CITY BUDGET 2019 – 20
A BALANCED BUDGET WITH A SUSTAINABLE LONG-TERM FINANCIAL OUTLOOK
ADOPTED 13 June 2019
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1.1 City Budget 2019-20 overview

1.1.1 Total budget for 2019-20
The 2019-20 Budget has been developed in support of the Corporate Plan, Annual City Operational Plan and Long-Term Financial Plan.

It continues to deliver high standard, value for money services to the community and provides funding for projects and programs that will improve the city transport network, deliver new community and cultural assets, diversify and strengthen the Gold Coast economy and protect and enhance the Gold Coast lifestyle and environment.

The total budget for 2019-20 is $1,730 million, made up as follows:

- capital expenditure $549 million
- services and operating costs $1,101 million
- debt repayments (principal) $80 million.

1.1.2 Key initiatives for 2019-20
The following key initiatives are included in the budget:

- **Light Rail Stage 3A** - Council will continue to work with the State Government in the planning of stage 3A of the Light Rail from Broadbeach South to Burleigh Heads - $4.8 million.
- **HOTA, Home of the Arts** - $29.0 million in 2019-20 to continue work on the Art Gallery at HOTA. A further $11.3 million has been included for the pedestrian bridge link to Chevron Island. All these works contribute to the $125.0 million first stage (Stage 1A & 1B) of the Cultural Precinct.
- **Asset Renewals** - funding for the renewal of infrastructure assets $117.6 million as identified in Council’s Asset Management Plans, to ensure the long-term sustainability of City assets and service levels to the community.
- **City Transport** - continued commitment to an integrated, accessible and effective city transport system with allocations for the following key initiatives and services:
  - New and Upgraded Roads - $49.3 million
  - Road and Bridges Rehabilitation and Renewals - $43.6 million
  - Continue work on the bridge duplication across the Nerang River linking Isle of Capri to the Gold Coast Highway to increase traffic flow in the area - $25.0 million (total cost of $56.0 million)
  - Expansion of Sundale Bridge to five lanes and a capacity upgrade at the Waterways Drive/Gold Coast Highway intersection - $14.7 million
  - Roads and Bridges Maintenance - $18.4 million
  - New and Improved Infrastructure for Active Transport Modes - $8.9 million
  - Public Transport - Free Seniors Travel - $1.0 million
- **Ocean Beaches** - Council is committed to the protection and stabilisation of the city’s beaches and infrastructure, with the following projects included in the 2019-20 budget:
  - Continue Palm Beach Shoreline project - $10.9 million out of a total $21.6 million
  - Construct a seawall at Queensland Ave, Broadbeach - $1.2 million
  - Detailed design and construction of the Surfers Paradise Sand Nourishment Pipeline to improve the resilience of beaches at Surfers Paradise, Narrowneck and Main Beach - $0.5 million
- **Sporting and Community Facilities**
  - Progress the Pimpama Sports Hub at Heritage Park Pimpama. Planned works include a new aquatic centre, community centre, netball courts and tennis courts - $34.5 million
  - Renew and upgrade facilities at Miami Aquatic Centre - $8.2 million
  - Renew and upgrade Broadbeach Community Precinct including the Albert Waterways Community Centre and the Life Education building - $2.5 million
• Parks, Natural Areas and Recreation
  − Secure strategic land assets for future public use before being developed - $6.3 million
  − Complete design and commence construction of Robina City Parklands - $3.8 million
  − Design Stage 3B of the Broadwater Parklands - $0.7 million

• Tourism and Economic Diversification - funding has been provided for tourism and economic diversification, including:
  − Contribution to Gold Coast Tourism - $17.0 million
  − Support and sponsorship of events and festivals - $6.9 million
  − Contribution to Surfers Paradise Alliance - $3.5 million
  − Contribution to Broadbeach Alliance - $2.9 million
  − Contribution to Connecting Southern Gold Coast - $0.8 million
  − Funding for the development and promotion of the Southport CBD - $1.2 million
  − Contribution to Study Gold Coast - $3.3 million
  − Plan and progress the Gold Coast Dive Site Precinct - $4.5 million

• Information Management
  − $11.5 million will be spent to upgrade some of Council’s core systems as part of the Modern Workspace Program which will improve data access, system efficiencies and staff mobility.
  − $1.1 million to continue the implementation of Cyber Resilience Program, ensuring that Council data is protected and networks are secure.

