



# Central SEQ Distributor-Retailer Authority

(trading as Queensland Urban Utilities)



## Annual Report

including Financial Statements for the period  
3 November 2009 to 30 June 2010

## About this Report

This Annual Report has been prepared to meet the reporting requirements of the Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities from 1 July 2010) for the period 3 November 2009 to 30 June 2010.

It has been prepared in accordance with the *Financial Accountability Act 2009*, the *Financial and Performance Management Standard 2009*, the Annual Report Guidelines for Queensland Government Agencies and the Participation Agreement between Queensland Urban Utilities and its participating local governments.

This report has been prepared for the Queensland Urban Utilities Board and for the Minister for Natural Resources, Mines and Energy and Minister for Trade to submit to Parliament.

## Public Availability

This report is publically available and can be viewed and downloaded from the Queensland Urban Utilities website at [www.urbanutilities.com.au](http://www.urbanutilities.com.au)

Printed copies are available from Queensland Urban Utilities' registered office.

## Registered Office

Level 6,  
Brisbane Transit Centre,  
West Tower,  
151 – 171 Roma Street,  
Brisbane Qld 4000

GPO Box 2765,  
Brisbane Qld 4001

T 13 26 57  
E [customerservice@urbanutilities.com.au](mailto:customerservice@urbanutilities.com.au)  
W [www.urbanutilities.com.au](http://www.urbanutilities.com.au)

Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities)  
Annual Report 2009/2010

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## Interpreter Service

We are committed to providing accessible services to people from all culturally and linguistically diverse backgrounds. If you have difficulty in understanding the annual report, you can contact us on 13 14 50 and we will arrange an interpreter to effectively communicate the report to you.

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## Message from the Chair and CEO

We are pleased to provide this first annual report for the Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities) for the 2009-10 financial year.

Although the Authority came into existence only on 3 November 2009 and did not operate in the reporting period, its commencement is testament to the significant achievements of the establishment team and the participating Councils.

Our success in contributing to the foundation for one of the most substantial institutional reforms of water and wastewater services in the history of Queensland is due to the professionalism, dedication and innovation of our staff and the staff of our participating Councils.

We will provide for the responsible management of our resources, including staff, economic, water and wastewater infrastructure and all other assets. Looking toward the immediate future, our task will be to ensure we continue to meet the demands of our customers by providing effective and efficient water and wastewater services in a timely manner.

Queensland Urban Utilities values customers and will undertake community and stakeholder consultation to ensure we work together to meet and manage expectations.

It is with great excitement that we look forward to our ongoing role in delivering such important services to the cities, townships and communities of Brisbane, Ipswich, Lockyer Valley, Scenic Rim and Somerset.



Jude Munro AO  
Chair



Noel K Faulkner  
Chief Executive Officer

## Establishment

The South-East Queensland Water (Distribution and Retail Restructuring) Act 2009 (the Act) established three Distributor-Retailer Authorities on 3 November 2009:

- Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities)
- Northern SEQ Distributor-Retailer Authority (trading as Unity Water)
- Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water)

The Authorities commenced trading from 1 July 2010. At this time the water and wastewater assets, liabilities and employees of the relevant participating local governments were transferred to each of the new Authorities.

Participating local governments of the Central SEQ Distributor-Retailer Authority are:

- Brisbane City Council
- Ipswich City Council
- Lockyer Valley Regional Council
- Scenic Rim Regional Council
- Somerset Regional Council.

The participating local governments and Queensland Urban Utilities signed a Participation Agreement that became operative on 25 June 2010. The Participation Agreement was approved and tabled in the legislative assembly.

The mechanism for transferring assets, liabilities and employees from participating local governments to the Distribution-Retailer Authorities is legislated in the Act and is called a "Transfer Scheme".

The first Transfer Schemes between the Central SEQ Distributor-Retailer Authority and its participating local governments were approved and gazetted by the Minister in June 2010, with further Transfer Schemes due for completion and submission to the Minister in September 2010.

## About Queensland Urban Utilities

Queensland Urban Utilities is an integrated water and wastewater distribution and retail statutory authority serving cities and towns across the Brisbane City Council, Ipswich City Council, Lockyer Valley, Scenic Rim and Somerset Regional Council areas.

The creation of Queensland Urban Utilities is the result of the Queensland Government's structural reforms of the water sector in South-East Queensland, which have affected all elements of the regional water supply chain. Queensland Urban Utilities has merged the water and wastewater businesses of its five participating local governments, making it one of the largest water and wastewater entities in Australia.

Consistent with our local government owners, Queensland Urban Utilities provides services to meet government objectives for the community – strong, green, smart, healthy and fair.

Within its operational area, Queensland Urban Utilities is responsible for water delivery, wastewater transport and treatment, recycled water treatment and supply, operations and maintenance, new infrastructure, and retail services including billing and customer service.



