Disestablishment of Unitywater
Preliminary financial assessment
Moreton Bay Regional Council

8 June 2011
Ernst & Young ("Consultant") was engaged on the instructions of Moreton Bay Regional Council ("Client") to provide assistance with the financial assessment of the potential transfer of Moreton Bay Regional Council's investment in Unitywater back to Moreton Bay Regional Council ("Project"), in accordance with the engagement agreement dated 14th April 2011 including the General Terms and Conditions ("the Engagement Agreement").

The results of the Consultant's work, including the assumptions and qualifications made in preparing the report, are set out in the Consultant's report dated 8th June 2011 ("Report"). You should read the Report in its entirety including the Engagement Agreement, disclaimers and attachments. A reference to the Report includes any part of the Report. No further work has been undertaken by the Consultant since the date of the Report to update it.

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The Consultant notes that the Report has been redacted at the request of the Client.
8 June 2011

John Rauber
Chief Executive Officer
Moreton Bay Regional Council
Pine Rivers District Office
P O Box 5070

Private and confidential

Potential transfer back to Moreton Bay Regional Council of its investment in Unitywater

In accordance with our engagement dated 14 April 2011 we have prepared this report in relation to the potential transfer back to Moreton Bay Regional Council of its investment in Unitywater (the “Project”).

Purpose of our report and restrictions on its use

This report was prepared on your instructions solely for the purpose of the Project and should not be relied upon for any other purpose. Because others may seek to use it for different purposes, this report should not be quoted, referred to or shown to any other parties unless so required by court order or a regulatory authority, without our prior consent in writing. In carrying out our work and preparing our report, we have worked solely on the instructions of Moreton Bay Regional Council and for Moreton Bay Regional Council's purposes.

Our report may not have considered issues relevant to any third parties. Any use such third parties may choose to make of our report is entirely at their own risk and we shall have no responsibility whatsoever in relation to any such use. This report should not be provided to any third parties without our prior approval.

We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of this report, the provision of this report to the other party or reliance upon this report by the other party.

Liability is limited by a scheme approved under professional standards legislation.

Scope of our work

Our work in connection with this assignment is of a different nature to that of an audit. Our report to you is based on inquiries of, and discussions with, management. We have not sought to verify the accuracy of the data or the information and explanations provided by management.

Our work has been limited in scope and time and we stress that a more detailed review may reveal material issues that this review has not.

If you would like to clarify any aspect of this review or discuss other related matters then please do not hesitate to contact us.

Yours faithfully

Mark White
Executive Director
Ernst & Young
Glossary

2009 Restructuring Act  The South-East Queensland Water (Distribution and Retail Restructuring) Act 2009 QLD
ATO  Australian Tax Office
bps  Basis points
CPI  Consumer Price Index
DR  Distributor-Retailer
GST  Goods and services tax
ICT  Information and Communications Technology
k  Thousand
m  Million
MBRC  Moreton Bay Regional Council
MP  Member of Parliament
QCA  Queensland Competition Authority
QTC  Queensland Treasury Corporation
SCRC  Sunshine Coast Regional Council
The Participating Councils  MBRC and SCRC
Unitywater  Northern SEQ Distribution-Retailer Authority
Unitywater Forecast Model  The Microsoft Excel financial forecast model provided by Unitywater
Workforce Framework  SEQ Distribution and Retail Water Reform Workforce Framework 2009
1. Executive Summary

This report summarises the key costs and issues that MBRC must consider when deciding whether to withdraw from Unitywater. These costs are indicative estimates only, and are based on a preliminary assessment of information provided by both MBRC and Unitywater. No detailed analysis of the costs and potential benefits of disestablishment has been performed.

MBRC should seek appropriate assurance from the Queensland Government regarding issues such as the State Government Guarantee of debt, exemption from transaction taxes, and any legislative framework to be put in place regarding the treatment of employees. MBRC should also seek to reach agreement with SCRC in relation to disestablishment costs and consequential loss. While these matters remain outstanding it would appear that detailed analysis of all potential costs and benefits to MBRC is not warranted. Should MBRC be able to obtain these assurances and agreements, it should undertake a more rigorous evaluation of its options for the structure of its water and wastewater distribution business.
1.1 Quantifiable disestablishment costs

The table below summarises an indicative range of the costs that MBRC might incur if it withdrew from Unitywater. These costs should be considered in conjunction with the related text in the report sections indicated. This table does not constitute a complete list of all costs of disestablishment that MBRC might be required to bear. The low and high ranges are our estimates of reasonable ranges in which each cost could fall based on our preliminary analysis; various situations could arise where the costs could fall outside of these ranges.

