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AUDITOR-GENERAL

No. 2 of 2007

GOVERNMENT DEPARTMENTS

AND PUBLIC BODIES 2006-2007

Volume Two

Government Businesses and Local Government Authorities

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Tasmanian Audit Office

GPO Box 851

Hobart

TASMANIA 7001

Phone: (03) 6226 0100, Fax (03) 6226 0199

Email:- admin@audit.tas.gov.au

Home Page: http://www.audit.tas.gov.au

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TABLE OF CONTENTS

VOLUME TWO

GOVERNMENT BUSINESSES

Government Businesses are entities that are established under specific legislation that defines the purpose for which they are established and their general functions.

The State Government owns a diverse portfolio of businesses, which at 30 June 2007 comprise the following ten Government Business Enterprises and six State Owned Companies:

Entity	**Responsible Minister**
Forestry Tasmania	Minister for Economic Development and Resources
Hydro-Electric Corporation	Minister for Energy
Motor Accidents Insurance Board	Minister for Infrastructure
Port Arthur Historic Site Management Authority	Minister for Tourism, Arts and the Environment
Printing Authority of Tasmania	Minister for Infrastructure
Rivers and Water Supply Commission	Minister for Primary Industries and Water
Tasmanian International Velodrome Management Authority	Minister for Sport and Recreation
Tasmanian Public Finance Corporation	Treasurer
The Public Trustee	Attorney-General
Aurora Energy Pty Ltd	Minister for Energy
Metro Tasmania Pty Ltd	Minister for Infrastructure
TOTE Tasmania Pty Ltd	Minister for Racing
Transend Networks Pty Ltd	Minister for Energy
TT-Line Pty Ltd	Minister for Infrastructure
Tasmanian Ports Corporation Pty Ltd	Minister for Infrastructure

These entities operate in many commercial markets including various primary industries, port operations, transport, financial services, construction, forestry and public utilities.

Government businesses have $3.536b (2005-06, $3.896b) in net assets, generate $291.887m ($127.500m) in after tax profits, employ about 4 033 (3 900) full time employees and are of fundamental importance to the Tasmanian economy. Also of significance is that during 2006-07 these entities paid out $295.093m ($366.317m) in capital expenditure.

The following sections of this Chapter provide commentary on groups of Government Businesses as follows:

- Government business enterprises; and
- State owned corporations.

For each Government Business this Report provides a comparative analysis of financial results for the three year period to 2006-07.

In the case of the Energy Businesses a separate section is included comparing performance between the three businesses in 2006-07.

TAXATION EQUIVALENTS

The taxation equivalents regime provides for the payment of income tax equivalents and capital gains tax equivalents to the Consolidated Fund.

Income tax equivalents are calculated, determined and paid to the Treasurer as if the Commonwealth income tax laws had applied. Capital gains tax (CGT) equivalents form part of the income tax equivalents regime.

From 1 July 2001 a National Taxation Equivalent Regime (NTER) was established with the primary objective of promoting competitive neutrality, through the uniform application of income tax laws across NTER entities and their privately owned counterparts. The Australian Taxation Office was contracted by the Treasurer to administer the NTER from 1 July 2001.

GUARANTEE FEES

Guarantee fees are based on the amount of financial accommodation utilised by the entity and its subsidiaries at the end of the preceding year. For example, an explicit government guarantee is provided to businesses borrowing through the Tasmanian Public Finance Corporation. The Treasurer determines guarantee fees (subject to a maximum prescribed percentage of 1%).

DIVIDENDS

Consistent with commercial practice, the Board of a business recommends to the shareholding Ministers whether a dividend should be paid in respect of the previous financial year and the amount of that dividend. The Ministers will subsequently determine the dividend payable.

As a general rule a dividend can only be paid out of profits earned. The Dividend Policy Guidelines for Government Businesses Enterprises imposes a distribution target of at least 50% of after-tax profits.

PROVISION FOR DIVIDENDS

Accounting Standard AASB 110 *Events after the Balance Sheet Date* applicable from 1 January 2005 establishes the disclosure requirements for dividends. Dividends declared (ie. appropriately authorised and no longer at the discretion of the entity) on or before the reporting date must be recognised as a liability as at that date. Dividends declared before the financial report is authorised for issue but not on or before the reporting date must be disclosed in the notes to the financial report.

COST OF CAPITAL

The cost of capital is an opportunity cost and is calculated by reference to the return expected from other like assets that have a similar risk profile. The weighted average cost of capital (WACC) represents the minimum return required by capital providers from their investment in the business, having regard to the opportunity cost of debt and equity finance.

Cost of debt is calculated as the weighted average cost of borrowings plus any applicable guarantee fees.

The cost of equity capital is typically determined using the Capital Asset Pricing Model (CAPM), where the cost of equity capital equals the prevailing 10-year Commonwealth bond rate (30 June 2007, 6.25%) plus a risk premium (usually of the order of 6.5%) adjusted for the relative risk of the investment when compared to the market as a whole.

RETURN ON EQUITY

Typically the cost of equity capital would range between 9% and 11.5% before tax for government businesses depending on the relative risk beta of the particular business compared to the market as a whole. Assuming a taxation rate of 30%, after tax returns of government business enterprises and state-owned companies should be of the order of 6% to 7.5% (nominal post-tax).

ENERGY BUSINESSES 2006-07

Tasmania's three government-owned energy businesses were established in their current form in 1998. Details of the legislation under which each operates are documented in each entity's section of this Report. This Chapter summarises their performance on a comparative basis. Readers should take care in drawing conclusions from comparisons such as this due to the differing nature of each entity's business and their differing corporate structures. Also, the introduction of revised accounting standards in 2004-05 impacted each entity to differing extents.

At the same time, however, there are many similarities and comparative assessment is again provided to assist in evaluating relative performance.

The three entities are Hydro-Electric Corporation (Hydro Tasmania or Hydro), Aurora Energy Pty Ltd (Aurora) and Transend Networks Pty Ltd (Transend).

FINANCIAL RESULTS

INCOME STATEMENTS

	Hydro $'000s	**Aurora** $'000s	**Transend** $'000s
Electricity sales/transmission/ distribution	442 228	778 405	123 516
Other operating revenue	123 347	27 515	4 258
Non-operating revenue	155 127	9 065	0
Total Revenue	**720 702**	**814 985**	**127 774**
Borrowing costs	92 302	30 599	6 513
Depreciation	69 014	65 339	45 976
Labour	84 868	69 852	20 436
Energy and transmission purchases	0	545 985	0
Other operating expenses	361 025	51 513	20 491
Total Expenses	**607 209**	**763 288**	**93 416**
Net profit before superannuation adjustment	**113 493**	**51 697**	**34 358**
Superannuation actuarial adjustment *	(31 167)	(6 546)	(4 277)
Net profit before taxation	**82 326**	**45 151**	**30 081**
Income tax expense	(34 126)	(12 816)	(8 949)
Profit after taxation	**48 200**	**32 335**	**21 132**
Profit after taxation in 2005-06	***44 269***	***22 342***	***37 548***

** As outlined in Hydro's separate Chapter in this Report, in 2006-07 it recognised this superannuation adjustment directly against equity. The resulting Net profit after tax therefore differs from that reported in the Hydro Chapter.*

Comment

These entities made a combined Profit after taxation of $101.667m (2005-06, $104.159m) with Hydro contributing 47%, Aurora 32% and Transend 21% of this profit.

Aurora’s energy and other operating costs includes $538.600m (2005-06, $497.986m) for purchase of energy and transmission costs, (in the main paid to Hydro and Transend although via the National Energy Market) resulting in its electricity sales to retail and business customers.

Hydro’s Other operating revenues represents a greater share of total revenues compared to Aurora and Transend primarily due to:

- Revenues generated by its Consulting Division, $32.393m (2005-06, $32.320m);
- $11.151m earned from the Bell Bay sale agreement; and
- Re-assessment of the Basslink financial assets and liabilities, $61.026m.

Hydro’s Non-operating revenue arises from partial reversal of the $542.269m impairment of Property, plant and equipment recorded in 2004-05. Aurora’s Non-operating revenue of $9.065m comprises profits on disposal of Property, plant and equipment and unrealised energy derivative gains.

Borrowing costs represent differing percentages of total costs as noted below:

	2006-07	**2005-06**
Hydro	15.20%	18.47%
Aurora	4.01%	4.01%
Transend	6.97%	5.42%

Hydro’s total borrowing costs increased by $6.442m in 2006-07 but the percentage dropped due to total expenses increasing greater relative to the change in borrowing costs. In Aurora’s case, its borrowing costs increased by $2.230m while Transend’s increased by $2.363m.

Hydro’s other operating expenses include costs associated with Basslink and gas and pipeline costs.

BALANCE SHEETS

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Cash and investments	51 615	33 272	158
Receivables	153 153	68 182	17 692
Unbilled energy	0	57 271	0
Inventories	1 533	9 170	488
Financial assets	53 695	79 774	0
Other	0	1 487	691
Total Current Assets	**259 996**	**249 156**	**19 029**
Payables	121 591	147 285	15 951
Borrowings	2 200	181 924	38 059
Financial liabilities	210 126	0	0
Provisions	44 036	28 458	8 515
Tax (assets)/liabilities	(7 397)	4 461	5 162
Other	0	20 011	10 951
Total Current Liabilities	**370 556**	**382 139**	**78 638**
Working Capital	**(110 560)**	**(132 983)**	**(59 609)**
Property, plant and equipment	3 520 541	995 292	1 110 452
Investments	88 365	0	0
Deferred tax assets	0	27 244	0
Intangible assets	0	23 283	353
Financial assets - Basslink	323 081	0	0
Other financial assets	50 110	5 980	0
Total Non-Current Assets	**3 982 097**	**1 051 799**	**1 110 805**
Borrowings	1 190 000	323 449	80 000
Provisions	290 609	51 650	18 672
Financial liabilities	950 358	0	0
Deferred tax liabilities	482 380	140 242	187 905
Other non-current liabilities	0	313	0
Total Non-Current Liabilities	**2 913 347**	**515 654**	**286 577**
Net Assets	**958 190**	**403 162**	**764 619**
Capital	0	201 555	336 549
Reserves	8 838	119 858	359 172
Minorities/joint ventures	0	209	0
Retained earnings	949 352	81 540	68 898
Total Equity	**958 190**	**403 162**	**764 619**
Total Equity at 30 June 2006	**917 782**	**333 145**	**528 508**

Comment

All three entities continue to have negative working capital suggesting that, before adjusting for employee and other provisions, and subject to available credit, liquidity is tight. However, this assumes that all short term borrowings will be paid rather than re-negotiated.

As expected, infrastructure assets, resulting in high depreciation charges, dominate each entity's balance sheet. Another large non-current asset at Hydro is its $80m, 50%, investment in the R40s joint venture. Revaluations of Transend's network assets in 2006-07 resulted in an increase in its Property, plant and equipment by $329m.

A significant difference between these three entities continues to be the manner in which their capital structures have been established with Hydro having no capital. This relates partly to the establishment of Aurora and Transend as separate entities, incorporated under the *Corporations Act 2001*, in 1998 when Hydro was left with debt existing at that time. The situation has, however, changed to some extent since 2004-05 as demonstrated by gross borrowings recorded in the following table:

	Hydro	**Aurora**	**Transend**
	$'000s	$'000s	$'000s
Borrowings at 30 June 2005	1 211 518	436 875	52 901
Borrowings at 30 June 2006	1 077 000	461 406	92 777
Borrowings at 30 June 2007	1 192 200	505 373	118 059
Increase (decrease) in borrowings	(19 318)	68 498	65 158
Percentage change in borrowings	(1.59)	15.68	123.17

Hydro's debt decreased primarily due to the deconsolidation of the R40s group of companies in 2005-06 since when borrowings increased by $115.2m whilst the debt of Aurora and Transend increased primarily to fund capital expenditure.

CASH POSITION

	Hydro $'000s	Aurora $'000s	Transend $'000s
Receipts from customers	438 996	893 579	136 040
Payments to suppliers and employees	(304 505)	(753 295)	(46 392)
Interest received	2 178	1 409	0
Borrowing costs	(65 432)	(26 870)	(6 198)
Income tax equivalents paid	(28 737)	(9 570)	(18 988)
Government guarantee fee paid	(5 105)	(1 843)	0
Cash From Operations	**37 395**	**103 410**	**64 462**
Payments for investments	(15 001)	0	0
Payments for financial assets	(24 499)	0	0
Payments for assets and intangibles	(57 888)	(124 309)	(71 199)
Proceeds from investments and asset sales	1 857	7 269	326
Cash (Used in) Investing Activities	**(95 531)**	**(117 040)**	**(70 873)**
Proceeds from borrowings	405 000	121 784	30 314
Repayment of borrowings	(289 800)	(78 000)	(5 000)
Dividend paid	(21 200)	(9 585)	(18 774)
Proceeds from equity issue	0	344	0
Cash From Financing Activities	**94 000**	**34 543**	**6 540**
Net Increase in Cash	**35 864**	**20 913**	**129**
Cash at the beginning of the year	15 751	12 359	29
Cash at End of the year	**51 615**	**33 272**	**158**

Comment

These entities continue to generate significant cash from operations, which totalled $205.267m ($286.949m in 2005-06 and $271.609m in 2004-05). They also invested heavily in capital expenditure – gross $253.396m in 2006-07 ($348.757m in 2005-06 and $256.658m in 2004-05).

Hydro's Cash from operations dropped significantly in 2006-07 – from $139.968m in 2005-06 to $37.395m. This is a reduction of $102.573m and was due to the long term drought in south eastern Australia and associated low inflows and the impact on Hydro's storages. This increased the required level of imports over Basslink and resulted in reduced hydro generation together with reduced export opportunities across Basslink. Increased market prices also meant Basslink imports occurred at substantially higher prices. The other factors were the first full year of facility fee payments being made under the Basslink Services Agreement and continued costs of operating the gas fired Bell Bay Power Station due to the low storage situation.

FINANCIAL ANALYSIS

	Bench Mark	Hydro	Aurora	Transend
Financial Performance				
Result from operations ($'000s)		19 496	45 011	34 358
EBIT ($'000s)		119 577	75 750	40 871
EBITDA ($'000s)		188 591	141 089	86 847
Operating margin	>1.0	1.62	1.06	1.32
Return on assets		3.0%	6.3%	4.3%
Return on equity		8.5%	8.8%	3.3%
Financial Management				
Debt to equity		124.4%	125.4%	15.4%
Debt to total assets		28.1%	38.8%	10.4%
Interest cover - EBIT		1.30	2.5	5.2
Interest cover - EBITDA	>3	2.04	4.6	13.33
Interest cover - operating cash flows		1.53	4.3	11.4
Current ratio	>1	0.71	0.65	0.24
Leverage ratio		443%	322%	148%
Cost of debt	7.50%	6.5%	6.3%	7.4%
Debt collection	30 days	86	29	20
Creditor turnover	30 days	29	8	11
Capital Exp/Depreciation		0.84	1.59	1.44
Returns to and from Government				
Dividends paid or payable ($'000s)		0	10 733	15 000
Dividend payout ratio	50%	0%	33.2%	71.0%
Dividend to equity ratio	6%	0%	2.9%	2.3%
Income tax paid or payable ($'000s)		34 126	9 570	18 988
Effective tax rate	30%	30.1%	21.3%	29.7%
Government guarantee fees ($'000)		5 105	1 843	0
Total return to the State ($'000s)		39 231	22 146	33 988
Total return to equity ratio		4.2%	6.0%	4.5%
CSO funding ($'000)		6 400	11 780	0
Other Information				
Staff numbers (FTE)		781	1 069	194
Average staff costs ($'000s)		109	65	107
Average leave balances per employee ($'000s)		26	20	26

Comment

Applying conventional financial performance ratios indicate that all three entities achieve operating margins above the benchmark with positive returns on assets and equity.

Their Debt to equity ratios indicate that Hydro and Aurora rely to a greater extent on debt funding than does Transend, resulting in their lower interest cover ratios, indicating that higher levels of profit are needed by them to cover interest costs.

This situation is confirmed by the high leverage ratios in Hydro and Aurora, that is, Transend has funded its net assets by equity to a greater extent than have Hydro or Aurora. However, this is to an extent distorted by the impact on this ratio of asset revaluations which occurred in 2006-07.

All three entities continue to invest strongly in capital expenditure as indicated by their capital expenditure to depreciation ratios.

In total these three entities returned $95.365m (2005-06, $108.732m; 2004-05, $129.900m) to the State in 2006-07 with Transend making the largest contribution in relative terms.

GOVERNMENT BUSINESS ENTERPRISES

BACKGROUND

Statutory authorities that are subject to the provisions of their enabling legislation, and also subject to the provisions of the *Government Business Enterprises Act 1995* (GBE Act), are referred to as Government Business Enterprises (GBEs).

The GBE Act made provision for a consistent framework for more accountable, responsive and commercially focussed GBEs. The GBE Act commenced on 1 July 1995 and repealed the *State Authorities Financial Management Act 1990.*

The GBE Act was consistent with the national competition reform agenda and formed part of a legislative reform package that also included reform of the electricity supply industry and the establishment of the Government Prices Oversight Commission. The reforms introduced by the GBE Act included:

- A clearer commercial focus for GBEs;
- Greater accountability for financial performance;
- Increased return on investment from each GBE;
- Payment of financial returns to the State; and
- Improved services to clients and consumers.

The GBE Act provides for the payment of guarantee fees, taxation equivalents and dividends by the majority of GBEs.

KEY FINDINGS

- The audits of the financial statements of all 10 Government Business Enterprises (GBEs) have been completed. All audit opinions were unqualified.
- All audits were all completed satisfactorily with no major issues outstanding.
- All GBEs submitted financial statements within the statutory deadline, 45 days from the end of the financial year, with the exception of the Printing Authority of Tasmania (21 August 2007) and The Public Trustee (21 August 2007).
- Tasmania's GBEs collectively have net assets valued at $1.941b (2005-06, $1.782b), employ over 1 540 people (1 600), and generate $220.797m ($169.789m) in after tax profits annually.
- The following three GBEs make up 97% of the net assets controlled by all GBEs, earn 100% of total net profit after tax earned by GBEs and employ 86% of all staff employed in GBEs:
  - Forestry Tasmania;
  - Hydro-Electric Corporation (Hydro); and
  - Motor Accidents Insurance Board.

- 2006-07 has been a challenging year for **Hydro**. It has had to adapt operationally to the new environment of operating with Basslink and market conditions under the National Energy Market. At the same time it has had to manage historically low storage inflows at a time of high market prices.

  Hydro's liquidity and Balance Sheet position is tight and its challenge is to determine a sustainable level of expenditure to enable it to balance a reasonable return to Government, preservation of its assets and investment in growth opportunities while not increasing its borrowings to an unsustainable level. Achieving this balance will be complicated by the need for Hydro to manage the risk around international markets and the need to continue to meet its share of the Roaring 40s joint venture capital expenditure commitments.

- The **Motor Accidents Insurance Board** performed strongly in financial terms in 2006-07. It made a net profit after tax of $113.084m (2005-06, $96.187m) with net assets of $339.474m at 30 June 2007 (2006 - $248.452m).

  Advice from the Board's investment advisors indicates a minimal exposure arising from the downturn in August 2007 to the US sub-prime market.

- In recent years the Government has provided additional support to the **Port Arthur Historic Site Management Authority** in recognition of the unique heritage value and economic benefits of the site to the Tasmanian economy. The Authority remains economically dependent on funding from the State Government. It operated at a loss of $0.460m in 2006-07 following small operating profits in each of 2005-06, $0.210m, and 2004-05, $0.062m.

- The **Rivers and Water Supply Commission** continues to make losses and during the period 2004-05 to 2006-07 it received $9.554m in equity contributions from the State Government. The Commission's debt servicing costs will increase as it borrows to fund construction of the Meander Dam. At 30 June 2007 its borrowings totalled $15.021m (30 June 2006, $4.311m). To enable the Commission to meet its interest and other costs, it is essential that the Meander project prove profitable. Without this, ongoing support from the State Government will be necessary.

  Before bringing to account the impact of the actuarial revision of its defined benefit superannuation obligations and forest net market valuation adjustment, **Forestry Tasmania** operated at a net profit of $19.321m in 2006-07 and its net assets were $586.560m at 30 June 2007.

- The **Tasmanian Public Finance Corporation** (Tascorp) is the banker to Government in Tasmania. Its role is to meet the non transactional banking needs of Government and related bodies in Tasmania and to manage the market risks associated with those banking needs. Tascorp has refined its risk management strategies to operate with reduced capital and a corresponding low appetite for risk. The objective is to structure the business so as to effectively deliver the core objective.

  Tascorp's core objective is to raise funds for the Tasmanian Government and its business enterprises at a price reflective of the rating held by the State of Tasmania. This has been achieved within a clearly defined capital at risk and an appropriate risk management system approved by the Board.

During 2006-07 Tascorp operated at a profit after tax of $3.846m and its net assets at 30 June 2007 were $22.046m. At this date its gross assets were $6.477b (2006, $5.579b) and its gross liabilities totalled $6.455b (2006, $5.559b).

- The **Printing Authority of Tasmania** operated at a profit after tax of $0.006m in 2006-07 ($0.203m net loss in 2005-06) and at 30 June 2007 it had net assets of $2.523m (2006, $2.517m).

  In the May 2007 Budget, the State Government announced that it intended to sell the Printing Authority. This fact is noted in the Authority's audited financial statements. At the time of preparing this Report, arrangements to enable the sale are underway.

FORESTRY TASMANIA

INTRODUCTION

Forestry Tasmania was established under the *Forestry Amendment (Forestry Corporation) Act 1994*, which amended the *Forestry Act 1920*. Forestry Tasmania has responsibility for optimising both the economic returns from its wood production activities and the benefits to the public and the State of the non-wood values of forests.

Forestry Tasmania's Board comprises six members, five appointed by the Governor on the recommendation of the Minister, and the Managing Director who is appointed by the Board.

The Responsible Minister is the Minister for Economic Development and Resources.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Financial statements, signed by the Board, were received on 13 August 2007. An unqualified audit report was issued on 12 September 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	2005-06	2004-05
	$'000	$'000	$'000
Forest sales revenue	123 540	107 331	137 589
Share of GMO JV revenues	27 929	24 432	22 350
Forest management services revenue	11 788	13 626	14 251
Tasmanian Community Forest Agreement	22 291	17 716	0
Other operating revenue	11 712	12 513	9 204
Non-operating revenue	18	57	8
Total Revenue	**197 278**	**175 675**	**183 402**
Employee benefits	30 049	33 758	32 288
Contractors expenses	76 795	65 888	73 438
Share of GMO JV expenses	26 581	23 010	20 705
Net finance costs	1 224	1 073	1 425
Depreciation	10 220	9 594	9 065
Other operating expenses	29 316	23 486	29 200
Non-operating expenses	3 772	53	(8)
Total Expenses	**177 957**	**156 862**	**166 113**
Profit before;	**19 321**	**18 813**	**17 289**
Forest net market value adjustment	37 753	6 745	(12 645)
Superannuation liability movement	(15 828)	5 754	(15 739)
Profit (loss) before income tax	**41 246**	**31 312**	**(11 095)**
Income tax (credit) expense	12 108	8 526	(4 392)
Net profit (loss)	**29 138**	**22 786**	**(6 703)**

Comment

During the three years under review, Forestry Tasmania consistently recorded a profit before the impacts of the Forest net market value adjustment, movement in the unfunded superannuation liability and income tax. After allowing for these items Forestry Tasmania made a Net loss in 2004-05 and Net profits in 2005-06 and 2006-07.

The Forest net market value adjustments related solely to hardwood plantation and softwood plantation standing timber. The adjustments were primarily due to changes to the discount rates, valuation inputs including costs and changes to a market based value for some joint venture timber resources. The loss in 2004-05 of $12.645m was principally due to accounting for increased costs such as council rates, land rental charges and plantation establishment costs. The turnaround in 2005-06 was principally driven by a reduction in the discount rate from 10.5% in the prior year to 10%. This continued in 2006-07 with an increase in the carrying value of this asset at 30 June 2007 of $37.753m, mainly resulting from a further decrease in the discount rate from 10% to 9%, an increase in log prices and increased timber volumes.

Superannuation liability movements were caused by changes in discounts rates, rules applied in accounting for contributions tax and the value of contributory scheme assets and liabilities, as determined by the Actuary. As is evident from the fluctuation between the years, this movement is quite volatile and not within Forestry Tasmania's control.

2005-06 was a difficult trading year for Forestry Tasmania. Forest sales revenue decreased significantly primarily due to a decline in price and volume of wood products. This saw a reduction in gross sales of approximately $30.000m with most of the change relating to hardwood pulpwood. The main factors contributing to this outcome included the strong Australian dollar, which negatively affected export sales, increased freight costs and boycotting of Tasmanian wood products by some buyers. Consistent with the decline in sales of wood products, Contractors expenses decreased in 2005-06.

Forest sales revenue improved in 2006-07 principally due to improved local and export sale market conditions. Harvesting and haulage contractor costs increased commensurate with the increase in sales. Other contracting costs increases are principally associated with road maintenance and native forest management costs.

A significant source of revenue is from the Tasmanian Community Forest Agreement (TCFA) (2005-06, $17.716m; and 2006-07, $22.291m). This revenue is largely matched by expenditure incurred under the TCFA on plantation establishment costs, future crop expenditure (primarily contractor costs) and on other operating expenditure including some payroll costs. Forestry Tasmania management assure us that these costs would not have been incurred had the TCFA monies not been received and that this revenue source makes no net contribution to profit other than that spent on capital expenditure.

The TCFA was signed in May 2005 between the State and Federal Governments. To date $68.205m has been received by Forestry Tasmania with $40.007m earned to date. At 30 June 2007 $23.196m was carried forward to future years to match expenditure still to be incurred. The balance of $5.002m comprises expenditure incurred on depreciable assets, such as road construction, which will be recognised as income as the assets are depreciated over their useful lives. This agreement is designed to enhance the productivity of the forest, improve timber value recovery and capitalise on tourism opportunities from the substantially enlarged conservation reserves.

Forestry Tasmania's share of its joint venture with Grantham, Mayo and Otterloo Renewable Resources (GMO) (also referred to as the Taswood Growers JV) revenue and expenditure both increased over the period of review due to increases in the volume of softwood sales. However, the net impact on the overall profit is small and declining slightly. Net contributions were $1.645m in 2004-05, $1.422m in 2005-06 and $1.348m 2006-07.

Forest management services revenue has been declining due to a reduction in Plantation establishment on State forest by external parties and consequently a reduction in the requirement for forest management services.

The increase in Other operating revenue in 2005-06 was mainly the result of payments by Newood Holdings Pty Ltd to Forestry Tasmania for development fees for the Smithton and Huon Wood Centre sites, $3.500m. The amount in 2006-07 included $2.135m reimbursement from the Department of Treasury and Finance for fire fighting expenses.

Employee benefits were higher in 2005-06 because of higher contributions to superannuation funds, as a result of the actuarial calculations.

The reduction in Other operating expenses in 2005-06, which include items such as external plant hire and transport costs, was also due to the decline in the volume of wood products sold. Expenditure increased in 2006-07 by $5.830m largely as a result of fire fighting expenses, aerial work for the native forests regeneration program, pest control, planting, rates, legal costs, other professional services and stock adjustments to Island State Timber, $0.214m, and the Perth Nursery stock, $0.306m. Non-operating expenses includes impairment of the Dismal Swamp Visitor Centre, $1.304m, and expensing of the Maydena Hauler, $2.419m project which is being re-scoped.

The income tax credit in 2004-05 arose due to the accounting loss for the year combined with movements in deferred tax liabilities and assets and a slight overprovision for tax in the prior year. Income tax expense resulted in 2005-06 and 2006-07 from tax accounting profits made in both years.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000	$'000	$'000
Cash	30 450	26 436	18 691
Receivables	20 422	26 042	28 796
Inventories	9 995	9 247	6 997
Biological assets	21 655	21 230	26 336
Other	675	558	560
Total Current Assets	**83 197**	**83 513**	**81 380**
Payables	21 978	22 902	22 374
Payables - TCFA	23 197	16 914	12 500
Deferred government grants	110	110	109
Borrowings	19 800	14 000	0
Provisions - leave and other	6 294	6 148	6 554
Provisions - superannuation	13 338	10 388	8 759
Total Current Liabilities	**84 717**	**70 462**	**50 296**
Net Working Capital	**(1 520)**	**13 051**	**31 084**
Biological assets	367 014	339 288	340 088
Forest estate	382 302	375 431	370 085
Property, plant and equipment	35 008	30 286	30 009
Intangible assets	1 142	1 067	745
Receivables	1 550	50	202
Investment property	570	570	623
Other financial assets	24 233	18 651	15 953
Deferred tax assets	34 737	31 785	33 728
Total Non-Current Assets	**846 556**	**797 128**	**791 433**
Borrowings	21 000	21 000	32 000
Deferred government grants	3 751	3 861	3 999
Deferred tax liabilities	144 619	137 019	137 794
Provisions - leave and other	1 251	1 137	1 287
Provisions - superannuation	87 855	77 720	85 102
Total Non-Current Liabilities	**258 476**	**240 737**	**260 182**
Net Assets	**586 560**	**569 442**	**562 335**
Contributed equity	235 457	234 057	233 057
Reserves	273 076	292 659	306 893
Retained earnings	78 027	42 726	22 385
Total Equity	**586 560**	**569 442**	**562 335**

Comment

Forestry Tasmania's Net Assets increased by $24.225m over the three-year period which in summary comprised:

	$m
Increases in Contributed equity	2.400
Operating profits	51.924
Additional income tax benefit	14.820
Dividends paid	(3.744)
Devaluations of biological assets	(49.695)
Revaluations of investments and other fixed assets	8.520
Total movement	**24.225**

The bulk of the Contributed equity consists of the value of State loans to the former Forestry Commission taken over by the Tasmanian Government in 1990, $232.057m, and funds provided for the construction and development of income generating assets. In each of the years under review $1.000m was received for the Maydena Hauler project (2006-07 from the TCFA) and an additional $0.400m in 2006-07 for the Tahune Swing Bridge.

The income tax benefit of $14.820m, $7.460m in 2006-07 and $7.360m in 2005-06, was credited directly to retained profits (i.e., was not recorded as a revenue item in the Income Statement) and arises from the tax effect of downward revaluations of biological assets, in particular native forests.

Reasons for devaluations of biological assets and revaluations of other assets are noted later in this Chapter.

Movements in individual classes of assets and liabilities are discussed below.

The increases in Cash were partly due to funds received under the TCFA and reductions in Receivables. The commentary on Forestry Tasmania's Cash position later in this Chapter provides more detail on movements in the cash position.

The reduction in Receivables over the period mainly reflects improvements by Forestry Tasmania in managing recoveries from customers. As noted in the financial analysis section later in this Chapter, debtor days improved by 19 at 30 June 2007.

The increase of $1.500m in Non-current receivables in 2006-07 is repayable by Newood Huon Pty Ltd for power supply arrangements at the Huon Wood Centre.

Inventories increased significantly in 2005-06 due to higher gravel stocks held in preparation for road capital works, increased export stock held over, and increases in the value of seeds and seedlings. The quantity of seeds at the Perth Nursery increased due to anticipated demand. Increased freight and collection costs have added to the carrying value of seeds. The movement in 2006-07 was similarly due to an increase in the quantity and value of seed and seedling stocks.

The carrying value of Biological assets (comprising both native and plantation forests) varies from year to year for a number of reasons including:

- valuations (both increments and decrements) based on applying a discounted cash flow model to derive a net present 'market' value of the existing forest crop;
- wood consumption;
- forest growth including forest replanting; and
- changes in costs of production and sales prices.

Movements in this significant asset over the period under review are detailed in the table below:

	Plantations $m	Native Forest $m	Total $m
Balance at 30 June 2005	**142.2**	**224.2**	**366.4**
Additions	11.9	0	11.9
Revaluations – change in discount rate	4.9	(2.8)	2.1
Revaluations – changes in prices, costs and volumes	14.3	(22.3)	(8.0)
Consumption/reallocations	(11.9)	0	0
Balance at 30 June 2006	**161.4**	**199.1**	**360.5**
Additions	16.1	0	16.1
Revaluations – change in discount rate	16.8	(3.5)	13.3
Revaluations – changes in prices, costs and volumes	37.1	(22.3)	14.8
Consumption/reallocations	(16.7)	0.6	(16.1)
Balance at 30 June 2007	**214.8**	**173.9**	**388.7**

The decrease of $5.907m in 2005-06 related to a decrease in the net market value of the native forest of $25.135m, offset by an increase in the net market value of plantation forests of $19.228m. The decrease in the value of the native forest was principally due to a reduction in wood flows arising from the TCFA. The reduction included additional native forest being transferred into conservation reserves and restrictions on clear felling of old growth forests into the future. An increase in the discount rate from 8.89% to 9.12% also contributed to the reduction in value. Plantations increased in value due to a decrease in the discount rate from 10.5% to 10.0% and a change to a market based value for some joint venture timber resources.

The increase of $28.152m in 2006-07 related to an increase in the net market value of plantation forests of $53.900m, offset by a decrease in the net market value of the native forest of $25.756m. Plantations increased in value due to a decrease in the discount rate from 10.0% to 9.0% and price improvements for some joint venture timber resources. The decrease in the value of the native forest was principally due to the increase in the discount rate from 9.12% to 9.38% and due to increased costs such as land rental charges, council rates and other cost inputs to the valuation process.

The carrying value of Forest estate assets, comprising land, roads and road structures, increased over the period due to the construction of roads and other infrastructure, offset by depreciation.

Property, plant and equipment increased in 2006-07 due to the capitalisation of the Southwood merchandising yard at Huonville, offset by impairment of the Dismal Swamp Visitor Centre. The impairment loss was attributed to reduced visitor numbers, which resulted in reduced operating cash flows of the Centre.

Other financial assets consist of the superannuation investment account, invested with the Tasmanian Public Finance Corporation, and from 2006-07 an investment in Ta Ann Tasmania. The value of the superannuation investment account has been increasing over the period due to gains in the share portfolio component.

Forestry Tasmania invested $2.400m in equity in Ta Ann Tasmania on the basis that Ta Ann Plywood, a subsidiary of Ta Ann Tasmania, will purchase 400,000 shares at $1.00 each on a six monthly basis. Ta Ann Tasmania has provided a bank guarantee to Forestry Tasmania for $2.400m. Purchases during 2006-07 totalled $0.800m, such that the balance of Forestry Tasmania's investment in Ta Ann Tasmania was $1.600m at 30 une 2007.

Changes in Deferred tax assets over the period have largely been a consequence of changes in the superannuation and other provisions.

Payables, which include trade creditors, accrued expenses and revenue received in advance, have remained consistent over the period of review. Payables –TCFA have been increasing due to the revenue received in advance related to TCFA funds.

Over the three years under review, Forestry Tasmania's working capital position has declined from a positive $31.084m at 30 June 2005 to a negative $1.520m at 30 June 2007. The main reason for this is the timing of debt repayments. However, in the main Forestry Tasmania renegotiates its debt (see later comments) and the net working capital position before current borrowings was positive being:

2005 – $31.084m
2006 – $27.054m
2007 – $18.280m.

Although still declining, this more accurately reflects the extent to which current assets exceed current liabilities. Subject to how Forestry Tasmania manages its debt repayments, its working capital management appears reasonable.

Borrowings increased from $32.000m in 2004-05 to $40.800m in 2006-07. This is consistent with Forestry Tasmania's Corporate Plan and budget and primarily relates to funding essential capital expenditure.

As noted previously, the Superannuation liability movements were caused by changes in discounts rates, accounting for contributions tax and changes in the value of contributory scheme assets. Over the three years of review there was a net increase of $7.332m in this liability.

Changes in Deferred tax liabilities over the period have largely been a consequence of changes in the valuation of Biological assets.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000	$'000	$'000
Receipts from customers	164 679	143 805	177 638
Proceeds from TCFA	31 724	22 981	12 500
Distributions received	1 250	750	2 200
Interest received	1 182	989	485
Payments to suppliers and employees	(154 555)	(136 874)	(154 894)
Payments to suppliers and employees - plantations	(16 147)	(11 932)	(11 292)
Borrowing costs	(2 457)	(2 092)	(1 594)
Tax equivalents recovered (paid)	0	3 523	(3 778)
Cash from operations	**25 676**	**21 150**	**21 265**
Proceeds from investments	400	0	3 000
Payments for investments	(3 900)	0	0
Proceeds from sale of property, plant and equipment	450	1 111	1 646
Payments for property, plant and equipment	(24 515)	(16 069)	(20 508)
Cash (used in) investing activities	**(27 565)**	**(14 958)**	**(15 862)**
Equity Contribution	400	1 000	1 000
Equity Contribution - TCFA	1 000	0	0
Proceeds from borrowings	5 800	3 000	7 000
Dividends paid	(1 297)	(2 447)	(5 232)
Cash from financing activities	**5 903**	**1 553**	**2 768**
Net increase in cash	**4 014**	**7 745**	**8 171**
Cash at the beginning of the year	26 436	18 691	10 520
Cash at end of the year	**30 450**	**26 436**	**18 691**

Comment

The movements in Receipts from customers and Payments to suppliers and employees over the three-year period reflect the changes in sales and consequential operational costs noted previously.

As mentioned previously, additional funding flowed from the TCFA, the majority of which were used for the establishment of new hardwood plantations, stand management activities such as thinning, pruning and fertilising and research and development activities associated with specific projects agreed under the TCFA.

When the liability established for the unearned TCFA funds held at year end, representing funds received in advance, is deducted cash generated from operations was as follows:

2004-05 – $6.191m
2005-06 – $9.522m
2006-07 – $7.253m.

The closing cash position of $30.450m includes TCFA and other funds received in advance committed to expenditure in future years of $24.598m.

The Equity contributions in 2004-05 and 2005-06 of $1.000m relate to a contribution from the State Government towards the cost of the Maydena Hauler project which is being re-scoped. The 2006-07 amount was included in TCFA funding, as noted previously, and is shown separately in financing activities.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000)		23 093	18 866	17 281
EBIT ($'000)		24 317	19 939	18 706
Operating margin	>1.0	1.13	1.12	1.10
Return on assets		5.1%	3.7%	(1.1%)
Return on equity		5.0%	4.0%	(1.0%)
Financial Management				
Debt to equity		3.6%	3.7%	5.7%
Debt to total assets		2.3%	2.4%	3.7%
Interest cover	>3	10	10	9
Current ratio	>1	0.98	1.19	1.62
Cost of debt	7.5%	6.4%	6.1%	6.0%
Debt collection	30 days	41	60	42
Creditor turnover	30 days	42	54	41
Returns to Government				
Dividends paid ($'000)		1 297	2 447	5 232
Dividend payout ratio	50%	4.5%	10.7%	(78.1%)
Dividend to equity ratio		0.2%	0.4%	0.8%
Income tax paid ($'000)		0	(3 523)	3 778
Effective tax rate	30%	0.0%	(18.7%)	21.9%
Total return to the State ($'000)		1 297	(1 076)	9 010
Total return to equity ratio		0.2%	(0.2%)	1.4%
Other Information				
Staff numbers (FTE)		502	516	560
Average staff costs ($'000)		60	65	58
Average leave balance per FTE ($'000)		12	12	11

Comment

The Result from operations, EBIT and Operating margin do not include the net market movement in the forest asset or the movement in the unfunded superannuation liability. However, the Return on assets and Return on equity percentages are determined after accounting for these items. This results in a negative return on assets and equity for 2004-05 which was due to the combined effect of the $12.645m decrement in the net market value of the forest asset and the increase of $15.739m in the unfunded superannuation liability in that year. These ratios improved during the next two years when the net effect of these accounting adjustment changes was positive.