### Queensland Urban Utilities operational area

From 1 July 2010 Queensland Urban Utilities will:

- serve a population of 1.3 million;
- own over \$4 billion of assets;
- supply approximately 105,000 mega-litres of drinking water each year;
- support in excess of 510,000 connections; and
- employ over 1,200 staff.



## Our Place in the Water Grid



## Governance

Queensland Urban Utilities operates under the direction and control of an eight member Board (the Board). The Board was appointed on 25 June 2010 and is comprised of independent members.

Board Members are appointed on a rotational basis in accordance with the Participation Agreement.

Jude Munro AO was appointed as the Chairperson of the Board. Board Members are Barry Ball, Dennis Cavagna, Diana Eilert, Paul Emmerson, Phil Kesby, Bernard Ponting and Len Scanlan.

There was one Board meeting prior to 30 June 2010 and all members were in attendance.

The Board meets monthly and will be responsible for:

- Deciding the strategies and the operational, administrative and financial policies to be followed by Queensland Urban Utilities
- Ensuring Queensland Urban Utilities performs its functions and exercises its powers in a proper, effective and efficient way
- Ensuring Queensland Urban Utilities complies with its planning and reporting requirements.

The Board has established an Audit, Finance and Risk Committee, a Capital Delivery and Asset Management Committee, and a People, Stakeholder and Community Committee. Members of the Board make up the Committees with all Committees meeting as necessary. The first Committee meetings were held post 1 July 2010.

## Remuneration Disclosure

Senior Executives transferred to Queensland Urban Utilities on 1 July 2010 and were listed on the first Transfer Scheme. Prior to transfer, Senior Executives were contracted to Brisbane City Council (BCC) with wages paid by BCC. Appointments to the Executive were made at differing times during the financial year. The aggregate amount paid or payable by BCC to the Senior Executives (below) is \$837,000 (from the date of appointment to 30 June 2010).

The number of Senior Executives who received or were due to receive total remuneration of \$100,000 and more:

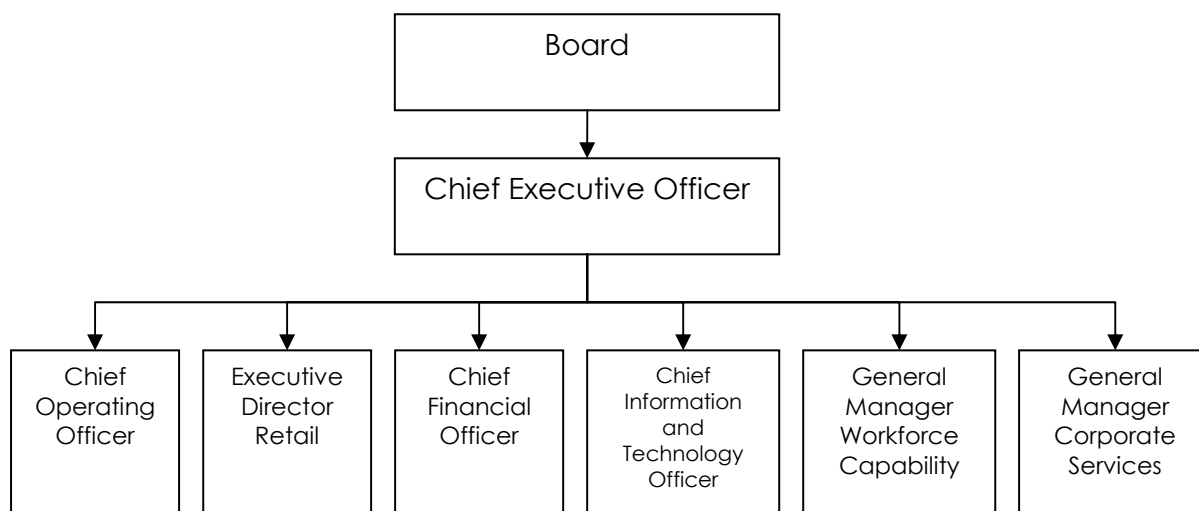
|                        |   |
|------------------------|---|
| \$140,000 to \$159,999 | 1 |
| \$240,000 to \$259,999 | 1 |
| \$420,000 to \$439,999 | 1 |

## Participation Return Policy

Participation returns to the participating local governments will be in accordance with the Participation Agreement and will be paid based on a minimum final annual participation return of 85% of estimated Net Profit and a minimum interim participation return of 85% of estimated Net Profit for the first six months of the financial year, unless the Participants agree otherwise. Net Profit is defined as profit for the financial year after providing for income tax equivalent and excluding any unrealised capital gains from upwards revaluation of non-current assets and excluding any non cash donated assets.