• Natural Environment and Conservation - Implement a Koala Habitat Acquisition and Enhancement Program to support a viable koala population in the Coomera-Pimpama region - $1.2 million.

1.1.3 Debt management
Council compares favourably against industry benchmarks and other South East Queensland Councils.
• Debt has been prudently managed with new borrowings of $73 million for 2019-20 representing only 13% of the total capital works program of $549 million.
• Total debt is expected to reduce by $7 million in 2019-20 (from $631 million in June 2019 to $624 million in June 2020), taking into account principal repayments of $80 million.
• Council is well within industry benchmarks used to measure debt and its impact on financial sustainability. The net financial liabilities ratio (total liabilities less current assets all divided by total operating revenue) forecast for 2019 - 20 is 6% which is well below the maximum benchmark of 60% used by the Department of Infrastructure, Local Government and Planning to assess Council’s long-term financial sustainability.

1.1.4 Value for money
The Value for Money Program has delivered significant savings annually. A number of value for money initiatives have or will be implemented, including:
• End of Year cash surplus (including value for money bankable savings) target for 2018-19 to underpin the 2019-20 budget - $21.5 million
• Energy Management - ongoing initiatives to reduce energy costs.
• Fibre Optic Network - delivery of upgraded fibre optic networks to support City operations and enhance broadband services for businesses and residents.

1.2 Revenue and Expenditure (including rates and charges)
The overall rates and charges notice results in a 1.68% increase (excluding State Government Charges outside of Council’s control) for a residential non-Community Title Property dwelling being a principal place of residence paying the average general rate, well below the Reserve Bank of Australia CPI forecast of 2.00% for 2019-20 and below the 2018-19 overall rates and charges notice increase of 1.73%.
City Budget supporting documents provide further details of the Rates and Charges for 2019-20. The table below represents the total rate bill split for a property that is a non-community titled principal place of residence paying the average general rate.

**Table 1: Summary of total rates and charges 2019-20**

<table>
<thead>
<tr>
<th>Average General Rate (residential non-Community Title Property (CTP) dwelling being principal place of residence only)</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Rates &amp; Charges $</td>
<td>Total Increase %</td>
<td>Total Rates &amp; Charges $</td>
</tr>
<tr>
<td>General Rate</td>
<td>$1,493.26</td>
<td>3.29%</td>
</tr>
<tr>
<td>Early Payment Discount @ 10.0%</td>
<td>($149.33)</td>
<td>3.29%</td>
</tr>
<tr>
<td>Sewerage</td>
<td>$724.12</td>
<td>(0.14%)</td>
</tr>
<tr>
<td>Water Service</td>
<td>$212.08</td>
<td>0.00%</td>
</tr>
<tr>
<td>Water Consumption - Council component remains at $1.09/kl (Based on 180kl per annum)</td>
<td>$196.20</td>
<td>0.00%</td>
</tr>
<tr>
<td>Waste Management Utility Charge</td>
<td>$280.30</td>
<td>2.00%</td>
</tr>
<tr>
<td>Net Rates and Charges</td>
<td>$2,756.63</td>
<td>1.75%</td>
</tr>
<tr>
<td>City Transport Improvement Separate Charge</td>
<td>$126.00</td>
<td>0.00%</td>
</tr>
<tr>
<td>Recreational Space Separate Charge</td>
<td>$29.00</td>
<td>0.00%</td>
</tr>
<tr>
<td>Open Space Maintenance and Enhancement Separate Charge</td>
<td>$41.00</td>
<td>0.00%</td>
</tr>
<tr>
<td>Koala Habitat Acquisition and Enhancement Separate Charge</td>
<td>$3.00</td>
<td>New</td>
</tr>
<tr>
<td>Transitional Volunteer Fire Brigade Separate Charge</td>
<td>$2.00</td>
<td>0.00%</td>
</tr>
<tr>
<td>Net Total Rates and Charges (Excl. State Charges)</td>
<td>$2,957.63</td>
<td>1.73%</td>
</tr>
<tr>
<td>State Charges Outside of Council Control</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Consumption - (State Gov't.) Bulk Water component $2.91/kl to $3.01/kl (Based on 180kl per annum)</td>
<td>$523.80</td>
<td>3.56%</td>
</tr>
<tr>
<td>Net Total Rates and Charges</td>
<td>$3,481.43</td>
<td>2.00%</td>
</tr>
</tbody>
</table>

