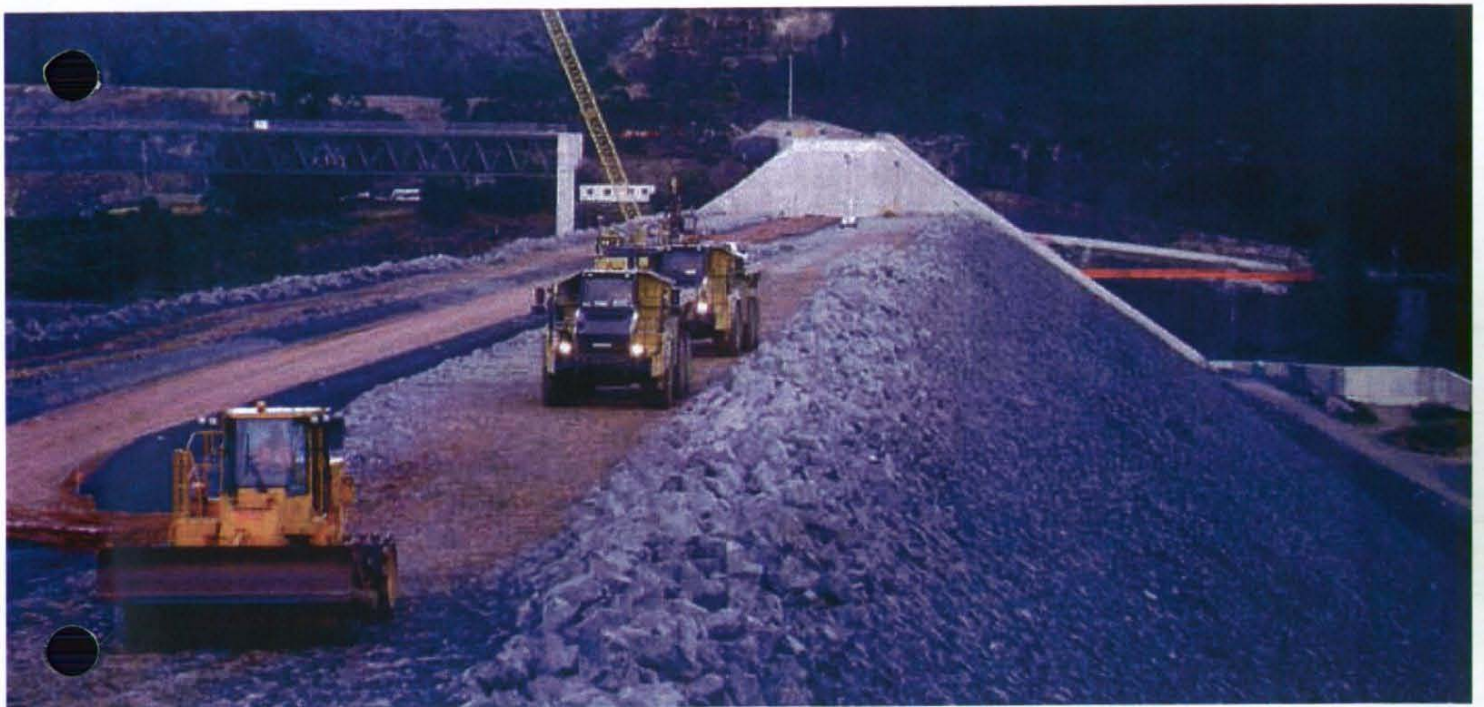


Delivering today and tomorrow



Annual Report
2009/10

This Annual Report provides information about the financial and non-financial performance of the Queensland Bulk Water Supply Authority (QBWSA, trading as Seqwater) for 2009-10.

It has been prepared in accordance with the *Financial Accountability Act 2009*, the *Financial and Performance Management Standard 2009* and Annual Report Guidelines for Queensland Government Agencies.

The report records the significant achievements against the strategies and activities detailed in the organisation's Strategic and Operational Plans.

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

It has also been prepared to meet the needs of Seqwater's customers and stakeholders which include the Commonwealth and local governments, industry and business associations and the community.

This report is publically available and can be viewed and downloaded from the Seqwater website at www.seqwater.com.au/public/news-publications/annual-reports

Printed copies are available from Seqwater's registered office.

Contact

Queensland Bulk Water
Supply Authority (QBWSA)
trading as Seqwater

ABN: 75450239876

Registered Office

Level 3, 240 Margaret Street Brisbane QLD 4000

PO Box 16146,
City East QLD 4002

T 07 3035 5500

F 07 3229 7926

E corpcommunications@seqwater.com.au

W www.seqwater.com.au

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Phil Hennessy



Peter Borrows

2 Report from the Chairman and the CEO

The 2009-10 year represents a significant step forward for Seqwater and the South East Queensland Water Grid (the Grid).

Seqwater is a partner in the Grid which provides South East Queensland with water from a range of sources. These water sources are both climate dependent and climate resilient, and are managed efficiently with a strong conservation focus.

The Grid comprises an infrastructure network of treatment facilities and two-way pipes that move water from new and existing sources across the region. With the ability to move water to where it is needed most, the Grid ensures a continuous supply of water to the region.

Over the past 12 months, on behalf of the Grid, Seqwater delivered more than 250,000 megalitres or in excess of 90 per cent of the region's drinking water.

A major highlight was the successful management of the largest rainfall and inflow events across the region in more than a decade.

The sudden and significant inflows associated with late summer and autumn rains had the potential to create water quality issues and put to the test preparations and risk assessments undertaken earlier in the year. By working closely with the Grid partners, Seqwater was able to manage and minimise water quality issues, and significantly reduce the impact on the community when compared with last summer. The ability to move water around the Grid played a key role in maintaining water quality.

In addition, the asset improvement and upgrade program continued through 2009-10, including upgrades to key regional water treatment plants and the installation of real-time water quality monitoring points on major Seqwater storages.

Seqwater's major infrastructure and construction projects continued on track throughout the year. These projects are designed to boost water storage capacity, improve water treatment capability, extend the inter-connected nature of the Grid network, and meet State Government water reform requirements.

It was a year the organisation moved from a transitional and establishment phase to a single focused regional water authority with one culture and greater clarity on the future direction of the business.

Major infrastructure projects include the ongoing construction of the Hinze Dam Stage 3 Project, the design phase of the Wyaralong Water Treatment Plant, and Stage 2 of the State Government's South East Queensland Fluoridation Program.

In terms of financial performance, over 2009-10 Seqwater has delivered further efficiencies, consolidation and cost cutting measures resulting from our regional approach to bulk water management.

With further transfers and acquisitions since 2009 and the revaluation of dams and weirs to fair value, Seqwater now owns, manages and operates physical assets with a carrying value of \$2.82 billion.

In this year Seqwater has progressed through its transition and establishment phase to become a single focused regional water authority, with one culture and greater clarity on the future direction of the business.

At the heart of this process has been an update of Seqwater's strategic and operational direction and an associated review of the leadership and operational structure.

The revised strategic plan ensures the day-to-day management of the region's water supply infrastructure remains central, while acknowledging the ever-increasing importance of the role of drinking water catchments in the future sustainability and growth of South East Queensland and the ongoing performance of the Grid.

It maps out a clear direction, focused on substantially increasing the value of the business on behalf of the community over the next five years.

To achieve this Seqwater aims to maximise the benefits from all assets, from dams and treatment plants through to lakes and catchments. This includes strengthening Seqwater's relationships with other catchment stakeholders who significantly influence the quality and quantity of water sourced. It means looking at the viability of increasing the production of renewable energy including hydroelectricity.

Report from the Chairman and the CEO

As one of the largest landowners in South East Queensland, Seqwater also has the opportunity to assess the potential role the organisation can play in providing carbon offsets on behalf of the region's industry and businesses as well as the community.

The Seqwater executive structure has reduced from five to four principal business groups to create a streamlined, efficient service delivery model. The new business groups: Water Delivery, Asset Delivery, Business Services and Organisational Development – better reflect Seqwater's core business activities and role in the Grid.

Most importantly the new structure provides our people with greater clarity about their roles and responsibilities within the organisation, from managers to on-site operators, and all the support staff who underpin the business.

The structural and directional changes have been supported by the rollout of a new information management system and associated processes.

The structure of the Grid with its regional focus has created a distinctive opportunity for Seqwater to fulfil a whole-of-catchment asset management role.

In the next phase of fulfilling this role the Board and executive will progressively build the knowledge required to manage these systems.

In setting this course, the Board and executive are aware that these catchments are complex natural systems. Their productivity and value are subject to a range of factors including climate, land use, community attitudes and economic demands.

In Seqwater's major projects and day-to-day work activities the introduction of workplace health and safety procedures and a proactive approach to safety helped achieve significant improvements in safety performance. For example, the slips, trips and falls prevention campaign reduced such injuries by 67 per cent.

During 2009-10 Seqwater recreation facilities continued to be a major drawcard for the community. More than 2.5 million people visited Seqwater dams and recreation sites over the year including record crowds. Over the Easter long weekend, more than 20,000 people visited the major storages with no reported water recreation incidents – the best result in more than ten years.

Seqwater now provides 50 per cent of the recreation space of the State Government's Greenspace Strategy for South East Queensland and almost 14 per cent for the entire State. The multiple recreation sites and high visitor numbers highlighted the importance of Seqwater's Recreation Management Framework to review all recreational activities at Seqwater storages. The review aims to balance recreational activities with Seqwater's ongoing key responsibility to deliver reliable, high quality drinking water.

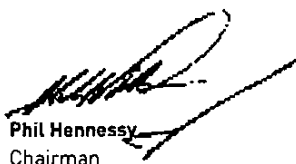
Focus on community education continued throughout the year, with water education and site tour services for more than 14,000 students and community groups. The Water Grid Manager has recognised the success of Seqwater's approach to community education, which will form the basis of a wider Grid community education program over 2010-11.

Seqwater's performance and achievements over the year have again been driven by the commitment and enthusiasm shown by our people who have embraced the changes across the organisation. These achievements could not have been delivered without their contribution.

Looking ahead Seqwater will continue a sustainability program focusing on efficient energy use and minimising carbon emissions, as well as improving triple-bottom-line performance of all major projects.

In addition, Seqwater aims to model and measure the drivers of water supply performance through a whole-of-catchment view, knowledge-based systems, and the capabilities of all staff with the goal of enhancing the performance of the Grid.

It is an exciting time to be at the forefront of change within the South East Queensland water industry. Much of the future success of this great region depends on the efficient and sustainable use of South East Queensland's natural resources.



Phil Hennessy
Chairman



Peter Borrows
Chief Executive Officer

6 About Seqwater

Seqwater provides bulk water storage and treatment services to the South East Queensland Water Grid (the Grid). Seqwater works collaboratively with the other water entities as part of the Grid. The Grid secures and efficiently manages South East Queensland's water supplies.

Seqwater supplies the bulk of its drinking water to the community via the Grid. However, it also supplies water to smaller communities in the region not connected to the Grid.

The formation of Seqwater as part of the government's reform of water supply arrangements in South East Queensland created an opportunity to take an integrated approach to catchment-sourced water management across the region.

This approach helps ensure the long-term security and sustainability of our region's catchment-based water supply.

With further transfers and acquisitions since 2009 and the revaluation of dams and weirs to fair value, Seqwater now owns, manages and operates physical assets with a carrying value of \$2.82 billion.

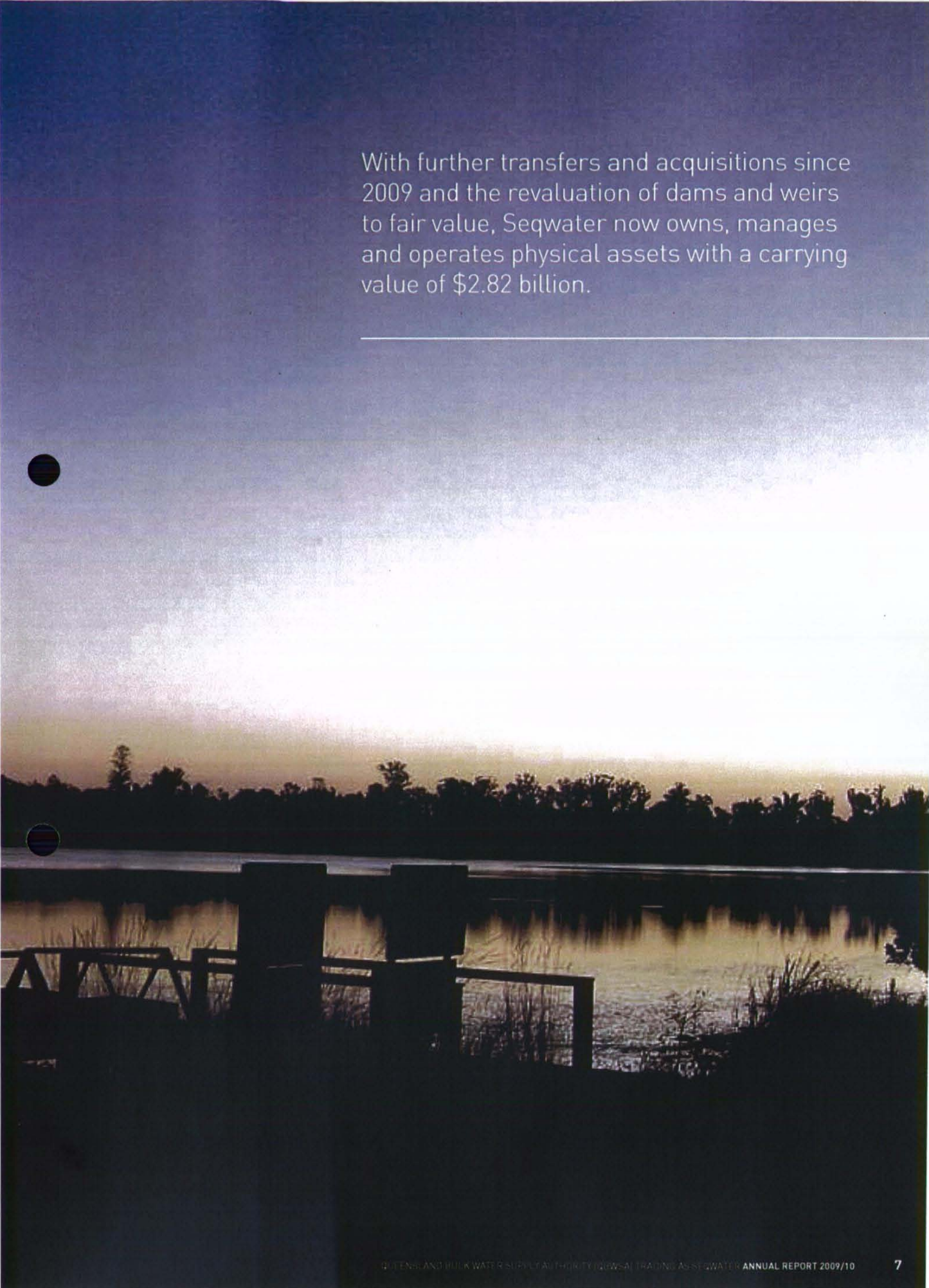
Seqwater has responsibility for managing 25 dams and 47 weirs across South East Queensland, including Wivenhoe, Somerset and North Pine Dams, Hinze Dam on the Gold Coast, and Baroon Pocket Dam on the Sunshine Coast.

In addition, Seqwater currently manages 46 operational water treatment plant (WTP) facilities and 14 groundwater bore fields.

Seqwater provides essential flood monitoring services, catchment management services for landholders, water quality research and investigation, recreation services, and irrigation services to around 1,000 rural customers in five water supply schemes.

Seqwater is also responsible for a range of new water infrastructure projects and initiatives, including raising the dam wall of the Hinze Dam, working with the Department of Infrastructure and Planning on the design phase of the Wyaralong Water Treatment Plant, and the fluoridation of the region's drinking water supply.

In delivering these services, Seqwater maintains cooperative and positive relationships with many stakeholders including government agencies, research organisations, landholders and the community.



With further transfers and acquisitions since 2009 and the revaluation of dams and weirs to fair value, Seqwater now owns, manages and operates physical assets with a carrying value of \$2.82 billion.

8

The South East Queensland (SEQ) Water Grid

Seqwater is a partner in the Grid, which provides South East Queensland with a range of water sources. These water sources are both climate dependent and climate resilient, and are managed efficiently with a strong conservation focus.

The Grid comprises an infrastructure network of treatment facilities and two-way pipes that move water from new and existing sources across the region. With the ability to move water to where it is needed most, the Grid ensures a continuous supply of water to the region.

Seqwater works collaboratively with the other Grid members to secure the region's water supply and manage short term, day-to-day supply issues, as well as the long term sustainability and security of water sources.

In addition to Seqwater, the other members of the Grid are:

- WaterSecure (Queensland Manufactured Water Authority) that provides new sources of pure water for South East Queensland through its Western Corridor Recycled Water Scheme and Gold Coast Desalination Plant. WaterSecure purifies water from six Brisbane and Ipswich wastewater treatment plants, supplying purified water to the region's power stations and, potentially, industrial and agricultural customers. If the region's combined dam levels fall below 40 per cent purified water will also be supplied to Wivenhoe Dam. WaterSecure's desalinated water flows directly to the Grid.
- LinkWater (Queensland Bulk Water Transport Authority) that manages, operates and maintains the Grid's potable bulk water pipeline network and related infrastructure. As the pipeline network controller, LinkWater moves an average of 600 megalitres (ML) of water per day through the Grid to where it's needed most.
- The SEQ Water Grid Manager (SEQWGM) is a statutory body that manages the strategic operation of the Grid to ensure water security and quality in a cost effective way. The SEQWGM holds the urban water entitlements for South East Queensland and purchases services to store, treat, produce and transport bulk water from Seqwater, LinkWater and WaterSecure to sell to existing local government owned water businesses and councils.

From July 2010 three water distribution and retail businesses will commence operation, completing the second phase of the grid. These new entities will deliver water to customers and collect, transport and treat sewage.

The new water distribution and retail businesses have been formed around three geographical areas, and are as follows:

- Queensland Urban Utilities - responsible for Brisbane, Scenic Rim, Ipswich, Somerset and Lockyer Valley areas
- Allconnex Water - responsible for the Gold Coast, Logan and Redlands council areas
- Unitywater - responsible for the Sunshine Coast and Moreton Bay Regional Council areas.

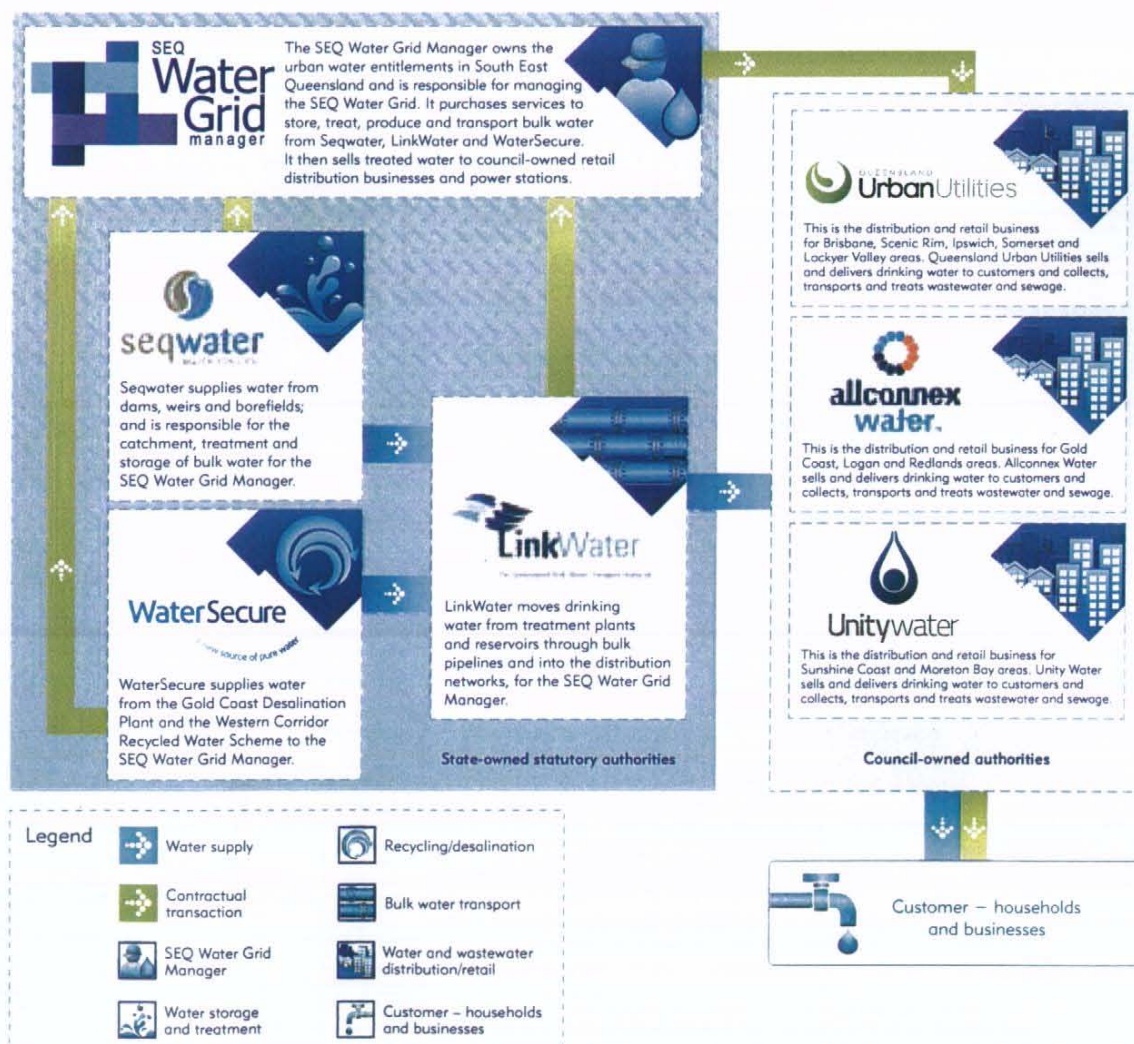
The Grid Twelve

With the Grid now in operation, the way the volume of the region's drinking water supply has changed. It is now based on a new regional dam capacity which includes the region's 12 key storages.

