8.5.1 JUNE 2017 FINANCIAL PERFORMANCE REPORT

File No: **Financial Reports**

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Corporate Services Department

Attachments: **Att 1 - June 2017 Interim Financial Performance Report**
Att 2 - CEO Briefing Paper *(Under Separate Cover) - Confidential*
Att 3 - DRAFT Asset Accounting Policy *(Under Separate Cover) - Confidential*
Att 4 - Additional Information - Mayor *(Additional Information) - Confidential*

PURPOSE

To meet Council's legislative obligations, a monthly report is to be presented to Council on its financial performance and investments.

EXECUTIVE SUMMARY

This monthly financial performance report provides Council with an interim summary of performance against budget as at 30 June 2017 in terms of the operating result and delivery of the capital program. Year-end accounts will be finalised for audit in September.

The operating result at 30 June 2017 shows a positive variance of $7.3 million compared to the forecast year end result.

Operating Performance

Table 1: Operating Result as at 30 June 2017

June2017	Current Budget $000	YTD Current Budget $000	YTD Actual $000	YTD Variance $000	Variance %
Operating Revenue	418,101	418,101	431,778	13,677	3.3
Operating Expenses	395,282	395,282	401,658	6,376	1.6
Operating Result	**22,819**	**22,819**	**30,120**	**7,301**	**32.0**

Achievement of the full year budgeted operating result allows Council to meet its debt repayments and capital expenditure commitments.

Capital Performance

As at 30 June 2017, $193.8 million (85.2%) of Council's $227.4 million 2016/17 Capital Works Program was financially expended. This includes $11.8 million of recurrent and non-recurrent operating expenses that is funded within the capital works program and incurred in relation to the delivery of capital projects.

The core Council Capital Program has progressed 86.7% of budget, an actual spend of $125.4 million, including $7.0 million of recurrent and non-recurrent operating expenses. Excluding Divisional Allocations, Information Technology, Strategic Land and Sunshine Coast Airport - the core percentage financially expended increases to 92.2%.

Whilst undertaking the Capital Work Program, council may incur expenditure associated with assets controlled by another Third Party entity that normally would not be capitalised and is instead expensed as recurrent expenditure affecting the operating result e.g. Evans Street upgrade requiring Unitywater and Telstra infrastructure to be moved.

Given the financial scale of council's significant core and region making capital works program and the potential significant impacts of Third Party Expenses on council's operating result ($8.7 million Third Party Expenses in 2016/17 compared to $0.2 million in the previous financial year), it is proposed to seek approval to amend the Asset Accounting Policy in accordance with the Queensland Treasury and Trade: Non-Current Asset Policies for Queensland Public Sector.

The proposed amendment will separate and make full disclosure of the Third Party Expenditure as "Assets transferred to Third Parties" which will be recorded as a non-recurrent expense i.e. it will be separated from and not distort council's operating result.

The proposed changes will be discussed with the Queensland Audit Office and presented at the 4 September 2017, Audit Committee for discussion before being presented to Council and the CEO for formal approved.

Council's investment portfolio remains within the guidelines established under the Investment Policy.

OFFICER RECOMMENDATION

That Council receive and note the report titled "June 2017 Financial Performance Report".

FINANCE AND RESOURCING

There are no finance and resourcing implications from this report.

CORPORATE PLAN

Corporate Plan Goal:	***An outstanding organisation***
Outcome:	5.3 - A financially sustainable organisation
Operational Activity:	5.3.7 - Sustainable financial position maintained.

CONSULTATION

Portfolio Councillor Consultation

Consultation has been undertaken with the Portfolio Councillor.

Internal Consultation

All departments and branches participated in the formation of the recommendations associated with this report.

External Consultation

No external consultation is required for this report.

Community Engagement

No community engagement is required for this report.

PROPOSAL

Achievement of the full year budgeted operating result of $22.8 million allows Council to meet its debt repayments and capital expenditure commitments.

The operating result at 30 June 2017 shows a positive variance of $7.3 million compared to the forecast year end result.

Recurrent Operating Revenue

Year to date revenues as at 30 June 2017 of $431.8 million shows a positive variance of $13.7 million.

Table 2: Substantial Revenue variances as at 30 June 2017

Operating Revenue Large Variances	YTD Current Budget $000	YTD Actual $000	YTD Variance $000	Variance %
Operating Grants and Subsidies	12,418	18,282	5,864	47.2
Fees and Charges	66,166	68,663	2,498	3.8
Internal Sales/Recoveries	5,710	8,413	2,703	47.3
Other Revenue	13,086	14,684	1,598	12.2

Operating Grants and Subsidies

In June 2017 Council received an early payment for the 2017/18 Federal Assistance Grant of $5.4 million. These funds have been incorporated in the 2017/18 Budget and the funding is assigned to the 2017/18 operational expenditure.

Fees and Charges

Fees and charges revenue of $68.7 million, is $2.5 million ahead of year to date budget, consistent with the April result. Significant variances are consistent with trends from prior months and include:

- $789,000 is attributable to development service revenue being ahead of budget and equates to 5% of the full year budget. This relates to market driven volumes continuing above expectation following budget review 3.
- $702,000 relates to higher revenues at the Sunshine Coast Holiday Parks with some associated increased expenditure.
- $690,000 across the Community Response Branch, predominantly relating to infringements. This variance is partially offset by higher employee costs.
- $241,000 relates to increased revenue at Council's refuse tip centres.

Internal Sales/Recoveries

The variance to budget as at 30 June 2017 predominantly relates to higher recoveries from capital for the sale of Quarry products of $2.4 million. Associated increased expenditure has also been incurred to generate product and manage stock piling.

Other Revenue

Other revenue has exceeded the year to date budget by $1.6 million, this is made up of:

- $466,000 for an additional revegetation offset which was received in June and is required to be transferred to restricted cash, to fund expenditure in 2017/18
- $457,000 for higher sales of recoverable materials at the Waste facilities
- $455,000 across the organisation for recoupment of expenditure
- $164,000 associated with Road Maintenance Levies
- $120,000 in higher Lease Revenue

Recurrent Operating Expenses

Year to date expenditure as at 30 June 2017 of $401.7 million shows a variance over budget of $6.4 million.

Table 3: Substantial Expenditure variances as at 30 June 2017

Operating Expenditure Large Variances	YTD Current Budget $000	YTD Actual $000	YTD Variance $000	Variance %
Employee Costs	130,066	131,869	1,803	1.4
Materials and Services	162,794	164,021	1,226	0.8
Finance Costs	11,084	12,320	1,236	11.2
Depreciation Expense	69,233	71,090	1,858	2.7

Employee Costs

As at 30 June 2017 employee costs were above budget by $1.8 million.

Employee expenditure incurred in relation to the delivery of the capital program was $897,000 whereby funding is provided within the capital program. Higher employee costs were also incurred in delivering operating projects of $195,000 with the funding balanced at project level between materials and services.

Core employee costs were above budget by $712,000 or 0.6%.

Materials and Services

As at 30 June 2017, materials and services costs were above budget by $1.2 million or 0.8%.

$2.5 million of capital project costs have been recognised as recurrent expenditure at year end. This includes costs such as landscaping and street trees as well as marketing and promotions which are justified project expenses, however cannot be capitalised as part of an asset.

The table below highlights projects with the most significant variances. Also shown is the financial year the costs were initially incurred for the projects and recognised in WIP at 30 June. In 2016/17 these costs have been recognised as recurrent expenses as they do not form part of the asset.

Table 4: Significant Recurrent Materials and Services Variances

Project ($'000)	Financial Year Incurred					Recurrent Expense
	2013	2014	2015	2016	2017	
Maroochydore City Centre	-	-	-	(136)	1,274	1,138
Evans St Maroochydore	0	53	119	123	277	572

Higher costs have also been incurred for Region Making projects due to timing issues including $4.7 million for costs associated with the Sunshine Coast Airport where the funding will be realised in 2017/18.

These budget over runs are partially offset by savings in core expenditure and underspends in operating projects across all departments. Projects are currently under review to identify necessary carry overs to the 2017/18 financial year.

Finance Costs

Finance costs have overrun budget by $1.2 million predominantly as a result of interest associated with Region Making Projects being expensed to operating. $644,000 relates to non-qualifying components of the Solar Farm and Maroochydore City Centre projects and $194,000 is attributable to the Sunshine Coast Airport.

Depreciation

Depreciation is higher than budget in the interim results for 30 June 2017 by $1.9 million due to a rapidly increasing asset base. Most of the increase is associated with road infrastructure due to a high level of contributed assets in this class, as well as early recognition of much of the reseal and rehabilitation program in quarter 3.

Non-Recurrent Revenue and Expenditure

Capital Revenue

Contributed assets account for most of the variance in Capital Revenue of $54.4 million at 30 June 2017. Cash contributions are also ahead of budget accounting for $3.1 million of the variance. Some grant acquittals for completed projects will be finalised in 2017/18 and recognised through Budget Review 1.

Non-Recurrent Expenditure

In delivering the capital works program Council has incurred costs of $8.7 million for the relocation of assets belonging to third parties. These are “one-off” expenses associated with bringing Council’s asset to the location and condition necessary for its intended operation and are recognised as non-recurrent. These costs are funded as part of the capital program and do not have a further impact on cash or Council’s operating result.

Given the financial scale of council’s significant core and region making capital works program and the potential significant impacts of Third Party Expenses on council’s operating result ($8.7 million Third Party Expenses in 2016/17 compared to $0.2 million in the previous financial year), it is proposed to seek approval to amend the Asset Accounting Policy in accordance with the Queensland Treasury and Trade: Non-Current Asset Policies for Queensland Public Sector.

The proposed amendment will separate and make full disclosure of the Third Party Expenditure as “Assets transferred to Third Parties” which will be recorded as a non-recurrent expense i.e. it will be separated from and not distort council’s operating result.

The proposed changes will be discussed with the Queensland Audit Office and presented at the 4 September 2017, Audit Committee for discussion before being presented to Council and the CEO for formal approved.

The attached briefing paper details the proposed changes.

Capital Expenditure

As at 30 June 2017, $193.8 million (85.2%) of Council’s $227.4 million 2016/17 Capital Works Program was financially expended. This includes $11.8 million of recurrent and non-recurrent operating expenses that is funded within the capital works program and incurred in relation to the delivery of capital projects. Excluding divisional allocations, information technology, strategic land, Sunshine Coast Airport, corporate and region making projects - the percentage financially expended increases to 92.2%.

The core Council Capital Program has progressed 86.7% of budget, an actual spend of $125.4 million, including $7.0 million of recurrent and non-recurrent operating expenses. Excluding Divisional Allocations, Information Technology, Strategic Land and Sunshine Coast Airport - the core percentage financially expended increases to 92.2%.

Major variances attributable to the $7.0 million recurrent and non-recurrent expenses incurred in relation to core capital works are detailed in Table 5 as well as the significant Region Making projects below.