Note 1: The above rate bill separately displays State bulk water costs.

Note 2: The water consumption charge includes the State Government bulk water charge. The bulk water charge is $3.01/kl which represents 73.41% of the total consumption charge. This is a 3.44% increase on the 2018-19 bulk water charge.

<table>
<thead>
<tr>
<th>Total Rate Increase After Discount</th>
<th>Excluding State Costs Outside of Council Control</th>
<th>Including State Costs Outside of Council Control</th>
<th>Excluding State Costs Outside of Council Control</th>
<th>Including State Costs Outside of Council Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Increase</td>
<td>$50.30</td>
<td>$68.30</td>
<td>$49.82</td>
<td>$67.82</td>
</tr>
<tr>
<td>Weekly Increase</td>
<td>$0.97</td>
<td>$1.31</td>
<td>$0.96</td>
<td>$1.30</td>
</tr>
</tbody>
</table>
1.2.1   Expenditure programs 2019-20

The following table provides a breakdown of the major expenditure programs to be undertaken by Council as part of the 2019-20 budget (excluding internal transfers to reserves). Council's expenditure programs are guided by the priorities identified in the Gold Coast 2022 Corporate Plan. The city's population growth is accompanied by demands for roads, transport and drainage, park and recreational facilities and social infrastructure such as libraries, community centres and aquatic facilities etc.

Compared to 2018-19, Council’s total budget indicates an increase of $228.6 million with an increase of $147.4 million in capital works.

Major increases in operating expenditure include:
• the payment of a new Waste Management Levy to the State Government - $29.9 million
• additional allocation to the Palm Beach Shoreline project - $8.2 million
• planning and early works for Light Rail Stage 3A - $4.8 million
• establishment of a dive site precinct - $4.5 million
• increased bulk water purchases from the State Government - $4.1 million
• cyber security improvements - $2.0 million
• costs for the 2020 Local Government election - $1.8 million.

Major increases in capital expenditure include:
• Water and Sewerage upgrade and renewal projects - $53 million
• City Transport projects including works starting on Isle of Capri bridge and Sundale bridge - $42 million
• Pimpama Sports Hub - $21 million
• HOTA, Home of the Arts, Art Gallery - $16 million
• Miami Aquatic Centre redevelopment - $7 million.

