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Service Delivery Division

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Local Government Bulletin

Financial Accounting Technical Paper – Land Under Roads

Purpose

Please find attached a financial accounting technical paper concerning Land Under Roads.

The paper provides guidance on the accounting and reporting of land under roads by councils in accordance with AASB 1051: *Land Under Roads* and the *Local Government Finance Standard 2005*.

Background

In December 2007, the Australian Accounting Standards Board issued AASB 1051: *Land Under Roads* (the Standard). The Standard must be applied by local governments and government departments in financial reporting periods beginning on or after 1 July 2008 however it does not require the recognition of land under roads acquired before that date. Instead, each local government and government department must elect whether to recognise such land.

Land under roads acquired after 1 July 2008 (or the beginning of the relevant financial period) must be recognised in accordance with AASB 116: *Property, Plant and Equipment*.

Section 46 of the *Local Government Finance Standard 2005* states that a road not owned by a local government does not have a value for a local government's financial statements.

The attached technical paper discusses the issues that arise from the application of the Standard, perceived conflicts with the *Local Government Finance Standard*

2005 and, in particular, whether local governments control land dedicated as a road and opened for public use under the *Land Act 1994* or the *Land Title Act 1994*.

The Department of Infrastructure and Planning has developed this technical paper which has been reviewed and endorsed by the Queensland Audit Office. The development of the paper included consultation with local governments, Queensland Treasury, Department of Transport and Main Roads and the Department of the Environment and Resource Management.

Recommendation

The Department recommends that each local government conduct a thorough review of all land under roads in the council area to identify the land that is controlled by the local government in accordance with the advice in the attached paper i.e. leasehold and freehold land where the local government holds title or tenure.

Continuing local governments, which were not affected by the amalgamation process, will then need to elect, with effect from 1 July 2008, whether to recognise, continue to recognise/not recognise or discontinue recognition of such land, where it was acquired prior to that date, in accordance with the relevant Australian Accounting Standards. An example of such an election is contained in Appendix B to the technical paper.

Any such land that is acquired by a local government on or after 1 July 2008 (15 March 2008 for new local governments) must be recognised by that local government in accordance with AASB 116: *Property, Plant & Equipment*.

Further information

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

All recent Local Government Bulletins issued by the Department are available on our website at www.lgp.qld.gov.au/lgbulletins. You can also subscribe free of charge on the Department's website to receive Bulletins by email.

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Financial Accounting Technical Paper – Land Under Roads

Date: 7 May 2009

Title of Paper: Recognition of land under roads by local governments in Queensland

There are a number of issues that arise around the recognition, valuation and disclosure of land under roads (LUR) in Queensland following the release of AASB 1051: *Land Under Roads*.

This document discusses many of those issues and provides guidance to councils in this respect. The document does not discuss valuation methods. This paper has been reviewed and endorsed by the Queensland Audit Office.

At a broad level the major impacts are that local government in Queensland:

1. does not control the LUR where the land has been dedicated as a road and opened for public use under the *Land Act 1994* or the *Land Title Act 1994* (i.e. land under public roads). Therefore this land is not to be recognised by local governments under AASB 1051: *Land Under Roads* or AASB 116: *Property, Plant and Equipment*;
2. must continue to recognise roads (as opposed to the *land under the roads*), where the local government controls the roads e.g. local roads. The roads need to be accounted for and disclosed in accordance with relevant Australian Accounting Standards and the *Local Government Finance Standard 2005*; and
3. should include additional note disclosure relating to LUR in financial statements for the period ending 30 June 2009 (refer Appendix A).

In addition, continuing local governments, that were not affected by the amalgamation process, must identify other land under roads (ie. where the land has NOT been dedicated as a road and opened for public use under the *Land Act 1994* or the *Land Title Act 1994*) that were acquired prior to 1 July 2008 and, where the local government controls that land, elect to continue to recognise, recognise or not recognise that land in accordance with AASB 1051: *Land Under Roads* and AASB 116 *Property, Plant and Equipment* (refer Appendix B). Examples of this land would be where the local government holds freehold title or lease tenure and there is a road on the land.

Where a local government acquires such land after 1 July 2008 (or 15 March 2008 for new local governments) the land must be recognised in accordance with AASB 116.

1. Background

Accounting Standard development and the *Local Government Finance Standard 2005*

LUR recognition has been debated extensively between roads authorities, treasuries, states and other interested parties including the Australian Accounting Standards Board.

While the former Australian Accounting Standard (AAS) 27, AAS 29 and AAS 31 made reference to LUR and *AASB 1045 Land Under Roads: Amendments to AAS 27A, AAS 29A and AAS 31A* was issued, most Australian jurisdictions (including Queensland) elected to avail themselves of the exemption in recognising LUR.

