Fact sheet

Accounting for Disaster Recovery Funding Arrangement

Counter disaster operations and emergency works

Background

The Disaster Recovery Funding Arrangement (DRFA) is a joint Commonwealth and state government initiative that provides funding to help state entities and local governments in Queensland prepare for, and recover from, eligible disasters.

In Queensland, the Queensland Reconstruction Authority (QRA) manages this program. All funding recipients enter into a formal head agreement with QRA.

Under the DRFA, 4 categories of assistance measures may be activated following an eligible disaster. Categories A and B provide standard assistance and Categories C and D provide additional relief in exceptional circumstances. Each category is activated separately.

Most DRFA funding comes from Category B. This includes restoration of essential public assets, counter disaster operations (CDO), and emergency works. These activities support the restoration of infrastructure and immediate response activities.

All 77 local governments in Queensland are eligible to receive DRFA assistance, reflecting their responsibility for maintaining local infrastructure that is often impacted by disasters. State entities are also eligible for funding where they manage state-controlled assets or have a role in coordinating disaster response activities.

Funding and claims process

The DRFA includes different funding activities, each with its own approval and reimbursement process.

Some activities in Category B, such as reconstruction works, require approval of scope and funding after activation before any expenditure is incurred.

By contrast, CDO and emergency works also in Category B, operate on a reimbursement basis. This means after a disaster is declared, entities incur eligible expenditure first and then submit claims for reimbursement.

The following requirements relate specifically to CDO and emergency works reimbursement claims:

- the DRFA must be activated for a declared disaster
- the entity must be within the declared local government area (LGA), or for state entities, own assets or deliver services in an LGA where the DRFA has been activated

- expenditure must be eligible under the Queensland Disaster Funding Guidelines (QDFG).

Entities must submit claims to QRA within 3 months of the financial year end for assessment and approval, in accordance with the QDFG.

QRA assesses claims against the guidelines and determines the eligible reimbursement amount. A Project Funding Schedule (PFS) is then issued by QRA and counter-signed by the entity, confirming the amount of funding to be reimbursed.

Why are we providing this fact sheet?

There have been divergent practices across local governments and state entities in Queensland in the accounting for DRFA revenue for CDO and emergency works. Some entities recognised a receivable when eligible expenditure was incurred or when the claims were submitted, on the basis that they were entitled to the reimbursement. Others only recognised the revenue on receipt of reimbursement from QRA after the PFS was issued.

These different practices reflected differing views about when an entity was entitled to reimbursement and when the amount could be reliably measured, particularly where claims may be partially rejected when expenditure was deemed ineligible by QRA.

Over time, entities have developed a greater understanding of what expenditure is eligible and strengthened their processes for preparing and submitting claims to QRA. There is now a higher level of consistency and capability, supported by:

- established frameworks and guidance under the QDFG
- accumulated experience in applying DRFA eligibility criteria.

Recognising the maturing systems and processes at both the QRA and state and local government entities, it was timely for us to revisit the accounting for DRFA revenue for CDO and emergency works.

What this fact sheet covers

This fact sheet outlines the considerations for entities when determining when to recognise DRFA claims for CDO and emergency works (timing) and how much can be recognised (measurement) in an entity's financial statements at 30 June.

This fact sheet is limited to CDO and emergency works under DRFA. It does not cover other DRFA categories, such as reconstruction works, betterment, or other assistance measures, which are subject to different funding arrangements, approval processes, and timing considerations.

What should entities do?

Entities should consider whether they meet the recognition and measurement requirements explained in this fact sheet. This should help entities determine the appropriate accounting treatment to apply to the CDO and emergency works funding from QRA.

Accounting considerations

Recognition and measurement are 2 distinct concepts under the Australian Accounting Standards.

Recognition at time of spend

Entities should consider the point at which they become entitled to reimbursement for expenditure incurred under DRFA funding for CDO and emergency works.

As outlined above, once DRFA assistance has been activated for a declared disaster and the LGA or state-owned assets are located within the activated area, entities become entitled to reimbursement for eligible expenditure incurred in accordance with the QDFG.

While recognition criteria may be met following disaster activation, the amount of revenue and receivables recognised will depend on the measurement considerations below.

Measurement is reliant on established practices

Measurement must be supported by evidence and not based solely on the expectation that claims will be fully reimbursed.

The amount recognised should be based on:

- entities' historical success rates with QRA claims
- proven estimation methodologies that can be supported by documented assumptions.

Entities should be able to demonstrate that estimates are reliable, evidence-based (typically on past outcomes), and supported by established internal controls over claim preparation and review.

Application of this guidance

Entities should reassess their recognition and measurement of CDO and emergency works reimbursements, and based on their circumstances, determine the appropriate accounting treatment.

As outlined above, the DRFA funding arrangements have matured, and the experience gained through the claims and assessment process may enable entities to more reliably estimate the amount of eligible expenditure that is expected to be reimbursed.

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides guidance on changes in accounting estimates. Where the reassessment reflects new information, more experience or improved estimation techniques, any resulting change should be treated as a change in accounting estimate and recognised prospectively rather than retrospectively.

Accordingly, entities should recognise the effect of any revised estimate in the current and future reporting periods affected by the change.

This approach applies to eligible expenditure that has been incurred but not yet claimed from QRA, or has been claimed but not yet approved at 30 June. It does not apply to claims that have already been approved and reimbursed during the financial year.

Entities are encouraged to discuss their circumstances with their QAO engagement leader.

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