The new regional capacity reporting arrangement is called the Grid Twelve. It provides a more accurate picture of current water volumes and reflects the increased water security now available in South East Queensland.

While Wivenhoe, Somerset and North Pine dams will continue to be the major source of bulk water, the Grid Twelve also incorporates Hinze, Baroon Pocket, Leslie Harrison, Ewen Maddock, Cooloolabin, Lake Kurwongbah, Lake Macdonald, Little Nerang and Wappa dams, which all contribute to the water supply system.

The South East Queensland (SEQ) Water Grid



i10

The year in review

The 2009-10 reporting year represented a year of restructure and implementation for Seqwater.

Business activities focused on bringing people together and developing the processes and systems necessary for the creation of a cohesive organisation capable of working collaboratively with the Grid partners to improve water delivery to the community.

The 2009-10 highlights and achievements include:

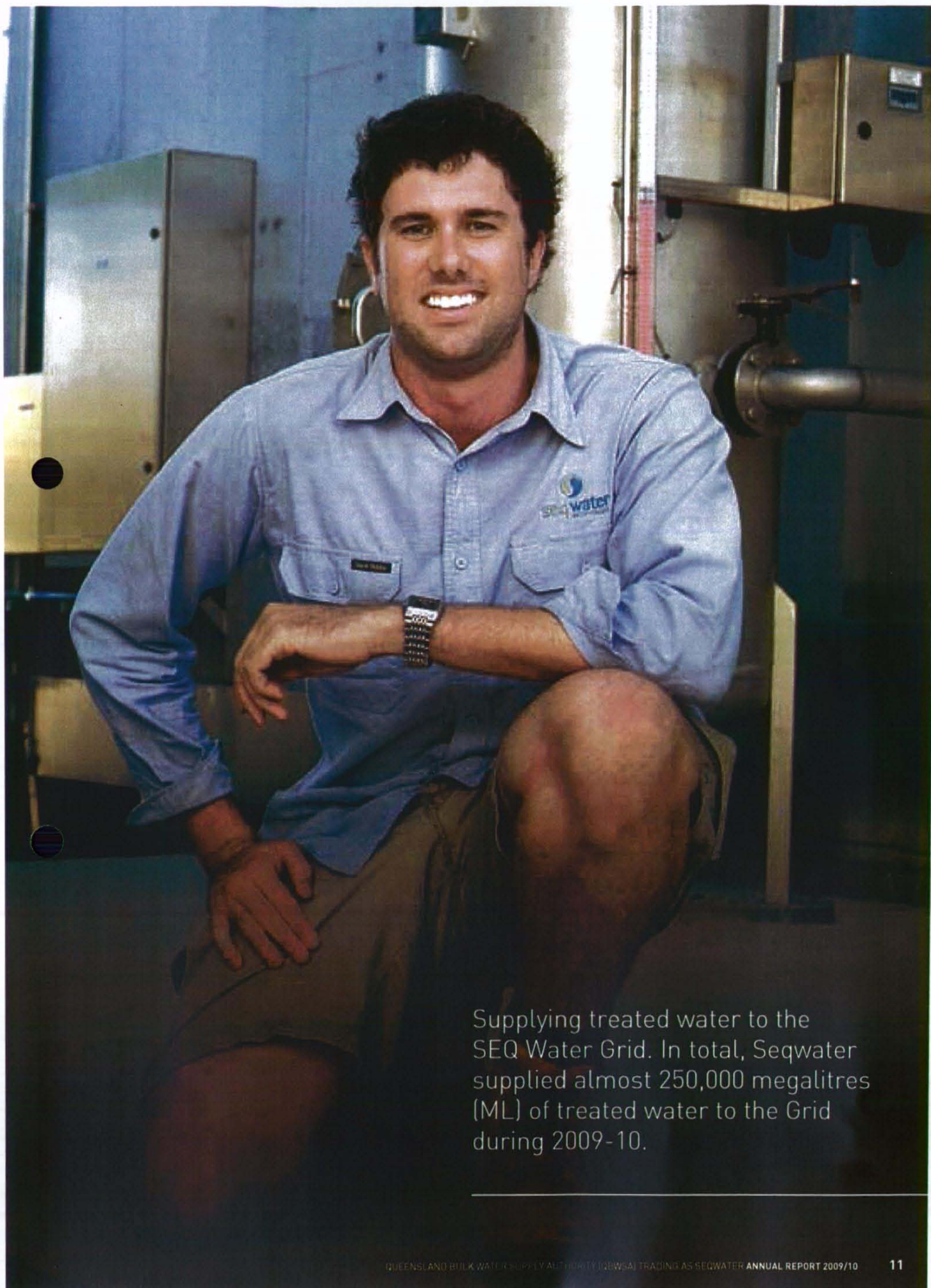
Operational

- Supplied almost 250,000 ML (or half a Sydney Harbour worth) of treated water to the Grid.
- Successfully and safely managed the largest rainfall and inflow events into South East Queensland's dams since February 1999 including major flood releases from Somerset, North Pine and Leslie Harrison dams.
- Worked with the SEQWGM to utilise the connectivity of the Grid to better manage water quality issues following summer storms and inflows.

- Conducted risk assessments across catchments and developed facility asset management plans for 17 water treatment plants that were identified as high risk.
- Met all stakeholder and regulatory reporting obligations.

Water Quality

- Undertook a summer risk assessment of Seqwater assets and implemented mitigating initiatives prior to the start of the wet season resulting in a reduction of water quality events when compared with the previous summer.
- Completed more than 150,000 water quality tests and samples.
- Continued with the ongoing rollout of high tech real-time monitoring of major Seqwater storages.
- Implemented a new data-management system for recording and storing water quality results for all Seqwater water treatment plants.



Supplying treated water to the SEQ Water Grid. In total, Seqwater supplied almost 250,000 megalitres (ML) of treated water to the Grid during 2009-10.

Strategy

- Implemented the new leadership and organisational structure.
- Revised the five year Strategic Plan and annual Operational Plan to better reflect Seqwater's role and responsibilities as a member of the Grid.
- Worked with the other Grid partners to revise and improve the Grid Emergency Response Plan and Seqwater incident management response.
- Developed and implemented 40 Hazard Analysis and Critical Control Point (HACCP) plans and a range of plans (including Strategic Asset Management Plans, Standard Operating Procedures and Operations and Maintenance plans).
- Managed strategic risk through the development of an enterprise risk register and completion of an operational risk review program.
- Launched a compliance management system, introduced a compliance policy, and developed a compliance obligations register.

Major Projects

- Continued to deliver on key infrastructure projects including construction of the Hinze Dam Stage 3 Project, and the design phase of the Wyaralong Water Treatment Plant.
- Completed Stage 2 of the State Government's South East Queensland Fluoridation Program including the fluoridation of 20 regional water treatment plants across South East Queensland.
- Continued the asset improvement and upgrade program for Seqwater assets including key regional water treatment plant upgrades.
- Managed the ongoing transfer of water related assets including Bromelton Dam and Cedar Grove Weir and the Enoggera Water Treatment Plant.
- Enhanced information and communications technology reliability and security through a re-design of Seqwater's core network infrastructure.
- Significantly improved internal and external processes and information flows with implementation of Stages 2 and 3 of a new integrated corporate information system.

Recreation

- Managed an estimated 2.5 million people to Seqwater recreation sites including record Christmas and Easter visitor numbers without incident.
- Progressed implementing the Seqwater Recreation Management Framework to review all recreational activities at Seqwater storages, with commencement of public consultation phase at Wivenhoe and Somerset dams.

Environment

- Planted 60,000 trees covering 124 hectares of catchment land, and provided aquatic weed management for over 760km of waterways and lakes.
- Maintained existing vegetation, fencing works and constructed off-stream watering points. Completed works associated with the Biodiversity Corridor Stage 2, near Wivenhoe Dam, in conjunction with SEQ Catchments.
- Implemented a Lungfish Management Program which reduced fish losses during summer floods. The program was developed in partnership with Queensland Primary Industries and Fisheries and Seqwater's university partners (Griffith University and the University of Queensland).
- Improved relationships with Seqwater lessees, including the development of farm plans for an additional 20 per cent of leases at Wivenhoe and Somerset dams and implementation of on-ground actions for a further 25 per cent of leases in conjunction with leaseholders.

People

- Continued to focus on safety, with the implementation of a Workplace Health and Safety (WHS) procedure. This proactive approach resulted in a reduction of the lost time injury frequency rate by 85 per cent; and a reduction of the medical treatment injury frequency rate by over 50 per cent, as well as a reduction of slips and trips injuries by 67 per cent following the slips, trips and falls prevention campaign.
- Developed further projects aimed at higher organisational safety risks as well as some innovative Health and Wellbeing programs.
- Successfully concluded Enterprise Bargaining negotiations.

CASE STUDY

Commitment to
koala conservation

Koalas are a signature species of South East Queensland and their fate often highlights the tension between urbanisation and conservation of natural resources.

As a major landholder within the region and owner of significant areas of koala habitat, Seqwater has a key role to play in koala conservation. The high mortality rate of koalas is often associated with habitat loss, and as such Seqwater is committed to enhancing existing koala habitat as well as planting dedicated fodder plantations.

As part of organised community 'Save the koala' campaigns, Seqwater has planted more than 2,500 koala fodder trees near North Pine Dam, and has already established fodder plantations around the majority of Seqwater dams.

Seqwater protects and improves koala habitat in the Wivenhoe, Somerset and North Pine areas through the D'Aguilar Range Biodiversity Corridors project, and has revegetated large areas with native species to aid koala movement.

Partnerships with wildlife carers such as the Daisy Hill Koala Centre and Moggill Koala Hospital, allow local koala groups to harvest



Left: Students from Mt Samson State primary school helping to plant koala fodder trees at North Pine Dam during Save the Koala month in September.

eucalyptus foliage on Seqwater land for fostered injured koalas and to provide suitable rehabilitation release sites.

Seqwater Rangers also carry out wild dog baiting several times a year to reduce the number of dog attacks on koalas in catchment areas.

Other Seqwater activities to help protect koala habitat include the creation of linked wildlife corridors to aid koala movement, managing the impact of wild dogs, red deer and feral pigs, supporting the Redland City Council's fox control program, controlling weeds in koala habitat, regular firebreak maintenance, and introducing fauna friendly fencing on Seqwater land.

- Aligned the Seqwater payroll system by reducing 40 separate pay cycles into one cycle.
- Launched the Stream line internal organisational improvement process, and achieved 77.8 per cent response rate to an independent electronic staff survey.

Community Education

- Continued to build on the successful program of education and community engagement from a Grid perspective, focusing around educational tours at established learning centres.
- Provided water education and site tour services to more than 220 schools involving almost 14,000 students, and conducted over 30 tours for community groups and nursing homes.

- Raised awareness of the dangers of flooding weirs and encouraged safe behaviour near dams through the launch of Seqwater's "No Lifeguards Here" and "Be DAM smart" campaigns.

Looking ahead to 2010-11

In 2010-11 Seqwater aims to implement a sustainability program across the business focusing on key aspects of business efficiency (such as energy and carbon) as well as improving the triple-bottom-line performance of all major projects. In addition, the organisation will initiate projects to model and measure the drivers of water supply performance through a whole-of-catchment view. Engaging with catchment stakeholders will be an important component of this initiative. Further work will be done on developing knowledge-based systems as well as focusing on developing the capabilities of staff.

14 Vision and mission

Vision

Water for life – vibrant, sustainable and optimistic urban and rural communities and businesses.

Mission

Seqwater provides innovative and efficient management of both natural and built catchments, water storages, and treatment services to ensure the quantity and quality of water supplies.

Seqwater will achieve this mission by adopting a strongly commercial approach to working with partners and stakeholders across government, the water industry and community, to further develop and apply specialist knowledge and skills in water sourcing, storage, supply and treatment.

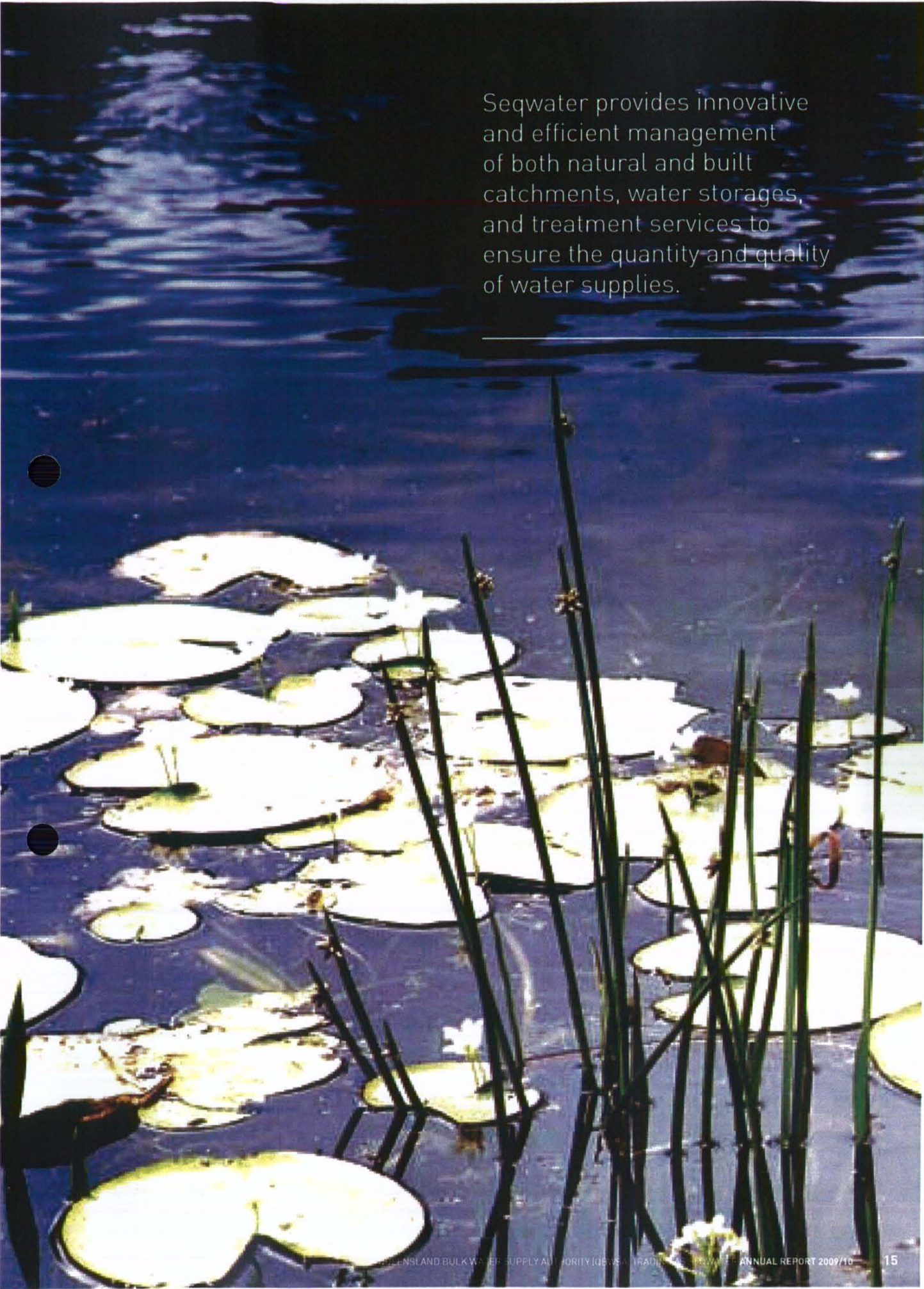
Sustainable catchments

Catchments are vital regional resources. Catchments, by strategic definition, are the combined natural and built infrastructure needed to source, store and supply water to meet the quality and reliability needs of our customers.



Catchments are complex systems. Their productivity is subject to changes in weather patterns, environmental impact, land use, community values, regulation and economic demands.

Seqwater's approach to business is to put into practice the know-how and technologies needed to gain the maximum sustainable value from these complex systems. Seqwater also recognises knowledge is the key to its performance if it is scientifically-based and reflected in the capabilities of staff, quality systems and leadership focus.



Seqwater provides innovative and efficient management of both natural and built catchments, water storages, and treatment services to ensure the quantity and quality of water supplies.

Strategic goals and performance

Seqwater is committed to ensuring the reliability and quality of the region's catchment based water supply.

There have been some changes to Seqwater's five year 2008-2013 Strategic Plan which were outlined in the 2008-09 annual report. For 2009-10 Seqwater has revised and updated its Strategic Plan to:

- more clearly communicate the priorities of regulators and other key stakeholders
- improve alignment with the new organisational structure
- improve performance reporting (including strengthening triple-bottom-line reporting).

In summary, Seqwater now has:

- a clear vision and mission;
- two goals that explain the outcomes Seqwater will achieve for its regulators and other stakeholders; and
- a strategy that explains the strategic approach to business and performance.

Seqwater has made solid progress towards its two strategic goals as described below:

GOAL 1	<p>Water supply quality and security</p> <p>In partnership with other Grid members, Seqwater will provide urban consumers with reliable water treated to meet or exceed the Australian Drinking Water Guidelines (ADWG) as required by regulation, contracts and best practice. Seqwater will provide efficient support and water services to rural consumers to help support sustainable practices, viable enterprises and vibrant rural communities.</p>
GOAL 2	<p>Sustainable catchments</p> <p>In order to ensure the current and future viability of the primary drinking water sources of South East Queensland, Seqwater will effectively research and manage the water catchments to deliver safe and reliable water supplies while:</p> <ul style="list-style-type: none"> → fostering rural productivity → providing for flood mitigation → providing places of recreation → enhancing biodiversity → providing amenities for the people of South East Queensland.

Strategy: Whole-of-catchment know-how

Seqwater's strategy – Excellence in putting into practice sustainable catchment know-how about our assets – sets a clear direction for business development and integrates planning and service delivery across the organisation.

Seqwater's Strategic Plan maps out a clear direction focused on substantially increasing the value of the business for the region over the next five years. The potential value for the region is embedded in Seqwater's assets – water supply infrastructure, the natural environments and about relationships with other catchment stakeholders who significantly influence the quality and quantity of sourced water. Seqwater's assets collectively form the water supply catchments on which the region's sustainability and capacity for growth depend.

Key Performance Indicator summary

As part of the 2009-10 Operational Plan, Seqwater monitored progress and measured performance against these strategic goals on a quarterly basis through nine Key Performance Indicators (KPIs). Progress towards the Vision was measured by sustainability KPIs covering financial, environmental and social performance and two KPIs were identified for each of the two goals and strategy.

At the end of the reporting period, seven indicators were reported as either met or substantially met and two were reported as not met. The Social Value KPI was affected by changes in the Grid's management of stakeholders resulting in a decision not to undertake a survey of stakeholder relations in 2009-10. An executive management decision was made not to progress with the Productivity of Assets KPI in the reporting period but to replace it with a more comprehensive KPI, effective in the new financial year to measure asset productivity from a triple-bottom-line perspective.

VISION	Key Performance Indicator	Measure	Result
	Commercial Value	Ensure budget and financial indicators met ie. EBIT, NPAT (net profit after tax), Ratios (Return on Total Assets, Return on Operating Assets, Return on Equity).	
	Environmental Value	Annual audit of net environmental impact of assets and operations including energy, water, CO ² and waste.	The ecological footprint report has been completed. The value of this tool is limited until the business systems to accurately capture and report this information are developed. The revised KPI in 2010-11 will address issues of environmental value by assessing Seqwater's environmental contribution.
	Social Value	Feedback from surveys.	Seqwater has revised its Stakeholder Engagement Strategy including a recommendation to undertake a survey of Seqwater's broader stakeholder groups. As a result the stakeholder survey has been deferred until 2011.

