Community Budget Report

Introduction

Mackay Regional Council (MRC), like many other businesses in the region, have had to respond to some unique and challenging economic condition in recent years. Last year, the COVID-19 pandemic caused state and international border closures, other factors within the macro local and international economies also impacted many businesses within the region. Cost pressures associated with capital projects, supply chain issues delaying delivery of key materials and labour shortages of both skilled and unskilled workers. This budget is framed around these emerging issues and extensive modelling has been carried out to ensure Mackay Regional Council has adequate revenue to fund current and future expenditure that meets the needs of the community now and into the future.

For the 2022/23 budget, a 2.5% overall increase in rates revenue has been implemented across all ratings categories. This is despite the headline Consumer Price Index (CPI) figure for March 2022 being 6.0%. Through prudent financial management and continued growth of the number of rateable properties across the Mackay Region, Council believes a modest rate rise of 2.5% will ensure that we remain financially sustainable into the future with no planned deterioration in current service levels. In a region where prices are rising rapidly, this change in rates, fees and charges supports the councils' ability to continue to deliver vital services and infrastructure projects along with maintaining its established network of roads, water, sewerage, parks and gardens. These assets make Mackay an enticing place to live for its residences.

Mackay Regional Council has a continued focus on growth and long-term sustainability and our 10-year Financial Forecast and associated capital project plan is underpinned by modest increases in rates each year, primarily at no more than inflation. The moderate increase in rates is aimed to finance increasing costs associated with maintaining the existing and growing asset base. While resources remain scarce, and labour shortages persist, costs of our project inputs will remain under financial pressure from competition for these resources. To maintain financial sustainability, the announced rate rise is required.

The long-term financial forecast indicates that Mackay Regional Councils' budget will remain in surplus in the 2022/23 year with nominal budget surpluses forecasted for every year of the long-term forecast model. Capital expenditure of approximately $1.3B over the forecasted 10-year period, which will be primarily funded by these operating surpluses along with grant funding from State and Commonwealth governments, capital contributions from new property developments. There will be the need for minimal debt funding to deliver this plan in its entirety. Through this sophisticated forward-looking model, it is unlikely that the Mackay Regional Council will require to borrow funds to support its capital program until the 2024/25 financial year. Included in the capital budget is significant provision for investment in the Mackay Waterfront Priority Development Area, the Mountain Bike project in the Pioneer Valley and the multiple stages of the Northern Beaches Community Hub project together with other key projects which will deliver exceptional benefits to the local community and enhance the liveability of the Mackay region.

Budget at a Glance

The 2022/23 budget has been developed to ensure long term financial sustainability for the Mackay Regional Council (MRC). The 2022/23 total budget is $302M, of which $104M will be spent on capital projects. Some significant highlights of the budget are:

- 2.5% increase in General Rates, well below inflation of 6%
- 2.5% increase in Fees & Charges, well below inflation of 6%
- Continuing commitment to ongoing community grants program of $0.7M, together with ~$1.0M for investment in event attraction and continued significant investment in rural roads maintenance
- Funding commitments to several critical shovel ready projects for the future
- $13.2M reduction in loans in line with contracted amortisation schedule with QTC
- Healthy cash balance forecasted at around $117.7M

Financial Statements

The following budgeted financial statements have been prepared in accordance with legislative requirements and reflect the budget for the 2022/23 financial year and the next two financial years. The following report also contains information on the Long-Term Financial Forecast (LTFF) and demonstrates MRC's ability to manage its challenges over the long term by maintaining strong liquidity, adequate debt servicing capacity and a reasonable level of financial flexibility.

Financial statements contained within this report include:

- **Statement of Income and Expenses** – presents Council's consolidated revenues (where the money comes from) and expenses (where the money is spent)
- **Statement of Financial Position** – identifies the predicted financial position of Council, including assets (what we own), liabilities (what we owe) and equity (our net worth)
- **Statement of Changes in Equity –** reports changes to equity (Council's assets net of liabilities)
- **Statement of Cash Flow** – reports how revenue received, and expenses paid impact Council's cash balances
- **Key Financial Sustainability Ratios –** key financial indicators that measure Council's financial performance.

Operating Result

This is a result of increasing revenue and decreasing operating expenses. Any operating surpluses achieved are used to fund capital expenditure or extinguish debt if economically viable.

