Tasmanian Audit Office

Accountability on Your Behalf

Government Departments and Public Bodies 2005-2006

VOLUME ONE

Executive and Legislature, Government Departments, Superannuation Funds and Other Authorities

Report of the Auditor-General
Report No. 2

November 2006

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and therefore the Tasmanian Audit Office, are set out in the *Financial Management and Audit Act 1990.*

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' annual financial reports. We also audit the Treasurer's Annual Financial Statements which report on financial transactions in the Public Account, and the consolidated whole of government financial report.

Audits of financial reports are designed to add credibility to assertions made by management in preparing their financial reports, enhancing their value to end users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

In the main financial reports by agencies are prepared consistent with Accounting Standards and other mandatory professional requirements in Australia. On occasion reports are "special purpose financial reports" such as the Treasurer's Annual Financial Report. In all cases our audits are conducted in accordance with Australian Auditing Standards.

Following a financial audit, the Office issues a variety of reports to agencies and reports periodically to the Parliament. In combination these reports give opinions on the truth and fairness of financial reports, and comment on agencies compliance with certain laws, regulations and Government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits and compliance audits. Performance audits examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or part of an agency's operations, or consider particular issues across a number of agencies.

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

Performance and compliance audits are reported separately and at different times of the year, with all financial audits included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in November each year. In doing so the Auditor-General is providing information to the Parliament to assist both Houses in their review of the performance of executive Government.

Management of agencies are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses are detailed within the reports.

2006 (No. 13)

2006

PARLIAMENT OF TASMANIA

REPORT OF THE

AUDITOR-GENERAL

GOVERNMENT DEPARTMENTS

AND PUBLIC BODIES 2005-2006

No. 2 of 2006

VOLUME ONE

Executive and Legislature, Government Departments, Superannuation Funds and Other Authorities

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EXECUTIVE AND LEGISLATURE, GOVERNMENT DEPARTMENTS, SUPERANNUATION FUNDS AND OTHER AUTHORITIES

INTRODUCTION

This Volume of the Report includes commentary on the Executive and Legislature, Government departments, Superannuation funds, other statutory authorities and miscellaneous public bodies as follows:

- Executive and Legislature;
- Government Departments;
- Superannuation Funds; and
- Other Authorities.

1 EXECUTIVE AND LEGISLATURE

INTRODUCTION

The Parliament of Tasmania is comprised of the Crown (represented by the Governor), the Legislative Council and the House of Assembly that collectively form the Legislature.

Appropriation of funds to the Legislature-General Division provides, amongst other matters, for general parliamentary functions including the Parliamentary Catering and Reporting Services. Designated officers of the Parliament administer these functions and financial transactions are recorded in the financial statements of:

- The House of Assembly;
- The Legislative Council;
- The Legislature-General; and
- The Office of the Governor.

Appropriation of funds to the Ministerial and Parliamentary Support Division provides for certain expenses and administrative support of Ministers and other Members of Parliament. The financial transactions of this Division are reported in the financial statements prepared by the Department of Premier and Cabinet.

The information on each function is summarised under the following headings:

- Introduction;
- Audit of the 2005-06 Financial Statements;
- Financial Results:
  - Income Statement;
  - Balance Sheet;
  - Cash Position;
  - Financial Analysis; and
- Overall comment.

Where relevant, commentary is also provided on administered transactions and balances.

1.1 HOUSE OF ASSEMBLY

INTRODUCTION

Officers of the House of Assembly provide the House, its Committees, the Speaker of the House and Members with advisory, procedural, research and administrative support services to assist them to effectively undertake their constitutional and Parliamentary duties.

The House is predominantly funded by Parliamentary appropriations and reserved by law appropriations for the above services and for the administration of payments of salaries and allowances as prescribed by the *Parliamentary Salaries, Superannuation and Allowances Act 1973*.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2006 and an unqualified audit report was issued on 20 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 $'000	**2004-05** $'000
Revenue from government - recurrent	5 196	5 128
Revenue from government - capital	100	100
Other operating revenue	4	6
Total Operating Income	**5 300**	**5 234**
Employee entitlements	1 239	1 154
Member entitlements	3 259	3 136
Depreciation	46	25
Other operating expenses	698	732
Total Operating Expenses	**5 242**	**5 047**
Net Operating Surplus	**58**	**187**

Comment

In a normal financial year Government agencies operate at a deficit because they are not funded for depreciation or increases in employee leave provisions. The surplus in both reported years is primarily attributable to the Revenue from government.

In respect to 2005-06, the House had a Net operating surplus of $0.058m compared to $0.187m in 2004-05. The decrease, $0.129m, was mainly due to increased Employee and Member entitlements, $0.208m, as a result of award and Parliamentary salary increases, respectively, offset by an increase in Revenue from government - recurrent, $0.068m.

BALANCE SHEET

	2005-06 $'000	2004-05 $'000
Financial Assets		
Cash and deposits	8	7
Receivables	16	16
Non-financial Assets		
Plant and equipment	1 405	1 168
Total Assets	**1 429**	**1 191**
Liabilities		
Payables	85	70
Employee entitlements	599	514
Advance from Treasury	4	4
Total Liabilities	**688**	**588**
Net Assets	**741**	**603**
Asset revaluation reserve	214	134
Accumulated surplus	527	469
Total Equity	**741**	**603**

Comment

Net Assets increased from $0.603m at 30 June 2005 to $0.741m at 30 June 2006. The main factors contributing to the increase of $0.138m, were:

- An increase in plant and equipment, $0.157m, due to additions of computer equipment, carpet and audio systems, $0.203m, and revaluations, $0.080m, offset by depreciation, $0.046m.

Offset by:

- Increases in Employee entitlements, $0.085m.

CASH POSITION

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	5 196	5 128
Receipts from government - capital	100	95
GST receipts	187	100
Other cash receipts	4	6
Payments to employees, members and suppliers	(5 092)	(5 042)
GST payments	(186)	(96)
Cash from operations	**209**	**191**
Payments for acquisition of non-financial assets	(208)	(192)
Cash (used in) investing activities	**(208)**	**(192)**
Net increase (decrease) in cash	**1**	**(1)**
Cash at the beginning of the reporting period	7	8
Cash at end of the reporting period	**8**	**7**

Comment

Reasons for variations in cash flow amounts reflect the comments made previously in the Income Statement and Balance Sheet sections of this chapter.

FINANCIAL ANALYSIS

`	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		58	187
Operating margin	>1.0	1.01	1.04
Financial Management			
Debt collection	30 days	n/a	n/a
Creditor turnover	30 days	40	34
Other Information			
Staff numbers (FTEs)		20	19
Average staff costs ($'000s)		63	59
Average leave balance per FTE ($'000s)		30	26

Comment

The Creditor turnover has been increasing and exceeds the normal 30 days trading terms, indicating a deterioration in the payment of creditors.

OVERALL COMMENT

The audit was completed satisfactorily with no major issues outstanding.

1.2 LEGISLATIVE COUNCIL

INTRODUCTION

The Legislative Council, together with the House of Assembly and His Excellency the Governor, constitute the Parliament of Tasmania.

The Legislative Council is the Upper House of Parliament and functions as a House of Review.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2006 and an unqualified audit report was issued on 20 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06	**2004-05**
	$'000	$'000
Revenue from government - recurrent	4 133	3 910
Other operating revenue	2	2
Total Operating Income	**4 135**	**3 912**
Employee entitlements	1 562	1 379
Member entitlements	1 952	1 897
Depreciation	22	9
Other operating expenses	600	688
Total Operating Expenses	**4 136**	**3 973**
Net Operating Deficit	**(1)**	**(61)**

Comment

In a normal financial year Government agencies operate at a deficit because they are not funded for depreciation or increases in employee leave provisions.

In respect to 2005-06, the Council had a Net operating deficit of $0.001m compared with a deficit of $0.061m in 2004-05. The decrease of $0.060m was brought about by increased Revenue from government, $0.223m, and a decrease in Other operating expenses, $0.088m, offset by an increase in Employee and Member entitlements, $0.238m, as a result of award and Parliamentary salary increases, respectively.

BALANCE SHEET

	2005-06 $'000	2004-05 $'000
Financial Assets		
Cash and deposits	3	3
Receivables	6	8
Non-financial Assets		
Furniture and equipment	1 182	1 003
Total Assets	**1 191**	**1 014**
Liabilities		
Payables	152	166
Employee entitlements	663	628
Other liabilities	3	3
Total Liabilities	**818**	**797**
Net Assets	**373**	**217**
Accumulated funds	152	153
Asset revaluation reserve	221	64
Total Equity	**373**	**217**

Comment

Net Assets increased from $0.217m at 30 June 2005 to $0.373m at 30 June 2006. The main factors for the $0.156m increase were:

- Increases in furniture and equipment, $0.179m, due to additions, $0.043m and revaluation increments, $0.158m, offset by depreciation, $0.022m.

Offset by:

- An increase in Employee entitlements, $0.035m.

CASH POSITION

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	4 133	3 771
GST receipts	62	53
Other cash receipts	2	5
Payments to employees and members	(3 454)	(3 136)
Payments to suppliers	(637)	(613)
GST payments	(62)	(53)
Cash from (used by) operations	**44**	**27**
Payments for acquisition of non-financial assets	(44)	(29)
Cash from (used by) investing activities	**(44)**	**(29)**
Net increase (decrease) in cash	**0**	**(2)**
Cash at the beginning of the reporting period	3	5
Cash at end of the reporting period	**3**	**3**

Comment

Reasons for variations in cash flow amounts reflect the comments made previously in the Income Statement and Balance Sheet sections of this chapter.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		(1)	(61)
Operating margin	>1.0	1.00	0.98
Financial Management			
Debt collection	30 days	n/a	n/a
Creditor turnover	30 days	71	84
Other information			
Staff numbers FTEs		23	23
Average staff costs ($'000s)		67	61
Average annual and long service leave per FTE ($'000s)		28	28

Comment

The Creditor turnover over the last two years has exceeded the normal 30 days trading terms, due to some large contractual payments outstanding at the end of the year.

The increase in Average staff costs resulted from one employee being paid by the Department of Premier and Cabinet in 2004-05 and by the Council in 2005-06.

The Average annual and long service leave per FTE is considered to be high and is due to excess leave owing to several employees.

OVERALL COMMENT

The audit was completed satisfactorily with no major issues outstanding.

1.3 LEGISLATURE - GENERAL

INTRODUCTION

Legislature-General consists of Joint House support staff, the Parliamentary Reporting Service, the Parliamentary Library Service and the Parliamentary Printing and Systems Service. These Services represent support provided to both Houses of Parliament and their Members.

The Clerk of the Legislative Council and the Clerk of the House of Assembly are jointly responsible for the effective and efficient support operations of the Legislature-General, including the responsibility for all human resources and financial administration issues. The Secretary to the Joint House Committee is responsible for the immediate control of support functions, liaison with and direction to the managers of the various branches.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2006 and an unqualified audit report was issued on 20 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06	**2004-05**
	$'000	$'000
Revenue from government - recurrent	4 697	3 937
Revenue from government - capital	0	353
Other revenue	269	278
Total Operating Income	**4 966**	**4 568**
Employee entitlements	2 114	1 994
Depreciation	357	334
Other operating expenses	2 547	2 591
Total Operating Expenses	**5 018**	**4 919**
Net Operating Deficit	**(52)**	**(351)**

Comment

In a normal financial year Government agencies operate at a deficit because they are not funded for depreciation or increases in employee leave provisions.

In respect to 2005-06, Legislature-General had a Net operating deficit of $0.052m compared to $0.351m in 2004-05. The improvement of $0.299m in the deficit was mainly due to:

- An increase in Revenue from government - recurrent, $0.407m, reflecting additional funding for Parliamentary systems, committees and office rental.

Offset by:

- Increased Employee entitlements, $0.120m, as a result of award increases.

BALANCE SHEET

	2005-06 $'000	2004-05 $'000
Financial Assets		
Cash and deposits	3	43
Receivables	54	55
Non-financial Assets		
Inventory	37	29
Prepaid expenses	18	1
Property, plant and equipment	26 420	26 509
Total Assets	**26 532**	**26 637**
Liabilities		
Payables	140	282
Employee entitlements	575	486
Total Liabilities	**715**	**768**
Net Assets	**25 817**	**25 869**
Accumulated funds	10 424	10 476
Asset revaluation reserve	15 393	15 393
Total Equity	**25 817**	**25 869**

Comment

Net Assets decreased from $25.869m at 30 June 2005 to $25.817m at 30 June 2006. The main factors for the change were:

- A decrease in Property, plant and equipment, $0.089m, due to depreciation, $0.357m, offset in part by additions of computer and security equipment, $0.268m; and
- A decrease in payables, $0.142m.

These were offset partly by:

- An increase in Employee entitlements, $0.089m, due to salary indexation and some high leave balances.

CASH POSITION

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	4 697	3 911
GST receipts	314	297
Other cash receipts	264	623
Payments to employees	(1 996)	(2 000)
Payments to suppliers	(2 733)	(2 497)
GST payments	(318)	(298)
Cash from operations	**228**	**36**
Payments for acquisition of non-financial assets	(268)	(99)
Cash (used in) investing activities	**(268)**	**(99)**
Net decrease in cash	**(40)**	**(63)**
Cash at the beginning of the reporting period	43	106
Cash at end of the reporting period	**3**	**43**

Comment

Reasons for variations in cash flow amounts and cash balances reflect the comments made previously in the Income Statement and Balance Sheet sections of this chapter

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		(52)	(351)
Operating margin	>1.0	0.99	0.93
Financial Management			
Debt collection	30 days	49	43
Creditor turnover	30 days	15	37
Other Information			
Staff numbers (FTEs)		27	27
Average staff costs ($'000s)		80	74
Average leave balance per FTE ($'000s)		19	18

Comment

The increase in days taken to collect receivables reflects a number of accounts outstanding for longer than 60 days.

The increase in Average staff costs was caused by a large accrual for Hansard and Dining room casuals as Parliament sat for the full last week of June for Estimates Committees.

OVERALL COMMENT

The audit was completed satisfactorily with no major issues outstanding.

1.4 OFFICE OF THE GOVERNOR

INTRODUCTION

His Excellency the Governor represents the Crown in Tasmania and discharges the official, constitutional, and community responsibilities of the Office of the Governor (the Office). The Office provides His Excellency with the administrative support to carry out this function.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 21 August 2006 and an unqualified audit report was issued on 17 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06	**2004-05**
	$'000	$'000
Revenue from government - recurrent	2 688	2 885
Revenue from special capital investment funds	0	151
Total Operating Income	**2 688**	**3 036**
Employee entitlements	1 995	2 227
Depreciation and amortisation	214	125
Other operating expenses	605	746
Total Operating Expenses	**2 814**	**3 098**
Net Operating Deficit	**(126)**	**(62)**

Comment

Appropriations and employee expenses were higher in 2004-05 to cover a termination payment for the previous Governor.

No funding from Special capital investment funds was received in 2005-06.

Depreciation increased in 2005-06 following the revaluation of land and buildings as of 1 July 2005.

Other operating expenses decreased by $0.141m in 2005-06 due mainly to 2004-05 including higher costs associated with printing, relocation expenses, travel and IT equipment.

BALANCE SHEET

	2005-06 $'000	2004-05 $'000
Financial Assets		
Cash and deposits	1	1
Other financial assets	45	35
Non-financial Assets		
Inventory		
Property, plant and equipment	29 858	18 070
Total Assets	**29 904**	**18 106**
Liabilities		
Payables	64	95
Provisions	20	0
Employee entitlements	326	377
Total Liabilities	**410**	**472**
Net Assets	**29 494**	**17 634**
Reserves	16 054	4 052
Accumulated funds	13 440	13 582
Total Equity	**29 494**	**17 634**

Comment

It is pleasing to note that following concerns raised at previous audits, land and buildings were revalued on 1 July 2005. This resulted in Property, plant and equipment increasing due to a revaluation increment of $12.000m, with a corresponding increase in Reserves.

Payables decreased by $0.031m due to lower level of other operating costs as explained previously.

Employee entitlements decreased from $0.377m to $0.327m due mainly to a number of longer serving staff leaving during 2005.

CASH POSITION

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	2 688	2 885
Receipts from special capital investment funds	0	151
GST receipts	51	75
Payments to employees	(2 031)	(2 304)
Payments to suppliers	(657)	(887)
GST payments	(51)	(74)
Cash (used in) operations	**0**	**(154)**
Net (decrease) in cash	**0**	**(154)**
Cash at the beginning of the reporting period	1	155
Cash at end of the reporting period	**1**	**1**

Comment

Reasons for variations in cash flow amounts reflect the comments made previously in the Income Statement section this chapter.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		(126)	(62)
Operating margin	>1.0	0.96	0.98
Financial Management			
Debt collection	30 days	0	0
Creditor turnover	30 days	21	39
Other Information			
Staff numbers (FTEs)		25	25
Average staff costs ($'000s)		80	89
Average leave balance per FTE ($'000s)		13	15

Comment

The Creditor turnover ratio reduced from 39 days in 2004-05 to 21 days in 2005-06 because of lower level of payables at 30 June 2006.

The Average staff cost figure was abnormally high for 2004-05 due to the termination payment to the previous Governor.

ADDITIONAL FINANCIAL INFORMATION

Administered Transactions

Administered transactions are those that the Office manages on behalf of the Government. These transactions are not shown in the Office's Income Statement or Balance Sheet.

For 2004-05 the administered transactions all related to remuneration arrangements for the Governor. From 2005-06 these transactions have been reclassified as controlled.

Administered Revenues and Expenses

	2005-06 $'000	2004-05 $'000
Revenue from government - recurrent	0	337
Total Revenue	**0**	**337**
Employee entitlements	0	353
Total Expenses	**0**	**353**
Net Deficit	**0**	**(16)**

Comment

Nil.

Administered Assets and Liabilities

	2005-06 $'000	2004-05 $'000
Liabilities		
Employee entitlements		16
Total Liabilities	**0**	**16**
Net Liabilities	**0**	**(16)**
Accumulated deficits		(16)
Total Deficit	**0**	**(16)**

Comment

Nil.

Administered Cash Flows

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	0	337
Payments to employees	0	(337)
Cash from operations	**0**	**0**
Net increase/(decrease) in cash	**0**	**0**
Cash at the beginning of the period	0	0
Cash at end of the period	**0**	**0**

Comment

Nil.

OVERALL COMMENT

The 2005-06 audit was completed with satisfactory results.

2 MINISTERIAL DEPARTMENTS

INTRODUCTION

State Government Departments are established by order of the Governor under the provisions of the *State Service Act 2000* (SSA), on the recommendation of the Minister responsible. Ministerial responsibility for departments is assigned under the provisions of the *Administrative Arrangements Act 1990*.

Government departments are those listed in Schedule 1 of the SSA.

This part of the Report provides information on Government departments. The information on each department is summarised under the following headings:

- Introduction;
- Audit of the 2005-06 Financial Statements;
- Financial Results;
    - Income Statement;
    - Balance Sheet;
    - Cash Position;
    - Financial Analysis;
- Additional Financial Information (administered transactions); and
- Overall Comment.

The financial results discussed are derived from the audited financial statements that include Cash and Accrual components. The reporting framework for departments is prescribed through Treasurer's Instructions issued under the *Financial Management and Audit Act 1990* and the requirements of Australian Accounting Standard AAS 29 *Financial Reporting by Government Departments*. In addition, departments comply with the relevant financial reporting requirements of Australian equivalents to International Financial Reporting requirements. Full (unabridged) financial statements are required to be published as part of Government Departments' annual reports to Parliament by 31 October following the end of the financial year; at which time they then become public documents.

Departments are required to present financial statements in accordance with the Model Departmental Financial Statements, which provide that the presentation of budget information, in line with original budget, on the face of the statements is optional for 2005-06 but mandatory from 2006-07 onwards. I support this initiative and particularly explanations for variances. Where a Department has included the budget amounts for 2005-06 they have also been included in this Report for information purposes. Figures will be agreed to original budget by audit but the budget will not be audited *per se* by my Office.

As provided by the accounting standards, the liquidity basis of presentation has been adopted for the first time in the preparation of 2005-06 agency financial statements, including comparative amounts. As a consequence, I have only presented figures in this report covering two years.

At the time of publication of this Report, the audits of all Departments had been completed.

2.1 DEPARTMENT OF ECONOMIC DEVELOPMENT

INTRODUCTION

The Department of Economic Development is responsible for leading economic and industry development in Tasmania.

The Department's areas of responsibility during 2005-06 included Economic Development and Sport and Recreation, and incorporated the activities of the Tasmanian Development Board.

As at 30 June 2006 the responsible Minister was the Minister for Economic Development and Resources and the Minister for Sport and Recreation.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements for both the Department of Economic Development and Tasmania Development and Resources were received on 10 August 2006 and unqualified audit reports for both entities were issued on 25 August 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06	**2004-05**
	$'000	$'000
Revenue from government - recurrent	43 218	63 053
Revenue from government - appropriation c/fwd	0	1 300
Revenue from special capital investment funds	24 510	25 566
Grants	2 044	3 979
Interest revenue	4 177	4 156
Gain(loss) on sale of non-financial assets	(54)	1 364
Resources received free of charge	115	0
Gain on fair value revaluations	24	1 147
Other operating revenue	12 771	4 314
Total Operating Income	**86 805**	**104 879**
Employee entitlements	17 688	15 694
Depreciation and amortisation	752	617
Grants and subsidies	21 363	30 036
Borrowing costs	1 766	3 485
Impairment losses	2 442	2 845
Loss on fair value revaluations	3 363	29
Write down of assets	33	2
Other operating expenses	34 791	25 490
Total Operating Expenses	**82 198**	**78 198**
Net Operating Surplus	**4 607**	**26 681**

Comment

One-off funding was received from Government in 2004-05 for the repayment of borrowings. During 2004-05 funds carried forward from 2003-04 for the Henry Jones IXL development were recognised. These two items account for the majority of the decrease of $21.135m in appropriation in 2005-06.

The small decrease in Revenue from special capital investment funds in 2005-06 resulted from the timing of payments for Economic and Social Infrastructure Fund (ESIF) projects. Several projects were completed in 2004-05, including grant funding for Northern Tasmania Sports, Domain Tennis Centre and the Trial Harbour Road Upgrade, with funds provided in 2005-06 for new and continuing projects including funding for the Launceston Aquatic Centre.

The decrease in Grants is attributed to one-off funding received for projects in 2004-05 where the Department was the lead agency, with no additional funding being required in 2005-06.

The large movement in Gain (loss) on sale of non-financial assets is attributed to the disposal of Antarctic and Southern Ocean Science Centre Pty Ltd (ASOSC) in 2004-05.

Resources received free of charge represented lighting equipment, valued at $0.115m, which was donated in 2005-06 to the ABC studio at the Hobart Technopark.

The decrease of $1.123m in Gains on fair value revaluations can be attributed to no gains being made for fair value revaluations of Investment property in 2005-06.

Other operating revenue increased by $8.457m in 2005-06 due to a number of factors:

- Debt forgiveness of $6.065m in 2005-06 relating to the purchase of the War Service Land Settlement Portfolio by the State from the Australian Government in June 2006. An agreement with the Australian Government released the State of all obligations associated with the scheme. In 2004-05 debt forgiveness was $1.500m and related to debts to the former ASOSC; and
- Funding received under the Tasmanian Community Forest Agreement of $3.250m.

Employee entitlements increased in 2005-06 due to wage increases as a result of the State Service Wages Agreement (SSWA) and filling previously vacant positions.

The decrease in 2005-06 in Grants and subsidies of $8.673m is mainly attributable to timing of payments for Economic and Social Infrastructure Fund projects. In addition, a number of projects were completed in 2004-05.

Borrowing costs decreased by $1.719m in 2005-06 due to lower levels of borrowing compared to the prior year. There was a slight offset with increases in interest rates in the same period.

Impairment losses in 2005-06 relate to Loan advances, $1.434m, and Equity investments, $1.008m.

Loss on fair value revaluations of $3.363m in 2005-06 relates to valuation adjustments for investment property, $2.117m, and land under the War Service Land Settlement Portfolio, $1.246m.

Increase in Other operating expenses in 2005-06, $9.301m, is mainly attributable to an increase in contracted services including an earlier than expected payment being required in regards the Stage 2A rollout of natural gas.

In 2005-06 the Department's Net operating surplus decreased by $22.074m, from $26.681m in 2004-05 to $4.607m in 2005-06. The main reason for this decrease is the one-off funding from Government received in 2004-05. Other factors, as noted above, contributed to a lesser degree.

BALANCE SHEET

	2005-06 $'000	**2004-05** $'000
Financial Assets		
Cash and deposits	61 630	60 301
Receivables	1 019	315
Loan advances	10 855	13 065
Equity investments	6 336	7 177
Non-financial Assets		
Property, plant and equipment	11 834	12 386
Investment property	10 331	7 835
Intangibles	348	0
Other non-financial assets	1 302	2 560
Total Assets	**103 655**	**103 639**
Liabilities		
Payables	2 506	1 398
Interest bearing liabilities	21 027	21 671
Provisions	1 185	0
Employee entitlements	3 064	2 926
Other liabilities	1 723	8 102
Total Liabilities	**29 505**	**34 097**
Net Assets	**74 150**	**69 542**
Reserves	647	646
Accumulated funds	73 503	68 896
Total Equity	**74 150**	**69 542**

Comment

Cash at 30 June 2006 includes $31.953m funds held in a Special Deposit and Trust Account for the Intelligent Island program expenditure commitments which have yet to eventuate.

Receivables increased by $0.704m in 2005-06 due to costs for the fitout of tenancy accommodation at the Hobart Technopark, to be met by tenants.

The main movement for Loan advances in 2005-06 is finalisation of a number of loans in the Rural Adjustment Scheme account totalling approximately $1.386m. Also, as explained earlier, the provision for doubtful loans was increased.

Property, plant and equipment decreased by $0.552m due mainly to a decrease of $1.246m in rural property values as a result of a reduction in the fair value of the War Service Land Settlement portfolio at 30 June 2006. This was offset partly by the recognition of make good provisions for operating leases resulting in an increase to leasehold improvements, $0.851m.

Investment property increased by $2.496m in 2005-06 with the main factors being land valuation increasing by $1.950m and additional building works at the Technopark capitalised and then subsequently revalued to fair value.

Intangible assets of $0.348m in 2005-06 relate to the new Client Management System (CRM).

Other non-financial assets decreased by $1.258m caused by a variation in the GST recoverable balance, which varies with the timing and value of payments around year end.

The increase in Payables of $1.108m relates to:

- Capital creditors of $0.493m recorded this year relating to works on the Erico building at the Hobart Technopark;
- Accrued interest on borrowings increasing by $0.290m due to the timing of maturities of borrowings; and
- Operating lease rentals of $0.181m.

Monies received from client advances in repayment of overnight borrowings, resulting in a decrease in Interest bearing liabilities of $0.644m in 2005-06.

Other liabilities decreased by $6.379m with the repayment and write-off of Australian Government Loans, $7.561m, relating to the purchase of the War Service Land Settlement Portfolio being the main factor. This was offset by $1.100m of Appropriation carried forward under Section 8A of the *Public Account Act 1986*.

CASH POSITION

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	44 318	63 053
Receipts from special capital investment funds	24 510	25 566
Grants	1 991	4 000
GST receipts	6 125	7 751
Interest received	3 797	4 243
Other cash receipts	6 226	2 641
Payments to employees	(17 527)	(15 214)
Grants and Subsidies	(21 356)	(30 037)
Interest payments	(1 472)	(4 303)
GST payments	(4 911)	(8 961)
Other cash payments	(34 756)	(26 246)
Cash from operations	**6 945**	**22 493**
Proceeds from disposal of non-financial assets	234	2 548
Repayment of loans by other entities	3 097	6 070
Net proceeds from trust activities	199	0
Loans made to other entities	(2 201)	(1 017)
Payments for acquisition of non-financial assets	(4 704)	(1 665)
Payments for investments	(200)	(268)
Cash from (used in) investing activities	**(3 575)**	**5 668**
Proceeds from borrowings	30 000	43 144
Repayment of borrowings	(32 041)	(68 133)
Cash (used in) financing activities	**(2 041)**	**(24 989)**
Net increase in cash	**1 329**	**3 172**
Cash at the beginning of the reporting period	60 301	57 129
Cash at end of the reporting period	**61 630**	**60 301**

Comment

Cash increased by $1.329m in 2005-06 as compared with $3.172m in 2004-05.

Cash from operations decreased by $15.548m mainly because of reduced Receipts from government for recurrent appropriation, the receipt in the previous year of 21.800m to facilitate debt repayment, higher payments to employees, $2.313m, and Other cash payments, $8.510m. These were offset partly by increased Other cash receipts, $3.585m, and reduced payments for Grants and subsidies, $8.681m and GST (net), $2.424m.

Cash from investing activities declined by $9.243m due to reduced receipts from Proceeds for the disposal of non-financial assets, $2.314m, caused by the disposal of ASOSC in 2004-05, and lower Repayment of loans by other entities, $2.973m. In addition, Payments for acquisition of non-financial assets increased by $3.039m, relating mainly to capital works at the Erico building at the Hobart Technopark.

Cash used in financing activities decreased by $22.948m reflecting the additional funding provided in 2004-05 to repay borrowings.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		4 607	26 681
Operating margin	>1.0	1.06	1.34
Financial Management			
Debt collection	30 days	49	16
Creditor turnover	30 days	21	14
Other Information			
Staff numbers (FTEs)		232	211
Average staff costs ($'000s)		76	74
Average leave balance per FTE ($'000s)		13	14

Comment

The decline in the Result from operations reflects the one-off funding in 2004-05 and the reduction in Grants and Revenue from special capital investment funds in 2005-06.

Debt collection ratio is higher due to a one-off debt for costs met by Technopark tenants in regards to capital works for tenancy fitouts.

Creditor turnover ratio is higher due to an increased creditor balance at 30 June 2006 mainly due to operating leases, $0.181m, capital works at the Technopark, $0.493m, and increased interest on borrowings, $0.290m. The ratio is still under the benchmark.

Average staff costs rose only marginally despite an increase in staff numbers and a 3.5% increase in wages as a result of the SSWA.

OVERALL COMMENT

The 2005-06 audit was completed satisfactorily with no major issues outstanding.