	Key Performance Indicator	Measure	Result
GOAL 1	Level of compliance	<p>Number of plants with material breach of water quantity market rules as advised by QWC.</p> <p>Number of plants with material breach of water quality based on Australian Drinking Water Guideline definitions for compliance, for regulated water quality parameters.</p>	<p>No material breaches of the market rules as they applied to water quantity as advised by QWC in 2009-10 period.</p> <p>Using a 12 month period of assessment, all WTPs complied with the Australian Drinking Water Guidelines definitions for compliance for the defined set of water quality parameters with the exception of four Recreational WTPs. Two of these recreational plants failed to meet the target for aesthetic parameters, and the other two plants for the health based parameters, Trihalomethanes.</p>
	Regulator confidence	Feedback from regulators and water grid entities.	<p>An independent assessment of regulator confidence with Seqwater was conducted. In response to the issues identified in the baseline study, Seqwater has included details of the business improvements that will meet regulator requirements and improve service delivery as part of a regular reporting regime.</p>
GOAL 2	Productivity of assets	Combined quantitative and qualitative measures independently assessed through audit.	<p>This KPI will be revised in 2010-11 to address the issues of asset productivity from a triple-bottom-line perspective.</p>
	Natural catchment condition	Reporting of catchment and storage using Seqwater report card at the catchment level.	<p>Catchment Condition Assessments have been completed on five nominated storages for the purposes of the report card.</p> <p>The Drinking Quality Management Plan for the Somerset, Wivenhoe and Mid-Brisbane systems has been finalised and submitted to the Regulator.</p>

STRATEGY	Key Performance Indicator	Measure	Result
	Extent to which key organisational plans and systems are achieved.	Percentage achievement of Operational Plan Key initiatives	Some 83 per cent of key initiatives were completed or on target at the close of the June quarter.
		Risk Management Plan Audit	The Enterprise Risk Register is being reviewed quarterly by the Board and priority risks are continuing to be reported with relevant mitigation strategies.
		Systems Accreditation (HACCP Quality, WH&S and Environmental)	Certification has been received for the HACCP Quality and Environmental systems within a limited systems scope.
		Legislative Compliance Framework	A Compliance Monitoring report has been prepared reflecting the status of compliance with legislative and regulatory requirements.
		Percentage achievement of review of Operational processes and systems	A range of business and system improvements have been undertaken including accounts payable, payroll, operational planning and budgeting, compliance framework and risk.
		Implementation of Organisational Development Operational Plan	The first phase of the Organisational Development Operational Plan has been implemented.
	Level of whole of catchment know-how capability	Feedback from surveys to assess motivation, engagement, role clarity and learning.	The organisational staff survey was undertaken with a staff response rate of 77.8 per cent. Team improvement plans containing action steps are being progressively implemented.

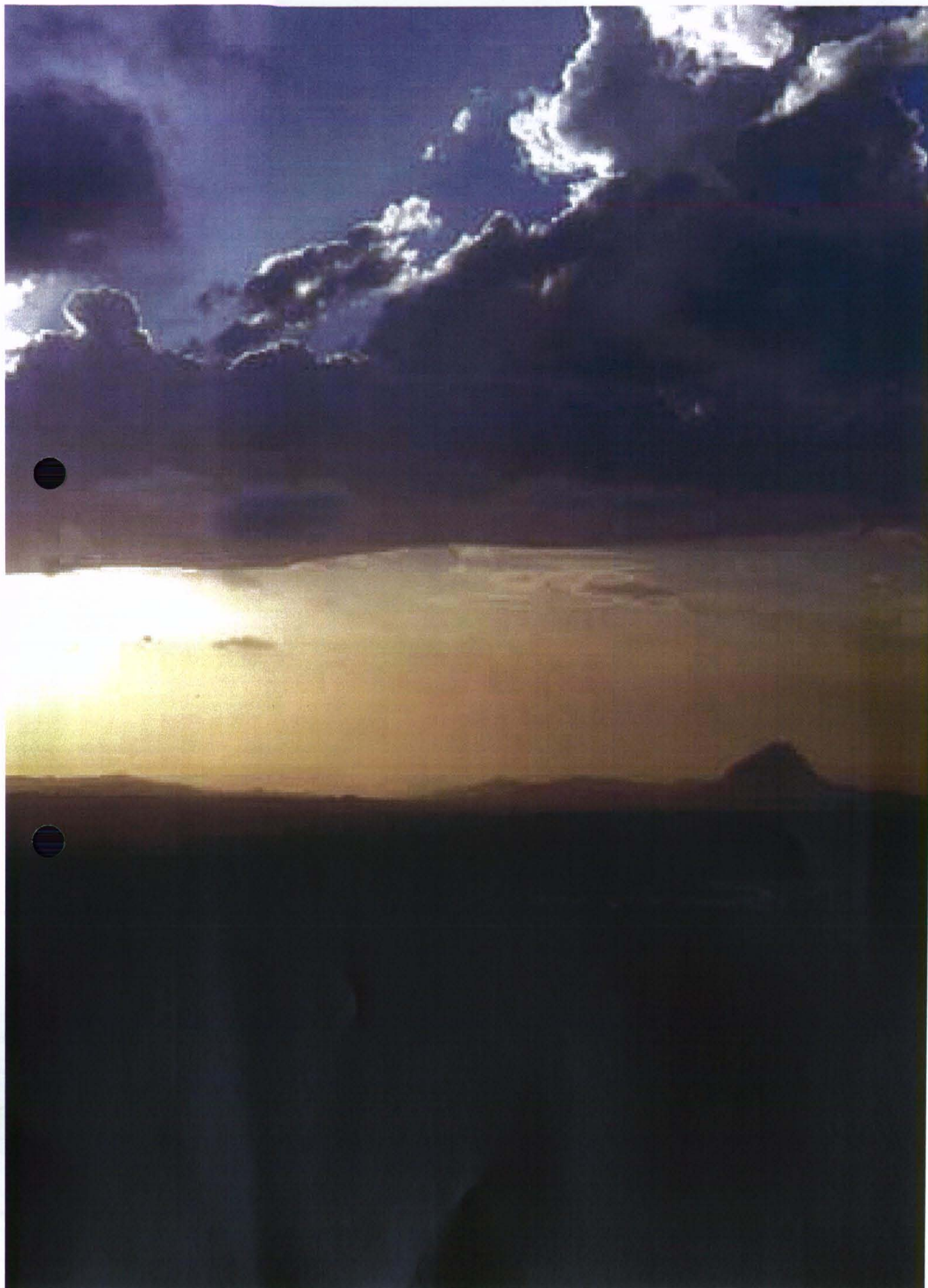
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Summary of financial
information for 2009-10

	2009-10	2009-10	2008-09
	Financial Report	Adjusted for Information	Financial Report
Total Assets	\$3.0 billion	\$3.0 billion	\$2.6 billion
Total sales revenue	\$314.3 million	\$314.3 million	\$309.3 million
Net profit/(loss) before tax	\$(5.6) million	\$2.0 million*	\$2.2 million
Net profit/(loss) after tax	\$(6.3) million	\$1.3 million*	\$(0.1) million

Key financial ratios			
Return on assets (before tax)	(0.19)%	0.07%*	0.08%
Return on assets (after tax)	(0.21)%	0.04%*	0
Interest cover (Total Revenue/Borrowing Costs)	2.1 times	2.1 times	2 times
Debt / total assets	74.2%	74.2%	78.8%

* The Adjusted for Information has been calculated excluding the revaluation decrement of \$7.6M for dams and weirs, please refer to the Financial Report for further information on the revaluation.



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Summary of major assets

Dams

Water storage is a major and critical part of Seqwater's business. While the primary purpose of these dams is to provide a safe and sustainable water supply, many also play an equally important role to manage and mitigate major flood events.

The region's main dams are Somerset, Wivenhoe and North Pine, supplying the majority of the Brisbane area's drinking water; Hinze Dam in the Gold Coast hinterland, and Baroon Pocket Dam near Maleny on the Sunshine Coast.

Seqwater also manages Atkinson Dam, Bilt Gunn Dam, Borumba Dam, Cedar Pocket Dam, Clarendon Dam, Cooloolabin Dam, Enoggera Dam, Ewen Maddock Dam, Gold Creek Dam, Lake Manchester Dam, Little Nerang Dam, Sideling Creek Dam (Lake Kurwongbah), Six Mile Creek Dam (Lake MacDonald), Leslie Harrison Dam, Maroon Dam, Moogerah Dam, Poona Dam and Wappa Dam.

Water Treatment Plants

Seqwater's main water treatment plant (WTP) facilities across the South East Queensland region include Molendinar and Mudgeeraba located on the Gold Coast; Mt Crosby Eastbank and Westbank, and North Pine in the Greater Brisbane area; and Landers Shute, located near Palmwoods on the Sunshine Coast.

Water treatment also takes place at a number of smaller facilities listed as follows:

- Albert River WTP
- Algester WTP
- Amity Point WTP
- Atkinson Dam (Recreation) WTP*
- Banksia Beach WTP, Bribie Island
- Beaudesert WTP
- Boonah-Kalbah WTP, Kalbar
- Borumba Dam WTP
- Caboolture WTP
- Canungra WTP
- Capalaba WTP
- Chandler WTP
- Dayboro WTP, Samsonvale
- Dunwich WTP, Stradbroke Island



- Enoggera WTP, The Gap
- Esk Water WTP
- Ewen Maddock WTP, Sunshine Coast
- Forest Lake WTP
- Image Flat WTP, Nambour
- Hinze Dam WTP
- Jimna WTP
- Kenilworth WTP
- Kilcoy WTP
- Kilcoy (Lake Somerset) WTP (to be constructed)
- Kirkleagh (Recreation) WTP*
- Kooralbyn WTP
- Linville WTP
- Lower Lockyer Atkinson Dam WTP
- Lowood WTP
- Maleny WTP
- Maroon Dam WTP
- Moogerah Dam WTP
- Noosa WTP, Cooroy
- North Stradbroke Island WTP
- Petrie WTP
- Point Lookout WTP, North Stradbroke Island
- Rathdowney WTP
- Runcorn WTP
- Somerset Dam Township WTP, Lake Somerset
- South Maclean WTP
- Sunnybank WTP
- Wivenhoe Dam (Recreation) WTP*
- Woodford WTP

*Recreational WTPs

In addition to these WTPs, Seqwater will construct and operate the Wyaralong Dam WTP when the Wyaralong Dam is completed.

Effective treatment ensures the water the community receives meets the standards set by the Australian Drinking Water Guidelines.

24 Governance

Seqwater is a statutory body and was created under the *South East Queensland Water (Restructuring) Act 2007*.

Organisational structure

Seqwater's leadership structure for 2009-10 comprised a Chief Executive Officer (CEO) and four Executive General Manager (EGM) positions. *See opposite page.*

Each EGM led a distinct business group, the functions of which are described as follows:

Water Delivery

The Water Delivery group is responsible for the management and operation of all dams and water treatment plant assets, infrastructure maintenance, land and water quality, water quality monitoring, as well as catchment support services such as recreation.

Asset Delivery

The Asset Delivery group is responsible for asset strategy and planning (both natural and built), infrastructure asset planning, the capital works program, managing major projects as well as research and development.

Business Services

The Business Services group is responsible for finance and procurement, information technology, compliance and regulatory services, risk management, economic regulations and pricing, legal services, property and facilities management.

Organisational Development

The Organisational Development group is responsible for organisational and culture change, strategic relations and communications, employee relations, enterprise bargaining, organisational design, leadership development and team building functions as well as workplace health and safety.

An aerial photograph of a large dam and reservoir. The dam is a long, straight concrete structure with a gravel embankment on the left. A spillway with a circular structure is visible on the right. The reservoir is dark blue, and the surrounding area is green with trees. An organizational chart is overlaid on the right side of the image, with lines connecting the names to their positions in the hierarchy.

Board

Chief
Executive Officer

Executive General Manager
Water Delivery

Executive General Manager
Asset Delivery

Executive General Manager
Business Services

Executive General Manager
Organisational Development

Organisational review

In April 2009 the review of executive roles and group functions commenced, recognising that Seqwater was formed by merging the water related assets and staff of multiple entities under a transitional framework the previous year.

The review sought to build on the experience of working together for several months and to align and clarify leadership, responsibility and reporting in line with the organisation's longer term strategies and objectives.

A proposed structure was approved by the Board and Seqwater's responsible Ministers and has been progressively implemented in 2009-10.

Executive leadership team

The following executives comprise the executive leadership team:

Peter Borrows

Chief Executive Officer

Peter is Seqwater's first CEO and prior to this was CEO of the South East Queensland Water Corporation Limited (SEQWater Corporation). Peter has held other senior roles including head of the engineering departments at Brisbane and Ipswich city councils.

Jim Pruss

EGM Water Delivery

Jim joined Seqwater from the Redlands Shire Council where he was General Manager Water and Waste. Jim has previously led both the former Operations and Sustainable Water and Asset Delivery Groups within Seqwater.

Alex Fisher

EGM Asset Delivery

Alex brings extensive knowledge and leadership experience across several industry areas including water, construction and engineering services. She previously worked as the Executive Director, Government Development Projects within the Department of Infrastructure and Planning.

Helen Moore

EGM Business Services

Helen joined Seqwater from the Gold Coast City Council where she worked as the Director, Organisational Services. Helen has extensive experience and knowledge as a Chief Financial Officer and in managing a wide variety of corporate service functions. She has previously undertaken roles within other State Government Statutory Authorities and Government Owned Corporations.

Bill Andrew

EGM Organisational Development

Bill brings considerable experience in organisational and cultural change to his role as EGM Organisational Development. He previously worked as the General Manager, Organisational Development for CS Energy Limited.

The Seqwater Board

The Seqwater Board comprises a Chairman and four Board Members, appointed by the responsible Ministers.

The Board is committed to providing effective governance and strategic direction to ensure Seqwater's long term success.

In line with the provisions of the *South East Queensland Water (Restructuring) Act 2007*, Board Members are appointed for a period of three years.

They are also the Board of Directors of SEQWater Corporation.

During 2009-10, membership of the Board changed with the resignation of Annabelle Chaptain (in September 2009) and the appointment of Phil Hennessy as her replacement (in October 2009). In addition, Mary Boydell resigned as a Board Member in late June 2009 to become the Commissioner of the Queensland Water Commission (QWC) and Leith Bouilly was appointed in her place (in October 2009).

Phil Hennessy

BBus (Accountancy), FCA – Chairman

Phil was appointed as Chairman of the Board of Seqwater on 1 October 2009. Phil is also the Queensland Chairman of KPMG and practices in the area of corporate reconstruction. Phil is responsible for the operations of the Queensland practice of KPMG and his role focuses on the firm's people, clients and its connection with the community. He has experience across a wide range of market sectors and has undertaken numerous restructuring related assignments and viability reviews for lenders, creditors and other stakeholders.



From left: Leith Bouilly, Ian Fraser, Phil Hennessy, Thomas Fenwick, Leeanne Bond.

Phil is a Director of SEQWater Corporation. He is the Queensland President of the Starlight Children's Foundation, Chair of the Mater Hospital Foundation, Chair of the Premier of Queensland Export Awards Judging Panel, member of the Infrastructure Australia Advisory Council and a member of the Senate of the University of Queensland.

(Sally) Annabelle Chaplain

BA MBA, FAICD – former Chairman (resigned September 2009)

Appointed as the Chairman of the Board on 4 February 2008, Annabelle has had extensive experience as a company director and holds a number of directorships including Downer-Edi Ltd, Canstar Cannex (Aust) Pty Limited, George Street Finance (Aust) Pty Limited and the Australian Youth Orchestra. She was Chairman of SEQWater Corporation until September 2009. Annabelle is also Chairman of Honeycombes Property Group Pty Ltd. Previously, Annabelle has held management positions as Head of Public Sector Client Management at ABN AMRO, Director Corporate and Project Finance at AIDC Limited and Vice President for Citibank Limited.

Leeanne Kay Bond

BE (Chem), MBA, FIE Aust, RPEQ, GAICD – Board Member

Appointed as a Member of the Board on 4 February 2008, Leeanne is a chemical engineer with experience across the hydrocarbons, minerals processing, infrastructure, water and power industry sectors. Leeanne is currently a Director of SEQWater Corporation, Tarong Energy Corporation (a government owned power generator) and Liquefied National Gas Limited. She consults to industry through her company Breakthrough Energy Pty Ltd. Previously, Leeanne has served as Chairman of the Brisbane Water Advisory Board for the Brisbane City Council, Deputy Chairperson of the Board of Professional Engineers in Queensland, President of Engineers Australia (Queensland Division) and a member of the Queensland Government Smart Women Smart State Taskforce.

Thomas David Fenwick

BE (Hons), FIE Aust - Board Member

Appointed as a Member of the Board on 4 February 2008, Thomas is also a Director of Queensland Water Infrastructure Pty Ltd, and SEQWater Corporation, and a Member of the Dispute Resolution Board for the Gateway Motorway Upgrade. He is also Managing Director of a private company. Thomas is a former Director-General of the Queensland Department of Natural Resources, and the Department of Primary Industries. Among his past appointments has been as a Commissioner for Queensland on the Murray Darling Basin Commission.

Ian Harley Fraser

BComm, FCA, FAICD - Board Member

Appointed as a Member of the Board on 4 February 2008, Ian has over 45 years' business experience, particularly as a senior audit and corporate advisory partner of KPMG. He retired on 30 June 2004 after 27 years as a partner. Ian is a Director of SEQWater Corporation, Wilson HTM Investment Group Ltd, and Diversified Mining Services Limited, and is Chairman of RP Data Ltd and Property IQ NZ Limited.

Leith Bouilly

BRuSci, Dip Bus Stud, FAICD, FAIM, FIAMA - Board Member

Appointed as a Member of the Board on 1 October 2009, Leith has 20 years' experience at local, state and national levels in natural resource management (particularly water). Leith is a Director of SEQWater Corporation and Chairman of the Wide Bay Water Corporation, Lower Balonne Water Resources Ministerial Advisory Council, the Great Barrier Reef Marine Park Authority's Water Quality and Coastal Development Reef Advisory Committee, Brisbane Riverprize National Panel, Glennie School Council and Bouilly Pastoral Co Pty Ltd. She is also a Board Member of Murrumbidgee Irrigation Limited, Cotton Research and Development Corporation, Agrifood Skills Australia and Queensland State Rural Leasehold Land Ministerial Advisory Council. Leith is an Adjunct Professor, School of Integrative Systems, University of Queensland and was a founding member of the Wentworth Group of Concerned Scientists.

Responsible Ministers

The State Government has appointed two Ministers to act as responsible Ministers for Seqwater.

They are:

- The Hon. Andrew Fraser MP – Treasurer and Minister for Employment and Economic Development
- The Hon. Stephen Robertson MP - Minister for Natural Resources, Mines and Energy and Minister for Trade.

In line with this, Seqwater has corresponding relationships with the Treasury Department and the Department of Environment and Resource Management (DERM). These relationships cover reporting, oversight and the regulation of Seqwater's catchment, storage and water treatment business activities.

Seqwater also has regulatory relationships with Queensland Health, under the *Water Fluoridation Act 2008*, and the Department of Infrastructure and Planning for the delivery of major water projects.

Board role

The Board is responsible for the way Seqwater performs its functions and exercises its powers under the *South East Queensland Water (Restructuring) Act 2007*.

The Board's role includes:

- Setting the strategy and direction for Seqwater, as well as providing the governance framework for the organisation through the endorsement of financial, administrative and operational policies.
- Ensuring Seqwater performs its functions and exercises its powers in a proper, effective and efficient way.
- Ensuring strategic and operational planning objectives are, as far as practicable, achieved.
- Being accountable to the responsible Ministers for Seqwater's performance.
- Reviewing the annual performance of the CEO.

Board committees

During 2009-10, the Board continued to be supported by the Audit Committee and the Major Projects Taskforce.

Audit Committee

The role of the Audit Committee is to assist the Board to fulfil its responsibilities for the integrity of the financial statements, compliance with legal and regulatory obligations and the performance of the internal

audit function and the external auditors. The Committee aims to provide assurance to the Board that the core business goals and objectives are being achieved efficiently and economically, within an appropriate framework of internal controls.

The Committee operates under a Charter which sets out its authority, role and responsibilities. The Committee meets five times per year and is comprised of four members of the Board. As at 30 June 2010 the Committee members were:

- Mr Ian Fraser, Audit Committee Chairman
- Mr Phil Hennessy
- Mr Tom Fenwick
- Ms Leith Bouilly.

The Committee also approves the three year Internal Audit Strategic Plan and annual internal audit work program, monitors progress against the plan and assesses the effectiveness of the internal audit function.

The Audit Committee assists the Board to:

- Assess and contribute to the audit planning processes, taking into account the financial and operational environment in which it operates and its performance management framework;
- Assess, oversee and enhance Seqwater's corporate governance, including its systems of internal control;
- Review financial statements and the external audit of these statements;
- Evaluate the quality and facilitate the practical discharge of the internal audit function particularly in the areas of planning, monitoring and reporting; and
- Oversee and appraise Seqwater's financial and operational reporting processes.

Major Projects Taskforce

The Major Projects Taskforce provides strategic advice to the Board on the implementation of Seqwater's Major Works Projects and Work programs and strategies, such as research, and catchment and planning and usage, being undertaken pursuant to the Seqwater's Strategic Plan.

The Taskforce's role is to:

- Review and recommend to the Board the rationale and principles for the prioritisation of the Capital Works Program;

- Identify risks to the successful implementation of Seqwater's major works projects and recommend mitigation strategies to the Board; and
- Review and recommend to the Board the rationale and principles for the work programs and strategies being undertaken pursuant to the Authority's Strategic Plan.

The Taskforce reports to the Board on the measures and activities being undertaken to comply with the Authority's obligations under *The Water Regulation Act 2002* and the *Water Fluoridation Act 2008*.

Board attendance

The Seqwater Board met 18 times during the year. The number of meetings attended by each Board Member, along with meeting and attendance details of the Audit Committee and the Major Projects Taskforce, are outlined in the following tables:

Board of Seqwater		
Total Meetings: 18	Number Attended	Number Eligible to attend
P Hennessy	8	11
L Bond	17	18
I Fraser	17	18
T Fenwick	16	18
L Bouilly	10	11
A Chaplain	7	7

Audit Committee		
Total Meetings: 6	Number Attended	Number Eligible to attend
P Hennessy	2	3
L Bond	3	4
I Fraser	6	6
T Fenwick	6	6
L Bouilly	2	2
A Chaplain	3	3

Major Projects Taskforce		
Total Meetings: 5	Number Attended	Number Eligible to attend
L Bond	5	5
T Fenwick	5	5
L Bouilly	4	4

Board remuneration

Board Members are paid for their participation on Seqwater's Board, Committees and Taskforces. Board Members were also paid for their role as Directors of Seqwater's subsidiary entity, SEQWater Corporation. However, the Board resolved in October 2009 to cease paying remuneration for the SEQWater Corporation Director roles with effect on and from 8 October 2009 to minimise the administration costs associated with that subsidiary entity.