Table 2: Expenditure by program

<table>
<thead>
<tr>
<th>Program</th>
<th>2018-19 ($ million)</th>
<th>2019-20 ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program 1: City Planning</td>
<td>58.7</td>
<td>55.3</td>
</tr>
<tr>
<td>Program 2: City Transport</td>
<td>246.1</td>
<td>280.9</td>
</tr>
<tr>
<td>Program 3: Community Health and Safety</td>
<td>78.5</td>
<td>85.9</td>
</tr>
<tr>
<td>Program 4: Conservation and Environment</td>
<td>46.5</td>
<td>44.9</td>
</tr>
<tr>
<td>Program 5: Economic Development</td>
<td>49.9</td>
<td>55.9</td>
</tr>
<tr>
<td>Program 6: Parks, Recreation and Culture</td>
<td>272.6</td>
<td>324.9</td>
</tr>
<tr>
<td>Program 7: Waste Management</td>
<td>101.1</td>
<td>143.6</td>
</tr>
<tr>
<td>Program 8: Water and Sewerage</td>
<td>384.5</td>
<td>449.9</td>
</tr>
<tr>
<td>Program 9: Organisational Capability</td>
<td>184.2</td>
<td>195.3</td>
</tr>
<tr>
<td>Program 10: Internal Services</td>
<td>79.1</td>
<td>93.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,501.2</strong></td>
<td><strong>1,729.8</strong></td>
</tr>
</tbody>
</table>
1.2.2 Source of funds 2019-20

Council’s total budget of $1,730 million is funded from various revenue sources. The following table provides a breakdown of the major sources of funding used to underpin Council’s 2019-20 budget:

Table 3: Source of funds

<table>
<thead>
<tr>
<th></th>
<th>2018-19 ($ million)</th>
<th>2019-20 ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brought Forward Surplus</td>
<td>26.7</td>
<td>21.5</td>
</tr>
<tr>
<td>General Rates (net)</td>
<td>469.8</td>
<td>498.0</td>
</tr>
<tr>
<td>Water and Sewerage Charges</td>
<td>503.6</td>
<td>514.5</td>
</tr>
<tr>
<td>Other Rates and Charges</td>
<td>146.0</td>
<td>151.1</td>
</tr>
<tr>
<td>Loans</td>
<td>61.8</td>
<td>73.4</td>
</tr>
<tr>
<td>Infrastructure Charges to fund capital works</td>
<td>83.8</td>
<td>174.0</td>
</tr>
<tr>
<td>Fees and Charges</td>
<td>105.3</td>
<td>138.3</td>
</tr>
<tr>
<td>Grants and Subsidies</td>
<td>33.4</td>
<td>42.2</td>
</tr>
<tr>
<td>Other (e.g. interest, rental and lease income)</td>
<td>71.1</td>
<td>58.4</td>
</tr>
<tr>
<td>Net Increase / (Decrease) in Reserves</td>
<td>(0.3)</td>
<td>58.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,501.2</strong></td>
<td><strong>1,729.8</strong></td>
</tr>
</tbody>
</table>

Council's borrowing program for 2019-20 is for the provision of long-term infrastructure assets as follows:

Table 4: Loan program 2019-20

<table>
<thead>
<tr>
<th>Loan Amount ($ million)</th>
<th>Funding of Repayments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport Improvement</td>
<td>General Revenue</td>
</tr>
<tr>
<td>Palm Beach Shoreline</td>
<td>General Revenue</td>
</tr>
<tr>
<td>Flooding and Drainage</td>
<td>General Revenue</td>
</tr>
<tr>
<td>Miami Aquatic Centre - redevelopment</td>
<td>7.2</td>
</tr>
<tr>
<td>Old Coach Road to Tallebudgera Creek Road</td>
<td>6.8</td>
</tr>
<tr>
<td>Pimpama Sports Hub</td>
<td>General Revenue</td>
</tr>
<tr>
<td><strong>Total General Borrowings</strong></td>
<td><strong>55.1</strong></td>
</tr>
<tr>
<td>Transport Improvement</td>
<td><strong>4.5</strong></td>
</tr>
<tr>
<td></td>
<td>City Transport Improvement Separate Charge</td>
</tr>
<tr>
<td>Tourist Parks</td>
<td><strong>0.8</strong></td>
</tr>
<tr>
<td></td>
<td>Tourist Parks Revenue</td>
</tr>
<tr>
<td>Waste Management</td>
<td><strong>6.7</strong></td>
</tr>
<tr>
<td></td>
<td>Waste Management Charge</td>
</tr>
<tr>
<td>Parks Land Purchase</td>
<td><strong>6.3</strong></td>
</tr>
<tr>
<td></td>
<td>Recreational Space Separate Charge</td>
</tr>
<tr>
<td><strong>Total Loans</strong></td>
<td><strong>73.4</strong></td>
</tr>
</tbody>
</table>
1.3 Long-term financial forecast

