

Community Financial Report 2020/21

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 surplus or deficit has been achieved 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 occurred. 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 State Development, Infrastructure, Local Government and Planning. 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 2021, 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 \$471 million in recurrent operating revenue during the 2020/21 year with the major source of this revenue generated from the rates and utility charges. Total recurrent revenue increased by \$18 million (4%) on the previous year.

Revenue	%	\$'000
Rates & Utilities	67.8%	319,349
Fees & Charges	13.9%	65,233
Interest Received	5.2%	24,672
Grants & Other	6.7%	31,399
Unitywater	6.4%	30,254
Total		470,908

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 2020/21 year were \$499 million which was an increase of \$41 million (9%) on the previous year.

Expenses	%	\$'000
Employee Benefits	29.9%	149,238
Materials & Services	40.7%	202,887
*Finance Costs	9.4%	46,880
Depreciation & Amortisation	19.7%	98,156
Contributions to Controlled Entities	0.3%	1,562
Total		498,722
* includes Early Repayment Adjustment of		34,346

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 2020/21 being a deficit of \$28 million. During 2020/21 Council refinanced its existing loan portfolio to take advantage of lower interest rates and free up cashflow through lower repayments. This resulted in one-off early repayment costs of \$34 million.

Restatement of the Operating Result to exclude one-off accounting adjustments delivers a positive Operating Result of \$10 million. In addition, Council's operating result was adversely impacted by approximately \$9 million due to COVID-19.

Statement of Financial Position

Assets - Liabilities = Community Equity

Assets

What do we own?

The value of all assets we controlled as at 30 June 2021 totalled \$6.4 billion. This figure is further broken down into current assets \$590 million (9%) and non-current assets \$5.8 billion (91%). 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 investment in associates (Unitywater).

Assets	%	\$'000
Cash & Cash Equivalents	3.2%	206,199
Trade & Other Receivables	12.2%	779,534
Inventories & Other	1.3%	83,565
Property, Plant & Equipment and Intangibles	74.8%	4,772,290
Investments in Associates	8.4%	538,213
Total		6,379,800

Liabilities

What do we owe?

The value of all liabilities as at 30 June 2021 was \$846 million. This figure consists of current liabilities \$129 million (15%) and non-current liabilities of \$717 million (85%). 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 shaping projects.

Liabilities	%	\$'000
Trade & Other Payables	6.4%	54,266
Borrowings	80.3%	678,963
Provisions	9.6%	81,343
Other Liabilities	3.7%	31,388
Total		845,960

Community Equity Result

The community equity result for 2020/21 as at 30 June 2021, is \$5.5 billion.

Capital Expenditure (Property, Plant & Equipment Assets)

Additions to Assets for the financial year

Category	\$'000
Aerodromes	225
Buildings and Facilities	9,231
Coast and Canals	3,877
Environmental Assets	3,189
Minor Capital Works	2,169
Fleet	2,064
Holiday Parks	1,074
Information Technology	2,036
Parks and Gardens	20,099
Quarries	304
Stormwater	6,106
Transportation	80,448
Waste	9,468
Total SCC Core Capital Program	140,291
Corporate Major Projects	34,849
Strategic Land and Commercial Properties	34,711
Maroochydore City Centre	2,175
Sunshine Coast Airport Runway	33,737
Total Other Capital Program	71,735
TOTAL	212,026

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, construction of the new airport runway and work on corporate major projects. 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.

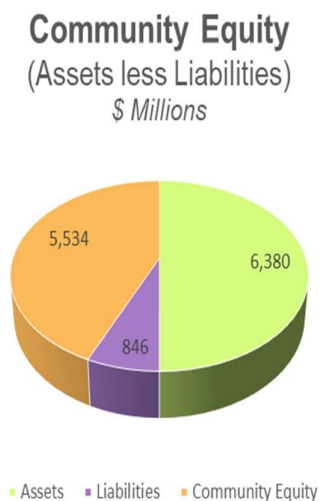
Statement of Changes in Equity

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 2021, the Community Equity for Council was \$5.5 billion, an increase of \$164 million compared to the prior year.**

The increase in Community Equity is due to an increase to Council's Retained Surplus of \$164 million, with no change in Council's Asset Revaluation Surplus.