Rates are planned to increase by 2.5% for the year 2022/23 and are then forecast to reduce to 2.0% for the remaining 9 years, future assessment of prevailing inflationary pressures will occur. Council's underlying principle is to keep rates changes at or below CPI.

Figure 1 – shows the forecast operating result over the next 10 years.

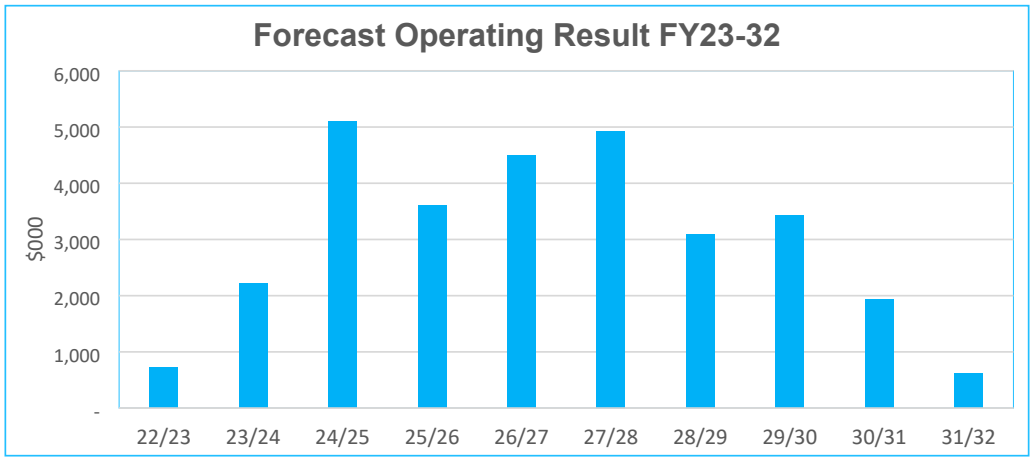

Figure 1 – Forecast Operating Result – 10 year projections

Operating Revenue – where our money comes from

Figure 2 – Operating Revenue, indicates that 84% of Council's operating revenue is generated from rates and around 7% is received from fees and charges. It is important to note that MRC does not rely heavily on funds from other tiers of government but actively seeks additional revenue from these other sources. MRC also maximises investment earnings to supplement its core sources of revenue by investing surplus cash with Australian Deposit taking institutions.

MRC's sources of revenue are shown below:

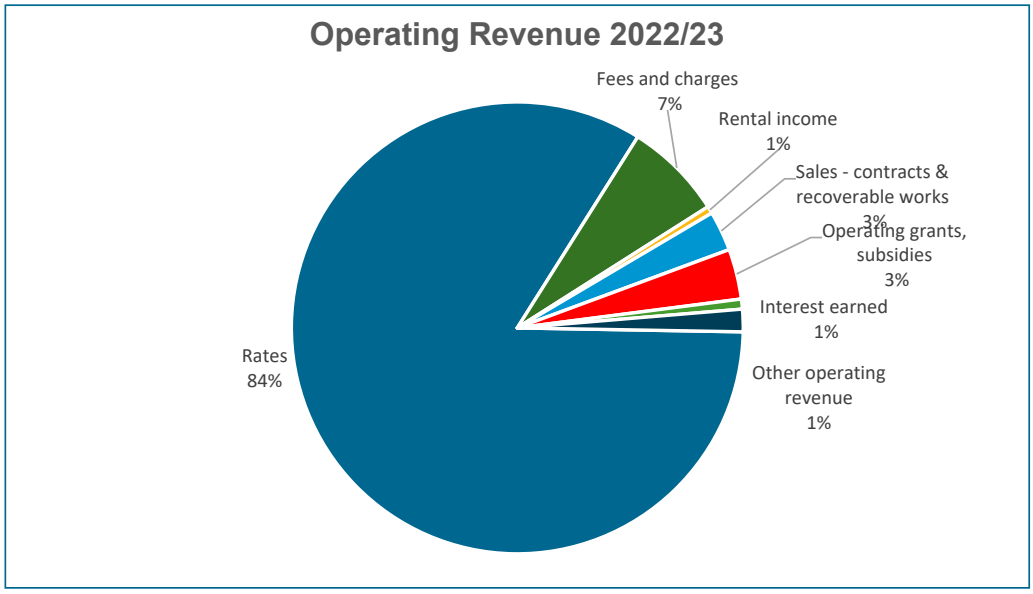

Figure 2 – Operating Revenue 2022/23

MRC's total operating revenue of $278.1M is forecasted to be received in 2022/23. This is primarily broken down by:

Net Rates $232.7M

The average residential ratepayer will see 2.5% increase in rates and charges, despite the current headline CPI figure of 6.0%.