The Current ratio declined to be below the benchmark level of 1, to 0.98 in 2006-07. This reflects Forestry Tasmania's working capital position discussed previously.

Debt collection increased to 60 days in 2005-06, which was reflective of a slower than usual payment cycle due to reduced sales turnover in some sectors of the forest industry.

The Creditor turnover increased to 54 days in 2005-06 due to tighter cash flow management and a change in internal policy from the previous financial year related to creditor payment cycles.

Dividends and Income tax are cash payments and relate to the prior year. Forestry Tasmania received a tax refund of $3.523m in 2005-06 due to a tax adjustment, causing a negative ratio in 2005-06. Dividends paid have declined over the three-year period and no dividend is proposed for 2006-07.

The dividend payout ratio is negative in 2004-05 because the dividend was paid from the previous year's profit, Forestry Tasmania having operated at a net loss in that year.

The Effective interest rate ratio is calculated on the profit before other adjustments and tax expense. Total returns to the State over the period of review, when expressed as a percentage of total equity, have not been significant.

Staff numbers have declined over the period as part of reducing costs of operations in response to the loss of sales. Average staff costs rose in 2005-06 due to redundancy payments and timing issues, but reduced in 2006-07.

OVERALL COMMENT

The 2006-07 audit was completed satisfactorily with no major items outstanding.

HYDRO-ELECTRIC CORPORATION

INTRODUCTION

The Hydro-Electric Corporation (Hydro, HEC or the Corporation) was established as a Commission by the *Hydro-Electric Commission Act 1944* and corporatised by the *Hydro-Electric Corporation Act 1995*. The Corporation trades as Hydro Tasmania.

Hydro is a Government Business Enterprise and is the renewable electricity generator for the State of Tasmania. Hydro also operates a consulting division, is a renewable energy developer, and owns the electricity distribution assets on the Bass Strait Islands and invests in joint venture activities in Australia and internationally.

Subsidiary and Associated Companies

- **Bell Bay Power Pty Ltd** (BBP), established on 20 December 2001, owns and operates the Bell Bay power station. Under the Bell Bay Sale Agreement the land held by this entity has been sold to Alinta, the proponents of a new gas fired power station to be constructed. The existing thermal plant will be available to be used until the new Alinta plant is commissioned. BBP has the responsibility for demolition of the thermal station and has raised a provision for demolition.
- **Bell Bay Three Pty Ltd** was incorporated on 7 December 2005. It operated three 38.75MVA gas turbine units. These turbines were sold as part of the Bell Bay Sale Agreement.
- **Lofty Ranges Power Pty Ltd** operates a power generating joint venture activity in South Australia.
- **Hydro Tasmania Consulting (Holding) Pty Ltd** This entity is the holding company for Hydro Tasmania consulting activities in India undertaken through its wholly owned Indian Company Hydro Tasmania Consulting India Private Limited.
- **RE Storage Project Holding Pty Ltd** This entity has entered into joint ventures to investigate renewable energy commercial opportunities.
- **Roaring 40s Renewable Energy Pty Ltd** (R40s), R40s is a joint venture between Hydro Tasmania and China Light and Power Asia Renewable Projects Ltd. The purpose of the joint venture is to pursue domestic and international renewable energy opportunities, including construction of wind farms.

I am the auditor of all wholly-owned subsidiary companies but I am not the auditor of R40s.

As at 30 June 2007 the Responsible Minister was the Minister for Energy.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

The directors signed Hydro's financial statements on 14 August 2007 and an unqualified audit report was issued on the same day.

The audits of the 100% owned subsidiaries were completed at the same time, with unqualified audit opinions being issued for all by 14 August 2007.

CHANGES IN ACCOUNTING POLICIES

Hydro availed itself of the option to recognise actuarial gains and losses on its defined benefit superannuation fund directly through retained earnings. The actuarial loss for 2007 was $31.200m (2006 $27.300m gain). This treatment was adopted to assist in managing earnings volatility associated with the measurement of these liabilities. However, this treatment has not been reflected in the 2004-05 results reflected in the Income Statement below. In that financial year an actuarially assessed loss of $34.561m was incurred and included in Operating expenses, which is the main reason why that expense, $120.040m, is higher than in the two subsequent years.

FINANCIAL RESULTS - OVERVIEW

Hydro was disaggregated into three separate businesses on 1 July 1998. The distribution/retail and transmission businesses (assets and liabilities) were transferred to Aurora Energy Pty Ltd (Aurora) and Transend Networks Pty Ltd (Transend) respectively. After disaggregation Hydro retained the generation, systems control and consulting businesses. The systems control business was transferred to Transend on 1 July 2000.

Hydro has historically had a high level of borrowings. At disaggregation Hydro was left with $1.046b in debt. During 2006-07 gross debt increased by $115.2m. At the same time, Hydro’s cash holdings increased by $35.8m meaning that, on a net basis, debt increased by $79.4m to $1 141b. The debt increase came about due to a number of factors including low water inflows during the year which impacted storages, reducing hydro generation resulting in greater than planned reliance on the gas fired Bell Bay plant, all of which impacted cash flow from operations. Cash was also applied to:

- Fund continued investment in R40s;
- Fund the capital refurbishment program;
- Satisfy the liquidity requirements of its Australian Financial Services licence (AFSL) (see below); and,
- Fund working capital.

Hydro’s capital investment program continued in 2006-07 and was targeted at sustaining assets required to assist Hydro to respond to its changed operating environment under the National Energy Market (NEM) and Basslink.

The most significant accounting issue for 2006-07 was the recording of movements in fair value of key assets and liabilities. These issues, which are discussed in more detail below, arise because of the impact on Hydro of participation in the NEM and the strategies it has put in place to manage the risks associated with that participation in accordance with the risk management policies adopted by the Board.

The financial information presented below summarises the consolidated financial statements of Hydro and its subsidiaries. In view of the volatility of the results between years, comments have been limited to 2005-06 and 2006-07.

INCOME STATEMENT

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Electricity sales revenue	442 228	405 646	399 177
Other operating revenue	50 957	64 010	62 745
Total Revenue	**493 185**	**469 656**	**461 922**
Operating expenses	92 923	107 029	120 040
Basslink expenses	93 598	29 409	0
Gas and pipeline expenses	33 205	31 860	37 845
Labour	84 868	83 260	78 472
Total Operating Expenses	**304 594**	**251 558**	**236 357**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**188 591**	**218 098**	**225 565**
Depreciation and amortisation	69 014	87 945	83 135
Earnings before interest & tax (EBIT)	**119 577**	**130 153**	**142 430**
Borrowing costs	(92 302)	(85 860)	(88 594)
Loss on disposal of non-current assets	(5 225)	(5 188)	(9 572)
Share of loss of joint venture	(2 554)	(5 562)	(316)
Profit before:	**19 496**	**33 543**	**43 948**
Bell Bay sale agreement	11 151	0	0
Electricity derivatives*	(132 192)	(2 203)	0
Treasury derivatives*	213	(7)	0
Gain on R40s deconsolidation	0	35 044	0
Basslink financial asset and liability	61 026	5 127	0
Impairment (loss)/reversal on property plant and equipment	155 127	(23 207)	(542 269)
Impairment loss on financial and intangible assets	(1 328)	(8 478)	0
Profit (Loss) before income tax	**113 493**	**39 819**	**(498 321)**
Income tax expense (credit)	34 126	14 644	(149 908)
Net Profit (Loss)	**79 367**	**25 175**	**(348 413)**

** The full description of these two items is "Fair value movements in Electricity derivates and in Treasury derivatives"*

Comment

When assessing Hydro's operating performance in 2006-07, it is noted that this financial year was the first full year of both trading in the NEM and Basslink operation. With Basslink operational Hydro:

- Implemented risk management strategies to limit its exposure to market movements in energy prices on the NEM; and
- Was able to use the link to protect its water storage levels against the impact of prolonged adverse rainfall patterns.

Hydro has in place an eligible undertaking facility to ensure it has sufficient liquidity to meet its Australian Financial Services Licence (AFSL) requirements. This assists in covering any adverse mark to market movements of the derivative financial instruments, purchased to implement its risk management strategies, which may impact its AFSL liquidity requirements. This facility is part of its overall borrowing limits with Tascorp.

Imports over Basslink to protect water storage levels has a significant profit and cash impact on the Corporation, mainly as a result of reducing hydro generation, higher import levels at prices higher than budgeted and reduced export opportunities.

The Income Statement of Hydro has been presented in such a way as to show the impacts of these factors.

Revenue

Hydro increased energy sales revenue by 9%. This increase reflects increased sales prices and increased generation from Bell Bay. In 2007 Hydro generated 8 128GWh from its hydro stations and 936GWh from the Bell Bay thermal plant against 9 688GWh from hydro and 585GWh from Bell Bay in 2006.

The reduction in other income is largely offset by the reduction of other operating expenses.

Expenses

The significant increase in expenses has been the first full year of payments for Basslink. This is an increase of $64.200m.

Depreciation has been reduced by $18.300m due to a re-estimation of the useful lives of civil assets including dams.

Finance Costs

Finance costs are higher due to the increased level of borrowings of Hydro. The weighted average cost of debt increased by 0.3%, which is consistent with movements in market interest rates.

Fair Value Movements

Under this category Hydro has brought together the presentation of those items which reflect the change in the fair value of assets and liabilities:

Electricity Derivatives: Accounted for at fair value in accordance with accounting standards and Hydro policy.

Treasury Derivatives: Accounted for at fair value in accordance with accounting standards and Hydro policy.

Basslink Financial Asset and Liabilities: Accounted for as a derivative and therefore recorded at fair value in accordance with accounting standards and Hydro policy.

Impairment (loss) reversal on property, plant and equipment: Recognition of a partial reversal of a significant impairment of assets in 2004-05 because of an improvement in electricity pool prices.

Bell Bay sale agreement

During 2007, agreement was reached to sell the land and gas turbines of the Corporation's subsidiaries, Bell Bay Power Pty Ltd and Bell Bay Three Pty Ltd. The agreement also provides for early termination of the Gas Pipeline Capacity Agreement. Hydro has recognised a receivable for the proceeds.

BALANCE SHEET

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Cash	1 615	660	10 221
Receivables	153 153	98 832	103 392
Investments	50 000	15 091	130 277
Inventories	1 533	705	549
Financial assets (includes Basslink)	53 695	22 630	0
Tax assets	7 397	0	0
Other	0	0	5 099
Total Current Assets	**267 393**	**137 918**	**249 538**
Payables	121 591	102 866	105 110
Borrowings	2 200	7 000	32 912
Financial liabilities *	210 126	97 446	0
Tax liabilities	0	15 623	3 911
Provisions	44 036	43 888	38 269
Other	0	0	1 048
Total Current Liabilities	**377 953**	**266 823**	**181 250**
Working Capital	**(110 560)**	**(128 905)**	**68 288**
Property, plant and equipment	3 520 541	3 440 848	2 824 639
Investments	88 365	80 005	9 767
Financial assets - Basslink	323 081	141 885	2 061
Other	50 110	50 110	19 028
Total Non-Current Assets	**3 982 097**	**3 712 848**	**2 855 495**
Borrowings	1 190 000	1 070 000	1 178 606
Provisions	290 609	256 599	286 360
Financial liabilities *	950 358	876 355	0
Deferred tax liabilities	482 380	463 207	498 221
Other	0	0	19 028
Total Non-Current Liabilities	**2 913 347**	**2 666 161**	**1 982 215**
Net Assets	**958 190**	**917 782**	**941 568**
Reserves	8 838	4 649	1 000
Retained earnings	949 352	913 133	940 568
Total Equity	**958 190**	**917 782**	**941 568**

* *Comprises Basslink Services Agreement and Facility Fee Swap, Gas Pipe Line Capacity Agreement and energy derivatives.*

Comment

Commentary below deals with Balance Sheet movements between 2006-07 and 2005-06 financial years.

Property, plant and equipment valuation and depreciation

The 2004-05 impairment of the deemed cost valuation of Property, plant and equipment has been partially reversed during the year to reflect the reversal of the previous adverse movements in electricity pool prices.

Financial Assets and Financial liabilities

Hydro has valued all of its financial assets and financial liabilities at fair value in accordance with policy and Accounting Standards. The financial assets and financial liabilities affected are:

- Bank and investment balances;
- Receivables;
- Basslink financial asset;
- Treasury derivatives;
- Basslink Services Agreement;
- Basslink Facility Fee swap;
- Gas Pipeline Capacity Agreement; and
- Energy trading derivatives.

These assets and liabilities are subject to market price risk, cash flow interest rate risk, liquidity risk and credit risk. While Hydro has risk management strategies in place to manage these risks, changes in the underlying variables, such as energy market prices and interest rates, give rise to changes in asset and liability values.

Deferred tax liabilities

The prior year deferred tax liability has been restated to reflect an adjustment of $10.400m required to ensure full recognition of the liability in relation to property, plant and equipment on adoption of the new accounting standards in 2004. This adjustment did not impact Hydro's 2006-07 profit because, consistent with accounting standards, the adjustment was made directly to Retained profits. Increases in deferred tax liabilities and assets in 2006-07 arose from various differences between the assets and liabilities recognised for accounting and tax purposes. For example, the increase in Hydro's liability for its defined benefit superannuation obligations gives rise to a deferred tax asset and differences in the tax and accounting values of Hydro's Property, plant and equipment gives rise to deferred tax liabilities.

There were no other issues with tax during the year.

Superannuation

The Superannuation liability movements were caused by changes in discounts rates, rules applied in accounting for contributions tax and the value of contributory scheme assets and liabilities, as determined by the Actuary. As is evident from the fluctuation between the years, this movement is quite volatile and not within the control of Hydro. As noted above under the heading "Changes in accounting policies", Hydro has availed itself of the option to recognise actuarial gains and losses on its defined benefit superannuation fund directly through retained earnings. There was a net increase of $37.329m in this liability between 1 July 2004 and 30 June 2007.

CASH POSITION

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Receipts from customers	438 996	481 189	455 731
Payments to suppliers and employees	(304 505)	(259 635)	(232 891)
Interest received	2 178	3 722	2 654
Borrowing costs	(70 537)	(66 247)	(71 284)
Income tax equivalent paid	(28 737)	(19 061)	(29 955)
Cash from operations	**37 395**	**139 968**	**124 255**
Payments for investments*	(15 001)	(15 783)	(9 000)
Payments for financial assets	(24 499)	(50 110)	0
Payments for property, plant and equipment	(57 888)	(116 984)	(79 759)
Proceeds from sale of property, plant and equipment	1 857	2 547	1 096
Cash (used in) investing activities	**(95 531)**	**(180 330)**	**(87 663)**
Proceeds from borrowings	405 000	482 254	740 705
Repayment of borrowings	(289 800)	(526 639)	(605 745)
Repayment of Treasury loans	0	0	(3 991)
Dividend paid	(21 200)	(40 000)	(40 000)
Cash from (used in) financing activities	**94 000**	**(84 385)**	**90 969**
Net increase (decrease) in Cash	**35 864**	**(124 747)**	**127 561**
Cash at the beginning of the year	15 751	140 498	12 937
Cash at end of the year	**51 615**	**15 751**	**140 498**

** Comprises investments and loans to associates*

Comment

The Cash from operations decreased by $102.573m in 2006-07 when compared to 2005-06. This is due to the long term drought in south eastern Australia and associated low inflows and the impact on Hydro's storages. This increased the required level of imports over Basslink and resulted in reduced hydro generation together with reduced export opportunities across Basslink. Increased market prices also meant Basslink imports occurred at substantially higher prices. The other factors were the first full year of facility fee payments being made under the Basslink Services Agreement and continued costs of operating the gas fired Bell Bay Power Station due to the low storage situation.

In my view, Hydro's liquidity and Balance Sheet position is tight. This observation is supported by Hydro's negative net Working Capital position (see Balance Sheet) of $110.560m and a current ratio (see Financial Analysis section) of less than one.

The balance which Hydro has to strike is one of:

- Maintaining storages at levels in line with its prudent water management principles;
- Undertaking a contracting strategy which protects its income streams from adverse market movements, but is cognisant of its asset backed trading position;
- Producing a sustainable cash flow to support the business and ensure that assets are maintained and refurbished to enable it to continue to meet the requirements of operating in the NEM;
- Have financial arrangements in place to support its AFSL requirements; and
- Meeting its capital commitments to its local and international joint ventures without compromising the needs of its core business.

This balance is becoming increasingly difficult to achieve.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		19 496	33 543	43 948
EBIT ($'000s)		119 577	130 153	142 430
EBITDA ($'000s)		188 591	218 098	225 565
Operating margin	>1.0	1.62	1.87	1.95
Return on assets		3.0%	3.7%	n/a
Return on equity		8.5%	2.7%	n/a
Financial Management				
Debt to equity		124.4%	117.3%	128.7%
Debt to total assets		28.1%	28.0%	39.0%
Interest cover - EBIT		1.30	1.52	1.61
Interest cover - EBITDA	>3	2.04	2.54	2.55
Interest cover - operating cash flows		1.53	3.11	1.53
Current ratio	>1	0.71	0.52	1.38
Leverage ratio		443.5%	419.6%	329.8%
Cost of debt	7.5%	6.5%	6.2%	5.9%
Debt collection	30 days	86	75	51
Creditor turnover	30 days	29	19	25
Capex/Depreciation		0.84	1.33	0.96
Returns to and from Government				
Dividends payable ($'000s)		0	21 200	40 000
Dividend payout ratio	50%	0.0%	84.2%	n/a
Dividend to equity ratio		0.0%	2.3%	2.7%
Income tax payable ($'000s)		34 126	14 644	n/a
Effective tax rate	30%	30.1%	36.8%	n/a
Government guarantee fees ($'000)		5 105	4 124	4 020
Total return to the State ($'000s)		39 231	39 968	n/a
Total return to equity ratio		4.2%	4.3%	n/a
CSO funding ($'000)		6 400	6 200	6 030
Other Information				
Staff numbers FTE		781	832	829
Average staff costs ($'000s)		109	100	97
Average leave balance per FTE ($'000s)		26	23	21

Comment

Result from operations is calculated before non-operating revenues and expenses.

Hydro's Debt to equity ratio increased, indicating that at 30 June 2007 it was more reliant on debt funding than equity funding than it was one year earlier. Interest cover based on earnings before interest, tax and depreciation has weakened due to reduced cash flows from operations.

Hydro's Leverage ratio has increased. The leverage ratio is calculated by dividing total assets by shareholders' equity and it measures the proportion of equity funding in the asset base. The ratio suggests that equity funding, as a proportion of Hydro's total assets, decreased. This was predominantly caused by:

- The additions to Property plant and equipment this year due to ongoing capital investment and the increase in asset values due to the partial reversal of the 2004-05 impairment;
- The Debt collection (debtor days) would appear to have worsened. However, the calculation of this ratio is impacted by Hydro's arrangements with the NEM and contracts for differences. All electricity trading on the NEM is settled on 30 days and Hydro's risk of not collecting its core energy debts is low; and
- The Current ratio (indicator of Hydro's working capital position – see Balance Sheet section) is less than one. This is reflective of the nature of the business with strong current cash flows which support the need for less working capital. In the context of the current level of borrowings it does compound the difficulties of management of cash in the business. It is noted, however, that at 30 June 2007 Hydro had available to it unused borrowing facilities of $50.000m.

OVERALL COMMENT

2006-07 has been a challenging year for Hydro. It has had to adapt operationally to the new environment of operating with Basslink and market conditions under the NEM. At the same time it has had to manage historically low storage inflows at a time of high market prices.

Hydro's liquidity and Balance Sheet position is tight and its challenge is to determine a sustainable level of expenditure to enable it to balance a reasonable return to Government, preservation of its assets and investment in growth opportunities while not increasing its borrowings to an unsustainable level. Achieving this balance will be complicated by the need for Hydro to manage the risk around international markets and the need to continue to meet its share of the R40 capital expenditure commitments.

The audit 2006-07 was competed with satisfactory results.

MOTOR ACCIDENTS INSURANCE BOARD

INTRODUCTION

The Motor Accidents Insurance Board (MAIB or the Board) was established under the *Motor Accidents (Liabilities and Compensation) Act 1973*. The principal business of the MAIB is to manage all aspects of compensation awarded to persons suffering injury as a result of a motor accident as prescribed by this Act.

At 30 June 2007, the Board of Directors of the MAIB comprised seven members, including the Chief Executive Officer, who are appointed by the Governor on the joint recommendation of the Treasurer and Portfolio Minister.

The Responsible Minister is the Minister for Infrastructure.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2007 and an unqualified audit report was issued on 29 August 2007.

FINANCIAL RESULTS – KEY CONCEPTS

The nature of the MAIB's insurance business is that it is "long-tailed" meaning that for some claimants, benefits payments will be paid for many years. It is normal for an insurance business dominated by long-tail operations to operate at an underwriting loss and for it to rely on investment returns to generate operating profits. However, the MAIB has achieved underwriting surpluses in each of the past three financial years.

Operating revenue consists of two major components, premium revenue and investment revenue. Differences between the fair values of investments at reporting date and their fair values at the previous reporting date, (or cost of acquisition, if acquired during the financial year), are recognised as revenues or expenses in the period in which the changes occur. The main costs are claims expenses, which include payments and movements in outstanding and unreported claims.

The Board has adopted an investment strategy in which it seeks to maximise long-term growth within acceptable risk parameters. To achieve this outcome it invests in a mix of growth and defensive asset classes. As such, the investment portfolio contains an inherent volatility that may cause returns from year to year to fluctuate significantly.

Growth in investment assets arises from increases in premiums received, operating profits, dividends re-invested and movements in the market values of investments.

An independent actuary is engaged to undertake the valuation of the year end provision for outstanding and unreported claims (claims liability). When doing this, the actuary first determines the central estimate, which is the estimate of liabilities based on expected future payments with no deliberate bias to either understate or overstate those liabilities. Determination of the central estimate is impacted by a variety of factors including:

- The number of claims received as a result of motor accidents;
- The nature, type and severity of claims received;
- Estimates of how long claimants will receive benefits;
- Statutory obligations to claimants;
- The extent to which claims are re-insured; and
- Movement in economic factors such as inflation and discount rates.

A claims handling expense for the future cost of managing these claims is then added to the central estimate and, finally, a prudential margin is added to give the total claims liability.

The addition of the prudential margin recognises that the estimation of future payments is inherently imprecise, particularly in respect of liabilities settled over an extended time frame. The prudential margin has remained constant over the past three accounting periods and currently provides the Board with a probability of not less than 75% that the claims liability is sufficient to meet the cost of claims incurred.

In addition, the MAIB makes a provision for unexpired risk. Using a liability adequacy test the actuary assesses whether the provision for unearned premium liability is sufficient to cover all expected future cash flows relating to future claims that will arise from the unexpired portion of current insurance contracts. If the present value of the expected cash flows plus claims handling expenses and a prudential margin exceeds the provision for unearned premium liability, then the provision for unearned premium liability is deemed to be deficient. The deficiency is recognised as a Provision for unexpired risk. The prudential margin applied in the calculation of the provision for unexpired risk is at a higher level than that used to calculate the provision for outstanding and unreported claims in recognition of the greater uncertainty over accidents that are yet to occur.

For the purpose of the claims liability actuarial review, claims costs are separated into three broad categories, each of which has different payment size and pattern characteristics. A description of these benefit types is summarised as follows:

Scheduled Benefits

Scheduled Benefits relate to all compensation provided to injured persons under section 23(1) of the Act and as detailed in the regulations. The benefits in the Act include:

- Medical costs, including the services of doctors and health professionals;
- Funeral expenses;
- Death benefits; and
- Disability allowance and benefits.

Common Law

MAIB indemnifies motorists for common law damages awarded to persons injured as the result of a motor vehicle accident. Injured persons can take action to obtain damages under common law where the fault of another party can be established. An action must be commenced within three years of the date of the accident.

Future Care

Claimants requiring 'daily care' (as defined in the Act), are classified as Future Care claims. Typically, these claimants are severely injured and are expected to require ongoing care. MAIB's Long Term Care program provides accommodation and care on a respite and longer-term basis in both the north and south of Tasmania. Although relatively few in number, they represent a significant and increasing component of MAIB's outstanding claims liability.

INCOME STATEMENT

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Premium revenue	120 246	117 354	111 412
Outwards reinsurance expense	(4 774)	(4 711)	(4 159)
Claims expense	(96 212)	(94 533)	16 209
Recovery revenue	473	(542)	2 352
Unexpired risk expense	5 428	993	(3 806)
Other underwriting expenses	(2 395)	(2 293)	(2 236)
Underwriting Result	**22 766**	**16 268**	**119 772**
Investment revenue on insurance funds	93 156	92 794	73 095
General and administration expenses	(4 438)	(4 136)	(4 051)
Interest expense	(782)	0	0
Road Safety Initiative, Road Infrastructure and Motorcycle Safety Strategy	(3 690)	(2 425)	(2 284)
Injury Prevention and Management Foundation	(912)	(1 024)	(748)
Insurance Result	**106 100**	**101 477**	**185 784**
Investment revenue on retained earnings	44 153	31 718	18 745
Profit before taxation	**150 253**	**133 195**	**204 529**
Income tax expense	(37 169)	(37 008)	(63 032)
Net Profit	**113 084**	**96 187**	**141 497**

Comment

The MAIB recorded significant operating surpluses in all three years under review. The particularly strong result in 2004-05 is mainly due to the impact of changes to superimposed inflation rates used in the calculation of the claims liability. The impact was to decrease the claims liability, and hence Claims expense, by $119.900m. Without this change, the profit before taxation in 2004-05 would have been $84.629m. The higher net profit resulted in a commensurately higher income tax expense. The change to the superimposed inflation rate has been consistently applied since 2004-05. The remainder of this commentary focuses, in the main, on results in 2005-06 and 2006-07.

The MAIB recorded a $150.253m profit before tax ($113.084m after tax) for the 2006-07 financial year, a strong result due to a number of factors including:

- Earned premiums of $120.246m (2005-06, $117.354m). The increase of 2.5% (2005-06, 5.3%) was mostly attributable to a 2.3% (2005-06, 2.7%) increase in the number of currently registered vehicles since June 2006. Premiums increased by 2.5% on 1 December 2004 across all vehicle classes. There have been no premium increases (or any other relativity increases) since then;
- A negative Unexpired risk expense of $5.428m (2005-06, $0.993m); and
- Investment revenue, comprising Investment revenue on insurance funds and Investment revenue on retained earnings, of $137.309m (2005-06, $124.512m);

Offset partly by:

- Claims expense of $96.212m (2005-06, $94.533m).

The Board's investments are measured at fair value at the end of each reporting period in accordance with Australian Accounting Standard AASB 1023 *General Insurance Contracts*. The higher investment revenue in 2006-07 was mainly due to the strength of the equities markets at 30 June 2007 compared to the position a year earlier resulting in the recognition of market value gains of $96.266m (2005-06, $77.248m), of which $74.879m (2005-06, $71.006m) was unrealised.

The reinsurance expense of $4.774m was comparable to the expense incurred in 2005-06 of $4.711m. The increase between 2004-05 and 2005-06 of $0.552m (or 13.3%) was attributable to a rise in premium rates of 10.3% combined with an increase in the number of registered motor vehicles of 2.7%.

The other main contributor impacting on the Board's net profit before tax is the Claims expense, which comprises:

Type of Expense	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Claims paid	63 468	57 927	64 488
Movement in the provision for outstanding and unreported claims	32 306	36 228	(81 046)
Other claims paid	438	378	349
Total claims expenses	**96 212**	**94 533**	**(16 209)**

As previously mentioned, changes to superimposed inflation rates used in the calculation of the claims liability at 30 June 2005 had the effect of decreasing the liability by $119.900m compared with the prior year. After taking into account the claims expense for 2004-05, the overall movement in the provision in that financial year was a decrease of $81.046m.

Net movements in total claims expenses for 2005-06 and 2006-07 are not unusual.

The decrease in the provision for unexpired risk in the last two years is due to the net effect of favourable claims experience and revisions to economic assumptions. The decrease results in a benefit to revenue in each of 2005-06 and 2006-07.

In 2006-07, contributions totalling $2.665m (2005-06, $2.425m) were paid to the Road Safety Task Force (RSTF). A contribution to the State's Black Spot Program of $1.000m was also made during 2006-07.

The interest expense incurred in 2006-07 of $0.782m relates to interest charged by the Australian Taxation Office (ATO) on amended National Tax Equivalents Regime (NTER) assessments for the years ended 30 June 2003 to 2006. The MAIB had to pay additional tax totalling $7.023m plus interest thereon. The additional tax has been included in the 2006-07 tax expense.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	596	448	351
Receivables	1 968	1 919	1 743
Investments	1 025 979	895 784	749 183
Other	31	35	39
Total Current Assets	**1 028 574**	**898 186**	**751 316**
Plant and equipment	527	575	535
Property and investments	105 259	106 960	100 343
Deferred tax asset	13 085	4 674	5 054
Reinsurance recoveries receivable	13 322	14 220	17 100
Total Non-Current Assets	**132 193**	**126 429**	**123 032**
Payables	5 911	1 849	1 711
Provision for employee benefits - leave	318	308	346
Provision for employee benefits - superannuation	21	20	167
Provision for injury prevention	1 060	1 055	820
Provision for tax	31 887	20 434	4 680
Provision for unexpired risk	4 546	9 986	11 047
Provision for unearned income	52 486	52 143	49 978
Provision for outstanding and unreported claims	61 627	75 656	73 292
Total Current Liabilities	**157 856**	**161 451**	**142 041**
Payables	2	2	3
Provision for employee benefits - leave	34	37	55
Provision for employee benefits - superannuation	2 312	2 019	1 760
Deferred tax liability	36 281	34 181	20 811
Provision for outstanding and unreported claims	624 808	578 473	544 608
Total Non-Current Liabilities	**663 437**	**614 712**	**567 237**
Net Assets	**339 474**	**248 452**	**165 070**
Retained Earnings	339 474	248 452	165 070
Total Equity	**339 474**	**248 452**	**165 070**

Comment

Investments grew strongly during the year primarily due to the improved market values of securities held at 30 June 2007.

The composition of the claims liability is provided in the table below. The categories recognise the three claims liability streams.

Liability Stream	30 June 2007 $m	30 June 2006 $m	30 June 2005 $m
Future Care	463.606	420.129	373.689
Common Law	175.795	181.182	194.392
Scheduled Benefits	47.034	52.818	49.819
Total Claims Liability	**686.435**	**654.129**	**617.900**

The increase in the claims liability has been driven mainly by the net impact of:

- An increase in the size of the future care liability. MAIB's liability in respect of future care is assessed on a claim-by-claim basis. The number of future care claims is volatile from year to year due to the small numbers involved. Seven new future care claims were reported in 2006-07 compared with eight in 2005-06 and six in 2004-05. The number of incurred but not reported (IBNR) future care claims included in the valuation increased from nineteen at June 2006 to twenty-one at June 2007. The increase in the liability from 2005-06 to 2006-07 is partly due to the use of revised projected life tables to calculate survival rates for future care claimants. The projected life tables allow for observed trends of improvements in life expectancy;
- A decrease in the liability for common law claims due to the combined impact of higher numbers of settlements and a reduction in the assumed average non-nil claim settlement size;
- An increase from 4% at 30 June 2005 to 6% at 30 June 2006 of the gross central estimate to cover claims handling expenses; and
- Consequent impact of the above increases on the prudential margin.

The Provision for unearned income has remained reasonably consistent at about 44% of earned premiums suggesting that premiums are collected at a reasonably consistent rate throughout the year and throughout this three year period.

At 30 June 2007, the Provision for unexpired risk had reduced to $4.546m (2005-06, $9.986m) for the reasons outlined in the Income Statement section of this Chapter.

The increase in the Board's provision for tax over the three years reflects higher operating results.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from premiums	132 601	131 243	122 932
Payments for claims	(67 687)	(62 098)	(68 021)
Other payments	(25 673)	(23 975)	(23 094)
Other receipts	2 852	3 341	1 857
Tax paid	(28 789)	(7 503)	(939)
Dividends received	32 774	36 998	32 499
Interest received	8 509	11 099	11 349
Cash generated from operations	**54 587**	**89 105**	**76 583**
Payments for investments	(31 814)	(75 979)	(70 816)
Payments for property, plant and equipment	(654)	(312)	(212)
Proceeds from sale of property, plant and equipment	91	88	81
Cash (used in) investing activities	**(32 377)**	**(76 203)**	**(70 947)**
Dividends paid	(22 062)	(12 805)	(7 269)
Net increase (decrease) in cash	**148**	**97**	**(1 633)**
Cash at the beginning of the year	448	351	1 984
Cash at end of the year	**596**	**448**	**351**

Comment

The cash balance has remained fairly stable in the years under review. Significant movements in receipts and payments include:

- Receipts from premiums increased by $8.311m in 2005-06. The increase reflects the growth in premium revenue due mainly to increases in vehicle numbers;
- Claims payments decreased by $5.923m in 2005-06, which was mainly comprised of a reduction in the value of common law damages payments;
- Total tax paid in 2006-07 amounted to $28.789m, which comprised $4.817m in quarterly instalments relating to the current year, $20.494m relating to 2005-06 and $3.478m relating to adjustments to prior period NTER assessments;
- Payments for investments decreased by $44.164m from 2005-06 to 2006-07 due to lower cash generated from operations primarily caused by the taxation payments already referred to; and
- Dividends paid increased from $7.269m in 2004-05 to $22.062m in 2006-07 which reflects an increase in the average profit calculated under the Board's dividend averaging policy.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
EBIT ($'000s)		150 253	133 195	n/a
Operating margin	>1.0	2.41	2.23	n/a
Return on assets		13.8%	14.0%	n/a
Return on equity		38.5%	46.5%	n/a
Financial Management				
Current ratio	>1	6.52	5.56	5.29
Solvency ratio		29.5%	23.6%	19.8%
Returns to Government				
Dividends paid or payable ($'000s)		32 951	22 062	12 805
Dividend payout ratio	50%	29.1%	22.9%	9.1%
Dividend to equity ratio	6%	11.2%	10.7%	8.9%
Income tax paid or payable ($'000s)		38 427	23 709	5 619
Effective tax rate	30%	25.6%	17.8%	2.7%
Total return to the State ($'000s)		71 378	45 771	18 424
Total return to equity ratio		24.3%	22.1%	12.8%
Other Information				
Staff numbers (FTE)		37	37	39
Average staff costs ($'000s)		71	60	56
Average leave balance per FTE ($'000s)		10	9	10

Comment

The decrease by $119.900m in the claims expense, explained in the income statement section of this report, resulted in some ratios in the above table being irrelevant. Where this is the case, the ratio has been noted as not applicable (n/a).

The Current ratio is above the benchmark of 1 in all years under review and indicates that the Board is able to meet all short-term liabilities.

While the MAIB is not subject to the Australia Prudential Regulation Authority (APRA) standards, the Board has considered an appropriate level of solvency and has adopted a target range of 20% - 25%. The Board's Solvency ratios are consistent with these targets in all years under review.

Dividends totalling $67.818m were paid or are payable to the State Government relating to the financial years under review. It is noted that the dividends are based on a dividend averaging policy, which was adopted by the Board and approved by Government with effect from 2001-02. In accordance with the policy, dividends are based on the average of profits and losses over the current and four preceding years. During 2006-07, the State Government announced that, subject to Parliamentary approval, the Board will be required to pay a special dividend of $30.000m payable in three equal instalments over the next three financial years beginning 2007-08.

The Board is required under the GBE Act to make tax equivalent payments to the State Government. At 30 June 2007, the Board had a tax equivalent payable of $31.887m, which comprised total tax payable for the year of $38.427m less tax instalments paid of $8.055m plus tax payable in respect of prior year amendments of $1.515m.

Average staff costs increased from $0.060m in 2005-06 to $0.071m in 2006-07 due mainly to the increase in the RBF Provision of $0.294m (2005-06, $0.112m). The average staff costs in each of the years under review prior to movement in the unfunded superannuation liability were:

2006-07 – $0.063m
2005-06 – $0.057m
2004-05 – $0.048m.

OVERALL COMMENT

The 2006-07 audit was completed satisfactorily with no major issues outstanding.

Advice from the Board's investment advisors indicates a minimal exposure arising from the downturn in August 2007 to the US sub-prime market.

PORT ARTHUR HISTORIC SITE MANAGEMENT AUTHORITY

INTRODUCTION

The *Port Arthur Historic Site Management Authority Act 1987* (the Act) defines the functions of the Port Arthur Historic Site Management Authority (the Authority) as:

- Ensuring the preservation and maintenance of the Historic Site as an example of a major convict settlement and penal institution of the 19th Century;
- Coordinating archaeological activities on the Historic Site;
- Promoting an understanding of the historical and archaeological importance of the Historic Site;
- Promoting the Historic Site as a tourist destination;
- Providing adequate facilities for the use of visitors; and
- Using its best endeavours to secure financial assistance by way of grants, sponsorship and other means.

The Board of the Authority consisted of seven members as at 30 June 2007. The Responsible Minister is the Minister for Tourism, Arts and the Environment.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2007 and an unqualified audit report was issued on 2 October 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	2005-06	2004-05
	$'000	$'000	$'000
Entrance fees	4 366	4 226	4 232
Ghost tours	613	670	684
Food and merchandise sales	3 317	3 541	3 516
Interest	168	195	190
Other income	186	271	278
Conservation funding	2 000	2 000	2 000
Total Revenue	**10 650**	**10 903**	**10 900**
Visitor services expenses	2 385	2 376	2 228
Ghost tour expenses	297	343	396
Food and merchandise expenses	3 241	3 453	3 436
Site maintenance expenses	492	473	245
Conservation expenses	3 304	2 511	2 368
Corporate service expenses	1 111	1 276	1 882
Marketing expenses	280	261	283
Total Expenses	**11 110**	**10 693**	**10 838**
Profit (Loss) before:	**(460)**	**210**	**62**
Assets not previously recognised	0	0	250
Superannuation liability expense	(967)	(169)	(826)
Net Profit (Loss)	**(1 427)**	**41**	**(514)**

Comment

Over the three year period under review Profit (Loss) from operating activities before assets not previously recognised and superannuation liability expense worsened, from a profit of $0.062m in 2004-05 to a loss of $0.460m in 2006-07. This is mainly due to increases in the level of partially funded conservation expenditure over the period. Apart from this expense, the Authority has managed to contain its costs in an environment of slightly declining revenues. The decrease in 2006-07 was mainly due to a decline in revenue from tourism, as shown in the Revenue by Segment table later in this section. This was mainly caused by a fall in day visitor and historic ghost tour numbers.

