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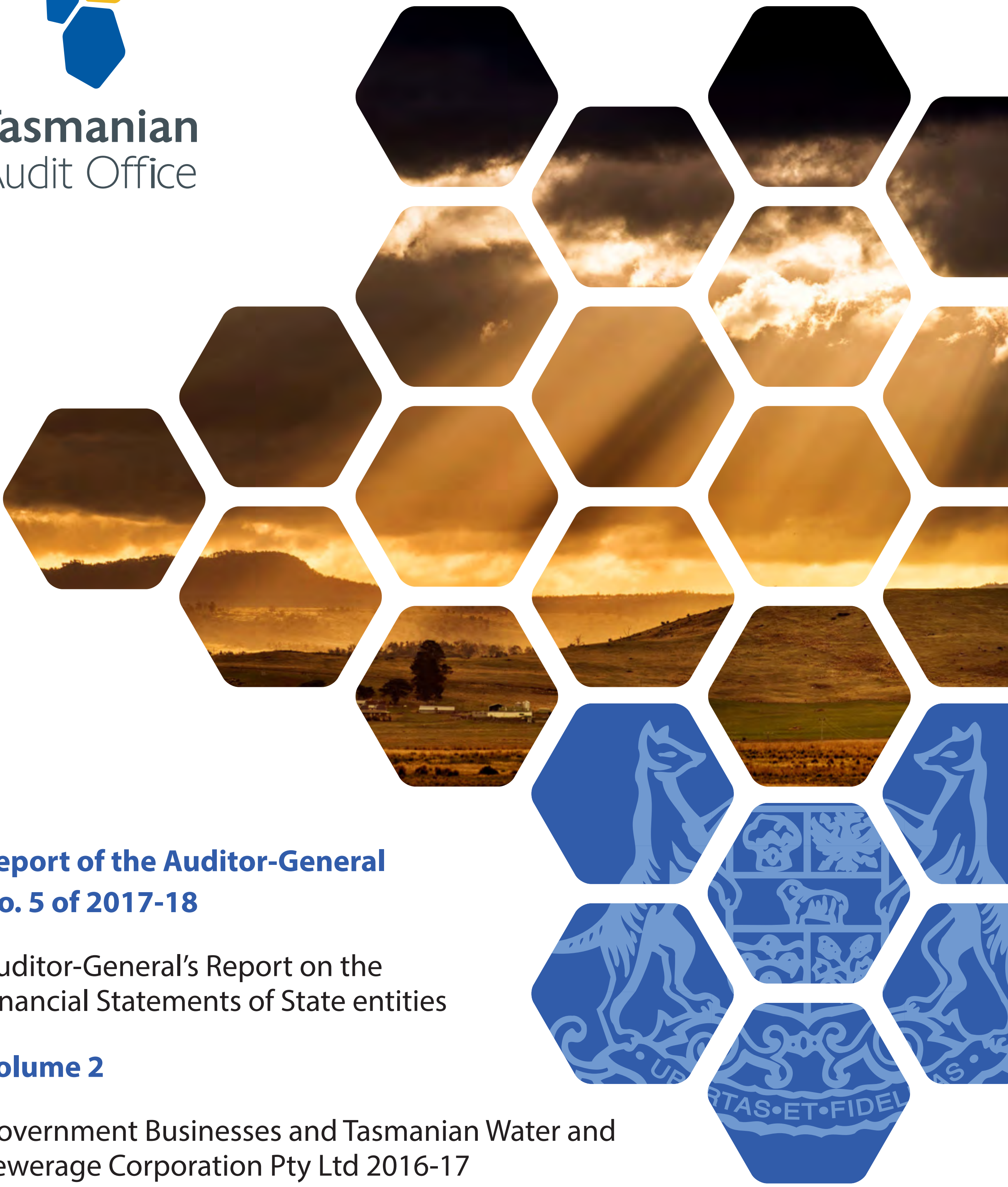

Report of the Auditor-General
No. 5 of 2017-18

Auditor-General's Report on the Financial Statements of State entities

Volume 2

Government Businesses and Tasmanian Water and Sewerage Corporation Pty Ltd 2016-17

November 2017

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THE ROLE OF THE AUDITOR-GENERAL

The Auditor-General's roles and responsibilities, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008 (Audit Act).*

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing their financial reports, enhancing their value to end users.

Following financial audits, we issue a variety of reports to State entities and we report periodically to the Parliament.

We also conduct performance audits and compliance audits. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

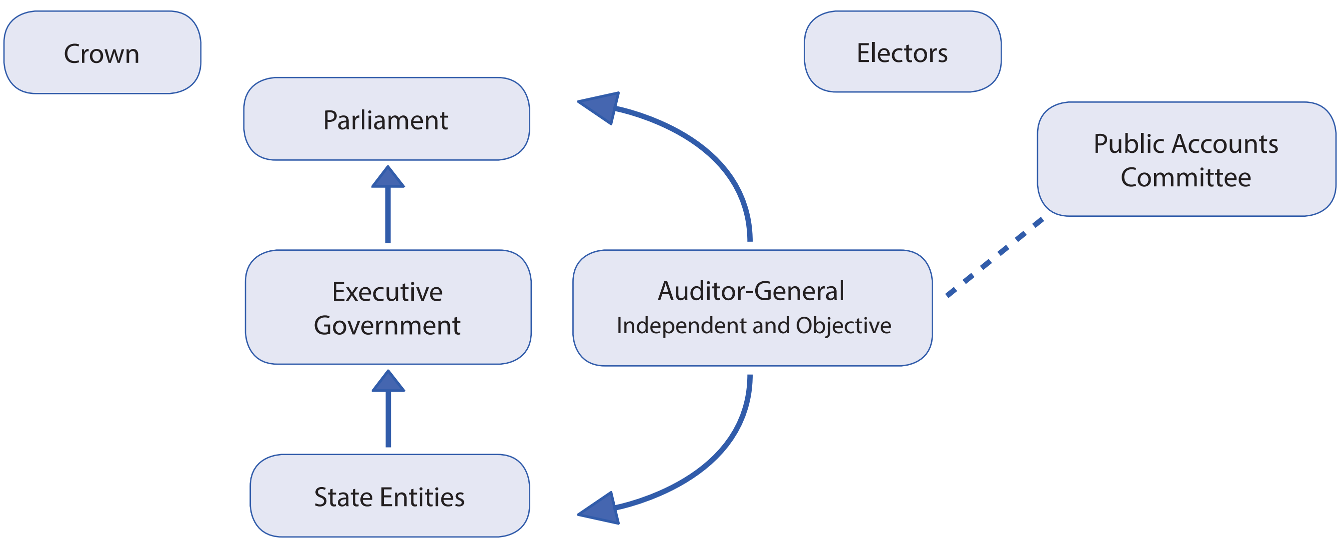
We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

Performance and compliance audits are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year.

Where relevant, the Treasurer, a Minister or Ministers, other interested parties and accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses, or summaries thereof, are detailed within the reports.

The Auditor-General's Relationship with the Parliament and State Entities

The Auditor-General's role as Parliament's auditor is unique.



2017 (No. 36)

TASMANIA

2017
PARLIAMENT OF TASMANIA

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Government Businesses and Tasmanian Water and Sewerage Corporation Pty Ltd 2016-17

November 2017

Presented to both Houses of Parliament in accordance with the requirements of Section 29 of the *Audit Act 2008*

Auditor-General's reports are available from the Tasmanian Audit Office, Hobart. This report and other recent reports published by the Office can be accessed via the Office's home page. For further information please contact:

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23 November 2017

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President
Dear Mr Speaker

Report of the Auditor-General No. 5 of 2017-18, Auditor-General's Report on the Financial Statements of State entities, Volume 2 – Government Businesses and Tasmanian Water and Sewerage Corporation Pty Ltd 2016-17

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the audit of the financial statements of Government businesses for the year ended 30 June 2017.

Yours sincerely

Rod Whitehead
Auditor-General

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EXECUTIVE SUMMARY

INTRODUCTION

Tasmanian Government businesses offered a diverse range of services ranging from essential utilities such as transport and electricity, to irrigation and financial services. Government businesses were expected to deliver services at the lowest sustainable cost, while also providing an appropriate financial return to the government[1] in the form of dividends, income tax equivalents and guarantee fees.

Government businesses operated outside the Public Account, principally on the basis of funds derived through operations and generally had no direct impact on Budget expenditure except in circumstances where funding for Community Service Obligations (CSOs) was received, or payment was received for services provided to government agencies.

GUIDE TO USING THIS REPORT

Guidance relating to the use and interpretation of financial information included in this Report can be found on our website: ***www.audit.tas.gov.au***

The guidance includes information on the calculation and explanation of financial ratios and performance indicators and the definition of audit finding risk ratings.

STATE ENTITIES COVERED IN THIS REPORT

This Report contains the results from our financial audits of 17 entities and two subsidiaries in the government business sector, as listed below, comprising six Government Business Enterprises (GBE's), eight State-Owned Companies (SOC's), two other Public Non-Financial Corporations (PNFC) and Tasmanian Water and Sewerage Corporation Pty Ltd which was owned by councils.

For the purpose of this Report, entities covered in aggregate will be referred to as Government businesses.

GBEs

Forestry Tasmania (Forestry)

Hydro-Electric Corporation (Hydro)[2]

Motor Accidents Insurance Board (MAIB)

Port Arthur Historic Site Management Authority (PAHSMA)

Public Trustee (PT)

Tasmanian Public Finance Corporation (Tascorp)

SOCs

Aurora Energy Pty Ltd (Aurora Energy)

Metro Tasmania Pty Ltd (Metro)

Tasmanian Irrigation Pty Ltd (Tasmanian Irrigation)

Tasmanian Networks Pty Ltd (TasNetworks)

Tasmanian Ports Corporation Pty Ltd (TasPorts)[3]

Tasmanian Railway Pty Ltd (TasRail)

Tasracing Pty Ltd (Tasracing)

TT-Line Company Pty Ltd (TT-Line)

Other PNFCs

Macquarie Point Development Corporation (MPDC)

Private Forests Tasmania (PFT)

Council Owned Entity

Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater).

1. Tasmanian Government Fiscal Strategy – Strategic Action 4, The Budget, Budget Paper No 1, 2016-17

2. Momentum Energy Pty Ltd is a subsidiary of Hydro

3. Bass Island Line Pty Ltd is a subsidiary of Tasports

DEVELOPMENTS

During 2016-17 individual Treasurer's instructions were issued specifically to Tascorp and Forestry. The instructions exempted the entities from applying certain Australian Accounting Standards. This resulted in the inclusion of an emphasis of matter paragraph in the respective audit opinions drawing users' attention to the non-application of the relevant Accounting Standard.

The process of issuing Treasurer's instructions to modify the reporting framework by exempting entities from applying certain Australian Accounting Standards should only be used in rare circumstances where changes to the reporting framework are necessary in order to present more reliable information to users.

On 26 October 2016, the Minister for Resources announced the new operating model Forestry would operate under from 1 July 2017. The Government forestry business remained a Government business, but was downsized and renamed Sustainable Timber Tasmania (STT). It is expected STT will be leaner, more efficient and agile, and have a more defined commercial focus.

The Government proposed to transfer responsibilities for water and sewerage from TasWater and councils to the Tasmanian Government. To achieve this, the Government tabled the *Water and Sewerage Tasmania Bill 2017* and *Water and Sewerage Tasmania (Consequential and Transitional Provisions) Bill 2017* in Parliament on 8 August 2017. The Bills had not passed both houses of Parliament as at the time of writing this Report.

On 29 June 2017, in accordance with the *Tasmanian Public Finance Corporation Amendment (Mersey Community Hospital) Act 2017*, $730.40m was received by the Tasmanian Government from the Australian Government. The amount was subsequently transferred to Tascorp to establish the Mersey Community Hospital (MCH) Fund.

FINDINGS FROM FINANCIAL AUDITS

Audits of Government businesses were completed satisfactorily; however a number of matters were raised during the course of the audits. Depending on the significance of the matters, they were either discussed and cleared with management (generally low risk issues) or formally communicated to those charged with governance. Where required, responses to these matters were sought from management and these will be followed up during the course of the next audit.

43

Audit matters raised this year

13

Audit matters raised in prior periods assessed as unresolved

2
High risk findings

15
Moderate risk findings

26
Low risk findings

Because of the diversity of entities in the government business sector, the degree of commonality of these findings was relatively low compared to other sectors. High risk findings observed related to:

- timeliness of TasWater converting capital work in progress to depreciable assets
- lack of segregation of duties at Tasmanian Irrigation, across a number of financial processes which can present a challenge for smaller organisations..

Other common findings included deficiencies in the design and implementation of controls over computer information systems used for the processing, storage and communication of financial information, the processing of revenue and payroll transactions, and the existence of excessive leave balances.

Matters specific to each Government business are discussed within individual Chapters.

SUBMISSION OF FINANCIAL REPORTS AND TIMELINESS OF AUDIT OPINIONS

Government businesses are required to submit financial statements to the Auditor-General within 45 days after the end of each financial year.

94%

Financial statements submitted on time

Section 19 of the *Audit Act 2008* (the Audit Act) required the Auditor-General to finalise audits within 45 days from the day financial reports were received.

94%

Audits completed on time

Momentum Energy's directors signed the financial report on 14 August 2017, but it was not submitted to the Tasmanian Audit Office until 17 August 2017. The audit opinion for PAHSMA was not issued within the required time due to corrections required to the financial statements which were identified during the course of our audit. Refer to Appendix A for a detailed list of each entity's timeliness of reporting.

Certification of submitted financial reports

Section 17 of the Audit Act, requires State entities to submit financial statements to the Auditor-General within 45 days after the end of the financial year. Previously, we required State entities to submit statements certified by the accountable authority.

From 2016-17, we changed the process for submission of financial statements whereby statements submitted within 45 days only needed to be certified by the Chief Financial Officer (or equivalent). This allowed the audit to be completed and clearance provided to the audit committee, if relevant, prior to certification by the accountable authority.

In 2016-17, two of the 17 Government businesses chose to submit management certified financial statements.

AUDIT OPINIONS ON FINANCIAL STATEMENTS

19

Unmodified audit opinions issued on financial statements

2

Emphasis of matter paragraphs

All Government business audits were completed satisfactorily and unmodified audit opinions issued in all cases. Two of the unmodified audit opinions contained an emphasis of matter paragraph. We include an emphasis of matter paragraph with audit opinions to highlight matters that, although appropriately presented or disclosed in the financial report, are of such importance that they are fundamental to users' understanding of the financial report. Including an emphasis of matter does not modify our audit opinion. The emphasis of matter paragraphs related to:

Forestry	Emphasis of matter paragraph drew attention to a note which described Forestry's application of Treasurer's Instruction GBE-08-52-08P *Exemption from IFRS 5 for Forestry Tasmania's 2016-17 Financial Statements* in respect of an exemption from application of the requirements of Australian Accounting Standard AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.
Tascorp	Emphasis of matter paragraph drew attention to a note which described Tascorp's application of Treasurer's Instruction GBE-08-051-08P *Application of AASB 132 and AASB 1004 for the Tasmanian Public Finance Corporation's 2016-17 Financial Statements* in respect of $730.40m received from the Tasmanian Government on 29 June 2017 for the establishment of the MCH Fund.

Enhanced auditor reporting

Changes to the content of the auditor's report for the 2016-17 reporting period were implemented to reflect changes to Australian Auditing Standards.

Figure 1: Australian auditing standards revision for auditors report

ASA 700 (REVISED) OVERARCHING STANDARD FOR FORMING AN OPINION AND REPORTING ON A FINANCIAL REPORT				
ASA 701 Communicating Key Audit Matters in the Independent Auditors Report (New)	**ASA 705** Modifications to the Opinion in the Independent Auditor's Report (Revised)	**ASA 706** Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report (Revised)	**ASA 570** Going Concern (revised)	**ASA 720** The Auditor's Responsibility Relating to Other Information (revised)

For the year ended 30 June 2017, all auditor's reports included the following key changes:

- the opinion paragraph was presented at the start of the auditor's report followed by the basis of opinion
- greater detail of auditor's responsibilities
- audit coverage of other information
- explicit commentary on management's responsibilities in relation to going concern.

We have taken a staged approach to the implementation of the new auditing standard ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report. In 2016-17, auditor's reports for most Government businesses covered in this Chapter included a section on key audit matters (KAMs). KAMs are matters which we determined were of most significance to the audit and were selected by taking into account areas of higher risk, significant auditor judgements and the effect on the audit of significant events or transactions.

The KAMs section of the auditor's report included:

- a brief description of the key audit matters, with reference to the financial statements
- why they were considered to be key to the audit
- what procedures were performed to address the matter.

SECTOR ANALYSIS

This Chapter summarises financial results for 17 Government businesses subject to audit. Audited subsidiaries have been excluded as they are included in the consolidated financial results of their respective parent entity. Detailed commentary on each entity is included in individual Chapters within this Report.

SUMMARISED FINANCIAL REPORT

Details of Government businesses' results and Net assets are set out in Table 1. The financial information below represents consolidated financial information for those entities that have controlled entities.

Table 1: Summarised Financial Results

Business	Underlying profit (loss)	Net profit (loss) before tax	Net profit (loss) after tax	Total comprehensive profit (loss)	Net assets 2017	Net assets 2016
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Aurora	27 948	27 835	19 482	26 317	108 003	108 685
Forestry	(13 876)	(53 473)	(42 633)	(24 073)	112 569	25 027
Hydro	20 095	(308 708)	(222 613)	(181 765)	1 964 539	2 095 707
MPDC	(1 284)	(3 523)	(3 523)	(3 523)	39 073	42 597
Metro	(3 017)	(3 017)	(2 116)	488	46 259	41 271
MAIB	165 678	165 678	119 416	120 367	531 643	460 981
PAHSMA	1 322	1 265	1 265	5 675	37 695	32 021
PFT	413	413	413	413	1 562	1 149
PT	1 012	1 012	749	2 517	7 887	5 370
Tasmanian Irrigation	1 738	(12 382)	(12 382)	(12 382)	29 767	22 081
TasNetworks	134 087	134 087	93 927	147 027	944 087	920 083
TasPorts	8 727	6 391	3 166	34 926	240 418	199 362
TasRail	(6 780)	(31 718)	(31 797)	(31 980)	112 951	124 531
Tascorp	33 100	27 400	19 200	19 200	807 300	62 511
Tasracing	867	372	372	740	42 704	41 039
TasWater	24 600	40 858	28 592	29 788	1 585 043	1 574 712
TT-Line	30 348	35 867	25 097	29 633	284 470	294 837
Total	**424 978**	**28 357**	**(3 385)**	**43 952**	**6 895 970**	**6 051 964**

Government businesses generated overall Net profit before tax of $28.36m in 2016-17. This result was an improvement compared to the Net loss before tax of $51.77m in the prior period mainly due to MAIB's improved result.

UNDERLYING RESULT

$425m	$267m	$424m	$573m
2016-17	2015-16	2014-15	2013-14
▲ 59%	▼ (37%)	▼ (19%)	● 1%

▲ improvement from prior year ▼ deterioration from prior year ● no change from prior year

The Underlying result is defined as the operating revenue less operating expenditure for the business. This was a more accurate measure of financial performance as it reflected the earning power of the entity and the capacity to pay operating costs by removing unusual and non-recurring transactions. A comparison of the underlying result for Government businesses is shown in Table 2.

Table 2: Underlying result

Business	Underlying result 2016-17 $'000s	2015-16 $'000s	2014-15 $'000s	2013-14 $'000s	Operating Ratio 4 Year Average
Aurora	27 948	43 006	43 847	57 793	1.0
Forestry	(13 876)	(17 228)	(30 680)	(7 010)	0.9
Hydro	20 095	(65 435)	62 352	241 113	1.0
MPDC	(1 284)	(1 384)	(570)	(4 624)	0.4
Metro	(3 017)	(2 791)	(3 200)	(3 625)	0.9
MAIB	165 678	95 265	137 193	171 942	2.1
PAHSMA	1 322	1 406	211	1 967	1.1
PFT	413	309	142	250	1.2
PT	1 012	107	435	1 036	1.1
Tasmanian Irrigation	1 738	2 006	1 299	636	1.0
TasNetworks*	134 087	162 248	161 396	-	1.7
TasPorts	8 727	2 093	(11 582)	(1 335)	1.0
TasRail	(6 780)	(12 216)	(12 925)	(6 284)	0.8
Tascorp	33 100	28 547	34 156	30 634	1.1
Tasracing	867	1 156	(1 211)	(573)	1.0
TasWater	24 600	11 002	25 169	26 990	1.1
Transend*	-	-	-	52 642	1.3
TT-Line	30 348	18 664	17 492	11 642	1.1
Total	**424 978**	**266 755**	**423 524**	**573 194**	**1.1**

** On 1 July 2014, the Tasmanian Government merged Transend's electricity transmission business with Aurora's electricity distribution business. The new company formed was TasNetworks.*

Government businesses as a whole recorded an Underlying profit of $424.98m for 2016-17. This was a 59.3% improvement on the 2015-16 result. The change was primarily due to Hydro's $85.53m improvement, driven by increased electricity prices in the National Electricity Market (NEM) and the elimination of costs for diesel electricity generation incurred in 2015-16 arising from the Basslink outage and MAIB's $70.41m increase as a result of higher returns on investments.

Thirteen of the 17 Government businesses recorded an Underlying profit in 2016-17 which totalled $449.94m. TasNetworks and MAIB were the strongest performers and accounted for 70.5% of the sector's Underlying profit. Forestry, MPDC, Metro and TasRail recorded underlying losses, which totalled $24.96m. Figure 2 shows the average operating margins for each Government business over the past four years.

Figure 2: Operating margin 4 year average

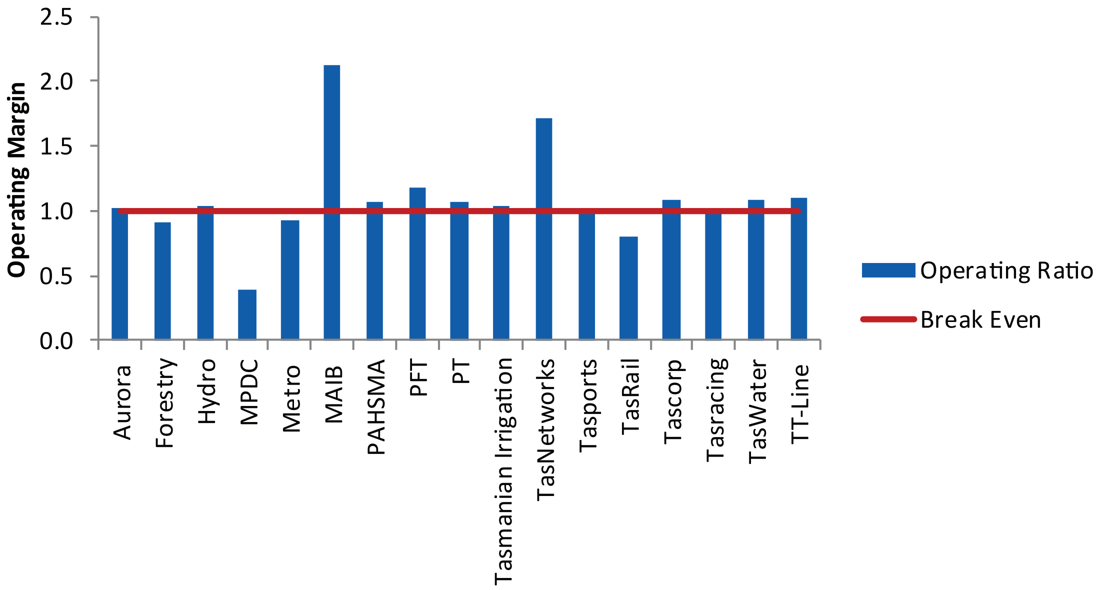


Figure 2 demonstrates that 13 of the 17 Government businesses achieved an average operating margin exceeding 1 over the past four years, meaning they broke even over that period.

The entities below break-even were Forestry, MPDC, Metro and TasRail. All four entities were reliant on government operational funding[2] or commercial industry support[3] which is detailed in the Revenue and returns to owners section of this Chapter. These entities need to increase own source revenue to become sustainable without support from the Government.