## Our Organisational Structure



Members of the Executive Leadership Team are:-

|  |                  |
|--|------------------|
| Chief Executive Officer                  | Noel K Faulkner  |
| Chief Financial Officer                  | Louise Dudley    |
| Chief Operating Officer                  | Robin Lewis      |
| Executive Director Retail                | Helen Harding    |
| Chief Information and Technology Officer | Georges Cascales |
| General Manager Workforce Capability     | Debra Briscoe    |
| General Manager Corporate Services       | Jennifer Leis    |

## Financial Facts

|  |          |
|--|----------|
| • Total Revenue                                    | \$ 0.15m |
| • Net Expenditure                                  | \$37.48m |
| • Assets transferred from Participants 1 July 2010 | \$ 4.26b |
| • Overseas travel                                  | \$ NIL   |
| • Consultancies                                    | \$ 1.06m |
| o Legal  | \$0.12m  |
| o Engineering                                      | \$0.06m  |
| o Finance  | \$0.18m  |
| o Information Technology                           | \$0.20m  |
| o General Management                               | \$0.50m  |

Expenditure for the period 3 November 2009 to 30 June 2010 relates to the establishment of Queensland Urban Utilities under the Queensland Government's structural reforms of the water sector in South-East Queensland.

# Central SEQ Distributor-Retailer Authority Financial Statements

For the period 3 November 2009 to 30 June 2010

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# Central SEQ Distributor-Retailer Authority

## Statement of Comprehensive Income

For the period 3 November 2009 to 30 June 2010

|  | <b>Note</b> | <b>3 November 2009<br/>to 30 June 2010<br/>\$'000</b> |
|--|-------------|---|
| <b>Income</b>                                  |             |   |
| <b>Revenue</b>                                 |             |   |
| <b>Recurrent revenue</b>                       |             |   |
| Other income                                   | 3(a)        | 151   |
| <b>Total income</b>                            |             | 151   |
| <b>Expenses</b>                                |             |   |
| <b>Recurrent expenses</b>                      |             |   |
| Materials and services                         | 4           | (37,627)  |
| Finance costs                                  | 5           | (1)   |
|  |             | (37,628)  |
| <b>Total expenses</b>                          |             | (37,628)  |
| <b>Net operating surplus / (deficit)</b>       |             | (37,477)  |
| <b>Total comprehensive income for the year</b> |             | <b>(37,477)</b>                                       |

*The above statement should be read in conjunction with the accompanying notes and Significant Accounting Policies.*

# Central SEQ Distributor-Retailer Authority

## Statement of Financial Position as at 30 June 2010

|                                      | Note | 3 November 2009<br>to 30 June 2010<br>\$'000 |
|--------------------------------------|------|--|
| <b>Current assets</b>                |      |  |
| Cash and cash equivalents            | 6    | (1)  |
| <b>Total current assets</b>          |      | (1)  |
| <b>Non-current assets</b>            |      |  |
| Property, plant and equipment        | 7    | 12   |
| <b>Total non-current assets</b>      |      | 12   |
| <b>Total assets</b>                  |      | 11   |
| <b>Current liabilities</b>           |      |  |
| Trade and other payables             | 8    | 37,488                                       |
| <b>Total current liabilities</b>     |      | 37,488                                       |
| <b>Non-current liabilities</b>       |      |  |
| Trade and other payables             | 8    | -  |
| <b>Total non-current liabilities</b> |      | -  |
| <b>Total liabilities</b>             |      | 37,488                                       |
| <b>Net assets</b>                    |      | <b>(37,477)</b>                              |
| <b>Equity</b>                        |      |  |
| Retained surplus/(deficiency)        |      | (37,477)                                     |
| <b>Total equity</b>                  |      | <b>(37,477)</b>                              |

*The above statement should be read in conjunction with the accompanying notes and Significant Accounting Policies.*

# Central SEQ Distributor-Retailer Authority

## Statement of Changes in Equity

For the period 3 November 2009 to 30 June 2010

|                                      | Capital | Retained surplus | Total    |
|--------------------------------------|---------|------------------|----------|
|                                      | \$'000  | \$'000           | \$'000   |
| <b>Balance as at 3 November 2009</b> | -       | -                | -        |
| Net operating surplus/(deficit)      | -       | (37,477)         | (37,477) |
| <b>Balance as at 30 June 2010</b>    | -       | (37,477)         | (37,477) |

*The above statement should be read in conjunction with the accompanying notes and Summary of Significant Accounting Policies.*

# Central SEQ Distributor-Retailer Authority

## Statement of Cash Flows

For the period 3 November 2009 to 30 June 2010

|  | Note | 3 November 2009<br>to 30 June 2010<br>\$'000 |
|--|------|--|
| <b>Cash flows from operating activities</b>                |      |  |
| Receipts from customers                                    |      | -  |
| Payments to suppliers and employees                        |      | (1)  |
| <b>Net cash inflow (outflow) from operating activities</b> | 11   | (1)  |
| <b>Cash flows from investing activities</b>                |      |  |
| Payments for property, plant and equipment                 |      | -  |
| <b>Net cash inflow (outflow) from investing activities</b> |      | -  |
| Net increase (decrease) in cash held                       |      | (1)  |
| Cash at beginning of the financial year                    |      | -  |
| <b>Cash at end of the financial year</b>                   | 6    | (1)  |