Remuneration is as nominated by Seqwater's responsible Ministers and outlined in the following table:

Role	per annum
Chairman of the Board	\$100,000
Board Members	\$45,000
Chairman of the Audit Committee	\$7,623
Audit Committee Members	\$4,356
Taskforce Chairman	\$5,445
Taskforce Members	\$4,356
**Chairman of SEQWater Corporation	\$8,000
**Directors of SEQWater Corporation	\$5,500

** Note - with effect from 8 October 2009, no fee is payable to Board Members regarding their position as Directors of SEQWater Corporation. During 2009-10, the annual fee paid in this regard was therefore only a pro-rata portion of the listed annual fee.

Seqwater also makes employer contributions to Board Members' nominated superannuation funds.

Further details about the remuneration for each Board Member can be found within the notes to the financial statements.

Compliance

Seqwater has established a dedicated compliance function that is responsible for developing and implementing a compliance management system. The system is a model based on promoting proactive strategies as the underlying foundation of all compliance efforts, and aims to monitor, measure and review compliance performance. It is a key component of the governance framework.

The compliance function is part of the Business Services Group and reports regularly to the Board, Audit Committee, CEO and senior management.

Over the 2009-10 year, Seqwater has been active in a range of compliance activities including:

- Establishing a compliance management system
- Introducing a compliance policy
- Developing a comprehensive Compliance Obligations Register
- Creating compliance general awareness and learning opportunities.

In the year ahead focus will be on further embedding systems and processes to improve internal controls and continue to provide assurance to the Board about the maturity of Seqwater's compliance culture.

Strategic and operational planning

Seqwater's strategic and operational planning framework integrates the long term direction-setting for the organisation (the Strategic Plan) with the annual determination of priorities (the Operational Plan).

The Strategic Plan outlines Seqwater's vision and goals for the region, its water supply and its catchments. Developed for a five year window, the Strategic Plan explains the organisation's strategy and future outcomes in more detail.

Developed on an annual basis, the Operational Plan outlines specific key initiatives and service delivery through programs of work that maintain the long term direction while responding to changes in the business environment. The Operational Plan aligns the delivery of these key initiatives and programs with budgets and performance targets.

Seqwater reports on Operational Plan performance to its responsible Ministers on a quarterly basis through the Treasury Department and the Department of Environment and Resource Management.

CASE STUDY

Almost there ...



Wivenhoe at dawn.

For the first time in almost a decade, the combined capacity of South East Queensland's three major dams surged to just over 97 per cent during 2009-10.

The month of March delivered record levels of rainfall to dramatically increase the combined capacity of Wivenhoe, Somerset and North Pine dams, by nearly 25 per cent - the equivalent of nearly 150,000 Olympic-sized swimming pools of water.

Before the big rains arrived, Seqwater completed a series of risk assessments across its catchments and water treatment plants, and identified potential water quality issues associated with nutrients washed into storages by sudden and significant inflows.

Action taken by Seqwater to mitigate these risks proved to be prudent and timely, as the heavy rains did arrive, and Seqwater was able to quickly manage any water quality issues.

In addition, Seqwater worked with its Grid partners to use the grid connectivity to further control and manage water quality issues. The end result was consistently high quality water delivered to South East Queensland consumers and fewer water quality issues when compared with the previous summer.

Few would have predicted these levels at the height of the drought, less than three years ago, when dam levels were at an alarming low of 16.7 per cent, and South East Queenslanders were on tight water restrictions.

There was much media speculation whether or not the biggest storage, Wivenhoe Dam, would reach the 100 per cent full supply capacity milestone when it reached the 96 per cent mark. Many people were unaware that Wivenhoe has an additional 1,450,000 megalitres in flood storage capacity available, once the full supply level has been reached.

Both North Pine and Somerset Dams reached 100 per cent capacity and a number of controlled water releases were undertaken.

Hinze Dam on the Gold Coast and Baroon Pocket Dam on the Sunshine Coast, as well as many of the region's smaller storages also reached 100 per cent capacity during this time.

With the dams in their best shape, they continued to be a popular place for people to visit and enjoy. Over the summer and Easter school holiday periods, all storages received record numbers of visitors, including more than 150,000 people over the Christmas and New Year period, and 20,000 people for the Easter long weekend.

Risk management

The review and management of strategic risk within Seqwater is undertaken at a Board level.

Seqwater's approach to risk management has evolved to place equal emphasis on the optimisation of opportunities and mitigation of negative risk. One of the traditional control actions to assist in the latter area is the retention of a comprehensive insurance portfolio.

A comprehensive review of risk management practices and systems was undertaken during the 2009-10 year. This review included an examination into Seqwater's strategic and operational goals as part of the Grid. As a result, Seqwater has become a partner in the management of risks at a Grid-wide perspective to ensure water security and quality to South East Queensland.

The risk review resulted in the development of a risk management system which supports the mitigation of risks across the organisation, consisting of enterprise, operational and site based risk profiles. The objective of the system is to provide a formal mandatory process to assist with:

- developing and implementing procedures to ensure that all risks are identified, assessed against accepted criteria and that appropriate measures are implemented;

- defining and documenting a risk management system, responsibilities and processes required to integrate risk management into all facets of the business;
- establishing a culture of risk awareness and management;
- creating customised risk management tools to meet the needs of specialised units within the business, while ensuring a consistency in language and outcomes;
- encouraging staff understanding of the implication of risk exposures, opportunities and risk management in their day-to-day work;
- linking risk management to corporate, operational, project and business process planning
- enhancing existing established risk practices across the organisation;
- the identification of Grid-wide risk which may impact water supply security and quality;
- ensuring an escalation process exists to facilitate potential whole-of-Grid risks; and
- responses to Grid-wide risks through the implementation of Grid-wide mitigation strategies.

Consultancy

Expenditure on consultancy services for the 2009-10 reporting year is outlined in the following table.

Management	\$
Economics	574,975.90
Engineering	2,586,125.72
Finance	179,212.53
Human Resource	952,189.68
Information Technology	95,671.75
General	1,989,576.54
Grand Total	6,377,752.12

Overseas travel

Expenditure on overseas travel for the 2008-09 reporting year is outlined in the following table.

Name and position	Destination	Reason for travel	Cost \$	Contribution from other sources \$
Dr James Udy, Principal Scientist	San Diego CA, USA	Water Reuse Foundation Strategic Planning Workshop - to assist with the formulation of research priorities for the WRF over the next three years.	2,200	1,200

CASE STUDY

Hinze Dam –
raising the wall

As part of the South East Queensland water reform process, Seqwater took over management of key infrastructure projects including the \$395 million Hinze Dam Stage 3 project – one of the largest dam projects being undertaken in Australia.

The project will increase water security for the Gold Coast and South East Queensland and reduce flooding in the lower Nerang River catchment.

Despite extended periods of wet weather, the project is on track for completion by the end of 2010. When the project is complete, the height of the embankment wall will be 15 metres higher, up from 93.5 metres to 108.4 metres, making it the highest central clay core and rock dam in Queensland.

The wall lift will expand the reservoir surface area from 972 hectares to 1500 hectares, increase the full supply level from 82.2 metres to 94.5 metres, and almost double the water storage capacity from 161,000 megalitres (ML) to 309,700 ML. It will increase the water supplied to the Grid from approximately 209 ML to 225 ML per day – an additional 9,490 ML a year.

A key benefit of the dam wall lift is flood mitigation. The new wall height will halve the number of flood discharges providing greater flood protection for around 3,280 households during a 1 in 100 flood event.

The project requires around 5 million tonnes of rock and 430,000 tonnes of clay. The rock fill for the main embankment and saddle dams alone could fill the Gold Coast's Q1 Building (the world's tallest residential building) more than five times.

The project currently employs over 280 personnel and sub-contractors, with more than 75 per cent of people from the Gold Coast region.

Construction began in January 2008 and involves raising the existing rockfill clay core embankment and spillway, raising two intake towers, upgrading and extending the existing saddle dam, and associated works including roads, boat ramps and a new recreation area.

Internal audit

In line with Seqwater's Internal Audit Charter, the 2009-10 Internal Audit Plan was developed.

Internal audit conducted a total of eight internal audit reviews, focusing on areas of risk primarily associated with systems and assets.

The implementation and status of recommendations is reviewed quarterly and is ongoing.

Information systems and record keeping

The 2009-10 year saw the continued focus and effort to deliver upgrades, technological improvements and service enhancements to both the core Information and Communications Technology (ICT) infrastructure and internal business systems.

Some of the ICT enhancements include the re-design and re-implementation of Seqwater's core infrastructure to improve network reliability and security. Further stages of this work will carry-over to the next financial year, including the establishment of off-site disaster recovery facilities.

A key corporate initiative has been the ongoing development of the Corporate Information System (CIS). The core part of this project is the implementation of one integrated system for Finance (including Procurement), Payroll, Human Resources, Asset Management, Records and Document Management, Business Intelligence and Reporting. This system is making a positive impact on transforming Seqwater's processes and information flows. Following on from the foundation work conducted in 2008-09, stages 2 and 3 of the project focused on:

- disaggregation of the asset data to support improved operational representation of assets;
- advancing the use of the works management functionality for maintenance planning;
- implementation of contract management tools;
- introducing document and record management functionality providing a basis to strengthen records management compliance;
- establishment of a training database;
- the capability to support integrated planning, budgeting and reporting processes; and,
- the ability to track risk and compliance activities.

The project was originally planned to be implemented over two financial years but has been extended by another year to accommodate the changes in business priorities and additional components scoped into the 2009-10 program.

Other key business system initiatives commenced in 2009-10 have centred on improving the collection, management and reporting of water quality data, largely from process laboratories. In 2010-11, further implementation work is planned to address the improved collection and management of the remaining water quality sampling data and supplementary water related information such as in-stream flows and heights, storage levels, releases and rainfall to form an entire water data management solution.

Workforce planning and retention

2009-10 continued to represent a period of establishment and consolidation with workforce planning activity focused on the management of transitional arrangements, in particular applying the principles and processes of the *South East Queensland Urban Water Reform Workforce Framework 2007*.

Ongoing recruitment activity saw Seqwater finish the year with 437 FTE (Full Time Equivalent) staff. This was within workforce planning objectives and budget which allowed for a maximum of 452 FTE staff. Seqwater will continue to recruit to provide the necessary resourcing and competence to meet operational requirements.

Seqwater is committed to establishing and maintaining a safe working environment. During the year, a network of Workplace Health and Safety Committees was formed across the organisation. A corporate WHS risk assessment was conducted to identify and prioritise areas of risk. Trend analysis of incident data resulted in the implementation of focused preventative programs such as a slips trips and falls campaign. As a result of this campaign, injuries relating to slips, trips and falls reduced by 67 per cent over the year. Additional injury prevention programs that targeted injury risk areas were also implemented including a manual handling risk prevention program and a driving safety program for staff.

Seqwater successfully negotiated and certified an Enterprise Bargaining Agreement (EBA) for all staff. During 2009-10 work commenced on implementing the new agreement and arrangements with staff, but further work will continue into 2010-11 on the implementation. This agreement represents an important achievement in the organisation's cultural development.

CASE STUDY

Safety
education for Life

Left: Ranger Rohan Thorogood at Somerset Dam.

Seqwater is responsible for 25 dams and 47 weirs as well as 46 operational water treatment plants across South East Queensland.

As part of Seqwater's commitment to improving safety around its waterways and assets, Seqwater has developed two community awareness campaigns on the dangers of swimming in flooded weirs and the importance of safe behaviour in and around dams.

Using the slogan "No Lifeguards Here", the weir safety campaign was launched in Caboolture in October 2009 following the tragic drowning of a 12 year old girl in Caboolture Weir. The aim of the campaign is to highlight weirs as secluded places that are not patrolled or supervised by anyone.

Weirs are dangerous and unpredictable places – an overflowing weir can act as a drowning machine due to the volume of water flowing over it, forcing people underwater – making self-rescue and assisted-rescue almost impossible.

The campaign was developed with input and support from Hannah's Foundation, Australia's leading drowning prevention, awareness and support group, Queensland Fire & Rescue, and Emergency Management Queensland.

A mix of outdoor, print and cinema advertising, and installation of new warning signs at known weir locations of risk in Caboolture, Ipswich and on the Sunshine Coast delivered the campaign message.

In consultation with the Queensland Police Service, Seqwater launched its "Be DAM Smart" campaign in December. This ongoing campaign

will be rolled out at peak times throughout the year. The campaign is designed to ensure people act "DAM Smart" both on and around Seqwater dams so everyone can safely enjoy them.

During peak periods, Seqwater Rangers and Queensland Police conduct joint patrols around Somerset, Maroon, Moogerah, Atkinson and Borumba Dams. These patrols involve random breath-tests for boat operators and drivers and watching for dangerous or anti-social behaviour.

More than 20,000 people visited Seqwater dams over the Easter long weekend and, for the first time in more than ten years, there were no marine incidents. The most popular dam was Somerset Dam, with traffic counts recording more than 15,000 visitors, and over 400 boats on the water each day.

When on patrol Seqwater Rangers and Queensland Police focus on:

- excessive alcohol consumption
- boaties and jet skiers keeping their distance from swimmers and paddlers – 30 metres for boats and 60 metres for jet skies
- people speeding in designated six-knot zones
- people swimming and camping in non-designated areas
- boating or fishing after dusk.

Conduct and ethics

Seqwater has adopted a Code of Conduct that affirms the organisation's commitment to high standards of integrity, professionalism and accountability. The Code of Conduct guides the business conduct of all staff as well as contractors and consultants engaged by Seqwater.

The code of conduct will be supported by shared organisational values which are currently being finalised. Seqwater has utilised a highly participative yet structured approach to the development of the values. The process included several rounds of consultation with staff at all levels of Seqwater and the feedback provided by staff was instrumental. The focus for 2010-11 will be the implementation phase of the values into Seqwater daily working life.

Whistleblower protection

No disclosures under the *Whistleblowers Protection Act 1994* were received during 2009-10.

Greenhouse gas emissions

Seqwater is committed to supporting the Queensland Government's targets to cut greenhouse gas emissions. Since its formation on 1 July 2008, Seqwater has been capturing and recording data associated with energy consumption and greenhouse gas emissions for the purpose of calculating its carbon footprint.

As the owner and operator of significant bulk water storage and treatment assets in South East Queensland, Seqwater is a significant consumer of energy. As such, it is committed to reducing its greenhouse footprint as part of its strategy for sustainable water management. Seqwater is developing a program to achieve vehicle emission offsets in accordance with the Queensland Government's agenda.

Seqwater is using *The National Greenhouse and Energy Reporting Act (NGER)* reporting requirements as the basis of its data collection and reporting. Emissions are calculated using the factors from the June 2009 National Greenhouse Accounts from the Department of Climate Change and Energy Efficiency in conjunction with National Greenhouse and Energy Reporting (Measurement) Determination which sets out the methods and criteria for measuring greenhouse gas emissions. To date, Seqwater has focused on capturing scope 1 and 2 emissions data for the 2009-10 reporting year.

Seqwater data is currently based largely on electricity and fuel consumption for most of its administration centres, water treatment

plants, pumping stations and other plant and equipment (including fleet). Seqwater considers its data to be an estimate, with some adjustments expected.

The following table outlines the estimated emissions relating to Seqwater's operational activities during the 2009-10 reporting period. Data is based on fuel purchased for use in vehicles and electricity accounts paid during the financial year.

Seqwater Greenhouse Gas Emissions	
Activity	Estimated tonnes of CO ₂ -e per year*
Fuels	
Seqwater Vehicle Fleet ⁱ	1,426
Plant & Equipment (Wivenhoe and Mt Crosby) ⁱⁱ	82
Electricity Consumption	
Corporate Offices (Brisbane and Karalee)	831
All other activities (including Water Treatment and pumping) ⁱⁱⁱ	70,024
Total	72,363

* Data is based on fuel purchased for use in vehicles in the Seqwater vehicle fleet.

ⁱ This is a **limited initial estimate only** of emissions from fuel for plant purposes (principally generators and small plant). The data is for fuel use from Wivenhoe and Mt Crosby sites and based on data for ULP and Diesel only. LPG data is not available to be included.

ⁱⁱ Some metering data is not available for a number of small sites (<3000t of CO₂-e). Therefore, electricity consumption has been estimated using monthly averages for those sites.

Legislative and policy requirements

Seqwater has complied with all legislative and policy requirements in the preparation and publication of this Annual Report. These include the:

- *Financial Accountability Act 2009*
- *Financial and Performance Management Standard 2009*
- *Public Sector Ethics Act 1994*
- *South East Queensland Water (Restructuring) Act 2007*
- *State Water Authorities – Governance Framework*
- *Whistleblowers Protection Act 1994*

Safe secure water supply and recreation: a balancing act

CASE STUDY

Seqwater's primary business is protecting the quality and safety of the region's drinking water supply and the ongoing health of the catchments.

Seqwater is also aware that some community and special interest groups such as fishing, sailing and rowing clubs, would like greater access to Seqwater dams and land for recreational activities and tourism.

With the projected population growth due to increase significantly across the region, this community pressure is likely to continue to increase. However the growth in population also places greater priority on the need for safe, clean and secure drinking water supplies.

The source of South East Queensland's water – the forested and managed catchment lands, and the waterways and reservoirs themselves – can only deliver high quality water needing minimal treatment if they are carefully managed and protected.

To balance the environmental needs of the dams and catchments with the need to provide public recreation facilities, Seqwater has developed a Recreation Management Framework.

The framework has been developed through consultation with over 80 clubs, sporting bodies and associations, as well as local and State Government authorities.

The framework uses a series of key principles:

- minimise risks to water quality;
- ensure environmental sustainability;
- provide a diverse range of outdoor recreation activities, locations and settings;
- ensure all use is consistent with Seqwater's asset and land management practices;
- support and encourage sustainable recreation;
- engage with external regulating agencies; and
- meet financial management outcomes.

The framework provides Seqwater with a robust decision making tool to assess future recreation activities, and ensure current activities meet the framework criteria.

As part of the framework planning process, Seqwater has started public consultations in its catchment areas to gain a better understanding of the local issues and recreational needs of communities. These public consultations will be held over the next six to 12 months across all existing recreational areas managed by Seqwater. A draft Recreation Management Plan will be completed by next summer.



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Glossary

ADWG	Australian Drinking Water Guidelines
CEO	Chief Executive Officer
DERM	Department of Environment and Resource Management
EGM	Executive General Manager
HACCP	Hazard Analysis and Critical Control Point
ICT	Information and Communications Technology
QWC	Queensland Water Commission
SAMP	Strategic Asset Management Plan
SEQWater Corporation	South East Queensland Water Corporation Limited
SEQWGM	South East Queensland Water Grid Manager
WTP	Water Treatment Plant
WHS	Workplace Health and Safety

Recognising Somerset Dam's engineering and historical significance

CASE STUDY

Somerset Dam has been named a National Engineering Heritage Landmark in recognition of its historical and engineering significance.

The award was presented by Her Excellency, Ms Penelope Wensley AO, Governor of Queensland, at an official Engineers Australia ceremony in June.

Somerset was the first major dam in Australia designed specifically to provide flood mitigation as well as storage for urban water supply.

Construction of the dam wall and nearby township started in 1935. The dam acted as a major employment project to help Queensland rebuild from the impacts of the Great Depression.

Work slowed as workers were diverted to assist with the World War II war effort, and construction was completed in 1953.

Just two years later, the dam's ability to mitigate damaging floods was dramatically demonstrated in 1955 when Brisbane and Ipswich escaped largely unscathed from the 1955 floods.

The dam next demonstrated its flood managing capability in 1974, a year of national storm and flood damage. Without Somerset's ability to provide major mitigation of the Brisbane River flood in that year, the damage bill would have almost doubled.

Since its completion Somerset has proved to be a central part of South-East Queensland's water supply network.



Catchment management: a burning issue

CASE STUDY



Left: Fire trial site at Lake Wivenhoe.

Catchment management is an essential part of Seqwater's business. Research partnerships with leading authorities and university departments are helping to shed light on the impacts of grazing and other pressures on catchment lands around dams.

Research projects include investigating the positive and negative impacts of pasture burning on erosion and water quality; tracking cattle movement and weather patterns with electronic collars, and an examination of erosion processes and land use.

An innovative five-year pasture burning trial at Wivenhoe aims to understand the long-term impact of burning on soil condition and soil nutrients, ground cover and pasture condition, and run-off into the water supply. The trial will track run-off, pasture condition, diversity of ground cover, soil condition and erosion over a five year period on catchment land leased for agricultural activity.

The nine hectare study site has been divided into six different treatment blocks. Each of these blocks will have a different combination of variables such as burning, not burning, grazing and not grazing. Run-off data will be collected throughout the year after rainfall events.

