

Annual Report
2010-2011



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Feedback

We welcome your feedback about the *Allconnex Water 2010-11 Annual Report*, as it helps us improve the way we report and inform our stakeholders.

An electronic form of the annual report can be downloaded from our website: www.allconnex.com.au/aboutus/Pages/Publications.aspx.

Allconnex Water is committed to providing accessible services to our customers and stakeholders from all culturally and linguistically diverse backgrounds. If you have difficulty in understanding the annual report, please contact us and we will arrange an interpreter to effectively communicate the report to you.

You are encouraged to provide comments or suggestions about this annual report to Allconnex Water.

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Disclaimer

On 7 April 2011, the Queensland Government announced that councils could opt out of their Distributor-Retailer agreement and return to their previous structure, and that annual increases in the distribution and retail component of water and wastewater charges would be not greater than the Consumer Price Index (CPI) for two years from 1 July 2011 to 30 June 2013. This announcement will be put into effect by amendments to the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* and associated legislation.

On this basis, Allconnex Water, its Board and management:

- have prepared this document in order to comply with Allconnex Water's obligations under the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009*, the *Financial Accountability Act 2009*, and the *Southern SEQ Distributor-Retailer Authority Participation Agreement*, and
- expressly disclaim all and any liability and responsibility to any person in respect of the consequences of anything done or omitted to be done by such person in reliance, whether wholly or partially of this document or any information contained within it.

Purpose

The purpose of the *Allconnex Water 2010-11 Annual Report* is to provide details of our performance against the strategic goals set out in our *Five Year Forward Plan* and *Annual Performance Plan*. This Annual Report outlines our achievements and progress made during our first year of operations.

Context

On 7 April 2011, Queensland Premier Anna Bligh announced that Participating Councils will have the opportunity to take back responsibility for water and wastewater pricing, retail and distribution. This means that councils had the options of: (i) opting out of their current utility entity or (ii) retaining the utility in its current separate form. In addition, the Queensland Government has legislated to limit, for the next two financial years, the annual increases in water distribution and wastewater prices to the Consumer Price Index (CPI).

Our *Five-Year Forward Plan 2011-12 to 2015-16* outlines CPI-only price increases for the retail and distribution component of water bills for the next five years. In setting our 2011-12 prices, we extended the State Government's two-year CPI cap to include all of our customers, not just residents and small businesses.

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Wine glass elevated water supply reservoir at Hillcrest, Logan

Letter of compliance

15 September 2011

The Honourable Stephen Robertson MP
Minister for Energy and Water Utilities
PO Box 15216
CITY EAST QLD 4002

Dear Minister,

I am pleased to present the Annual Report 2010-11 for Allconnex Water.

I certify that this Annual Report complies with:

- the prescribed requirements of the *Financial Accountability Act 2009* and the *Financial and Performance Management Standards 2009*, and
- the detailed requirements set out in the *Annual Report Requirements for Queensland Government Agencies*.

A checklist outlining the annual reporting requirements can be downloaded from the Allconnex Water website at www.allconnex.com.au/aboutus/Pages/Publications.aspx.

Yours sincerely,



John Dempsey

Chairperson
Allconnex Water

For 2010-11, Allconnex Water paid Participating Councils, who own us, a total of

\$192 million

This consisted of:

- Interest payments **\$116m**
- Tax payments **\$30m**
- Service level agreements **\$32m**
- Establishment costs **\$12m**
- Other charges **\$2m.**

Due to the requirement to impair the Regulatory Asset Base by \$31m we took a loss of **\$28m.**

Our profile

Pouring concrete at a new reservoir in South West Logan, June 2011

About us

Allconnex Water was formed in November 2009 as part of the Queensland Government's South-East Queensland (SEQ) Water Reform – the most significant change to water management in the state's history. The reform was initiated to improve the delivery of water services in South-East Queensland.

Under the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009*, Allconnex Water is a statutory authority and became operational on 1 July 2010. The Gold Coast, Logan and Redland City Councils own our business (the Participating Councils). Managing water and wastewater services is our core focus, giving residents in one of Australia's fastest-growing areas safe, reliable and high-quality water.

Where we are

Allconnex Water services the local government areas of the Gold Coast, Logan and Redland.

This environmentally diverse region boasts a wide variety of parks, nature reserves and World Heritage sites. From the iconic beaches of the Gold Coast and untouched bushlands of Logan, to the pristine waters and islands of Moreton Bay in Redland, the area offers an enviable lifestyle for its population of more than 900,000. Combined with the Gold Coast's famous theme parks, hotels and busy events calendar, the region attracts millions of visitors each year.

As well as tourism, the region plays an important role in sectors including manufacturing, construction, education, primary production and food processing.

Our region is undergoing major growth. In recent years, Logan and Redland have both experienced significant increases in development with cafes, restaurants, cinemas and shopping centres flourishing around traditional city centres. The Gold Coast's rapid growth is also set to continue. Currently Australia's sixth largest city, its population of approximately 500,000 is expected to top 700,000 by 2021.

What we do

Across an area of about 2,897 square kilometres, we distributed around 73,500 megalitres of water to almost 390,000 water connections. Our \$4.2 billion worth of assets is expected to expand to \$5.1 billion within the next five years as we build a water and wastewater infrastructure network to meet the ever-growing and evolving needs of our customers.

Most of our assets can't be seen – but our pipes and pumps below the surface are like the engine rooms of our daily lives, working behind-the-scenes to give local residents and businesses the ability to turn on their taps and access fresh, clean water which meets world-class health and environmental standards.

Our people

For Allconnex Water, our greatest resources are very visible: our 800-strong employees bring a wealth of experience across every facet of our operations in fields as broad as collecting, treating and disposing wastewater, building new infrastructure, handling customer queries, maintaining and managing our assets, providing recycled water services and delivering effective corporate services.

To protect them – and our community – we value safety as our top priority and strive to continually improve the way we work in providing a safe and healthy workplace. We also seek value-for-money, working prudently to manage our organisation with world-class conservation and recycling strategies to reduce our environmental impact.

Our customers and stakeholders

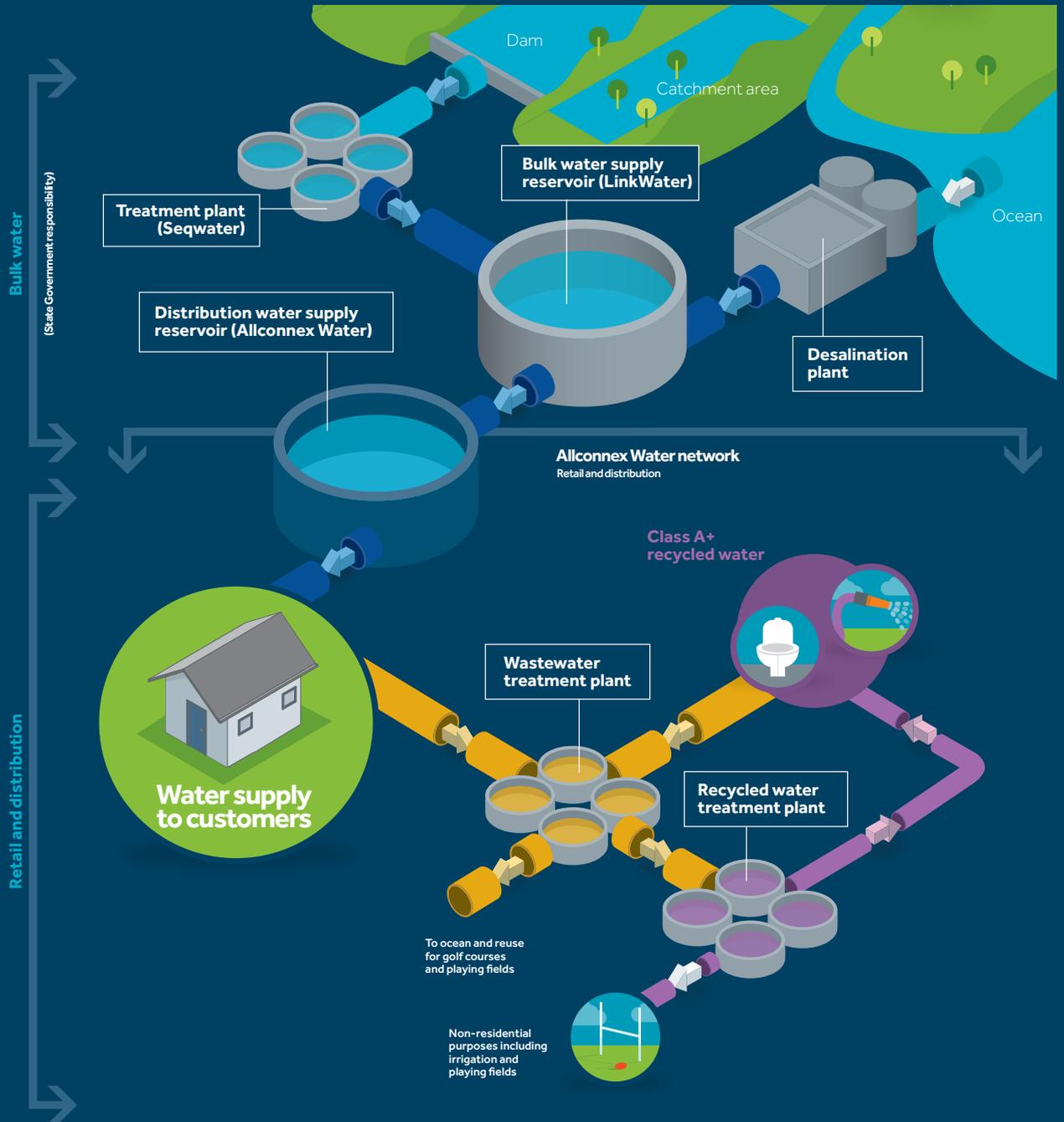
Engaging with our stakeholders is critical to our success. Our stakeholders include our three Participating Councils, customers, government agencies and a diverse range of industry, business and community organisations. We are focused on satisfying stakeholders and have developed a stakeholder engagement plan aimed at meeting their varied and diverse needs and establishing collaborative relationships. We also worked towards the creation of a customer and community reference group to ensure customers could contribute to our business.

Our aims

In accordance with the *Southern SEQ Distributor-Retailer Authority Participation Agreement* agreed to by the Participating Councils and deemed by the Minister, Allconnex Water works to:

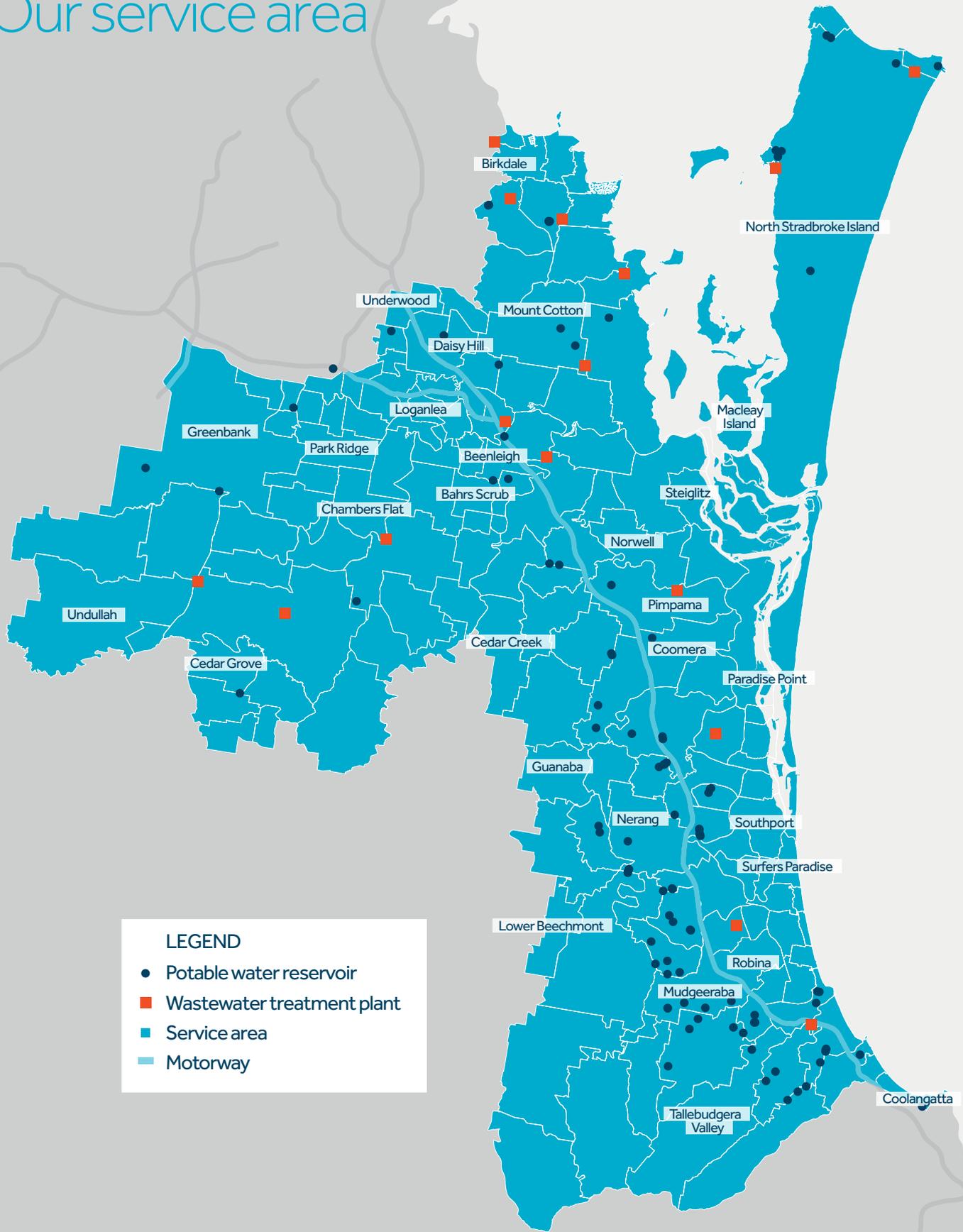
- be a best practice water industry leader
- operate using the principles of excellence in governance, economic, environment and social responsibility and public health
- provide water and wastewater services required to support communities, including the growth of participating local governments
- deliver optimal returns on investment
- provide excellence in customer service
- be an employer of choice, and
- proactively contribute to development in the water industry.

Supply chain



This diagram shows how water is delivered to our customers and where it goes after they have used it. Water is captured from rivers, creeks and the ocean, then treated and distributed to our customers. Wastewater flows to Allconnex Water treatment plants, where it is treated and either distributed for non-residential purposes such as irrigation, or released into the ocean. In some areas, wastewater flows to a recycled water treatment plant where it is turned into Class A+ recycled water and subsequently used for some residential toilets, outside hosing and playing field irrigation.

Our service area



LEGEND

- Potable water reservoir
- Wastewater treatment plant
- Service area
- Motorway

Facts and figures

As at 30 June 2011

Population	972,367
Wastewater connections (no.)	357,733
Water connections (no.)	388,491
Total volume of water supplied (ML)	73,512
Total volume of wastewater treated (ML)	91,346
Total volume of recycled water supplied	6,962
Area (km ²)	2,897
Total length of water mains (km)	6,910
Total length of gravity wastewater mains (km)	6,080

Vision, mission and values

Our vision and mission

We are a new business driven to continually improve our performance. We strive to differentiate ourselves by maintaining an unrelenting focus on our customers. We are deeply concerned with sustainability and achieving our environmental obligations, and are driven by the fundamental need to keep each other from harm. We show great financial responsibility in meeting our business requirements and legislative obligations. We value our people greatly. We work tirelessly to meet Participating Councils' expectations. We achieve or exceed all of our commitments to keep the trust of our stakeholders. We constantly challenge ourselves and manage risks by asking 'what if...?'

We will achieve this through the dedicated pursuit of four balanced outcomes:

- (1) Financially responsible
- (2) Effective governance
- (3) Right infrastructure and people
- (4) Customers and stakeholders



Our values

1

We are committed to safety

We are committed to a deep and abiding responsibility for the safety of each other, our customers and the community.

2

We value our people

We believe our people are both our opportunity and our strength. We value each other and work together in an environment of excellence, personal responsibility and recognition to achieve great outcomes.

3

We are financially responsible

We seek responsible and efficient financial outcomes to allow sufficient funds for investment in our business and our people, while providing returns to Participating Councils to invest in their local communities.

4

We are focused on customers

We differentiate ourselves by maintaining an unrelenting focus on our customers.

5

We are committed to the environment

We are deeply concerned with achieving our environmental obligations, which form an overarching commitment to the way we operate.

6

We keep our promises to stakeholders and Participating Councils

We understand the importance of delivering on each promise we make, and take this obligation seriously. We promise to engage, consult and follow through, striving to exceed expectations.

7

We are a team

We are open, honest and respectful of each other. We act with a sense of urgency, have courage to make tough decisions and accept responsibility for our actions.

8

We challenge ourselves

We always look for better ways, challenging the accepted and conventional as we work towards a better future.

9

We are resilient

We identify, communicate and manage risks. We prepare for unexpected events, recover professionally, build on our successes and learn from our mistakes.

10

We are committed to strong ethical governance

We commit to operating our business ethically and within the law, maintaining the highest level of governance, standards and processes.

Highlights and challenges

Highlights

Effective governance

- Established an Audit and Risk committee to assist the Board in discharging its corporate governance and oversight responsibilities
- Established a Remuneration committee to assist the Board with its oversight of Allconnex Water employee issues
- Revised the Board charter to ensure it accurately reflects the Board's roles and responsibilities
- Instigated a Board performance review in accordance with the requirements of the Participation Agreement
- Developed an enterprise-wide risk management framework to manage and mitigate risks
- Developed and commenced implementing the *Five Year Forward Plan*, *Annual Performance Plan*, and *Employment and Industrial Relations Plan* which outline the strategic direction of the business.

Customers and stakeholders

- Implemented water education programs for schools, businesses and the community across our service area with workshops to encourage people to be 'watersavers' while at school, at home, at work or on holidays
- Developed integrated *Customer Service Standards* and a *Customer Charter* document which outline our commitments to our customers, community and environment
- Completed bill separations for Gold Coast and Logan customers to ensure transparency and build customer understanding of our pricing.

Right infrastructure and people

- Improved our safety performance with enhanced injury management and reporting
- Implemented the CREATE Zero Harm Workplace Health and Safety (WH&S) model
- Commenced stage five of the \$64.1 million Coombabah Wastewater Treatment Plant and completed stage seven of the \$27.5 million Loganholme Water Pollution Control Centre which will deliver increased capacity to respond to our growing population
- Commenced construction of a 250,000 litre reservoir in Dunwich, North Stradbroke Island to improve water pressure supply
- Continued implementation of our Hazard Analysis and Critical Control Point System (HACCP) to ensure we deliver safe, reliable and high-quality products
- Relocated corporate service staff to "The Rocket" building at Robina to enable the delivery of integrated corporate services
- Established an effective and efficient stand-alone network and data system for corporate employees
- Developed our record-keeping compliance requirements
- Progressed the development of a billing system to consolidate billing and water usage across the three Participating Councils
- Implemented an electronic document and records management system.

Financially responsible

- Negotiated an electricity contract, resulting in annual savings of \$3.6 million
- Delivered operating cost savings of \$26 million
- Queensland Treasury Corporation (QTC) credit review has maintained the outlook for Allconnex Water at an equivalent rating of BBB+, resulting in approved funding for 2011-12
- Ensured prudence and efficiency through delivering a revised approach to Merrimac West and Stapyhton-Beenleigh projects that are expected to produce savings of more than \$200 million.

Challenges

Adapting to changes in our regulatory environment

Our regulatory environment is undergoing major change in particular the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009*. We are working to keep Participating Councils and stakeholders informed of developments and changes to ensure there are no negative impacts on water supplies.