Pensioner concessions and other remissions together with early payment discounts are forecasted at a cost to MRC of $21.6M. A 1.0% growth in properties (rateable) has been incorporated into the 2022/23 budget to reflect current economic conditions.

Full details of MRC's rates and charges are outlined in the Revenue Statement 2022/23.

Fees and Charges $19.6M

The major component of fees and charges revenue is approximately $8.1M of income, generated from waste disposal fees. Other components include, local laws compliance fees of $2.6 M, the Mackay Entertainment and Convention Centre (MECC) revenue of over $1.4M, through hire fees and other charges, and development & planning fees amounting to approximately $2.3M.

The majority of fees and charges for 2022/23 have been increased by 2.5%. The exception to this is where the fees are impacted by external organisations or legislation requirements. A small number of fees have shown a decrease.

Full details of Council's fees and charges are contained in the 2022/23 fees and charges schedule which is available on Council's website.

Rental Income $1.4M

A significant proportion of rental income is generated from Council owned properties. Mackay Regional Council maximises income from these assets to reduce the reliance on rates income from other ratepayers. MRC owns 3 commercial properties for strategic purposes that generate market comparable rental returns. These property holdings are reviewed regularly with no disposal of properties planned in the near future.

Interest Earned on Investments $2.0M

Mackay Regional Council maximises interest returns on cash holdings by investing surplus cash requirements at the most optimal rate possible for the shortest possible term (not exceeding twelve months). More detail can be found in Mackay Regional Council's Investment Policy. Councils' cash holdings allow for the investment of funds while maintaining purchasing power; ensuring sufficient cash is available as and when required. Council scans the investment market regularly to capitalise on the current market opportunities. It is expected

that investment returns will reduce over the forecasted period as cash is utilised to fund capital expenditure.

Sales – Contract and Recoverable Works $7.9M

The majority of this revenue relates to work done for the Department of Transport and Main Roads in maintaining their assets.

Other operating revenue $4.5M

Ticket sales and catering revenue at the Mackay Entertainment and Convention Centre (MECC) along with the Mackay Stadium account for approximately $2.5M in revenue, with the remainder of revenue sourced through sales from the Sugar Shed, commissions and other revenue.

Operating Grants and Subsidies $10.0M

The major sources of grant and subsidies funding for Mackay Regional Council in 2022/23 is the general-purpose Financial Assistance Grant (FAGs) which amounts to approximately $5.0M, Works for Queensland operational grants of $2.0M, State library grant $0.6M, Queensland Reconstruction Authority $0.2M, Department of Communities, Disability Services & Seniors $0.1M.

In addition to operating revenue, Council receives capital contributions from local property developments and specific capital grants from both State and Federal Governments. Capital revenue from these sources is anticipated to be a further $36.5M in 2022/23.

Operating Expenses – where our money is spent

Operating expenses are split into four main categories, as shown in Figure 3. Materials and services together with employee costs constitute 69% of MRC's forecasted operational expenditure for 2022/23. Another significant operating expense is depreciation which makes up 29% of Council's expenses.

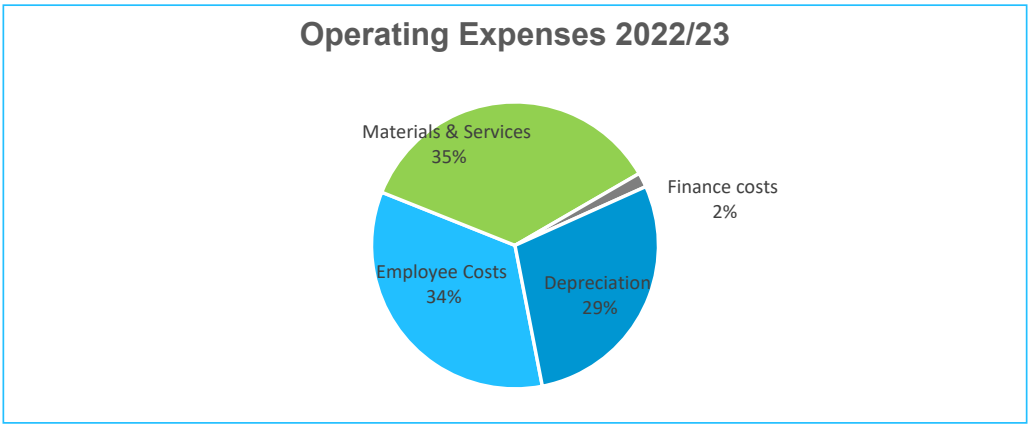

Figure 3 – Operating Expenses 2022/23

Total operating expenses are forecast to be $277.3M for 2022/23 and are made up of the following:

