

OPERATING PROCEDURE COMMERCIAL CAPITAL PROJECTS

Scope

This procedure relates to projects within the Capital Management Plan that are of a commercial nature. Primarily these projects reside in the Commercial Capital Fund A6058.

Definitions

'CPC'	Capital Planning Committee
'FOAP'	Fund Organisation Account Program - unique combinations that capture, identify and group transactions in the Finance System.
'LGC'	Large-Scale Generation Certificate – Government issued energy certificates able to be sold for income.
'PV'	Present Value – current value of all future cash flows discounted using a hurdle rate (minimum rate of return).
'WIP'	Work In Progress - progressive total of all expenditure transactions relating to a Project.
'MR'	Management Reporting – internal budgeting and reporting for financial performance management.
'FR'	Financial Reporting – external reporting and compliance needs.

Background

The Commercial Capital fund code was established during 2016. It is one of the many fund codes within the Capital Management Plan. It is different in nature to the other fund codes in that it is intended to be a self-funded over time. The aim is for these projects to operate in a commercial manner. The amount invested up front in capital works should be recouped over time. Funds recouped are to cover any initial capital outlay and ongoing operating costs. Ideally these projects should eventually generate a cumulative surplus.

Project Planning

The nature of this type of activity means that both the capital planning process and compliance with the Commercial Activities Policy need to be adhered to. Prior to a new project being established, a Project Proposal should be considered by the Capital Planning Committee in accordance with the normal processes in place for new proposals.

The Commercial Activities Policy sets out the process for consideration of any new activities that are commercial in nature. The policy requires the development of a proposal that includes; alignment to University Strategy, financial plans, operating and risk mitigation, the manner in which proposals are to be considered, and delegation for where approval rests. The Capital Planning Committee will also expect any proposal to further address; due diligence, financial hurdles, financing and the associated accounting treatment. It is preferable that the commercial and capital proposal is done in a single proposal that addresses the requirements for the respective policies and processes.

Accounting Statement

As part of a commercial capital proposal, Finance will work with the respective Project Manager to review the financial schedules and to work through an Accounting Statement, to address compliance with accounting standards as well as the subsequent funding and budget management. In this Procedure, the financial compliance accounting is denoted as FR and the budget and funds management is denoted as MR. The Accounting Statement should be done as part of having any commercial capital venture approved.

Appropriate **Management Reporting** (MR) processes will ensure that Internal Budgeting and Reporting needs are met. Adequate budgets are to be established to cover anticipated future income and expenditure including the correct FOAP, for the purposes of accurate internal reporting and monitoring of project performance against budget.

Each Project will trigger external **Financial Reporting** (FR) requirements. The associated accounting processes to capture and report accurately will generally exceed the initial Management Reporting requirements. These processes include capturing work-in-progress payments, appropriate categorisation and capitalisation of that WIP onto the Balance Sheet upon project completion; the appropriate treatment of any financing arrangements etc. There are established processes in place, however, each new project must be reviewed in isolation as it may trigger new and/or different reporting requirements.

Project Establishment

Once approved through the Capital Planning Committee and Commercial Activities process, depending on the scale of the project (hence delegations), either a decision can be made or Finance will take carriage to submit the Project Proposal to the Finance Audit & Risk Committee for its endorsement and ultimate approval by Council.

At the point where a project is approved, Finance will liaise with Project Manager to establish relevant Budgets and open ledger accounts to facilitate procurement, cost and revenue accumulation and reporting to occur smoothly.

Good communication between Finance and the respective Project Manager (including the prompt provision of all necessary information), is vital to ensure internal and external financial compliance needs are met.

The Division of Finance will monitor the performance of the Commercial Capital Fund over time in liaison with relevant Project Manager and respective Division/area. Finance will report to the Capital Planning Committee on the annual performance of the Commercial Capital Funds following the close of each financial year.

Two examples of how an Accounting Statement are to be prepared are provided below. They are based on existing Projects.

