Moderate	H-56
2. Global financial issues severely limit credit availability	Possible	Major	H-72
3. Unforeseen events delay levying of rates	Unlikely	Major	H-68
4. Economic circumstances result in an increase in overdue rates fees and charges	Possible	Minor	M-32
5. Unitywater is unable to pay dividends, or interest on Council loans	Unlikely	Catastrophic	H-80

Risk Control Measures

- **Cash Management Risk 1** – Investment rates lower than expected.
  Control Measure – Mitigate. Manage investments daily and diversify investments across allowable products.
- **Cash Management Risk 2 –** Global financial issues severely limit credit availability.
  Control Measure – Mitigate. Maintain cash balances at the higher end of targets in the short term and reduce the capital program to align with available borrowings.
- **Cash Management Risk 3 –** Unforeseen events delay levying of rates
  Control Measure – Mitigate. Always maintain a cash balance target of at least three months. Maintain borrowing capacity to allow for a short term working capital facility.
- **Cash Management Risk 4 –** Unitywater is unable to pay dividends, or interest on Council loans.
  Control Measure - Mitigate. Maintain a periodic and thorough review of Unitywater's financial position.

9.4.4 Cash Management Assumptions, Parameters, KPIs.

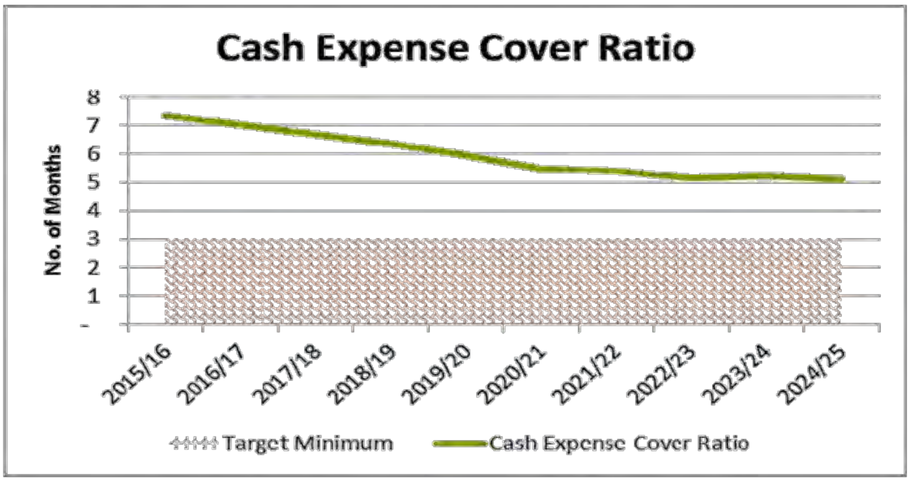
Cash Management assumptions and parameters included in the ten year Financial Model are:

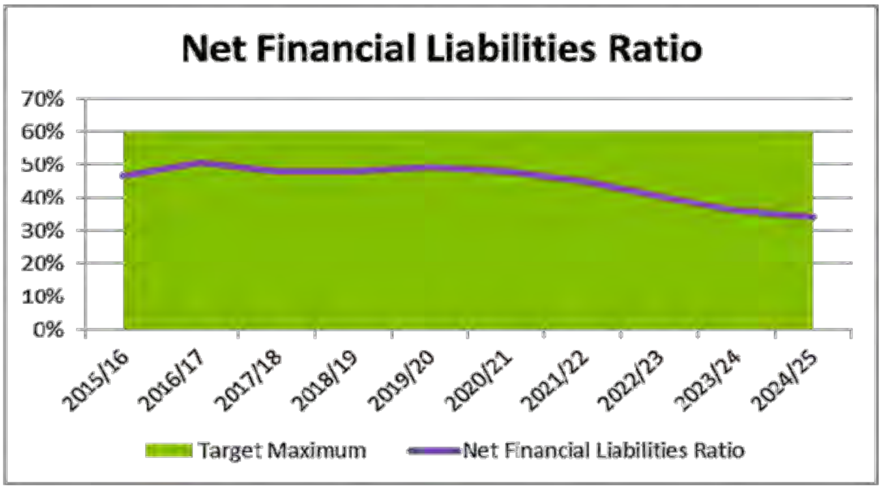
- Interest rates applied for the investment of surplus cash are 3.0% from 2015/16 to 2024/25

The KPIs applying to cash management are:

- Cash Expense Cover Ratio Indicates the number of months Council can continue paying its immediate expenses without additional cash loans.