2.2 DEPARTMENT OF EDUCATION

INTRODUCTION

The Department of Education was formed on 18 September 1998 as a result of the *Administrative Arrangements Order (No 2) 1998*. The Department's areas of responsibility during 2005-06 included:

- State Schools and Colleges;
- Vocational Education and Training (VET);
- State Library Service;
- Archives Office of Tasmania;
- Adult Education; and
- Child Care Regulation and Support.

The Portfolio Minister is the Minister for Education.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2006 and an unqualified audit report was issued on 26 September 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06	2004-05
	$'000	$'000
Revenue from government - recurrent	694 896	648 055
Revenue from government - capital	23 342	20 523
Revenue from special capital investment funds	10 764	30 350
User charges, fees and fines	789	517
Interest revenue	1 755	1 859
Australian Government grants	4 477	7 796
School Levies	8 992	8 474
Other operating revenue	43 540	40 128
Total Operating Income	**788 555**	**757 702**
Employee entitlements	499 423	461 103
Depreciation and amortisation	26 849	25 417
Grants and subsidies	87 574	82 786
Loss on sale of non-financial assets	0	48
Loss on revaluation	0	9 902
Other operating expenses	183 090	171 617
Total Operating Expenses	**796 936**	**750 873**
Net Operating Surplus (Deficit)	**(8 381)**	**6 829**

Comment

In a normal financial year departments generally operate at a deficit because they are not funded for depreciation or increases in employee leave provisions. The surplus in 2004-05 was primarily brought about by the receipt of significant capital investment funds, the majority of which was spent on capital projects.

In respect to 2005-06 the Department had a net operating deficit of $8.381m compared with a surplus of $6.829m in 2004-05. This was brought about by:

- Special investment funds reducing by $19.586m in 2005-06, due to the conclusion of the Community Health and Well Being (CHWB) program;
- Reduced Australian Government grant funding, based on a four-year cycle, due to the conclusion of a number of programs;
- Employee expenses increasing by $38.320m in 2005-06, due to increases in staff numbers by 140, salaries for teachers of 6.41% and staff under the State Service Wage Agreement (SSWA) of 3.5%. This has had consequential effects, increasing employee leave liabilities and superannuation payments;
- Depreciation expense increasing primarily relating to the upward movement in values for buildings;
- Grants and subsidies rising by $4.788m in 2005-06, mainly due to increases in payments made to TAFE Tasmania through the Purchase Agreement covering wage increases and rates; and
- Other operating expenses increasing by $11.473m, largely due to Payroll Tax increasing by $2.628m, which is consistent with the increase in wages, building maintenance up by $2.476m and general administration expenses increasing by $5.322m.

The effects of the foregoing were offset in part by:

- Revenue from government (recurrent) increasing by $46.841m in 2005-06. This included increases in the following areas: Wages, $31.000m, Capital Investment Program (CIP) essential maintenance, $2.000m, Commonwealth recurrent funding, $4.600m, and Skills for Growth, $2.500m;
- Revenue from government (capital) increasing by $2.819m in 2005-06, and being applied to school building upgrades and the CHWB initiative. From this CHWB funding, $14.064m has been spent on the construction or upgrade of gymnasiums, multipurpose centres and general learning areas; and
- Other operating revenue in 2005-06 increasing by $3.412m, largely due to an increase in miscellaneous Commonwealth revenue to schools of $2.600m.

The 2004-05 financial statements recorded a Loss on revaluation of land and buildings of $57.455m in the Income Statement and was explained in my previous report. The 2004-05 comparative figures in the 2005-06 Income Statement records a loss on revaluation of $9.902m as disclosed above. This change is the result of an error in information provided by the Department's valuers, which has now been corrected and explained in the notes to the financial statements.

BALANCE SHEET

	2005-06 $'000	2004-05 $'000
Financial Assets		
Cash and deposits	48 317	66 771
Receivables	6 804	5 878
Non-financial Assets		
Assets held for sale	8 139	7 474
Heritage assets	12 664	12 139
Property, plant and equipment	5 864	6 474
Land and buildings	782 506	732 922
Library book stock	13 714	12 999
Other non-financial assets	4 403	5 375
Total Assets	**882 411**	**850 032**
Liabilities		
Payables	5 791	5 711
Employee entitlements	97 824	89 554
Other liabilities	10 716	10 042
Total Liabilities	**114 331**	**105 307**
Net Assets	**768 080**	**744 725**
Reserves	34 704	1 021
Accumulated funds	733 376	743 704
Total Equity	**768 080**	**744 725**

Comment

Net Assets increased from $744.725m at 30 June 2005 to $768.080m at 30 June 2006. The main factors contributing to this were:

- Receivables rising in 2005-06 by $0.926m due mainly to workers compensation claims outstanding of $0.405m and increases in invoices outstanding from other State Government Agencies of $1.380m;
- Assets held for sale in 2005-06 increasing by $0.665m due to $1.100m of Land and building assets being transferred from Land and buildings and only $0.450m of disposals completed during the year;
- Heritage assets increasing in 2005-06 by $0.525m due to the revaluation/ indexation of fair values; and
- Land and buildings increasing due to revaluation/indexation of fair values, $43.100m, and additions of $31.245m offset by depreciation of $23.646m.

The effects of the foregoing were offset in part by:

- Cash and deposit accounts include cash and bank balances held by schools and colleges $38.528m (2004-05, $34.058m) and cash held in the Special Deposits and Trust Fund $9.431m ($32.459m). The cash held in the Special Deposits and Trust Fund decreased by $23.028m principally due to the finalisation of the CHWB Program, $14.112m, and the cessation of Australian Government programs funded in advance;
- Property, plant and equipment decreasing by $0.610m in 2005-06. This was represented by additions of $0.840m, disposals of $0.260m and accumulated depreciation increasing by $1.190m;
- Other non-financial assets down by $0.972m, largely due to a decrease in GST receivables of $1.190m;
- Increases in provisions for employee entitlements of $8.270m in 2005-06 due to wage and leave entitlement increases. Long service leave liabilities increased by $6.128m and accrued salaries increased by $2.092m; and
- Other liabilities in 2005-06 increasing by $0.642m, mainly due to an increase in revenue received in advance relating to revenues from government.

Total Equity increased due to Reserves increasing by $33.683m as a result of the revaluation/indexation of Land and buildings, as discussed above, offset in part by a reduction in Accumulated funds because of the Net operating deficit.

CASH POSITION

	2005-06 $'000	**2004-05** $'000
Receipts from government - recurrent	694 896	648 055
Receipts from government - capital	23 342	20 523
Receipts from special capital investment funds	10 764	30 350
User charges, fees and fines	789	517
Grants	4 477	7 796
School levies	8 992	8 474
GST receipts	22 715	21 528
Interest received	1 755	1 859
Other cash receipts	32 971	24 067
Payments to employees	(491 141)	(470 654)
Grants and subsidies	(87 574)	(82 786)
Other cash payments	(183 946)	(163 731)
GST payments	(22 752)	(22 393)
Cash from operations	**15 288**	**23 605**
Proceeds from disposal of non-financial assets	588	87
Payments for acquisition of non-financial assets	(34 330)	(26 714)
Cash (used in) investing activities	**(33 742)**	**(26 627)**
Net decrease in cash	**(18 454)**	**(3 022)**
Cash at the beginning of the reporting period	66 771	69 793
Cash at end of the reporting period	**48 317**	**66 771**

Comment

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and the Balance Sheet sections of this chapter.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		(8 381)	6 829
Operating margin	>1.0	0.99	1.01
Financial Management			
Debt collection	30 days	58	56
Creditor turnover	30 days	8	8
Other Information			
Teaching staff numbers (FTEs)		4 878	4 954
Total staff numbers (FTEs)		8 151	8 010
Average staff costs ($'000s)		61	58
Average leave balance per FTE ($'000s)		12	11

Comment

Results from operations deteriorated in 2005-06 due to the deficit from ordinary activities as explained previously.

This reflects the depreciation expense that is not funded through appropriations, offset by the component of capitalised CIP appropriation, and other accrual adjustments. Other items that impact on the Result from operations are the level of capital appropriations, Australian Government grant funds recognised as revenue and appropriations not spent in the reporting period and approved for carry forward expenditure.

Outstanding Debt collection days remained high in 2005-06 due to debts by international students and workers compensation claims which generally take longer to collect.

In 2004-05 Teaching staff numbers included some non-teaching staff employed under the Teaching Service (Tasmanian Public Sector) Award. Improved reporting capabilities by the Department in 2005-06 has enabled reporting specifically on staff teaching in schools, which has resulted in an apparent decrease in numbers from the previous year.

Total staff numbers have increased over the past two years. This increase is principally related to the inclusion of Adult Education, staff from On-Line Access Centres, new positions in relation to Vocational Education and Training, and new staff as a result of other Government initiatives, such as school cluster administration support officers

ADDITIONAL FINANCIAL INFORMATION

Administered Transactions

Administered transactions are those that the Department manages on behalf of the Government. These transactions are not shown in the Department's Income Statement, Balance Sheet or Cash Flow Statement.

Administered Income and Expenses

	2005-06 $'000	**2004-05** $'000
Revenue from government - recurrent	37 911	36 333
Revenue from special capital investment funds	0	750
Australian government grants	222 504	193 758
User charges, fees and fines	337	343
Other revenue	89	1 476
Total Revenue	**260 841**	**232 660**
Grants and subsidies	152 236	142 186
Total Expenses	**152 236**	**142 186**
Net Surplus	**108 605**	**90 474**
Transfer to Consolidated Fund	98 518	90 481
Net Surplus (Deficit) Attributable to the State	**10 087**	**(7)**

Comment

Recurrent appropriations increased by $1.578m in 2005-06, due mainly to Non-Government school grants. There were no administered capital appropriations in 2005-06.

Australian Government grants increased by $28.746m in 2005-06. This is due to increases in Non-Government school recurrent funding from the Australian Government Department of Education, Science and Training (DEST) of $8.152m, and additional capital receipts of $11.150m provided for the *Investing in Our Schools Program*.

Other revenue decreased by $1.387m due to no administrative charges being received on Australian Government grant programs in 2005-06.

Grants and subsidies expenses increased in 2005-06 by $10.050m mainly due to the increase in DEST funding to Non Government Schools of $8.152m outlined above.

While the Schedule of Administered Income and Expenses shows a surplus of $10.087m, most of this consists of Australian Government grants received in relation to the *Investing in Our Schools Program* being unspent as at 30 June 2006.

Administered Assets and Liabilities

	2005-06 $'000	2004-05 $'000
Financial Assets		
Cash	10 464	365
Receivables	0	12
Total Assets	**10 464**	**377**
Liabilities	0	0
Total Liabilities	0	0
Net Assets	**10 464**	**377**
Accumulated funds	10 464	377
Total Equity	**10 464**	**377**

Comment

Most variations between administered assets and liabilities are due to timing issues. Cash increased by $10.099m in 2005-06 due to the grants received in relation to the Investing in Our Schools Program being unspent as at 30 June 2006.

Administered Cash Flows

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	37 911	36 333
Receipts from special capital investment funds	-	750
Australian government grants	222 504	193 758
User charges, fees and fines	337	343
Other receipts	101	1 371
Cash inflows from operating activities	**260 853**	**232 555**
Grants and subsidies	152 236	142 186
Transfers to Consolidated Fund	98 518	90 481
Cash outflows from operating activities	**250 754**	**232 667**
Net increase/(decrease) in cash	**10 099**	**(112)**
Cash at the beginning of the period	365	477
Cash at end of the period	**10 464**	**365**

Comment

Reasons for variations in cash flow receipt and payment amounts and movements in the cash amount reflect the comments made previously under the Administered Income and Expenses and the Administered Assets and Liabilities sections of this chapter.

OVERALL COMMENT

The audit was completed satisfactorily with no major issues outstanding.

2.3 DEPARTMENT OF HEALTH AND HUMAN SERVICES

INTRODUCTION

The Department of Health and Human Services (the Department or DHHS) provides integrated services in the areas of health, housing, ambulance, and community services to people in Tasmania. These services are provided through the following output groups:

- **Community, Population and Rural Health** – the Department delivers individual services in community settings to people who require disability services, mental health services, palliative care services, aged care services, oral health services, alcohol and drug services, cancer screening and control, and rural and community health services. The Public and Environmental Health Service provides promotion, screening, and information to prevent illness. It also provides a monitoring and protection role for the Tasmanian community;
- **Children and Families** – services are directed towards improving the safety and well being of individuals, children, young people and families. This includes providing crisis support and accommodation, sexual assault and domestic violence support services, alternate care services for children who are unable to live with their families, adoption and information services, and supervision, support and custodial services for young offenders;
- **Hospitals and Ambulance Service** – a wide range of specialist hospital based treatment and care is provided through the State hospital system. The Tasmanian Ambulance Service provides emergency ambulance care, rescue and transport services; and
- **Housing Services** – the major focus is to ensure that low income Tasmanians have access to adequate, affordable, appropriate and secure housing options. In addition to the provision of public housing, low income Tasmanians may be provided with financial assistance to access or maintain housing in the private rental market or be assisted to purchase their own home through the Home Ownership Assistance Program (HOAP).

The Tasmanian Ambulance Service (TAS) and Housing Tasmania also operate and report under their own legislation. Comments relating to these entities are briefly noted in this section of my report, with greater detail separately disclosed in the chapters that follow. Commentary on the following pages as it relates to the Department is on the consolidated results.

The Portfolio Minister is the Minister for Health and Human Services.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Financial statements of the Department were received on 15 August 2006. Revised statements were received on 6 October 2006 and an unqualified opinion was issued on 10 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS $'000	2004-05 AIFRS $'000
Revenue from government - recurrent	947 101	842 051
Revenue from government - capital	32 293	26 714
Revenue from Special Capital Investment Funds	25 548	28 910
Grants	21 489	23 413
User charges	132 133	121 777
Interest revenue	3 368	5 127
Other operating revenue	19 635	20 011
Total Operating Income	**1 181 567**	**1 068 003**
Employee entitlements	674 780	578 085
Depreciation and amortisation	45 940	39 762
Goods and services	134 243	119 438
Grants and subsidies	127 385	123 816
Administration	60 091	49 994
Borrowing costs	11 523	12 324
Impairment losses	1 627	967
Loss on sale of non-financial assets	3 809	928
Other operating expenses	165 953	140 174
Total Operating Expenses	**1 225 351**	**1 065 488**
Net Operating Surplus (deficit) before asset transfers and superannuation	**(43 784)**	**2 515**
Asset transfers	22 990	0
Actuarial superannuation adjustment	7 895	(637)
Net Surplus (Deficit) attributable to the state	**(12 899)**	**1 878**

Comment

In 2005-06 the Department achieved an operating deficit before asset transfers and changes in the actuarial assessment of superannuation liabilities of $43.784m compared with a surplus of $2.515m in 2004-05. Before accounting for inter-entity transactions, this deficit comprised:

	$m	**$m**
DHHS	(29.5)	(4.2)
Housing	(11.7)	11.7
TAS	(2.6)	(5.0)
Total	**(43.8)**	**2.5**

Reasons for the movements as they relate to Housing and TAS are outlined in the separate chapters for each of these two entities. The deficit at DHHS, (on a consolidated basis) was caused by a number of offsetting factors including:

- A decrease in Special Capital Investment Funds of $3.362m, which was primarily due to a reduction in funding under the Affordable Housing Strategy of $9.489m, off-set in part by Royal Hobart Hospital Redevelopment Funding of $4.365m;
- Employee costs rose by $96.695m in 2005-06 or 17%. The increases were caused by award wage rises and recruitment of an additional 670 FTEs (or 8%). Employee leave provisions also increased as a result. Increases in FTEs, assuming an average salary rate of $63,000 (see Financial Analysis section) contributed in the order of $42.210m to the higher employee costs;
- Expenditure on Goods and services increasing by $14.805m. This was mainly due to additional purchase of medical supplies of $7.022m, and purchases of pharmacy requisitions of $5.207m;
- A large increase in Depreciation expense in 2005-06 of $6.178m or 16%, is primarily due to the first full year effect of substantial revaluations of Departmental Land and buildings in 2004-05. Depreciation of dwelling stock within Housing remained reasonably constant;
- An increase in Grants and subsidies of $3.569m in 2005-06 is mainly due to indexing grants for inflationary purposes. These grants provide funding to non-government organisations mainly in the provision of services for disability services, home and community care, and support accommodation assistance;
- Administration costs have risen by $10.097m over the prior year mainly due to information technology purchases increasing by $3.647m and higher motor vehicle expenses of $3.284m. Motor vehicle costs went up due to incentive employment arrangements relating to medical specialist packages introduced, associated increased running costs and higher costs for TAS including higher fuel costs; and
- Other expenses increased by $25.779m due primarily to increases in rates and other property costs of $2.468m, building and infrastructure maintenance $9.838m (which includes a $3.659m rise in Housing maintenance with the balance of the increase relating to other general Departmental stock including statutory maintenance of $4.214m and programmed general maintenance of $2.588m), and higher patient and client expenses.

The effects of the foregoing were offset in part by:

- Significant increases in the Department's Recurrent Appropriation of $105.050m of which $4.322m related to the Appropriations for Housing and TAS. The Department's output statements reported in its financial statements indicate increases in funding across a number of key areas, (eg. hospitals, mental health, disability services and children and families). A significant portion of this increase is to fund the provision of higher staffing levels aimed at improving services (already referred to) and to meet increments in awards;
- Capital appropriations include funding for Hospital and Housing Infrastructure. Appropriations increased by $5.579m in 2005-06, with additional funding for the redevelopment of the Department of Emergency Medicine at the Royal Hobart Hospital, being a key driver $7.227m (2004-05, $0.486m). Other components include continued redevelopment of Multi-Purpose Services within rural areas; and

- User charges increased by $10.356m in 2005-06. Rentals from dwelling tenants and other associated charges remained reasonably consistent with a modest increase of $1.160m. Patient user charges include inpatient, outpatient, ambulance, private patients and nursing home fees and these were the main drivers for the remainder of this increase.

The above items contributed to an increase in total revenues of $113.564m in 2005-06. This however was off-set by a greater rise in expenditure of $159.863m resulting in the Net operating deficit of $43.784m before asset transfers and superannuation.

The Asset transfer totalling $22.990m in 2005-06 relates to the transfer, for no consideration, of the Secure Mental Health Unit buildings, and associated plant and equipment at Risdon Prison, from the Department of Justice. Being a voluntary transfer between the two Departments, this must be recorded through the Income Statement as a revenue/expense for the transferring agencies, in accordance with TI 207 *Administrative Restructuring of Agencies*.

The Department is responsible for meeting the obligations of defined benefit schemes for Housing Tasmanian and the Tasmanian Ambulance Service Superannuation Scheme (TASSS). Actuaries undertook actuarial valuations of the present value of benefit obligations as part of recognition requirements under AIFRS. In 2004-05 this resulted in the recognition of an actuarial loss of $0.637m and a gain 2005-06 with a movement of $7.895m. This gain also arose from strong investment performance by scheme assets in 2005-06.

BALANCE SHEET

	2005-06 $'000	2004-05 $'000
Financial Assets		
Cash and deposits	45 666	81 922
Receivables	19 455	17 218
Loan advances	20 598	27 978
Superannuation asset	5 883	0
Other financial assets	438	665
Non-financial Assets		
Inventory	7 281	7 618
Property, plant and equipment	2 032 138	1 953 882
Total Assets	**2 131 459**	**2 089 283**
Liabilities		
Payables	33 467	16 127
Interest bearing liabilities	249 434	262 115
Superannuation liability	15 489	17 501
Employee entitlements	137 857	118 835
Other liabilities	17 923	28 637
Total Liabilities	454 170	443 215
Net Assets	**1 677 289**	**1 646 068**
Contributed capital	6 094	6 094
Reserves	1 203 528	1 159 408
Accumulated funds	467 667	480 566
Total Equity	**1 677 289**	**1 646 068**

Comment

Net assets increased from $1 646 068m as at 30 June 2005 to $1 677.289m as at 30 June 2006. Before accounting for inter-entity transactions, the Net assets comprised:

	$m	$m
DHHS	294	300
Housing	1 372	1 340
TAS	11	6
Total	**1 677**	**1 646**

The increase in Net assets of $31.221m was due to increases in reserves arising from asset revaluations totalling $44.120m, all of which relates to Housing, less the deficit for the year of $12.899m approximately $6m of which relates to the Department.

Commentary on movements in individual assets and liabilities follows:

- Receivables increased by $2.237m over the prior year in line with higher fees for services. Follow-up of outstanding debtors is an area about which I have raised concerns with management over recent years. Management have taken steps to address this, although examination of receivables ledgers indicate that there is still more work to be done in this area;
- Property, plant and equipment increased by $78.256m in 2005-06 predominately due to additions of $91.114m (including the $22.990m for the Secure Mental Health Unit transferred from the Department of Justice and $41.570m in Housing Tasmania), an increase in the revaluation of Housing stock of $44.120m, off-set by disposals of $11.037m and depreciation of $45.940m;
- A decrease in Other liabilities mainly due to a reduction in the appropriation carried forward of $9.144m in 2004-05; and
- A reduction in the Superannuation liability of $2.012m and an increase in the Superannuation asset $5.883m which is discussed further below.

The effects of the foregoing were offset in part by:

- The decrease in Cash and deposits in 2005-06 by $36.256m to $45.666m was mainly due to increased capital expenditure during the year;
- Payables in 2005-06 more than doubled from 2004-05, a rise of $17.340m of which approximately $29.007m relates to the Department. This increase is due to higher capital creditors outstanding, higher operating costs and a stricter adherence to payment terms (see further discussion in the Financial Analysis section);
- Interest bearing liabilities declined by $12.681m in 2005-06. Borrowings relate solely to Housing Tasmania. The largest reduction occurred within the HOAP debt portfolio, $7.168m,with the remaining balance comprising long term State and Commonwealth loans at low interest rates; and
- An increase, as expected, in Employee entitlements of $19.022m in 2005-06 due to award increases in salary and wage rates, and an increase in the number of employees. The main contributing factors to the rise were increases in annual leave of $7.331m and long service leave of $6.288m.

The Superannuation asset and liability represents the Department's present obligations and/or benefits under the defined benefit schemes of Housing Tasmania and TASSS. These are now recorded in the Balance Sheet due to AIFRS changes under AASB 119 *Employee Benefits*. The Department:

- Meets the emerging costs of these schemes when they are in deficit (as is the case with the Housing scheme); and
- Benefits when they are in surplus through reductions in future contributions (as is the case with the TASSS).

Actuarial reviews of Housing Tasmania found a present liability of $16.500m in 2004-05 and $15.489m in 2005-06. For TASSS a liability of $1.001m was reported in 2004-05, but this reversed in 2005-06 with the scheme assessed to be in surplus by $5.883m. The net effect of these movements is $7.895m, which was reported in the Income Statement. As this was the only impact of the new accounting standards prepared under AIFRS, AGAAP figures have not been disclosed.

CASH POSITION

	2005-06 $'000	2004-05 $'000
Cash flows from operating activities		
Cash inflows		
Receipts from government - recurrent	947 101	827 992
Receipts from government - capital	23 149	46 883
Receipts from special capital investment funds	25 548	28 910
Grants	21 489	23 413
User charges	128 870	148 160
Interest received	3 368	5 127
Other cash receipts	19 520	25 535
Total cash inflows	**1 169 045**	**1 106 020**
Cash outflows		
Payments to employees	630 970	564 008
Payments to suppliers	133 828	131 545
Community grants	127 310	134 735
Borrowing costs	11 490	12 226
Administration	60 088	53 225
Other cash payments	171 432	155 902
Total cash outflows	**1 135 118**	**1 051 641**
Cash from operations	**33 927**	**54 379**
Cash flows from investing activities		
Cash inflows		
Proceeds from disposal of non-financial assets	7 228	4 692
Receipts from investments	3 880	11 912
Total cash inflows	**11 108**	**16 604**
Cash outflows		
Payments to acquisition of non-financial assets	68 608	66 555
Total cash outflows	**68 608**	**66 555**
Cash (used in) investing activities	**(57 500)**	**(49 951)**
Cash flows from financing activities		
Cash inflows		
Proceeds form borrowings	342	61 470
Total cash inflows	**342**	**61 470**
Cash outflows		
Repayment of borrowings	13 025	81 784
Total cash outflows	**13 025**	**81 784**
Cash (used in) financing activities	**(12 683)**	**(20 314)**
Net decrease in cash	(36 256)	(15 886)
Cash at the beginning of the reporting period	81 922	97 808
Cash at end of the reporting period	**45 666**	**81 922**

Comment

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and the Balance Sheet sections of this chapter.

It is noted that the cash resources of the Department at 30 June were allocated to:

	$m	$m
DHHS	36.8	51.1
Housing	8.8	30.8
TAS	0	0
Total	**45.6**	**81.9**

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		(43 784)	2 515
Operating margin	>1.0	0.96	1.00
Financial Management			
Debt collection	30 days	54	52
Creditor turnover	30 days	24	13
Other Information			
Staff numbers (FTEs)		8 685	8 015
Average staff costs ($'000s)		63	58
Average leave balance per FTE ($'000s)		16	15
Selected Hospital Statistics *			
Department of Emergency Medicine Presentations		116 802	103 540
Outpatient Department - Occasions of Service		784 187	741 931
Admitted Patients -Weighted Separations		97 092	89 939

** Not subject to audit.*

Comment

The Result from operations deteriorated due to the deficit from ordinary activities as explained previously. The above figures are before asset transfers and the effects of actuarial movements on superannuation liabilities. Despite this, the overall result is close to the benchmark of 1.0, although this includes capital appropriations and state grants.

Increasing receivables in 2005-06 raised the Debt collection ratio. The increase in payables in 2005-06, the reasons for which are noted earlier, resulted in the Department taking longer to pay. The ratio remains below the benchmark of 30 days.

The movements in Staff numbers, Average staff costs and Average leave balances have been commented on previously.

Hospital statistics indicate a rise in the provision of services. Department of Emergency Medicine and Outpatient Services are based on the number of people presented. Admitted Patients is an activity measure that highlights admissions at each hospital, weighted by the complexity of their treatment or medical condition. A comprehensive list of performance measures can be found in the Department's Annual Report, page 25.

ADDITIONAL FINANCIAL INFORMATION

Administered Transactions

Administered transactions are those that the Department manages on behalf of the Government. These transactions are not shown in the Department's Income Statement, Balance Sheet or Cash Flows and they relate only to the Department.

Administered Income and Expenses

	2005-06 $'000	**2004-05** $'000
Revenue from government - recurrent	19 010	20 502
Australian government grants	275 545	85 602
Total Revenue	**294 555**	**106 104**
Grants and subsidies	18 494	20 414
Total Expenses	**18 494**	**20 414**
Net Surplus	**276 061**	**85 690**
Transfer to Consolidated Fund	**275 545**	**85 602**
Net Surplus Attributable to the State	**516**	**88**

Comment

Recurrent appropriations from government comprise a Community Service Agreement (CSA) with Aurora Energy Pty Ltd and ex-gratia payments. These are also shown as expenses in the table as Grants and subsidies.

The CSA with Aurora Energy Pty Ltd is for the provision of pensioner concessions to approximately 64 500 Tasmanian pensioners and Government Health Care Card Holders.

Recurrent appropriations in 2005-06 also included $7.064m (2004-05 $8.628m) in ex-gratia payments under the Listen to the Children program for adults who were abused as children whilst in State care.

The movement in Australian government grants was largely due to a change in the treatment of the Australian Health Care Agreement (AHCA) grant of $185.309m. During previous financial years the grant was administered by the Department of Treasury and Finance, however for the 2005-06 financial year the responsibility for administering the grant transferred to the Department.

Other increases over 2004-05 were in funding for Home and Community Care (HACC), increasing $1.835m to $22.141m, and Disability Services funding increasing $0.841m to $20.362m.

These were offset by a fall in funding under the Commonwealth State Housing Agreement (CSHA), of $3.474m to $18.931m in 2005-06.

Administered Assets and Liabilities

	2005-06 $'000	2004-05 $'000
Liabilities		
Payables	2 304	2 820
Total Liabilities	**2 304**	**2 820**
Net Liabilities	**(2 304)**	**(2 820)**
Accumulated Deficits	(2 304)	(2 820)
Total Deficit	**(2 304)**	**(2 820)**

Comment

The payables balance represents the accrued CSA payable to Aurora Energy Pty Ltd for pensioner discounts due at year-end.

Administered Cash Flows

	2005-06	2004-05
Cash Flows From Operating Activities		
Cash Inflows		
Receipts from government - recurrent	19 010	20 502
Australian government grants	275 545	85 602
Total Cash Inflows	**294 555**	**106 104**
Cash Outflows		
Transfers to the Consolidated Fund	275 545	85 602
Other cash payments	19 010	20 502
Total Cash Outflows	**294 555**	**106 104**
Net Cash Flow From Operations	**0**	**0**
Net Increase/(Decrease) in cash	**0**	**0**
Cash at the beginning of the period	0	0
Cash at End of the Period	**0**	**0**

Comment

There was no movement in net cash in either year. Reasons for movements in cash flow receipt and payment amounts reflect the comments made previously in the Administered Income and Expenses and Administered Assets and Liabilities sections of this chapter.

OVERALL COMMENT

Matters raised in the management letter identified that Departmental management need to address:

- Year end accrual practices relating to unprocessed creditors and salary accruals for weekend workers;
- Receipting of some debtor payments directly to the general ledger; and
- Ongoing problems with record keeping in relation to employee personal files.

There has been an improvement in many items reported in management letters in prior years, including the use of the Tasmanian Government Card, although control weaknesses were again identified and brought to the attention of management.

The 2005-06 audit was completed with satisfactory results.

HOUSING TASMANIA

INTRODUCTION

Housing Tasmania (Housing) was established under the *Homes Act 1935* to provide housing assistance and to improve housing conditions for persons within Tasmania.

Its major focus is to ensure that low income Tasmanians have access to affordable, appropriate and secure housing options. In addition to the provision of public housing, financial assistance is available to low income Tasmanians to access or maintain housing in the private rental market or they may be assisted in purchasing their own home through the Home Ownership Assistance Program (HOAP).

Housing Tasmania operates as a fully integrated division within The Department of Health and Human Services (the Department or DHHS). The Portfolio Minister is the Minister for Health and Human Services.

This chapter provides commentary on the aggregated results of Housing and HOAP.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Financial statements for HOAP were received on 15 August 2006. Revised statements were received on 29 September 2006 and an unqualified audit report was issued on 10 October 2006.