Example 1 – Building Renovation B007 - Accounting Statement

Scenario	CSU spends \$800k renovating an existing building, B007, to facilitate a commercial and strategic tenant	DFM Project Manager and Finance nominated contact person should remain across all project finance related communications between DFM & Finance. Specific additional contacts within Finance listed below.
1. MR	The Project is assigned a unique FOAP Combination. Fund = A6058 Commercial Capital, Org = 6719 Leases, Account (is dependent on each transaction type), Program = C0147 'B007 Refurbishment'.	DFM personnel liaise with Budget@csu.edu.au to develop agreed FOAP
2. MR	A budget is established against this FOAP on account type 23 Capital Development Projects - representing the anticipated Project expenditure - \$800k. A budget for the Capitalisation of this spend is performed at the same time.	DFM personnel liaise with Budget@csu.edu.au to ensure approved Bgt is loaded
	+ Budget – Project Expense - Budget - Asset Clearing	
3. MR	All purchase orders raised and actual expenditure incurred are processed against this FOAP.	DFM personnel liaise with purchasing@csu.edu.au to generate Purchase Orders
	Record Expense - Dr Project Expenditure + \$X Pay Provider - Cr Bank CSU Operating Acct - \$X	
4. MR	This expenditure accumulates over the life of the project. The progressive balance forms the Work In Progress total for the Project. In this case the total spend was \$751,454.	DFM personnel to monitor spend against Budget.
5. FR	Once the project is completed the final WIP balance is capitalised. The capitalisation does not affect the ability to report on the Budget vs Actual Spend.	Asset Accountant to review spend, liaise with DFM, and Capitalise relevant costs.
	Establish Asset - Dr Balance Sheet Buildings + \$X Capital Clearing Expense - Cr Asset Clearing - \$X	
6. MR	A budget is to be established for the anticipated lease income within CSU's Main Operating Area - Fund A102, Org 6719 Leases, Account 585 Equipment & Facilities Rental, Program C0147. Once tenanted, actual lease income will be received and reported on.	DFM personnel liaise with Budget@csu.edu.au to ensure Bgt is loaded
	Receive Lease Income - Dr Bank CSU Operating Acct + \$X Record Income - Cr Lease Income - \$X	

7. MR A budget is to be established for the outgoings/overheads associated with servicing the building/lease, including repairs & maintenance. A102-6719-Relevant Expense Account-C0147. Actual expenditure is incurred and reported.

DFM personnel liaise with Budget@csu.edu.au to ensure Bgt is loaded

Record expenses against budget.

Record Expense - Dr Outgoings & Maintenance + \$X
Pay Provider - Cr Bank CSU Operating Acct - \$X

8. MR The net surplus of the rental income less the rental outgoings will be transferred via internal journal to the Capital Commercial Fund area to recoup the initial outlay. A charge against the main operating area A102-6719-376X Internal Hire & Lease Expenses-C0147. Income to the Capital Commercial Fund A6058-6719- 603 Recovery of Capital Development Proj-C0147. A budget is to be established for the recoupment charge.

DFM personnel calculate annual surplus and liaise with ledgers@csu.edu.au to transfer to A6058. FinanceMS@csu.edu.au can review the calculation.

Record Internal Charge - Dr Internal Hire & Lease Expense + \$X
Internal Income - Dr Recovery of Capital Dvpt Project - \$X

9. MR The distribution of this surplus over to the Commercial Capital area to recoup the initial outlay will continue for the life of the lease and any subsequent lease renewals or extensions. Ideally sufficient funds will be recouped to recover the full amount initially outlaid.

As above - repeated annually 31/12/20XX

10.FR The Capitalised Asset is depreciated against Normal Operating Funds.

Asset Accountant to calculate and expense depreciation.