Employee Costs $94.6M

Employee costs of $94.6M represent the operational employee costs for the organisation, with an additional $15.5M of costs being charged directly to capital. Employee costs include all employee related expenditure including items such as allowances, superannuation and leave entitlements. Mackay Regional Council maintains a large workforce to provide an extensive range of services to the community including maintenance of our roads, water & sewerage networks, and town planning, community, sport, and cultural services.

Materials and Services $98.7M

The major expenses categories for material and services are contract expenses $21.4M, relating to waste disposal and collection of approximately $9.9M, external contractors for maintenance of roads and parks amount to $6.6M and property maintenance of $3.4M. Consultant costs are budgeted at approximately $16.3M. Electricity, fuel and insurance amount to a total of $17.8M. External equipment hire is budgeted at approximately $5.0M and repairs and maintenance expenditure are budgeted at approximately $18.8M.

Mackay Regional Council's Procurement Policy is underpinned by the principle of supporting local business. This leads to significant investment in the regional economy.

Finance Costs $4.5M

The budgeted finance costs are primarily made up of interest and fees ($3.7M) for loans the council holds with Queensland Treasury Corporation (QTC). No new borrowings in previous years and the bulk reduction of debt that occurred in the 2021/22 financial year sees this amount reduce. A further reduction in the QTC debt balance of around $13.2M is forecasted for 2022/23 in line with contracted amortisation schedule through the loan contract. The remaining finance costs are made up of bank and merchant fees of $0.5M and provision unwinding costs of $0.3M.

Depreciation $79.5M

Depreciation represents the decline in value of assets. This expenditure can be impacted by age, condition and disposal of existing assets, along with the purchase and construction of new assets.