The Superannuation liability expense relates to changes in discounts rates, rules applied in accounting for contributions tax and the value of contributory scheme assets and liabilities, as determined by the Actuary. As is evident from the fluctuation between the years, this movement is quite volatile and not within the Authority's control.

In 2004-05 land and infrastructure assets previously not brought to account were recognised, $0.250m.

The Authority received annual funding of $2.000m since 2000-01 for the purpose of preserving the site's convict heritage for future generations. These funds are expended to conserve the site in accordance with the Act and the Port Arthur Historic

Site Conservation Plan 2000. The majority of conservation works are carried out on heritage assets and ruins, which are not recognised as assets of the Authority due to difficulty in determining an appropriate value. As a result, all conservation works are shown as an operating expense and not capitalised.

The $2.000m annual funding arrangement was renewed for a further five years commencing 1 July 2005. Without such funding the Authority would have to curtail conservation work. Tourism activities do not generate sufficient income to cover conservation costs.

The $0.793m increase in Conservation costs during 2006-07 was primarily due to greater than expected expenditure on a number of projects which included a state of the art Education Plan, Asset Management System, developing a new Statutory Management Plan, the Separate Prison Consultancy, and the Dockyard Project. All were important conservation projects that required completion in 2006-07.

The Authority, while classed as a Government Business Enterprise, is exempt from income tax and from making dividend payments.

The table below summarises the segment revenue for the past three years.

REVENUE BY SEGMENT

2006-07			
Segment	**Conservation**	**Tourism**	**Consolidated**
	$’000	$’000	$’000
Funding	2 000	0	2 000
External sales	12	8 599	8 610
Internal sales	16	24	40
Total Segment Revenue	**2 027**	**8 623**	**10 650**
2005-06			
Segment	**Conservation**	**Tourism**	**Consolidated**
	$’000	$’000	$’000
Funding	2 000	0	2 000
External sales	37	8 832	8 869
Internal sales	22	12	34
Total Segment Revenue	**2 059**	**8 844**	**10 903**
2004-05			
Segment	**Conservation**	**Tourism**	**Consolidated**
	$’000	$’000	$’000
Funding	2 000	0	2 000
External sales	45	8 811	8 856
Internal sales	21	23	44
Total Segment Revenue	**2 066**	**8 834**	**10 900**

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000	$'000	$'000
Cash assets	2 311	2 592	2 911
Receivables	110	134	137
Inventories	419	413	441
Other	15	15	13
Total Current Assets	**2 855**	**3 154**	**3 502**
Payables	966	479	503
Provisions	1 214	1 425	1 433
Other			0
Total Current Liabilities	**2 180**	**1 904**	**1 936**
Working Capital	**675**	**1 250**	**1 566**
Property, plant and equipment	14 760	13 465	13 118
Total Non-Current Assets	**14 760**	**13 465**	**13 118**
Provisions	4 609	3 804	3 814
Total Non-Current Liabilities	**4 609**	**3 804**	**3 814**
Net Assets	**10 826**	**10 911**	**10 870**
Retained earnings	7 324	8 752	8 711
Reserves	3 502	2 159	2 159
Total Equity	**10 826**	**10 911**	**10 870**

Comment

Over the three years under review Total Equity remained fairly constant with Retained profits declining, from $8.711m in 2004-05 to $7.329m in 2006-07, due to the operating loss in 2006-07, offset by increased balances in Reserves, from $2.159m to $3.502m, due to the effects of asset revaluations.

During 2006-07 the Authority revalued land, building and infrastructure assets. The increase in Total Non-Current Assets, $1.295m, in 2006-07 was mainly the result of a revaluation increment, $1.343m, with a corresponding increase in Reserves.

As reported previously, due to the difficulty associated with arriving at fair values for the Authority's heritage and ruin assets, Property, plant and equipment does not include any value attributed to these assets.

The increase in total Provisions in 2006-07, $0.594m, related mainly to a net increase in the provision for retirement benefits, offset in part by a reduction in provisions relating to annual and long service leave.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000	$'000	$'000
Receipts from customers	8 486	8 683	8 763
Payments to suppliers and employees	(10 722)	(10 319)	(9 921)
Unearned income	372	0	0
Interest received	168	194	190
Cash (used in) operations	**(1 696)**	**(1 442)**	**(968)**
Tasmanian Government	2 000	2 000	2 000
Cash from operations and government	**304**	**558**	**1 032**
Payments for property, plant and equipment	(650)	(899)	(909)
Proceeds from sale of property, plant and equipment	66	22	79
Cash (used in) investing activities	**(584)**	**(877)**	**(830)**
Net increase (decrease) in cash	**(281)**	**(319)**	**202**
Cash at the beginning of the year	2 592	2 911	2 709
Cash at end of the year	**2 311**	**2 592**	**2 911**

Comment

The Authority's cash balance decreased by $0.398m over the period, from $2.709m at 1 July 2004 to $2.311m at 30 June 2007, mainly due to increased conservation expenditure, the need to fund its ongoing capital expenditure program and the decline in revenue caused by lower visitor numbers, as explained in the Income Statement section earlier in this chapter.

The Authority remains in a reasonable cash position, primarily as a result of the ongoing Government support by partial funding of its conservation expenditure referred to previously.

The Authority has deposits of $2.110m with financial institutions which are to cover, in part, its superannuation liability.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		(460)	210	62
Operating margin	>1.0	0.96	1.02	1.01
Return on assets		(2.7%)	1.3%	0.4%
Return on equity		(13.1%)	0.4%	(5.0%)
Financial Management				
Current ratio	>1	1.31	1.66	1.81
Debt collection	30 days	8	10	10
Creditor turnover	30 days	32	16	17
Other Information				
Staff numbers (FTE)		85	85	85
Average staff costs ($'000s)		56	56	52
Daytime Visitors*		237 664	250 616	253 362
Ghost Tour Visitors*		46 765	53 477	56 542

** Numbers are not subject to audit*

Comment

The Result from operations for 2006-07 was a loss of $0.460m compared to profits in 2005-06 and 2004-05. These results have been previously discussed under the Income Statement section. This resulted in the Operating margin dropping below benchmark in 2006-07 as well as the changes to the Return on assets and Return on equity ratios.

The higher Creditor turnover in 2006-07 was caused by some large accounts not settled until the first week of July 2007.

As noted previously, visitor numbers declined marginally during 2006-07.

OVERALL COMMENT

The Authority operates two distinct activities, firstly to conserve the fabric of the historic site for posterity, and secondly to operate the site as a tourist destination.

In recent years the Government has provided additional support in recognition of the unique heritage value and economic benefits of the site to the Tasmanian economy. The Authority remains economically dependent on funding from the State Government.

The 2006-07 audit was completed satisfactorily with no major issues outstanding.

PRINTING AUTHORITY OF TASMANIA

INTRODUCTION

The Printing Authority of Tasmania (the Authority) is established under the *Printing Authority of Tasmania Act 1994*.

The Authority's mission is to provide a fail-safe printing service to the Tasmanian Government for the printing of legislation, reports and other printed materials. It competes with the private sector for printing services to public sector departments and other authorities, and is also permitted to do printing for prescribed bodies, which includes:

- Any body corporate which receives funding from the Tasmanian Government or the Australian Government;
- Any person or body that carries on a business or resides in a place other than Tasmania; and
- Work that any businesses are unable to carry out effectively.

The Responsible Minister is the Minister for Infrastructure.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 21 August 2007 and an unqualified audit report was issued on 4 September 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	2005-06	2004-05
	$'000	$'000	$'000
Operating revenue	7 964	8 760	8 519
Total Revenue	**7 964**	**8 760**	**8 519**
Raw material and consumables	3 505	3 943	3 527
Employee expenses	2 652	3 054	3 020
Depreciation charges	308	319	428
Other expenses	1 431	1 748	1 640
Total Expenses	**7 896**	**9 064**	**8 615**
Profit (Loss) before Taxation	**68**	**(304)**	**(96)**
Income tax benefit (expense)	(62)	101	(33)
Net Profit (Loss)	**6**	**(203)**	**(129)**

Comment

Operating revenue decreased mainly because of a decline in general government printing sales with revenue of $3.860m in 2005-06 compared to $3.221m in 2006-07.

In 2006-07 the Authority's Profit (Loss) before taxation was a profit of $0.068m compared with a loss of $0.304m in 2005-06. The large loss in 2005-06 was due to redundancy payments, $0.233m, and costs associated with the relocation of the Authority to the Technopark and Collins Street premises, $0.184m. Without these costs the Authority would have achieved a profit of around $0.110m in that year.

The Income tax benefit arose in 2005-06 because of the operating loss and the tax accounting treatment of the asset revaluation and disposal of assets.

BALANCE SHEET

	2006-07	**2005-06**	**2004-05**
	$'000	$'000	$'000
Cash	1 468	1 038	1 448
Receivables	538	733	583
Inventories	299	382	407
Other	101	109	57
Total Current Assets	**2 406**	**2 262**	**2 495**
Payables	901	904	823
Provisions	543	629	759
Other	361	456	377
Total Current Liabilities	**1 805**	**1 989**	**1 959**
Working Capital	**601**	**273**	**536**
Plant and equipment	1 846	2 111	2 003
Deferred tax asset	242	258	311
Total Non-Current Assets	**2 088**	**2 369**	**2 314**
Provisions	112	109	105
Deferred tax liability	54	16	151
Total Non-Current Liabilities	**166**	**125**	**256**
Net Assets	**2 523**	**2 517**	**2 594**
Retained earnings	2 145	2 139	1 600
Reserves	378	378	994
Total Equity	**2 523**	**2 517**	**2 594**

Comment

The improvement in working capital in 2006-07 was mainly due to an increase in cash for the year, combined with a reduction in provisions and receivables.

Provisions have been decreasing over the last two years due to payouts of annual leave and long service leave entitlements associated with redundancies.

Receivables were abnormally high in 2005-06 due to higher levels of revenue earned in June 2006 compared to the corresponding month in 2005 and 2007. Also, a large debt of $0.046m was written off during 2006-07.

As the Authority is endeavouring to manage its inventory stock more efficiently, stock levels have been gradually decreasing.

Reserves remained unchanged due to there being no disposals or revaluations of Non-Current Assets during 2006-07.

CASH POSITION

	2006-07	**2005-06**	**2004-05**
	$'000	$'000	$'000
Receipts from customers	8 744	9 323	9 069
Payments to suppliers and employees	(8 335)	(9 549)	(8 900)
Income tax equivalent paid	0	(48)	(40)
Cash from (used in) operations	**409**	**(274)**	**129**
Interest received	64	65	107
Proceeds from sale of plant and equipment	0	100	25
Payments for plant and equipment	(43)	(301)	(1 289)
Cash from (used in) investing activities	**21**	**(136)**	**(1 157)**
Net increase (decrease) in cash	**430**	**(410)**	**(1 028)**
Cash at the beginning of the year	1 038	1 448	2 476
Cash at end of the year	**1 468**	**1 038**	**1 448**

Comment

The cash position improved during 2006-07 due to increased cash from operations, compared with 2005-06, where payments for redundancies had a significant impact on the Authority's cash flows.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		68	(304)	(96)
Operating margin	>1.0	1.01	0.97	0.99
Return on assets		1.5%	(6.4%)	(2.4%)
Return on equity		0.2%	(7.9%)	(4.7%)
Financial Management				
Current ratio	>1	1.33	1.14	1.27
Debt collection	30 days	25	31	26
Creditor turnover	30 days	33	31	31
Returns to Government				
Income tax paid ($'000s)		0	48	40
Total return to the State ($'000s)		0	48	40
Total return to equity ratio		0	1.9%	1.5%
Other Information				
Staff numbers FTE		44	50	57
Average staff costs ($'000s)		60	61	53

Comment

The positive Financial Performance indicators in 2006-07 reflect the profit earned for the year before taxation, compared with the previous two years where the negative indicators reflect losses.

Average staff costs remained relatively unchanged from 2005-06 to 2006-07. Staff numbers declined due to the redundancy program in 2005-06.

OVERALL COMMENT

The Board has not recommended a dividend.

The 2006-07 audit was completed satisfactorily with no outstanding issues remaining.

In the May 2007 Budget, the State Government announced that it intended to sell the Authority. This fact is noted in the Authority's audited financial statements. At the time of preparing my Report it is my understanding that arrangements to enable the sale are underway.

RIVERS AND WATER SUPPLY COMMISSION

INTRODUCTION

The Rivers and Water Supply Commission (the Commission) operates under the *Rivers and Water Supply Commission Act 1999*. The Commission comprises four members appointed by the Governor. It operates solely within the water supply industry.

The Commission undertakes a number of activities and functions. These include:

- The administration of water districts in accordance with Section 5(2) of the *Rivers and Water Supply Commission Act 1999*;
- The management of property of the Crown or the Commission and other property related to the administration of such districts; and
- The provision of project management and development services in the commercial water industry and related industries.

The Commission owns and operates the South-East Irrigation Scheme supplying irrigated water to farmers along the Coal River from Craigbourne Dam to Richmond and via pipeline supply through to Cambridge.

During 2003-04 the Minister appointed the Commission as the responsible water entity for the Clyde Irrigation Scheme. This scheme came into operation in the 2004-05 financial year. Whilst the Commission has taken over responsibility for the Clyde Irrigation Scheme, the Clyde Water Trust continues as a separate independent entity and remains the owner of the Clyde Irrigation Scheme assets.

The Commission owns the scheme infrastructure of the Cressy-Longford and Winnaleah Irrigation Schemes, which are now managed for the Commission by irrigators of these schemes via Cressy-Longford Irrigation Scheme Limited and Winnaleah Irrigation Scheme Limited respectively. These are two privately owned companies.

The Commission ceased to administer the Meander Valley Irrigation Scheme during the 2004-05 financial year. At 30 June 2005 the Commission sold its properties to the then Department of Primary Industries, Water and Environment (DPIWE) to facilitate the private consortium development of the proposed Meander Dam.

In February 2006 the then Minister for Primary Industries and Water issued a Ministerial Direction to the Commission under section 6(2) of the *Rivers and Water Supply Commission Act 1999* to undertake the function of construction and operation of a dam on the Meander River for the purposes of irrigation and a mini hydro electric station. The Meander Dam Development project was budgeted to cost $39.932m and actual expenditure of $26.098m had been incurred to 30 June 2007. This has been funded by a combination of borrowings, equity contributions from government and internal funds. The Dam is due for completion in November 2007 and current progress is understood to be within budget. The Commission is already collecting water rights revenue from the Meander Dam, with revenue being recorded as revenue received in advance until the Dam is completed. Only 1/3 of the total water has been sold to date and it is likely that the State Government will provide assistance to underwrite the financing costs of the Dam until such time as the water is all sold.

The Commission also owns the following water supply schemes:

- Prosser River Water Supply Scheme - operated and administered by the Glamorgan Spring Bay Council, supplying water in bulk to the Orford and Barton Avenue areas of Glamorgan Spring Bay and to the Triabunna Woodchip Mill and other smaller industries; and
- Togari Water Scheme - supplying water for stock and dairy sheds for forty five properties within the Togari District.

The Commission also operates three drainage and river improvement schemes throughout the State.

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

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2007. Final amended statements were received on 4 October 2007 and an unqualified audit report was issued on 17 October 2007.

FINANCIAL RESULTS

The Commission made losses in each of the three years under review.

As designated by the Department of Treasury and Finance the annual contribution from Government is treated as part capital contribution to equity and part interest revenue, on the basis that such funding is made for the purpose of meeting capital costs of borrowing undertaken to fund the construction of the Commission's irrigation schemes.

INCOME STATEMENT

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Water rates and charges	1 812	1 199	922
State Government interest contribution	201	365	567
Other operating revenue	126	220	89
Sale proceeds of assets	44	15	655
Total Revenue	**2 183**	**1 799**	**2 233**
Empoyee expenses	395	254	287
Borrowing costs	251	423	648
Depreciation	683	758	684
Write-down of assets	149	27	855
Impairment losses	2 071	1 530	2 197
Other operating expenses	983	709	756
Total Expenses	**4 532**	**3 701**	**5 427**
(Loss) before:	**(2 349)**	**(1 902)**	**(3 194)**
Derecognition of deferred tax asset	(1 529)	0	0
(Loss) before Taxation:	**(3 878)**	**(1 902)**	**(3 194)**
Income tax (benefit)	0	(571)	(958)
Net (Loss)	**(3 878)**	**(1 331)**	**(2 236)**

Comment

The Commission's operations resulted in both before and after tax losses in each of the three years under review, due to insufficient revenue earned from water and irrigation schemes. Losses are generated even after excluding the significant impairment losses (discussed later).

Due to the low probability of future taxable profits, an income tax benefit was not recognised in 2006-07.

Significant changes in line items in the Income Statement over the three year period included:

- Water rates and charges increasing by $0.890m or 96% due to drier weather conditions, especially in relation to the South East Irrigation Scheme. There was also additional irrigation right sales in relation to the South East Irrigation Scheme of $0.441m due to exceptionally dry weather;
- Abnormally high land sales in 2004-05;
- Employee expenses increasing by $0.108m or 37% due to increased activity associated with the Meander Dam project;
- Borrowing costs reducing in line with debt reduction, however the Commission began increasing debt in 2006-07 as funds were needed for the Meander Dam project. This was offset by a consequent reduction in the State Government interest contribution; and

- Impairment losses of $5.798m over the period. These impairments (write downs) arise from application of accounting standard AASB 136 *Impairment of Assets*. Under this accounting standard, where an indicator of impairment has been identified, the Commission, which is a "for profit" entity for accounting purposes, is required to ensure that the carrying values of its assets do not exceed their recoverable amount determined on a discounted cash flow basis. Because of the low revenue from the Commission's schemes, the recoverable amount of the schemes' assets continues to be significantly less than their carrying amount.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	1 094	446	210
Receivables	2 127	669	181
Investments	607	2 592	454
Water stock	165	171	171
Total Current Assets	**3 993**	**3 878**	**1 016**
Payables	2 631	742	121
Unearned revenue	6 301	2 900	0
Borrowings	4 475	3 311	2 440
Provisions	192	169	144
Total Current Liabilities	**13 599**	**7 122**	**2 705**
Working Capital	**(9 606)**	**(3 244)**	**(1 689)**
Property, plant and equipment	30 489	14 332	6 547
Other	426	1 955	1 385
Total Non-Current Assets	**30 915**	**16 287**	**7 932**
Borrowings	10 546	1 000	4 305
Provisions	394	358	419
Total Non-Current Liabilities	**10 940**	**1 358**	**4 724**
Net Assets	**10 369**	**11 685**	**1 519**
Accumulated losses	(27 672)	(23 794)	(22 462)
Government contributions	38 041	35 479	23 981
Total Equity	**10 369**	**11 685**	**1 519**

Comment

Total Equity increased from $1.519m at 30 June 2005 to $10.369m at 30 June 2007. While a number of balances varied compared to the position at 30 June 2005, the main reasons for this $8.850m improvement were:

- State capital contribution for irrigation loan repayments, $4.959m which enabled the Commission to repay debt of a similar amount;

- State capital contribution towards the Meander Dam project, $7.000m in 2005-06;
- Commonwealth capital contribution towards the Meander Dam project, $2.100m, also in 2005-06; which were offset by
- After tax operating losses of $7.445m.

A number of other balances on the Balance Sheet varied over the period under review, for the following reasons:

- Receivables increasing by $1.946m due primarily to increased water sales and irrigation rights for the Meander Dam. The accrued revenue has increased due to the advanced sale of water rights to irrigators, there has also been an increase in the revenue received in advance because of this;
- The sale of the Meander Dam water irrigation rights represents unearned revenues giving rise to the $6.301m current liability. These sales are in relation to the purchase of future rights to be supplied with water for irrigation purposes and are in the form of an agreement;
- Property, plant and equipment increasing by $23.942m due mainly to the Meander Dam project which had a work-in-progress value as at 30 June 2007 of $28.604m, offset by depreciation, $1.441m, and impairment losses, $3.601m;
- Other non-current assets decreasing due to the discontinued recognition of deferred tax assets, $1.529m, the deferred tax asset was initially recognised via the income statement and has been derecognised in the same manner;
- Borrowings increasing by $8.276m due to the Meander Dam project; and
- Payables increasing by $0.621m at 30 June 2006 due to a large progress payment for the Meander Dam construction outstanding at 30 June 2006. Payables increased by a further $1.889m at 30 June 2007 due to a further outstanding progress payment for the month of July 2007 for $1.897m.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	3 401	3 612	1 037
Payments to suppliers and employees	(1 196)	(824)	(1 120)
Interest received	57	45	24
Borrowing costs	(260)	(423)	(648)
Contribution from State government	554	365	567
Other	46	607	151
Cash from operations	**2 602**	**3 382**	**11**
Payments for property, plant and equipment	(17 256)	(3 393)	(77)
Proceeds from sale of property, plant and equipment	44	15	655
Cash from (used in) investing activities	**(17 212)**	**(3 378)**	**578**
Capital contribution from Government	2 561	4 797	2 196
Proceeds from borrowings	31 295	1 135	206
Repayment of borrowings	(20 584)	(3 562)	(2 851)
Cash from (used in) financing activities	**13 272**	**2 370**	**(449)**
Net increase (decrease) in cash	**(1 338)**	**2 374**	**140**
Cash at the beginning of the year	3 038	664	524
Cash at end of the year	**1 700**	**3 038**	**664**

Comment

This Chapter noted previously that during 2005-06 an amount of $9.100m was made available for the construction of the Meander Dam and a further contribution of $2.398m was made to assist the Commission to repay debt. Approximately $6.700m of the $9.100m was expended by the Department of Primary Industries and Water on behalf of the Commission, with the Commission recording the asset on its Balance Sheet and the funding as contributions recorded directly in Equity. This transaction did not therefore impact either the Income Statement or the Cash Flow Statement. For this reason, these funds do not appear as cash receipts in the table above.

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	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		(2 349)	(1 902)	(3 194)
EBIT ($'000s)		(2 098)	(1 479)	(2 546)
Operating margin	>1.0	0.47	0.48	0.29
Return on assets		(7.6%)	(10.2%)	(9.3%)
Return on equity		(35.2%)	(20.2%)	(11.9%)
Financial Management				
Debt to equity		144.9%	36.9%	444.0%
Debt to total assets		43.0%	21.4%	75.4%
Interest cover	>3	(8.4)	(3.5)	(3.9)
Current ratio	>1	0.29	0.54	0.38
Cost of debt	7.5%	2.6%	7.7%	9.5%
Debt collection	30 days	143	96	13
Returns to Government				
Dividends paid or payable ($'000s)		0	0	0
Income tax paid or payable ($'000s)		0	0	0
Total return to the State ($'000s)		0	0	0
Other Information				
Staff numbers (FTE)		12	7	4
Average staff costs ($'000s)		61	55	71
Average leave balance per FTE ($'000s)		5	9	11

Comment

Impairment losses in all three years have substantially contributed to the negative Results from operations. Excluding these write-downs the Results from operations would have been a loss of $0.278m for 2006-07 (2005-06, loss of $0.372m), (2004-05, loss of $0.997m) with the resulting Operating margins being 0.73 for 2006-07 (2005-06, 0.55) and (2004-05, 0.48).

Debt collection days increased significantly due to the inclusion of large invoices for Meander Dam irrigation rights, due in June 2007.

The Current ratio is still well below the benchmark, due mainly to high current borrowings.

As the Commission makes losses there have been no payments of taxes or dividends.

In 2003-04 a salary accrual was underestimated. This had the effect of an abnormally high average staff cost in 2004-05. In addition, a portion, $0.338m, of Commission salaries have been capitalised to the Meander Dam project in 2006-07.

OVERALL COMMENT

As noted earlier, the Commission continues to make losses. With debt servicing costs due to rise in proportion with borrowings and impairment issues as explained earlier, it is anticipated that the Commission will continue to make losses into the foreseeable future.

The 2006-07 audit was completed satisfactorily with no major issues outstanding.

TASMANIAN INTERNATIONAL VELODROME MANAGEMENT AUTHORITY

INTRODUCTION

The Tasmanian International Velodrome Management Authority (the Authority) was established under the *Tasmanian International Velodrome Management Authority Act 1984*. The Authority traded under its own name and the registered trade name of the Silverdome.

The core business of the Authority was the management and operation of the Silverdome for sporting, entertainment, exhibition and related purposes. The Authority leased the Silverdome from the Department of Primary Industries and Water.

The Authority was economically dependent on the State Government to enable it to continue as a going concern.

The Board of the Authority comprised five members appointed by the Governor.

The Responsible Minister was the Minister for Sport and Recreation.

The Authority was wound up on 31 March 2007. All assets and liabilities were transferred to the Department of Economic Development at that date. The 2006-07 State Budget provided the Department of Economic Development with $3.000m for the upgrade of building facilities to enable it to operate the Silverdome as an international-standard sporting space.

AUDIT OF THE FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 MARCH 2007

Draft financial statements were received on 3 July 2007 and signed statements on 22 October 2007. An unqualified audit report was issued on 31 October 2007.

FINANCIAL RESULTS

The following analysis is based on a comparison of 2004-05 and 2005-06 financial performance with that for the nine months to 31 March 2007.

INCOME STATEMENT

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Sporting operations	33	56	51
Non-sporting operations	40	48	61
Other revenue	165	188	243
Total Revenue	**238**	**292**	**355**
Employee expenses	185	250	282
Depreciation	53	77	71
Other operating expenses	310	374	385
Total Expenses	**548**	**701**	**738**
(Loss) before;	**(310)**	**(409)**	**(383)**
Government deficit contribution	325	335	285
Net Profit (Loss)	**15**	**(74)**	**(98)**

Comment

The Authority has recorded deficits for a number of years. It recorded a small profit of $0.015m in the nine-month period in 2006-07, compared with losses of $0.074m in 2005-06 and $0.098m in 2004-05. Whilst revenues have been declining, expenditure also declined. The following items impacted on these movements:

- Revenue from sporting operations increased from 14.4% of total revenue in 2004-05 to 19.2% in 2005-06 mainly because of an increase in the number of netball events. For 2006-07 it declined to 13.2% mainly due to the number of Netball events reverting to a more normal level;
- Revenue from non-sporting operations, which includes live entertainment, exhibitions, meeting and function room hire, represented 17.2%, 16.4% and 16.6% of total revenue in 2004-05, 2005-06 and 2006-07, respectively. The drop in 2005-06, $0.013m, was mainly because of a downturn in the number of concerts and other events held during that year;
- Other revenue, which consists mainly of recoveries of expenditure and merchandising from events represented 68.5%, 64.4% and 69.3% of total revenue in 2004-05, 2005-06 and 2006-07, respectively. The decrease in 2005-06, $0.055m, was because fewer events were held. The improvement in 2006-07 was due to higher interest income because of the higher cash balance following receipt of $0.250m government funding in June 2006 and a grant of $0.028m in 2006-07;
- Employee expenses declined from 38.2% of total expenses in 2004-05 to 33.8% in 2006-07 in line with reduced activity mentioned previously;
- Other operational expenses increased from 52.2% of total expenses in 2004-05 to 56.6% in 2006-07 because of additional administrative costs associated with the winding up of the Authority; and
- Government deficit contributions moved in line with the Authority's result from operating activities.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	200	300	150
Receivables	23	14	25
Other	21	4	4
Total Current Assets	**244**	**318**	**179**
Payables	29	70	60
Provisions	90	99	95
Other	178	267	120
Total Current Liabilities	**297**	**436**	**275**
Working Capital	**(53)**	**(118)**	**(96)**
Plant, equipment and leasehold improvements	282	331	383
Total Non-Current Assets	**282**	**331**	**383**
Net Assets	**229**	**213**	**287**
Accumulated losses	(227)	(243)	(169)
Reserves	456	456	456
Total Equity	**229**	**213**	**287**

Comment

The Authority's Net assets decreased from $0.287m at 30 June 2005 to $0.229m at 31 March 2007 as a consequence of the operational loss in 2005-06 offset in part by the profit in 2006-07. The major movements in assets and liability balances were:

- The balance of Cash increased by $0.150m during 2005-06 principally due to the receipt of $0.250m from the State Government in June 2006. Of this amount, $0.200m was funding to assist with the construction of a strength-and-conditioning facility at the Tasmanian Institute of Sport. The remaining $0.050m was a grant for administrative restructuring of the Authority. As some of these funds were expended during 2006-07 the cash balance declined accordingly. See comments in the Cash Position section;
- The decrease in value of Plant, equipment and leasehold improvements during the three years was due to depreciation charges offset by small additions of $0.025m in 2005-06 and $0.004m in 2006-07; and
- Other current liabilities usually consist of prepaid receipts. The balance at 30 June 2005, $0.120m, included $0.109m prepaid receipts for the Alice Cooper concert held in July 2005. In 2005-06 the balance of $0.267m included $0.250m of income received in advance, for the strength-and-conditioning facility and the administrative restructure noted above. At 31 March 2007 the balance, $0.178m, consisted mainly of $0.172m of funds relating to the strength-and-conditioning facility which remained unspent.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	217	351	458
Receipts from government	388	585	285
Payments to suppliers and employees	(710)	(764)	(710)
Interest received	10	4	6
Cash from (used in) operations	**(95)**	**176**	**39**
Payments for plant and equipment	(5)	(26)	(48)
Cash (used in) investing activities	**(5)**	**(26)**	**(48)**
Net increase (decrease) in cash	**(100)**	**150**	**(9)**
Cash at the beginning of the year	300	150	159
Cash at end of the year	**200**	**300**	**150**

Comment

Receipts from customers, which include sporting, non-sporting and other income, decreased due to the downturn in concerts and other events, as noted under the Income Statement section.

Receipts from government in 2005-06 included the additional $0.250m noted previously and are higher than the same amount shown in the Income Statement, $0.335m, because $0.250m was recognised as income received in advance.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		(310)	(409)	(383)
Operating margin	>1.0	0.43	0.42	0.48
Return on assets		(52.8%)	(67.5%)	(65.4%)
Return on equity		6.8%	(29.6%)	(29.2%)
Financial Management				
Current ratio	>1	0.82	0.73	0.65
Debt collection	30 days	28	18	26
Creditor turnover	30 days	13	32	40
Other Information				
Staff numbers (FTE)		2.00	4.49	6.67
Average staff costs ($'000s)		93	56	42
Average leave balance per FTE ($'000s)		45	22	14

Comment

Due to the Authority's ongoing loss situation, no dividends or tax payments were made to the State.

The financial performance ratios confirm that the Authority made a loss from operations in each of the three years under review and, as a result, the operating margin for each year was well below the benchmark level.

The Current ratio is less than one primarily due to the high levels of employee provisions and level of Other current liabilities each year, as noted under the Balance Sheet section.

The Debt collection ratio was below the benchmark of 30 days for the three years under review indicating active debt management and the nature of the Authority's business with most customers purchasing tickets in advance.

The Creditor turnover ratio was 40 days at 30 June 2005 due to capital creditors included in the payables balance of $0.020m.

Staff numbers decreased over the three years as the Authority wound back its operations in line with reduced activity.

The number of FTEs decreased from 6.7 to 4.5 in 2005-06 due to the resignation of a permanent employee in April 2006 and the reclassification of administrative staff to casual including a reduction in hours worked. The resignation of the permanent employee impacted upon both Average staff costs and Average leave balance per FTE. That employee's salary for the part-year worked has been included in employee costs, however the employee was not included in the staff numbers at year-end resulting in higher Average staff costs for that year.

The number of FTEs reduced to only 2.0 by the time the Authority was wound up. This distorted the average staff costs and leave balances for 2006-07.

Average leave balance per employee increased over the three years. The Authority acknowledged that some of its employees had large entitlements and was working towards reducing these balances. However, given the small number of permanent employees, it was difficult for extended periods of leave to be taken.

OVERALL COMMENT

The 2006-07 audit was completed with satisfactory results and no outstanding matters.

On 31 March 2007, the activities of the Authority were transferred to the Department of Economic Development.

TASMANIAN PUBLIC FINANCE CORPORATION

INTRODUCTION

The Tasmanian Public Finance Corporation (Tascorp or the Corporaion) was established by the *Tasmanian Public Finance Corporation Act 1985*. Tascorp is comprised of five members appointed by the Governor. The functions of Tascorp include the development and implementation of borrowing and investment programs for participating authorities, including Local Government, State Authorities, State Owned Companies and inner budget agencies.

The Responsible Minister is the Treasurer.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Financial statements were received on 10 August 2007 and an unqualified audit report was issued on 10 August 2007.

2006-07 was a year of consolidation for Tascorp. During the financial year Tascorp operated with its new capital level of $22.000m. At the same time they commenced to use Value at Risk (VAR) as a key risk management tool in the organisation. They continued to refine their risk management systems within these parameters.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	**2005-06**
	$'000s	$'000s
Interest revenue	386 457	382 882
Other operating revenue	582	431
Gains less losses from financial instruments	7 627	(1 846)
Total Revenue	**394 666**	**381 467**
Interest expense	385 363	367 414
Other operating expenses	3 808	4 230
Total Expenses	**389 171**	**371 644**
Profit before Taxation	**5 495**	**9 823**
Income tax expense	1 649	2 947
Net Profit	**3 846**	**6 876**

Comment

The reduction in net profit from $6.876m to $3.846m is a reflection of the reduced capital at risk and the more disciplined risk management systems which have been implemented.

Interest receipts and payments are a function of:

- Market conditions;
- Balances of investments and loans held;
- Underlying interest rates;
- Margins;
- Investment strategies; and
- Management of interest rate exposures.

During the last two years Tascorp has restructured its book to enable it to operate with a level of risk approved by the Board at the revised level of capital of $22.000m. This change in risk profile has translated into reduced net profit.

BALANCE SHEET

	2006-07	**2005-06**
	$'000s	$'000s
Cash	11 885	1 128
Investments *	3 985 448	3 216 831
Advances *	2 425 043	2 294 979
Derivative instruments receivable	54 069	64 991
Property, plant and equipment	273	697
Intangibles and other	293	174
Total Assets	**6 477 011**	**5 578 800**
Payables	144 698	70 964
Deposits *	1 786 341	1 446 060
Borrowings *	4 457 084	4 004 382
Derivative instruments payable	64 328	33 478
Current tax liabilities	1 654	2 952
Provisions	860	918
Total Liabilities	**6 454 965**	**5 558 754**
Net Assets	**22 046**	**20 046**
Reserves	10 000	10 000
Retained earnings	12 046	10 046
Total Equity	**22 046**	**20 046**

** Consistent with the accounting standards, Tascorp's Balance Sheet refers to these balances as financial assets at fair value through profit and loss and Interest bearing liabilities at fair value through profit and loss.*

Comment

During 2006-07 Tascorp increased its level of borrowings and investments in line with:

- Available capital;
- The need to maintain a liquid market in the paper it has on issue;
- The need to be able to service client borrowing needs when they are required; and
- The opportunities available in the cycle to issue new paper at the best price.

Derivative financial instruments are used to manage foreign currency and interest rate risk associated with transactions entered into by Tascorp. The derivative instruments receivable and payable are the amounts payable or receivable under the contracts.

CASH POSITION

	2006-07	**2005-06**
	$'000s	$'000s
Interest and other receipts	411 979	424 170
Interest payments	(384 079)	(388 273)
Payments to suppliers and employees	(3 669)	(3 941)
Taxation expense	(2 947)	(35)
Net increase (decrease) in deposits and others	83 887	(136 506)
Net (increase) decrease in advances and others	(84 848)	303 179
Payments for financial assets at fair value through profit and loss	439 543	888 833
Cash from operations	**459 866**	**1 087 427**
Payments for property, plant and equipment	(21)	(337)
Proceeds from sale of property, plant and equipment	28	71
Cash from (used in) investing activities	**7**	**(266)**
Receipts from other financial liabilities at fair value through profit and loss (borrowings)	298 577	(1 207 388)
Dividends paid	(553)	(6 164)
Cash from (used in) financing activities	**298 024**	**(1 213 552)**
Net increase (decrease) in cash	**757 897**	**(126 391)**
Cash at the beginning of the year	729 405	855 796
Cash at end of the year	**1 487 302**	**729 405**

Comment

Tascorp includes cash balances and the net balance of investments and borrowings at call as the cash balance for cash flow purposes.

The significant volatility in proceeds and payments for investments, in addition to the changes in proceeds and payments for borrowings, is a function of Tascorp's clients' needs and its investment strategies. The figures noted represent net movements in types of investments (investment and advances) and borrowings (deposits and borrowings) as well as swap prepayments and receipts.

The increase in cash holdings is a reflection of the decision of Tascorp to hold its book at the short end of the yield curve as part of its risk management strategy. I draw the reader's attention to Note 16 of the Financial Statements. It shows the exposure of Tascorp to interest rate risk, repricing maturities and the effective interest rate on financial instruments.

FINANCIAL ANALYSIS

In my November 2006 Report I noted that conventional measures of assessing financial performance have little relevance particularly in an Australian Equivalents to Internation Financial Reporting (AIFRS) environment. Therefore, performance measures were not reported at that time.

Tascorp noted in its 2005-06 annual report the need for it to manage its risks to enable it to achieve a return on effective capital employed. The annual report also noted that from 1 July 2006, Tascorp's effective capital employed will be $22 million. Previously this was $45 million.

I went on to note that I would work with Tascorp management in 2006-07 to develop relevant performance measures for icludsion in this section of my Report. The outcome is the financial performance measures reported in the table below. When reviewing the Operating Return on equity, Dividend to equity and Total Return to equity ratios it must be borne in mind that these are calculated based on effective capital employed which were:

2006-05 – $45m

2006-07 – $22m.

	Bench Mark	2006-07	2005-06
Financial Performance			
Result from operations ($'000s)		3 846	6 876
Return on equity*		17.4%	15.3%
Returns to Government			
Dividends paid or payable ($'000s)		1 846	553
Dividend payout ratio	50%	48.0%	8.0%
Dividend to equity ratio*		8.4%	1.2%
Income tax paid or payable ($'000s)		1 654	2 947
Effective tax rate	30%	30.1%	30.0%
Total return to the State ($'000s)		3 500	3 500
Total return to equity ratio*		15.9%	7.8%
Other Information			
Staff numbers (FTE)		14	14
Average staff costs ($'000s)		112	91
Average leave balance per FTE ($'000s)		17	20

** 2005-06 recalculated based on 'notional' equity of $45m.*

Comment

Tascorp is the banker to Government in Tasmania. Its role is to meet the non transactional banking needs of Government and related bodies in Tasmania and to manage the market risks associated with those banking needs. As noted above Tascorp has refined its risk management strategies to operate with reduced capital and a corresponding low appetite for risk. The objective is to structure the business so as to effectively deliver the core objective.