  - Calculation: (Current year's cash and cash equivalents balance / (total operating expenses – depreciation and amortisation – finance costs charged by QTC – interest paid on overdraft) *12.
  - Target: Greater than 3 months
- Net Financial Liabilities Ratio – Measures the extent to which the net financial liabilities of council can be repaid from operating revenues.
  - Calculation: (total liabilities less current assets) divided by total operating revenue, expressed as a %.
  - Target: not greater than 60%.



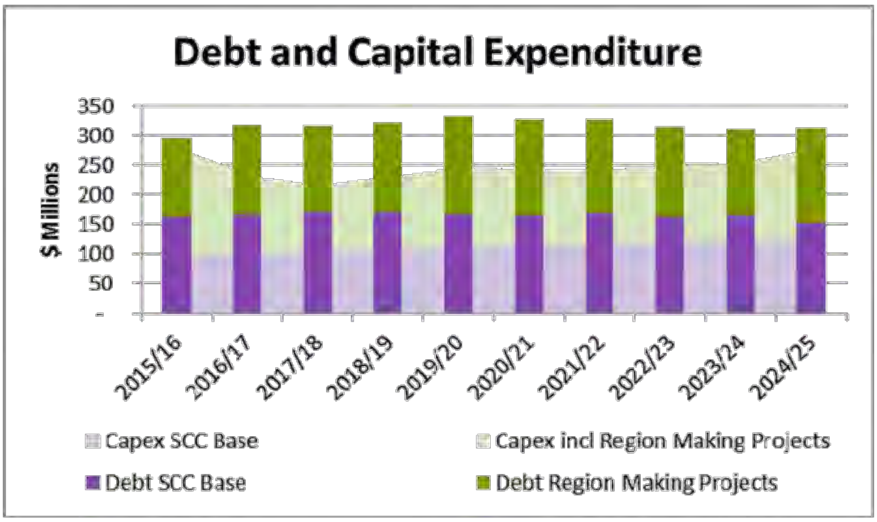


9.5 Debt Management

9.5.1 Debt Purposes, Terms and Repayments

Council's debt is estimated to be $296 million at June 2015, and $313 million in 2024/25. The separation between Sunshine Coast Council Base (SCC Base) and Region Making Projects is illustrated in the graph below.

Region Making Projects include Maroochydore City Centre, Palmview and the Solar Farm.



Total Debt	15/16 $000	16/17 $000	17/18 $000	18/19 $000	19/20 $000	20/21 $000	21/22 $000	22/23 $000	23/24 $000	24/25 $000
Total SCC	**296,309**	**318,797**	**315,956**	**321,836**	**331,145**	**328,770**	**328,036**	**315,587**	**310,816**	**312,578**
SCC + Business Units	162,988	167,794	171,164	171,614	167,837	164,178	168,589	164,000	165,565	154,557
Region Making Projects	133,321	151,003	144,792	150,223	163,308	164,592	159,447	151,587	145,251	158,021
Borrowing projections as outlined in the adopted budget schedule										

Debt relating to water and sewerage assets transferred to Unitywater will remain with Council. The balance of water and sewerage developer contributions as at 30 June 2010 will also remain with Council and be used to fund loan commitments.

The controls and policy direction for the borrowing of funds is comprehensively covered in Council's Debt Policy. The Debt Policy is adopted annually with Council's budget. In accordance with legislation, the Debt Policy will form part of the Financial Sustainability Plan and is an attachment to this document.

Council's schedule of proposed external borrowings is detailed in the following table.