Recognise Depreciation Charge – Dr Depreciation Expense + \$X
Recognise Reduction in Asset Value Cr – Buildings Acc Dep'n - \$X

Project - Building 007	FOAP	2016		2017		2018		2019		2020			
		\$,000		\$,000		\$,000		\$,000		\$,000			
		Budget	Actual										
Commercial Capital Fund													
Capital Spend	A6058-6719-23-C0147	1	2	800.0	3	751.5	-	-	-	-	-		
Capital Recoupment	A102-6719-603-C0147	-	-	-	-	131.9	-	-	131.9	-	-	131.9	
Closing Balance				751.5		-	131.9		-	131.9		-	131.9
Cumulative balance				751.5		619.6		487.7		355.8		224.0	
Financial Reporting - (Excluded from Management Reporting)													
Asset Recognition	Balance Sheet	-	5	751.5	-	-	-	-	-	-	-		
Asset Clearing	A6058-102-23-0000	-	800.0	-	751.5	-	-	-	-	-	-		
Closing Balance				-		-		-		-			
CSU Normal Operating Funds													
Operating Income	A102-6719-585-C0147	-	-	6	-133.2	-	133.2	-	133.2	-	133.2	-	133.2
Operating Expenditure	A102-6719-Various-C0147	-	-	7	1.4	-	1.4	-	1.4	-	1.4	-	1.4
Recoupment Charge	A102-6719-376X-C0147	-	-	8	131.9	-	131.9	-	131.9	-	131.9	-	131.9
Depreciation 20yrs	X900-102-370-0000	-	-	10	40.0	-	40.0	-	40.0	-	40.0	-	40.0
Closing Balance				-		40.0		40.0		40.0		40.0	
Cumulative balance				-		40.0		80.0		120.0		160.0	