In view of Tascorp's role the financial analysis is limited to the performance measures included in the table above. The core objective of Tascorp is to raise funds for the Tasmanian Government and its business enterprises at a price reflective of the rating held by the State of Tasmania. It is our view that this has been achieved within a clearly defined capital at risk and an appropriate risk management system approved by the Board.

OVERALL COMMENT

The audit of the financial statements for the 2006-07 year was completed with satisfactory results.

STATE OWNED CORPORATIONS

BACKGROUND

Government Businesses and Authorities that may be subject to provisions of their enabling legislation, and also subject to the provisions of the *Corporations Act 2001*, are referred to as State Owned Corporations (SOCs).

The Government is the sole shareholder in each SOC on behalf of the Tasmanian community. The broad governance framework for SOCs is set out in the legislation for each SOC, the *Corporations Act 2001* and the Constitution of each SOC.

The corporatisation of Government Businesses and Authorities under the *Corporations Act 2001* continues the reform process for improving public sector efficiency and effectiveness. While still serving a public purpose and owned by Government, corporatised entities are autonomous in day to day decision making with Ministerial direction provided through the strategic planning process.

Enabling legislation provides for the payment of guarantee fees, taxation equivalents and dividends.

KEY FINDINGS

- Audits of the financial statements of the six SOCs have been completed with unqualified audit opinions issued in each case.
- All audits were all completed satisfactorily with no major issues outstanding.
- Tasmania's SOCs collectively have net assets valued at $1.594b (2005-06, $1.225b), employ 2 493 (2 608) people, and reported a profit of $71.090m ($62.695m) after taxation in 2006-07.
- **Aurora** is trading in a competitive environment at a time when its liquidity is tight particularly due to its capital expenditure program. Management will need to manage carefully the risks associated with this. It is noted that this conclusion was reached not taking into account any impacts on Aurora's profitability and liquidity of the recent price determination made by the industry regulator.

  In 2006-07 its operating profit was $45.011m (2005-06, $27.372m) and its net assets grew from $333.145m at 30 June 2006 to $403.162m at 30 June 2007. During the period June 2004 to June 2007, Aurora invested net $357.762m in property, plant and equipment and intangible assets which was funded internally and by increased borrowings totalling $139.814m. It also paid $86.028m in taxes and dividends to the State Government.
- As **Metro Tasmania Pty Ltd** receives a significant proportion, approximately 69%, of its revenue as a Government contribution it remains economically dependent on the State Government for its continued operations. Metro reported a profit before tax of $0.307m for 2006-07, compared to a loss of $0.094m for 2004-05. Net assets increased by $6.626m from $22.889m to 29.515m at 30 June 2007.

- **TOTE Tasmania Pty Ltd's** (TOTE) results in 2006-07 in relation to the prior year, along with its improved net asset position, are characterised by improved profits and the completion of the Elwick race facility.

  Growth in operating activities, in particular wagering, was significant for 2006-07 due to increased turnover on horse and greyhound racing garnered through large and internet betting customers. The $5.750m in funds received from Government with respect to the licensing of Betfair in Tasmania has been returned to the racing industry in respect to prize-money, benefits and incentives.

  The TOTE Board has confirmed its commitment to funding the Mowbray racecourse redevelopment. In round terms, TOTE has invested funds in racetrack infrastructure in the last three years as follows:

Infrastructure	How funded	$m
Brighton race course – expenditure incurred over the period 2004-05 to 2006-07	Applied TOTE's own resources together with interest earned on the $22.6m	5.8
Elwick race course – expenditure incurred over the period 2005-06 to 2006-07	Applied TOTE's own resources and the shareholder funding provided *	25.6
Mowbray race course – expenditure incurred over the period 2004-05 to 2006-07	Applied TOTE's own resources **	1.9
Spreyton race day stalls - expenditure incurred in 2006-07	Applied TOTE's own resources	0.2
Total		**33.5**

  ** This is a net amount. TOTE also raised funding from other sources totalling $1.5m to offset this cost.*

  *** While $1.9m has been spent on the Mowbray racecourse, none of this related to the re-development envisaged by the $6m equity injection. I am informed that since 30 June 2007, TOTE has committed and entered into contracts for $1m regarding the Mowbray race course and the Board is exploring options regarding this development. I am further advised that, TOTE's cash holdings at 30 June 2007 totalled $4.897m, the anticipated investment will exceed $6m.*

- **Tasmanian Port Corporation Pty Ltd** (TasPorts) reported a profit of $7.541m before tax in its first full year of operations to 30 June 2007. The result is a significant improvement on the $7.244m loss recorded in its initial six months of operations to 30 June 2006. Its net assets increased by $5.422m from $114.324m to $119.746m at 30 June 2007.

  In the May 2007 Budget, the State Government announced that it intended to sell the Hobart International Airport Pty Ltd, a wholly owned subsidiary of TasPorts. This fact is noted in both the parent's and the company's audited financial statements. At the time of preparing this Report, arrangements to enable the sale are underway.

  During the 2005-06 audit, I reviewed with Tasports' management the valuation basis applied to recognising its Property, plant and equipment. TasPorts adopts the cost basis. As a considerable proportion of these assets include long life wharves and infrastructure assets, I consider TasPorts should adopt the fair value basis for recognising these assets.

As an initial step towards revaluing its infrastructure assets, TasPorts included a note in its 2006-07 financial statements disclosing a fair value assessment of its Property, plant and equipment. The fair value disclosed totalled $140.684m which was based on an independent market valuation and an income based approach which considered the future income earning capacity of these assets. This value is $24.460m greater than the amount at which infrastructure assets are recorded on the balance sheet of the Company. Management will give further consideration on how best to record these assets during the 2007-08 financial year.

- **Transend Networks Pty Ltd** has a strong net asset position enhanced in 2006-07 due to the revaluation of network assets. The Company's long-term capital investment program is to upgrade and modernise Tasmania's electricity transmission system. However, its liquidity is tight due primarily to the mix of short-term and long-term debt and the funding thereof from internal sources and borrowings. While noting that liquidity is tight, it is acknowledged that a debt equity ratio of 15.4% is low and that Transend has unused borrowing capacity available to it.
- The **TT-Line Company Pty Ltd's** improved results in 2006-07 reflect a positive impact on the financial position of the Company largely due to the sale of Spirit III. Its operating profit was $4.237m (2005-06, operating loss of $33.853m). Other contributing factors to the turnaround included increased passenger/vehicle fares, the introduction of a winter fare to increase passenger numbers, cancellation of Sunday sailings in winter, special daylight crossing fares, strong performance in the freight business and fuel hedging. In addition, passenger, vehicle and freight numbers increased.

RESPONSIBLE MINISTER

The Ministers responsible at 30 June 2007 for the entities within this group were as follows:

Entity	**Responsible Minister**
Aurora Energy Pty Ltd	Minister for Energy
Metro Tasmania Pty Ltd	Minister for Infrastructure
TOTE Tasmania Pty Ltd	Minister for Racing
Transend Networks Pty Ltd	Minister for Energy
TT-Line Company Pty. Ltd.	Minister for Infrastructure
Tasmanian Ports Corporation Pty Ltd	Minister for Infrastructure

The Responsible Minister together with the Treasurer hold the shares in the companies.

AURORA ENERGY PTY LTD

INTRODUCTION

Aurora Energy Pty Ltd (Aurora) was established on 17 June 1998 under the *Electricity Companies Act 1997* and is subject to the *Corporations Act 2001*. The Tasmanian Government through its two shareholders, the Treasurer and the Minister for Energy, owns Aurora on behalf of the State of Tasmania. The Office of the Tasmanian Electricity Regulator sets the maximum prices Aurora can charge.

Aurora consists of four business divisions as well as the Commercial Services Division and Strategy and Corporate Affairs Division. These are Aurora Retail (electricity retailing), Network (distribution asset management), Network Services (assists network in overseeing resource allocation to network management), and New Ventures (identifying opportunities for growth).

It holds a majority interest in Aurora Energy AAPT Pty Ltd (trading as TasTel) and a 100% interest in Ezikey Group Pty Ltd, which promotes pre-payment metering systems. Both of these entities were formed in 2000-01. Aurora has two other wholly owned subsidiaries - Aurora Gas Pty Ltd, formed in 2002 to enter the gas tender process, and Auroracom Pty Ltd, formed in 2006 for the purpose of obtaining a Telecommunications Carrier Licence to support commercial opportunities associated with the Broadband Over Powerline project and the TasCOLT trial. All figures in the following tables and analysis are based upon the consolidation of these entities.

In May 2005 Aurora joined the National Electricity Market (NEM) and now purchases wholesale electricity from the National Electricity Market Management Company Limited (NEMMCO). Aurora pays for energy at the market spot price and enters into hedge contracts with counterparties to manage the risks associated with fluctuations in the market spot price. Aurora continues to source the bulk of its electricity from the Hydro-Electric Corporation trading as Hydro Tasmania. Energy derivatives are used to bring the effective price for energy to the regulated price for energy for franchise customers (non contestable customers).

The board comprises seven directors, including the Chief Executive Officer.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 30 August 2007 and an unqualified audit report was issued on 7 September 2007.

FINANCIAL RESULTS

When reading this commentary it needs to be borne in mind that Aurora:

- Is subject to price controls fixed 5 yearly, with the most recent price increase awarded in 2003. Price increases in between 5 years are generally limited to inflation, set within the framework determined by the Tasmanian Energy Regulator. A new pricing structure is expected to operate from 1 January 2008 until 1 July 2010 as determined by the Regulator;

- Has moved into a more challenging environment. It now operates in an environment of price volatility in the wholesale spot energy market, manage contracts for differences, the net cost of energy purchases, and enters into competitive hedge contracts;

- Faces competition from other retailers over the next 4 years as the Tasmanian market is progressively opened up through a series of annual tranches, refer table below, dated 1 July 2006 progressively through to 1 July 2010 leading to full contestability subject to public benefit assessment;

Tranche Table

	Expected Date	**Contestability Limit**	**Number of installations**	**Indicative type of customers**
Tranche 1	1-Jul-06	>20 GWh/yr	19	Mineral processors/ heavy manufacturing plants
Tranche 2	1-Jul-07	>4 GWh/yr	41	Food processing plants and multi-storey office complexes
Tranche 3	1-Jul-08	>0.75 GWh/yr	293	Supermarkets, engineering workshops and smaller commercial complexes
Tranche 4	1-Jul-09	>0.15 GWh/yr	1 233	Fast food restaurants, service stations and large offices
Full contest-ability	1-Jul-10	<0.15 GWh/yr	244 000	Residential and small business customers

Source: Aurora Energy Annual Report 2006/07

- Faces increasing customer expectations for reliability and quality;

- Is pioneering pre paid metering in Tasmania and is receiving encouraging take up levels of the product in South Australia;

- Has entered a fully contestable market interstate winning 90 customers, among them a number of hotels and factories, with licences to operate in Victoria, South Australia, the ACT, New South Wales and Queensland; and

- Is trialling Broadband Over Powerlines (BPL) delivering high speed internet and telephony services over powerlines via power points through Auroracom Pty Ltd (which holds the telecommunication license) to support commercial opportunities.

INCOME STATEMENT

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Business customer sales	482 462	453 759	439 561
General sales	295 943	262 222	247 780
Other operating revenue	27 515	22 527	27 651
Total Revenue	**805 920**	**738 508**	**714 992**
Energy and telecommunication transmission purchases	538 600	497 986	477 024
Renewable energy credit purchases	7 385	6 842	5 573
Employee expenses	69 852	67 703	56 729
Borrowing costs	30 599	28 369	27 110
Depreciation	65 339	61 026	52 845
Other operating expenses	49 134	49 210	45 468
Total Expenses	**760 909**	**711 136**	**664 749**
Profit before:	**45 011**	**27 372**	**50 243**
Superannuation liability movement	(6 546)	3 918	(7 271)
Impairment of non-current assets	(2 379)	0	0
Non-operating revenue	9 065	786	(301)
Non-operating expenses	0	0	(398)
Profit before taxation	**45 151**	**32 076**	**42 273**
Income tax expense	(12 816)	(9 734)	(12 857)
Net Profit	**32 335**	**22 342**	**29 416**

Comment

Over the three years under review Aurora's Business customer and General sales steadily increased by $91.064m or 13.2% while total expenses increased by $95.762m or 14.4%. Also, over this period energy and telecommunication transmission purchases increased by $61.178m or 12.81%. Over the period Aurora generated total profits before taxation of $119.500m or an average of $39.840m per year.

While Aurora has experienced growth in sales in dollar terms, there has also been growth in volumes as noted in Table 1.

TABLE 1

Installation numbers and sales volume in million kWh

	2007	2006	2005
Installation Numbers			
Business and Residential	263 584	259 590	256 469
Sales (in million kWh)			
Business and Residential	10 483	10 298	10 028

It is clear from the table that installations and sales in kWh is increasing across business and residential customers leading to higher revenue and energy purchases.

The table indicates that sales were higher due to increases in unit sales from 10,028 million kWh in 2005 to 10,483 million kWh in 2007, brought about by growth in installations, fluctuating weather conditions, such as a colder winter in 2006-07 compared to previous years, and the effects of tariff increases.

In 2006-07 Aurora's Result from operating activities before taxation, impairment, actuarial movements and net non-operating revenue improved by $17.639m due mainly to Total Revenue increasing by $67.412m or 9.1% while Total Expenses increased by $49.773m or 7.0%. However, the result in 2004-05 was $5.221m better primarily because total expenses as a percentage of total revenue in that year were 92.97% as against 94.41% in 2006-07. This increase, 1.14%, while small, reduced profitability by $11.283m. Over this period Aurora experienced cost increases relating to inputs such as copper and aluminium used in distribution lines and in preparation for entry into the NEM. It also experienced a large increase in depreciation charges.

Other operating revenue increased by $4.988m mainly due to customer contribution increases of $3.300m. These represent funds received from customers who are required to make a contribution towards the cost of capital works. Customer contributions included $3.206m of contributions for optical fibre (TREN project), part of the Telco group in the Strategy and Corporate Affairs Division. The increase was largely brought about by Tasmania experiencing economic growth resulting in a rise in customers connecting to the Aurora network. Over the past three years under review, customer contributions fluctuated from $7.921m in 2005, $7.473m in 2006 increasing to $10.763m in 2007. The contribution of $10.763 in 2006-07 represents 24% of the Net Profit before taxation.

Depreciation increased by 24% over the period under review or $12.494m with the increase in 2006-07 being $4.313m. These increases are due to asset revaluations, high levels of capital works including upgrading the grid network. The carrying amount of Property, plant and equipment at 30 June 2007 before accumulated depreciation was $1.965b.

Other cost increases included the development of large information technology systems associated with the entry into the NEM.

The Superannuation liability movement expense of $6.546m, was recorded following a review by the State Actuary. This increased Aurora's total liability for unfunded superannuation and was mainly due to a one off change in contributions tax, following changes to tax legislation relating to Pre 1 July 1988 Funding Credits, and changes to other assumptions, including lower pensioner mortality.

The Asset impairment, $2.379m, related mainly to a write down of Aurora's fibre optic plant and equipment in 2006-07.

Other non-operating income included $6.712m related to unrealised energy derivative gains, which represented the difference between the result of energy traded derivatives recognised at fair value on the date a derivative contract was entered into and the remeasured fair value at reporting date.

The poorer 2005-06 result compared to that for 2004-05 was brought about by a number of off-setting causes:

- Business and General sales increased during 2005-06 by approximately 4.5%, due in part to tariff increases and increased unit sales. Aurora also changed its approach to estimating the amount of unbilled electricity sales at year-end which had the effect of increasing that year's sales by $7.821m although a similar adjustment was made to the unbilled energy in 2004-05 when it was increased by $9.177m;
- Other operating revenue decreased by $5.124m due in part to losses on external work activity of $2.402m (Aurora made a small profit of $0.539m in 2004-05 and broke even in 2006-07) and a reduction in interest received of $1.092m due to a reduction in investments;
- Energy and telecommunication transmission costs increased by $20.962m, due in part to increases in tariffs for Aurora's suppliers by the independent electricity regulator;
- Employee expenses increased by $10.974m due to salary increases, employment of additional staff (mainly associated with NEM entry, additional apprentices, and additional salaries associated with external works and capital expenditure) and increased redundancy payments;
- As a wholesale purchaser Aurora is required to annually purchase and surrender Renewable Energy Certificates under the *Commonwealth Government's Renewable Energy (Electricity) Act 2000*. Pursuant to this Act, increasing targets are being phased in over the period of 2001 – 2010. The effect of this was increased costs of $1.269m;
- Borrowing costs increased by $1.259m as a result of Aurora increasing its debt levels;
- Depreciation increased by $8.181m, including $2.308m resulting from the reassessment of the useful lives of certain assets; and
- Other operating expenses increased by $3.742m due to greater activity associated with NEM related projects and bad debt costs of $0.998m.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	33 272	12 359	56 634
Receivables	68 182	63 367	59 143
Unbilled energy	57 271	51 251	37 882
Inventories	9 170	6 700	6 579
Energy contracts accrued	36 059	6 888	43 994
Hedge derivatives at fair value	43 715	1 326	34
Other	1 487	3 090	1 560
Total Current Assets	**249 156**	**144 981**	**205 826**
Payables	147 285	106 272	130 009
Borrowings	181 924	62 325	19
Provisions - leave and other	19 373	20 346	18 721
Provisions - superannuation	9 085	9 588	8 112
Current tax payable	4 461	0	4 680
Other	20 011	13 493	10 601
Total Current Liabilities	**382 139**	**212 024**	**172 142**
Working Capital	**(132 983)**	**(67 043)**	**33 684**
Property, plant and equipment	995 292	922 675	841 147
Investments	0	52	318
Deferred tax assets	27 244	23 197	22 583
Intangible assets	23 283	14 622	8 093
Hedge derivatives at fair value	5 980	1 010	0
Total Non-Current Assets	**1 051 799**	**961 556**	**872 141**
Borrowings	323 449	399 081	436 856
Provisions - leave and other	1 688	1 594	1 317
Provisions - superannuation	49 962	40 595	41 528
Deferred tax liability	140 242	119 310	114 543
Other	313	788	0
Total Non-Current Liabilities	**515 654**	**561 368**	**594 244**
Net Assets	**403 162**	**333 145**	**311 581**
Capital	201 555	201 555	201 555
Reserves	119 858	86 652	75 478
Retained earnings	81 540	44 920	34 473
Minority Interest	209	18	75
Total Equity	**403 162**	**333 145**	**311 581**

Comment

Over the three years under review Aurora's Equity increased by $91.581m or 29.4%, driven mainly by asset revaluations and profit retentions.

On a line by line basis, the $70.017m increases in Aurora's Net Assets between June 2006 and June 2007 were primarily due to:

- Property, plant and equipment increased by $72.617m. The valuation methodology applied to Aurora's distribution assets reflects the Tasmanian Electricity Code rules, which regulates the revenue from these assets based on their written down optimised replacement value, and adjustments to these values as determined by the Regulator. In other words, the asset values recognised represent least cost, modern equivalent assets, which would provide the same service potential of the existing assets. Increases to Aurora's assets are a combination of additions and revaluation adjustments. Revaluation adjustments are reflected in net increases to Reserves, which totalled $33.206m of which $19.272m relates to Property, plant and equipment. In 2006-07 Aurora spent $103.630m on capital expenditure;

- Intangible assets increased by $8.661m for computer software associated with NEM treasury functions and requirements;

- Increased cash held at year end of $33.272m in order to assist with settling the NEMMCO power account on 2 July 2007. The cash balance fluctuates on an annual basis depending on the timing of these payments;

- Increased energy contracts accrued of $29.171m relating to timing issues. This amount represents the difference between the spot price paid to NEMMCO for power and the contracted purchase price from Hydro Tasmania. Hydro Tasmania refunds these differences to Aurora;

- Hedge derivatives at fair value increased from $1.326m at 30 June 2006 to $43.715m at 30 June 2007. The main factors contributing to this were:

  - An increase in Aurora's tradeable securities with respect to its retailing activities, both within Tasmania and in the national market; and

  - The doubling of the spot price at year end. The impact of this was to increase the carrying value of this asset by $26.222m.

  These hedges are designated as effective hedges because they follow the commodity for which they are being hedged. The designation as effective enables recognition on the balance sheet with the profit or loss impact recorded once the hedges materialise. As a result, these derivatives are not cash flow items, they remain unrealised; and

- Unbilled energy increases of $6.020m due to timing of Aurora's energy bills prior to 30 June in 2007 and in part due to increased tariffs and unit sales.

The effects of the foregoing were offset in part by:

- Total borrowings increased by $43.967m in response to the expanded capital expenditure program and cash requirements associated with NEM;

- Increased deferred tax liability by $20.932m, caused mainly by Aurora's policy of recording non-current assets at valuation giving rise to significant differences between the book and tax values of these assets; offset by

- Increased Deferred tax assets of $4.047m, predominantly related to the higher superannuation liability.

Over the three years under review, Aurora's working capital position has deteriorated significantly from a positive $33.684m at 30 June 2005 to a negative $132.983m at 30 June 2007. The positive working capital position in 2004-05 was due to borrowing $50.000m long term and investing in overnight cash to meet liquidity requirements of the Australian Financial Services Licence (AFSL). This was reversed in 2005-06 when a guarantee was obtained to comply with "eligible undertaking" rules. The high current debt levels in 2006-07 were due to holding a high proportion of the debt portfolio as current, so as to refinance during the Regulators Weighted Average Cost of Debt (WACD) reset period during August 2007. The working capital position before current borrowings was:

2005 – $33.703m

2006 – $(4.718m)

2007 – $48.941m

This improvement reflects higher cash, receivables, unbilled energy and unrealised, favourable energy contract balances (CFDs with Hydro Tasmania because spot prices exceeded Hydro contract prices at year end) and favourable unrealised derivatives at 30 June 2007. This was offset to some extent by increases in short term liabilities which at 30 June included amounts due to NEMCO for energy purchase of $94.000m.

Subject to how Aurora manages its debt repayments and hedging arrangements, its working capital management appears reasonable.

Aurora's Borrowings increased over the period under review by $68.498m to $505.373m at 30 June 2007. This has largely been needed to fund its on-going capital expenditure program.

As at 30 June 2007, Aurora had the following significant guarantee facilities:

- $122.000m (2006, $140.000m) to NEMCO as a requirement for NEM entry; and
- $250.000m (2006, $150.000m) to meet the requirements of the AFSL.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	893 579	828 016	780 042
Payments to suppliers and employees	(753 295)	(710 305)	(653 827)
Interest received	1 409	3 273	3 107
Borrowing costs paid	(28 713)	(27 776)	(24 824)
Taxation paid	(9 570)	(17 104)	(23 850)
Cash from operations	**103 410**	**76 104**	**80 648**
Payments for intangible assets	(17 115)	(12 679)	(4 499)
Payments for property, plant and equipment	(107 194)	(121 757)	(97 454)
Proceeds from sale of property, plant and equipment	7 269	1 505	1 038
Cash (used in) investing activities	**(117 040)**	**(132 931)**	**(100 915)**
Proceeds from borrowings	121 784	197 833	161 910
Repayment of borrowings	(78 000)	(173 304)	(90 409)
Dividends paid	(9 585)	(11 977)	(13 942)
Proceeds from issue of equity	344	0	0
Cash from financing activities	**34 543**	**12 552**	**57 559**
Net increase (decrease) in cash	**20 913**	**(44 275)**	**37 292**
Cash at the beginning of the year	12 359	56 634	19 342
Cash at end of the year	**33 272**	**12 359**	**56 634**

Comment

Aurora benefits from a regular supply of cash from its electricity customers to meet its obligations to both suppliers and employees, which was the main reason for the continued strong cash from operations result which totalled $260.162m over the three years under review and $103.410m in 2007 (2006, $76.104m). Its Cash from operations position improved by $27.306m at 30 June 2007 largely due to:

- Increased receipts from customers of $65.563m; and
- Reduction in taxation paid of $7.534m.

This was offset by:

- Increased payments to suppliers of $42.990m; and
- Increased borrowing cost payments of $0.937m.

Aurora's cash position at 30 June 2006 deteriorated due to:

- Its ongoing capital investment program and its investment in information technology (classified as intangible assets) which totalled net $132.931m in 2005-06;
- These investments were funded by new borrowings of only $24.529m with the remainder funded from existing cash reserves and from cash generated from operations; and
- The payment of a dividend of $11.977m.

Aurora has embarked upon a very large capital program to improve the reliability and the service delivery to Tasmanian customers. Over the three years under review, Aurora applied $360.698m to investing activities related to Payments for property, plant and equipment and Intangible assets. It funded this program by:

- Asset sales $9.812m
- Borrowings $68.494m
- Cash from operations $282.392m.

Therefore, Aurora re-invested 80% of its cash from operations into its asset base and paid $35.504m, or 10%, in dividends.

While Aurora's cash position improved at 30 June 2007, in all likelihood it will need to continue taking on more borrowings if it is to sustain its current levels of capital expenditure.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		45 011	27 372	50 243
EBIT ($'000s)		75 750	60 445	69 383
EBITDA ($'000s)		141 089	121 471	122 228
Operating margin	>1.0	1.06	1.04	1.08
Return on assets		6.3%	5.5%	7.0%
Return on equity		8.8%	6.9%	8.6%
Financial Management				
Debt to equity		125.4%	138.5%	140.2%
Debt to total assets		38.8%	41.7%	40.5%
Interest cover - EBIT	>3*	2.5	2.1	2.6
Interest cover - cash from operations	>3*	4.3	3.7	3.9
Current ratio	>1	0.65	0.68	1.20
Leverage ratio		323%	332%	346%
Cost of debt	7.5%	6.3%	6.3%	6.8%
Debt collection	30 days	29	29	28
Creditor turnover	30 days	8	11	18
Capex/Depreciation		1.59	1.94	1.89
Returns to and from Government				
Dividends payable ($'000s)		10 733	9 585	11 977
Dividend payout ratio	50%	33.2%	42.9%	40.7%
Dividend to equity ratio	6%	2.9%	3.0%	3.5%
Income tax paid ($'000s)		9 570	17 104	23 850
Effective tax rate	30%	21.3%	62.5%	47.5%
Government guarantee fees ($'000)		1 843	1 492	1 393
Total return to the State ($'000s)		22 146	28 181	37 220
Total return to equity ratio		6.0%	8.7%	10.8%
CSO Funding ($'000)		11 780	11 198	11 513
Other Information				
Staff numbers (FTE)		1 069	1 042	981
Average staff costs ($'000s)		65	65	58
Average leave balance per FTE ($'000s)		20	21	20

** It is acknowledged that the Aurora board applies a benchmark of 1.9 for the interest cover ratios which is based on its credit rating. Additionally, the assumed credit rating used by the Energy Regulator as part of the Regulatory Pricing Determination process is based on a 'BBB' credit rating, which results in a benchmark range for distribution businesses of 1.3 to 2.5. A bench mark of 3 is applied throughout this Report to facilitate comparability between entities.*

Comment

Aurora's Result from operations increased in the current financial year to $45.011m from $27.372m in 2005-06 for the reasons outlined in the Income Statement section of this Chapter. Those comments also explain Earnings before interest and tax (EBIT), Return on assets and Return on equity.

In 2005-06 the Current ratio fell below the benchmark level of 1, to 0.68 and remained constant in 2006-07 at 0.68. This reflects Aurora's working capital position discussed previously, along with the fact that at 30 June 2007 its debt poftfolio was being held short-term in preparation for the Pricing Determination.

The Debt to equity ratio of 125.4% in 2006-07 improved from 138.5% in 2005-06 and is considered reasonable based on a current gearing level benchmark ratio around 60:40 (150%).

Aurora's Interest cover of 2.5 marginally improved compared to 2.1 in the previous year and has now returned to a level comparable with 2004-05. This is despite the higher interest cost with the ratio improving due to higher levels of profitability compared to 2005-06.

Aurora's Leverage ratio is declining because it is funding its capital expenditure program from borrowings and internal resources.

Included in the calculation of the Debt collection ratio were major industrial customers that pay a substantial portion of charges in advance. Excluding these customers, the ratio for 2006-07 was approximately 42 days (2005-06, 42; 2004-05, 40).

Over the three year period, Aurora returned $87.547m to the State or an average of $29.182m per year, comprising, in total, dividends of $32.295m, taxation payments of $50.524m and guarantee fees of $4.728m.

The Tasmanian Government has a Community Service Agreement with Aurora to provide discounts to pensioners. In 2006-07 reimbursements for this community service, plus administration costs, (CSO Funding) totalled $11.780m (2006, $11.198m). The level of CSO funding has remained relatively constant over the three year period.

Over the three years, Aurora's FTE numbers increased by 88, from 981 in 2004-05 to 1 069 in 2006-07. These increases related to entry into the NEM, ongoing expenditure in the capital works program and a greater level of external contracting. Average staff costs and leave balances remained constant throughout this period.

OVERALL COMMENT

Aurora is trading in a competitive environment at a time when its liquidity is tight particularly due to its capital expenditure program. Management will need to manage carefully the risks associated with this. It is noted that this conclusion was reached not taking into account any impacts on Aurora's profitability and liquidity of the recent price determination made by the industry regulator.

Based on Aurora's 2006-07 financial performance, the Tasmanian Government received $22.146m (2006, $28.181m) comprising income tax equivalent, $9.570m, proposed dividend, $10.733m, and debt guarantee fees, $1.843m.

The 2006-07 audit was completed satisfactorily with no major issues outstanding.

METRO TASMANIA PTY LTD

INTRODUCTION

Metro Tasmania Pty Ltd (Metro or the company) is a State-Owned Company that provides public urban road transport services in the metropolitan areas of Hobart, Launceston and Burnie under service contracts with the Tasmanian Government. It also provides passenger transport services to a number of regional centres around Hobart through a series of individual route contracts.

Metro was incorporated on 2 February 1998 under the *Metro Tasmania Act 1997*. This company is a successor in law of the Metropolitan Transport Trust.

On 30 June 2005 Metro acquired the business of its subsidiary, Metro Coaches (Tas) Pty Ltd (Metro Coaches). Metro Coaches ceased to trade from this date and is now a 'Shell' Company.

The financial information presented below represents the consolidated financial statements of Metro and Metro Coaches.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements of Metro were received on 10 September 2007 and an unqualified audit report was issued on 11 September 2007.

FINANCIAL RESULTS

A review of Metro's pricing policies was carried out by the Government Prices Oversight Commission (GPOC) in April 2006. This review highlighted a number of prospective changes in fare levels, ticket types, service design and the ticketing system, in addition to changes in the Metro funding model. These reviews impact on the levels of funding provided by the Government and the revenue raised through fares.

Metro has entered into a Community Service Agreement (CSA) with the Government (via the Department of Infrastructure, Energy and Resources (DIER)), with contract payments designed to enable it to achieve a break-even operating result. The agreement includes provision for concession travel and the provision of non-commercial services. Metro receives the majority of its revenue from this contract. In 2006-07 the contribution was \$26.421m (2005-06, \$24.940m; 2004-05, \$22.618m). This is an increase of 17% during the period under review. This contract was due to expire on 30 June 2007, however DIER granted an extension of the contract beyond this date, until a new contract can be finalised. Because contract payments are determined on the basis of Metro achieving a break-even outcome, its financial statements are prepared on the basis that it is a "Not-for-Profit" entity.

In previous years Metro did not recognise any deferred tax assets and deferred tax liabilities under the Accounting Standard AASB 112 *Income Taxes* on the basis that it was a "Not-for-Profit" entity and as a consequence its intention was not to generate profits that would be subject to tax. This was reconsidered by the Directors during 2006-07 who concluded that the company should fully comply with this accounting standard. As AASB 112 is a sector-neutral standard, and applies to both for-profit and not-for-profit entities, in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, Metro elected to correct this as of 1 July 2004, by restating the opening balances of assets and liabilities.

Metro continues to maintain a major bus replacement program aimed at:

- Stabilising the average age of its vehicle fleet at around 12 years;
- Meeting the requirements of the *Commonwealth Disability Discrimination Act 1992*; and
- Providing Metro customers and staff with a fleet of modern, convenient and comfortable vehicles.

This program ensures that Metro maintains an appropriate mix of vehicle ages and sizes in its fleet to meet the needs of customers.

INCOME STATEMENT

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Government contribution	26 607	25 130	22 816
Fare revenue	9 943	9 490	8 095
Other operating revenue	1 467	1 221	2 565
Gain on sale of non-financial assets	181	58	126
Total Revenue	**38 198**	**35 899**	**33 602**
Borrowing costs	175	173	192
Depreciation	3 050	3 131	3 391
Administration	3 078	3 793	3 691
Employee expenses	23 035	21 679	19 418
Other operating expenses	8 553	7 093	7 004
Total Expenses	**37 891**	**35 869**	**33 696**
Profit (Loss) before taxation	**307**	**30**	**(94)**
Income tax expense	(123)	(46)	(211)
Net Profit (Loss)	**184**	**(16)**	**(305)**

Comment

Profit (Loss) before taxation improved over the period of review. The main factors contributing to this were:

- The Government contribution increased by 16.6% or $3.791m over the period, from $22.816m in 2004-05 to $26.607m in 2006-07, in line with increases in Metro's costs. In 2006-07 this revenue source represented 69% (2005-06, 69%; 2004-05, 68%) of Metro's total revenue;
- Fare revenue grew by 22.8% or $1.848m over the period due to increased patronage, increased fares, contractual arrangements and reviews, noted previously;

- Other operating revenue, which primarily relates to interest income, increased in 2006-07 due to Metro improving its cash management process and investing surplus funds into higher interest bearing accounts. This followed a decrease in 2005-06 of $1.153m due to a reclassification of revenue items in that year; and
- Gain on sale of fixed assets increased in 2006-07. This amount varies from year to year in line with Metro's bus replacement program.

The effects of the foregoing were offset in part by:

- Increased Employee expenses of 18.6% over the three years, from $19.418m in 2004-05 to $23.035m in 2006-07, due mainly to wage increases awarded to bus drivers. The average number of full-time equivalents (FTE's) has remained relatively constant over the period; and
- Increased Other operating expenses of 22.1% over the period, from $7.004m in 2004-05 to $8.553m in 2006-07 due mainly to higher maintenance and running costs.

As noted previously, Metro has now recognised deferred tax balances. This resulted in the recognition of an Income tax expense which increased over the period of review, by $0.077m, in line with the improved Profit (Loss) before taxation.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	13 446	11 246	11 684
Receivables	609	635	980
Inventories	849	853	861
Assets classified as held for sale	67	242	505
Other	564	571	461
Total Current Assets	**15 535**	**13 547**	**14 491**
Payables	2 621	3 187	3 496
Borrowings	2 792	0	35
Provisions - leave and other	3 735	2 894	2 761
Provisions - superannuation	4 443	3 720	3 291
Total Current Liabilities	**13 591**	**9 801**	**9 583**
Working Capital	**1 944**	**3 746**	**4 908**
Property, plant and equipment	36 889	33 076	29 477
Intangible assets	367	166	230
Deferred tax assets	10 038	9 777	10 719
Other	0	0	193
Total Non-Current Assets	**47 294**	**43 019**	**40 619**
Borrowings	0	2 792	2 792
Provisions - leave and other	667	900	894
Provisions - superannuation	13 787	12 579	15 026
Deferred tax liabilities	5 269	3 809	3 926
Total Non-Current Liabilities	**19 723**	**20 080**	**22 638**
Net Assets	**29 515**	**26 685**	**22 889**
Capital	15 503	15 503	15 503
Reserves	10 317	6 785	4 292
Retained earnings	3 695	4 397	3 094
Total Equity	**29 515**	**26 685**	**22 889**

Comment

Net Assets increased by $6.626m during the period under review. The main factors contributing to this were:

- Increased Cash of $1.762m, mainly due to timing of the capital purchases of buses;
- Increased Property, plant and equipment of $7.412m mainly due to the revaluation of land and buildings in 2005-06, $2.566m, revaluation of buses in 2006-07, $5.084m, and the purchase of additional buses over the period, $5.014m. These increases were offset by depreciation of $6.063m. Revaluation adjustments resulted in increases to the Asset revaluation reserve;

- Increased Intangible assets of $0.137m mainly due to the purchase of additional software, $0.285m, offset partly by associated depreciation, $0.084m; and
- A net decrease, $0.087m, in Provisions – superannuation, mainly due to changes in discounts rates and a decrease in the value of contributory scheme assets.

The effects of the foregoing were offset in part by:

- Increased net Deferred tax liabilities of $2.024m, now recognised, as explained previously in the Income Statement section;
- Decreased Assets held for sale of $0.438m due to a reduction in the number of buses held for sale at the end of each financial year; and
- Increased Provisions - leave and other of $0.747m. This position reflects the current problem where several employees have many years of service and the staffing situation is such that some of these employees do not have an opportunity to take extended periods of leave. Metro has implemented a strategy to reduce the excessive leave balances.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	38 687	37 355	34 589
Payments to suppliers and employees	(35 280)	(34 644)	(29 756)
Interest received	890	660	546
Borrowing costs	(175)	(173)	(234)
Cash from operations	**4 122**	**3 198**	**5 145**
Payments for investments	0	0	(3 347)
Payments for property, plant and equipment	(2 662)	(4 024)	(2 310)
Proceeds from sale of property, plant and equipment	740	423	448
Restatement of investments to cash	0	0	9 337
Cash from (used in) investing activities	**(1 922)**	**(3 601)**	**4 128**
Proceeds from borrowings	0	0	2 792
Repayment of borrowings	0	(35)	(2 826)
Cash (used in) financing activities	**0**	**(35)**	**(34)**
Net increase (decrease) in cash	**2 200**	**(438)**	**9 239**
Cash at the beginning of the year	11 246	11 684	2 445
Cash at end of the year	**13 446**	**11 246**	**11 684**

Comment

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and Balance Sheet sections of this Chapter. The main movements are discussed below.

Cash from operations decreased in 2005-06 mainly due to an increase in Payments to suppliers and employees as a result of a wage increase of 8% awarded to bus drivers in that year. Cash from operations increased in 2006-07 mainly due to increased revenue from Government contributions for service contracts.

In 2004-05 the adoption of new accounting standards had the impact of restating investments of $9.337m as part of Metro's cash balance as at 30 June 2005. This resulted in a higher than usual Cash from (used in) investing activities amount for that year. In 2006-07 Payments for property, plant and equipment decreased primarily due to only four buses being purchased in the year as opposed to eight in 2005-06.

