

Community Financial Report 2017/18

This report provides a representation of Sunshine Coast Council's recent financial performance.

Financial Statements

The financial statements consist of four reports, with accompanying notes. The notes disclose Council's accounting policies and provide additional information and greater detail on the values contained in the statements. When read in conjunction with each other, the documents provide an overall understanding of Council's financial position.

Statement of Comprehensive Income

The statement of comprehensive income provides information about revenues and expenses and shows if a profit or a loss has been made in delivering Council services.

Statement of Financial Position

The statement of financial position provides information about assets and liabilities. Together they provide the net worth of Council, which has been built up over many years. This net worth is also called the Community Equity.

Statement of Changes in Equity

The statement of changes in equity summarises the increase (or decrease) in Council's net worth for the year.

Statement of Cash Flows

The statement of cash flows shows changes to cash balances and how they resulted. It differs from the statement of comprehensive income in that it excludes non-cash expenses such as depreciation, accruals and revaluation of assets such as land and buildings.

Measures of Financial Sustainability (Ratios)

Financial sustainability ratios examine the relationships between different financial categories. These ratios are also used for comparison purposes when benchmarking with other organisations.

There are various financial sustainability measures available however Council is required to calculate its ratios in accordance with the Financial Management (Sustainability) Guideline issued by the Department of Local Government, Racing and Multicultural Affairs. The Current Year Financial Sustainability ratios are also audited by the Auditor-General of Queensland.

Business Activities – Full Cost Recovery Performance

Council conducts a number of business activities. The full cost recovery performance reports on the value of Council's investment in these activities.

Statement of Comprehensive Income

The following figures relate to Council only for the year ended 30 June 2018, and the numbers have been rounded. The figures do not include Council's controlled entities as per the Consolidated columns in the financial statements.

Revenue

Where did the money come from?

Council received \$422 million in recurrent operating revenue during the 2017/18 year with the major source of this revenue generated from the rates and utility charges. Total operating revenue increased by \$16 million (4%) on the previous year.

Revenue	\$'000
Rates & Utilities (66%)	277,118
Fees & Charges (13%)	56,050
Interest Received (8%)	31,699
Grants & Other (7%)	29,986
Unitywater (6%)	27,337
Total	422,190

Expenses

Where was the money spent?

Council returns the majority of revenues to the community in the form of services and community projects. Total recurrent expenses during the 2017/18 year were \$417 million which was an increase of \$30 million (8%) on the previous year.

Expenses	\$'000
Employee Benefits (34%)	139,929
Materials & Services (45%)	188,443
Finance Costs (3%)	10,886
Depreciation & Amortisation (18%)	76,342
Contributions to Controlled Entities (0.4%)	1,464
Total	417,064

The Operating Result

The Operating Result is derived from the Statement of Comprehensive Income by deducting Total Recurrent Expenses from Total Recurrent Revenue, with Council's result for 2017/18 being a profit of \$5 million.

Statement of Financial Position

Assets - Liabilities = Community Equity

Assets

What do we own?

The value of all assets we controlled as at 30 June 2018 totalled \$5.4 billion. This figure is further broken down into current assets \$349 million (6%) and non-current assets \$5 billion (94%). Current assets are those that are readily available to meet expenses and mainly include cash and amounts owed by customers. Non-current assets include property plant and equipment and investments in associates (Unitywater).

Assets	\$'000
Cash & Cash Equivalents (5%)	290,202
Trade & Other Receivables (9%)	478,476
Inventories & Other (3%)	137,652
Property, Plant & Equipment and Intangibles (73%)	3,952,315
Investments in Associates (10%)	538,213
Total	5,396,858

Liabilities

What do we owe?

The value of all liabilities as at 30 June 2018 was \$450 million. This figure consists of current liabilities \$143 million (32%) and non-current liabilities of \$307 million (68%). The largest single debt owed by Council is to the Queensland Treasury Corporation (QTC) which is the state government-owned lending agency. This money is borrowed for infrastructure and large-scale region making projects.