<table>
<thead>
<tr>
<th>Cost item</th>
<th>Estimated indicative cost ($m)</th>
<th>Report section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>-</td>
<td>24.8</td>
</tr>
<tr>
<td>High</td>
<td>24.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Employee related costs</td>
<td>5.0</td>
<td>6.7</td>
</tr>
<tr>
<td>Contracts</td>
<td>Unquantified&lt;sup&gt;1&lt;/sup&gt;</td>
<td>3.3</td>
</tr>
<tr>
<td>Leases</td>
<td>-</td>
<td>8.6</td>
</tr>
<tr>
<td>Consequential loss</td>
<td>Unquantified&lt;sup&gt;2&lt;/sup&gt;</td>
<td>3.4</td>
</tr>
<tr>
<td>Legal costs&lt;sup&gt;3&lt;/sup&gt;</td>
<td>2.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Total excl. transaction taxes</td>
<td>7.0</td>
<td>45.1</td>
</tr>
<tr>
<td>Transaction taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land rich stamp duty</td>
<td>-</td>
<td>139.0</td>
</tr>
<tr>
<td>GST</td>
<td>-</td>
<td>3.3</td>
</tr>
<tr>
<td>Total transaction taxes</td>
<td>-</td>
<td>142.3</td>
</tr>
<tr>
<td>Total incl. transaction taxes</td>
<td>7.0</td>
<td>187.4</td>
</tr>
</tbody>
</table>

There are a range of costs that cannot be quantified. These include:

- The cost of novating, splitting, or assigning nested contracts across MBRC and SCRC
- The cost of integrating Unitywater ICT with MBRC's existing systems, or of establishing new ICT systems

<sup>1</sup> At this time we are unable to calculate the range of costs that would arise from terminating these, refer to section 3.4 for this discussion

<sup>2</sup> At this time we are unable to calculate the range of costs that would arise from consequential loss, refer to section 3.5 for this discussion

<sup>3</sup> Based on our experience with transactions of a similar size and nature, this is representative of professional fees such as accounting, legal, and technical advice. This range may be higher or lower if negotiations are extensive and if other assumptions made in the course of this assessment are different.
The cost of consequential losses to SCRC

Key points to consider in relation to these costs are highlighted below, with a more detailed discussion following in Section 3.

1.2 Transaction Taxes

- Current legislation does not provide for a mechanism to transfer the business and assets from Unitywater back to the Participating Councils.
- This may result in the transaction being subject to land rich stamp duty and GST.
- Subject to a formal business and land valuation being carried out, an indicative estimate of this cost to MBRC is $142.3m, consisting of $139.0m relating to land rich stamp duty, and $3.3m relating to the cost of temporarily funding GST.
- MBRC should seek clarification from the Queensland Government as to whether these transaction costs could be mitigated in entirety through an appropriate legislative mechanism (e.g. Ministerial Direction) and stamp exemption for returning the assets to MBRC, and whether this will be included in the proposed changes in legislation to facilitate the transfer of assets back to MBRC.

1.3 Cost of debt

- Debt held by Unitywater with QTC is not currently covered by the State Government Guarantee.
- If this debt is transferred back to MBRC, it is not known whether it will fall under the State Government Guarantee similarly to MBRC’s existing debt arrangements with QTC. That is, if MBRC elects to take back its water and wastewater assets there would be potential cost savings in relation to debt if the State Government Guarantee does apply.
- The net present cost of the additional risk margin of 100 bps that could be borne by Participating Councils would be $24.8m⁴ based on forecast Unitywater QTC debt at the time of disestablishment (30 June 2012). This cost is only based on the debt transferred back to Participating Councils at the time of disestablishment, and not on the future borrowings for water and wastewater activities.
- This may adversely impact the QTC credit review of MBRC.
- MBRC should seek advice from the Queensland Government as to whether any debt transferred back and future water and wastewater borrowings would fall under the State Government Guarantee.

⁴ Net present cost calculated as 100bps of forecast FY12 Unitywater QTC debt balance, with interest only payments for 20 years, discounted at QTC cost of funds of 6.10%
1.4 Employee related costs
   - When staff were transferred from Participating Councils to Unitywater, a Workforce Framework was put into place.
   - Currently there is conflicting advice relating to the treatment of employees under the Workforce Framework in the event of disestablishment.
   - Unitywater has estimated the cost of Unitywater employees who would not be required if disestablishment occurred to be $6.4m per annum. In the event of terminating these employees, it is possible that there would be additional employee entitlements to be paid out under statutory entitlement and individual employment contracts under the Workforce Framework.
   - MBRC should seek legal advice as to how the Workforce Framework will apply to Unitywater staff.