4. Government operational funding is funding provided to meet community obligations and enable continued operations.

5. Commercial industry support is funding received as part of a service agreement to establish and operate an industry.

REVENUE AND RETURNS TO OWNERS

$4.45bn

Total Revenue

▲ 5%

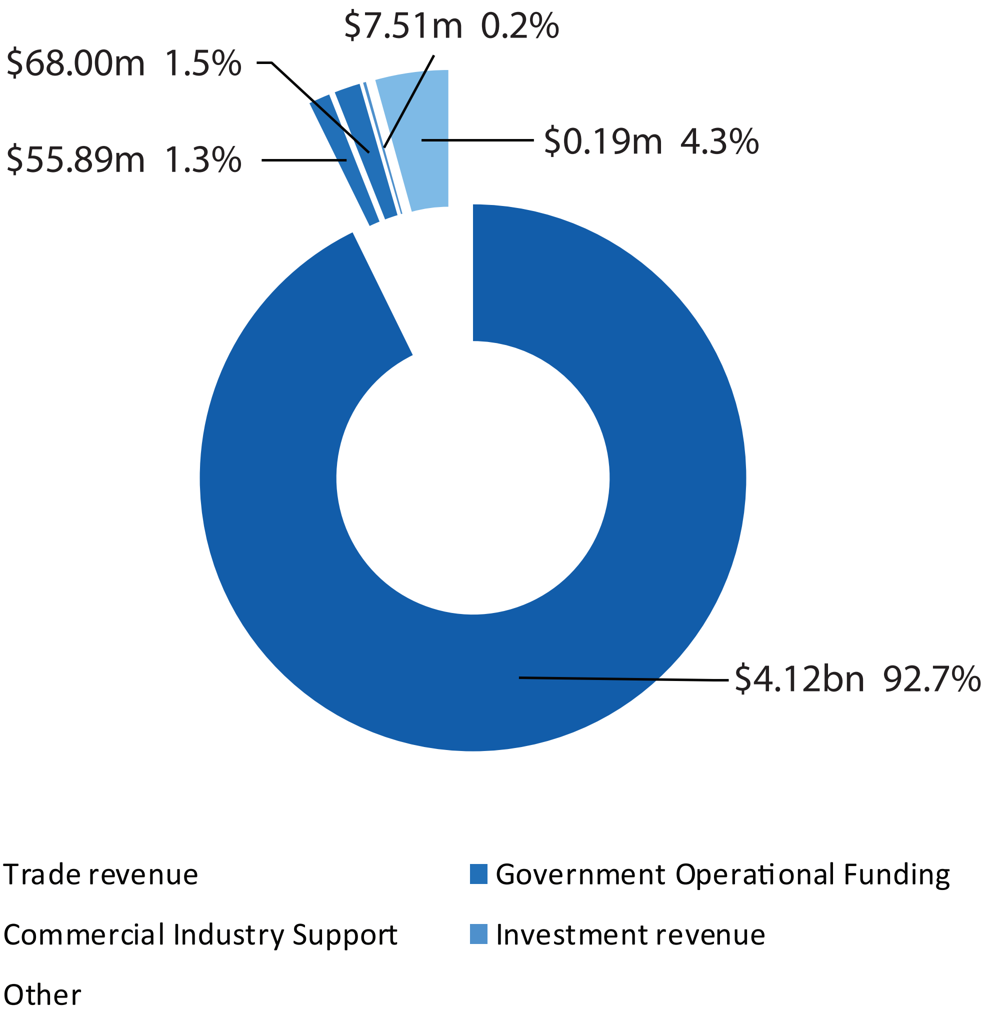
$342.69m

Total Returns to Owner

▲ 7%

Government businesses recorded $4.45bn of total revenue in 2016-17 which was an increase of $229.60m from 2015-16. The higher revenue was primarily the result of the increased electricity prices in the NEM for Hydro and MAIB's improved investment returns. Figure 3 shows the source of Government businesses revenue.

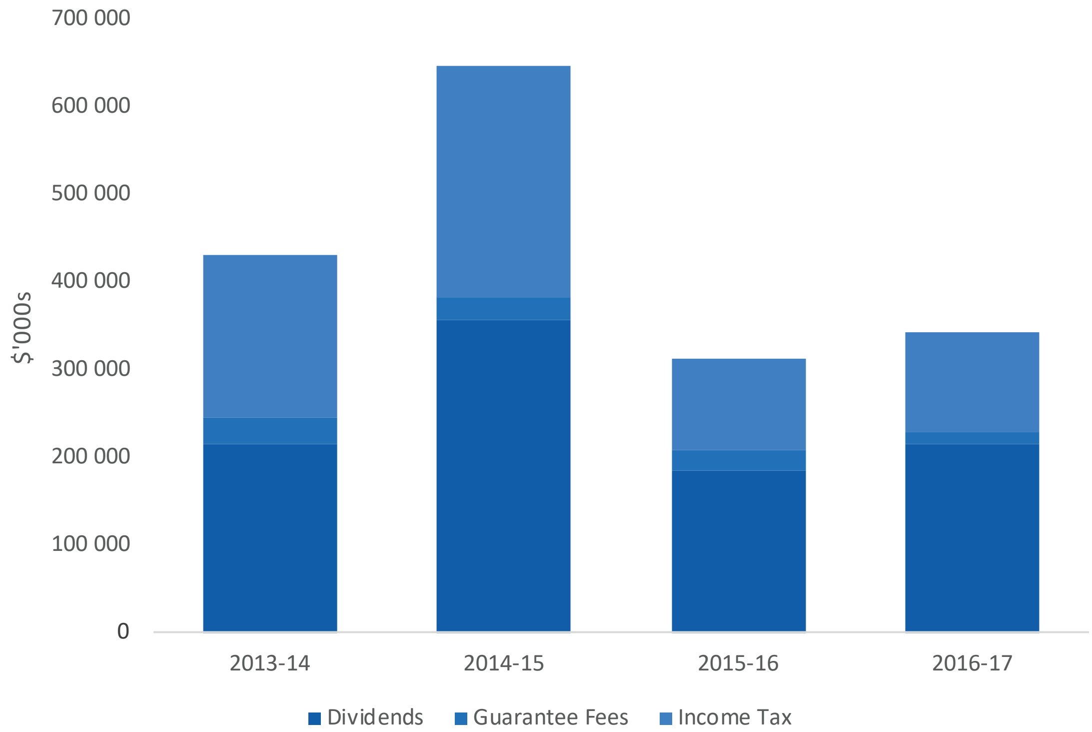
Figure 3: Government business revenue



Trade revenue included revenue streams generated from Government businesses' core activities. It accounted for 92.7% (2015-16, 92.3%) of Government businesses' total revenue, consistent with the prior period, while government operational funding accounted for just 1.3%, and commercial industry support 1.5%. This indicated as whole, the sector was primarily funded by own source revenue, however, the stronger performing businesses drove the result as the three energy businesses generated 67.9% of total Trade revenue. The majority of government operational funding and commercial industry support was confined to entities that provided low returns to the Government.

Government businesses returned $312.69m to the Tasmanian Government in 2016-17 and TasWater returned $30.00m to owners. Figure 4 shows a breakdown of the returns into dividends, income tax equivalents and guarantee fees paid during the year.

Figure 4: Returns to government and owners



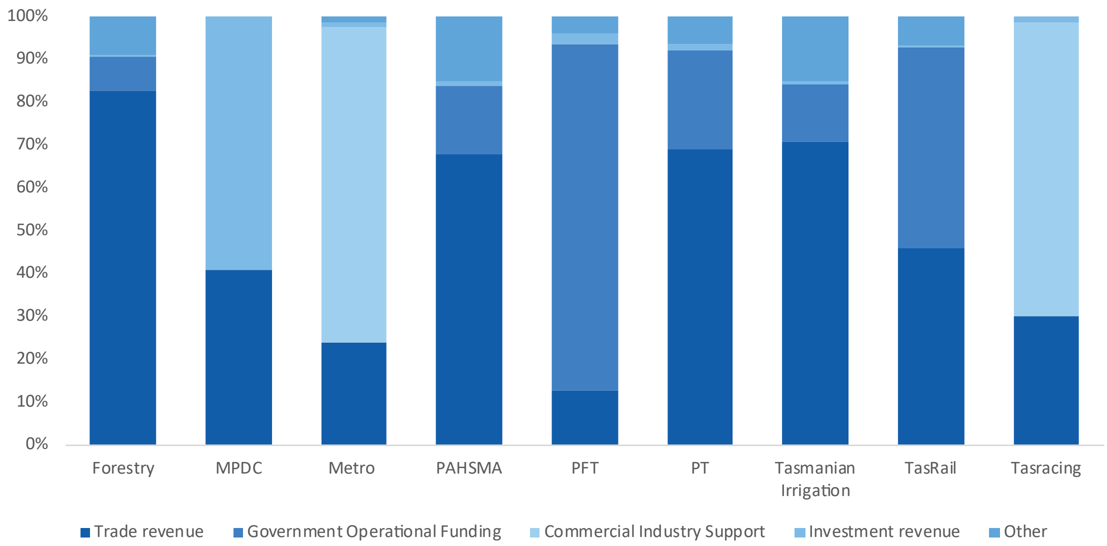
Dividends were paid by Aurora, TasNetworks, MAIB, Tascorp, TasWater, TT-Line and TasPorts in 2016-17. These seven Government businesses accounted for 98.3% of total returns to Government and owners.

Returns from Government businesses increased 7.0% compared to 2015-16 due to a special dividend of $40.00m paid by TT-Line as an initial contribution to the Vessel Replacement Fund. Another special dividend of $40.00m has been budgeted for 2017-18.

In absence of this special dividend, returns to Government would have reduced mainly due to no dividend from Hydro in 2016-17. Hydro is forecast to make a gradual return to its normal dividend policy with the next payment due in 2019-20.

Entities that did not make dividend payments in 2016-17 did not generate sufficient profit in 2015-16 to declare a dividend or were reliant on either government operational funding or commercial industry support funding to maintain operations and meet their community obligations as detailed in Figure 5.

Figure 5: Government operational funding and commercial support



In aggregate the nine Government businesses in Figure 5 received 34.7% of total revenue from either government operational funding or commercial industry support.

Metro and Tasracing received commercial industry support to facilitate operations. Metro generated losses in each of the past four years and as a result was reliant on equity contributions, in addition to the service contract with the Department of State Growth (State Growth), to maintain their bus fleet. Tasracing generated positive returns in 2016-17 as a result of the revised agreement with the Tasmanian Government that enabled a reduction of racing stakes. However, they did not pay any dividend as it was a Government policy decision to invest positive returns back into the industry.

TasRail, Tasmanian Irrigation, PT, PFT, PAHSMA and Forestry received government operational funding during 2016-17. Forestry and TasRail received 81.0% of total government operational funding and despite this, continued to make underlying losses. Forestry established a new operating model from 1 July 2017 with a continued focus on core business and the expectation to return to positive results in the future. TasRail relied heavily on government operational funding and capital funding to support below rail activities. It had a business focus to increase own source revenue in relation to above rail activities to reduce required funding in the future. It is not expected to provide returns to the Government.

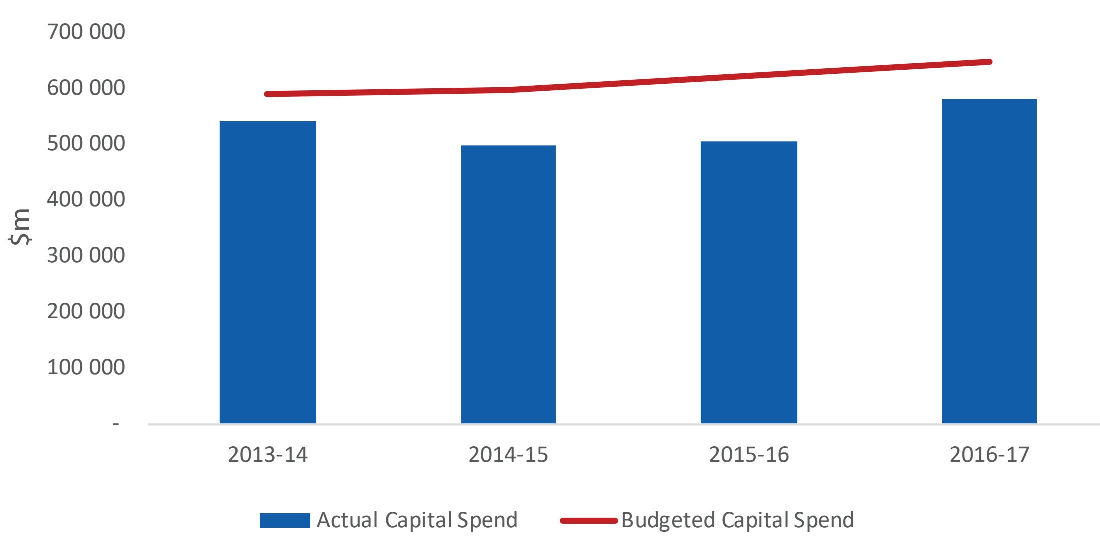
As some businesses continue to be reliant on Government funding or commercial support to maintain sustainability, and are not expected or are unlikely to generate profit sufficient enough to provide future returns to the Government the ‘for-profit’ corporate structures for these entities may not be appropriate unless a significant improvement in their financial performance is expected to occur.

CAPITAL INVESTMENT

$2.12bn	$2.46bn	$337.3m
Total Capital Spend Last 4 Years	Total Budget Capital Spend Last 4 Years	Total Spending Gap Last 4 Years

Government businesses (other than MAIB and Tascorp) invested a total of $2.12bn in capital projects over the past four years. This was $337.33m, or 14.7%, under combined capital budgets for that period, as shown in Figure 6.

Figure 6: Capital Spending to Budget*



**Includes all Government business other than PFCs.*

Figure 6 shows there was a consistent trend of capital spending being below capital budgets in each of the four years under review. Twelve out of the 15 Government businesses failed to meet budget across the four years. Tasmanian Irrigation, TasRail and TasNetworks accounted for 71.0% of the total capital spending gap, while TasWater and PAHSMA were the only two entities to invest above budget.

The explanations generally provided for the underspending were:

- delays in major projects moving into construction
- limited availability of contractors to undertake capital work
- capital works planned were no longer required due to changed circumstances
- capital work performed for a lower cost than originally planned
- ineffective or ambitious budgeting.

BORROWINGS

$3.23bn	0.75	1.7	64.4%
Total Debt	Current Ratio	Interest Coverage Ratio	Debt to Equity Ratio

There were eight Government businesses that had debt at 30 June 2017 (other than Tascorp whose borrowings were a key component of its core business). The total debt held (other than Tascorp) was $3.23bn (30 June 2016, $3.17bn) which was consistent with the prior year. Details of borrowings and relevant ratios are set out in Table 3.

Table 3: Debt and Relevant Ratios

Business	Borrowings $'000s	Current Ratio (CA/CL)	Cost of Debt	Interest coverage ratio	Debt to Equity (D/E)
Forestry	29 800	0.60	2.2%	(1.80)	26.5%
Hydro	854 833	0.81	4.9%	1.40	43.5%
PFT	590	9.68	*	*	37.1%
Tasmanian Irrigation	47 947	0.38	3.3%	(0.33)	161.1%
TasNetworks	1 785 762	0.45	4.8%	2.60	189.2%
TasPorts	27 334	2.93	5.3%	5.84	11.4%
Tasracing	9 447	3.61	5.4%	2.20	16.2%
TasWater	474 902	0.48	4.4%	2.33	30.0%
Total/Average**	**3 230 615**	**0.75**	**4.8%**	**1.74**	**64.4%**

** PFT loans are interest free with the Department of Treasury and Finance (Treasury).*

*** Total Borrowings balance and weighted average Current ratio, average used for the other ratios.*

Consistent with the past four years under review, Government businesses that had debt at 30 June 2017 were primarily in an industry with significant capital infrastructure. TasNetworks, Hydro and TasWater accounted for 96.4% (30 June 2016, 97.5%) of total debt held (other than Tascorp).

Government businesses with debt had a weighted average current ratio of 0.75. This was below the benchmark of 1, which indicated a Net working capital deficit. The result was driven by Forestry, Hydro, Tasmanian Irrigation, TasNetworks and TasWater whose ratios were impacted by short-term loan facilities and fixed term debt maturing in 2017-18.

The average interest coverage ratio for the sector of 1.7 was below the benchmark of 2.0 due to Forestry and Tasmanian Irrigation which generated Net losses during 2016-17.

TasNetworks' and Tasmanian Irrigation's debt levels resulted in a debt to equity ratio over 100%, which normally is considered high. TasNetwork's debt increased following a decision by the Government in January 2015 to transfer debt from Hydro to TasNetworks to rebalance the finances of the two businesses. Tasmanian Irrigation's level of debt was primarily to cover gaps between timing of Government funding and capital works.

AURORA ENERGY PTY LTD

INTRODUCTION

Aurora Energy Pty Ltd (Aurora Energy) is an electricity and gas retailer servicing customers on mainland Tasmania.

KEY RESULTS AND DEVELOPMENTS

In 2016-17, Aurora Energy achieved an underlying profit of $27.95m, which was 35.0% down on last year's result.
Revenue from sale of electricity and gas increased by 4.3% to $857.23m in 2016-17. At the same time, energy and network charges, of which the wholesale electricity costs are the main component, and cost of renewable energy certificates increased by 6.7% to $786.14m.
Aurora Energy's gross margin[1] decreased to 8.3% against a backdrop of rising wholesale electricity prices and a new pricing determination which took effect on 1 July 2016.
The 2016 pricing determination issued by the Office of the Tasmanian Economic Regulator (OTTER) left the retail margin unchanged from the previous determination at 5.7% and the allowed cost of providing services to small customers was reduced to $138.45 per annum, both of which impacted Aurora Energy's regulated pricing for residential and small business consumers.
While employee expenses increased by 6.3% to $18.95m during 2016-17, other expenses remained largely the same as in the previous year.
Cash on hand decreased by $15.87m to $46.31m at 30 June 2017. Aurora Energy's net operating cash declined by $23.18m to $12.77m in 2016-17. The reduction in operating cash flows reflected the lower profit.
Aurora Energy's Working capital remained positive at $86.68m at 30 June 2017.
Dividends and tax equivalents totalling $36.72m were paid to the Tasmanian Government during the year. Aurora Energy's directors declared the dividend for 2016-17 to be $17.61m.
Metering contestability, under the Power of Choice reforms, will commence on 1 December 2017.
Aurora Energy was investing in the development of new prepayment product to replace Aurora Pay As You Go (APAYG). Unused payguard devices held in stock were impaired to $nil and the depreciation of payguards already installed at APAYG customers' premises will be accelerated from 2017-18.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control, however we recommended improvements to the payroll process and raised awareness of inconsistency in authorising payroll payments using online banking compared to other payments.

6. Gross margin calculated as the difference between revenue from sale of electricity and gas and energy and transmission charges and cost of renewable energy certificates (adjusted for realised movements in fair value of electricity derivatives).

BACKGROUND

Aurora Energy was incorporated under the *Electricity Companies Act 1997*. From 1 July 2014, Aurora Energy operated as a stand-alone electricity retailer following the transfer of its distribution and telecommunications businesses to Tasmanian Networks Pty Ltd.

All Tasmanian customers, excluding resigents of the Bass Straight Islands, were are able to choose their electricity retailer, although Aurora Energy was the only authorised retailer who offered contracts to residential customers. There were two other retailers in Tasmania who offered market contracts to some business customers.

Aurora Energy was required to supply electricity under standing offer prices to all residential and small business customers. Standing offer prices were approved by OTTER.

Residents of the Bass Strait Islands were unable to choose their own energy retailer, with Hydro being both the electricity generator and retailer on King and Flinders Islands.

The majority of Aurora Energy's customers were residential and small business consumers on standard retail contracts.

Residential customers – choice of entering into a standard retail or market retail contract.

Small business customers – use less than 150 megawatt hours (MWh) of electricity per year per site. Choice of entering into a standard retail or market retail contract.

98%
of customer base

Large customers – business customers who use more than 150 megawatt hours (MWh) of electricity per year per site. Choice of entering into a market retail contract or purchase electricity directly from the wholesale market.

1%
of customer base

Aurora Energy was also one of two natural gas retailers in Tasmania. Retail gas prices were unregulated and gas customers accounted for 1% of all Aurora Energy's customers.

Aurora Energy operated in an environment influenced by the following:

New prepayment product

Aurora Energy was investing in the development of new prepayment product to replace APAYG. As a result, Aurora Energy impaired unused payguard devices held in stock, $1.17m, and will accelerate the depreciation of payguards already installed at APAYG customers' premises from 2017-18.

Concessions

Rebates were provided by Aurora Energy to eligible customers as a community service obligation which was funded by the Tasmanian Government. The cost of concession discounts was $40.90m in 2016-17 (2015-16, $38.45m). Aurora Energy was reimbursed for the cost of administering concessions.

Hedging electricity prices

Aurora Energy entered into electricity price swaps in order to manage financial exposures faced in purchasing electricity. Swaps are contracts to trade an amount of electricity for a certain price which were recorded at fair value derived from the market spot price. As at 30 June 2017, derivative financial assets totalled $68.05m and derivative financial liabilities totalled $9.34m, with a $14.40m liability against fair value hedges.

Aurora Energy's net position in relation to it its electricity price swaps remained positive at $44.31m at 30 June 2017 (30 June 2016, $35.26m). The position improved during 2016-17 with the difference reflected primarily in the cash flow hedge reserve, which totalled $31.01m at 30 June 2017 (2016, $24.60m).

Power of Choice reforms

Power of Choice is a series of reforms to the NEM to enable consumers to make more informed choices about the way they use electricity. These reforms will impact Aurora Energy in the following ways:

- Starting 1 December 2017, metering and related services are fully contestable and as a result Aurora Energy will need to appoint a metering coordinator. The metering coordinator will be responsible for engaging a metering provider (provision, installation and maintenance of meters) and metering data provider (collection, processing and transfer of consumption data for all of Aurora Energy's small customers. Large customers will continue to have the option to appoint their own metering coordinator.
- Advanced meters will progressively be made available to residential and small business customers. Aurora Energy's systems will need to be upgraded to receive and process electricity usage data every 30 minutes. The cost of new meters will be passed on to customers.
- Existing systems need to be integrated with new metering and metrology procedures.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 7 provides a snapshot of financial results from when it became a stand-alone electricity retailer

Figure 7: Aurora Energy Financial Snapshop

	2016-17 $'000s	Ind	2015-16 $'000s	Ind	2014-15 $'000s
Financial performance					
Revenue					
Revenue from sale of electricity and gas	857 229	▲	821 314	▼	903 817
Expenditure					
Energy and network charges and cost of renewable energy certificates	786 142	▼	736 578	▲	817 958
Employee expenses	18 947	▼	17 823	▼	16 602
Other operating expenses	21 685	●	21 929	●	22 344
Reconciliation from underlying result to net profit (loss) before tax					
Underlying result	27 948	▼	43 006	●	43 847
Electricity derivative fair value movements unrealised	(113)	▼	120	▼	1 137
Net profit (loss) before tax	27 835	▼	43 126	▼	44 984
Financial position[1]					
Cash on hand	46 309	▼	62 175	▲	37 345
Working capital	86 681	▼	93 519	▲	57 502
Net assets	108 003	●	108 685	▲	83 326
Tasmanian government returns/contributions					
Dividends paid	27 000		27 600		0
Income tax equivalent paid	9 720		14 481		32 932
Dividend Payout Ratio	90.37%		89.45%		87.66%
Dividend to Equity Ratio	16.25%		28.12%		8.54%
Capital return (transfer to TasNetworks)	0		0		523 378
Key financial ratios					
Gross margin	8.29%	▼	10.32%	▲	9.50%
Operating margin	1.0	▼	1.1	▲	1.0
Current ratio	1.4	●	1.5	▲	1.3
Liquidity Ratio	0.9	●	0.9	▲	0.7
Net Financial Liabilities Ratio	(1.91%)	▲	(1.20%)	▼	(4.20%)

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Assets are positive, liabilities are negative.

FORESTY TASMANIA

INTRODUCTION

Forestry Tasmania's (Forestry) main undertakings included:

- sustainable management of approximately 800 000 hectares of Permanent Timber Production Zone land
- forest operations for the production and sale of forest products from these forests (including making available at least 137 000 cubic metres of high-quality sawlogs per annum).

Forestry also performed a range of non-commercial and community service activities, including:

- contributing to State-wide fuel reduction burning and fire management
- maintaining agreed roads for public access and fire fighting
- forest education and research activities
- agreed recreation and tourism activities
- non-commercial harvesting and management of special species timbers.

All results in the following tables and analysis were based upon consolidated figures.

KEY RESULTS AND DEVELOPMENTS

In 2016-17, Forestry incurred an underlying loss before tax of $13.88m (2015-16, $17.23m) and a Net loss before tax of $53.47m ($35.35m).

The Net loss before tax deteriorated from the 2015-16 year, primarily due to a $32.98m fair value loss on the valuation of the biological assets, offset by the $8.00m de-recognition of the obligation for non-commercial zones at 30 June 2017.

A total comprehensive loss of $24.07m was recorded in 2016-17. This was after recognising a $18.34m actuarial gain, after tax, in the defined benefit superannuation liability. In 2015-16 an actuarial loss of $20.64m, after tax, was recognised.

Forestry received an equity injection totalling $113.03m from the Tasmanian Government in 2016-17. The equity injection was as a result of the Government absorbing Forestry's RBF defined benefits superannuation liabilities relating to:

- existing pensions as at 31 December 2016
- Forestry's RBF members of the contributory scheme who were made redundant in 2016-17 or who notified Forestry of their retirement by 30 June 2017.

Thirty positions were made redundant as part of the transition to a new operating model in 2016-17. The total redundancy cost was $1.66m. The defined benefits superannuation component associated with redundancies was paid by the Government.

Consistent with its focus on core business and in facilitating private sector participation, Forestry exited from its final tourism operation through the sale of the Tahune Airwalk business. The Tahune Airwalk business was sold to a private operator in December 2016 with a lease over the relevant assets being taken out by the new business owner.

At 30 June 2017, Forestry was in the process of negotiating the sale of plantation estates, which formed part of the Biological assets. On 14 September 2017, the Minister for Resources announced the sale of 29 000 hectares of hardwood forest plantations for $60.70m. As a result of the sale, Forestry's borrowings as at 30 June 2017 were subsequently retired.