Proposed Borrowings	15/16 $000	16/17 $000	17/18 $000	18/19 $000	19/20 $000	20/21 $000	21/22 $000	22/23 $000	23/24 $000	24/25 $000
Total SCC	**44,711**	**39,900**	**16,772**	**27,474**	**32,845**	**23,018**	**26,609**	**17,542**	**27,465**	**35,301**
SCC + Business Units	8,050	14,875	14,266	12,826	9,550	10,096	19,013	11,717	21,202	10,777
Maroochydore City Centre	31,660	21,025	2,506	14,648	23,295	12,921	7,596	5,825	6,263	24,524
Palmview Development	5,000	4,000								
Capital works projects as outlined in the adopted budget schedule										

Note that Council operates a central treasury model and as such does not generally provide debt funding for specific projects or assets but rather uses debt funding to finance council's balance sheet, with the exception being for strategic (region-making) projects.

9.5.1.1 The key **commitments** within the Debt Policy are:

Borrowing Purposes

- **Council will not utilise loan funding to finance operating activities or recurrent expenditure.**
- **Council undertakes full analysis of all funding options as outlined in the Long Term Financial Forecast, including a forward program of capital works, to determine loan funding requirements.**
- **Council recognises that infrastructure demands placed upon Council can often only be met through borrowings, but will always be mindful of the additional cost incurred by the community when assets are acquired through borrowings which increases the cost of providing capital infrastructure.**
- **Council will endeavour to fund all capital renewal projects from operating cash flows and borrow only for revenue generating business unit's capital projects, having regard to sound financial management principles and giving consideration to inter-generational equity for the funding of long term infrastructure projects.**

- **Where capital expenditure is deferred from one year to the next, the drawdown of approved loan funds will be reviewed to minimise interest expenses.**
- **Borrowings for infrastructure that provides a return on assets will take priority over borrowing for other assets.**

Debt Term

Where capital projects are financed through borrowings, Council will repay the loans within a term not exceeding the life of those assets, and over a term that optimises cash flow efficiency. Current loans are planned to be repaid within a twelve (12) year term. This is notwithstanding any new strategic projects that may require a longer debt term.

- **If surplus funds become available, and where it is advantageous to Council, one-off loan repayments will be made to reduce the term of existing loans.**
- **In an environment of fluctuating interest rates, and where there is a distinct economic advantage to Council, consideration will be given to renegotiating any outstanding loans to obtain the best long-term benefit to Council.**

Repayment Ability

Council will maintain close scrutiny of debt levels to ensure that relative sustainability indicators will not exceed target parameters recommended by the Queensland Treasury Corporation and Local Government Regulations 2012.

Borrowing Source

Council will raise all external borrowings at the most competitive rates available and from sources available as defined by legislation. Consideration will be given to provision of loans to business units from surplus cash held by council by way of an internal loan.

Outcome

Sustainable levels of debt will be maintained and managed efficiently.

Comment

Debt is managed in accordance with these policy commitments. Where opportunities for sustainable capital expenditure are identified (e.g. energy and/or water efficiency programs), consideration will be given to funding the initial investment from loans where it is considered economically viable.

9.5.2 Debt Management Risks

Risk	Likelihood	Consequence	Rating
1. Global financial issues severely limit credit availability	Possible	Major	H-72
2. Council is unable to afford loan repayments	Unlikely	Major	H-68
3. Queensland State Government receives further credit downgrades	Possible	Moderate	M-52

Risk Control Measures

Debt Management Risk 1 - Global financial issues severely limit credit availability.

Control Measure – Mitigate. Maintain cash balances at the higher end of targets in the short term and reduce the capital program to align with available borrowings.

Debt Management Risk 2 – Council is unable to afford loan repayments.

Control Measure – Avoid. Maintain all cash and debt sustainability ratios within targets.