Increased commercial imperative

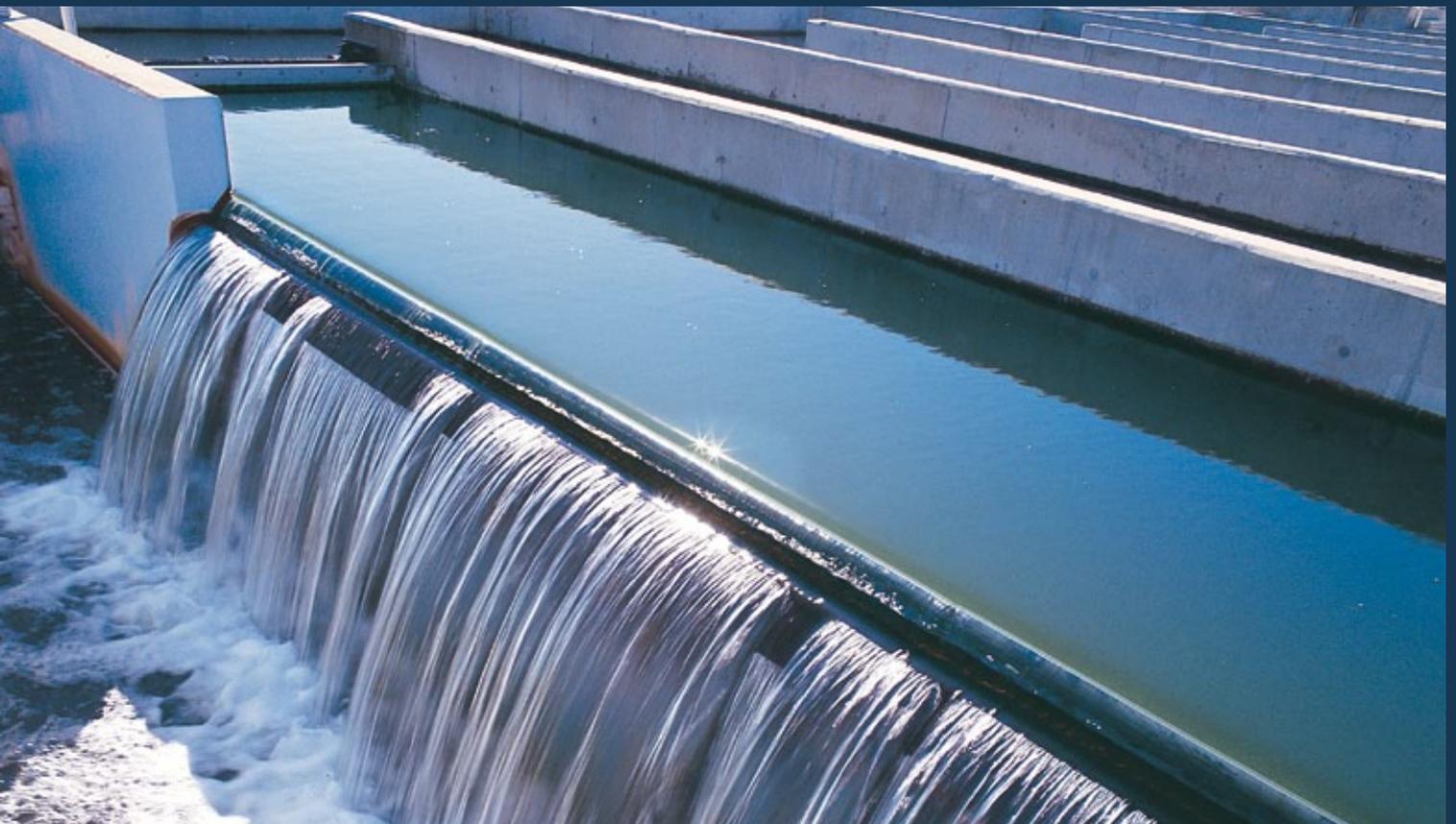
The Queensland Competition Authority is monitoring the three SEQ Distributor – Retailers (including Allconnex Water) to ensure fair pricing and cost transparency. Allconnex ensures financial prudence and efficiency with a commitment to investments based on robust, commercial decisions.

Guiding the organisation through adverse weather conditions

High levels of rainfall during 2010-11 in South-East Queensland led to increased maintenance demands. Allconnex also provided specialised staff and equipment to respond to emergency flood relief and recovery in Brisbane and Ipswich, as well as scheduling call centre staff and standby service personnel during Severe Tropical Cyclone Yasi.

Population growth impact on infrastructure requirements

Allconnex operates in one of Australia's fastest growing regions with customer water connections expected to increase by more than 10,000 in the next financial year. It is critical that Allconnex manages growth sustainably with funding to deliver new infrastructure, maintain existing assets, integrate resources, create water-sensitive designs and apply conservation strategies.



We distribute

73,500

megalitres of water each
year or the equivalent of

29,200

Olympic-sized
swimming pools.



Our organisation

Merrimac Wastewater Treatment Plant

Performance at a glance

Our *Five Year Forward Plan* outlines our strategic direction for the future. It sets out Allconnex Water's vision, mission, values, strategic goals, priority programs and strategies. Our corporate key performance indicators monitor our progress in achieving our four strategic goals and are found in our *Annual Performance Plan 2010-11*.

Key focus areas during 2010-11 have been:

- ensuring the safety of our people (our lost time injury frequency rate performance measure)
- achieving an increased commercial imperative (our financial performance measures)
- adopting proactive approaches to regulatory compliance and risk management (our legal performance measures)
- building and maintaining our assets to ensure we consistently deliver safe and high-quality water for our current and future customers (our infrastructure services performance measures)
- being responsive to our customers (our customer effort score, which measures the amount of effort it takes to resolve an issue)
- actively engaging with our stakeholders to understand and meet their needs (our stakeholder satisfaction performance measure).

Corporate level key performance indicators (KPIs)

Category	Key performance indicator
Safety	Lost time injury frequency rate
	To achieve or exceed budget EBITDA (earnings before interest, taxes, depreciation and amortisation)
Finance	Not to exceed budget operating expenditure
	To achieve budget capital expenditure
Legal	Compliance with all regulatory and legislative requirements
	Mitigate against all agreed high level, strategic risks to business performance
	Water main breaks (per 100km of water main)
	Wastewater breaks and chokes (per 100km of wastewater mains)
Infrastructure services	Samples with no confirmed E. coli detected past the bulk authority transfer point
	No more than one wastewater treatment plant non-compliant with DERM licence (rolling 12 months) quality parameters
	Delivery of program of planned works that meets objectives within agreed timeframes and budgets (%)
	Delivery of planned maintenance that meet objectives within agreed time frames and budgets (%)
Customer service	Per cent of complaints resolved within 20 business days
	Customer effort score
	To meet or exceed our stakeholders expectations

2010-11 Target	Performance	Performance comments (by exception)
<30	✓	
Within 15% of budget ¹	✗	Below budget due to the reduction in water consumption as a result of wet weather events, reduction in capital revenue from less development activity, first year costs that include, write-off of infrastructure planning costs transferred from Participating Councils', and Participating Councils' on-charging of establishment costs.
Within 10% of budget ¹	✓	
Within 10% of budget ¹	✗	There was an underspend in capital expenditure as a result of a high level of wet weather and program re-evaluation that identified more efficient delivery methods resulting in cost savings.
>95%	–	Minor non-compliances identified during 2010-11 were due to the late submission of data to the SEQ Water Grid Manager resulting in the target not being achieved. Processes are being implemented to ensure that compliance is achieved within specified timeframes in the future.
>95%	✓	
<20	✓	
<26	✓	
>99%	✓	
≤1	✗	There were seven wastewater treatment plants that were periodically non-compliant with Department of Environment and Resource Management (DERM) licence quality parameters over the last 12 months. Processes are being implemented to ensure that compliance is achieved in the future.
>90%	–	87% of planned works were achieved within agreed timeframes and budgets. This is just short of the 90% target – a reasonable result given the size of the proposed capital programs of the three council areas we serve. Processes are being implemented to achieve an improved result in 2011-12.
>90%	✓	
>80%	✓	
<3	✓	
>75%	✗	A total of 70% of stakeholders surveyed rated their relationship with Allconnex Water as satisfactory or above, with an average score of 3.4 out of a scale of 1 to five with five being the highest.

Legend		Achieved
		Almost Achieved
		Not achieved

1 – budget reflects 2010-11 *Five Year Plan*

Chairperson's report

The 2010-11 financial year has been a challenging time for Allconnex Water. There have been significant achievements that we should not lose sight of, but also sadly, future opportunities for our valued customers have been lost.

We started the financial year as a new organisation with a promising future to deliver efficiencies and ultimately, pass on savings to the Gold Coast, Logan and Redland communities due to our economies of scale. We ended it uncertain of our future after the Gold Coast City Council in June 2011 made a decision to opt-out of the reform model and ultimately forego the benefits Allconnex would deliver to the community. This was followed by an opt-out decision by Redland City Council and Logan City Council.

On 1 July 2010, more than 750 employees transferred to our organisation from our Participating Councils – the Gold Coast, Logan and Redland City Councils – the owners of Allconnex Water. We quickly set about making improvements in water and wastewater services provided to our 900,000 consumers.

By the end of the financial year we had instituted a range of operational and capital plans that would save almost \$500 million within our first five years.

In 2010-11 alone, we delivered more than \$200 million in capital works savings, compared to the original budget inherited from council water businesses.

At Merrimac West, costs for a planned network upgrade were reduced by \$140 million through identification of an alternative technical solution. In another example, because we could operate across council boundaries, we made savings of more than \$60 million through our Stapylton-Beenleigh Wastewater Treatment solution.

No doubt some of the efficient planning and work practices identified by Allconnex Water during the last year will be inherited by Councils as our workforce returns to the previous businesses, but one vital fact remains clear — individual councils will lose the opportunity of being able to provide water and wastewater services at the price available to Allconnex Water, because the combined might of the consolidated business will be eroded on break-up.

In 2010-11 – our first operational year – we distributed \$191.8 million in funds to the three Participating Councils. The Gold Coast received \$117.9 million, Logan \$47.7 million and Redland \$26.2 million, reflective of the size of their communities and ownership of Allconnex Water.

These funds are available to our Participating Councils to invest in their communities and support the delivery of services provided by the local governments.

Pricing placed us in the public spotlight beginning with our first price decision in May 2010. These early pricing decisions were informed by the previous Allconnex Water Board, comprising the CEOs of our three Participating Councils. We inherited a proposed approach to pricing from them and although we actually reduced the recommendations of that group in the first two years, this has never really been acknowledged. Prices to consumers also included State Government bulk water prices, over which we had no control.

In March 2011, the Queensland Competition Authority (QCA) issued its final report into prices oversight of the distribution retail water authorities in South East Queensland. Importantly, this report identified that Allconnex Water was under-recovering by more than \$170 million in 2010-11 and that there was no evidence of abuse of monopoly power. On the contrary, the report provided that there was substantial evidence that Allconnex Water was extremely conservative in its price determinations.

Allconnex Water's customers historically paid some of the highest prices in the country when water and wastewater services were delivered previously by the councils. The QCA report identified that Allconnex had the highest Maximum Allowable Revenue (MAR) of the three SEQ distribution-retail businesses, while having only the second largest number of customers. The corollary of this is that prices to our customers would need to increase by more than another 40 per cent to achieve full cost recovery. This is despite our customers already facing higher prices than the customers of our peers.

The greatest drivers of total returns, or the MAR, is the combination of the value of a utility's regulatory asset base (RAB) together with its Weighted Average Cost of Capital (WACC) from time to time. The RAB of Allconnex was inherited from the three Participating Councils. This value of the RAB was locked in before Allconnex began operations as an independent entity. A high RAB value has the effect of increasing MAR and ultimately, in the case of the Southern SEQ Distributor Retailer Authority, has the effect of increasing returns to the Participating Councils.



Chairperson - John Dempsey

The RAB, as described above, appears to have been determined on the basis of assumptions regarding significant future growth and associated demands. The calculations could have been further distorted by the WACC at that time, compared to what it will be in the future. This is a valuation method that should not be used to set consumer pricing. Consumer pricing needs to be based on a MAR that is reflective of assets actually installed and commissioned, at that point in time, rather than anticipated asset requirements for future growth. A Depreciated Optimised Replacement Cost valuation would do just that. Recent experience has indicated a slow-down in the development sector and hence the associated growth in the service areas of Allconnex Water. Further, our customers have responded strongly to the Government's message of ongoing responsible water use. If our experience is similar to other water businesses across the country, we are very unlikely to see a return to pre-drought levels of consumption in households and businesses.

This, together with the savings we have identified that are available in capital works planning means that some of these assets, which underlie our inherited RAB value, may never be installed. With growth and demand well below what was expected, the current RAB does not reflect the actual operating environment for the business, and unless the value of the RAB is reviewed, our customers may continue to face unnecessary price increases well into the future.

In May 2011, we produced our *Five Year Forward Plan 2011-12 to 2015-16*. This plan outlined CPI-only price increases for Allconnex Water's component of water bills for the next five years. In setting our 2011-12 prices, we extended

the State Government's two-year CPI cap to include all of our customers, not just residents and small businesses.

It is pleasing that in July 2011, the achievements of our employees and programs were publicly recognised across the state when we took out half of the six awards at the Australian Water Association's Queensland Water Awards. This was an outstanding result, and I congratulate the staff who were recognised.

As retiring Chair, this is my first and last annual report for Allconnex Water as a fully operational business. It has been a privilege to be a part of the organisation.

I would like to thank Allconnex Water employees for their significant contributions and professionalism during a sometimes difficult – but always dynamic – time in the water industry. I would also like to place on record my appreciation to Management, our CEO Kim Wood, and the other members of the Allconnex Water Board who demonstrated their professionalism in the achievement of a good outcome for the business, despite having to work under very trying and unusual conditions throughout the year.

Regardless of the future of Allconnex Water, the organisation has a great record of achievement in 2010-11, and one that we can all be proud of.

A handwritten signature in blue ink, appearing to read 'John Dempsey', written in a cursive style.

John Dempsey
Chairman

Chief Executive Officer's report

As a new statutory authority commencing operations on 1 July 2010, much has been delivered by our organisation in its first 12 months.

From the very start, the potential Allconnex Water had to deliver real value for our Participating Councils and customers was clear. By rolling three former water businesses into one, we could reduce costs through efficiencies of scale, purchasing power and by working across local government boundaries.

This financial year significant work was undertaken setting the foundations of our business, as well as ensuring we were planning and building the infrastructure needed for the future.

Separate water and wastewater accounts were issued to our Logan customers from August 2010 and to our Gold Coast customers from January 2011. A comprehensive communication plan was undertaken to inform customers of the changes and introduction of the new water accounts.

We also established Allconnex Water's central office. Located at Robina, it has resulted in streamlined business functions, an end to duplication and improvements to operational activities and customer services.

Here we brought together corporate services staff who were located across our three districts – Gold Coast, Logan and Redland.

One significant achievement during the year was the creation of a new purpose-built contact centre to streamline customer service. From six disparate call centre arrangements delivered through councils and regional offices, we transformed our customer service delivery through a single, well trained contact centre operation. This has resulted in a new level of effectiveness and efficiency in the resolution of customer issues.

As a new statutory authority, we also took on some additional functions that did not exist - or did not transfer wholly - under the council models. These included regulation, human resources, billing, finance, information technology and communication.

In 2010-11, we became one of the largest employers headquartered on the Gold Coast, bringing up to 150 extra jobs to the area. These included chemists, engineers, microbiologists, electricians, fitters and turners, plumbers, mechanics, apprentices, construction workers, IT specialists and call centre employees.



Chief Executive Officer - Kim Wood

To support our operations, we designed and deployed the Allconnex Water Information Communication Technology (ICT) environment, which now supports the delivery of corporate services functions within our organisation.

We are proud of our ability to plan and deliver on the future water needs of our customers. In our first year, we commenced a range of projects that will benefit generations to come.

Work began on a \$14.2 million New Beith Reservoir in Jimboomba. The 20 million litre reservoir, due for completion in early 2012, will provide water to an area identified as part of a future hub for residential and industrial development.

Other significant work undertaken includes the \$65 million Coombabah Wastewater Treatment Plant Stage 5 upgrade project and the Merrimac West wastewater network upgrade. They will cater for the increased population expected in a number of Gold Coast suburbs over the next 50 years.

This year also saw work undertaken to improve water services in Dunwich, North Stradbroke Island with the construction of a 250,000 litre reservoir. The facility will help to increase water pressure in the supply network and fire-fighting storage capacity.

Keeping our employees and the community safe is our number one priority. In our first year, we introduced the CREATE Workplace Health and Safety program.

This initiative brings into alignment the WH&S systems from the three previous water businesses.

In addition, the Allconnex Water WH&S Intervention Strategy was developed to deliver a 'zero harm' culture of safety leadership throughout every part of our organisation.

These safety initiatives have contributed to a reduction in our injury rate and safety trend data in 2010-11.

One of the most encouraging aspects of 2010-11 has been the unwavering spirit of our employees.

Despite testing times, Allconnex Water employees have demonstrated a steadfast resolve to get on with the job. This sentiment was echoed in our 'getting on with the job' campaign in local media that aimed to encourage the community to support our people while they got on with the job, rather than blame them for increased prices.

Whether they transferred to Allconnex Water from councils or joined the new statutory authority, our people have demonstrated a commitment to the community, their colleagues, their jobs, our business and the water industry that would make other organisations envious.

While it is disappointing that the potential of Allconnex Water to deliver significant savings for customers and councils may never be fully realised, the future is bright for Allconnex Water employees.

They will continue to do their jobs with pride no matter the name of the organisation printed on their shirt, truck or pay slip.

There is much to be proud of in our first year.



Kim Wood
Chief Executive Officer

Governance

Allconnex Water's corporate governance framework is based on legal obligations and best practice standards and consists of the following eight core principles:

1	Foundations of management and oversight
2	Structuring the Board to add value
3	Promoting ethical and responsible decision-making
4	Safeguarding integrity in reporting
5	Making timely and balanced disclosures
6	Respecting the rights of Participating Councils
7	Recognising and managing risk
8	Remunerating fairly and responsibly

Consistent with our values, we are committed to operating our business ethically and within the law while maintaining the highest levels of governance, standards and processes. Through corporate governance we understand our roles and responsibilities, continuously work to improve our performance, minimise our risks and meet our legal and ethical obligations.

Principle 1

Foundations of management and oversight

The role of the Board is to provide effective governance, oversight and strategic direction over Allconnex Water's affairs to ensure the interests of Participating Councils are protected, whilst having regard for the interests of all stakeholders including employees, customers, suppliers and the community.

In conjunction with the Chief Executive Officer (CEO), the Allconnex Water Board has established and implemented our operational, financial and strategic direction as outlined in the *Five Year Forward Plan* and *Annual Performance Plan*.

Key initiatives include:

- the establishment of a register of Board committees, including a summary of roles and memberships. Management has also established a number of committees to support the governance of Allconnex, and
- the development of a Board handbook to support Board members and senior managers in governance responsibilities and facilitate Board operations, induction and assessment processes.

Principle 2

Structuring the Board to add value

Our Board, including the Chair, are independent, non-Executive Board members. Our Board members are appointed by the Participating Councils in accordance with the Participation Agreement.

A declaration of Board members' interests is a standing agenda item at the commencement of every ordinary Board meeting. Board members are required to make themselves absent from meetings while any matters of potential conflict of interest are discussed.

Board members' attendance at Board and committee meetings

Board member	Board (total 14)	Audit and Risk Committee (total 3)	Remuneration Committee (total 3)
John Dempsey	14	3	3
Andrea Staines	13	3	n/a
Robert Pentecost	14	n/a	3
Sibylle Krieger	14	n/a	3
Kelvin Spiller	13	3	n/a

Principle 3

Promote ethical and responsible decision-making

Allconnex Water is committed to ethical and responsible decision-making and has in place a suite of governance policies. Our ethical standards include:

- a code of conduct for both staff and Board members outlined in the Board charter and employee code of conduct, setting the standard for how we operate in accordance with business ethics, corporate values and associated policies
- a whistleblower policy which details the process for reporting breaches of governance policy and investigating reports of unethical practices, and
- a suite of corporate policies including a corporate policy framework, policy register, benefits and gifts policy and a conflict of interest policy.

Principle 4

Safeguard integrity in reporting

The Allconnex Water Board has an Audit and Risk committee to oversee matters of integrity. This committee assists the Board in discharging its corporate governance and oversight responsibilities including financial integrity, risk management, compliance and ethics.

Allconnex safeguards integrity in financial reporting through:

- inviting internal and external auditors to attend committee meetings, present relevant reports and discuss any concerns with the committee without management influence. Establishing internal auditing as an independent function helps the Board and management in the effective discharge of their responsibilities, and
- providing annual certifications to the Board by the CEO and Chief Financial Officer that the financial statements represent a true and fair view and comply with accounting standards.