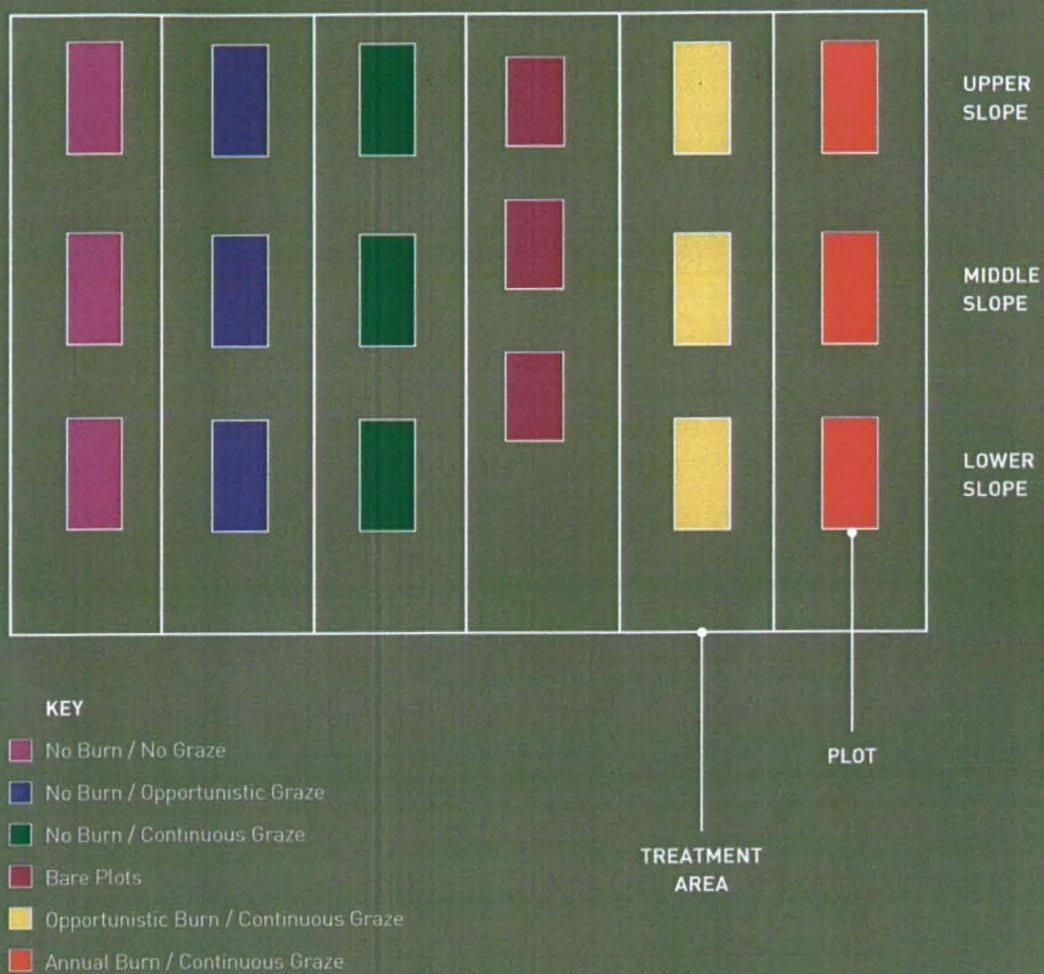
Annual low intensity pasture burning will take place under controlled conditions between August and October each year following ideal conditions including a minimum of 10 millimetres (mm) of rain.

Opportunistic burning and grazing will be at the discretion of the farmer, in consultation with Seqwater, to mimic actual pasture management strategy.

In collaboration with CSIRO, the cattle collaring trial uses wireless technology and tracking collars, to monitor cattle movement and weather conditions within selected paddocks. This will give an indication of cattle behaviour under differing weather conditions and the impact they make.

The erosion research trial involves Griffith University and Seqwater examining the erosion processes in catchments with different land uses. By identifying dominant erosion processes, appropriate land management actions can be taken. For example, if the dominant erosion processes in a catchment are due to steep hill slopes, the best management option is to promote groundcover, maintain soil structure and promote deposition of the sediment before it reaches the stream.

Figure 1: Diagrammatic representation of the burning trial site layout





Financial Report

for the year ended 30 June 2010

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Queensland Bulk Water Supply Authority

General Information

This financial report covers the Queensland Bulk Water Supply Authority and its controlled entities.

The Queensland Bulk Water Supply Authority is a Statutory Body under the *Financial Accountability Act 2009* and under the *Statutory Bodies Financial Arrangements Act 1982* and has been established under the *South East Queensland Water (Restructuring) Act 2007*. Queensland Bulk Water Supply Authority expires at the end of 99 years from when it was established on 16 November 2007. The State is the successor in law at the expiry date of the Queensland Bulk Water Supply Authority.

The Queensland Bulk Water Supply Authority is controlled by the State of Queensland which is the ultimate parent.

The head office and principal place of business of the Queensland Bulk Water Supply Authority is:

Level 3, 240 Margaret Street, Brisbane QLD, 4000

A description of the nature of the Queensland Bulk Water Supply Authority's operations and its principal activities is included in the notes to the financial statements.

Queensland Bulk Water Supply Authority

Abbreviations

AASB	Australian Accounting Standards Board
AASBs	Australian Accounting Standards
ABF	Accumulation Benefit Fund
APG	Accounting Policy Guidelines
ATO	Australian Taxation Office
CAPM	Capital Asset Pricing Model
CGU	Cash Generating Unit
CSO	Community Service Obligation
DBF	Defined Benefit Fund
DERM	Department of Environment and Resource Management
DOGIT	Deed of Grant in Trust
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
GST	Goods and Services Tax
NTER	National Tax Equivalent Regime
QTC	Queensland Treasury Corporation
QWC	Queensland Water Commission
QWI	Queensland Water Infrastructure Pty Ltd
RAB	Regulatory Asset Base
SEQWater	South East Queensland Water Corporation Limited
SIS	Superannuation Industry Supervision
SVS	State Valuation Services
WACC	Weighted Average Cost of Capital
WGM	South East Queensland Water Grid Manager
WTP	Water Treatment Plant

Queensland Bulk Water Supply Authority
Statement of Comprehensive Income
for the year ended 30 June 2010

	Notes	2010 \$000	2009 \$000
Income from continuing operations			
Revenue			
Water sales	7	302,871	286,042
Grants and contributions	8	1,836	2,677
Project income	9	3,971	18,514
Other revenue	10	5,849	22,038
Total income from continuing operations		314,326	309,271
Expenses from continuing operations			
Employee expenses	11	41,167	33,969
Supplies and services	12	76,368	81,128
Depreciation and amortisation	13	40,745	31,381
Revaluation decrement	14	7,580	-
Finance/borrowing costs	15	149,427	154,773
Other expenses	16	4,683	5,803
Total expenses from continuing operations		319,950	307,050
Operating result from continuing operations before income tax		(5,624)	2,221
Income tax expense	17	684	2,328
Operating result from continuing operations		(6,308)	(107)
Other comprehensive income			
Increase in asset revaluation surplus		144,864	129,615
Total comprehensive income		138,556	129,508

The accompanying notes form part of these statements.

Queensland Bulk Water Supply Authority

Statement of Financial Position

as at 30 June 2010

	Notes	2010 \$000	2009 \$000
Current assets			
Cash and cash equivalents	25	100,703	109,608
Trade and other receivables	21	30,630	25,197
Inventories	22	2,373	1,782
Other	23	12,214	12,077
Total current assets		145,920	148,664
Non current assets			
Property, plant and equipment	18	2,820,987	2,432,312
Intangible assets	10	8,774	45,700
Deferred tax assets	24	12,707	4,304
Total non current assets		2,842,528	2,482,615
Total assets		2,988,448	2,631,279
Current liabilities			
Trade and other payables	28	31,710	28,118
Employee benefits	27	4,156	3,765
Interest bearing liabilities	28	32,491	32,501
Other	29	268	19,082
Total current liabilities		68,625	81,476
Non current liabilities			
Trade and other payables	28	908	1,007
Employee benefits	27	6,682	5,554
Interest bearing liabilities	28	2,217,832	2,073,179
Deferred tax liabilities	24	206,316	135,374
Total non current liabilities		2,431,738	2,215,114
Total liabilities		2,500,363	2,296,590
Net assets		488,085	334,689
Equity			
Contributed equity	37(1)	223,898	209,084
Asset revaluation surplus	30	274,479	129,615
Accumulated losses		(10,292)	(4,010)
Total equity		488,085	334,689

The accompanying notes form part of these statements.

Queensland Bulk Water Supply Authority

Statement of Changes in Equity

for the year ended 30 June 2010

	Accumulated Losses		Asset Revaluation Surplus		Contributed Equity		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July	(4,010)	(8,252)	129,615	-	209,084	-	334,689	(8,252)
Operating result from continuing operations	(6,308)	(107)	-	-	-	-	(6,308)	(107)
Prior year adjustments	-	4,349	-	-	-	-	-	4,349
Transfer revaluation increment as a result of disposal of non current asset	26	-	-	-	-	-	26	-
Total other comprehensive income	-	-	-	-	-	-	-	-
increase/(decrease) in asset revaluation surplus	-	-	144,882	129,615	-	-	144,882	129,615
Asset revaluation on disposal of noncurrent asset	-	-	(18)	-	-	-	(18)	-
Contributed equity	-	-	-	-	14,814	209,084	14,814	209,084
Balance at 30 June	(10,292)	(4,010)	274,479	129,615	223,898	209,084	488,085	334,689

The accompanying notes form part of these statements.

Queensland Bulk Water Supply Authority
Statement of Cash Flows
for the year ended 30 June 2010

	Notes	2010 \$000	2009 \$000
		Inflow/(Outflow)	
Cash flows from operating activities			
<i>Inflows:</i>			
Receipts from water sales		296,300	249,188
CSO received		1,061	2,045
Other revenue		8,840	21,443
Interest received		2,420	10,030
GST collected		29,700	19,903
<i>Outflows:</i>			
Payments to suppliers and employees		(122,921)	(111,857)
Finance and borrowing costs		(149,510)	(85,046)
Return of Business Water Efficiency Program grant		(18,399)	-
GST paid		(27,608)	(20,432)
Other		(1,050)	(450)
Net cash provided by (used in) operating activities	25(b)	<u>20,903</u>	<u>85,892</u>
Cash flows from investing activities			
<i>Inflows:</i>			
Proceeds from sale of plant and equipment		430	147
Receipts from mortgage redemption		5	24
<i>Outflows:</i>			
Payments for property, plant and equipment		(161,521)	(188,415)
Payments for intangibles		(2,717)	(1,724)
Payments for acquisition of assets from Councils		(11,970)	(1,285,459)
Payments for assets transferred from Western Corridor Recycled Water Pty Ltd		(13,127)	-
Payments for assets transferred from SunWater, DERM and QWI		-	(150,097)
Payment for security deposit	23,34	-	(11,166)
Net cash provided by (used in) investing activities		<u>(188,900)</u>	<u>(1,636,685)</u>
Cash flows from financing activities			
<i>Inflows:</i>			
Borrowings		133,995	160,105
Contributed equity		14,814	209,084
Loan drawdown for payment of Councils, DERM and SunWater assets		11,970	1,383,404
Loan transferred from QWI		-	72,147
Loan transferred from Western Corridor Recycled Water Pty Ltd		13,127	-
<i>Outflows:</i>			
Borrowing redemptions		(14,814)	(292,813)
Net cash provided by (used in) financing activities		<u>159,092</u>	<u>1,511,957</u>
Net increase (decrease) in cash and cash equivalents		<u>(8,905)</u>	<u>(18,836)</u>
Cash and cash equivalents at the beginning of the financial year		<u>109,608</u>	<u>148,444</u>
Cash and cash equivalents at the end of the financial year	25(a)	<u>100,703</u>	<u>109,608</u>

The accompanying notes form part of these statements.

Queensland Bulk Water Supply Authority

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Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

1. Reporting entity

The Queensland Bulk Water Supply Authority (the 'Entity') is a Queensland Statutory Body under the *South East Queensland Water (Restructuring Act) 2007* with a limited life of 99 years from establishment. The address of the Entity's registered office is Level 3, 240 Margaret Street, Brisbane QLD.

The financial statements of the Entity as at and for the year ended 30 June 2010 comprise the Entity and its subsidiary South East Queensland Water Corporation Limited (SEQWater). As SEQWater ceased operations on 1 July 2008, and the transactions recorded in its financial statements are immaterial, the Entity has not presented financial statements for the Parent Entity for this financial year. The Entity is primarily involved in the supply of water services and carrying out water activities.

2. Basis of preparation

(a) Statement of compliance

The financial statement is a general purpose financial statement which has been prepared in accordance with:

- applicable Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB);
- the *Financial and Performance Management Standard 2009*;
- Queensland Treasury's Financial Reporting Requirements for Queensland Government agencies; and
- other authoritative pronouncements.

The financial statements were authorised for issue by the Board on 27 August 2010.

(b) Basis of measurement

The financial statements have been prepared on an accrual basis and are based on historical costs except for the following:

- financial instruments at fair value through profit or loss are measured at fair value; and
- land, buildings and infrastructure are measured at fair value.

The methods used to measure fair values are discussed further in Note 4.

(c) Presentation currency and comparatives

The financial statements are presented in Australian dollars, which is the Entity'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.

Comparative information has been restated where necessary to be consistent with disclosures in the current reporting period.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

2. Basis of preparation (continued)

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following:

(i) Determination of for profit or not for profit

As set out in the *South East Queensland Water (Restructuring) Act 2007* the Entity must carry out its functions as a commercial enterprise. The Entity meets the definition of a for profit entity for the purposes of the accounting standards. This is supported by the contract with the South East Queensland Water Grid Manager (WGM).

(ii) Acquisitions as a result of the *South East Queensland Water (Restructuring) Act 2007*

The Entity acquired through Transfer Notices and Project Directions the following bulk water supply assets in the financial year ended 30 June 2010:

- Wivenhoe to Esk Water Treatment Plant Pipeline assets from Western Corridor Recycled Water Pty Ltd on 1 September 2009;
- Wivenhoe to Goominya Pipeline assets from Western Corridor Recycled Water Pty Ltd on 1 October 2009; and
- Enngarra Water Treatment Plant from Brisbane City Council on 14 December 2008.

The Entity paid additional consideration for the following bulk water supply assets acquired through Transfer Notices and Project Directions in the financial year ended 30 June 2009:

- Lake Manchester Dam Upgrade from Brisbane City Council on 14 December 2009; and
- South Maclean Water Treatment Plant from Logan City Council on 29 June 2010.

Additional details in relation to the acquisitions are set out in Note 6.

(iii) Impairment

The Entity assesses impairment at each reporting date by evaluating conditions specific to the Entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key assumptions (refer to Note 3(i) and Note 20).

(iv) Income tax and utilisation of tax losses

The Entity is subject to the National Tax Equivalent Regime and has formed a tax consolidated group from the date of establishment. During the year ended 30 June 2010, \$0 of tax losses were utilised (2009: \$0) with tax losses carried forward at 30 June 2010 of \$33,310,375 (2009: \$23,577,059). A Deferred Tax Asset (DTA) of \$9,993,113 has been recognised in relation to these carry forward tax losses as it is considered probable that future taxable profits will be generated against which the tax losses could be utilised.

(v) Provision for impairment of receivables

A provision for impairment of receivables has been made at year end.

(vi) Interest bearing liabilities

Loans have been provided to the Entity as a result of Transfer Notices and Project Directions under the *South East Queensland Water (Restructuring) Act 2007*. These are perpetual interest-only loans that will expire at the end of the Entity's existence. The interest payable is recognised as a current liability and the principal amounts are recognised as non current liabilities.

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Asset acquisition

The acquisitions of specified net assets from Brisbane City Council, Logan City Council and Western Corridor Recycled Water Pty Ltd have been determined by the Entity to be acquisitions of assets and liabilities to be dealt with in accordance with AASB 116 *Property, Plant and Equipment* (AASB116). This standard requires that for assets acquired, the Entity must recognise items of property, plant and equipment at cost. In circumstances where a group of assets is acquired, the cost of individual assets is determined by allocating the cost of the group of acquired assets between the identified assets in the group based on their relative fair values at the acquisition date. The transfer of liabilities is being accounted for in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* (AASB139).

(b) Financial Instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Entity's contractual rights to the cash flows from the financial assets expire or if the Entity transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Entity's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are reported as part of short-term borrowings in current liabilities on the balance sheet.

Funds held by the Entity in the QTC Redraw Facility are treated in accordance with AASB 139 *Financial Instruments: Recognition and Measurement, Application Guidance AG 62* (Debt restructuring). Refer to Note 26.

Financial instruments are classified and measured as follows:

- Cash and cash equivalents - held at fair value through profit or loss.
- Receivables - held at amortised cost.
- Payables - held at amortised cost.
- Borrowings - held at amortised cost.

The Entity does not enter transactions for speculative purposes, nor for hedging. Apart from cash and cash equivalents, the Entity holds no financial assets classified at fair value through profit or loss.

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

3. Significant accounting policies (continued)

(c) Receivables

Receivables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is amortised cost using the effective interest method, less an allowance for any impairment of receivables. Short term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial. An allowance for impairment of receivables is established when there is objective evidence that the Entity will not be able to collect all amounts due. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Bad debts are written off as incurred.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is assigned on a weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(e) Property, plant and equipment

(i) Recognition and measurement

Each class of property, plant and equipment is initially recognised at cost. Assets acquired in exchange for other non-monetary assets or assets acquired at a nominal consideration are initially recognised at cost. On initial recognition, all costs incurred in purchasing or constructing the asset and getting it ready for use are capitalised to the value of the asset. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Land, buildings, dams and weirs and water treatment plant and other infrastructure are measured at fair value in accordance with AASB 116 *Property, Plant and Equipment* and Queensland Treasury's *Non-Current Asset Policies for the Queensland Public Sector*.

Plant and equipment is measured at cost. Separately identified components of assets are measured on the same basis as the assets to which they relate.

The Entity operates on a commercial basis, with the primary objective being the generation of cash inflows. Where there is no market price for the asset, fair value is either the depreciated replacement cost or the net present value of the cash flows from the asset.

If the asset does not generate cash inflows independent from the assets or group of assets then the fair value will be either the sum of the depreciated replacement cost of the group of assets or the net present value of the cash flows from the group of assets.

Where an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which the asset belongs is revalued.

Net revaluation increments in respect of each non-current asset are credited to the asset revaluation surplus, except to the extent that it reverses a previous decrement recognised as an expense for that asset in the profit or loss. In this instance the reversal portion of the increment is recognised as revenue in the profit or loss. Net revaluation decrements in respect of each asset are recognised as an expense in the profit or loss, except to the extent that they reverse a previous increment for that asset and a positive balance exists in the asset revaluation surplus for that asset. In this instance, the reversal portion of the decrement is charged directly to the revaluation surplus, but so as not to exceed the balance of the surplus for that asset.

Queensland Bulk Water Supply Authority **Notes to and forming part of the Financial Statements 2009-10**

3. Significant accounting policies (continued)

(ii) Subsequent costs

Costs incurred subsequent to the initial asset purchase are capitalised when the expenditure improves the condition of the asset beyond its originally assessed standard of performance or capacity. Outlays that do not meet the criteria for recognition as an asset are expensed in the financial year.

(iii) Depreciation

Land is not depreciated as it has an unlimited useful life.

Property, plant and equipment is depreciated on a straight-line basis so as to allocate the net cost or revalued amount of each asset, less its estimated residual value, progressively over its estimated useful life.

Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate and are depreciated accordingly.

Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated over the remaining useful life of the asset.

Major spares purchased specifically for particular assets are capitalised and depreciated on the same basis as the asset to which they relate.

The estimated useful lives applied for the current and comparative periods are as follows:

<u>Class of Fixed Asset</u>	<u>Depreciation Rate</u>	<u>Useful Life</u>
Buildings and land improvements	1.25% - 2.5%	40 - 80 years
Dams and weirs	0.667% - 10%	10 - 150 years
Water treatment plants and other infrastructure	0.667% - 33.33%	3 - 150 years
Plant and equipment		
Motor vehicle and boat	10% - 33.33%	3 - 10 years
Office equipment	10% - 33.33%	3 - 10 years
Other equipment	10% - 33.33%	3 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the profit or loss.

Queensland Bulk Water Supply Authority **Notes to and forming part of the Financial Statements 2009-10**

3. Significant accounting policies (continued)

(f) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill was stated at cost less any accumulated impairment losses. Goodwill has been transferred to the Asset Revaluation Reserve. Refer to Note 19.

(ii) Other intangible assets

Intangible assets with a cost or other value greater than \$100,000 are recognised in the financial statements, items with a lesser value being expensed. Intangible assets that are acquired by the Entity are initially measured at cost.

Where there is an active and liquid market, intangible assets are carried at a revalued amount; otherwise they are carried at cost after initial recognition. If revalued, the same rules apply as to those for property, plant and equipment. Intangible assets are not revalued.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss.

Intangible assets, both at cost and revalued amounts, are subject to amortisation and impairment testing.

Intangible assets with indefinite useful lives are not amortised.

Purchased software

Expenditure associated with externally purchased computer software and licences has been capitalised and is amortised on a straight-line basis over its estimated useful life.

Internally generated software

Expenditure on research activities relating to internally-generated intangible asset is recognised as an expense in the period in which it is incurred.

Costs associated with the development of computer software have been capitalised and are amortised on a straight-line basis over its estimated useful life.

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The estimated useful lives applied for the current and comparative periods are as follows:

<u>Class of Intangible Asset</u>	<u>Amortisation Rate</u>	<u>Useful Life</u>
Software purchased	20%	5 years
Software internally generated	20%	5 years
Other intangible	2.5%	40 years

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

3. Significant accounting policies (continued)

(g) Leased assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased assets, and operating leases under which the lessor effectively retains all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is recognised at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding liability is established at the same amount. Lease payments are allocated between the principal component and the interest expense. The fair value of the asset is depreciated over the term of the lease.

Operating lease payments are charged to the profit or loss in the period in which they are incurred.

Restoration obligations under lease obligations are provided over the life of the lease.

Plant and equipment subject to finance lease is amortised on a straight line basis over the shorter of the lease term and their useful lives unless it is reasonably certain that the Entity will obtain ownership by the end of the lease term.