9.5.3 Debt Management Assumptions, Parameters, KPIs

Debt Management assumptions and parameters included in the ten year Financial Model are:

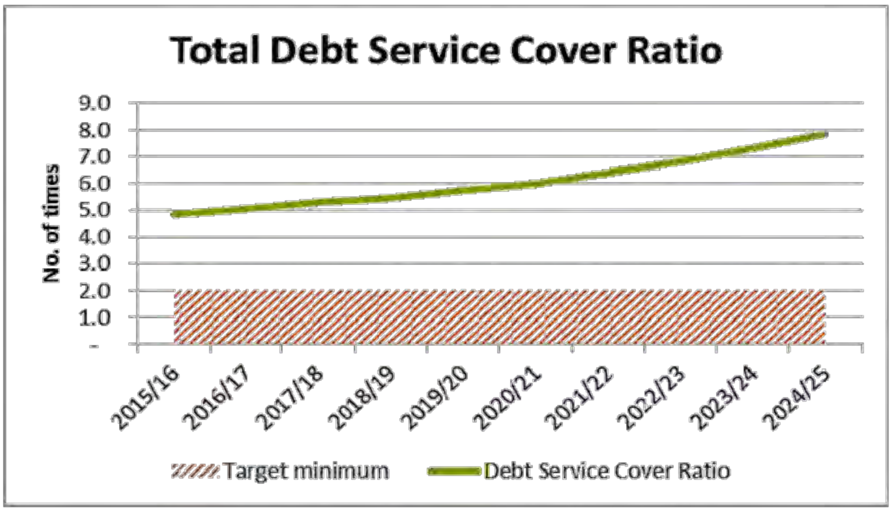
- Interest rates applied for new loans at 3.6%
- All loans required by Council across the forward years will be approved and provided by QTC.

The KPIs applying to cash management are:

- Total Debt Service Cover Ratio - This Ratio indicates the ability to repay loan funds. A low cover indicates constrained financial flexibility and limited capacity to manage unforeseen financial shocks.

Calculation: (Operating result (excluding capital items) + depreciation and amortisation + gross interest expense) / (gross interest expense + prior year current interest bearing liabilities)

Target: Greater than 2 times.



9.6 Commercial Management

Council's Corporate Plan includes the development of commercial opportunities when they arise.

9.6.1 <u>**Commitment**</u>

Council's commercial decision-making will be guided by business case evaluations that identify opportunities, determine viability of options, consider implications, and assess risks to provide the best value for money outcome.

<u>Outcome</u>

Well considered commercial outcomes for managing business activities and value for money delivery of public infrastructure and services.

<u>Comment</u>

Council has comprehensive business case guidelines which draw on information published by various levels of government in Australia and the United Kingdom.

Council operates a number of commercial business activities to reduce the reliance of rate funding and ease the burden on ratepayers.

9.6.2 <u>**Commitment**</u>

Council will maintain a policy framework for applying national competition policy reform and manage business activities in accordance with the reform principles.

<u>Outcome</u>

Well managed commercial business activities that are competitive and provide a return on Council's investment.

Comment

Council has comprehensive guidelines for the application of national competition policy and compliance with competition reform principles.

9.7 Procurement

Council's 2014/15 budget includes over $260 million for materials, services and constructed assets that result in more than 100 large-sized procurement contracts being established each year.

9.7.1 **Commitment**

Council will provide value-adding procurement strategies and sound contract management practices to maximise contractors and supplier's delivery performance and service levels.

Outcome

Sound procurement and contracting practices are maintained that pursue Council's vision of being Australia's most sustainable region – vibrant, green and diverse, and timely delivery of community infrastructure and service programs within legislative requirements.

Comment

Council has adopted an innovative procurement policy and has developed a comprehensive governance and probity framework to apply the procurement principles, objectives and strategy.

9.8 Strategic Opportunities

9.8.1 **Commitment**

Council will investigate all available options to achieve ongoing economic, ecological, and social sustainability.

Outcome

Council needs to ensure sufficient flexibility to enable optimisation of opportunities as they arise. Such opportunities can provide ongoing security and sustainability for the Region as a whole.

Comment

Council is committed to reviewing for continuous improvement opportunities as well as investigating strategic business opportunities to ensure that Council provides value for money services to the ratepayers. Where economically feasible all opportunities should be appropriately resourced to ensure Council's strategic objectives are attained.