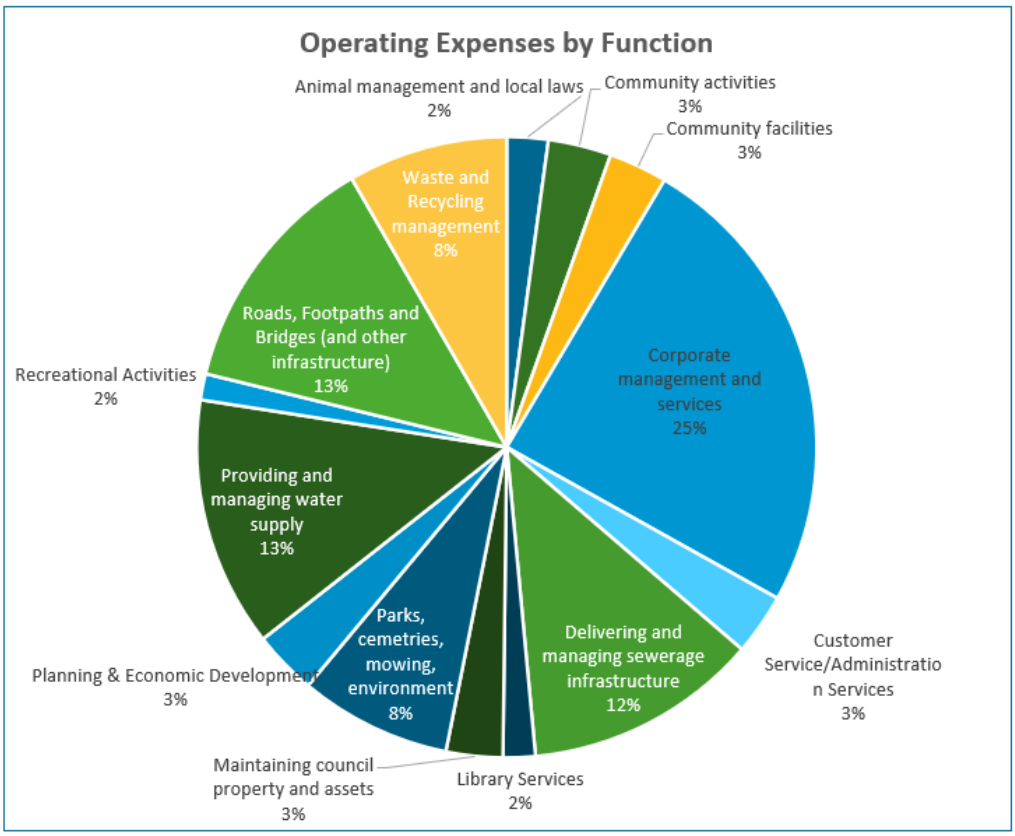

Figure 4 – Expenditure by Function

The level of MRC's expenditure is monitored continually throughout the year. Detailed estimates are prepared at the beginning of each financial year and performance is measured against these estimates through regular budget reviews, ensuring funds are utilised as efficiently and efficiently, as possible.

Capital Works Program

Mackay Regional Council manages a very diverse range of infrastructure assets with a value more than $3.5B. These assets cover categories such as land, buildings, plant & equipment, roads, drainage & bridge works, water, sewerage and waste. The Council is responsible for the construction, upgrade and renewal of these assets through its capital works program. Mackay Regional Council forecasts to spend $104.0M on capital projects (excluding donated capital) during this financial year. The Council is also expecting to receive ~$4.0M in donated assets from developers during this financial year.

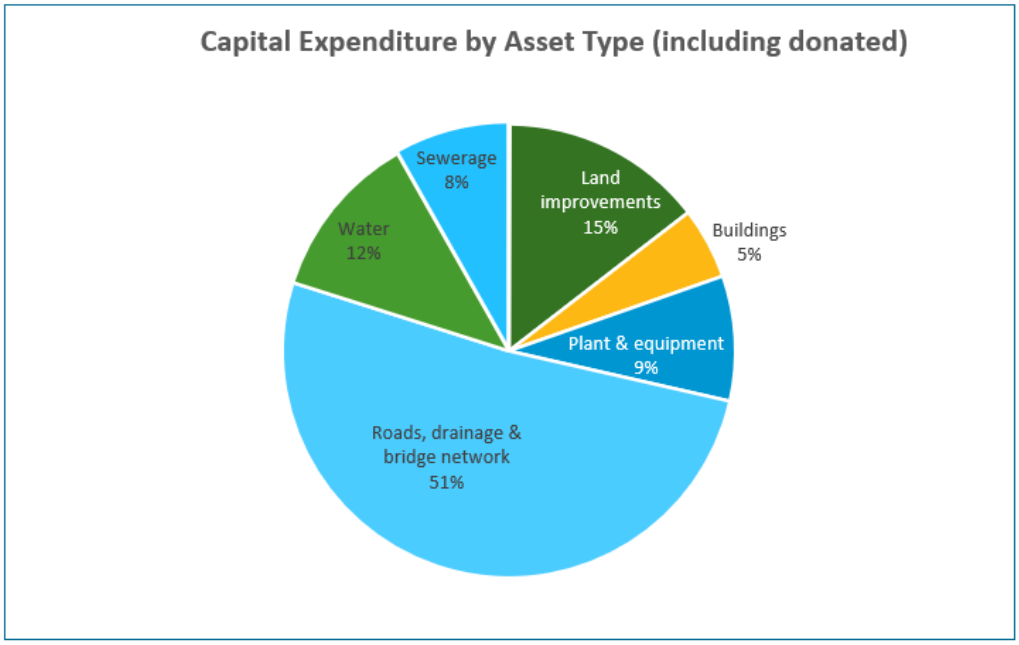

Figure 5 –Capital Expenditure by Asset type (including donated)

The amount of capital expenditure for 2022/23 allows Council to address its high priority needs without the need for additional borrowings. Mackay Regional Council has budgeted to spend $58.5M on renewing our existing assets, $18.0M on upgrades and $27.5M on new assets.