Liabilities	\$'000
Trade & Other Payables (17%)	74,432
Borrowings (65%)	291,288
Provisions (13%)	56,997
Other Liabilities (6%)	27,171
Total	449,888

Capital Expenditure (Property, Plant & Equipment Assets)

Additions to Assets for the financial year

Category	\$'000
Buildings and Facilities	8,471
Parks and Gardens	11,954
Stormwater	4,720
Strategic Land and Commercial Properties	24,048
Transportation (Roads)	55,605
Waste	6,032
Coasts and Canals	1,855
Other	4,593
Total Council Base Capital Program	117,278
Maroochydoore City Centre	31,862
Sunshine Coast Airport Runway	49,570
Total Region Making Projects	81,431
TOTAL	198,709

Capital Expenditure sits outside the normal operating costs of Council and is included in the **Property Plant and Equipment** balance on the **Statement of Financial Position**. Capital expenditure includes infrastructure costs such as the development of the new Maroochydoore City Centre and construction of the new airport runway. It also includes work on core Council assets such as buildings, roads, landfill and waste facilities, stormwater etc. Capital costs appear in the operating statement as a **depreciation expense** over the life of the asset.

The amounts in the table include capital expenditure only and exclude project costs of an operating nature.

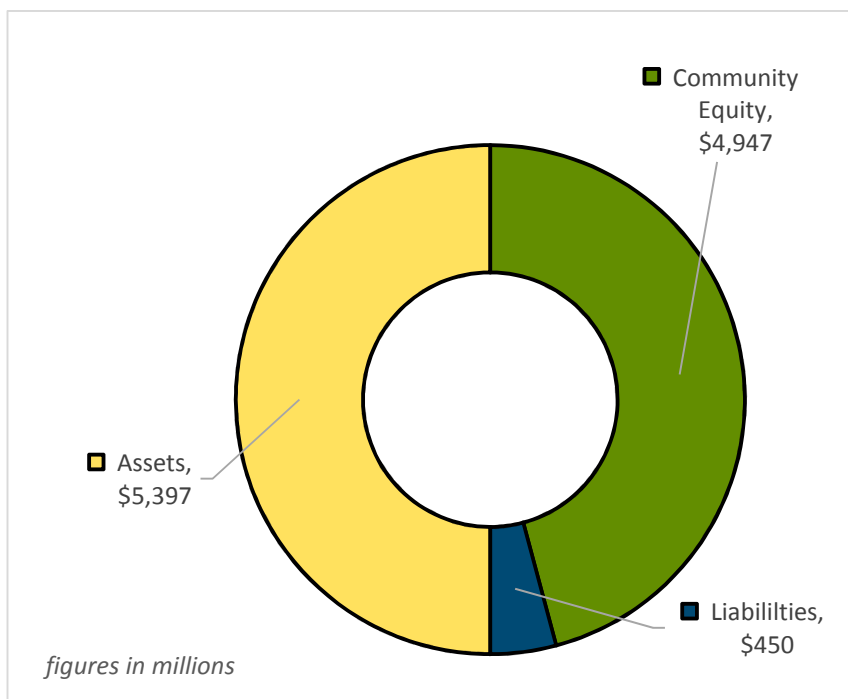
Statement of Changes in Equity

Community Equity

What is our net worth?

Assets (what we own) less liabilities (what we owe) equal Council's net worth (Community Equity). As at 30 June 2018, the Community Equity for Council was \$4.9 billion, an increase of \$136 million (3%) from the prior year.

This increase is due to Council's Net Result for the year of \$78 million along with the net increase in Council's Asset Revaluation Surplus of \$58 million. The Net Result is made up of the Operating Result of \$5 million, along with non-recurrent items such as grants, subsidies, contributions and donations as well as losses incurred on the disposal of assets or discontinued operations.



Council's total Community Equity (\$4.9 billion) is made up of:

- **Retained Surplus** being the initial and ongoing investment of the Community along with the profit or loss results of all financial years (\$4 billion).
- **Asset Revaluation Surplus** which is the accumulated value of the assets in excess of what we have paid for them (\$905 million).

Statement of Cash Flows

Cash Flow

Cash in, cash out.

There are three types of activities that have an impact on cash balances.

1. **Operating activities** including receipts from customers and payments to suppliers, interest and dividends, grants, and the cost of borrowings.
2. **Investing activities** include investments made in property, plant and equipment, proceeds from sale of assets, and contributions.
3. **Financing activities** include the cash movement from borrowings proceeds received, less repayment commitments.

Overall cash balances for Council increased by \$8 million (3%) for the financial year.