Governance

Principle 5

Make timely and balanced disclosures

In accordance with the requirements of the Participation Agreement, each participating local government receives a copy of the Allconnex Water audited accounts for each financial year, quarterly reports and an annual report.

Principle 6

Respect the rights of Participating Councils

The *Southern SEQ Distributor-Retailer Authority Participation Agreement* is a framework where participants have the right to participate in the profits of Allconnex Water, known as Participation Rights. The participants of Allconnex Water are Gold Coast City Council, Logan City Council and Redland City Council. Section 20 of the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* requires the participants to enter into a Participation Agreement. The Participation Agreement governs the relationship between the participants and Allconnex Water.

Governance documentation includes:

- the Participation Agreement, which sets out the company's legal status and participants, and
- the *Participation Returns Policy*, which establishes the framework and parameters for the forecasting, determination and payment of profit distributions to Participating Councils.

Principle 7

Recognising and managing risk

Allconnex Water operates within a highly regulated environment. To ensure we adequately and effectively comply with our regulatory obligations, we have developed a risk management framework that supports our business operations.

Key elements of effective risk management include:

- the Audit and Risk committee, which operates under a charter to help the Board discharge its corporate governance and oversight responsibilities
- the risk management framework, and
- the compliance framework.

Principle 8

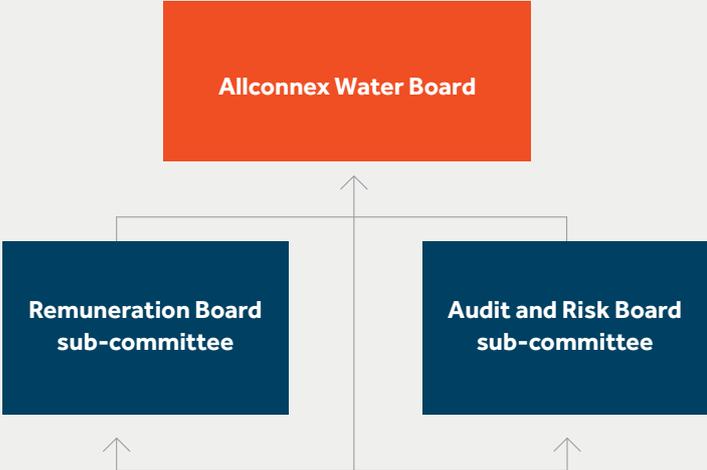
Remunerate fairly and responsibly

Allconnex Water's Remuneration committee assists the Board with its oversight of staff issues concerning:

- developing and maintaining a skilled workforce that meets Allconnex Water's requirements
- a policy that provides staff with fair market value remuneration, and
- behaviours which are consistent with the values and goals of Allconnex and that value the customer, probity, teamwork and a successful organisation.

Committee structure

BOARD SUB-COMMITTEES



SUB COMMITTEES



Our Board



John Dempsey (Chair)

As current Chairman of Energex Ltd, John brings extensive and highly relevant experience to the position. He has broad experience in regulated industries, change management and business reform. John also has a strong understanding of local government, with previous experience as an Alderman and Deputy Mayor of Cairns.

He has previously been Chair of organisations with large numbers of customers and brings a strong understanding of environmental and sustainability issues. He is currently a non-Executive Director of the international company Ceramic Fuel Cells Ltd and is its audit Chair. He is also a member of the Executive Committee of the Multiple Sclerosis Society of Queensland.



Andrea Staines

Andrea holds a number of non-Executive Directorships, including with organisations that deliver infrastructure. Her experience as former Chief Executive Officer of Qantas subsidiary, Australian Airlines, developed her high level commercial and leadership capabilities. She has strong experience in sales and marketing, based on a solid foundation of strategy, finance and economics.

Her industry experience in retail services is diverse and includes airlines, tourism and childcare and is complemented by her experience in transport infrastructure and operations, both passenger and freight. Andrea has studied and worked in Australia, the USA and Asia.



Bob Pentecost (AM)

Bob has been at the forefront of Australian infrastructure development for the past three decades. He was previously Director of Hamilton Island Ltd and has experience as a Chief Executive Officer within large infrastructure development organisations including Darling Harbour.

He is currently a non-Executive Director of Sydney Water and contributes an engineer's passion for infrastructure development, delivering sustainability and performance. Bob holds a Member of the Order of Australia for services to the building and construction industry.



Sibylle Krieger

Sibylle has had a highly successful career as a commercial lawyer including 22 years as a partner of two major law firms. She also brings five years' experience as a commissioner with a major New South Wales economic regulator and has a strong understanding of water reform, water distribution and pricing for retail and bulk water.

She has extensive experience dealing with government at all levels and has a well-developed understanding of public sector accountability and corporate governance. She has served as a non-Executive Director of Sydney Ports Corporation and as a trustee of the Royal Botanic Gardens Trust.



Kelvin Spiller

Kelvin was previously Chief Executive Officer of Maroochy Shire Council and the Endeavour Foundation, bringing extensive experience in the water industry and a solid understanding of water reform in South-East Queensland.

He is currently Chairman of the Queensland Local Government Grants Commission, Chairman of The Executive Connection (Group 35), Brisbane, and a Director of Latitude 12 Pty Ltd.

Kelvin has a deep understanding of corporate strategy and governance, infrastructure management and development.

Executive management team

Chief Executive Officer
KIM WOOD



Kim Wood

General Manager
Customer Services
Eleanor Bray

- Customer information
- Billing
- Collections and debt management
- Customer contact
- Demand management

Chief Financial Officer
Melinda Bailey

- Financial control
- Financial systems and reporting
- Treasury and taxation
- Commercial management
- Procurement

General Manager Strategy
and Development
Andrew Foley

- Stakeholders and communication
- Regulation and pricing
- Planning, reporting and business improvement

General Counsel
Jane Nant

- Legal
- Property and facilities
- Risk and compliance
- Corporate governance



Left to right: Andrew Foley, Nina Meyers, Melinda Bailey, Paul Heaton, Eleanor Bray, Kim Wood, Wayne Merrotsy and Jane Nant.

General Manager
Human Resources
Wayne Merrotsy

- Workforce planning and recruitment
- Organisational capacity and change
- Human resource and delivery
- Remuneration and performance management

Chief Information Officer
Nina Meyers

- Information and communication technology operations
- Program management
- Service management
- Strategy and architecture
- Knowledge management

Chief Operating Officer
Paul Heaton

- Product and asset management
- Planning and infrastructure development
- Operations maintenance and minor works
- Workplace health and safety

Employing more than

800

local workers, Allconnex Water value our people as our greatest asset ... helping provide safe, reliable and high-quality water for a population of more than

900,000.

Our performance



Effective governance



Effective governance is one of our four balanced outcomes.

Strategic goal	Description	Performance outcomes
Effective governance	Effective governance will deliver comprehensive strategic control of the business, compliance with legislative and regulatory requirements, effective risk management and portfolio, program and project governance	<ul style="list-style-type: none"> • Transparent, accountable and aligned decision-making and activities across the business • Compliance with all legislative and regulatory requirements • Risks are effectively identified, managed and communicated throughout the business • Effective portfolio, program and project governance • Robust incident management arrangements that provide business resilience.

Highlights

- Established the Allconnex Water corporate governance committee
- Developed a committees' structure for Allconnex
- Developed a corporate policy framework and established a corporate policy reporting regime
- Established Board sub-committees including an Audit and Risk committee and a Remuneration committee
- Developed an enterprise-wide risk management framework
- Progressed with the development of an enterprise-wide compliance framework.

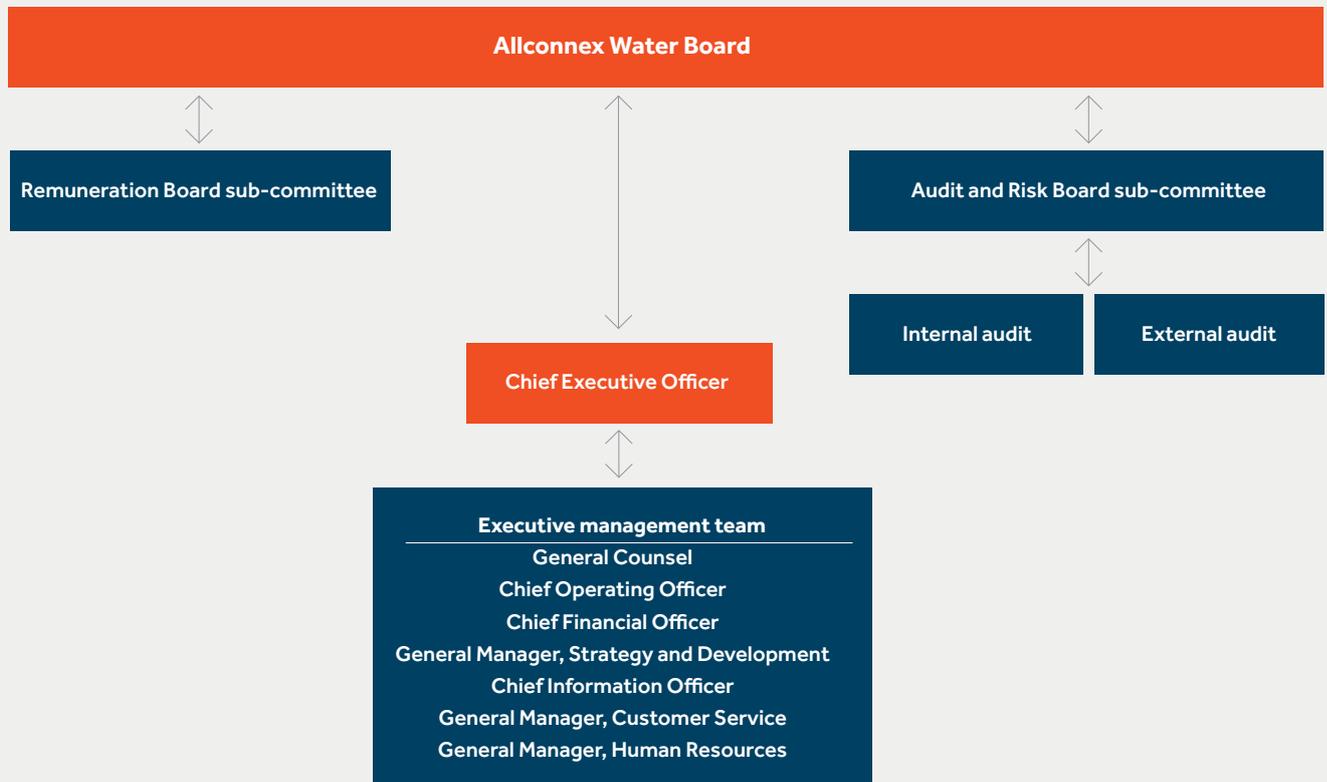
Governance

During 2010-11, Allconnex Water developed and implemented a corporate governance framework which allows our executive management team and Board to make transparent, accountable and aligned business decisions based on the following eight core principles:

1	Foundations of management and oversight
2	Structuring the Board to add value
3	Promoting ethical and responsible decision-making
4	Safeguarding integrity in financial reporting
5	Making timely and balanced disclosures
6	Respecting the rights of Participating Councils
7	Recognising and managing risk
8	Remunerating fairly and responsibly

A key initiative in implementing the corporate governance framework was to establish a Board committees' register, which outlines the function, roles and memberships of the committees that support Allconnex Water's governance.

Governance structure



Effective governance

Audit and Risk committee

During 2010-11 the Allconnex Water Board established its Audit and Risk committee to oversee matters of financial integrity.

This committee's charter is to assist the Board in discharging its corporate governance and oversight responsibilities including financial integrity, risk management, compliance, ethics and integrity. The Audit and Risk committee has observed the terms of its charter and had due regard to the *Queensland Treasury's Audit Committee Guidelines*. The members of the committee are detailed on page 23. Andrea Staines is the Chair of the committee.

During the 2010-11 financial year, there were no reportable items from external audits and review.

Compliance framework

Compliance obligations form an important part of our decision-making activities and during 2010-11, we successfully progressed the development of our compliance framework. The framework consists of four key principles – commitment, implementation, monitoring and measurement and continual improvement. The compliance framework will help Allconnex Water address legal and regulatory issues to meet its business objectives. The full implementation of the enterprise-wide compliance framework is expected in early 2012.

Whistleblowers Protection Act 1994

Allconnex Water is a public sector entity under the *Whistleblowers Protection Act 1994*. Certain types of public interest disclosures may be made to Allconnex Water by a public officer. Allconnex employees are public officers for the purpose of the Act.

The objectives of the Allconnex whistleblower's policy are to:

- establish a system for reporting disclosures of improper conduct or detrimental action by Allconnex or its employees or contractors under the Act
- ensure the protection of individuals making a public interest disclosure (whistleblower)
- ensure matters disclosed are properly investigated and dealt with

- raise awareness about the need for compliance with Allconnex's *Code of Conduct*, and
- assist in creating a workplace that encourages employees to report official misconduct and to feel safe in doing so.

A whistleblower may report conduct to their manager, the CEO, General Counsel, a Board member, the Crime and Misconduct Commission or to the Allconnex Water Whistleblower Hotline, which is currently being established and will be available in the 2011-12 financial year.

There were no public interest disclosures received or referred to Allconnex Water during the 2010-11 financial year.

Public Sector Ethics Act 1994

A comprehensive *Code of Conduct* has been developed to promote ethics and integrity within Allconnex Water and to provide us with a framework for our ethical behaviour, duties and decisions. The code applies to all employees and aims to heighten staff awareness of ethical issues and positively shape the organisation's culture and reputation. Employees are made aware of their obligations by the CEO, together with appropriate education and training in public sector ethics.

Our *Code of Conduct* reflects the requirements of the *Public Sector Ethics Act 1994* and is available on our intranet. Training on the *Code of Conduct* is provided as part of our orientation.

Internal audit function

Our internal audit plan has been developed in consultation with the Audit and Risk committee and internal auditors and has been approved by the Board. The plan is aligned with the key risks identified through our risk management processes and with reference to the assurance activities undertaken by other service providers to Allconnex Water.

An external consultancy has been appointed for three years as Allconnex's internal auditors.

Allconnex's internal auditors have direct responsibility and accountability to the Audit and Risk committee.

The internal audit function assists the Board and committees to effectively execute its responsibilities by providing independent advice, analysis and recommendations concerning the operations and process of the business. The internal audit charter is approved by the Audit and Risk committee in accordance with the requirements of the *Financial Accountability Act 2009*.

Internal audit reports are reviewed by the Audit and Risk committee at each meeting. A register of issues is maintained to ensure the effective and efficient economic operations of the function. Internal audit has assisted with the following during the 2010-11 financial year:

- financial control
- procurement processes
- billing system pre-implementation
- external reporting
- IT systems health check

The internal audit function has had due regard to the *Queensland Treasury and Audit Committee Guidelines*.

Risk management

As an essential service provider operating in a high-risk industry, we established a *Strategic Risk Management Plan* to ensure we effectively manage our risks. The plan was approved by the Audit and Risk committee in February 2011, followed by the Board in March 2011. The plan consists of eight fundamental elements:

1	Our vision and corporate strategies
2	Business architectural components
3	Robust and proactive risk management culture
4	Risk management methodology
5	Risk management tools and instruments
6	Associated business risk frameworks
7	Stakeholder relations
8	Risk outcomes

The *Strategic Risk Management Plan* is reviewed and updated annually to ensure we adapt to emerging risks associated with our business. The plan will create organisational benefits including controlling adverse risks, adapting to change, providing a safe and healthy work environment, allowing decisions to be based on informed and sound principles, and improving business performance. A communications plan will ensure staff understand the plan and embed it into their business practices.

Risk management is overseen by the Audit and Risk committee and the Board.

Project governance framework

During 2010-11, we continued developing a project governance framework which will help management direct projects, provide ongoing improvement and reduce risk exposure through investment visibility, control and consistent corporate behaviour. A key element of the project governance framework is the gateway approach, derived from an internationally recognised industry standard. It includes five investment decision points:

1	Idea
2	Plan
3	Examine
4	Achieve
5	Realise

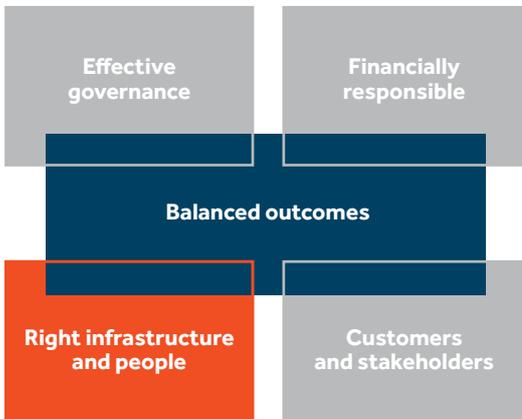
The framework is structured to accommodate projects and programs of all complexities and includes provision for external, internal and self-assessment reviews. All projects will complete a minimum of three 'gate' reviews, an idea gate, planning gate and achievement gate. The framework's implementation is expected in the 2011-12 financial year.

Looking ahead 2011-12

Key governance priorities for 2011-12 include:

- implementing the enterprise-wide compliance framework
- implementing the enterprise risk management framework throughout the business
- implementing the project governance and reporting framework.

Right infrastructure and people



Right infrastructure and people is one of our four balanced outcomes.

Strategic goal	Description	Performance outcomes
Right infrastructure and people	Right infrastructure and people focuses on providing a safe and healthy workplace; ensuring we have the right people with the right skills and capabilities; and planning for and delivering the right infrastructure at the right time and the right cost	<ul style="list-style-type: none"> • Safe and healthy workplace • People with the right skills and capabilities • Strong, cohesive values-driven culture • Innovation and business improvement through open sharing of information and ideas and challenging the conventional • Asset management effectiveness and efficiency resulting in maximum utilisation and economic value of assets over their lifetime • Customer standards for safe and reliable products and services are achieved • Growth is managed sustainably through the effective use of available resources • Environmental obligations are met and we operate in an environmentally sound way • Integrated, flexible and optimum Information and communication technology system and organisational capability.

Our lost time injury frequency rate has steadily decreased over the past year as we work towards a culture of **zero harm.**



Suzanne Watling
Rehabilitation and
Return-to-Work Coordinator

Highlights

- Improved safety record through the enhanced injury management and reporting systems that were established and implemented
- Implementation of the CREATE Zero Harm safety model
- Development and implementation of WH&S management strategy
- Established an injury management and return-to-work program
- Commenced the negotiation of an Allconnex Water certified agreement
- Developed and implemented recruitment processes to meet business needs
- Commenced stage five of the \$64.1 million Coombabah Wastewater Treatment Plant
- Completed stage seven of the \$27.5 million Loganholme Water Pollution Control Centre
- Selection of an internationally-recognised asset management framework that will allow use of templates, training and industry benchmarks to monitor assets and business performance
- Commenced development of our *Carbon Abatement Management Plan* and long-term management plan for biosolids
- Expansion of our HACCP to ensure we deliver safe, reliable and high quality products
- Developed our record-keeping compliance requirements.

A deep understanding of the water industry

In an organisation that values safety as its highest priority, Suzanne Watling has a vitally important role - helping injured workers return to work and linking employees with Work Cover services. In recognition of her achievements, Suzanne was nominated for the Rehabilitation and Return to Work Coordinator Achievement Awards. Over the last year, the implementation of a unified WH&S system has been a key focus for Suzanne's team.

'It has been great to watch the three districts come together and help to implement a unified WH&S system, in particular the return to work program,' said Suzanne. 'I have really seen a change from convincing people of the program's merits, to getting everyone on board.'

'There are benefits for both our people and the business when employees can return to work in a safe environment.'

We have a lot of highly skilled employees and retaining their knowledge is invaluable.'

Right infrastructure and people

Workplace health and safety

We are committed to establishing and maintaining a 'zero harm' organisation.

A consistent and coordinated approach to managing WH&S is Allconnex Water's most critical priority — and in 2010-11, we have worked to make our organisation as safe as possible.

Focusing on safety is a key strategy which aligns with the Queensland Government's *Toward Q2* ambition of making Queenslanders Australia's healthiest people, and our proactive health and safety culture is empowering staff with specific tools and training.