Draft statements for the Director of Housing were submitted on 20 September 2006 with signed statements being received on 6 October 2006. An unqualified report was issued on 10 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS $'000	2004-05 AIFRS $'000
Revenue from government - recurrent	29 488	28 575
Revenue from government - capital	7 262	9 514
Revenue from special capital investment funds	14 105	23 207
User charges	1 504	1 663
Interest revenue	2 603	3 915
Rental revenue	46 905	46 358
(Loss)/Gain on sale of non-financial assets	(3 093)	279
Other revenue	4 647	4 134
Total Operating Income	**103 420**	**117 645**
Employee entitlements	14 661	12 959
Depreciation and amortisation	23 884	24 513
Goods and services	23 495	20 836
Recurrent maintenance	24 552	20 132
Administration	7 803	7 242
Grants and subsidies	4 728	1 683
Borrowing costs	11 523	12 323
Impairment losses	977	654
Costs on sale of disposed assets	531	243
Other expenses	3 977	4 037
Total Operating Expenses	**116 131**	**104 621**
Net Operating Surplus (Deficit) Before Superannuation Adjustment	**(12 711)**	**13 024**
Actuarial Superannuation Adjustment	**1 010**	**(1 276)**
Net Surplus (Deficit) Attributable to the State	**(11 701)**	**11 748**

Comment

The only impact on the net operating result arising from introduction of the new accounting standards relates to the actuarial re-assessment of Housing Tasmania's superannuation liability. In 2004-05 the adjustment was a charge against operating results of $1.276m whereas changes in actuarial factors and strong investment performance in 2005-06 resulted in an improvement of $1.010m.

Housing Tasmania made a net operating deficit before superannuation adjustment in 2005-06 of $12.711m compared to a surplus of $13.024m in 2004-05. This was due to:

- An overall decrease of $1.339m in Revenue from government for recurrent and capital spending between 2004-05 and 2005-06. This is the result of additional funding of $3.000m being provided in 2004-05 for disability group homes offset in part by an increase in State funding of $1.400m in 2005-06;

- A reduction in Revenue from Special Capital Investment Funds in 2005-06, consistent with the original budget proposal. The capital phase of the Affordable Housing Strategy was completed at the end of the prior year. The capital allocation will continue until the program completes in 2007-08. Before accounting for capital appropriations and revenues from SCIF, the net operating result would be a deficit in 2005-06 of $34.078m and a deficit in 2004-05 of $19.697m;

- A reduction in Interest revenue in 2005-06, mainly due to a decrease in the HOAP loan portfolio, which reduced from $22.200m to $15.600m;

- A Loss on sale of non-financial assets in 2005-06, $3.093m, relates mainly to a loss of $1.600m being the cost of the Welcome Inn at Kingston, which was transferred out of Housing Tasmania during the year, and $1.271m in demolitions;

- Employee entitlements increasing mainly due to an increase in salaries under the State Service Wage Agreement (SSWA) of 3.5%;

- Increased Recurrent maintenance, which includes the provision of general maintenance, exterior painting, landscape maintenance and vacation maintenance. This rose in 2005-06 due to renegotiated contracts and general market and industry movements;

- Increased Administration expenses of $0.561m in 2005-06, mainly due to increases in the contribution to Agency salary and administration expenses of $0.287m, rent on the administrative building of $0.158m, and information technology expenses of $0.126m; and

- An increase in Grants and subsidy payments of $3.045m in 2005-06 because of an increase in the number of projects under the Community Housing Program.

BALANCE SHEET

	2005-06 AIFRS $'000	2004-05 AIFRS $'000
Financial Assets		
Cash and deposits	8 805	30 799
Receivables	1 017	1 288
Other financial assets	21 258	29 092
Non-financial Assets		
Property, plant and equipment	1 616 512	1 564 908
Total Assets	**1 647 591**	**1 626 088**
Liabilities		
Payables	3 797	1 421
Interest bearing liabilities	249 433	262 114
Superannuation	15 489	16 500
Employee entitlements	3 061	2 904
Other liabilities	3 846	3 604
Total Liabilities	**275 627**	**286 542**
Net Assets	**1 371 964**	**1 339 546**
Contributed capital	6 094	6 094
Reserves	1 074 091	1 029 972
Accumulated funds	291 779	303 480
Total Equity	**1 371 964**	**1 339 546**

Comment

Despite Housing Tasmania operating at a deficit of $11.701m for the 2005-06 financial year, its Net Assets increased by $32.418m primarily due to a revaluation of Property plant and equipment of $44.119m.

The main reasons for changes in individual line items in the Balance Sheet are:

- Property, plant and equipment increased by $51.604m. This was due to the revaluation increments of $44.119m and additions of $34.567m, offset by disposals and demolitions, $10.272m and depreciation, $23.330m. The capital allocation phase of the Affordable Housing Program concluded at the end of 2004-05;
- Cash and deposits declined predominantly due to expenditure on capital works, which was in line with the target set in the 2005-06 budget. The large Cash and deposits balance reported at the end of 2004-05 was due to the sale of properties and recovery of loan advances in that year;
- Loan advances in the Housing portfolio continued to decline as clients paid off their debt, and no new loans are made. This is reflected in the reduction in Other financial assets of $7.834m in 2005-06. Other financial assets comprise mainly HOAP loans and equity investments of $15.806m and Housing's unmatured loan balance of $4.871m. Rises in house prices

in recent years led to an increase in the total loan amount needed to be borrowed. This in turn led to increased capital and servicing costs, which resulted in a reduction in the demand for HOAP assistance;

- An increase in 2005-06 in maintenance and construction charges of 46%. This resulted in an increase in Payables of $2.376m; and
- Lower interest costs of $0.227m in 2005-06 as a result of a reduction in total borrowings of $12.681m. This is attributed mainly to the reduction in HOAP borrowings from the State Government of $7.168m as a result of the decline in the HOAP program. Remaining borrowings comprise long-term State and Commonwealth loans at favourable fixed rates.

A number of Community Housing properties are also held as dwelling stock. These properties are operated by community organisations throughout the State. The total value at 30 June 2006 was $76.515m. Of these properties, 121 have titles that have been transferred into the name of a community organisation, with Housing still holding a significant equity interest. These properties are disclosed as a Contingent asset. They were independently revalued at 30 June 2006 at a value $25.690m, which is a reduction in value of $1.986m compared to 2004-05. The remainder of the properties, with a value of $50.825m, remain in the title of the "Director of Housing" as non-rental dwellings.

CASH POSITION

	2005-06 AIFRS $'000	2004-05 AIFRS $'000
Cash flows from operating activities		
Cash inflows		
Receipts from government - recurrent	29 488	28 575
Receipts from government - capital	7 262	9 514
Receipts from special capital investment funds	14 105	23 207
User charges, fees and fines	1 565	1 696
Rent received from tenants	48 690	46 198
Interest received	2 666	3 904
Other cash receipts	3 488	3 870
Total cash inflows	**107 264**	**116 964**
Cash outflows		
Payments to employees	14 889	12 925
Payments to suppliers	21 164	20 836
Community grants	4 374	1 683
Interest payments	11 563	12 417
Administration	10 451	7 293
Other cash payments	27 700	24 600
Total cash outflows	**90 140**	**79 754**
Net cash from operations	**17 124**	**37 210**
Cash flows from investing activities		
Cash inflows		
Proceeds from disposal of non-current assets	7 137	4 356
Receipts from investments	9 816	14 591
Total cash inflows	**16 953**	**18 947**
Cash outflows		
Payments for acquisition of non-current assets	40 351	50 475
Loans made to other entities	2 776	2 711
Other cash payments	264	507
Total cash outflows	**43 391**	**53 693**
Net cash (used in) investing activities	**(26 438)**	**(34 746)**
Cash flows from financing activities		
Proceeds from borrowings	342	61 469
Total cash inflows	**342**	**61 469**
Cash outflows		
Repayment of borrowings	13 023	81 784
Total cash outflows	**13 023**	**81 784**
Net Used in Financing Activities	**(12 681)**	**(20 315)**
Net (decrease) in cash	**(21 995)**	**(17 851)**
Cash at the beginning of the reporting period	30 799	48 650
Cash at end of the reporting period	**8 805**	**30 799**

Comment

There has been a significant reduction in Cash and deposits at 30 June 2006 due to the following factors:

- Net expenditure on investing activities of $ 26.438m, mainly made up of capital expenditure, $40.359m, less proceeds from disposal of assets, $7.137m, and repayment of loans by other entities, $9.816m;

- Repayment of HOAP and Housing borrowings, $12.681m; offset by
- Cash from operations, $17.124m, which is $20.086m down on 2004-05 mainly due to:
    - A decrease in receipts from special capital investment funds; and
    - Increases in payments relating to renegotiated contracts, administration and wage expenses;
- Increase of $2.691m in Community grants 2005-06; and
    - General industry and market movements for payments to contractors and suppliers.

These items have been discussed previously under the comments in the Income Statement section of this chapter.

Payments for acquisition of non-financial assets relates to expenditure on acquisition and construction of dwelling stock. In 2004-05 there was a high level of construction activity due to additional capital funding in that year. This reversed in 2005-06 with a lower level of construction resulting in Payments for acquisition of non-financial assets reducing by $9.061m.

The increase in Proceeds from disposal of non-current assets of $2.781m is a result of higher asset sales in 2005-06.

Repayment of loans and Proceeds from borrowings is decreasing due to a reduction in the HOAP loan portfolio.

Cash outflows from financing activities in 2004-05 were substantially higher due to surplus funds under HOAP being used to retire debt.

FINANCIAL ANALYSIS

	Bench Mark	**2005-06**	**2004-05**
Financial Performance			
Result from operations ($'000s)		(12 711)	13 024
Operating margin	>1.0	0.89	1.12
Financial Management			
Debt collection	30 days	8	10
Creditor turnover	30 days	25	11
Other Information			
Potential rental income ($'000s)		67 574	66 796
Rental Rebate ($'000s)		(20 669)	(20 438)
Net rents payable by tenants ($'000s)		46 905	46 358
Rental dwellings (no. of properties)		12 373	12 668
Occupancy Rate (%)		99	99
Staff numbers (FTEs)		196	197
Average staff costs ($'000s)		60	52
Average leave balance per FTE ($'000s)		16	15

Comment

The Result from operations for 2005-06, a deficit of $11.701m, reflects the reduction in Revenue from special capital investment funds in 2005-06. This is consistent with the capital phase of the program being completed at the end of the prior year. The operating margin remains close to the benchmark.

Debt collection remains low as Housing benefits from prompt payment by its residential tenants. Changes to creditor payment procedures have increased the Creditor turnover but it remains within the benchmark.

Potential rental income represents the maximum rent that can be charged (full market rent), whilst the value of the rental rebates reflects the difference between the maximum rental and the rent payable by tenants based on their personal income assessment. Stock numbers reduced in 2005-06 but there was a decrease in vacant properties and slightly higher occupancy rate. This is reflected in the slight increase in Potential rental income and Net rents payable by tenants.

Average staff costs have risen mainly due to increases in rates of pay.

OVERALL COMMENT

A number of concerns were raised during the 2004-05 audit relating to appropriateness of asset values, bank reconciliation procedures, quality of working papers and level of quality control over financial statements.

It is pleasing to note that these issues have, in large, been addressed in 2005-06. A project has been commenced to review and improve processes surrounding the management of Housing’s assets. A quality review of financial statements will also be implemented for 2006-07.

TASMANIAN AMBULANCE SERVICE

INTRODUCTION

The Tasmanian Ambulance Service (TAS or the Service) is part of the Hospitals and Ambulance Services output group within the Department of Health and Human Services. TAS was established and operates under the *Ambulance Service Act 1982*. The Service provides emergency ambulance care, rescue and transport services (including air transport and non-urgent transfers) and safety cover at various sporting and public events. TAS operates through a network of 44 stations staffed by salaried and volunteer ambulance officers.

The Portfolio Minister is the Minister for Health and Human Services.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 6 October 2006. An unqualified audit report was issued on 10 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS $'000	**2004-05 AIFRS** $'000
Revenue from government - recurrent	23 513	19 922
Revenue from government - capital	882	0
Grants	0	385
User charges	3 115	3 614
Other operating revenue	465	186
Total Operating Income	**27 975**	**24 107**
Employee entitlements	19 752	18 023
Depreciation and amortisation	1 940	2 028
Goods and services	1 104	808
Client travel	3 127	3 100
Administration	703	765
Motor vehicle expenses	1 339	1 072
Impairment losses	427	1 291
Loss on sale of non-financial assets	56	25
Other operating expenses	2 165	1 969
Total Operating Expenses	**30 613**	**29 081**
Net Operating Deficit before Superannuation Adjustment	**(2 638)**	**(4 974)**
Actuarial superannuation adjusted	6 884	638
Net Surplus (Deficit) Attributable to the State	**4 246**	**(4 336)**

Comment

The significant variation in operating results between the periods under review is due to an actuarial re-assessment of the Tasmanian Ambulance Service Superannuation Scheme (TASSS). Based on the review, the net liability of TASSS in the amount of $1.001m in 2004-05 was revalued to a net superannuation asset of $5.883m this year. Consequently, $6.884m was recognised as revenue in the Income Statement.

Disregarding the superannuation re-assessment, the Service managed to reduce its operating deficit to $2.638m compared to last year's deficit of $4.974m. This result was achieved in the face of increasing demand for ambulance services and rising costs. It is noted that the appropriation to the Service does not cover depreciation or increases in employee provisions.

The State Government provided additional funding of $4.088m (being recurrent and capital appropriation plus grants) this year for the Service's activities attached to the Mersey Campus of the North West Community Hospital, construction of a new station at Sheffield and to assist with rising operating costs (including employee entitlements).

Employee related expenditure increased by around 9.6% reflecting the annual indexation of 7% under an Enterprise Bargaining Agreement and additional staff. Higher petrol prices and fleet maintenance costs contributed to the 25% increase in motor vehicle expenses.

BALANCE SHEET

	2005-06 AIFRS $'000	**2004-05 AIFRS** $'000
Financial Assets		
Cash and deposits	0	0
Receivables	932	1 007
Superannuation	5 883	0
Non-financial Assets		
Inventory	219	392
Property, plant and equipment	11 824	12 601
Total Assets	**18 858**	**14 000**
Liabilities		
Payables	663	418
Employee entitlements	6 566	5 849
Superannuation	0	1 001
Other liabilities	605	533
Total Liabilities	**7 834**	**7 801**
Net Assets	**11 024**	**6 199**
Reserves	8 583	8 583
Accumulated funds/(deficit)	2 441	(2 384)
Total Equity	**11 024**	**6 199**

Comment

The favourable revaluation of TASSS superannuation arrangements from a net liability of $1.001m, to a net asset of $5.883m caused relatively significant increases in both the assets and equity of the Service. The Superannuation asset and liability represents present obligations and/or benefits of the Service under TASSS. These are now recorded in the Balance Sheet as required by AASB 119 *Employee Benefits* and were the only change resulting from the transition to AIFRS needing to be recognised in the financial statements.

Apart from the superannuation movements, there was a noticeable increase in Payables of almost 60% or $0.245m. A number of internal and external factors contributed to this rise, including:

- Higher cost of supplies, especially medical and travel related;
- Larger volume of purchases due to increased activity; and
- Changes to creditors management, resulting in the average payment period moving closer to the 30 day benchmark.

Employee entitlements increased in line with the annual indexation and as a result of additional staff. In relation to cash, it should be noted that the Service does not operate its own bank account. Instead, all cash transactions are processed through bank accounts operated by the Department of Health and Human Services (DHHS).

CASH POSITION

	2005-06 AIFRS $'000	2004-05 AIFRS $'000
Cash flows from operating activities		
Cash inflows		
Receipts from government - recurrent	23 513	19 922
Receipts from government - capital	882	0
User charges	2 763	3 554
Other cash receipts	720	186
Total cash inflows	**27 878**	**23 662**
Cash outflows		
Payments to employees	19 218	17 248
Goods and services	686	971
Client travel	3 127	3 100
Motor vehicle expenses	1 339	1 072
Administration	949	765
Other payments	2 165	649
Total cash outflows	**27 484**	**23 805**
Cash from (used in) operations	**394**	**(143)**
Cash flows (used in) investing activities		
Cash inflows		
Proceeds from disposal of non-financial assets	45	21
Total cash inflows	**45**	**21**
Cash outflows		
Payments to acquisition of non-financial assets	1 018	216
Total cash outflows	**1 018**	**216**
Cash (used in) investing activities	**(973)**	**(195)**
Net (decrease) in cash held by central DHHS operating account attributable to Tasmanian Ambulance Service	**(579)**	**(338)**
Eliminate portion of operating account attributable to DHHS	579	530
Transfer of DHHS land and buildings to Tasmanian Ambulance Service	0	(192)
Cash at the beginning of the reporting period	0	0
Cash at end of the reporting period	**0**	**0**

Comment

The operating activities of the Service resulted in a positive cash flow of $0.394m. This was a noticeable improvement over last year's outflow of $0.143m. Additional Government funding together with firm control over expenditure and delayed payment to suppliers contributed to the positive outcome.

The increased cash outflow from investing activities of $0.973m (2005, $0.195m) was a result of the following capital expenditure:

- Completion of a new ambulance station at Latrobe;
- Construction of an ambulance station at Sheffield;
- Three new ambulance vehicles, $0.305m;
- Secondary response vehicle - Sheffield station, $0.046m;
- Upgrades to existing ambulance vehicles, $0.064m; and
- Acquisitions of general medical equipment, $0.370.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		(2 638)	(4 974)
Operating margin	>1.0	0.91	0.83
Financial Management			
Debt collection	30 days	86	102
Creditor turnover	30 days	23	3
Other Information			
Staff numbers (FTEs)		232	223
Average staff costs ($'000s)		74	70
Average leave balance per FTE ($'000s)		25	24
Ambulance Statistics *			
Emergency ambulance responses		31 487	29 144
Total ambulance responses		61 774	56 066

** Not subject to audit.*

Comment

The Operating margin still remains bellow the benchmark, however there was a noticeable improvement. Changes to debt collection practices implemented last year, where Corporate Finance oversees the follow-up of outstanding debts, resulted in a fall in the average collection period from 102 days to 86 days. Creditors turnover increased to 23 days and is now closer to the 30 day benchmark. As noted earlier, the increase in Creditors turnover was a result of payments being processed on or close to their due dates, which in turn had a positive effect on the operating cash flow.

As discussed previously, Staff numbers increased slightly, by 4% or 9 FTEs, with the majority being operational staff. The increase in Average staff costs of 5% was mainly attributed to the annual indexation of salaries and wages under various Awards.

Ambulance statistics indicate a rise in the provision of services. An ambulance response occurs when vehicles are sent to a pre-hospital incident or accident. The Total ambulance responses include emergency, urgent and non-urgent responses. Ambulance statistics provided by the Service are unaudited and only partly reflect the Service's activity.

OVERALL COMMENT

The audit was completed satisfactorily with no major issues outstanding.

2.4 DEPARTMENT OF INFRASTRUCTURE, ENERGY AND RESOURCES

INTRODUCTION

The Department of Infrastructure, Energy and Resources (the Department or DIER) brings together the significant infrastructure activities of the State Government. Its focus is on achieving the following major outcomes:

- Facilitation of a safe, accessible and equitable transport system that enhances economic development;
- Promotion of reliable, efficient and safe energy systems;
- Promotion of productive, safe workplaces where the rights of employees, employers, principals and the community are being met (until 1 April 2006);
- Facilitation of mineral exploration and land management for Tasmanian land and offshore waters; and
- Maintenance of probity and integrity in the racing industry.

The Department is predominantly funded by Parliamentary appropriations. Other funding sources include direct Commonwealth grants, industry grants and miscellaneous recoveries. The WorkCover Tasmania Board and Forest Practices Authority are funded by industry contributions.

The Department's financial report encompasses all funds through which it controls resources to carry on its functions and includes the activities of the WorkCover Tasmania Board (to 1 April 2006) and the Forest Practices Authority as administered entities.

As part of the State Government's administrative restructuring, effective 1 April 2006, the Department relinquished responsibility for Workplace Standards Tasmania (WST).

The Portfolio Ministers are the Minister for Infrastructure, the Minister for Economic Development and Resources, the Minister for Energy and the Minister for Racing.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed statements were received on 15 August 2006. An unqualified audit report was issued on 16 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06	2004-05
	$'000	$'000
Revenue from government - recurrent	94 125	91 277
Revenue from government - capital	83 638	85 690
Revenue from special capital investment funds	21 284	7 393
Commonwealth grants	60 899	974
User charges, fees and fines	1 616	1 798
Other operating revenue	4 334	1 574
Total Operating Income	**265 896**	**188 706**
Employee entitlements	37 566	35 184
Depreciation and amortisation	85 737	79 560
Grants and subsidies	49 181	46 163
Written down value of assets disposed of	14 842	155
Other operating expenses	56 064	42 783
Resources provided free of charge	(637)	0
Total Operating Expenses	**242 753**	**203 845**
Net Operating Surplus (Deficit) before Non-operating Revenue	**23 143**	**(15 139)**
Non-operating revenue	0	34 212
Net Surplus Attributable to the State	**23 143**	**19 073**

Comment

The Department achieved a Net operating surplus in 2005-06 of $23.143m. This was an improvement of $38.282m from 2004-05. Major factors contributing to this are:

- Recurrent appropriation revenue increased by $2.848m;
- Special capital investment funds increased by $13.891m, including an additional $6.460m in Economic and Social Infrastructure Fund monies and $6.139m in additional other grants. Funding included $6.133m for road and bridge maintenance, $2.000m for TT-Line marketing, $3.000m for the Kingston by-pass acquisition, $6.857m in Better Roads monies and $2.737m to cover the costs of the redevelopment of the Motor Registry system project;
- Commonwealth grants include $60.000m received in June 2006 for the redevelopment of the East Tamar Highway. No expenditure in relation to this grant had been incurred by 30 June 2006;
- Other operating revenue increased by $2.760m, which included a contribution of $2.500m to assist in settling a successful claim by a contractor relating to the Westbury-Hagley bypass construction; and

- Resources provided free of charge of $0.637m, which is the result of a restructuring of administrative arrangements in which the Department relinquished its responsibilities for the activities and transactions of WST and the WorkCover Board effective from 1 April 2006. Assets relating to cash and property plant and equipment, $1.320m, and employee entitlement liabilities, $1.957m, were transferred to the Department of Justice.

These additional revenue sources were offset in part by:

- A general increase in employee costs of $2.382m;
- An increase in the depreciation expense of $6.177m. The increase relates primarily to road infrastructure, which is revalued annually increasing the asset valuation base being depreciated;
- Increased grants and subsidises payments of $3.018m, including $2.000m for TT-Line marketing and an additional $2.265m paid as a community service obligation to Metro Tasmania Pty Ltd;
- The Department undertaking major capital works on the Ulverstone by-pass, which resulted in the construction of new road assets. Consequently, the written down value of the replaced roads were written off during the year. This is the primary component of the $14.842m expense; and
- An increase in Other operating expenses of $13.281m, including an additional $1.649m in consultants' expenses and $6.964m in contractor payments primarily relating to road maintenance costs.

As noted above, there was a $38.282m improvement in Net operating surplus between the years, however the increase in Net surplus was only $4.070m. This is due to Non-operating revenue in 2004-05 of $34.212m resulting from the Department consolidating the ABT Railway Ministerial Corporation into its financial statements.

This analysis indicates that without the $60.000m received from the Commonwealth for the East Tamar Highway, the Department would have made an operating loss of $36.857m. The Department's original budget for 2005-06 was for a deficit of $11.247m. Normally departments operate deficits because depreciation and increases in employee provisions are not funded. However, DIER receives significant capital funding some of which is to facilitate asset replacement or asset maintenance and, in addition, DIER received Special Capital Investment Funds (SCIF) funding some of which is spent on capital expenditure and some on operating costs. This makes analysis of the Department's operating results difficult but in summary an alternative assessment would include:

Income statement items	**2005-06 $000**	**2004-05 $000**
Operating deficit before ABT Railway and East Tamar funding	(36 857)	(15 139)
Add back one off asset write-offs	14 842	155
Add back depreciation	85 737	79 560
Less funding to support capital expenditure	(61 176)	(63 791)
Total	**2 556**	**785**

This provides an approximate breakeven result confirming that some capital appropriation funds are spent on maintenance, which is the intention, and some of the SCIF funds are also spent on operating costs.

BALANCE SHEET

	2005-06 $'000	2004-05 $'000
Financial Assets		
Cash and deposits	66 495	3 477
Receivables	827	1 497
Other financial assets	4 660	4 036
Non-financial Assets		
Assets held for sale	121	0
Property, plant and equipment	11 780	12 527
Land and buildings	14 277	14 338
Road infrastructure	3 786 477	3 487 052
Other infrastructure	32 413	33 451
Intangibles	5 503	2 754
Total Assets	**3 922 553**	**3 559 132**
Liabilities		
Payables	2 501	1 807
Employee entitlements	8 179	9 504
Other liabilities	1 353	1 032
Total Liabilities	**12 033**	**12 343**
Net Assets	**3 910 520**	**3 546 789**
Reserves	1 273 609	933 021
Accumulated funds	2 636 911	2 613 768
Total Equity	**3 910 520**	**3 546 789**

Comment

The increase in Total Equity in 2005-06 is attributable to:

- The net surplus attributable to the State of $23.143m; and
- Net asset revaluation increments of $340.588m from the revaluation of the Department’s road, land under roads and bridges infrastructure.

Movements in Balance Sheet line items result from:

- The Cash and deposits balance at 30 June 2006 which includes $60.000m in grant funding relating to the redevelopment of the East Tamar Highway, as noted in the Income Statement section;
- Receivables balance decreasing by $0.670m. The 2004-05 balance was unusually high because invoices totalling $0.802m were raised in June 2005. These invoices were not paid until August and September 2005;

- Other financial assets increasing by $0.624m and relate to tax asset (GST) and prepayments. At 30 June 2006, the balance included the prepayment of contributions (as appropriated) relating to 2006-07 for:
  - TOTE, $1.060m for Racing Industry Assistance; and
  - Marine and Safety Tasmania, $0.600m for CIP – Jetties;
- Road infrastructure asset increasing by $299.425m primarily due to the revaluation of the asset, $340.243m, and capital improvements, $57.246m. The increases were offset by assets written off during the year, $14.811m, and depreciation expenses of $83.253m;
- Intangibles represent the costs associated with the redevelopment of the Motor Registry System project. The project, which is still in development, had a further $2.749m expended in 2005-06. As noted in the Income Statement section, the project is being funded from Special capital investment funds;
- Payables increased by $0.694m primarily due to accrued expenses including several large amounts relating to road maintenance at 30 June 2006; and
- Employee entitlements decreased by $1.325m, primarily due to the transfer of employees and associated balances to the Department of Justice. A restructuring of administrative arrangements resulted in the Department relinquishing its responsibilities for the activities and transactions of WST and the WorkCover Board effective from 1 April 2006.

CASH POSITION

	2005-06 $'000	**2004-05** $'000
Receipts from government - recurrent	94 125	91 160
Receipts from government - capital	83 937	86 308
Grants	61 289	584
User charges, fees and fines	1 763	1 859
GST receipts	16 093	13 326
Interest received	28	16
Other cash receipts	25 550	9 103
Payments to employees	(36 975)	(36 174)
Payments to suppliers	(105 887)	(87 491)
GST payments	(15 734)	(13 662)
Cash from operations	**124 189**	**65 029**
Proceeds from disposal of non-financial assets	5	1
Payments for acquisition of non-financial assets	(61 176)	(63 791)
Cash (used in) investing activities	**(61 171)**	**(63 790)**
Net increase in cash	**63 018**	**1 239**
Cash at the beginning of the reporting period	3 477	2 238
Cash at end of the reporting period	**66 495**	**3 477**

Comment

The primary reason for the cash balance increasing by $63.018m is due to $60.000m in grant funding relating to the redevelopment of the East Tamar Highway, as noted in the Income Statement section.

Other significant variations in the cash flow amounts include:

- The increase of $16.447m in Other cash receipts which reflects the increase in Special capital investment funds revenue for 2005-06 of $13.891m; and
- Payments to suppliers increasing by $18.396m and includes additional grants and subsidies of $3.028m and an increase in Other operating expenses of $13.281m.

These items have been discussed previously in the Income Statement section.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		23 143	(15 139)
Operating margin	>1.0	1.10	0.93
Financial Management			
Debt collection	30 days	51	142
Creditor turnover	30 days	8	11
Other information			
Staff numbers FTEs		512	618
Average staff costs ($'000s)		62	57
Average annual and long service leave per FTE ($'000s)		16	15

Comment

The positive Result from operations and Operating margin for 2005-06 was significantly impacted by the receipt of $60.000m in grant funding relating to the redevelopment of the East Tamar Highway. Excluding this grant, the position would have been a deficit Result from operation of $36.857m and an Operating margin of 0.85.

The Department's largest expense is depreciation, for which it is not funded. Accordingly, it is expected that a deficit operating result will normally be recorded.

The unusually high Debt collection ratio for 2004-05 is due to invoices totalling $0.802m being raised in June 2005, but not being settled until August and September 2005.

Of the total Employee entitlements expense, $37.566m (see Income Statement), $5.867m relating to WST has been excluded from the calculation of Average staff costs. This left staff costs of $31.699m, divided by 512 FTEs resulting in an average staff cost of $0.062m per FTE. In total 124 WST FTEs were transferred.

Average staff costs rose in 2005-06 due to salary increases as mentioned previously.

ADDITIONAL FINANCIAL INFORMATION

Administered Transactions

Administered transactions are those that the Department manages on behalf of the Government. These transactions are not shown in the Department's Income Statement, Balance Sheet or Cash Flows. Administered areas for the Department include the Forest Practices Authority and the WorkCover Tasmania Board (until 1 April 2006).

