KING ISLAND COUNCIL

CONSULTATION SUBMISSION

Economic Diversification and Investment Strategy

Recognising and sustaining strategically significant regional communities

CENTRAL PROPOSITION

Local responsibility should not be confused with local capacity.

SUBMITTED BY KING ISLAND COUNCIL

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Executive summary

King Island Council strongly supports the direction of the Tasmanian Government's draft Economic Diversification and Investment Strategy. Its emphasis on comparative advantage, regional opportunity, enabling infrastructure, wider public benefit and evidence-based investment is closely aligned with Council's own strategic work.

The draft nevertheless contains an important policy gap. It recognises that a government business required to provide a non-commercial service at a net cost should receive clearly identified community service obligation support. It does not expressly confirm that the same principle applies where local government owns and operates essential enabling infrastructure that performs wider State functions but cannot be sustained through the local market or rate base.

King Island Airport demonstrates this structural mismatch. The Airport enables interstate connectivity, trade, tourism, emergency medical retrievals, government service delivery, essential freight and the operation of a productive island economy. Its public value extends well beyond Council's accounts, while its structural operating loss of approximately $0.5 million–$0.6 million annuallyis borne locally by a community of approximately 1,700 people.

THE POLICY ISSUE

The Airport has a funding deficit—not a value deficit.

Council's six recommendations

1. **Recognise infrastructure sustainability:** Recognise the sustainability, condition and renewal of existing council-owned enabling infrastructure as an economic priority under Priority 6—not only investment in new infrastructure.
2. **Broaden infrastructure assessment:** Require infrastructure assessments to consider asset responsibility, beneficiary distribution, local fiscal capacity, asset condition, renewal requirements and the consequences of infrastructure failure.
3. **Recognise distinct functional regions:** Allow remote islands and other geographically isolated economies to be treated as distinct functional regions under Priority 4 where local conditions warrant.
4. **Clarify the CSO principle:** Expressly confirm that community service obligations or equivalent partnership arrangements may apply to State government businesses, local governments, council-owned entities and other publicly owned bodies delivering wider public functions at an unavoidable structural net cost.
5. **Develop a recognition framework:** Develop and pilot a Strategic Community Recognition Framework to identify communities whose strategic contribution, enabling infrastructure responsibilities and wider public value materially exceed their population-based revenue capacity, with King Island as an inaugural case study.
6. **Establish an immediate Airport partnership:** Establish a State–Council–Australian Government process to develop a sustainable funding model for King Island Airport as an early implementation action under the Strategy.

1. Strategic alignment

The draft Strategy provides a strong foundation for Tasmania's next decade of economic development. Council particularly supports the commitment to concentrate public effort where it unlocks wider economic or social benefit, connect regional strengths with infrastructure and workforce planning, and assess secondary and third-order impacts rather than relying on quantitative measures alone.

Direct alignment with King Island's strategic work

Draft Strategy direction	King Island application
Comparative advantage	Dairy, beef, seafood, tourism, mining potential, renewable energy and premium provenance.
Activating regions	A geographically distinct economy requiring place-based analysis and coordinated State–Council action.
Growing capability	Housing, workforce, health, education, digital connectivity and local institutional capacity are economic enablers.
Strengthening infrastructure	Airport, freight, roads, waste, drainage, energy and telecommunications sustain productive capacity.
Strategic resource use	Investment should be assessed against the wider value enabled, not only the direct financial return of an individual asset.
Outcomes over activity	Council's Strategic Evidence Base is designed to demonstrate contribution, capacity, constraints, confidence and strategic outcomes.

Council's Strategic Community Doctrine is therefore not an alternative economic strategy. It offers an assessment lens that can help the Government apply this Strategy fairly to communities whose contribution, responsibilities and fiscal capacity do not align neatly.

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2. The missing policy clarification

The draft Strategy states that where government requires a government business to provide a non-commercial service, concession or activity at a net cost, this should be clearly identified and supported as a community service obligation (Draft Strategy, p. 39). Council strongly supports this principle.

The term "government business" is not defined. It may be capable of including a local government business activity; however, the surrounding context appears principally directed towards State government businesses and does not make clear whether the principle extends to essential infrastructure operated directly by a council.

This distinction matters. Public purpose and strategic value do not change according to the level of government that owns or operates the infrastructure. Where geography, limited market size, market failure

or public necessity require a council to maintain enabling infrastructure creating wider State benefit, the same policy principle should apply.

THE REQUIRED CLARIFICATION

Equivalent public function should attract equivalent policy recognition—whether delivered by a State government business, a council-owned entity or directly by a local council.