Section 46 of the *Local Government Finance Standard 2005* was introduced to prevent inconsistency in the application of the former Australian Accounting Standards by Queensland local governments. That section states that roads that are not owned by a LG do not have a value for the local government's financial statements. The meaning of road is found in the *Land Act 1994* and basically means land that has been dedicated as a road and opened for public use under that Act. The section is currently being reviewed, as part of the Local Government Act review, to ensure consistency with the Australian Accounting Standard requirements that now apply.

AASB 1051 was issued in December 2007, and applies to annual reporting periods beginning on or after 1 July 2008. The reporting requirements of the standard are more fully discussed below.

LUR Asset

In most instances, land dedicated as a public road will arise through land subdivision and occurs when a plan of subdivision is registered in the Titles Office, but it may arise from unallocated State land or land acquired by resumption or purchase. Land, for road purposes, is acquired by the local government or Department of Transport and Main Roads (DTMR). Historically, for local governments and DTMR once road construction commenced, the cost of the land was written off and only the formation recorded by the relevant agency. The consequence is that, unless there was a delay between the acquisition and commencement of construction, LUR was not recognised by Queensland public sector entities including local governments.

2. Requirement to recognise the LUR asset

The reporting requirements under AASB 1051:

- allow a local government to elect to start or continue to recognise; or not recognise nor continue to recognise land under roads acquired before 1 July 2008 (continuing local governments) or the commencement of the period when AASB 1051 is first applied (for new local governments arising from the amalgamation process this will be 15 March 2008).
- require adjustments arising from recognition to be made against accumulated surpluses
- require a local government to disclose its policy for land under roads acquired before 1 July 2008/commencement of the relevant period in which AASB 1051 was first applied.
- allow a local government to elect to adopt cost or fair value measurement for assets acquired pre 1 July/commencement of the relevant period.

- clarify the principles in other accounting standards apply and that land under roads acquired on or after 1 July 2008/15 March 2008 is reported in terms of AASB 116 *Property, Plant and Equipment*.

Therefore, an election can be made by continuing councils to recognise LUR acquired before 1 July 2008 but all LUR acquired on or after 1 July/15 March 2008 needs to be recognised at either cost or fair value.

On the surface this may conflict with S46 of the LGFS.

a. Factors influencing the recognition of LUR

Ownership and Title

In Queensland, land dedicated as a road is generally not subject to separate title. Exceptions are easements on private land, some motorways and busways which have a freehold or a leasehold element. The treatment of roads subject to title or lease is dealt with separately below.

Where land is acquired with a view to designating it as a road, it is held in the asset register of the acquiring local government or DTMR until removal of title on dedication as a road. If it is to be a freehold road it will remain in the asset register of the local government or DTMR.

Accounting Policy – Recognition of Assets

The AASB *Framework for the Preparation and Presentation of Financial Statements* and Australian Accounting Standards provide the basis for the recognition of the LUR asset. The framework defines an asset as “A resource **controlled** [highlight added] *by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.*” The determining factor in recognising LUR for accounting purposes is control of the asset.

b. Control

Past transaction giving rise to control

Land for use as a road is acquired or resumed from third parties, or reallocated from previously unallocated State land. In the majority of cases, title is removed and the land is dedicated as a road by Department of the Environment and Resource Management (DERM). The purchase of land may be conducted by a local government or DTMR, but the dedication of the road by DERM is the determining transaction.

Control derived from Legislation

The legislative framework in Queensland distinguishes control of LUR and the management and operation of roads. The *Land Act 1994* (Land Act), which is administered by DERM, governs the dedication and closure of roads. It also deals with the land component of a road and specifically states that: “*The land in all roads dedicated and opened for public use under the following Acts vests in, or remains vested in, the State -*”(section 95).

The *Local Government Act 1993* and the *Transport Infrastructure Act 1994* (TI Act) legislate road construction and management. Local governments and DTMR respectively have legislative heads of power under these Acts.

The legislation divides the responsibility for LUR and the operational responsibility for construction and maintenance of the road between DERM and DTMR respectively.

Control as a result of Management of the Road

Management responsibility for the formed road differs between State roads and local roads. The responsibility for the maintenance and management of State controlled roads rests with DTMR, whilst local road maintenance and management is the responsibility of local governments. On roads in Queensland, State roads and local roads coexist and intersect - as do management responsibilities.

Various users have statutory powers to occupy and manage areas of road. A single area of rural road could contain separate State and local road formations, a gas pipeline, a water pipeline, an electricity line and a telecommunication cable. Some rural roads are used by travelling stock under permit, to host bee hives, grain cropping or advertising signs under licence, or any combination of the above. Sections of a road may be used other than by vehicular traffic and the suppliers of the utilities or services have the responsibility for managing their section of road.

Therefore no one user can be said to have control of LUR, based on their management of the road.