On 26 October 2016, the Minister for Resources announced a number of matters relating to the future of Forestry, including a new operating model. Transition costs in 2016-17 in moving Forestry to the new operating model included redundancy and leave entitlements, exiting the head office in Melville Street, Hobart and other transition project costs totalling $6.20m. Out of total transition costs, $1.13m associated with the fit-out of the new head office in Bathurst Street Hobart were recorded as work in progress as at 30 June 2017 and will be capitalised in 2017-18.

Forestry's only return to the Tasmanian Government was a loan guarantee fee of $0.43m. No dividends were declared or paid.

AUDIT FINDINGS

Our audit opinion was issued on 27 September 2017 and included an emphasis of matter paragraph that drew attention to Note A2 in Forestry's financial report. This note described Forestry's application of Treasurer's Instruction GBE-08-52-08P in respect an exemption from application of the requirements of Australian Accounting Standard AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

At 30 June 2017 Forestry was in the process of negotiating the sale of plantation estates which formed part of the Biological assets. Due to the exemption, the assets being sold were not disclosed separately, as assets held for sale, in accordance with the requirements of AASB 5. Instead, these assets were classified as part of the Biological assets. The effect on the Statement of Financial Position as at 30 June 2017 was that Current assets and Non-current assets were understated and overstated, respectively. There was no impact on Net Assets or on prior year amounts.

We concurred with the Board's application of Treasurer's Instruction GBE-08-52-08P, however we drew attention in our audit opinion to disclosures made by the Directors in the financial report.

Our opinion on Forestry's financial report was not modified in respect of this matter.

In performing our audit we did not identify any significant deficiencies in internal control. We identified one moderate rated audit matter related to excessive annual leave balances and one low rated audit matter related to journal posting in the Finance One general ledger system. Three out of five findings from prior years were satisfactorily resolved. Forestry agreed to address the remaining matters in 2017-18.

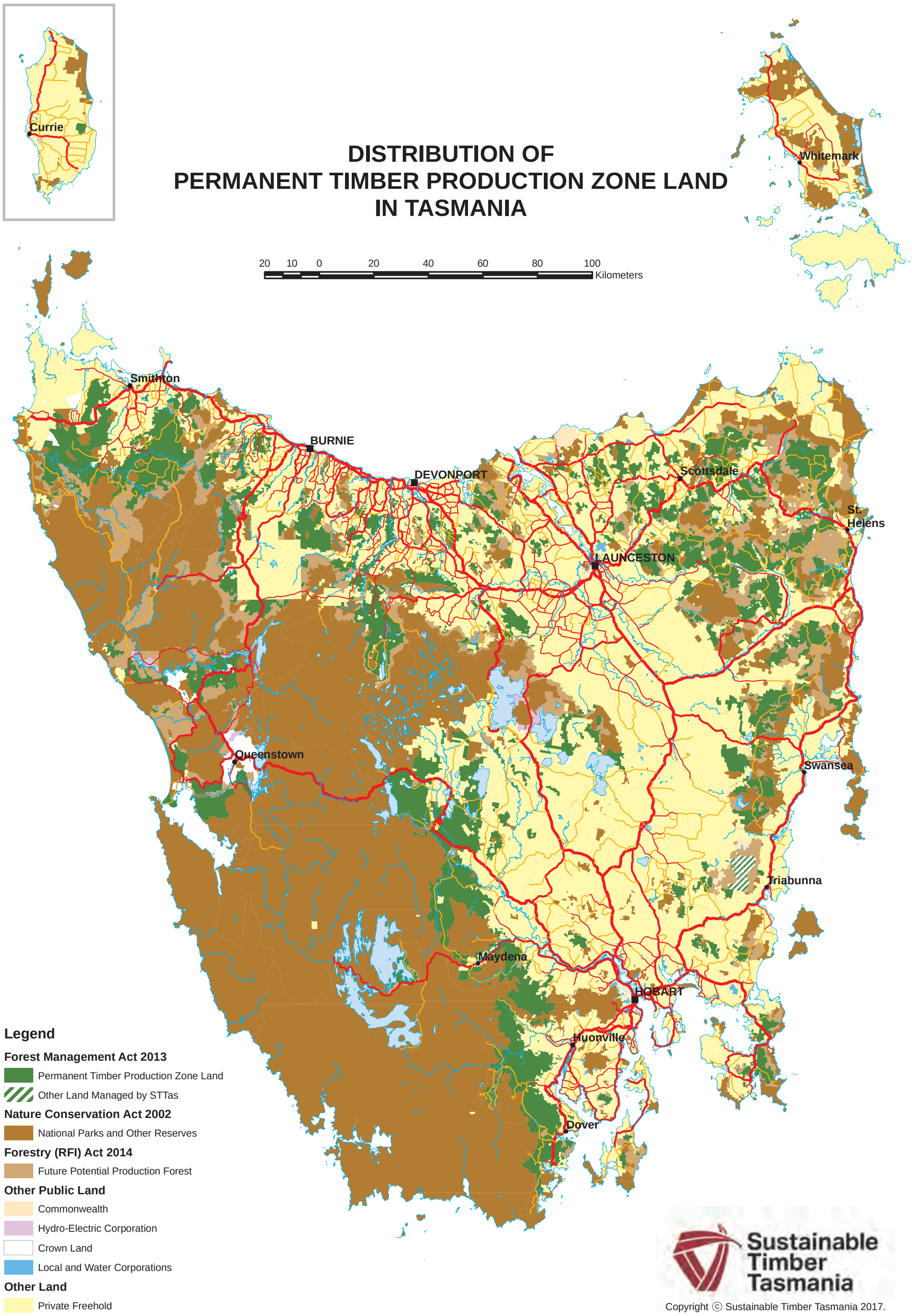
BACKGROUND

Forestry was established under the GBE Act. In recent years, there have been significant changes to the legislation under which Forestry performed its required functions. In 2013, the *Tasmanian Forests Agreement (TFA) Act 2013* (the TFA Act) and the *Forest Management Act 2013* replaced the former *Forestry Act 1920*. The TFA Act was repealed in 2014 and replaced by the *Forestry (Rebuilding the Forest Industry) Act 2014*. The main change for Forestry under the *Forestry (Rebuilding the Forest Industry) Act 2014* was the conversion of Future Reserve Land to Future Potential Production Forest (FPPF) land and its transfer to Crown Land Services.

In 2014, the Government established a review to examine Forestry's operating model, its commercial arrangements and constraints and how these were affecting its financial performance. On 26 October 2016 the Minister for Resources announced the new operating model that Forestry would operate under from 1 July 2017.

Figure 8 below shows the distribution of FT's Permanent Timber Production Zone land and future potential production forest, before the sale of plantation estates:

Figure 8: FT's Permanent Timber Production Zone



Source: Sustainable Timber Tasmania

Forestry operated in an environment influenced by the following:

Transition to new operating model

The government forestry business remained a Government business, but was downsized and renamed STT from 1 July 2017. It is expected STT will be leaner, more efficient and more agile and have a more defined commercial focus.

Transition costs in 2016-17 in moving Forestry to the new operating model included redundancy and leave entitlements, exiting the head office in Melville Street Hobart and other transition project costs, totalling $6.20m. Out of total transition costs, $1.13m associated with the fit-out of the new head office in Bathurst Street Hobart were recorded as work in progress as at 30 June 2017 and will be capitalised in 2017-18.

Redundancy Program

Twenty six positions were made redundant during 2016-17 at a total cost of $1.45m. Another four positions will be made redundant by 31 December 2017 at a cost of $0.21m. This figure was accrued in the Forestry's financial report as at 30 June 2017.

The superannuation liabilities associated with Forestry's RBF members of the contributory scheme who were made redundant in 2016-17 were absorbed by the State Government.

Firefighting

Forestry had obligations under an Inter-Agency protocol to manage fire risks, including fuel reduction burning, and to fight wild fires. An annual grant was made by Treasury to assist Forestry in maintaining its fire-fighting capacity and to fight wild fires. In 2016-17, Forestry received $2.00m.

Litigation with Gunns Plantations Limited (Gunns)

As at 30 June 2016, Forestry recognised a liability for the potential settlement of the following claims with the liquidator of Gunns:

- alleged preferential payments over remittances made by Gunns to Forestry in the twelve month period to 25 September 2012
- alleged 'unjust enrichment' of Forestry for compensation of the time, effort and cost expended by Gunns in cultivating the trees planted on land subject to the right.

Settlement of this liability was finalised in 2016-17.

Sale of Tahune AirWalk business

Consistent with its focus on core business and in facilitating private sector participation, Forestry exited from its final tourism operation through the sale of the Tahune Airwalk business. The Tahune Airwalk business was sold to a private operator on 16 December 2016 with a lease over the relevant assets being taken out by the new business owner. Total proceeds from the sale of Tahune Airwalk business and stock were $0.64m.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 9 provides a snapshot of financial results for 2016–17 in comparison to prior years.

Figure 9: Forestry Financial Snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Reconciliation from underlying result to net profit (loss) before tax								
Underlying result	(13 876)	▼	(17 228)	▲	(30 680)	▼	(7 010)	▲
Biological asset valuation	(47 597)	▼	(14 620)	▼	37 384	▲	(23 513)	▲
Movement in obligations for non commercial zones	8 000	▲	(3 500)	▼	3 400	▲	(600)	▼
TCFA[1] capital grant income earned	0		0	▼	1 525	▼	3 201	▼
Net profit (loss) before tax	(53 473)	▼	(35 348)	▼	11 629	▲	(27 922)	▲
Total comprehensive profit (loss)	(24 073)	▲	(65 428)	▼	28 446	▲	(42 348)	▼
Financial position[2]								
Biological assets[3]	156 631	▼	207 700	●	218 325	▲	171 343	▼
Borrowings	(29 800)	▼	(14 400)	▲	(33 223)	▼	(221)	▼
Superannuation liability	(20 407)	▲	(158 288)	▼	(132 587)	▲	(148 808)	▼
Net assets	112 569	▲	26 380	▼	61 815	▲	33 369	▼
Key financial ratios								
Operating margin	1.0	▲	0.9	●	0.9	●	0.9	▲
Return on assets	(21.8%)	▼	(11.0%)	▼	6.5%	▲	(10.1%)	▼
Return on equity	(61.4%)	▲	(100.8%)	▼	34.1%	▲	22.1%	▼
Current ratio	0.6	▼	0.8	▲	0.6	●	0.6	▲
Cost of debt	2.2%	▲	2.5%	▲	2.8%	▲	3.4%	▲
Interest coverage ratio	(1.8)	▼	(1.6)	▲	(2.4)	▼	1.8	▲
Debt to equity	26.5%	▲	54.6%	▼	53.7%	▼	0.6%	▲

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Tasmanian Community Forest Agreement.

2. Assets are positive, liabilities are negative.

3. Biological assets included forest, roads, land and regeneration make good asset.

HYDRO-ELECTRIC CORPORATION

INTRODUCTION

Hydro Tasmania is the trading name of the Hydro-Electric Corporation (Hydro), an integrated energy business that operated through three brands: Hydro (electricity generation and trading), Momentum Energy Pty Ltd (Momentum Energy) (retail) and Entura (professional services).

Hydro's main business was the generation of electricity from 30 hydropower stations and one gas-powered station and the sale of this electricity in the NEM. Off-grid, the Bass Strait Islands' electricity supply was generated from diesel, wind and solar. Hydro was Australia's largest water manager, responsible for significant lakes, rivers and smaller water bodies across six large catchments covering 35 per cent of Tasmania's land area.

Specific analysis and commentary related to Hydro's subsidiary Momentum Energy, has been included in a separate section at the end of this Chapter.

Entura provided engineering, scientific and management services relating to water management and energy supply to national and international clients as well as to Hydro for operational and capital programs associated with generation infrastructure and developments.

Unless otherwise stated, this Chapter reports Hydro's financial information on a consolidated basis.

KEY RESULTS AND DEVELOPMENTS

Hydro produced an underlying profit, being the result before fair value movements, impairment and tax, of $20.10m for 2016-17 (2015-16, loss $65.44m). The improved result was attributed to higher sales revenue in 2016-17 and the elimination of additional costs incurred during 2015-16 relating to the cost of supplementary electricity generation using gas and diesel to mitigate the risk of an electricity supply shortfall.
Hydro generated $1.44bn in sales revenue during 2016-17, an increase of $104.54m, or 7.8%, from the prior year. This was primarily a result of significant increases in electricity prices observed in the NEM. Revenues returned to levels in the 2014-15 financial year, before low water storage levels and the fault with the Basslink interconnector that affected revenues in 2015-16.
In 2016-17, Hydro incurred a Net loss before tax of $308.71m (loss, $292.30m) despite stronger revenues and an improved underlying result. The loss was primarily attributable to net fair value losses of $328.02m (loss, $285.56m) incurred on Basslink financial assets and liabilities and energy price and treasury derivatives.
Net cash inflows generated by operating activities totalled $117.60m for 2016-17 (net cash inflow, $17.53m). The operating cash inflows, combined with cash flows related to financial derivative transactions were used to fund Hydro's capital expenditure program. Payments for property, plant and equipment increased to $131.21m in 2016-17 compared to $109.08m in 2015-16, with additions related primarily to generation assets.
Hydro's borrowings decreased by $55.27m during 2016-17, to $854.83m at 30 June 2017. In January 2017, in accordance with a directive from the Treasurer, $50.00m of borrowings was transferred from Hydro to TasNetworks. The reduction in debt was treated as an equity contribution from the government. In 2015-16, a similar transfer of $70.00m occurred.
No dividend was declared during 2015-16 resulting in no payments being made in 2016-17. No dividend was declared for the 2016-17 financial year.

Agreements and instruments relating to Hydro's use of the Basslink interconnector gave rise to various financial assets and liabilities recognised at fair value in the statement of financial position. The Basslink net financial liability increased from $551.58m at 30 June 2016 to $587.93 at 30 June 2017 as a result of the re-estimation of the fair value of contract rights and obligations over the remaining contractual term.

The defined benefit superannuation liability decreased by 15.2% to $317.69m, due to changes in financial assumptions, including a reduction in the number of scheme members and pensioners, and a decrease in the indexation rate for compulsory preserved benefits, from 4.5% at 30 June 2016 to 3.0% at 30 June 2017. An actuarial gain of $56.19m was recognised in other comprehensive income.

AUDIT FINDINGS

In performing our audit, we did not identify any high risk deficiencies in internal control. Eleven low risk IT related audit findings were reported relating to improvements to enhance enterprise software access controls and operating system security configurations.

BACKGROUND

Hydro was established as a Commission under the *Hydro-Electric Commission Act 1944* and was corporatised as a GBE under the *Hydro-Electric Corporation Act 1995*.

Hydro:

- is a renewable electricity generator in Tasmania
- is a renewable energy developer
- operates a retail business on mainland Australia
- owns the electricity distribution assets on the Bass Strait Islands
- owns and operates a gas-fired power station
- invests in renewable energy activities in Australia
- has a 25% ownership in the Woolnorth joint venture, which owns wind farms on the North-West and North-East coasts of Tasmania
- operates a number of wind farm development sites
- operates a consulting arm under the name Entura
- provides consulting services internationally, with international offices in India and South Africa.

Wholly owned entities

Entities controlled by Hydro during 2016-17 and their principal business activities undertaken are described below:

- Bell Bay Power Pty Ltd had responsibility for demolition of the oil fired power station which ceased operating in March 2009.
- Bell Bay Three Pty Ltd had no assets and did not operate in 2016-17.
- Lofty Ranges Power Pty Ltd owned a 50% interest in an electricity generating joint venture in South Australia. It generated a net loss after tax of $0.14m in 2016-17 (2015-16, net profit after tax $0.06m).
- Hydro Tasmania Consulting (Holdings) Pty Ltd was the holding company for Hydro's consulting activities in India, undertaken through its 99.9% owned Indian subsidiary company, Hydro Tasmania Consulting India Private Limited. The Indian subsidiary made a net profit after tax of $0.12m during 2016-17 ($0.13m).
- RE Storage Project Holding Pty Ltd was established for the purpose of participating in renewable energy development projects. The company did not operate in 2016-17.
- HT Wind Operations Pty Ltd (HT Wind Operations) owned a number of companies which were holding companies for potential future developments.
- Momentum Energy, the activities of which are described later in this Chapter.
- AETV Pty Ltd (AETV) operated three gas-fired power generation units in Tasmania. AETV's revenues increased in 2016-17 to $203.13m from $131.49m in 2015-16. AETV's recorded a profit after tax of $17.10m for 2016-17 (loss after tax $41.72m) due mainly to the unwinding of onerous contract provisions.
- Hydro Tasmania South Africa Pty Ltd was established during 2012, and in 2012-13 became a joint venture partner in a mini-hydro scheme in Neusberg, South Africa. Hydro's investment in the joint venture was $1.21m at 30 June 2017, down from $3.26m at 30 June 2016 due to the take up of a share of loss in 2016-17 of $1.27m.

The Auditor-General provided audit dispensation to all wholly-owned subsidiary companies incorporated in Australia, aside from Momentum Energy.

Hydro operated in an environment influenced by:

The Basslink fault

An assessment of the potential legal costs and settlement outcomes with the operator of the Basslink cable, Basslink Pty Ltd, was made through discussion with Hydro's internal and third party legal representatives. Given the status of the enquiry of the fault, the uncertainty of the timeframe and result of any legal action which may be taken, no contingent assets or liabilities have been disclosed in the 2016-17 financial statements in connection with the fault. Hydro recouped from Basslink Pty Ltd the payments under the Basslink Service Agreement to which it believes it is entitled at the date of this Report.

Revenue

Hydro generated over 58% of its consolidated revenue from sales made by Momentum (refer below for further analysis). Hydro as a power generator earned revenue through the sale of electricity into the NEM. During the year, the NEM has been impacted by rising wholesale electricity prices, coal generators being retired and not replaced and increased demand.

Other income included revenues generated through the creation and sale of renewable energy certificates, which also experienced high market prices.

Income tax

Hydro had material taxation balances, with deferred tax assets of $823.28m and liabilities of $1.30bn at 30 June 2017. Taxation balances by their nature are inherently prone to judgement and interpretation in a changing legislative environment. Tax specialists reviewed the tax equivalents calculation prepared by Hydro in accordance with applicable legislation to ensure its accuracy.

Borrowings

Hydro operated with a significant level of debt. At 30 June 2017, Hydro had drawn down $850.10m of debt under a Tascorp facility with a limit of $925.00m. As part of its borrowing contracts, Hydro is subject to specific covenants.

Hydro's loan covenant calculations prepared by management were reviewed and re-calculated to test Hydro's compliance with its loan covenants during and as at 30 June 2017.

The weighted average cost of debt for 2016-17 was lower than that experienced in 2015-16 at 4.9% (2015-16, 5.3%).

Onerous contracts

Hydro had a liability provision of $94.13m for onerous contracts at 30 June 2017 relating to:

- AETV's gas transportation contracts
- the Bairnsdale Tolling Agreement
- Hydro's forward agreements for the purchase of renewable energy certificates.

These onerous contracts were valued based on the excess of costs to be incurred by Hydro over revenues to be generated in discharging the obligations under the agreements.

Onerous contracts in existence in the prior year reduced due to the contracts moving one year closer to their end date. However, the total balance increased due to the contracts relating to forward agreements for the purchase of renewable energy certificates marked against a price curve for certificates becoming onerous due to high market certificate prices experienced during the year.

Provisions for decommissioning and rehabilitation

A liability provision for decommissioning and rehabilitation expense was recognised at 30 June 2017 for:

- AETV – provision for decommissioning, closure and site rehabilitation of the Tamar Valley power station. The provision was carried at $29.82m and work was not expected to be undertaken until 2039
- Bell Bay Power – provision for the removal of power station assets, demolition and clean up, and demolition of the wharf loading facility at the Bell Bay power station. The provision was carried at $20.70m and is expected to be carried out from 2018 through to 2027.

The provisions were re-assessed by experts in the current year based on updated demolition and rehabilitation expectations.

Woolnorth Wind Farm group equity accounted investment

Hydro held a 25% equity accounted investment in the consolidated Woolnorth Wind Farm group. The value of Hydro's investment at 30 June 2017 was $58.04m, with dividends of $5.88m paid to Hydro during 2016-17 and $3.39m recognised in profit or loss, being Hydro's share of profit for the year.

ASSET MANAGEMENT

Introduction

Following media reports in September 2016 about Hydro's ability to maintain its assets, we reviewed Hydro's approach to asset management during the 2016-17 financial audit. The review sought to address concerns relating to specific comments made in the 10-Year Asset Management Plan 2016 (the 2016 Plan) that were reported in the media, covering funding for reactive maintenance, extended timelines and deferred refurbishments, asset plans only targeting 70% of current production levels and material delays in addressing known and emerging issues.

Media reports relating to Hydro's 10-Year Asset Management Plan 2016

References to the 2016 Plan quoted in the media indicated Hydro would struggle to maintain the State's hydro-electricity network over the next decade under its existing maintenance budget. The media reports included quotations from the 2016 Plan that stated:

> "Put simply, the number of asset issues is starting to increase at a rate faster than that which the current refurbishment and maintenance regimes are able to address. This culminates in the Corporation progressively being exposed to increasing levels of asset-related business risk."
>
> "The asset strategy prioritises the top 27 production lines (half of the hydro machines), overtly targeting security of 70% of current production levels through an intense 10 years of focussed mechanical intervention. As such, the remaining 30% of production lines receive minimal attention and expose the business to increasing levels of revenue variability associated with the decrease in reliability and availability of these production assets."
>
> "Material delays in addressing known and emerging asset issues will create a potentially insurmountable bow wave of work such that, even if the funds are available at a later stage, it becomes unrealistic to effectively deliver the amount of major projects required to redress the situation whilst sustaining the necessary levels of generation to deliver revenue requirements."

The Hydro's response to the media reports was that selective reporting of extracts from the 2016 Plan was misleading and were taken outside the context of the total plan. Hydro advised the 2016 Plan was a routine annual internal planning document, which has been prepared since 2010. The 2016 Plan outlined Hydro's maintenance priorities over the next decade, explained the likely consequences if Hydro failed to invest and manage its assets properly, and outlined Hydro's plan to manage and maintain the assets.

The 2016 Plan identified the challenges ahead, but it also detailed Hydro's plan and budget to overcome those challenges. Hydro contended the media selectively reported the risks, but not the identified solutions. Hydro further advised that since 2007, 85% of the significant asset issues prioritised had been rectified.

In response to the media articles, Hydro stated it had no plans to abandon or decommission any power stations or run them to failure. The statement in the 2016 Plan that Hydro planned to focus investment on the top 27 production lines because they produced 70% of the energy did not mean that the other 30% of the assets were to be abandoned. Recent upgrading of machines at the Paloona, Meadowbank, Tungatinah Cluny, Wayatinah and Liapootah stations, which were included in "the other 30 percent" evidenced Hydro's commitment to maintaining all production lines. Over the last 10 years, Hydro through its 10-Year Asset Management Plans had approximately 45% of its investment for machine refurbishment allocated to the "the other 30 percent". In addition, six machines included in "the other 30 percent" will be refurbished in the next two financial years under the 2016 Plan. These machine refurbishments have been prioritised based on higher risk and advanced age. Hydro advised 19 of the top 27 higher value production lines had been refurbished/ upgraded in the last 10 years.

Scope of our review

Our review, which was not an audit or assurance engagement undertaken under Australian Auditing Standards, involved discussions with Hydro employees and the examination of relevant information.

Questions considered during our review and our findings related thereto are summarised below:

Hydro asset operating and capital expenditure

Is expenditure allocated between planned/reactive maintenance and capital refurbishment?

Operational expenditure was not specifically allocated between planned and reactive maintenance. A contingency allocation was budgeted for reactive work. Capital refurbishment budget does not have an allocation for reactive work. However, urgent high risk re-active capital work was accommodated by deferring lower risk stand-alone capital works or cash flow management of larger capital projects.

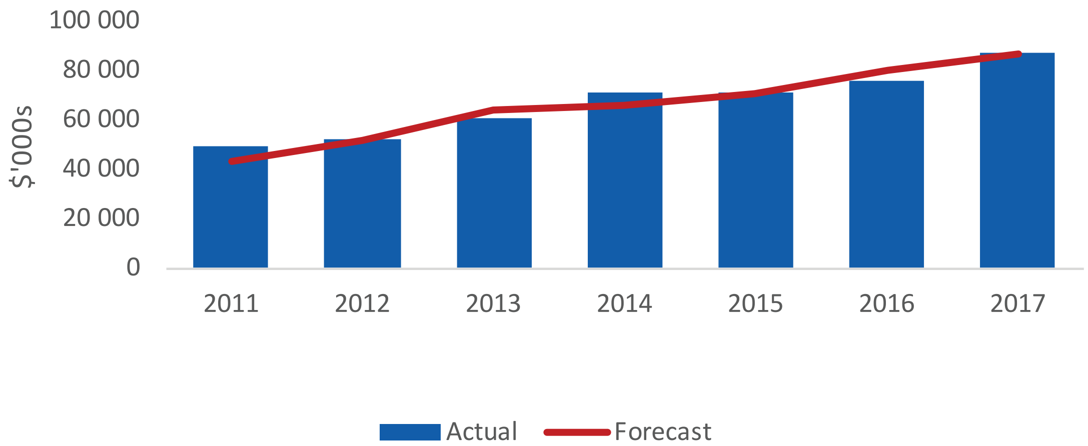
How does actual expenditure compare to the 10-Year Asset Management Plan?