*The above statement should be read in conjunction with the accompanying notes and Summary of Significant Accounting Policies.*



# Central SEQ Distributor-Retailer Authority

## Notes to the financial statements

For the period 3 November 2009 to 30 June 2010

### 1 General Information

This financial report covers the Central SEQ Distributor-Retailer Authority. There are no controlled entities. From 1 July 2010, the trading name will be Queensland Urban Utilities.

Queensland Urban Utilities is a "for profit" entity.

The Central SEQ Distributor-Retailer Authority is a Statutory Body under the *Financial Accountability Act 2009* and under the *Statutory Bodies Financial Arrangements Act 1982* and was established under the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009*. Central SEQ Distributor-Retailer Authority expires at the end of 99 years from when it was established on 3 November 2009. On expiration of Central SEQ Distributor-Retailer Authority (a) its assets and liabilities become the assets and liabilities of its participants; and (b) the participants become the successor in law of the assets and liabilities rateably in accordance with their participation rights under the participation agreement. The Participating Councils are Brisbane City, Ipswich City, Lockyer Valley Regional, Scenic Rim Regional and Somerset Regional Councils. The head office and principal place of business of the Central SEQ Distributor-Retailer Authority is: Level 1, 315 Brunswick Street, Fortitude Valley QLD, 4006

The *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* (section 11) defines the functions as:-

"The primary functions of the Central SEQ Distributor-Retailer Authority are to do the following for its geographic area -

- (a) purchase water from the water grid manager under the 2007 Restructuring Act;
- (b) distribute water;
- (c) provide the following services (relevant services) to customers -
  - (i) water services;
  - (ii) wastewater services;
- (d) charge customers for relevant services;
- (e) manage customer enquiries, service requests and complaints;
- (f) on and from 1 July 2010—
  - (i) perform functions under this Act and the Water Supply Act relating to trade waste as a sewerage service provider; and
  - (ii) perform particular planning and development assessment functions under the Planning Act;
- (g) anything else likely to complement or enhance a function mentioned in paragraphs (a) to (f)."

# Central SEQ Distributor-Retailer Authority

## Notes to the financial statements

For the period 3 November 2009 to 30 June 2010

### **2 Significant accounting policies**

#### **2.A Basis for preparation**

The Queensland Water Commission's report to the Queensland Government on the Urban Water Supply Arrangement in South East Queensland proposed a range of structural and regulatory reforms for urban water supply arrangements in South East Queensland including enhanced economic regulation and pricing. Note 12 includes details of the post balance date events.

Pursuant to Section 8 of the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* the Central SEQ Distributor-Retailer Authority (the Authority) was established by assent on 3 November 2009. Section 5 (b) provides for participation in the Authority by Brisbane City Council, Ipswich City Council, Lockyer Valley Regional Council, Scenic Rim Regional Council and Somerset Regional Council.

On 25 June 2010, the Queensland Government approved the Transfer Scheme that will transfer the assets and liabilities of the former Water and Wastewater businesses of the Participating Local Government Councils as at 1 July 2010. A second Transfer Scheme will be completed August/September 2010.

Costs that were incurred for the establishment of the Authority include the Authority's share of costs for the setup of the SEQ Distribution Entity (Interim) Pty Ltd under the initial model of the water reform as well as costs met by the Participating Councils, these costs will be reimbursed by the Authority and are shown as liabilities at Note 8.

These financial statements are general purpose financial statements, and have been prepared for the period 3 November 2009 to 30 June 2010 on an accrual basis in accordance with Australian Accounting Standards and Interpretations and comply with the requirements of the *Financial Accountability Act 2009* and the *Financial and Performance Management Standard 2009*.

These financial statements have been prepared under the historical cost convention.

#### **2.B Date of authorisation**

The financial statements were authorised for issue on the date they were submitted to the Auditor-General for final signature. This is the date the management certificate is signed.

#### **2.C Presentation currency and comparatives**

The financial statements are presented in Australian dollars, which is the Authority's functional currency. Amounts included in the financial statements have been rounded to the nearest \$1,000, unless disclosure of the full amount is specifically required.

# Central SEQ Distributor-Retailer Authority

## Notes to the financial statements

For the period 3 November 2009 to 30 June 2010

### **2 Significant accounting policies (contd)**

#### **2.D Adoption of new and revised Accounting Standards**

In the current year, the Authority adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period.

Management have yet to assess the impact that AASB 9 *Financial Instruments* and 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* is likely to have on the financial statements.