Control as a consequence of future economic benefit

The future economic benefit of an asset is the potential to contribute directly, or indirectly, to the flow of cash or cash equivalents to the agency. Cash flows can be revenue of future sales of the asset. DERM controls both these aspects of future economic benefit.

DERM enters into lease or right of use agreements with the various users/managers of the roads as detailed above. DERM derives, on behalf of the State, the economic benefit from these agreements.

The Land Act assigns the administrative responsibility of designating private roads, closing roads and disposing of the land following road closure to DERM. The State Valuation Services determines the sale price based on the market value of land in the area. The proceeds from the sale of roads are required to be remitted by DERM to the Consolidated Fund. DERM, on behalf of the State, obtains the future economic benefit from the ultimate disposal of the land, once a road is closed.

Conclusion

It is reasonable to argue that, DERM controls, on behalf of the State the LUR assets for accounting purposes, where the land has been dedicated as a road for public use. DERM's control is based on a past event giving rise to control, receipt of future economic benefits as well as legislative provisions. Local governments do not control these LUR assets. This is consistent with s 46 of the LGFS since this land constitutes the roads that are not owned by local governments to which this section refers.

c. LUR where road is subject to lease or title

Within Queensland there are roads that are subject to title or tenure (usually some form of lease). These include tolled motorways e.g. the Gateway Motorway and busways found around Brisbane.

Using the guidance in the framework,

- the agency controls the asset as a result of the title or lease

- the past transaction giving rise to control was the entering into the purchase or lease agreement
- the economic benefits are the tolls that flow to the agency, or the provision of services in accordance with the agencies' objectives as well as any future sale of the road

Control of these roads is not derived from legislation but from the existence of title or lease agreement held in the name of agency or its subsidiary. Where a local government has lease or title to the land under those roads the local government will need to recognise the land under the road in accordance with the requirements of AASB 116 Property Plant and Equipment and AASB 1051: Land Under Roads. Once again this is consistent with the requirements of S46 of the LGFS.

3. Continued recognition of road assets by local governments: the separation of Formation and Land

Within property law it is established practice to separate the bare dominion (land content) from the usufruct (use of land). The most notable example is the separate ownership of the freehold and leasehold improvements. The lessor owns and records the value of the land and the lessee records the value of the improvements to the land.

Community purpose reserve land is owned by the State. The land is considered under the trusteeship of local government/aboriginal and Torres Strait Islander communities or community groups, who control any infrastructure assets erected on the land. DERM recognise the land in community purpose reserves as an administered asset held on behalf of the State. Examples of community purpose reserve land and associated infrastructure are parks such as the Anzac Park, sports and recreation grounds, showgrounds, cemeteries, public boat ramps/jetties, public toilets, public halls, roads, infrastructure on aboriginal and Torres Strait Islander community land, etc.

Certain property on private land can be controlled by an entity/ person other than the owner of the land. For example, advertising signs above buildings, mobile phone masts, aircraft warning masts and easements on private land for roadways and utilities. Accordingly, there is ample precedent to separate the ownership of the LUR and the infrastructure on that land and local governments should continue to recognise measure and disclose the road assets that are under the control of the local government in accordance with Australian Accounting Standard requirements.

4. Disclosure of Land Under Roads

In accordance with the requirement of AASB 1051: Land Under Roads, each local government must disclose its policy for recognising land under roads acquired before 1 July 2008 in the financial report. An example of such disclosure is included in Appendix A.

APPENDIX A: EXAMPLE LAND UNDER ROADS DISCLOSURE NOTE (delete information where not applicable)

Land Under Roads (continuing councils)

Land under roads acquired both before and after 30 June 2008 is recognised as a non current asset where the council holds title or a financial lease over the asset.

Land under the road network within the council area that has been dedicated and opened for public use under the Land Act 1994 or the Land Title Act 1994 is not controlled by council but is controlled by the State pursuant to the relevant legislation. Therefore this land is not recognised in these financial statements.

Land Under Roads (new councils arising from the amalgamation process)

The Regional Council does not control any land under roads. All land under the road network within the council area has been dedicated and opened for public use under the Land Act 1994 or the Land Title Act 1994 and is not controlled by council but is controlled by the State pursuant to the relevant legislation. Therefore this land is not recognised in these financial statements.

APPENDIX B: EXAMPLE LAND UNDER ROADS ELECTION (delete information where not applicable)

Council has conducted a thorough audit of land under roads in the council area and identified those that are controlled by Council. Land that has been dedicated as a road and opened for public use under the *Land Act 1994* or the *Land Title Act 1994* is not controlled by Council.

Council hereby elects to continue to recognise/recognise for the first time/discontinue recognition of the following land under roads, which is controlled by Council but was acquired prior to 1 July 2008. Council elects to recognise the land at cost / fair value:

Title Reference	Description	1 July 2008
		\$