1.3.1 Financial goals and strategies
Detailed 10 Year Service Financial Forecasts (10 year financial plans) are maintained for the following 10 key functional areas and incorporated into the consolidated long-term financial forecast.

- City Transport
- Waste Services
- Beaches and Waterways
- Flooding and Drainage
- Parks, Natural Areas and Recreation
- Major Sporting Venues and Aquatic Centres
- Library Services
- Community Centres
- Tourist Parks
- Water and Sewerage Services.

In preparing the long-term financial forecast Council has sought to:

- minimise rate increases
- prudently manage debt
- maintain current high level value for money services to the community
- fully fund asset renewal requirements in order to maintain infrastructure assets
- reduce congestion on roads
- fund stage 1B of the Cultural Precinct
- fund the proposed community and sporting facilities and for the Northern Gold Coast region
- increase funding for key initiatives included in Council's key City Strategies
- continue to achieve value for money savings to assist in keeping rate increases to a minimum.

Financial decisions are guided by corporate policies, strategies and principles of effective financial management. Council regularly models financial performance, financial position and cash flow forecasts to monitor the long-term sustainability of decisions. The long-term financial outlook is updated quarterly and a comprehensive analysis is undertaken between July and December each year, and this sets the context for the development of the annual budget. Projected financial statements are included in the City Budget supporting documents section of this annual plan.
1.3.2 Long-term financial outlook

Council’s long-term financial model includes a set of key assumptions for the nine years beyond 2019-20, which represents the first year of the forecast period. These assumptions do not reflect final Council policy but provide a guide to future financial performance. Key inclusions in the forecast include:

- continued funding for key City Strategies
- infrastructure asset renewal funding included as reflected in Asset Management Plans
- delivery of stage 1 of the Cultural Precinct at Evandale Parklands, with a total capital cost of $125 million (Stage 1A and 1B), including the construction of the amphitheatre (completed in 2017-18), art gallery, pedestrian bridge and parklands
- partnering with the State government to deliver Stage 3A of the Light Rail from Broadbeach South to Burleigh Heads
- improving the transport network to reduce traffic congestion including additional lanes being added to the Isle of Capri bridge ($56m) and Sundale bridge ($30m)
- construction of the Pimpama Sports Hub incorporating an aquatic centre, community centre, netball courts and tennis courts at Heritage Park Pimpama to be completed in 2021 at a cost of $80 million
- development of a civic hub at Coomera including a library and community centre
- targeted annual value for money savings of $16 million to be achieved
- prudent management of loans, resulting in the projected debt balance falling from an estimated $642 million as at 30 June 2018 (reduced from $808 million as at July 2012) to $600 million by the end 2028-29
- the delivery of projects included in the Local Government Infrastructure Plan which will deliver the trunk infrastructure required in the city to meet demands created by growth and new development.

Funding plans are in place for all major capital projects included in the adopted 10 year plan.

1.4 Financial performance

Council’s financial performance can be evaluated against four key pillars:

1. competitive rating levels and user pays charges
2. debt levels and capacity to service debt
3. the condition of Council’s infrastructure assets
4. the scope and standard of services.

In terms of financial performance and sustainability, Council is performing well against these four pillars. Council continues to minimize discretionary expenditure and deliver value for money savings.

