



Queensland Government

Department of **Infrastructure and Planning**

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Service Delivery Division

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Local Government Bulletin

Measurement and disclosure of retail & distribution water assets for the period ending 30 June 2009: South East Queensland only

Purpose

The purpose of this bulletin is to alert councils in South East Queensland to an issue that may arise in the completion and audit of their financial reports for the period ending 30 June 2009.

Background

Reforms proposed by the Queensland Water Commission include the creation of:

- A single “distribution” entity jointly-owned by local government to own and operate the region’s water and wastewater reticulation networks and wastewater treatment plants; and
- Three “retail” entities jointly owned by local government.

Issues

Each council will receive compensation for the transfer of the relevant assets and operations to those entities. The value and form of that compensation, however, will not be known until negotiations are finalised late in the 2009 calendar year. This creates uncertainty for councils when assessing the assets for impairment at 30 June 2009. In addition, some councils are unsure whether to proceed with revaluations of those assets in the period ending 30 June 2009.

Suggested approach

It is recommended that councils continue to revalue the assets, if required, in accordance with AASB 116: *Property, Plant and Equipment*. In some cases this will mean engaging the services of a valuer to assess the current value, in other cases indexation of prior year valuations will be acceptable.

Councils also need to assess the assets for impairment at 30 June 2009 even though further information may not be available at that date. In this case councils will need to make appropriate disclosure in the notes to the financial statements concerning the inherent uncertainty that exists in relation to the assets (An example of such disclosure is included in Appendix A).

If further information becomes available prior to the finalisation of the audit of councils financial report, appropriate adjustments will need to be made to reflect any impairment of the assets. In addition the note disclosure will need to be adjusted accordingly.

Modified opinion

For councils in South East Queensland, a modified audit opinion may be issued for the period ending 30 June 2009 due to the inherent uncertainty surrounding the transfer of the retail water and distribution assets to the new entities. Following the advice in this bulletin will ensure that the severity of the opinion will be minimised.

The Department has developed this technical paper which has been reviewed by the Queensland Audit Office.

Further information

Any further enquiries on this matter should be addressed to Sue Phillips, Principal Project Officer, Service Delivery Division, Phone: 07 3225 8647, Fax: 07 3225 1350, paula.nichols@dlgpsr.qld.gov.au. The Department's postal address is PO Box 15031, City East, Queensland 4002.

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APPENDIX A: EXAMPLE WATER REFORM NOTE (delete information where not applicable)

In the 2006-2007 year, the Queensland Water Commission released its final report to the Queensland Government on the Urban Water Supply Arrangement in South East Queensland. The report outlines a range of structural and regulatory reforms proposed for urban water supply arrangements in South East Queensland including enhanced economic regulation and pricing.

(a) Bulk Water

The *South East Queensland Water (Restructuring) Act 2007* (Restructuring Act) provides the legislative basis to effect the first stage of the Government’s reforms by facilitating bulk water supply and transport business restructure in SEQ. Among other things, the Restructuring Act provides for the establishment of four new statutory authorities to participate in urban water supply arrangements in SEQ. The new entities comprise:

- Three new bulk water authorities to own and operate bulk water supply, transport and manufactured water infrastructure;
- A Water Grid Manager to operate the water grid.

Pursuant to a transfer notice under the Restructuring Act gazetted on xx xx 2008, Council’s bulk water assets and certain freehold land, inventories and employees were transferred to (need to list specific entity or entities that received the transfer - eg. Queensland Bulk Water supply authority) on 1 July 2008.

Compensation for the transfer was initially paid to the Queensland Treasury Corporation in settlement of Council debts outstanding at the transfer date, with the remaining balance then paid to Council

Transfer details	Note	1 July 2008 \$000
Assets		
Inventories held for distribution		
Property, plant and equipment		_____
Liabilities		
Accrued employee benefits		()
Loans – Queensland Treasury Corporation		()
Provisions – Employee benefits		()
Book value of net assets transferred		
Compensation received		_____
Net gain on transfer		_____

A loss of \$ arose from the use of different methods to determine the value of the assets to be transferred as determined by the State Government and their book values according to Council’s valuation methodologies. This loss was accounted for as an impairment of the relevant assets on the date the transfer notice was gazetted.

A gain of \$ arose from the early settlement of the Queensland Treasury Corporation loan. This represented the difference between the book and market values of the loan on 1 July 2008 based on the interest rate applicable on that date (refer note).

(b) Distribution and Retail Water

Further reforms proposed by the Queensland Water Commission include the creation of:

- A single “distribution” entity jointly-owned by local government to own and operate the region’s water and wastewater reticulation networks and wastewater treatment plants; and
- Three “retail” entities jointly owned by local government.

As the impact of these changes is not yet determined, no account has been taken of them in preparing this financial report. However inherent uncertainty exists about the recoverable amount of the following assets which are expected to be transferred to the new entities:

	Note	30 June 2009 \$000
Assets expected to be transferred to the new entities		
Inventories held for distribution		
Property, plant and equipment		_____