Initial application of the other Standards/Interpretations in issue but not yet effective is not expected to have any material impact on the financial statements.

#### **2.E Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Authority's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant (refer Note 12 for details about the transaction occurring on 1 July 2010). Actual results may differ from these estimates. The estimates and ongoing assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods as relevant.

#### **2.F Revenue**

Revenue is measured at fair value of the consideration or contributions received or receivable. All revenue is stated net of the amount of goods and services tax (GST).

Interest income is recognised as it accrues in the Statement of Comprehensive Income, using the effective interest method.

#### **2.G Financial assets and financial liabilities**

The Authority recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the Authority becomes a party to the contractual provisions of the instrument.

The Authority has categorised and measured the financial assets and financial liabilities held at balance date as follows:

# Central SEQ Distributor-Retailer Authority

## Notes to the financial statements

For the period 3 November 2009 to 30 June 2010

### **2 Significant accounting policies (contd)**

#### **2.G Financial assets and financial liabilities (contd)**

##### Financial assets

Cash and cash equivalents (Note 2.H)

Receivables - measured at amortised cost (Note 2.I)

##### Financial liabilities

Payables - measured at amortised cost (Note 2.K)

Financial assets and financial liabilities are presented separately from each other and offsetting has not been applied.

The fair value of financial instruments is determined as follows:

The fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities approximate their carrying amounts and are not disclosed separately.

The fair value of trade receivables approximates the amortised cost less any impairment. The fair value of payables approximates the amortised cost.

The Authority does not recognise financial assets or financial liabilities at fair value in the Statement of Financial Position.

All other disclosures relating to the measurement and financial risk management of financial instruments are included in Note 13.

#### **2.H Cash and cash equivalents**

For the purposes of the Statement of Financial Position and the Statement of Cash Flows, cash assets include all cash and cheques receipted but not banked at 30 June as well as deposits at call with financial institutions. There are no cash equivalents at balance date.

#### **2.I Receivables**

Trade debtors are recognised at the amounts due at the time of sale or service delivery ie the agreed purchase/contract price. Settlement of these amounts is required within 30 days from invoice date.

The collectability of receivables is assessed periodically with provision being made for impairment. There was no known bad debt as at 30 June.

Other debtors generally arise from transactions outside the usual operating activities of the entity and are recognised at their assessed values. Terms are a maximum of three months, no interest is charged and no security is obtained.

# Central SEQ Distributor-Retailer Authority

## Notes to the financial statements

For the period 3 November 2009 to 30 June 2010

### **2 Significant accounting policies (contd)**

#### **2.J Property, plant and equipment**

Each class of property, plant and equipment is stated at cost or fair value less, where applicable, any accumulated depreciation and accumulated impairment loss. Items of plant and equipment (tools of trade, including computer equipment) with a total value of less than \$5,000, and other property, plant and equipment with a total value of less than \$10,000 are treated as an expense in the year of acquisition. All other items of property, plant and equipment are capitalised. Assets are disclosed in work in progress (Note 7) until commissioned ready for use.

#### **2.K Payables**

Trade creditors are recognised upon receipt of the goods or services ordered and are measured at the agreed purchase/contract price net of applicable discounts other than contingent discounts. Amounts owing are unsecured and are generally settled on 30 day terms.

#### **2.L Liabilities - employee benefits**

Employees will transition from the existing Councils as at 1 July 2010. At 30 June 2010, there is no liability for employee benefits. Refer Note 12 for details of the expected opening balance position.

#### **2.M Retained surplus/deficit**

This represents the amount of Authority's net funds not set aside in reserves to meet specific future needs.

#### **2.N Taxation**

Income of local authorities and public authorities is exempt from Commonwealth taxation except for Fringe Benefits Tax and Goods and Services Tax ('GST'). The net amount of GST recoverable from the ATO or payable to the ATO is shown as an asset or liability respectively.

The Authority will pay an income tax equivalent to its Participating Councils in accordance with the requirements of its Participation Agreement and the Local Government Tax Equivalents Regime, from commencement of operations on 1 July 2010.

The Authority pays payroll tax to the Queensland Government on its activities.

#### **2.O Going concern**

Although these financial statements disclose a loss for the period and no cash is held, these statements have been prepared on a going concern basis. This is because the Authority has incurred costs in the establishment phase of its business and will commence operations on 1 July 2010. The Participating Councils have funded the establishment costs and will be reimbursed by the Authority drawing down debt from the Queensland Treasury Corporation post 1 July 2010.