Example 2 - Solar PV Project - Accounting Statement

Scenario	CSU commits to the construction of \$3.5m worth of Solar Panels. The Project is intended to be a self-funded project with a positive present value of future cash flows being; 1. the initial outlay, 2. ongoing finance payments and interest, 3. a reduction in annual energy costs, and 4. the sale of market tradeable LGC Certificates generated. The LGC income is guaranteed for the first 7 years. The initial spend is funded by a Cash Advance from Westpac. Then on completion of construction this financing facility converts to a finance lease with Westpac for a 10 year period.	DFM Project Mgr + Finance nominated contact person should remain across all project finance related communications between DFM & Finance. Specific additional contacts within Finance listed below.									
1. MR	The Project is assigned a unique FOAP Combination. Fund = A424 Energy Initiatives (Fund A424 lies under A6051 The Primary Energy Initiative Fund), Org = 6702 DFM Ops Sustainability Mgmt, Account (is dependent on each transaction type), Program = C0068 Solar PV.	DFM personnel liaise with Budget@csu.edu.au to develop agreed FOAP									
2. MR	A budget is established against this FOAP, on account type 23 Capital Development Projects, representing the anticipated total to be expended on the Project. In this case a Budget of \$3.5m.	DFM personnel liaise with Budget@csu.edu.au to ensure approved Bgt is loaded									
3. MR	A Cash Advance Facility is utilised to fund the construction milestone payments. Each progressive payment that is made out of the Cash Advance Facility accumulates to form the WIP Balance of the Solar Panel Asset. Note that whilst this is drawn down against the finance facility (Westpac), this needs to be reflected through the University's ledger.	DFM personnel liaise with Manager of Banking & Ledgers for Facility set up + integration with CSU Bank accounts. DFM also liaise with the Financial Reporting Accountant for debt recognition.									
	<table border="0" style="width: 100%;"> <tr> <td>Record Milestone Payments - Dr Project Expenditure</td> <td style="text-align: right;">+ \$3.5m</td> <td></td> </tr> <tr> <td> Recognise Liability to Westpac - CSU Cash Advance Facility</td> <td></td> <td style="text-align: right;">- \$3.5m</td> </tr> </table>	Record Milestone Payments - Dr Project Expenditure	+ \$3.5m		Recognise Liability to Westpac - CSU Cash Advance Facility		- \$3.5m				
Record Milestone Payments - Dr Project Expenditure	+ \$3.5m										
Recognise Liability to Westpac - CSU Cash Advance Facility		- \$3.5m									
4. MR	The interest owing on the Cash Advance Facility is direct debited to CSU's Main Trading Account and accrues against the project expenditure.	DFM personnel liaise with Manager of Banking & Ledgers to facilitate bank transactions and bank reconciliation.									
	<table border="0" style="width: 100%;"> <tr> <td>Record Interest Expense – Dr Project Expenditure</td> <td style="text-align: right;">+ \$50k</td> <td></td> </tr> <tr> <td> Pay Interest Expense Cr Bank CSU Main Operating Acct</td> <td></td> <td style="text-align: right;">- \$50k</td> </tr> </table>	Record Interest Expense – Dr Project Expenditure	+ \$50k		Pay Interest Expense Cr Bank CSU Main Operating Acct		- \$50k				
Record Interest Expense – Dr Project Expenditure	+ \$50k										
Pay Interest Expense Cr Bank CSU Main Operating Acct		- \$50k									
5. FR	Once the project is completed the WIP balance is capitalised. The Capitalisation occurs on Org 102 so that for Management Reporting purposes the Total Spend can still be observed within Org 6719. The Dr reported on Org 6719 and the Cr reported on Org 102 ensure that for consolidated reporting purposes, the net balance is nil in the Statement of Financial Performance.	Asset Accountant to review spend, liaise with DFM, and Capitalise relevant costs.									
	<table border="0" style="width: 100%;"> <tr> <td>Recognise Asset - Dr Balance Sheet Assets – Buildings</td> <td style="text-align: right;">+ \$3.5m</td> <td></td> </tr> <tr> <td> Clear out WIP Expense - Cr Asset Clearing</td> <td></td> <td style="text-align: right;">- \$3.5m</td> </tr> </table> <p>Once construction is completed, it is anticipated that annual energy costs will be reduced over time. There is no particular journal entries that need to be actioned. Rather, a reduction in external energy use should be observed, given we are generating and utilising internal energy resources instead of external resources.</p>	Recognise Asset - Dr Balance Sheet Assets – Buildings	+ \$3.5m		Clear out WIP Expense - Cr Asset Clearing		- \$3.5m				
Recognise Asset - Dr Balance Sheet Assets – Buildings	+ \$3.5m										
Clear out WIP Expense - Cr Asset Clearing		- \$3.5m									
6. FR	CSU Sells the Solar Asset to Westpac in accordance with the rental agreement. The agreement indicates that Westpac owns the asset and CSU rents the asset.	DFM Finance Manager to liaise with Div of Finance Asset Accountant.									
	<table border="0" style="width: 100%;"> <tr> <td>Dr Receivables - Other Debtors</td> <td style="text-align: right;">\$3,501k</td> <td></td> </tr> <tr> <td> Cr GST Clearing Account</td> <td></td> <td style="text-align: right;">-\$318k</td> </tr> <tr> <td> Cr Commercial Capital Income</td> <td></td> <td style="text-align: right;">- \$3,183k</td> </tr> </table>	Dr Receivables - Other Debtors	\$3,501k		Cr GST Clearing Account		-\$318k	Cr Commercial Capital Income		- \$3,183k	
Dr Receivables - Other Debtors	\$3,501k										
Cr GST Clearing Account		-\$318k									
Cr Commercial Capital Income		- \$3,183k									