Why this matters

- Small councils may operate infrastructure with high fixed regulatory and operating costs but a very small customer base.
- The economic and service-delivery benefits frequently accrue to industry, visitors and the State and Australian governments—not solely to local ratepayers.
- User charges cannot always recover costs without making essential access unaffordable or undermining the economic activity the infrastructure enables.
- A persistent operating loss can therefore reflect geography, market structure and public purpose rather than inefficiency or lack of value.
- Ambiguous institutional definitions may result in equivalent public functions receiving different treatment solely because their ownership or delivery arrangements differ.

Proposed wording for the final Strategy

DRAFT AMENDMENT

Where a State government business, local government, council-owned entity or other publicly owned body provides a non-commercial service, activity or essential enabling infrastructure at a net cost because of government policy, geography, market failure or public necessity, that requirement should be clearly identified and considered for a community service obligation or equivalent transparent partnership arrangement. Any arrangement should have regard to public value, strategic significance, beneficiary distribution, consequences of failure and the fiscal capacity of the responsible entity.

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3. King Island Airport—the clearest case study

King Island Airport is Council-owned enabling infrastructure serving a function far wider than local passenger transport. With no passenger ferry, aviation is the Island's essential connection for people, business and government services.

The Airport enables

- interstate and intrastate passenger connectivity;
- tourism, business travel and private investment;

- urgent medical retrievals, pathology movement and access to specialist services;
- government personnel, regulatory activity and emergency response;
- time-sensitive freight and supply-chain resilience; and
- the continued operation of an island economy contributing materially beyond its population size.

The Airport's structural deficit is borne within Council's limited revenue base. Increasing airport charges sufficiently to eliminate that deficit would risk reducing service viability, affordability and demand. Increasing general rates would transfer the cost to approximately 1,700 residents even though the benefits are shared much more widely.



Figure 1. Why a local operating deficit can require a whole-of-government response.

THE CORRECT INVESTMENT TEST

The question is not whether the Airport makes a commercial profit. It is whether the wider economic and public value enabled by the Airport exceeds the cost of sustaining it.

Council's requested action

Council asks the Tasmanian Government to recognise King Island Airport as essential enabling infrastructure and work with Council and the Australian Government to establish a durable CSO or equivalent funding model covering the unavoidable structural cost of its public-service function.

This would give practical effect to the draft Strategy's own CSO principle and provide an early demonstration of coordinated evidence-based regional implementation.

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4. The missing link: infrastructure sustainability

Priority 6 recognises that infrastructure enables investment and regional opportunity, but it does not adequately address the sustainability of existing council-owned infrastructure already supporting production, connectivity and government services.

King Island Council manages approximately $100 million in community assets and records annual depreciation of approximately $2.5 million. Council has not been able to convert this annual asset consumption into equivalent cash-backed renewal investment.

Its capital works program has been reduced from approximately $3.6 million to $2.9 million, with $1.3 million—or 45 per cent—requiring new borrowing.

$100m **COMMUNITY ASSETS** Indicative portfolio value recorded in Council's financial planning	**≈ $2.5m** **ANNUAL DEPRECIATION** Accounting measure of annual asset consumption—not the full condition-based requirement
$2.9m **REDUCED CAPITAL PROGRAM** Reduced from approximately $3.6m; includes more than renewal expenditure	**$1.3m** **NEW BORROWING** Approximately 45% of the reduced capital program

WHAT THE FIGURES MEAN

Council is borrowing to deliver a reduced capital program that still does not represent the full condition-based investment requirement.

Figure 2. The capital program reflects financial constraint—not the full needs of Council's assets.

The program includes debt-funded expenditure and is not renewal alone. Depreciation also excludes accumulated renewal, poor condition, cost escalation, regulatory upgrades and major airport requirements. The actual condition-based requirement is therefore expected to be materially higher.

THE STRATEGY GAP

The draft recognises that infrastructure enables growth, but not that existing enabling infrastructure may be deteriorating because responsibility and funding capacity are misaligned. Preserving productive capacity should be assessed alongside new investment, with responsibility, beneficiaries and fiscal capacity considered together.

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5. Strategic community recognition

The draft Strategy proposes stronger evidence, tailored regional approaches and investment directed to credible strengths. Council recommends that these commitments be implemented through a Strategic Community Recognition Framework.

A strategic community is not defined by remoteness or disadvantage alone. It is a community whose sustained contribution, enabling systems or public value are important beyond its own boundaries, and whose capacity must therefore be considered as a matter of wider public interest.

An assessment framework should consider

- economic significance and value beyond population;
- community and institutional capability;
- strategic and enabling infrastructure;

- resilience, isolation and system interdependencies;
- evidence confidence and demonstrated outcomes; and
- future strategic opportunity and the consequences of infrastructure failure.

RECOGNITION BEFORE INVESTMENT

Recognition does not guarantee funding. It ensures that investment decisions begin with an accurate understanding of the value being sustained and the capacity available to sustain it.