Table 5: Significant Recurrent and Non-Recurrent Expenditure

Core Program $'000	Financial Year Incurred 2013	2014	2015	2016	2017	Total Expense	Expense Budget	Funded from Capital
Recurrent								
Information Technology	-	-	-	(0)	1,671	1,671	1,882	(212)
Sunshine Coast Airport	112	-	-	-	3	115	-	115
Evans St Maroochydore	0	53	119	237	415	823	-	823
Non-Recurrent								
Sunshine Coast Airport	-	-	-	23	187	211	-	211
Evans St Maroochydore	72	3	426	4,660	86	5,247	-	5,247

Region Making $'000	Financial Year Incurred 2013	2014	2015	2016	2017	Total Expense	Expense Budget	Funded from Capital
Recurrent								
Solar Farm	16	0	5	76	736	833	763	70
SC Airport	-	-	-	-	79	79	-	79
Maroochydore City Centre	-	-	-	(136)	1,586	1,450	-	1,450
Non-Recurrent								-
Maroochydore City Centre	-	-	-	-	3,206	3,206	-	3,206

In the past asset recognition has predominantly occurred at year end consistent with the completion of most projects, and the recognition of expenses has also occurred at that time. Due to the significance of the significant core and region making projects and the increased instance of third party costs, we are taking a proactive approach to reviewing and recognising expenditure more frequently. Many projects are also being delivered over multiple years and are completed earlier, such as Evans Street, which allows us to recognise the assets sooner.

The table below details the significant recurrent expenditure that was recognised in 2015/16 year end accounts. The previous accounting policy did not recognise third party costs as Non-Recurrent Expenses.

Table 6: Recurrent Expenditure 2015/16

Program $'000	Financial Year Incurred 2013	2014	2015	2016	Total Expense
Maroochydore City Centre	68	116	91	1,017	1,292
Parks and Gardens			(6)	1,353	1,347
Stormwater			(6)	1,130	1,124
Transportation			(2)	2,716	2,713

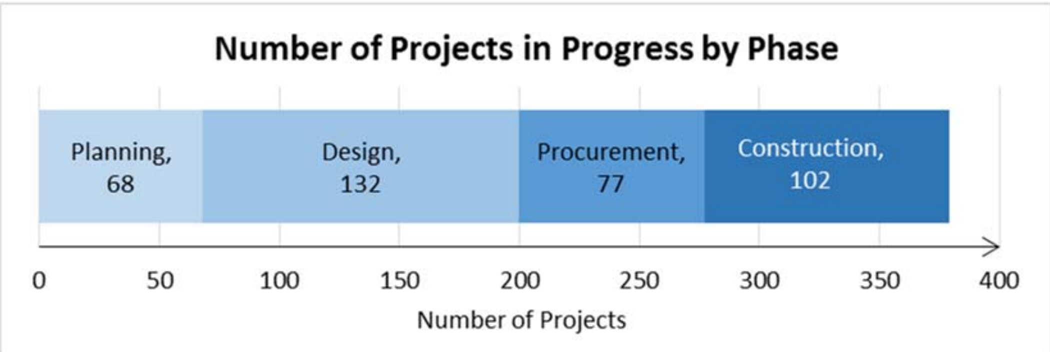
Table 7: Capital expenditure variances by program as at 30 June 2017

Capital Works Program	Forecast Budget $000	Actual $000	Actual inc Expense $000	Variance	% Variance on budget
Aerodromes	212	174	175	(37)	(17.4)
Buildings and Facilities	11,522	10,095	10,128	(1,394)	(12.1)
Coast and Canals	1,620	1,530	1,572	(49)	(3.0)
Divisional Allocations	3,548	1,597	1,107	(2,441)	(68.8)
Environmental Assets	4,971	5,048	5,065	94	1.9
Fleet	3,066	3,111	3,111	45	1.5
Holiday Parks	3,121	2,970	2,977	(144)	(4.6)
Information Technology	2,524	2,469	2,258	(266)	(10.5)
Parks and Gardens	16,647	15,689	16,089	(558)	(3.4)
Quarries	459	312	312	(147)	(31.9)
Stormwater	4,737	3,259	3,429	(1,308)	(27.6)
Strategic Land and Commercial Properties	19,157	12,786	12,793	(6,363)	(33.2)
Sunshine Coast Airport	4,726	3,259	3,585	(1,141)	(24.2)
Transportation	57,632	45,860	52,503	(5,129)	(8.9)
Waste	10,653	10,266	10,294	(359)	(3.4)
Total SCC Core Capital Program	**144,595**	**118,426**	**125,399**	**(19,195)**	**(13.3)**
Corporate Major Projects	9,542	6,416	6,416	(3,125)	(32.8)
Maroochydore City Centre	24,485	15,475	20,130	(4,355)	(17.8)
Solar Farm	34,495	32,991	33,061	(1,434)	(4.2)
Sunshine Coast Airport Runway	14,331	8,734	8,813	(5,518)	(38.5)
Total Other Capital Program	**82,852**	**63,616**	**68,420**	**(14,432)**	**(17.4)**
TOTAL	**227,447**	**182,041**	**193,819**	**(33,628)**	**(14.8)**

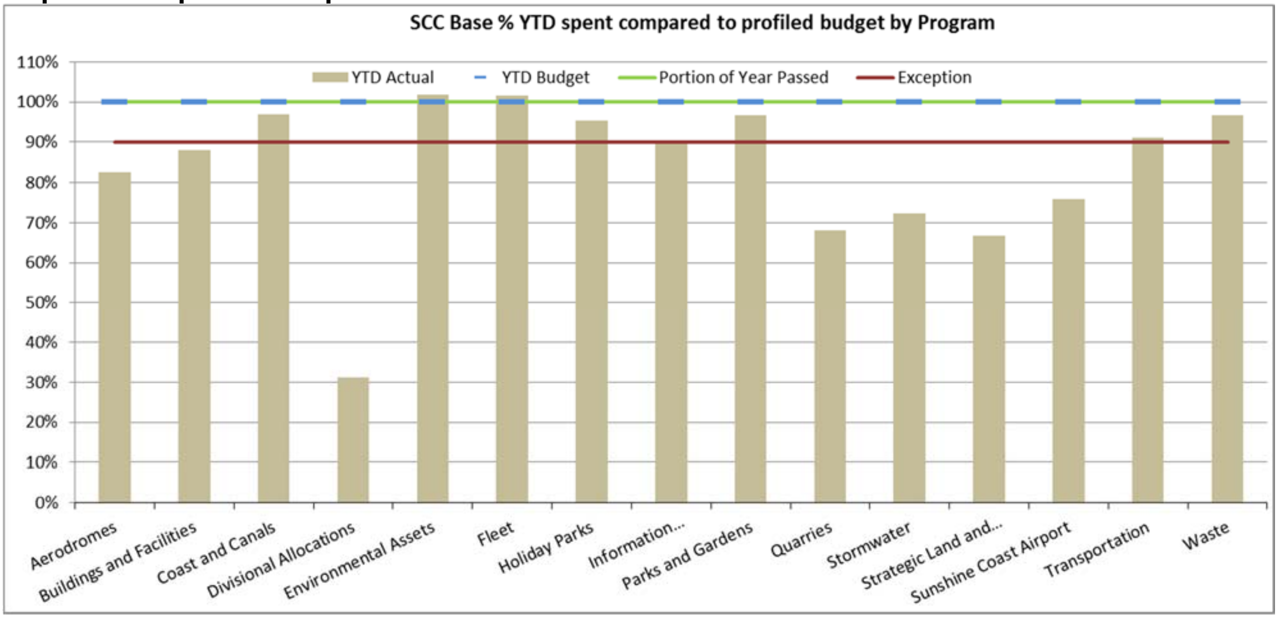
Table 8: Projects by status (SCC Base Only)

Project summary by Job status (SCC Base only)	Number of Capital Jobs	%	Current Budget $000	%
Not Started	28	2.5	683	0.5
Works in Progress	379	33.2	64,455	44.6
Complete	684	59.9	78,440	54.2
On Hold/Cancelled	50	4.4	1,017	0.7
Total	**1,141**		**144,595**	

In the final quarter, 202 jobs progressed to completed status with 379 jobs remaining in progress. The financial completion target for 2016/2017 remains within the 90% to 95% range.



Capital Exceptions Graph



The core capital program is underspent in the interim 30 June 2017 results by $19.2 million. Additional expenses are anticipated through end of year accruals as accounts are finalised for works delivered in June. A review is underway to identify necessary carry over projects for 2017/18.

The largest variance for the core program is strategic land and commercial properties at $6.4m. This is due to the difficulty in forecasting when land settlements will occur. The major expenditure for the Northern Depot site will settle in July 2017.

The Transportation program has expended 90% of the program to date, however due to the significant value of the program is currently reporting an end of year variance of $5.1 million. The larger variances are also attributable to land acquisitions associated with road widening projects.

Other programs below the exception line with significant variances are detailed below.

Buildings and Facilities

Of the $11.6 million program $10.2 million has been expended to date. Forward design projects account for most of the budget underspend and can be completed early in 2017/18 to inform delivery on future budgets.

Stormwater

The majority of the $4.7 million program has progressed through tender and is under construction or ready to commence. Projects will be identified for carry over and completed in 2017/18.

Sunshine Coast Airport

All projects have commenced with the exception of the Terminal Retail Refurbishment. Projects currently in progress will be completed by mid-August to meet contractual obligations.

Investment Performance

- All investment parameters remain within the guidelines established by the Investment Policy.
- For the month ending 30 June 2017 Council had $282 million cash (excluding Trust Fund) with an average interest rate of 2.68%, being 0.93% above benchmark. This is

compared to the same period last year with $318 million cash (excluding Trust Fund) where the average interest rate was 3.09%, being 1.06% above benchmark.

- The benchmark used to measure performance of cash funds is Bloomberg AusBond Bank Bill Index (BAUBIL) and the Bank Bill Swap Rate (BBSW) for term deposits.

Legal

This report ensures that Council complies with its legislative obligations with respect to financial reporting in accordance with Section 204 of the *Local Government Regulation 2012.*

Investment of funds is in accordance with the provisions of the *Statutory Bodies Financial Arrangements Act 1982* and the associated Regulations and the *Local Government Act 2009.*

Policy

Council's 2016/17 Investment Policy.

Risk

Failure to achieve the budgeted operating result will negatively impact Council's capacity to complete its capital expenditure program.

Previous Council Resolution

Ordinary Meeting 18 May 2017 (OM17/74)

That Council:
(a) receive and note the report titled "March 2017 Financial Performance Report"
(b) amend the 2016/17 budget to include the additional sum of $2.85 million for the Solar Farm Project
(c) amend the 2016/17 budget to include the additional sum of $970,000 for the acquisition of land and
(d) amend the 2016/17 budget to reflect gross proceeds from the sale of land of $1.2 million.