(h) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the profit or loss.

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

3. Significant accounting policies (continued)

(ii) Non-financial assets

The carrying amounts of the Entity's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss unless the asset is carried at a revalued amount. When the asset is measured at a revalued amount, the impairment loss is offset against the asset revaluation surplus of the relevant asset to the extent available.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Assets under construction

Assets under construction (work in progress) are carried at cost and not depreciated until they reach service delivery.

Interest costs on borrowings specifically financing assets under construction are capitalised.

(j) Payables

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

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

3. Significant accounting policies (continued)

(k) Employee benefits

Employer superannuation contributions, annual leave and long service leave are regarded as employee benefits.

Payroll tax and workers' compensation insurance are a consequence of employing employees, but are not counted in an employee's total remuneration package. They are not employee benefits and are recognised separately as employee related expenses.

(i) Wages, salaries, annual leave and sick leave

Liabilities for short-term employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Entity expects to pay as at reporting date including applicable related on-costs.

For those entitlements not expected to be paid within 12 months, the liabilities are classified as non-current liabilities and recognised at their present value, calculated using yields on fixed rate Commonwealth Government Bonds of similar maturity.

Non-vesting sick leave is recognised as an expense as it is taken.

(ii) Long service leave

The long service leave provision represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to balance date. The current provision is calculated using the simplified approach whereby a net factor of 0.95 is applied to the long service leave amount of the employees with 3 or more years of service in order to estimate the present value. This approach is an approximation process to recognise the probable liability that will eventuate for staff that have achieved the 7 years of service.

(iii) Superannuation schemes

QSuper

The Entity currently contributes to the QSuper defined benefit and accumulation superannuation funds. Where there is a surplus or deficit in financial position of a defined benefit superannuation fund, the employer sponsors, to the extent permissible under the trust deed of the superannuation fund, can recognise an asset for the surplus or must recognise a liability for the deficit. However, as responsibility for the funding of the QSuper defined benefit superannuation fund is assumed at a whole-of-Government level, no asset or liability is required to be recognised by the Entity.

Local Government Superannuation Scheme (LG Super)

The Entity contributes to LG Super for employees under both defined benefit scheme and accumulation superannuation scheme. The Entity has no liability to or interest in LG Super other than the payment of the statutory contribution. Any amount by which either scheme is over or under funded would only affect future benefits and is not an asset or liability of the Entity. Accordingly, there is no recognition in the financial statements of any over-or-under funding of LG Super. Refer to Note 27.

Brisbane City Council Superannuation Plan (City Super)

The Entity also contributes to City Super for employees under both defined benefit and accumulation superannuation funds. According to the Statement of Advice: Funding and Solvency Certificate by the Trustee of the fund effective on 21 November 2008, City Super is declared as "technically insolvent" as described in the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). Refer to Note 27.

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

3. Significant accounting policies (continued)

(iv) Executive remuneration

The executive remuneration disclosure in the employee expenses note (Note 11) in the financial statements includes:

- the aggregate remuneration of all senior executive officers whose remuneration for the financial year is \$100,000 or more, and
- the number of senior executives, whose total remuneration for the financial year falls within each successive \$20,000 band, commencing at \$100,000.

The remuneration disclosed is all remuneration paid and payable, directly or indirectly, by the Entity in connection with the management of the affairs of the Entity. For this purpose, remuneration includes:

- wages, salaries, allowances and bonuses;
- accrued leave;
- superannuation; and
- benefits such as car parking, motor vehicles.

(i) Revenue

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

(i) Government grants and subsidies

Government grants and subsidies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Entity will comply with the conditions associated with the grant. Grants and subsidies that compensate the Entity for expenses incurred are recognised in the profit or loss on a systematic basis in the same periods in which the expenses are recognised.

The Entity receives Community Service Obligation (CSO) payments from the Queensland Government. The Rural Water payment is for the provision of rural irrigation water to rural irrigators. The Water Planning Development payment is for the activities to ensure compliance with regulatory and policy areas of resource management. The CSO payments are recognised on a monthly accrual basis.

(ii) Water charges

There was an agreement with the South East Queensland Water Grid Manager (WGM) up to 30 June 2010 to provide revenue for a return on and of assets and pass through costs. There is a new agreement with WGM that provides Grid Service Charges revenue to the Entity up to 30 June 2020. Refer to Note 39.

Revenue from the WGM is accrued at end of month based on the Market Rules and the Entity's Water Grid Services contract. It includes a monthly capital charge, fixed and variable operating costs incurred for the month and other specific allowable costs identified in the contract.

The charges for rural irrigation water are calculated based on two part tariff charges. Part A relates to fixed costs based on water allocation volume and applied quarterly in advance and Part B represents the charge for water used based on meter readings for the previous quarter. These charges are accrued on a monthly basis.

Queensland Bulk Water Supply Authority **Notes to and forming part of the Financial Statements 2009-10**

3. Significant accounting policies (continued)

(iii) Services

Revenue from rendering of a service is recognised upon the delivery of the service to the customers.

(iv) Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in the profit or loss, using the effective interest method.

(m) Finance/borrowing costs

Finance/borrowing costs comprise:

- interest expense on bank overdrafts, short-term and long-term borrowings;
- unwinding of the discount on provisions;
- amortisation of discounts or premiums relating to borrowings; and
- ancillary administration charges.

Finance/borrowing costs are recognised in the profit or loss using the effective interest method and are expensed in the period in which they arise. Finance/borrowing costs that are not settled in the period in which they arise are added to the carrying amount of the borrowing.

Finance/borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

(n) Income tax

The Entity is a participant in the National Tax Equivalent Regime from the date of establishment. As a result an "equivalent" or "notional income tax" liability is payable to Queensland Treasury for payment into the consolidated fund. Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

3. Significant accounting policies (continued)

(o) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

The Entity and its subsidiary formed a GST group for GST purposes effective on 1 July 2008.

(p) Contributed equity

The Entity has applied the accounting treatment of Interpretation 1038 *Contribution by Owners Made to Wholly-Owned Public Sector Entities* to the equity proceeds received during the year. Refer to Note 37(f).

(q) New standards and interpretations not yet adopted

The Entity did not change any of its accounting policies during 2009-10. Those new and amended Australian accounting standards that were applicable for the first time in the 2009-10 financial year and that had a significant impact on the Entity's financial statements are as follows.

The Entity complied with the revised AASB 101 *Presentation of Financial Statements* as from 2009-10. This revised standard does not have any measurement or recognition implications. Pursuant to the change of terminology used in the revised AASB 101, the Balance Sheet is now re-named to the Statement of Financial Position, and the Cash Flow Statement has now been re-named to Statement of Cash Flows. The former Income Statement has been replaced by a Statement of Comprehensive Income. In line with the new concept of 'comprehensive income', the bottom of this new statement contains certain transactions that previously were detailed in the Statement of Changes in Equity. The Statement of Changes in Equity now only includes details of transactions with owners in their capacity as owners, in addition to the total comprehensive income for the relevant components of equity.

The Entity has not applied any Australian Accounting Standards and interpretations that have been issued but are not yet effective. The Entity will apply these standards and interpretations in accordance with their respective commencement dates.

At the date of signing the financial statements, the only significant impacts of new or amended Australian accounting standards with future commencement dates are as set out below.

AASB 2009 - 5 *Amendments to Australian Accounting Standards arising from the Annual improvements project* includes certain amendments to AASB 117 *Leases*, effective from reporting periods beginning on or after 1 January 2010. These amendments revise the criteria for classifying leases involving land and buildings. The Entity will be required to reassess the classification of the land elements of all unexpired leases the Entity has entered into as at 1 July 2010, on the basis of information existing at the inception of relevant leases. If any such leases are reclassified to become finance leases, retrospective accounting adjustments will be processed as far as practicable.

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

3. Significant accounting policies (continued)

(a) New standards and interpretations not yet adopted (continued)

AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 116, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12) become effective from reporting periods beginning on or after 1 January 2013. The main impacts of these standards are that they will change the requirements for the classification, measurement and disclosures associated with financial assets. Under the new requirements, financial assets will be more simply classified according to whether they are measured at either amortised cost or fair value. Pursuant to AASB 9, financial assets can only be measured at amortised cost if two conditions are met. One of these conditions is that the asset must be held within a business model whose objective is to hold assets in order to collect contractual cash flows. The other condition is that the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial application of AASB 9, the Entity will need to re-assess the measurement of its financial assets against the new classification and measurement requirements, based on the facts and circumstances that exist at that date. Assuming no change in the types of transactions the Entity enters into, it is not expected that any of the Entity's financial assets will meet the criteria in AASB 9 to be measured at amortised cost. Therefore, as from the 2013-14 financial statements, all of the Entity's financial assets will be required to be classified as "financial assets required to be measured at fair value through profit or loss". The same classification will be used for net gains/losses recognised in the Statement of Comprehensive Income in respect of those financial assets. In the case of the Entity's receivables, the carrying amount is considered to be a reasonable approximation of fair value.

All other Australian accounting standards and interpretations with future commencement dates are either not applicable to the Entity's activities, or have no material impact on the Entity.

4. Determination of fair values

A number of the Entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of land, buildings, dams and weirs and water treatment plant and other infrastructure is measured as follows:

- Where there is an active and liquid market for assets similar in type and condition, the fair value of an asset is its price in that market.
- Where there is no market price for the assets, fair value is either the depreciated replacement cost or the net present value of the cash flows from the asset.

(b) Trade and other receivables and payables

The fair value of trade and other receivables and payables approximates their nominal value less estimated credit adjustments.

(c) Prepayments

The fair value of prepayments is represented by the book value as the period of time to consumption is short and there are no rates involved in the calculation.

(d) Borrowings

The fair value of borrowings, which is determined for disclosure purposes, is determined by reference to published price quotations in an active market and reflects the value of the debt if the Entity repaid it in full at balance date. As it is the intention of the Entity to hold its borrowings for their full term, no adjustment provision is made in these accounts.

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

5. Financial risk management

Overview

The Entity's activities expose it to a variety of financial risks including credit risk, liquidity risk, and interest rate risk. Exposure to financial risks is managed in accordance with the Entity's approved policies on financial risk management. These policies focus on managing the volatility of financial markets and seek to minimise potential adverse effects on the financial performance of the Entity. The Entity measures risk exposure using a variety of methods as follows:

Risk Exposure	Measurement Method
Credit risk	Ageing analysis
Liquidity risk	Maturity analysis
Interest rate risk	Sensitivity analysis

Credit risk

Credit risk exposure refers to the situation where the Entity may incur a financial loss as a result of another party to a financial instrument failing to discharge their obligations. The Entity has concentration of credit risk to a single debtor, being the WGM.

The Entity is exposed to credit risk through its investments with the Queensland Treasury Corporation (QTC) and 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. Other investments are held with highly rated and regulated financial institutions, and whilst not capital guaranteed the likelihood of a credit failure is remote.

Liquidity risk

Liquidity risk refers to the situation where the Entity may encounter difficulty in meeting obligations associated with financial liabilities. The Entity is exposed to liquidity risk through its trading in the normal course of business and borrowings from the QTC for asset acquisitions and capital works. The Entity manages its exposure to liquidity risk by maintaining sufficient cash deposits and undrawn facilities, both short and long term, to cater for unexpected volatility in cash flows.

Market risk

The Entity does not trade in foreign currency and is not materially exposed to commodity price ranges. The Entity is exposed to interest rate risk through its borrowings from QTC and cash deposited in interest bearing accounts. The Entity manages its portfolio by setting, monitoring and adjusting the terms and duration of its loan portfolio as allowed under its commercial financing contract with QTC.

Interest rate risk

The Entity is exposed to interest rate risk through its borrowings and investment with QTC and cash deposited in interest bearing accounts. The risk in borrowing is effectively managed through QTC's capacity to issue securities with variable terms allowing an appropriate duration for debt of the Entity.

Interest rate risk in other areas is mitigated. The Entity relies on QTC's management of its debt portfolios and its Weighted Average Cost of Capital (WACC) calculations with the Queensland Water Commission (QWC) that sets the Entity's earning rate and is currently based on interest rate immunisation.

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

5. Financial risk management (continued)

Capital management

The Entity must give the responsible Ministers an estimate of its net profit for the year, and a recommendation on the amount of annual return to be paid. The recommendation is to be provided to Ministers between 1 and 15 May prior to the end of the financial year. Before the end of the financial year, the responsible Ministers must either approve the recommendation or direct the Entity to pay another amount (though not more than the estimated net profit previously advised) as decided under section 53 of the *South East Queensland Water (Restructuring) Act 2007*. The return must be paid within 6 months after the end of the financial year.

Annual return payable in 2010 is \$0 (2009: \$0)

	2010 \$000	2009 \$000
Total borrowings	2,252,658	2,108,315
Total assets (excluding cash and cash equivalents)	2,887,745	2,521,671
Gearing ratio	78%	84%

6. Asset acquisitions

Through Transfer Notices and Project Directions the Entity acquired specified net assets and paid additional consideration for assets acquired in the prior period from Brisbane City Council, Western Corridor Recycled Water Pty Ltd and Logan City Council at dates varying between 1 July 2009 and 30 June 2010 as specified on gazetted Transfer Notices and Project Directions issued by the Queensland Government.

Transferors	Transfer Date	Net Consideration paid or payable by the Entity# \$000
Western Corridor Recycled Water Pty Ltd – Wivenhoe to Esk Water Treatment Plant Pipeline	1 September 2009	6,528
Western Corridor Recycled Water Pty Ltd – Wivenhoe to Coominya Pipeline	1 October 2009	6,599
Brisbane City Council – Enoggera Water Treatment Plant	14 December 2009	11,807
Brisbane City Council – Lake Manchester Dam upgrade (additional consideration)	14 December 2009	163
Logan City Council – upgrade of South Maclean Water Treatment Plant (additional consideration)	30 June 2010	2,433
Total acquisition value		27,530

Consideration includes the assumption of debt facilities where applicable.

Queensland Bulk Water Supply Authority
Notes to and forming part of the Financial Statements 2009-10

	2010 \$000	2009 \$000
7. Water sales		
Water sales - WGM	300,548	264,085
Water sales - Irrigators	2,323	1,957
	<u>302,871</u>	<u>266,042</u>
8. Grants and other contributions		
Community Services Obligation (CSO)	1,449	2,045
Other grants	387	632
	<u>1,836</u>	<u>2,677</u>
9. Project income		
Business Water Efficiency Program	3,971	18,514
	<u>3,971</u>	<u>18,514</u>
10. Other revenue		
Investment revenue	2,428	10,837
Consulting revenue	508	458
Lease revenue	1,286	1,276
Other	1,428	9,487
	<u>5,648</u>	<u>22,038</u>
11. Employee expenses		
Wages and salaries	30,333	22,732
Annual leave expenses	3,016	2,740
Long service leave expenses	881	1,087
Employer superannuation contribution	3,821	4,091
Workers' compensation premium	125	88
Payroll tax	1,810	1,415
Other employee related expenses	1,181	1,812
	<u>41,167</u>	<u>33,965</u>

The number of employees including both full time employees and part time employees measured on a full time equivalent basis are:

	2010	2009
Number of employees	398	319

Queensland Bulk Water Supply Authority
Notes to and forming part of the Financial Statements 2009-10

	2010	2009
11. Employee expenses (continued)		
Executive remuneration		
The number of senior executives who received or were due to receive total remuneration of \$100,000 and more:		
\$100,000 to \$119,999	1	-
\$120,000 to \$139,999	1	1
\$200,000 to \$219,999	-	1
\$260,000 to \$279,999	-	1
\$280,000 to \$299,999	-	2
\$300,000 to \$319,999	1	-
\$360,000 to \$379,999	1	-
\$400,000 to \$419,999	-	1
\$480,000 to \$499,999	1	-
	<u>6</u>	<u>6</u>

The amount calculated as executive remuneration in this financial report includes the direct remuneration received, as well as items not directly received by executives, such as the movement in leave accruals and where applicable, fringe benefits tax paid. This amount will therefore differ from advertised executive remuneration packages which do not include the latter items.

	2010	2009
	\$000	\$000
Total remuneration of executives shown above	<u>1,420</u>	<u>1,604</u>
 Total separation and redundancy payments during the year to executives	 <u>-</u>	 <u>74</u>

12. Supplies and services		
Labour hire expenses	2,950	5,219
Consultancies and contractors	7,917	3,030
Energy	8,750	7,565
Information technology and communications	2,415	1,849
Repairs and maintenance	20,547	10,194
Supplies and consumables	28,492	32,341
Business Water Efficiency Program	4,412	19,621
Biodiversity corridor	-	360
Other expenses	885	349
	<u>76,368</u>	<u>81,128</u>

Queensland Bulk Water Supply Authority
Notes to and forming part of the Financial Statements 2009-10

	Note	2010 \$000	2009 \$000
13. Depreciation and amortisation			
Buildings		1,288	3,202
Dams and weirs		12,209	10,422
Water treatment plants and other infrastructure		23,700	15,686
Plant and equipment		2,590	1,581
Intangibles		958	510
		<u>40,745</u>	<u>31,381</u>
14. Revaluation decrement			
Dams and weirs	18	7,580	-
		<u>7,580</u>	<u>-</u>
15. Finance/borrowing costs			
Interest paid or payable to QTG		129,692	132,247
Competitive neutrality fee		10,278	21,606
Other financial costs		457	920
		<u>149,427</u>	<u>154,773</u>
16. Other expenses			
Insurance		2,409	2,487
Internal audit fees		280	164
External audit fees		172	154
Rates and taxes		1,653	2,729
Other		149	269
		<u>4,663</u>	<u>6,803</u>
17. Income tax			
The difference between income tax expense provided in the financial statements and the prima facie income tax expense is reconciled as follows:			
Profit/(loss before) income tax		(5,624)	2,221
Prima facie increase at 30%		(1,687)	686
Less:			
Tax impact of councils employee provision transfer		(390)	-
Income tax under/(over) provided in prior year		(522)	(185)
Investment allowances		(246)	-
Add:			
Non deductible expenses		3,538	1,847
Total income tax expense		<u>684</u>	<u>2,328</u>

Queensland Bulk Water Supply Authority **Notes to and forming part of the Financial Statements 2009-10**

18. Property, plant and equipment

2010	Land	Buildings	Dams and weirs	Water treatment plants and other infrastructure	Plant and equipment	Work in progress	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Carrying amount at 1 July 2009	485,776	93,937	980,771	479,282	13,441	379,165	2,432,312
Asset classes reclassification	21,769	(58,472)	-	39,973	(4,036)	-	(746)
Acquisitions as per transfer notices	-	-	-	25,097	-	2,433	27,530
Additions	-	-	-	-	3,005	160,421	163,426
Disposal	(55)	(174)	-	-	(354)	-	(583)
Transfer between classes	-	-	5,808	187,054	731	(193,593)	-
Revaluation increments	-	-	246,415	-	-	-	246,415
Revaluation decrements	-	-	(7,580)	-	-	-	(7,580)
Depreciation for the year	-	(1,288)	(12,209)	(23,700)	(2,590)	-	(39,787)
Carrying amount at 30 June 2010	507,510	34,003	1,213,205	707,706	10,197	348,366	2,820,987
Carrying amount under cost model							
Cost	420,231	34,997	1,016,522	631,949	14,690	348,366	2,466,758
Accumulated depreciation	-	(2,865)	(35,102)	(34,374)	(4,497)	-	(66,838)
Carrying amount at cost at 30 June 2010	420,231	32,132	981,420	597,575	10,196	348,366	2,399,820

Queensland Bulk Water Supply Authority
Notes to and forming part of the Financial Statements 2009-10

1B. Property, plant and equipment (continued)

2009	Land	Buildings	Dams and weirs	Water treatment plants and other infrastructure	Plant and equipment	Work in progress	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Carrying amount at 1 July 2008	77,038	25,999	426,585	72,992	3,292	48,287	654,793
Acquisitions as per transfer notices	319,564	44,474	443,030	301,819	7,675	242,896	1,359,458
Additions	1,249	-	142,276	11,017	4,409	105,257	264,208
Disposal	-	-	-	(63)	(377)	-	(440)
Transfer between classes	(9)	8,513	645	8,183	3	(17,335)	-
Revaluation increments	87,334	18,153	101,230	140,148	-	-	346,865
Revaluation decrements	-	-	(122,573)	(39,128)	-	-	(161,701)
Depreciation for the year	-	(3,202)	(10,422)	(15,688)	(1,561)	-	(30,871)
Carrying amount at 30 June 2009	485,776	93,937	980,771	479,252	13,441	379,105	2,432,912
Carrying amount under cost model							
Cost	398,442	79,546	1,012,536	396,708	15,104	379,105	2,281,441
Accumulated depreciation	-	(3,063)	(13,235)	(14,009)	(1,663)	-	(31,970)
Carrying amount at cost at 30 June 2009	398,442	76,483	999,301	382,699	13,441	379,105	2,249,471

Queensland Bulk Water Supply Authority **Notes to and forming part of the Financial Statements 2009-10**

18. Property, plant and equipment (continued)

Land, buildings, dams and weirs and water treatment plants and other infrastructure are measured at fair value in accordance with AASB 116 *Property, Plant and Equipment* and Queensland Treasury's *Non-Current Asset Policies for the Queensland Public Sector*. Plant and equipment and work in progress are measured at cost.

The Board has adopted the following the following policies in respect of the measurement of fair value.

	Method of measurement of fair value	Frequency of measurement *
Land	Independent valuation – market valuation	5 years
Buildings	Independent valuation – market valuation	5 years
Dams and weirs	Board adopted valuation – income approach	5 years
Water treatment plants and other infrastructure	Depreciated replacement cost	5 years

* Valuations are more frequent where the Board considers that there are indicators that period-end carrying values materially differ to their fair values.