Along with the development of robust incident reporting systems and safety observation site visits by executive management, the development and implementation of our WH&S management strategy covers a range of areas including:

Hazard management

Hazard management and risk assessment processes are fundamental to achieving a zero harm workplace, and this initiative has provided us with tools and education to help identify hazards and risk exposure. We identify and implement mitigation controls to meet our corporate, moral and legislative obligations.

Incident management and investigation

By developing and implementing processes and procedures, we analyse WH&S incidents to identify root causes, key learnings and corrective actions.

Manual handling

We focus on safety by design to minimise potential manual handling risk exposure and build educational awareness around musculoskeletal injury prevention. We are also developing a job-demand dictionary to assess the physical demands of occupations, identify high-risk manual handling tasks and deliver specific training to ensure best practice injury management and better communication amongst stakeholders.

CREATE gap analysis

This single, integrated WH&S management system links to certifying standards including AS4801 and BSI 180001 and ensures our organisation meets relevant requirements. The gap analysis compares the current state to the necessary standard as a means of understanding any improvement opportunities.

Competency to operate

By focusing on plant and tool safe-work practices, assessments ensure we employ staff who can competently use the tools and equipment specific to tasks.

High-risk activities

Because staff may perform risky tasks such as working in confined spaces, at heights, with electricity, trenching or dealing with hazardous substances, we have developed initiatives including legislative-defined critical procedures and safe work method statements to ensure their safety.

Looking ahead 2011-12

Key WH&S priorities for 2011-12 include:

- implementing the Allconnex Water CREATE Zero Harm WH&S management system
- implementing the incident management and investigation process
- establishing a hazardous goods register
- establishing a safety award and recognition process
- implementing the WH&S intervention priority program.

Safety first...

C	Communication and consultation
R	Responsibility and accountability
E	Evaluation of risks
A	Action and outcome focus
T	Training and competency
E	Evaluation of outcomes

The CREATE Zero Harm safety model was launched during Safety Week (24 to 30 October 2010) as part of a Safe Work Australia initiative, encouraging staff to get involved in — and concentrate on — safety in the workplace to reduce death, injury and disease. We hosted breakfasts at operational depots and held a forum to share information about strategies and future directions of safety management.

CREATE Zero Harm provides the framework for our WH&S management system, which represents a strategic and comprehensive process for managing WH&S risks. It is a critical component in fulfilling our legal obligations and achieving a Zero Harm environment.

The following 12 elements of CREATE Zero Harm provide the structure for leadership, planning, implementation, measurement and continual improvement in safety:

Leadership

Selection and competency

Working with contractors and suppliers

Field execution

Incident and behaviour analysis

Risk management

Management of change

Caring for our people

Crisis and emergency management

Engineering

Working with customers

Assessment and improvement



In 2010-11, we established an injury management and return-to-work program that:

- developed both rehabilitation and return-to-work processes for work and non-work related injuries
- communicated safe and effective return-to-work processes with managerial staff, and
- established a preferred medical provider, rehabilitation centre and occupational therapy provider.

Right infrastructure and people

People

Allconnex Water recognises that our people are our most valuable asset, essential to the success of our business. We value our employees highly, recognise their contributions and development, and aim to create a positive working environment through an open, consultative approach that supports and develops staff with the skills and capabilities to deliver our vision.

Industrial relations

Our employees are covered by a range of industrial agreements with varying terms and conditions inherited from Participating Councils. The *South-East Queensland Distribution and Retail Reform Workforce Framework 2009* protects the conditions of employment for our employees. This framework sets out the requirements for an Allconnex Water Certified Agreement to be made by 1 July 2011. Given the recent uncertainty regarding Allconnex Water, we have presented unions with an option of rolling over existing employee agreements for up to 18 months from 1 July 2011.

Workforce planning and recruitment

During 2010-11, we developed processes and systems to meet recruitment requirements. As a statutory authority, we have new functions that did not exist under the council model, such as economic regulation. Additionally, some corporate areas did not transition wholly from council to Allconnex Water including human resources, billing, finance, information technology and communication. As at 30 June 2011, Allconnex employed 801 full time equivalent people across a variety of service and operational based roles including human resources, finance, information services, legal, governance, risk and compliance, communications, regulation and pricing, customer services and construction. The main area of employee growth was in our corporate services areas, accommodating the shift of functions from Participating Councils. There were nil redundancies, retrenchments or retirements that were part of the early retirement scheme during 2010 – 11 financial year.

Workforce planning is a key priority to ensure we have the capacity and capability to deliver on our strategic goals and meet customer, community and Participating Council expectations.

Challenges during 2010-11 included the requirement to substantially increase workforce capability with the move towards a more commercialised environment, and the need to support employees through the major transition of establishing our business.

Allconnex Water took out three of the six awards at the 2011 Australian Water Association's (AWA) Queensland Water Awards. Manager for process engineering Kelly O'Halloran (centre), won the award for Queensland's Young Water Professional of the Year. The two other finalists in the category were water planning engineer and project manager, Liliana Castro Araoz (left) and manager for sustainable planning Anna Hollingsworth (right).

Allconnex's Logan Water Alliance took out the Infrastructure Project Innovation Award and design manager Ian Cameron won the Queensland Water Professional of the Year Award.



In 2010-11, we also began our workforce plan – an initiative which will identify a potential shortfall in skills and identify new skill sets needed for the future. The plan will propose business strategies to bridge gaps between the demand for and supply of critical skill sets, while proposing the adoption of a structured workforce planning approach.

Allconnex Water complies with the requirements of the *Carers (Recognition) Act 2008* through provisions in the three Certified Agreements and the relevant policies. The policies allow for paid carers' leave and then provides employees with the opportunity to take unpaid carers' leave once their paid leave provisions have been exhausted. The grievance policy provides carers an opportunity to escalate any issues that may be impacting on their responsibilities as a carer.

Allconnex Water is also committed to equality in the workplace with support and training opportunities for female employees, and we worked to develop skills in areas such as leadership. Two women are on our Board and we have four female general managers, representing 50 per cent of the executive management team. Women make up 30 per cent of positions at group manager level within our corporate services departments and over the next 12 months, we will be developing attraction strategies aimed at a broader section of the labour force.

Looking ahead 2011-12

Key people management priorities for 2011-12 include:

- delivering the Allconnex values-based culture program
- delivering an Allconnex training and development program
- implementing a *Performance Appraisal and Management Scheme*
- delivering a *People Recognition Scheme*
- developing and implementing a recruitment and retention program
- developing and implementing a workforce planning program
- reviewing contractor management.



Scott Pinnington
Electrician Leading Hand

Getting the job done

Scott Pinnington began his career more than 23 years ago as an apprentice electrician.

Now, the Gold Coast resident is responsible for a team of nine electricians who perform work across Allconnex Water's southern district – often on-call 24 hours a day, ready to respond to emergency events.

'I get a sense of achievement from fixing a problem,' Scott says. 'At the end of the day, I like looking back knowing I got a piece of equipment working again so everything runs smoothly.'

I work with a dedicated team and you always know the other guys are willing to help each other out, or stay back to finish a job ... but no-one minds.

We are willing to get the job done.'

Right infrastructure and people

Infrastructure

Allconnex Water owns and operates assets valued at more than **\$4 billion.**

103 reservoirs with a total capacity of 675 megalitres, enough to fill **270 Olympic-sized swimming pools**

899 water and wastewater pumping stations, transferring **165,194 megalitres a year**

16 wastewater treatment plants protecting our environment, beaches and lifestyle

A Class A+ recycled water treatment plant to recycle water **sustainably and efficiently**

Asset management

Allconnex Water is an asset-intensive business which owns and operates assets valued at more than \$4 billion. These assets enable us to deliver safe and reliable services in cost-effective and environmentally-friendly ways.

However, the role of asset management continues to increase in scope because of a fast-growing population, rising costs such as electricity and increasing community expectations.

Because we operate commercially, key priorities must consider the 'whole-of-life' costs of infrastructure assets and adopt a risk-based approach to asset management.

In 2010-11, our infrastructure services department undertook a major internal optimisation project — bringing three existing district-based workforces into a service delivery-based framework, allowing resources to be allocated between each area while maintaining effective management via three core functions:

- product and asset management
- planning and infrastructure development, and
- operations maintenance and minor works.

To continually manage our large asset base efficiently and effectively, we adopted a management framework using the internationally-recognised Publicly Available Specification (PAS 55). It is an essential, objective definition of what is required to demonstrate competence, establish priorities, make clear connections between strategic organisational plans and the actual day-to-day work of assets. The framework will allow us to use templates, training and industry benchmarks to monitor our assets and overall business performance.

We have also begun a new pilot maintenance program at our Coombabah Wastewater Treatment Plant. As well as reviewing current maintenance procedures, the program will help re-engineer maintenance activities to obtain maximum operational efficiency at a reduced cost while maintaining safe working conditions. The program will initially be rolled out over two other wastewater treatment plants with the eventual aim of reaching all of our plants and pump stations.

Product quality

Allconnex Water provides safe, reliable and high quality products and services that meet our customer standards. During 2010-11, we developed a number of initiatives to ensure high product quality including the development of our *Drinking Water Quality Management Plan*, in line with legislative requirements. This plan received input from the SEQ Water Grid Manager and was submitted to DERM in May 2011.

Implementation has begun on our HACCP across wastewater treatment plants and water networks. HACCP is an international standard recognised by the World Health Organisation that:

- provides a systematic approach to identify and assess hazards and risks that are significant to the supply of water services
- plans the controls and limits of identified significant hazards, and
- develops process control systems structured within a quality management system.

We are also working to meet the rapidly growing needs of South-East Queensland's urban corridor with the implementation of our *Pimpama Coomera Waterfuture Master Plan*, a fully integrated urban water management strategy that focuses on water supply reliability while protecting public health, the environment, ecosystems and surface water.

With the region already boasting more than 6 000 houses and a growth rate of around 180 homes per month — expected to be home to nearly 150,000 people by 2056 — water recycling will play an important role in ensuring a more sustainable community is created.

The Pimpama Recycled Water Treatment Plant supplies Class A+ recycled water for toilet flushing and external non-drinking uses, reducing demand on potable water supplies and the release of treated wastewater into the environment.

In 2010-11, we also undertook a voluntary review of the *Pimpama Coomera Recycled Water Management Plan*, submitting the revised plan to DERM in May 2011.

Looking ahead 2011-12

Key asset management priorities for 2011-12 include:

- implementation of the asset management framework
- expanding and implementing the HACCP management systems within all wastewater treatment plants and water networks
- continuing the internal operational optimisation project to integrate the three districts.

Right infrastructure and people

Environmental management

Our environmental obligations form a core part of our business, with key priorities for the next five years including assessing our carbon footprint, identifying and implementing opportunities to reduce greenhouse gas emissions, and adapting to climate change.

Energy use and greenhouse gas emissions are both cost drivers and environmental indicators. Measuring greenhouse gas will allow us to better understand the impact of our current operations and shape the development of management strategies to meet future community objections and government targets, in line with the Queensland Government's *Toward Q2* ambition to protect our lifestyle and environment.

In 2010-11, Allconnex Water began developing a *Carbon Abatement Management Plan* to ensure we meet our environmental obligations while operating in an environmentally sound way.

The plan will provide a framework for measuring and mitigating our greenhouse gas emissions. The plan is expected to be completed in 2012.

We have also commenced a long-term management plan for biosolids, which are produced as a by-product from wastewater service treatment. This plan will outline our strategy for using biosolids as a useful resource and shape direction for sustainably managing biosolids for the lowest whole-of-life cost.

Allconnex continues to play an active role in the broader regional and local government-based environmental management initiatives such as healthy waterways network and *Total Water Cycle Management Plan*.

Growth management

Infrastructure is a crucial part of Allconnex Water's operations — and one of the most challenging.

Our assets distribute potable water and collect, treat and reuse or release wastewater in an evolving and ongoing process of planning, design and construction, prioritising projects to meet both immediate and long-term demands within realistic costs and periods of construction.

We operate in an environment underpinned by increased economic regulation with decisions shaped through prudence and efficiency. Investing in infrastructure is imperative because we service one of the country's fastest growing regions. This is set to continue in the coming year and beyond.

By using more efficient processes, we evaluated infrastructure projects and created substantial savings in capital expenditure on two major projects:

- construction of the Stapylton Wastewater Treatment Plant — combining the Logan and Gold Coast wastewater systems provided the opportunity to defer the construction of a new treatment plant. An alternative technical solution was developed to upgrade the wastewater conveyance network, diverting flows to the Loganholme Wastewater Treatment Plant that has recently been augmented and saving around \$60 million in capital costs, over the next 5 years, and
- the Merrimac West network upgrade — a detailed planning review identified an alternative technical solution that will deliver expected outcomes while reducing capital costs by close to \$140 million.

Allconnex has focused on establishing an efficient and effective capital works program through:

- developing guidelines and templates for capital program budgets
- hosting information sessions in December 2010 for nominated management and staff on developing capital programs
- preparing a ten-year capital budget
- completing a prudence and efficiency test and project initiation form for each project;
- managing delays caused by a high number of wet weather events in 2010-11, and
- providing monthly status reports to Finance and Budget committee on all major projects.

Water Netserv Plan

The *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* requires that Allconnex Water must have a *Water Netserv Plan* in place by 1 July 2013.

The *Water Netserv Plan* is a key strategic planning document that will:

- provide planning for the delivery of infrastructure for supplying water and wastewater services for at least 20 years
- ensure safe, reliable and secure water and wastewater services
- integrate land use planning, and planning for water and wastewater services infrastructure, and
- manage water and wastewater services to achieve ecological sustainability.

The *Water Netserv Plan* is comprised of two parts:

- Part A will outline Allconnex's services, service standards, connection areas, planning, charges and customer service processes. The Part A document will undergo public consultation, and
- Part B will outline Allconnex's strategies and actions to deliver the outcomes stated in Part A and provide the basis for operational planning for Infrastructure Services.

We progressed work on the plan during 2010-11, developing a preliminary draft which will be refined further during 2011-12.

Coomabah Wastewater Treatment Plant, stage five

The project involves the design, construction, optimisation and commissioning of a wastewater treatment plant extension including the construction of a digestion facility to treat biosolids. The project will utilise the latest technologies in wastewater treatment whilst ensuring minimal environmental impact, and prudent and efficient investment of funds.

This major upgrade will bring the 30-year-old facility up-to-date to meet existing and future demands, increasing the hydraulic capacity of wastewater flowing through the plant by 16 megalitres to a total of 91 megalitres per day – the equivalent of 36 swimming pools. These works will boost the plant's capacity to cope with a growing population.

Despite challenges due to adverse weather conditions, the \$64.1 million project is still expected to be commissioned as scheduled in late 2012.



Works on stage five of the Coombabah Wastewater Treatment Plant

Right infrastructure and people

Loganholme Water Pollution Control Centre, stage seven

During dry weather conditions, the Loganholme Water Pollution Control Centre treats and processes 42 megalitres of water each day. While the organic load on the plant doesn't rise during wet weather, the plant needs to treat up to five times the amount of water flowing through it.

This facility's major upgrade has increased its dry weather treatment flow capacity to 66.5 megalitres per day – the equivalent of more than 26 Olympic-sized swimming pools. The project aims to ensure recycled water discharged will meet licence requirements of DERM while protecting of our waterways and environment.

The \$27.5 million project involved upgrading the existing control centre, building new facilities including a recycled water system, chlorination and sludge dewatering buildings, and restoring roadways.

The project is substantially complete with only minor works and rectification of defects to be undertaken early in the 2011-12 financial year.

Fire flow augmentation project

The fire flow augmentation program is designed to meet service standards and improve the availability of water for fire fighting purposes throughout the Redland district. As at 30 June 2011, works are continuing in the Sheldon area and at Dunwich, with commissioning expected in August 2011. \$1.4 million was spent on the augmentation works in the 2010-11 financial year. A further \$870,000 is committed for ongoing works in the 2011-12 financial year.

Looking ahead 2011-12

Key growth management priorities for 2011-12 include:

- continuing development of the *Water Netserv Plan*
- ongoing implementation of prudent and efficient capital works program and delivery processes
- delivering the *Long-term Biosolids Management Plan*
- commencing the development of our *Long-term Recycled Water Reuse and Release Plan*
- developing and maintaining Allconnex Water infrastructure demand and network models
- ongoing support and participation in the Healthy Waterways environmental monitoring program.



The sludge handling facility at the recently upgraded Loganholme Water Pollution Control Centre

Information and communication technology

Information and communication technology (ICT) is a key tool for our business, required to support the achievement of our vision and strategic goals. Since our establishment, we have implemented several new systems to streamline services previously provided by councils.

During 2010-11, we established an effective and efficient stand-alone network and data system that provides core ICT-related services to corporate employees with policies, guidelines, standards and processes to address daily operational needs.

We have rapidly worked towards our record-keeping compliance requirements. Our *Information Management Policy* was adopted by the Board in May 2011, outlining guidelines and procedures which are being implemented across individual departments. An electronic document and records management system (eDRMS) is well into its implementation phase and will ultimately give Allconnex Water a storage repository for all business-related records, promoting recordkeeping compliance and information-sharing among staff.

Looking ahead 2011-12

Key ICT priorities for 2011-12 include:

- delivering the ICT critical needs program
- delivering the enterprise resource planning base program
- delivering the customer services, operational management and corporate service program.



James Anderson
Technical Officer, Water Projects

Success: a flow-on effect

James Anderson brings a wealth of experience to his role as a Technical Officer Water Projects. James began his career in the water industry more than 30 years ago in South Africa. The Kingston resident is currently working on Allconnex Water's Logan Water Alliance project, ensuring work on-site is carried out to exact standards.

Working on an alliance team has been a new experience for James.

'I love the diversity of my role because there is always a new challenge you need to find a solution to,' he said.

'I like assessing the alternatives and finding the right answer, which means working in a team that shares information.

That is what we do well here and I am always learning something new.'

Customers and stakeholders



Customers and stakeholders is one of our four balanced outcomes.

Strategic goal	Description	Performance outcomes
Customers and stakeholders	Customers and stakeholders focuses on developing strong stakeholder relationships and resolving customer issues quickly and effectively	<ul style="list-style-type: none"> Customer issues are resolved quickly and effectively Productive and influential relationships with all stakeholders Allconnex Water is industry recognised for its capability.

Highlights

- Developed and implemented Allconnex Water *Customer Service Standards* and *Customer Charter*
- Successfully separated billing arrangements for Gold Coast and Logan customers
- Implemented water education programs in schools, businesses and the community
- Established a *Stakeholder Engagement Plan*
- Implemented a centralised call centre.

Customers

Allconnex Water aims to deliver high standards of customer service.

During 2010-11, our customer services department established and implemented a service-oriented culture for employees that makes it "EASY" for our customers to work with Allconnex Water:

E	Efficient: resolve the issue without delay
A	Accessible: be there for our customers through a range of convenient channels
S	Service delivery: ensure understanding of our services and have effective processes to resolve issues
Y	You: understand how you (our employees) will make a difference through the right skills and support

We will continue to focus on developing this "EASY" approach to customer service to ensure we meet the needs of our customers. Customer service personnel have also completed training in complaints management and undergo regular additional training to ensure we provide outstanding customer service across a range of issues.

Customer service standards

The *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* requires us to provide a set of customer standards. We achieved this in 2010-11 with the creation of a standards document, which informs customers of services and their obligations in using water and wastewater systems.

Customer contact

During 2010-11, we experienced an average of 12,583 calls per month with an average interactive voice response call duration of six minutes and 20 seconds.

The high level of calls was mainly due to changes in billing arrangements across the three districts, as well as increased service request calls during adverse weather conditions. To better manage call flows and improve customer service, call centres have been centralised at Allconnex Water's head office at "The Rocket" in Robina, using the latest technologies to ensure fast and effective services.

We have also implemented a core performance measure to understand customers' needs and expectations through a customer effort score, using a scale of one to five to measure how much effort was needed to address issues. We are tracking this information to better understand our interactions with customers and improve our services.



Patrina Hili
Microbiologist

Local knowledge making a difference

Patrina Hili is a microbiologist based at Allconnex Water's Cleveland laboratory.

She monitors, tests and analyses water samples to ensure they meet *Australian Drinking Water Guidelines*, as well as DERM's regulations for the Redland region's six wastewater treatment plants.

It's a vital role Patrina is proud to play a part in.

'I like to ensure the product we supply to our customers is top quality,' she said.

'Being involved in the quality control of the urban water cycle helps ensure our products are safe.'