Administered Income and Expenses

	2005-06	**2004-05**
	$'000	$'000
Revenue from government - recurrent	16 586	15 036
Revenue from government - capital	850	0
Grants	27 950	31 623
User charges	28 449	22 306
Fees and fines	32 443	31 516
Other revenue	6 599	6 105
Total Revenue	**112 877**	**106 586**
Grants and subsidies	17 127	16 124
Employee entitlements	3 477	2 893
Depreciation and amortisation	9	12
Resources provided free of charge	2 776	0
Other expenses	2 036	2 872
Total Expenses	**25 425**	**21 901**
Net Surplus	**87 452**	**84 685**
Transfer to Consolidated Fund	87 678	84 901
Net (Deficit) Attributable to the State	**(226)**	**(216)**

Comment

Recurrent appropriations are received into the Department and then redistributed as Grants and subsidies. Major Grants and subsidies payments include:

- School bus operators route service, $7.135m;
- Transport access scheme, $2.479m;
- National Road Transport Commission, local government contribution, $1.500m;
- Tasmanian racing assistance, $1.257m; and
- Contribution to Marine and Safety Tasmania, $0.800m.

Grants, User charges and Fees and fines revenue received and transferred to the Consolidated Fund include:

- National Road Funds grant, $27.950m;
- Mineral royalties, $22.864m, and mineral land rentals, $1.619m;
- MAIB commission, $1.862m;
- Vehicle registrations, $25.704m; and
- Drivers licensing, $5.478m.

The amount recorded as resources provided free of charge, $2.776m is the result of a restructuring of administrative arrangements in which the Department relinquished its responsibilities for the activities and transactions of WST and the WorkCover Tasmania Board effective from 1 April 2006. Assets relating to trust funds and Property plant and equipment were returned, $3.021m and $0.003m, respectively, and employee entitlement liabilities transferred, $0.248m.

Administered Assets and Liabilities

	2005-06 $'000	**2004-05** $'000
Financial Assets		
Cash	1 935	3 543
Receivables	2 933	3 262
Non-financial Assets		
Equity investments	82	67
Property, plant and equipment	6	19
Total Assets	**4 956**	**6 891**
Liabilities		
Payables	1 740	2 935
Employee entitlements	293	607
Other liabilities	121	321
Total Liabilities	**2 154**	**3 863**
Net Assets	**2 802**	**3 028**
Accumulated funds	2 802	3 028
Total Equity	**2 802**	**3 028**

Comment

The decrease in Total Equity in 2005-06 is attributable to the operating deficit recorded of $0.226m.

Decreases in Cash, Receivables, Payables, Employee entitlements and Other liabilities can be attributed to the transfer of WST and the WorkCover Tasmania Board, as noted in the Administered Income and Expenses section.

The Equity investment balance relates to the market value of shares held by the Minister in Murchison United Ltd.

Administered Cash Flows

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	16 386	15 036
Receipts from government - capital	850	0
Grants	27 950	31 623
User charges	28 627	22 291
Fees and fines	32 432	31 563
Interest received	25	85
Other receipts	5 463	6 496
Payments to employees	(3 555)	(2 880)
Payments to suppliers	(19 087)	(19 060)
Cash payments from restructuring	(3 021)	(264)
Transfers to the Consolidated Fund	(87 678)	(84 901)
Cash (used in) operations	**(1 608)**	**(11)**
Cash from (used in) investing activities	**0**	**(13)**
Net decrease in cash	**(1 608)**	**(24)**
Cash at the beginning of the period	3 543	3 567
Cash at end of the period	**1 935**	**3 543**

Comment

Variations in cash flow amounts and cash balances have been discussed in comments under the Administered Income and Expense and the Administered Assets and Liabilities sections of this chapter.

OVERALL COMMENT

The 2005-06 audit was completed with satisfactory results.

During the course of the audit, the Department was queried on the:

- Extended period of time (since 1996) it had used indices to update bridge asset valuations; and the
- Currency of its review of useful lives used to determine the annual depreciation expense.

AASB 116 *Property Plant and Equipment* requires the valuation of assets to be conducted with sufficient regularity so as to ensure the carrying amount equates to fair value. The use of indexation over an extended period is discouraged and, in order to ensure compliance with this accounting standard, full revaluations should be undertaken on a periodic basis.

In addition, AASB 116 also requires that the depreciation method applied shall be reviewed at least at the end of each annual reporting period.

In regards to the issues raised, the Department responded as follows:

During the course of discussion with audit officers, the Department has identified that the Roads and Traffic Authority in NSW conducts five yearly revaluations. This would appear to be an appropriate timeframe for DIER to adopt.

DIER will include in its processes, the annual review of useful lives for its various classes of assets. Any amendment to useful lives will flow through to the associated depreciation rates applied.

2.5 DEPARTMENT OF JUSTICE

INTRODUCTION

The Department of Justice contributes to a just and safe society by providing systems and services for the promotion and maintenance of rights and responsibilities and the resolution of disputes, for the benefit of the Tasmanian community.

The Department provides administrative support for the Supreme and Magisterial Courts and includes the Offices of the Solicitor-General, the Director of Public Prosecutions, the Crown Solicitor, the Ombudsman, the Health Complaints Commissioner and the Anti-Discrimination Commissioner. It also includes the Registries for Births, Deaths and Marriages and Business Affairs, the Tasmanian Electoral Office, Corrective Services, the Poppy Advisory and Control Board and the Office of Consumer Affairs and Fair Trading. As a part of the State Government's administrative restructuring, effective 1 April 2006, the Department assumed responsibility for Workplace Standards Tasmania (WST) and Resource Planning, which includes the Resource Planning Development Commission, Resource Management Planning Appeals Tribunal and Land Use Planning.

The Portfolio Minister is the Attorney-General, Minister for Justice, Workplace Relations and Minister for Planning.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements of the Department were received on 15 August 2006, with amended statements received on 29 September 2006. An unqualified audit report with an **emphasis of matter** was issued on 2 October 2006. The emphasis of matter was made in respect to the valuation of Administered fines receivables and is discussed further in this chapter.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 Budget $'000	2005-06 Actual $'000	2004-05 Actual $'000
Revenue from government - recurrent	78 805	91 154	73 031
Revenue from government - capital	15 896	15 896	13 559
Revenue from special capital investment funds	2 574	1 812	1 632
User charges, fees and fines & grants	0	7 512	6 032
Resources received free of charge	0	0	30
Other operating revenue*	9 321	6 566	5 864
Total Operating Income	**106 596**	**122 940**	**100 148**
Employee entitlements	0	62 787	49 622
Depreciation	0	2 187	2 065
Grants and subsidies	0	4 378	4 515
Other operating expenses*	92 317	39 022	31 043
Total Operating Expenses	**92 317**	**108 374**	**87 245**
Net Operating Surplus Before Asset Transfers	**14 279**	**14 566**	**12 903**
Asset transfers	0	(22 990)	0
Net Operating Surplus (Deficit) Attributable to the State	**14 279**	**(8 424)**	**12 903**

** Note budget did not include detailed other operating and expense allocations.*

Comment

Recurrent appropriations increased from $73.031m in 2004-05 to $91.154m in 2005-06, an increase of 24.8%. The increase from the 2004-05 actual to the 2005-06 budgeted recurrent appropriations of $5.774m primarily relates to additional funding for operational costs in correctional services.

The Department received additional appropriations over its original budget totalling $12.349m relating to:

- Transfer on administrative restructure, $4.516m;
- Additional prison service costs for Correctional Officers Agreement, $3.118m;
- Transfer of Reserved by Law Election funding, $1.838m; and
- Increased Reserved by Law expenditure, $1.867m, relating to the Criminal Injuries Compensation Fund and increases in salaries of Statutory office holders.

Capital appropriations increased from $13.559m in 2004-05 to $15.896m in 2005-06, an increase of 17.2%. This funding primarily relates to the continuation of the Prison Infrastructure Redevelopment Program (PIRP), which commenced in 2003-04 with expected completion date during 2006.

Special capital investment funds were consistent with the prior year and relate to the Monetary Penalty Enforcement Project (MPEP).

The increase in employee expenses from $49.622m in 2004-05 to $62.787m in 2005-06 was due to significant pay rises for Custodial and Parole Officers under new agreements, $3.000m, and the administrative restructure of the Department, $3.000m. The FTEs increased from 740 to 808 (excluding the administrative restructure), which resulted in additional expenses of $4.000m primarily relating to prison employees. An additional 175 FTEs joined the Department following the State Government's administrative restructuring.

The asset transfer totalling $22.990m in 2005-06 relates to the transfer of the Secure Mental Health facility at the Risdon Prison to the Department of Health and Human Services. This did not form a part of the whole of government administrative restructuring and hence has been accounted for as a voluntary transfer between agencies in accordance with the provisions of TI 207 *Administrative Restructuring of Agencies*. Because the transfer was voluntary, the Department received no consideration.

The increase in Other operating expenses from $31.043m in 2004-05 to $39.022m in 2005-06 was primarily due to increased costs relating to local council elections, $1.600m, additional payroll tax directly relating to the increase in employee entitlements, $1.300m, increased property expenses, $1.200m, increased costs awarded in relation to the Victims Assistance Unit, $0.800m, increased operating leasing costs, $0.600m, additional information technology costs, $0.500m, additional juror, witness and court expenses, $0.500m, and increased travel and transport costs, $0.200m.

BALANCE SHEET

	2005-06 $'000	**2004-05** $'000
Financial Assets		
Cash and deposits	9 490	5 557
Receivables	2 119	1 180
Non-financial Assets		
Inventory	441	336
Property, plant and equipment	133 977	104 491
Intangibles	1 489	822
Total Assets	**147 516**	**112 386**
Liabilities		
Payables	7 424	5 195
Interest bearing liabilities	32 083	0
Employee entitlements	14 432	10 129
Other liabilities	846	673
Total Liabilities	**54 785**	**15 997**
Net Assets	**92 731**	**96 389**
Reserves	19 302	13 102
Accumulated funds	73 429	83 287
Total Equity	**92 731**	**96 389**

Comment

The increase in Cash in 2005-06 to $9.490m is consistent with the movements noted in the Cash Position section that follows.

The increase in Receivables from $1.180m in 2004-05 to $2.119m in 2005-06 was due to significant one-off invoices raised by Crown Law in June 2006.

The net movement in Property, plant and equipment from $104.491m in 2004-05 to $133.977m in 2005-06 was primarily due to the following offsetting factors:

- Reassessment of the fair value of land and buildings (excluding prison buildings) and subsequent upward revaluation of $2.681m and $3.520m for the respective class of assets. The revaluation was based on an independent valuation provided by the Valuer-General;
- Continuation of the PIRP with expenditure during 2005-06 totalling $47.712m; offset by
- Transfer of the Secure Mental Health facility at the Risdon Prison to the Department of Health and Human Services totalling $22.990m; and
- Depreciation of $2.187m.

Expenditure of $47.712m on the PIRP in 2005-06 was funded by:

- ANZ bank loan (see later comments), $32.083m;
- Capital appropriation, $15.495m; and
- Special capital investment funds, $0.134m.

It is anticipated that construction of the PIRP will be completed in late 2006. The final cost is expected to considerably exceed the original budget, $53.300m, due to:

- Amendments to approximately double the capacity of the Secure Mental Health Unit;
- Unforseen growth in the Building Activity Index;
- Provision of three additional medium security units and an additional workshop; and
- Capitalised interest costs.

Intangibles relate to the capitalisation of the costs associated with the MPEP (software development). Current year expenditure on this project totalled $0.667m.

The increase in Payables from $5.195m in 2004-05 to $7.424m in 2005-06 was due to the Department delaying payments to suppliers until the new financial year as a result of a tight cash flow position at year end.

Interest bearing liabilities appearing for the first time in 2005-06 totalling $32.083m relate to a financing arrangement entered into in September 2005 between the Department, ANZ Bank and John Holland/Fairbrother in respect to the PIRP. The arrangement provides for ANZ paying PIRP related invoices to John Holland/Fairbrother on the Department's behalf following Departmental review and approval. The Department then repays to ANZ the amounts due in three annual payments in July 2006, 2007 and 2008. The interest rate relating to the borrowings is variable and was 6.36% as at 30 June 2006. The interest expense totalled $1.007m at 30 June 2006 and was capitalised into the cost of constructing the new prison.

The increase in Employee entitlements from $10.129m in 2004-05 to $14.432m in 2005-06 was due to the following factors:

- Increase in salary and wage rates, in particular the Custodial Officers Agreement, which are used to calculate the current employee entitlements as referred to previously;
- Increase in FTEs from 740 to 808 excluding the restructure; and
- Transfer of employees and associated employee entitlement balances as part of the administrative restructuring.

Other liabilities relate to the payroll tax obligations in respect of employee entitlement balances (except for $0.055m in 2005 which was a separate liability). When looked at in isolation payroll tax has increased 37%, which is consistent with the 42% increase in employee entitlements balances.

The increase in Reserves from $13.102m in 2004-05 to $19.302m in 2005-06 was due to the revaluation in land and buildings as noted previously.

CASH POSITION

	2005-06 Actual $'000	**2004-05 Actual** $'000
Receipts from government - recurrent	91 154	71 001
Receipts from government - capital	15 896	13 559
User charges, fees and fines & grants	7 295	7 679
GST receipts	7 996	8 025
Other cash receipts	8 008	6 411
Payments to employees	(64 909)	(48 001)
Payments to suppliers	(37 685)	(35 166)
GST payments	(7 525)	(7 676)
Cash from operations	**20 230**	**15 832**
Proceeds from disposal of non-financial assets	29	0
Payments for acquisition of non-financial assets*	(17 010)	(16 457)
Cash (used in) investing activities	**(16 981)**	**(16 457)**
Proceeds from administrative restructuring - cash transferred in	684	0
Repayment of borrowings		
Cash from financing activities	**684**	**0**
Net increase/(decrease) in cash	**3 933**	**(625)**
Cash at the beginning of the reporting period	5 557	6 182
Cash at end of the reporting period	**9 490**	**5 557**

**This excludes capital expenditure funded by the ANZ bank - see previous comments.*

Comment

The increase in cash balances has been impacted in part by the cash transferred in totalling $0.684m from other Departments as a result of the administrative restructuring.

The increase in capital and recurrent appropriations received are consistent with the increases noted in the Balance Sheet section of this chapter. Similarly, the increases in Payments to suppliers and employees are also consistent with the comments made previously.

The $17.010m noted for Payments for acquisition of non-financial assets relates primarily to the PIRP and the MPEP.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		14 566	12 903
Operating margin	>1.0	1.13	1.15
Financial Management			
Debt collection	30 days	103	71
Creditor turnover	30 days	69	61
Other Information			
Staff numbers (FTEs)		808	740
Average staff costs ($'000s)		73	67
Average leave balance per FTE ($'000s)		17	14

Comment

The Department achieved an improved surplus Result from operations before asset transfers in 2005-06 compared to that in 2004-05. The increased surplus in 2005-06 was predominately due to increased funds being received for the redevelopment of the prison. The 2005-06 Operating margin has been impacted by increases in employee entitlements and other expenses as discussed in the Income Statement section of this chapter.

The Debt collection ratio has been impacted by the accrual of crown law debtors at 30 June 2006 rather than a change in the collectability of receivables.

The Creditor turnover has slightly deteriorated which is consistent with the delaying of supplier payments as referred to in the Balance Sheet section of this chapter.

The movements in Staff numbers, Average staff costs and Average leave balances have been commented on previously.

ADDITIONAL FINANCIAL INFORMATION

Administered Transactions

Administered transactions are those that the Department manages on behalf of the Government. These transactions are not shown in the Department's Income Statement, Balance Sheet or Cash Flows.

The Department's administered statements include transactions relating to the enforcement of monetary penalties, Supreme and Magisterial court services, Births, Deaths and Marriages, maintenance of a fair, safe and equitable market place and workplace standards.

As a part of the State Government's administrative restructuring, effective 1 April 2006, the Department assumed responsibility for WST and Resource Planning, which includes the Resource Planning Development Commission, Resource Management Planning Appeals Tribunal and Land Use Planning.

Administered Income and Expenses

	2005-06	**2004-05**
	$'000	$'000
Revenue from government - recurrent	0	1 544
Australian government grants	3 869	3 774
User charges, fees and fines	21 759	21 267
Other revenue	2 984	6 068
Total Revenue	**28 612**	**32 653**
Grants and subsidies	377	0
Employee entitlements	340	0
Depreciation and amortisation	1	0
Impairment losses	2 014	1 697
Other expenses	4 409	8 480
Total Expenses	**7 141**	**10 177**
Net Surplus	**21 471**	**22 476**
Transfer to Consolidated Fund	21 319	21 569
Net Surplus Attributable to the State	**152**	**907**

Note administered budget information was not published in the 2005-06 Budget papers.

Comment

The decrease in recurrent revenue from $1.544m in 2004-05 to nil in 2005-06 was due to the recurrent appropriation and related expenses in respect to Criminal Injuries Compensation Fund being reclassified from Administered to Controlled.

The decrease in Other revenue from $6.068m in 2004-05 to $2.984m in 2005-06 was due to a $3.000m reduction in income relating to the legal practitioners fund, an uncontrollable stream of revenue which is dependent on the number of cases which go to court each year. There is a consequential reduction in other expenditure.

The increase in Grants and subsidies and Employee entitlement expenses relates to the administrative restructure effective 1 April 2006.

Impairment losses, related to the movement in provision for impairment of fines debtors, have increased in line with the increase in debtors.

Other expenses decreased due to the reduction in expenses relating to the legal practitioners fund as noted above.

Net surpluses on administered transactions reflect the timing of funds received with respect to the fines, which are then forwarded to Treasury, as recorded in the Transfer to Consolidated Fund.

Administered Assets and Liabilities

	2005-06 $'000	**2004-05** $'000
Financial Assets		
Cash	2 359	449
Receivables	15 031	13 703
Non-financial Assets		
Property, plant and equipment	3	0
Total Assets	**17 393**	**14 152**
Liabilities		
Payables	155	83
Employee entitlements	229	0
Other liabilities	13	0
Total Liabilities	**397**	**83**
Net Assets	**16 996**	**14 069**
Accumulated funds	16 996	14 069
Total Equity	**16 996**	**14 069**

Comment

Receivables primarily relate to outstanding fines and penalties. The net receivable balance shown above comprises:

- Gross receivables of $42.962m in 2005-06 (2004-05, $39.573m);
- Provision for impairment of $25.569m in 2005-06 ($23.555m); and
- Provision for expected remissions of $2.387m in 2005-06 ($2.387m).

The level of impairment has been significant for many years. As noted above, an impairment loss has been recognised for Administered fines receivables totalling $25.569m. This has been calculated based on a set percentage (59.5%) of gross fines receivables. This percentage was determined in 1999 based on a level of financial analysis conducted at that time. The new AASB 139 *Financial Instruments: Recognition and Measurement* requires receivables to be measured at amortised cost, and discounted to present value where relevant, and financial assets to be assessed for impairment on the basis of objective evidence. Due to the current restrictions of the fines receivable subsidiary ledger and its inability to provide appropriate data and reports to management, the Department is unable to obtain objective evidence to support the validity of the estimated impairment losses as determined by applying the 59.5% and the expected timing of cash flows from fines receivables as at 30 June 2006.

A new Fines Receivable System is currently being developed which is expected to assist the Department in obtaining appropriate objective evidence to support the impairment of fines receivables and expected timing of cash flows. This new system is expected to be completed and implemented in the 2007 financial year. Movements of 1%, 5% and 10% in the current 59.5% applied to calculate the provision for impairment losses would result in this provision moving by $0.429m, $2.148m and $4.296m, respectively. This would directly impact the Administered Income Statement and based on the current Administered fines infringement revenue of $15.915m any such adjustment, should it be required, could be material to the financial statements.

Whilst the Department's financial statements received an unqualified audit report in 2005-06, the audit report does include an emphasis of matter paragraph that refers readers of the financial report to the disclosure in the financial statements regarding this issue. Should the Department not be able to obtain objective evidence in 2006-07, it is likely that a qualified audit opinion will result.

Administered Cash Flows

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	0	1 544
Australian government grants	3 869	3 774
User charges, fees and fines	17 192	18 300
Other receipts	2 997	6 161
Payments to employees	(354)	0
Payments to suppliers	(3 496)	(8 487)
Transfers to the Consolidated Fund	(21 319)	(21 569)
Cash (used in) operations	**(1 111)**	**(277)**
Proceeds from administrative restructuring - cash transferred in	3 021	0
Cash from financing activities	**3 021**	**0**
Net increase/(decrease) in cash	**1 910**	**(277)**
Re-classification of carry forward to True Trust	0	(41)
Cash at the beginning of the period	449	767
Cash at end of the period	**2 359**	**449**

Comment

Cash movements are basically a reflection of the timing of funds received with respect to the fines collection system.

OVERALL COMMENT

The 2005-06 audit was completed with satisfactory results with the exception of the valuation of Administered fines receivables as referred to previously.

2.6 DEPARTMENT OF POLICE AND EMERGENCY MANAGEMENT

INTRODUCTION

Under the *Administrative Arrangements Order 2006* the Department of Police and Public Safety was renamed as the Department of Police and Emergency Management (the Department) from 1 April 2006. The Department includes Tasmania Police, the State Emergency Service and Forensic Science Services Tasmania. Tasmania Police comprises four geographic districts assisted by specialised police support units.

The Department is responsible for:

- The maintenance of public order;
- Public safety and security;
- The prevention of crime;
- The detection and prosecution of offenders;
- Traffic law enforcement and road safety education;
- The protection of the State's fishing and poppy industries;
- Emergency management; and
- Forensic Science Services.

The Portfolio Minister is the Minister for Police and Emergency Management.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2006 and an unqualified audit report was issued on 21 September 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06	**2004-05**
	$'000	$'000
Revenue from government - recurrent	148 044	136 309
Revenue from government - capital	2 500	1 016
Grants	4 669	3 609
Other revenue	6 758	5 663
Gain on sale of non-current assets	36	35
Total Operating Income	**162 007**	**146 632**
Employee entitlements	115 941	105 055
Depreciation and amortisation	2 697	2 381
Grants and subsidies	2 953	2 280
Other operating expenses	42 310	41 973
Total Operating Expenses	**163 901**	**151 689**
Net Operating (Deficit)	**(1 894)**	**(5 057)**

Comment

The Department had a Net operating deficit in both reported years, principally because depreciation is not funded by appropriation, in common with all Government departments.

In respect to 2005-06, the Net operating deficit decreased by $3.163m to a deficit of $1.894m (2004-05, deficit $5.057m). This was brought about by:

- Revenue from government – recurrent increasing by $11.735m (8.6%), in accordance with the Budget to fund increases in salary and non-salary expenses, together with funding for 48 additional police officers, $1.100m, Whole-of-Government Radio Network, $1.100m, Natural Disaster Mitigation Reform initiative, $0.800m, and the Safe at Home programme, $0.800m;
- Revenue from government – capital increasing by $1.484m, in accordance with the Budget for the development of additional forensic science facilities, $1.500m;
- The increase in Grants of $1.060m largely due to increased funding from the Australian Government for State Emergency Service Disaster Mitigation Funding (SESDMF), $0.822m, and new projects including Airport Security, $0.880m, National Drug Law Enforcement Research Fund (NDLERF), $0.450m, and the Investigation and Consequence Management Exercise, $0.440m;
- Other operating revenue rising by $1.096m mainly due to increases in contracted services, $0.671m and recognition of assets not previously brought to account, $0.359m; offset by
- Employee costs rising by $10.886m due to 115 additional staff, an 8% pay rise for Police officers from December 2005 and a 3.5% pay rise for non-commissioned staff; and
- The increase in expenditure for Grants and subsidies, which includes an additional $0.722m to Councils for SESDMF, $0.200m for Chemical Biological Radiological Enhancement and the Global Information System project.

BALANCE SHEET

	2005-06 $'000	2004-05 $'000
Financial Assets		
Cash and deposits	3 405	816
Receivables	1 587	248
Non-financial Assets		
Inventory	632	652
Property, plant and equipment	101 160	101 144
Other non-financial assets	1 450	1 091
Total Assets	**108 234**	**103 951**
Liabilities		
Payables	2 493	2 299
Employee entitlements	38 292	34 424
Other liabilities	2 115	0
Total Liabilities	**42 900**	**36 723**
Net Assets	**65 334**	**67 228**
Reserves	30 896	30 896
Accumulated funds	34 438	36 332
Total Equity	**65 334**	**67 228**

Comment

Net Assets decreased from $67.228m at 30 June 2005 to $65.334m at 30 June 2006. The main factors contributing to this were:

- Cash increasing by $2.589m due to the overall increase in expenditure being less than the overall increase in revenue (see Cash Position below).
- The majority of Receivables related to insurance claims. The amount for 2005-06 included $1.000m owed by the Australian Government Department of Health and Ageing, which was received in July 2006; offset by
- Employee entitlements increasing by $3.868m due to additional staff and salary increases; and
- Other liabilities of $2.115m at 30 June 2006 consisting of Appropriation carried forward under section 8A of the *Public Account Act 1986*.

CASH POSITION

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	148 044	134 340
Receipts from government - capital	2 500	1 016
Grants	5 985	4 110
User charges	0	35
GST receipts	4 346	3 889
Other cash receipts	5 996	5 865
Payments to employees	(112 192)	(107 360)
Payments to suppliers	(45 558)	(37 615)
GST payments	(4 213)	(4 195)
Cash from operations	**4 908**	**85**
Proceeds from disposal of non-financial assets	36	35
Payments for acquisition of non-financial assets	(2 355)	(1 752)
Cash (used in) investing activities	**(2 319)**	**(1 717)**
Net increase (decrease) in Cash	**2 589**	**(1 632)**
Cash at the beginning of the reporting period	816	2 448
Cash at end of the reporting period	**3 405**	**816**

Comment

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and the Balance Sheet sections of this chapter.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		(1 930)	(5 092)
Operating margin	>1.0	0.99	0.97
Financial Management			
Debt collection	30 days	33	16
Creditor turnover	30 days	16	7
Other Information			
Staff numbers (FTEs)		1 652	1 589
Average staff costs ($'000s)		70	66
Average leave balances per FTE ($'000s)		23	22

Comment

Results from operations improved in 2005-06 due to the decreased loss from ordinary activities as explained previously.

The higher average Debt collection in 2005-06 was the result the higher receivables balance at the end of the year as explained in the Balance Sheet section of this chapter. Most debts have subsequently been recovered.

The higher average Creditor turnover in 2005-06 was the result of some large unpaid invoices at the end of the year, which have subsequently been paid.

Staff numbers and costs rose in 2005-06 due to the employment of additional police officers and salary increases as mentioned previously.

ADDITIONAL FINANCIAL INFORMATION

Administered Transactions

Administered transactions are those that the Department manages on behalf of the Government. These transactions are not shown in the Department's Income Statement, Balance Sheet or Cash Flows.

Administered Income and Expenses

	2005-06 $'000	**2004-05** $'000
Grants	160	171
User charges	288	666
Fees and fines	322	371
Total Revenue	**770**	**1 208**
Transfer to Consolidated Fund	770	1 208
Net Surplus (Deficit) Attributable to the State	**0**	**0**

User charges decreased in 2005-06 due to there being less recoverable expenditure in that year.

Administered Assets and Liabilities

The Department has no Administered Assets or Liabilities.

Administered Cash Flows

	2005-06 $'000	2004-05 $'000
Grants	160	171
User charges	288	666
Fees and fines	322	371
Transfer to the Consolidated Fund	(770)	(1 208)
Cash From Operations	**0**	**0**
Net Increase/(Decrease) in Cash	**0**	**0**
Cash at the beginning of the period	0	0
Cash at End of the Period	**0**	**0**

See comment under Administered Income and Expenses above.

OVERALL COMMENT

The audit was completed satisfactorily with no major issues outstanding.

2.7 DEPARTMENT OF PREMIER AND CABINET

INTRODUCTION

The Department of Premier and Cabinet (the Department) provides a range of services to support the Premier, the Cabinet and other Members of Parliament.

The Department comprises the Executive Division, Policy Division, Office of Parliamentary Counsel, Tasmanian Government Office, Canberra, Government Information and Services Division including TMD, Office of the State Service Commissioner, Industrial Relations and State Service Management Division, Multicultural Tasmania, Women Tasmania, Office of Aboriginal Affairs, Seniors Bureau, Office of Children and Youth Affairs, Local Government Division, the Tasmania *Together* Progress Board Secretariat and the Corporate Services Division. TMD is treated as a controlled activity of the Department.

The Portfolio Ministers to whom the Department is responsible are the Premier, the Minister for Local Government and Community Development, and the Minister for Justice and Workplace Relations.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2006 and an unqualified audit report was issued on 13 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06	2004-05
	$'000	$'000
Revenue from government - recurrent	45 329	42 184
Revenue from government - capital	299	0
Revenue from special capital investment funds	268	84
Grants	123	1 003
User charges, fees and fines	27 244	27 085
Other operating revenue	1 537	1 129
Total Operating Income	**74 800**	**71 485**
Employee entitlements	29 306	27 420
Depreciation and amortisation	620	517
Grants and subsidies	2 345	1 693
Other operating expenses	41 438	42 182
Total Operating Expenses	**73 709**	**71 812**
Net Surplus (Deficit) Attributable to the State	**1 091**	**(327)**

Comment

The Department achieved a Net surplus in 2005-06 of $1.091m. This was an improvement of $1.418m from 2004-05. Major factors contributing to this are:

- Recurrent appropriation revenue increasing by $3.145m in 2005-06 to fund a number of activities and programs. These included salary increases in accordance with the State Service Wages Agreement (SSWA), restructuring of support services for Ministers of the Crown, funding for progressing the Jim Bacon Foundation, a grant to assist the Timor Leste Eye Program and additional grants approved under the Premier’s sundry program. There is a corresponding increase, $0.652m, in payments of Grants and subsidies in relation to these programs;
- Capital appropriation revenue, $0.299m, was received in 2005-06 for the Service Tasmania Shops capital investment; and
- Increased Revenue, $0.184m, from special capital investment funds in 2005-06 related mainly to funding the Main Street Makeover program.

These were offset in part by:

- Income from Grants reducing by $0.787m in 2005-06 because the funding for the National Communications project was completed in 2004-05; and
- Employee entitlements rising in 2005-06 by $1.886m, mainly due to salary increases in accordance with the SSWA and restructuring of support services to Ministers. In total, the Department’s staffing levels increased by 19 FTEs in 2005-06, which contributed approximately $1.077m to the increase. The impact of award increases was a little over 3%.