Ordinary Meeting 20 April 2017 (OM17/59)

That Council:
(a) receive and note the report titled "Budget Review 3 2016/17" and
(b) adopt the amended 2016/17 Budget Financial Statements to include the identified operating and capital budget adjustments (Appendix A).

Ordinary Meeting 8 December 2016 (OM16/221)

That Council:
(a) receive and note the report titled "Budget Review 2 2016/17"
(b) adopt the amended 2016/17 Budget Financial Statements to include the identified operating and capital budget adjustments (Appendix A) and
(c) in addition to (b), amend the 2016/17 budget to include the additional sum of $50,000 for the Maroochy Basketball Extension.

Ordinary Meeting Budget 15 September 2016 (OM16/163)

That Council:
(a) receive and note the report titled "Budget Review 1 2016/17 " and
(b) adopt the amended 2016/17 Budget Financial Statements to include the identified operating and capital budget adjustments (Appendix A).

Special Meeting Budget 16 June 2016 (SM16/16)

That Council:

(a) receive and note the report titled "Adoption of the 2016/2017 Budget and Forward Estimates for the 2017/2018 to 2025/2026 Financial Years"

(b) adopt the 2016/2017 Budget Schedules (Appendix A) including Forward Estimates and

(c) adopt the 2016/2017 Capital Works Program, endorse the indicative four-year program for the period 2017/2018 to 2020/2021, and note the five-year program for the period 2021/2022 to 2025/2026 (Appendix B).

Related Documentation

2016/17 Adopted Budget

Critical Dates

There are no critical dates for this report.

Implementation

There are no implementation details to include in this report.

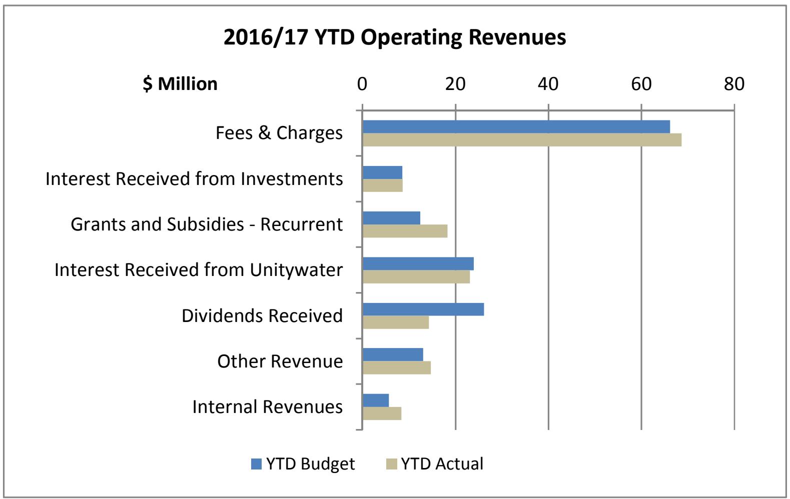
Financial Performance Report

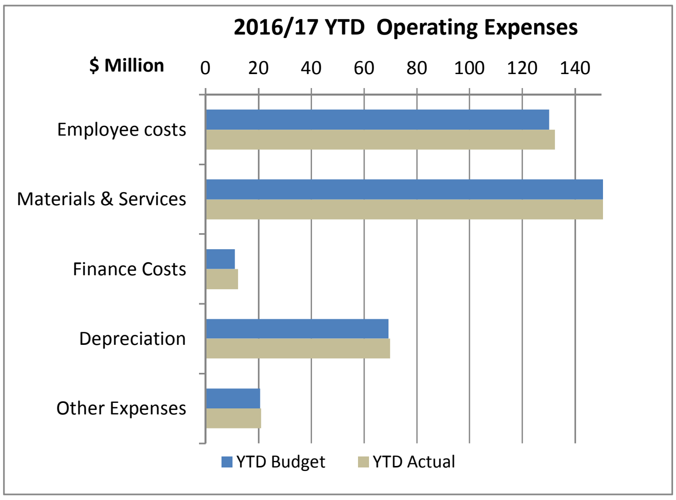
June 2017

FINANCIAL PERFORMANCE REPORT — June 2017

HEADLINE - OPERATING

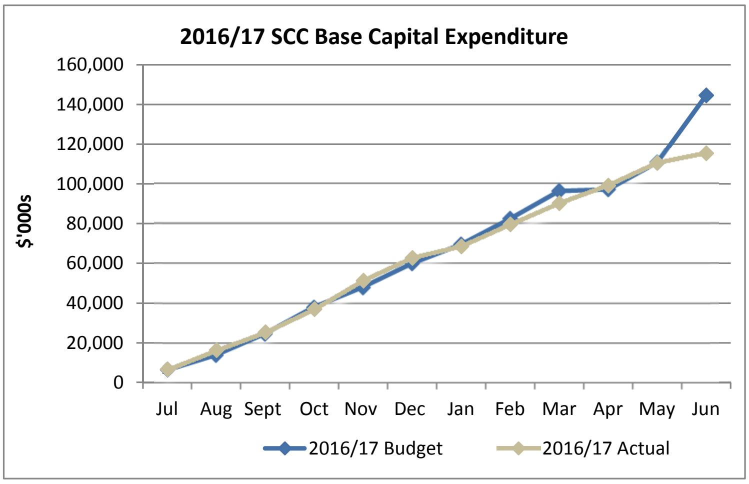
	Annual		YTD			
	Original Budget $000s	Current Budget $000s	Current Budget $000s	Actuals $000s	Variance $000s	Variance %
Operating Revenue	418,965	418,101	418,101	431,778	13,677	3.3%
Operating Expenses	388,041	395,282	395,282	401,658	6,376	1.6%
Operating Result	**30,924**	**22,819**	**22,819**	**30,120**	**7,301**	32.0%
NET Result	**125,449**	**150,816**	**150,816**	**203,860**	**53,044**	35.2%

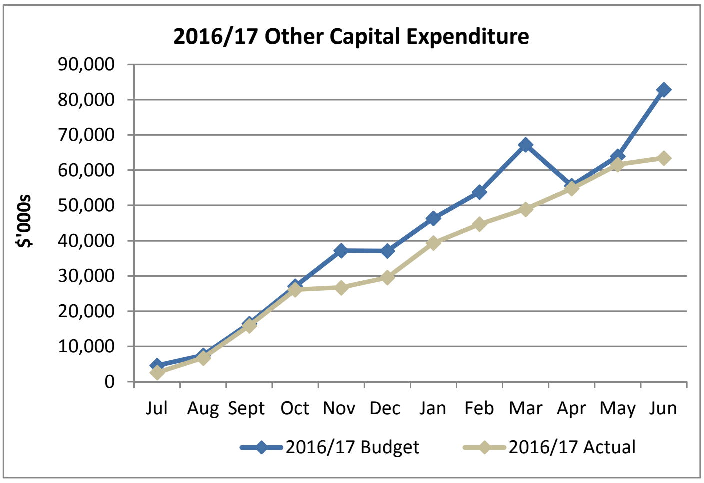




HEADLINE - CAPITAL

	Annual		YTD			
	Original Budget $000s	Current Budget $000s	Current Budget $000s	Actuals $000s	Variance $000s	Variance %
Capital Revenue	94,525	127,996	127,996	182,998	(55,001)	
Other Capital Revenues	68,920	69,233	69,233	74,686	(5,454)	
Total Capital Revenues	**163,445**	**197,229**	**197,229**	**257,684**	**(60,455)**	
Capital Works Expenditure	252,677	227,447	227,447	182,041	45,405	(19.96%)
Other Capital Expenditure	60,000	80,000	80,000	152,881	(72,881)	
Total Capital Expenditure	**312,677**	**307,447**	**307,447**	**334,922**	**(27,475)**	
Funds from General Reserve	**149,232**	**110,218**	**110,218**	**77,238**	**32,980**	

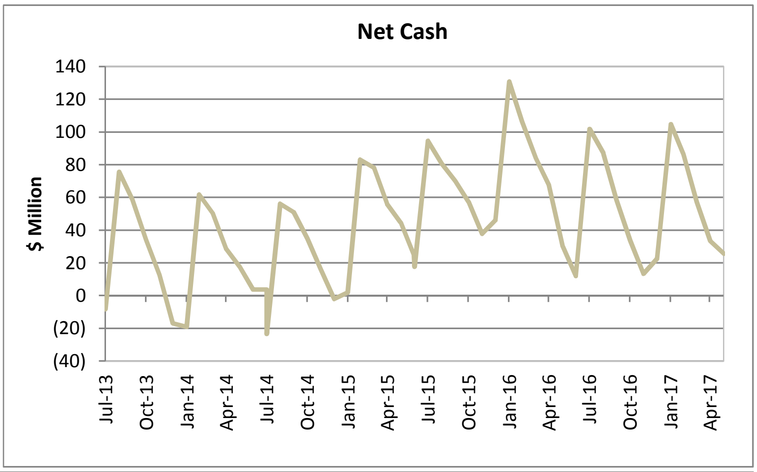


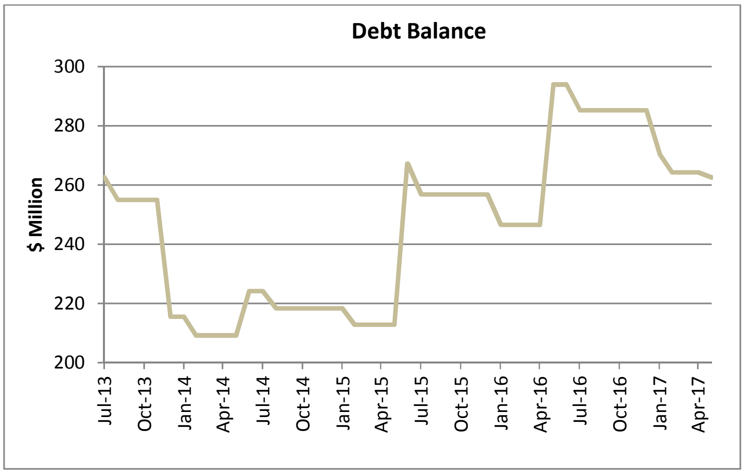


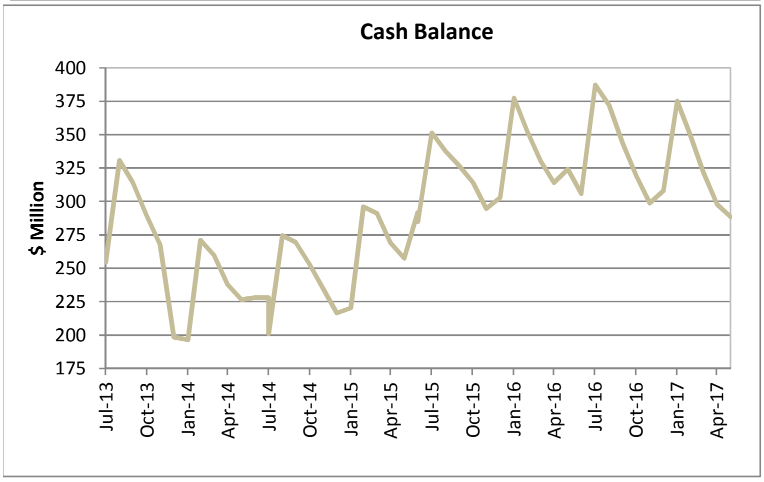
FINANCIAL PERFORMANCE REPORT — June 2017