Investment in high priority areas include:

- $2.1M towards the design activities associated with the Mountain Biking strategy
- $5.1M to continue the development of the Northern Beaches Community Hub master planning and design with the start of construction of stage 1 this year
- $8.0M to continue the construction for the Mackay Waterfront Priority Development Area – Waterfront area including the River Street service road
- $11.8M towards trunk drainage projects
- $6.7M renewing our existing fleet assets
- $8.4M on pavement improvement projects for shoulder widening and road rehabilitation

Included is approximately $3.8M worth of projects associated with the Works for Queensland program and $3.2M from the Federal Government for the Local Roads and Community Infrastructure Program.

The 2022/23 budget includes the adoption of a 10-year forecasted capital works program. This represents an investment of almost $1.3B in community infrastructure assets, establishing a platform for regional growth and providing an economic stimulus to local economic activity.

The ten-year capital program takes into account projected regional growth and building new assets to support that growth, improving capacity of existing assets to support density changes, as well as renewal of the ageing critical assets of the Region.

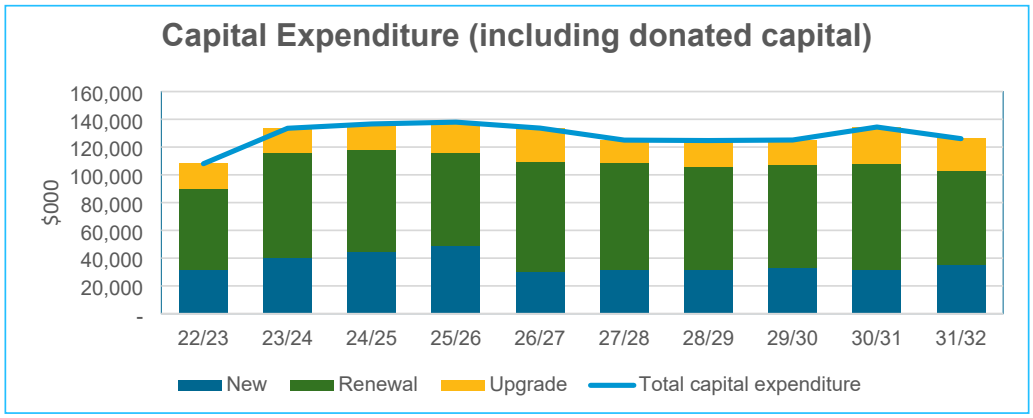

Figure 6 – 10 year Indicative Capital Works Program Expenditure

Statement of Financial Position

The statement of financial position measures what Mackay Regional Council owns and owes to relevant stakeholders. The result of these two components determines the net worth of our community.

Our community's net worth (what we own less what we owe) is forecast to be approximately $3.5B at the end of 2022/23.

Cash

Council invests surplus funds throughout the year in low risk, short term investments in accordance with Council's investment policy and regulatory guidelines. Mackay Regional Council's short and long-term cash flows indicate that sufficient cash is available to meet recurring activities and capital expenditure. The cash position at the end of the ten-year period is sufficient to operate and allow for $1.3B of capital spend in that period. The capital projects in the latter half of the forecast period require a more detailed analysis and scoping prior to delivery.

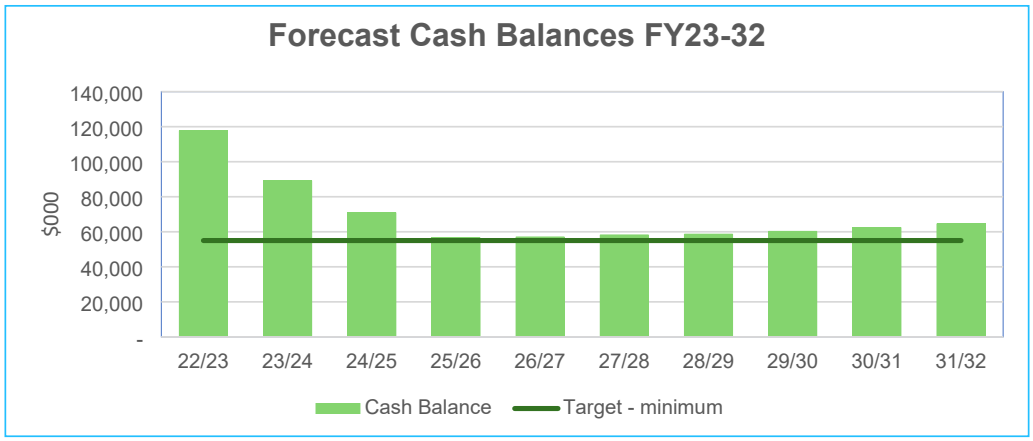

Figure 7 – Forecast Cash Balance

Debt

Borrowing for long term assets is an effective way of spreading the cost of community infrastructure over the life of the assets in such a way that those deriving a benefit from the investment pay for it as it is being used.

