PowerWater

Program Business Need Identification

Power and Water Corporation

CONTROLLED DOCUMENT

PRD33462

Property Leases

Proposed:

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Date: / 2 /2018

Approved:

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Date: 28 / 2 /2018

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Date: 26 / 2 /2018

Refer to D2018/72353

Finance
Date: 06/02/2018

Refer to D2018/78221

PMO QA
Date: 26/02/2018

1 Program Summary

Program Name:	**Property Leases**		
Program No:	PRD33462	**SAP Ref:**	
Financial Year Commencement:	2019-2024		
Business Unit:	Power Networks		
Program Owner (GM):	Djuna Pollard	**Phone No:**	8985 8431
Contact Officer:	Fleur Crowe	**Phone No:**	8924 5207
Date of Submission:	28/02/2018	**File Ref No:**	D2018/83791
Submission Number:		**Priority Score:**	/100
Primary Driver:	Compliance	**Secondary Driver:**	Asset Renewal
Program Classification:	Capital Program of Works		

2 Recommendation

2.1 MAJOR PROJECT >$1M OR PROGRAM

It is recommended that IRC note the proposed five year property lease program for an estimated budget of [redacted] ($2017-18), and approve the inclusion of this Program into the SCI for this amount, with a corresponding completion date of June 2024.

This program is a continuing program from the current regulatory control period. However, as a consequence of changes to Australian Accounting Standard AASB 16 Leases, Power and Water Corporation's (PWC) property leases will be recognised on the balance sheet from 1 July 2019.

The forecast will be included in the 2019-24 Regulatory Proposal to the Australian Energy Regulator (AER).

3 Background

PWC lease a number of properties and buildings, which are essential to the provision of distribution services. The primary driver of this program is to recognise the capex associated with the management of property as a consequence of a change to Australian Accounting Standard AASB 16 Leases, which states that operating leases should be treated as capital expenditure from 1 July 2019. Accordingly, the acquisition of property falls within the PWC capital governance framework.

This forecast applies the new Australia Accounting Standard AASB 16 Leases to take effect on 1 July 2019. The most significant impact of this new standard is PWC must account for both operating and finance leases on the balance sheet, recognising both an asset for the right to use the leased asset and an obligation to make lease payment over the lease term.

Consequently, when the Accounting Standard is applied, PWC will recognise a large capex opening balance as at 1 July 2019 of $4.5M. Then ongoing, for each new or replacement lease entered into, the whole lease cost is recognised as capex as the present value of future lease payments.[redacted]

4 Potential Solution

4.1 Preferred Option

The preferred option for this BNI is to continue with the current annual Property program. A 'do nothing' option is not technically feasible. This program is a continuing program from the current period, reflecting the essential role of property in the provision of distribution services. The change to the accounting standard means that the property operating leases must become capex.

4.2 Non-network alternatives

Not applicable. The expenditure is classified as "non-network expenditure".

4.3 Capex/Opex substitution

The expenditure included in this program has been excluded from PWC's operating expenditure base year for the 2019-24 Regulatory Proposal to the AER.

4.4 Contingent Project

Not appliable.

5 Strategic Alignment

This project aligns with the Corporation's key result areas of operational performance and customer centricity, where the goals are to be an efficient provider of services and delivering on customers' expectations.

Property is central to the delivery of the work program for the services of the regulated distribution business.

6 Timing Constraints

There are no timing constraints associated with this program of works.

7 Expected Benefits

Driver	Benefit	Measure
Asset Renewal	The properties enable PWC to provide services to meet these drivers.	Suitable properties to enable Power Networks to provide distribution services
Compliance		Compliance to Australian Accounting Standard AASB16 Leases

8 Milestones

The Property program is a continuous program, incorporated into the annual budgetting cycle.

Investment Planning	Project Development	Project Commitment	Project Delivery	Review
01/2018	01/2018	07/2019	06/2024	07/2024

9 Key Stakeholders

Stakeholder	Responsibility
Executive General Manager Power Networks	Internal governance stakeholder, Power Networks capex
Business Manager Power Networks	Internal governance stakeholder, Power Networks capex
PWC - Staff	Users of Property services

10 Delivery Risk

There is no delivery risk associated with this program of works.

11 Financial Impacts

11.1 Expenditure Forecasting Method

PWC will recognise a large capex opening balance as at 1 July 2019 when the Accounting Standard is applied, recognising the leased value of property. Then ongoing, for each new or replacement lease entered into, the whole lease cost is recognised as capex as the present value of future lease payments.

The data was sourced from a listing of business and residential leases from Financial Accounting via Facilities and general ledger transaction listings for the Property Lease / Rent Payment natural account (12223). It contains the costs for:

- Leases directly invoiced to Power Networks and found in Power Networks' natural account 12223 (Property Lease/Rent Payment); and
- Power Networks' allocation of leases held by PWC Corporate. These are generally for properties that provide services to multiple business units, [redacted] The allocator applied is consistent with the Corporate Cost Allocation Method.

The number of properties leased is expected to remain relatively constant over the regulatory control period for this analysis. At the end of a lease period, it is assumed the existing lease is renewed. PWC has also assumed that the lease cost will remain constant in real terms for the duration of the regulatory control period.

This analysis has removed East Arm Depot costs as a result of the Upgrade of 19 Mile Depot Project, and [redacted] The Mitchell Centre property is used for offices for corporate staff, such as the Office of the CEO, Human Resources, Legal, and ICT, that provide essential support to the Power Networks business unit.

Should the Upgrade of 19 Mile Depot Project not be approved, then the lease for East Arm Depot will need to be renewed and included in the capital expenditure for the property lease program.

11.2 Validation

PWC has assumed that the number of property leases and the lease cost of those properties will remain constant in real terms for the duration of the forthcoming regulatory control period. PWC considers this to be a relatively prudent approach.

11.3 Capex Profile

The table below shows the forecast capex (for all services) in $2017-18, excluding capitalised overheads and cost escalation.

Phase $real 2017-18 & $'000	2019-20	2020-21	2021-22	2022-23	2023-24	Total
Investment Planning						
Project Development						
Project Commitment						
Project Delivery	$4,591	$0	[redacted]	$0	[redacted]	[redacted]
Review						
Total	$4,591	$0	[redacted]	$0	[redacted]	[redacted]

11.4 Opex Implications

There will be a corresponding step decrease in opex, consequential to the change of treatment of this expenditure from opex to capex. There is not expected to be any other changes arising from this BNI.

11.5 Variance

None.