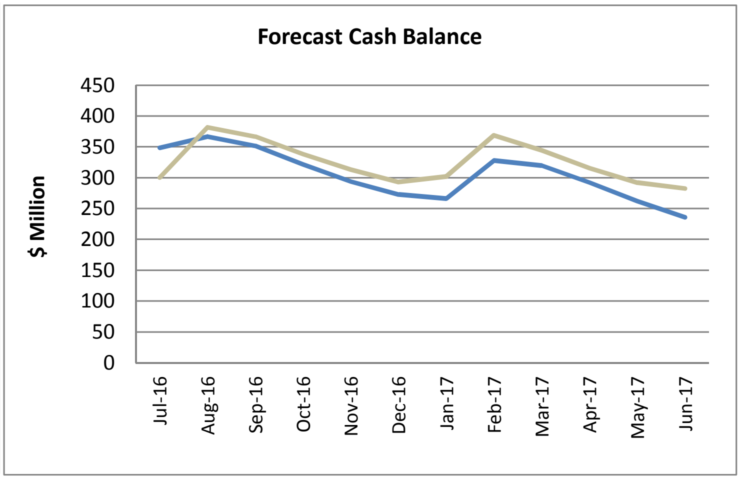
HEADLINE - CASH AND BALANCE SHEET

	Annual		YTD		
	Original Budget $000s	Current Budget $000s	Actuals $000s	Forecast Budget $000s	Variance $000s
CASH FLOWS					
Opening Cash	295,509	318,565	318,565	318,565	0
Net Cash Inflow/(Outflows) from:					
Operating Activities	90,790	85,719	108,797	85,719	23,078
Investing Activities	(212,119)	(170,993)	(126,492)	(170,993)	44,500
Financing Activities	44,869	44,867	(18,769)	44,867	(63,636)
Net Increase/(decrease) in Cash Held	**(76,460)**	**(40,407)**	**(36,465)**	**(40,407)**	**3,942**
Cash at year end	**219,049**	**278,158**	**282,100**	**278,158**	**3,942**
BALANCE SHEET					
Current Assets	275,784	337,016	321,134		
Non Current Assets	5,119,828	4,979,477	4,885,090		
Total Assets	**5,395,612**	**5,316,493**	**5,206,224**		
Current Liabilities	100,614	103,095	73,420		
Non Current Liabilities	344,682	353,382	306,800		
Total Liabilities	**445,296**	**456,476**	**380,220**		
Net Community Assets/ Total Community Equity	**4,950,316**	**4,860,017**	**4,826,004**		





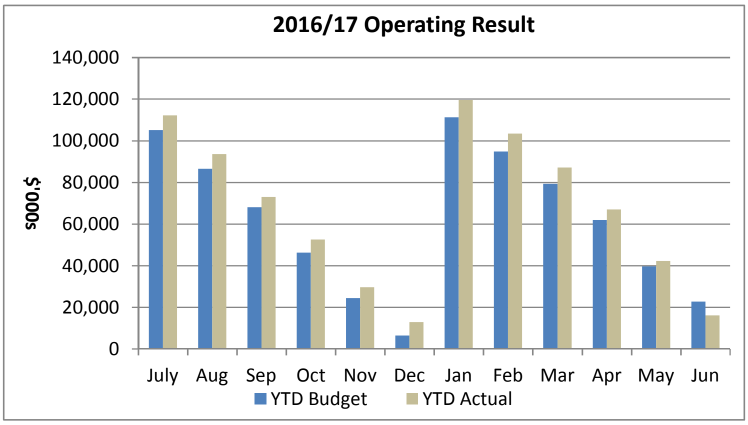


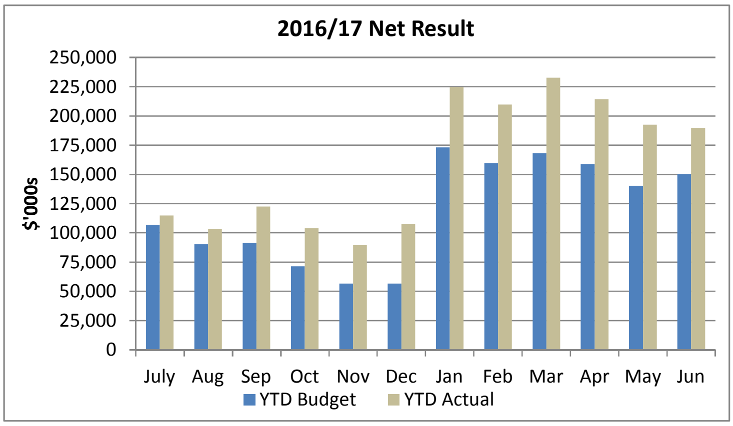


FINANCIAL PERFORMANCE REPORT — June 2017

STATEMENT OF INCOME & EXPENSES

	Annual		YTD				Annual
	Original Budget $000s	Current Budget $000s	Current Budget $000s	Actuals $000s	Variance $000s	Variance %	Forecast Budget $000s
Operating Revenue							
Net Rates and Utility Charges	259,339	260,948	260,948	261,693	745	0.3%	260,948
Fees and Charges	62,787	66,166	66,166	68,663	2,498	3.8%	66,166
Interest Received from Investments	8,603	8,603	8,603	8,665	63	0.7%	8,603
Operating Grants and Subsidies	12,077	12,418	12,418	18,282	5,864	47.2%	12,418
Operating Contributions	706	1,077	1,077	1,478	402	37.3%	1,077
Interest Received from Unity Water	23,933	23,933	23,933	23,154	(779)	(3.3%)	23,933
Dividends Received	26,162	26,162	26,162	26,745	583	2.2%	26,162
Other Revenue	19,189	13,086	13,086	14,684	1,598	12.2%	13,086
Internal Sales/Recoveries	6,170	5,710	5,710	8,413	2,703	47.3%	5,710
Community Service Obligations	0	0	0	0	(0)	0.0%	0
Total Operating Revenue	**418,965**	**418,101**	**418,101**	**431,778**	**13,677**	3.3%	**418,101**
Operating Expenses							
Employee Costs	128,393	130,066	130,066	131,869	1,803	1.4%	130,066
Materials and Services	161,701	162,794	162,794	164,021	1,226	0.8%	162,794
Internal Materials and Services	0	0	0	0	0	0.0%	0
Finance Costs	9,684	11,084	11,084	12,320	1,236	11.2%	11,084
Company Contributions	1,421	1,400	1,400	1,400	0	0.0%	1,400
Depreciation Expense	68,920	69,233	69,233	71,090	1,858	2.7%	69,233
Other Expenses	17,924	20,706	20,706	20,958	252	1.2%	20,706
Competitive Neutrality Adjustments	(0)	(0)	(0)	0	0	0.0%	(0)
Total Operating Expenses	**388,041**	**395,282**	**395,282**	**401,658**	**6,376**	1.6%	**395,282**
Operating Result	**30,924**	**22,819**	**22,819**	**30,120**	**7,301**	**32.0%**	**22,819**
Non-recurrent Revenue and Expenses							
Capital Grants and Subsidies	12,525	20,996	20,996	16,576	(4,420)	(21.1%)	19,487
Capital Contributions - Cash	22,000	27,000	27,000	30,064	3,064	11.3%	27,979
Capital Contributions - Fixed Assets	60,000	80,000	80,000	136,358	56,358	70.4%	80,000
Profit/Loss on Disposal of Assets	0	0	0	(595)	(595)	0.0%	0
Total Capital Revenue	**94,525**	**127,996**	**127,996**	**182,403**	**54,407**	42.5%	**127,466**
Assets Transferred to Third Parties	0	0	0	8,663	8,663	0.0%	0
Total Non-recurrent Expenses	**0**	**0**	**0**	**8,663**	**8,663**	0.0%	**0**
Net Result	**125,449**	**150,816**	**150,816**	**203,860**	**53,044**	**35.2%**	**150,285**

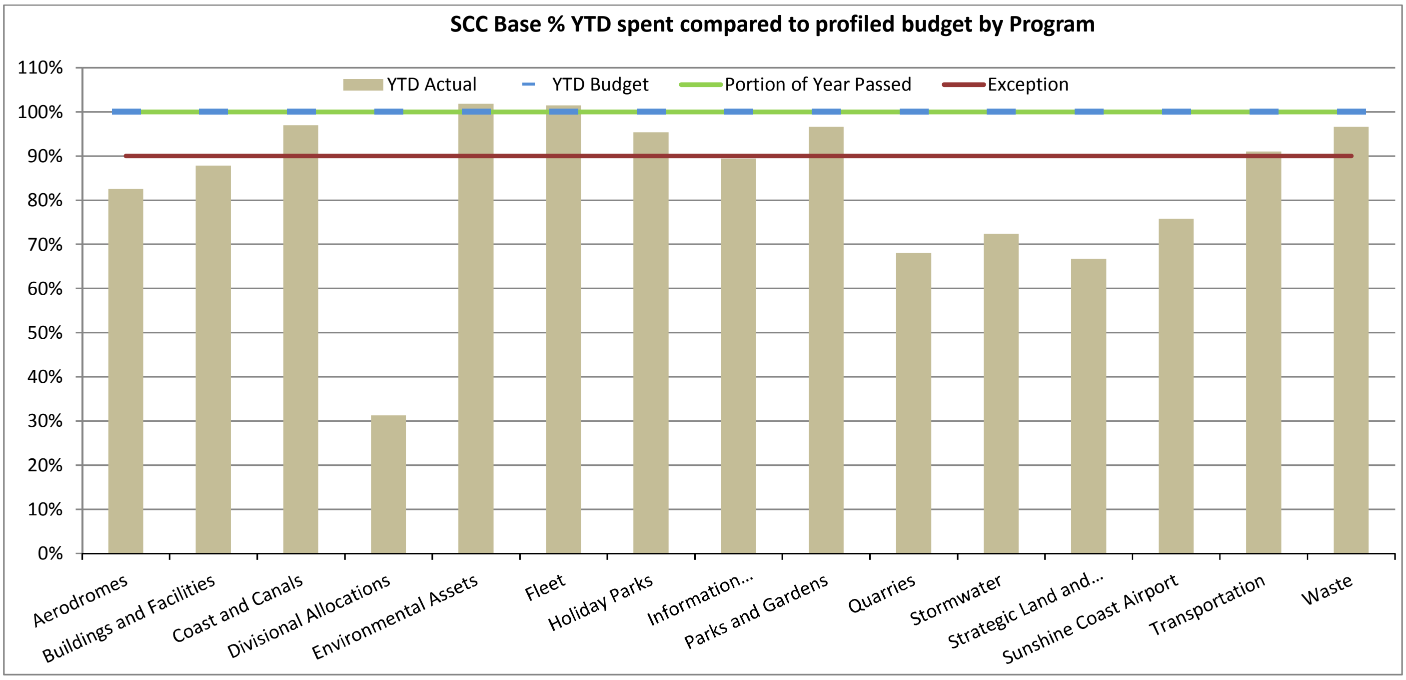




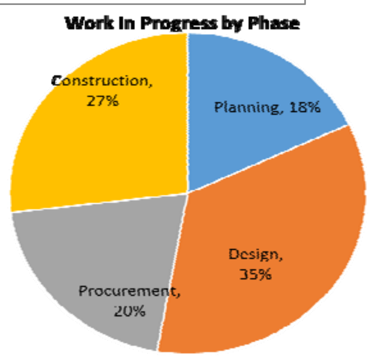
FINANCIAL PERFORMANCE REPORT — June 2017

