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**Service Delivery Division**

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## **Local Government Bulletin**

### **Tropical Council's Financial Report for new Regional Councils 2008-09**

#### ***Purpose***

The purpose of this bulletin is to advise local governments:

- the final version of the Tropical Council Reference Manual for new Regional Councils commencing on 15 March 2008 has been issued; and
- about important disclosures in the 2008-09 Statements.

#### ***Background***

The Tropical Council Reference Manual for the preparation of annual financial statements (Tropical) is an illustrative set of local government financial statements. Tropical is prepared each year by the Department of Infrastructure and Planning to assist local governments based in Queensland to prepare annual financial statements that comply with statutory requirements.

The Tropical Council Reference Manual for new Councils is illustrative only and there is no obligation for Queensland local governments to prepare financial statements in the Tropical format.

This year the Department has released three sets of Tropical:

- one for Aboriginal Shire Councils governed by the *Local Government (Community Government Areas) Act 2004*;
- one for new councils arising from the local government reform process (covering the period 15 March 2008 to 30 June 2009); and

- another set for continuing councils, that were unaffected by the local government reform process and have a financial year ending 30 June 2009.

The final version of the Tropical Council Reference Manual for new Regional Councils commencing on 15 March 2008 has been issued. Previous Bulletins have advised that Tropical for Aboriginal Shire Councils and Tropical for continuing Councils have also been issued.

In the case of the newly created Torres Strait Island Regional Council (TSIRC) and Northern Peninsula Area Regional Council (NPARC), legislation requires their financial statements be prepared in a form approved under *section 35 of the Local Government Reform Implementation Regulation 2008* and *section 37 of the Local Government (Community Government Areas) Act 2004* (the Act). The approved form of the Statements is expected to be available in the week commencing 1 July 2009 at:

<http://www.localgovernment.qld.gov.au/LocalGovernment/Indigenoucouncils/AnnualFinancialStatements.aspx>.

Tropical for new Regional Councils is based on the form that will be approved under the Act.

### ***How to access Tropical***

Tropical for new Regional Councils is available on the Department's website at the following address:

<http://www.localgovernment.qld.gov.au/Resources/LocalGovernmentpublications.aspx>

### ***Main issues***

The attachment details the main issues in Tropical Council's Financial Report for new Regional Councils 2008-09.

### ***Further information***

Tropical for new Regional Councils has taken into consideration information provided in the Local Government Reform Financial Accounting Technical Paper issued by the former Department of local Government, Sport and Recreation on 13 February 2008. This is available at:

[http://www.localgovernment.qld.gov.au/Portals/0/docs/local\\_govt/stronger-councils/financial-accounting-tech-paper.pdf](http://www.localgovernment.qld.gov.au/Portals/0/docs/local_govt/stronger-councils/financial-accounting-tech-paper.pdf)

Councils that employ professionally qualified accountants will have ready access to Australian Accounting Standards. Anyone may access the Australian Accounting Standards free of charge on the website of the Australian Accounting Standards Board at [www.aasb.com.au](http://www.aasb.com.au).

The CPA Australia information on the AeIFRS may be found on the CPA Australia website at [www.cpaaustralia.com.au](http://www.cpaaustralia.com.au). The Queensland Audit Office's publications may be found on the QAO's website at [www.qao.qld.gov.au](http://www.qao.qld.gov.au). The Queensland Treasury website also contains useful information [www.treasury.qld.gov.au](http://www.treasury.qld.gov.au).

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, [sue.phillips@dip.qld.gov.au](mailto:sue.phillips@dip.qld.gov.au). The Department's postal address is PO Box 15031, City East, Queensland 4002.

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**Service Delivery**  
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## Attachment to LG Bulletin

The following details the more important issues for new Regional Councils when preparing financial statements for 2008-09.