Customers and stakeholders

Energy and Water Ombudsman Queensland (EWOQ)

The Energy and Water Ombudsman Queensland (EWOQ) commenced on 1 January 2011 as a dispute resolution centre with jurisdiction over complaints relating to residential and small business customers (who consume less than 100 kilolitres per year). During 2010-11, we engaged with the EWOQ to understand their role and operations to ensure Allconnex Water had an appropriate complaint resolution process in place and information available to customers for their role.

EWOQ handles a variety of case types. There are two case types referred back to Allconnex Water. These are (1) *Refer to Higher Level* and (2) *Investigations*. Refer to higher level is where a customer has attempted to resolve a matter with Allconnex Water and have agreed with EWOQ to be referred back to Allconnex Water in a further attempt to resolve the matter. Allconnex Water had 57 *Refer to Higher Level* cases referred to it for resolution since 1 January 2011. For more complex or unresolved cases, Allconnex Water is issued with a *Notice of Investigation*. Under this requirement there is generally 10 business days to respond with the relevant information. A number of supplementary requests may occur following the first. Allconnex Water received 15 *Notice of Investigations* since 1 January 2011.

Community involvement

During 2010-11, Allconnex Water was actively involved in water conservation education programs for schools, businesses and the community, aimed at influencing long-term, sustainable behavioural change towards water usage. During 2010-11, we delivered over 240 classroom presentations for 6,331 students and distributed quarterly eNewsletters to businesses as part of the water saver education programs. The education programs are aligned with the *South-East Queensland Water Strategy* that is based on the principles of conserving water, being prepared and managing water efficiently.

Looking ahead 2011-12

Key customer service priorities for 2011-12 include:

- delivering optimisation of meter fleet management
- delivering community engagement and education programs
- delivering the *Customer Relationship Management Plan*.

Stakeholders

Our stakeholders include our three Participating Councils, customers, government agencies and a diverse range of industry, business and community organisations. During 2010-11, we developed and implemented a *Stakeholder Engagement Plan* aimed at meeting their varied and diverse needs.

We also worked towards the creation of a customer and community reference group to ensure customers can contribute to our business.

Because there have been significant changes to the local water industry over the past year, we have worked hard to provide accurate and timely information to help customers understand how the new arrangements impact them.

A range of activities are also being undertaken internally to recognise our hardest working assets, our people. We have developed a communication plan to outline avenues to promote employee news, initiatives and achievements through fortnightly e-newsletters, a monthly magazine for employees, a series of workplace visits, presentations and an active intranet site.

Looking ahead 2011-12

Key stakeholders and communication priorities for 2011-12 include:

- delivering a proactive media campaign
- implementing an internal communications program
- delivering a proactive customer awareness campaign
- delivering a stakeholder engagement program.

Customer service standards

Our *Customer Service Standards* are a way of making sure customers without contracts are adequately informed about the services they receive, including the standard of services they can expect to experience. As part of the *Customer Service Standards*, Allconnex Water has a number of key performance indicators that are used to measure performance. Actual performance against these standards are presented in the below table.

Customer service indicator	Target	Performance	Comments (by exception)
Water main breaks	< 20 breaks per 100km of mains per annum	✓	
System water loss	< 150 litres/connection/day	✓	
Minimum pressure at meter (on demand)	22 metres	✓	
Compliance with NHMRC ¹ - microbiological	> 98% of samples pass E. coli test	✓	
Compliance with NHMRC ¹ - chemical quality	Compliance with chemical standards at all zones within Allconnex Water's operational districts	—	One minor non-compliance relating to poor water mixing in a reservoir. Tests confirmed there was no impact on consumers.
Drinking water quality complaints	< five per 1 000 connections per annum	✓	
Connections experiencing unplanned interruption	< 150 (per 1 000 connections per annum)	✓	
Time for restoration of service - unplanned interruption	95% within five hours	—	The target was almost achieved, however there were a number of long shutdowns affecting the result. Shutdowns associated with the affected properties have been referred to an internal program to improve the result.
Average interruption duration - planned	< two hours	✗	The target was not achieved as there were five shutdowns greater than 5 hours with more than 100 properties affected. This was a result of a significant capital investment in the Gold Coast Rapid Transit and Gold Coast Hospital projects.
Wastewater overflows under average rainfall conditions	< 20 per 100 kilometres main per annum	✓	
Wastewater overflows to customer property	< Five overflows to customer properties per 1 000 connections	✓	
Validated odour complaints	Three per 1 000 properties	✓	
Wastewater main breaks and chokes	<50 per 100 kilometres main	✓	

1 - National Health and Medical Research Council

Legend	✓	Achieved
	—	Almost Achieved
	✗	Not achieved

Compared to the original budget inherited from council water businesses, we have delivered

\$200
million

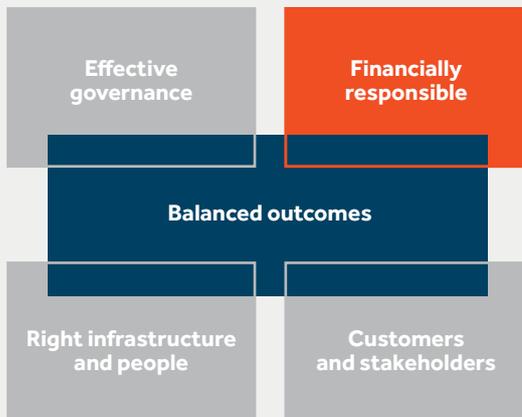
in capital works savings in our first year of operation, comprising:

- **\$140 million** saved at Merrimac West through the identification of an alternative technical solution for a planned network upgrade
- **\$60 million** saved through the Stapyhton-Beenleigh Wastewater Treatment solution being implemented across council boundaries.

A photograph of two industrial workers, a woman and a man, standing in front of a large industrial facility. They are both wearing dark blue hard hats with a logo, safety glasses, and bright yellow high-visibility safety vests over dark blue work clothes. The woman is holding a white document and they appear to be reviewing it together. The background features a complex network of large white pipes, metal railings, and industrial machinery under a clear blue sky with some clouds. A white rectangular box with an orange border is overlaid on the right side of the image, containing the text 'Our financials'.

Our financials

Financially responsible



Financially responsible is one of our four balanced outcomes.

Strategic goal	Description	Performance outcomes
Financially responsible	Allconnex Water will manage its finances in a prudent and efficient manner to ensure funding is available for infrastructure growth, maintenance and upgrades, and to deliver a distribution of funds to its Participating Councils	<ul style="list-style-type: none"> • Providing returns to Participating Councils in line with established loan agreements, tax arrangements and profits earned • Costs are appropriately accounted for • Regulatory outcomes that underpin the financial security of the business • Debtor control • Robust investment decisions.

Highlights:

- Electricity contract negotiated, resulting in annual savings of \$3.6 million
- Operating cost savings of \$26 million
- Queensland Treasury Corporation (QTC) credit review has maintained the outlook for Allconnex Water at an equivalent rating of BBB+, with funding for 2011-12 approved as a result
- Revised approach to Merrimac West and Stapylton-Beenleigh projects expected to deliver savings of \$200 million.

Financial Summary

Allconnex Water became operational on 1 July 2010 under the State Government's South East Queensland Water Reform. The following financial statements for Allconnex Water reflect the first year of trading as the Southern South-East Queensland Distributor- Retailer Authority.

The Queensland Audit Office (QAO) has audited our financial statements and has issued an opinion without qualification, advising that, in the opinion of the Auditor-General and in accordance with prescribed accounting standards, the financial report presents a true and fair view of the transactions for the year and of the financial position of the Authority as at 30 June 2011. The audit opinion makes reference to the uncertainty surrounding the status of the Authority as a going concern as well as the significant uncertainty regarding pricing post the price cap period to 30 June 2013. Although participating councils have indicated their intention to withdraw from the Authority, without the enabling legislation as yet in place, it notes the financial statements have been prepared on a going concern basis. Further, it also notes there is significant uncertainty regarding the assumptions used for asset valuation and impairment modelling which are based on the continuity of normal business activities although these assumptions and the associated value of assets may be impacted by the intended future action of withdrawal by Participating Councils.

Allconnex Water incurred an accounting loss for the year of \$27.6 million following recognition of a \$30.7 million impairment loss associated with the revaluation of assets in line with accounting standards. This downward adjustment in the value of property, plant and equipment arose from the difference in the value earned from assets currently in use versus its fair value, being an estimate of the amount expected to be obtained from the sale of the assets between willing parties in an arm's length transaction. Based on an estimate of future cash flows, the independent valuation assessed that the carrying amount of property, plant and equipment was higher than the value that the assets could generate, (recoverable amount) and, as such, an impairment loss was recognised to reduce the value of assets accordingly. The extent of asset impairment is due to the difference between the current revenues earned on assets and the maximum allowable revenue which could be earned on these assets, as determined by the Queensland Competition Authority (QCA). The impairment loss as recognised is not associated with operational performance of the Authority during the 2010-11 year.

Year-to-date earnings before interest, tax, depreciation and amortisation (EBITDA) was \$271.1 million against a 2010-11 Five Year Plan EBITDA of \$327.2 million. This result was \$56.1 million less than expected, however, if adjusted for one-off costs relating to first year operations of approximately \$51 million, the result was a significant achievement being within 1 percent of plan.

Operating revenue was \$19 million lower than expected, predominantly from a \$17.3 million shortfall in rates and utility charges. This variance was the result of reduced water consumption following consistent rainfall. The rolling average per capita water consumption was 170 litres per person per day compared to the 2010-11 Five Year Plan consumption of 181 litres per person per day.

Savings in bulk water purchases of \$4.3 million were due to reduced water consumption.

Capital revenue was \$14.8 million less than expected with shortfalls of \$6.2 million in developer contributions and \$8.9 million in contributed assets. Developer contributions and contributed assets are dependent on the level of development which was lower than anticipated in 2010-11.

Operating expenses (excluding bulk water purchases) were \$26.6 million higher than expected. Savings were achieved in labour costs of \$9.2 million, materials \$3.7 million, electricity \$1.7 million and services \$11.9 million. Labour costs were lower than anticipated due to the number of vacant positions, scope reductions of operational projects as well as cost efficiencies achieved through the use of internal labour. Services expenditure was impacted by a reduced requirement for consultants and contract services. Despite these considerable savings, additional expenditure of \$51.3 million was associated with significant first year costs including reimbursement to councils of \$11.8 million for establishment costs during 2009-10, prior year work-in-progress expenditure transferred from councils but now expensed of \$25 million, work-in-progress capital expenditure expensed in relation to the current year of \$9 million as well as the establishment of a doubtful debts provision of \$5.5 million.

In accordance with our agreement with the Queensland Treasury Corporation (QTC) and reflecting our initial capital structure of 45% borrowed funds and 55% contributed equity in the form of transferred assets, metrics for BBB+ investment grade creditworthiness have been established. The credit metrics and associated targets to be achieved by the end of the 2012-13 year are as follows:

- EBITDA interest cover reflecting the ability to service debt obligations to be more than 2.5 times
- Earnings before interest and taxes (EBIT) interest cover reflecting the ability to service debt obligations to be more than 1.75 times
- Funds from Operations (FFO) interest cover reflecting cash generating ability to cover financing costs to be at least 2.25 times
- Net Debt to Fixed Assets reflecting the cash flow generating ability of the asset base to be not more than 60%

Although the financial targets were not expected to be achieved in the 2010-11 year, if first year costs, together with the impairment loss, are excluded, the results in the table below have either exceeded or only marginally fallen short of the creditworthiness targets set for achievement in two years' time. This is an excellent outcome for the first operational year, reflecting a strong commercial focus and sound activities underpinning the business.

Financial Targets	Target by 30 June 2013	Actual	Adjusted for first year expenses
EBITDA	> 2.5	2.06	2.68
EBIT	> 1.75	0.98	1.61
FFO	≥ 2.25	1.89	2.51
Net Debt/Fixed Assets	< 60%	49%	48%

Allconnex Water
financial statements
for the year ending 30 June 2011

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Statement of comprehensive income

year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
Income from continuing operations			
Utility charges	2	550,270	-
Grants and other contributions	3	1,060	-
Developer contributions	4	76,613	-
Other revenues	5	16,950	-
Total income from continuing operations		644,893	-
Expenses from continuing operations			
Employee expenses	6	65,922	318
Materials and services	7	291,315	16,023
Depreciation and amortisation	8	110,581	3
Impairment losses	9	30,724	-
Finance / borrowing costs	10	129,443	34
Other expenses	11	16,583	40
Total expenses from continuing operations		644,568	16,418
Operating result from continuing operations before income tax equivalents		325	(16,418)
Income tax equivalents (expense) / benefit	12	(27,937)	4,926
Operating result for continuing operations after income tax equivalents		(27,612)	(11,492)
Total comprehensive income / (loss) for the period		(27,612)	(11,492)

The accompanying notes form part of these statements.

Statement of financial position

year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
Assets			
Current assets			
Cash and cash equivalents	13	3	1
Trade and other receivables	14	150,832	278
Other current assets	15	5,436	-
Total current assets		156,271	279
Non current assets			
Property, plant and equipment	16	4,175,973	-
Intangible assets	17	750	151
Deferred tax assets	18	-	4,926
Total non current assets		4,176,723	5,077
Total assets		4,332,994	5,356
Liabilities			
Current liabilities			
Trade and other payables	19	109,459	16,404
Interest bearing liabilities	20	25,852	436
Accrued employee benefits	21	18,195	8
Other current liabilities	22	8,146	-
Total current liabilities		161,652	16,848
Non current liabilities			
Interest bearing liabilities	20	1,945,629	-
Accrued employee benefits	21	183	-
Deferred tax liabilities	18	3,120	-
Total non current liabilities		1,948,932	-
Total liabilities		2,110,584	16,848
Net assets		2,222,410	(11,492)
Equity			
Contributed equity		2,261,514	-
Accumulated surplus / (deficit)		(39,104)	(11,492)
Total equity		2,222,410	(11,492)

The accompanying notes form part of these statements.

Statement of changes in equity

year ended 30 June 2011

	Accumulated surplus /(deficit) \$'000	Contributed equity \$'000	Total \$'000
Balance as at 3 November 2009	-	-	-
Operating result from continuing operations	(11,492)	-	(11,492)
Balance as at 30 June 2010	(11,492)	-	(11,492)
Balance as at 1 July 2010	(11,492)	-	(11,492)
Operating result from continuing operations	(27,612)	-	(27,612)
Contributed equity	-	2,261,514	2,261,514
Balance as at 30 June 2011	(39,104)	2,261,514	2,222,410

The accompanying notes form part of these statements.

Statement of cash flows

year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
Cash flows from operating activities			
<i>Inflows:</i>			
Utility charges		417,194	-
Developer contributions		41,655	-
GST reimbursement		24,827	-
Employee entitlements transfer		18,087	-
Other (including grants and other contributions)		7,146	-
Interest received		1,456	-
		510,365	-
<i>Outflows:</i>			
Employee expenses		(65,096)	(405)
Materials and services		(267,294)	-
Finance / borrowing costs		(86,994)	-
Income tax		(22,397)	-
GST (Capex) paid to suppliers		(16,845)	(30)
		(458,626)	(435)
Net cash provided by / (used in) operating activities	23	51,739	(435)
Cash flows from investing activities			
<i>Outflows:</i>			
Payments for property plant and equipment		(171,517)	-
Payments for intangible assets		(934)	-
Net cash provided by / (used in) investing activities		(172,451)	-
Cash flows from financing activities			
<i>Inflows:</i>			
Borrowings from bank		(436)	436
Borrowings from QTC		121,150	-
Net cash provided by / (used in) financing activities		120,714	436
Net increase / (decrease) in cash and cash equivalents		2	1
Cash and cash equivalents at the beginning of the financial year		1	-
Cash and cash equivalents at the end of the financial year	13	3	1

The accompanying notes form part of these statements.

Notes to the financial statements

year ended 30 June 2011

Objectives and principal activities of the Authority

Allconnex Water (the "Authority") is a *Queensland Statutory Body under the South East Queensland Water (Distribution and Retail Restructuring) Act 2009 (the "Act")*. This legislation was enacted on 3 November 2009 and the Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water) became a legal entity as of this date.

From 1 July 2010, the Authority assumed responsibility from Gold Coast, Logan and Redland City Councils for the provision of water and wastewater services within their geographic areas.

Under the Act, governance arrangements for the new Authority were established in a Participation Agreement with Gold Coast, Logan and Redland City Councils. The Participation Agreement includes clauses concerning the allocation of participation rights that entitle each participant to share in the profits of the Authority.

The participation rights have been recognised on the balance sheet of the Authority as equity. The fact that the Authority was not established as a traditional incorporated entity does not prohibit the classification of the participation rights as equity as it is the substance of a financial instrument, rather than its legal form, that governs its classification in an entity's Statement of Financial Position.

Interim participation rights in the Authority are:

Gold Coast City Council	62%
Logan City Council	24%
Redland City Council	14%

Participating Councils have contributed 55% of the net assets of the Authority in physical assets in return for participation rights. The remaining 45% of net assets is represented in the form of cash loans to the Authority.

The value of the Councils' physical assets contributed to the Authority has been calculated using a regulatory asset base (RAB) valuation approved by the Queensland Government. This valuation was prepared to underpin the water pricing methodology currently under review by the Queensland Competition Authority and is represented in the table below.

	Gold Coast City Council \$'000	Logan City Council \$'000	Redland City Council \$'000	Total Assets \$'000
Land	69,044	22,947	4,220	96,211
Buildings	1,652	2,681	2,703	7,036
Plant and equipment	1,534	686	35	2,255
Infrastructure	2,367,288	1,018,268	437,313	3,822,869
Work in progress	96,128	79,360	7,989	183,477
Total	2,535,646	1,123,942	452,260	4,111,848

The cash loans provided by the Participating Councils to the Authority have been structured into senior debt loans and subordinated debt loans. The senior debt loans represent 25% of the cash loans provided to the Authority and are subject to a fixed interest rate of 6.67% per annum. The subordinated debt loans represent the remaining 20% of loans provided to the Authority and are subject to an interest rate of 7.51%.

The core functions of the Authority includes:

Water:	Supplying and distributing treated drinking water to domestic, commercial and industrial customers.
Wastewater:	Collecting, transporting and treating wastewater and trade waste for domestic, commercial and industrial customers.
Recycled Water:	Supplying and distributing recycled wastewater to domestic, commercial and industrial customers.
Growth & Sustainability:	Planning and delivering the required water, wastewater and recycled water infrastructure to support the growth of the region and achieve sustainability.

Notes to the financial statements

year ended 30 June 2011

Note 1

Summary of significant accounting policies

(a) Statement of compliance

The Authority has prepared these financial statements in compliance with the *Financial and Performance Management Standard 2009*.

These Financial Statements are general purpose Financial Statements, and have been prepared on an accrual basis in accordance with *Australian Accounting Standards and Interpretations*. In addition, the Financial Statements comply with Treasury's Minimum Reporting Requirements for the year ended 30 June 2011, and other authoritative pronouncements.

With respect to compliance with *Australian Accounting Standards and Interpretations*, the Authority has applied those requirements applicable to for-profit entities.

The Financial Statements have been prepared on an accrual basis and, except where stated in accordance with the principles of historical cost.

(b) The reporting entity

The financial statements include the value of all revenues, expenses, assets, liabilities and equity of the Authority.

(c) Going concern

On 7 April 2011, the Premier announced that the government had decided to repeal the sections of the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* which require water distributor-retailer entities. This decision meant that Participating Councils were offered the option of continuing with or withdrawing from their respective distributor-retailer Authorities.

In response to the Premier's announcement the following events have occurred subsequent to balance date:

On Monday 25 July 2011, Gold Coast City Council resolved to opt-out of Allconnex Water. The Gold Coast City Council further announced a price mitigation plan that outlines its intended water prices for the next five years.

On Tuesday 26 July 2011, the Minister for Energy and Water Utilities announced that the State Government would concentrate its efforts on drafting the necessary legislation that will allow Councils to demerge from their water distributor-retailers.

On Monday 8 August 2011, Redland City Council resolved to opt-out of Allconnex Water and re-establish Redland Water for its retail water distribution as of 1 July 2012.

On Tuesday 23 August 2011, Logan City Council resolved to opt-out of Allconnex Water and re-establish its retail water distribution operations as of 1 July 2012.