7. FR	CSU Disposes of Solar Asset (having sold it to Westpac).		DFM personnel + Finance Manager to liaise with Div of Finance Asset Accountant.
	Dr Asset Disposal Expense	+\$3,183k	
	Cr Solar Asset		- \$3,183k
8. FR	The Cash Advance Facility is netted off against the Debtor for the Sale of the Asset. Rather than have CSU pay out the Cash Advance Liability and collect the Sale of Asset income from Westpac, the debtor and liability can be offset against each other.		DFM Personnel + Finance Manager to liaise with Div of Finance Asset Accountant.
	Dr Cash Advance Facility	+\$3,501k	
	Cr Receivables - Other Debtors		- \$3,501k
9. FR	The side letter of the rental agreement which accompanies the rental agreement, has been assessed by CSU as effectively being a Finance Lease. The asset is re-recorded and the 10 years of annual payments are recognised as a lease liability. The liability is split between current and non-current portions.		DFM to liaise with Financial Reporting Accountant to ensure liability is recorded correctly.
	Record Asset - Dr Solar Asset	+ \$3,183k	
	Record GST - Dr Solar Asset	+\$318k	
	Record Current Liability - Cr Finance Lease Liability <1yr		- \$350k
	Record Non-Current Liability - Cr Finance Lease Liability >1yr		- \$3,151k
10. FR	The future interest component included within these annual lease payments is also recognised on the balance sheet. One side of the entry grosses up the liability to include the interest commitment and the other side reports the future finance payments, allowing both the gross liability, and the net liability exclusive of interest, to be reported on.		DFM to liaise with Financial Reporting Accountant to ensure liability is recorded correctly.
	Record Current Future Interest Charges - Dr Future Finance Charges <1yr	+ \$34k	
	Offset and Reduce Current Liability by Charges - Cr Finance Lease Liability <1yr		- \$34k
	Record Non-Current Future Interest Charges - Dr Future Finance Charges >1yr	+ \$304k	
	Offset and Reduce Non-Current Liability by Charges - Cr Finance Lease Liability >1yr		- \$304k
11. FR	The balance of the guaranteed contracted LGC income to be earned needs to be reported as both an asset and as a liability. Note that no LGC's are intended to be generated until January 2018, and therefore this transaction will occur in Jan/Feb 2018.		DFM to liaise with Financial Reporting Accountant to ensure future income asset/liability is recorded correctly.
	Recognise LGC Asset - Dr Asset LGC Certificates	+ \$1,436k	
	Offset Asset with Liability to Earn LGC Income - Cr Unearned Income		- \$1,436k
12. FR + MR	As the annual lease payments are made, the payment reduces the lease liability and interest is recorded. Annual repayments are made against the Finance Lease and the balance of the commitment is reduced over time.		Financial Reporting Accountant to ensure liability is recorded correctly at the close of each year as repayments are made.
	Reduce Finance Lease Liability Dr Finance Lease Liability <1yr	+ \$350k	
	Record Interest Expense on Finance Lease - Dr Interest Expense	+ \$34k	
	Pay Provider - Cr Bank Main Operating Acct		- \$384k
13. FR	The Asset is depreciated over its useful life. Annual Depreciation charges are applied.		Asset Accountant to calculate and expense depreciation.
	Record Depreciation Charge - Dr Depreciation Expense Solar PV Asset	+ \$175k	
	Recognise Reduction in Asset Value - Cr Accumulated Dep'n Solar PV Asset		- \$175k

14.MR + FR	The income associated with the sale of the LGC's is received each year.		DFM to liaise with Manager of Banking & Ledgers to ensure bank reconciliation picks up income and allocates it to the correct FOAP.
	Receive Cash Payment - Dr Bank Main Trading Acct	+ \$205k	
	Record Income - Cr Investment Income		- \$205k
	The balance of the expired LGC certificates is deducted from the LGC Asset and LGC Liability after each LGC payment is received by CSU.		Financial Reporting Accountant to ensure future income asset/liability is reduced correctly each year. Liaison with DFM as needed.
	Reduce Liability to earn LGC Income - Dr Unearned Income	+ \$205k	
	Reduce Asset Value - Cr Asset LGC Certificates		- \$205k
15.FR	At the close of each reporting year, the lease liability is adjusted to reflect current and non-current balances.		Financial Reporting Accountant to ensure asset + liability are adjusted correctly each year. Liaison with DFM as needed.
a.	Reduce Non-Current Lease Liability - Dr Finance Lease Liability >1yr	+ \$350k	
	Increase Current Lease Liability - Cr Finance Lease Liability <1yr		- \$350k
b.	Reduce Non-Current Lease Liability Dr Finance Lease Liability >1yr	+ \$34k	
	Reduce Non-Current Future Finance Charges - Dr Future Finance Charges >1yr		- \$34k

The Energy Initiative Fund will record the initial outlay for the project, the ongoing interest expense incurred, and the ongoing LGC certificate income. The initial deficit balance in the Fund will be reduce over as initial funds invested are recouped. Note that the energy savings are not transferred back into the Fund but remain as a reduction to costs in CSU's Main Operating Fund.