1.5 Contracts and rental arrangements
   - Without appropriate legislation, all contracts will need to be transferred back by negotiation and consent. This could result in additional costs to Participating Councils if the counterparties do not agree to the same terms.
   - Individual contracts have not been reviewed to determine the nature of clauses regarding early termination.
   - MBRC should undertake a detailed review of all contracts entered into by Unitywater to assess the potential financial risk, and seek clarification from the Queensland Government regarding the legislative mechanisms that will be put in place to facilitate the transfer of contracts.

1.6 Consequential loss
   - MBRC has been advised by the Queensland Government that the first council to withdraw from Unitywater will be liable not only for their own costs of disestablishment, but also for any reasonable consequential loss incurred by SCRC associated with the disestablishment of Unitywater.
   - These costs cannot be quantified at this time, but could be significant and represent a key risk that MBRC would bear in the event that it chooses to take back its water assets.
2. Background

Northern SEQ Distributor-Retailer Authority ("Unitywater") is an independently operated water and wastewater distribution and retail ("DR") business.

Unitywater was established on 1 July 2010 as a statutory authority through the South-East Queensland Water (Distribution and Retail Restructuring) Act 2009 QLD (the "2009 Restructuring Act"). Under the 2009 Restructuring Act, Unitywater is:

- Not a body corporate
- Constituted by its board or participants
- Not representative of the State

Unitywater houses the combined assets of Moreton Bay Regional Council ("MBRC") and Sunshine Coast Regional Council ("SCRC") (collectively "the Participating Councils"). The Participating Councils have a right to the returns generated by Unitywater through the Southern SEQ Distributor-Retailer Authority Participation Agreement dated 25 June 2010.

On 7 April 2011, the Queensland Premier made an announcement in Parliament about proposed changes to the 2009 Restructuring Act. The following changes were proposed:

- The sections of the 2009 Restructuring Act that required the Participating Councils to form the distribution and retail entities are to be repealed, with Participating Councils having the option to return to the previous structure for their distribution and retail water and sewerage business
- Distribution and retail annual water and sewerage price increases for residential and small business customers are to be capped at the Consumer Price Index ("CPI") for at least the next two years
- The Participating Councils are to be solely responsible for the price of water charged to their rate payers.
2.1 Queensland Government requirements

On 19 April 2011, Stephen Robertson MP wrote to the Participating Councils, requesting them to advise the Queensland Government of their preferred structure for the provision of water and wastewater services for their regions by 1 July 2011.

On 12 May 2011, Stephen Robertson MP acknowledged the time frame and the possibility that the Participating Councils may not have full details of their position. In light of this the following two options were made available:

- The Participating Councils could submit their preferred structure for the provision of water and wastewater services for their regions by 1 July 2011
- The Participating Councils could put forth a preference decision for their preferred structure for the provision of water and wastewater services for their regions by 1 July 2011 and submit a final decision with full details by 1 August 2011.

2.2 Key issues

We have identified a number of key issues which need to be considered and/or resolved in order for MBRC to make a fully informed decision on the future of its provision of water and wastewater services. These issues relate to:

1. Participation rights:
   - The final determination by the Minister of the appropriate participation rights for sharing the returns generated by Unitywater between MBRC and SCRC is yet to be finalised.
   - This makes it difficult to assess the returns that MBRC is entitled to from remaining in Unitywater, and to compare these returns to those potentially achieved under a separate council controlled structure.

2. Disestablishment costs:
   - The Queensland Government has indicated that the cost of disestablishing Unitywater will be borne entirely by the council who chooses to take back their water and wastewater assets.
   - The Queensland Government has advised that any disestablishment costs can't be recovered through water and wastewater prices.
   - Depending on the SCRC's decision, these costs could offset any savings that might be achieved by MBRC taking back its assets.
   - The nature and potential value of these costs is considered in the Cost of disestablishment section (Section 3)
3. Price capping:
   - The financial impact on forecast returns to MBRC of the two year price cap has not yet been fully assessed by Unitywater.
   - Capping the price increases for water and wastewater services at CPI may have implications for both Unitywater's and the Councils' (should they choose to take back their water assets) ability to deliver their respective infrastructure programs.
   - Assessment of the impact of price capping is beyond the scope of this report.

