

Community Financial Report 2016/17

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 Infrastructure, Local Government and Planning. These ratios are also audited by the Auditor General.

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

Revenue

Where did the money come from?

Council received \$426 million in recurrent operating revenue during the 2016/17 year with the major source of this revenue generated from the rates and utility charges. Total operating revenue increased by \$27 million (6.9%) on the previous year.

Revenue	\$'000
Rates & Utilities (61.5%)	261,991
Fees & Charges (16.1%)	68,698
Interest Received (7.6%)	32,516
Grants & Other (8.5%)	36,446
Unitywater (6.3%)	26,684
Total	426,334

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 2016/17 year were \$403 million which was an increase of \$30 million (8.1%) on the previous year.

Expenses	\$'000
Employee Benefits (33.1%)	133,244
Materials & Services (46.3%)	186,337
Finance Costs (2.6%)	10,392
Depreciation & Amortisation (17.7%)	71,483
Contributions to Controlled Entities (0.3%)	1,400
Total	402,856

The Operating Result

What is the Operating Result?

The operating result for Council for the 2016/17 year was \$23 million profit. This result allows Council to meet its debt repayments and capital expenditure commitments.

Statement of Financial Position

Assets - Liabilities = Community Equity

Assets

What do we own?

The value of all assets we controlled as at 30 June 2017 totalled \$5.194 billion. This figure is further broken down into current assets \$419 million (8.1%) and non-current assets \$4.775 billion (91.9%). 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 (5.4%)	282,375
Trade & Other Receivables (8.7%)	453,167
Inventories & Other (2.9%)	149,741
Property Plant & Equipment (72.3%)	3,753,549
Investments in Associates (10.4%)	538,212
Total	5,193,916

Liabilities

What do we owe?

The value of all liabilities as at 30 June 2017 was \$418 million. This figure consists of current liabilities \$115 million (27.5%) and non-current liabilities of \$303 million (72.5%). 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 (13.2%)	55,074
Borrowings (69.4%)	290,056
Provisions (12.7%)	53,204
Other Liabilities (4.7%)	19,643
Total	417,977

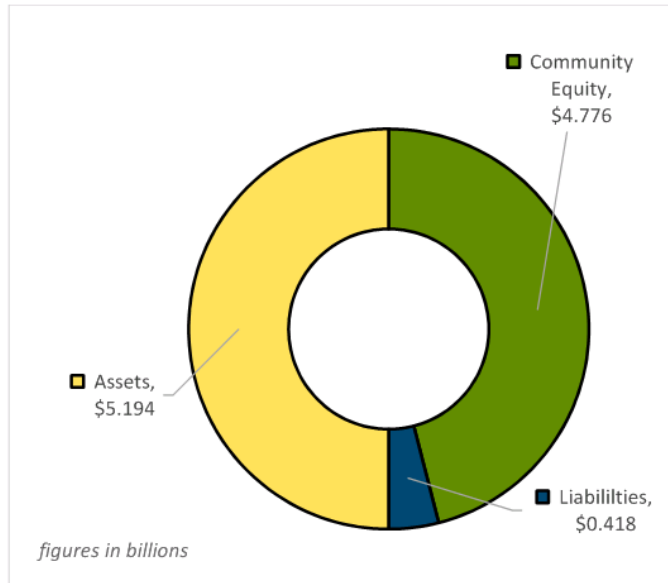
Statement of Changes in Equity

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 2017, the Community Equity for Council was \$4.776 billion, an increase of \$142 million (3.1%) from the prior year.

The majority of this increase is due to Council's Net Result for the year of \$140 million. The Net Result is made up of the Operating Result of \$23 million, along with capital 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 (\$4.776 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 (\$3.929 billion).
- **Asset Revaluation Surplus** which is the accumulated value of the assets in excess of what we have paid for them (\$847 million).

Statement of Cash Flows

Cash Flow

Cash in, cash out.

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

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

Overall cash balances for Council decreased by \$36 million (11.4%) for the financial year. The majority of this decrease related to Council's increased investment in capital works coupled with no new loans being drawn down from Queensland Treasury Corporation during the year.