1.4.1 Competitive rating levels and user pay charges

Council’s rates and utility charges remain competitive with other South East Queensland Councils, particularly taking into account comparative levels of service and the significant impact of external costs such as bulk water and electricity, which make up a significant portion of total operating costs.

In accordance with the Gold Coast 2022 Corporate Plan, average rate increases have been kept as near to CPI as possible while continuing to provide high quality value for money services. The average rate rise is well below the Reserve Bank of Australia CPI forecast of 2.00% for 2019-20 and below the 2018-19 overall rates and charges notice increase of 1.73% for those paying the average general rate (non-Community Title Property dwelling being a principal place of residence, excluding State Government Charges outside of Council’s control).

Council has kept average rate increases as near to CPI since 2012.

Council applies the principles of equity, effectiveness and efficiency, simplicity and sustainability in setting rates and utility charges as set out in the Revenue Policy.

Council’s Revenue Policy is included in the City Budget supporting documents of this Annual Plan.
1.4.2 Debt levels and capacity to service debt

Council is focused on responsibly managing debt in the short and long-term.

Total debt is forecast to reduce from $631 million in June 2019 ($808 million in July 2012) to $600 million in June 2029.

This is partly as a result of Gold Coast Water setting aside funds for major capital works, particularly the long-term recycled water release project, which will result in no borrowings for the project. Council is also well within its capacity to service the debt.

The debt service ratio (debt and interest payments divided by operating revenue) for 2019-20 is estimated at 8% and will reduce to 7% by 2028-29 (well below the benchmark of 20%), demonstrating Council’s ability to adequately service debt commitments.

The level of borrowings drawn each financial year is carefully monitored through long-term financial modelling to ensure affordability. In addition to internal assessments, Council is required to submit an annual application to the State Government, which includes the long-term financial forecast, to gain approval for all planned borrowings. QTC undertakes a detailed annual credit assessment of Council and makes recommendations to the State government regarding sustainable borrowing levels. The 2018 credit rating by QTC was maintained as “Sound”, but the outlook improved from “Neutral” to “Positive”.

Council seeks to minimise general rates as a funding source to repay debt, preferring to rely on specific revenue sources that are matched to the infrastructure being constructed.

Debt is only used for capital purposes. The term of the debt is matched, as best as possible, to the life of the asset up to the maximum term imposed by QTC. Borrowings usually have terms of between 10 and 15 years. Occasionally, for major capital projects, debt will be borrowed up to the maximum allowable term of 20 years. Rates are fixed for 10 years, after which they are reset based on prevailing market rates.

Council’s Debt Policy is included in City Budget supporting documents of this Annual Plan.
1.4.3 The condition of City infrastructure assets

Each year the Asset Management Plans for the City’s $19.2 billion (gross value) infrastructure base are updated. Undertaking condition assessments is a key component of asset management that underpins planning for the renewal (i.e. replacement and refurbishment) of infrastructure. As illustrated by the below graph, the majority of the City’s infrastructure is in a very healthy state, with 96.8% of the assets being in very good, good or fair condition. This is due to many of the assets being relatively young with long useful lives, the infrastructure base being well maintained and City of Gold Coast (Council) investing in infrastructure renewal when required.

The relevant standing committee annually reviews Asset Management Plans for relevant categories of infrastructure with particular emphasis on the 3.2% of the City’s assets in poor (2.5%) and very poor (0.7%) condition and infrastructure renewal requirements. These assets are actively managed to ensure that they do not present a risk to the community.

Figure 1: Condition of City infrastructure assets

Figure 2: Overall Condition of City infrastructure assets

Council’s asset condition profile

The outputs of each of the Asset Management Plans are summarised into the overarching Total Asset Management Plan that informs the budget process and is integrated into the Long-Term Financial Forecast. Council adopts the Total Asset Management Plan annually in conjunction with adoption of the budget.