OPERATING PROCEDURE COMMERCIAL CAPITAL PROJECTS



Project - Solar PV	FOAP	Year 1								Cumulative Balance	Year 2						Cumulative Balance Yr 1 + 2
		\$,000									\$,000						
		3	4	5	6	7	8	9	10		11	12	13	14	15 a.	15 b.	
Record CAF + Asset	Interest Expense on CAF	Recognise Asset on Const'n Complet'n	Sell Asset to Westpac	Dispose of Sold Asset	Net CAF off against Debtor	Recognise Asset + Finance Lease Liability	Implied Interest on Finance Lease	Record Future LGC Future Income + Asset	Make Rental/ Lease Payments	Record Dep'n of Asset	Receipt of Income + Adjust Unearned Portion	Adjust Liability at EOY	Adjust Interest on Liability at EOY				
Commercial Capital Fund																	
Capital Income	A6058-426-562-C0068	-	-	-	(3,183)	-	-	-	-	(3,183)	-	-	-	-	-	(3,183)	
Recoupment LGC Income	A6051-426-562-0000	-	-	-	-	-	-	-	-	-	-	-	(205)	-	-	(205)	
Asset Disposal Expense	A6058-426-410-C0068	-	-	-	-	3,183	-	-	-	3,183	-	-	-	-	-	3,183	
Capital Spend	A6058-426-23-C0068	3,183	-	-	-	-	-	-	-	3,183	-	-	-	-	-	3,183	
Cash Advance Interest	A6058-426-366-C0068	-	50	-	-	-	-	-	-	50	-	-	-	-	-	50	
Lease Interest Expense	A6058-426-387-C0068	-	-	-	-	-	-	-	-	-	29	-	-	-	-	29	
Closing Balance Fund									3,233							3,057	
Financial Reporting - (Balance Sheet. Excluded from Management Reporting)																	
Asset Clearing	A6058-102-23-0000	-	-	(3,183)	-	-	-	-	-	(3,183)	-	-	-	-	-	(3,183)	
Asset Recognition	Balance Sheet Fixed Asset	-	-	3,183	-	(3,183)	-	3,183	-	3,183	-	-	-	-	-	3,183	
Asset Decline in value	Balance Sheet Acc Depn	-	-	-	-	-	-	-	-	-	-	175	-	-	-	(175)	
Asset Written Down Value	Total WDV									-							3,008
Cash Advance Facility	Balance Sheet Liability	(3,501)	-	-	-	-	3,501	-	-	-	-	-	-	-	-	-	
Bank Main Operating	Balance Sheet Cash Asset	-	(50)	-	-	-	-	-	-	(50)	-	(379)	-	205	-	(224)	
LGC Asset	Balance Sheet Asset	-	-	-	-	-	-	-	-	-	1,436	-	(205)	-	-	1,231	
LGC Unearned Income	Balance Sheet Liability	-	-	-	-	-	-	-	-	-	(1,436)	-	-	205	-	(1,231)	
GST Payable/Receivable	Balance Sheet GST Clearing	318	-	-	(318)	-	-	318	-	318	-	-	-	-	-	318	
Receivables - Other Debtor	Balance Sheet Debtor	-	-	-	3,501	-	(3,501)	-	-	-	-	-	-	-	-	-	
Finance Lease Liability	Balance Sheet < 1 year	-	-	-	-	-	-	(350)	(29)	(379)	-	350	-	-	(350)	(379)	
Future Finance Charges	Balance Sheet < 1 year	-	-	-	-	-	-	-	29	29	-	-	-	-	-	29	
Current Lease Liability									(350)							(350)	
Finance Lease Liability	Balance Sheet > 1 year	-	-	-	-	-	-	(3,151)	(260)	(3,411)	-	-	-	-	350	29	(3,032)
Future Finance Charges	Balance Sheet >1 year	-	-	-	-	-	-	-	260	260	-	-	-	-	(29)	231	
Net Lease Liability > 1 Yr									(3,151)							(2,801)	
Total Lease Liability									(3,501)							(3,151)	
CSU Normal Operating Funds - (Income & Expense Operating Statement)																	
Depreciation e.g. 20yrs	X900-102-370-0000	-	-	-	-	-	-	-	-	-	-	175	-	-	-	175	