The significant cash holdings represent funds committed for future bus purchases, route infrastructure, fare collection systems and support facilities.

Cash used in financing activities decreased over the period due to Metro not taking up additional borrowings.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		307	30	(94)
EBIT ($'000s)		482	203	98
Operating margin	>1.0	1.00	1.00	0.99
Return on assets		0.8%	0.36%	0.2%
Return on equity		0.7%	(0.06%)	(1.4%)
Financial Management				
Debt to equity		9.5%	10.5%	12.4%
Debt to total assets		4.4%	4.9%	5.1%
Interest cover	>3	2.8	1.2	0.5
Current ratio	>1	1.14	1.38	1.51
Leverage ratio		212.9%	212.0%	240.8%
Cost of debt	7.5%	6.3%	6.2%	6.8%
Debt collection	30 days	5	5	5
Creditor turnover	30 days	20	31	42
Returns to and from Government				
Dividends paid or payable ($'000s)		0	0	0
Income tax paid or payable ($'000s)		0	0	0
Total return to the State ($'000s)		0	0	0
CSA funding ($'000s)		26 421	24 939	22 816
Other Information				
Average staff numbers (FTE)		367	361	366
Average staff costs ($'000s)		63	60	53
Average leave balance per FTE ($'000s)		12	11	10

Comment

Result from operations improved over the period under review. This was mainly attributable to increased revenue from Government for service contracts, partially offset by increased employee expenses. This in turn resulted in improved EBIT.

As mentioned previously, due to the contract with Government being based on achieving a break-even outcome, returns to the State continued to be well below that which would be normally expected from a commercial undertaking. This is confirmed by the low Return on assets, low Return on equity and nil Return to the State in the form of taxes and dividends.

The Debt to equity ratio decreased over the period of review due to the reduction in borrowings and increased Retained earnings and Reserves.

The Interest cover ratio improved in 2006-07 as a result of higher levels of profitability.

Average staff costs rose during the three years, primarily because of wage increases as previously explained.

OVERALL COMMENT

As Metro receives a significant proportion, approximately 69%, of its revenue as a Government contribution it remains economically dependent on the State Government for its continued operations.

The 2006-07 audit was completed satisfactorily with no major issues outstanding.

TOTE TASMANIA PTY LTD

INTRODUCTION

The former Totalizator Agency Board was incorporated as TOTE Tasmania Pty Ltd (TOTE or the Company) on 5 March 2001. The Company is empowered to establish and conduct Totalizator betting in Tasmania under the *Racing Regulation Act 1952* and for the development of an efficient and effective racing and breeding industry under the *TOTE Tasmania Act 2000*. The Company's share capital is held on behalf of the State of Tasmania by the Minister for Racing and the Treasurer.

The board comprises six members who are appointed by the State Government.

The Company wholly owns TasRadio Pty Ltd, a commercial radio broadcaster, which enables it to provide race broadcasts throughout most of Tasmania. Consequently, the financial information presented below represents the consolidated results and financial position of the Company and its subsidiary.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 6 September 2007 and an unqualified audit report was issued on 7 September 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Investments from customers	387 106	321 584	303 209
Settlement from other TABs	31 243	24 907	23 034
Cost of dividends and taxes	(361 083)	(297 905)	(280 168)
Wagering Income	**57 266**	**48 586**	**46 075**
Other income from operating activities	14 110	12 613	9 423
Total Income	**71 376**	**61 199**	**55 498**
Employee benefits expense	(11 178)	(8 916)	(8 416)
Prizemoney, benefits and incentives	(20 105)	(18 226)	(13 670)
Wagering and pooling fees	(8 894)	(7 017)	(6 394)
Depreciation and amortisation expense	(3 479)	(3 804)	(3 577)
Borrowing and leasing costs	(1 411)	(1 330)	(1 224)
Commission expense	(9 079)	(7 306)	(7 070)
Communication and broadcasting expenses	(5 504)	(4 800)	(5 229)
Racing administration expenses	(2 914)	(3 010)	(3 383)
Administration expenses	(3 343)	(2 856)	(2 896)
Other expenses	(3 626)	(2 679)	(2 792)
Total Expenses	**(69 533)**	**(59 944)**	**(54 651)**
Profit before taxation	**1 843**	**1 255**	**847**
Income tax expense	(535)	(378)	(259)
Net profit	**1 308**	**877**	**588**

Comment

In the three years under review, wagering income increased by 24% or $11.191m, $2.511m in 2005-06 and $8.680m in 2006-07. The 2006-07 year produced the highest ever turnover by the TOTE/the TAB with turnover of $387.106m, up 20.4% on 2005-06. The result was underpinned by an increase of 20.2% in pari-mutuel turnover to $375.542m and a 16.8% increase in fixed odds turnover. The pari-mutuel bets sold and processed by the Company's wagering system is up 12.0% from 2005-06 to $29.175m.

This large increase in revenue has a flow on effect on certain TOTE expenses such as prize money, wagering and commissions paid.

The major component of Other income from operating activities is government grant funding, which increased principally due to amounts received from the Government in providing assistance to the racing industry due to the licensing of Betfair. Grants increased in total by $3.190m in 2005-06 and $1.480m in 2006-07 with the amounts relating to Betfair being $4.250m in 2005-06 and $5.750m in 2006-07.

Over the period under review, Prizemoney, benefits and incentives increased by 47% or $6.435m with most of this increase arising in 2005-06, $4.556m. These increases were all due to funds received with respect to Betfair licensing with stakes increasing by $1.879m in 2006-07 and $4.556m in 2005-06.

Employee benefits expenses increased by $2.262m during 2006-07 due to a $1.100m increase in base salaries during the year (primarily due to the full year impact of running Spreyton Race course, two additional positions and overtime associated with covering international race meetings), $0.369m in separations payments to a former employee, and an actuarially determined $0.464m top up of the provisions relating to the defined benefit plan. In 2005-06 employee expenses increased by $0.5m, mainly due to increased staff numbers associated with the take over of the Royal Showgrounds and Spreyton Park, and the number of race meeting held during the year thus increasing staff costs.

In 2006-07 the $1.877m increase in wagering and pooling fees is consistent with the increase in settlement from other TABs. Both measures are based on the increased wagering revenue income TOTE received from betting pools. The increase in 2005-06 occurred for similar reasons.

Depreciation and amortisation decreased by $0.325m notwithstanding an increased in the depreciable asset base. This has arisen principally as a result of a change in the assessed useful life of the wagering system asset during the year. In 2005-06 depreciation and amortisation increased by $0.277m due to the increased depreciable asset base predominantly caused by the Elwick construction.

Commissions expenses increased by 24% ($1.773m) in 2006-07 and 3% ($0.236m) in 2005-06. This account primarily represents amounts paid by TOTE to the outlets and agencies. The level of commissions paid is linked to revenue and hence commissions have increased a similar amount to that noted in revenue.

Communication and broadcast expenses increased by $0.704m during 2006-07 due to a $0.479m increase in broadcasting costs with Sky Channel. In 2005-06, compensation received from Sky Channel for loss of service was applied directly against broadcast fee expense, thus decreasing the broadcast fee expense in that year by $0.429m.

In 2006-07 other expenses increased by $0.947m due primarily to a $0.556m increase in marketing and advertising costs directed towards the Internet business and entering new markets.

BALANCE SHEET

	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Current Assets			
Cash and cash equivalents	4 897	4 419	18 870
Trade and other receivables	3 849	4 634	2 525
Consumables stores	76	66	34
Prepayments	363	403	333
Total Current Assets	**9 185**	**9 522**	**21 762**
Current Liabilities			
Telephone betting deposits	3 654	3 247	2 384
Dividends and refunds due and unpaid	783	630	614
Accruals and accounts payable	5 142	7 556	4 886
Income received in advance	16	16	16
Bonds on deposit	298	296	268
Borrowings - unsecured interest bearing	0	500	1 000
Income tax payable	124	96	222
Provisions - superannuation	146	124	188
Provisions - leave and other	863	785	668
Racing industry funds	89	113	142
Total Current Liabilities	**11 115**	**13 363**	**10 388**
Working Capital	**(1 930)**	**(3 841)**	**11 374**
Non-Current Assets			
Property, plant and equipment	43 129	42 940	26 634
Deferred tax assets	706	708	593
Intangibles	3 864	3 150	2 749
Total Non-Current Assets	**47 699**	**46 798**	**29 976**
Non-Current Liabilities			
Borrowings - unsecured interest bearing	1 500	1 000	528
Income received in advance	62	78	94
Provisions - superannuation	2 309	1 613	1 523
Provisions - leave and other	100	99	81
Total Non-Current Liabilities	**3 971**	**2 790**	**2 226**
Net Assets	**41 798**	**40 167**	**39 124**
Equity			
Contributed equity	22 600	22 600	22 600
Retained earnings	14 553	12 922	11 837
Asset revaluation reserve	155	155	197
Equity transfer - Racing Tasmania	4 490	4 490	4 490
Total Equity	**41 798**	**40 167**	**39 124**

COMMENT

During 2006-07 Cash and cash equivalents increased by $0.478m largely due to a reduced level of capital expenditure compared to the development of the Elwick race facility in 2005-06. In 2005-06 this development expenditure resulted in cash and cash equivalents decreasing by $15.451m on the previous year. This capital expenditure was predominantly funded by an equity injection by the State Government in 2003-04.

The $0.784m decrease in trade and other receivables at 30 June 2007 is predominantly due to the 30 June 2006 balance consisting of a refund of $0.479m receivable from Sky relating to the loss of service compensation referred to earlier in this Chapter. This amount was received during the current financial year and was therefore no longer a debtor at 30 June 2007 and also contributed to the improved cash position of the group. In addition, the receivable owing by Tabcorp decreased by $0.370m due to amounts being received before 30 June 2007.

The group's Working Capital, whilst still negative $1.930m, improved at 30 June 2007 compared to the prior year when it was $3.841m. Working Capital at 30 June 2005 was unusually strong because funds for racecourse redevelopment had been received but to a large extent was unspent at that date.

Property, plant and equipment increased by $16.495m over the two year period under review. Most of this occurred in 2005-06 and primarily related to re-development of the Elwick race facility in that year.

Intangibles increased by $0.715m since 2005-06 due to significant additions to the Interactive business unit as well as capitalised costs relating to the enhancement of the wagering systems.

Telephone betting deposits represent amounts punters have "banked" in their accounts. The increase of $0.407m in the level of money deposited in 2007 was due to the increased level of turnover noted in the Income Statement commentary.

Accruals and accounts payable decreased by $2.415m due primarily to significant costs incurred in 2005-06 relating to the Elwick race facility that did not carry over to the current year.

The $0.797m increase in total employee benefits liabilities during 2006-07 is due an additional $0.100m of holiday hours owed to employees and increased defined benefit pension liabilities of $0.697m as at 30 June 2007.

Racecourse redevelopments

The 2004-05 Budget papers provided funding from the Economic and Social Infrastructure Fund to TOTE of $22m and noted these funds will be used to "*redevelop the Elwick ($16.0 million) and Mowbray racecourses ($6.0 million)*".

TOTE acknowledged receipt of the funds as an injection of equity in its 2004-05 financial statements when it noted "*On 5 August 2004, the members paid the Company for an additional 22.6 million $1 ordinary shares in the Company. Under an agreement with the members, these funds have been, are being or will be applied to improving specified racetracks and infrastructure.*"

The additional $0.600m was provided to TOTE as contributions of $0.300m each for expenditure it incurred in 2003-04 on re-surfacing the Devonport Showgrounds and the costs of installing harness lights at Tasman Park.

In round terms, TOTE has invested funds in racetrack infrastructure in the last three years as follows:

Infrastructure	**How funded**	**$m**
Brighton race course – expenditure incurred over the period 2004-05 to 2006-07	Applied TOTE's own resources together with interest earned on the $22.6m	5.8
Elwick race course – expenditure incurred over the period 2005-06 to 2006-07	Applied TOTE's own resources and the shareholder funding provided *	25.6
Mowbray race course – expenditure incurred over the period 2004-05 to 2006-07	Applied TOTE's own resources **	1.9
Spreyton race day stalls - expenditure incurred in 2006-07	Applied TOTE's own resources	0.2
Total		**33.5**

** This is a net amount. TOTE also raised funding from other sources totalling $1.5m to offset this cost.*

*** While $1.9m has been spent on the Mowbray racecourse, none of this related to the re-development envisaged by the $6m equity injection. I am informed that since 30 June 2007, TOTE has committed and entered into contracts for $1m regarding the Mowbray race course and the Board is exploring options regarding this development. I am further advised that, TOTE's cash holdings at 30 June 2007 totalled $4.897m, the anticipated investment will exceed $6m.*

CASH POSITION

	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Receipts from customers and other TABs	249 511	227 803	217 590
Other receipts	14 868	11 744	7 749
Interest received	333	758	1 464
Payments to customers	(190 798)	(179 180)	(170 849)
Payments to suppliers and employees	(68 799)	(53 533)	(52 652)
Borrowing costs	(71)	(88)	(98)
Other payments	(504)	(618)	(443)
Cash from operations	**4 540**	**6 886**	**2 761**
Payments for property, plant and equipment	(4 417)	(21 789)	(16 090)
Proceeds from sale of property, plant and equipment	32	315	32
Proceeds of loans to external parties	323	137	447
Cash (used in) investing activities	**(4 062)**	**(21 337)**	**(15 611)**
Proceeds from issue of shares	0	0	22 600
Dividends paid	0	0	(249)
Repayment of borrowings	0	0	(1 485)
Cash from financing activities	**0**	**0**	**20 866**
Net increase (decrease) in cash	**478**	**(14 451)**	**8 016**
Cash at the beginning of the year	4 419	18 870	10 854
Cash at end of the year	**4 897**	**4 419**	**18 870**

Comment

Changes in the Cash Position reflect comments made through the Income Statement and Balance Sheet.

Increased turnover has driven marginal but steady growth in operating cash inflows over the period under review. Other receipts increased primarily due to the receipt of $6.826m in Government funds as a result of the Betfair licensing arrangement. The increased payments to suppliers are largely as a result of increased operating activity particularly dividends payable on winnings.

The marginal increase in cash balances in 2006-07 is attributable to the absence of the application of cash reserves to the re-development of the Elwick race facility as was the case in 2005-06 and in 2004-05.

There were no dividends paid to shareholders during the 2005-06 or 2006-07 financial years.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		1 843	1 255	847
EBIT ($'000s)		1 950	1 343	943
Operating margin	>1.0	1.03	1.02	1.02
Return on assets		3.4%	2.2%	2.2%
Return on equity		3.2%	2.2%	2.1%
Financial Management				
Debt to equity		3.6%	3.7%	3.9%
Debt to total assets		2.6%	2.7%	3.0%
Interest cover	>3	18.22	15.26	9.82
Current ratio	>1	0.83	0.71	2.09
Cost of debt	7.5%	7.1%	5.8%	4.2%
Debt collection	30 days	51	53	50
Creditor turnover	30 days	22	100	40
Returns to Government				
Dividends paid or payable ($'000s)		0	0	0
Income tax paid or payable ($'000s)		532	492	553
Effective tax rate	30%	28.9%	39.2%	65%
Total return to the State ($'000s)		532	492	553
Total return to equity ratio		1.3%	1.2%	2.0%
Other Information				
Staff numbers (FTE)		132	136	122
Average staff costs ($'000s)		85	66	69
Average leave balance per FTE ($'000s)		7	7	6

Comment

The Return on equity and assets measures, while still low, have improved significantly compared to prior years, this is primarily due to the increased profitability of the business as noted in the Income Statement.

The Current ratio, while below benchmark, improved since 2006-07 predominantly due to the small increase in cash reserves and lower accounts payable and accruals relating to suppliers and contractors involved in the Elwick redevelopment.

Debt collection remains high at 51 days but is consistent with the prior two years. It is TOTE's policy to collect its receivables in 30 days, however a number of receivables where outstanding at the year end and related to long outstanding amounts with various miscellaneous counter parties and racing clubs Creditor turnover decreased significantly to 22 days due primarily to the elimination of significant trade payables of a capital nature that were outstanding at 30 June 2006.

Average staff costs increased in 2006-07 due to an across the board lift in base salaries. After removing the one off impacts associated with separation payments and

RBF adjustments, average salaries per employee were $0.078m, an increase over 2005-06 of 18% due to the impact of operating the Spreyton Racing course for a full year and additional shifts due to cover international race meetings.

Return to the State is due solely to income tax payable as the Directors resolved that no dividends would be paid in respect of both the 2005-06 and 2006-07 financial years.

OVERALL COMMENT

TOTE's results in 2006-07 in relation to the prior year, along with its improved net asset position, are characterised by improved profits and the completion of the Elwick race facility.

Growth in operating activities, in particular wagering, was significant for 2006-07 due to increased turnover on horse and greyhound racing garnered through large and internet betting customers. The $5.750m in funds received from Government with respect to the licensing of Betfair in Tasmania has been returned to the racing industry in respect to prize-money, benefits and incentives.

The TOTE Board has confirmed its commitment to funding the Mowbray racecourse redevelopment.

The 2006-07 audit was completed with satisfactory results.

TRANSEND NETWORKS PTY LTD

INTRODUCTION

Transend Networks Pty Ltd (Transend - or the Company) was established under the *Electricity Companies Act 1997* and was incorporated under the *Corporations Act 2001* on 17 June 1998. Two shares were issued to each of its two shareholders – the Treasurer and the Minister for Infrastructure who hold these shares on behalf of the State of Tasmania.

Transend owns and operates the electricity transmission system in Tasmania – the link between power stations and the electricity distribution network.

On 1 July 2000 Transend acquired the System Controller and other associated functions from the Hydro-Electric Corporation. Transend ceased responsibility for System Controller at midnight on 28 May 2005 upon entry into the National Electricity Market (NEM). However Transend has an agreement with the National Electricity Market Management Company (NEMMCO) requiring Transend to retain power system security in some parts of the Tasmanian system. Transend also has an obligation under the Tasmanian *Electricity Supply Industry Act 1995* to retain the capability to manage power system security for the entire Tasmanian system.

The board comprises seven directors, including the Chief Executive Officer.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 2 October 2007 and an unqualified audit report was issued on 3 October 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	2005-06	2004-05
	$'000	$'000	$'000
Transmission use of system (TUOS)	123 516	115 100	108 029
System Controller	0	0	9 536
Other revenue	4 258	5 025	1 736
Total Revenue	**127 774**	**120 125**	**119 301**
Borrowing costs	(6 513)	(4 150)	(2 449)
Depreciation	(45 976)	(35 461)	(32 955)
Other operating expenses	(40 927)	(38 118)	(43 729)
Total Expenses	**(93 416)**	**(77 729)**	**(79 133)**
Profit before:	**34 358**	**42 396**	**40 168**
Superannuation adjustments	(4 277)	1 204	(3 035)
Gifted assets	0	10 047	0
Profit before taxation	**30 081**	**53 647**	**37 133**
Income tax expense	(8 949)	(16 099)	(11 164)
Net Profit	**21 132**	**37 548**	**25 969**

Comment

In 2006-07, Transend recorded a result from operating activities, before superannuation, gifted assets and taxation of $34.358m, compared to $42.396m and $40.168m in the previous two years. The decrease in the profit of $8.038m (or 18.96%) in 2006-07 was primarily due to:

- An increase in borrowing costs of $2.363m.
- Additional depreciation expense, totalling $10.515m as a result of a significant upwards revaluation of Property, plant and equipment and Intangible assets undertaken during the year; and
- Higher external contractor and consultant costs, totalling approximately $1.500m.
- This was offset in part by increased transmission revenue of $8.416m.

The increase in these costs was offset by Transmission revenue increasing for the 2006-07 year by $8.416m (or 7.31%) due to higher transmission service billings in accordance with the Australian Competition and Consumer Commission (ACCC) revenue determination. The increase in transmission line revenue is a continued trend from the increase in 2004-05, which was mainly due to a higher capital base allowed by the ACCC. The ACCC gave a determination of the regulated income for five and a half years from January 2004. Energy supply increased by 620 GWh or 5.7% in 2006-07.

Other operating expenses were high in 2004-05 due to the inclusion in that year of costs associated with operating the System Controller function. There is no

System Controller revenue for 2006-07 or 2005-06 since Transend joined the NEM as a Transmission Network Service Provider (TNSP) and as such Transend no longer provides the System Controller services.

Borrowing costs increased in 2006-07 due to an increase in borrowings of $25.282m during the period.

The movement in Transend's defined benefit superannuation expense has fluctuated in the three years under review, with an expense of $3.674m in 2006-07. The movement in the liability is based upon actuarial assessments provided annually.

In 2006-07 there were no gifted assets recognised compared to 2005-06 when $10.000m of gifted assets associated with the Basslink System Protection Scheme and connection equipment at George Town were recorded.

BALANCE SHEET

	2006-07	**2005-06**	**2004-05**
	$'000	$'000	$'000
Cash	158	29	23
Receivables	17 692	19 589	12 659
Inventories	488	152	153
Other	691	551	365
Total Current Assets	**19 029**	**20 321**	**13 200**
Payables	15 951	16 162	18 253
Borrowings	38 059	27 724	17 806
Employee benefits	4 137	3 870	3 754
Superannuation	4 378	2 764	3 148
Current tax liability	5 162	7 067	7 972
Other	10 951	17 106	1 270
Total Current Liabilities	**78 638**	**74 693**	**52 203**
Working Capital	**(59 609)**	**(54 372)**	**(39 003)**
Property, plant and equipment	1 110 452	761 297	676 912
Other	353	572	2 240
Total Non-Current Assets	**1 110 805**	**761 869**	**679 152**
Borrowings	80 000	65 053	35 095
Employee benefits	820	585	603
Superannuation	17 852	15 453	15 068
Deferred tax liability	187 905	97 898	95 068
Total Non-Current Liabilities	**286 577**	**178 989**	**145 834**
Net Assets	**764 619**	**528 508**	**494 315**
Capital	336 549	336 549	336 549
Reserves	359 172	125 419	115 008
Retained earnings	68 898	66 540	42 758
Total Equity	**764 619**	**528 508**	**494 315**

Comment

Total equity rose by $270.304m over the period of review due predominately to:

- Net revaluation increments of $233.753m (net of tax effect) as a result of the network assets revaluation undertaken in 2006-07 and increments of $10.411m in 2005-06; and
- The recorded Profits after taxation (net of the dividend paid during the year of $18.774m) of $2.358m (2005-06, $23.782m).

In 2006-07 Property, plant and equipment increased $349.155m (or 45.86%). This increase was attributable to:

- Capital expenditure during the period of $65.808m (2005-06, $103.575m; 2004-05, $76.523m); and
- Revaluation of network assets resulting in a net increment of $329.318m (2005-06, $10.411m; 2004-05, $4.294m).

The large increase in the fair value of network assets was attributable to an independent valuation undertaken in 2006-07 with the previous independent valuation performed in 2000-01. Since the previous revaluation there has been a substantial increase in the replacement cost of network assets and associated inputs into those costs (for example materials, labour, contractors). These increases were offset by depreciation expense and an insignificant number of disposals.

Despite Transend's profitability, working capital continues to be negative in that current liabilities exceeded current assets by $59.609m at 30 June 2007, an increase of $20.606m since 30 June 2005. The two main reasons for this are:

- Higher levels of borrowings with $38.059m classified as current at year end ($17.806m at 30 June 2005); and
- The increase of $10.951m in income recognised as received in advance relating to NEMMCO residues and grid support.

Throughout the period under review, Transend required additional borrowings to assist in funding its capital expenditure program of $103.575m in 2005-06 and $65.808m in 2006-07. This resulted in an increase in total borrowings over the two years of $65.158m. The Company's capital expenditure program is designed to improve the reliability of the State's transmission system, add capacity for forecast load growth and cater for new connections to the network.

In 2005-06 there was a substantial increase in Other current liabilities due to the recognition of TNSP intra-regional residues totalling $12.787m received from NEMMCO and recorded as income received in advance, which resulted in reduced prices in 2006-07. The amount recognised as income received in advance at 30 June 2007 was $4.398m.

The defined benefits superannuation liability increased by $4.013m (or 22.03%). The defined benefit superannuation plan pays lump sum and pension benefits to members on taking retirement (which are calculated as a multiple of members' average salary).

Transend's Deferred tax liability increased by $90.007m (or 91.9%) in 2006-07, primarily due to the revaluation of Property, plant and equipment and Intangible assets.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000	$'000	$'000
Receipts from customers	136 040	141 824	134 986
Interest received	0	0	48
Payments to suppliers and employees	(46 392)	(48 148)	(51 120)
Borrowing costs	(6 198)	(4 163)	(2 464)
Taxation paid	(18 988)	(18 636)	(14 744)
Cash from operations	**64 462**	**70 877**	**66 706**
Proceeds from sale of property and plant	326	312	213
Payments for property, plant and equipment	(71 199)	(97 337)	(74 946)
Cash (used in) investing activities	**(70 873)**	**(97 025)**	**(74 733)**
Proceeds from borrowings	30 314	44 920	22 970
(Payment of) proceeds from investments	(5 000)	(5 000)	(5 000)
Dividends paid	(18 774)	(13 766)	(9 924)
Cash from financing activities	**6 540**	**26 154**	**8 046**
Net increase in cash	**129**	**6**	**19**
Cash at the beginning of the year	29	23	4
Cash at end of the year	**158**	**29**	**23**

Comment

During the three year period under review Transend, in total, generated $202.045m in cash from operations. This significantly exceeds Net profits after tax of $84.649m for the three year period due primarily to the non cash effect of depreciation, $114.392m over the period, income recognised as earned in advance but received in cash, $10.951m, gifted assets not received in cash, $10.047m and other non-cash based adjustments.

Overall, for 2006-07 Transend recorded an increase in cash of $0.129m. Transend is generating significant cash from its operations but in 2006-07 cash from operating activities decreased $6.415m (or 9.05%) compared to 2005-06. The decrease in receipts from customers is consistent with the decrease in income recognised in advance as discussed in the Balance Sheet section.

Borrowing costs increased $2.035m (or 48.88%) due to an increase in interest rates and borrowings required to help fund the capital expenditure program. Cash generated from operations was also used to help fund this expenditure program.

During this three year period Transend paid $243.482m for Property, plant and equipment. Payments decreased in 2006-07 by $26.138m (or 26.85%) due to lower value of projects undertaken during the period. Due to this lower expenditure, net proceeds from borrowings decreased to $25.314m compared to $39.920m in 2005-06.

In effect the Company has no 'free cash flow' with cash resources being utilised as follows in 2006-07:

	$'000
Generated from operations	64 462
Generated from borrowings (net)	25 314
Sub total	89 776
Utilised on:	
Investment in property, plant and equipment (net)	(70,873)
Payment of dividend	(18 774)
Sub total	(89 647)
Net increase in cash	129

The above analysis indicates that Transend continues to generate strong cash flows. Transend has indicated a substantial ongoing capital expenditure program for the construction on long-lived assets that will be funded by further borrowings, in accordance with company policy.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		34 358	42 396	40 168
EBIT ($'000s)		40 871	46 546	42 617
EBITDA ($'000s)		86 847	82 007	75 572
Operating margin	>1.0	1.32	1.48	1.49
Return on assets		4.3%	6.3%	6.4%
Return on equity		3.3%	7.3%	5.4%
Financial Management				
Debt to equity		15.4%	17.6%	10.7%
Debt to total assets		10.4%	11.9%	7.6%
Interest cover - EBIT	>3	5.2	8.1	13.2
Interest cover - funds from operations	>3	11.4	18.0	28.1
Current ratio	>1	0.24	0.27	0.25
Cost of debt	7.5%	7.4%	7.9%	7.3%
Debt collection	30 days	20	24	7
Creditor turnover	30 days	11	17	16
Capex/depreciation		144%	263%	230%
Returns to Government				
Dividends paid or payable ($'000s)		15 000	18 774	13 767
Dividend payout ratio	50%	71.0%	50.0%	53.0%
Dividend to equity ratio		2.3%	3.7%	2.8%
Tax paid		18 988	18 636	14 744
Effective tax rate	30%	29.7%	30.0%	30.1%
Total return to the State ($'000s)		33 988	32 708	27 354
Total return to equity ratio		4.5%	6.4%	5.6%
Other Information				
Staff numbers (FTE)		194	189	183
Average staff costs ($'000s)		107	99	108
Average employee benefits ($'000s)		26	24	24
Average superannuation benefits ($'000s)		115	96	100

Comment

The Financial Performance ratios show that Transend recorded operating surpluses in all years under review resulting in operating margins above benchmark.

The strong capital investment program is being funded by a mixture of cash generated from operations and borrowings with one outcome being a negative working capital position as evidenced by a low current ratio in 2006-07 of 0.24 (2005-06, 0.27; 2004-05, 0.25).

The Debt to Equity ratio decreased by 2.2% in 2006-07 which was driven by the asset revaluation undertaken during the period which increased the asset revaluation reserve by 186.33%. Ignoring the effect of the asset revaluation, the Debt to Equity ratio for 2006-07 actually increased to 22.34%. This increase is due to the high capital expenditure program over the past 5 years, which is resulting in further borrowings. Interest coverage shows a downward movement compared to 2005-06 due to higher interest costs arising from higher borrowings coupled with the lower net profit after taxation.

The Average staff costs increased $0.008m (or 8.1%) in 2006-07 compared to 2005-06. The increase was driven by the increase in the defined benefit superannuation expense.

OVERALL COMMENT

Transend has a strong net asset position enhanced in 2006-07 due to the revaluation of network assets. However, its liquidity is tight due primarily to its asset replacement program and the funding thereof from internal sources and borrowings. The Company's long-term capital investment program is to upgrade and modernise Tasmania's electricity transmission system. While noting that liquidity is tight, it is acknowledged that a debt equity ratio of 15.4% is low and that Transend has unutilised borrowing facilities available to it.

The 2006-07 audit was completed satisfactorily with no major issues outstanding.

TT-LINE COMPANY PTY LTD

INTRODUCTION

TT-Line Company Pty Ltd (the Company or TT-Line) was established under the *TT Line Arrangements Act 1993*. The core business of the Company is the provision of passenger, vehicle and freight services between Devonport and Melbourne.

The service between Devonport and Melbourne is operated with two ships, Spirit of Tasmania I and Spirit of Tasmania II (Spirits I and II).

The service between Devonport and Sydney ceased in August 2006 due to the sale of Spirit of Tasmania III (Spirit III). The sale was finalised in September 2006.

The Company was incorporated on 1 November 1993 as a Company limited by shares and is registered under the *Corporations Act 2001*. The shareholders of the Company are the Minister for Infrastructure, being the Responsible Minister, and the Treasurer who hold the shares on behalf of the State of Tasmania.

A board of eight directors, appointed by the Government, manages the Company.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

The board signed the Company's financial statements on 6 September 2007 and an unqualified audit report was issued on 13 September 2007.

The Chief Executive Officer is also a director.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Revenue			
Devonport-Melbourne	150 988	124 416	128 149
Devonport-Sydney	2 122	29 892	24 093
Other	2 739	2 840	2 606
Total revenue	**155 849**	**157 148**	**154 848**
Expenses			
Devonport-Melbourne	(139 270)	(124 402)	(124 554)
Devonport-Sydney	(2 858)	(51 611)	(47 471)
Other	(2 675)	(2 875)	(2 757)
Total expenses	**(144 803)**	**(178 888)**	**(174 782)**
Borrowing costs			
Devonport-Melbourne	(5 844)	(6 080)	(9 954)
Devonport-Sydney	(965)	(6 033)	(6 156)
Total borrowing costs	**(6 809)**	**(12 113)**	**(16 110)**
Operating results before accounting and other adjustments	**4 237**	**(33 853)**	**(36 044)**
Represented by:			
Devonport-Melbourne	5 874	(6 066)	(6 359)
Devonport-Sydney	(1 701)	(27 752)	(29 534)
Other	64	(35)	(151)
	4 237	**(33 853)**	**(36 044)**
Other accounting adjustments:			
Ship valuation adjustment	0	43 237	(43 237)
Spirit III sale costs/adjustments	1 132	(7 110)	0
Interest received (paid) on financial assets	0	115	(355)
Defined benefits superannuation adjustment	(657)	293	(512)
Profit (Loss) before taxation	**4 712**	**2 682**	**(80 148)**
Income tax benefit	5 928	4 459	0
Profit (Loss) after taxation	**10 640**	**7 141**	**(80 148)**

Comment

The majority of the Company's revenue is generated from ferry operations. Spirits I and II provide the service between Devonport and Melbourne and commenced operating in 2002-03. Both ferries were operational throughout the three year period covered by the above Income Statement. Spirit III provided the service between Devonport and Sydney in 2004-05, 2005-06 and until August 2006.

In 2004-05, Spirit III operated below budgeted expectations and this trend continued during 2005-06. On 5 June 2006, TT-Line received permission from the State Government to sell Spirit III. The sale was finalised in September 2006.

Spirits I and II also incurred losses in 2004-05. Although vehicle numbers and carriage of freight were above budget, this was offset by lower than expected passenger numbers. Further losses were incurred in 2005-06, as a result of lower passenger demand. The company operated fewer daylight sailings than budgeted as a cost saving measure.

The below budget operational results in these years are understood to reflect increased competition from budget airlines which increased their operations between Tasmania and mainland Australia during this period.

The results for 2006-07 improved significantly with increases in passenger and vehicle numbers and also carriage of freight.

Details of passenger and vehicle numbers and freight for Spirits I and II are shown in the table below. Spirit III information has been excluded to ensure comparability between financial years.

	2006-07	**2005-06**	**2004-05**
Passenger Numbers	387 972	359 712	392 392
% Increase (decrease)	7.86%	(8.33%)	
Vehicle Numbers	175 298	164 037	178 375
% Increase (decrease)	6.86%	(8.04%)	
Freight (TEU)	77 105	63 946	64 526
% Increase	20.58%	(0.90%)	

The most helpful assessment of TT-Line's financial performance from 2004-05 to 2006-07 is to consider the result prior to the impact of the sale of Spirit III and prior to ship revaluations. This is necessary in view of the Board's decision in 2005-06 to value its ships on a fair value basis. This caused the inclusion in 2005-06 of a reversal of the valuation decrement of $43.237m recorded in 2004-05. The reversal of the decrement arose from the strong position of the Australian dollar against the Euro at 30 June 2006.

On a comparable basis, TT-Line operated at a profit in 2006-07 of $4.237m, an improvement of $38.090m due to:

- Cost savings following the sale of Spirit III, particularly in relation to employee costs, fuel costs, depreciation and other on-board ship costs such as food. This can be seen in the Income Statement presented above; and
- Increased passenger/vehicle fares, the introduction of a winter fare to increase passenger numbers, cancellation of Sunday sailings in winter, special daylight crossing fares, strong performance in the freight business and fuel hedging;

- Lower borrowing costs due to debt reductions funded from the proceeds from the sale of Spirit III and equity provided by the State Government;
- Lower depreciation for the year (see further comments below).

In 2005-06, depreciation decreased by $4.182m to $19.824m due to the reduction in the fair value of the ships. Depreciation charged in 2006-07 decreased again by a further $5.946m to $13.878m. This decrease is due, in part, to the disposal of Spirit III in September 2006. In addition, the directors determined that the useful lives of the ships should be lengthened from 25 to 30 years which further reduced the depreciation charge in 2006-07. While, from an external audit perspective, we consider the amended depreciation to fairly represent the position, this change resulted in the Company operating at a profit before tax of $4.712m rather than a profit of $1.427m.

BALANCE STREET

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Cash	27 608	3 521	2 854
Receivables	12 459	11 245	12 206
Inventories	1 280	2 229	1 738
Assets held for sale - Spirit III	0	109 646	0
Other	1 622	545	2 408
Total Current Assets	**42 969**	**127 186**	**19 206**
Payables	10 943	12 135	16 900
Borrowings	0	25 000	224 381
Provisions	6 839	6 368	6 522
Liabilities re sale of Spirit III	0	7 725	0
Other	7 704	8 594	8 209
Total Current Liabilities	**25 486**	**59 822**	**256 012**
Working Capital	**17 483**	**67 364**	**(236 806)**
Property, plant and equipment	297 596	285 615	349 972
Total Non-Current Assets	**297 596**	**285 615**	**349 972**
Borrowings	74 999	160 600	0
Provisions	4 681	3 953	4 553
Total Non-Current Liabilities	**79 680**	**164 553**	**4 553**
Net Assets	**235 399**	**188 426**	**108 613**
Capital	328 981	306 481	244 214
Asset revaluation reserve	15 187	10 405	0
Accumulated losses	(108 769)	(128 460)	(135 601)
Total Equity	**235 399**	**188 426**	**108 613**

Comment

The company's Equity improved significantly during the period under review. Its level of debt dropped from $224.381m to $74.999m. The main reasons for this improvement have been:

- Ongoing equity injections by the State Government, $84.767m;
- The disposal of Spirit III. Proceeds were used to pay debt and operating performance of the remaining vessels improved; and
- Uplifts in the valuations of Spirits I and II.

The Cash Position improved from 2004-05 to 2006-07 due to improved operating results.

Included in Current Assets in 2005-06 is Spirit III, which was classified as an Asset held for sale rather than an item of Property, plant and equipment. Similarly, Current Liabilities in 2005-06 included $7.725m for costs incurred in relation to the sale of Spirit III but not yet paid.

Payables decreased from 2004-05 to 2005-06 due to the timing of payment runs. There was a further decrease in 2006-07, which is primarily due to a reduction of $1.572m in interest accrued as a result of reduced borrowings. The cessation of the Spirit III service has had minimal impact on payables as at 30 June 2007, because of the timing of payment runs in the prior year.

The majority of the Provisions balance for the last three years relates to the Company's liability for workers compensation, annual leave, long service leave and employee superannuation. The Company has a liability in relation to unfunded superannuation for employees with the State's Retirement Benefit Fund. The total Provisions balance increased in the 2006-07 year by $1.199m due to an increase in both the unfunded superannuation and the workers compensation provisions.

Property, plant and equipment decreased by $64.357m from 2004-05 to 2005-06. Firstly, as stated earlier, Spirit III was classified as an Asset held for sale. Secondly, depreciation of $15.909m was charged in 2005-06. These decreases were offset by the increase in the fair values of Spirits I and II of $31.083m in total and capital expenditure in 2005-06. The balance increased by $11.981m in the 2006-07 year. This is due to the increase in the fair values of Spirits I and II of $10.883m in total and capital expenditure of $2.760m which was partially offset by the depreciation charge for the year.

Total loan debt decreased in 2005-06 due to a repayment funded by the contribution of $62.267m from the State Government. Debt was further reduced in 2006-07 by $110.601m which was funded by internal resources, the proceeds from the sale of Spirit III and a further equity contribution from the State Government of $22.500m.