The first 10-Year Asset Management Plan was prepared in 2010. Budget forecasts from 10-Year Asset Management Plans from 2010 to 2016 were obtained, and budgeted capital expenditure was compared to known actual expenditure. Rolling budgets from each 10-Year Asset Management Plan, revised annually in response to asset management requirements, were consistent with actual expenditure.

Actual expenditure exceeded budget requirements by $3.3m during the last seven-year period. When considering each year of expenditure under the 10-Year Asset Management Plans prepared in 2010 through to 2016, annual actual expenditure over the period averaged 1.6% of budget. This included a maximum difference of $6.3m or 14.7% related to 2010-11 expenditure, in part contributed by the advancement of the three-machine upgrade in the Tungatinah station.

Figure 10 provides a summary of actual capital expenditure against budget.

Figure 10: actual capital expenditure against budget



Source: Hydro

Reactive maintenance

Is the number of reactive maintenance "jobs" reported/completed/not started captured and recorded?

Unplanned maintenance was added to a monthly work plan and identified as reactive. These were normally high priority maintenance jobs to address asset risks and production breakdowns. Hydro reported the number of reactive maintenance jobs as part of its maintenance planning performance statistics. Where planned maintenance jobs were not completed to accommodate unplanned jobs or to maintain machine availability to respond to market needs, they were re-scheduled in future monthly work plans, but not identified as reactive since these were planned ahead.

Is the value of reactive maintenance "jobs" reported/completed/not started captured and recorded?

As part of the maintenance performance statistics, the cost of works was recorded. Information provided by Hydro indicated over the past three years, 2 908 re-active maintenance jobs were undertaken at a cost of $1.70m. Over the same period, Hydro undertook over 21 000 maintenance jobs, at a cost of $132.90m.

Backlog maintenance

How is this recorded/recognised for hydro generation assets, and is this information captured over time? (if so, what is the trend)

A list of maintenance jobs and work orders was maintained for re-active and backlog maintenance, which also recorded the value of the maintenance activity. Maintenance jobs not completed within a given month (backlog) were rescheduled to the best outage opportunities in future months. Scheduling was undertaken on a risk-based prioritisation. In most instances, delayed jobs were due to the need to maintain machine availability for production requirements or to allocate resources to address unplanned production breakdowns.

Hydro considered an appropriate measure of maintenance performance was the 'forced outage factor' (incident that prevents a machine from operating when required). The forced outage factor for the portfolio peaked above 2% only once in the last 12 financial years (2008-09, 2.62%), and averaged 1.36% from 2005-06 to 2016-17. Hydro considered the low level of forced or unplanned outages was an indication of the effectiveness of the asset maintenance program and in the last 10 years, the benefit of the capital refurbishment program.

The 10-Year Asset Management Plan 2016

Does the 2016 Plan indicate how planned/reactive maintenance and capital refurbishment will be funded (is there an identified funding shortfall)?

The budget for maintenance expenditure included a contingency allocation for unplanned jobs within the Operations and Maintenance budget set in Hydro's Corporate Plan. However there was no budgeted amount for unplanned capital expenditure within the plan. Unplanned capital expenditure was accommodated within the approved annual capital budget through a combination of deferred lower risk smaller capital works and cash flow timing adjustments of bigger projects.

Confirm if the 2016 Plan identifies existing hydro generation assets nearing end of life:

- *When/how will they be de-commissioned?*

  Hydro does not intend to retire or decommission any stations in the next 10 years, except the Bell Bay oil-fired power station. Consequently, the 2016 Plan did not identify when or how generation assets, that are nearing the end of their lives, will be retired or decommissioned. The 2016 Plan identifies refurbishment and upgrade plans for assets approaching end of life.

- *How is maintenance for these assets being managed?*

  Hydro's 10-Year Asset Management Plans 2010 to 2016 prioritised the upgrade of the majority of its primary protection assets for stations and machines. This work had been completed. In addition, Hydro established the commercial and technical basis of its generator and turbine modernisation program. Works had commenced, with a third of the hydro machines now refurbished.

  Due to a large number of aged assets, Hydro's strategy was to maintain its hydro generation assets on a just-in-time basis which resulted in a limited ability to accommodate further deferral of planned maintenance and refurbishment works. The strategy placed a heavy reliance on an effective asset management system and risk management process. These practices have been reviewed and audited in the past five years by an independent specialist and OTTER and were consistent to industry practice and conformed to the general principles and guidelines of Asset Management Standard ISO55001 *Asset management -- Management systems -- Requirements*.

For generation asset major refurbishments:

- *Is the timing of these identified in the 2016 Plan?*

  The 2016 Plan identified funding allocations each year for each station, as well as by the key components that make up each station. Turbine and alternator refurbishments are planned by station over the 10-year period.

- *Is the amount identified in the 2016 Plan?*

  The 2016 Plan shows that Hydro is planning to increase its investment in its generation assets. Operational and capital expenditure is planning to increase by $12.40m or 10.3% from 2015-16 to 2016-17, to a total of $132.50m. Further increases are budgeted for 2017-18 through to 2019-20. The forward trend of the plan was for further investment in capital rather than operational expenditure in connection with the generation assets.

- *Does the 2016 Plan document how the refurbishments will be funded?*

  The Investment Management Team in Hydro apportioned divisional capital allocations, and approved capital projects and unbudgeted operational expenditure in line with Board delegation limits. Hydro expected the cost of the refurbishments to be met by internally generated funds.

Does the 2016 Plan indicate the impact on remaining useful life of the assets?

The 2016 Plan did not specifically indicate any impact that the refurbishments would have on the remaining useful lives of the generation assets. Hydro indicated the assessment of useful lives formed part of its risk management process.

High risk Hydro generation assets

Why are Scotts Peak, Edgar and Murchison classified as high risk?

A number of assets, namely Scotts Peak, Edgar and Murchison, were identified as dams from which major risks stem. Hydro assessed these as high risk based on potential consequences that would occur following an adverse event. Hydro assessed the annual probability of dam failure causing high adverse consequences was between 1 in 1 000 and 1 in 10 000, reflecting a very low probability of occurrence. These risks are summarised as follows:

1. Scotts Peak: this dam was built to a different construction standard 50 years ago with less understanding of earthquake risks. With current advanced methodology of earthquake risk evaluation, it was found to be vulnerable to geological faults such as severe earthquake. Should an earthquake occur, this may result in instability and potential failure.
2. Edgar: this dam was also built 50 years ago and was sited adjacent to a fault line, and if a fault rupture was to occur, the dam's foundations may be susceptible to liquefaction.
3. Murchison: this dam was in good condition but its spillway was of an insufficient capacity to pass extreme floods. These extreme flood events were not identified and modelled at the time of original dam design. These risk events were identified in Hydro Tasmania's cyclic risk evaluation.

Hydro indicated both Edgar and Murchison dams were in acceptable condition for their age, with routine maintenance and standard monitoring and were not deteriorating in condition.

Hydro advised the dam portfolio was safe and was managed through a comprehensive dam safety program that was subject to independent expert assurance and regulatory oversight. This program actively monitored the performance of all the dams in the portfolio.

The 10-Year Asset Management Plans prioritised investment in the dam portfolio to ensure the structures were upgraded to modern engineering standards and regulatory expectations. Investment was planned for Scotts Peak and Edgar Dams with these projects currently in the design and development phase. Work was also progressing on developing an appropriate response to the Murchison Dam spillway capacity.

Hydro advised it has planned improvements to the management of other dams such as spillway gates, dewatering outlets and the resolution of minor deficiencies on a risk prioritised basis.

What are the consequences of being classified as high risk?

In dealing with these high risks, Hydro had contingency plans in place. These included reactive communication and evacuation plans and proactive technical response plans to mitigate the potential for cracking and associated leakage.

Are any other generation assets likely to be classified as high risk in the future?

The life safety risk for each dam was determined by quantitative risk assessment in accordance with ANCOLD (Australian National Committee on Large Dams) guidelines and definition of risk tolerability. Risk assessments, risk tolerability ratings and risk mitigation works were reported to the DPIPWE acting as the Dams Regulator. The assessment was undertaken in an annual program of inspections and through a review of dam management. Given the age of Hydro's infrastructure, there were some dams that returned a moderate risk rating.

Changes to risk ratings were generally slow moving and any sudden changes to the assets or their environments would be captured through the routine monitoring and inspection reviews.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 11 Provides a snapshot of Hydro's financial results for 2016-17 in comparison to prior years.

Figure 11: Hydro Financial Snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Revenue from sale of products and services	1 440 403	▲	1 335 863	▼	1 467 161	▼	1 978 012	▲
Reconciliation from underlying result to net profit (loss) before tax								
Underlying result	20 095	▲	(65 435)	▼	62 352	▼	241 113	●
Movements in fair value	(328 022)	▼	(285 565)	▲	(102 927)	▲	162 110	▼
Revaluation and impairment expense	(781)	▼	58 697	▲	232 066	▼	(220 492)	▲
Net profit (loss) before tax	(308 708)	▼	(292 303)	▼	191 491	●	182 731	▲
Total comprehensive profit (loss)	(181 765)	▼	(3 648)	▼	169 191	▲	147 900	▲
Financial position[1]								
Generation assets	4 284 747	●	4 299 948	▲	3 887 006	▲	3 675 520	▼
Net financial liabilities [2]	(1 129 857)	▼	(788 341)	▼	(473 781)	▼	(399 367)	▲
Borrowings	(854 833)	▲	(910 100)	▼	(855 015)	●	(864 002)	●
Net assets	1 964 539	▼	2 095 707	●	2 054 355	▲	1 815 715	●
Equity contributions	50 000	▼	70 000	▼	205 000	▲	(7 033)	▼
State Government returns/contributions								
Government guarantee fee	5 045		8 483		8 719		11 222	▼
Income tax equivalent paid	0		5 000		80 069		104 208	●
Dividends paid	0		25 000		118 576		116 058	▼
Financial sustainability								
Current ratio	0.8	●	0.8	▼	0.9	▲	0.6	▼
Return on assets	1.3%	▲	(0.1%)	▼	2.6%	▼	6.3%	▲
Return on equity	(11.0%)	▼	(9.9%)	▼	7.1%	▼	8.0%	▲
Weighted average cost of debt	4.9%	▼	5.3%	▼	6.7%	▼	7.4%	▲
Interest coverage ratio - EBIT	1.4	▲	(0.1)	▼	1.9	▼	4.0	▼
Debt to equity	43.5%	●	43.4%	●	41.6%	▲	47.6%	▲

Indicator ▲ *improvement from prior year* ▼ *deterioration from prior year* ● *no material change from prior year*

1. Assets are positive, liabilities are negative.

2. Positive number indicates liquid assets in excess of total liabilities.

MOMENTUM ENERGY PTY LTD

Introduction

Momentum Energy Pty Ltd (Momentum Energy) was based in Melbourne and sold electricity and energy services to business and residential customers. It was a wholly owned subsidiary of Hydro and its operating transactions and statement of financial position balances were consolidated into the Hydro's consolidated financial statements.

Key Results and Developments

Momentum Energy generated $836.44m in revenue from the sale of energy during 2016-17, a decrease of $18.43m, or 2.2%, from the prior year. This was a result of a decrease in kilowatt hours sold by Momentum Energy, partly offset by an increase in gas revenues earned.
Momentum Energy generated a Net profit before tax of $29.87m for 2016-17 (2015-16, $36.21m) and a net profit after tax of $20.87m ($25.26m). The decrease was primarily attributed to lower sales revenue as described above.
Net cash inflows generated by operating activities totalled $42.99m for 2016-17 ($41.38m). Operating cash inflows were used to repay intercompany loans and make the first dividend payment to Hydro of $29.05m.

Audit Findings

Directors signed the financial report on 14 August 2017, but it was not submitted to the Tasmanian Audit Office until 17 August 2017. We recommended Momentum Energy review its procedures for submitting financial statements to ensure it meets the statutory deadline requirements in future.

An unqualified audit opinion was issued on 21 August 2017. In performing our audit no significant deficiencies in internal control were identified.

Background

Momentum Energy was an energy retailer with licences in Victoria, South Australia, New South Wales, Queensland and the Australian Capital Territory. Momentum Energy was based in Melbourne and sold electricity and energy services to business and residential customers in each jurisdiction it held a licence and gas to customers in Victoria. In addition, Momentum Energy provided retail services to the Bass Strait Islands.

Momentum Energy operated in an environment influenced by:

Revenue

Despite higher retail prices, reducing network charges increased overall electricity affordability for Momentum Energy's customers in 2016-17. Momentum Energy operates under a high sales volume, low profit margin model, consistent with other industry participants.

All trades in derivatives were undertaken by Momentum Energy's parent entity, Hydro.

Unbilled energy accrual

Momentum recorded an unbilled energy accrual valuation of $86.93m at 30 June 2017 (2016, $89.99m). The accrual is subject to significant estimation related to unbilled energy delivered to retail customers at year-end.

Key components of unbilled energy included the functionality and mechanics of the model, inputs including customers, customer pricing and kilowatt hours supplied based on billing information.

Power purchases

High wholesale electricity prices for purchases made through NEM were managed by Momentum Energy's parent entity, Hydro, through various derivative instruments in place in the electricity market.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 12 provides a snapshot of financial results for 2016-17 in comparison to prior years.

Figure 12: Momentum Energy Financial Snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue from sale of energy	836 436	▼	854 861	▼	899 451	▼	1 032 927	▲
Net profit (loss) before tax	29 866	▼	36 213	●	37 082	▲	21 148	▲
Total comprehensive profit (loss)	20 865	▼	25 260	▲	22 480	▲	16 880	▲
Financial position								
Unbilled energy accrual	86 928	●	89 997	▲	82 620	▼	107 535	▲
Net assets	80 047	▼	88 230	▲	62 970	▲	40 490	▲
Shareholder returns								
Dividends paid	29 048		0		0		0	
Financial sustainability								
Current ratio	1.8	●	1.8	▲	1.5	▲	1.2	●
Operating margin	1.04	●	1.05	●	1.04	●	1.02	●
Return on equity	24.8%	▼	33.4%	▼	43.5%	▼	52.7%	▼

MACQUARIE POINT DEVELOPMENT CORPORATION

INTRODUCTION

Macquarie Point Development Corporation (MPDC) was responsible for overseeing remediation and redevelopment works at the Macquarie Point site in Hobart.

KEY RESULTS AND DEVELOPMENTS

In 2016-17, MPDC incurred an underlying loss of $1.28m which improved by $0.10m from last year's result.
MPDC reported a net loss of $3.52m, an increase of $0.69m from prior year mainly because of the adoption of a revised development plan. In December 2016, the Government announced a new reset for the site and directed MPDC to prepare a new plan for development at the site based on the new reset.
Interest revenue of $0.91m was 59.3% (2015-16, 84.5%) of MPDC's total income in 2016-17. However, this was insufficient to cover all operational costs resulting in MPDC incurring an Underlying loss.
MPDC generated additional revenue from: • leasing, including facilities hire $0.14m (2015-16, $0.06m) • Macquarie Point car park $0.48m ($0.16m).
During 2016-17, $3.03m was spent on site development. The adoption of the revised development plan resulted in $1.17m being reclassified as project expenses in 2016-17.
MPDC contributed $1.07m (2015-16, $1.45m) to TasWater towards investigation, planning, scoping, cost estimation and engineering design works to decommission and relocate the waste water treatment plant located adjacent to the Macquarie Point Site.
As at 30 June 2017, MPDC's Net assets were $39.07m which included cash of $29.87m available to meet operating costs and invest in other site remediation and development activities.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control nor did we have any high or moderate risk audit findings.

BACKGROUND

MPDC was established by the *Macquarie Point Development Corporation Act 2012*.

In 2012-13, $50.00m was provided to MPDC for remediation and redevelopment works of which $5.00m was to assist with the Brooke Street Pier redevelopment.

MPDC took responsibility for site operations (excluding an area associated with a concrete batching plant) in September 2014, when it entered into a lease with the Minister for Infrastructure. Title over Macquarie Point was held by the Crown and is expected to be transferred to MPDC in 2017-18.

MPDC operated in an environment influenced by the following:

Vision Reset

In December 2016, the Government announced a new vision for the Macquarie Point site. This followed MPDC engaging with the Museum of Old and New Art (MONA) to consider how open public space could be incorporated into the redevelopment. The Government subsequently directed MPDC to prepare a new plan for development at the site based on the new vision.

The new plan is to set out three clear stages of development. The Government directed MPDC to prepare a detailed action plan for the achievement of stage 1. The first stage will focus on the development of public space as a catalyst to create the demand for further development on the site. This stage will also include the development of commercial space, exhibition space and accommodation.

It is anticipated the second stage will focus on conference facilities and developing a Tasmanian Aboriginal history centre as well as an indigenous archive and research centre. The third stage is intended to focus on the area immediately next to the water, around the apron of the port.

Cash outflows

MPDC's revenue in 2016-17 was insufficient to meet all operating costs as MPDC incurred an underlying loss. MPDC's cash holdings reduced by $6.08m (2015-16, $5.87m reduction) with cash reserves continuing to be drawn down to meet remediation and redevelopment outcomes which are capitalised into inventory.

Given the long-term nature of anticipated site development, site activation was an important part of the overall strategy to stimulate and maintain community interest in, and support for, the redevelopment of Macquarie Point. Use of the site for a range of interim activities enabled additional revenue to be generated to help cover MPDC's operational expenses.

MPDC generated additional revenue from leasing including facilities hire and the operation of a commercial carpark at Macquarie Point.

Waste water treatment plant project

MPDC, TasWater and the Tasmanian Government signed a tripartite Memorandum of Understanding on 15 June 2015 committing to decommissioning the waste water treatment plant located on the northern border of the Macquarie Point site. MPDC committed up to $5.00m towards investigation, planning, scoping, cost estimation and engineering design works to decommission the plant and relocate it to another site.

MPDC contributed $1.07m (2015-16, $1.45m) to TasWater towards investigation, planning, scoping, cost estimation and engineering design works to decommission and relocate the waste water treatment plant located adjacent to the Macquarie Point Site. The related expenses were included in Macquarie Point project expenses in the statement of comprehensive income.

Contributions ceased in November 2016.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 13 provides a snapshot of financial results for 2016-17 in comparison to prior years.

Figure 13: MPDC Financial Snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Sale of goods and services	621	▲	211	▲	9	▲	0	●
Interest	905	▼	1 146	▼	1 422	▼	1 600	●
Expenditure								
Macquarie Point project expenses	3 034	▼	2 209	▼	300	▼	0	●
Reconciliation from underlying result to net profit (loss)								
Underlying result	(1 284)	▲	(1 384)	▼	(570)	▲	(4 624)	▼
Reclassification of expenses previously capitalised	(1 166)	▼	0	●	0	●	0	●
Waste water treatment plant	(1 073)	▲	(1 446)	▼	0	●	0	●
Net profit (loss)	(3 523)	▼	(2 830)	▼	(570)	▲	(4 624)	▼
Financial position[1]								
Cash	29 871	▼	35 954	▼	41 825	▼	46 585	●
Inventory	7 369	●	7 284	▲	2 263	▲	314	▲
Payables	(311)	▲	(2 478)	▼	(153)	▲	(1 772)	▼
Net Assets	39 073	▼	42 597	▼	45 426	●	45 996	▼
Key financial ratios								
Operating margin	0.3	●	0.3	▼	0.7	▲	0.3	▼
Return on investment	3.0%	●	2.9%	●	3.2%	●	3.3%	●

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Assets are positive, liabilities are negative.

METRO TASMANIA PTY LTD

INTRODUCTION

Metro Tasmania Pty Ltd (Metro) provided public transport in urban areas of Hobart, Launceston and Burnie under service contracts with the Tasmanian Government through State Growth. It also provided passenger transport services to a number of urban fringe areas in the regions of Wynyard, Ulverstone, the South Arm Peninsula and the D'Entrecasteaux Channel through a series of individual route contracts. Metro was the largest passenger transport company in Tasmania.

Unless otherwise stated, this Chapter reports Metro's financial information on a consolidated basis.

KEY RESULTS AND DEVELOPMENTS

Metro's underlying result was a loss of $3.02m in 2016-17. The continued underlying losses indicated that Metro was not generating sufficient revenue to cover its operating expenses, including depreciation.
Metro continued to be heavily reliant on support from the Tasmanian Government. The replacement of the annual funding of $3.25m (provided outside of the contract for service delivery) with an equity contribution of $4.50m resulted in Metro reporting a Net loss before tax of $3.02m in 2016-17. The equity contributions will continue each year until 2019-20.
The $2.50m increase in Cash, to $25.16m at 30 June 2017, represented cash generated from operating activities of $2.56m, the $4.50m equity payment, less payments totalling $4.56m for the acquisition of buses.
During 2016-17 Metro entered into an agreement to purchase 100 low floor wheelchair accessible buses. The buses will be delivered between 2017 and 2020 at a budgeted cost of $46.54m. Metro commissioned one bus during 2016-17 for $0.72m and a further seven buses remained in work-in-progress at a cost of $3.04m at 30 June 2017.
The defined benefit superannuation liability decreased by 13.0% to $23.03m due to changes in financial assumptions, with the largest impact related to an increase in the discount rate from 3.6% to 4.4%.
Fare revenue represented 24.0% of total revenue which reflected the on-going subsidisation of public transport and passenger transport services by the government. Patronage numbers (first boarding's for passengers) at 8 184 851, was relatively consistent with prior year figure of 8 159 814.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control.

BACKGROUND

Metro was a State-Owned Company incorporated under the *Metro Tasmania Act 1997*. Metro's principal purpose was to provide road passenger transport services in urban areas. It was expected to provide those services consistent with relevant standards and regulatory requirements, on a commercial basis, and maximise patronage and fare revenue while providing concession services to the disadvantaged and education providers. Metro also provided passenger services in non-urban areas and bus charters.

Metro operated in an environment influenced by the following:

Financial dependency

A significant volume of Metro's operations were performed under contract with the Tasmanian Government. Metro's current service contract with State Growth expires on 31 December 2018 and a new contract is currently under negotiation.

Fleet replacement to comply with disability standards

Metro had responsibilities under both Federal and State anti-discrimination legislation in relation to access for people with disabilities. One of the key initiatives in Metro's Disability Action Plan was for its entire fleet to meet the Disability Standards for Accessible Public Transport by 2022.

To meet this target, Metro received a $13.00m equity contribution in 2015-16 to accelerate the fleet replacement program. These funds were invested and will be drawn upon when the program begins during 2017-18.

During 2016-17, Metro entered into an agreement to purchase 100 low floor wheelchair accessible buses. The buses will be delivered between 2017 and 2020 at a budgeted cost of $46.54m.

Annual funding of $3.25m provided by the Government, outside of the contract for service delivery, predominantly for the fleet replacement program, was discontinued in 2015-16. It was replaced with an equity payment of $4.50m in 2016-17, which will continue on an annual basis until 2019-20.

Metro Coaches (Tas) Pty Ltd

Metro Coaches (Tas) Pty Ltd (Metro Coaches) was a wholly owned subsidiary of Metro. It did not trade in 2016-17. We dispensed with the audit of Metro Coaches because it was controlled by Metro and the financial transactions and balances of the Metro Coaches were subject to audit procedures as part of the group audit of Metro.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 14 provides a snapshot of financial results for 2016-17 in comparison to prior years.

Figure 14: Metro Financial Snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Fare revenue	12 125	●	11 699	●	11 635	●	11 256	●
Reconciliation from underlying result to profit (loss) before tax								
Underlying result	(3 017)	▼	(2 791)	▲	(3 200)	▲	(3 625)	●
Additional government funding[1]	0	▼	3 250	●	3 250	●	3 250	●
Net profit (loss) before tax	(3 017)	▼	459	▲	50	▲	(375)	▼
Financial position[2]								
Cash	25 163	▲	22 664	▲	9 243	▲	6 758	▲
Buses	24 256	▼	26 823	▲	24 022	▼	27 563	▲
Superannuation liability	(23 027)	▲	(26 570)	▼	(21 948)	▲	(24 350)	▼
Net assets	46 259	▲	41 271	▲	30 401	▲	28 540	▼
Cost of buses commissioned	722	▼	4 197	▲	0	▼	4 826	▲
Key financial ratios								
Operating margin	0.9	●	0.9	●	0.9	●	0.9	●
Self financing ratio	0.05	●	0.04	▲	0.01	▼	0.05	▲
Fares revenue/Total revenue	23.7%	●	23.5%	●	23.4%	●	23.3%	▼
Current ratio	2.7	●	2.6	▲	1.4	▲	1.0	●

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Replaced by equity contribution of $4.50m from 1 July 2016.

2. Assets are positive, liabilities are negative.

MOTOR ACCIDENTS INSURANCE BOARD

INTRODUCTION

The Motor Accidents Insurance Board (MAIB) was established under the *Motor Accidents (Liabilities and Compensation) Act 1973* (the Act). Its principal business was to manage the funding and payment of Tasmania's compulsory third party motor accidents insurance scheme. Compensation was awarded to persons suffering injury as a result of a motor accident as prescribed by the Act.