The 2019-20 to 2028-29 Total Asset Management Plan states the infrastructure renewal requirement (i.e. the renewal investment required to maintain current levels of service for existing infrastructure assets) for 2019-20 is $117.6 million. Renewal requirements rise to $145.8M (in today’s dollars) per annum in 10 years’ time, noting that an increase in the renewal requirement is expected as the infrastructure ages.
The City’s infrastructure base is sustainable in the long-term as the long-term financial forecast includes funding for the infrastructure renewal requirements in the Total Asset Management Plan, as demonstrated by the Asset Renewal Funding Ratio – refer sections 1.6 and 1.9.

1.4.4 The scope and standard of services

Over the last few years significant sporting infrastructure has been provided within the city in the lead up to the Commonwealth Games. Other supporting infrastructure, including roads and public transport, has also been improved during this time. The City is also progressing other major projects that will provide new and improved services, including the HOTA, Home of the Arts at Evandale with an associated enhanced cultural program. The standards of service in terms of both infrastructure and other services continue to be of a high standard and are projected to remain so into the future.

The city is delivering an enhanced road program to manage congestion and protect our unique lifestyle. This involves:

- major road projects to increase the capacity of City-controlled roads
- intersection and ‘pinch point’ upgrades
- extending the light rail and advocating to the State Government for improved bus services
- more efficient traffic operations with the use of data, technology and intelligent transport systems
- extending and connecting the walking and cycling network
- travel demand management.

1.5 2018 credit review

Queensland Treasury Corporation (QTC) conducted a credit review of Council in 2018 as part of the annual debt application. The rating was maintained as ‘sound’ and the outlook improved from ‘neutral’ to ‘positive’. A sound rating is defined as:

“The local government’s capacity to meet its financial commitments in the short, medium and long-term is sound. This capacity may be more vulnerable to adverse changes in general business and economic conditions including unforeseen financial shocks. It may also be more vulnerable to adverse changes to its business and operational environment. The capacity to manage core business risks is sound.”
A positive outlook is defined as:

“As a result of a foreseeable event or circumstance occurring, there is the potential for enhancement in the local government’s capacity to meet its financial commitments (short and/or long-term). Such enhancement may result in a change in its rating over a one to two year period. However, it does not necessarily indicate that a rating change may be forthcoming.”

This credit review confirms that the City’s finances are in good shape and have the flexibility to successfully meet the challenges over the next decade.

1.6 Financial sustainability indicators

The following financial sustainability ratios are prescribed under the Local Government Regulation 2012:

- Operating Surplus Ratio (net operating result divided by total operating revenue)
- Net Financial Liabilities Ratio (total liabilities less current assets all divided by total operating revenue)
- Asset Sustainability Ratio (capital expenditure on renewal of assets divided by depreciation expense).

The asset sustainability ratio uses accounting depreciation as a substitute measure for required capital expenditure on infrastructure renewals. This limits the effectiveness of this ratio. In its report to Parliament ‘Results of audit: Local government entities 2013-14’ tabled on 5 May 2015, the Queensland Audit Office (QAO) highlighted inadequacies of using accounting depreciation as a substitute measure for required capital expenditure on infrastructure renewal and recommended that additional ratios be used to better understand asset performance, being the:

- Asset Renewal Funding Ratio (capital expenditure on the renewal of assets divided by required renewal expenditure from the Asset Management Plan)
- Asset Consumption Ratio (written down value of assets divided by the gross value of assets).

Council is also required to maintain three other financial ratios within limits agreed with Queensland Treasury Corporation (QTC) as part of the lending terms and conditions. These ratios are:

- Adjusted Operating Surplus (net operating result plus depreciation expense all divided by total operating revenue)
- Leverage (total debt less cash investments all divided by total operating revenue)
- Debt Service Coverage (net operating result plus interest expense plus depreciation all divided by interest expense plus prior year current debt).

Given the issues associated with using accounting depreciation as a substitute measure for required capital expenditure on infrastructure renewals, it was agreed with QTC to use an adjusted operating surplus ratio which excludes depreciation from the calculation.