While all three Participating Councils have announced an intention to withdraw from Allconnex Water, any withdrawal is subject to necessary amendments to the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* being drafted and passed by Parliament. Amendments to existing Participation Agreements may also be required in order to enable any withdrawal from Allconnex Water. The absence of amended legislation gives rise to the uncertainty of Allconnex Water's ability to continue as a going concern should the Participating Councils withdraw from the Authority. Any amendments to the legislation and Participation Agreements enabling the withdrawal of Participating Councils may also impact on the values of assets and liabilities of Allconnex Water reported in the financial statements.

Notwithstanding this uncertainty in the absence of amending legislation passed by the Parliament, the Board believes that the preparation of the financial statements on a going concern basis in accordance with AASB 101 *Presentation of Financial Statements* is appropriate as this is based on the best information available at the time of preparing the financial report. This also reflects the fact that Allconnex Water will continue to deliver services and realise its assets and discharge its liabilities in the normal course of business until such time that enabling legislation is enacted by Parliament which facilitates the withdrawal from Allconnex Water of Participating Councils. The Board also believes that the basis of preparation reflects the fact that the services delivered by Allconnex Water will continue to be delivered by Participating Councils in the event they withdraw from Allconnex Water.

(d) Issuance of financial statements

The Financial Statements were authorised for issue on 31 August 2011.

(e) Currency

The Authority uses the Australian dollar as its functional and presentation currency.

(f) Revenue

Revenue is recognised when services are provided. Revenues are measured at the fair value of the consideration or contributions received or receivable.

(f) (i) Utility charges

A significant portion of Allconnex Water's revenue is generated from water distribution, wastewater collection, treatment and disposal. Utility charges are recognised as revenue on an accrual basis in the period to which they relate. Allconnex Water issues utility charges with water consumption billed in arrears and the fixed service charge billed in advance. An estimation for unbilled water consumption is performed monthly based on historical information of the customers usage and accrued revenue is recognised for this amount.

Notes to the financial statements

year ended 30 June 2011

(f) (ii) Grants and other contributions

Unconditional Government grants and subsidies are recognised as revenue on receipt or when it is probable that the economic benefits will flow to the Authority and the value of that benefit can be reliably measured.

Conditional Government grants and subsidies are recognised initially as unearned revenue. Conditional grants and subsidies are recognised as income by the Authority once all attaching conditions have been complied with. Grants and subsidies that compensate the Authority for expenses incurred are recognised in the Statement of Comprehensive Income on a systematic basis in the same periods in which the expenses are recognised.

(f) (iii) Developer contributions

The Authority finances part of its capital works infrastructure program through non-refundable contributions from developers which are applied to the cost of these works. These contributions received may be in the form of a non-cash contribution (assets) and/or a cash contribution.

Non-cash contributions from developers such as water and wastewater infrastructure are recognised as revenue and as non-current assets when the Authority obtains control of the assets and becomes liable for any ongoing maintenance. These contributed assets are recognised at their fair value.

Non-refundable cash contributions from developers towards the cost of water supply and wastewater infrastructure are collected by Councils on behalf of the Authority and transferred to the Authority when received. Cash developer contributions for specific assets are recognised as a liability where that specific asset has not been constructed at balance date. Cash contributions for assets already constructed or for which there are no performance obligations are recognised as revenue on receipt.

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash and cheques receipted but not banked at the year end, and deposits held at call with financial institutions.

(h) Receivables

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

The collectability of debtors is assessed periodically with an allowance being made for impairment. The provision for impairment represents 1% of utility charges which is based on industry averages and an internal review of trade receivables as at 30 June 2011. All known bad debts are written off in the same period or at 30 June 2011.

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

(i) Acquisitions of assets

Actual cost is used for the initial recording of all non-current physical and intangible asset acquisitions. Cost is determined as the value given as consideration plus costs incidental to the acquisition, including all other costs incurred in getting the assets ready for use, including surveyors' fees and engineering design fees. However, any training costs are expensed as incurred.

Assets acquired at no cost or for nominal consideration are recognised at their fair value at date of acquisition in accordance with AASB116 *Property, Plant and Equipment*.

(j) Property, plant and equipment

Items of property, plant and equipment with a cost or other value equal to or in excess of the following thresholds are recognised for financial reporting purposes in the year of acquisition:

Asset Type	Threshold
Network assets	\$1
Land	\$1
Plant and equipment	\$1,000
Computer hardware	\$1,000
Infrastructure	\$10,000
Buildings	\$10,000
Other non-current assets	\$10,000

Items with a lesser value are expensed in the year of acquisition with the exception of network assets. Network assets are items that are homogenous in nature and are items that fall below the recognition threshold on an individual basis, yet when considered as a whole are material.

Network assets are typically purchased rather than constructed and have useful lives that are approximately the same as each other.

Notes to the financial statements

year ended 30 June 2011

(k) Revaluations of non-current physical assets

Land, buildings and 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, and are comprehensively revalued at least once every three to five years.

Interim revaluations are undertaken at the end of the financial year for any of the above asset classes whenever it is anticipated that there has been a material movement in fair value of these assets since the last comprehensive revaluation.

Any revaluation increment arising on the revaluation of an asset is credited to the asset revaluation surplus of the appropriate class, except to the extent it reverses a revaluation decrement for the class previously recognised as an expense.

A decrease in the carrying amount on revaluation is charged as an expense, to the extent it exceeds the balance, if any, in the revaluation surplus relating to that asset class.

On revaluation, accumulated depreciation is restated proportionately with the change in the carrying amount of the asset and any change in the estimate of remaining useful life.

Materiality concepts under AASB 1031 are considered in determining whether the difference between the carrying amount and the fair value of an asset is material.

In respect of these asset classes, the cost of items acquired during the financial year has been judged by management of Allconnex Water to materially represent their fair value at the end of the reporting period.

Plant and equipment, network and intangible assets are measured at cost in accordance with Allconnex Water's *Non-Current Asset Policy*.

If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:

- The effective date of the revaluation
- Whether an independent valuer was involved
- The methods and significant assumptions applied in estimating the items' fair values
- The extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques
- For each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model
- If applicable a revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders

An independent valuation of assets was performed as at 30 June 2011 by Synergies Consulting. The valuation basis of assets is an income based approach to fair value, being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, having regard to the highest and best use of the assets within the existing environment. Refer to note 16.

(l) Intangible assets

Intangible assets with a cost or other value greater than \$1,000 are recognised in the Financial Statements. Items with a lesser value are expensed.

Each intangible asset is fully amortised over its estimated useful life to the Authority and has a zero residual value.

It has been determined that there is not an active market for any of Allconnex Water's intangible assets. As such, the assets are recognised and carried at cost less accumulated amortisation and accumulated impairment losses.

(m) Amortisation and depreciation of property, plant and equipment and intangibles

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

All intangible assets of Allconnex Water have finite useful lives and are amortised on a straight line basis.

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 to the Authority.

Assets under construction (work-in-progress) are not depreciated until they reach service delivery capacity. Service delivery capacity relates to when construction is complete and the asset is first put to use or is installed ready for use in accordance with its intended application. These assets are then reclassified to the relevant classes within property, plant and equipment.

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 to the Authority. The Authority undertakes a review of useful lives annually to address significant changes.

Notes to the financial statements

year ended 30 June 2011

(m) Amortisation and depreciation of property, plant and equipment and intangibles cont'd

For each class of depreciable asset the following depreciation and amortisation rates are used:

Asset Type	Useful Life (Years)
Network assets	12
Land	Infinite
Plant and equipment	4-25
Computer hardware	5
Infrastructure	10-150
Buildings	25-50
Intangibles	5
All Other non-current assets	4-25

(n) Impairment of non-current assets

All non-current physical and intangible assets are assessed for indicators of impairment on an annual basis. If an indicator of possible impairment exists, then the asset's recoverable amount is estimated.

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 estimate future cash flows are discounted to their present value using a pre-tax discount rate that reflects the 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 groups of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash generating unit).

In assessing the fair value, an estimate of the amount that is expected to be obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties is calculated. The cash flows estimated using the value in use approach will be subjected to a range of conditions that may well exist for a purchaser of the Authority's business. Probabilities will be assigned to a number of possible conditions to adjust the future cash flows to better reflect the expectations of a knowledgeable and willing purchaser.

An impairment loss is recognised if the carrying amount of an assets or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income 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 relevant assets to the extent available. Impairment loss in respect of the cash generating unit is allocated to reduce the carrying amount of assets in the unit on a pro rata basis.

(o) Payables

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

(p) Financial instruments

Recognition

Financial assets and liabilities are recognised in the Statement of Financial Position when Allconnex Water becomes party to the contractual provisions of the financial instrument.

Classification

Financial instruments are classified and measured as follows:

- Cash and cash equivalents - held at fair value through the Statement of Comprehensive Income
- Trade and other receivables - held at amortised cost
- Trade and other payables - held at amortised cost
- Borrowings - held at amortised cost

Borrowings are initially recognised at fair value, plus any transaction costs directly attributable to the borrowings, then subsequently held at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument (or, when appropriate, a shorter period) to the net carrying amount of that instrument.

Any borrowing costs are added to the carrying amount of the borrowing to the extent they are not settled in the period in which they arise. Borrowings are classified as non-current liabilities to the extent that Allconnex Water has an unconditional right to defer settlement until at least 12 months after reporting date.

Allconnex Water does not enter into transactions for speculative purposes, nor for hedging. Apart from cash and cash equivalents, Allconnex Water holds no financial assets classified at fair value through the Statement of Comprehensive Income.

Notes to the financial statements

year ended 30 June 2011

(p) Financial instruments cont'd

All other disclosures relating to the measurement and financial risk management of financial instruments held by Allconnex Water are included in note 31.

The Authority assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(q) Employee benefit expenses

Employer superannuation contributions, annual leave levies and long service leave levies 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.

Wages, salaries and sick leave

Wages and salaries due but unpaid at reporting date are recognised in the Statement of Financial Position at the current salary rates.

Annual leave

A provision for unpaid annual leave is based on the number of working days owing to employees as at the end of the reporting period. The annual leave provision calculation uses the notional cash component of the total employment cost of employees that would be required to be paid if the liability was to be settled at balance date (30 June 2011). This includes oncosts that are required to be paid in conjunction with annual leave. Oncosts comprising superannuation, payroll tax and worker's compensation are included in the calculation of the annual leave provision. The non-current portion of the annual leave provision (to be settled in more than 12 months) is discounted to its present value.

Sick leave

Sick leave entitlements may or may not be vesting. Vested sick leave is that which an employees' unused sick leave entitlement accumulates each year so that they are entitled to a cash payment for unused sick leave on leaving employment. Vested sick leave is only applicable to employees transferred from Logan City Council who had an employment start date on or before 18 July 1995. In this case a vested sick leave liability is provided for as current as the Authority has no legally enforceable right to defer settlement beyond 12 months. Non-vested sick leave represents unused sick leave entitlements that are not paid out to an employee. Non-vested sick leave is not accrued, and is expensed as paid; payments are made only upon a valid claim for sick leave by an employee.

Long service leave

Long service leave (LSL) entitlements are accumulated after the qualifying period of service until the leave is taken or paid out. After the qualifying period, LSL continues to accrue. No legal entitlement to any payment for LSL exists before completion of the qualifying period by an employee, other than as provided by certain awards upon termination. For example, pro-rata LSL may be paid before the qualifying period: on redundancy; for service of 5 – 10 years where termination is due to serious ill health or death; or if an employee is retiring and is over 55 years and has between 7 – 10 years employment. However, LSL is accrued from the date the employee commences.

The provision for LSL calculation takes into account the following factors:

- Where an employee has between 1 and 10 years of service, a pro-rata entitlement is brought to account (a probability factor is applied to employees within each year of tenure under 10 years to derive the estimated number of employees that will complete the qualifying period. This factor is applied to amounts sourced from payroll system LSL reports).
- Where an employee has over 10 years of service, the absolute entitlement is brought to account.
- Average growth in wage rates (inflation factor), present value discount rate, average years of service to lapse until LSL is taken, number of employees who have completed the qualifying period.
- Amounts are measured at the present value of the estimated future cashflows which are expected to be paid.

Superannuation

Employer superannuation contributions are recognised in the same period as the related employee remuneration cost is incurred.

The Authority contributes to *Local Government Superannuation Schemes* (LG Super) for employees under both *Defined Benefit* and *Accumulation Superannuation Schemes*. The Authority 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 Authority. Accordingly, there is no recognition in the Financial Statements of any over or under funding of LG Super. Refer to note 30.

Employee benefits

Key executive management personnel and remuneration disclosures are made in accordance with the section 5 Addendum (issued in May 2011) to the Financial Reporting Requirements for Queensland Government Agencies issued by Queensland Treasury. Refer to note 25 for the disclosures on key executive management personnel and remuneration.

Notes to the financial statements

year ended 30 June 2011

(r) Provisions

Provisions are recorded when Allconnex Water has a present obligation, either legal or constructive as a result of a past event. They are recognised at the amount expected at reporting date for which the obligation will be settled in a future period. Where the settlement of the obligation is expected after 12 or more months, the obligation is discounted to the present value using an appropriate discount rate. The amounts recognised as provisions in relation to the dismantling and removal of assets and the restoration of land on which the assets have been located, have been included in the cost of the assets.

(s) Financing / borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(t) Taxation

The Authority has been a participant in the Local Government Tax Regime from the date of establishment. As a result a notional income tax liability is payable to Participating Councils. Income tax equivalents comprises current and deferred tax. Income tax equivalents expense or revenue is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity.

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

Current tax liability or asset is the expected notional tax payable or receivable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date. Current tax assets and tax liabilities are offset where the Authority has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax is recognised using the liability 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. The initial recognition exception will apply to the acquisition of the transferred assets at 1 July 2010. Therefore a deferred tax asset / liability will not be recognised on the temporary difference on acquisition of these assets. 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. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

(u) Judgements

The preparation of Financial Statements necessarily requires the determination and use of certain critical accounting estimates, assumptions, and management judgements that have that potential to cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Such estimates, judgements 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 future periods as relevant.

Estimates and assumptions that have a potential significant effect are outlined in the following financial statement notes:

- Trade and other receivables: unbilled revenue - note 14
- Property, plant and equipment - note 16
- Accrued employee benefits: long service leave - note 21

(v) Rounding and comparatives

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.

Notes to the financial statements

year ended 30 June 2011

(w) New and revised accounting standards

Allconnex Water is not permitted to early adopt a new or amended Accounting Standard ahead of the specified commencement date unless approval is obtained from the Treasury Department. Consequently, Allconnex Water has not applied any Australian Accounting Standards and interpretations that have been issued but are not yet effective. Allconnex Water applies standards and interpretations in accordance with their respective commencement dates.

Only one amendment to an Australian Accounting Standard applicable for the first time for 2010-11 was applicable to Allconnex Water. The impact of this Amendment is tabled below:

Amendment	Impact
AASB 2009 – 5 Amendments to Australian Accounting Standards	Amendments to AASB 117 <i>Leases</i> revised the criteria for classifying leases involving land and buildings. Consequently, Allconnex Water was required to reassess the classification of the land elements of all unexpired leases Allconnex Water had entered into as at 1 July 2010, on the basis of information existing at the inception of the relevant leases. The outcome of Allconnex Water's reassessment was that no reclassification from an operating lease to a finance lease was necessary.

At the date of authorisation of the financial report, significant impacts of new or amended Australian Accounting Standards with future commencement dates are as set out below:

Amendment	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending	Impact
AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]	1/01/11	30/06/12	Changes to the disclosures on the credit risk of financial instruments in note 31 will be required. No longer will Allconnex Water need to disclose amounts that best represent an entity's maximum exposure to credit risk where the carrying amount of the instruments reflects this. If Allconnex Water holds collateral or other credit enhancements in respect of any financial instrument, it will need to disclose - by class of instrument - the financial extent to which those arrangements mitigate the credit risk. There will be no need to disclose the carrying amount of financial assets for which the terms have been renegotiated, which would otherwise be past due or impaired. Also, for those financial assets that are either past due but not impaired, or have been individually impaired, there will be no need to separately disclose details about any associated collateral or other credit enhancements held by Allconnex Water.
AASB 9 Financial Instruments (December 2010) and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	1/01/13	30/06/14	The main impacts of these standards on Allconnex Water 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, Allconnex Water 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.

Notes to the financial statements

year ended 30 June 2011

(w) New and revised accounting standards cont'd

Amendment	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending	Impact
			<p>Assuming no change in the types of transactions Allconnex Water enters into, it is not expected that any of Allconnex Water's financial assets will meet the criteria in AASB 9 to be measured at amortised cost.</p> <p>Therefore, as from the 2013-14 Financial Statements, all of Allconnex Water's financial assets will be required to be classified as "financial assets required to be measured at fair value through the Statement of Comprehensive Income" (instead of the measurement classifications presently used in notes 1(p) and 31). 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 Allconnex Water's receivables, the carrying amount is considered to be a reasonable approximation of fair value.</p>
AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129, & 1052]	1/07/13	1/07/14	<p>AASB 1053 establishes a differential reporting framework for those entities that prepare general purpose Financial Statements, consisting of two tiers of reporting requirements – Australian Accounting Standards (commonly referred to as "tier 1"), and Australian Accounting Standards – Reduced Disclosure Requirements (commonly referred to as "tier 2").</p> <p>Tier 1 requirements comprise the full range of AASB recognition, measurement, presentation and disclosure requirements that are currently applicable to reporting entities in Australia. The only difference between the tier 1 and tier 2 requirements is that tier 2 requires fewer disclosures than tier 1. AASB 2010-2 sets out the details of which disclosures in standards and interpretations are not required under tier 2 reporting.</p> <p>Pursuant to AASB 1053, public sector entities like Allconnex Water may adopt tier 2 requirements for their general purpose Financial Statements. However, AASB 1053 acknowledges the power of a regulator to require application of the tier 1 requirements. In the case of Allconnex Water, the Treasury Department is the regulator. Treasury Department has advised that it's policy decision is to require all departments to adopt tier 1 reporting requirements and in compliance with Treasury's policy which prohibits the early adoption of new or revised Accounting Standards unless Treasury approval is granted, Allconnex Water has not early adopted AASB 1053.</p>

All other Australian Accounting Standards and interpretations with future commencement dates are either not applicable to Allconnex Water's activities, or have no material impact on Allconnex Water.

Notes to the financial statements

year ended 30 June 2011

	2011 \$'000	2010 \$'000
Note 2		
Utility charges		
Fixed utility revenue	333,413	-
Consumption utility revenue	209,092	-
Other utility revenue	7,765	-
Total utility charges	550,270	-
Note 3		
Grants and other contributions		
Capital subsidies	1,060	-
Total grants and other contributions	1,060	-
Note 4		
Developer contributions		
Developer contributions	42,985	-
Contributed assets	33,578	-
Other capital revenue	50	-
Total developer contributions	76,613	-
Note 5		
Other revenues		
Recoverable works	7,032	-
Laboratory services	3,223	-
Other revenues	6,695	-
Total other revenue	16,950	-
Note 6		
Employee expenses		
Wages and salaries	55,711	280
Employer superannuation contribution	6,294	7
Workers' compensation premium	714	23
Payroll tax	2,446	-
Other personnel expenses	757	8
Total employee expenses	65,922	318

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

Number of employees:	817	5
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Notes to the financial statements

year ended 30 June 2011

	2011 \$'000	2010 \$'000
Note 7		
Materials and services		
Bulk water purchases	130,489	-
Materials, plant and equipment expenses	49,282	-
Council service level agreement costs (SLA)	32,454	-
Contracted service costs	22,011	-
Operational services expenses	14,819	-
Participating Councils' establishment costs	11,764	-
Consultant costs	7,010	-
Data management costs	2,418	-
Establishment costs	206	7,823
Interim distribution entity establishment costs	-	8,200
Other expenses from ordinary activities	20,862	-
Total material and services	291,315	16,023

Materials and services include the following expenditure incurred in establishing the Authority:

- Establishment costs relate to expenditure incurred by Allconnex Water in its establishment of \$7,823,000 in 2009-10.
- Interim distribution entity establishment costs relate to the Authority's share of expenditure incurred under the single Distributor / multiple Retailer model which preceded the final three Distributor-Retailer authorities for South East Queensland of \$8,200,000 in 2009-10.
- Participating Councils' establishment costs relate to expenditure incurred by the Participating Councils in establishing Allconnex Water of \$11,764,043 in 2010-11.