4. The role of the Queensland Competition Authority ("QCA") in setting water and wastewater prices:
   - In his letter on 12 May 2011, Stephen Robertson MP highlighted that it is appropriate for councils rather than the QCA to have determinative powers for price setting after the price cap period. Where a council retains its interest in a DR, the council role will extend to confirming and approving pricing proposals from the Board of the DR. The QCA will not be commencing its price determination role in 2013.
   - The Queensland Government is of the view that there is still benefit in the QCA continuing its price monitoring role, which will apply both during the price cap period and ongoing after 2013 for all water businesses either within a council or a DR.

5. Legislative concerns:
   - The establishment of the DR entities was enabled through a raft of legislative mechanisms in the 2009 Restructuring Act.
   - There is no process in the existing legislation for the disestablishment of the DR entities.
   - The legislation regarding disestablishment is still being drafted, and its implications remain unclear.
3. Cost of disestablishment

In his letter on 19 May 2011, Stephen Robertson MP stated that the “total” costs of disestablishment of the DR entities are to be borne by the council who elects to take back their water and wastewater business. These costs will not be shared by the other participating council.

This was further clarified in his letter on 12 May 2011 which stated that the council which elects to withdraw from Unitywater must pay the disestablishment costs of the other council, including any reasonable consequential loss suffered by the remaining participating council.

The key costs we have identified in relation to disestablishment are:

- Transaction taxes
- Cost of debt
- Employee related costs
- Contracts, leases, and rent
- Consequential losses suffered by the remaining council
- Legal costs etc.

These costs we have identified are discussed further in the following pages.
3.1 Transaction taxes

Unitywater operates under the Local Government tax equivalents regime, with all tax paid being distributed to the Participating Councils in accordance with each Participating Councils’ respective participation rights.

The transfer of the Participating Councils' respective water and wastewater assets to Unitywater was facilitated through legislative mechanisms in the 2009 Restructuring Act which enabled the assets to be transferred without being subject to stamp duty and goods and services tax (“GST”).

Transactions of the nature envisaged for transferring the assets from Unitywater back to the Participating Councils might be subject to GST and land rich stamp duty.

It is unclear whether the Queensland Government proposes to provide a similar exemption for the transfer back to the Participating Councils. The potential cost of stamp duty and GST is considered below.

3.1.1 Land rich stamp duty

Where a corporation qualifies as a “land rich corporation”, any acquisition of part or all of this corporation may be subject to land rich stamp duty.

This duty is calculated as a percentage (the “duty rate”) of the “dutiable value”, which is the value of all Queensland land-holdings of the land rich corporation (and its subsidiaries) at the time of the relevant acquisition. Where the dutiable value is greater than $980,000, the relevant “duty rate” is 5.25%

A full business valuation is outside the scope of this report. For the purpose of estimating the potential amount of stamp duty payable, we have used the closing balance of assets as a proxy.

Using these assumptions, we calculate a potential stamp duty liability of $139.0m. Details of this calculation are shown in the table below.

Table 2 - Calculation of indicative cost of stamp duty

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Amount ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>April closing balance of non-current assets</td>
<td>2,647.0</td>
</tr>
<tr>
<td>Duty rate</td>
<td>5.25%</td>
</tr>
<tr>
<td>Potential stamp duty payable</td>
<td>139.0</td>
</tr>
</tbody>
</table>
3.1.2 GST

Transactions of this nature may also be subject to GST. Because any GST incurred by MBRC will ultimately be refunded by the ATO, the cost to MBRC of disestablishment is the cost of funding this amount until such a refund occurs.

The maximum number of days that this liability would be funded for is 91 days, and for assessment purposes we have assumed that this is funded at the 90 day swap rate.

Based on these assumptions, we arrive at a potential cost to MBRC of $3.3m.

Table 3 - Calculation of indicative cost of funding GST

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Amount ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>April closing balance of non-current assets</td>
<td>2,647.0</td>
</tr>
<tr>
<td>GST Rate</td>
<td>10.00%</td>
</tr>
<tr>
<td>Temporary GST to be funded</td>
<td>264.7</td>
</tr>
<tr>
<td>90 day swap rate</td>
<td>5.02%</td>
</tr>
<tr>
<td>Days to fund</td>
<td>91.0</td>
</tr>
<tr>
<td>Cost of funding GST</td>
<td>3.3</td>
</tr>
</tbody>
</table>

3.1.3 Conclusion

MBRC should seek clarification from the Queensland Government as to whether these transaction costs could be mitigated in entirety through an appropriate legislative mechanism (e.g. Ministerial Direction) and stamp exemption for returning the assets to MBRC, and whether this will be included in the proposed changes in legislation to facilitate the transfer of assets back to MBRC.
3.2 Cost of debt

According to Unitywater's April 2011 Financial Status Report, Unitywater's borrowings consist of Senior Loans, Subordinated Loans, Working Capital Loans, and a CSP Loan (QTC). These are detailed in the table below.

