Office Accommodation Management Framework

Guideline 4: Occupancy

Reference 4

Funding and ownership of office fitout

October 2012

Queensland Government

Contents

1.0 Introduction

This reference forms part of the Office Accommodation Management Framework (OAMF) suite of documents. The OAMF integrates policies, process, activities and guidelines for government agencies (agencies) in relation to establishing office accommodation needs, acquiring and fitting out suitable space, utilising that space effectively and managing the accommodation-change process. This reference is a supporting document to *Guideline 4: Occupancy*.

2.0 Purpose

The purpose of this reference is to provide current advice to agencies in relation to:

- the way office fitout is funded
- the requirement for agencies to recognise the office fitout that they control
- the need to budget for the depreciation of office fitout
- the correct accounting treatment regarding the transfer of assets
- the operation of the Office Accommodation Program in relation to the control of office fitout.

3.0 Funding of office fitout

The initial fitout of major new government-owned office buildings is normally funded as part of the project's capital cost, either through appropriation or (more likely) as a component of borrowings taken out by the Department of Housing and Public Works (DPW) to carry out the project. Refer Attachment 1.

Fitout is also provided to agencies through the annual Office Accommodation Program (OAP) with HPW managing the construction of the fitout and transferring control to the relevant tenant agency upon completion. Refer Attachment 1.

A certain amount of fitout is self-funded from tenant agencies' budgets. Typically, this takes the form of additions/modifications to existing fitout.

Some fitout is provided by an agency vacating a tenancy in owned or leased premises and the space being backfilled by another agency.

The accounting arrangements for fitout are governed by various statutory provisions and government policies and guidelines. The policy documents *Non-Current Asset Policies of the Queensland Public Sector* and *Managing for Outcomes—Depreciation Policy Paper* are particularly relevant.

4.0 Asset recognition

Assets must be recognised by agencies if they satisfy the criteria specified in the Australian Accounting Standards and relevant government policy and guidelines.

Section 2.1 of the *Non-Current Asset Policies of the Queensland Public Sector* (NCAP) defines an asset as a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. Section 2.2 outlines asset recognition principles and states that assets should only be recognised by an agency when it is probable that future economic benefits will eventuate and that the asset possesses a cost or other value that can be measured reliably.

It is recognised that tenants occupying space use the fitout assets to achieve their departmental objectives and can deny use of the fitout asset to others. The asset is obtained as a result of a past event of tenants uptaking fitted out space in owned of private sector leased premises. The future economic benefits of the fitout asset are expected to flow to the occupying tenant and each other incoming tenant as they will occupy the premises to achieve their departmental objectives to the exclusion of other parties.

Fitout satisfies the specified criteria and should be accounted for by the entity that has control over the fitout asset(s). Furthermore, while fitout costs are included in the initial building construction project, the constructed fitout must be accounted for separately from the constructed building.

5.0 Control of assets

The term 'control' is defined in *Statement of Accounting Concept 4 (SAC 4)* as the 'capacity of an agency to benefit from an asset or to deny or regulate the access of others to that benefit'. State departments are not separate legal entities and for the most part, do not themselves own assets. However, all agencies control assets that they use in meeting their objectives, such control being demonstrated by the ability of the agency to use the asset to achieve its objectives, obtain a benefit from the sale of the asset, charge for the use of the asset, or deny use of the asset to others.

Other factors that must be considered in determining whether control exists are:

- access to the asset may be more relevant than mere possession or ownership; and
- ownership of an asset may not be necessary to control access to the benefits derived from the assets that are the subject of a finance lease.

In order to recognise an asset in its financial statements, the agency must control the asset to such an extent that it becomes probable that it will obtain the future economic benefits embodied in that asset.

6.0 Funding for depreciation expense

Supplementation of depreciation expense is considered independently of the accounting determination of depreciation expense. Where there is an increase in depreciation expense as a result of government accounting policies, it does not automatically lead to supplementation of this expense, just the same as increases in any other input cost does not automatically trigger supplementation. Cabinet Budget Review Committee approval of supplementation is required and will be assessed on a case-by-case basis.

The cost of depreciation is a non-cash cost that comprises a part of the funded output cost. The objective of funding depreciation is to recognise the accrual cost of the delivery of agreed outputs, with agencies using the cash to fund capital acquisitions approved by the Cabinet Budget Review Committee. Approved capital acquisitions are funded from a number of sources, which could include output funding for depreciation (net of any equity withdrawals), equity injections, approved borrowings (if any) and an agency's own sourced funding. If an agency's approved capital program is less than the accrual cost of depreciation, equity withdrawals will adjust capital funding to the appropriate level. As depreciation is a non-cash expense, government does not automatically fund increases in depreciation expense relating to asset acquisitions. Increased output funding to offset increased depreciation expense is a matter for determination by the Cabinet Budget Review Committee in the relevant budget context. In considering the appropriate level of output funding, the Cabinet Budget Review Committee will have regard to the funding requirement (and other funding options) necessary to deliver capital projects listed on the agency's approved capital acquisition plan.

Initial fitout for major new office buildings constructed by the HPW.

HPW arranges construction of the fitout asset(s) together with construction of the building. Ownership of the fitout asset(s) is transferred to the tenant agency on completion of construction. Funding for the construction is through equity appropriation or (usually) borrowings. The debt remains with the HPW.