CAPITAL EXPENDITURE

Capital Works Program	Annual: Original Budget $000s	Annual: Current Budget $000s	YTD: Budget $000s	YTD: Actuals $000s	YTD: Variance on YTD budget	% of FY budget spent	YTD Variance $000s
Aerodromes	175	212	212	174	-17.7%	82.3%	(38)
Buildings and Facilities	9,156	11,522	11,522	10,095	-12.4%	87.6%	(1,427)
Coast and Canals	1,220	1,620	1,620	1,530	-5.6%	94.4%	(91)
Divisional Allocations	4,424	3,548	3,548	1,597	-55.0%	45.0%	(1,951)
Environmental Assets	4,837	4,971	4,971	5,048	1.5%	101.5%	77
Fleet	3,000	3,066	3,066	3,111	1.5%	101.5%	45
Holiday Parks	2,254	3,121	3,121	2,970	-4.8%	95.2%	(151)
Information Technology	2,827	2,524	2,524	2,469	-2.1%	97.9%	(54)
Parks and Gardens	12,814	16,647	16,647	15,689	-5.8%	94.2%	(958)
Quarries	580	459	459	312	-31.9%	68.1%	(147)
Stormwater	4,697	4,737	4,737	3,259	-31.2%	68.8%	(1,478)
Strategic Land and Commercial Properties	5,431	19,157	19,157	12,786	-33.3%	66.7%	(6,370)
Sunshine Coast Airport	3,198	4,726	4,726	3,259	-31.0%	69.0%	(1,467)
Transportation	54,179	57,632	57,632	45,860	-20.4%	79.6%	(11,772)
Waste	12,793	10,653	10,653	10,266	-3.6%	96.4%	(387)
Total SCC Base Capital Program	**121,584**	**144,595**	**144,595**	**118,426**	**-18.1%**	**81.9%**	**(26,169)**
Corporate Major Projects	21,271	9,542	9,542	6,416	-32.8%	67.2%	(3,125)
Maroochydore City Centre	53,083	24,485	24,485	15,475	-36.8%	63.2%	(9,010)
Solar Farm	30,915	34,495	34,495	32,991	-4.4%	95.6%	(1,504)
Sunshine Coast Airport Runway	25,825	14,331	14,331	8,734	-39.1%	60.9%	(5,597)
Total Region Making Capital Program	**131,093**	**82,852**	**82,852**	**63,616**	**-23.2%**	**76.8%**	**(19,237)**
TOTAL	**252,677**	**227,447**	**227,447**	**182,041**	-20.0%	**80.0%**	**(45,405)**



Project summary by Job status (SCC Base only)	Number of Capital Jobs	%	Current Budget $000	%
Not Started	28	2.5	683	0.5
Works in Progress	379	33.2	64,455	44.6
Complete	684	59.9	78,440	54.2
On Hold	50	4.4	1,017	0.7
Total	**1,141**		**144,595**	



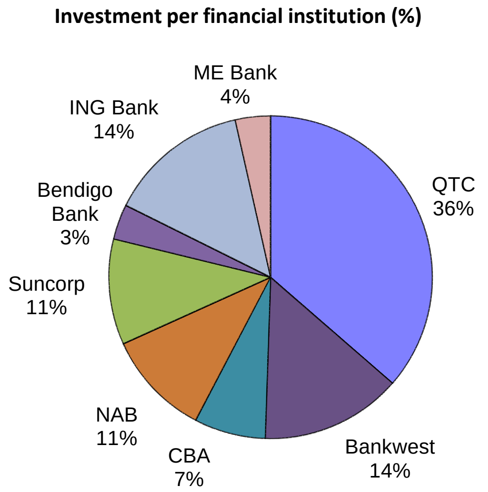
INVESTMENT PERFORMANCE

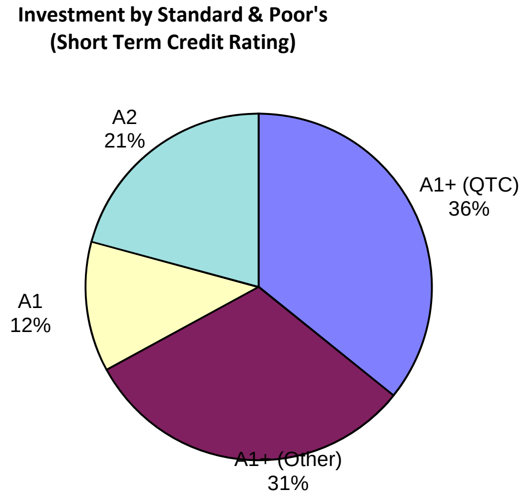
Liquidity as at:		30/06/2017
		$'000's
At-call accounts		
QTC + CBA (excl. trust)	$117,316	40.67%
Maturities within 7 days	$10,000	3.47%
Total at-call	**$127,316**	**44.13%**
Investment Policy Target		10.00%

Term deposits maturing:	$'000's	Count
within 30 days	$60,000	6
30-59 days	$20,000	2
60-89 days	$25,000	2
90-179 days	$50,000	5
180-364 days	$10,000	1
1 year - 3 years	$0	0
Total	**$165,000**	**16**

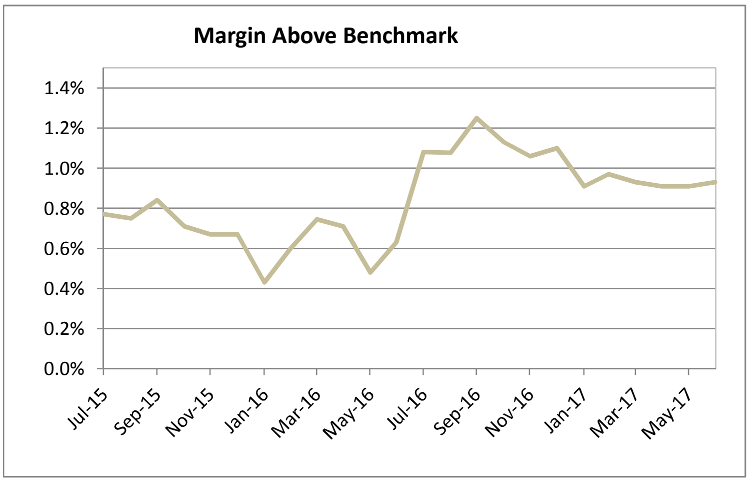
INVESTMENT SUMMARY (including Trust) as at:	30/06/2017		31/03/2017		30/06/2016		Investment Policy Individual Limit	Investment Policy Group Limits
A1+ (QTC)	$103,235	35.8%	$118,575	33.8%	$107,698	33.3%	100%	100%
A1+ (Other)	$90,255	31.3%	$117,672	33.5%	$91,162	28.1%	35%	100%
A1	$35,000	12.1%	$45,000	12.8%	$70,000	21.6%	30%	40%
A2	$60,000	20.8%	$70,000	19.9%	$55,000	17.0%	15%	35%
A3	$0	0.0%	$0	0.0%	$0	0.0%	5%	10%
Total Funds	**$288,490**		**$351,246**		**$323,860**			
FUND SUMMARY								
General Funds	$282,316		$344,849		$318,058			
Trust Funds	$6,174		$6,397		$5,802			
Total Funds	**$288,490**		**$351,246**		**$323,860**			

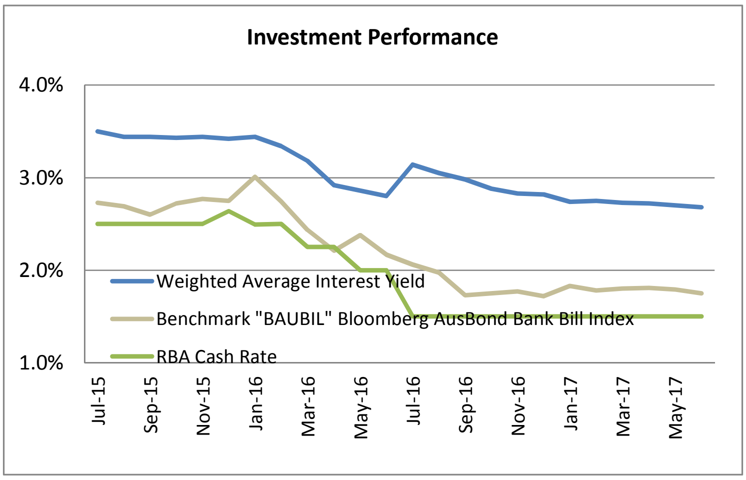
Investment Portfolio





Investment Performance





BRIEFING PAPER
Non-Recurrent Third Party Expenses

Purpose

To document the reasons and support for separately disclosing “one off” third party expenses in Council’s audited financial statements commencing with the 2016/17 financial statements.

Definition: Third Party Expenses are expenses incurred on assets which are controlled by another entity eg service relocations for Telstra.

Background

Council’s Accounting Manual contains policies and procedures that provide direction and guidance regarding financial transactions. The documents are regularly reviewed to ensure currency with changes in accounting standards and Council practice.

The Asset Accounting Policy, contained within the Accounting Manual is required to be updated as per Council’s external auditors, Queensland Audit Office (QAO).

This paper outlines the proposal to be included in the updated Asset Accounting Policy – ie to separately disclose “one-off” third party expenses in Council’s financial statements.

Introduction

During asset construction, Council may incur expenses that need to be considered whether they meet the test for capitalisation under the Australian Accounting Standards. This paper particularly focusses on third party expenses eg relocation of services such as

- Energex
- Telstra
- Unitywater

Expenses that don’t meet the test for capitalisation under the Australian Accounting Standards include:-

- Signage
- Landscaping
- Painting, carpet
- Street trees
- Advertising and promotion

There is no proposed change to Council’s financial statement disclosure of the expenses that do not meet the test for capitalisation.