Note 8		
Depreciation and amortisation		
Plant and equipment	325	-
Computer hardware	38	-
Infrastructure	109,893	-
Buildings	141	-
Computer software	184	3
Total depreciation and amortisation	110,581	3

Notes to the financial statements

year ended 30 June 2011

Note 9 Fair value and impairment

(a) The carrying amount of assets allocated to the cash generating unit (CGU) is set out below:

	2011 \$'000	2010 \$'000
Carrying amount of assets	4,206,697	-
Recoverable amount	4,175,973	-
Impairment Loss	30,724	-

(b) Key assumptions used for impairment testing

(i) Value in use assessment

The Board adopted the following methodology, key assumptions and approach to determine the current value in use for the purpose of impairment testing:

- The Authority treats its business as a single cash generating unit (CGU).
- The Weighted Average Cost of Capital (WACC) earning rate applied to estimate cash flows reflects a commercial WACC. The methodology employed is the Queensland Competition Authority (QCA) approach with time varying parameters updated to June 2011. The rate is consistent with the normal regulatory pricing approach. The WACC used is 10.11%.
- The discount rate represents the rate of return that a new entrant would wish to earn as a reward for bearing the operational risk of the water business. The estimated discount rate has been adjusted to reflect the uncertainty due to the operational risk. A 40% premium has been added to the equity beta resulting in a discount rate of 10.20%.
- Prudent and efficient expenditure necessary to maintain or sustain the performance of the assets has been taken into account when estimating the net future cash flows.
- The estimated revenue follows a price path. The price path begins with revenue being current Allconnex Water prices indexed by CPI for ten years.
- Cash flows are estimated for a ten year period using a building block approach and a terminal value is considered at year ten using the Gordon Growth Model.

The results of cash flows from continued use indicated, that on average, the associated revenue is approximately 78% of Maximum Allowable Revenue (MAR) as determined in a regulated environment that provides a commercial rate of return. A similar result was also determined by the QCA in a recent price review that indicated revenue at approximately 77% of MAR. This indicates that based on the current value in use, the carrying value is 22% higher than the recoverable amount.

In line with AASB 136 the recoverable amount is the higher of value in use and fair value less costs to sell. Due to the variance between carrying value and value in use, a fair value assessment using income approach was undertaken to determine the recoverable amount of assets.

(ii) Fair value assessment

An independent valuation of assets was performed as at 30 June 2011 by Synergies Consulting. The valuation was completed using an income based approach to fair value, being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction. Refer to note 16.

The following assumptions have been endorsed by the Board and applied to this approach:

- The same assumptions have been applied to determine the value in use for impairment testing apart from the following assumptions which are considered to be more appropriate in the context of the income based approach:
 - The estimated revenue follows a price path. The price path begins with revenue being current Allconnex Water prices indexed by CPI for two years and then a price path to MAR. It is assumed that a commercial rate of return with full cost recovery will be achieved within ten years.
 - Operating expenditure necessary to maintain and sustain the performance of assets has been taken into account when estimating the net future cash flows. Modelling assumed that a new entrant will be able to reduce operating costs due to synergist effects including economies of scale.
 - Capital expenditure and related revenues associated with growth have been included in cash flows (these are excluded for the purposes of determining the value in use for impairment testing).

Notes to the financial statements

year ended 30 June 2011

Note 9 Fair value and impairment cont'd

The fair value assessment resulted in the carrying amount being \$30.7 million higher than the recoverable amount resulting in an impairment loss.

(c) Impact of possible changes in key impairment assumptions

In the absence of indicative future pricing direction from Participating Councils, the revenue assumptions used in the value in use assessment are based on application of the building block methodology currently being applied by the QCA under Price Monitoring of the South East Queensland Distributor-Retailers, and indexed annually by the CPI.

In June 2011, the Fairer Water Prices for SEQ Amendment Bill 2011 was passed by the Queensland Government. This legislation requires the Participating Councils to develop and publish final price paths for water and wastewater charges for residential and small customers by 30 March 2013 for the period 1 July 2013 to 30 June 2019.

As a result of this process the cash flows from the price paths to be developed may differ from the cash flows based on the price path currently included in the value in use impairment model outlined in note 9(b).

As at the date of this report, no estimate of costs has been included for any action taken by the Participating Councils to withdraw from the Authority and the impact such withdrawal may have on future business activities.

	2011 \$'000	2010 \$'000
Note 10 Finance / borrowing costs		
Interest on Participating Councils' loans	130,369	33
Interest paid or payable	1,240	1
Bank charges	178	-
Interest expense - capitalised	(2,344)	-
Total finance / borrowing costs	129,443	34

Interest rates applied to Shareholder loan senior debt is 6.67% and subordinated debt is 7.51%. Total shareholder loan interest accrued to 30 June 2011 is \$43.7 million. Interest rates for the Queensland Treasury Corporation (QTC) borrowings varied between 5.10% and 5.35% during the 2010-11 financial year (including 0.10% QTC administration fee). Interest rates for long term debt were 6.05% (including all line fees and administration charges).

Interest on Participating Councils' loans has been accounted for based on the regulated asset base (RAB) as published in the Queensland Competition Authority March 2011 report. Interest has been paid to Participating Councils in accordance with loan agreements which nominate a loan value in absence of final determination of the RAB value. Following both approval of the RAB value and finalisation of participation rights in the form of equity shareholdings by the three Participating Councils, an adjustment/payment of interest in relation to the 2010-11 year is expected to be made.

Note 11 Other expenses

Bad and doubtful debts (provision for impairment - refer to note 14)	5,526	-
Net losses on disposal of assets	5,022	-
Insurance	2,610	-
External audit fees	304	40
Internal audit fees	219	-
Land tax	2,133	-
Regulatory fees	769	-
Total other expenses	16,583	40

The external auditor of the Authority is the Auditor General of Queensland (Queensland Audit Office). No non-audit services have been provided by the Queensland Audit Office.

Notes to the financial statements

year ended 30 June 2011

	2011 \$'000	2010 \$'000
Note 12 Income tax equivalents		
Allconnex Water is exempt from Commonwealth Government income taxation but is subject to the Local Government Tax Equivalents Regime.		
(a) Income tax equivalents		
Current tax	19,891	(4,926)
Deferred tax	8,046	
Aggregate income tax expense	27,937	(4,926)
Income tax expense is attributable to:		
Profit from operations	27,937	(4,926)
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease / (increase) in deferred tax assets (note 18)	(2,542)	(4,926)
(Decrease) / increase in deferred tax liabilities (note 18)	10,588	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Operating result from continuing operations before income tax equivalents	325	(16,418)
Tax at the Australian tax rate of 30%	97	(4,926)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
- Entertainment	1	-
- Net depreciation differences relating to property, plant and equipment subject to the initial recognition exemption	19,041	-
- Impairment of property, plant and equipment subject to the initial recognition exemption	8,798	-
Income tax expense / (benefit)	27,937	(4,926)
(c) Tax losses		
As at 30 June 2010 a deferred tax asset of \$4,925,587 was recognised in relation to estimated tax losses in line with the 2010 operating results. Tax losses carried forward after completion of the 2009-10 Local Government Tax Equivalents Regime return amounted to \$7,685,207, all of which are expected to be utilised on lodgement of the 2010-11 Local Government Tax Equivalents Regime return.		

Notes to the financial statements

year ended 30 June 2011

	2011 \$'000	2010 \$'000
Note 13		
Cash and cash equivalents		
Cash on hand	3	1
(a) Reconciliation to cash at the end of year		
The above figures are reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows, as follows:		
Balance as above	3	1
Balance as per statement of cash flows	3	1
(b) Cash at bank and on hand		
Non-interest bearing	3	1
Note 14		
Trade and other receivables		
Trade receivables	26,925	-
Less: provision for impairment	(5,526)	-
	21,399	-
GST receivable	3,653	30
GST payable	(68)	-
	3,585	30
Unbilled revenue	114,430	-
Other receivables	11,418	248
Total current	125,848	248
Total other receivables	150,832	278
The recognised impairment provision for receivables is \$5.5 million for the current year (2010: Nil). The collectability of debtors is assessed periodically with an allowance being made for impairment. The provision for impairment represents 1% of utility charges which is based on industry averages and an internal review of trade receivables as at 30 June 2011. All known bad debts are written off in the same period or at 30 June 2011.		
Note 15		
Other current assets		
Prepayments	543	-
Current tax assets	2,506	-
Other	2,387	-
Total other current assets	5,436	-

Notes to the financial statements

year ended 30 June 2011

	2011 \$'000	2010 \$'000
Note 16		
Property, plant and equipment		
a) Classes of property, plant and equipment		
Land:		
At cost	107,914	-
Buildings		
Closing balance	7,036	-
Less: Accumulated depreciation	(141)	-
	6,895	-
Plant and equipment:		
Closing balance	2,997	-
Less: Accumulated depreciation	(325)	-
	2,672	-
Computer hardware:		
Closing balance	498	-
Less: Accumulated depreciation	(38)	-
	460	-
Infrastructure:		
Closing balance	4,005,028	-
Less: Accumulated depreciation	(109,893)	-
Less: Accumulated impairment losses	(30,724)	-
	3,864,411	-
Work in progress:		
At cost	193,621	-
Total property, plant and equipment	4,175,973	-

Notes to the financial statements

year ended 30 June 2011

Note 16 Property, plant and equipment cont'd

b) Reconciliation of movement in property, plant and equipment

	Land		Buildings		Plant and equipment		Computer hardware	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July								
Regulatory asset Base value of Assets transferred to Allconnex	96,211	-	7,036	-	2,255	-	-	-
Acquisitions	-	-	-	-	-	-	-	-
Donations received	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Transfers between classes	11,703	-	-	-	742	-	498	-
Depreciation	-	-	(141)	-	(325)	-	(38)	-
Impairment losses recognised in operating surplus	-	-	-	-	-	-	-	-
Carrying amount at 30 June	107,914	-	6,895	-	2,672	-	460	-

	Infrastructure		Work in progress		Total	
	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July						
Regulatory asset Base value of Assets transferred to Allconnex		3,822,869	-	183,477	-	4,111,848
Acquisitions		-	-	176,690	-	176,690
Donations received		33,578	-	-	-	33,578
Disposals		(5,022)	-	-	-	(5,022)
Transfers between classes		153,603	-	(166,546)	-	-
Depreciation		(109,893)	-	-	-	(110,397)
Impairment losses recognised in operating surplus		(30,724)	-	-	-	(30,724)
Carrying amount at 30 June		3,864,411	-	193,621	-	4,175,973

Notes to the financial statements

year ended 30 June 2011

	2011 \$'000	2010 \$'000
Note 17 Intangible assets		
a) Classes of intangible assets		
Purchased software:		
At cost	937	154
Less: Accumulated amortisation	(187)	(3)
	750	151
b) Reconciliation of movement in intangible assets		
Purchased software:		
Carrying amount at 1 July	151	-
Acquisitions	783	154
Amortisation	(184)	(3)
Carrying amount at 30 June	750	151

Notes to the financial statements

year ended 30 June 2011

	2011 \$'000	2010 \$'000
Note 18		
Deferred tax assets / (liabilities)		
a) Recognised and unrecognised deferred tax assets / (liabilities)		
Deferred tax assets comprises temporary differences attributable to:		
Tax losses	-	4,926
Accrued employee benefits	321	-
Unearned revenue	38	-
Accrued expenses	54	-
Impairment of trade receivables	1,658	-
Establishment costs	4,821	-
Property, plant and equipment	576	-
	7,468	4,926
Deferred tax liabilities comprises temporary differences attributable to:		
Other receivables	(689)	-
Contributed assets	(9,899)	-
	(10,588)	-
Net deferred tax assets / (liabilities)	(3,120)	4,926
There were no unrecognised deferred tax assets and liabilities at the reporting date.		
b) Reconciliation of movement in deferred tax assets / (liabilities)		
Deferred tax asset		
Balance at the beginning of the year	4,926	-
Current year's income tax equivalent expense / (revenue) on profit from ordinary activities	2,542	4,926
Balance at the end of the year	7,468	4,926
Deferred tax liability		
Balance at the beginning of the year	-	-
Current year's income tax equivalent expense / (revenue) on profit from ordinary activities	(10,588)	-
Balance at the end of the year	(10,588)	-
c) Expected timing of the recovery of deferred tax assets		
Within 12 months	3,439	4,926
After 12 months	4,029	-
Total deferred tax assets	7,468	4,926

Notes to the financial statements

year ended 30 June 2011

	2011 \$'000	2010 \$'000
Note 19 Trade and other payables		
Trade payables	7,894	-
Other Payables		
Accrued expenses	36,182	16,404
Water charges payable to Water Grid Manager	21,477	-
Interest owing to QTC	189	-
Interest owing to Participating Councils	43,717	-
	101,565	16,404
Total trade and other payables	109,459	16,404

Note 20 Interest bearing liabilities		
Current		
Bank overdraft	-	436
Short term QTC debt	25,852	-
	25,852	436
Non-current		
Long term Participating Council debt	1,850,331	-
Long term QTC debt	95,298	-
	1,945,629	-
Total interest bearing liabilities	1,971,481	436

No assets have been pledged as security for any liabilities.

All borrowings are in Australian dollar denominated amounts and are carried at cost, interest being expensed as it accrues. The amount of \$2,343,945 has been capitalised during the current year (2010 : \$nil). In addition, Participating Councils' loan interest payments are made quarterly in arrears at rates ranging from 6.67% for senior debt and 7.51% for subordinated debt.

The long term debt facility with the QTC amounts to \$250,000,000 of which \$154,702,007 was undrawn at 30 June 2011. The working capital facility with the QTC amounts to \$135,000,000 of which \$109,148,004 was undrawn at 30 June 2011.

An overdraft facility is in place with the Commonwealth Bank of Australia Ltd with a limit of \$4,000,000. This facility remained undrawn at 30 June 2011 apart from bank guarantees totalling \$443,957 (disclosed in note 27). The current overdraft interest rate is 10.14% for balances up to \$4,000,000 and 15.74% for balances above. (For 2010, the overdraft interest rate was 9.89% up to \$5,000,000 and 15.49% for balances above).

The fair value of borrowings as at 30 June 2011 was determined to be \$1,971,664,426. No fair value adjustment was made to the carrying amount of the borrowings during the year. Balances of outstanding loans were as follows:

	Carrying Amount \$'000	Fair Value \$'000
QTC debt	121,150	121,333
Participating Councils' debt	1,850,331	1,850,331
Total	1,971,481	1,971,664

Notes to the financial statements

year ended 30 June 2011

	2011 \$'000	2010 \$'000
Note 21		
Accrued employee benefits		
Current		
Wages and salaries accrued	160	-
Annual leave	7,450	8
Long service leave	9,469	-
Vested sick leave	1,116	-
	18,195	8
Non-current		
Long service leave	183	-
	183	-
Total accrued employee benefits	18,378	8

All leave is a current liability except for long service leave as employees have full entitlement to this leave at reporting date. Allconnex Water does not have an unconditional right to determine when leave is taken.

The current portion of long service leave is based on long service leave taken during the financial year as a percentage of the provision balance.

Note 22		
Other current liabilities		
Unearned revenue	3,506	-
Security deposits	166	-
Other payables	1,780	-
Provisions	2,694	-
Total other current liabilities	8,146	-

Notes to the financial statements

year ended 30 June 2011

	2011 \$'000	2010 \$'000
Note 23 Reconciliation of operating surplus to net cash from operating activities		
Operating surplus / (deficit)	(27,612)	(11,492)
Adjusted for:		
Contributed assets	(33,578)	-
Depreciation and amortisation	110,581	3
Impairment losses	30,724	-
Current tax assets	(2,506)	-
Provision for impairment of trade debtors	5,526	-
	110,747	3
Change in assets and liabilities		
Change in trade receivables	(23,780)	-
Change in other receivables	(6,462)	(278)
Change in deferred tax asset	4,925	(4,925)
Change in unbilled revenue	(114,431)	-
Change in other assets	-	(154)
Change in assets	(139,748)	(5,357)
Change in trade and other payables	40,584	16,403
Change in accrued employee benefits	18,933	8
Change in other current liabilities	43,907	-
Change in unearned revenue	1,808	-
Change in deferred tax liability	3,120	-
Change in liabilities	108,352	16,411
Net cash flows from operating activities	51,739	(435)

Note 24 Non-cash financing and investing activities

Assets received or donated and recognised as revenues (contributed assets) are set out in note 4.

Notes to the financial statements

year ended 30 June 2011

Note 25 Key management personnel and remuneration

Board members:

J Dempsey	Chairman (non-executive) appointed 15 April 2010
S Krieger	Board member (non-executive) appointed 15 April 2010
R Pentecost	Board member (non-executive) appointed 15 April 2010
K Spiller	Board member (non-executive) appointed 15 April 2010
A Staines	Board member (non-executive) appointed 15 April 2010

Key executive management personnel

The following details for key executive management personnel include those positions that had authority and responsibility for planning, directing and controlling the activities of the Authority during 2010-11. Further information on these positions can be found in the body of the Annual Report under the section relating to Executive management team.

Position	Responsibilities	Current Incumbents	
		Contract Classification	Date Appointed to Position
Chief Executive Officer	Accountable to the Board for the overall management and operation of the Authority as well as to ensure the successful delivery of the Authority's strategic direction.	Common law contract	18/01/10
Chief Financial Officer	Manages a broad range of financial requirements for the business including external audits, tax, treasury, financial and management accounting functions and procurement.	Common law contract	28/06/10
General Manager Human Resources	Manages human resource services, occupational health, learning and development as well as workforce planning.	Common law contract	21/06/10
Chief Information Officer	Manages the provision of information and communication technology (ICT) services.	Common law contract	7/06/10
General Counsel	Manages Board support, corporate governance, insurances, legal services, internal audit, risk and compliance, policy and systems and facilities.	Common law contract	31/05/10
General Manager Strategy and Development	Manages pricing and strategy, manages our relationship with regulators, stakeholders and internal and external communications.	Common law contract	16/08/10
Chief Operating Officer	Manages infrastructure services and responsibilities include service delivery, operations, asset planning and maintenance.	Common law contract	26/07/10
General Manager Customer Services	Manages customer contact through our contact centres, customer relations, billing, collections, key account management and metering and demand management.	Common law contract	1/07/10

Notes to the financial statements

year ended 30 June 2011

Note 25 Key management personnel and remuneration cont'd

The remuneration policy for the Authority's key executive management personnel is approved by the Allconnex Water Board and is overviewed by the Remuneration committee. All new positions have been classified and evaluated utilising an external consultant with relevant data and benchmarking from utility sector remuneration specialists Geoff Nunn & Associates. The remuneration and other terms of employment for the key executive management personnel are specified in employment contracts.

For the 2010-11 year, remuneration of the Chief Executive Officer increased by 3% as approved by the Remuneration committee.

Remuneration packages for key executive management personnel comprise the following components:

- Short term employee benefits which consists of base salary, performance payments, allowances and annual leave entitlements paid during the year or for that part of the year during which the employee occupied the specified position. Amounts disclosed equal the amount expended in the Statement of Comprehensive Income.
- Non-monetary benefits comprise Fringe Benefits Tax paid.
- Long term employee benefits include long service leave accrued.
- Post employment benefits include superannuation contributions.

Performance bonuses may be paid or payable annually depending upon satisfaction of key criteria. The amounts payable are tied to the achievement of pre-determined performance targets of the Authority. Performance payments operate at the discretion of the Allconnex Water Board and is overviewed by the Remuneration committee.

No performance payments were approved relating to the 2010-11 financial year. The performance payment disclosed in this note relates to the 2009-10 financial year as approved by the Board and the Remuneration committee in the 2010-11 financial year.

Total remuneration is calculated on a 'total cost' basis and includes the base and non-monetary benefits, long term employee benefits and post employment benefits.