Additional implications, including:

- The Cabinet Budget Review Committee approves fitout construction together with the building construction.
- During the construction phase HPW recognises fitout as part of assets under-construction (with no depreciation).
- On project completion the fitout asset is transferred to the tenant agency. This is achieved by means of a non-appropriated equity injection into the tenant agency and a non-appropriated equity withdrawal from HPW.

- The tenant agency commences depreciation of the fitout asset(s) over its useful life (NB: the 'useful life' of leasehold improvements is not consistent across tenant agencies).
- The tenant agency has direct control of, and therefore ongoing responsibility for, monitoring and stocktaking of the fitout asset(s).
- When machinery-of-government changes arise and/or changes are to be implemented as part of an accommodation strategy endorsed by the Department of Housing and Public Works and implemented by the Queensland Government Accommodation Office, in the case of tenant agency relocations, the outgoing tenant agency's fitout asset(s) can be transferred to the incoming tenant agency via equity injection at its written down value with nil consideration, in accordance with accounting policy guidelines.

7.0 Office Accommodation Program (OAP)

Under current arrangements HPW manages the construction of OAP-funded fitout and transfers control to the tenant agency gaining beneficial use of the fitout. HPW is funded for the fitout costs and the transfers are made via equity injection, at nil consideration to the tenant agencies. However, in line with government policy, agencies receiving the fitout should recognise, and account for, the capital component of the fitout costs and arrange funding of the depreciation. Where an agency considers that it is unable to meet the funding requirements for depreciation from within its own resources, supplementation may be requested within the relevant budget context. Such requests will be considered on a case-by-case basis consistent with government policy.

It should be noted that not all the costs incurred in a specific fitout project should be capitalised. A proportion of the costs incurred do not directly contribute to the construction of a fitout asset (e.g. costs of relocating work units). For illustration, Attachment 1 describes a typical fitout project showing the proportion of costs that should be capitalised.

8.0 Machinery-of-government changes and whole-of-government accommodation requirements

When machinery-of-government changes arise or a whole-of-government accommodation requirement arises and tenant agency relocations occur, an outgoing tenant agency's fitout asset(s) can be transferred to the incoming tenant agency via equity injection at its written down value with nil consideration, in accordance with accounting policy guidelines. In most cases this approach is the most cost-effective (in whole-of-government terms) than relocating each agency's movable fitout to a new location. It is also clearly impractical to relocate partitions and other fixed fitout items.

HPW will liaise with agencies undergoing machinery-of-government changes to resolve any issues in the most cost-effective and equitable way.

9.0 Review

These arrangements are subject to review by Queensland Treasury. This reference will be amended to reflect further advice from Queensland Treasury, if required.

10.0 Additional information and assistance

Additional information, assistance and advice regarding office fitout funding and ownership is available from the Department of Housing and Public Works. Contact information is available from http://www.hpw.qld.gov.au/aboutus/BusinessAreas/AccommodationOffice/Pages/Default.aspx .

Attachment 1

Typical fitout project fixed price proposal

FIXED PRICE PROPOSAL

CLIENT COPY
ADMIN COPY

MEMO
PROJECT SERVICES - OFFICE INTERIORS
QUANTITY SURVEYING

PROJECT NO./PROGRAM
xxxxxx

EXCEL

SYSTEM: CONS. MANAGEMENT

Date:

CLIENT FUND	OAP
X	

CLIENT: G.O.A.U.

TO: MANAGER OFFICE INTERIORS
Attention:

PROJECT: SAMPLE

			Expense	Capital	
BUILDING COST (409181)					
Building Costs	Demolition	$86,251	$86,251		
	Construction (partitions, doors, glazing)	$86,251		$86,251	
	Services alterations (electrical, mechanical)	$192,503	$192,503		
	Signage	$1,000	$1,000		
	Sub Total	$366,005	$279,754	$86,251	$366,005
FURNITURE , ETC .					
New Loose Furniture		$35,000		$35,000	
Joinery Unit - Conference Room - to be advised.		$2,500		$2,500	
New Workstations & Screens -					
Reconfigure, Relocate & New Workstations, etc.		$48,945		$48,945	
	Sub Total	$86,445		$86,445	$86,445
TELEPHONE SERVICES	Sub Total	$7,700	$7,700		
DISBURSEMENTS					
Building Fee (P.L.L & WPH&S)		$920	$920		
Building Act Approval Fees		$800	$800		
Q.B.S.A Fees					
Disbursements & Building Owner Approval Fees		$750	$750		
	Total Project Cost :	$462,620	$289,924	$172,696	$462,620
PROFESSIONAL FEES[3D] - incl. prepaid workstations.		$74,064	$74,064		$74,064
-					
CONTINGENCY[2B]		$46,262	$46,262		$46,262
BUILT -IN ART	n/a				
	GROSS PROJECT COST:	$582,945	$410,249	$172,695	$582,945
			70%	30%	
G.S.T. Allowance on Project Costs . (Provisional) .		$50,888			
G.S.T. Allowance on Professional Fees . (Provisional) .		$7,406			
	GROSS PROJECT COST INCLUDING PROVISIONAL GST:	$641,240			

NO ALLOWANCE IS INCLUDED FOR:

Making good vacated premises
Leases on premises

CLIENT APPROVAL SIGNATURE	DESIGNATION	DATE