With no new borrowings forecast in the 2022/23 financial year, Council's debt continues to reduce by $13.2M. Over the last 5 years, Council's debt has reduced by $93.5M (including a bulk reduction of $36.6M in the 2021/22 financial year) and continues to reduce over the short term in line with scheduled repayments.

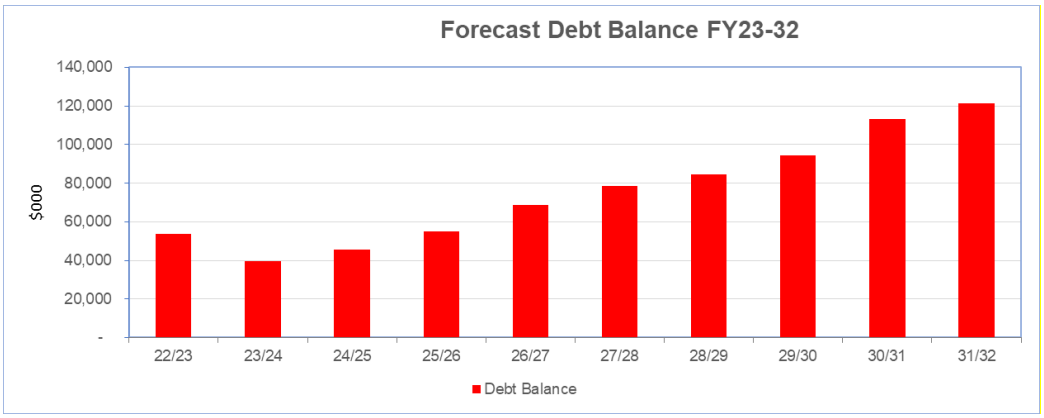

Figure 8 – Forecast Debt Balance

In summary, over the life of the forecast period, MRC maintains strong liquidity and adequate debt servicing capacity resulting in adequate level of financial flexibility.

Key Financial Sustainability Ratios

The following ratios provide an indication of the performance of MRC against key financial sustainability measures. Maintaining ratios against benchmarks indicate prudent management of financial risks in accordance with section 169(5) of *Local Government Regulation 2012*. MRC's prime ratios have been calculated for the ten-year period and can be found below. The benchmarks used for prescribed ratios, align with the Department of Infrastructure, Local Government, State Development and Planning (DILGSDP) guidelines.

Ratio	Description	Formula	Benchmark
Operating Surplus	This is an indicator of the extent to which revenues raised cover operational expenses only or are available for capital funding purposes	Net Operating Surplus / Total Operating Revenue	**0 - 10%**

Result:

2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
0%	1%	2%	1%	1%	2%	1%	1%	1%	0%

Comments:

MRC is forecasting operating surpluses for the entire forecast period. Operating surpluses are available for capital funding or other purposes.

Ratio	Description	Formula	Benchmark
Net Financial Liabilities	This is an indicator of the extent to which the net financial liabilities of council can be serviced by its operating revenues	Total Liabilities less Current Assets / Total Operating Revenue	**< 60%**

Result:

2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
5%	9%	15%	20%	23%	23%	22%	22%	25%	26%

Comments:

MRC net financial liabilities ratio is within acceptable limits for the life of the 10 year plan, indicating that MRC has the capacity to fund liabilities and a capacity to increase loan borrowings if required. MRC has made a concerted effort to reduce debt and borrowings in the short term, whilst increasing borrowings as required to fund critical infrastructure.

Ratio	Description	Formula	Benchmark
Asset Sustainability	This is an approximation of the extent to which the infrastructure assets managed by council are being replaced as these reach the end of their useful lives	Capital expenditure on renewals / Depreciation expense	**> 90%**

Result:

2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
75%	95%	90%	82%	96%	94%	88%	86%	87%	76%

Comments:

The above measure is calculated based on the planned capital expenditure on the renewal of assets included in Council's Long Term Financial Forecast. MRC is forecasting a sustainable asset replacement and renewal program for the forecast period. Continual refinement of MRC's asset management plans will only improve MRC's ability to make informed decisions regarding asset management into the future.