Table 4 - Existing Unitywater facilities

<table>
<thead>
<tr>
<th>Loan</th>
<th>Amount ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior loans</td>
<td>637.7</td>
</tr>
<tr>
<td>Subordinated loans</td>
<td>510.1</td>
</tr>
<tr>
<td>Working capital loans</td>
<td>34.7</td>
</tr>
<tr>
<td>CSP loan (QTC)</td>
<td>65.0</td>
</tr>
<tr>
<td>Total</td>
<td>1,247.5</td>
</tr>
</tbody>
</table>

Any debt currently held by Unitywater with Queensland Treasury Corporation ("QTC") does not fall under the State Government Guarantee, and is subject to QTC charging a credit margin over its costs to cover this risk.

It is not known whether this debt will continue to be excluded from the State Government Guarantee. Should they continue to be excluded, any potential future water and wastewater borrowings could be subject to a higher cost of debt than current council arrangements, effectively negating one of the savings that could be achieved by MBRC.

As at 30 April 2011, the balance outstanding on the CSP Loan was $65.0m. The Unitywater Forecast Model shows that the estimated closing CSP balance of QTC debt at 30 June 2012 will be $218.3m.

We understand that an additional risk margin borne by Unitywater is 100 basis points (bps) above the QTC council cost of debt.

The cost of supporting this margin is estimated as $2.2m for the closing balance of debt at 30 June 2012. The net present cost of MBRC incurring this cost over twenty years is $14.6m, assuming that MBRC maintains this amount of debt and discounting at the local government cost of funds (6.1%). Details of this calculation are shown in the table below.
Table 5 - Net present cost of additional risk margin above MBRC rates

<table>
<thead>
<tr>
<th>Amount ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast closing QTC debt balance</td>
</tr>
<tr>
<td>Debt margin (bps)</td>
</tr>
<tr>
<td>Interest payable due to margin</td>
</tr>
<tr>
<td>Discount rate</td>
</tr>
<tr>
<td>Term (years)</td>
</tr>
<tr>
<td>Net present cost</td>
</tr>
</tbody>
</table>

MBRC should seek advice from the Queensland Government as to whether any debt transferred back and future water and wastewater borrowings would fall under the State Government Guarantee.
3.3 Employee related costs

When Unitywater was established, employees from both Participating Councils were transferred to Unitywater. The transfer of these staff was covered by a Workforce Framework which protected the rights and entitlements for Participating Councils staff transferred to Unitywater, providing job security for a period of three years from the date of transfer.

Should disestablishment of Unitywater occur it is unclear if Unitywater staff employed since the date of establishment will be covered by a similar Workforce Framework. This may result in MBRC being responsible for either taking back these additional staff, or offering appropriate redundancy payments in accordance with the terms of the Workforce Framework.

Unitywater has estimated the cost of Unitywater employees who would no longer be required should both Participating Councils choose to take back their water assets at $6.4m per annum. In the event of terminating these employees, it is possible that there would be additional employee entitlements to be paid out. Depending on the contracts, this could include extended termination notice periods, annual leave, bonuses, superannuation contributions.

Assuming the staff referred to in the $6.4m estimate are on individual contracts, there are two scenarios to consider:

1. The Workforce Framework does not apply
   - In this scenario we assume that MBRC will be responsible for funding nine months employment costs
   - The $6.4m is escalated by 4.0% to approximate the true cost of these employees on 1 July 2012

2. The Workforce Framework does apply
   - In this situation we assume that MBRC will be responsible for funding the three years of job security provided under the Workforce Framework.
   - MBRC will be required to fund a full twelve months of employment costs

The outcomes of these scenarios are detailed in the table below.
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated annual cost of surplus staff</td>
<td>6.4</td>
</tr>
<tr>
<td>Escalation of staff costs to 1 July 2012</td>
<td>4.0%</td>
</tr>
<tr>
<td>Escalated annual cost of surplus staff</td>
<td>6.7</td>
</tr>
<tr>
<td>Scenario 1 - Workforce Framework doesn't applies</td>
<td>5.0</td>
</tr>
<tr>
<td>Scenario 2 - Workforce Framework applies</td>
<td>6.7</td>
</tr>
</tbody>
</table>

[Confidential information redacted]
3.4 Rental agreements and contracts

The restructuring legislation helped facilitate the transfer and novation of contracts from the Participating Councils to Unitywater. Without a similar mechanism, all contracts will need to be transferred back by negotiation and consent.