Land

Land was valued by an independent valuer, State Valuation Services, as at 1 July 2008 and 18 February 2009. The independent valuations were performed using the fair value principle by reference to observable prices in an active market as well as recent market transactions on an arm's length basis. The carrying values of land were revalued as at the effective dates of those valuations to reflect the fair values determined by the independent valuers. Additions since the time of the independent valuations have been recorded at cost.

Land with a total value of \$225,867,108 (as valued by State Valuation Services) representing reserve land or land subject to a Deed of Grant in Trust (DOGIT), is not included in the carrying value of land. That land is retained by the Crown, however, the economic benefit of the land accrues to the Entity and the land is administered by the Entity on behalf of the Department of Environment and Resource Management.

Buildings

The Entity's head office building at 240 Margaret Street, Brisbane, was valued by an independent valuer, Herron Todd White, as at 1 February 2008. Other buildings (predominantly houses) owned by the Entity are carried at their acquisition values as at 1 July 2008. Additions since the time of the independent valuation (240 Margaret Street) and date of acquisition (houses) have been recorded at cost.

Dams and weirs

In the prior year, dams, weirs, water treatment plants and other infrastructure were recognised as a single class of Property, Plant and Equipment titled Infrastructure. In the current year these assets have been reclassified into two separate classes of Property, Plant and Equipment being Dams and Weirs, and Water Treatment Plants and Other Infrastructure. This reclassification was undertaken to provide the users of the financial statements with additional and relevant information about the Entity's assets.

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

18. Property, plant and equipment (continued)

An income based approach to fair value was undertaken as at 30 June 2010. An income approach assumes the amount for which assets could be exchanged between knowledgeable and willing parties in an arm's length transaction. The following key approach and assumptions have been applied:

- The same assumptions have been applied to determining the recoverable amount for impairment testing (refer Note 20) apart from the following assumptions which are considered to be more appropriate in the context of the income approach:
 - The Weighted Average Cost of Capital (WACC) has been increased by 0.80% to take into account an independent third party's approach to the Gamma component of the WACC calculation.
 - Cashflows have been adjusted to reflect potential synergies that an independent third party may derive from the acquisition of the Entity's assets.
 - Future capital expenditure and related revenues have been included in the cashflows (in accordance with Accounting Standards these are excluded for the purpose of determining the recoverable amount for impairment testing).

The income based valuation results in a value of the Entity as a whole. After deducting other non-current assets and taking into account the transfer of Goodwill (refer Note 19), the remaining value has been apportioned to individual dams and weirs on the basis of their depreciated replacement cost and carrying values as at 30 June 2010.

This approach resulted in a revaluation increment of \$246,415,403 (refer Note 30) and a revaluation decrement of \$7,580,362.

Water treatment plants and other infrastructure

Water treatment plants and other infrastructure were valued by an independent valuer, Cardno Limited, as at 1 July 2008 using a depreciated replacement cost approach consistent with the requirements of Australian Accounting Standards. The carrying values of water treatment plants and other infrastructure were revalued as at the effective date of those valuations to reflect the fair values determined by the independent valuers. Additions since the time of the independent valuation have been recorded at cost.

Plant and equipment

All plant and equipment is measured at cost less accumulated depreciation in accordance with Queensland Treasury's *Non-Current Asset Policies for the Queensland Public Sector*.

Work in progress

Work in progress is measured at cost. Borrowing costs of \$17,330,007 have been capitalised during the year (2009: \$10,473,713).

Queensland Bulk Water Supply Authority **Notes to and forming part of the Financial Statements 2009-10**

19. Intangible assets

2010	Goodwill	Software purchased	Other intangibles	Software work in process	Total
	\$000	\$000	\$000	\$000	\$000
Carrying amount at 1 July 2009	39,440	1,970	4,264	35	45,709
Asset classes reclassification	-	203	543	-	746
Additions	-	-	-	2,717	2,717
Transfers between classes	-	2,752	-	(2,752)	-
Transfer to asset revaluation reserve	(39,440)	-	-	-	(39,440)
Amortisation for the year	-	(738)	(220)	-	(958)
Carrying amount at 30 June 2010	-	4,187	4,587	-	8,774

2009	Goodwill	Software purchased	Other intangibles	Software work in process	Total
	\$000	\$000	\$000	\$000	\$000
Carrying amount at 1 July 2008	39,440	-	4,640	-	44,080
Additions	-	415	-	1,724	2,139
Transfers between classes	-	1,689	-	(1,689)	-
Amortisation for the year	-	(134)	(376)	-	(510)
Carrying amount at 30 June 2009	39,440	1,970	4,264	35	45,709

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

19. Intangible assets (continued)

Goodwill was recognised in a prior period as a result of the acquisition of businesses by the Entity. During the current year, in determining the fair value (income approach) of dams and weirs, the Board considered the carrying value of Goodwill. The Board considered information obtained by the Entity subsequent to the acquisition of businesses as well as the approach applied to determining fair values and resolved that Goodwill was inextricably linked to a range of dams and weirs assets, subject to revaluation as at 30 June 2010. Accordingly, the balance of Goodwill has been transferred to the Asset Revaluation Reserve and incorporated into the determination of the fair value of dams and weirs as at 30 June 2010.

20. Impairment testing for cash generating units

The carrying amount of assets, including intangibles, (refer Notes 18 and 19), allocated to the cash-generating unit (CGU) are set out below:

Entity	Carrying amount of assets \$000	Recoverable amount \$000	Surplus \$000
CGU	2,829,761	2,840,994	11,233
	<u>2,829,761</u>	<u>2,840,994</u>	<u>11,233</u>

The Board has adopted the following methodology, key assumptions and approach to determine the recoverable amount for the purpose of impairment testing:

- The Entity treats its business activities as a single CGU for the purposes of impairment testing.
- The Board has adopted a target gearing level of 70% with the assumption for modelling purposes that surplus cash will be applied to debt repayment in the first instance, until such time as the target gearing level is reached and thereafter, applied as dividends.
- For impairment modelling purposes, the rate of return and the impairment rate applied to drought assets are assumed to move over time, incrementally adopting the methodology applied to non-drought assets on a pro rata basis. This assumption is consistent with moving toward a normal regulatory environment and assumes a ten year adjustment period. This assumption will be reviewed each year to take account of new information as it becomes available.
- The Weighted Average Cost of Capital (WACC) provided by the Queensland Water Commission (QWC) on non-drought assets for 2010-11 assumes interest rate immunisation. This impacts both the earning rate and the impairment rate on non-drought assets because of reduced risk. As the Entity enters into a more normal regulatory environment in the future, it is expected that the interest rate immunisation would cease (and possibly be replaced by hedging strategies). This movement from an immunised to a non-immunised position is assumed to occur from year two of the model with the earnings rate and impairment rate adjusted accordingly.
- The model makes provision each year for receipt of a return on working capital in line with normal regulatory practice as part of the revenues received by the Entity. This is confirmed by the QWC decision on behalf of the pricing regulator to allow for a return to the Entity in 2009-10 for the lag in receipt of payments (average 60 days) with an offsetting provision for the lag between the Entity being invoiced and paying for the goods or services (set at 25 days).

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

20. Impairment testing for cash generating units (continued)

- Cash flows are projected utilising the methodology currently set by the QWC, on behalf of the price regulator, for both drought related and non-drought related assets and applied to the Regulatory Asset Base (RAB). The prices used to determine revenues are based on a rate of return that is set at 9.87% for the first two years and 10.50% subsequently (2009: 10.46%) for non-drought related assets and rates specific to the assets for drought assets ranging from 6.19% - 6.82% (2009: 6.10% - 6.87%) initially rising to 10.50% by year ten and adjusted for inflation of 2.5% per annum. Cash inflows incorporate net revenues generated from regulated revenue as discussed above as well as other revenue sources including hydro electric power generating revenue. These other revenue sources relate directly to the respective CGU based on management's best estimate of future cash flows having regard to historical performance and contractual cash flows as well as expectations about possible variations in the amount and timing of those future cash flows.
- Cash flow forecasts are estimated for a period of 40 years using the building block approach, and then extrapolated in perpetuity utilising the Gordons Growth Model. The pricing mechanism is based on the RAB which assumes a remaining useful life for depreciation purposes of 61 years for the initial tranche of assets and specific depreciation periods relating to drought assets, all transferred assets from local governments and state entities and ongoing capital expenditure post 1 July 2008.
- The discount rate has been calculated using the WACC and Capital Asset Pricing Model (CAPM) framework.
- Expenditure necessary to maintain or sustain the performance of the assets has been taken into account when estimating the net future cash flows as it is deemed maintenance in nature.

The values assigned to the key assumptions represent the Entity's assessment of future trends in the water industry and are based on both external sources and internal sources (historical data).

Inherent uncertainty

The above estimates are particularly sensitive to changes in the prices set by the QWC on water assets.

The bulk of the Entity's revenues are determined annually by QWC under the provisions of the Market Rules. Since July 2008, the Entity has recovered a return on and of assets and operating expenses via a cost pass through mechanism.

On 28 May 2010, QWC outlined the proposed methodology for the treatment of Grid Service Charges for 2010-11. The proposed approach may be materially different from the approach employed prior to 30 June 2010. The new methodology includes provision to:

- retain the treatment of capital returns via a WACC rate for non-drought assets and a cost of debt return for non-drought assets;
- a revenue cap (reflecting the approved budget) for operating expenditure, including overheads and non-variable water treatment costs;
- recovery of variable operating costs on a \$ per ML basis, reflecting averaged plant production costs for chemicals and electricity; and
- inclusion of capital expenditure into the Regulatory Asset Base

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

20. Impairment testing for cash generating units (continued)

The Entity's 2010-11 budget estimates were developed on the basis of the cost pass through arrangement in place at that time. The Entity will not be in a position to ascertain the magnitude of variance arising from the application of the above mentioned new Grid Service Charge methodology against the budget estimates until there is resolution of the proposed regulatory environment. It is anticipated that the current economic regulator will apply an ex-ante charge rate in line with the existing budget. Therefore budget forecasts have been used as the basis for the modelling of cash flows for impairment testing purposes as they are the most reasonable assumptions available at this time.

It is anticipated that the new Grid Service Charge methodology is to apply from 1 July 2010 to 30 June 2013, with the responsibility for determining charges for the forthcoming 2 years (2011-12 and 2012-13) to transfer to the Queensland Competition Authority (QCA).

From late 2010, the QCA is expected to be instructed to develop a new regulatory regime to apply to Grid Service Providers. The long term economic regulatory framework is likely to commence 1 July 2013, and may provide incentives appropriate for commercially operated, mature regulated entities. It is anticipated that QCA will provide Government with a recommended framework in 2012 following industry consultation.

	2010	2009
	\$000	\$000
21. Trade and other receivables		
Current		
Trade debtors	1,548	1,071
Less: Provision for impairment	(40)	(44)
	<u>1,508</u>	<u>1,027</u>
GST receivable	1,871	3,987
GST payable	(2,653)	(2,609)
	<u>(782)</u>	<u>1,378</u>
Other receivables	<u>29,904</u>	<u>22,792</u>
	<u>29,904</u>	<u>22,792</u>
Total	<u>30,630</u>	<u>25,197</u>
22. Inventories		
Chemicals	1,183	1,248
Other	<u>1,190</u>	<u>534</u>
	<u>2,373</u>	<u>1,782</u>
23. Other current assets		
Deposit paid	11,166	11,166
Prepayments	<u>1,048</u>	<u>911</u>
Total	<u>12,214</u>	<u>12,077</u>

Queensland Bulk Water Supply Authority
Notes to and forming part of the Financial Statements 2009-10

24. Tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2010	Assets \$000	Liabilities \$000	Net \$000
Property, plant and equipment		-	(205,638)	(205,638)
Intangibles		-	-	-
Borrowings		-	(678)	(678)
Provision for employee benefits		2,065	-	2,065
Superannuation		5	-	5
Tax losses		9,993	-	9,993
Lake Baroon funding		320	-	320
Accrued expenses		297	-	297
Other items		87	-	87
Tax assets (liabilities)		12,767	(206,316)	(193,549)

	2009	Assets \$000	Liabilities \$000	Net \$000
Property, plant and equipment		-	(134,583)	(134,583)
Intangibles		-	-	-
Borrowings		-	(791)	(791)
Provision for employee benefits		1,181	-	1,181
Superannuation		10	-	10
Tax losses		2,630	-	2,630
Lake Baroon funding		350	-	350
Accrued expenses		266	-	266
Other items		177	-	177
Tax assets (liabilities)		4,594	(135,374)	(130,780)

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

24. Tax assets and liabilities (continued)

(b) Movement in temporary differences during the year

	2009	Recognised in profit or loss	Acquired in equity	2010
	\$000	\$000	\$000	\$000
Property, plant and equipment	(134,583)	(8,970)	(62,085)	(205,638)
Intangibles	-	-	-	-
Borrowings	(791)	113	-	(678)
Provision for employee benefits	1,161	904	-	2,065
Superannuation	10	(5)	-	5
Tax losses	2,630	7,363	-	9,993
Lake Baroon funding	350	(30)	-	320
Accrued expenses	266	31	-	297
Other items	177	(90)	-	87
	(130,780)	(684)	(62,085)	(193,549)

	2008	Recognised in profit or loss	Acquired in equity	2009
	\$000	\$000	\$000	\$000
Property, plant and equipment	(79,894)	860	(55,549)	(134,583)
Intangibles	-	-	-	-
Borrowings	(1,015)	224	-	(791)
PRW unearned revenue	71	(71)	-	-
Provision for employee benefits	882	279	-	1,161
Superannuation	1	9	-	10
Tax losses	6,955	(4,325)	-	2,630
Lake Baroon funding	-	350	-	350
Accrued expenses	-	266	-	266
Other items	97	80	-	177
	(72,903)	(2,328)	(55,549)	(130,780)

Queensland Bulk Water Supply Authority
Notes to and forming part of the Financial Statements 2009-10

	2010 \$000	2009 \$000
25. Cash and cash equivalents		
(a) Cash and cash equivalents		
Cash on hand	4	5
Bank balances	1,230	20,841
Short term deposits with QTC	98,469	88,762
Cash and cash equivalents in the Cash Flow Statement	<u>100,703</u>	<u>109,608</u>
(b) Reconciliation of cash flows from operating activities		
Cash flows from operating activities		
Loss for the year	(6,308)	(107)
Adjustments for:		
Depreciation	39,787	30,371
Amortisation of intangible assets	958	510
Loss on sale of property, plant and equipment	153	180
Income tax expense	684	2,328
Revaluation decrement	7,580	-
Doubtful debts expenses	(5)	44
Change in assets and liabilities		
Change in trade and other receivables	(7,595)	(12,636)
Change in inventories	(582)	(1,630)
Change in GST input tax credits receivable	2,110	(3,012)
Change in repayment	(135)	(218)
Change in trade and other payables	6,361	10,267
Change in provisions and employee benefits	1,519	5,687
Change in unearned revenue	(18,751)	(18,661)
Change in interest payable	(4,913)	69,726
Change in GST payable	44	2,543
Net cash from operating activities	<u>20,903</u>	<u>85,892</u>
(c) Funding facilities		
Drawn	141,620	1,595,000
Unused	47,580	97,000
Total Facility	<u>189,200</u>	<u>1,692,000</u>
(d) Credit standby arrangement		
Drawn	-	-
Unused	60,000	10,000
Total Facility	<u>60,000</u>	<u>10,000</u>

Queensland Bulk Water Supply Authority
Notes to and forming part of the Financial Statements 2009-10

	2010 \$000	2009 \$000
26. Interest bearing liabilities		
Current:		
QTC - Loans	32,868	32,875
QTC - Market valuation at acquisition	(375)	(374)
Total	32,491	32,501
Non-current		
QTC - Loans	2,219,718	2,075,440
QTC - Market valuation at acquisition	(1,886)	(2,261)
Total	2,217,832	2,073,179

No assets have been pledged as security for any liabilities.

All borrowings are in Australian dollar denominated amounts and carried at amortised cost, interest being expensed as it accrues. The amount of \$17,330,007 has been capitalised during current year (2009: \$41,905,004). There have been no defaults or breaches of the loan agreement during the year.

The Weighted Average Borrowing Rate for QTC borrowings as at 30 June 2010 is 7.68%. Interest payments are made quarterly in arrears at rates ranging from 6.20% to 8.15%.

The fair value of the borrowings as at 30 June 2010 was determined by QTC to be \$2,384,301,324 (2009: \$2,168,000,676). The fair value is calculated using discounted cash flow analysis and the effective interest rate.

No fair value adjustment was made to the carrying amount of the borrowings during the year (2009: \$0).

Balances of outstanding loans were as follows:

	Carrying amount \$000	Fair Value \$000
QTC - Water Infrastructure Debt Pool	4,747	4,129
QTC - CSP Post 1 July 08 Debt Pool	637,682	670,057
QTC - CSP Pre 1 July 08 Debt Pool	1,138,002	1,217,034
QTC - BCC Aquifer Debt Pool	54,656	56,918
QTC - Caboolture Aquifer Debt Pool	43,954	45,131
QTC - Cedar Grove / Bromelton Debt Pool	73,300	77,613
QTC - Hinze Dam Debt Pool	313,948	323,618
QTC - Esk Pipeline Off-Stream Storage Debt Pool	6,636	6,973
QTC - Coominya Pipeline Off-Stream Storage Debt Pool	6,709	7,048
QTC - Enoggera WTP Upgrade Debt Pool	11,994	12,445
QTC - Fluoridation Stage 2 Debt Pool	13,654	14,150
QTC - Wyaralong Dam Debt Pool	674	686
QTC - EMA Debt Pool	46,522	48,287
Total	2,252,558	2,384,301

As at 30 June 2010, \$206,067,581 was held by the Entity in the QTC Redraw Facility, offsetting the Entity's debt balance and available for use by the Entity in the future, consistent with AASB 139 AG 62. Refer to Note 3 (b). The funds held in the Redraw Facility by the Entity are deemed not to trigger a debt restructure. As a consequence, no market value adjustment has been recognised in the Entity's Financial Statements.

Queensland Bulk Water Supply Authority
Notes to and forming part of the Financial Statements 2009-10

	2010 \$000	2009 \$000
27. Employee benefits		
Current		
Salaries and wages accrued	1,414	1,570
Liability for long service leave	274	298
Liability for annual leave	2,468	1,899
Total	4,156	3,765
Non current		
Liability for long service leave	5,249	4,581
Liability for annual leave	1,433	967
Liability for sick leave	-	6
Total	6,682	5,554

Refer to Note 11 for details of the amount of superannuation contribution paid by the Entity to the superannuation funds in respect of this year for the benefit of the employees.

Local government superannuation scheme – LG Super

The Entity contributes to LG Super for its employees. LG Super is a Multi-employer Plan as defined in the Australian Accounting Standard AASB 119 *Employee Benefits*.

The Queensland Local Government Superannuation Board, the trustee of LG Super, advised that LG Super was a complying superannuation scheme for the purpose of the Commonwealth *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations).

LG Super has two elements referred to as the Defined Benefits Fund (DBF) and the Accumulation Benefits Fund (ABF). The ABF is a defined contribution scheme as defined in AASB 119. The Entity has no liability, to or interest in the ABF other than the payment of the statutory contributions as required by the SIS Regulations.

The DBF is a defined benefit plan as defined in AASB 119. The Entity is not able to account for the DBF as a defined benefit plan in accordance with AASB 119 because LG Super is unable to account to the Entity for its proportionate share of the defined benefits obligation plan assets and costs.

Any amount by which either fund is over or under funded would only affect future benefits and contributions to the DBF, and is not an asset or liability of the Entity. Accordingly there is no recognition in the financial statements of any over or under funding of LG Super.

The audited general purpose financial report of LG Super as at 30 June 2009 (the most recent available) which was not subject to any audit qualification, indicates that the assets of LG Super are sufficient to meet the vested benefits.

The most recent actuarial assessment of LG Super was undertaken as at 1 July 2009. The actuary indicated that "the DBF is in a very modest Financial Position with regard to the net asset coverage of vested liabilities. Investment returns will be volatile under the required investment strategy, particularly over short periods. The DBF therefore needs sufficient reserves to be able to withstand a reasonable range of such influences. Because the DBF is now running down and cash flows are negative, the VBI (vested benefit index) should not be allowed whenever possible to retreat below 100%. Once below 100%, benefits drawn reduce the available assets for remaining members and hence the net asset coverage of vested benefits declines further.

In order to withstand a one in ten "low return" outcome, the DBF would need reserves of the order of 8% to 10% having regard to the investment strategy adopted. Given the current position of the DBF, such reserve can essentially only eventuate from either excess investment returns over salary increase or additional employer contributions."

The trustee of LG Super has advised in its letter dated 5 March 2010 that no additional contributions will be required at the current time in accordance with the advice of the actuary.

The next actuarial investigation will be made as at 1 July 2012.

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

27. Employee benefits (continued)

Brisbane City Council Superannuation Plan - City Super

The Entity has five (2009:six) defined benefit (Part A) members in the Brisbane City Council Superannuation Plan (City Super). Part B members participate in the accumulation superannuation fund.

City Super has been declared 'Technically Insolvent' which means that assets were lower than Minimum Requisite Benefits as described in the SIS Regulations as at 21 November 2008. A Special Funding and Solvency Certificate has been issued by the Trustee of the fund.

The Special Funding and Solvency Certificate required the Entity to make additional employer contributions of \$10,000 per month for 3 years from 1 March 2009 to 28 February 2012 and 1% extra of members' salary from 1 January 2009.