# Central SEQ Distributor-Retailer Authority

## Notes to the financial statements

For the period 3 November 2009 to 30 June 2010

|   |      | 3 November 2009<br>to 30 June 2010<br>\$'000 |
|---|------|--|
|   | Note |  |
| <b>3 Revenue analysis</b>   |      |  |
| <b>(a) Other income</b>   |      |  |
| Recovery of costs   |      | 151  |
|   |      | 151  |
| <b>4 Materials and services</b>   |      |  |
| Advertising and marketing   |      | 1,236  |
| Audit services  |      | 40   |
| Communications and IT   |      | 1,241  |
| Consultants   |      | 1,057  |
| Contract costs*   |      | 33,436                                       |
| Legal costs   |      | 114  |
| Repairs and maintenance   |      | 1  |
| Rentals - operating leases  |      | 413  |
| Travel  |      | 17   |
| Other materials and services  |      | 72   |
|   |      | 37,627                                       |
| * Associated with costs incurred in the establishment of Queensland Urban Utilities                           |      |  |
| <b>5 Finance costs</b>  |      |  |
| Bank charges  |      | 1  |
|   |      | 1  |
| <b>6 Cash and cash equivalents</b>  |      |  |
| Cash at bank and on hand  |      | 2  |
| Less bank overdraft   |      | (3)  |
| Balance per Statement of Cash Flows   |      | (1)  |
| Externally imposed expenditure restrictions at the reporting date relate to the following cash assets:        |      |  |
| Total unspent restricted cash   |      | -  |
| Cash and deposits at call are held in the Commonwealth Bank of Australia in a normal business cheque account. |      |  |
| <b>7 Property, plant and equipment</b>  |      |  |
| Work in progress  |      | 12   |
|   |      | 12   |



# Central SEQ Distributor-Retailer Authority

## Notes to the financial statements

For the period 3 November 2009 to 30 June 2010

|  | <b>Note</b> | <b>3 November 2009<br/>to 30 June 2010<br/>\$'000</b> |
|--|-------------|---|
| <b>8 Trade and other payables</b>  |             |   |
| <b>Current</b>   |             |   |
| Creditors and accruals   | 2A          | 37,488  |
|  |             | <u>37,488</u>   |
| <p>This amount represents costs paid on behalf of the Authority to establish Queensland Urban Utilities. The claims are under review by the Queensland Water Commission in order to make a recommendation to the Minister, Natural Resources, Mines and Energy for approval. These costs will ultimately be included in the regulatory asset base.</p> |             |   |
| <b>9 Commitments for expenditure</b>   |             |   |
| <b>Contractual commitments</b>   |             |   |
| <p>Contractual commitments at end of financial year but not recognised in the financial statements are as follows:</p>   |             |   |
| Costs associated with establishment of Queensland Urban Utilities  |             | 692   |
|  |             | <u>692</u>  |
| Payable within one year  |             | 692   |
| <b>10 Contingent liabilities</b>   |             |   |
| There are no known contingent liabilities.   |             |   |
| <b>11 Reconciliation of net operating surplus for the year to net cash inflow (outflow) from operating activities</b>  |             |   |
| Net operating result   |             | <u>(37,477)</u>                                       |
| Changes in operating assets and liabilities:   |             |   |
| Increase/(decrease) in payables  |             | 37,488  |
|  |             | <u>37,488</u>   |
| Net cash inflow from operating activities  |             | <u>11</u>   |

# Central SEQ Distributor-Retailer Authority

## Notes to the financial statements

For the period 3 November 2009 to 30 June 2010

### 12 Events after the reporting period

The Queensland Water Commission's report to the Queensland Government on the Urban Water Supply Arrangement in South East Queensland proposed a range of structural and regulatory reforms for urban water supply arrangements in South East Queensland including enhanced economic regulation and pricing.

As part of the Queensland Government's ongoing restructure of the Urban Water Supply Arrangements, the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* (the Act) established three new statutory bodies, on 3 November 2009. Transfer of the control of water distribution and sewerage infrastructure from existing local government water businesses to these entities occurred on 1 July 2010. The new entities comprise:

- Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities)
- Northern SEQ Distributor-Retailer Authority (trading as Unity Water)
- Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water)

Under the Act, governance arrangements for the new Authority were established in a Participation Agreement, which is operative from 25 June 2010.

The five Councils' total initial contribution to and loans to the Authority has been calculated using a regulatory asset base (RAB) valuation approved by the Queensland Government to represent the market value of the business. This valuation was prepared to underpin the water pricing methodology currently under review by the Queensland Competition Authority. Each Council participates in the Authority based on its share of the RAB, comprising debt and participation rights as agreed by the five Councils and the Authority in the ratio of 40 to 60.

Indicative participation rights held by the Participating Councils in the Central SEQ Distributor-Retailer Authority is:

- Brisbane City Council 85.050%
- Ipswich City Council 12.213%
- Lockyer Valley Regional Council 0.854%
- Scenic Rim Regional Council 1.052%
- Somerset Regional Council 0.831%

In addition to the transfer of physical assets, the Participating Councils provided loans to the Authority under a separate loan agreement. This loan is subject to a fixed interest rate of 6.78% with monthly interest-only payments for 3 years. Following this initial payment, the terms will be renegotiated.