KEY RESULTS AND DEVELOPMENTS

In 2016-17, MAIB recorded a profitable Underwriting result of $39.89m, consistent with the $39.12m result in 2015-16.

Net claims incurred for 2016-17 of $87.75m reduced by $4.45m from 2015-16. The decrease reflected:

- lower common law and future care claim numbers
- changes in economic assumptions
- favourable claims experience
- lower than expected payments.

Gross investment income for 2016-17 of $137.66m, increased by $69.96m from $67.70m in 2015-16. This represented a 9.2% return on investment, above MAIB's target of 5.5%.

The higher investment income was caused by stronger market conditions experienced both locally and overseas correcting weaker returns in 2015-16.

In adopting an investment strategy that maximises long-term returns, the actual annual returns may vary significantly from the target return due to the weighting of the investment portfolio towards growth assets.

The net profit before tax of $165.68m increased by $70.41m (73.9%) from 2015-16 primarily due to the higher investment income.

Outstanding claims liability increased by 2.9% from $1.01bn at 30 June 2016 to $1.03bn at 30 June 2017. The increase was attributed to:

- recognition of incurred claims of $137.59m for 2016-17, offset partly by
- claim payments during the year of $62.86m
- revisions relating to prior year claims costs primarily attributable to changes in actuarial and economic assumptions totalling $45.99m.

Net assets increased by $70.66m to $531.64m.

Dividends and tax equivalents totalling $92.37m were paid to the Tasmanian Government during the year. MAIB recommended a $56.3m dividend to be paid in 2017-18.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal controls. A moderate audit finding was made relating to unsupported operating systems, with three low risk items also raised. Action plans were developed by management to address these matters.

BACKGROUND

MAIB was established in 1974. It provided the following types of compensation:

- no fault benefit – paid on accepted claims irrespective of who caused the motor accident
- common law damages – where personal injury is caused by motorists' negligence, common law damages are payable to the full extent allowed in Tasmania.

The MAIB aimed to maintain balance between premium and investment income, the cost of claims and the requirement to achieve a sustainable commercial rate of return that maximised value for the Tasmanian government.

MAIB operated in an environment influenced by the following:

Claims experience

The major component of the MAIB's total liabilities was its Outstanding claims liability of $1.03bn, which at 30 June 2017 represented 91.2% of total liabilities (2015-16, 91.1%). The liability increased by $28.74m this year. The majority of the balance was in future care claims which represented 69.2% of the liability.

An independent actuary was engaged by MAIB to undertake the valuation of the year-end claims liability. Determination of the claims liability was impacted by a variety of factors including:

- the number of claims received as a result of motor accidents
- the nature, type and severity of claims received
- duration of liability
- statutory obligations to claimants
- movement in economic factors such as inflation and discount rates.

In 2016-17, the number of claims incurred was 2 718, with 283 being common law claims. Information from the Actuarial Report indicated claim numbers were stable over the past five years. Claim frequency for the 2016-17 accident year decreased to 0.52 general claims per 100 registrations. There were three new future care claims reported since June 2016.

Investment returns

MAIB adopted an investment strategy which sought to maximise long-term growth within acceptable risk parameters to ensure sufficient funds were available to meet its claim liabilities at the long term rate of return of 5.5%. In adopting an investment strategy that maximised long-term returns, the actual annual returns may vary significantly from the target return due to the allocation to growth assets.

To achieve this outcome, MAIB invested in a mix of growth and defensive asset classes. At 30 June 2017 actual investment holdings were 65.9% in the growth category (including Australian and international equities, property and infrastructure) and 34.1% defensive (including cash and fixed interest). MAIB adopted benchmark allocations for each asset class within the investment portfolio, which was expected to achieve a satisfactory level of return for an acceptable risk. Funds were transferred within asset classes to maintain target allocations or to implement strategic decisions to deviate from benchmark allocations where opportunities or material risks were identified.

Premium pricing review

Base premiums for all vehicle classes reduced by 7.5% (excluding duty and GST) from 1 December 2016.

Returns to government

Dividends were based on average net profit over the current and four preceding years under a dividend averaging policy agreed between MAIB and the Tasmanian Government.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 15 provides a snapshot of financial results for 2016-17 in comparison to prior years.

Figure 15: MAIB Financial Snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Net claims incurred	87 745	●	92 202	▲	100 323	▲	119 835	▼
Gross investment income	137 656	▲	67 700	▼	124 922	▼	172 627	●
Underwriting result	39 892	●	39 118	▲	24 592	▲	10 136	▼
Underlying result [1]	165 678	▲	95 265	▼	137 193	▼	171 942	▼
Total comprehensive profit (loss)	120 367	▲	68 552	▼	100 311	▼	125 183	▼
Financial position [2]								
Total Investments	1 634 556	▲	1 530 146	●	1 472 890	●	1 517 641	▲
Outstanding claims liability	(1 034 212)	●	(1 002 905)	●	(975 464)	●	(952 683)	▼
Net assets	531 643	▲	460 981	▲	440 121	▼	484 380	▲
Funding ratio	132.8%	●	130.3%	●	127.8%	●	133.9%	●
Tasmanian government returns/contributions								
Dividends paid	49 705		47 692		144 570		23 219	
Income tax paid	42 660		16 146		61 281		9 874	
Key financial ratios								
Return on investments	9.2%	▲	4.6%	▼	8.4%	▼	12.8%	▼
Return on equity	24.1%	▲	15.5%	▼	21.6%	▼	29.0%	▼

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Underlying result agreed to Net profit before tax.

2. Assets are positive liabilities are negative.

PORT ARTHUR HISTORIC SITE MANAGEMENT AUTHORITY

INTRODUCTION

Port Arthur Historic Site Management Authority (PAHSMA) provided for the preservation and management of the Port Arthur, Coal Mines and Cascades Female Factory historic sites.

KEY RESULTS AND DEVELOPMENTS

In 2016-17, PAHSMA achieved an Underlying profit of $1.32m (2015-16, $1.41m) and a net profit of $1.27m ($1.72m). The consistency in the operating result is reflected in an operating margin ratio of 1.1 in the past two years.
Tourism revenue increased by 8.0% to $16.46m in 2016-17 based on a 7.6% increase in visitor numbers over the same period.
PAHSMA received $3.14m ($3.11m) in specific government funding for conservation works. PAHSMA expended $3.37m ($3.95m) across the three historical sites during the year.
During the year, PAHSMA: • completed phase two of the valuation of its artefact collections, with $3.28m ($0.31m) recognised as other revenue • incurred an asset derecognition expense of $3.31m relating to the demolition of the previous Visitor Information Centre. Both events were excluded from the Underlying result calculation.
Total comprehensive profit increased by $3.75m to $5.68m at 30 June 2017. The improved result was primarily due to the revaluation of buildings including heritage buildings $0.66m, land $0.78m and infrastructure assets $2.53m.
Cash assets decreased by $1.94m to $6.11m at 30 June 2017, primarily to fund the construction of the new Port Arthur Visitor Centre.

AUDIT FINDINGS

In performing our audit, we did not identify any high risk deficiencies in internal control. A moderate risk finding related to improving the quality assurance process prior to the finalisation of the financial statements to reduce the likelihood of amendment. Six low risk matters were also identified.

BACKGROUND

PAHSMA operated under the GBE Act and the *Port Arthur Historic Site Management Authority Act 1987*. PAHSMA was established to ensure the preservation and maintenance of the Port Arthur Historic Site. Management of the Coal Mines and Cascades Female Factory historic sites was subsequently added to its portfolio.

PAHSMA undertook two distinct activities:

- conservation of the historic sites under its control
- operation of tourism activities and promotion of the sites as tourist destinations.

PAHSMA was exempt from income tax.

PAHSMA operated in an environment influenced by the following:

Funding

Despite growth in other revenue areas, PAHSMA relied upon Government funding to support its conservation role in the preservation of the three historic sites. Without sufficient funding, adequate maintenance and special projects could not be performed. In 2016-17, PAHSMA received $3.14m (2015-16, $3.11m) for works towards the World Heritage convict sites they manage. Grant funding has been included in future budgets and forward estimates.

Management of multiple historic sites

PAHSMA's responsibilities included management of the Port Arthur Historic Site, the Coal Mines Historic Site and the Cascades Female Factory Historic Site. In addition, discussions have taken place regarding the future management of Maria Island by PAHSMA. No announcements have been made regarding the management of Maria Island National Park or the world heritage listed Darlington Precinct being transferred to PAHSMA.

Site Redevelopment

Higher visitor numbers to the sites positively impacted revenue. Tourism revenue increased by 8.0% to $16.46m in 2016-17 based on a 7.6% increase in visitor numbers for the year.

In response to increased visitors, the Board approved a $13.10m redevelopment plan which included the demolition and reconstruction of the Visitor Centre at the Port Arthur Historic Site. The Board entered into contracts to manage and undertake the redevelopment of the site and work commenced in January 2017. The new Visitor Centre is expected to be completed in December 2017.

The redevelopment will be funded through internally generated cash flows totalling $7.10m and borrowings of $6.00m from Tascorp. At 30 June 2017 PAHSMA had:

- expended $4.00m in construction costs (recognised as capital work in progress)
- not drawn down any borrowings.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 16 provides a snapshot of financial results for 2016–17 in comparison to prior years.

Figure 16: PAHSMA Financial Snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Tourism operations income	16 458	▲	15 240	▲	13 462	▲	12 410	▲
Conservation funding	3 477	▲	3 316	▼	5 934	▲	5 087	▲
Expenditure								
Conservation expenses	3 367	▼	3 949	▲	7 810	▼	5 170	▼
Reconciliation from underlying result to net profit (loss)								
Underlying result	1 322	▼	1 406	▲	211	▼	1 967	▲
Identified/ contributed non-current assets	0	●	0	●	0	▼	397	▲
Newly valued artefact assets	3 253	▲	312	▲	0	●	0	●
Assets derecognised	(3 310)	▼	0	●	0	●	0	●
Net profit (loss)[1]	1 265	▼	1 718	▲	211	▼	2 364	▲
Total comprehensive profit (loss)	5 675	▲	1 923	▲	1 123	▼	1 833	▲
Financial position[2]								
Cash	6 105	▼	8 047	▲	6 353	▼	8 106	▲
Working capital	4 279	▼	6 203	▲	4 472	●	4 447	▲
Property, plant and equipment	40 831	▲	33 616	●	32 248	●	31 724	●
Superannuation liability	(7 441)	●	(7 657)	▼	(6 546)	▲	(7 059)	▼
Net assets	37 695	▲	32 021	▲	30 097	●	28 974	▲
Key financial ratios								
Operating margin	1.1	●	1.1	▲	1.0	▼	1.1	▲
Current ratio	2.5	▼	3.3	▲	2.7	▲	2.0	●
Tourism operations income to total revenue	67.9%	▼	77.0%	▲	66.1%	▼	67.4%	▼
Visitor numbers[3]	403 372	▲	374 905	▲	335 457	▲	310 421	▲

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. PAHSMA are exempt from income tax.

2. Assets are positive, liabilities are negative.

3. Visitor numbers include the Port Arthur Historic Site and Cascade Female Factory and were not audited.

PRIVATE FORESTS TASMANIA

INTRODUCTION

Private Forests Tasmania (PFT) was a Government funded authority established to specifically promote, foster and assist the private forestry sector on forestry matters. PFT provided strategic and policy advice to government on private forestry issues and represented Tasmanian private forest owners' interests in Tasmania and nationally.

KEY RESULTS AND DEVELOPMENTS

In 2016-17 PFT recorded an underlying surplus of $0.41m up slightly from last year's $0.31m result.
PFT's dependency on appropriation revenue (excluding agroforestry funding), represented 76.5% of total revenue this year (2015-16, 79.0%).
Recent plantation sales and increased industry activity resulted in private forest service levy revenue of $0.25m for 2016-17 similar to that of 2015-16, $0.24m.
PFT led an agroforestry project that included the University of Tasmania and the CSIRO as partners. The project was funded primarily by PFT together with a grant of $0.35m receivable in instalments over four years. Work on the project commenced during 2015-16 with expenditure to date of $0.28m incurred. The first three instalments of grant funding had been received and totalled $0.26m.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control.

BACKGROUND

PFT was established as a statutory authority on 1 July 1994 under the *Private Forests Act 1994*. PFT was a not for profit entity and was not required to make returns to the Government.

Its primary functions were to develop and advocate strategic and policy advice to the Minister and forestry partners, to work in partnership with growers, managers, investors and industry to sustainably develop and manage Tasmania's private forests and to initiate, extend or create new market opportunities. PFT worked to facilitate and expand the development of the private forest resource in Tasmania in a manner which was consistent with sound forest and land management practices. This included advising and assisting private landowners in the management of native forests and the establishment and management of plantations on private land.

PFT operated in an environment influenced by an improvement in the forestry industry which resulted in higher revenue from statutory fees over the last two years.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 17 provides a snapshot of PFT's financial result for 2016–17 in comparison to prior years.

Figure 17: PFT financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Private Forest Service Levy	248	▲	237	▲	122	▼	136	▲
Agroforestry program grant revenue	87	●	88	●	87	▲	0	
Underlying result[1]	413	▲	309	▲	142	▼	250	▲
Financial position[2]								
Cash	2 162	▲	1 883	▲	1 643	▲	1 456	▲
Net assets	1 562	▲	1 149	▲	840	▲	698	▲
Key financial ratios								
Operating margin	1.26	▲	1.18	▲	1.09	▼	1.17	▲
Appropriation revenue / Total Revenue	76.5%	●	79.0%	●	82.1%	●	82.6%	●
Current ratio	9.7	▲	7.3	▲	6.4	●	6.5	▲

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Underlying result was equal to Net profit (loss).

2. Assets are positive, liabilities are negative.

PUBLIC TRUSTEE

INTRODUCTION

The objectives of the Public Trustee (PT) were to offer specialist and independent trustee services to the general community.

KEY RESULTS AND DEVELOPMENTS

In 2016-17, PT achieved an underlying profit of $1.01m, an increase of $0.91m compared to the prior year. The improved result is attributed to revenue growth of 8.0% and a decrease in expenditure of 3.3%.
PT received CSO funding of $1.98m (2016-17, $1.64m) as reimbursement for the administration of low value trusts and estates. This accounted for 52.2% of the increase in the 2016-17 year's revenue.
Net assets increased by $2.52m to $7.89m, which included a $1.46m decrease in the provision for defined benefits obligations.
Pursuant to an agreement with Government, a dividend only becomes payable if the amount of the dividend exceeds the gap between CSO funding and actual costs incurred each year. For 2016-17, no dividend was payable.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control and no audit findings were reported.

BACKGROUND

PT is a GBE established by the *Public Trustee Act 1930* (the Act).

Trustee services were provided from offices in Hobart, Launceston, Devonport and Burnie and included:

- preparation of wills
- estate administration
- trust management and powers of attorney
- protection of the financial interests of individuals under a legal, physical or intellectual disability where PT was appointed to act on their behalf.

PT collected fees and commissions for providing its services. In addition, it received funding from the Government to enable it to satisfy its CSO obligations.

The Board of PT, which was responsible for managing and conducting the business and affairs of PT, comprised five independent Directors, who were appointed by the Treasurer and Attorney General.

PT operated in an environment influenced by the following:

Client assets under management and trusteeship

PT managed the assets of its clients pursuant to the Act. These assets were not recognised in the Statement of Financial Position as the funds were held in trust.

PT maintained a common fund and two investment funds to provide clients with a prudential investment depending on the particular circumstances of each client. Details of these funds are noted below:

- **Common Fund** - funds were held on term deposit. Under the provisions of *The Public Trustee Act 1930* capital and interest invested in The Public Trustee Common Fund was guaranteed by the State of Tasmania. The fund was a cash fund and used for short-term investments.
- **No 1 Group Investment Fund** – managed by Macquarie Investment Management Limited with the exception of international shares which were managed by BlackRock. This fund invested in a portfolio of diversified investments covering the main investment asset classes. The fund held a major proportion of funds in defensive assets (cash and Australian fixed interest) with some exposure to growth assets (property, Australian shares and international shares). This fund was used for medium-term investments.
- **No 2 Group Investment Fund** - managed on a similar basis to the No.1 fund above. However, the fund held a major proportion of funds in growth assets (property, Australian shares and International shares) with some defensive assets (cash and Australian fixed interest). This fund focussed on long-term investments.

Unlisted funds held by PT were valued based on proprietary valuations prepared by fund managers under their respective valuation methodologies.

Community service obligations

PT administered many client matters that, because of their low value, were uneconomical for commercial entities to administer. The Government and PT acknowledged that these matters needed to be administered and that PT had an obligation to undertake these services for the community. As a result, the Treasury funded PT to provide services to those clients as a CSO obligation.

These services included:

- administration of Absolute Estates with a gross asset value of less than $60 000
- administration of Continuing Trust and Life Tenancy Estates with a gross asset value of less than $100 000
- administration and management of Minor Trusts with a gross asset value of less than $20 000
- management of assets for Represented Persons with a gross asset value of less than $100 000.

The funding, provided on a quarterly basis, amounted to $1.98m in 2016-17.

In accordance with an agreement with Government, PT only pays a dividend where the amount of the dividend exceeds the gap between CSO funding and actual costs incurred for that year.

No dividend was paid during 2016-17.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 18 provides a snapshot of financial results for 2016-17 in comparison to prior periods.

Figure 18: PT Financial Snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Underlying result[1]	1 012	▲	107	▼	435	▼	1 036	▲
Financial Position								
Financial assets	17 102	▲	15 407	▼	16 263	▲	15 383	▲
Provisions	13 394	▲	15 209	▼	12 276	▲	13 755	●
Net assets	7 887	▲	5 370	▼	7 178	▲	5 268	▲
State Government Return/Contributions								
Dividends paid/payable	0		0		262		0	
Income tax equivalent paid	(54)		(262)		(237)		(200)	
Funding of CSO contributions	1 978		1 642		1 556		1 470	
Financial Sustainability Risk								
Operating margin	1.13	▲	1.01	●	1.06	●	1.14	●
Current ratio	1.89	▲	1.55	▲	1.45	▼	2.27	▲
Return on financial assets	9.3%	▼	4.0%	▼	6.1%	▼	10.7%	▲

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year.

1. Underlying result was equal to Net profit before tax.

TASMANIAN IRRIGATION PTY LTD

INTRODUCTION

Tasmanian Irrigation Pty Ltd (Tasmanian Irrigation) was responsible for developing and operating irrigation schemes in Tasmania.

KEY RESULTS AND DEVELOPMENTS

Underlying profit was $1.74m in 2016-17, down 13% on last year's $2.00m result. This fall in underlying profit was partly due to a decrease in revenue from renewable energy certificates, $0.83m, a decrease in other revenue, including consultancies, $0.83m, and higher employee costs, $0.46m, offset by operations and maintenance expense savings achieved through reduced operations.

Tasmania experienced its second wettest year on record in 2016, with several heavy rain events throughout the year. Demand for irrigation water was lower because of the wet conditions. Although this led to a reduction of $1.55m in irrigation water sales revenue, the lower sales were offset by lower water purchases, $0.90m, and lower electricity cost to power pumps, $0.63m.

Income from generating electricity through mini-hydro power stations remained steady at $1.69m for the year. However, revenue from renewable energy certificates reduced from $3.15m to $2.32m as spot prices dropped.

Overall, Tasmanian Irrigation reported a net loss of $12.38m in 2016-17, which included a write back of grant revenue, $3.83m, and an impairment expense of $11.04m. The impairment reflected:

- a reduction in the Greater Meander Irrigation Scheme capacity by 7 200ML, which related to the river-based part of the Scheme. Capacity of the pipeline-based part of the Scheme remained unchanged
- further sales of water entitlements for existing schemes.

There were 14 fully operational irrigation schemes in 2016-17, with a further five schemes proposed under the Tranche 2 construction program. Two of the proposed schemes, Southern Highlands and Swan Valley Irrigation Schemes, were nearing completion. Government funding committed so far was not sufficient to enable the development of all five schemes.

Tasmanian Irrigation secured $90.00m of government funding towards the Tranche 2 construction program, which was estimated to cost $193.45m ($53.00m of which was to be funded through the sale of water entitlements) at the time of the initial proposal in 2015. In its 2017-18 Budget, the Tasmanian Government committed a further $20.00m to Tranche 2 projects.

Working capital was a deficit of $38.96m at 30 June 2017 (2016, $18.50m), which included current borrowings totalling $45.41m ($21.40m). Borrowings are forecast to increase further to meet cashflow requirements during construction. The remaining committed Government funding is expected to be received over the next three years, which will repay the short term cashflow debt incurred, leaving Tasmanian Irrigation with forecast remaining debt of approximately $35.00m by June 2020.

At present, no return on investment is required by Government.

AUDIT FINDINGS

In performing our audit we identified a lack of segregation of duties across a number of financial processes, which can present a challenge for smaller organisations, and a risk of inappropriate access to the systems and applications due to security settings of some users.

BACKGROUND

Tasmanian Irrigation was incorporated under the *Irrigation Company Act 2011*. Tasmanian Irrigation was responsible for the management of Government owned irrigation schemes and progressing new water and irrigation developments in Tasmania.

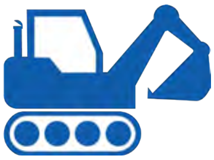
The construction of new irrigation schemes was funded by both the Tasmanian and Australian Governments and from water entitlement sales. A significant investment has been made in water infrastructure since the establishment of the Water Infrastructure Fund in 2008-09.

Projects planned under the Tranche 1 construction program were completed in 2015-16. Figure 19 provides an overview of irrigation schemes currently operating or under construction.

Figure 19: Irrigation schemes in operation or under construction

Segments

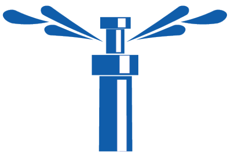
Tasmanian Irrigation had three reportable segments:



$14.33m

Net loss before tax

Development – investigation, planning and construction of new irrigation schemes. The development of new schemes is funded through a combination of public funding and sale of water entitlements. Losses largely related to impairment of water infrastructure assets.



$1.12m

Net profit before tax

Operations – management and operation of 14 irrigation schemes, two dams and other water infrastructure assets. Revenue is generated from annual fixed charges and water sales. The Tasmanian Government also provided operational funding.

$0.83m

Net profit before tax

Mini power stations – operations of 2 mini-hydro systems at Meander Dam and the Midlands Water Scheme. Revenue is generated from the sale of electricity and creation of renewable energy certificates.

Tasmanian Irrigation operated in an environment influenced by the following:

Tranche 2 construction program

There were five irrigation schemes proposed in the Tranche 2 construction program: Circular Head, North Esk, Scottsdale, Southern Highlands and Swan Valley Irrigation Schemes.

In February 2015, Tasmanian Irrigation secured $60.00m from the Australian Government towards the program to be paid as milestones were met. The Tasmanian Government committed $30.00m to be paid in equal instalments over four years up to 2018-19.

The amount of Government funding committed so far was not sufficient to enable the development of all five schemes, which were estimated to cost $193.45m ($53.00m of which was to be funded through the sale of water entitlements) at the time of the initial proposal in 2015. In its 2017-18 budget, the Tasmanian Government committed a further $10.00m per annum for two years to support the implementation of the five Tranche 2 projects.

In 2016-17, Tasmanian Irrigation spent $39.33m on capital projects, mainly the Southern Highland, North Esk and Circular Head Irrigation Schemes, which was paid for from government contributions, the sale of water entitlements and new borrowings. A further $25.14m was committed to be spent over the next two years to complete the three schemes.

Tasmanian Irrigation received $29.98m of the committed $90.00m for the Tranche 2 construction program over the past two years, which included funding towards construction and project management costs.

Figure 20: Tranche 2 funding received

Financial year	Tasmanian Government $'000s	Australian Government* $'000s	Total $000s
2015-16	7 500	0	7 500
2016-17	7 500	14 980	22 480

**Australian Government funding is paid to the Treasury and then forwarded to Tasmanian Irrigation. Treasury can formally designate the funding, or part thereof, as a contribution by owners.*

Development and construction funding was accounted for as an equity contribution and in 2016 17, $20.07m (2015-16, $7.50m) was recognised directly to equity. Grant funding not specifically designated for capital construction was initially recognised as deferred income and released to profit or loss when expenditure occurred. Tasmanian Government funding included $2.41m ($nil) towards project management costs.

Financial dependency

Tasmanian Irrigation was dependent on ongoing government support to fund the development of new irrigation schemes and to continue to operate in its current form. It had a working capital deficit of $38.96m at 30 June 2017 (2016, $18.50m). Included in the net working capital deficiency were current borrowings totalling $45.41m ($21.40m). The level of debt was high compared to equity and was impacted by the timing of government funding and the sale of water entitlements. Borrowings are forecast to increase further during 2017-18 to meet cashflow requirements during construction. The remaining committed government funding is expected to be received over the next three years, which will repay the short term cashflow debt incurred, leaving Tasmanian Irrigation with forecast remaining debt of approximately $35.00m by June 2020.

While Tasmanian Irrigation held $17.80m in cash at 30 June 2017, this balance included:

- asset renewal levy contributions, $3.48m
- water entitlement deposits for irrigation schemes under construction, $2.89m.