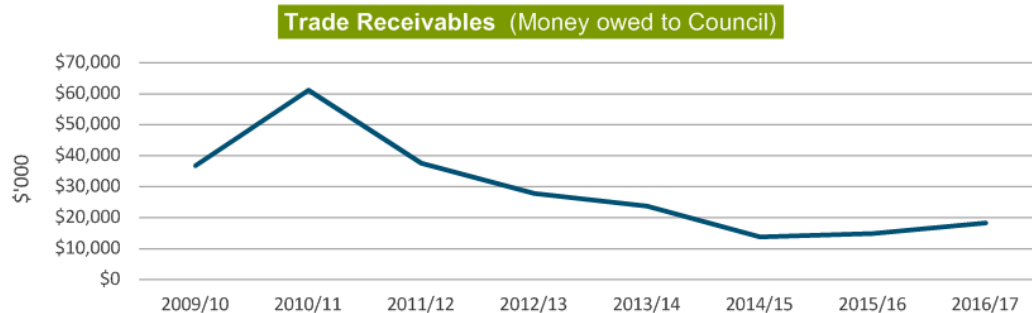
Capital Expenditure

Building Assets

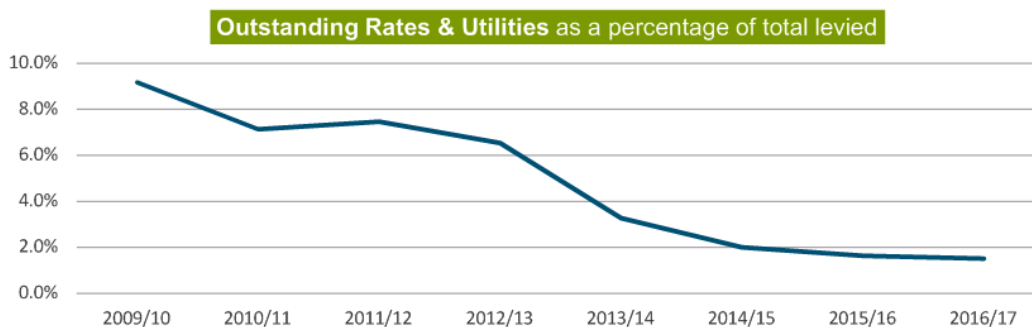
Category	\$'000
Buildings and Facilities	9,880
Parks and Gardens	15,350
Stormwater	2,786
Strategic Land and Commercial Properties	12,756
Sunshine Coast Airport & Aerodrome	2,300
Transportation (Roads)	44,369
Waste	10,135
Coasts and Canals	1,530
Other	12,163
Total Council Base Capital Program	111,267
Corporate Major Projects	6,416
Maroochydore City Centre	18,151
Solar Farm	33,020
Sunshine Coast Airport Runway	8,093
Total Region Making Projects	65,680
TOTAL	176,947

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 Maroochydore City Centre as well as the recently completed Solar Farm. 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.

Trade Receivables comprise amounts owed to Council for Rates & Utilities, Infringements and Infrastructure Charges as well as services provided by Sunshine Coast Airport, Quarries, Waste and Holiday Parks.



Outstanding **Rates & Utilities** have reduced over the past 6 years as illustrated by the graph below.



Measures of Financial Sustainability (Ratios)

Ratios

Ratio	Description	%
Operating Surplus Ratio	Measures the extent to which operating revenues raised cover operational expenses. This result is within the preferred target of between 0% and 10%.	5.5
Net Financial Liabilities Ratio	Measures the extent to which the net financial liabilities of Council can be repaid from operating revenue. This result is well below the preferred limit of no greater than 60%, and indicates that Council's Current Assets exceed the Total Liabilities	-0.3
Asset Sustainability	Measures the extent to which the infrastructure assets managed by Council are being replaced as they reach the end of their useful lives. This is a strong result considering Council's relatively young asset base and reflects the ongoing commitment to the renewal of assets.	83.0

Council's financial ratios for 2016/17 are showing a favourable result which is an indication there is surplus revenue to fund future capital expenditure and meet all debt servicing obligations.

Business Activities – Full Cost Recovery Performance

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

2016/17 Financial Data	Waste and Resources Management \$'000	Sunshine Coast Airport \$'000	Sunshine Coast Holiday Parks \$'000	Quarries Business Unit \$'000
Operating Revenue	59,034	20,248	17,231	10,599
Community Service Obligations	546	124	-	-
Total Operating Revenue	59,580	20,371	17,231	10,599
Operating Expenditure excluding interest	40,994	10,681	8,796	9,640
Depreciation	3,194	1,132	590	218
Competitive Neutrality Costs excluding income tax equivalent	279	669	374	4
Total Operating Expenditure	44,467	12,483	9,760	9,862
Earnings before interest and tax	15,113	7,888	7,471	736
Return (pre-tax nominal) %	14.4%	11.2%	18.3%	17.3%
Target return	8,926	8,683	4,582	472
Weighted average cost of capital %	9.2%	12.0%	12.2%	11.0%
Surplus (Shortfall) EBIT to target return	6,186	-794	2,889	265

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.