Council's Financial Sustainability Plan requires the performance of Council's business activities be published annually in the Community Financial Report.

Business Activities – Full Cost Recovery Performance

2017/18 Financial Data	Waste and Resource Management \$'000	Sunshine Coast Holiday Parks \$,000	Quarries Business Unit \$,000
Operating Revenue	61,839	17,581	8,228
Community Service Obligations	1,084	1,171	0
Total Operating Revenue	62,923	17,581	8,228
Operating Expenditure excluding interest	44,066	9,238	7,925
Depreciation	3,932	974	269
Competitive Neutrality Costs including income tax equivalent	272	441	4
Total Operating Expenditure	48,270	10,653	8,199
Earnings before interest and tax (EBIT)	14,653	6,928	29
Return (pre-tax nominal) %	14.8%	17.4%	3.1%
Target Return	11,935	4,519	497
Weighted Average Cost of Capital %	9.2%	12.2%	11.0%
Surplus/(Shortfall) EBIT to target return	2,718	2,709	(467)
Value of Council's Investment in the Business Activity	70,492	46,580	5,312

Note: Weighted average cost of capital and return on capital are calculated on a pre-tax nominal basis net of assumed revaluation gains.

Value of Council's investment in the Business Activity excludes strategic land holdings.

Measures of Financial Sustainability (Ratios)

Ratios – Long-Term Sustainability Statement (Council)

Ratio	Target	Actuals at 30 June 2018	Forward Estimates %								
			30 June 2019	30 June 2020	30 June 2021	30 June 2022	30 June 2023	30 June 2024	30 June 2025	30 June 2026	30 June 2027
Operating Surplus Ratio	Between 0% and 10%	1.2%	5.4	7.9	7.6	11.9	11.5	11.8	9.4	8.5	13.3
Asset Sustainability Ratio	Greater than 90%	70.3%	75.6	65.7	67.3	67.6	67.3	68.5	67.1	64.9	66.2
Net Financial Liabilities Ratio	Not greater than 60%	23.9%	76.1	89.6	93.9	24.4	25.6	21.9	17.6	11.5	6.1

Operating Surplus Ratio - Measures the extent to which operating revenues raised cover operational expenses.

Asset Sustainability Ratio - Measures the extent to which the infrastructure assets managed by Council are being replaced as they reach the end of their useful lives.

Net Financial Liabilities Ratio - Measures the extent to which the net financial liabilities of Council can be repaid from operating revenue.

Council's financial ratios for 2017/18 are showing a favourable result which is an indication there is surplus revenue to fund future capital expenditure and meet debt servicing obligations.

Financial Management Strategy

Council measures revenue and expenditure trends over time as a guide to future requirements and to make decisions about efficient allocation of resources to ensure the most effective provision of services. Council ensures that its financial management strategy is prudent and that its long-term financial forecast shows a sound financial position whilst also being able to meet the community's current and future needs.

The above table shows whether Sunshine Coast Council is performing within accepted target ranges.

It clearly indicates that Council is achieving or out-performing the identified benchmarks in both of the key liquidity measures (Operating Surplus and Net Financial Liabilities ratios) apart from the years 2018/19 to 2020/21 for the Net Financial Liabilities Ratio (shaded).

The 10 year capital works program requires significant borrowings for the Sunshine Coast Airport Runway Project which is to be repaid on completion of the runway in 2022. Consultation with Queensland Treasury Corporation (QTC) was undertaken for the financial assessment of this project, particularly Council's ability to manage the Net Financial Liabilities Ratio.

The Department of Local Government, Racing and Multicultural Affairs Financial Management (Sustainability) Guideline 2013 states "high average Net Financial Liabilities ratio projections over the long-term are typically indicative of a local government that is undertaking / has undertaken significant infrastructure projects. Whilst some local governments may not achieve the recommended target for Net Financial Liabilities ratio on average over the long-term, this does not necessarily indicate that a local government is likely to be unsustainable over the long-term. In such cases, well-managed local governments with robust financial management systems and the ability to service current and projected debt levels, can maintain long-term sustainability and average Net Financial Liabilities ratio projections over the long-term that exceed the recommended target."

For the Asset Sustainability ratio, there is an ongoing review of asset management plans that will confirm the desired level of expenditure on the renewal and refurbishment of Council assets. Council's ratio is indicative of growing councils investing in new community assets.