Even if a contract can be transferred from Unitywater to MBRC, this may not be on the same terms. Should a contract be unable to be transferred, or no longer be required, this might result in termination costs.

Some contracts entered into by Unitywater might be difficult to split between the two councils. For example, any construction contracts which are being carried out across divisions for the mutual benefit of MBRC and SCRC. We have not undertaken a detailed review of individual contracts to determine if this is a significant risk.

3.4.1 Contracts

Based on the contract register provided, the total value of contracts which terminate beyond 1 July 2012 is $108.8m, as detailed in the table below. We have not performed a detailed review of all individual contracts listed, and provide these figures for indicative purposes only. Some contracts are listed with a lump sum amount, and others are detailed as having an annual payment. Contracts with annual payments total $44.9m. Note, where no information was available on the contract end date for contracts with an annual cost, we have allowed for one year of cost to present the summary below.

<table>
<thead>
<tr>
<th>Table 7</th>
<th>Number</th>
<th>Lump Sum Costs ($m)</th>
<th>Annual Costs ($m)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Contracts</td>
<td>74</td>
<td>63.7</td>
<td>9.6</td>
<td>73.3</td>
</tr>
<tr>
<td>Novated Contracts</td>
<td>25</td>
<td>0.2</td>
<td>35.3</td>
<td>35.5</td>
</tr>
<tr>
<td>Total</td>
<td>99</td>
<td>63.9</td>
<td>44.9</td>
<td>108.8</td>
</tr>
</tbody>
</table>

The potential cost of in relation to contracts has not been quantified. This cost would be the outcome of novating, assigning, or splitting contracts, which would depend on the outcome of commercial discussions with the counterparty. In the event of termination, two phases of work would need to be performed:

1. Determine which contracts will be on foot at 1 July 2012
2. Review these contracts for any novation or termination clauses, and enter discussions with counterparties
Unitywater have noted in particular that transfer of the electricity contract will result in the loss of a discount. We are unaware of the quantum of this discount.

3.4.2 Rental agreements

Unitywater holds rental leases on five properties with annual rent totalling approximately $1.5m as detailed in the table below. The total rent payable on these leases post 1 July 2012 is $8.6m. This amount excludes any costs payable at the end of leases, for example any “make good” on the properties. We note that MBRC is the landlord for the 354 South Pine Road and 33 King Street properties.

<table>
<thead>
<tr>
<th>Property</th>
<th>Yearly Rent ($)</th>
<th>Expiry</th>
<th>Outstanding Rent ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>35 Technology Road, Warana</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>354 South Pine Road Brendale</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ground Flr East, 33 King Street, Caboolture</td>
<td>[Confidential information redacted]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Maud Street, Maroochydore</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7-9 Concord Pl, Caboolture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$8.6m</strong></td>
<td></td>
<td><strong>$8.6m</strong></td>
</tr>
</tbody>
</table>

3.4.3 Conclusion

MBRC should undertake a detailed review of all contracts entered into by Unitywater to assess the potential financial risk, and seek clarification from the Queensland Government regarding the legislative mechanisms that will be put in place to facilitate the transfer of contracts.
3.5 Consequential loss

Stephen Robertson, MP advised all councils affected by the proposed changes to the 2009 Restructuring act that "...if a council chooses to withdraw, any reasonable consequential costs incurred by the remaining participating local governments must also be borne by the withdrawing council".

These costs could be significant, but are unable to be quantified at this point in time.

The situation where MBRC elects to withdraw from Unitywater but SCRC does not represents a key financial risk that MBRC would bear in the event that it chooses to take back its water assets.

Potential consequential loss costs to SCRC that MBRC might be liable for could include, but are not limited to:

- All costs incurred by SCRC in the disestablishment of Unitywater e.g. all redundancies
- Legal, accounting, or consulting costs
- Construction or leasing of new premises by SCRC
- Any reduction in forecast long term returns that SCRC might have received by remaining in Unitywater
- Increased total SCRC employee cost from changes in its remuneration structures as a result of staff transferring back to SCRC.
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