BALANCE SHEET

	2005-06 $'000	2004-05 $'000
Financial Assets		
Cash and deposits	3 834	4 129
Receivables	1 932	1 171
Other financial assets	4 295	3 849
Non-financial Assets		
Inventory	11	20
Property, plant and equipment	1 184	1 406
Infrastructure	1 630	62
Total Assets	**12 886**	**10 637**
Liabilities		
Payables	1 599	1 386
Provisions	392	416
Employee entitlements	6 921	6 873
Other liabilities	2 060	1 150
Total Liabilities	**10 972**	**9 825**
Net Assets	**1 914**	**812**
Reserves	97	62
Accumulated funds	1 817	750
Total Equity	**1 914**	**812**

Comment

The increase in Net Assets in 2005-06 is primarily attributed to the operating surplus earned of $1.091m. Movements in Balance Sheet line items result from:

- Late billing of clients in 2005-06 resulted in a higher outstanding debtor's (Receivables) balance than in 2004-05;
- Infrastructure assets increased due to the upgrading of the TMD computer room in 2005-06, $1.607m; and
- Other liabilities increased due to the inclusion of revenue carried forward under section 8A(2) of the *Public Account Act 1986.*

CASH POSITION

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	46 178	41 600
Receipts from government - capital	299	0
Receipts from special capital investment funds	268	84
Grants	104	1 003
User charges, fees and fines	28 013	28 428
GST receipts	4 616	5 404
Other cash receipts	1 662	1 315
Employee entitlements	(29 411)	(28 906)
GST payments	(5 013)	(5 370)
Other cash payments	(45 066)	(44 157)
Cash from/(used in) operations	**1 650**	**(599)**
Proceeds from disposal of non-financial assets	54	0
Payments for acquisition of non-financial assets	(1 999)	(783)
Cash (used in) investing activities	**(1 945)**	**(783)**
Net decrease in cash	**(295)**	**(1 382)**
Cash at the beginning of the reporting period	4 129	5 511
Cash at end of the reporting period	**3 834**	**4 129**

Comment

Variations in cash flow amounts and cash balances primarily relate to:

- Increased receipts from Government for programs offset by reduction in Grants revenue due to the completion of the National Communications project; and
- Expenditure relating to the upgrade of the TMD computer facility.

These items have been discussed previously in comments in the Income Statement and Balance Sheet sections.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		1 091	(327)
Operating margin	>1.0	1.01	1.00
Financial Management			
Debt collection	30 days	26	16
Creditor turnover	30 days	14	12
Other Information			
Staff numbers (FTEs)		426	407
Average staff costs ($'000s)		53	53
Average leave balance per FTE ($'000s)		16	17

Comment

Late billing of clients in 2005-06 resulted in a higher outstanding debtor's balance than in 2004-05. This is reflected in the higher Debt collection ratio for 2005-06.

Whilst there was an increase in staff in Ministerial and Parliamentary offices in 2005-06, and a resulting increase in salary and wages of $1.077m, there was little change in Average staff costs.

ADDITIONAL FINANCIAL INFORMATION

Administered Transactions

Administered transactions are those that the Department manages on behalf of the Government. These transactions are not shown in the Department's Income Statement, Balance Sheet or Cash Flows.

Effective 1 July 2005 Reserved by Law revenue and expenses have been treated as "controlled" expenses of the Department, in accordance with the revised definition of "administered" and "controlled" as detailed in Treasurer's Instruction 704 *Definition of Administered and Controlled*. This includes Ministerial salaries and allowances. As a result, the Department did not administer any activities during 2005-06. The impact of these changes on the Department's Income Statement was not significant.

Administered Income and Expenses

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	0	607
Commonwealth grants	0	0
Other revenue	1	10
Total Revenue	**1**	**617**
Employee entitlements	0	596
Other expenses - Regional Forest Agreement (RFA)	0	26 278
Total Expenses	**0**	**26 874**
Net Surplus (Deficit)	**1**	**(26 257)**
Transfer to Consolidated Fund	1	10
Net Deficit Attributable to the State	**0**	**(26 267)**

Comment

In 2004-05, RFA funding was transferred to the then Department of Primary Industries, Water and Environment. The transfer of $26.278m recorded above was the opening balance of cash on hand at 1 July 2004.

Employee entitlements were transferred to the Department as “controlled” expenses in 2005-06.

Transfers to Consolidated Fund consisted of fees and charges collected by the Department on behalf of the Government.

Administered Assets and Liabilities

Comment

There were no Administered Assets or Liabilities recorded for 2004-05 and 2005-06.

Administered Cash Flows

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	0	607
Commonwealth grants	0	0
Other cash receipts	1	10
Reserved by Law - Ministerial salaries and allowances	0	(607)
Grants and subsidies	0	(26 278)
Transfers to Conslidated Fund	(1)	(10)
Cash (used in) operations	**0**	**(26 278)**
Net decrease in cash	**0**	**(26 278)**
Cash at the beginning of the period	0	26 278
Cash at end of the period	**0**	**0**

Comment

Variations in cash flow amounts and cash balances have been discussed in comments under the Administered Income and Expense section of this chapter.

OVERALL COMMENT

The 2005-06 audit was completed with satisfactory results.

2.8 DEPARTMENT OF PRIMARY INDUSTRIES AND WATER

INTRODUCTION

Under the *State Service (Restructuring) Order 2006* the Department of Primary Industries, Water and Environment was renamed as the Department of Primary Industries and Water (the Department) from 1 April 2006. Under this restructure the Environment Division was transferred to the newly named Department of Tourism, Arts and the Environment (DTAE), and Planning segments were transferred to the Department of Justice.

The Department's mission is to manage the State's natural resources for the benefit of all Tasmanians.

The Responsible Minister is the Minister for Primary Industries and Water.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2006. An unqualified audit report was issued on 16 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06	**2004-05**
	$'000	$'000
Revenue from government - recurrent	75 487	74 417
Revenue from government - capital	4 891	1 512
Revenue from special capital investment funds	9 595	1 845
Grants	26 526	48 137
User charges, fees and fines	10 455	10 199
Interest revenue	2 744	2 565
Other operating revenue	26 962	22 911
Total Operating Income	**156 660**	**161 586**
Employee entitlements	67 167	65 978
Depreciation and amortisation	4 205	3 267
Grants and subsidies	17 089	11 343
Other operating expenses	49 372	53 338
Total Operating Expenses	**137 833**	**133 926**
Net Operating Surplus	**18 827**	**27 660**
Non-operating revenue	14 424	6 074
Non-operating expenses	(11 921)	(6 560)
Net Surplus Attributable to the State	**21 330**	**27 174**

Comment

In a normal financial year departments generally operate at a deficit because they are not funded for depreciation or increases in employee leave provisions. The surplus in 2004-05 was primarily brought about by the Department receiving a transfer of Regional Forest Agreement (RFA) funding from the Department of Premier and Cabinet of $26.278m. These funds are committed and will be spent in future years.

The strong surplus in 2005-06 was due to a number of factors including net gains on sale of assets, $2.503m, increases of $7.750m in special capital funds and $6.700m in funding for the Meander Dam project.

In 2005-06 the Department generated a Net operating surplus of $21.330m compared with a surplus of $27.174m in 2004-05. This decrease was brought about by:

- Grants reducing by $21.611m. Grants were abnormally high in 2004-05 as the Department received a transfer of RFA funding from the Department of Premier and Cabinet of $26.278m;
- Employee entitlements increasing by $1.189m due to salary indexation. The real salary increase is approximately $2.824m, when taking into account the 109 staff that were transferred to DTAE in April 2006;
- Depreciation increasing by $0.938m due largely to a buildings revaluation increase of $6.037m during the year and the full year impact of revaluations recorded in 2004-05; and
- Grants and subsidies increasing by $5.746m due to in part to new funding for the Sullivans Cove Waterfront Authority.

The effects of the foregoing were offset in part by:

- Revenue from government – recurrent, increasing by $1.071m due mainly to carried forward funding from the previous year. The restructuring arrangements have reduced the overall base funding for the Department;
- Revenue from Special capital investment funds increasing by $7.750m, which was primarily for the Meander Dam development, $6.700m;
- Revenue from government – capital, increasing by $3.379m in 2005-06, due to relocating and upgrading of specialist facilities;
- Other operating expenses decreasing by $3.966m. These expenses were abnormally high in 2004-05 and included an amount of $11.060m relating to agreements and costs associated with the RFA;
- Other operating revenue increasing by $4.051m due primarily to $3.200m in reimbursements relating to the gas project; and
- Non-operating revenue increasing by $8.350m due to sales of Crown land that had not originally been recorded. This was offset by Non-operating expenses increasing by $5.361m. These expenses represent the transfer of Crown property sales from the Crown Lands Administration Fund (CLAF) to the Consolidated Fund.

BALANCE SHEET

	2005-06 $'000	2004-05 $'000
Financial Assets		
Cash and deposits	82 686	83 691
Receivables	9 573	17 688
Other financial assets	625	625
Non-financial Assets		
Inventory	2 029	1 404
Assets held for sale		
Equity investments		
Property, plant and equipment	256 730	233 384
Infrastructure	2 305	2 125
Other assets	2 878	3 021
Prepayments	1 089	630
Total Assets	**357 915**	**342 568**
Liabilities		
Payables	1 993	1 035
Interest bearing liabilities	535	933
Employee entitlements	15 214	16 376
Other liabilities	1 734	3 278
Total Liabilities	**19 476**	**21 622**
Net Assets	**338 439**	**320 946**
Contributed capital		
Reserves	74 940	45 141
Accumulated funds	263 499	275 805
Total Equity	**338 439**	**320 946**

Comment

Net Assets increased from $320.946m at 30 June 2005 to $338.439m at 30 June 2006. The main factors contributing to this were:

- Property, plant and equipment increasing by $23.346m. The increase includes a revaluation increment for land and buildings of $29.518m, which had a corresponding increase in Reserves, offset by depreciation, $4.204m, and disposals, $4.035m;
- Inventory increasing by $0.625m due to a greater level of map stocks held for sale;
- Prepayments increasing by $0.459m due to increases in salaries paid in advance;
- Other liabilities decreasing by $1.544m, the main reason being the transfer of environmental bond monies of a similar amount to the DTAE under the previously mentioned restructuring arrangements;

- Employee entitlements reducing by $1.162m due a reduction in staff associated with the restructure; and
- Interest bearing liabilities reducing by $0.398m. This liability represents a finance lease for the Lands Building fit out.

The effects of the foregoing were offset in part by:

- Cash reducing by $1.005m. This was due to a number of offsetting factors which are clear from the cash flow statement but in summary the $1.005m comprises Cash generated from operations, $6.463m plus net cash generated from asset disposals, $15.368m, less the administrative restructure transfer, $22.836m.

Cash at 30 June 2006 included amounts held in the Department's operating account of $35.748m and CLAF of $28.372m;

- Receivables reducing by $8.115m due to debts of $14.132m being transferred under the restructure (for example, the $13.916m receivable due by Australian Bulk Minerals was transferred to DTAE), offset by an increase in debtors of $5.530m relating to Commonwealth contributions; and
- Payables increasing by $0.958m due to a greater level of activity.

CASH POSITION

	2005-06	**2004-05**
	$'000	$'000
Receipts from government - recurrent	75 487	75 211
Receipts from government - capital	4 891	1 512
Receipts from special capital investment funds	9 595	1 845
User charges, fees and fines	10 455	8 031
Grants	26 526	48 137
Interest received	2 744	2 565
Other cash receipts	21 400	18 614
Payments to employees	(66 149)	(65 286)
Payments to suppliers	(78 486)	(71 911)
Cash from operations	**6 463**	**18 718**
Proceeds from disposal of non-financial assets	18 439	7 577
Payments for acquisition of non-financial assets	(3 071)	(2 102)
Receipts from investments		
Cash from investing activities	**15 368**	**5 475**
Net increase in cash	**21 831**	**24 193**
Cash at the beginning of the reporting period	83 691	59 498
Cash transferred in Administrative Restructure	(22 836)	0
Cash at end of the reporting period	**82 686**	**83 691**

Comment

Reasons for variations in cash flow amounts and cash balances reflect comments made previously in the Income Statement and Balance Sheet sections of this chapter.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		18 827	27 660
Operating margin	>1.0	1.14	1.21
Financial Management			
Debt collection	30 days	16	195
Creditor turnover	30 days	18	8
Other Information			
Staff numbers (FTEs)		976	1 085
Average staff costs ($'000s)		69	61
Average leave balance per FTE ($'000s)		16	15

Comment

During 2004-05 the Department received a transfer of RFA funding from the Department of Premier and Cabinet of $26.278m, which contributed to the strong Result from operations and Operating margin.

The high number of days being taken to collect debtors for 2004-05 was due principally to the debt of $14.514m owed by Australian Bulk Minerals. Excluding this debt the collection period for 2004-05 was 26 days.

Staff numbers declined from April 2006 due to the Department's restructure. As Average staff costs are calculated on staff numbers as at 30 June 2006, these costs appear higher than normal.

ADDITIONAL FINANCIAL INFORMATION

Administered Transactions

Administered transactions are those that the Department manages on behalf of the Government. These transactions are not shown in the Department's Income Statement, Balance Sheet or Cash Flows.

Administered Income and Expenses

	2005-06 $'000	2004-05 $'000
Revenue from government - recurrent	10 446	8 935
User charges, fees and fines	30 891	28 916
Other revenue	11 513	6 242
Total Revenue	**52 850**	**44 093**
Grants and subsidies	10 412	8 707
Total Expenses	**10 412**	**8 707**
Net Surplus	**42 438**	**35 386**
Transfer to Consolidated Fund	42 557	35 253
Net Surplus/(Deficit) Attributable to the State	**(119)**	**133**

Comment

Revenue from government increased by $1.511m in 2005-06, due to first time funding for the Sullivans Cove Waterfront Authority.

User charges, fees and fines consist mainly of Land Titles Office collections, abalone royalties, marine farm licences and water royalties. Increases of $1.975m in 2005-06 were due to higher abalone royalties and Land Titles Office collections.

Other revenue in 2005-06 included an amount of $11.500m received from CLAF. This amount, along with User charges, fees and fines, is transferred to the Consolidated Fund.

Expenditures related to Grants and subsidies in 2005-06 included contributions to the Rivers and Water Supply Commission, $2.763m, and research grants of $4.283m.

Administered Assets and Liabilities

	2005-06 $'000	2004-05 $'000
Financial Assets		
Receivables	1 052	1 430
Total Assets	**1 052**	**1 430**
Liabilities		
Payables	4	0
Revenue received in advance	584	649
Total Liabilities	**588**	**649**
Net Assets	**464**	**781**
Accumulated Funds	464	781
Total Equity	**464**	**781**

Comment

The Department transferred $0.286m of Receivables in 2005-06 to the DTAE under the previously mentioned restructuring arrangements.

Administered Cash Flows

	2005-06 $'000	**2004-05** $'000
Receipts from government - recurrent	10 446	8 935
User charges, fees and fines	30 896	29 150
Other receipts	11 500	6 103
Grants and subsidies	(8 240)	(8 935)
Transfers to the Consolidated Fund	(44 602)	(35 253)
Cash from operations	**0**	**0**
Net increase/(decrease) in cash	**0**	**0**
Cash at the beginning of the period	0	0
Cash at end of the period	**0**	**0**

Comment

Reasons for variations in cash flow amounts and cash balances reflect the comments made in the Administered Income and Expenses and the Administered Assets and Liabilities sections.

OVERALL COMMENT

The Department continues to verify data on its asset register and it is expected that additional land will continue to be identified and brought to account. This is a significant task as the Department is responsible for management of the State's Crown Lands, and has been an ongoing project since the Department adopted the accrual basis of reporting.

The 2005-06 audit was completed satisfactorily with no major issues outstanding.

2.9 DEPARTMENT OF TOURISM, ARTS AND THE ENVIRONMENT

INTRODUCTION

Under the *Administrative Arrangements Order 2006* the Department of Tourism, Parks, Heritage and the Arts was renamed as the Department of Tourism, Arts and the Environment (the Department) from 1 April 2006 and included the transfer of the Environment Division from the former Department of Primary Industries, Water and the Environment.

The Department's primary goals are to benefit current and future generations through the development and recognition of Tasmania's:

- Unique natural, Aboriginal and historic heritage;
- Clean and healthy environment;
- World renowned parks and reserve system;
- Innovative and creative arts;
- Iconic botanical, heritage and visitor sites; and
- Attractiveness to visitors.

As at 30 June 2006 the Responsible Minister was the Minister for Tourism, Arts and the Environment.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2006. An unqualified audit report was issued on 11 September 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 $'000	2004-05 $'000
Revenue from government - recurrent	71 150	62 945
Revenue from government - capital	2 717	101
Infrastructure funding	9 971	27 198
Grants	3 029	2 720
User charges, fees and fines	14 938	15 751
Loss on sale of non-financial assets	(175)	(842)
Interest revenue	522	61
Resources received free of charge	0	2 736
Other operating revenue	1 143	727
Total Operating Income	**103 295**	**111 397**
Employee entitlements	37 787	33 781
Depreciation and amortisation	6 135	5 969
Grants and subsidies	14 415	29 099
Impairment losses	10	11
Write down of assets	378	0
Other operating expenses	43 687	39 497
Total Operating Expenses	**102 412**	**108 357**
Net Operating Surplus	**883**	**3 040**
Recognition of TMAG collection	343 729	0
Net Surplus Attributable to the State	**344 612**	**3 040**

Comment

The Department recorded a net surplus of $344.612m in 2005-06, of which $343.729m was from the initial recognition of the Tasmanian Museum and Art Gallery (TMAG) collection. Operating surplus for 2005-06 was $0.833m as compared with $3.040m for 2004-05, due mainly to the decrease in revenue recognised from assets received free of charge of $2.736 million.

The increase in Revenue from government in 2005-06 mainly reflects additional funding provided for TMAG infrastructure improvements and maintenance including security upgrade, Parks and Wildlife Service infrastructure projects, Environment Division operational costs from 1 April 2006 resulting from the administrative restructure and funding for a legal compensation payment.

Funding provided through the Economic and Social Infrastructure Fund reflects the timing of specifically approved projects. Revenue was higher in 2004-05 and included funding for the York Park development, Symmons Plains infrastructure, national parks and heritage projects and TT-Line marketing. Revenue from projects in 2005-06 included the Queen Victoria Museum, $3.000m. Other ongoing projects funded in 2005-06 included Parks and Heritage Infrastructure, $1.907m, Tourism Infrastructure, $1.633m, and the Cradle Tourism Development Plan, $2.028m.

Interest revenue was higher in 2005-06 because of the increase in the Department's cash balances resulting from the administrative restructure.

Resources received free of charge in 2004-05 represent the value of land gazetted under the *Nature Conservation Act 2002*.

The increase in Other operating revenue in 2005-06 is due mainly to a contribution from Kentish Council of $0.470m towards the Cradle Mountain Sewerage project.

The increase in Employee entitlements in 2005-06 is mainly due to the effect of the administrative restructure, $1.684m, and the effect of wage increases, approximately $1.200m.

Grants and subsidies were considerably higher in 2004-05 because of grants from the Economic and Social Infrastructure Fund for projects noted previously.

The increase in Other expenses included:

- Increased expenditure relating to National Park transport and facility services, $0.775m;
- Increased payments through the Arts for Public Buildings Scheme, $0.365m; and
- A legal compensation payment of $2.250m.

BALANCE SHEET

	2005-06 $'000	**2004-05** $'000
Financial Assets		
Cash and deposits	34 073	8 943
Receivables	1 831	1 201
Other financial assets	424	397
Non-financial Assets		
Inventory	603	271
Property, plant and equipment	900 340	520 539
Intangibles	1 056	423
Other non-financial assets	15 992	3 604
Total Assets	**954 319**	**535 378**
Liabilities		
Payables	3 004	2 510
Employee entitlements	9 255	7 703
Provisions	13 839	0
Other liabilities	7 505	3 487
Total Liabilities	**33 603**	**13 700**
Net Assets	**920 716**	**521 678**
Contributed equity	347 002	326 215
Reserves	235 525	201 886
Accumulated funds/(deficits)	338 189	(6 423)
Total Equity	**920 716**	**521 678**

Comment

Total Equity increased by $399.038m due to:

- Accumulated funds increasing by $344.612m, of which $343.729m was due to recognition of the TMAG collection;
- Increase to Contributed equity due to the transfer of the Environment Division; and
- Reserves increasing by $33.639m as a result of the revaluation of land, buildings and infrastructure.

Cash and deposits increased significantly in 2005-06 due principally to the transfer of $23.244m associated with the administrative restructure.

Receivables similarly increased in 2005-06 due mainly to the transfer of debtors totalling $0.415m from the Environment Division.

Most of the increase in Inventory in 2005-06 was due to the initial recognition of stock held by TMAG, $0.284m.

The increase in Property, plant and equipment in 2005-06 included the revaluation of land, buildings and infrastructure, $33.639m, and recognition of the TMAG Collection valued at $343.729m.

Other non-financial assets increased significantly in 2005-06 due to the transfer of the Australian Bulk Mineral debt, $13.839m, relating to the remediation of the Savage River mine site. A corresponding provision for remediation works has also been recognised under Other liabilities.

Employee entitlements have increased in 2005-06 as a consequence of the transfer of staff of the Environment Division under the administrative restructure.

Other liabilities have increased due to Environment bonds transferring with the Environment Division and a higher Appropriation carried forward under section 8A of the *Public Account Act 1986*.

CASH POSITION

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	70 380	63 715
Receipts from government - capital	5 288	101
Receipts from special capital investment funds	9 971	27 198
Grants	3 007	2 673
User charges, fees and fines	15 230	15 436
GST receipts	7 425	6 303
Interest received	498	61
Other cash receipts	1 069	1 152
Payments to employees	(37 850)	(35 175)
Payments to suppliers	(6 769)	(9 139)
GST payments	(57 298)	(67 057)
Cash from operations	**10 951**	**5 268**
Proceeds from disposal of non-financial assets	6	93
Repayment of loans by other entities	123	110
Payments for cquisition of non-financial assets	(8 952)	(4 745)
Loans made to other entities	(242)	(270)
Cash (used in) investing activities	**(9 065)**	**(4 812)**
Net increase in cash	**1 886**	**456**
Cash at the beginning of the reporting period	8 943	8 487
Funds transferred on administrative restructure	23 244	0
Cash at end of the reporting period	**34 073**	**8 943**

Comment

Overall the Department's Cash position improved significantly in 2005-06 primarily because of $23.244m transferred as part of the administrative restructure.

Reasons for variations in cash flow amounts reflect the comments made previously in the Income Statement section of this chapter.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		883	3 040
Operating margin	>1.0	1.01	1.03
Financial Management			
Debt collection	30 days	42	28
Creditor turnover	30 days	23	23
Other Information			
Staff numbers (FTEs)		785	664
Average staff costs ($'000s)		48	51
Average leave balance per FTE ($'000s)		12	12

Comment

The Debt collection ratio increased in 2005-06 due to the inclusion of debtors transferred with the Environment Division, including a number of long outstanding debtors.

The number of staff shown in 2005-06 includes those transferred with the Environment Division. The increase in FTEs in the last quarter of the year has caused the decrease in Average staff costs, which is calculated as the total staff costs for the year divided by the number of FTEs at 30 June.

ADDITIONAL FINANCIAL INFORMATION

Administered Transactions

Administered transactions are those that the Department manages on behalf of the Government. These transactions are not shown in the Department's Income Statement, Balance Sheet or Cash Flows.

Administered Income and Expenses

	2005-06 $'000	2004-05 $'000
Revenue from government - recurrent	8 024	5 472
Revenue from government - capital	0	2 000
Australian government grants	3 400	3 400
User charges, fees and fines	729	415
Total Revenue	**12 153**	**11 287**
Grants and subsidies	8 024	7 472
Total Expenses	**8 024**	**7 472**
Net Surplus	**4 129**	**3 815**
Transfer to Consolidated Fund	4 129	3 815
Net Surplus (Deficit) Attributable to the State	**0**	**0**

Comment

Revenue from government (recurrent) was higher in 2005-06 mainly due to $2.000m funding for the Port Arthur Historic Site conservation program being treated as recurrent in 2005-06. Conversely, that also represents the reduction in Revenue from government (capital) in 2005-06.

Australian Government grants represent funds for world heritage purposes.

Grants and subsidies paid in 2005-06 were:	$m
• Royal Tasmanian Botanical Gardens	2.290
• Wellington Park Management Authority	0.110
• Ten Days on the Island	1.200
• Tasmanian Symphony Orchestra	1.424
• Tasmanian Icon Program	1.000
• Port Arthur Historic Site Management Authority	2.000

Administered Assets and Liabilities

	2005-06 $'000	2004-05 $'000
Financial Assets		
Cash and deposits	0	215
Total Assets	**0**	**215**
Liabilities		
Other liabilities	0	215
Total Liabilities	**0**	**215**
Net Assets	**0**	**0**
Accumulated funds	0	0
Total Equity	**0**	**0**

Comment

Administered cash and liabilities in 2004-05 consisted of Appropriation carried forward under section 8A of the *Public Account Act 1986*.

Administered Cash Flows

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	7 809	5 687
Receipts from government - capital	0	2 000
Australian government grants	3 400	3 400
User charges, fees and fines	729	415
Grants and subsidies	(8 024)	(7 472)
Transfers to the Consolidated Fund	(4 129)	(3 815)
Cash from/(used in) Operations	**(215)**	**215**
Net increase/(decrease) in cash	**(215)**	**215**
Cash at the beginning of the period	215	0
Cash at end of the period	**0**	**215**

Comment

Details of the nature of cash flows are reflected in the comments made under Administered Income, Expenses, Assets and Liabilities.

OVERALL COMMENT

The audit was completed satisfactorily with no major issues outstanding.

2.10 DEPARTMENT OF TREASURY AND FINANCE

INTRODUCTION

The Department of Treasury and Finance (the Department) carries out functions associated with the State's economic and financial management, including the collection of major forms of State taxation and management of the Government's debt and superannuation commitments. The Department also undertakes a number of service, regulatory and compliance activities on behalf of the Government including administration of gaming, the motor vehicle fleet, building services, the Tasmanian Risk Management Fund, and certain monitoring arrangements associated with, Government businesses.

Consolidated Fund Expenditure is provided to the Department under two Divisions (3: Finance-General, and 16: Treasury and Finance) of the *Consolidated Fund Appropriation Act 2005.*

The activities of the Division of Treasury and Finance are reported as controlled and those of the Division of Finance-General as administered.

The Portfolio Minister for the Department is the Treasurer.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2006 and an unqualified audit report was issued on 5 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT – Treasury and Finance

	2005-06	**2004-05**
	$'000	$'000
Revenue from government - recurrent	35 123	32 748
Revenue from special capital investment funds	427	1 791
User charges	6 627	6 957
Gain on sale of non-financial assets	6 998	1 720
Other operating revenue	1 723	3 132
Total Operating Income	**50 898**	**46 348**
Employee entitlements	20 258	19 486
Depreciation	172	86
Grants and subsidies	13 328	14 945
Write down of assets	0	3
Other operating expenses	16 502	12 532
Total Operating Expenses	**50 260**	**47 052**
Net Operating Surplus (Deficit)	**638**	**(704)**
Transfer to the Consolidated Fund	(665)	(577)
Net (Deficit) Attributable to the State	**(27)**	**(1 281)**

Comment

In most years departments operate at a deficit because they are not funded for depreciation or increases in employee leave provisions.

In respect to 2005-06 the Department had a Net operating deficit of $0.027m (2004-05, $1.281m). This was brought about by:

- Revenue from government – recurrent increasing by $2.375m in 2005-06 due to additional funding for the Bass Strait Islands Community Service Obligation (CSO) and the Telecommunications Infrastructure project. The latter project was previously funded from the Economic and Social Infrastructure Fund, thus resulting in a decrease in Revenue from special investment funds in the same year;

- Gain on sale of non-financial assets increasing by $5.278m in 2005-06 due to a higher number of government property sales compared to 2004-05; and

- Grants and subsidy expenses decreasing by $1.617m. The 2004-05 amount included $0.631m as a loan repayment for the Triabunna Call Centre. Grants from the Community Support Levy decreased by $0.256m as a result of less funding being available due to the reduction in Gaming Tax. The Bass Strait CSO was $0.537m lower than the previous year mainly due to timing of recognising the grant expenditure. Similarly, The Public Trustee CSO was $0.249m lower.

The effects of the foregoing were offset in part by:

- Other operating revenue decreasing by $1.409m mainly due to reductions in property related revenue, $0.518m, due to fewer property disposals, and lower recoveries of expenses, $0.991m, because the 2004-05 amount included recoveries for the Gaming and Liquor Information System, the Tasmanian Community Fund, the Telecommunications Infrastructure Project and the Capital Investment Program which was not repeated in 2005-06. These decreases were offset by increases in licensing revenue, $0.087m, resulting from the introduction of annual liquor license fees and increases in other fees, and management fees, $0.105m, relating to the sale of Government property;

- Employee entitlements increasing by $0.940m primarily due to salary indexation; and

- Other expenses increasing by $3.980m, due primarily to additional proceeds from the disposal of surplus property to the Crown Lands Administration Fund (CLAF).

Transfers to the Consolidated Fund consist of Gaming and Liquor Licence fees collected.

BALANCE SHEET – Treasury and Finance

	2005-06 $'000	2004-05 $'000
Financial Assets		
Cash and deposits	6 906	7 849
Receivables	183	543
Non-financial Assets		
Plant and equipment	1 286	477
Leasehold improvements	988	318
Heritage assets	73	73
Other non-financial assets	521	1 003
Total Assets	**9 957**	**10 263**
Liabilities		
Payables	1 218	1 747
Employee entitlements	4 590	4 341
Total Liabilities	**5 808**	**6 088**
Net Assets	**4 149**	**4 175**
Reserves	7	6
Accumulated Funds	4 142	4 169
Total Equity	**4 149**	**4 175**

Comment

Net Assets decreased from $4.175m at 30 June 2005 to $4.149m at 30 June 2006. The decrease represents the operating deficit for the year of $0.027m. From a balance sheet perspective, the main factors contributing to this were:

- Cash and deposits decreasing by $0.943m in 2005-06 principally as the result of an accelerated grants program associated with the Community Support Levy (grants exceeded revenue from the Levy in both years under review);
- Receivables decreasing by $0.360m in 2005-06 due to timing issues associated with the billing cycle;
- Other non-financial assets decreasing by $0.482m in 2005-06 due to reductions in accrued revenue and GST balances; and
- Employee entitlements increasing by $0.427m primarily due to salary indexation.