Capital increased being the State Government's contributions referred to previously.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	166 537	174 776	176 025
Payments to suppliers and employees	(153 952)	(179 877)	(167 471)
Interest received	974	248	83
Borrowing costs	(8 381)	(14 377)	(17 570)
Cash from (used in) operations	**5 178**	**(19 230)**	**(8 933)**
Payments for property, plant and equipment	(2 760)	(3 683)	(7 840)
Proceeds from sale of property, plant and equipment	109 769	95	81
Cash from (used in) investing activities	**107 009**	**(3 588)**	**(7 759)**
Repayment of borrowings	(110 600)	(38 782)	(57 178)
Contribution from owners	22 500	62 267	75 181
Cash from (used in) financing activities	**(88 100)**	**23 485**	**18 003**
Net increase in cash	**24 087**	**667**	**1 311**
Cash at the beginning of the year	3 521	2 854	1 543
Cash at end of the year	**27 608**	**3 521**	**2 854**

Comment

As discussed earlier, results for 2004-05 and 2005-06 were below budget and this was reflected in the net cash outflow from operations of $8.933m and $19.230m, respectively. The improved operating result, as discussed earlier in the Income Statement section of this Chapter, in 2006-07 is reflected in a net cash inflow of $5.178m.

Payments for Property, plant and equipment in 2004-05 of $7.840m primarily represent capital works for The Edgewater and ongoing ship refurbishments. In 2005-06 payments of $3.683m primarily represented improvements to crew accommodation in Melbourne, upgrading motor vehicles and ongoing ship refurbishments. The 2006-07 purchases of $2.760m also related to upgrading of crew accommodation, motor vehicles and ship refurbishments and deck extensions and other sundry items.

In 2006-07, proceeds from the sale of Property, plant and equipment included the sale of Spirit III.

The cash flows relating to proceeds from borrowings and the payment of borrowings are consistent with the previous comments made regarding equity contributions, borrowings balances and loan repayments.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($’000s)		4 237	(33 853)	(36 044)
EBIT ($’000s)		11 046	(21 740)	(19,934)
Operating margin	>1.0	1.03	0.82	0.81
Return on assets		2.9%	(5.6)%	(5.0)%
Return on equity		5.0%	4.8%	-71.9%
Financial Management				
Debt to equity		31.9%	98.5%	206.6%
Debt to total assets		22.0%	45.0%	60.8%
Interest cover	>3	(1.62)	(1.79)	(1.24)
Current ratio	>1	1.69	2.13	0.08
Debt collection	30 days	29	26	29
Creditor turnover	30 days	16	14	28
Other information				
Employee costs as % of operating expenses		24%	21%	22%
Staff numbers FTE		521	634	636
Average staff costs ($’000s)		56	53	53

Comment

The results above confirm the earlier analysis in that, for 2004-05 and 2005-06, the Company recorded losses from operations due to lower than expected passenger numbers across all three ferries. It also reflects the improved result in 2006-07 following the sale of Spirit III and related cost savings.

The loss in operations for 2004-05 resulted in a negative return on equity of 71.9%. As stated earlier, the reversal of the valuation decrements for Spirits I, II and III in 2005-06 resulted in a profit after tax of $7.141m and, therefore, the positive return on equity for the year of 4.8%. The positive return of 5.0% for 2006-07 reflects a further improvement in results.

The Debt to equity ratio operating improved significantly over the three year period due to continued repayment of a significant proportion of borrowings, which is consistent with previous comments.

The Interest cover ratio improved in 2006-07 due to reduced Borrowings, Interest expense and because the company returned to profit before interest and tax. In 2005-06 and 2006-07, the Company’s current ratio was above the benchmark. The 2004-05 ratio had been below the benchmark due to Borrowings which were classified as current.

The Debt collection and Creditor turnover ratios have been within the benchmarks over the period under review.

The Company has significant tax losses primarily resulting from the sale of the original Spirit of Tasmania and from operating losses in recent years. Consequently, the taxation calculations do not result in any taxation payments being required.

Employee numbers reduced in 2006-07 primarily as a result of the sale of Spirit III.

OVERALL COMMENT

The Company's improved results in 2006-07 reflect a positive impact on the financial Position of the Company largely due to the sale of Spirit III. Other contributing factors to the turnaround included increased passenger/vehicle fares, the introduction of a winter fare to increase passenger numbers, cancellation of Sunday sailings in winter, special daylight crossing fares, strong performance in the freight business and fuel hedging.

The 2006-07 audit was completed with satisfactory results.

TASMANIAN PORTS CORPORATION PTY LTD

INTRODUCTION

In March 2005 the State Government announced its in principle support to restructure Tasmania's four major port companies into one single port entity.

On 1 July 2005, Tasmanian Ports Corporation Pty Ltd (TasPorts) was incorporated, through the *Tasmanian Ports Corporation Act 2005* (the Act). The Chairmen of the four existing port companies were appointed as Directors of the new Company together with an independent Chair.

Under the Act TasPorts' principle objectives are to:

- Facilitate trade for the benefit of Tasmania; and
- Operate its activities in accordance with sound commercial practice.

Although TasPorts was created on 1 July 2005, it did not take over the existing port companies immediately. The *Tasmanian Ports Corporation Bill 2005*, passed by State Parliament on 20 September 2005, merged the four ports into TasPorts by transferring the majority of assets, liabilities and employees of the four port companies to TasPorts for no consideration on 1 January 2006. A number of buildings in Hobart were transferred directly to the Department of Treasury and Finance.

TasPorts now undertakes all the activities that were previously operated by:

- Burnie Port Corporation Pty Ltd;
- Port of Devonport Corporation Pty Ltd;
- Hobart Ports Corporation Pty Ltd; and
- Port of Launceston Pty Ltd.

In addition, the following wholly owned subsidiaries form part of the TasPorts group:

- Hobart International Airport Pty Ltd;
- King Island Ports Corporation Pty Ltd;
- Flinders Island Ports Company Pty Ltd; and
- Port Logistics and Services Pty Ltd.

The joint shareholders of the Corporation are the Treasurer and the Minister for Infrastructure, who hold these shares on behalf of the State of Tasmania. The shareholders were each issued with one ordinary share.

TasPorts' board comprises nine directors. As noted previously, five were appointed on 1 July 2005 and another four directors were appointed in December 2005.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 20 September 2007 and an unqualified audit report was issued on 27 September 2007.

FINANCIAL ANALYSIS

This review of TasPorts for the year ended 30 June 2007 and six months ended 30 June 2006 is based on the parent entity results and excludes the balances and transactions relating to its subsidiary companies. Separate Chapters have been included for the two major subsidiaries, Hobart International Airport Pty Ltd and King Island Ports Corporation Pty Ltd.

INCOME STATEMENT

	2007 12 months $'000s	**2006** 6 months $'000s
Services revenue	48 669	23 801
Rental income	9 966	5 119
Other operating revenue	4 216	766
Non-operating revenue	(9)	10
Total Revenue	**62 842**	**29 696**
Borrowing costs	1 959	1 099
Depreciation	6 253	3 094
Employee benefit expenses	24 818	14 250
Other operating expenses	20 072	14 086
Non-operating expenses	2 199	4 411
Total Expenses	**55 301**	**36 940**
Profit (loss) before taxation	**7 541**	**(7 244)**
Income tax expense (benefit)	2 050	(2 001)
Net profit (loss)	**5 491**	**(5 243)**

Comment

TasPorts reported a profit of $7.541m before tax in its first full year of operations to 30 June 2007. The result is a significant improvement on the $7.244m loss recorded in its initial six months of operations to 30 June 2006. In comparing the results, it is important to note the loss at 30 June 2006 was impacted by a number of unusual expenses, including:

- The cost of the merger process and of incorporating TasPorts, $1.518m;
- Maintenance dredging at Burnie, $1.311m;
- Redundancy costs paid in the period, $0.668m and provided for at balance date, $1.467m;
- Remediation costs for Macquarie Wharf in Hobart, $1.550m; and

- The impairment of a number of infrastructure assets, $4.411m.

Without these expenses, TasPorts would have recorded a profit of $3.681m before tax for the six month period. The profit for 2006-07, is approximately double the $3.681m, but was impacted by a further impairment of infrastructure assets totalling $2.199m (recorded as Non-operating expenses).

Services revenue includes sale of goods, seaport operations, the Devonport airport and cold store operations. The services and rental revenue for 2006-07 reflects approximately twice the corresponding revenue for the initial six months of operations. Other operating revenue for 2006-07 includes interest revenue on loans to wholly owned subsidiaries, $0.351m, dividends from wholly owned subsidiaries, $2.147m and interest on cash and investments, $1.367m. The Other operating revenue for 2005-06 represented interest from cash and investments only.

Non-operating revenue reflects TasPorts profit or loss from the disposal of assets.

BALANCE SHEET

	2007	2006
	$'000s	$'000s
Cash	29 999	26 908
Receivables	15 203	7 775
Investment in subsidiary	7 225	0
Inventories	559	654
Other	470	966
Total Current Assets	**53 456**	**36 303**
Payables	8 853	7 879
Borrowings	10 314	6 771
Tax liability	165	(366)
Provisions - employee benefits	4 288	5 311
Provisions - remediation	927	1 550
Deferred revenue	1 200	1 200
Total Current Liabilities	**25 747**	**22 345**
Working Capital	**27 709**	**13 958**
Property, plant and equipment	116 224	119 806
Investment in subsidiary	0	7 225
Financial asset	0	1 507
Deferred tax asset	5 038	6 477
Total Non-Current Assets	**121 262**	**135 015**
Borrowings	22 692	26 235
Deferred tax liabilities	3 558	3 964
Provisions - employee benefits	369	644
Deferred revenue	2 400	3 600
Other	206	206
Total Non-Current Liabilities	**29 225**	**34 649**
Net Assets	**119 746**	**114 324**
Capital	119 567	119 567
Retained earnings (Accumulated losses)	179	(5 243)
Total Equity	**119 746**	**114 324**

Comment

Over the 18 months under review TasPorts' Equity increased by $0.179m driven by the loss to 30 June 2006 offset by the current year's profit.

On a line by line basis, the major changes and balances in TasPorts' Balance Sheet include:

- TasPorts has a strong cash balance, reflected by its strong Working Capital position at 30 June 2007. Working Capital improved by $13.751m due to a combination of factors including:

- The improved operating results which saw Cash increase by $3.091m (see Cash Position section for further comments);
- The reallocation of the $7.225m investment in Hobart International Airport Pty Ltd;
- The reclassification of a non-current investment, totalling $1.507m to cash and cash equivalents; and
- Further loans to Hobart International Airport Pty Ltd totalling $6.869m during 2006-07 included in Receivables;

- The Receivables balance represents trade debtors and loans to subsidiaries. The increase of $7.428m in 2006-07 is primarily due to an increase in loans to subsidiaries (Hobart International Airport Pty Ltd), totalling $6.869m;
- The Investment in subsidiary balance, representing TasPorts' ownership interest in the Hobart International Airport Pty Ltd has not changed between the years, but has been reclassified as a current asset. The reclassification reflects the proposed sale of the Airport, which is anticipated to occur in the 2007-08 financial year;
- Current and non-current Borrowings, totalling $33.006m have not changed in total between the periods under review. While, loans are recognised as due for repayment in 2007-08, TasPorts will renegotiate the loans to maintain a specific level of debt;
- Property, plant and equipment decreased by $3.582m in 2006-07 comprising net of additions, $5.766m, disposals, $0.897m, depreciation expense, $6.253m, and an impairment loss of $2.198m;
- The Deferred revenue balance at 30 June 2007, of $3.600m ($2.400m non-current and $1.200m current) represents the balloon payments received by Burnie Port Corporation Pty Ltd in 2000-01. This amount will be credited to income at the rate of $1.200m per annum in each of the next three years; and
- The Capital of $119.567m represents the net assets transferred from the four former port companies at 1 January 2006.

During the 2005-06 audit, I reviewed with TasPorts' management the valuation basis applied to recognising its Property, plant and equipment. TasPorts adopts the cost basis. As a considerable proportion of these assets include long life wharves and infrastructure assets, I consider TasPorts should adopt the fair value basis for recognising these assets. As an initial step towards revaluing its infrastructure assets, TasPorts included a note in its 2006-07 financial statements disclosing a fair value assessment of its Property, plant and equipment. The fair value disclosed totalled $140.684m which was based on an independent market valuation and an income based approach which considered the future income earning capacity of these assets. Management will give further consideration on how best to record these assets during the 2007-08 financial year.

CASH POSITION

	2007	2006
	12 months	6 months
	$'000s	$'000s
Receipts from customers	62 989	34 679
Payments to suppliers and employees	(49 530)	(27 527)
Interest received	1 782	733
Borrowing costs	(2 003)	(806)
Income taxes	(555)	(946)
Net cash from operating activities	**12 683**	**6 133**
Proceeds from sale of property, plant and equipment	731	221
Dividends received	2 147	0
Payments of property, plant and equipment	(5 601)	(1 180)
Net cash (used in) investing activities	**(2 723)**	**(959)**
Proceeds from borrowings	0	200
Loan to subsidiary company	(6 869)	0
Repayment of borrowings	0	(1 226)
Dividends paid	0	0
Net cash (used in) financing activities	**(6 869)**	**(1 026)**
Net increase in cash	**3 091**	**4 148**
Cash at the beginning of the year	26 908	22 760
Cash at end of the year	**29 999**	**26 908**

Comment

TasPorts' total cash balance of $29.999m comprised cash at bank and on hand and short-term investments. During both periods under review, TasPorts generated strong cash inflows from operating activities, which was in part used to fund capital expenditure and a loan to Hobart International Airport Pty Ltd of $6.869m.

FINANCIAL ANALYSIS

	Bench Mark	2007	2006**
Financial Performance			
Result from operations ($'000s)		9 749	(2 843)
EBIT ($'000s)		11 708	(1 744)
Operating margin	>1.0	1.18	0.91
Return on assets		6.8%	(1.0%)
Return on equity		4.7%	(4.6%)
Financial Management			
Debt to equity		27.6%	28.9%
Debt to total assets		18.9%	19.3%
Interest cover	>3	5.98	(1.59)
Current ratio	>1	2.08	1.62
Cost of debt	7.5%	5.9%	6.1%
Debt collection	30 days	46	43
Creditor turnover	30 days	12	19
Returns to Government			
Dividends paid or payable ($'000s)		2 745	0
Dividend payout ratio	50%	50.0%	-
Dividend to equity ratio		2.3%	-
Income tax paid or payable ($'000s)		720	0
Effective tax rate	30%	9.5%	-
Total return to the State ($'000s)		3 465	0
Total return to equity ratio		3.0%	-
Other information			
Staff numbers (FTE)		210	264
Average staff costs ($'000s)*		118	46
Average leave balance per FTE ($'000s)		22	23

** the average staff cost for 2006 has been extrapolated to reflect a full year*

*** where relevant the ratios for 2006 are based on six months results*

Comment

In the first six months of its operations, TasPorts' Results from operations and EBIT was a loss, however the results were impacted by a number of unusual expenses as noted in the Income Statement section. This loss impacted on the Operating margin and the Return on assets and equity. However, in its first full year of operations and having incurred the costs of amalgamating the former port companies, TasPorts operated at a profit. The solid performance in 2006-07 is reflected in the positive Operating margin and the Return on assets and equity ratios.

TasPorts had a positive Working Capital at 30 June 2007, which indicates an ability to meet short-term commitments.

Although the Debt collection ratio was above the benchmark in both periods being reviewed, TasPorts considers the majority of debtors will be recovered within 30 days.

As TasPorts recorded a loss for the 2005-06 financial period, there was no tax payable and the board did not recommend the payment of a dividend.

In 2005-06, the board will pay $0.720m in taxation equivalents due to its profit. The board intend to declare a dividend representing 50% of the after tax profit, totalling $2.745m at the 2006-07 Annual General Meeting.

Staff numbers have decreased between the periods due to redundancies and TasPorts ceasing stevedoring operations in Melbourne and at Bell Bay. The average staff costs exclude redundancy payments made in both periods, and have remained fairly consistent.

OVERALL COMMENT

TasPorts reported a profit of $7.541m before tax in its first full year of operations to 30 June 2007. The result is a significant improvement on the $7.244m loss recorded in its initial six months of operations to 30 June 2006. Its net assets increased by $5.422m from $144.324m to $119.746m at 30 June 2007.

In the May 2007 Budget, the State Government announced that it intended to sell the Hobart International Airport Pty Ltd, a wholly owned subsidiary of TasPorts. This fact is noted in both the parent’s and the company’s audited financial statements. At the time of preparing this Report, arrangements to enable the sale are underway.

During the 2005-06 audit, I reviewed with Tasports’ management the valuation basis applied to recognising its Property, plant and equipment. TasPorts adopts the cost basis. As a considerable proportion of these assets include long life wharves and infrastructure assets, I consider TasPorts should adopt the fair value basis for recognising these assets.

As an initial step towards revaluing its infrastructure assets, TasPorts included a note in its 2006-07 financial statements disclosing a fair value assessment of its Property, plant and equipment. The fair value disclosed totalled $140.684m which was based on an independent market valuation and an income based approach which considered the future income earning capacity of these assets. This value is $24.460m greater the amount at which infrastructure assets are recorded on the balance sheet of the company. Management will give further consideration on how best to record these assets during the 2007-08 financial year.

The 2006-07 audit was completed satisfactorily with no major issues outstanding.

HOBART INTERNATIONAL AIRPORT PTY LTD

INTRODUCTION

The Hobart International Airport Pty Ltd (the Corporation) is a wholly owned subsidiary of the Tasmanian Ports Corporation Pty Ltd (TasPorts).

The principal services of the Corporation included:

- Provision of aeronautical infrastructure to accommodate:
  - International and domestic passenger services;
  - General aviation passenger services; and
  - Freight services;
- Car parking; and
- Commercial development.

During 2006-07, the board comprised six directors, whose appointment was approved by the shareholders of the Corporation.

On 7 June 2007, the State Government (the shareholder) announced in its 2007-08 State Budget that it intends to sell the Corporation. It is anticipated that the sale process will be completed during the 2007-08 financial year. I understand it is intended to sell the airport as a going concern and as such, this announcement had limited effect on the Corporation's financial reporting at 30 June 2007. The only significant change was the need to classify long term borrowings as a current liability.

Currently, as a State-Owned-Company, the Corporation is obligated to borrow from Tasmanian Public Finance Corporation (Tascorp), however, this financial institution is only permitted to lend to Government entities. Therefore, all loans with Tascorp will need to be repaid in full upon completion of any sale.

Similarly, the terms of the loan agreement between the Corporation and TasPorts, require the loan to be repaid resulting in the reclassification of the Tascorp borrowings as previously noted.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Financial statements, signed by the board, were received on 23 August 2007. An unqualified audit report was issued on 27 August 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Services revenue	16 134	15 027	12 460
Other income	271	15	89
Interest revenue	557	317	345
Non-operating revenue	828	635	599
Total Revenue	**17 790**	**15 994**	**13 493**
Employee benefit expenses	2 361	2 023	1 758
Depreciation	2 052	1 968	1 717
Finance costs	2 479	2 139	2 205
Other operating expenses	4 145	4 458	3 584
Total Expenses	**11 037**	**10 588**	**9 264**
Profit before taxation	**6 753**	**5 406**	**4 229**
Income tax expense	1 976	1 621	1 268
Net profit	**4 777**	**3 785**	**2 961**

Comment

For the three years under review the profit after taxation steadily improved, from a profit after taxation of $2.961m in 2004-05 to a profit of $4.777m. The main reason for this has been strong revenue growth, particularly in the passenger and commercial areas, while costs increased to a lesser extent.

The 2006-07 operating result after taxation increased by $0.992m from the 2005-06 outcome. The major reasons for the improved result are attributable to an increase in property income, car parking revenues and cost recoveries. Air passenger revenue increased by $0.108m due to a 1.8% increase in domestic passengers numbers.

The increase in revenue was partially offset by increased expenditure. Employee benefit expenses increased by $0.337m due to changes in staffing levels and general EBA increases. Financing costs also increased by $0.340m in line with additional Borrowings discussed in the Balance Sheet section.

Other expenses fell by $0.394m as the dispute with a major customer over rates charged for services in 2005-06 did not recur.

The 2005-06 operating result after taxation increased by $0.824m over that earned in 2004-05. The major reasons for the improved result included an increase in service revenue attributable to a 5.3% increase in domestic passengers (from 1 513 677 in 2004-05 to 1 594 405 in 2005-06) and an increase in commercial revenue.

The increase in revenue was partially offset by increased expenditure. Employee benefit expenses increased by $0.265m due to changes in staffing levels and general EBA increases. Other operating expenses increased by $0.864m primarily due to increased Service and utilities costs, $0.640m, resulting from additional requirements flowing from the completion of Stage 1 of the Domestic Terminal works and new car parking services.

In addition, the Corporation recognised an expense for the impairment of trade receivables in 2005-06 of $0.398m. The impairment related to a dispute with a customer regarding service rate charges.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	1 023	2 709	4 401
Receivables	652	1 361	765
Inventories	9	11	5
Other	1 218	588	776
Total Current Assets	**2 902**	**4 669**	**5 947**
Borrowings	39 009	0	0
Payables	3 618	1 958	1 658
Current tax liability	838	827	961
Employee benefits	827	735	642
Total Current Liabilities	**44 292**	**3 520**	**3 261**
Working Capital	**(41 390)**	**1 149**	**2 686**
Property, plant and equipment	50 075	37 221	34 688
Investments	3 725	2 728	1 056
Investment properties	3 548	3 665	3 399
Goodwill	21 091	21 091	21 091
Deferred tax asset	451	407	338
Prepaid operating lease	2 472	2 500	2 528
Other	1 185	1 481	1 777
Total Non-Current Assets	**82 547**	**69 093**	**64 877**
Borrowings	0	31 500	31 500
Employee benefits	17	10	13
Deferred tax liability	3 283	3 760	4 100
Other non-current liabilities	1	1	1
Total Non-Current Liabilities	**3 301**	**35 271**	**35 614**
Net Assets	**37 856**	**34 971**	**31 949**
Reserves	32 658	32 657	29 657
Retained Earnings	5 198	2 314	2 292
Total Equity	**37 856**	**34 971**	**31 949**

Comment

Over the three years under review the Corporation's Net assets increased by $5.907m or 18.5%. This increase was mainly attributable to the capital works undertaken at the airport and due to operating profits.

The Corporation’s Net Assets increased by $2.885m in 2006-07 due primarily to:

- Property, plant and equipment increasing by $12.854m due to expenditure on construction including alterations to the domestic terminal building; so new baggage screening facilities could be added with a target completion in July 2007; and the acquisition of two parcels of land near Surfs Road for future development.

The effect of the foregoing was offset in part by:

- An increase in total Borrowings to fund the capital cost of construction, $7.509m (refer to Cash Position section for further details);
- An increase in Payables of $1.660m including current works at year end; and
- A decrease in Cash of $1.686m used in funding the higher level of capital works.

As previously noted, due to the decision to sell the Corporation, long-term borrowings of $38.619m were reclassified as a current liability. This resulted in Working Capital being negative $41.390m at 30 June 2007. When the effects of these Borrowings is eliminated, Working Capital remains negative at $2.771m. This is primarily due to the decrease in Cash and increase in Payables previously mentioned.

There were no significant movements in 2005-06 balances when compared to 2004-05. Major movements included:

- Receivables increased by $0.596m due to the timing of invoices issued in June 2006;
- Property plant and equipment increased by $2.533m as a result of the completion of Stage 1 of the domestic terminal building and car rental facility complex upgrading. At 30 June 2005, significant work in progress balances existed for these major capital works; and
- Non-current investments increased by $1.672m as the Corporation allocates funding for future maintenance of runways.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	17 273	14 713	12 571
Payments to suppliers and employees	(4 710)	(5 551)	(4 737)
Income taxes paid	(2 485)	(2 163)	(1 310)
Cash from operations	**10 078**	**6 999**	**6 524**
Proceeds from investments	0	0	2 000
Payments for investments	(997)	(1 672)	(56)
Payments for property, plant and equipment	(14 465)	(4 591)	(5 905)
Purchase of investment property	(30)	0	0
Interest received	565	311	356
Proceeds from sale of property, plant and equipment	25	163	25
Cash (used in) investing activities	**(14 902)**	**(5 789)**	**(3 580)**
Proceeds from borrowings	7 890	0	0
Repayment of borrowings	(380)	0	(600)
Interest paid	(2 479)	(2 139)	(2 205)
Shares bought back	0	0	(5)
Dividends paid	(1 893)	(763)	0
Cash from (used in) financing activities	**3 138**	**(2 902)**	**(2 810)**
Net increase (decrease) in cash	**(1 686)**	**(1 692)**	**134**
Cash at the beginning of the year	2 709	4 401	4 267
Cash at end of the year	1 023	2 709	4 401

Comment

Over the three years under review Cash at end of the period steadily declined, mainly because of the high level of capital works undertaken. For the period, Cash used in investing activities totalled $24.271m. This was funded by borrowings, existing cash reserves and surplus Cash from operations, $23.601m. Over the period $2.656m was paid in dividends.

For 2006-07 the cash position decreased by $1.686m mainly due to continued asset purchases.

Receipts from customers increased in 2006-07 primarily due to the improvement in revenue as noted previously in the Income Statement section and assisted in the Corporation improving its cash flows from operations by $3.079m.

Cash from operations were primarily used to fund capital work at the airport for alterations to the domestic terminal building needed to incorporate the new baggage handling facilities. This totalled $14.465m.

During the year the Corporation did not repay any principal on its long term borrowings with Tascorp and borrowed an additional $0.389m short term. The Corporation also received a $7.500m loan from its owner during the year of which $0.380m had been repaid by year end. In 2006-07, the Corporation paid Dividends relating to 50% of the prior year Result after taxation, $1.893m, an increase of $1.130m over the amount paid in 2005-06.

The cash position decreased by $1.692m in 2005-06. However, if the $1.672m payment to investments had not been made, the cash position would have changed by only $0.020m. This was a strong result considering the increased taxation payment and the dividends paid during 2005-06.

Receipts from customers increased in 2005-06 primarily due to the improvement in revenue as noted previously in the Income Statement section and assisted in the Corporation strengthening its cash flows from operations. The improvement was partially offset by an increase in Income taxes paid of $0.853m.

Cash from operations were mainly used to fund capital work at the airport totalling $4.591m. In addition, $1.672m was transferred to a separate non-current investment account, which was not recorded as part of the cash and cash equivalent balance.

The Corporation did not repay any principal on its long term borrowings during the year and interest paid remained relatively steady at $2.139m. In 2005-06, the Corporation paid dividends of $0.763m.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		6 753	5 406	4 229
EBIT ($'000s)		9 232	7 545	6 434
Operating margin	>1.0	1.54	1.45	1.39
Return on assets		11.6%	10.4%	10.7%
Return on equity		13.1%	11.3%	12.7%
Financial Management				
Debt to equity		103.1%	90.1%	98.6%
Debt to total assets		45.7%	42.7%	44.5%
Interest cover	>3	3.7	3.5	2.9
Current ratio	>1	0.07	1.33	1.82
Cost of debt	7.5%	6.4%	6.5%	6.5%
Debt collection	30 days	14	32	21
Creditor turnover	30 days	22	18	41
Returns to Government				
Dividends paid or payable ($'000s)		0	1 893	763
Dividend payout ratio	50%	0.0%	50.0%	25.8%
Dividend to equity ratio		0	5.7%	1.7%
Income tax paid or payable ($'000s)		1 975	1 621	1 759
Effective tax rate	30%	29.2%	30.0%	41.6%
Total return to the State ($'000s)		1 975	3 514	2 522
Total return to equity ratio		5.4%	10.5%	10.8%
Other Information				
Staff numbers (FTE)		24.0	21.5	20.0
Average staff costs ($'000s)		98	94	88
Average leave balance per FTE ($'000s)		35	35	33

Comment

Over the three year period the Corporation recorded strong operating margins and generated strong returns on assets and equity.

The Debt to equity and Debt to total assets ratios reflected the Corporation's Borrowings liabilities of $39.009m at 30 June 2007 (2006 and 2005, $31.500m). For 2006-07 the Current ratio was influenced significantly by the inclusion of all Borrowings as Current Liabilities, as discussed previously. The Debt collection ratio fell in line with the decline in Receivables and all other ratios remained reasonably constant.

It is noted that a dividend in relation to 2006-07 has yet to be determined by the board. As a result the ratios relating to Returns to Government are low for 2006-07.

Staff numbers and Average staff costs increased slightly over the past three years. The increase in Average staff costs is due to an EBA increase halfway through both

2005-06 and 2006-07, combined with the timing of staff movements within those years. Average leave balances remained fairly constant.

OVERALL COMMENT

The 2006-07 audit was completed satisfactorily with no major items outstanding.

KING ISLAND PORTS CORPORATION PTY LTD

INTRODUCTION

The King Island Ports Corporation Pty Ltd (the Corporation) is a wholly owned subsidiary of Tasmanian Ports Corporation Pty Ltd.

The main services of the Corporation include:

- Owners and operators of ports and associated facilities at Grassy and Currie on King Island;
- Petroleum products importer and distributor for King and Flinders Islands;
- Freighting and transport services on King Island; and
- Provide rental facilities.

The board comprised five directors, whose appointment was approved by the shareholders of the Corporation.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Financial statements were signed by the board on 24 September 2007. An unqualified audit report was issued on 28 September 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Service revenue	13 896	14 121	12 502
Rental income	39	30	27
Interest revenue	40	53	19
Gain on sale of non-current assets	6	0	465
Other revenue	3	2	0
Total Revenue	**13 984**	**14 206**	**13 013**
Cost of goods sold	10 852	11 356	9 890
Finance costs	69	64	63
Depreciation	338	316	314
Employee benefit expenses	1 004	947	821
Other operating expenses	964	792	1 080
Total Expenses	**13 227**	**13 475**	**12 168**
Profit before taxation	**757**	**731**	**845**
Income tax expense	229	222	101
Net profit	**528**	**509**	**744**

Comment

In 2006-07 operating profit after taxation improved by $0.019m and followed a decrease in 2005-06 of $0.235m. The major reason for the decline in 2005-06 was a significant net gain on disposal of Property, plant and equipment in 2004-05 of $0.465m. Without this gain, the operating profit after taxation would have been $0.279m for 2004-05 indicating that the Corporation's operating profits improved over the period under review.

Service revenue decreased in 2006-07 by $0.225m due to lower sales of low sulphur diesel fuel, $0.235m, and the Federal fuel rebate being discontinued, $0.142m, offset in part by increased income from seaport operations, $0.184m. These decreases in revenue were more than offset by lower expenses, $0.248m, arising from a drop in Cost of goods sold, $0.504m, offset in part by higher Employee benefits expenses, $0.183m, the latter due primarily to recruitment of two additional staff – see Financial Analysis section.

In 2005-06 Service revenue increased by $1.619m offset by an increase in Cost of goods sold, $1.417m. These rises were both due to increases in fuel prices throughout the period, with the costs being passed onto consumers.

Over the period under review, Income tax expense increased from $0.101m in 2004-05 to $0.229m in 2006-07. The increase in Income tax expense for 2006-07, $0.008m, was due to the improved operating result while for 2005-06 the decrease of $0.121m was mainly attributable to the tax effect of the gain on sale of non-current assets referred to previously.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash and cash equivalents	527	1 531	350
Trade and other receivables	604	560	542
Inventories	517	573	562
Income tax receivable	0	0	36
Other	141	199	113
Total Current Assets	**1 789**	**2 863**	**1 603**
Trade and other payables	1 013	1 254	883
Income tax payable	88	99	0
Interest bearing loans and borrowings	400	750	540
Employee benefits	123	96	83
Total Current Liabilities	**1 624**	**2 199**	**1 506**
Working Capital	**165**	**664**	**97**
Deferred tax asset	46	45	38
Property, plant and equipment	3 361	2 871	2 908
Investment properties	106	115	123
Total Non-Current Assets	**3 513**	**3 031**	**3 069**
Interest bearing loans and borrowings	500	750	500
Employee benefits	7	17	11
Deferred tax liability	40	71	112
Total Non-Current Liabilities	**547**	**838**	**623**
Net Assets	**3 131**	**2 857**	**2 543**
Reserves	2 144	2 472	2 472
Retained earnings	987	385	71
Total Equity	**3 131**	**2 857**	**2 543**

Comment

Over the period Net Assets increased by $0.314m in 2005-06 and by a further $0.274m to $3.131m at 30 June 2007.

The increase in 2006-07 resulted from:

- Increased Property, plant and equipment, $0.490m, mainly associated with the wharf upgrade;
- Decreased Interest bearing loans and borrowings, $0.600m, due to repayment of loans;
- Decreased Trade and other payables, $0.241m; and

In 2005-06 the major movements included:

- Cash and cash equivalents increased by $1.181m due to a $1.000m inter-company loan taken during the period, subsequently invested with Tascorp;
- Increased trade payables of $0.276m due to high fuel costs throughout the period as mentioned previously; and
- The increase in Interest bearing liabilities due to the $1.000m inter-company loan.
- Offset by decreased Cash, $1.004m, due to capital works and loan repayments.

CASH POSITION

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Receipts from customers	15 367	15 516	13 525
Payments to suppliers and employees	(14 385)	(14 135)	(13 016)
Interest received	41	53	19
Interest paid	(85)	(60)	(64)
Income tax paid	(271)	(136)	(181)
Cash from operations	**667**	**1 238**	**283**
Payments for property, plant and equipment	(938)	(439)	(344)
Proceeds from sale of property, plant and equipment	122	115	698
Cash from (used in) investing activities	**(816)**	**(324)**	**354**
Proceeds from borrowings	0	1 200	800
Repayment of borrowings	(600)	(739)	(1 244)
Dividends paid	(254)	(195)	0
Cash from (used in) financing activities	**(854)**	**266**	**(444)**
Net increase (decrease) in cash	**(1 003)**	**1 180**	**193**
Cash at the beginning of the year	1 530	350	157
Cash at the end of the year	**527**	**1 530**	**350**

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	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		757	731	845
EBIT ($'000s)		826	795	908
Operating margin	>1.0	1.06	1.05	1.07
Return on assets		13.5%	13.8%	17.1%
Return on equity		17.6%	18.9%	29.9%
Financial Management				
Debt to equity		28.7%	52.5%	40.9%
Debt to total assets		17.0%	25.4%	22.3%
Interest cover	>3	11.97	12.23	14.41
Current ratio	>1	1.10	1.30	1.06
Cost of debt	7.5%	5.8%	5.1%	5.0%
Debt collection	30 days	16	14	15
Creditor turnover	30 days	29	35	27
Returns to Government				
Dividend paid or payable ($'000s)		254	195	0
Dividend payout ratio	50%	48.1%	38.3%	0.0%
Dividend to equity ratio		8.5%	7.2%	0.0%
Income tax paid or payable ($'000s)		271	136	181
Effective tax rate	30%	35.8%	18.6%	21.4%
Total return on the State ($'000s)		525	331	181
Total return to equity ratio		17.5%	12.3%	7.3%
Other Information				
Staff numbers (FTE)		13	11	11
Average staff costs ($'000s)		84	86	75
Average leave balance per FTE ($'000s)		10	10	9

Comment

The Corporation recorded an Operating margin slightly above the benchmark in each of the three years under review and has generated strong returns on assets and equity.

The Debt to equity and Debt to total assets ratios both improved in 2006-07 following the repayment of loans mentioned previously.

The Dividend payout ratio was near benchmark in 2006-07 while the Effective tax rate was above benchmark.

The Total return on equity was relatively strong at 17.5% (2005-06, 12.3%).

Staff numbers remained relatively constant throughout the period, with the slight increase in 2006-07 resulting in reduced Average staff costs.

OVERALL COMMENT

The 2006-07 audit was completed satisfactorily with no major issues outstanding.

LOCAL GOVERNMENT AUTHORITIES

BACKGROUND

Local government authorities are governed principally by the *Local Government Act 1993* (the Act) as amended. In addition, there are a number of other Acts that provide specific provisions in relation to rating, building and miscellaneous matters.

The authorities are administered by a council consisting of a number of elected members known as Councillors or Aldermen.

The major functions of the Councils are set out in Section 20 of the Act.

Section 30 of the the Act enables councils to establish a single authority or a joint authority with one or more councils. A single or joint authority may be established to:

- Carry out any scheme, work or undertaking
- Provide facilities or services and
- Perform any functions or exercise any powers of a council under the Act or any other legislation.

Currently there are seven joint authorities operating in Tasmania:

- Dulverton Regional Waste Management Authority;
- Cradle Coast Authority;
- Southern Waste Strategy Authority:
- Esk Water Authority (Esk Water);
- Cradle Coast Water;
- Hobart Regional Water Authority (Hobart Water); and
- Copping Refuse Disposal Site Joint Authority (not currently audited by the Tasmanian Audit Office).

In addition, Brighton Council has created a separate company, Microwise Australia Pty Ltd.

Section 331 of the Act requires the Local Government Association of Tasmania to prepare annual financial statements which are required to be submitted for audit on or before 31 August in each year.

KEY FINDINGS

- Of the 37 local government authority audits being conducted, 16 have been completed as at the date of this Report, with unqualified audit opinions issued in each case.
- The audits were completed satisfactorily with no major items outstanding.

- As at the date of this Report, signed financial statements had still to be submitted by four local government authorities comprising two councils, one business unit and one other authority.
- Concerns arose in NSW over losses incurred by a number of councils in that State from the effects of the downturn in August 2007 of the US sub-prime market. I have read that those councils had invested in a particular collateralised debt obligation (CDO) product. A review of council investments in Tasmania conducted by my Office indicated that no Tasmanian council had invested in that product. At least two councils had invested in other CDOs but these had not been significantly affected.
- Whilst **Hobart City Council** has a policy of regular revaluations, some property assets have not been re-valued for a number of years. I have been advised that Council will have this completed in 2007-08.
- It was recommended that the **Waratah-Wynyard Council** adopt a fair value basis for measuring the carrying value of all property, equipment and infrastructure assets (excluding roads which are already included at fair value) and update the road valuation which was last performed at 30 June 2005.

RESPONSIBLE MINISTER

The Responsible Minister is the Minister Assisting the Premier on Local Government.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

The following is a summary of the audit status of the financial statements for the 29 Councils, seven local government business units and the Local Government Association of Tasmania for the 2006-07 year.

Results of audits completed by 31 October 2007 and included in my November 2007 report:

Council audits completed and unqualified audit reports issued	11
Council audit completed and qualified audit report issued	nil
Local Government Business Units completed and unqualified audit reports issued	5

As at 31 October 2007 the audits of the following Councils, Business Units and other audits were still in progress:

Urban and Large Rural Councils:

- Brighton Council
- Burnie City Council
- Derwent Valley Council
- Huon Valley Council
- Kingborough Council

- Meander Valley Council
- Northern Midlands Council
- Sorell Council

Rural Councils:

- Central Highlands Council
- Circular Head Council
- Dorset Council
- Flinders Council
- George Town Council
- Glamorgan Spring Bay Council
- Kentish Council
- Southern Midlands Council
- Tasman Council
- West Coast Council

Local Government Business Units:

- Southern Waste Strategy Authority

Other

- Local Government Association of Tasmania

In my April 2007 Report, I provided a comparative analysis of the 29 Councils and the three water authorities. As the audits of local government authorities have yet to be completed, a similar comparative analysis will be produced in my first report for 2008.