Participation returns will be paid from post-tax operating profits (after adjusting for capital receipts).

The Authority will operate under a tax equivalents regime, with all tax paid being distributed to the Participating Councils on a pro-rata basis to its participation rights. Tax is to be payable quarterly based on a percentage of the Authority's gross revenue until its first tax assessment.

Pursuant to a transfer notice gazetted on 29 June 2010, assets, liabilities, instruments and employees associated with Councils' water distribution and sewerage operations were transferred to the Central SEQ Distributor-Retailer Authority on 1 July 2010.

# Central SEQ Distributor-Retailer Authority

## Notes to the financial statements

For the period 3 November 2009 to 30 June 2010

### 12 Events after the reporting period (contd)

Details of the transfer that occurred on 1 July 2010 and form part of the Authority's balance sheet for RAB \$4.228b are:-

|                                | \$m     |
|--------------------------------|---------|
| Receivables                    | 17      |
| Inventory                      | 2       |
| Property, plant and equipment* | 4,256   |
| Payables                       | (17)    |
| Employee leave entitlements    | (28)    |
| Debt transferred from Councils | (183)   |
| Participant Debt (40%)         | (1,510) |
| Participation Rights (60%)     | (2,537) |

\* As RAB may not equate to fair value for property, plant and equipment for accounting purposes, the Authority is preparing an asset valuation methodology to establish fair value measurement, during the 2010/2011 financial year.

A Second Transfer Scheme is due to be provided to the Minister for approval late August 2010. Final participation rights held by each Participating Council in the Central SEQ Distributor-Retailer Authority will be finalised following the completion of the Second Transfer Scheme.

It is the intention of the Participating Councils to disclose the fair value of the assets, in their financial statements at 30 June 2010, for those that are transferring on 1 July 2010, at depreciated replacement cost. This value is not the same as the RAB on which the participation rights have been determined.

Costs incurred by the Participating Councils for the establishment of the Authority are the subject of a claim from the Authority (refer note 8). The nature of the eligible costs to be included in the claim is dependent on approval by the appropriate Minister.

### 13 Financial instruments

#### (a) Categorisation of Financial Instruments

The Authority has the following categories of financial assets and financial liabilities:

|                           | Note | 2010<br>\$ |
|---------------------------|------|------------|
| <b>Financial assets</b>   |      |            |
| Cash and cash equivalents | 6    | (1)        |
|                           |      | <u>(1)</u> |

#### (b) Financial Risk Management

The Authority's activities expose it to a variety of financial risks - interest rate risk, credit risk, liquidity risk and market risk.

Financial risk management is implemented pursuant to the Authority's policy. These policies focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the financial performance of the Authority.

# Central SEQ Distributor-Retailer Authority

## Notes to the financial statements

For the period 3 November 2009 to 30 June 2010

### 13 Financial instruments (contd)

#### (b) Financial Risk Management (contd)

The Authority measures risk exposure using a variety of methods as follows:

| Risk exposure  | Measurement method             |
|----------------|--------------------------------|
| Credit risk    | Ageing analysis                |
| Liquidity risk | Sensitivity analysis           |
| Market risk    | Interest rate sensitivity risk |

#### (c) Credit Risk Exposure

Credit risk exposure refers to the situation where the Authority may incur financial loss as a result of another party to a financial instrument failing to discharge their obligation.

The maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the gross carrying amount of those assets inclusive of any provisions for impairment.

No collateral is held as security relating to the financial assets held by the Authority.

The Authority assesses the credit risk before providing goods or services and applies normal business credit protection procedures to minimise the risk.

The Authority is exposed to credit risk through deposits held with banks. The QTC Cash Fund is an asset management portfolio that invests with a wide variety of high credit rating counterparties. Deposits are capital guaranteed.

No financial assets have had their terms renegotiated so as to prevent them from being past due or impaired, and are stated at the carrying amounts as indicated.

#### (d) Liquidity risk

Liquidity risk refers to the situation where the Authority may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Authority is exposed to liquidity risk through its trading in the normal course of business and borrowings from the Queensland Treasury Corporation.

The Authority aims to reduce the exposure to liquidity risk by ensuring sufficient funds are available to meet employee and supplier obligations as they fall due. This is achieved by ensuring that minimum levels of cash are held within the various bank accounts so as to match the expected duration of the various employee and supplier liabilities.