Historically, all of the above types of expenses have been identified and recognised as operating (recurrent) expenses. This is one approach outlined in the Queensland

Government Policy - *Queensland Treasury and Trade: Non-Current Asset Policies for the Queensland Public Sector. NCAP 1 – Recognition of Assets.*

The annual portion of the capital program expensed in this manner since 2009/10 has ranged between 2% and 7%. During the 8 year period, Council has completed over 3,700 capital projects with 99 of those projects containing recurrent expenses of between $100,000 and $250,000, and 32 projects containing recurrent expenses of more than $250,000.

For the 2016/17 financial year, due to Council's major capital program, the amount of expenses relating to relocation of services was significant enough to have a material impact on Council's operating result ($8.7 million in 2016/17 compared to $0.2 million in the previous year), prompting investigation into the most transparent method of disclosing these costs for users of the financial statements.

As per *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors* (*para 14) "an entity shall change an accounting policy only if the change … results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows."*

The Queensland Treasury and Trade: Non-Current Asset Policies for the Queensland Public Sector. NCAP 1 – Recognition of Assets provides that:-

*In the course of constructing assets, particularly infrastructure assets, it may be necessary for an agency (ie Council) to relocate or replace assets belonging to another entity, eg removing and replacing pipes, relocating trees, relocating power lines, etc. Such expenses may actually relate to assets which are controlled by another entity (ie a **third party**).*

(Queensland Treasury and Trade: Non-Current Asset Policies for the Queensland Public Sector. NCAP 1 – Recognition of Assets)

Council typically incurs the following types of third party expenses:-

1. Expenses that are directly attributable to bringing Council's asset to the location and condition necessary for its intended operation; expenses that would be incurred again if the asset was replaced. For example the Solar Farm Energex sub-station, required for the Solar Farm to become operational.

These expenses are appropriate to be capitalised as per *AASB 116 Property, Plant and Equipment paragraph 16(b).*

2. Expenses that are associated with bringing Council's asset to the location and condition necessary for its intended operation; expenses that would not be incurred again if the asset was replaced ie "**one-off" third party expenses**. For example Evans Street service relocations, that only need to occur once.

These expenses can be treated in one of two ways (detailed in the Proposal section of this paper.)

Prior to 2016/17, the amount of "one-off" third party expenses incurred by Council has not been material, however a significant increase in these types of expenses has occurred in this year.

Proposal

The Department of Infrastructure, Local Government and Planning – Tropical Council, Illustrative Financial Statements for the year ended 30 June 2017 provides the following guidance:-

Distinction between capital and recurrent

The Statement of Comprehensive Income includes separate categories for capital and recurrent income and expenses. The concept of recurrent (or operating) versus capital has been used by many councils in the Queensland local government sector in the past. However it is not required by local government legislation or Australian Accounting Standards.

A separation between capital and recurrent revenue and expenditure is suggested to assist in calculating the operating surplus ratio as described in the Financial Management (Sustainability) Guideline 2013. The Financial Management (Sustainability) Guideline is published by the Department of Infrastructure, Local Government and Planning.

(Department of Infrastructure, Local Government and Planning – Tropical Council, Illustrative Financial Statements for the year ended 30 June 2017)

The Queensland Treasury and Trade: Non-Current Asset Policies for the Queensland Public Sector. NCAP 1 – Recognition of Assets provides the following options for recognising "one-off" third party expenses.

(a) *Include initially in work in progress (WIP), and subsequently expense as a capital grant* (non-recurrent expense).

This option would generally apply when the other entity will become responsible for the ongoing operation and/or maintenance of the item (particularly where the item resulting from these costs is situated on land controlled by that other entity).

(b) *Expense, classified according to nature of costs.*

This is the most conservative approach.

To date Council has recognised "one-off" third party expenses in line with NCAP option (b) above. This means the expenses have been included in Recurrent or Operating expenses in Council's Statement of Comprehensive Income. Recurrent (Operating) expenses impact the Operating Result.

By adopting NCAP option (a) above, "one-off" third party expenses would be included in Capital or Non-Recurrent expenses in Council's Statement of Comprehensive Income. Capital (Non-Recurrent) expenses do not impact the Operating Result.

Therefore a change to disclosing "one-off" third party expenses as a non-recurrent expense provides a clearer picture for users of financial statements as these expenses do not form part of the general operations of Council.

Council is required to provide its external auditors, Queensland Audit Office (QAO), with a Current Year Financial Sustainability Statement (including the operating surplus ratio), as part of the annual financial statements*. (Refer to Queensland Audit Office – External audit plan for the year ended 30 June 2017).*

QAO have identified the Current Year Financial Sustainability Statement as an "area of audit significance". The ratios within the Statements are audited and included in the Auditor General's annual report to parliament.

Current Year Financial Sustainability reporting is a specific requirement for Queensland local governments.

(Queensland Audit Office – External audit plan for the year ended 30 June 2017).

<u>Sunshine Coast Council – financial statement disclosure</u>

By adopting NCAP option (a), “one-off” third party costs will be more transparent to the users of Council’s financial statements.

<u>Extract from Statement of Comprehensive Income</u>

Expenses	
Recurrent expenses	
	Employee benefits
	Materials and services
	Finance costs
	Depreciation and amortisation
	Contributions to controlled entities
	Total recurrent expenses
Capital expenses	
	Loss on disposal property, plant and equipment
	Discount rate adjustment to landfill restoration provision
	Assets transferred to third parties
	Total Capital expenses

Current practice – NCAP Option (b)

Proposal – NCAP Option (a)

Under the previous policy (NCAP option (b)) of including these expenses in “Recurrent expenses”, “one-off” third party expenses were included within the “Employee benefits” and “Materials and services” categories ie classified according to nature of costs.

Under the proposed policy (NCAP option (a)) of separately disclosing these expenses, there would be a line in Council’s Statement of Comprehensive Income showing the amount spent on “one-off” third party expenses, as well as more detailed disclosure within the Notes to the Financial Statements.

Recommendation

Commencing 2016/17, separately disclose “one-off” third party expenses in Council’s financial statements as a non-recurrent expense in line with the Queensland Government Policy - *Queensland Treasury and Trade: Non-Current Asset Policies for the Queensland Public Sector. NCAP 1 – Recognition of Assets.*

Critical Dates

Queensland Audit Office requires:-

- Audit committee review of Draft 2016/17 financial statementws on 4 September 2017
- Council’s 2016/17 financial statements (final work papers) to be available by 11 September 2017

- Audit committee clearance of financial statements and current year financial sustainability statement by 9 October 2017
- Council certification of financial statements and current year financial sustainability statement by 10 October 2017

Implementation

Implementation steps are as follows:-

- A new expense natural account has been created to capture "one-off" third party expenses and transactions have been transferred as appropriate.
- Council's external financial statements have been amended as illustrated above.
- Council's internal Financial Performance Report has been amended to separately disclose these expenses.
- Council's Asset Accounting Policy will be updated.
- Education and change management will be provided to stakeholders.

References

- Queensland Treasury and Trade: Non-Current Asset Policies for the Queensland Public Sector. NCAP 1 – Recognition of Assets
- Department of Infrastructure, Local Government and Planning – Tropical Council, Illustrative Financial Statements for the year ended 30 June 2017
- Financial Management (Sustainability) Guideline 2013
- Queensland Audit Office – External audit plan for the year ended 30 June 2017
- Queensland Audit Office – Local government entities: 2015-16 results of financial audits
- Sunshine Coast Council – Accounting Manual – Asset Accounting Policy
- Australian Accounting Standards
    - AASB 116 Property, Plant and Equipment
    - AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors
    - AASB 101 Presentation of Financial Statements
    - AASB 136 Impairment of Assets
    - AASB 13 Fair Value Measurement

Current as at August 2017

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Sunshine Coast COUNCIL

Organisational policy		
Non-Current Asset Accounting Policy (DRAFT)		
Corporate Plan reference	5. A public sector leader 5.2 A Financially sustainable organisation 5.2.2 Ensure Council's finances are well managed and systems are in place to analyse performance, generate revenue, reduce costs and manage contracts.	
Endorsed by Chief Executive Officer	<Insert signature>	<Insert date>
Manager responsible for policy	Manager Finance, Corporate Services Department	

Policy purpose

The purpose of this document is to define an accounting policy framework for effective financial recognition, valuation and reporting of both physical and intangible non-current assets controlled by Sunshine Coast Regional Council (Council). This policy also forms part of Council's Accounting Manual.

Policy outcome

The aim of the document is to ensure compliance with current legislation and Australian accounting standards, as well as alignment with Council's Asset Management Policy.

Council's desired policy outcome is to ensure effective internal and external reporting, and inform future planning for asset sustainability.

Policy scope

This policy will apply to all branches and business activities of Sunshine Coast Regional Council, as well as Council's controlled entities where assets are owned and/or controlled. The policy is continually updated to reflect changes in Australian accounting standards and Council practice. A full review is conducted annually by the Asset Accounting and Asset Management & Capital Planning Teams.

Policy statement

Sunshine Coast Regional Council is committed to compliance with laws, regulations and accounting standards, as well as open and transparent reporting of property, plant and equipment, intangibles and assets held for sale in Council's Statements of Financial Position.

The aim of this policy is to give clear direction and ensure accurate financial records of Council's non-current assets. The information contained in the financial asset register informs components of the Long-Term Financial Model as required by the *Local Government Regulation 2012*.

Key Guiding principles

Council's annual financial statements are prepared in accordance with *The Local Government Act 2009* and the *Local Government Regulation 2012.* Consequently the financial statements are prepared in accordance with all Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements issued by the Australian Accounting Standards Board.

This ensures open and transparent reporting of Council's financial position, and that users of Council's financial statements have sufficient information to assess Council's management of the funds entrusted to it.

The Non-Current Asset Accounting Policy's guiding principles incorporate supporting guidelines that inform the information disclosed in the Statements of Financial Position.

The Australian Accounting Standards Board *Framework for the Preparation and Presentation of Financial Statements* (the Framework) defines an asset as:-

"… a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity."

This policy covers both physical and intangible assets.

<u>Physical assets</u> are defined in *AASB 116 Property, Plant and Equipment* as "*tangible items that:*

a) *Are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes; and*

b) *Are expected to be used during more than one period."*

<u>An Intangible asset</u> is defined in *AASB 138 Intangible Assets* as "*an identifiable non-monetary asset without physical substance*."

Non-Current Asset Recognition

Non-current assets will be recognised by Council when all of the following criteria are satisfied:

a) Council has control over the asset;

b) The asset has resulted from a past event;

c) Future economic benefits embodied in the asset are expected to flow to Council;

d) The asset is expected to be in use for more than one period (12 months);

e) The cost or fair value can be reliably measured; and

f) The cost or fair value of the asset exceeds Council's asset recognition threshold.