A similar comparison is not considered appropriate for the remaining business units because of differences in the activities undertaken by them.

CLARENCE CITY COUNCIL

INTRODUCTION

Clarence City Council was initially proclaimed a municipality in 1860, and proclaimed a city on 24 November 1988. It has a population of approximately 50 260 people and 21 000 rateable properties.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 27 September 2007 and an unqualified audit report was issued on 24 October 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Rates	41 473	38 531	36 763
User Charges	4 355	3 631	3 733
Grants	1 952	2 262	3 456
Other operating revenue	6 839	6 205	4 406
Total Revenue	**54 619**	**50 629**	**48 358**
Employee costs	11 864	11 566	10 371
Borrowing costs	1 430	1 548	1 737
Depreciation	12 904	11 543	9 228
Other operating expenses	27 055	26 550	23 864
Loss on disposal of assets	608	148	290
Total Expenses	**53 861**	**51 355**	**45 490**
Surplus (Deficit) before:	**758**	**(726)**	**2 868**
Capital grants	686	688	1 140
Contributions of non-current assets	4 028	3 922	2 536
Surplus for the year	**5 472**	**3 884**	**6 544**

Comment

In 2006-07 Council recorded a small surplus Result from Operating Activities of $0.758m (0.1% of total revenue), compared to a deficit of $0.726m in 2005-06 and a surplus of $2.868m in 2004-05. The Result from Operating Activities indicates that in 2006-07 Council only just had sufficient revenue to meet all its operating costs.

Revenue from Rates increased $2.942m (or 7.64%) in the period under review. The rise is due to increased development, including completion of Risdon Prison upgrade, together with backlog valuations completed by the Valuer-General.

User charges increased $0.724m (19.94%) in the period under review. The increase was due primarily to increased activity in development and building applications and above average water sales and excess consumption charges.

The Grant revenue decreased $0.312m (10.58%) reflecting timing of receipts of specific purpose grants.

Other operating includes interest income, government subsidies and movements in Council's interests in its associates – Hobart Water and the Copping Refuse Disposal site.

Depreciation expense increased $1.361m (11.79%) which was due to additional infrastructure acquired by Council and revaluation of road and building assets. The higher asset value in turn resulted in a higher depreciation expense which is consistent with the upward trend in depreciation expense experienced in 2004-05 and 2005-06.

Employee costs increased by 2.6% in 2006-07 compared with the previous financial year. This is below the level of Council's enterprise agreement (3.75%) and is not reflective of the tight labour market. This is due to employee costs carrying an additional amount of $0.463m in 2005-06 which had previously been charged to work in progress.

Borrowing costs decreased $0.118m (7.63%) in 2006-07 reflecting the reduction in the loan portfolio and favourable interest rate renegotiations.

Other operating expenses increased by $0.505m (1.9%) in 2006-07. This includes materials, contracts, state levies and purchases of water. This increase is consistent with increases in prior years and is in line with the consumer price index.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	12 169	12 857	16 144
Receivables	3 383	2 519	2 615
Investments	29 572	23 355	13 172
Inventories	222	224	238
Other	656	379	162
Total Current Assets	**46 002**	**39 334**	**32 331**
Payables	5 552	5 102	4 091
Borrowings	1 406	1 294	3 345
Provisions	2 064	2 070	2 027
Total Current Liabilities	**9 022**	**8 466**	**9 463**
Working Capital	**36 980**	**30 868**	**22 868**
Property, plant and equipment	450 126	429 373	352 196
Investments	47 917	29 834	29 387
Other	147	161	183
Total Non-Current Assets	**498 190**	**459 368**	**381 766**
Borrowings	22 021	23 426	22 557
Provisions	341	335	380
Total Non-Current Liabilities	**22 362**	**23 761**	**22 937**
Net Assets	**512 808**	**466 475**	**381 697**
Reserves	218 320	193 573	116 428
Accumulated surpluses	294 488	272 902	265 269
Total Equity	**512 808**	**466 475**	**381 697**

Comment

Total equity rose by $131.111m over the period of review due predominantly to:

- The revaluation of road, land and building assets with $23.569m recognised in the revaluation reserve in 2006-07 and $80.918m in 2005-06;
- Recognition of Council's share of associates' asset revaluation increments (predominantly in Hobart Water), $17.292m in 2006-07 (there was a decrement in 2005-06 of $0.024m); and
- Surpluses in each of the years under review.

Main Property, plant and equipment purchases during 2006-07 included:

- The reconstruction of Gordons Hill Road;
- Drainage works at Kennedy Drive and Seven Mile Beach;
- Upgrade of Mt Canopus water supply;
- Replacement of the Middle Tea Tree bridge;

- Cycleway at Victoria Esplanade;
- Toilet facilities in Lindisfarne;
- Upgrade of the historic barn in Rosny; and
- A range of road reseal work.

Council reported a strong positive net working capital position at 30 June 2007. This outcome continues the upward trend in working capital in 2004-05 and 2005-06 and was due to a continued improved cash position. Further details are provided in the Cash Position section of this Chapter.

Council’s cash balance at 30 June 2007 of $41.741m comprised cash at bank and on hand of $12.169m (2005-06, $12.857m; 2004-05, $16.144m) and short term investments of $29.572m (2005-06, $23.355m; 2004-05, $13.172m). The higher investments arises from increases in funds held for future infrastructure renewal and for approved capital projects which are in progress or are yet to commence.

In 2006-07, current payables were $5.552m (2005-06, $5.102m; 2004-05, $4.091m). The nature of payables makes it difficult to compare the balance from year to year. Payables include trade creditors $1.794m, other creditors and accruals $2.565m and the balance is bonds and guarantees. The main accounts payables are capital works, $0.520m, insurance, $0.105m and valuations, $0.107m. Accruals include amounts owing to Hobart Water, $1.179m, Aurora, $0.292m, wages and salaries, $0.462m and outstanding interest, $0.209m.

Borrowings decreased by $1.293m in 2006-07. No new borrowings were taken out during the year.

Property, plant and equipment increased by $20.573m in 2006-07 due to Council’s revaluation of road, land and building assets, together with acquisitions of assets during the year.

Investment in jointly controlled entities represents Council’s investment in Hobart Water and Copping Refuse Disposal Site. This increased by $18.083m during 2006-07, principally as a result of revaluation increments reported by Hobart Water.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	47 884	43 890	39 843
Payments to suppliers and employees	(39 009)	(36 691)	(31 658)
Interest received	2 922	2 278	2 006
Borrowing costs	(1 422)	(1 622)	(1 737)
Cash from operations	**10 375**	**7 855**	**8 454**
Capital grants received	686	688	1 140
Payments for property, plant and equipment	(8 365)	(4 649)	(8 673)
Proceeds from sale of property, plant and equipment	498	114	129
Cash (used in) investing activities	**(7 181)**	**(3 847)**	**(7 404)**
Repayment of borrowings	(1 293)	(1 182)	(1 036)
Cash (used in) financing activities	**(1 293)**	**(1 182)**	**(1 036)**
Cash Flows from Government	**3 628**	**4 070**	**4 186**
Net increase in cash	**5 529**	**6 896**	**4 200**
Cash at the beginning of the year	36 212	29 316	25 116
Cash at end of the year	**41 741**	**36 212**	**29 316**

Comment

Overall, for 2006-07 Council recorded an increase in cash of $5.529m (2005-06, $6.896m). The increase in cash during 2006-07 was due to:

- Cash receipts increased due to strong growth in property development, yielding additional rates and fee income. Cash from rates was also assisted by backlog valuations completed by Valuer-General. Cash from water sales was higher than average;
- Payments were below the level estimated due to generally favourable expenditure performance against Council's adopted estimates;
- Interest receipts reflect higher cash holdings and a stronger interest rate environment; and
- Payments for property, plant and equipment have varied according to the timing of expenditure on major projects.

Cash from operations is relatively consistent across all years under review, with an increase of $1.363m (or 10.78%) from 2004-05 to 2006-07.

Council's investment in Property, plant and equipment, totalling $21.687m over the three years, compares with a depreciation expense for the same period of $33.675m. This difference of $11.988m contributes to Council reporting an improvement in its cash position by $12.425m and enabled it to repay debt totalling $3.511m.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		1 366	(578)	3 158
Operating margin	>1.0	1.03	0.99	1.07
Financial Management				
Current ratio	>1	5.10	4.65	3.42
Cost of debt	7.5%	6.1%	6.3%	6.7%
Debt service ratio		5.0%	5.5%	5.7%
Debt collection	30 days	26	21	23
Creditor turnover	30 days	40	58	33
Capital expenditure/depreciation	100%	65%	40%	94%
Capital expenditure on existing assets/depreciation		40%	38%	32%
Other information				
Employee costs expensed ($'000)		11 864	11 566	10 371
Employee costs capitalised ($'000)		1 246	1 215	1 272
Total employee costs ($'000)		**13 110**	**12 781**	**11 643**
Employee costs as a % of operating expenses		22%	23%	23%
Staff numbers (FTE)		244	245	232
Average staff costs ($'000s)		49	47	49
Average employee benefits per FTE ($'000s)		10	10	10

Comment

Result from operations arises from strong revenue and expenditure performances relative to Council's adopted estimates, as earlier described.

In the 2006-07 year Council returned an Operating margin of 1.03 consistent with the previous two years. While this result shows stability, the Capital expenditure on existing assets to depreciation ratio remains low at 40%, but improved over the three year period reflecting increased payments for capital projects.

Council's higher depreciation expense is based on a more current value of its assets and indicates that it may need to invest more heavily in capital expenditure programs, particularly as this relates to its existing asset base and highlights the importance of the continued need for Council's renewal strategy.

The improved Current ratio reflects increased cash holdings as previously described.

Lower Debt ratios reflect a reduction in aggregate loan balances and the full year effect of reduced interest rates arising from loan renegotiations.

Creditor turnover reflects timing of large payable items incurred at or near year end.

Employee costs as a percentage of operating expenses, staff numbers and average leave balances per employee are fairly consistent for all three years. Average staff costs increase mainly due to wage increases and staffing movements.

OVERALL COMMENT

The 2006-07 audit was completed with satisfactory results.

DEVONPORT CITY COUNCIL

INTRODUCTION

The Devonport City Council originated from the Municipality of Devonport, which was proclaimed in 1907. The municipality was proclaimed a City in 1981.

The municipality sits on the banks of the Mersey River, covers an area of approximately 116 square kilometres and serves a population in the order of 26 000 people.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 12 October 2007 and an unqualified audit report was issued on 26 October 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Rates	23 907	22 868	21 996
Fees and charges	6 790	5 945	6 396
Grants	1 782	1 697	1 708
Other operating revenue	2 025	2 521	2 093
Profit on disposal of assets	0	0	116
Total Revenue	**34 504**	**33 031**	**32 309**
Employee costs	11 595	11 268	10 617
Borrowing costs	673	715	687
Depreciation	9 242	8 468	7 931
Other operating expenses	15 095	14 479	13 704
Loss on disposal of assets	1 038	238	1 096
Total Expenses	**37 643**	**35 168**	**34 035**
Deficit before:	**(3 139)**	**(2 137)**	**(1 726)**
Capital grants	3 339	1 346	269
Contributions of non-current assets	4 378	4 859	2 810
Surplus for the year	**4 578**	**4 068**	**1 353**

Comment

Council recorded deficits from operating activities (before accounting for capital grants and contributions) in all years under review indicating that it might not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges.

Council’s Surpluses for the three years, totalling $9.999m, included Capital grants of $4.954m and contributions of non-current assets of $12.047m. Contributions of non-current assets comprised subdivision assets taken over by Council.

Revenue from Rates increased by $1.039m, (or 4.54%), in 2006-07 and $0.872m, (or 3.96%), in 2005-06. The increases in each year were in accordance with Council’s Estimates. As a percentage of Total revenue, Rates, as expected, continues to represent the greatest share being 69.29% in 2006-07, 69.52% in 2005-06 and 68.08% in 2004-05.

A major component of operating Grant revenue was the Commonwealth tax sharing grant, $1.447m, in 2006-07 (2005-06, $1.492m, 2004-05, $1.535m). This represented a decrease of 5.73% during the period under review.

Fees and charges represented 19.68% of Total revenue in 2006-07 compared to 19.80% in 2004-05. During 2006-07 the primary revenue sources were:

- Trade waste disposal fees, $1.463m (2005-06, $1.143m);
- Domestic and commercial water usage charges, $1.679m ($1.163m);
- Parking fees, $1.169m ($1.132m);
- Parking fines, $0.395m ($0.438m); and
- Property leases and rental, $0.583m ($0.592m).

Water usage charges increased by $0.516m, (or 44.37%), in 2006-07 due largely to an increase in the charge levied. For water supplied from 1 July 2005 to 30 June 2006, Council charged thirty-five cents per kilolitre for treated water in respect of all land that received a metered water supply. For water supplied from 1 July 2006 to 30 June 2007, Council increased this charge to forty-five cents per kilolitre.

Other operating revenue for 2006-07 included interest income, $0.672m, (2005-06, $0.534m), and the share of profit relating to Council’s investment in Cradle Coast Water, $0.399m, ($0.456m).

Employee costs represented 33.60% of Total revenue in 2006-07 (2004-05, 32.86%) and increased from $10.617m in 2004-05 to $11.595m in 2006-07 (or 9.21% over the two years). The increase was primarily due to pay rises under Council’s Enterprise Agreement of 4.00% in both January 2006 and January 2007. Staff numbers remained reasonably constant over the period under review.

Depreciation charges represented 26.79% of Total revenue in 2006-07 (2004-05, 24.55%) and increased by $1.311m, (or 16.53%), in the period under review primarily due to increases in Council’s property, plant and equipment values.

Other operating expenses of $15.095m represented 43.75% of Total revenue in 2006-07 (2004-05, 42.42%) and increased by $1.391m, (or 10.15%), in the period under review. The increase reflected a general increase in costs across all of Council’s activities. During 2006-07 the primary expenses were:

- Water purchases, $3.213m ($2.930m);
- General services and materials, $3.519m ($3.157m);
- Government levies, $1.916m ($1.694m); and
- Contractors, $1.224m ($1.310m).

Council received $4.954m in Capital grants during the period under review. Capital grants in 2006-07 included funding of $2.500m from the State Government for the Devonport Eastern Shore Project. Roads to Recovery funding of $0.210m was received in 2006-07, (2005-06 $0.534m; 2004-05, $0.239m).

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	7 334	7 354	6 151
Receivables	4 390	1 494	1 637
Investments	0	100	0
Inventories	208	220	190
Other	275	381	243
Total Current Assets	**12 207**	**9 549**	**8 221**
Payables	3 327	1 817	1 563
Interest bearing liabilities	1 727	2 070	2 124
Provisions - employee benefits	2 398	2 417	2 300
Total Current Liabilities	**7 452**	**6 304**	**5 987**
Working Capital	**4 755**	**3 245**	**2 234**
Property, plant and equipment	339 233	325 973	313 868
Investments in associates	27 256	17 282	17 063
Other	1 174	1 782	1 997
Total Non-Current Assets	**367 663**	**345 037**	**332 928**
Interest bearing liabilities	8 519	9 245	10 314
Provisions - employee benefits	386	333	415
Total Non-Current Liabilities	**8 905**	**9 578**	**10 729**
Net Assets	**363 513**	**338 704**	**324 433**
Reserves	196 068	175 689	166 676
Accumulated surpluses	167 445	163 015	157 757
Total Equity	**363 513**	**338 704**	**324 433**

Comment

Total Equity rose by $39.080m over the period under review due to:

- Council surpluses of $8.646m (2006-07, $4.578m and 2005-06, $4.069m);
- Asset revaluation increments of $21.035m (2006-07, $20.231m; 2005-06, $10.203m); and
- An increase in Council's share of the increase in Cradle Coast Water's asset revaluation reserve of $9.399m (2006-07 $9.357m; 2005-06, $0.042m).

Significant movements in assets and liabilities over the period were:

- The Receivables balance at 30 June 2007 included $2.500m relating to State Government funding for the Devonport Eastern Shore Project. Funds were received in payment of this invoice during July 2007;
- Property, plant and equipment increased by $25.365m over the period under review due to additions of $14.540m, asset revaluation increments (net), $21.178m, and contributed assets, $9.237m. The increases in value were offset by depreciation expenses of $17.710m and net disposals of $1.880m;
- The majority of the Investment in associates represents Council's interest in Cradle Coast Water. The investment is based on Council equity accounting its share of the financial position of Cradle Coast Water at 30 June each year. At 30 June 2007 Council's ownership interest in the Dulverton Regional Waste Management Authority, $0.453m, converted from a loan receivable, (included in Other non-current assets), to an equity interest and was also included in this item);
- Other non-current assets represent loans and advances made to various sporting and community organisations and Council's sinking fund investment. The balance decreased during 2006-07 primarily due to the transfer of the Dulverton loan receivable to Investments in associates as discussed previously; and
- Payables at 30 June 2007 increased by $1.510m from the prior year due to the timing of creditor payments. In previous years Council cleared creditors which were due at 30 June. However, due to computer system issues this did not occur at 30 June 2007.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	**32 134**	**31 544**	**30 965**
Cash flows from Government	1 782	1 697	1 708
Payments to suppliers and employees	(25 888)	(26 767)	(24 942)
Interest received	646	510	268
Borrowing costs	(685)	(715)	(733)
Cash from operations	7 989	6 269	7 266
Capital grants and contributions	**839**	**1 346**	**269**
Proceeds from investments	485	387	421
Payments for property, plant and equipment	(8 472)	(6 072)	(6 151)
Proceeds from sale of property, plant and equipment	208	396	852
Cash (used in) investing activities	(6 940)	(3 943)	(4 609)
Proceeds from borrowings	**1 000**	**1 000**	**2 060**
Repayment of borrowings	(2 069)	(2 123)	(2 145)
Cash (used in) financing activities	(1 069)	(1 123)	(85)
Net increase (decrease) in cash	**(20)**	**1 203**	**2 572**
Cash at the beginning of the year	7 354	6 151	3 848
Cash at the end of the year	**7 334**	**7 354**	**6 420**

Comment

Council recorded an overall decrease in cash in 2006-07 of $0.020m, compared with increases of $1.203m in 2005-06 and $2.303m in 2004-05. The main reason for the decrease in 2006-07 was an increase in Payments for property, plant and equipment.

Payments for property, plant and equipment totalled $20.695m for the three years under review. Major capital expenditure projects in 2006-07 comprised property acquisitions and roadworks related to the Devonport Eastern Shore Project, Pardoe waste water treatment plant works, Wrenswood Drive water main, Caroline Street sewerage pump station upgrade, Council's annual reseal program and plant additions and replacements.

Projects during 2005-06, included the Rooke Mall redevelopment (ongoing from 2004-05), Devonport foreshore – Mussel Rock development, Parker Street sewer trunk main and pavement road works (ongoing from 2004-05), roofing of the Surrey Street reservoir, Council's annual reseal program and plant additions and replacements.

Projects during 2004-05, not already mentioned above, included plant replacements of $1.300m and William Street pavement works.

Council's loan repayments over the three year period totalled $6.337m. These were offset by new borrowings of $4.060m, resulting in a net decrease in outstanding borrowings of $2.277m.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		(3 139)	(2 137)	(1 726)
Operating margin	>1.0	0.92	0.94	0.95
Financial Management				
Current ratio	>1	1.64	1.51	1.37
Cost of debt	7.5%	6.2%	6.0%	5.5%
Debt service ratio		8.0%	8.6%	8.9%
Debt collection	30 days	20	17	19
Creditor turnover	30 days	48	28	25
Capital expenditure/depreciation	100%	92%	72%	78%
Capital expenditure on existing assets/depreciation		62%	58%	75%
Other Information				
Employee costs expensed ($'000)		11 595	11 268	10 617
Employee costs capitalised ($'000)		1 137	731	691
Total employee costs ($'000)		**12 732**	**11 999**	**11 308**
Employee costs as % of operating expenses		31%	32%	31%
Staff numbers (FTE)		207	205	202
Average staff costs ($'000s)		62	59	56
Average leave balance per FTE ($'000s)		13	13	13

Comment

Council recorded operating deficits (after excluding capital grants and contributions) in all years under review resulting in Operating margins below the benchmark. As noted earlier this may indicate that Council might not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges.

Council had positive Working Capital in all years under review, which indicates an ability to meet short term commitments.

The Debt collection ratio was under the benchmark of 30 days for all years under review. The ratios reflect Council's good debt recovery procedures.

The Creditor turnover ratio was below benchmark for the first two years under review. The 2006-07 ratio was above benchmark due to the higher Payables balance discussed earlier in the Balance Sheet section. The increase at 30 June 2007 is not of concern bearing in mind Council's policy of paying outstanding creditors within a 30-day period.

The Total capital expenditure to depreciation ratio was below 100% for all years reported, indicating that Council might not have invested sufficiently in maintaining assets in these financial years.

After removing the effect of expenditure on new assets, Council's Capital expenditure on existing assets to depreciation ratio was well below the benchmark in all years. This may indicate that Council might not have invested sufficiently in maintaining existing assets. A significant amount of capital expenditure during the last two years has been land purchases relating to the Devonport Eastern Shore Project.

Employee costs as a percentage of operating expenses and average employee entitlements have been fairly stable. The increase in average staff costs related primarily to Enterprise Agreement increases, as detailed in the Income Statement section.

OVERALL COMMENT

The 2006-07 audit was completed satisfactorily with no major issues outstanding.

GLENORCHY CITY COUNCIL

INTRODUCTION

The Glenorchy area was first proclaimed as a Municipality in 1864 and was granted City status in 1964. The population serviced by the Glenorchy City Council ("Council") is of the order of 45 000 people and the Municipality covers an area of 120 square kilometres.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 21 September 2007 and an unqualified audit report was issued on 29 September 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Rates	36 158	33 723	32 753
User charges	11 431	10 692	9 059
Grants	5 045	5 127	5 131
Other operating revenue	2 679	2 481	2 472
Non-operating revenue	2 155	2 765	1 426
Total Revenue	**57 468**	**54 788**	**50 841**
Employee costs	18 751	17 108	15 843
Borrowing costs	1 532	1 609	1 553
Depreciation	14 669	13 411	13 234
Other operating expenses	26 135	25 454	24 215
Non-operating expenses	2 082	2 659	2 022
Total Expenses	**63 169**	**60 241**	**56 867**
Deficit before:	**(5 701)**	**(5 453)**	**(6 026)**
Capital grants	1 152	763	592
Contributions of non-current assets	3 268	6 796	2 565
Surplus (Deficit) for the year	**(1 281)**	**2 106**	**(2 869)**

Comment

In 2006-07 Council recorded a Deficit before Capital grants and Contributions of $5.701m, compared to a Deficit of $5.453m in 2005-06 and a deficit of $6.026m in 2004-05. This indicates that Council did not have sufficient revenue to fulfil its operating requirements. However, as noted below there was a positive operating cash flow result which emphasises that revenues may not be sufficient to cover non-cash expenses such as depreciation expense. In each of the three years under review, Council's operating budget, which excludes capital grants, was as follows:

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Budgeted net surplus/(deficit)	4 199	661	420
Budgeted capital grants	441	370	408
Budgeted operating surplus/(deficit)	**4 640**	**1 031**	**828**

The budgeted operating deficit (excluding budgeted capital grants) supports comments later in this Chapter regarding depreciation to capital expenditure ratios.

Revenue from Rates increased $2.435m (7.22%) in the period under review. The rise is due to general increase in the rates levied, including a 5.39% increase for residential rates.

User charges increased $0.739m (6.91%) in the period under review. The increase was due to a general increase in user charges with the most significant increase being in waste collection and disposal.

The Grant revenue in 2006-07 includes childcare services grants and federal government assistance. It includes five new grants for programs such as playgroups, E Waste and New Town rivulet.

Depreciation expense increased $1.258m (9.38%) which was due to the indexation of infrastructure assets resulting in revaluation increments, and new asset additions. The higher asset value in turn resulted in a higher depreciation expense which is consistent with the upward trend in depreciation expense experienced in 2004-05 and 2005-06.

Employee costs increased by $2.908m (18.36%) from 2004-05 to 2006-07. This was mainly due to an increase in maintenance expenditure (at the temporary cost of Capital works), staff movements, pay rises under Council's Enterprise Agreement of 4.0% in 2005-06 and 2006-07 and the flow on effect to employee provisions.

Other operating expenses increased $0.681m (2.68%) in 2006-07. This amount includes materials, contracts, state levies and purchases of water. This increase is consistent with increases in prior years and is in line with increases in the consumer price index.

Contributions of non-current assets decreased in 2006-07 by $3.528m (51.9%) compared to 2005-06. In 2005-06 there were increased contributions due to sub-division infrastructure assets such as footpaths, roads and stormwater. This did not reoccur in 2006-07.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	5 677	4 210	3 487
Receivables	2 208	2 101	1 894
Investments	4 039	3 000	4 074
Inventories	398	360	307
Other	988	1 467	397
Total Current Assets	**13 310**	**11 138**	**10 159**
Payables	5 309	5 120	4 638
Borrowings	2 819	2 904	2 666
Employee benefits provision	3 894	3 573	3 511
Other	800	1 118	671
Total Current Liabilities	**12 822**	**12 715**	**11 486**
Working Capital	**488**	**(1 577)**	**(1 327)**
Property, plant and equipment	552 430	518 266	501 724
Investments in jointly controlled entity	66 728	41 880	41 542
Investment properties	3 101	2 998	2 281
Other	2 104	1 182	1 995
Total Non-Current Assets	**624 363**	**564 326**	**547 542**
Borrowings	19 869	21 188	22 090
Employee benefits provision	1 478	1 227	1 161
Other	1 047	970	858
Total Non-Current Liabilities	**22 394**	**23 385**	**24 109**
Net Assets	**602 457**	**539 364**	**522 106**
Reserves	305 586	240 082	223 944
Accumulated surpluses	296 871	299 282	298 162
Total Equity	**602 457**	**539 364**	**522 106**

Comments

Total equity rose by $63.093m over the period of review due predominately to:

- The revaluation of infrastructure assets, buildings and plant assets with $39.818m recognised in the revaluation reserve (2005-06, $14.692m).
- Recognition of the Council's share of Hobart Water's asset revaluation increment of $24.556m (2005-06, $0.460m); and
- This was offset by the deficit for the year of $1.281m (2005-06 surplus of $2.106m).

Main Property, plant and equipment purchases during 2006-07 included:

- Road and footpath works around the Central Business District, $0.498m;

- Implementation of new financial accounting software system; and
- Stormwater upgrade at Jacques road and work at Marys Hope road.

Council achieved a small positive net working capital position at 30 June 2007. This outcome was due to an improved cash position. Further details are provided in the Cash Position section of this Chapter.

Council's cash balance at 30 June 2007 was $9.716m (2005-06, $7.210m; 2004-05 $7.561m). The balance comprised cash at bank and on hand of $5.677m (2005-06, $4.210m; 2004-05, $3.487m) and short term investments of $4.039m (2005-06, $3.000m; 2004-05, $4.074m).

In 2006-07, current payables were $5.309m (2005-06, $5.120m; 2004-05, $4.638m). The nature of payables makes it difficult to compare the balance from year to year. Main items in 2006-07 include Hobart Water accrual and costs relating to the new accounting software.

Borrowings decreased $1.404m in 2006-07 due to repaying $2.904m and borrowing an additional $1.500m during the year.

Investment in jointly controlled entities represents Council's investment in Hobart Water. This increase by $24.848m during 2006-07, principally as a result of revaluation increments reported by Hobart Water.

CASH POSITION

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Receipts from customers	54 719	49 134	46 320
Cash flows from government	5 046	5 127	5 131
Payments to suppliers and employees	(48 358)	(44 228)	(41 412)
Interest received	768	601	631
Borrowing costs	(1 532)	(1 609)	(1 572)
Cash from operations	**10 643**	**9 025**	**9 098**
Capital grants and contributions	1 152	763	592
Payments for property, plant and equipment	(8 990)	(9 653)	(9 120)
Proceeds from sale of property, plant and equipment	1 101	176	398
Cash (used in) investing activities	**(6 737)**	**(8 714)**	**(8 130)**
Proceeds from borrowings	1 500	2 002	1 502
Repayment of borrowings	(2 900)	(2 664)	(2 465)
Cash (used in) financing activities	**(1 400)**	**(662)**	**(963)**
Net increase (decrease) in cash	**2 506**	**(351)**	**5**
Cash at the beginning of the year	7 210	7 561	7 556
Cash at end of the year	**9 716**	**7 210**	**7 561**

Comment

Overall, for 2006-07 Council recorded an increase in cash of $2.506m (2005-06, a decrease of $0.351m). The increase in cash during 2006-07 was due to additional State and Federal capital project funding received, proceeds from sale of property, plant and equipment and an increase in cash from operations.

Cash from operations is relatively consistent across all years under review, with an increase of $1.185m (or 13.02%) from 2004-05 to 2006-07. Receipts from customers rose during 2006-07 primarily because of increases in Rate revenue. This was partially offset by increases in Payments to suppliers and employees due to general increases in employee costs and materials and contracts.

Council maintained its investment in Property, plant and equipment at around $9.000m throughout the three years with additions totalling $27.763m compared with the depreciation expense for the same period of $41.314m. This difference of $13.551m is contributing to Council reporting an improvement in its cash position by $2.160m and enabled Council to repay debt totalling $3.025m.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06
Financial Performance			
Result from operations ($'000s)		(1 281)	2 106
Operating margin	>1.0	0.91	0.90
Financial Management			
Current ratio	>1	1.04	0.88
Cost of debt	7.5%	6.5%	6.6%
Debt service ratio		8.0%	8.2%
Debt collection	30 days	17	17
Creditor turnover	30 days	9	40
Capital expenditure/depreciation	100%	61%	72%
Capital expenditure on existing assets/ depreciation *		54%	58%
Other Information			
Employee costs expensed ($'000)		18 751	17 108
Employee costs capitalised ($'000)		2 083	2 240
Total employee costs ($'000)		**20 834**	**19 348**
Employee costs as % of operating expenses		31%	30%
Staff numbers (FTE)		300	304
Average staff costs ($'000s)		69	64
Average leave balance per FTE ($'000s)		18	16

** Ratios are the same as Council have not undertaken any expenditure on new assets*

Comment

In the 2006-07 year Council returned an operating margin of 0.91 consistent with the previous two years. While this result shows stability, the capital expenditure to depreciation ratio remains low at 61%, which is 11% less than 2005-06 due to lower capital expenditure during the 2006-07. Council's higher depreciation expense is based on a more current value of its assets and indicates that it may need to invest more heavily in capital expenditure programs. A temporary focus on maintenance expenditure ahead of capital within the organisation has contributed to the result.

Since more current asset valuations were undertaken in 2004-05, we are advised that Council has committed significant resources to addressing the future infrastructure expenditure which has led to the development of an asset management framework and improved financial policies. Council's financial policies acknowledge depreciation as a good long-term indication of asset deterioration, but management is focused on actual information provided by software modelling, condition assessments, physical inspections and other tests to determine year-to-year expenditure. The new policies aim to ensure more effective long-term planning and a more efficient use of resources.

Creditor turnover dropped significantly in 2006-07 compared to the previous two years due to a differing allocation between accruals and creditors during this period which resulted from the new accounting system implemented during the period. If accruals are included in creditors turnover the turnover remains consistent with the prior years. It should also be noted that a large payment due early in July each year, skews the year-end result. Without this creditor the turnover levels would be in line with the benchmark.

Employee costs as a percentage of operating expenses, staff numbers and average leave balances per employee are fairly consistent for all three years. Average staff costs increase mainly due to additional maintenance work, EBA increases and staffing movements.

OVERALL COMMENT

The 2006-07 audit was completed with satisfactory results.

HOBART CITY COUNCIL

INTRODUCTION

The Hobart area was granted City status in 1842 and services a population of approximately 49 000 people. Hobart City covers an area of 78 square kilometres.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

The General Manager signed the financial statements on 12 September 2007, and final amended statements were received on 12 October 2007. An unqualified audit report was issued on 18 October 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Rates, fees and charges	61 903	59 336	57 200
Grants and donations	1 681	2 095	3 339
Fines	3 688	3 776	3 056
Rendering of services	18 285	17 442	16 639
Interest	2 451	1 721	1 225
Rents	2 095	2 044	1 942
Other operating revenue	1 762	1 718	1 491
Gain on disposal of assets	0	3 274	0
Total Operating Revenue	**91 865**	**91 406**	**84 892**
Employee costs	34 612	31 602	31 661
Materials and services	23 110	22 763	21 161
Finance costs	1 386	1 121	1 144
Depreciation	22 025	20 732	20 655
Loss on disposal of assets	34	0	37
Other operating expenses	11 321	12 944	10 387
State Fire Commission contribution	5 684	4 914	4 847
Total Operating Expenses	**98 172**	**94 076**	**89 892**
Deficit before:	**(6 307)**	**(2 670)**	**(5 000)**
Capital grants	2 224	3 641	1 736
Contributed property plant and equipment	1 963	708	610
Revaluation increments (decrements)	6 152	0	(23)
Surplus (Deficit)	**4 032**	**1 679**	**(2 677)**

Comment

Council recorded deficits from operating activities in all years under review indicating that it might not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. While operating revenues increased in total by greater than CPI – 8.21%, operating costs increased by 9.21%. In each of these three years Council budgeted for a deficit. It is also noted that, when considered prior to accounting for the Gain on disposal of assets, $3.274m, the Deficit from Operating activities in 2005-06 was $5.944m. This means that, on this basis, Council's operating deficits increased each year under review. It is further noted that the Operating results are consistent with Council's policy of budgeting to operate at a deficit. In each of the three years, Council's operating budget, which excludes capital grants, was as follows:

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Budgeted net surplus (deficit)	(5 876)	(5 146)	(6 852)
Budgeted capital grants	1 300	1 232	1 177
Budgeted operating surplus (deficit)	**(4 576)**	**(3 914)**	**(5 675)**

Revenue from Rates increased by $2.567m, (or 4.32%), in 2006-07 and $2.136m (3.73%), in 2005-06. The increases in each year were in accordance with Council's Estimates. As a percentage of total Revenue, Rates, as expected, continues to represent the greatest share being 67.38% in 2006-07, 64.91% in 2005-06 and 67.37% in 2004-05.

Grants and donations were higher in 2004-05 due to the inclusion of the final distribution of Wapping funds, $1.143m.

Rendering of services in 2006-07 consists mainly of parking fees, $6.444m, Hobart Aquatic Centre revenue, $3.784m and tip fees of $1.555m. As a source of revenue, Rendering of services is increasing slowly representing 19.9% of revenue in 2006-07 as against 19.6% in 2004-05.

Interest revenue increased over the period due to higher cash balances and interest rates.

Employee costs represented 37.67% of Total revenue in 2006-07 (2004-05, 37.29%) and increased from $31.661m in 2004-05 to $34.612m in 2006-07 (9.32%). The increase was primarily due to pay rises of 3.85% each year and separation costs for some staff during 2006-07. Staff numbers remained reasonably constant over the period under review as did the extent to which Employee costs were capitalised into fixed assets.

Depreciation charges represented 23.97% of Total revenue in 2006-07 (2004-05, 24.33%) and increased by $1.370m (6.63%) in the period under review primarily due to Council's growing asset base and valuation increases.

Materials and services represented 25.15% of Total revenue in 2006-07 (2004-05, 24.92%) and increased by $1.949m (9.21%) in the period under review. The increase reflected a general increase in costs across all of Council's activities.

Other operating expenses have risen principally due to a change in accounting policy to write-off planning schemes and management plans, rather than capitalising them as Council assets.

Capital Grants were higher in 2005-06 due to increased Australian Government Roads to Recovery grants, $0.927m, and a grant from the Australian Government for the acquisition of Porter Hill, $1.000m.

The Revaluation increment of $6.152m in 2006-07 represents, in the main, the reversal of a previous decrement for Council's wastewater treatment plants.

BALANCE SHEET

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Cash	39 462	32 506	20 303
Inventories	326	327	284
Receivables	3 480	3 398	3 378
Assets held for sale	0	0	1 144
Other	10	45	252
Total Current Assets	**43 278**	**36 276**	**25 361**
Payables	5 300	4 657	5 558
Trust, deposits, retention	1 865	1 850	1 499
Borrowings	899	870	1 051
Provisions	7 241	6 851	7 172
Other	376	319	305
Total Current Liabilities	**15 681**	**14 547**	**15 585**
Working Capital	**27 597**	**21 729**	**9 776**
Property, plant and equipment	726 258	681 926	647 775
Investments in associates	63 329	40 783	40 139
Investment property	11 550	11 550	9 788
Other	5 459	4 341	251
Total Non-Current Assets	**806 596**	**738 600**	**697 953**
Borrowings	14 668	14 568	9 638
Provisions	1 942	1 814	2 905
Other	6 945	6 938	6 556
Total Non-Current Liabilities	**23 555**	**23 320**	**19 099**
Net Assets	**810 638**	**737 009**	**688 630**
Reserves	532 607	459 492	409 548
Accumulated surpluses	278 031	277 517	279 082
Total Equity	**810 638**	**737 009**	**688 630**

Comment

Total Equity rose by $122.008m over the period under review due to:

- Surpluses in 2005-06 and 2006-07 of $5.711m;
- Asset revaluation increments of $88.198m (2006-07, increment of $46.149m; 2005-06, increment of $42.049m);
- Actuarial gains relating to a defined-benefit superannuation plan of $4.208m in 2005-06 which were accounted for direct to equity; and
- An increase in Council's investment in Hobart Water of $23.190m.