Tasmanian Irrigation also held $6.26m in deferred income, which represented mainly the balance of government funding received in previous years to cover interest payments.

Impairment of water Infrastructure assets

Because irrigation schemes are operated on a cost recovery basis, rather than to generate a profit, the value of water infrastructure assets and dams is impaired to an amount that represents unsold water entitlements. Once all entitlements are sold, the carrying value of a scheme is nil.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 21 provides a snapshot of financial results for 2016–17 in comparison to prior years.

Figure 21: Tasmanian Irrigation's Financial Snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Reconciliation from underlying result to net profit (loss) before tax								
Underlying result	1 738	▼	2 006	▲	1 299	▲	636	▼
Grant revenue write-off	(3 825)	▼	0		0		0	
Impairment losses	(11 040)	▲	(26 463)	▲	(135 252)	▼	(12 526)	▲
Water entitlement revenue	745	▼	7 840	▼	34 919	▲	8 327	▲
Capital grants	0	●	0	▼	9 060	▲	0	●
Net profit (loss) before tax	(12 382)	▲	(16 617)	▲	(89 974)	▼	(3 563)	▲
Financial Position[1]								
Cash	17 800	▲	11 502	▼	12 357	▲	9 454	▼
Property, plant and equipment	69 820	▲	43 138	▼	59 264	▼	154 911	▲
Unearned/deferred revenue	(12 632)	▲	(9 756)	▲	(13 151)	▲	(24 875)	▼
Borrowings	(47 947)	▼	(25 466)	▲	(31 003)	●	(31 187)	▼
Net assets	29 767	▲	22 081	▼	31 198	▼	103 779	▲
Tasmanian government returns/contributions								
Government guarantee fee	188		192		231		156	
Key Financial Ratios								
Operating margin	0.9	▼	1.1	●	1.1	●	1.1	●
Current ratio	0.4	▼	0.5	▼	0.6	▲	0.3	▼
Working capital	(38 965)	▼	(18 496)	▼	(14 700)	▲	(36 511)	▼
Water charges/Total revenue	42.5%	▲	37.4%	▲	30.6%	▲	23.3%	▲

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Assets are positive, liabilities are negative.

TASMANIAN NETWORKS PTY LTD

INTRODUCTION

Tasmanian Networks Pty Ltd (TasNetworks) delivered electricity and telecommunications network services to customers in Tasmania. TasNetworks operates in a highly regulated business environment which can influence financial results from year to year.

Unless otherwise stated, this Chapter reports Hydro's financial information on a consolidated basis.

KEY RESULTS AND DEVELOPMENTS

TasNetworks reported an underlying profit of $134.09m which was less than last year's result of $162.25m.
In 2016-17 TasNetworks reported a Net profit before tax of $93.93m which was $4.46m lower than the previous year's profit of $98.38m.
Revenue of $504.56m from regulated distribution and transmission services for 2016-17 was 5.5% lower than the previous year mainly due to the lower maximum allowable revenue in 2016-17, which is determined by the Australian Energy Regulator (AER). In addition, there were lower Australian Energy Market Operator (AEMO) settlement residues in the transmission business than last year, down by $5.10m. Regulated revenue represented 91.4% (2015-16, 89.3%) of total revenue.
Other revenue $47.65m was $16.41m lower than the prior year mainly due to the one-off capital contribution from Forestry recognised in 2015-16 attributable to the termination of the connection agreement.
Total operating expenses for 2016-17 were $176.94m, 2.6% higher than the previous year. Total operating costs were affected by fire, flood and other severe weather events that occurred during the year. TasNetworks made a strategic decision to increase expenditure on vegetation management to reduce the bushfire risks to the community. In addition, higher costs to deliver unregulated services revenue contributed to the increase in operating expenses.
The value of network assets was escalated in 2016-17 in accordance with the Regulatory Asset Base (RAB) valuation methodology, which was determined by the AER and based on the consumer price index movement for the year. This escalation resulted in a net revaluation increment of $39.18m.
Payments for Property, plant and equipment in 2016-17 totalled $164.67m (2015-16, $131.26m) compared to depreciation expense of $144.25m ($158.30m). Depreciation reduced by $14.05m primarily due to the value of certain distribution network assets and short-life assets being fully depreciated during 2015-16.
At 30 June 2017, TasNetworks had negative working capital of $147.70m. The deficiency in working capital was mainly due to current borrowings of $142.46m with short term maturities. These debt maturities will be refinanced in line with TasNetworks' treasury policy and using the Tascorp Master Loan Facility. The undrawn amount of this facility was $114.24m at 30 June 2017.
TasNetworks had borrowings of $1.79bn at 30 June 2017, which was consistent with prior year. TasNetworks' treasury policy was to benchmark the debt portfolio to the AER's benchmark used in determining the revenue allowance, which was to have one tenth of the portfolio repriced each year.
The defined benefit superannuation liability decreased by 15.1% to $159.96m due to changes in financial assumptions, with the largest impact relating to an increase in the discount rate from 3.6% to 4.8%.

TasNetworks returned $126.18m to the Tasmanian Government in the form of: • dividends paid on its 2015-16 performance, $72.63m • income tax equivalents, $46.60m • government guarantee fees, $6.96m.
TasNetworks returned equity totalling $50.00m to the Tasmanian Government, as a result of a transfer of debt from Hydro Tasmania.

AUDIT FINDINGS

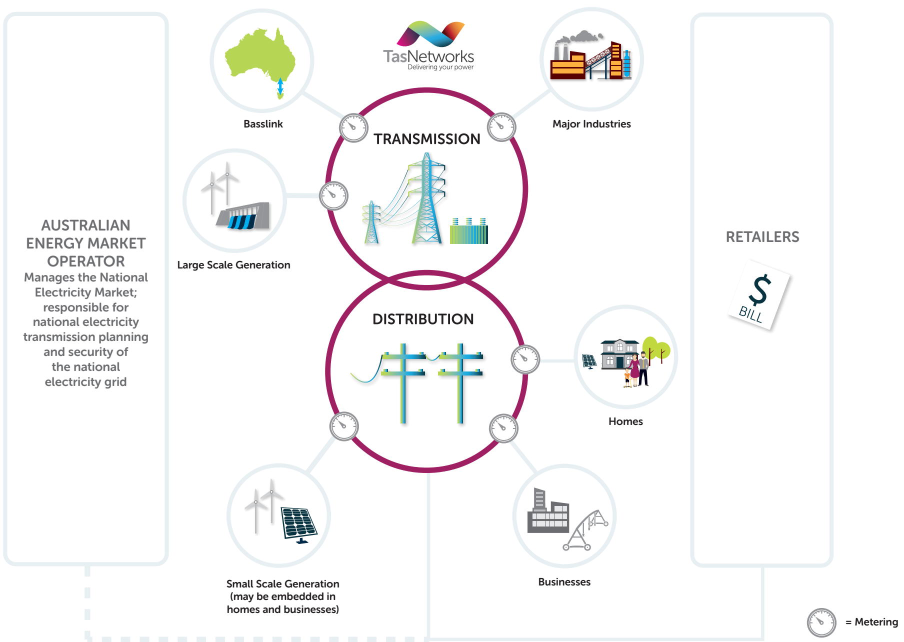
In performing our audit we did not identify any significant deficiencies in internal control. We did report three moderate risk audit matters relating to the review of customer quotations and invoices by management prior to being issued to customers, telecommunications revenue control and inventory management in the Cambridge store.

BACKGROUND

TasNetworks was incorporated on 4 February 2014 and commenced operations on 1 July 2014. Its principal activity was to supply power from the generation source to homes and businesses through a network of transmission towers, substations and power lines on mainland Tasmania and Bruny Island.

Electricity network services provided by TasNetworks to customers is illustrated in Figure 22.

Figure 22: Electricity Network Services



Source: TasNetworks

The transmission system consisted of a 220kV and a 110kV transmission network that connected generators to the distribution system, major industrial customers and the Basslink interconnector. The transmission system contained more than 3 500 circuit kilometres of transmission lines, 49 substations and six switching stations.

The distribution systems consisted of 22 600 km of distribution overhead lines and underground cables, approximately 230 000 power poles, 17 large distribution substations and approximately 32 500 small distribution substations. There were also 27 400 embedded generation and photovoltaic grid-connected installations connected to the distribution network.

TasNetworks also owned and operated a telecommunications network. This network supported the operation of the electricity network, and also provided communications services to other customers.

TasNetworks had two 100% controlled subsidiaries which were consolidated into its financial report:

- Ezikey Group Pty Ltd (Ezikey) was responsible for the commercialisation of broken neutral detection technology. For the year ended 30 June 2017, Ezikey had no activity
- Auroracom Pty Ltd held a telecommunications carrier licence for the distribution business. This company did not trade.

TasNetworks operated in an environment influenced by the following:

NEM

TasNetworks was the sole licensee registered with AEMO for regulated transmission and distribution network services in Tasmania. As a participant in the NEM, TasNetworks was required to develop, operate and maintain its network in accordance with the National Electricity Rules and meet the requirements of OTTER.

Revenue determination and regulatory control

As a regulated business TasNetworks operates under a maximum allowable revenue cap and is subject to regulatory pricing mechanisms. This means revenue can decrease or increase from year to year depending on the timing of recovering revenue against the revenue cap. Revenue is adjusted in future periods through the regulatory pricing process to ensure TasNetworks recovers against the maximum allowable revenue. In addition, revenue can change from regulatory periods due to changes in regulatory and external environments.

The next regulatory control period for the distribution network is 1 July 2017 to 30 June 2019. The current regulatory period for the transmission network commenced on 1 July 2014 and will end on 30 June 2019. From 1 July 2019, the revenue determination processes and regulatory control periods of the two network businesses will be aligned.

Guaranteed Service Level Scheme

The Tasmanian Economic Regulator sets minimum reliability standards for TasNetworks' distribution network through the Guaranteed Service Level scheme and monitored compliance with licence obligations.

New Enterprise Resource Planning System (Ajilis Project)

During 2015-16, TasNetworks commenced the Ajilis project to transform business systems and processes. The objectives of Ajilis were to replace dissimilar and disjointed IT systems, remove duplication, simplify operations, improve data quality and reporting and streamline business processes.

Ajilis release one went live on 1 February 2017 the cost of which, $35.21m, was captialised as an intangible asset on 28 February 2017. Release one included finance, procurement, inventory, payroll, governance risk and compliance and human capital management.

Release two is scheduled to be completed in 2017-18 and will include assets and works management, environment health and safety, budgeting and forecasting.

The project was budgeted to cost $58.18m, with $40.71m spent to 30 June 2017.

Correction of prior period amounts

A prior year error relating to the valuation of inventory was identified by TasNetworks when implementing Ajilis project (release one). The error commenced in the 2010-11 financial year. Inventory at 30 June 2016 was overstated by $3.80m which resulted in an understatement of capital works in progress of $3.24m and overstatement of both retained earnings, $0.39m and provision for deferred tax, $0.17m.

TasNetworks restated the amounts in the financial report in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. To verify the prior period error we inquired into the circumstances that gave rise to the prior period inventory error and reviewed disclosures in the financial report to ensure the error was recognised and disclosed in accordance with AASB 108.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 23 provides a snapshot of financial results for 2016-17 in comparison to prior years.

Figure 23: TasNetworks Financial Snapshot

	2016-17		2015-16		2014-15[1]
	$'000s	Ind	$'000s	Ind	$'000s
Financial performance					
Revenue					
Regulated distribution services	325 816	●	339 024	●	328 200
Regulated transmission services	178 742	▼	194 692	●	192 780
Expenditure					
Operating expenses	(176 936)	●	(172 501)	●	(168 750)
Reconciliation from underlying result to net profit (loss) before tax					
Underlying result	134 087	▼	162 248	●	161 396
Net loss recognized on debt restructure	0	▲	(23 262)	▼	0
Impairment of assets	0	▲	(6 652)	▼	0
Capital contribution from Forestry	0	▼	8 190	▲	0
Net profit (loss) before tax	134 087	●	140 524	▼	161 396
Total comprehensive profit (loss)	147 027	▲	97 063	▲	167 944
Financial position[2]					
Property, plant and equipment	3 055 527	●	2 996 400	●	2 992 647
Borrowings	1 785 762	●	1 749 302	▼	1 643 718
Superannuation liability	(159 958)	▲	(188 370)	▼	(144 508)
Net assets	944 087	●	919 688	▼	1 005 825
Key financial ratios					
Operating margin	1.66	▼	1.76	●	1.77
Return on assets	6.8%	▼	7.9%	●	8.1%
Return on equity	10.1%	●	10.2%	▼	10.9%
Current ratio	0.5	▼	0.6	▲	0.5
Cost of debt	4.8%	▲	6.5%	▼	5.9%
Interest coverage ratio - EBIT	2.6	▲	2.3	▼	2.8
Debt to equity	189.2%	●	190.2%	▼	163.4%

Indicator ▲ *improvement from prior year* ▼ *deterioration from prior year* ● *no material change from prior year*

1. No indicator as first year of operation.

2. Assets are positive liabilities are negative.

TASMANIAN PORTS CORPORATION PTY LTD

INTRODUCTION

Tasmanian Ports Corporation Pty Ltd (TasPorts) was responsible for the operations and management of all ports in Tasmania, as well as the Devonport Airport, to facilitate trade in accordance with sound commercial practice and to maximise sustainable returns to its shareholders.

Unless otherwise stated, this Chapter reports TasPorts financial information on a consolidated basis.

KEY RESULTS AND DEVELOPMENTS

In 2016-17, TasPorts achieved an underlying profit of $8.73m (2015-16, $2.09m) and Net profit before tax of $6.39m ($2.09m). The improvement in Net profit before tax from the prior year was attributed to increased trade revenue of $9.34m and decreased maintenance costs of $6.09m offset by impairment losses of $3.43m and operating losses on Bass Island Lines of $1.70m.
An equity contribution of $7.50m was received for the maintenance of community assets.
During the year TasPorts entered into a joint venture arrangement with Qube Ports Pty Ltd to manage the export of forestry logs. Southern Export Terminals Pty Ltd (SET) joint venture was created with 50% equity interest owned by TasPorts. The first shipment took place in April 2017.
A wholly owned subsidiary, Bass Island Line Pty Ltd (BIL), was established to provide freight services to and from King Island at the request of State Government following limited private sector interest. BIL commenced providing the shipping service to King Island in April 2017.
TasPorts expended $16.59m on capital items and major projects. This included amounts spent on community assets at Strahan and Inspection Head, the development of a new mooring dolphin in Burnie, refurbishment and docking of the tug 'Wilga' and expenditure on a new pilot boat, 'Hellyer'.
TasPorts engaged an expert to perform a revaluation of Infrastructure assets in 2016-17. TasPorts adopted the depreciated replacement cost method to value the majority of Infrastructure assets with the exception of Devonport Airport and Burnie Port Precinct, which were valued using the income approach. This resulted in a net revaluation increment of $43.84m.
In 2016-17, the Burnie Optimisation Project was completed and capitalised at a cost of $10.66m.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control. We did note one moderate risk audit matter which related to review of general journals.

BACKGROUND

TasPorts was established under the *Tasmanian Ports Corporation Act 2005* for the purpose of acquiring, owning and operating the major port business in Tasmania. It commenced operations in July 2005.

TasPorts was responsible for:

- ten Tasmanian ports and the Devonport Airport
- management and maintenance of essential infrastructure in Tasmania, which includes forestry terminal operations in Burnie and Bellbay, all associated infrastructure at the Devonport airport as well as maintenance of port berth channels, wharves, landside assets, marine fleet and key navigational aids

- ensuring safe control and security of all major ports and delivers pilotage services as well as provision of towage, slipway and refuelling facilities, supply of floating plant and equipment for marine engineering projects, and construction and coastal haulage
- maintenance of community-use waterfront assets in Sullivan's Cove, Stanley, Insepction Head, Strahan and King Island.

TasPorts' commercial operations centered on the provision of port services (pilotage, security, navigation and port control) for businesses involved in import and export of trade goods and cruise ship visits. Export commodities in 2016-17 included woodchips, cement and timber. Other commodities exported included general cargo, sulphuric acid, various minerals, food, dairy products and tourist vehicles. Significant imports included general cargo, minerals, fuel, food, tourist vehicles and trade vehicles.

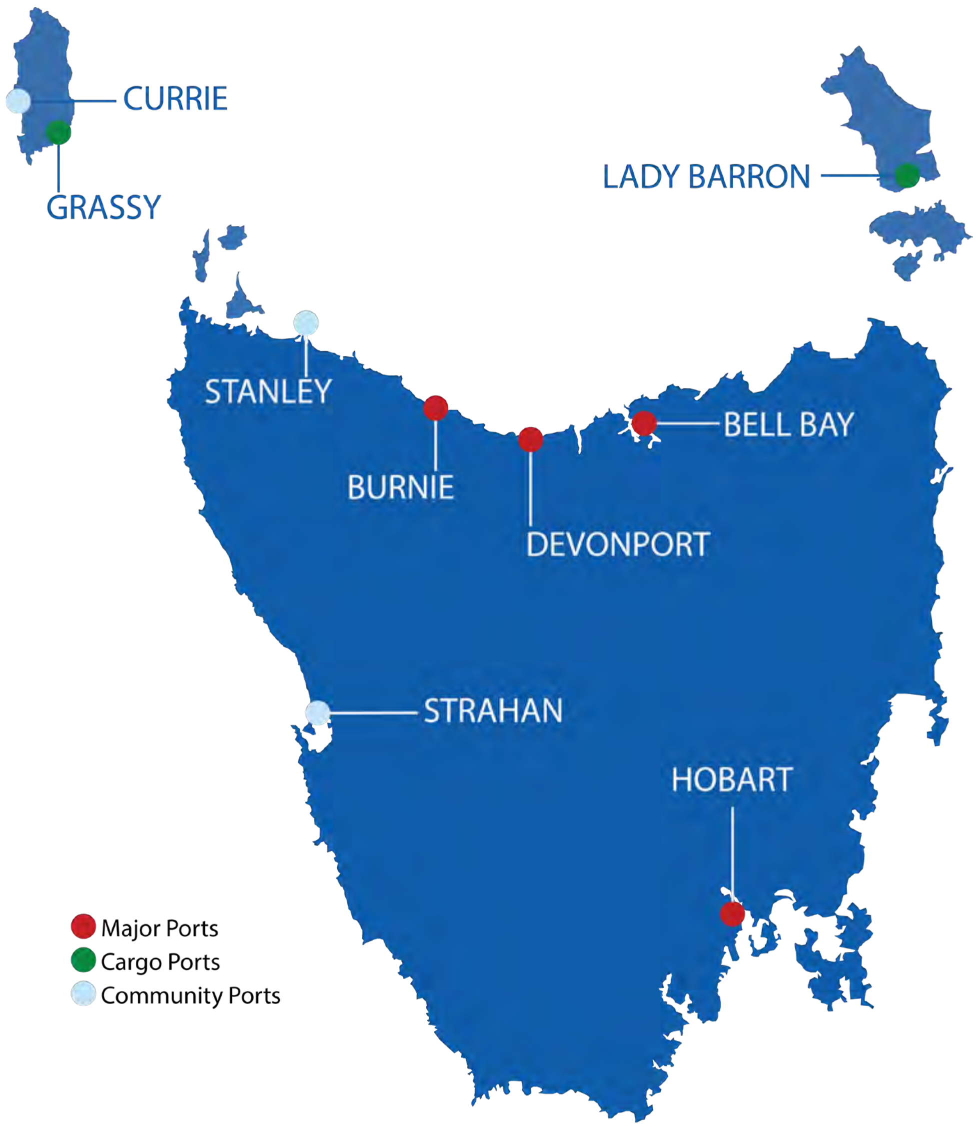
TasPorts has three subsidiaries: King Island Ports Corporation Pty Ltd, Flinders Island Ports Company Pty Ltd and BIL which was created in 2016-17.

BIL was established to provide freight services to and from King Island at the request of the State Government following limited private sector interest. BIL commenced providing shipping services to King Island in April 2017.

In 2016-17, TasPorts entered into a joint venture arrangement with Qube Ports Pty Ltd to manage the export of forestry logs. Southern Export Terminals Pty Ltd (SET) joint venture was created with 50% of the equity owned by TasPorts. The first shipment took place in April 2017.

The port network across Tasmania, for which TasPorts had responsibility, is shown in Figure 24 below.

Figure 24: Tasmanian ports network map



TasPorts operated in an environment influenced by the following:

Economic conditions

The commercial operations of TasPorts were influenced by Tasmania's economic conditions and the impact that the commodities market had on the import/export activity of its major customers.

Compliance and safety regulations

TasPorts was subject to numerous maritime compliance and safety regulations in relation to the operation of ports, the tug and pilot boat vessel fleet and Devonport Airport. For the ports and vessels, these requirements were regulated by the Australian Maritime Safety Authority, the national agency responsible for maritime safety and protection of the marine environment.

The regulations included:

- Survey certification
- International Safety Management Code certification.

The Civil Aviation Safety Authority regulated the operation of Devonport Airport.

TasPorts has clearly defined security regulatory requirements under both Maritime and Transport Security Legislation. TasPorts was subject to a regular audit program undertaken by the Office of Transport Security.

TasPorts operations were subject to significant environmental regulations under both Commonwealth and State legislation. The primary legislation is the *Environmental Protection Act 1994*. Compliance activities under this Act included:

- management of the Burnie woodchip facility, including monitoring air quality
- a wildlife management strategy at the Devonport Airport
- management of contaminated material for works requiring surface penetration or ground penetration on TasPorts land.

No breaches of the legislation were notified during the financial year.

Community asset management

TasPorts was responsible for the management of several community sites used by the general public and tourism industry. The following community assets were under TasPorts' control:

- Sullivans Cove wharf
- Strahan – main waterfront
- Port of Stanley
- Inspection Head wharf.

The five year community asset maintenance program which commenced in 2014 was budgeted at $27.00m. Approximately $6.81m was expended in the 2016-17 financial year. Total expenditure on the project after its fourth year to 30 June 2017 amounted to $24.41m. TasPorts had received a total of $17.50m from the Tasmanian Government as equity contributions to the end of the 2016-17 year.

Capital expenditure

TasPorts spent $16.59m on capital expenditure and major projects. This included expenditure on community assets at Strahan and Inspection Head, the development of a new mooring dolphin in Burnie, refurbishment and docking of the tug 'Wilga' and expenditure on a new pilot boat, 'Hellyer'.

Fair value measurements and valuation process

TasPorts engaged an expert to perform a revaluation of Infrastructure assets in 2016-17. TasPorts adopted the depreciated replacement cost method to value the majority of Infrastructure assets with the exception of Devonport Airport and Burnie Port Precinct, which were valued using the income approach. This resulted in a net revaluation increment of $43.84m.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 25 provides a snapshot of financial results for 2016–17 in comparison to prior years.

Figure 25: TasPorts Financial Snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Trade revenue	103 633	▲	94 288	▲	86 500	▲	81 420	▲
Expenditure								
Maintenance Cost	16 910	▲	23 002	▲	26 461	▼	14 121	▼
Reconciliation of underlying result to net profit (loss) before tax								
Underlying result	8 727	▲	2 093	▲	(11 582)	▼	(1 335)	●
Impairment reversals (losses)	(3 436)	▼	0	▲	(17)	▼	1 300	▲
Revaluation decrement on infrastructure assets	(1 791)	▼	0	●	0	▲	(85)	▼
Revaluation decrement of infrastructure assets reversed	2 891	▲	0	●	0	●	0	●
Net profit (loss) before tax	6 391	▲	2 093	▲	(11 599)	▼	(120)	●
Financial position[1]								
Cash	39 303	▲	34 300	▲	26 220	●	27 057	▲
Property, plant and equipment	254 416	▲	208 371	●	208 765	●	212 525	●
Borrowings	(27 334)	●	(27 584)	●	(27 884)	●	(27 884)	▲
Net assets	240 418	▲	199 362	▲	188 644	●	193 785	▲
Tasmanian government returns/contributions								
Dividend paid	1 370		-		-		-	
Income tax paid	979		50		786		269	
Government guarantee fee	357		358		358		314	
Key financial ratios								
Operating margin	1.1	●	1.0	▲	0.9	▼	1.0	●
Current ratio	2.9	▲	2.5	▲	1.8	▼	2.5	▲
Debt to equity	11.4%	▲	13.8%	▲	14.8%	▼	14.4%	▼

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Assets are positive, liabilities are negative.

TASPORTS CONTROLLED ENTITIES AND JOINT VENTURE

Entities included in this section are:

- BIL
- King Islands Port Corporation Pty Ltd
- Flinders Island Port Corporation Pty Ltd
- SET (Joint Venture)

BIL was established in February 2017 to provide shipping services to King Island at the request of the State Government. It was a wholly owned subsidiary and the two Directors were TasPorts Executives. TasPorts provided administrative and financial support to BIL.

King Island Ports Corporation Pty Ltd retained ownership of infrastructure and operational assets. These assets were leased to TasPorts.

Flinders Island Ports Company Pty Ltd did not trade during the year.

SET was a joint venture in which TasPorts had 50% control. Qube Ports No 1 Pty Ltd had the other 50% control. The Joint Venture operated a forestry logistics business within the Macquarie Point wharf precinct in Hobart.