Any non-current assets that do not meet the above recognition criteria will be expensed to the Statements of Comprehensive Income in the period in which the cost is incurred.

(Refer to Guideline 1: *Non-Current Asset Recognition)*

Non-Current Asset Classes

Where assets meet the recognition criteria, they are grouped into asset classes containing assets of a similar nature and use in Council's operations.[1]. This is the lowest level of non-current asset information reported in Council's financial statements. Council reports non-current assets in the following classes:-

- Land
- Buildings
- Other Infrastructure
- Plant & Equipment – General
- Plant & Equipment – Fleet
- Road Network
- Stormwater Network
- Other Parks
- Intangibles

[1] AASB 116.37

Non-Current Asset Thresholds (Capitalisation thresholds)

Thresholds to be applied on initial recognition (capitalisation) of an asset are as follows:-

Asset Class	Threshold
Land	$1*
Buildings	$5,000
Other Infrastructure	$5,000
Plant & Equipment (General and Fleet)	$5,000
Network Assets • Road Network • Stormwater Network • Other Parks	No threshold
Intangibles	$5,000

***** *Land parcels that have no market value and possess limited or negligible service potential. Due to materiality these minor land parcels are recorded in Council's financial asset register at nominal value. Refer to **Appendix B** for details of land portfolio assets held at nominal value.* (Refer to Guideline 1: *Non-Current Asset Recognition)*

Thresholds to be applied at revaluation of an asset are as follows:-

Asset Class	Threshold
Land	$1*
Buildings	$20,000
Other Infrastructure	$10,000
Plant and Equipment - General (Major Plant)	$1,000,000
Plant and Equipment - Fleet	Not revalued
Network Assets • Road Network • Stormwater Network • Other Parks	No threshold
Intangibles	Not revalued

***** *Land parcels held at nominal value are not revalued*

(Refer to Guideline 3: *Non-Current Asset Revaluation)*

Non-Current Asset Value Measurement

Non-current assets that meet the asset recognition criteria for Council, are initially recognised at cost (entry price). Cost is determined as the fair value of the assets given as consideration plus costs directly related to the acquisition and incurred in preparing the asset for use as intended. Subsequently, each asset class is stated at fair value or cost, less where applicable, any accumulated depreciation or accumulated impairment loss.

Where an asset is acquired at no cost (e.g. developer contributions, donated by the community), the asset is recognised at fair value at the date of acquisition.[2]

Where an asset is discovered, the asset is recorded at fair value at the date of recognition.

For subsequent years after initial recognition, each asset class shall be measured using the following measurement model to reflect the exit price:

Asset Class	Measurement Model
Land	Revaluation Model
Buildings	Revaluation Model
Other Infrastructure	Revaluation Model
Plant and Equipment - General	Cost Model (except for Major Plant)
Plant and Equipment - Fleet	Cost Model
Road Network	Revaluation Model
Stormwater Network	Revaluation Model
Other Parks	Revaluation Model
Intangibles	Cost Model

Non-Current Asset Depreciation and Amortisation

Depreciation and amortisation of non-current assets is calculated on a straight-line basis at asset component level over its estimated useful life.

[2] AASB 116.15

Land and road formation/earthworks are not depreciated as they are judged to have unlimited useful life.

Assets are depreciated/amortised from the date of acquisition, recognition, or in respect of internally constructed assets, from the time an asset is completed and commissioned ready for use.

(Refer to Guideline 2: *Non-Current Asset Depreciation and Amortisation)*

Non-Current Asset Revaluations and Fair Value Measurement

All non-current asset classes subject to revaluation are revalued at fair value.

The gross revaluation method is to be applied to all assets valued at current replacement cost, whereby any accumulated depreciation at the date of revaluation is restated with the change in the asset's gross replacement cost.

The net revaluation method is to be applied to all assets valued at current market value, whereby the accumulated depreciation is eliminated against the gross replacement cost of the asset.

For asset classes subsequently measured under the revaluation model, the following valuation techniques, in accordance with *AASB 13 Fair Value Measurement*, are used:

Asset Class	Valuation Technique
Land	Current market value and exit price methodology
Buildings	Current market value (where a market exists) or current replacement cost
Other Infrastructure	Current replacement cost
Plant and Equipment – Major Plant Only	Current market value
Road Network	Current replacement cost
Stormwater Network	Current replacement cost
Other Parks	Current replacement cost

Comprehensive valuations of applicable asset classes are to be undertaken every three to five years. Council is now transitioning to conducting comprehensive valuations of infrastructure assets on a rolling basis, whereby a representative 20% of the asset base for each asset class is revalued every year. In the interim periods, the movement to the unit rates from the 20% assessed will be applied to the remaining 80%. Refer Appendix A for Revaluation Schedule.

No revaluation process is to be applied to assets recognised at initial cost in the current reporting period.

An interim revaluation using indices developed via a desktop approach is to be undertaken annually for asset classes whenever there has been a material movement in current replacement cost (or market value, where applicable) since the last comprehensive revaluation.

Non-Current Asset Impairment

Non-current assets in an asset class not subject to revaluation, with a carrying amount greater than $250,000 in the financial asset register, are to be reviewed for impairment annually. Any amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

(Refer to Guideline 4: *Non-Current Asset Impairment*)

Non-Current Asset Annual Review

In each annual financial statement reporting period, the non-current assets contained in the financial asset register are subject to review by the relevant asset managers to ensure that they are representative of current conditions and expectations.

This review assesses depreciation and amortisation methods, estimated useful lives and remaining lives (asset condition is used to assess remaining useful life, where appropriate). The assets are adjusted where necessary to reflect any changes in the pattern of consumption, physical wear and tear, technical or commercial obsolescence, or management intentions.

Non-Current Asset De-recognition

All non-current assets are to be derecognised from the financial asset register when an asset is no longer controlled by Council and/or future economic benefits derived from the asset cease.

De-recognition will occur when:

- The asset is disposed, destroyed, or abandoned with no future economic benefit expected to be generated from its use;
- The asset is sold or traded;
- The asset is lost or stolen; or
- Control of the asset is transferred to another entity.

(Refer to Guideline 5: *Non-Current Asset Derecognition*)

Non-Current Asset Capitalisation

Expenditure relating to assets must be either capitalised as part of the value of the asset, or expensed through the Statements of Comprehensive Income.

Costs Capitalised as part of the Value of the Asset

Expenditure will be classified as non-current capital work-in-progress (WIP) where costs:

a) are incurred for the acquisition or construction of a new and separately identifiable asset;

b) extend the asset's useful life;

c) improve the asset's revenue earning capacity, service potential or future economic benefits;

d) add attributes that were not previously part of the asset; and

e) result in the total asset cost exceeding the asset recognition threshold for that type of asset.

The above expenditure can include employee costs (including appropriate oncosts) arising directly from the construction or acquisition of an item of Property, Plant and Equipment. The application of standard costing will be considered with the implementation of the new asset management system.

Third Party Costs

Third Party Costs are those incurred on assets which are controlled by another entity eg service relocations for a communications provider. These costs are treated one of two ways depending on the following:-

1. **Capitalised as part of the value of the asset**: Expenses that are <u>directly attributable</u> to bringing Council's asset to the location and condition necessary for its intended operation; expenses that <u>would be incurred again</u> if the asset was replaced.
2. **Expensed as non-recurrent expenses in Council's Statements of Comprehensive Income**: Expenses that are <u>associated</u> with bringing Council's asset to the location and condition necessary for its intended operation; expenses that <u>would not be incurred</u> again if the asset was replaced.

Operational Expenditure (recurrent)

Expenditure will be classified as operational where it is identified as[3]:

a) Costs not directly attributable as an element of cost
b) Administration and other general overheads
c) Asset cost is under the asset recognition threshold

Operational expenditure is included in Recurrent Expenditure in Council's Statements of Comprehensive Income.

Maintenance Expenditure (recurrent)

Expenditure will be classified as maintenance or repairs where it is incurred in maintaining the pre-determined service potential or useful life of an asset, and includes expenditure where it:

a) Is part of a methodical maintenance program;
b) Does not significantly increase the design life or useful life of the asset; and
c) Does not result in service capacity of the asset being upgraded.

Maintenance expenditure is included in Recurrent Expenditure in Council's Statements of Comprehensive Income.

Capital works in progress (WIP) accrues capital expenditure until the asset is in the condition and location required, at which time the costs are then capitalised to non-current assets. WIP balances are to be reviewed on an ongoing basis to ensure all non-current assets able to be capitalised are recognised, and no operating or maintenance costs are held in the WIP balance.

[3] AASB116.19

Roles and responsibilities

Council Officers with a role or responsibility to Non-Current Assets are:

Director, Corporate Services Department is responsible for overviewing all financial management systems and services including overseeing the financial reporting process and sign-off as Chief Financial Officer.

Manager, Procurement & Contracts is responsible for implementing and maintaining a framework for undertaking efficient and sustainable contracting activities, within an effective governance framework and sound probity environment. This includes creating appropriate guidelines, processes, procedures and documents.

All Managers are responsible for complying with this Non-Current Asset Accounting Policy and associated guidelines, processes and procedures.

Asset Accounting Team is responsible for recognising, classifying, revaluing, derecognising, and depreciating all non-current assets. This includes maintaining the financial asset register and therefore information relating to the property, plant and equipment lines in Council's Statements of Financial Position.

Asset Managers are responsible for input of asset details such as useful and remaining lives, asset revaluations, and capital program development for construction/installation of assets (WIP), and asset stocktaking.

All Officers are responsible for complying with this Non-Current Asset Accounting Policy and associated guidelines, processes and procedures.

Measurement of success

Success of this Non-Current Asset Accounting Policy will be measured by:

- Non-current assets accounted for in accordance with applicable legislation, Australian accounting standards, as well as policies, both internal and external;
- All asset movements recorded in the financial asset register on a timely basis;
- Capital work in progress (WIP) balances cleared in a timely manner after financial completion (WIP aging);
- Asset revaluations undertaken in accordance with Council's asset revaluation cycle as outlined in Appendix A; and
- Council's financial statements unqualified by external audit with key performance indicators (KPIs) achieved as per the external audit plan.

Definitions

The following definitions inform this policy and related guidelines.