The effects of the foregoing were offset in part by:

- Increases in Plant and equipment and Leasehold improvements of $1.479m in 2005-06 due to additional leasehold improvements to 80 Elizabeth Street and Henty House and work-in-progress on the Gaming and Liquor Licence System; and
- Payables decreasing by $0.529m in 2005-06 mainly due to the accrual of the Bass Strait Islands CSO for May and June 2005, totalling $0.507m.

CASH POSITION – Treasury and Finance

	2005-06 $'000	2004-05 $'000
Receipts from government - recurrent	35 123	32 748
Receipts from special capital investment funds	427	1 791
GST receipts	2 759	1 973
Other cash receipts	9 016	9 182
Payments to employees	(21 581)	(20 559)
Grants and subsidies	(13 833)	(13 837)
Transfers to the Consolidated Fund	(665)	(577)
GST payments	(2 563)	(2 151)
Other cash payments	(14 974)	(11 114)
Cash (used in) operations	**(6 291)**	**(2 544)**
Proceeds from disposal of non-financial assets	6 998	1 727
Payments for acquisition of non-financial assets	(1 650)	(751)
Cash from investing activities	**5 348**	**976**
Net (decrease) in cash	**(943)**	**(1 568)**
Cash at the beginning of the reporting period	7 849	9 417
Cash at end of the reporting period	**6 906**	**7 849**

Comment

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and the Balance Sheet sections of this chapter.

FINANCIAL ANALYSIS – Treasury and Finance

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		959	(862)
Operating margin	>1.0	1.01	0.99
Financial Management			
Debt collection	30 days	23	26
Creditor turnover	30 days	1	3
Other Information			
Staff numbers (FTEs)		324	316
Average staff costs ($'000s)		63	62
Average leave balance per FTE ($'000s)		14	14

Comment

Results from operations exclude the Gain on sale of non-financial assets, but includes proceeds from the disposal of surplus property to CLAF, noted previously, thereby distorting the 2005-06 Result.

Staff numbers have increased over the last two years to provide additional resources to satisfy the changing needs of the Department's key stakeholders.

ADDITIONAL FINANCIAL INFORMATION

Administered Transactions

Administered transactions are those that the Department manages on behalf of the whole of Government. These transactions are shown in the Department's Administered Statements and comprise the activities of Finance-General. The Administered Income and Expenses and Administered Balance Sheet include an additional column showing the impact on Finance-General of the move to Australian equivalents to International Financial reporting Standards (AIFRS), the impact of which was significant.

Administered Income and Expenses – Finance-General

	2005-06 AIFRS $'000	**2004-05 AIFRS** $'000	**2004-05 AGAAP** $'000
Revenue from government - recurrent	501 124	536 880	536 880
Revenue from government - capital	0	75 909	75 909
Revenue from government - other	16 570	8 672	8 672
Australian Government grants	1 629 058	1 725 822	1 725 822
State Taxation	729 481	698 649	698 649
User charges	21 252	17 140	17 140
Interest revenue	35 392	49 066	49 066
Revaluation of equity investments	101 566	0	0
Other revenue	306 189	285 212	285 212
Loss on sale of non-financial assets	(721)	(204)	(302)
Total Revenue	**3 339 911**	**3 397 146**	**3 397 048**
Superannuation	(56 000)	648 643	164 464
Depreciation and amortisation	16 666	12 712	12 437
Grants and subsidies	247 529	248 726	248 726
Borrowing costs	30 516	51 248	51 248
Revaluation of equity investments	0	368 745	534 284
Impairment losses	88	0	0
Other expenses	87 112	76 878	76 878
Total Expenses	**325 911**	**1 406 952**	**1 088 037**
Net Surplus	**3 014 000**	**1 990 194**	**2 309 011**
Transfer to the Consolidated Fund	2 508 177	2 638 746	2 638 746
Net Surplus (Deficit) Attributable to the State	**505 823**	**(648 552)**	**(329 735)**

Comment

The adoption of AIFRS caused a significant decrease in the 2004-05 net surplus before transfers to Consolidated Fund from $2.309bn to $1.990bn, a decrease of $318.640m due to:

- The increase in the superannuation expense of $484.179m. This arose primarily because the new accounting standards required the application of a lower discount rate, inclusion of contributions tax and changes to other actuarial factors; offset by
- A decrease of $165.539m in the expense relating to Revaluation of equity investments (being investments in Government Business Enterprises (GBEs) and State Owned Corporations (SOCs)). As outlined in my 2004-05 Report No 2, Volumes One and Two, the expense in 2004-05 under the previous accounting standard of $534.248m was primarily due to a downward valuation by Hydro Tasmania of its generation assets. The revaluation expense prepared under AIFRS at 30 June 2005 decreased to $368.745m primarily because the negative impacts of the new standards on GBEs and SOCs (recognising actuarial movements in net unfunded superannuation liabilities and higher deferred tax liabilities) were accounted for on transition to the new standards on 1 July 2004 which had the effect of reducing the actual 2004-05 expense.

Conversely, Finance-General generated a net surplus in 2005-06 of $3.014bn compared to $1.990bn in 2004-05 (both under AIFRS). The main reason for this significant increase is due to:

- A major decrease in the superannuation expense caused mainly by an increase in the discount rate applied and strong investment performance by fund assets; and
- An increase in the carrying amount of Finance-General's investment in GBEs and SOCs due to:
  - In the main, operating profits achieved by them particularly the MAIB;
  - The positive impact of the sale of Spirit of Tasmania III; and
  - Decreases in the superannuation liabilities of these entities for reasons similar to the decrease for the General Government Sector (GGS).

Commentary below focuses on line-by-line variations in the Administered operating results.

Revenue from government – recurrent decreased by $35.756m in 2005-06 mainly due to a decreased debt servicing cost funding, $40.900m, and a reduction in the equity contribution to the TT-Line, $15.000m, offset by increases in interest credited to accounts in the Special Deposits and Trust Fund, $10.600m, and miscellaneous payments, $5.900m.

Revenue from government – capital in 2005-06 was nil. Amounts for 2004-05 consisted of appropriation for the capital investment program, with the essential maintenance component of this program now devolved to agency recurrent budgets. The amount in 2004-05 included a one-off amount for the Better Roads Fund, $60.000m, and the Royal Hobart Hospital Redevelopment.

Revenue from government – other represents the Consolidated Fund surplus transferred, at 30 June each year to the T900 Temporary Debt Repayment Account.

Australian government grants in 2005-06 consisted of:

Specific

- Loan Agreement, $22.379m;
- Pension Concessions, $6.275m;
- Local Government Grants, $53.400m;
- Tasmanian Community Forest Agreement, $23.992m; and

General

- GST Revenue, $1 503.956m; and
- National Competition Policy Payments, $19.056m.

The reduction in these grants compared to 2004-05 was largely due to the Health Care Grant (2004-05, $178.764m) being transferred from Finance-General to the Department of Health and Human Services from 2005-06, offset by an increase in GST Revenue, $60.282m.

State taxation in 2005-06 was higher than the prior year amount, mainly due to increases in:

- Payroll tax, $30.539m, reflecting an increase in employment in the payroll tax paying sector and wage increases; and
- Land tax, $5.488m, corresponding with general increases in land values.

The increase in User charges in 2005-06 was related to an increase in the motor vehicle fleet.

Interest revenue decreased considerably during 2005-06 primarily due to early repayment of debt, which resulted in a reduction in cash available for investment.

The Revaluation of equity investments of $101.566m in 2005-06 reflects increases in net assets of GBEs and SOCs. Likewise the expense of $368.745m in 2004-05 reflected a net decrease on revaluation of these investments.

Other revenue in 2005-06 exceeded that of the prior year due to:

- Increased dividends from GBEs and SOCs, $14.764m;
- Revaluation revenue of $5.929m, recognised on the receipt of $57.100m from the Australian Government for the superannuation liability for former Australian National Railways employees;
- Receipt of an upfront fee from Betfair, $5.000m; and
- Receipt of the refund of an infrastructure fund payment to the Launceston City Council for the Aquatic Centre in 2004-05, $8.018m, as the Council did not meet the requirements of the grant.

Offset by:

- A decrease in the special dividend from Hydro Tasmania, $9.400m; and
- Guarantee fees being reclassified to State Taxation, $7.411m.

The Superannuation expense calculation is based on the movement in the superannuation liability calculated from actuarial valuations. An actuarial re-assessment, based on the revised accounting standards under AIFRS resulted in a favourable movement in the provision caused by changes in discount rates and an increase in the value of contributory scheme assets. The negative amount of $56.000m in 2005-06 represents a reduction of the liability in that year.

The Depreciation expense relates to Government-owned buildings and the motor vehicle fleet. The increase in 2005-06 resulted from property transferred from the Hobart Ports Corporation Pty Ltd and an increase in motor vehicles.

Grants and subsidies in 2005-06 included:

- Special Capital Investment Fund, $99.360m;
- Local Government, $53.400m;
- First Home Ownership Scheme, $18.538m;
- Tasmanian Community Forest Agreement, $27.980m;
- Equalisation payments and subsidies, $14.062m; and
- Payments under *Local Government (Rates and Charges Remissions) Act 1991*, $14.955m.

Borrowing costs decreased by $20.732m in 2005-06 due primarily to the repayment of maturing debt totalling $250.149m.

The increase in Other expenses in 2005-06 was primarily due to increases in Contributions to authorities, which were:

- TOTE Tasmania, $5.000m, being Betfair's payment for the transfer of the Racing Industry's share of Betting Exchange levies and taxes;
- Contribution to Forestry Tasmania, $2.100m, relating to the Helsham Agreement; and
- Refund to Forestry Tasmania, $3.525m, being a refund of Income Tax Equivalent overpaid during 2004-05 that could not be quantified until the latter part of the year.

Transfers to the Consolidated fund includes the transfer of State taxation and Australian Government revenues.

Administered Assets and Liabilities – Finance-General

	2005-06 AIFRS $'000	2004-05 AIFRS $'000	2004-05 AGAAP $'000
Financial Assets			
Cash and deposits	543 503	534 428	534 428
Receivables	81 949	56 239	56 239
Other financial assets	259 007	272 748	276 639
Non-financial Assets			
Assets held for sale	4 615	1 449	100
Equity investments	3 042 282	2 894 224	3 774 886
Motor vehicles	63 617	56 439	57 828
Land and buildings	63 080	45 015	45 015
Infrastructure	23 573	23 331	23 331
Other non-financial assets	2 887	3 891	0
Total Assets	**4 084 513**	**3 887 764**	**4 768 466**
Liabilities			
Payables	1 279	448	448
Interest bearing liabilities	328 551	590 931	590 930
Superannuation	3 183 893	3 308 124	2 292 241
Other liabilities	456 031	368 728	368 728
Total Liabilities	**3 969 754**	**4 268 231**	**3 252 347**
Net Assets (Liabilities)	**114 759**	**(380 467)**	**1 516 119**
Asset revaluation reserve	0	0	19 885
Accumulated funds/(deficits)	114 759	(380 467)	1 496 234
Total Equity (Deficit)	**114 759**	**(380 467)**	**1 516 119**

Comment

The impact of the adoption of the new accounting standards on the balance sheet of Finance-General was a decrease in administered equity of $1.897bn caused by:

- the increase in the Superannuation liability by $1.016bn; and
- the decrease in the Equity investments by $880.662m.

In the main the reasons for these significant decreases were due to the changes to actuarial assumptions applied in determining the GGS and GBE/SOC Superannuation liabilities and changes arising from new income tax standards.

Conversely, and as outlined in the commentary dealing with Administered Income and Expenses, equity improved by $495.226m at 30 June 2006 due to the net administered surplus of $505.823m. Line by line reasons for the impact of this on the Administered Balance Sheet are noted below.

Net Assets increased from a liability of $380.467m at 30 June 2005 to a surplus of $114.759m at 30 June 2006. The main factors contributing to this were:

- Receivables increasing by $25.710m in 2005-06. Receivables consist mainly of State Taxes, but also include interest on loans to public bodies and other recoveries. Amounts for 2005-06 included $18.000m owing by the Australian Government Department of Agriculture, Fisheries and Forestry for the Tasmanian Community Forest Agreement;

- Assets held for sale increasing by $3.166m in 2005-06, reflecting the listing of 171 Westbury Road, Prospect;
- Equity investments increasing by $148.058m in 2005-06. These investments consist of the State's ownership in GBEs and SOCs and the changing values are principally due to increases in the net assets of:
  - Aurora Energy Pty Ltd, $29.976m;
  - Transend Networks Pty Ltd, $34.934m;
  - TT-Line Pty Ltd, $79.503m;
  - Forestry Tasmania, $13.838m;
  - Motor Accidents Insurance Board, $75.931m; and
  - Tasmanian Public Finance Corporation, $6.606m;

  offset by decreases in:
  - Hydro Tasmania, $81.665m; and
  - Rivers and Water Supply Commission, $23.843m.
- Motor vehicles increasing by $7.178m in 2005-06 due mainly to the acquisition of 171 additional vehicles, including 119 for medical officers in the Department of Health and Human Services;
- Land and buildings increasing by $18.065m in 2005-06 resulting from property being transferred from the Hobart Ports Corporation Pty Ltd on amalgamation of the four port corporations, forming the Tasmanian Ports Corporation Pty Ltd;
- Infrastructure consists of the optic fibre cable purchased by the State in 2002-03 for $23.061m plus costs capitalised since then;
- Interest bearing liabilities decreasing by $262.380m in 2005-06. This decrease was due to the repayment of three large loans from Tascorp, together with the final repayment of Financial Agreement Debt to the Australian Government; and
- Superannuation decreasing by $124.231m in 2005-06 mainly due to the actuarial estimation noted previously. In 1999 the State Government made significant reforms to superannuation arrangements, including the closure of defined benefit schemes, and capped the unfunded liability. It was accepted, however, that the unfunded liability would continue to increase for a number of years (as salaries increased and members worked additional years of service), but that eventually this liability would decline as membership of the closed schemes declines. It is now estimated that the unfunded liability will be eliminated by 30 June 2033.

The effects of the foregoing were offset in part by:

- Other liabilities increasing by $87.302m in 2005-06. The increase mainly resulted from:
  - An increase in cash held within the Special Deposits and Trust Fund (SDTF) by other agencies, $74.644m;
  - An increase in the Tasmanian Risk Management Fund liability as per the actuarial valuation, $13.777m; and

- Section 8A Carry forwards, $5.625m;

  offset by

  - A decrease in interest payable, $8.156m; and

- Other financial assets decreasing by $13.741m, primarily due to the removal of true trust accounts, including the Tasmanian Community Fund, $8.052m, in accordance with the Treasurer's Instructions. In addition, Non-Financial Agreement Debt for Housing and loans made under various Acts of Parliament and to State Authorities, are gradually declining as repayments are being made.

Administered Cash Flows – Finance General

	2005-06 AIFRS $'000	**2004-05 AIFRS** $'000
Receipts from government - recurrent	523 319	536 880
Receipts from government - capital	0	75 909
Australian Government grants	1 611 058	1 725 822
Taxation	715 515	693 295
GST receipts	17 379	15 527
Interest received	35 641	47 427
Dividends and income tax equivalents received	160 884	166 779
Other cash receipts	174 669	155 237
Superannuation	(119 401)	(115 743)
Borrowing costs	(38 672)	(54 018)
GST payments	(16 655)	(16 298)
Grants and subsidies	(247 663)	(248 722)
Transfers to the Consolidated Fund	(2 508 177)	(2 638 868)
Other cash payments	(73 064)	(62 030)
Cash from operations	**234 833**	**281 197**
Proceeds from disposal of non-financial assets	24 265	26 320
Repayment of loans by other entities	5 892	9 706
Receipts from investments	7 994	0
Other cash receipts	2 137	0
Payments for acquisition of non-financial assets	(47 548)	(42 246)
Payments for investments	0	(99 243)
Cash (used in) investing activities	**(7 260)**	**(105 463)**
Other cash receipts	51 171	0
Repayment of borrowings	(255 239)	(234 095)
Other cash payments	(14 430)	(7 294)
Cash (used in) financing activities	**(218 498)**	**(241 389)**
Net increase/(decrease) in cash	**9 075**	**(65 655)**
Cash at the beginning of the period	534 428	600 083
Cash at end of the period	**543 503**	**534 428**

Comments

The introduction of the new accounting standards did not impact Administered Cash Flows.

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously under the Administered Income and Expenses and the Administered Assets and Liabilities sections of this chapter.

Cash at the end of the period consists of balances within the SDTF excluding true trust accounts.

OVERALL COMMENT

The audit was completed satisfactorily with no major issues outstanding.

3 SUPERANNUATION FUNDS

INTRODUCTION

A number of different superannuation arrangements operate in the Tasmanian public sector for public sector employees and members of Parliament.

Superannuation may be provided in a number of ways:

- *Defined benefit:* Such a scheme has benefits that accrue on resignation or retirement or death, and are predetermined according to a formula established in the scheme's rules or regulations. The employer's contributions will vary depending on the performance of the underlying investments and the lifespan of the pensioners, as well as the salary of the contributing employees immediately before their retirement;
- *Accumulation:* Under this scheme the employer's contribution is fixed according to the scheme's rules. The end benefit consists of the accumulated contributions by the employer and employee, together with the investment earnings on the contributions;
- *Unfunded:* An unfunded scheme is one in which the employer financed benefit component is met on an 'emerging costs' basis when the employee becomes entitled to receive his or her payout, and without any money set aside in the scheme by the employer for that individual's benefit; and
- *Funded:* In this type of scheme the employer makes a regular contribution to the fund reflecting the currently accruing liability in regard to employees.

The Retirement Benefits Fund Board (RBFB) is responsible for the management and administration of the Funds established under the *Retirement Benefits Act 1993*, *Retirement Benefits Regulations 1994*, the *Public Sector Superannuation Reform Act 1999*, and the *Retirement Benefits (Parliamentary Superannuation) Regulations 2002.*

The fully funded Tasmanian Accumulation Scheme (TAS) was established under the provisions of the *Public Sector Superannuation Reform Act 1999* and replaced the unfunded RBF non-contributory scheme on 25 April 2000. The Fund now has two Schemes (Contributory and Tasmanian Accumulation Scheme - TAS) and an Investment Account, each of which have separate financial statements and specific governing rules within the Regulations. The Contributory Scheme has been closed to new members since 15 May 1999.

The *Retirement Benefits (Parliamentary Superannuation Trustee Arrangements and Miscellaneous Amendments) Act 2002* received Royal Assent on 27 November 2002 with effect from 1 January 2003. This resulted in the Parliamentary Superannuation Fund and the Parliamentary Retiring Benefits Fund being transferred to the RBF as sub-funds and the RBFB becoming the corporate Trustee of these sub-funds.

The *Retirement Benefits (Parliamentary Superannuation) Regulations 2002* also commenced on 1 January 2003. The purpose of these regulations was to ensure that equivalent rights continued to be provided to members of the Parliamentary Funds upon their incorporation as sub-funds of the RBF.

The *Retirement Benefits (Tasmanian Ambulance Service Superannuation Scheme) Act 2006* received Royal Assent on 26 June 2006 with effect from 30 June 2006. This resulted in the Fund being transferred to the RBF as a sub-fund and the RBFB becoming the corporate Trustee of this sub-fund.

The *Retirement Benefits (State Fire Commission Superannuation Scheme) Act 2006* received Royal Assent on 24 June 2005 with effect from 1 May 2006. This resulted in the Fund being transferred to the RBF as a sub-fund and the RBFB becoming the corporate Trustee of this sub-fund.

The financial statements for the Contributory Scheme (as well as for the State's six other superannuation schemes included elsewhere in this Report) are prepared in accordance with Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans*. Note that in the case of the Contributory Scheme and the other two defined benefit schemes, this Standard does not require the preparation of a cash flow statement. All statements were AIFRS compliant.

In summary the RBFB manages the following:

Incomes, expenses, net assets and member benefits	**2005-06 $m**	**2004-05 $m**
Investment revenues	341.9	264.5
Contributions from members, employers and transfers	510.7	392.3
Benefits paid	344.8	307.2
Administration expenses	20.35	20.09
Net assets under management	2 759.2	2 203.2
Total liability for accrued benefits	3 918.2	3 918.2
Total unfunded superannuation liability	2 743.4	2 727.5
Total vested benefits	4 611.2	4 286.3

2005-06 includes benefits transferred with the acquisition of the Tasmanian Ambulance Service Superannuation Scheme and State Fire Commission Superannuation Scheme. These are discussed in their respective chapters which follow.

RBF is not responsible for managing the whole of Government unfunded liability. This liability is met on an emerging cost basis. The Contributory Scheme represents the largest portion of this unfunded liability.

RESPONSIBLE MINISTER

The Responsible Minister is the Treasurer.

3.1 PARLIAMENTARY RETIRING BENEFITS FUND

INTRODUCTION

The Parliamentary Superannuation and Retiring Benefits Trust was responsible for the management and administration of the Fund established under the *Parliamentary Retiring Benefits Act 1985*.

The Parliamentary Retiring Benefits Fund (PRBF) was closed to new members as at 1 July 1999 with the Retirement Benefits Fund being the default scheme for their superannuation.

Legislation was enacted by Parliament in 2002 to facilitate the winding up of PRBF and transfer of funds to a sub-fund of the Retirement Benefits Fund Board (RBFB) effective from 1 January 2003. This sub-fund prepares an annual financial report for audit and inclusion in the annual report of the RBFB and it retains its status as a defined benefits scheme.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed statements were received on 20 October 2006 and an unqualified audit opinion was issued on the 24 October 2006.

FINANCIAL RESULTS

STATEMENT OF CHANGES IN NET ASSETS

	2005-06	**2004-05**
	$'000s	$'000s
Investment income	499	460
Changes in net market values	664	475
Direct investment expense	(42)	(31)
Employer contributions	442	517
Member contributions	172	184
Other revenue	1	408
Total Revenue	**1 736**	**2 013**
Lump sum benefits paid	838	390
General operating fees	178	124
Superannuation contributions surcharge	31	48
Total Expenses	**1 047**	**562**
Result from ordinary activities	**689**	**1 451**
Income tax expense	119	106
Result from ordinary activities after tax	**570**	**1 345**
Net Assets available to pay benefits at year start	6 896	5 551
Net Assets available to pay benefits at year end	**7 466**	**6 896**

Comment

The Fund performed well in 2005-06 as a result of strong investment returns of $1.164m in the actively managed portfolio. The decline in Employee and employer contributions revenue of $0.087m was due to the exiting of a member during the year. This is also reflected in the increase in Lump sums paid.

Other revenue was high in 2004-05 due to a one-off group life recovery receipt.

STATEMENT OF NET ASSETS

	2005-06 $'000	2004-05 $'000
Cash at bank	0	0
Receivables	45	54
Investments	8 381	7 526
Other assets	1	2
Total Assets	**8 427**	**7 582**
Payables	486	359
General operating provision	199	100
Tax liabilities	276	227
Total Liabilities	**961**	**686**
Net Assets Available To Pay Benefits	**7 466**	**6 896**

Comment

The financial position of the PRBF remains stable, with a strong return on investments resulting in an increase in net assets. With the absence of new members this will gradually decline in future.

The liability for accrued benefits (scheme as a whole) when last determined by the State Actuary as at 30 June 2005 was $7.351m resulting in an unfunded liability as at 30 June 2005 of $0.455m. The liability for vested benefits (scheme as a whole) was $7.822m. The next actuarial review is to be conducted during 2007. Vested benefits, as at 30 June 2006 was $7.784m.

FINANCIAL ANALYSIS

	2005-06	2004-05
Financial Performance		
Investments ($'000)	8 381	7 526
Net Investment Income ($'000)	1 121	904
Return on investments	14.0%	13.2%

Comment

The strong investment performance is consistent with expectations and with the general performance of the markets in recent years.

OVERALL COMMENT

The PRBF's performance will be affected by the lack of new members. This results in fewer members available to share increasing administration costs. Nevertheless, as a defined benefit scheme, any unfunded liability must be met over time from the Consolidated Fund by appropriations through Finance-General.

The 2005-06 audit was completed with satisfactory results.

3.2 PARLIAMENTARY SUPERANNUATION FUND

INTRODUCTION

The Parliamentary Superannuation and Retiring Benefits Trust was responsible for the management and administration of the Fund established under the *Parliamentary Superannuation Act 1973*.

The Parliamentary Superannuation Fund (PSF) was closed to new members as at 11 November 1985 with the Retirement Benefits Fund being the default scheme for their superannuation.

Legislation was enacted by Parliament in 2002 to facilitate the winding up of the PSF and transfer funds to a sub-fund of the Retirement Benefits Fund effective from 1 January 2003. This sub-fund prepares an annual financial report for audit and inclusion with the annual report of the Retirement Benefits Fund Board.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed statements were received on 20 October 2006 and an unqualified audit opinion was issued on 24 October 2006.

FINANCIAL RESULTS

STATEMENT OF CHANGES IN NET ASSETS

	2005-06	**2004-05**
	$'000	$'000
Investment income	393	382
Changes in net market values	523	405
Direct investment expense	(34)	(27)
Employer contributions	950	997
Member contributions	34	32
Total Revenue	**1 866**	**1 789**
Pensions	1 294	1 236
Administration expenses	(2)	116
Superannuation contributions surcharge	0	(2)
Total Expenses	**1 292**	**1 350**
Result from ordinary activities	**574**	**439**
Income tax benefit/(expense)	(155)	(8)
Result after income tax	**419**	**431**
Net Assets available to pay benefits at year start	6 002	5 571
Net Assets available to pay benefits at year end	**6 421**	**6 002**

Comment

The Fund performed well in 2005-06 as a result of strong investment returns and increases in net market values in the actively managed portfolio. Returns on international shares were the main driver in the increase in market values.

BALANCE SHEET

	2005-06	2004-05
	$'000	$'000
Cash at bank	0	0
Receivables	75	28
Investments	6 733	6 260
Other assets	0	1
Total Assets	**6 808**	**6 289**
Payables	17	30
General operating provision	150	187
Tax liabilities	220	70
Total Liabilities	**387**	**287**
Net Assets Available To Pay Benefits	**6 421**	**6 002**

Comment

The financial position of the PSF remains stable, with a strong return on investments resulting in an increase in net assets. With the absence of new members net assets will gradually decline in future.

The liability for accrued benefits (scheme as a whole) when last determined by the State Actuary as at 30 June 2005 was $17.840m resulting in an unfunded portion of accrued benefits of $13.023m. The liability for vested benefits (scheme as a whole) was $18.442m. The next actuarial review is to be undertaken in 2007. Vested benefits, as at 30 June 2006 was $18.925m.

FINANCIAL ANALYSIS

	2005-06	2004-05
Financial Performance		
Investments ($'000)	6 733	6 260
Net investment income ($'000)	882	760
Return on investments	13.5%	12.7%

Comment

As with most small funds, the PSF performance varies considerably depending on the volatility of the investment market and the amounts of benefits paid out in any one financial year. The strong return on investments during the year is consistent with expectations and the performance of markets in general.

OVERALL COMMENT

The Fund’s growth and performance will be affected by the lack of new members. Nevertheless, as a defined benefit scheme, any unfunded liability must be met over time from the Consolidated Fund by appropriations through Finance-General.

The 2005-06 audit was completed with satisfactory results.

3.3 RETIREMENT BENEFITS FUND BOARD – CONTRIBUTORY SCHEME

INTRODUCTION

Members of the Contributory Scheme, a defined benefits scheme, receive benefits based on their final average salary, years of service and contribution rate. Regulation 90 provides that the Treasurer or the relevant State Employing Authority is to meet a proportion of the costs of benefits paid by the Board. Based on actuarial advice, the proportion payable by the Treasurer and State Authorities as from 1 July 1996 has generally been 70%, with the balance of 30% being met by the Board.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 20 October 2006 and an unqualified audit report was issued on 24 October 2006.

FINANCIAL RESULTS

STATEMENT OF CHANGES IN NET ASSETS

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$'000	$'000	$'000
Investment revenue	86 909	77 423	77 423
Change in net market value of investments	111 346	86 873	86 873
Direct investment expense	(4 350)	(5 119)	(5 119)
Employer contributions	136 023	127 901	127 901
Member contributions	53 742	58 570	58 570
Other revenue	(1 826)	255	255
Change in net market value of other assets	0	(1 977)	(1 977)
Total Revenue	**381 844**	**343 926**	**343 926**
Pensions	144 666	137 509	137 509
Lump sums	54 897	55 474	55 475
Refunds and interest	999	518	518
Administration expenses	7 373	10 104	8 504
Superannuation contributions surcharge	797	1 026	1 026
Total Expenses	**208 732**	**204 631**	**203 032**
Surplus Before Tax	**173 112**	**139 295**	**140 894**
Income tax expense/(benefit)	(9 715)	(11 069)	(10 830)
Surplus after tax	**182 827**	**150 364**	**151 724**
Net Assets available to pay benefits at start of year	1 252 013	1 101 649	1 101 649
Net Assets Available to Pay Benefits at End of Year	**1 434 840**	**1 252 013**	**1 253 373**

Comment

The $1.360m decrease between the Net assets available to pay benefits in 2004-05 under AGAAP, $1 253.373m, and that reported under AIFRS, $1 252.013m, is entirely due to the valuation of defined benefit superannuation liabilities under AASB 119 *Employee Benefits*. An increase in superannuation expenses of $1.600m is reflected in Administration expenses offset by a resultant tax effect increasing the Income tax benefit by $0.239m. AIFRS adjustments only effect the Contributory Scheme and are thus not reflected in any of the other schemes.

Net surplus after tax in 2005-06 was $182.827m, an increase of $32.463m over the prior year surplus after tax of $150.364m. This was primarily due to increases in Investment revenue, $9.486m, Changes in net market values of investments, $24.473m, and Contribution revenue, $3.294m, offset by an increase in benefits paid comprising Pensions, Lump sums and Refunds and interest totalling $6.580m.

Investment revenue includes interest, dividends, distributions and property rentals. The main contributors to the increase in this source of revenue were interest, $4.041m, and dividends, $6.699m.

The improved Change in net market value of investments was primarily due to strong growth in international shares and property and alternative investments held at year-end.

Employer contributions as a percentage of pensions and lump sums, otherwise known as “the Employer Funding Share”, has remained reasonably constant. The decrease in member contributions is reasonable given this is a closed scheme and corresponds with fewer member upgrades.