		Short Term Employee Benefits \$	Non- Monetary Benefits \$	Long Term Employee Benefits \$	Post Employment Benefits \$	Total Remuneration \$
Chief Executive Officer:						
Chief Executive Officer:	K Wood	398,120	5,358	930	42,869	447,277
Executive Management:						
Chief Financial Officer ^a	M Bailey	245,924	4,365	841	22,133	273,263
General Manager Human Resources ^a	W Merrotsy	192,702	4,431	646	17,343	215,122
Chief Information Officer	N Meyers	186,950	3,478	646	16,825	207,899
General Counsel	J Nant	201,884	4,478	756	18,170	225,288
General Manager Strategy and Development ^b	A Foley	189,061	2,499	257	17,016	208,833
Chief Operating Officer ^b	P Heaton	234,550	2,010	343	21,744	258,647
General Manager Customer Services ^c	E Bray	188,073	4,875	3,327	16,927	213,202
Total Remuneration		1,837,264	31,494	7,746	173,027	2,049,531

^a Included in these figures are amounts paid in relation to 2009-10 for M Bailey and W Merrotsy of \$3,058 and \$6,270 respectively. These amounts are inclusive of superannuation and relate to days worked in 2009-10 of which were paid and accounted for in 2010-11.

^b A Foley and P Heaton were employed for part of the financial year.

^c E Bray was a transitioning employee from Redland City Council and as such her length of service determined a higher probability of achieving an entitlement for Long-Service Leave.

Notes to the financial statements

year ended 30 June 2011

Note 25 Key management personnel and remuneration cont'd

3 November 2009 – 30 June 2010:

		Short Term Employee Benefits \$	Non- Monetary Benefits \$	Long Term Employee Benefits \$	Post Employment Benefits \$	Total Remuneration \$
Chief Executive Officer:						
Chief Executive Officer	K Wood	152,853	-	415	18,342	171,610
Executive Management:						
General Counsel	J Nant	10,094	-	-	908	11,002
Chief Information Officer	N Meyers	5,464	-	-	492	5,956
Total Remuneration		168,411	-	415	19,742	188,568

The basis for performance bonuses paid or payable in the 2010-11 financial year is set out below:

Position	Date Paid	Basis for payment
Chief Executive Officer	8/09/10	A bonus was paid in respect of the 2009-10 financial year based on 90% of the annual performance bonus available, proportionate to the period employed.

The aggregate performance bonuses paid or payable to all key executive management personnel are as follows:

	2011 \$	2010 \$
Key Executive Management Personnel	16,175	-

Notes to the financial statements

year ended 30 June 2011

	2011 \$'000	2010 \$'000
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Note 26 Commitments for expenditure

(a) Non-cancellable operating lease

Commitments under operating leases at reporting date are inclusive of anticipated GST and are payable as follows:

Not later than one year	2,137	-
Later than one year and not later than five years	8,345	-
Later than five years	6,150	-
Total	16,632	-

Financial guarantees were provided in 2010-11 with respect to two office space leases disclosed in note 27.

Operating leases are entered into as a means of acquiring access to office accommodation. Lease payments are fixed, but with inflation escalation clauses on which contingent rentals are determined.

(b) Capital expenditure commitments

Material classes of capital expenditure commitments inclusive of anticipated GST, contracted for at reporting date but not recognised in the accounts are payable as follows:

	Work in Progress \$'000	Plant & Equipment \$'000
2011		
Material classes of capital expenditure commitments inclusive of anticipated GST, contracted for at reporting date but not recognised in the accounts.		
Not later than one year	27,685	3,126
Later than one year and not later than five years	93,222	-
Later than five years	-	-
Total	120,907	3,126
2010		
Total	-	-

Notes to the financial statements

year ended 30 June 2011

Note 27 Contingencies

Financial Guarantees

Financial guarantees were provided in 2010-11 with respect to two office space leases entered into. Allconnex Water has a contingent liability facility with the Commonwealth Bank of Australia Ltd of \$1,000,000 of which the following guarantees (totalling \$443,957) have been issued:

- Robina Projects Australia Pty Ltd (lease for Cnr Laver & Robina Town Centre Drive, Robina). The initial amount guaranteed was \$427,493 and this is also the outstanding balance of guaranteed debt as at 30 June 2011.
- David Look and Wendy Elizabeth Look as trustees for the Taldora Super Fund (lease for suite 108A 58-60 Manila St, Beenleigh). The initial amount guaranteed was \$16,464 and this is also the outstanding balance of guaranteed debt as at 30 June 2011.

The guarantees are not recognised on the Statement of Financial Position as the probability of default is remote. As financial guarantee contracts are measured in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. Allconnex Water has disclosed the details of the guarantee in this note, in addition to note 31 Financial Instruments for full transparency purposes.

	2011 \$'000	2010 \$'000
Note 28 Related parties transactions		
(a) Transactions with Participating Councils (excluding GST):		
Gold Coast City Council		
Interest charges	71,465	-
Service level agreement costs (SLAs)	18,598	-
Establishment costs	7,554	7,318
Tax equivalents	18,800	-
Recoverable works	1,488	-
Scientific services	(592)	-
Total	117,313	7,318
Logan City Council		
Interest charges	27,901	-
Service level agreement costs (SLAs)	9,892	-
Establishment costs	2,478	-
Tax equivalents	7,277	-
Recoverable works	156	-
	47,704	-
Redland City Council		
Interest charges	16,170	-
Service level agreement costs (SLAs)	3,964	-
Establishment costs	1,733	-
Tax equivalents	4,245	-
Recoverable works	56	-
Total	26,168	-

Transactions with Participating Councils include items that are paid or payable for the 2010-11 financial year.

Notes to the financial statements

year ended 30 June 2011

Note 28 Related parties transactions cont'd

(b) Transactions with Board members

	1 July 2010 to 30 June 2011		
	Salary and Fees	Superannuation Contribution	Total
	\$	\$	\$
J Dempsey	95,000	-	95,000
A Staines	45,000	-	45,000
R Pentecost	41,284	3,716	45,000
S Krieger	41,284	3,716	45,000
K Spiller	45,000	-	45,000
Total	267,568	7,432	275,000

	3 November 2009 to 30 June 2010		
	Salary and Fees	Superannuation Contribution	Total
	\$	\$	\$
J Dempsey	18,588	1,673	20,261
A Staines	7,500	-	7,500
R Pentecost	8,805	792	9,597
S Krieger	8,805	792	9,597
K Spiller	7,500	-	7,500
Total	51,198	3,257	54,455

(c) Other key management personnel transactions:

Key management personnel have not conducted transactions with the Authority during the period.

Note 29 Events occurring after balance date

There have been no significant events occurring after balance date apart from those disclosed in note 1(c).

Notes to the financial statements

year ended 30 June 2011

Note 30 Superannuation

Allconnex Water contributes to the *Local Government Superannuation Scheme (Qld)* (the scheme). The scheme is a Multi-employer Plan as defined in the Australian Accounting Standard AASB119 *Employee Benefits*. The Queensland Local Government Superannuation Board, the trustee of the scheme, advised that the local government superannuation scheme was a complying superannuation scheme for the purpose of the Commonwealth Superannuation Industry (Supervision) legislation. The scheme 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 AASB119. Allconnex Water has no liability to or interest in the ABF other than the payment of the statutory contributions as required by the Local Government Act. The DBF is a defined benefit plan as defined in AASB119. Allconnex Water is not able to account for the DBF as a defined benefit plan in accordance with AASB119 because the scheme is unable to account to Allconnex Water for its proportionate share of the defined benefit 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 Allconnex Water. Accordingly there is no recognition in the Financial Statements of any over or under funding of the scheme. The audited general purpose financial report of the scheme as at 30 June 2010 (the most recent available) which was not subject to any audit qualification, indicates that the assets of the scheme are sufficient to meet the vested benefits. The most recent actuarial assessment of the scheme 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 are expected to 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. With the DBF reducing, cash flows are negative. The Vested Benefits Index (VBI) should not retreat below 100%. If this occurs, benefits drawn will 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 actuary has indicated that the DBF would need reserves in the order of 8% to 10% having regard to the investment strategy adopted. Given the current position of the DBF, such reserves can essentially only eventuate from either excess investment returns over salary increases or additional employer contributions.

Allconnex Water has been advised by the Trustee of the scheme, following advice from the scheme's actuary, that additional contributions may be imposed in the future at a level necessary to protect the entitlements of DBF members. (Under amendments to the *Local Government Act 1993* passed in June 2009, the trustee of the scheme has the power to levy additional contributions on Authorities which have employees in the DBF when the actuary advises such additional contributions are payable - normally when the assets of the DBF are insufficient to meet members' benefits.)

The next actuarial investigation will be made as at 1 July 2012. The amount of superannuation contributions paid by Allconnex Water to the scheme is as follows:

	2011 \$'000	2010 \$'000
Superannuation plan		
Defined benefit plan	1,199	-
Defined contribution plan	4,512	6
Total	5,711	6

Notes to the financial statements

year ended 30 June 2011

		2011 \$'000	2010 \$'000
Note 31	Financial instruments		
	(a) Categorisation of financial instruments		
	The Authority has the following categories of financial assets and financial liabilities:		
	Category	Note	
	Financial assets		
	Cash and cash equivalents	12	3
	Trade receivables	13	21,399
	Total		21,402
	Financial liabilities		
	Trade and other payables	18	109,459
	Interest bearing liabilities	19	1,971,481
	Total		2,080,940

(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 Authority.

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

Maximum exposure to credit risk

Category			
Cash and cash equivalents	12	3	1
Trade receivables	13	26,925	-
Less: provision for impairment	13	(5,526)	-
Total		21,402	1

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

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

The method of calculating any provision impairment for risk is based on industry averages and an internal review of trade receivables as at 30 June 2011.

The recognised impairment provision for receivables is \$5.5 million for the current year (2010 : Nil).

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.

Notes to the financial statements

year ended 30 June 2011

Note 31 Financial instruments cont'd

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

	2011		2010	
	Gross \$'000	Impairment \$'000	Gross \$'000	Impairment \$'000
Receivables				
Not past due	2,668	-	-	-
Past due 31-60 days	7,307	-	-	-
Past due 61-60 days	9,235	-	-	-
More than 90 days	7,715	(5,526)	-	-
Total	26,925	(5,526)	-	-

(c) Liquidity risk

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

The following table sets out the liquidity risk of the financial liabilities held by the Authority. 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.

2011	Payable in			Total \$'000
	<1 Year \$'000	1-5 Years \$'000	>5 Years \$'000	
Financial liabilities				
Interest bearing liabilities	25,852	1,945,629	-	1,971,481
Trade and other payables	109,459	-	-	109,459
Total	135,311	1,945,629	-	2,080,940

2010	Payable in			Total \$'000
	<1 Year \$'000	1-5 Years \$'000	>5 Years \$'000	
Financial liabilities				
Interest bearing liabilities	436	-	-	436
Trade and other payables	16,404	-	-	16,404
Total	16,840	-	-	16,840

(d) Market risk

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

Notes to the financial statements

year ended 30 June 2011

Sensitivity analysis

The following sensitivity analysis depicts the outcome to the Statement of Comprehensive Income if interest rates were to change by +/-1% from the year - end rates applicable to the Authority'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 Authority's exposure to variable interest rates on its borrowings from QTC.

2011			-1%		1%	
	Net carrying amounts	Profit	Equity	Profit	Equity	
	\$'000	\$'000	\$'000	\$'000	\$'000	
QTC borrowings - Loans	121,150	1,212	1,212	(1,212)	(1,212)	
Long term Participating Council debt	1,850,331	18,503	18,503	(18,503)	(18,503)	
Overall effect on profit and equity	1,971,481	19,715	19,715	(19,715)	(19,715)	

2010			-1%		1%	
	Net carrying amounts	Profit	Equity	Profit	Equity	
	\$'000	\$'000	\$'000	\$'000	\$'000	
Bank overdraft	436	4	4	(4)	(4)	
Overall effect on profit and equity	436	4	4	(4)	(4)	

(e) Fair value

The carrying amounts and fair values of interest bearing liabilities at balance date are:

2011	\$'000	\$'000
	Carrying amount	Fair value
QTC borrowings - Loans	121,150	121,333
Long term Participating Council debt	1,850,331	1,850,331
Total	1,971,481	1,971,664

2010	Carrying amount	Fair value
	Bank overdraft	436
Total	436	436

None of these borrowings are readily traded on organised markets in standardised form. Fair value is inclusive of costs which would be incurred on settlement. The QTC borrowings include both working capital of \$25.9 million and long term debt of \$95.3 million. The fair value of the long term facility has been provided by the QTC.

Notes to the financial statements

year ended 30 June 2011

Management Certificate of Southern SEQ Distributer-Retailer Authority (Allconnex Water) for the year ended 30 June 2011.

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 respects; 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 Allconnex Water for the financial year ended 30 June 2011 and of the financial position of the Authority at the end of that year.

John Dempsey
Chairman

Kim Wood
Chief Executive Officer

Melinda Bailey
Chief Financial Officer



Signature



Signature



Signature

Date
31st August 2011

Date
31st August 2011

Date
31st August 2011

INDEPENDENT AUDITOR'S REPORT

To the Board of Southern SEQ Distributor-Retailer Authority

Report on the Financial Report

I have audited the accompanying financial report of the Southern SEQ Distributor-Retailer Authority, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and certificates given by the Chairperson, Chief Executive Officer and Chief Finance Officer.

The Board's Responsibility for the Financial Report

The Board is responsible for the preparation of the financial report that gives a true and fair view 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. The Board's responsibility also includes such internal control as the Board determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance about 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 the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial report including any mandatory financial reporting requirements 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.

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;
- (b) in my opinion –
 - (i) the prescribed requirements in relation to the establishment and keeping of accounts have been complied with in all material respects; and
 - (ii) the financial report presents a true and fair view, in accordance with the prescribed accounting standards, of the transactions of the Southern SEQ Distributor-Retailer Authority for the financial year 1 July 2010 to 30 June 2011 and of the financial position as at the end of that year.

Emphasis of Matter – Status of the Southern SEQ Distributor-Retailer as a going concern and Significant Uncertainty Regarding Water Pricing post 30 June 2013

Without modifying my opinion, attention is drawn to the following matters.

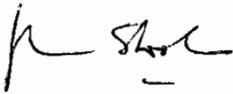
As disclosed in Note 1(c) a significant uncertainty exists as to the Authority's status as a going concern as a result of decisions made by each of the participating councils indicating an intention to withdraw from the Authority. Any actioning of this intention, however, is subject to necessary amendments to the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009*, being passed by the Parliament. In the absence of such amending legislation, the financial statements have been prepared on a going concern basis.

As disclosed in Note 9, the Southern SEQ Distributor-Retailer Authority has determined the fair value of its land, buildings and infrastructure assets using an income approach based on discounted cash flows. The Authority has also performed an impairment assessment of its assets based on current pricing arrangements for water Distributor-Retailers in South East Queensland. As the price paths for retail water and sewerage charges post 30 June 2013 have not yet been determined, significant uncertainty exists regarding the assumptions used for valuation and impairment modelling and the resulting impact, if any, on the reported asset balances. Further, as the assumptions used by the Authority for valuation and impairment modelling are based on the continuity of normal business activities, these assumptions and the reported values of these assets may also be impacted by any future action taken by the participating councils to withdraw from the Authority.

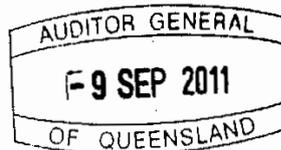
Other Matters - Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of the Southern SEQ Distributor-Retailer Authority for the year ended 30 June 2011. Where the financial report is included on the Southern SEQ Distributor-Retailer Authority's website the Board is responsible for the integrity of the Southern SEQ Distributor-Retailer Authority's website and I have not been engaged to report on the integrity of the Southern SEQ Distributor-Retailer Authority's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or otherwise included with the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

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



G G POOLE FCPA
Auditor-General of Queensland



Queensland Audit Office
Brisbane

Other reporting requirements

As part of the Annual Report Requirements for *Queensland Government Agencies*, we are required to disclose the following information;

Consultancy expenditure	2011
Category	Expenditure
Consultants - Management	\$ 892,537
Consultants - Planning and Environment	\$ 122,639
Consultants - Information Technology	\$ 1,688,249
Consultants - Engineering	\$ 1,707,998
Consultants - Human Resources	\$ 232,413
Consultants - Operational	\$ 2,356,488
Total expenditure	\$ 6,990,324

Overseas travel

Name of officer/member and position	Destination	Reason for travel	Expenditure
Karen O'Brien (Commercial Manager Strategic Projects)	China, Germany, USA	Education	\$ 4,543

- Separation Rate for year ending 30 June 2011 – 7.66%
- Retention Rate for year ending 30 June 2011 – 92.34%

Glossary and abbreviations

ADWG: Australian Drinking Water Guidelines (2004) published by the National Health and Medical Research Council (NHMRC)

AS4801: an Australian standard for occupational health and safety management systems

BBB+ credit rating: a credit rating which assesses the credit worthiness of a corporation

Biosolids: organic solid product resulting from processing the waste-activated sludge produced by the wastewater treatment process

BSI 180001: an assessment specification for occupational health and safety management systems

Carbon abatement management plan: a plan to measure and mitigate greenhouse gas emissions

CEO: Chief Executive Officer

Chlorination: the application of chlorine to drinking water, wastewater or industrial waste to disinfect or oxidise undesirable compounds

CPI (Consumer Price Index): a measure of change in prices paid by households for goods and services

DERM: Department of Environment and Resource Management

Dewatering: the processing of removing water from solid material or soil by wet classification, centrifugation, filtration, or similar solid-liquid separation processes

EBITDA: earnings before interest, taxes, depreciation and amortisation

EBIT: earnings before interest and taxes

E. coli: a bacterium commonly found in warm-blooded organisms

eDRMS: electronic document and records management system

Full-time equivalent (FTE): is calculated by the numbers of hours worked in a period divided by the award full-time hours prescribed by the award/industrial instrument for the person's position.

Funds from operations (FFO interest) measures ability for funds from operations to cover interest expense

GST: Goods and Services Tax

HACCP: Hazard Analysis and Critical Control Point System

Hydraulic capacity: a measure of the volume and flow of water within a treatment plant

ICT: information and communication technology

IVR: interactive voice response

Kilolitres (KL): one thousand litres

KPI: Key performance indicators

Megalitre (ML): one million litres, approximately the size of a one-metre-deep Olympic-sized swimming pool

Participating Councils: Gold Coast City Council, Logan City Council and Redland City Council

Potable water supplies: drinkable water supplies, usually treated freshwater that meets Australian Drinking Water Guidelines (ADWG)

PET: Prudency and efficiency test

Publicly Available Specification (PAS 55): published by the British Standards Institution (BSI), this specification gives guidance and a 28-point requirement checklist of good practices in physical asset management

QANTAS: Queensland and Northern Territory Aerial Services

QTC: Queensland Treasury Corporation

Recycled water: wastewater that has been highly treated to comply with standards nominated within the Queensland Water Recycling Guidelines (Class A+ is for urban use in toilets, laundry and outdoor areas)

Regulatory Asset Base (RAB): is the value of the asset base on which pricing / revenue is determined by the price regulator (Queensland Competition Authority)

Retention Rate: is the percentage of permanent employees still employed at the end of the 12 month period

RWMP: recycled water management plan

Separation Rate: is calculated by dividing the number of permanent employees who separated during the last 12 months by the number of permanent employees in the organisation

SEQ Water Reform: South-East Queensland Water Reform, state-driven reforms that restructured the water industry in South-East Queensland — starting in 2007 and culminating in the creation of the local government-owned Allconnex Water and two other retail distribution entities (Queensland Urban Utilities and Unitywater) in 2010

Sludge: the solids that are removed from wastewater by primary and secondary treatment

South-East Queensland Water (Distribution and Retail Restructuring) Act 2009: Queensland Government legislation specific to the water industry

Toward Q2: Tomorrow's Queensland, the Queensland Government's priority document

Wastewater: the dirty water that goes down the drains of homes, offices, shops, factories and other premises and discharged into the wastewater system

Wastewater gravity pipeline: a pipeline owned and controlled by Allconnex Water through which wastewater flows under the influence of gravity from the property connection to the downstream discharge point, being a dump station or wastewater treatment plant

Water connections: a pipe that supplies water from the water main (either potable or recycled water) to the consumer. The service pipe is under the control of Allconnex Water and terminates at the water meter or, in the case of fire services, the isolating valve of the fire system

Water Grid Manager: oversees the water supply and transport infrastructure that supplies water to South-East Queensland

Water mains: a pipeline owned and operated by Allconnex Water, built to convey potable water supplied by Allconnex Water

Water Netserv Plan: a plan required under the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* to be developed by 1 July 2013

Workforce framework: the *South-East Queensland Distribution and Retail Reform Workforce Framework 2009* protects employees' employment conditions of employment through a new industrial agreement