1.7 Management of operating position

Table 5: Operating ratios

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</thead>
<tbody>
<tr>
<td>Operating Surplus</td>
<td>0%</td>
<td>10%</td>
<td>1%</td>
<td>4%</td>
<td>3%</td>
<td>5%</td>
<td>3%</td>
<td>0%</td>
<td>4%</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Adjusted Operating Surplus</td>
<td>16%</td>
<td>20%</td>
<td>23%</td>
<td>23%</td>
<td>24%</td>
<td>23%</td>
<td>19%</td>
<td>23%</td>
<td>24%</td>
<td>24%</td>
<td>24%</td>
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</table>

The forecast Operating Surplus Ratio remains positive, indicating the Council is raising sufficient operating revenue to cover operating expenses.
The Adjusted Operating Surplus Ratio, required by QTC, removes accounting depreciation from the calculation and the target result. Council is forecasting to meet the benchmark set by QTC for the entire forecasting period.

1.8 Management of debt

Table 6: Debt ratios

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<tbody>
<tr>
<td></td>
<td>min</td>
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<td></td>
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<tr>
<td>Net Financial Liabilities</td>
<td>0%</td>
<td>60%</td>
<td>6%</td>
<td>20%</td>
<td>27%</td>
<td>32%</td>
<td>34%</td>
<td>30%</td>
<td>26%</td>
<td>22%</td>
<td>18%</td>
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<tr>
<td>Debt Service Coverage</td>
<td>2.2</td>
<td></td>
<td>2.7</td>
<td>3.2</td>
<td>3.1</td>
<td>3.3</td>
<td>3.1</td>
<td>2.7</td>
<td>3.4</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Debt Service Ratio</td>
<td>0%</td>
<td>20%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
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</table>

The three ratios above seek to provide an indication as to whether debt is being responsibly managed. Council sits comfortably within the required benchmarks for the forecast period.

Through prudent debt management, Council maintains the flexibility to utilise debt funding should it need to do so in the future.

1.9 Management of infrastructure assets

Table 7: Asset management ratios

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<tr>
<td>Asset Sustainability</td>
<td>90%</td>
<td>45%</td>
<td>47%</td>
<td>49%</td>
<td>49%</td>
<td>48%</td>
<td>46%</td>
<td>48%</td>
<td>48%</td>
<td>49%</td>
<td></td>
</tr>
<tr>
<td>Asset Renewal Funding</td>
<td>90%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The Asset Sustainability Ratio uses accounting depreciation as a proxy for required capital expenditure on renewals (as opposed to capital renewal funding requirements determined through robust asset management planning) with the results of this ratio indicating that infrastructure renewal funding is around 50% of the depreciation cost annually. The calculation method of this ratio does not provide an effective measure of whether the investment in capital renewal is sufficient. This is particularly obvious with the City having a relatively young asset base with the majority of infrastructure constructed since 1960, therefore, it is expected that required capital expenditure on infrastructure renewal is currently substantially lower than accounting depreciation.

In comparison, the Asset Renewal Funding Ratio uses required capital expenditure on infrastructure renewals (as stated in the Council adopted Total Asset Management Plan). The results of this ratio for the 10 year period is 100% which demonstrates that the City’s infrastructure is sustainable in the long-term and that Council is committed to funding required infrastructure renewal as determined through robust asset management planning.

The Asset Consumption Ratio gives an indication of the ‘as new condition’ left in the assets. The results of this ratio (as at 30 June 2018 - the last audited results available) reinforces the sustainability of the City’s infrastructure assets with the result of 69% being towards the higher end of the target range. This aligns with information provided previously on condition of the City’s infrastructure with the majority of the assets being in a very healthy state.
1.10 City Budget supporting documents

- Statement of Estimated Financial Position 2018-19 .......................................................... 74
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