

## Community Financial Report 2018/19

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 2019, 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 \$445 million in recurrent operating revenue during the 2018/19 year with the major source of this revenue generated from the rates and utility charges. Total operating revenue increased by \$21 million (5%) on the previous year.

Revenue	\$'000
Rates & Utilities (66%)	293,144
Fees & Charges (13%)	55,824
Interest Received (7%)	29,770
Grants & Other (9%)	38,203
Unitywater (6%)	28,032
<b>Total</b>	<b>444,973</b>

### 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 2018/19 year was \$432 million which was an increase of \$15 million (4%) on the previous year.

Expenses	\$'000
Employee Benefits (33%)	144,328
Materials & Services (44%)	189,658
Finance Costs (2%)	10,588
Depreciation & Amortisation (20%)	85,613
Contributions to Controlled Entities (0.3%)	1,495
<b>Total</b>	<b>431,682</b>

### 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 2018/19 being a surplus of \$13 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 2019 totalled \$5.8 billion. This figure is further broken down into current assets \$319 million (6%) and non-current assets \$5.5 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). Interest received on the Unitywater investment for 2018/19 was \$22 million at an interest rate of 5.02%.

Assets	\$'000
Cash & Cash Equivalents (5%)	263,421
Trade & Other Receivables (8%)	478,375
Inventories & Other (4%)	218,111
Property, Plant & Equipment and Intangibles (74%)	4,290,205
Investments in Associates (9%)	538,213
<b>Total</b>	<b>5,788,326</b>

### Liabilities

#### What do we owe?

The value of all liabilities as at 30 June 2019 was \$593 million. This figure consists of current liabilities \$166 million (28%) and non-current liabilities of \$427 million (72%). 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. Interest paid on borrowings for 2018/19 was \$14 million including \$5 million capitalised as part of qualifying assets.

Liabilities	\$'000
Trade & Other Payables (13%)	76,609
Borrowings (69%)	407,488
Provisions (15%)	92,029
Other Liabilities (3%)	16,728
<b>Total</b>	<b>592,854</b>

### Community Equity Result

The community equity result for 2018/19 as at 30 June 2019, is \$5.2 billion.

## Capital Expenditure (Property, Plant & Equipment Assets)

Additions to Assets for the financial year

Category	\$'000
Buildings and Facilities	18,040
Parks and Gardens	19,300
Stormwater	9,847
Strategic Land and Commercial Properties	33,862
Transportation (Roads)	64,284
Waste	10,714
Coasts and Canals	2,323
Other	15,137
<b>Total Council Base Capital Program</b>	<b>173,507</b>
Maroochydore City Centre	23,671
Sunshine Coast Airport Runway	111,601
Sunshine Coast International Broadband Network	18,956
<b>Total Region Making Projects</b>	<b>154,228</b>
<b>TOTAL</b>	<b>327,735</b>

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 the Sunshine Coast International Broadband Network. 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.

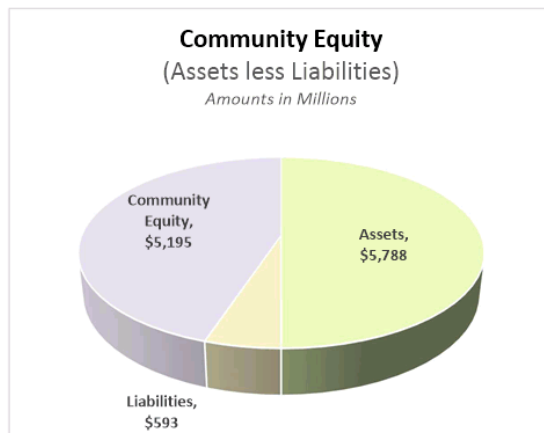
## Statement of Changes in Equity

### 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 2019, the Community Equity for Council was \$5.2 billion.**

The decrease in Community Equity is mainly made up of a decrease to Council's Asset Revaluation Surplus of \$262 million offset by an increase to Council's Retained Earnings of \$93 million. This was largely due to a change in unit rates for transportation assets.



**Council's total Community Equity (\$5.2 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 (\$4.6 billion).
- **Asset Revaluation Surplus** which is the accumulated value of the assets in excess of what we have paid for them (\$643 million).

## Statement of Cash Flows

### Cash Flow

Cash in, cash out.

Council's total cash holdings as at 30 June 2019 was \$264 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 decreased by \$27 million (9%) 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.

2018/19 Financial Data	Waste and Resource Management \$'000	Sunshine Coast Holiday Parks \$'000	Quarries Business Unit \$'000
Operating Revenue	65,006	17,563	6,520
Community Service Obligations	1,120	882	0
<b>Total Operating Revenue</b>	<b>66,126</b>	<b>17,563</b>	<b>6,520</b>
Operating Expenditure excluding interest	51,803	8,678	7,122
Depreciation	4,225	1,085	272
Competitive Neutrality Costs including income tax equivalent	0	547	34
<b>Total Operating Expenditure</b>	<b>56,028</b>	<b>10,311</b>	<b>7,428</b>
<b>Earnings before interest and tax (EBIT)</b>	<b>10,098</b>	<b>7,252</b>	<b>(908)</b>
Return (pre-tax nominal) %	11.3	17.7	(14.8)
<b>Target Return</b>	<b>8,599</b>	<b>4,235</b>	<b>405</b>
Weighted Average Cost of Capital %	9.2	11.4	10.2
<b>Surplus/(Shortfall) EBIT to target return</b>	<b>1,499</b>	<b>3,017</b>	<b>(1,313)</b>
<b>Value of Council's Investment in the Business Activity</b>	<b>71,329</b>	<b>47,589</b>	<b>5,256</b>

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 2019	Forward Estimates %								
			30 June 2020	30 June 2021	30 June 2022	30 June 2023	30 June 2024	30 June 2025	30 June 2026	30 June 2027	30 June 2028
Operating Surplus Ratio	Between 0% and 10%	3.0%	6.2	7.6	7.9	7.2	7.8	5.9	6.2	8.5	9.1
Asset Sustainability Ratio	Greater than 90%	72.5%	63.5	68.3	66.0	69.5	68.9	70.7	70.6	70.9	71.7
Net Financial Liabilities Ratio	Not greater than 60%	61.5%	94.4	103.8	44.9	45.6	40.5	39.1	36.1	29.0	25.5

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 and Operational Plan, with the Operating Surplus Ratio remaining within accepted target ranges.

The **Asset Sustainability Ratio** measures the extent to which infrastructure assets managed by Council are being replaced as they reach the end of their useful lives. Council develops asset management plans to guide investment in a strategic and effective manner. The Sunshine Coast region has experienced exponential growth in recent periods, leading to an increase in new and contributed assets, **including \$85 million in contributed assets** received from developers and third parties during 2018-19. This 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.

Due to **Council's relatively young asset base an Asset Sustainability Ratio range of between 60% and 70% is the current target and considered satisfactory**. Sunshine Coast Council's renewal program is based on asset management plans and is completed in conjunction with a stringent scheduled maintenance program.

The **Net Financial Liabilities Ratio** (reflecting the extent to which the net financial liabilities of Council can be repaid from operating revenue) exceeds the target range in years 2019, 2020 and 2021. The 10 year capital program requires \$268 million in borrowings for Sunshine Coast Airport Runway Project, which are to be repaid following receipt of the New Runway Construction Payment in 2022. Council's debt funding of the Sunshine Coast Airport Runway Project will require the Net Financial Liabilities Ratio target to be exceeded in years 2019, 2020 and 2021.

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."