# Central SEQ Distributor-Retailer Authority

## Notes to the financial statements

For the period 3 November 2009 to 30 June 2010

### 13 Financial instruments (contd)

#### (d) Liquidity risk (contd)

The following table sets out the liquidity risk of financial liabilities held by the Authority in a format as it might be provided to management. The amounts disclosed in the maturity analysis represent the contractual undiscounted cash flows at balance date:

|                          | 0 to 1<br>year | 1 to 5<br>years | Over 5<br>years | Total  |
|--------------------------|----------------|-----------------|-----------------|--------|
|                          | \$             | \$              | \$              | \$     |
| <b>2010</b>              |                |                 |                 |        |
| Trade and other payables | 37,488         |                 |                 | 37,488 |
|                          | 37,488         | 0               | 0               | 37,488 |

The outflows in the above table are not expected to occur significantly earlier and are not expected to be for significantly different amounts than indicated in the table.

Unrestricted access was available at balance date to the lines of credit listed below:

|   |             |
|---|-------------|
|   | <b>2010</b> |
|   | <b>\$</b>   |
| Bank overdraft facility (Commonwealth Bank)                         | 5,000,000   |
| Undrawn Working capital facility (Queensland Treasury Corporation)* | 50,000,000  |

\* This working capital facility is supported by guarantees given by the Participating Councils and has an expiration date of 30 June 2010

#### (e) Market risk

The Authority does not trade in foreign currency and is not materially exposed to commodity price changes. The Authority is exposed to interest rate risk through its borrowings from Queensland Treasury Corporation and through its overdraft facility. The Authority does not undertake any hedging of interest rate risk.

# Central SEQ Distributor-Retailer Authority

## Financial statements

For the period 3 November 2009 to 30 June 2010

### Certificate of Central SEQ Distributor-Retailer Authority

These general purpose financial statements have been prepared pursuant to section 62(1) of the *Financial Accountability Act 2009* (the Act), relevant sections of the *Financial and Performance Management Standard 2009* and other prescribed requirements. In accordance with section 62(1)(b) of the Act we certify that in our opinion:

- (i) the prescribed requirements for establishing and keeping the accounts have been complied with in all material respects; and
- (ii) the statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of the Central SEQ Distributor-Retailer Authority for the period 3 November 2009 to 30 June 2010 and of the financial position of the Authority at the end of that period.



**Jude Munro AO**  
**Chair**  
**Central SEQ Distributor-Retailer Authority Board**

Date: 30 / 8 / 10



**Noel K Faulkner**  
**Chief Executive Officer**  
**Central SEQ Distributor-Retailer Authority**

Date: 30 / 08 / 10



## INDEPENDENT AUDITOR'S REPORT

To the Board of Central SEQ Distributor-Retailer Authority

### Report on the Financial Report

I have audited the accompanying financial report of the Central SEQ Distributor-Retailer Authority which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period 3 November 2000 to 30 June 2010, a summary of significant accounting policies, other explanatory notes and certificates given by the Chair and Chief Executive Officer.

#### *The Board's Responsibility for the Financial Report*

The Board is responsible for the preparation and fair presentation of the financial report in accordance with prescribed accounting requirements identified in the *Financial Accountability Act 2009* and the *Financial and Performance Management Standard 2009*, including compliance with Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. These auditing standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial report including any mandatory financial reporting requirements as approved by the Treasurer for application in Queensland.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

## *Independence*

The *Auditor-General Act 2009* promotes the independence of the Auditor-General and all authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

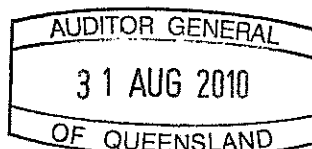
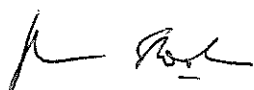
## *Auditor's Opinion*

In accordance with s.40 of the *Auditor-General Act 2009* –

- (a) I have received all the information and explanations which I have required; and
- (b) in my opinion –
  - (i) the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
  - (ii) the financial report has been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards of the transactions of the Central SEQ Distributor-Retailer Authority for the period 3 November 2009 to 30 June 2010 and of the financial position as at the end of that period.

## *Emphasis of Matter – Significant Uncertainty regarding the value of asset transfers on 1 July 2010 –*

Without qualification to the opinion expressed above, attention is drawn to Note 12 to the financial statements. On 1 July 2010, the Authority became responsible for the delivery of water and wastewater to customers within the local government areas of the five participating Councils: Brisbane, Ipswich, Somerset, Lockyer and Scenic Rim. On this date each participating Council transferred assets necessary for the Authority to operate this business. The value of assets transferred has been disclosed in the note using the Regulated Asset Base (RAB) valuation methodology approved by the Queensland Government for water pricing purposes, which may not equate to asset valuations for accounting purposes. As the accounting valuation methodology had not been finalised at the time of this financial report, a significant uncertainty exists in relation to the value of the assets being transferred and the likely impact on the valuation and classification of the Authority's assets from 1 July 2010.



G G POOLE FCPA  
Auditor-General of Queensland

Queensland Audit Office  
Brisbane