King Island as a distinct functional region

The draft Strategy proposes functional labour markets as the analytical unit for regional engagement. Council supports functional analysis but cautions that King Island must not be absorbed into a broader north-west regional average. Its labour market, freight system, aviation dependence, cost structure and infrastructure constraints are geographically discrete. The final Strategy should expressly allow remote islands and similarly isolated economies to be treated as distinct functional regions.

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6. Investing wisely in a constrained fiscal environment

King Island Council acknowledges the significant fiscal constraints facing the Tasmanian Government and supports the draft Strategy's commitment to directing limited public resources to their highest-value purpose.

These constraints make transparent, evidence-based prioritisation more important—not less.

Council is not suggesting that government should fund every locally owned asset or relieve councils of their responsibility to manage infrastructure efficiently. Public investment should be prioritised where evidence demonstrates:

- a clear economic or essential public-service function;
- benefits extending beyond the asset owner or local population;
- strategic significance to Tasmania;
- material consequences if the infrastructure deteriorates or fails;
- demonstrated local effort and responsible asset management;
- genuine market failure or insufficient local fiscal capacity; and
- a **credible partnership** capable of delivering measurable outcomes.

Asset ownership should not, by itself, determine whether investment is warranted. The appropriate question is:

Where can limited public resources protect or unlock the greatest enduring public value?

The Strategic Community Recognition Framework proposed by King Island Council would help the Government answer this question consistently. It would provide an evidence-based mechanism for distinguishing ordinary local infrastructure requests from infrastructure that sustains wider economic production, government services, resilience and strategic capability.

Such a framework would not guarantee funding. It would improve the quality, transparency and consistency of investment decisions in a constrained fiscal environment.

FISCAL CONSTRAINT AND STRATEGIC RECOGNITION

Fiscal constraint strengthens the case for strategic recognition. When government cannot fund everything, it needs a reliable way to identify the infrastructure and communities where investment protects the greatest wider public value.

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7. Recommended amendments and actions

Location	Recommended amendment	Intended result
Decision-making principles	Add asset responsibility, beneficiary distribution, local fiscal capacity, condition, renewal requirements and the consequences of infrastructure failure.	Prevents strategically important infrastructure being screened out by narrow commercial analysis.
Priority 4—Activating our regions	Recognise remote islands and other geographically isolated economies as distinct functional regions where local conditions warrant.	Ensures King Island's strengths and constraints remain visible in State analysis.
Priority 6—Strengthening infrastructure	Recognise the sustainability, condition and renewal of existing council-owned enabling infrastructure, including airports, roads, waste, drainage, community facilities and resilience assets.	Places preservation of existing productive capacity alongside investment in new infrastructure.
Priority 6—CSO principle	Clarify that CSO or equivalent support applies to State government businesses, local governments, council-owned entities and other publicly owned bodies performing wider public functions at an unavoidable net cost.	Makes the principle ownership-neutral and aligns funding with public purpose and beneficiaries.
Future action plan	Develop and pilot a Strategic Community Recognition Framework, with King Island as an inaugural case study.	Creates a transparent, nationally relevant method for evidence-based recognition.
Early implementation action	Establish a State–Council–Australian Government process for a sustainable King Island Airport funding model.	Converts the Strategy into a demonstrable regional outcome.

Conclusion

King Island Council supports the draft Strategy's ambition to create opportunities in every region and direct government effort to its highest-value purpose. King Island demonstrates why achieving that ambition requires a broader understanding of value, responsibility and fiscal capacity.

Council is not seeking the preservation of every service irrespective of cost, nor special treatment based solely on remoteness. It is seeking consistent recognition of infrastructure that enables wider economic activity and essential government functions but cannot be sustained through a very small local market.

The draft Strategy already contains the correct principle: non-commercial public functions provided at a net cost should be transparently identified and supported. Council asks that the final Strategy expressly clarify that this principle applies to local governments, council-owned entities and other publicly owned bodies where equivalent circumstances exist.

PRINCIPAL RECOMMENDATION

The final Strategy should recognise the sustainability and renewal of existing council-owned enabling infrastructure as an economic priority and establish a mechanism for State partnership where wider public value cannot be sustained by the responsible council's population-based revenue capacity.

FINAL SUBMISSION STATEMENT

Investment in King Island's enabling infrastructure is not a subsidy to a small community. It is an investment in the productive capacity, resilience and strategic capability of Tasmania.

Supporting material

Attachment	Purpose
Strategic Community Doctrine	Establishes the conceptual basis for recognising strategic contribution and enabling infrastructure beyond population
Long-Term Financial Management Plan	Supports Council's financial-capacity, asset-renewal and borrowing evidence
Annual Plan 2026–27	Demonstrates Council's current actions, priorities and commitment to financial and infrastructure reform

The King Island Council Strategic Evidence Base is currently being finalised and can be provided to support further policy consideration or development of the proposed Strategic Community Recognition Framework.