Council's total Community Equity

(\$5.5 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 (\$4.9 billion).
- **Asset Revaluation Surplus** which is the accumulated value of the assets in excess of what we have paid for them (\$658 million).

Statement of Cash Flows

Cash Flow

Cash in, cash out.

Council's total cash as at 30 June 2021 was \$206 million.

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 \$9 million (4%) for the financial year.

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.

2020/21 Financial Data	Waste and Resource Management	Sunshine Coast Holiday Parks	Quarries Business Unit
	\$'000	\$'000	\$'000
Operating revenue	80,393	20,316	4,504
Community service obligations	1,171	0	226
Total operating revenue	81,564	20,316	4,730
Operating expenditure excluding interest	50,006	9,309	9,959
Depreciation	4,060	863	237
Competitive neutrality costs including income tax equivalent	457	550	31
Total operating expenditure	54,523	10,722	10,226
Earnings before interest and tax (EBIT)	27,041	9,594	(5,496)
Target return	7,824	5,433	421
Weighted average cost of capital %	8.1%	10.8%	0.0%
Interest	3,354	402	193
Income tax equivalent	7,106	2,390	0
Net Income	16,581	6,802	(5,689)
Value of Council's Investment in the Business Activity	87,655	60,039	5,212

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	Forward Estimates								
		30 June 2021	30 June 2022	30 June 2023	30 June 2024	30 June 2025	30 June 2026	30 June 2027	30 June 2028	30 June 2029	30 June 2030
Operating surplus ratio*	Between 0% and 10%	-5.9%	3.8%	5.9%	7.8%	8.6%	9.9%	9.7%	10.2%	10.7%	10.0%
Asset sustainability ratio	greater than 90%	75.7%	85.6%	88.4%	84.1%	79.9%	79.5%	75.8%	71.5%	74.1%	78.5%
Net financial liabilities ratio	not greater than 60%	54.3%	80.5%	87.6%	86.0%	73.4%	60.0%	50.9%	40.0%	31.6%	28.8%

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.

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 forward estimates are aligned with Council's Long-Term Financial Forecast, Financial Plan, Corporate Plan, Operational Plan and the Department of State Development, Infrastructure, Local Government and Planning financial sustainability measures.

The Operating Surplus Ratio, indicating the extent to which revenues cover operational expenses only, has been negatively impacted by COVID-19 in the amount of \$8.762 million. In addition, Council refinanced its existing loan portfolio and increased the principal amount which resulted in one-off early repayment costs of \$34.346 million. The early repayment costs have impacted the Operating Surplus Ratio, and if this hadn't occurred, the ratio would have been 1.4% which is within the targeted range.

The Asset Sustainability Ratio (reflecting the ongoing development of Council's asset management plans) is a strong result considering Council's relatively young asset base and reflects Council's ongoing commitment to the renewal of its assets.

The Sunshine Coast region has experienced exponential growth in recent periods, leading to an increase in new and contributed assets. The influx of new assets is reducing the collective age of Council's assets, lowering the requirement of renewals expenditure and the Asset Sustainability Ratio forecast. Sunshine Coast Council's renewal program is based on asset management plans and is completed in conjunction with a stringent scheduled maintenance program.

Although the Net Financial Liabilities Ratio is within target, this is due to the Sunshine Coast Airport Expansion Project Contract Receivable of \$297 million moving from non-current assets to current assets. Without this movement, the ratio would have exceeded the target at 117.3%. Council has significant borrowings for this project, which will be repaid on receipt of the \$297 million from Palisade Investment Partners Limited due on 30 June 2022.

The 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."