The current employer contribution requirements are as follows:

1. In respect of Part A members:

- 14% of members' salaries from 1 January 2009; plus
- \$10,000 per month for the three years from 1 March 2009 – 28 February 2012.
- 5.88% of salaries for those part A members in respect of whom the employers pay the member's 5% contribution by way of salary sacrifice.

2. In respect of Part B members:

- 14% of members' salaries for permanent employees; and
- 9% of salaries for casual employees.

The following sets out details in respect of the defined benefit section only. The Actuary of City Super on behalf of the Entity prepared this report based on an approach to pro-rata the total plan assets to the vested benefits of the Entity.

	2010 \$000	2009 \$000
(a) Reconciliation of the present value of the defined benefit obligation		
Present value of defined benefits obligations at beginning of the year	1,520	1,242
Current service cost	37	30
Interest cost	56	65
Contributions by plan participants	16	14
Actuarial losses	160	180
Benefits paid	(172)	-
Taxes and premiums paid	(25)	(11)
Present value of defined benefit obligations at end of the year	1,602	1,520
(b) Reconciliation of the fair value of plan assets		
Fair value of plan assets at beginning of the year	1,232	1,361
Expected return on plan assets	77	84
Actuarial gains/(losses)	77	(278)
Employer contributions	156	62
Contributions by plan participants	16	14
Benefits paid	(172)	-
Taxes and premiums paid	(25)	(11)
Fair value of plan assets at end of the year	1,361	1,232

Queensland Bulk Water Supply Authority
Notes to and forming part of the Financial Statements 2009-10

	2010 \$000	2009 \$000
27. Employee benefits (continued)		
Brisbane City Council Superannuation Plan - City Super (continued)		
(c) Reconciliation of the assets and liabilities recognised in the Statement of Financial Position		
Defined benefit obligation (includes contributions tax provision)	1,602	1,520
Fair value of plan assets	(1,361)	(1,232)
Net superannuation liability	241	288
(d) Expense recognised in Statement of Comprehensive Income		
Service cost	37	30
Interest cost	66	65
Expected return on assets	(77)	(84)
Actuarial losses	83	458
Superannuation expense	109	469
(e) Plan assets		
The percentage invested in each asset class at the reporting date:		
Australian equity	33%	34%
International equity	23%	23%
Fixed income	16%	12%
Property	16%	11%
Alternatives/Other	12%	15%
Cash	0%	5%
(f) Fair value of plan assets		
The fair value of plan assets excludes amounts relating to any of the Entity's own financial instruments or any property occupied by, or other assets used by the Entity.		
(g) Expected rate of return on plan assets		
The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each class are net of investment tax and investment fees. An allowance for asset-based administration expenses has also been deducted from the expected return.		
(h) Actual return on plan assets		
Actual return on plan assets	154	(194)
(i) Principal actuarial assumptions at the reporting date		
Discount rate	5.2%	5.0%
Expected rate of return on plan assets	6.9%	6.7%
Expected salary increase rate	4.0%	4.0%

Queensland Bulk Water Supply Authority
Notes to and forming part of the Financial Statements 2009-10

	2010 \$000	2009 \$000
27. Employee benefits (continued)		
Brisbane City Council Superannuation Plan - City Super (continued)		
(j) Historical information		
Present value of defined benefit obligation	1,602	1,520
Fair value of plan assets	1,361	1,232
Deficit in plan	241	288
Experience adjustments (gains/losses - plan assets)	(77)	278
Experience adjustments losses - plan liabilities	180	125
Other adjustments (gain/loss on - change in assumptions)	(20)	55
(k) Expected contributions		
Expected employer contributions for 2011 are \$156,000.		
28. Trade and other payables		
Current		
Trade creditors	1,866	858
Other	29,844	25,460
Total	31,710	26,118
Non current		
Other payables	908	1,007
Total	908	1,007
29. Other current liabilities		
Current		
Unearned revenue	129	-
Business Water Efficiency Program	-	18,880
Security deposits	21	32
Other payables	118	180
Total	268	19,092

Queensland Bulk Water Supply Authority
Notes to and forming part of the Financial Statements 2009-10

30. Asset revaluation surplus by class

	Land	Building	Dams and weirs	Water treatment plants and other infrastructure	Total
	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2009	61,134	12,707	(14,941)	70,715	129,615
Transfer between classes	-	(11,310)	-	11,310	-
Revaluation increments	-	-	246,415	-	246,415
Goodwill transfer	-	-	(39,440)	-	(39,440)
Asset revaluation on disposal	(26)	-	-	-	(26)
Deferred tax liabilities	8	-	(62,093)	-	(62,085)
Balance at 30 June 2010	61,116	1,397	129,941	82,025	274,479

	Land	Building	Dams and weirs	Water treatment plants and other infrastructure	Total
	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2008	-	-	-	-	-
Revaluation increments	87,334	18,153	(21,344)	101,021	185,164
Deferred tax liabilities	(26,200)	(5,446)	6,403	(30,306)	(55,549)
Balance at 30 June 2009	61,134	12,707	(14,941)	70,715	129,615

31. Financial instruments

(a) Categorisation of financial instruments

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

Category	Note	2010 \$000	2009 \$000
Financial assets			
Cash and cash equivalents	25	100,703	109,608
Receivables	21	30,630	25,197
Total		131,333	134,805
Financial liabilities			
Payables	27,28	32,618	27,125
Other financial liabilities – OTC borrowing	26	2,252,558	2,108,315
Total		2,285,176	2,135,440

Queensland Bulk Water Supply Authority **Notes to and forming part of the Financial Statements 2009-10**

31. Financial instruments (continued)

(b) Credit risk exposure

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 Entity.

The following table represents the Entity's maximum exposure to credit risk based on contractual amounts net of any allowances:

Maximum exposure to credit risk

Category	Note		
Cash and cash equivalents	25	100,703	100,608
Receivables	21	30,630	25,197
Total		131,333	134,805

No collateral is held as security and no credit enhancements relate to financial assets held by the Entity.

No financial assets and financial liabilities have been offset and presented net in the Statement of Financial Position.

The method of calculating any provisional impairment for risk is based on past experience.

The recognised impairment provision for receivables is \$39,771 for the current year (2009: \$44,471).

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 amount as indicated.

Ageing past due, but not impaired, as well as impaired financial assets are disclosed in the following tables:

	2010		2009	
	Gross \$000	Impairment \$000	Gross \$000	Impairment \$000
Receivables				
Not past due	30,408	-	25,079	-
Past due 31- 60 days	87	-	63	-
Past due 61- 90 days	21	-	13	-
More than 90 days	154	40	86	44
	30,670	40	25,241	44

Queensland Bulk Water Supply Authority **Notes to and forming part of the Financial Statements 2009-10**

31. Financial Instruments (continued)

(c) Liquidity risk

The Entity is exposed to liquidity risk in respect of its payables and borrowings from QTC.

The following tables set out the liquidity risk of financial liabilities held by the Entity. It represents the contractual maturity of financial liabilities, calculated based on cash flows relating to the repayment of the principal amount outstanding at balance date.

2010	Payable in			Total
	<1 year	1-5 years	>5 years	
Financial liabilities	\$000	\$000	\$000	\$000
QTC borrowings - loans	153,092	612,792	2,329,210	3,095,094
Trade and other payables	31,710	722	180	32,618
	184,802	613,514	2,329,398	3,127,712

2009	Payable in			Total
	<1 year	1-5 years	>5 years	
Financial liabilities	\$000	\$000	\$000	\$000
QTC borrowings - loans	150,159	597,783	2,169,205	2,917,147
Trade and other payables	26,118	704	303	27,125
	176,277	598,487	2,169,508	2,944,272

(d) Market risk

The Entity does not trade in foreign currency and is not materially exposed to commodity price ranges. The Entity is exposed to interest rate risk through borrowings and investment with QTC and cash deposited in interest bearing accounts.

Sensitivity analysis

The following sensitivity analysis depicts the outcome to profit and loss if interest rates would change by +/- 1% from the year-end rates applicable to the Entity's financial assets and liabilities. The calculations assume that the rate would be held constant over the next financial year, with the change occurring at the beginning of that year. This is mainly attributable to the Entity's exposure to variable interest rates on its borrowings from QTC.

2010		- 1%		+ 1%	
Net carrying amounts	\$000	Profit	Equity	Profit	Equity
		\$000	\$000	\$000	\$000
Cash and cash equivalents	100,703	(1,007)	(1,007)	1,007	1,007
QTC borrowings - loans	2,252,558	1,692	1,692	(1,692)	(1,692)
Overall effect on profit and equity		685	685	(685)	(685)

2009		- 1%		+ 1%	
Net carrying amounts	\$000	Profit	Equity	Profit	Equity
		\$000	\$000	\$000	\$000
Cash and cash equivalents	109,608	(1,096)	(1,096)	1,096	1,096
QTC borrowings - loans	2,108,315	1,761	1,761	(1,761)	(1,761)
Overall effect on profit and equity		665	665	(665)	(665)

Queensland Bulk Water Supply Authority **Notes to and forming part of the Financial Statements 2009-10**

31. Financial Instruments (continued)

(e) Fair value

The recognised fair values of financial assets and liabilities are classified according to the following fair value hierarchy that reflects the significance of the inputs used in making these measurements:

Level 1 – fair values that reflect unadjusted quoted prices in active markets for identical assets/liabilities;

Level 2 – fair values that are based on inputs that are directly or indirectly observable for the asset/liabilities (other than unadjusted quoted prices); and

Level 3 – fair values that are derived from data not observable in a market.

According to the above hierarchy, the fair values of each class of asset/liabilities recognised at fair value are as follows:

Class	Classification according to fair value hierarchy			2010 Total carrying amount
	Level 1	Level 2	Level 3	
	\$000	\$000	\$000	\$000
Financial assets				
Cash and cash equivalents	100,703	-	-	100,703
Receivables	30,630	-	-	30,630
Total	131,333	-	-	131,333
Financial liabilities				
Payables	32,618	-	-	32,618
QTC borrowings	2,384,301	-	-	2,252,558
Total	2,416,919	-	-	2,285,176

The carrying amounts of all financial assets and financial liabilities, except the borrowings from the QTC are representative of their fair value. The fair value of the borrowings is calculated using discounted cash flow analysis and the effective interest is disclosed below:

2010	Carrying amount \$000	Fair value \$000
QTC borrowings - loans	2,252,558	2,384,301
QTC borrowings - working capital facility		
	<u>2,252,558</u>	<u>2,384,301</u>
2009	Carrying amount \$000	Fair value \$000
QTC borrowings - loans	2,108,315	2,168,000
QTC borrowings - working capital facility		
	<u>2,108,315</u>	<u>2,168,000</u>

Queensland Bulk Water Supply Authority
Notes to and forming part of the Financial Statements 2009-10

	2010 \$000	2009 \$000
32. Operating leases		
(i) Leases as lessee		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	236	37
Between one and five years	473	74
More than five years	1	-
	<u>710</u>	<u>111</u>
(ii) Leases as lessor		
Non-cancellable operating lease rentals are receivable as follows:		
Less than one year	770	847
Between one and five years	2,051	1,886
More than five years	1,270	1,621
	<u>4,091</u>	<u>4,354</u>

The Entity rents out office space in its head office building.

33. Capital and other commitments

Contracted but not yet provided for and payable:

Within one year	124,893	132,519
One year and no later than five years	112,676	68,685
More than five years	-	-
	<u>237,569</u>	<u>201,304</u>

34. Contingencies

Under the State Government Transfer Notice dated 27 February 2008, the specified net assets of AquaGen (including the Stage 2 Trunk Main Project Construction Contract) were transferred to the Entity. A claim was made by a Contractor (now in liquidation), in relation to the Stage 2 Trunk Main Project Construction Contract and, in an adjudication process, an adjudication decision was made against the Entity for a sum in excess of \$11M. On 11 July 2008, the contractor entered judgement against the Entity for the amount of the adjudication decision.

On 18 March 2009, the Entity made payment to the Court (as advised by its legal representative) of the amount \$11,165,820.81. A determination as to which party is entitled to all or part of those monies has not yet been made.

On 5 March 2010, the Entity commenced legal proceedings in the Supreme Court against the Contractor to bring for determination all issues associated with the Contractor's claim. The amount paid to the Court remains in the possession of the Court and will not be released until it is decided in the proceedings which party is entitled to all or part of the monies. For these reasons and as the proceedings will not be completed at the time of signing the Financial Statements, the Entity cannot reliably measure the quantum of liabilities in respect of the dispute and no liability has been recognised in the Financial Statements. Refer to Note 23.

Queensland Bulk Water Supply Authority **Notes to and forming part of the Financial Statements 2009-10**

35. Segment reporting

The Entity operates in the water supply industry in the south east area of Queensland.

36. Controlled entities

Parent and ultimate controlling party	Country of establishment /incorporation	Ownership interest
Entity		
Queensland Bulk Water Supply Authority	Australia	-
Subsidiary		
South East Queensland Water Corporation Limited	Australia	100%
The Queensland Bulk Water Supply Authority is controlled by the State of Queensland which is the ultimate parent.		
During the year, the Entity made a contribution of \$10,890 to SEQWater to fund the Directors' fees and other expenses.		

37. Related parties

Key management personnel compensation

(a) Board Members

Board members' fees include fees paid for membership of the Audit Committee and a Task Force. The Board members who were paid, or were due to be paid directly or indirectly from the Entity were:

	2010		2009	
	Salary and Fees	Superannuation Contribution	Salary and Fees	Superannuation Contribution
	\$	\$	\$	\$
S.A. Chaplain	37,452	3,371	111,993	10,079
P. Hennessy	43,462	32,350	-	-
T. Fenwick	55,901	5,031	12,792	42,435
L. Bond	54,937	4,944	50,667	4,560
M. Boydell	1,418	271	59,651	5,369
L. Bouilly	35,201	1,851	-	-
I. Fraser	54,575	4,912	57,654	5,189
	282,954	52,730	292,757	67,632

Board member Mary Boydell resigned on 18 June 2009.

Board member Annabelle Chaplain resigned on 30 September 2009.

Board member Phil Hennessy was appointed to the Board 1 October 2009 and to the Audit Committee on 8 October 2009.

Board member Leith Bouilly was appointed to the Board on 1 October 2009, to the Audit Committee on 16 December 2009 and to the Major Projects Taskforce on 8 October 2009.

Board member Leeanne Bond ceased to be a member of the Audit Committee on 10 December 2009.

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

37. Related parties (continued)

(b) Loans to key management personnel

None of the key management personnel have personal loans with the Entity outstanding as at 30 June 2010.

(c) Other key management personnel transactions

Key management personnel have not conducted transactions with the Entity during the year.

John Orange was engaged as a consultant through Orange and Associates Pty Ltd to provide services in relation to the Executive General Manager Business Services role. Mr Orange is also a Board Member of Queensland Bulk Water Transport Authority (trading as LinkWater) and a Non-Executive Director of Southern Regional Water Pipeline Company Pty Ltd (trading as LinkWater Projects). John Orange's engagement was finalised on 28 February 2010.

(d) Board members' transactions

Phil Hennessy was previously the Chairman of SunWater Limited (SunWater) and a Director of Western Corridor Recycled Water Pty Ltd (Western Corridor). During the year, the Entity:

- acquired land from SunWater pursuant to a gazetted Transfer Notice;
- received flood management services from SunWater pursuant to a Service Level Agreement; and
- acquired assets from Western Corridor (namely the Wivenhoe to Esk Water Treatment Plant Pipeline and the Coominya Pipeline) pursuant to a Project Direction issued under the *South East Queensland Water (Restructuring) Act 2007*.

Tom Fenwick is a Director of Queensland Water Infrastructure Pty Ltd (QWI). During the year, the Entity participated in the Wyaralong inter-agency working group with QWI and others, regarding the delivery of infrastructure associated with the construction of Wyaralong Dam.

Phil Hennessy is a Member of the Senate of the University of Queensland and Leith Bouldy is an Adjunct Professor at the University of Queensland. During the year, the Entity was party to research arrangements with the University of Queensland.

Annabelle Chaplain resigned as a Member of the Entity's Board and as a Director of SEQWater in September 2009.

(e) Transactions with other related parties

QTC, a Queensland State Government owned corporation, provided loan debt funding to the Entity under normal commercial terms and conditions. Refer to Note 26.

The following entities have the same controlling entity as the Queensland Bulk Water Supply Authority, and therefore are considered to be related parties. The types of transactions with these entities during the year are:

- Water Grid Manager - total revenue received \$300,547,825 (2009:\$271,630,985) which includes a receivable of \$29,018,875 (2009: \$22,603,790).
- Queensland Bulk Water Transport Authority trading as LinkWater - reimbursement of electricity costs.
- Queensland Manufactured Water Authority trading as WaterSecure and the subsidiary, Western Corridor Recycled Water Pty Ltd - transferred assets via Project Direction. Refer Note 8.
- Queensland Water Commission - determination of revenues. Refer Note 20 inherent uncertainty.
- Department of Infrastructure and Planning - joint delivery of the Wyaralong Water Treatment Plant project.

Queensland Bulk Water Supply Authority

Notes to and forming part of the Financial Statements 2009-10

37. Related parties (continued)

From time to time, the Queensland Bulk Water Supply Authority procures services from a number of Queensland Government departments on normal commercial terms.

Phil Hennessy is Queensland Chairman of KPMG. During the year, KPMG provided internal audit and advisory services to the Entity.

All other amounts are set out in the respective notes to the financial statements.

(f) Transactions with Queensland Government

The Entity received the amount of \$14,814,000 as contributed equity from the Queensland Government on 25 November 2009 (2009: \$209,084,000). Refer to Note 3(q).

2010	2009
\$000	\$000

38. Auditor's remuneration

Audit services

Auditors of the Entity: *Queensland Audit Office*

- Audit and review of financial reports

172	154
<u>172</u>	<u>154</u>

There are no non-audit services included in this amount.

39. Economic dependency

There is an agreement with the South East Queensland Water Grid Manager up to 30 June 2020 to pay Grid Service Charges to the Entity. These charges are to be based on a return on and of assets and allowance for operating expenses initially under the South East Queensland Water Market Rules and then by Queensland Competition Authority.

The Queensland Government remains committed to providing ongoing support to the Entity. This commitment was recently reaffirmed in a letter from the Hon. Andrew Fraser MP, Treasurer and Minister for Employment and Economic Development, issued to the Entity on 23 July 2010, in which the Treasurer reaffirmed that the Government remains strongly committed to ensuring that the Entity remains solvent at all times, and is thus able to provide essential services to South East Queensland.

40. Subsequent events

South East Queensland Water Corporation Limited, the subsidiary company of the Entity, converted to a proprietary company on the 29 July 2010. The name of the company is now South East Queensland Water Corporation Pty Limited.

Queensland Bulk Water Supply Authority

Certificate of Queensland Bulk Water Supply Authority for the year ended 30 June 2010

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:

- a) the prescribed requirements for establishing and keeping the accounts have been complied with in all material aspects; and
- b) the statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of Queensland Bulk Water Supply Authority and its controlled entities for the financial year ended 30 June 2010 and of the financial position at the end of that year.

Phil Hennessy
BBus (Accountancy), FCA

Chairman



Signature

Date 27 August 2010

Peter Borrows

Chief Executive Officer



Signature

27 Aug 2010

Date

Helen Moore

BBus (Accountancy), CPA, GAICD

Executive General Manager –
Business Services



Signature

Date 27/8/2010

INDEPENDENT AUDITOR'S REPORT

To the Board of Queensland Bulk Water Supply Authority

Matters Relating to the Electronic Presentation of the Audited Financial Report

The auditor's report relates to the financial report of Queensland Bulk Water Supply Authority for the financial year ended 30 June 2010 included on Queensland Bulk Water Supply Authority's website. The Board is responsible for the integrity of the Queensland Bulk Water Supply Authority's website. I have not been engaged to report on the integrity of the Queensland Bulk Water Supply Authority's website. The auditor's report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from Queensland Bulk Water Supply Authority, to confirm the information included in the audited financial report presented on this website.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

Report on the Financial Report

I have audited the accompanying financial report of Queensland Bulk Water Supply 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 year ended on that date, a summary of significant accounting policies, other explanatory notes and certificates given by the Chairman, Chief Executive Officer and the Chief Financial Officer of the consolidated entity comprising the Board and the entities it controlled at the year's end or from time to time during the financial year.

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 controls 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 *[or insert equivalent]*, as well as evaluating the overall presentation of the financial report and 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

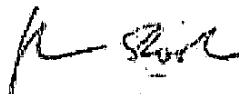
In accordance with s.40 of the *Auditor-General Act 2009* –

- (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 Queensland Bulk Water Supply Authority and the consolidated entity for the financial year 1 July 2009 to 30 June 2010 and of the financial position as at the end of that year

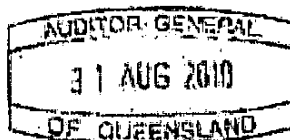
Emphasis of Matter- Significant uncertainty regarding the pricing mechanism post 30 June 2010.

Without qualification to the opinion expressed above, attention is drawn to the following matter.

As indicated in Note 20 the Queensland Bulk Water Supply Authority has performed an impairment assessment of its assets based on current pricing arrangements under normal pricing principles for regulated assets. That impairment assessment has concluded that there is no impairment at 30 June 2010. At this point in time, the Queensland Government has not yet determined the pricing mechanism post 30 June 2010 and consequently for the purposes of impairment modelling, there remains significant uncertainty over the impact on current asset values.



G G POOLE FCPA
Auditor-General of Queensland



Queensland Audit Office
Brisbane

[illegible]





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Queensland Floods Commission of Inquiry

Allens Arthur Robinson



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