Other revenue is negative and due to the inclusion of the decrease in value of other assets. As all the Fund’s assets are recorded at market value accounting standards require that the movement in the value of these assets is disclosed as Other revenue.

Administration expenses decreased during 2005-06 by $2.731m. Partly responsible for this is the AIFRS effect as noted previously:

	$m	**$m**
Administration expenses	7 373	10 104
AIFRS adjustment		(1 600)
Total	**7 373**	**8 505**

This shows the effective decrease in Administration expenses to be $1.131m. This was due to changes in cost allocations, an increase in capitalisation of project costs and other economies being identified.

The income tax expense is actually a benefit for both years as deductions and tax offsets exceeded what was assessable for the Scheme. This result is due to the use of pre-July 1988 funding credits, having exempt investment income due to pension liabilities and imputation credits. Consequently a refund is shown as being owed to the Scheme.

STATEMENT OF NET ASSETS

	2005-06 AIFRS $'000	2004-05 AIFRS $'000	2004-05 AGAAP $'000
Cash at bank	3 600	4 092	4 092
Contributions and pensions receivable	4 221	3 515	3 515
Income receivable	1 235	397	397
Other receivables	13 208	21 344	21 344
Investments	1 477 550	1 274 775	1 274 775
Property, plant and equipment	7 722	6 117	6 117
Deferred tax asset	2 103	2 329	1 747
RBF-TAS Planning Pty Ltd	108	100	100
Total Assets	**1 509 747**	**1 312 669**	**1 312 087**
Other Payables	28 480	18 680	18 680
Contributions and pensions payable	52	243	243
Contributions in advance	10 991	10 420	10 420
Provision for employee entitlements	13 744	13 855	9 974
Provision for deferred tax liability	18 320	14 537	14 537
Superannuation contributions surcharge payable	3 320	2 921	2 921
Total Liabilities	**74 907**	**60 656**	**56 775**
Net Assets Available to Pay Benefits	**1 434 840**	**1 252 013**	**1 255 312**

Comment

Upon the introduction of the new accounting standards in 2004-05, Net assets decreased by $3.299m due primarily to an increase in the provision for employee superannuation of $3.881m, offset by the resultant tax effect this had of $0.582m, increasing the Deferred tax asset.

Net assets increased by the Net surplus of $182.827m in 2005-06, primarily due to the strong investment returns noted previously. Total investments increased by $202.775m representing a growth of 15.9%. This was offset mainly by:

- A decrease in Other receivables of $8.136m due to a decrease in income tax refunds;
- An increase in Other payables of $9.800m due to higher interfund payables as part of monthly rebalancing of asset allocations between funds; and
- An increase of $3.783m in the assessed provision for deferred tax liability primarily rising from timing differences relating to increased unrealised investment income and accrued contributions.

The Contributory Scheme's Statement of Net Assets represents the assets available to pay member's benefits. The Accrued and Vested benefits for the Scheme were reviewed in 2004-05 and are disclosed in notes of the statement. As at 30 June 2005, the Accrued liability and liability to be funded from scheme assets were $3.893bn and $1.179b respectively. Thus the unfunded liability is $2.714bn, which will be expected to be funded by the State Government on an emerging costs basis. As at 30 June 2005, Vested liability and liability to be funded from scheme assets were $4.260bn and $1.253bn respectively. The next actuarial review is to be undertaken during 2007. Vested benefits, as at 30 June 2006 was $4.502bn.

Amounts for both accrued and vested benefits at 30 June 2005 were determined in accordance with the methodology required by AAS 25 *Financial Reporting by Superannuation Plans*.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Investments ($'000)		1 477 550	1 274 775
Net investment income ($'000)		193 905	159 177
Return on investments	7.5%	14.1%	13.3%
Other Information			
Members		12 521	13 158

Comment

Total funds under management increased by $202.775m, from $1.275bn in 2004-05 to $1.478bn in 2005-06.

The increase in net investment income for 2005-06 reflected the strong performance of the international shares discussed previously.

Return on investments represents a return on average net investments for any given year. Both years show solid performance consistent with the performance of investment markets in recent years and well above the bench mark being the Board's three year objective.

OVERALL COMMENT

The 2005-06 audit was completed with satisfactory results.

3.4 RETIREMENT BENEFITS FUND BOARD – INVESTMENT ACCOUNT

INTRODUCTION

The Investment Account is an accumulation scheme, fully funded by members. Member Investment Choice (MIC) allows members the ability to select and construct their portfolio from fourteen different investment options.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 20 October 2006 and an unqualified audit report issued on 24 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06	**2004-05**
	$'000	$'000
Investment revenue	48 476	39 596
Changes in net market values	54 730	36 422
Direct investment expenses	(3 061)	(1 780)
Employer contributions	40 090	35 444
Member contributions	63 653	54 255
Transfers from other funds	103 299	84 548
Total Revenue	**307 187**	**248 485**
General operating fee	8 417	6 615
Superannuation contributions surcharge	824	487
Total Expenses	**9 241**	**7 102**
Benefits Accrued Before Tax	**297 946**	**241 383**
Income tax expense	(10 717)	(8 046)
Benefits Accrued as a Result of Operations	**287 229**	**233 337**
Benefits paid	(91 327)	(80 704)
Liability for accrued benefits at year start	660 428	507 795
Liability for Accrued Benefits at Year End	**856 331**	**660 428**

Comment

Benefits accrued as a result of operations $287.229m, was an increase of $53.892m over the prior year of $233.337m. This was primarily due to an increase in Investment revenue, $8.880m, Changes in net market values of investments, $18.308m, Contribution revenue, $14.044m, and transfers in from other funds, $18.751m.

Investment revenue increased significantly as a result of increased investment funds and strong investment returns, particularly in international shares.

The majority of the movement in the Changes in net market values of investments was due to an increase in unrealised gains of $18.121m, predominantly in international shares, increasing $12.513m.

The $9.398m increase in Member contributions for 2005-06, was the result of higher levels of salary sacrifice by member employees while the increase in Employee contributions was the result of higher levels of voluntary contributions including co-contributions, membership growth, spouse accounts and rollovers from members' other superannuation funds.

Transfers in consist of internal (eg Contributory scheme) and external rollovers into the Investment Account. The increase in these contributions can be partly attributed to transfers in from the State Fire Commission Superannuation Scheme of $9.352m and Tasmanian Ambulance Service Superannuation Scheme of $1.768m.

The Investment Account deducts from members an administration and taxation fee based upon set percentages. This is disclosed as the general operating fee. The increase in this fee was mainly due to a significant increase in the taxation component due to improved investment returns. The Contributory Scheme of the Fund pays the operating expenses of all of RBFB's administration. The Investment Account reimburses the Contributory scheme from the General operating provision based upon an activity-based costing model.

BALANCE SHEET

	2005-06	**2004-05**
	$'000	$'000
Cash at bank	1 049	1 311
Interest receivable	10	179
Other receivables	33 012	16 649
Investments	852 556	663 459
Other assets	40	168
Total Assets	**886 667**	**681 766**
Other payables	93	90
Contributions payable	1 657	1 505
General operating provision	15 045	9 420
Provision for income tax	7 593	6 882
Provision for deferred income tax	5 948	3 441
Total Liabilities	**30 336**	**21 338**
Net Assets Available To Pay Benefits	**856 331**	**660 428**
Represented by:		
Liability for Accrued Benefits		
Allocated to members accounts	832 231	648 154
Not yet allocated	24 100	12 274
Total Liability For Accrued Benefits	**856 331**	**660 428**

Comment

Net assets available to pay benefits increased by $195.903m in 2005-06 primarily due to the strong investment returns noted previously. Total investments increased by $189.097m representing a growth of 28.5%. Reasons for the increase in Investments were discussed previously in the Income Statement section. Other movements included:

- An increase in Receivables of $16.363m being fluctuations in interfund transfers; offset by
- Increases in the General operating provision mainly due to income tax on improved performance; and
- A timing difference increase of $2.507m in the deferred tax liability.

CASH POSITION

	2005-06	2004-05
	$'000	$'000
Employer contributions	40 090	35 444
Member contributions	63 806	53 957
Transfers from other funds	103 299	84 548
Interest received	2 795	7 041
Dividends received	1 784	1 552
Benefits paid	(91 327)	(80 704)
Income tax paid	(7 372)	(1 097)
Direct investment expenses	(2 797)	(1 648)
Interfund transfers	(16 364)	(12 268)
Operating fees paid	(2 884)	(2 935)
Superannuation contribution surcharge	(821)	(366)
Cash from operations	**90 209**	**83 524**
Proceeds from the sale of investments	218 965	184 775
Payments for purchase of investments	(287 710)	(267 245)
Cash (used in) investing activities	**(68 745)**	**(82 470)**
Net increase in cash	**21 464**	**1 054**
Cash at the beginning of the period	77 916	76 862
Cash at end of the period	**99 380**	**77 916**

Comment

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and the Balance Sheet sections of this chapter. The higher amount of Benefits paid is largely due to increased withdrawals by members as the scheme grows.

Cash on hand will vary as this amount is determined by the member investment choice allocation between different types of investments of varying liquidity and risk appetite. The cash position of the Investment Account will, therefore, fluctuate in line with members' investment strategies.

Members can choose to invest in one investment option or in a number of options and can switch between options as often as they like. Members who do not choose an investment option will have their investments in the default investment option, RBF Actively Managed.

FINANCIAL ANALYSIS

Financial Performance	Bench Mark	2005-06	2004-05
Investments ($'000)		852 556	663 459
Net investment income ($'000)		100 145	74 238
Return on investments	7.5%	13.2%	12.7%
Other Information			
Members		55 328	49 669

Comment

Total funds under management increased $189.097m from $663.459m in 2004-05 to $852.556m in 2005-06.

The increase in net investment income for 2005-06 reflected the strong performance of the shares discussed previously. Member Investment Choice (MIC) allows members access up to 14 different investment options. Returns vary according to the MIC objective and potential risk exposure. The lowest risk and return was in RBF Cash with a crediting rate of 4.40% in 2005-06. The highest return was in State Street Australian Shares Index crediting a return of 20.23%. The crediting rate for the default MIC option, RBF Actively Managed, was 12.23%. (Crediting rates are after all fees and taxes in investment earnings have been deducted.)

The Return on investments in the table represents a return on average net investments for any given year before fees and taxes have been deducted. Both years show solid performance well above the bench mark, being the Board’s three year objective.

OVERALL COMMENT

The 2005-06 audit was completed with satisfactory results.

3.5 RETIREMENT BENEFITS FUND BOARD – TASMANIAN ACCUMULATION SCHEME

INTRODUCTION

The Tasmanian Accumulation Scheme (TAS) was established under the *Public Sector Reform Act* 1999 and commenced on 25 April 2000.

On 25 April 2000, the initial balances of TAS, being the account balances of the Non-Contributory Scheme at that date, were funded using surplus assets from the Contributory Scheme, adjusted to take account of the income taxation differences between the two Schemes.

TAS comprises three components being Superannuation Guarantee (Employer contribution currently 9%), and member funded Allocated Pensions and Term Allocated Pensions. Member Investment Choice (MIC) options are available to members.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 20 October 2006 and an unqualified audit report was issued on 24 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06	**2004-05**
	$'000	$'000
Investment income	22 156	17 548
Changes in net market values	25 659	16 737
Direct investment expense	(1 477)	(823)
Employer contributions	64 931	55 649
Member contributions	46 913	28 485
Other income	51	(44)
Total Revenue	**158 233**	**117 552**
General operating fee	4 335	3 131
Death and incapacity insurance	3 850	3 287
Superannuation contributions surcharge	453	127
Total Expenses	**8 638**	**6 545**
Benefits Accrued before Tax	**149 595**	**111 007**
Income tax expense	11 859	9 161
Benefits Accrued as a result of operations	**137 736**	**101 846**
Benefits paid	(50 788)	(31 381)
Liability for Accrued Benefits at year start	277 839	207 374
Liability for Accrued Benefits at year end	**364 787**	**277 839**

Comment

Benefits accrued as a result of operations, $137.736m, was an increase of $35.890m over the prior year of $101.846m. This was primarily due to an increases in Investment revenue, $4.608m, Changes in net market values of investments, $8.922m, Contribution revenue, $14.044m, offset by increases in expenditure of $2.093m and $2.698m in Income tax expense.

Australian and international shares were the major contributors to the improved investment revenue result. The increase in Changes in the net market values of investments was mainly due to an increase in unrealised gains, predominately in international shares.

Employer contributions increased in 2005-06 as a result of an increase in the number of members and salary increases. Member contributions includes an increase in revenues associated with allocated and term allocated pensions.

The TAS deducts from members an administration and taxation fee based upon set percentages. This is disclosed as the general operating fee. The Contributory Scheme of the Fund pays the operating expenses of all of RBFB's administration. The TAS reimburses the Contributory Scheme from the General operating provision based upon an activity-based costing model.

Benefits paid increased as a result of fund maturity, fund choice and greater competition.

BALANCE SHEET

	2005-06	2004-05
	$'000	$'000
Cash at bank	241	248
Interest receivable	16	97
Other receivables	205	5
Investments	400 201	300 105
Other assets	21	67
Total Assets	**400 684**	**300 522**
Payables	7 906	1 647
Provision for death and incapacity insurance	9 918	7 350
General operating provisions	5 975	3 607
Provision for income tax	10 073	9 032
Provisions for deferred income tax	2 025	1 040
Superannuation contribution surcharge payable	0	7
Total Liabilities	**35 897**	**22 683**
Net Assets Available To Pay Benefits	**364 787**	**277 839**
Represented by:		
Liability for Accrued Benefits		
Allocated to members accounts	349 267	270 198
Not yet allocated	15 520	7 641
Total Liability For Accrued Benefits	**364 787**	**277 839**

Comment

In 2005-06 Net assets available to pay benefits increased by $86.948m, primarily due to TAS' investment performance and growth in the number of investments and contributions made. Total investments increased by $100.096m representing a growth of 33.3% on the prior year. The trend of increasing membership will continue as contributors to the RBF Contributory Scheme retire and new State Service employees join TAS. Investments are also high due to the increasing contributions from employers. As this is an accumulation scheme, movements in the investments balance result in consequent changes in the liabilities for accrued benefits. This increase was offset mainly by:

- Increases in payables of $6.259m due to higher interfund payables as part of monthly rebalancing allocations between funds;
- An increase of $2.568m in the Provision for death and incapacity insurance as advised by the fund actuary determined in accordance with the Trust Deed;
- A higher General operating provision, $2.368m, due to a rise in general operating fees attributable to the increase in funds under management; and
- A rise in the Provision for income tax also due to the generally strong performance of the Scheme.

The Provision for death and invalidity insurance represents the accumulation of surpluses of the Death and Invalidity insurance arrangement of the Scheme. This scheme is a self-administrated insurance arrangement and has experienced strong membership growth and low expense claims which have contributed to successive surpluses. The Actuary reviews this insurance arrangement annually.

CASH POSITION

	2005-06 $'000	2004-05 $'000
Employer contributions	64 931	55 650
Member contributions	46 913	28 478
Other contributions	51	(44)
Interest received	1 347	2 640
Dividends received and property returns	861	731
Benefits paid	(50 927)	(31 290)
Direct investment expenses	(1 326)	(757)
Management fees paid	(2 012)	(2 185)
Income tax paid	(9 787)	(2 971)
Interfund transfers	6 198	(1 574)
Death and incapacity benefits paid	(1 281)	(1 040)
Superannuation contribution surcharge	(460)	(119)
Cash from operations	**54 508**	**47 519**
Proceeds from the sale of investments	104 533	84 269
Payments for purchase of investments	(145 938)	(126 393)
Cash (used in) investing activities	**(41 405)**	**(42 124)**
Net increase in cash	**13 103**	**5 395**
Cash at the beginning of the period	25 301	19 906
Cash at end of the period	**38 404**	**25 301**

Comment

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and the Balance Sheet sections of this chapter. The higher amount of Benefits paid is largely due to increased withdrawals by members as the scheme grows.

Cash on hand will vary as this amount is determined by member investment choice allocation between different types of investments of varying liquidity and risk appetite. The cash position of the Investment Account will, therefore, fluctuate in line with members' investment strategies.

FINANCIAL ANALYSIS

	2005-06	2004-05
Financial Performance		
Investments ($'000)	400 201	300 105
Net investment income ($'000)	46 338	33 462
Return on investments	13.2%	12.8%
Other Information		
Members	22 719	21 823

Comment

The increase in Net investment income for 2005-06 reflected the strong performance of the shares discussed previously. Member Investment Choice (MIC) allows members access to 14 different investment options. Returns vary according to the MIC objective and potential risk exposure. The lowest risk and return was in RBF Fixed Interest with a crediting rate of 2.76% in 2005-06. The highest return was in State Street Australian Shares Index crediting a return of 19.83%. The crediting rate for the default MIC option, RBF Actively Managed, was 12.62%. (Crediting rates are after all fees and taxes in investment earnings have been deducted.)

Return on Investments above represents a return on average net investments for any given year before fees and taxes have been deducted. Both years show solid performance which is consistent with the market as a whole.

OVERALL COMMENT

The 2005-06 audit was completed with satisfactory results.

3.6 RETIREMENT BENEFITS FUND BOARD – TASMANIAN AMBULANCE SERVICE SUPERANNUATION SCHEME

INTRODUCTION

The Tasmanian Ambulance Service Superannuation Scheme (TASSS) is a Defined Benefit Scheme. Membership was open to permanent employees of the Tasmanian Ambulance Service who were employed prior to 30 June 2006. The Scheme was closed to new members from 30 June 2006.

The TASSS was transferred to the Retirement Benefits Fund Board (RBFB) on 30 June 2006 under a Successor Fund arrangement. This arrangement involved the trustee, fund administration and investment functions of the scheme being transferred to the RBFB.

Accumulation entitlements in TASSS were rolled over to the Tasmanian Accumulation Scheme and deposited into the RBF Investment Account for one day's operation effective 30 June 2006.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 20 October 2006 and an unqualified audit report issued on the 24 October 2006.

FINANCIAL RESULTS

STATEMENT OF CHANGES IN NET ASSETS

	2005-06
	$'000
Transfers from other funds	32 622
Total Revenue	**32 622**
Benefits Paid	**486**
Net Assets Available to Pay Benefits	**32 136**

Comment

The Net assets available to pay benefits represent total net funds transferred less benefits payable from the former TASSS to the RBFB on 30 June 2006.

STATEMENT OF NET ASSETS

	2005-06
	$'000
Other receivables	120
Investments	32 641
Other assets	2
Total Assets	**32 763**
Benefits payable	486
Other payables	83
Provision for income tax	58
Total Liabilities	**627**
Net Assets Available To Pay Benefits	**32 136**

Comment

Net assets available to pay benefits are the total funds received at 30 June 2006. The amount received was representative of the above assets and liabilities. Vested benefits, as at 30 June 2006 totalled $27.843m.

OVERALL COMMENT

The 2005-06 audit was completed with satisfactory results.

3.7 RETIREMENT BENEFITS FUND BOARD – STATE FIRE COMMISSION SUPERANNUATION SCHEME

INTRODUCTION

The State Fire Commission Superannuation Scheme (SFCSS) is a defined benefit scheme. The Scheme was closed to new members from 1 July 2005. It had been established for permanent uniformed employees of the Tasmania Fire Service.

The SFCSS was transferred to the Retirements Benefit Fund Board (RBFB) on 1 May 2006 under a Successor Fund arrangement. This arrangement involved the trustee, fund administration and investment functions of the scheme being transferred to the RBFB. Accumulation entitlements in SFCSS were rolled over to the RBF Investment Account effective 1 May 2006.

Members receive benefits based on their final average salary and years of service and they contribute at the rate of 5%. Members wishing to contribute more than 5% do so via the RBF Investment Account. The employer, State Fire Commission, contributes at the rate of 11% for each employee and it retains responsibility for any shortfall in fund assets.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 20 October 2006 and an unqualified audit report issued on the 24 October 2006.

FINANCIAL RESULTS

STATEMENT OF CHANGES IN NET ASSETS

	2005-06
	$'000
Investment revenue	1 029
Changes in net market values	(1 438)
Direct investment expenses	(65)
Employer contributions	316
Member contributions	137
Transfers from other funds	56 788
Total Revenue	**56 767**
General operating fee	44
Total Expenses	**44**
Benefits Accrued Before Tax	**56 723**
Income tax expense	(11)
Benefits Accrued as a Result of Operations	**56 712**

Comment

Total funds transferred into the SFCSS of $56.788m represents the defined benefit component of the Scheme on transfer to the RBFB, which was invested as soon as received.

Without this transfer, the Scheme operated at a before tax deficit of $0.099m. The downward Changes in net market values of $1.438m resulted from Scheme market based investments experiencing an unrealised net downturn in the two months ended 30 June 2006.

STATEMENT OF NET ASSETS

	2005-06
	$'000
Interest receivable	7
Other receivables	166
Investments	56 592
Other assets	8
Total Assets	**56 773**
Other payables	49
General operating provision	(2)
Provision for income tax	115
Provisions for deferred income tax	(99)
Superannuation contribtons surcharge payable	(2)
Total Liabilities	**61**

Comment

The Net assets available to pay benefits is effectively the total funds received less the deficit for the two months. Vested benefits, as at 30 June 2006 totalled $54.636m.

FINANCIAL ANALYSIS

	2005-06
Financial Performance	
Investments ($'000)	56 592
Net investment income ($'000)	(474)
Return on investments	(0.84%)

Comment

As discussed previously the deficit in income on investment resulted in a loss for the two months.

4 OTHER AUTHORITIES

INTRODUCTION

Statutory authorities that are subject only to the specific requirements specified in their enabling legislation are sometimes also referred to as State authorities. State authorities usually fulfil a regulatory or supervisory function.

RESPONSIBLE MINISTER

The Ministers responsible for the entities within this group as at 30 June 2006 were as follows:

Entity	Responsible Minister	Status of Audit
Inland Fisheries Service	Minister for Primary Industries and Water	Complete
Marine and Safety Authority	Minister for Infrastructure	Complete (no separate chapter included)
Nominal Insurer	Minister for Justice and Workplace Relations	In progress
Private Forests Tasmania	Minister for Economic Development and Resources	Complete
State Fire Commission	Minister for Police and Emergency Management	Complete
TAFE Tasmania	Minister for Education	Complete
Tasmanian Risk Management Fund	Treasurer	Complete
Aboriginal Land Council	Minister for Local Government and Community Development	Outstanding
Clyde Water Trust	Minister for Primary Industries and Water	In progress
Legal Aid Commission	Minister for Justice and Workplace Relations	In progress
National Trust of Australia (Tasmania)	Minister for Tourism, Arts and the Environment	Outstanding

4.1 INLAND FISHERIES SERVICE

INTRODUCTION

The Inland Fisheries Service (the Service) is the premier natural resource manager of inland fisheries in Tasmania.

The *Inland Fisheries Act 1995* created the position of the Director of Inland Fisheries. In March 2000 the Director replaced the Inland Fisheries Commission, which had been operating from the late 1950s. The Service is the operational arm of the Director.

The Inland Fisheries Advisory Council (IFAC) was formally established under the *Inland Fisheries Act 1995.* IFAC comprises twelve members, appointed by the Minister, who represent segments of the industry. The principal role of IFAC is to provide direction and advice on behalf of the Service to the Minister for Primary Industries and Water on all matters relating to freshwater fisheries policy and management.

The Director manages the Service and is responsible for the sustainable management of Tasmania's freshwater resources, ensuring the best use is made of these resources and ensuring the freshwater fauna and its habitat are protected for the benefit of future generations.

During 2005-06 the Service continued with the implementation of its business plan that saw the completion of its asset rationalisation program with a consequential reduction in the number of its locations. The Service has adopted commercial methodologies in its approach to its activities. The Service has revised its compliance operations and adopted contemporary practices in this respect.

The Service has focused on its core business being recreational fisheries management and in the following financial year will be relocating its principal office to New Norfolk and establish a recirculation fish hatchery at that site to enhance fisheries management by allowing the stocking of larger fish than is currently able to be achieved.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 25 July 2006. Final amended re-signed statements were received on 6 October 2006 and an unqualified audit opinion was issued on 12 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS $'000	2004-05 AIFRS $'000	2004-05 AGAAP $'000
Licence fees	1 398	1 332	1 332
Government grants	1 137	1 117	1 117
External grants and reimbursements	253	389	389
Other operating revenue	397	724	724
Non-operating revenue	1 048	289	289
Total Revenue	**4 233**	**3 851**	**3 851**
Operating expenses	3 194	3 332	3 332
Depreciation	137	153	153
Non-operating expenses	551	331	331
Total Expenses	**3 882**	**3 816**	**3 816**
Result from ordinary activities	**351**	**35**	**35**

Comment

No change occurred between 2004-05 Australian Generally Accepted Accounting Principles (AGAAP) and Australian Equivalents to International Financial Reporting Standards (AIFRS) results.

Without Non-operating revenue of $1.048m and Non-operating expenses of $0.551m, the Service would have made a deficit of $0.146m in 2005-06. An equivalent result in 2004-05 would have been a surplus of $0.077m, which represents a turnaround of $0.223m deficit. This was mainly brought about by:

- Other operating revenue decreasing by $0.327m due mainly to a reduction of live fish sales; and
- A decrease in grants and external reimbursements by $0.136m.

These were offset in part by:

- Licensing revenue increasing by $0.066m as a result of the implementation of programs designed to increase fisheries performance and participation;
- Decreases in operating expenses and depreciation totalling $0.154m; and
- Non-operating revenue increasing by $0.759m due principally to proceeds on property disposals including houses at Cora Linn. This was offset by $0.551m in Non-operating expenses being the written down values of assets sold.

BALANCE SHEET

	2005-06 AIFRS $'000	2004-05 AIFRS $'000	2004-05 AGAAP $'000
Cash	1 695	1 017	1 017
Receivables	42	127	127
Total Current Assets	**1 737**	**1 144**	**1 144**
Property, plant and equipment	3 194	3 281	3 281
Total Non-Current Assets	**3 194**	**3 281**	**3 281**
Payables	72	146	146
Provisions	543	618	618
Total Current Liabilities	**615**	**764**	**764**
Provisions	47	125	125
Total Non-Current Liabilities	**47**	**125**	**125**
Net Assets	**4 269**	**3 536**	**3 536**
Reserves	553	171	171
Accumulated funds	516	165	165
Contributed Capital	3 200	3 200	3 200
Total Equity	**4 269**	**3 536**	**3 536**

Comment

No change occurred between 2004-05 AGAAP and AIFRS balances.

Net Assets increased from $3.536m at 30 June 2005 to $4.269m at 30 June 2006. The main factors contributing to this were:

- Cash increasing by $0.678m due to the sale of the Cora Linn property and a reduction in the vehicle fleet;
- Payables decreasing by $0.074m due mainly to timing issues; and
- Provisions decreasing by $0.153m due principally to staff reducing leave balances.

The effects of the foregoing were offset in part by:

- Receivables decreasing by $0.085m in 2005-06 due mainly to timing issues; and
- Property, plant and equipment decreasing by $0.087m due to disposals of land, buildings and motor vehicles of $0.550m and depreciation, $0.137m. This was offset by additions of $0.218m and revaluations of $0.382m, the latter resulting in a corresponding increase in Reserves.

CASH POSITION

	2005-06 AIFRS $'000	2004-05 AIFRS $'000	2004-05 AGAAP $'000
Receipts from customers	1 754	2 326	2 326
Payments to suppliers and employees	(3 399)	(3 380)	(3 380)
Interest received	104	81	81
Receipts from Government	1 137	1 117	1 117
Receipts from external projects	253	404	404
Cash from operations	**(151)**	**548**	**548**
Payments for property, plant and equipment	(218)	(312)	(312)
Proceeds from sale of property, plant and equipmer	1 048	289	289
Cash from/(used in) investing activities	**830**	**(23)**	**(23)**
Net increase in cash	**679**	**525**	**525**
Cash at the beginning of the period	1 017	492	492
Cash at end of the period	**1 696**	**1 017**	**1 017**

Comment

The adoption of the new accounting standards had no impact on the cash position of the Service.

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and the Balance Sheet sections of this chapter.

The sole reason for the improved cash position was proceeds on the sale of property of $1.048m.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		(146)	77
Operating margin	>1.0	0.96	1.02
Financial Management			
Current ratio	>1	2.82	1.50
Debt collection	30 days	9	23
Creditor turnover	30 days	15	40
Other Information			
Staff numbers (FTEs)		33	31
Average staff costs ($'000s)		63	66
Average leave balances per FTE ($'000s)		17	22

Comment

The current ratio improved from 1.50 to 2.82 as a result of increased cash balances in 2005-06.

The high Creditor turnover in 2004-05 was primarily due to a number of large unpaid accounts on hand at 30 June 2005.

Average staff costs decreased during 2005-06 mainly as a result of timing issues related to staff vacancies, and a number of employees reducing their hours of work from full-time to part-time. This also contributed to the drop in Average leave balances per employee.

OVERALL COMMENT

The audit for 2005-06 was completed satisfactorily with no major issues outstanding.

4.4 PRIVATE FORESTS TASMANIA

INTRODUCTION

Private Forests Tasmania (the Authority) was established as a statutory authority on 1 July 1994 under the *Private Forests Act 1994*. Its primary functions are to develop and advocate strategic and policy advice to the Minister and forestry partners, and to work in partnership with growers, managers, investors and industry to sustainably develop and manage Tasmania's private forests and to initiate extended or new market opportunities.

The Authority took over the assets, liabilities, functions and responsibilities previously managed by the Private Forestry Division of the former Forestry Commission.

According to the Authority's Strategic Plan, "…The objectives of the Authority are to facilitate and expand the development of the private forest resource in Tasmania for commercial purposes and to maintain a healthy and productive rural environment in a manner which is consistent with sound forest land management practice…".

The Authority's Board of Directors consists of five members, appointed by the Responsible Minister, and the Chief Executive Officer.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Initial signed financial statements were received on 18 August 2006 with amended statements received on 23 August 2006. An unqualified audit report was issued on 9 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Consolidated fund	1 247	1 214	1 214
Commonwealth grants	415	341	341
Private Forests service levy	472	325	325
Interest on Pine Loans	59	67	67
Bank interest	124	100	100
Other	291	170	170
Total Revenue	**2 608**	**2 217**	**2 217**
Salary, wages and employee entitlements	1 325	1 101	1 101
Borrowing costs	60	67	67
Depreciation	56	76	76
Other expenses	899	845	845
Non-operating expenses	0	37	37
Total Expenses	**2 340**	**2 126**	**2 126**
Result from Ordinary Activities	**268**	**91**	**91**

Comment

The reported result in 2004-05 under AGAAP has not changed with the transition to AIFRS.