### **1. AASB 1051 Land Under Roads**

Guidance on accounting for land under roads has recently been provided in Bulletin 06/09. Councils should review this Bulletin to ensure appropriate disclosures are made in the 2008/09 financial statements. It is located at <http://www.localgovernment.qld.gov.au/Resources/LocalGovernmentpublications/LocalGovernmentBulletins.aspx>

### **2. Assets and liabilities transferred from abolished Councils**

The former Department of Local Government, Sport and Recreation issued a Technical Paper on 13 February 2008 advising that the respective assets and liabilities of abolished local governments would be transferred to newly created Councils, with the net value (i.e. net assets) being deemed as a revenue item in the books of the new Council. This means the net assets transferred to a newly formed Council will equal the amounts at which they were measured in the abolished Council's accounts as at 14 March 2008.

The Technical Paper is available at:

[http://www.localgovernment.qld.gov.au/Portals/0/docs/local\\_govt/stronger-councils/financial-accounting-tech-paper.pdf](http://www.localgovernment.qld.gov.au/Portals/0/docs/local_govt/stronger-councils/financial-accounting-tech-paper.pdf)

In accordance with the Technical Paper, net assets should be brought in through the Income Statement of new Regional Councils. This item cannot be disclosed separately at the bottom of the Income Statement as this would imply it is an "extraordinary item". Reporting items as extraordinary is specifically prohibited by AASB 101 para 87. Also, paragraphs 74 and 75 of the AASB Framework state that all gains should be reported as part of income. Neither AAS 27, AASB 3 nor AASB 1004 provide local governments undergoing restructures any relief in respect of these presentation obligations, therefore, the gain from assets and liabilities transferred from abolished Councils should be reported as part of Income.

### **3. Adjustments due to accounting policy alignment**

Having taken up opening balances as per item 2 above, new regional Councils are required under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to select and apply accounting policies consistently. New Regional Councils should adopt consistent accounting policies from their commencement date of 15 March 2008.

Where there are material adjustments to the measurement of opening assets and liabilities as a consequence of aligning accounting policies of abolished Councils, these should be accounted for through the Income Statement. Tropical provides example disclosures.

The types of policy alignment issues required will need to be considered in the context of each Council's operations and should take into account materiality. Possible examples include but are not limited to:

- Asset recognition thresholds - A new Council will need to adopt non-current asset policies which align asset accounting methodologies of amalgamated Councils and are in accordance with all prescribed requirements (e.g. Local Government Finance Standard). For example, a new asset recognition threshold could be adopted which, as a consequence, requires assets whose gross value falls below the threshold to be derecognised. This would result in a reduction in the carrying value of the Council's Non-Current Assets and an offsetting adjustment through the Income Statement.
- Liabilities for employee entitlements (EE) and Provisions for restoration -There may be material differences in the assumptions and methodologies used in the EE and provisions for restoration models of abolished Councils e.g. discount rates, inflation rates, long service leave probability assumptions.

Under AASB 108 all accounting estimates should be based on consistent assumptions. Where inconsistent assumptions existed in amalgamated councils these should be brought into line from 15 March 2008. For example, if new Regional Councils elect not to recalculate their employee entitlement liabilities from 15 March 2008 and instead only recalculate these liabilities using consistent assumptions at 30 June 2009 then the "Adjustments due to accounting policy alignment" booked at 15 March 2008 will not be an accurate reflection of the amalgamation process. Queensland Audit Office has advised this approach by Regional Councils could result in a modified audit opinion (where material).

#### **4. Water reform in South East Queensland**

Additional disclosure has been included relating to the transfer of assets to the new water entities as part of the water reform in South East Queensland. This disclosure is consistent with that detailed in the Financial Accounting Technical Paper released by the Department last year and Bulletin 07/09 released in June 2009.

The wording of this note regarding the distribution and retail components of the model will depend on the final structure of the water reform entities and will therefore need to be reviewed closer to the date of finalising the Statements.

#### **5. Categorisation of employee benefits in the Balance Sheet**

Tropical provides guidance on whether employee benefit liabilities should be categorised as Payables or provisions.