Accumulated depreciation	The aggregate portion of an asset's total service capacity (excluding any residual value) that has been consumed to date.
Active market	A market in which all the conditions exist: a) Homogeneous market of traded assets; b) Willing buyers and sellers available; and c) Prices are available to the public. A market in which transactions for the sale of similar assets or liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
Amortisation	The systematic allocation of the cost of an intangible asset (less any residual value) over its useful life to reflect patterns of periodic consumption of the asset.
Asset	Future economic benefits controlled by Council as a result of past transactions or other past events.
Asset class	A grouping of assets of a similar nature and use in an entity's operations.[4]
Asset cost	The amount of cash (or cash equivalents) paid or the fair value of the other consideration given to acquire an asset at the time it is acquired or constructed. Paragraphs 16 to 28 of *AASB 116 Property, Plant and Equipment* provide guidance about the elements of cost and measurement of cost. The cost of an item of property, plant and equipment includes: • its purchase price, including taxes and duties; • if self-constructed, the purchase price will include the labour, materials and resources incurred, but will exclude internal profit margins; • the direct costs of bringing the asset to its intended operating location and condition;

[4] AASB 136.127

Asset cost continued	• the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located (eg Waste landfill sites), where the obligation is recognised and measured in accordance with *AASB 137 Provisions, Contingent Liabilities and Contingent Assets.*
Brownfield site	The asset's existing location.
Carrying amount	The amount at which an asset's value is recognised after deducting any accumulated depreciation and accumulated impairment losses.
Capital expenditure	Costs that are incurred over the life of an asset that either renew, extend or upgrade the asset's underlying service potential.
Capitalisation threshold	The cost limit above which physical non-current assets are recognised in an entity's asset register as items of property, plant and equipment.
Complex asset	Assets with multiple connected components that can be separately identified and replaced.
Component	A significant part of a complex asset that is separable and has a different useful life or pattern of consumption to other significant parts. Connected asset parts that have different physical characteristics and which can be separately replaced at different times over the asset's life cycle.
Comprehensive valuation	A revaluation which entails significant levels of physical inspection and evaluation of all inputs, such as methodologies, assumptions, condition, and unit rates.
Contributed asset	An asset that is acquired by Council at nominal or no cost, usually by way of an agreement with property developers, through State Government arrangements or bequeathed to Council.
Cost model (valuation)	An accounting policy that may be applied for the measurement of an entire asset class. After recognition as an asset, an item of property, plant and equipment shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses.
Current replacement cost (CRC)	The cost required to replace the current (remaining) service capacity of an asset. This is synonymous with fair value (FV), carrying amount (CA), book value (BV), and written-down value (WDV).
Depreciable amount	The gross value of an asset, less residual value (where appropriate).

Depreciation	The systematic allocation of the depreciable amount of an asset over the asset's useful life which reflects the pattern in which the future economic benefits embodied in the asset are consumed.
Design Life	The estimated period of time an asset can be used based on its design characteristics. Council can intend to consume the economic benefits over a longer or shorter period.
Desktop valuation	A desktop valuation is an assessment of asset values which: a) Does not involve inspection of the assets; b) Produces an indicative assessment (with conditions) of value of the asset; and c) Is prepared by valuers using specified information and documents.
Disposal (decommissioning)	Removal, demolition, or elimination of an asset's service potential, resulting from a specific management decision. An asset is disposed when Council loses control of the asset at the end of its useful life to the entity – the relocation of an asset into another asset or location does not involve any loss of control of the asset by Council.
Economic life	The period over which an asset is intended to be economically useful to Council. This can be different to physical life and original design life.
Entry price	The price either paid to acquire an asset, or received to assume a liability in an exchange transaction i.e. what Council would pay to acquire an asset (or how much it did pay).
Exit price	The price that would be received to sell an asset or paid to transfer a liability i.e. how much someone else would pay Council to acquire an asset in its current use and form.
Fair value (FV)	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (*AASB 13 Fair Value Measurement*).
Fair value valuation	Valuation techniques such as market approach, the income approach, and current replacement cost. <u>Income Approach</u> Valuation techniques that convert future amounts (for example, cash flows, or income and expenses) to a single current (that is, discounted) amount. The fair value measurement is determined on the value indicated by current market expectations about those future amounts.

Fair value valuation continued	<u>Market Approach</u> An asset valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.[5]
Financial Asset Register (FAR)	A subsidiary system that supports the reported values of property, plant and equipment assets and intangibles controlled by Council that is reconcilable to the general ledger.
Future economic benefits	With respect to not-for-profit entities such as Council, future economic benefits refer to the ability of an asset to provide goods or services in accordance with the organisation's objectives.
Greenfield site	An undeveloped location.
Gross replacement cost (GRC)	The cost to construct or acquire a new, modern equivalent asset (MEA), or reproduction asset in order to replace the total potential future economic benefit of the asset. The amount at which an asset is recorded (either at cost or fair value) within the financial asset register, excluding any deduction for accumulated depreciation or accumulated impairment losses (gross carrying amount).
Impairment loss	The amount by which the carrying amount of an asset exceeds its recoverable amount.[6] Note, *AASB 136 Impairment of Assets* does not apply to assets regularly revalued under the revaluation model in *AASB 116 Property, Plant and Equipment* (*AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities).*
Initial costs	The costs incurred to enable a new asset to be in the location and condition necessary for it to operate in the manner intended.
Intangible asset	An identifiable non-monetary asset without physical substance.[7]
Interim revaluation	Desktop review of asset values recorded in the financial asset register, whereby all assets within an asset class are adjusted by an indexation factor.

[5] AASB 13.A

[6] AASB 136.6

[7] AASB 138.8, AASB 3.A

Highest and best use (HBU)	The use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (for example, a business) within which the asset would be used.
Market value	The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgably, prudently, and without compulsion.
Materiality	Omissions or misstatements of items are material if they could individually or collectively influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.[8]
Modern equivalent asset (MEA)	The asset an entity would acquire or construct today if it was deprived of an existing asset using modern material, techniques and design that embodies equivalent service potential.
Most advantageous market	A market that maximises the value received to sell an asset or minimises the cost that would be paid to transfer a liability, after taking into account transaction and transport costs.
Network	A set of interconnected assets that rely on each other for the provision of a service. Network assets are defined as a group of separately identifiable assets, which, when considered together, are operating to achieve the objectives involved in the provision of a particular service. All assets, which are deemed to form part of a major network within Council (for example roads and stormwater), will be recorded as an asset regardless of the cost of the individual asset.
Obsolescence	Obsolescence is a loss in an asset's value as a result of physical deterioration or external factors including functional or economic obsolescence. Functional or technological obsolescence occurs when the service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service.

[8] CF 2013-1.QC11

Obsolescence continued	Economic obsolescence occurs when the asset still maintains the same service potential, but demand for that service has ceased.
Pattern of consumption	The pattern on which an asset's future economic benefits are expected to be consumed.
Physical deterioration	Wear and tear arising from normal usage.
Principle market	The market with the greatest level of activity for the asset or liability.
Property, plant and equipment	Council's recognised physical non-current assets which are tangible items that: a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and b) are expected to be used during more than one period.[9]
Recoverable amount	The higher of an asset's fair value, less costs of disposal and its value in use (carrying amount).
Renewal	Capital works that reinstate some or all of the original service potential of an asset.
Remaining useful life (RUL)	The estimated time remaining until the asset ceased to provide the required level of service or reaches the end of its economic usefulness.
Reproduction cost	Establishes the current cost of reproducing every component of an asset in a style and form of construction that closely resembles the original – this typically applies to heritage assets.
Residual value	The estimated consideration receivable from the disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and condition expected at the end of the asset's useful life. In accordance with *AASB Agenda Decision June 2015*, residual values do not include cost savings from the re-use of parts of an asset by the entity.

[9] AASB 116.6

Revaluation model	An accounting policy that may be applied for the measurement of an entire asset class. After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount. [10] An item's revalued amount is its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.
Segment	A discrete unit of a linear asset such as a road or pipe.
Service capacity	An asset's capacity to achieve its owner's objectives. Service capacity is synonymous with service potential and economic benefits.
Third Party Costs	Cost incurred on assets which are controlled by another entity.
Useful life	The useful life of an asset can be either: a) the period over which an asset is expected to be available for use by an entity; or b) the number of production or similar units expected to be obtained from the asset by an entity.
Value in use	Normally refers to assets that generate some form of cash inflow. Where assets have no cash inflow, value in use is deemed to be depreciated current replacement cost.
Written-down value	The amount at which an asset is recorded (either at cost or fair value) within the financial asset register after deducting any accumulated depreciation and accumulated impairment losses. This is the same as an asset's carrying amount or net book value.

[10] AASB 116.6, AASB 138.8

Related policies, legislation and salient reference publications

Local Government Act 2009

Local Government Regulation 2012

Australian Accounting Standards Board – Framework for the Preparation and Presentation of Financial Statements (Conceptual Framework)

Australian Accounting Standards

- *AASB 5 Non-Current Assets Held for Sale and Discontinued Operations*
- *AASB 13 Fair Value Measurement*
- *AASB 101 Presentation of Financial Statements*
- *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*
- *AASB 116 Property, Plant and Equipment*
- *AASB 136 Impairment of Assets*
- *AASB 138 Intangible Assets*

Queensland Treasury and Trade Non-Current Asset Policies for the Queensland Public Sector (NCAP)

Department of Infrastructure, Local Government and Planning – Tropical Council, Illustrative Financial Statements for the year ended 30 June 2017

Financial Management (Sustainability) Guideline 2013

Australian Infrastructure Financial Management Manual (2015)

Supporting Documents

Guidelines to the policy

Guideline 1 – Non-Current Asset Recognition

Guideline 2 – Non-Current Asset Depreciation and Amortisation

Guideline 3 – Non-Current Asset Revaluation

Guideline 4 – Non-Current Asset Impairment

Guideline 5 – Non-Current Asset De-recognition

Guideline 6 – Non-Current Asset Internal Controls

Appendix A

Rolling Comprehensive Revaluation Schedule

Percentage of Asset Classes to be Comprehensively Revalued by Financial Year

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Land *	100%			100%			100%		
Buildings *	100%			100%			100%		
Other Infrastructure - Facilities *	100%			100%			100%		
Other Infrastructure - Parks ^			20%	20%	20%	20%	20%	20%	20%
Roads & Bridges ^		20%	20%	20%	20%	20%	20%	20%	20%
Stormwater & Drainage ^		20%	20%	20%	20%	20%	20%	20%	20%

^ rolling comprehensive valuation where the total asset class is comprehensively revalued over a 5 year period
20% of the asset class is annually comprehensively valued from a selection across the region, and that movement is then applied as an interim index to the remaining 80%

***** total asset class comprehensive valuation every 3 years, with interim class movement reviews

Appendix B

Land portfolio assets held as nominal value

Land assets that are considered to have a significantly limited or no market depth are held at a nominal value of $1,000. Nominal value assets may have no or significantly limited market due to factors such as size, shape, and/or use.

Predominant land use considered to reflect nominal value includes:-

- Access restriction strips.
- Allotments for drainage, both natural or formed,
- Land under water,
- Narrow public access ways,
- Other significant limitations to the land that impede market participants.

All nominal value assets are individually determined, assessed and verified with GIS data, zoning and use information. All factors and inputs are considered when defining the valuation approach of nominal value. Nominal value assets are not indexed or comprehensively revalued.

Version control:

Version	Reason/ Trigger	Change (Y/N)	Endorsed/ Reviewed by	Date
2.0	Review	Y	Manager Finance	15/08/2017