The following comments are based on a comparison of the 2004-05 and the 2005-06 figures reported under AIFRS.

In 2005-06 the Authority recorded a surplus from ordinary activities of $0.268m, compared to a surplus of $0.091m in 2004-05. The improved result is due to revenue increasing by $0.391m while expense increased by $0.214m. The main movements in revenue and expense items are discussed below.

As in prior years, Total Revenue was mainly derived from Commonwealth Grants and Consolidated Fund appropriations. The amount of grants and appropriations received varies from year to year depending on project schedules and priorities. In 2005-06, the Authority received new project funding for Sustainable Farm Forestry, $0.290m, and Targeted Protection of High Priority Terrestrial and Riparian Vegetation, $0.180m. To the extent that these projects were incomplete at 30 June 2006, funds received were allocated to 2006-07 and shown as unexpended (see further comments under the Balance Sheet section).

An amendment to the *Private Forests Act 1994* in 2001 allowed for the introduction of a Private forests service levy on all certified forest practices plans. The Authority charges the levy on a per hectare basis. In 2004-05, the Authority certified approximately 23 000 hectares while in 2005-06 the number of hectares certified increased to approximately 33 000 hectares. This resulted in the increased Private forests services levy of $0.147m in 2005-06.

Other revenue increased from $0.170m in 2004-05 to $0.291m in 2005-06. The increase is primarily due to industry contributions received during the current financial year, $0.100m, in relation to a satellite imagery project that will be undertaken next financial year.

Employee costs increased by $0.224m in 2005-06. The increase is due to a combination of factors, including:

- An increase in gross salaries paid of $0.120m due to a 3.5% pay rise for all staff in December 2005 under a State Service Wages Agreement, a termination payment, employment of project staff for a greater length of time and at increased salary levels, and conversion of a part-time position to full-time;
- An increase in leave provisions of $0.018m; and
- An increase in payroll tax, superannuation and fringe benefits tax expenses totalling $0.067m.

BALANCE SHEET

	2005-06 AIFRS $'000s	**2004-05 AIFRS** $'000s	**2004-05 AGAAP** $'000s
Cash	1 339	1 379	1 379
Receivables	801	319	305
Other	130	119	134
Total Current Assets	**2 270**	**1 817**	**1 818**
Property, plant and equipment	124	140	140
Receivables	823	913	913
Total Non-Current Assets	**947**	**1 053**	**1 053**
Payables	72	40	40
Borrowings	122	112	127
Provisions	209	206	206
Other	282	137	137
Total Current Liabilities	**685**	**495**	**510**
Borrowings	1 363	1 489	1 489
Provisions	32	17	17
Total Non-Current Liabilities	**1 395**	**1 506**	**1 506**
Net Assets	**1 137**	**869**	**855**
Retained profits	1 137	869	855
Total Equity	**1 137**	**869**	**855**

Comment

The increase of $0.014m between the Total Equity at 30 June 2005 reported under AGAAP, $0.855m, and that reported under AIFRS, $0.869m, is due to the reversal of a doubtful debt provision.

The following comments are based on a comparison of the 2004-05 and 2005-06 figures reported under AIFRS.

Current Receivables increased by $0.482m in 2005-06 primarily as a result of two main factors:

- An increase in Private forests services levy debtors of $0.104m which is in line with the increase in revenue discussed previously. It should be noted that payment of levies is not required until six months after certification; and
- Inclusion of two one-off grant debtors totalling $0.343m.

The Non-current Receivables balance represents private pine plantation loan debtor receivables and are continuing to decrease as loan instalments are paid.

Other current liabilities at 30 June 2006, $0.282m, represents accrued expenses and unexpended grants. While a number of projects were completed during 2005-06, two new projects (Sustainable Farm Forestry and Targeted Protection of High Priority Terrestrial and Riparian Vegetation) commenced. As the projects were not completed at year end, $0.238m was recognised as a liability and will be carried forward to next year.

The decrease in non-current Borrowings is a result of repayments made during the year as well as $0.036m in debt write-offs approved by the Department of Treasury and Finance on 24 July 2006.

CASH POSITION

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$'000s	$'000s	$'000s
Receipts from customers	2 212	2 135	2 135
Payments to suppliers and employees	(2 332)	(2 152)	(2 152)
Interest received on surplus funds	120	120	120
Borrowing costs	(60)	(67)	(67)
Cash from/(used in) operations	**(60)**	**36**	**36**
Payments for property, plant and equipment	(40)	(36)	(36)
Proceeds from sale of property, plant and equipment	0	0	0
Cash (used in) investing activities	**(40)**	**(36)**	**(36)**
Receipts from pine loan repayments	145	255	255
State Government loans repaid	(85)	(191)	(191)
Cash from financing activities	**60**	**64**	**64**
Net increase/(decrease) in cash	**(40)**	**64**	**64**
Cash at the beginning of the period	1 379	1 315	1 315
Cash at end of the period	**1 339**	**1 379**	**1 379**

Comment

The cash position as at 30 June 2005 under AGAAP did not change with the transition to AIFRS.

Overall, for 2005-06 the Authority recorded a decrease in cash of $0.040m as compared to an increase in 2004-05 of $0.640m.

Cash from operations decreased by $0.096m in 2005-06 and this movement is largely explained by timing differences. Grants received from the Commonwealth are for specified projects. The timing of grants received and project scheduling by the Authority can cause disparity between cash receipts and payments. Project funding was shown as a receipt from customers for the year during which it was received. As projects can run for long periods, the corresponding payments to suppliers and employees are spread over a number of financial years.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		268	128
EBIT ($'000s)		328	158
Operating margin	>1.0	1.23	1.23
Return on assets		10.8%	5.4%
Return on equity		26.7%	11.1%
Financial Management			
Debt to equity		130.61%	184.23%
Debt to total assets		46.16%	55.78%
Interest cover	>3	5	2
Current ratio	>1	3.31	3.67
Cost of debt	7.5%	7.00%	7.00%
Debt collection	30 days	0	0
Creditor turnover	30 days	32	19
Other Information			
Staff numbers FTEs		19	19
Average staff costs ($'000s)		70	58
Average leave balance per FTE ($'000s)		13	12

Comment

The Financial Performance ratios show the Authority recorded operating surpluses in both years resulting in Operating margins above benchmark.

Due to the nature of the Authority's operations and the composition of the Balance Sheet, the Return on asset and Return on equity ratios vary from year to year. The improved operating result for 2005-06 resulted in a substantial increase in both of these ratios for that year.

The level of borrowings held by the Authority to facilitate the private plantation loans is substantial. This resulted in unusually large Debt to equity and Debt to total asset ratios. Both ratios have improved since 2004-05 and as a result of repayments made during 2005-06.

The Current ratio is well above benchmark in both years indicating the Authority is able to meet all short-term liabilities.

As the majority of the Authority's revenue is derived from funding received from either State or Commonwealth Governments, the Debt collection ratio is not relevant.

The Creditor turnover ratio is slightly above the benchmark of 30 days in 2005-06. This is due to an increase in the year end Payables balance which included two purchases for computer equipment.

While staff numbers have remained stable, Average staff costs increased in 2005-06 by approximately $0.012m per employee due to the reasons noted previously under the Income Statement section.

OVERALL COMMENT

The audit was completed satisfactorily with no major items outstanding.

4.5 STATE FIRE COMMISSION

INTRODUCTION

The State Fire Commission (the Commission) was established under the *Fire Service Act 1979*. The role of the Commission is to protect life, property and the environment from fire and other emergencies. The Commission provides a rapid emergency response and promotes fire safety in partnership with the community.

The Commission comprises seven members: one person being the Chief Officer (Chairperson), one person nominated by the United Firefighters Union (Tasmanian Branch), one nominated by the Tasmanian Volunteer Firefighters Association, one nominated by the Tasmanian Volunteer Fire Brigades Association, one nominated by the Secretary of the Department of Treasury and Finance and two nominated by the Local Government Association of Tasmania.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2006, with revised financial statements received on 22 September 2006. An unqualified audit report was issued on 28 September 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS	2004-05 AIFRS	2004-05 AGAAP
	$000s	$000s	$000s
Fire service contribution	21 882	20 940	20 940
Insurance fire levy	14 486	14 498	14 498
Motor vehicle fire levy	5 023	4 533	4 533
State Government contribution	3 538	5 453	5 453
Commonwealth contribution	336	322	322
Fire prevention charges	4 413	4 221	3 458
Other operating revenue	1 002	962	962
Non-operating revenue	134	924	924
Total Revenue	**50 814**	**51 853**	**51 090**
Salaries, wages and related expenses	31 398	29 780	29 780
Borrowing costs	332	290	290
Depreciation	4 374	3 974	3 974
Other operating expenses	13 149	13 187	12 424
Total Expenses	**49 253**	**47 231**	**46 468**
Result From Ordinary Activities	**1 561**	**4 622**	**4 622**

Comment

The reported result in 2004-05 under AGAAP did not change with the transition to AIFRS, except in relation to cost of goods sold, which was previously netted against income, now recognised in Fire prevention charges and Other operating expenses.

In 2005-06 the Commission recorded a $1.561m operating surplus (2005, $4.622m). The reduction in surplus is due to decreases in revenue of $1.039m whilst expenditure rose by $2.022m. The main movements in revenue and expenditure items resulting in the $3.061m change in Result from ordinary activities are:

- State Government contributions declined by $1.915m as the prior year included an additional $2.000m contribution towards the Commission's capital expenditure program;
- Non-operating revenue declined by $0.790m mainly due to 2004-05 containing higher gains on sale of assets and the revaluation of the Commission's head office in Hobart;
- Salaries, wages and related expenses increased by $1.618m due to increases under employee awards; and
- Depreciation rose by $0.400m due to Property, plant and equipment additions.

These were off-set partly by:

- In consultation with the Treasurer, the Fire service contribution was increased by 4.5% resulting in a $0.942m increase. There was also a minor rise in the minimum fire service contribution from $29 to $30; and
- The Motor vehicle fire levy rose due to increased vehicle registrations collected by the Registrar of Motor Vehicles. The levy of $13 per vehicle has not changed from the prior year.

BALANCE SHEET

	2005-06 AIFRS $000s	2004-05 AIFRS $000s	2004-05 AGAAP $000s
Cash	2 115	1 109	1 109
Receivables	891	1 209	1 209
Inventories	1 143	1 021	1 021
Other	2 156	2 150	2 150
Total Current Assets	**6 305**	**5 489**	**5 489**
Bank overdraft	0	595	595
Payables	2 643	2 686	2 686
Borrowings	1 830	2 868	2 868
Provisions - leave and other	7 236	3 015	3 015
Total Current Liabilities	**11 709**	**9 164**	**9 164**
Working Capital	**(5 404)**	**(3 675)**	**(3 675)**
Property, plant and equipment	74 746	70 892	70 892
Work in progress	3 454	4 669	4 669
Superannuation fund asset	1 029	0	0
Total Non-Current Assets	**79 229**	**75 561**	**75 561**
Borrowings	2 868	1 830	1 830
Provisions - superannuation	0	6 508	0
Provisions - leave and other	1 233	4 954	4 954
Total Non-Current Liabilities	**4 101**	**13 292**	**6 784**
Net Assets	**69 724**	**58 594**	**65 102**
Reserves	3 657	1 624	1 624
Retained surpluses	66 067	56 970	63 478
Total Equity	**69 724**	**58 594**	**65 102**

Comment

The decrease of $6.508m between the Commission's Total Equity at 30 June 2005 reported under AGAAP, $65.102m, and that reported under AIFRS, $58.594m, is due to the recognition of the Commission's defined benefit superannuation plan liability under the *State Fire Commission Superannuation Scheme Act 1994* (SFCSS). The move to the new accounting standards resulted in a reassessment by the actuary of the Commission's obligation giving rise to a liability under AIFRS of $6.508m at 30 June 2005.

The following comments are based on a comparison of the 2004-05 and 2005-06 figures reported under AIFRS.

Overall Net assets increased by $11.130m mainly due to:

- Strong investment returns of the SFCSSS assets resulting in the previously recognised superannuation liability of $6.508m becoming an asset of $1.029m, a total gain of $7.537m during the period;
- Property, plant and equipment increasing by $3.854m mainly due to the effects of plant and equipment additions of $7.094m and land and building revaluations of $2.093m, off-set by depreciation of $4.374m and disposals of $0.935m during the year; off-set in part by
- Work in progress declining by $1.215m following the completion of a number of capital projects including commissioning of fabricated fire appliances.

Although Borrowings moved significantly between the current and non-current classifications, the net outstanding balance remained at $4.689m. This was due to the Commission refinancing its borrowings portfolio as it matured.

Reserves increased by $2.033m in line with the asset revaluations noted above and Retained surpluses increased by $9.097m due to the operating result and the gain in the movement in the SFCSS recognised directly to Equity.

In 2005-06 the method used to determine the split of the provision for long service leave changed. In 2004-05 an average of long service leave taken was used to determine the current liability. In 2005-06 all unconditional entitlements have been recognised as current. This resulted in a movement of $3.419m between current and non-current provisions.

CASH POSITION

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$000s	$000s	$000s
Receipts from operating activities	50 320	48 662	48 662
Payments to suppliers and employees	(43 473)	(40 407)	(40 407)
Interest received	45	97	97
Borrowing costs	(332)	(290)	(290)
Cash from operations	**6 560**	**8 062**	**8 062**
Payments for property, plant and equipment	(5 639)	(14 296)	(14 296)
Proceeds from sale of property, plant and equipment	680	2 263	2 263
Cash (used in) investing activities	**(4 959)**	**(12 033)**	**(12 033)**
Proceeds from borrowings	2 868	1 500	1 500
Repayment of borrowings	(2 868)	(1 500)	(1 500)
Cash from financing activities	**0**	**0**	**0**
Net increase/(decrease) in cash	**1 601**	**(3 971)**	**(3 971)**
Cash at the beginning of the period	514	4 485	4 485
Cash at end of the period	**2 115**	**514**	**514**

Comment

The adoption of new accounting standards had no impact on the cash position of the Commission.

Overall the Commission recorded an increase in Cash of $1.601m compared to a decrease of $3.971m in 2004-05. This is mainly due to:

- Receipts from operating activities increasing by $1.658m due primarily to higher collections from the Fire service contributions and the Motor vehicle fire levy;
- Payments for Property, plant and equipment declining by $8.657m as the 2004-05 year contained more extensive purchases of fire appliances and capital works on buildings (including the Youngtown and Cambridge sites); off-set partly by
- Payments to suppliers and employees rising by $3.066m mainly due to increased employee related expenses; and
- Proceeds from the sale of property, plant and equipment falling by $1.583m with 2004-05 containing the sale of properties no longer required.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		1 427	3 698
Operating margin	>1.0	1.03	1.08
Financial Management			
Current ratio	>1	0.54	0.60
Debt collection	30 days	12	17
Creditor turnover	30 days	60	61
Other Information			
Staff numbers (FTEs)		437	437
Average staff costs ($'000s)		59	55
Average leave balance per FTE ($'000s)		17	18

Comment

The lower Result from operations and Operating margin are due to the lower surplus Result from ordinary activities and are explained in the Income Statement section of this chapter.

The decrease in the Current ratio in 2005-06 is mainly due to changes in current and non-current liabilities relating mainly to Borrowings and Provisions as explained in the Balance Sheet section.

The Debt collection ratio improved mainly due to a decrease in GST receivable in 2005-06. Although the Creditor turnover remains high at 60 days, it improved slightly from 2004-05. Year-end Payables however remain high. The Commission is still able to pay its creditors on time, although the negative working capital, when combined with the lower Current ratio, indicates that liquidity may be tight, a position that will require monitoring by management.

The increase in Average staff costs for 2005-06 is mainly due to a pay rate increase of 3.5% for management and corporate staff under the State Service Wage Agreement, and 6.4% for officers and fire fighters under the Tasmanian Fire Fighting Industry Employees Award.

OVERALL COMMENT

The 2005-06 audit was completed satisfactorily with no major issues outstanding.

4.6 TAFE TASMANIA

INTRODUCTION

TAFE Tasmania (TAFE) was established under the *TAFE Tasmania Act 1997* as a provider of vocational and further education.

TAFE is managed by a board of seven directors appointed by the Government.

TAFE is the largest registered training organisation in Tasmania.

In 2005-06, TAFE accessed 83% of its funds via a Purchase Agreement with the State Government and relies on capital funds from Commonwealth and State Government sources to develop, maintain and refurbish its capital assets.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2006 and an unqualified audit report was issued on 28 September 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$000s	$000s	$000s
Purchase agreement recurrent funding	68 086	64 531	64 531
Capital Funding	7 105	5 111	5 111
Other government revenue	5 259	5 579	5 579
User charges, fees and fines	6 122	5 552	5 552
Commercial services	8 467	8 303	8 303
Other operating revenue	1 816	1 307	1 495
Non-operating revenue	518	-	-
Total Revenue	**97 373**	**90 383**	**90 571**
Depreciation	8 534	8 261	8 261
Employee expenses	69 418	62 607	62 607
Other operating expenses	24 048	23 021	23 209
Total Expenses	**102 000**	**93 889**	**94 077**
Result from Ordinary Activities	**(4 627)**	**(3 506)**	**(3 506)**
Result before Capital Funding	**(11 732)**	**(8 617)**	**(8 617)**

Comment

The adoption of the new accounting standards had no impact on the Income Statement of TAFE for 2004-05.

In respect to 2005-06, the Result from ordinary activities decreased by $1.121m to a deficit from ordinary activities of $4.627m (2005, deficit $3.506m) and to a deficit before capital funding of $11.732m (deficit $8.617m). This situation was brought about by the following:

- Employee expenses increasing by $6.811m due mainly to higher levels of staff brought about by greater student activity and courses; offset by
- Increased Recurrent funding of $5.229m due principally to additional Commonwealth revenue provided under agreements to improve vocational education and training programs. In addition, there was more capital funding in relation to the Clarence, Hobart, Devonport and Alanvale campus redevelopments; and
- Increased User charges, fees and fines of $0.570m. The primary reason for this increase is greater demand for training courses and increased student activity, driven in part by more concessions for students.

The result before capital funding appears consistent with the Government policy of not funding depreciation in the Purchase Agreement. Capital funding is generally below the annual depreciation charge and this gap will grow as a result of the asset revaluation suggesting that capital funding may have to increase.

BALANCE SHEET

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$000s	$000s	$000s
Cash	6 309	6 398	6 398
Receivables	2 149	1 594	1 594
Inventories	494	436	436
Other	81	900	900
Total Current Assets	**9 033**	**9 328**	**9 328**
Property, plant and equipment	186 086	190 084	190 084
Total Non-Current Assets	**186 086**	**190 084**	**190 084**
Payables	1 386	1 419	1 419
Provisions	2 895	2 716	2 716
Other	0	152	152
Total Current Liabilities	**4 281**	**4 287**	**4 287**
Provisions	9 557	8 871	8 871
Other	16	16	16
Total Non-Current Liabilities	**9 573**	**8 887**	**8 887**
Net Assets	**181 265**	**186 238**	**186 238**
Reserves	57 869	58 215	58 215
Accumulated losses	(12 723)	(8 096)	(8 096)
Contributed equity	136 119	136 119	136 119
Total Equity	**181 265**	**186 238**	**186 238**

Comment

The adoption of the new accounting standards had no impact on the Balance Sheet of TAFE for 2004-05.

Net Assets decreased by $4.973m from $186.238m at 30 June 2005 to $181.265m at 30 June 2006. The main factors contributing to this were:

- Decrease in value of Property, plant and equipment, $3.998m, due to effects of annual depreciation, $8.534m, disposals, $1.456m, offset by net capital additions of $4.363m;
- Increase in Receivables of $0.555m due mainly to increased courses and activity; offset by
- Employee benefit liabilities increasing by $0.864m due to wage and salary indexation together with rising leave balances.

The corresponding decrease in Equity of $4.973m resulted from:

- Increase in operating deficit to $4.627m reflecting the 2005-06 Result from ordinary activities; plus
- A reduction in the asset revaluation reserve of $0.346m to $57.869m (2004-05, $58.215m) due to the sale of land and buildings at 75 Warwick Street in Hobart during the year.

CASH POSITION

	2005-06 AIFRS $000s	**2004-05 AIFRS** $000s	**2004-05 AGAAP** $000s
Government grants	81 276	75 221	75 221
Receipts from customers	24 054	21 245	21 245
Interest Received	469	552	552
Payments to suppliers and employees	(101 525)	(93 602)	(93 602)
Cash from operations	**4 274**	**3 416**	**3 416**
Payments for property, plant and equipment	(5 436)	(5 968)	(5 968)
Proceeds from sale of property, plant and equipment	1 073	176	176
Cash (used in) investing activities	**(4 363)**	**(5 792)**	**(5 792)**
Net (decrease) in cash	**(89)**	**(2 376)**	**(2 376)**
Cash at the beginning of the period	6 398	8 774	8 774
Cash at end of the period	**6 309**	**6 398**	**6 398**

Comment

The adoption of the new accounting standards had no impact on the cash position of TAFE Tasmania.

Overall, Cash at the end of the period remained fairly constant, $6.309m at 30 June 2006 as compared with $6.398m at 30 June 2005.

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and the Balance Sheet sections of this chapter.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($000s)		(5 145)	(3 506)
Operating margin	>1.0	0.95	0.96
Current ratio	>1	2.11	2.18
Debt collection	30 days	45	36
Creditor turnover	30 days	21	13
Other Information			
Staff numbers (FTEs)		1,028	936
Average staff costs ($'000s)		68	67
Average leave balance per FTE ($'000s)		12	12

Comment

Results from operations declined in 2005-06 due to the increased deficit from ordinary activities as explained previously.

Debt collection days increased to 45 in 2005-06 due to an increase in student activity. This resulted in a rise in student debtors, in particular debtors within the 60 to 90 days category.

Staff numbers as shown reflect an increase in FTE's due to increases in student activity and a greater demand for training courses.

As at 30 June 2006, TAFE had a strong cash position with a positive current ratio.

OVERALL COMMENT

The 2005-06 audit was completed satisfactorily with no major issues outstanding.

4.7 TASMANIAN RISK MANAGEMENT FUND

INTRODUCTION

The Tasmanian Risk Management Fund (the Fund) is a self-insurance arrangement established within the Tasmanian State Service to provide a whole-of-government approach to the treatment of insurable risks to which agencies are exposed. The Fund was established on 1 January 1999 and operates on a fully funded basis. On 1 July 2001, the Tasmanian State Service Workers Compensation Scheme merged with the Fund.

Classes of insurance provided by the Fund include:

- Personal injury
    - Workers' compensation
    - Personal accident
- Property
    - General property
    - Motor Vehicle
    - Marine Hull
- Liability
    - General Liability
    - Medical Liability
- Miscellaneous
    - Travel
    - Government Contingency

The Department of Treasury and Finance is responsible for the management of the Fund, and an inter-agency Steering Committee serves as a consultative forum through which agencies can provide input into the operations of the Fund. Two sub-committees support the Steering Committee.

A Fund Administration Agent is retained on a contract basis for claims administration, the provision of advice in relation to claims management and the placement of insurance as required.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 28 August 2006 and an unqualified audit report was issued on 16 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2004-05 AIFRS $'000	2004-05 AGAAP $'000
Agency contributions and recoveries	29 285	29 285
Investment revenue	5 069	5 069
Revenue from governement	5 000	5 000
Other revenue	21	21
Total Revenue	**39 375**	**39 375**
Claims expense	39 636	39 636
Other underwriting expenses	1 343	1 343
General administration expenses	644	644
Total Expenses	**41 623**	**41 623**
Result (Used in) Ordinary Activities	**(2 248)**	**(2 248)**

Comment

There were no variations to the 2004-05 Income Statement figures between Australian Generally Accepted Accounting Principles (AGAAP) and Australian Equivalents to International Financial Reporting Standards (AIFRS).

The change in Result from ordinary activities from a deficit of $2.248m in 2004-05 to a surplus of $3.549m in 2005-06 was mainly the result of:

- Agency contributions and recoveries increasing by $1.178m;
- Investment revenue increasing by $1.253m arising from increased Cash balances; and
- Claims expense decreasing by $3.234m, which varies from year to year as claim payments are for incidents that occur in both current and previous years. The claims expense represents claims paid plus increases in the actuarially assessed estimation of incurred but not yet paid claims plus incurred but not reported claims. In summary the expense is made up of:

	2005-06 $'000	2004-05 $'000
Claims paid	19 949	23 997
Increase in claims provision	13 777	13 390
Other related claims costs	2 676	2 249

The Fund receives a Government contribution of $5.000m each year for the unfunded pre-1 July 2001 medical liability claims.

BALANCE SHEET

	2004-05 AIFRS $'000	2004-05 AGAAP $'000
Cash	95 961	95 961
Receivables	839	839
Total Assets	**96 800**	**96 800**
Outstanding claims	101 523	101 523
Payables	531	531
Provisions	66	66
Total Liabilities	**102 120**	**102 120**
Net Liabilities	**(5 320)**	**(5 320)**
Accumulated deficits	(5 320)	(5 320)
Total Equity	**(5 320)**	**(5 320)**

Comment

There were no variations to the 2004-05 Balance Sheet figures between AGAAP and AIFRS.

The Fund's Equity position improved in 2005-06 due to the surplus of $3.549m.

Movements in individual Balance Sheet accounts are explained as follows:

- Increase in Cash, $16.844m, as the result of an overall increase in income, together with lower Claim expense payments; and
- Increase in Receivables, $1.265m, resulting from a timing change for collecting estimated salaries information from agencies for the purpose of raising workers compensation contributions. In previous years, these were collected in June for the following financial year, but are now collected in December to assist agencies in budgeting for their contributions.

These were offset in part by:

- Increase in Payables, $0.784m. Payables consist mainly of unreimbursed claims and vary from year to year depending on the amount and timing of invoices submitted for payment;
- Increase in Outstanding claims, $13.777m. The Actuary determines the Outstanding claims liability, with the largest changes in the provision from 2005 to 2006 being for the general property and medical liability risk areas.

The change in the provision for medical liability claims is a result of:

- Increases in the case estimates for reported claims with incident dates prior to 1 July 2005;

- Allowances for claims expected to arise in respect of the 2005-06 year; and
- Payments in 2005-06 being less than expected.

The increase in the provision for general property claims is a result of:

- Worse than expected claims experience on the Department of Health and Human Services (DHHS) Housing portfolio in respect of the 2005-06 year due to house fires; and
- Payments in 2005-06 being less than expected. In particular, there have been no payments from the Fund in respect of the DHHS Housing stop loss cover for 2004-05 and prior years.

CASH POSITION

	2004-05 AIFRS	**2004-05 AGAAP**
	$'000	$'000
Agency contributions	28 851	28 851
Other revenue	5 021	5 021
Interest received	5 035	5 035
Claims and expenses paid	(24 880)	(24 880)
Fund management fees	(1 865)	(1 865)
Underwriting expenses	(1 343)	(1 343)
General and administration expenses	(631)	(631)
Cash from operations	**10 188**	**10 188**
Net increase in cash	**10 188**	**10 188**
Cash at the beginning of the period	85 773	85 773
Cash at end of the period	**95 961**	**95 961**

Comment

There were no variations to the 2004-05 cash flow figures between AGAAP and AIFRS.

The cash position of the Fund has continued to improve. This is principally because Cash inflows from agencies and other revenue exceeded the Cash outflows for claims and other expenses. A large element of the claims expenses is anticipations for future costs. The build-up of cash will be needed to meet these anticipated future insurance claims.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		3 549	(2 248)
Operating margin	>1.0	1.09	0.95
Financial Management			
Debt collection	30 days	19	5
Creditor turnover	30 days	13	5
Other Information			
Staff numbers (FTEs)		4	4
Average staff costs ($'000s)		70	67

Comment

The lower Operating margin in 2004-05 reflected the operating deficits in that year.

As expected for this type of business, Debt collection and Creditor turnover are both well within the benchmarks. The increases in 2005-06 were due to the increases in Receivables and Payables at 30 June 2006 noted previously.

OVERALL COMMENT

Subject to ongoing support from the State Government, particularly as it relates to the pre-1 July 2001 medical malpractice liabilities, the Fund should continue to track towards a stronger financial position.

The 2005-06 audit was completed satisfactorily with no outstanding issues.

AUDIT MANDATE AND STANDARDS APPLIED

MANDATE

Section 39 of the *Financial Management and Audit Act 1990* states that the Auditor-General is:

> '... the auditor of the accounts of the Treasurer, of all Government departments and public bodies and of the financial administration of each appropriation referred to in Column 1 of Schedule 2. ...'

The conduct of such audits is generally known as financial auditing.

Under the provisions of section 40, the Auditor-General:

> '... (1) On performing an audit under this or any other Act of the financial statements of the Treasurer, a Government department, a public body or the financial administration of an appropriation referred to in Column 1 of Schedule 2, the Auditor-General must, except as provided by any other written law, make a report on those financial statements in accordance with this section.
>
> (2) Subject to subsection (3), a report made under subsection (1) -
>
> *(a)* is to include an opinion as to whether the financial statements have been drawn up so as to present fairly the financial transactions during the period specified in the statements and the financial position at the end of that period; and
>
> *(b)* may include particulars of any other matter arising from the audit which the Auditor-General considers should be included in the report.
>
> (3) Where, under this or any other Act, the financial statements are not required to make full disclosure of financial position, the Auditor-General's opinion as to financial position may be limited to such components of financial position as may be specified in the Treasurer's Instructions and such other components of financial position as are included in those statements. ...'

STANDARDS

Section 43 specifies that:

> '... The Auditor-General shall perform the audits required by this or any other Act in such manner as the Auditor-General thinks fit having regard to -
>
> *(a)* this Act and any other relevant written law relating to the financial management of the Government department or public body concerned; and
>
> *(b)* recognised professional auditing standards and practices. ...'
>
> The auditing standards referred to above are Australian Auditing Standards as produced by the Australian Auditing and Assurance Standards Board.

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