Key results and developments

BIL
BIL recorded a underlying loss of $1.70m in the period April to 30 June 2017. Time was of the essence in acquiring a vessel and establishing the service. The vessel was appropriate for the short term charter under which it was acquired but less than ideal for Bass strait crossings. As a result, BIL incurred additional transhipment costs which were unable to be passed onto customers as pricing was maintained in line with the previous service provider's pricing structure. The result for the period also included initial establishment costs of $0.57m.
Total revenue in 2017 was $2.16m, which mainly comprised shipping revenue.
Total expenditure in 2017 was $3.86m which mainly related to vessel, crew hire and transhipment costs.
As at 30 June 2017 BIL had negative equity of $1.70m which was a result of the inter-company loan, $2.92m and payables, $0.65m, offset by cash, $0.41m, and receivables, $1.33m. TasPorts resolved that they would provide financial support to BIL, including funding operational losses and liabilities, to ensure BIL is able to pay its debts as and when they fall due. This will continue for so long as BIL remains a wholly owned subsidiary of TasPorts.

King Island Ports Pty Ltd
King Island Ports Pty Ltd generated an underlying profit $0.09m, (2016, loss of $0.30m).
As at 30 June 2017 Net assets were $7.11m ($6.06m).

Flinders Island Ports Pty Ltd
Flinders Island Ports Pty Ltd did not trade in 2016-17 or the prior year.
As at 30 June 2017 Net assets were $1.56m ($1.56m).

SET
TasPorts' share in the Net loss in 2017 was $0.05m.
At 30 June TasPorts' share of Net liability was $0.05m.

Audit Findings

We raised one moderate risk issue relating to governance processes which included documentation of the intercompany loan between BIL and TasPorts.

Audits of King Island Ports Pty Ltd and Flinders Island Ports Pty Ltd were dispensed with while audit of Southern Export Terminals Pty Ltd was conducted by another auditor.

FINANCIAL ANALYSIS

Figure 26 summarises the financial results and position of TasPorts' controlled entities and joint venture for 2016-17.

Figure 26: Financial results

	Underlying result $'000s	Net Assets (Liability) 2017 $'000s	Net Assets 2016 $'000s
BIL	(1 704)	(1 704)	-
King Island Ports Corporation Pty Ltd	93	7 114	6 060
Flinders Island Ports Company Pty Ltd	-	1 560	1 560
Southern Export Terminals Pty Ltd (TasPorts' share)	(55)	(55)	-

TASMANIAN PUBLIC FINANCE CORPORATION

INTRODUCTION

Tasmanian Public Finance Corporation (Tascorp) was established to develop and implement borrowing and investment programs for the benefit of Tasmanian State entities. It has the power to borrow and invest money and to enter into contracts for the purposes of managing borrowings and investments.

KEY RESULTS AND DEVELOPMENTS

In 2016-17, Tascorp achieved an underlying profit of $24.41m (2015-16, $13.93m) and a comprehensive profit of $19.20m ($9.75m). The 2016-17 result benefited from widening credit margins resulting in an overall net market value loss of $0.4m which was an improvement of $8.1m compared to the previous year.

Investments increased by $363.83m to $4.05bn at 30 June 2017 compared to the prior year. The increase represents funds received on the establishment of the MCH Fund. There was no significant change in Client advances which totalled $3.57bn at 30 June 2017. Excluding the impact of the MCH Fund, investments would have decreased as Tascorp did not have the same opportunity to raise European Commercial Paper on the market with terms that would allow them to purchase short-term securities and call investments at an appropriate interest margin.

Deposits and Borrowings decreased by $427.29m to a total of $6.86bn at 30 June 2017 because bond issues matured and were not replaced with other issuances.

On 29 June 2017, in accordance with the *Tasmanian Public Finance Corporation Amendment (Mersey Community Hospital) Act 2017*, $730.40m was transferred to Tascorp from the Tasmanian Government to establish the MCH Fund.

In 2016-17, an ordinary and a discretionary dividend of $0.80m of $4.00m, respectively was paid to the Government.

AUDIT FINDINGS

Our audit report included an emphasis of matter paragraph, to draw attention to the users of the financial report, Tascorp's application of Treasurer's Instruction GBE-08-051-08P in respect of $730.40m received from the Tasmanian Government on 29 June 2017 for the establishment of the MCH Fund.

In performing our audit we did not identify any significant deficiencies in internal control and no other audit findings were identified.

BACKGROUND

Tascorp was established by the *Tasmanian Public Finance Corporation Act 1985* as amended by the *Tasmanian Public Finance Corporation Amendment Act 1995*. Tascorp was responsible for meeting the non-transactional banking needs of the Tasmanian Government which included GBEs, SOCs, inner budget agencies and local government.

Tascorp's core functions were the development and implementation of borrowing and investment programs for relevant State entities. Tascorp maintained a strong risk management system and clearly defined capital at risk strategy to manage the complex business and market risks associated with meeting client borrowing, investment and risk management needs.

Tascorp's main business activities included:

- borrowing and lending to clients for long term capital projects and short term working capital funding
- management of client funds held in call and short-term deposit products and cash management funds
- provision of funding, investment and risk management advice to clients
- treasury management activities relating to the investment of surplus funds into approved fixed interest investments.

Factors which influenced its operations included:

- the adoption of a prudent approach to reduce refinancing and liquidity risk in order to maintain its rating with credit rating agencies. Tascorp's approach to funding advances to clients was for a minimum of 100% of all client advances to be funded through the issue of long-term bonds
- access to, and cost of, borrowings, which were dependent on the state credit rating over which Tascorp had little control. If the cost of borrowings increased significantly, this would impact the return on equity for Tascorp and its ability to provide funding to State Entities at a competitive rate.

Tascorp operated in an environment influenced by the following:

Mersey Community Hospital Fund

On 29 June 2017, $730.40m was transferred to Tascorp from the Tasmanian Government to establish the MCH Fund. Tascorp was charged with developing an investment strategy for these monies, which will be returned over time to the Tasmanian Government, along with any returns and gains or losses, through non-discretionary annual distributions in accordance with the *Tasmanian Public Finance Corporation Amendment (Mersey Community Hospital) Act 2017*. The MCH Fund will ultimately be used to support the operations of the Mersey Hospital in North-West Tasmania.

In accordance with Treasurer's Instruction GBE-08-51-08P Tascorp recognised the transaction as contributed equity in the financial report.

TT-Line Vessel Replacement Fund

On 20 June 2017, $40.00m was transferred to Tascorp from the Tasmanian Government to establish the TT-Line Vessel Replacement Fund. This arrangement has been structured as a 'Bare Trust'. Tascorp was the Trustee under the agreement and the investment manager for the fund under a separate Investment Management Agreement. While Tascorp is the investment manager of the Vessel Replacement Fund's assets, TT-Line has beneficial ownership of the Fund's assets, including exposure to all risks and rewards.

Tascorp have not recognised any assets, liabilities or equity with respect to the TT-Line Vessel Replacement Fund on the statement of financial position, and have not recognised any income or expenditure with respect to the arrangement on the statement of profit or loss and other comprehensive income, other than the investment fee earned in accordance with the Investment Management Agreement.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 27 provides a snapshot of financial results for 2016–17 in comparison to prior years.

Figure 27: Tascorp Financial Snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Net interest revenue	33 127	▲	28 547	▼	34 156	▲	30 634	▲
Underlying result[1]	27 405	▲	13 926	▼	19 557	▲	14 961	▲
Total comprehensive profit (loss)	19 205	▲	9 748	▼	13 690	▲	10 473	▲
Financial position[2]								
Investments	4 048 290	▲	3 684 465	▲	2 741 304	▼	3 175 371	▲
Client advances	3 569 721	●	3 565 671	▲	3 274 039	▲	3 009 298	●
Deposits	(1 195 856)	●	(1 180 016)	▼	(899 467)	▼	(536 589)	▲
Borrowings	(5 666 042)	▲	(6 109 168)	▼	(5 130 571)	▲	(5 620 442)	▼
Net assets	807 280	▲	62 511	▲	52 763	▲	49 585	▲
Tasmanian Government returns/contributions								
Dividends paid	4 822		0		10 512		2 346	
Income tax paid	4 178		5 867		4 488		2 654	
Key financial ratios								
Return on equity[3]	27.56%	▲	16.90%	▼	26.80%	●	23.00%	▲

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Underlying result before tax was the same as Net Profit before tax.

2. Assets are positive, liabilities are negative.

3. Return on Equity indicator for 2016-17 has been adjusted to exclude the impact of the MCH Fund funding received on 29 June 2017.

TASMANIAN RAILWAY PTY LTD

INTRODUCTION

Tasmanian Railway Pty Ltd (TasRail) owned and operated a freight rail network within Tasmania, comprising of six fully or partly operational lines. It transported bulk freight, such as cement, mineral ore and coal and containerised freight.

KEY RESULTS AND DEVELOPMENTS

TasRail recorded an underlying loss of $6.78m in 2016-17, which was lower than the prior year's loss of $12.22m largely due to increased freight volumes, including securing a new coal freight contract, and ongoing efforts to increase operating efficiencies.

Net loss before tax for 2016-17 was $31.72m, which included a full impairment of below rail infrastructure assets commissioned during the year, $42.92m. The impairment loss was partly offset by capital grants revenue, $21.53m.

TasRail had two reportable segments, above and below rail, both of which reported losses before tax, $2.30m and $29.42m, respectively. The result of the above rail segment was significantly impacted by the depreciation charges for rolling stock, $4.07m, while the result of the below rail segment reflected the impairment loss, partly offset by capital grants.

TasRail's operations were disrupted by heavy rainfalls and widespread floods in June 2016. Damage to infrastructure and business interruptions cost TasRail $10.33m so far, with $3.71m recovered from insurance. The cost of flood damage (net of insurance recoveries) was $3.54m in 2016-17 (2015-16, $3.08m).

During the year, TasRail received government funding of $62.27m in the form of:

- operating grant from the Tasmanian Government, $11.97m recognised as revenue
- Rail Revitalisation Program capital grant from the Tasmanian Government, $29.90m with $21.46m recognised as revenue and $8.44m recognised in deferred grant income
- Rail Revitalisation Program capital grant from the Australian Government, $20.40m which was designated as equity by Treasury.

The cost of capital works on below rail assets completed in 2016-17 was $42.93m.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control. We did report three moderate risk audit matters relating to information technology security management, valuation of rollingstock assets and the need for assessment of the impact of new accounting standards. AASB 16 *Leases* (applicable in 2019-20) could potentially have a significant impact on TasRail's financial report because of the Rail Corridor lease and other operating leases. We recommended that management should assess how the new standard will impact financial reporting and develop implementation plans to manage the new reporting requirements.

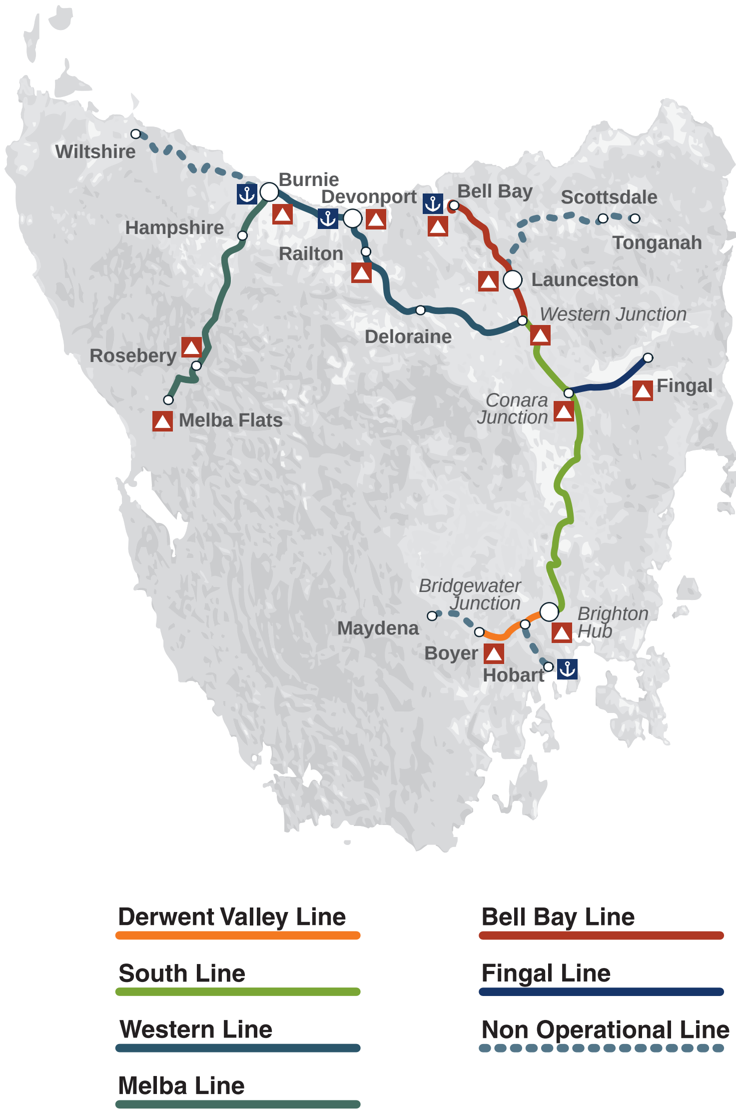
BACKGROUND

TasRail was established under the *Rail Company Act 2009* for the purpose of assuming responsibility for and operating the freight rail network in Tasmania. It commenced operations on 1 December 2009.

TasRail operated the rail network and associated infrastructure under a lease for the Rail Corridor with the Minister for Infrastructure. TasRail managed over 600 km of operational track across six main lines, five freight terminals and a fleet of rolling stock including locomotives and wagons.

The rail network across Tasmania for which TasRail has responsibility is shown in Figure 28 below.

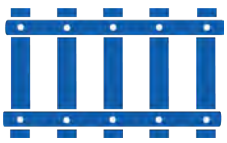
Figure 28: Tasmanian rail network map



TasRail had two reportable segments:

$2.30m
Loss

Above Rail - provision of integrated rail freight services, including the operation of terminals, bulk handling and shiploading facilities.



$29.42m
Loss

Below Rail - management and operation of the entire rail network infrastructure, which includes tracks, bridges, level crossings, signals and communications assets.

TasRail operated in an environment influenced by the following:

Economic environment

TasRail's performance was linked with the performance of multiple resource and commodity markets and the general economic climate.

International and domestic demand for commodities transported by TasRail fluctuates, which in turn impacts on the demand for rail transportation. To mitigate the impact of these fluctuations, TasRail entered into long-term contracts with major customers to secure baseload freight volumes.

TasRail directly competes with road transport providers.

Financial dependency

TasRail generated underlying losses in each of the past four years and was unlikely to be able to operate without financial support. Its capacity to continue track infrastructure improvements and maintenance was subject to ongoing government funding. Since 2009, the Australian and Tasmanian Governments provided equity contributions totalling $372.58m for investment in above and below rail assets and provided $107.01m in operational funding, which was primarily directed towards maintenance.

TasRail indicated that at the end of the current government-funded capital programs, for both above and below rail segments, critical infrastructure and equipment will be significantly improved. However, ongoing capital needs and investment into rail infrastructure and equipment will be required to allow for further improvements and future replacement of assets.

Major customers

TasRail had three major customers who accounted for 50.19% (2015-16, 59.50%) of revenue from freight services in 2016-17. The reduction in the revenue share from the three major customers is attributed to a new coal freight contract with another customer secured during 2016-17.

June 2016 floods

TasRail's operations were disrupted by heavy rainfalls and widespread floods in June 2016. The 2016-17 result was significantly impacted by the cost of repairing and restoring damaged infrastructure and the provision of alternative transport options during line closures. Additional costs incurred were partly recovered by insurance.

TasRail anticipated further costs will need to be incurred, some of which may be recovered under insurance. At 30 June 2017, TasRail provided for the cost of further works to the Kimberley bridge totalling $0.80m.

Tasmanian Freight Rail Revitalisation Program

The Tasmanian Freight Rail Revitalisation Program which was jointly funded by the Tasmanian and Australian Governments under the Infrastructure Investment Program commenced during 2015-16. It provides $119.60m of capital funding over four years for asset renewals and focuses on delivering projects designed to further improve safety and reliability. The Tasmanian Government contributed $59.80m since the project started. The funding was recorded as deferred income on receipt and recognised as revenue when the corresponding expense was incurred, in this instance, 50% share of capitalisation and impairment of the below rail infrastructure assets. The amount recognised as revenue in 2016-17 was $21.46m (2015-16, $9.21m).

The Australian Government funding, $20.40m ($11.25m), was recognised directly in equity at time of receipt as instructed by Treasury.

The Tasmanian Government made a commitment in its 2017-18 State Budget to provide a further $59.80m towards a second stage of the program (2019-20 to 2022-23). There was no formal commitment from the Australian Government at the date of this Report.

Strategic Infrastructure Corridors (Strategic and Recreational Use) Act 2016

This Act enables non-operational rail lines, which are part of the Tasmanian Rail Network and administered under the *Rail Infrastructure Act 2007* to be transitioned from their status as railways and used for recreational purposes, creating potential business and tourism opportunities. Land declared to be a strategic infrastructure corridor will no longer form part of the network or be subject to the Rail Corridor lease. There is no financial impact on TasRail apart from reduced maintenance cost.

Environmental regulations

TasRail's operations were subject to significant environmental regulations under both Commonwealth and State legislation. The primary legislation was the *Environmental Protection Act 1994*. No breaches of the above-mentioned legislation were notified during the financial year.

Under the terms of the Rail Corridor Lease, TasRail was responsible for remediation of any environmental obligations that may become apparent as a result of its operations or past operation of the network. There were no new environmental liabilities identified at balance date that would have a material effect on the financial report at 30 June 2017. If significant environmental liabilities relating to past operations were identified in future, TasRail would require financial support from the Tasmanian Government to fund the remediation.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 29 provides a snapshot of financial results for 2016-17 in comparison to last year.

Figure 29: TasRail Financial Snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Revenue from freight services	32 861	▲	30 456	●	31 721	▼	34 425	▲
Grant income - operating activites	11 966	●	11 992	▼	16 834	●	16 569	●
Expenditure								
Depreciation and amortisation expense	8 938	▼	8 161	▲	12 864	▲	6 207	▲
Fuel and oil	3 110	▼	2 852	▲	3 862	▲	6 575	▼
Reconciliation from underlying result to net profit (loss) before tax								
Underlying result	(6 780)	▲	(12 216)	▼	(12 925)	▼	(6 284)	●
Flood damage (net of insurance recoveries)	(3 541)	▼	(3 079)	▼	0	●	0	●
Grant income - capital works	21 526	▲	9 260	▲	0	●	0	●
Impairment expense	(42 923)	▼	(21 645)	▼	(15 427)	▲	(41 666)	▲
Asset revaluation decrement	0	●	0	▲	(8 277)	▼	0	●
Net profit (loss) before tax	(31 718)	▼	(27 680)	▲	(36 629)	▲	(47 950)	▲
Financial position[1]								
Cash	18 678	▼	21 647	▲	1 087	▼	9 405	▼
Intangibles	4 467	▼	6 132	▲	0	●	0	●
Property, plant and equipment	115 990	●	113 924	●	116 902	▲	107 244	▲
Deferred Grant Income	(29 926)	▼	(21 551)	▼	0	●	0	●
Net assets	112 951	▼	124 531	●	121 459	●	118 167	▲
Tasmanian government returns/contributions								
Government guarantee fee	0		17		72		0	
Key financial ratios								
Operating margin	0.8	▲	0.7	▲	0.8	▼	0.9	●
Current ratio	0.9	▼	1.2	▼	1.4	▼	2.0	▼

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Assets are positive, liabilities are negative.

TASMANIAN WATER AND SEWERAGE CORPORATION PTY LTD

INTRODUCTION

The principal activities of the Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater) were:

- the sourcing, treatment and reliable delivery of quality drinking water to its customers
- the collection, transportation, treatment and safe return of wastewater to the environment.

KEY RESULTS AND DEVELOPMENTS

TasWater recorded an underlying profit of $24.60m for the year, a $13.00m increase from the prior year primarily due to higher sales revenue. The increase is also reflected in the higher Net profit before tax of $40.86m, which increased by $4.66m.
Total comprehensive income decreased by $16.90m due to the 2015-16 result including the revaluation of land and buildings of $24.41m (net of tax), offset by the higher Net profit before tax in 2016-17.
Property, plant and equipment increased by $47.11m primarily due to capital additions of $104.82m and contributed assets totalling $17.27m, less depreciation and amortisation of $68.13m.
Borrowings from Tascorp increased by $44.62m to $474.90m. Ratios related to Debt to equity and Debt to total assets increased in line with the increased debt. However, the Cost of debt ratio decreased to 4.4% from 4.7% due to lower interest rates.
Current ratio improved from 0.38 to 0.48 at 30 June 2017, primarily due to a decrease in current borrowings. The ratio remains below our expected benchmark of 1 due to TasWater's strategy to minimise interest cost by utilising overnight borrowings and maintaining low cash balances.
Returns of $30.00m paid to owners during 2016-17, represented Loan guarantee fee $1.51m, income tax equivalents paid to owners $9.04m and dividends paid $19.45m. This was consistent with TasWater's corporate plan and, in total, was unchanged from the previous year.
The Tasmanian Government has proposed to transfer the responsibilities for water and sewerage from TasWater to the Government. The Government tabled the *Water and Sewerage Tasmania Bill 2017* and *Water and Sewerage Tasmania (Consequential and Transitional Provisions) Bill 2017* in parliament on 8 August 2017. The Bills had not been passed by the Legislative Council as at the date of this Report.

AUDIT FINDINGS

In performing our audit we identified one high rated audit finding relating to delays in converting capital work in progress to depreciable assets was reported upon completion.

Moderate risk control deficiencies reported to TasWater included:

- weakness with stocktake processes
- unadjusted entries in the 'Received but not invoiced' payables balance
- the non-capping employee leave balances in the calculation of the long service leave provision.

The two audit findings from the prior year were satisfactorily resolved.

BACKGROUND

The *Water and Sewerage Corporation Act 2012* provided for the establishment and incorporation of TasWater. TasWater was also governed under its Constitution and its principal objectives were to:

- efficiently provide water and sewerage functions in Tasmania
- encourage water conservation, the demand management of water and the re-use of water on an economic and commercial basis
- be a successful business and, to this end, to:
  - operate its activities in accordance with good commercial practice
  - deliver sustainable returns to its members
  - deliver water and sewerage services to customers in the most cost-efficient manner.

The principal activities of TasWater during the course of the financial year were:

- the sourcing, treatment and delivery of reliable, quality drinking water to its customers
- the collection, transportation, treatment and safe return of wastewater to the environment.

TasWater operated in an environment influenced by the following:

Ten year capital plan

In August 2016 TasWater announced a $1.55bn, 10-year plan to address Tasmania's water and sewerage infrastructure needs. Key elements of the plan were:

- annualised operating cost savings of $21.00m by the end of the 10-year plan
- no reliance on Tasmanian or Australian Government funding
- reduced dividends paid to owner councils
- a focus on the removal of all permanent Public Health Alerts from regional towns around Tasmania by August 2018
- to improve sewage treatment plants compliance with current environmental standards.

Regulated water and sewerage services

OTTER was responsible for setting maximum prices for regulated water and sewerage services. Prices for regulated water and sewerage services in Tasmania were determined on the basis of a 'building block' approach. Under this approach the various costs that made up the total cost of providing water and sewerage services to customers were added together to arrive at annual revenue limits.

TasWater continued transitioning customers from the prices previously charged by councils which provided water and sewerage services to Tasmanians before the formation of the regional water and sewerage corporations. This transitioning progressed by setting "target" prices for each of the regulated water and sewerage services provided. In addition, revenue limits which reflected only those costs OTTER considered an efficient water and sewerage provider would incur in providing water and sewerage services to its regulated customers were taken account in setting prices.

Pricing arrangements for the 2016-17 financial year (established under the second regulatory period covering 1 July 2015 to 30 June 2018) were:

- customers whose current fixed charges were equivalent to the applicable water target tariff did not see any increases to those charges
- customers whose current fixed charges were equivalent to the applicable sewerage target tariff received an annual increase of 6% per annum
- most residential customers whose current fixed charges were below the target tariffs faced price increases capped at the greater of either 10% or $100. For larger customers, the $100 cap increased in proportion to the size of their water connection and the estimated demand those customer place on the sewerage system
- customers not on the respective target tariffs for water usage and trade waste charges were moving to target tariffs in three equal annual steps
- the target water usage charge increased by 2.5% per annum to reflect inflation.

Price and Service Plan - 2018 Investigation

In accordance with the *Water and Sewerage Industry Act 2008* and as part of the price determination investigation, TasWater submitted its proposed Price and Service Plan for the regulatory period 1 July 2018 to 30 June 2021 to OTTER on 30 June 2017.

TasWater's Price and Service Plan must provide sufficient information for OTTER to assess and determine prices, revenues, terms and conditions for water and sewerage services. TasWater's Price and Service Plan was required to clearly articulate and commit to a set of outcomes to be delivered, and prices to be charged, during the regulatory period. The submitted Price and Service Plan also included a summary of TasWater's 20-Year Long-Term Strategic Plan to balance prices, service standards and the time to reach full compliance.

OTTER must conduct its price determination investigation and release its draft report and draft price determination for public consultation in November 2017.

Environmental regulations

TasWater was subject to various environmental regulations under both Commonwealth and Tasmanian legislation. TasWater failed to reach effluent discharge targets for sewage treatment plants as expressed in licence conditions set by the Environment Protection Authority.

In December 2016, TasWater signed a Memorandum of Understanding with the Environment Protection Authority that outlined an agreed approach for the next three years, including the implementation of a Wastewater Management Plan that outlines initiatives and implementation schedules to address the Environment Protection Authority's priorities with respect to regulatory non-compliances.

Dam portfolio

TasWater managed its dams using a Dam Portfolio Risk Assessment process, in accordance with the *Australian National Council on Large Dams Dam Safety Management Guidelines 2003*. Dams that were known to exceed these guidelines were being managed under mitigation plans agreed with the Tasmanian Dam Safety Regulator. An annual report was provided to the Dam Safety Regulator regarding the status of all dams with a rating of significant hazard or above, setting out the program of works for the following financial year. TasWater must immediately advise the Dam Safety Regulator of adverse developments in dam status.

Government's intention to take control of Tasmania's water and sewerage industry

In March 2017, the Tasmanian Government announced its intention to introduce legislation to transfer all of TasWater's assets, rights, obligations and liabilities, including employees under their current terms and conditions, to a newly created Government business, which will commence operations by 1 July 2018.

Two Bills were introduced into the Tasmanian Parliament in August 2017 to implement the Government's plan, the *Water and Sewerage Tasmania Bill 2017* and the *Water and Sewerage Tasmania (Consequential and Transitional Provisions) Bill 2017.*

The *Water and Sewerage Tasmania Bill 2017* will establish a new Government Business Enterprise, with objectives that include the efficient and effective supply of water and sewerage services and ensuring sustainable investment in water and sewerage infrastructure. The Bill also contained provisions relating to:

- the transfer of employees, assets, rights and liabilities of TasWater to the new government business
- the establishment of a Ministerial Charter in which the Shareholding Ministers, being the Treasurer and the Minister for Primary Industries and Water, will set the expectations of the business the preparation of a 10 year infrastructure investment plan, to be approved by the Shareholding Ministers
- the prohibition from selling, leasing or disposing of any assets or land, except where the sale, lease or disposal of assets relates to the maintenance, repair, upgrading or replacement of infrastructure
- payments to councils to be made from the Consolidated Fund.

The reforms to water and sewerage pricing are contained in the *Water and Sewerage Tasmania (Consequential and Transitional Provisions) Bill 2017.* The Bill transfers responsibility of pricing by the new government business to the Treasurer, with OTTER to be responsible for all non-price economic regulation. All customer service standards, codes and policies of the new Government business, or any other regulated entity, will require the approval of OTTER.

The Bills had not been passed in the Legislative Council as at the date of this Report.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 30 provides a snapshot of financial results for 2016-17 in comparison to prior years.

Figure 30: TasWater Financial Results

	2016-17		2015-16		2014-15		2013-14[1]
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s
Financial performance							
Sales revenue	288 533	▲	273 196	●	274 727	▲	257 423
Reconciliation underlying result to net profit (loss) before tax							
Underlying result	24 600	▲	11 002	▼	25 169	▼	26 990
Customer and developer contributions	18 850	▼	26 923	▲	22 213	▲	12 572
Initial recognition of assets	0	▼	4 866	▲	0	●	0
Asset revaluation decrement	0	▲	(6 593)	▼	0	●	0
Flood damage revenue	801	▲	0	●	0	●	0
LCC settlement - prior periods	2 208	▲	0	●	0	●	0
Redundancy provision on restructure	(5 601)	▼	0	●	0	●	0
Net profit before tax	40 858	▲	36 198	▼	47 382	▲	39 562
Asset revaluation movement	0	▼	24 414	▲	0	●	0
Total comprehensive profit (loss)	29 788	▼	46 688	▲	34 452	▲	26 857
Financial position							
Property, plant and equipment	2 032 266	●	1 985 155	▲	1 878 388	●	1 828 452
Borrowings	(474 902)	▼	(430 283)	▼	(365 741)	▼	(332 656)
Net assets	1 585 043	●	1 574 712	●	1 548 356	●	1 536 024
Tasmanian government returns/contributions							
Dividends paid	19 457		20 332		22 120		18 647
Guarantee fee paid	1 507		2 425		2 341		2 589
Income tax paid	9 036		7 242		5 539		7 764
Key financial ratios							
Operating margin	1.1	▲	1.0	▼	1.1	●	1.1
Current ratio	0.48	▲	0.38	●	0.39	▼	0.45
Return on assets	2.0%	▲	1.4%	▼	2.2%	●	2.4%
Return on equity	1.8%	▲	1.6%	▼	2.1%	▲	1.6%
Debt to equity	30.0%	▼	27.3%	▼	23.6%	▼	21.7%
Debt to total assets	22.1%	▼	20.5%	▼	18.2%	▼	17.0%
Cost of debt	4.4%	▲	4.7%	▲	5.2%	▲	6.0%

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. No indicator as first year of operation

TASRACING PTY LTD

INTRODUCTION

Tasracing Pty Ltd's (Tasracing) objective was to provide the strategic direction, administration, oversight and funding required to produce quality racing products that met customer demand in a globally competitive industry.

KEY RESULTS AND DEVELOPMENTS

In 2016-17, Tasracing produced an underlying profit of \$0.37m (2015-16, \$0.64m).
On 23 July 2015, the Minister for Racing announced a package of measures to resolve Tasracing's structural funding gap, which resulted in reduced costs and an improved profit outcome. While the initial impact was a reduction of \$2.60m in prizemoney in 2015-16, Tasracing has subsequently implemented a code allocation growth strategy of at least 4.0% in the 2017-21 planning period. Prizemoney of \$22.71m in 2016-17 (\$21.77m) was consistent with this plan.
Net assets at 30 June 2017 were \$42.70m (\$41.04m).
Tasracing remained dependent on government funding in 2016-17, with \$30.21m in grants received and a further equity injection of \$0.72m received.
No dividend was paid to the Tasmanian Government in 2016-17. An objective in the 2017-21 corporate plan is to protect and grow the racing industry and the forecast is for modest surpluses with no plan for dividend payment returns to Government.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control.

BACKGROUND

Tasracing was established by the *Racing (Tasracing Pty Ltd) Act 2009* and was responsible for the regulation of racing in Tasmania under the *Racing Regulation Act 2004*.

Tasracing's primary roles were:

- the ongoing development of racing and breeding industries in Tasmania under the three codes, thoroughbred, harness and greyhound racing
- the promotion of Tasmanian racing to local, national and international wagering markets
- race club funding
- provision of stakes
- management of racing venues and tracks
- management of race day operations.

Tasracing's responsibilities included management of venues and ensuring they were suitable for race meetings and the provision of insurance for riders and harness drivers.

Tasracing had major venues which it leased from the clubs at Elwick and Mowbray for the three codes, Devonport showgrounds were utilised for harness and greyhound racing while Spreyton was utilised for thoroughbreds. There were a number of country tracks where race meetings were held which were controlled by local clubs. These included King Island, Scottsdale, St Mary's and Burnie.

The Clubs which operated at the major venues under each of the three codes were responsible, in consultation with Tasracing, for scheduling of races in accordance with the annual Race Day Calendar.

Stewards employed by the Office of Racing Integrity (ORI) oversaw each race meeting and were responsible ultimately as to whether track conditions were suitable for a race to proceed. ORI was a DPIPWE and was responsible for maintaining the probity and integrity of racing in the three codes.

Tasracing operating in an environment influenced by:

Financial sustainability

Tasracing received $30.21m of funding from the Tasmanian Government to cover administration costs and funding for the three codes. The amount provided under the Funding Deed, which expires in 2029, is indexed annually by CPI minus 1.0%.

The package of measures (as referred to above) announced by the Minister for Racing in the 2015-16 financial year, was aimed at resolving Tasracing's structural funding gap issues. One element of the package was an amendment to the Funding Deed that removed the requirement for Tasracing to maintain code funding in "real terms" each year. Code funding included payments for stake money, riding and drivers' fees, breeding incentives, animal welfare and other code related payments. While the initial impact was a reduction of $2.60m in 2015-16, Tasracing had implemented a code allocation growth strategy of at least 4.0% in the 2017-21 planning period. Prizemoney of $22.71m in 2016-17 was consistent with this plan.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 31 provides a snapshot of financial results for 2016–17 in comparison to prior years.

Figure 31: Tasracing Financial Snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Total revenue	43 312	●	42 166	●	40 243	●	39 234	▲
Interest Income	673	▲	626	▼	680	●	681	▼
Expenditure								
Total Operating expenses	42 445	●	41 010	●	41 454	▲	39 807	●
Depreciation and amortisation	3 470	▼	3 825	▼	3 619	●	75	●
Financing and leasing costs	852	▼	1 040	●	1 035	●	1 107	▼
Impairment (losses) reversals	0	●	0	●	2 232	▲	1 002	▼
Interest cost on Defined Benefit Superannuation Plan	95	▲	102	▼	87	▼	78	●
Underlying Result[1]	372	▲	640	▲	(1 214)	▲	(75)	●
Earnings Before Interest, Taxes, Depreciation and Amortisation	4 337	▼	4 981	▲	2 408	▼	3 090	▲
Financial position[2]								
Cash	15 785	▲	12 372	▲	8 564	▲	7 964	▲
Property, plant and equipment	41 668	▼	44 739	▼	47 655	●	49 101	●
Borrowings	(9 447)	▼	(10 153)	▲	(10 827)	●	(11 442)	●
Net assets	42 704	●	41 039	●	39 994	●	40 635	●
Key financial ratios								
Operating margin	1.02	●	1.03	▲	0.97	●	1.00	▲
Return on assets	0.6%	▼	1.1%	▲	(2.1%)	▼	(0.1%)	▲
Return on equity	0.9%	▼	1.6%	▲	(3.0%)	▼	(0.2%)	▲
Current ratio	3.61	▲	2.86	▲	2.14	●	2.06	▲
Cost of debt	5.4%	●	5.4%	●	5.4%	●	5.4%	●
Interest coverage ratio - EBIT	0.97	▼	1.29	▲	(1.27)	▼	(0.56)	▲
Debt to equity	16.2%	▼	17.7%	▲	19.2%	▲	20.5%	▲

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Underlying Result before tax equals Net Profit before Tax

2. Assets are positive, liabilities are negative.

TT-LINE COMPANY PTY LTD

INTRODUCTION

TT-Line Company Lty Ltd (TT-Line) operated a freight and passenger service across Bass Strait.

KEY RESULTS AND DEVELOPMENTS

TT-Line produced a $30.35m underlying profit in 2016-17, an increase of 62.6% on last year's result. Total sales were up 4.8% to $227.84m following record passenger and freight numbers.

Key impacts on the 2016-17 result were:

- increased passenger numbers, 433 925 (2016, 418 831) and vehicles transported, 197 150 (188 894). Overall, passenger and vehicle revenue increased by $7.75m
- record freight volumes at 103 430 twenty–foot equivalent units (TEUs) (100 626) resulting in increased freight revenue of $1.73m
- decreased bunker fuel and oil costs of $3.73m primarily due to an improvement in the fuel hedge position.

TT-Line's reported Net profit before tax, $35.87m, included an asset revaluation increment of $5.52m ($5.22m for the vessels and $0.30m for the Edgewater Hotel), being a reversal of previous revaluation decrements charged to the statement of profit or loss.

At 30 June 2017, Spirit of Tasmania I and Spirit of Tasmania II were independently valued at €65m each (2016, €65m) or $96.68m in Australian dollars ($96.92m). The $5.22m vessel revaluation increment recognised in the statement of profit or loss comprised the write-back of accumulated depreciation of $17.61m after allowing for the $0.47m decrease in value for both vessels and the write-off of $11.92m of improvements capitalised during the year.

The *TT-Line Vessel Replacement Fund Act* (the Replacement Fund Act) commenced on 8 May 2017. *The Replacement Fund Act* provided for the establishment of an account within the Public Account to accrue funds for the replacement of the TT-Line vessels. TT-Line paid a special dividend of $40.00m in June 2017, with a further $40.00m included in TT-Line's 2017-18 budget.

AUDIT FINDINGS

No internal control deficiencies or improvement opportunities were raised with management.

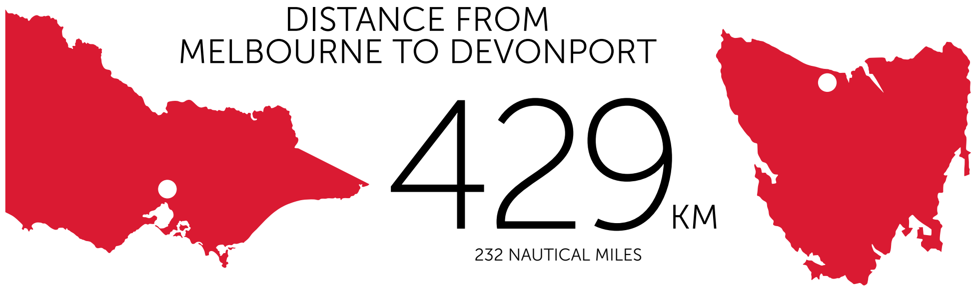
BACKGROUND

TT-Line was established on 1 November 1993 under the *TT-Line Arrangements Act 1993* to provide a shipping and passenger service to and from Tasmania.

TT-Line's core business was the provision of passenger, vehicle and freight services between Devonport and Melbourne. These services were conducted using two ferries, Spirit of Tasmania I and Spirit of Tasmania II (Spirits I and II), which were acquired in 2002. TT-Line also operated the Edgewater Hotel in Devonport.

The sailing distance across Bass Strait from Station Pier in Melbourne to Devonport is shown in Figure 32 below.

Figure 32: Spirit Sailing Distance



Source: TT-Line

TT-Line's performance and profitability were impacted by the highly competitive passenger and freight markets it operated in. It predominately competed in the roll on/roll off freight market in the "speed to market" segment.

Passengers	2017	433 925
	2016	418 831
Freight TEUs	2017	103 430
	2016	100 626

Passenger numbers increased by 3.6%, with passenger numbers exceeding 400 000 for the second time since 2003-04. Whilst TT-Line recorded the highest freight numbers on record, significant freight volume improvement is difficult as the vessels operated at capacity for the majority of high demand periods.

TT-Line operated in a heavily regulated environment. The main drivers influencing its operations included the following:

Vessel replacement fund

The Replacement Fund Act commenced on 8 May 2017. The Act provided for the establishment of an account within the Public Account to accrue funds for the replacement of the TT-Line vessels.

The 2016-17 Tasmanian Budget provided for two $40.00m special dividends from TT-Line as initial contributions to the Vessel Replacement Fund. TT-Line paid the first special dividend of $40m in June 2017.

The 2017-18 Tasmanian Budget included a further two $40m special dividends in 2018-19 and 2019-20 and two $10.00m contributions from the Consolidated Fund in 2019-20 and 2020-21. At the end of the Forward Estimates period, 30 June 2021, the Fund will total $180.00m plus accumulated interest.

Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES)

Eligible passengers received a rebate under the BSPVES. The scheme assisted with the cost of sea travel across Bass Strait for passengers accompanying an eligible vehicle. The rebates were reviewed annually and were provided to the driver of an eligible passenger vehicle in the form of a reduced fare charged by TT-Line. Accordingly, TT-Line was not the recipient of the rebate, but was reimbursed on a monthly basis by the Australian Government for the total rebate provided to eligible passengers under the scheme. In 2016-17, TT-Line claimed rebates of $47.68m.

Compliance and safety regulations

TT-Line was subject to numerous maritime compliance and safety regulations. These requirements were regulated by the Australian Maritime Safety Authority (AMSA), the national agency responsible for maritime safety and protection of the marine environment.

The regulations included:

- Survey certification
- International Safety Management (ISM) Code certification.

Both vessels were subject to survey on an annual basis. A Certificate of Survey showed that a vessel had been surveyed and met the standards for construction stability and safety equipment.

TT-Line was subject to annual audits by AMSA as part of the ISM Code certification process.

TT-Line was issued with two certificates:

- a Document of Compliance (DOC), which is issued to a company that has implemented a functional safety management system that complies with, and satisfies, the requirements of the ISM Code certification process
- a Safety Management Certificate, which is issued to a Ship, operated by a company holding a valid DOC, that has implemented a shipboard safety management system that complies with, and satisfies, the requirements of the ISM Code certification process.

Environmental regulations

TT-Line's operations were subject to various environmental regulations under both Australian and Tasmanian legislation. TT-Line's management committee was responsible for monitoring compliance with environmental regulations.

The regulations included reporting under the National Greenhouse and Energy Reporting (NGER) scheme, established by the *National Greenhouse and Energy Reporting Act 2007 (Cth)*. Spirits I and II were powered by marine fuel and the consumption of fuel accounts for a significant proportion of TT-Line's total energy consumption.

Port facilities

TT-Line's port facilities were leased from Tasports and Victorian Ports Corporation (Melbourne). The current leases are due to expire in 2021 and 2022, respectively. TT-Line also had agreements with both port corporations relating to port charges.

Dry docking

Dry dock work is completed on each vessel every two years to maintain compliance certificates. The dry dock work served to meet survey requirements and to complete a major overhaul of machinery, structure and fittings.

Dry dock works for Spirits I and II were carried out at Garden Island in Sydney. The facility is owned by the Australian Government and leased to a private operator. The current agreement expires in 2024.

Cost drivers

TT-Line's primary cost drivers were employee benefit expenses and fuel.

In 2016-17, employee benefit expenses totalled $70.32m, which represented 34.9% of total expenses, excluding income tax. TT-Line was party to three enterprise agreements and subject to the *Hospitality Industry (General) Award 2010* covering the following staff:

- on-board retail and hospitality employees, medical attendants, integrated ratings, shipboard security, and shore based cleaners
- shipwrights and pursers
- selected shore based positions predominantly involved in terminal services and the telephone sales centre
- Edgewater Hotel staff.

Senior on-board officers were contracted through an external organisation that provides maritime management services.

In 2016-17, bunker fuel and oil totalled $33.96m which represented 16.9% of total expenses, excluding income tax. TT-Line utilised bunker fuel hedge agreements to reduce its risk exposure relating to the volatility of fuel prices.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 33 provides a snapshot of financial results for 2016–17 in comparison to prior years.

Figure 33: TT-Line Financial Snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue from provision of services and sale of goods	227 837	▲	217 324	▲	205 467	●	196 965	▲
Bunker fuel and oil	33 964	▲	37 698	●	37 064	▲	39 103	▼
Depreciation and amortisation	20 090	▼	17 535	▼	16 388	▼	15 279	▼
Employee benefit expenses	70 324	●	68 977	▼	63 847	▼	61 037	▼
Reconciliation of underlying result to net profit (loss) before tax								
Underlying result	30 348	▲	18 664	▲	17 492	▲	11 642	▼
Ship valuation adjustment	5 222	▼	8 271	▲	(15 709)	▼	3 204	▲
Edgewater valuation adjustment	297	▲	0	▲	(111)	▼	0	▼
Net profit (loss) before tax	35 867	▲	26 935	▲	1 672	▼	14 846	▼
Financial position[1]								
Cash and deposits	105 895	●	110 425	▲	90 200	▲	81 328	▲
Ships at fair value	193 366	●	193 836	▲	179 442	●	180 023	●
Deferred tax asset (net of deferred tax liability)	3 152	▼	15 866	▼	23 705	▲	21 889	▼
Provisions	(22 309)	▲	(23 632)	▼	(20 610)	●	(20 267)	▼
Revenue received in advance	(16 012)	▲	(16 956)	▼	(15 421)	▼	(12 560)	▼
Net assets	284 470	●	294 837	▲	276 577	●	280 864	●
Tasmanian government returns/contributions								
Dividends paid	40 000		0		0		0	
Key financial ratios								
Operating margin	1.2	▲	1.1	●	1.1	●	1.1	●
Return on assets	8.00%	▲	4.80%	▲	4.55%	▲	3.05%	▼
Return on equity	8.70%	▲	6.60%	▲	0.41%	▼	3.77%	▼
Current ratio	2.9	▲	2.7	▲	2.5	▼	3.0	▲

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Assets are positive, liabilities are negative

APPENDIX A - ACRONYMS AND ABBREVIATIONS

CSOs	Community Service Obligations
GBE's	Government Business Enterprises
SOC's	State-Owned Companies
PNFC	Public Non-Financial Corporations
Forestry	Forestry Tasmania
Hydro	Hydro-Electric Corporation
MAIB	Motor Accidents Insurance Board
PAHSMA	Port Arthur Historic Site Management Authority
PT	Public Trustee
Tascorp	Tasmanian Public Finance Corporation
Aurora Energy	Aurora Energy Pty Ltd
Metro	Metro Tasmania Pty Ltd
Tasmanian Irrigation	Tasmanian Irrigation Pty Ltd
TasNetworks	Tasmanian Networks Pty Ltd
TasPorts	Tasmanian Ports Corporation Pty Ltd
TasRail	Tasmanian Railway Pty Ltd
Tasracing	Tasracing Pty Ltd
TT-Line	TT-Line Company Pty Ltd
MPDC	Macquarie Point Development Corporation
PFT	Private Forests Tasmania
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd.
STT	Sustainable Timber Tasmania.
MCH	Mersey Community Hospital
the Audit Act	*Audit Act 2008*
KAMs	key audit matters
NEM	National Electricity Market
State Growth	Department of State Growth
Treasury	Department of Treasury and Finance
OTTER	Office of the Tasmanian Economic Regulator
APAYG	Aurora Pay As You Go.
MWh	megawatt hours
the TFA Act	*Tasmanian Forests Agreement (TFA) Act 2013*
FPPF	Future Potential Production Forest
Gunns	Gunns Plantations Limited
Momentum Energy	Momentum Energy Pty Ltd
HT Wind Operations	HT Wind Operations Pty Ltd

AETV	AETV Pty Ltd
the 2016 Plan	10-Year Asset Management Plan 2016
ANCOLD	Australian National Committee on Large Dams
MONA	Museum of Old and New Art
Metro Coaches	Metro Coaches (Tas) Pty Ltd
the Act	*Motor Accidents (Liabilities and Compensation) Act 1973*
PAHSMA	Port Arthur Historic Site Management Authority
the Act	*Public Trustee Act 1930*
AER	Australian Energy Regulator.
AEMO	Australian Energy Market Operator
RAB	Regulatory Asset Base
Ezikey	Ezikey Group Pty Ltd
Ajilis Project	New Enterprise Resource Planning System
SET	Southern Export Terminals Pty Ltd
ORI	Office of Racing Integrity
TEUs	twenty–foot equivalent units
the Replacement Fund Act	*TT-Line Vessel Replacement Fund Act*
Spirits I and II	Spirit of Tasmania I and Spirit of Tasmania II
BSPVES	Bass Strait Passenger Vehicle Equalisation Scheme
AMSA	Australian Maritime Safety Authority,
ISM	International Safety Management
DOC	Document of Compliance,
NGER	National Greenhouse and Energy Reporting

APPENDIX B - TIMELINESS OF REPORTING

Entity	Financial Report Received & Accepted	Accepted report certified by	Final certified report received	Audit opinion signed
Aurora Energy	10 August 2017	AA		10 August 2017
Forestry	14 August 2017	AA	24 August 2017	27 September 2017
Hydro	14 August 2017	AA		21 August 2017
*Momentum Energy**	**17 August 2017**	AA		21 August 2017
MAIB	11 August 2017	AA		16 August 2017
Metro	3 August 2017	AA		3 August 2017
MPDC	14 August 2017	M	20 October 2017	20 October 2017**
PAHSMA	14 August 2017	AA		**10 October 2017**
PFT	14 August 2017	AA		20 September 2017
PT	14 August 2017	M	25 August 2017	28 August 2017
Tascorp	11 August 2017	AA		15 August 2017
TasNetworks	11 August 2017	AA		16 August 2017
TasPorts	10 August 2017	AA		10 August 2017
BIL	9 August 2017	AA		10 August 2017
Tasracing	8 August 2017	AA		8 August 2017
TasRail	4 August 2017	AA		4 August 2017
TasWater	14 August 2017	AA	24 August 2017	28 August 2017
Tasmanian Irrigation	11 August 2017	AA		11 August 2017
TT-Line	14 August 2017	AA		14 August 2017

M - Management

AA - Accountable Authority

Bold red text – *indicates non-compliance with legislated timeframes*

** Audited subsidiary of Hydro*

*** Opinion reissued on 20 October 2017 due to disclosure of subsequent events*

AUDIT MANDATE AND STANDARDS APPLIED

Mandate

Section 17(1) of the *Audit Act 2008* states that:

> 'An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.'

Under the provisions of section 18, the Auditor-General:

'(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1).'

Under the provisions of section 19, the Auditor-General:

'(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards

(2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity's appropriate Minister and provide a copy to the relevant accountable authority.'

Standards Applied

Section 31 specifies that:

> 'The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

(a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and

(b) the Australian Auditing and Assurance Standards.'

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.

Tasmanian
Audit Office

Cover photo: Tourism Tasmania and Rob Burnett

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