Significant movements in assets and liabilities over the period were:

- Council's Cash balances increased by $19.159m over the period. Cash increased significantly in 2005-06 as the result of property sales, capital grants, unspent capital works and a surplus operating result. The increase in 2006-07 was due to unspent capital funds and timing issues around the utilisation of funds generally. Council had $39.462m as at 30 June 2007, of which $29.498m was committed for various purposes;
- Assets held for sale at 30 June 2005 consisted of two car parks which were sold in 2005-06;
- Property, plant and equipment increased by $78.483m over the period due primarily to the revaluation of infrastructure assets, $65.774m, Land, $28.576m and net additions of $26.890m. The increase was offset by depreciation expenses of $42.757m. This has had the effect of increasing the overall levels of Reserves;
- The Investments in associates represents Council's interest in Hobart Water. The investment is based on Council equity accounting its share of the financial position of Hobart Water at 30 June each year. The carrying value of the investment increased significantly in 2006-07 due mainly to an upward revaluation by Hobart Water of its assets effective 1 July 2006;
- Trust, deposits and retentions increased in 2005-06 due to an increase in the number of infrastructure bonds;
- The total amount of Provisions for employee benefits decreased in 2005-06 and an asset, $4.041m, was recognised (within Other non-current assets) as the result of an actuarial review of the defined-benefits superannuation plan. This asset means that Council's superannuation vehicle has surplus assets and represents an asset for Council. Decisions on levels of future contributions are determined through a triennial review, with the next one due in 2008;
- Council's Borrowings increased by $4.749m in 2005-06, primarily to fund capital expenditure in that year, and by a further $0.129m in 2006-07; and
- Other non-current liabilities include a present obligation for landfill restoration, $6.511m as at June 2005, to rehabilitate the McRobies Gully refuse site. The provision was increased by a further $0.389m over the period and is now $6.900m as at June 2007.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	89 811	85 993	83 132
Cash flows from government	1 630	2 199	2 062
Interest received	2 356	1 637	1 213
Payments to suppliers and employees	(75 463)	(72 228)	(67 985)
Borrowing costs	(1 044)	(741)	(797)
Cash from operations	**17 290**	**16 860**	**17 625**
Capital grants and contributions	2 224	3 641	1 736
Dividends received	1 151	988	824
Proceeds from sale of property, plant and equipment	747	5 120	1 540
Payments for property, plant and equipment	(14 585)	(19 155)	(15 755)
Cash (used in) investing activities	**(10 463)**	**(9 406)**	**(11 655)**
Proceeds from borrowings	4 900	5 800	1 000
Repayment of borrowings	(4 771)	(1 051)	(1 940)
Cash from (used in) financing activities	**129**	**4 749**	**(940)**
Net increase in cash	**6 956**	**12 203**	**5 030**
Cash at the beginning of the year	32 506	20 303	15 273
Cash at end of the year	**39 462**	**32 506**	**20 303**

Comment

While observing that Council made operating deficits in each of the three years under review (see Income Statement section), it generated positive operating cash flows greater than $16m in each year primarily due to its depreciation charges, which exceeded $20m each year, having no cash impact. The operating cash surpluses, along with dividends and capital grants received, enabled it to invest in infrastructure assets.

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	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		(6 307)	(2 670)	(5 000)
Operating margin	>1.0	0.94	0.97	0.94
Financial Management				
Current ratio	>1	2.76	2.49	1.63
Cost of debt	7.5%	6.1%	5.7%	7.0%
Debt service ratio		6.2%	2.0%	3.2%
Debt collection	30 days	21	21	22
Creditor turnover	30 days	10	2	9
Capital expenditure/depreciation	100%	66%	92%	76%
Capital expenditure on existing assets/depreciation		54%	n/a	n/a
Other Information				
Employee costs expensed ($'000)		34 612	31 602	31 661
Employee costs capitalised ($'000)		2 567	2 499	2 412
Total employee costs ($'000)		**37 179**	**34 101**	**34 073**
Employee costs as a % of operating expenses		38%	36%	38%
Staff numbers (FTE)		581	584	584
Average staff costs ($'000s)		64	58	58
Average leave balance per FTE ($'000s)		16	15	17

Comment

Council made deficits from operations during each of the three years under review, which is reflected in the Operating margin being below 1.

Council continues to be in a strong cash position with the Current ratio showing improvement each year.

The Debt service ratio decreased in 2005-06 as a result of lower repayments of borrowings.

Statistics for Debt collection indicates a satisfactory situation well below the 30-day benchmark. However, the allowance for impairment exceeds 50% every year, and is related almost entirely to the recovery of parking fines. Parking fine cash flow amounts to approximately 75% of parking fine revenue. The remainder is not collected and has to be written off over time. As noted in Council's financial statements, outstanding accounts for parking offences are regarded as doubtful when legal proceedings are commenced for recovery.

Council's Capital expenditure to depreciation ratio averaged around 78% over the three years, suggesting that, despite investing around $16.498m on average per annum in infrastructure, further investment is needed to maintain Council's asset base. This is further borne out when compared specifically to existing assets where for 2006-07 the ratio was only 54%.

Employee costs as a percentage of total operating expenses and Average staff costs have remained fairly constant.

OVERALL COMMENT

Whilst Council has a policy of regular revaluations, some property assets have not been re-valued for a number of years. I have been advised that Council will have this completed in 2007-08.

Overall the 2006-07 audit was completed satisfactorily with no major issues outstanding.

LAUNCESTON CITY COUNCIL

INTRODUCTION

The Launceston City Council originated from the Launceston Municipality, which was established in 1852. The municipality was proclaimed a City in 1888. The current Council boundaries were reorganised in 1985 to include the municipalities of St Leonards and Lilydale. The Council remained substantially unchanged during the amalgamation of councils in 1993.

The municipal area covers approximately 1 410 square kilometres and encompasses the majority of the City of Launceston. The Council services a population of approximately 65 000 people.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 25 September 2007 and an unqualified audit report was issued on 19 October 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Rates	58 624	57 073	54 366
Fees and charges	16 571	15 122	14 863
Grants	5 326	5 557	5 342
Other operating revenue	6 772	6 415	5 529
Profit on disposal of assets	28	694	218
Total Revenue	**87 321**	**84 861**	**80 318**
Employee costs	30 013	28 838	26 896
Borrowing costs	780	814	814
Depreciation	21 289	20 449	20 026
Other operating expenses	36 340	35 001	33 005
Loss on disposal of assets	188	416	609
Total Expenses	**88 610**	**85 518**	**81 350**
Deficit before:	**(1 289)**	**(657)**	**(1 032)**
Capital grants	3 215	13 939	12 347
Infrastructure take-up adjustments	2 940	4 929	3 908
Surplus	**4 866**	**18 211**	**15 223**

Comment

Council recorded deficits from operating activities (after excluding capital grants) in all years under review indicating that it might not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. While operating revenues increased in total by greater than CPI – 8.72%, operating costs increased by 8.92%. In each of these three years, Council's operating budget, after excluding capital grants, was as follows:

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Budgeted net surplus/(deficit)	(1 312)	11 074	9 873
Budgeted capital grants	(3 113)	(13 761)	(12 438)
Budgeted surplus/(deficit) less capital grants	(4 425)	(2 687)	(2 565)

It is noted that Council has adopted a ten year plan, commencing in 2007-08, which indicates surpluses for operations.

Revenue from Rates increased by $1.551m, (or 2.72%), in 2006-07 and $2.707m (or 4.98%), in 2005-06. The increases in each year were in accordance with Council's Estimates. The increase in 2006-07 includes a decrease of $0.357m in water rates and pipe charges. This decrease is offset by an increase in water usage charges of $0.835m noted below. As a percentage of total Revenue, Rates, as expected, continues to represent the greatest share being 67.14% in 2006-07 and 67.69% in 2004-05.

A major component of operating Grant revenue was the Commonwealth tax sharing grant, $3.513m, in 2006-07 (2005-06, $3.529m; 2004-05, $3.491m). This represented an increase of only 0.63% during the period under review.

Fees and charges represented 18.98% of total operating revenues in 2006-07 compared to 18.51% in 2004-05. During 2006-07 the primary revenue sources were:

- Waste disposal fees, $3.736m (2005-06, $3.170m);
- Domestic and commercial water usage charges, $3.279m ($2.444m);
- Parking fees, $3.153m ($3.348m); and
- Parking fines, $1.255m ($1.228m).

Water usage charges increased by $0.835m or 34.17% in 2006-07 due to an increase in the charge levied. For water supplied from 1 July 2005 to 30 June 2006, Council charged thirty-five cents per kilolitre to a maximum of one kilolitre per day and forty-five cents per kilolitre in excess of one kilolitre per day. For water supplied from 1 July 2005 to 30 June 2006, Council charged fifty-five cents per kilolitre in respect of all land that received a metered water supply. The increased water supply charge was offset by a decrease in water rates and pipe charges noted above.

The Council has two controlling authorities set up under section 29 of the *Local Government Act 1993*, being the Upper Tamar River Improvement Authority and the York Park and Inveresk Precinct Authority. The revenue and expenses of the two authorities, as disclosed in Council's financial statements were:

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Upper Tamar River Improvement Authority			
Revenues	586	579	487
Expenses	(524)	(195)	(301)
Net Result	**62**	**384**	**186**
York Park and Inveresk Precinct Authority			
Revenues	434	417	278
Expenses	(1 638)	(1 401)	(1 209)
Net Result	**(1 204)**	**(984)**	**(931)**

The above table illustrates that the York Park and Inveresk Precinct Authority incurred losses totalling $3.119m in the past three financial years.

Other operating revenue increased by $2.026m (or 65.35%) over the period under review. The main increase related to interest income, which increased from $2.013m in 2004-05 to $3.519m in 2006-07 ($1.506m). This means that other sources of Other operating revenues decreased during the period by $0.263m. The primary cause of this decrease was Council's share of net profits in associates, $1.646m (2005-06, $2.387m and 2004-05, $2.429m), which related to Council's investment in Esk Water. The increased interest income was primarily due to the higher investment balances held. The movement in investment balances is further explained in the Balance Sheet section below.

Employee costs represented 34.37% of Total revenue in 2006-07 (2004-05, 33.49%) and increased from $26.896m in 2004-05 to $30.013m in 2006-07 (11.59% over the two years). The increase was primarily due to pay rises under Council's Enterprise Agreement of 3.50% in both July 2005 and July 2006 and a 1.00% increase to employer superannuation contributions payable in both January 2006 and January 2007. Council also increased its contribution to its defined benefit superannuation scheme by 1.00% in 2005-06 in accordance with recommendations by the fund's actuary. Staff numbers remained reasonable constant over the period under review as did the extent to which Employee costs were capitalised into fixed assets.

Depreciation charges represented 24.28% of Total revenue in 2006-07 (2004-05, 24.93%) and increased by $1.263m (6.31%) in the period under review primarily due to Council's growing asset values.

Other operating expenses represented 41.62% of Total revenue in 2006-07 (2004-05, 41.09%) and increased by $3.335m (10.10%) in the period under review. The increase reflected a general increase in costs across all of Council's activities. The largest increase was in 2005-06, $1.996m, which included election costs, $0.150m, advice from experts, $0.188m, mainly related to a special review of the Museum and land tax, $0.378m. Materials and services represent a significant part of Other operating expenses.

Council received $29.501m in Capital grants during the period under review. Capital grants in 2004-05 included funding of $9.542m for the construction of a grandstand extension and video replay scoreboard at Aurora Stadium. In 2005-06, Capital grant funds included grants for Tamar River piling, $1.000m, the Museum, $3.000m, the Regional Aquatic Centre, $6.500m, and Roads to Recovery, $1.500m.

The Infrastructure take-up adjustments primarily represented assets identified by Council and brought to account for the first time and subdivision assets taken over by Council during the year.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	339	3 433	662
Receivables	6 557	6 845	4 875
Investments	61 574	42 292	39 887
Inventories	927	899	865
Other	790	888	788
Total Current Assets	**70 187**	**54 357**	**47 077**
Payables	625	1 510	1 227
Borrowings	2 892	2 631	2 209
Employee provisions	6 502	6 372	5 927
Other	16 714	7 258	13 411
Total Current Liabilities	**26 733**	**17 771**	**22 774**
Working Capital	**43 454**	**36 586**	**24 303**
Property, plant and equipment	854 964	858 355	765 706
Investments in associates	71 080	67 579	70 203
Superannuation asset	6 100	5 264	3 006
Other	320	378	434
Total Non-Current Assets	**932 464**	**931 576**	**839 349**
Borrowings	8 983	8 475	8 102
Employee provisions	1 055	870	933
Other	5 054	4 875	4 632
Total Non-Current Liabilities	**15 092**	**14 220**	**13 667**
Net Assets	**960 826**	**953 942**	**849 985**
Reserves	324 212	319 662	216 850
Accumulated surpluses	636 614	634 280	633 135
Total Equity	**960 826**	**953 942**	**849 985**

Comment

Total Equity rose by $110.841m over the period under review due to:

- Council surpluses of $23.077m (2006-07, $4.866m and 2005-06, $18.211m);
- Asset revaluation increments of $85.260m (2006-07, decrement of $1.677m; 2005-06, increment of $86.937m);
- Actuarial gains relating to the City of Launceston Employees Superannuation Fund of $3.331m; and

- A net decrease in Council's investment in Esk Water of $0.827m. This decrease arose from Council recognising its share of the decrease in the Authority's asset revaluation reserve.

Significant movements in assets and liabilities over the period were:

- Council's Cash and Investment balances increased by $21.364m. One of the main reasons for the increase was the receipt of $10.000m from the State Government in June 2007 for Invermay flood protection enhancement. A more detailed explanation of the movement in Cash and Investments is provided in the Cash Position section following;
- The Receivables balance at 30 June 2006 and 2007 included $1.650m relating to Commonwealth Government funding for the Regional Aquatic Centre. The instalment was still outstanding at June 2007 because progress of the project had been delayed as a result of the planning approval process;
- The balance of Other current liabilities at 30 June 2005, $13.411m, included grant funds in advance received in June 2005, of $8.000m. The grants received related to the upgrade of the Regional Aquatic Centre, the maintenance and upgrade of the Silverdome and Elphin Sports Centre. Council subsequently repaid the funds to the State Government. The balance of Other current liabilities at 30 June 2007, $16.714m, included $10.000m funding for Invermay flood protection enhancement which was treated as grant funds received in advance. The Council recognised a liability in relation to these funds, as the conditions precedent to using them had not yet been met and the funding agreement contains a sunset clause if the conditions are not met;
- Property, plant and equipment increased by $92.649m in 2005-06 due primarily to the revaluation of infrastructure assets, $86.937m, noted previously and capital additions of $19.428m. The increase was offset by depreciation expenses of $20.449m;
- The Investment in associates represents Council's interest in Esk Water. The investment is based on Council equity accounting its share of the financial position of Esk Water at 30 June each year; and
- The movement in the Superannuation asset, $3.094m, reflected the increase in the excess of assets over liabilities in the City of Launceston Employees Superannuation Fund. The amount recorded by Council is based on independent actuarial advice.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	82 934	77 398	75 499
Cash flows from government	5 140	5 504	5 493
Payments to suppliers and employees	(72 401)	(65 652)	(64 334)
Interest received	3 040	2 140	1 556
Borrowing costs	(576)	(835)	(538)
Cash from operations	**18 137**	**18 555**	**17 676**
Capital grants and contributions	2 715	13 688	12 347
Grants received in advance	10 000	(8 000)	8 000
Dividends received - Esk Water	1 210	1 120	1 151
Tamar Region NRM receipts	973	540	368
Tamar Region NRM payments	(875)	(554)	(293)
Payments for property, plant and equipment	(17 166)	(25 592)	(26 704)
Proceeds from sale of property, plant and equipment	370	4 572	1 082
Cash (used in) investing activities	**(2 773)**	**(14 226)**	**(4 049)**
Proceeds from borrowings	3 455	3 052	2 267
Repayment of borrowings	(2 631)	(2 205)	(1 824)
Cash from financing activities	**824**	**847**	**443**
Net increase in cash	**16 188**	**5 176**	**14 070**
Cash at the beginning of the year	45 725	40 549	26 479
Cash at end of the year	**61 913**	**45 725**	**40 549**

Comment

Council's total cash balance at 30 June 2007, $61.913m, comprised cash at bank and on hand, $0.218m, special committees, $0.121m, bank guaranteed bills and deposits, $28.184m, and managed investments, $33.390m.

At 30 June 2007, Council reported that $22.314m (2005-06, $11.940m) of the investment balance was restricted (being held for specific purposes or recorded as prepaid funds) and included the $10.000m received for Invermay flood protection enhancement. The balance of $39.260m included funds held for capital works commitments.

Council recorded an overall increase in cash in 2006-07 of $16.188m, compared with $5.176m in 2005-06 and $14.070m in 2004-05. The main reason for the increase in 2006-07 was the $10.000m funding for Invermay flood protection enhancement. The increase in 2004-05 was also predominantly due to the higher cash flows from Capital grants and contributions. As explained previously in the Balance Sheet section, Council received $8.000m in funding from the State Government in June 2005 and repaid this early in the 2005-06 financial year.

Payments for property, plant and equipment totalled $69.462m for the three years under review. Major capital expenditure projects in 2006-07 comprised the Cataract Gorge redevelopment, grandstand extensions at Aurora Stadium, construction of a sewerage pump station and expenditure on infrastructure assets, such as roads, water, drainage and sewerage. Payments in 2005-06, $25.592m, included the construction of grandstand extensions at Aurora Stadium, the construction of a sludge handling building, road reconstructions, sewerage and water capital works and the purchase of other significant assets, including a pump station monitoring system. Significant projects in 2004-05 included upgrades of the Museum, the Margaret Street detention basin, wastewater treatment plants, Churchill Park sporting grounds and roads and bridges.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations excluding capital grants ($'000s)		(1 289)	(657)	(1 032)
Operating margin	>1.0	0.99	0.99	0.99
Financial Management				
Current ratio	>1	2.63	3.06	2.07
Cost of debt	7.5%	5.2%	5.3%	5.2%
Debt service ratio		3.7%	3.6%	2.9%
Debt collection	30 days	32	35	26
Creditor turnover	30 days	4	9	8
Capital expenditure/depreciation	100%	81%	125%	133%
Capital expenditure on existing assets/depreciation		65%	86%	89%
Other Information				
Employee costs expensed ($'000)		30 013	28 838	26 896
Employee costs capitalised ($'000)		1 443	1 361	1 310
Total employee costs ($'000)		**31 456**	**30 199**	**28 206**
Employee costs as a % of operating expenses		34%	34%	33%
Staff numbers (FTE)		499	512	502
Average staff costs ($'000s)		63	59	56
Average leave balance per FTE ($'000s)		14	13	12

Comment

For the reasons noted previously the financial performance ratios show that Council recorded operating deficits (after excluding capital grants) in all years under review resulting in Operating margins slightly below the benchmark.

Council had strong Working Capital in all years under review, which indicates an ability to meet short term commitments. However, the ratio is calculated before taking into account that a significant portion of Council's cash balances are restricted or held to meet capital expenditure commitments.

The Debt collection ratio was slightly above the benchmark in 2005-06 and 2006-07 due to the debtor of $1.650m owing in relation to the Regional Aquatic Centre (refer Balance Sheet section for further details).

The Creditor turnover ratios were significantly below the benchmark of 30 days for the three years under review. The ratios reflect Council's policy to pay outstanding creditors within a 30-day period.

The Total capital expenditure to depreciation ratio was well above 100% in 2004-05 and 2005-06, which reflected Council's significant payments for property, plant and equipment in those years. The ratio was below the benchmark in 2006-07, due in part to the:

- High level of capital works undertaken in prior years; and
- Deferral of significant capital expenditure planned and funded, but not commenced at year end.

After removing the effect of expenditure on new assets, Council's Capital expenditure on existing assets to depreciation ratio was below the benchmark in all three years, indicating that Council might not have invested sufficiently in maintaining existing assets in those years. However, it is noted that Council has comprehensive asset management plans in place which are used as a basis for scheduling capital expenditure.

Employee costs as a percentage of operating expenses and average employee entitlements have been fairly stable. The increase in average staff costs related primarily to Enterprise Agreement increases, as detailed in the Income Statement section.

OVERALL COMMENT

The 2006-07 audit was completed satisfactorily with no major issues outstanding.

INTRODUCTION

Central Coast Council was created in 1993 when the former municipalities of Penguin and Ulverstone were merged. The municipality serves the Forth/Leith, Ulverstone and Penguin areas on the Northwest coast. The population of the area is approximately 21 000 people and covers an area of 931 square kilometres.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 9 August 2007 and an unqualified audit report was issued on 16 August 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Rates	13 400	12 750	12 102
User charges	3 882	3 759	3 715
Grants	3 048	2 937	2 763
Other operating revenue	1 928	1 823	1 747
Gain on disposal of assets	102	73	31
Total Revenue	**22 360**	**21 342**	**20 358**
Employee costs	7 987	7 636	7 267
Borrowing costs	31	61	102
Depreciation	6 183	5 632	5 402
Other operating expenses	9 546	8 902	8 028
Loss on disposal of assets	190	174	138
Total Expenses	**23 937**	**22 405**	**20 937**
Deficit before:	**(1 577)**	**(1 063)**	**(579)**
Capital contributions	1 206	1 564	890
Surplus (Deficit)	**(371)**	**501**	**311**

Comment

Council recorded Deficits before Capital contributions in all years under review indicating that it might not be generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. In 2006-07 Council recorded a deficit after capital contributions of $0.371m, compared to surpluses of $0.501m and $0.311m in the previous two years. The main movements in revenue and expense items are discussed below.

Revenue from Rates increased by $1.298m (or 10.73%) in the period under review. The increase was due to a combination of increases in the general rate levied per dollar of AAV, 3.23% (2005-06, 2.59%), the waste management charge, 17.14% (2005-06, 14.13%), and the AAV of properties The waste management charge was increased to cover rising operating costs, including:

- Higher kerbside recycling costs following an increase in renewed contract costs; and
- Increased landfill disposal fees.

Grant revenue, $3.048m (2005-06, $2.937m), represents the Commonwealth tax sharing grant which increased by 10.31% over the period under review to assist Council to meet its operating costs.

Employee costs increased by $0.720m (9.91%) from 2004-05 to 2006-07. It is noted that the amount of capitalised wages and oncosts decreased from $0.876m in 2004-05 to $0.724m in 2006-07. As a result, the increase in total employee costs (including capitalised amounts) over the two year period was $0.568m (6.98%).

Pay rises due under Council's Enterprise Agreement partly contributed to this increase. Another contributing factor was the rise in the average number of FTEs from 178 in 2004-05 to 186 in 2005-06. The average number of FTEs fell to 181 in 2006-07 due to staff resignations in the latter half of the financial year. Therefore, the impact of increasing FTEs on Employee costs over the period was three FTEs, being approximately $0.095m or 1.31%, meaning that pay increases contributed approximately 5.67%.

During the period under review, Depreciation expense increased by $0.781m. The largest movement was in 2006-07, which saw depreciation increase by $0.551m from $5.632m to $6.183m. This increase was predominantly due to the impact of an indexation of road asset values effective 30 June 2006. Council's last formal revaluation of road assets was undertaken as at 1 July 2004. To ensure these values reflected current valuations, an index of 11.61% was applied to both the gross valuations and accumulated depreciation balances. The increase in gross values resulted in an increase in depreciation charges of $0.300m in 2006-07, which is a significant contributor to the overall Deficit.

Other operating costs increased significantly during the period under review due to a combination of factors, including increased:

- Waste management costs, referred to previously;
- Water purchases;
- Sealed road maintenance costs;
- Pump station maintenance costs;
- Emergency works relating to storm damage; and
- Support for cultural activities.

Borrowing costs decreased from $0.102m to $0.031m due to a reduction in the balance of loans outstanding.

Capital contributions in 2005-06, $1.564m, included the following major items:

- Funding under the Roads to Recovery programme of $0.465m (2004-05, $0.578m) and an amount of $0.472m received in late June under the new Auslink programme (which incorporates Roads to Recovery projects); and
- A $0.225m contribution from the State Government towards the upgrade of the Ulverstone Recreation Ground.

Capital contributions in 2006-07, $1.206m, included the following:

- Roads to Recovery and Auslink funding of $0.553m;
- Contributions from private industry totalling $0.308m towards the capital sewerage programme; and
- Contributions from the State Government totalling $0.167m for the Penguin Main Street makeover.

BALANCE SHEET

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Cash	1 693	1 401	2 481
Receivables	1 313	1 197	682
Investments	6 404	6 514	6 151
Inventories	65	95	84
Land held for resale	85	369	0
Other	532	403	395
Total Current Assets	**10 092**	**9 979**	**9 793**
Payables	1 117	985	1 015
Borrowings	112	291	511
Provisions - employee benefits	2 009	2 042	1 915
Provisions - aged person units	107	86	80
Other	705	661	303
Total Current Liabilities	**4 050**	**4 065**	**3 824**
Working Capital	**6 042**	**5 914**	**5 969**
Property, plant and equipment	261 510	233 702	207 641
Investments	18 072	12 162	12 008
Other	265	461	479
Total Non-Current Assets	**279 847**	**246 325**	**220 128**
Borrowings	251	363	628
Provisions - employee benefits	253	211	193
Provisions - aged person units	1 481	1 151	979
Total Non-Current Liabilities	**1 985**	**1 725**	**1 800**
Net Assets	**283 904**	**250 514**	**224 297**
Reserves	137 751	104 669	80 915
Accumulated surpluses	146 153	145 845	143 382
Total Equity	**283 904**	**250 514**	**224 297**

Comment

Total equity rose by $59.607m over the period under review due to:

- Council surpluses of $0.130m (2006-07, deficit of $0.371m; 2005-06, surplus of $0.501m);
- Increases in Council's investment in Cradle Coast Water of $5.558m. This increase arose from Council recognising its share of the increase in the Authority's asset revaluation reserve; and
- Asset revaluation increments of $53.919m.

Council transferred $1.379m from Reserves to Accumulated surpluses within Equity during this period.

Council's Cash balance at 30 June 2007 comprised cash at bank and on hand of $0.381m and short term investments of $1.312m. Council also held current financial assets of $6.404m, comprising managed investment funds.

Council had positive Working Capital for each year under review. At 30 June 2007 Working Capital was $6.042m (2005-06, $5.914m), giving a current ratio of 2.49 (2.45), which represents a strong capacity to meet short term commitments.

Receivables increased significantly in 2005-06, $0.515m, due mainly to the following:

- An increase in the amount outstanding by a major customer ($0.324m was due at 30 June 2006). A large payment was received after 30 June 2006, reducing the balance outstanding by this customer. The balance of this customer at 30 June 2007 was $0.207m; and
- A change in the recording of rates receivables. Previously, Rate debtors were recorded net of any balances in credit. In 2005-06, rate balances in credit were reclassified as a Current other liability, which resulted in a corresponding increase in Receivables. At 30 June 2007, these credit balances totalled $0.340m (2005-06, $0.259m).

The balance of Receivables increased by $0.116m in 2006-07 due to:

- A debtor owing in relation to the Penguin Main Road makeover grant of $0.091m; and
- An increase in excess water debtors outstanding.

The balance of Land held for sale at 30 June 2006, $0.369m, related to the East Ulverstone Industrial Estate, which was developed by Council. Some of the blocks were sold prior to 30 June 2006, and a further six blocks were sold in 2006-07.

Council applies the revaluation model to the majority of its infrastructure assets, which results in the assets being recorded at fair value. To maintain accurate valuations, Council undertakes a revaluation of these assets on a regular basis. From 30 June 2005 to 30 June 2007, the balance of Property, plant and equipment increased by $53.869m. The increase was primarily due to the revaluation of a number of asset classes, resulting in asset revaluation increments of $25.687m in 2005-06 and $28.232m in 2006-07. This also resulted in a corresponding increase to the asset revaluation reserve, accounting for the upward movement in Reserves. The major revaluation increment in 2005-06 related to Roads and streets, ($11.238m), which was the result of applying an index of 11.61% to the asset valuation. The revaluation increment in 2006-07 comprised:

- Land ($15.906m);
- Sewerage ($5.874m);
- Buildings ($5.374m); and
- Water ($1.078m).

Non-current investments comprised Council's investment in its associates, Cradle Coast Water (CCW), $17.723m, and Dulverton Regional Waste Management Authority, $0.349m. Council's investment in CCW increased by $5.715m since 30 June 2005 due to Council's share of the profits of the Authority, $0.518m, less dividends received, $0.361m, plus the share of the Authority's asset revaluation increments, $5.558m.

Total Borrowings decreased from $1.139m at 30 June 2005 to $0.363m at 30 June 2007, due to principal loan repayments and no new borrowings.

The Provision for aged person unit contributions is comprised of contributions received from tenants upon entry to units owned by Council. Amortisation revenue is recognised in relation to the tenant's annual cost of accommodation for the unit. The contributions are amortised over a specified term. The total liability increased from $1.059m at 30 June 2005 to $1.588m at 30 June 2007 due to:

- Contributions received, $0.902m;
- Refunds paid, $0.201m; and
- Amortisation revenue recognised, $0.172m.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	19 859	18 561	17 923
Cash flows from government	3 048	2 937	2 763
Payments to suppliers and employees	(18 737)	(17 371)	(15 871)
Interest received	698	622	688
Borrowing costs	(37)	(69)	(110)
Cash from operations	**4 831**	**4 680**	**5 393**
Capital grants and contributions	1 206	1 564	890
Proceeds from investments	0	737	56
Payments for investments	(90)	0	0
Payments for property, plant and equipment	(6 349)	(6 896)	(6 867)
Proceeds from sale of property, plant and equipment	785	421	492
Cash (used in) investing activities	**(4 448)**	**(4 174)**	**(5 429)**
Proceeds from borrowings	0	0	0
Repayment of borrowings	(291)	(485)	(524)
Cash (used in) financing activities	**(291)**	**(485)**	**(524)**
Net increase (decrease) in cash	**92**	**21**	**(560)**
Cash at the beginning of the year	289	268	828
Cash at end of the year	**381**	**289**	**268**

Comment

Council recorded increases in cash of $0.092m and $0.021m in the past two years, compared with a decrease of $0.560m in 2004-05. This is mainly due to investment funds not being utilised in 2004-05, compared with 2005-06 and a decline in Payments for property, plant and equipment in 2006-07.

Payments for property, plant and equipment totalled $6.867m in 2004-05 and included large capital projects such as the Ulverstone Visitor Information Centre, Forth Village Sewerage, the Resource Recovery Centre and the Heybridge Shack Site Sewerage project. Capital payments totalled $6.896m in 2005-06 and included further work on the Resource Recovery Centre and Forth Village Sewerage project, work at the East Ulverstone Industrial Estate, the purchase of 9 Treasure Place, Ulverstone and the upgrade of the Ulverstone Showground. To avoid a decrease in cash for 2005-06, $0.737m was withdrawn from Investments to help fund these works.

Major capital projects in 2006-07 included further work on the upgrade of the Ulverstone Showground and Forth Village Sewerage, expenditure on rural roads and bridge replacements.

Proceeds from the sale of Property, plant and equipment in 2006-07, $0.785m, included $0.344m from the disposal of land held for resale.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		(1 577)	(1 063)	(579)
Operating margin	>1.0	0.93	0.95	0.97
Financial Management				
Current ratio	>1	2.49	2.45	2.56
Cost of debt	7.5%	6.1%	6.8%	7.3%
Debt service ratio		1.5%	2.6%	3.1%
Debt collection	30 days	28	26	16
Creditor turnover	30 days	26	23	25
Capital expenditure/depreciation	100%	103%	122%	127%
Capital expenditure on existing assets/depreciation		87%	76%	82%
Other Information				
Employee costs expensed ($'000)		7 987	7 636	7 267
Employee costs capitalised ($'000)		725	888	876
Total employee costs ($'000)		**8 712**	**8 524**	**8 143**
Employee costs expensed as % of operating expenses		33%	34%	35%
Staff numbers (FTE)		181	186	178
Average staff costs ($'000s)		48	46	46
Average leave balance per FTE ($'000s)		13	12	12

Comment

For the reasons noted previously the financial performance ratios show that Council recorded operating deficits in all years under review resulting in Operating margins below benchmark.

As noted in the Balance Sheet section, the Current ratio is above the benchmark in all three years indicating that Council is able to meet all short-term liabilities.

The Cost of debt decreased from 7.3% in 2004-05 to 6.1% in 2006-07 due to Council repaying loans resulting in reduced interest charges.

The Debt collection and Creditor turnover ratios were both under the benchmark of 30 days for the period under review. The ratios reflect Council's good debt recovery procedures and its policy to pay outstanding creditors within a 30-day period. The

Debt collection ratio increased from 16 to 26 days in 2005-06 due to the higher level of Receivables as previously explained.

The Capital expenditure to depreciation ratio was above 100% for all years reported, which reflects Council's significant payments for property, plant and equipment in those years.

After removing the effect of expenditure on new assets, Council's Capital expenditure on existing assets to depreciation ratio was below the benchmark in all years under review indicating that Council might not have invested sufficiently in maintaining existing assets in those years.

Employee costs as a percentage of operating expenses, Average staff costs and Average leave balance per FTE are fairly consistent for all three years. The number of FTEs decreased slightly in 2006-07 due to a few resignations in the latter half of the financial year.

OVERALL COMMENT

The 2006-07 audit was completed satisfactorily with no major issues outstanding.

WARATAH-WYNYARD COUNCIL

INTRODUCTION

The Waratah-Wynyard area was proclaimed a municipality under the *Local Government Act 1993* and combined the former Municipalities of Waratah and Wynyard. The Waratah-Wynyard local government area covers 3 526 square kilometres and the population serviced is in the order of 13 300 people.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 26 August 2007 and an unqualified audit report was issued on 5 September 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Rates	9 173	8 910	8 550
User charges	2 306	2 147	1 979
Grants	2 429	2 316	2 214
Other operating revenue	857	1 124	1 413
Total Revenue	**14 765**	**14 497**	**14 156**
Employee costs	3 947	3 616	3 488
Borrowing costs	189	230	242
Depreciation	2 767	2 624	2 446
Loss on disposal of assets	332	134	814
Other operating expenses	6 763	6 985	6 130
Total Expenses	**13 998**	**13 589**	**13 120**
Surplus before:	**767**	**908**	**1 036**
Capital grants	583	1 005	2 113
Contributions of non-current assets	647	1 694	0
Surplus	**1 997**	**3 607**	**3 149**

Comment

In 2006-07 Council recorded surplus before Capital grants and Contributions of $0.767m, compared to a surplus of $0.908m in 2005-06 and a surplus of $1.036m in 2004-05. A surplus indicates that Council has sufficient revenue to fulfil its operating requirements including coverage of its depreciation charges. However, as noted later in this Chapter, depreciation charges may be too low because Council continues to record its non-road assets at cost.

Revenue from Rates increased by $0.623m (or 7.29%) in the period under review. The increase was due to a combination of increases in the general rate levied and new sewerage rates introduced during 2005-06 following completion of the Sisters Beach sewerage scheme (420 rateable titles affected).

The majority of Grant revenue for 2006-07 represents the Commonwealth tax sharing grant, $2.233m (2005-06, $2.167m; 2004-05, $1.994m) which increased by 12% during the period under review.

Other operating expenses include materials, contracts, remissions, discounts and state levies. The higher amount for Other operating expenses during 2005-06 included a write-off of design costs not considered capital of $0.417m for the Sisters Beach sewerage scheme.

Employee costs increased by $0.459m (13.16%), from 2004-05 to 2006-07. This was mainly due to pay rises under Council's Enterprise Agreement (EBA) of 3.5% in 2005-06 and 4.0% in 2006-07, combined with the flow on effect to employee provisions and other staff movements.

Borrowing costs are decreasing each year in line with reductions in loans outstanding.

Depreciation expense increased steadily over the period under review by $0.321m or 13.12%. The increase was predominantly due to asset additions at cost. All of Council's Property, plant and equipment except for road assets are held at cost. As noted in the Overall Summary later in this Chapter, Council is to review this position to a fair value basis, which may result in a higher Depreciation expense in future.

In 2004-05 Council's engineers reviewed the capitalised costs associated with the Boat Harbour sewerage scheme. The review indicated that some expenditure relating to initial planning and construction should have been expensed and not recognised as an asset. Consequently, Council wrote-off $0.567m relating to the sewerage scheme which was accounted for as disposal of assets in 2004-05.

Capital grant funding varies from year to year. In 2006-07 Council received Capital grant revenue totalling $0.583m (2005-06, $1.005m; 2004-05, $2.113m). The main items were:

- Federal Government funding under the Roads to Recovery initiative of $0.364m in 2006-07, ($0.727m; $0.399m);
- Sisters Beach sewerage/Drainage Scheme Development funding, $0.190m in 2006-07, (2005-06, $0.108m);
- Federal and State funding in 2004-05 to construct a sewerage scheme at Sisters Beach, $0.692m; and
- Funding for the Wonders of Wynyard Exhibition Centre during 2004-05, $0.500m.

In 2005-06 Council received $1.694m in developer contributions. These assets relate to three new subdivisions, which were finalised in 2005-06. Developers are required to install infrastructure when preparing land for sale. On completion, the site is transferred to Council, which is then responsible for ongoing maintenance. Further donations of $0.647m were received from developers during 2006-07.

Council generated surpluses after Capital grants and Contributions of non-current assets in each of the three years under review.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	4 851	5 524	6 055
Receivables	571	532	512
Inventories	265	303	158
Other	214	146	129
Total Current Assets	**5 901**	**6 505**	**6 854**
Payables	1 159	1 105	867
Borrowings	628	680	725
Provisions	844	843	882
Other	305	109	100
Total Current Liabilities	**2 936**	**2 737**	**2 574**
Working Capital	**2 965**	**3 768**	**4 280**
Property, plant and equipment	83 427	81 238	77 826
Investments	9 521	6 139	6 067
Other	51	64	76
Total Non-Current Assets	**92 999**	**87 441**	**83 969**
Borrowings	2 140	2 768	3 448
Provisions	229	166	142
Total Non-Current Liabilities	**2 369**	**2 934**	**3 590**
Net Assets	**93 595**	**88 275**	**84 659**
Reserves	10 361	7 038	6 724
Accumulated surpluses	83 234	81 237	77 935
Total Equity	**93 595**	**88 275**	**84 659**

Comment

Total Equity rose by $8.936m over the period of review due predominantly to:

- Council surpluses of $5.604m (2005-06, $3.607m and 2006-07, $1.997m); and
- Increases in Council's investment in Cradle Coast Water (reported as an investment) of $3.454m. This increase arises from higher net assets in the Authority with the majority of the adjustment in Council made direct to the revaluation reserve.

Main Property, plant and equipment purchases during 2006-07 included:

- Goldie Street improvements;
- Takone Road reconstruction and sealing;
- Sisters Beach Drainage Project;
- Sisters Beach Amenities Block;
- Kenworthy Stamper Mill;

- Bridge replacements; and
- Receipt of contributed assets (York Street and York Court subdivision).

Main purchases during 2005-06 included:

- The completion of the Wonders of Wynyard Exhibition Centre;
- Purchase of heavy machinery including trucks and a backhoe loader;
- Receipt of contributed assets (Fossil Bluff, Seaspray Estate and Beaufort Street subdivisions);
- Capitalisation of costs associated with the Sisters Beach sewerage scheme; and
- Costs associated with the replacement of the Scott's Road Bridge over the Flowerdale River and Back Cam Link Road Bridge over Maldon Creek.

While Council has recorded positive Working Capital for each year under review, this has slowly been declining due mainly to reductions in Cash and a slight increase in Current liabilities. The decline in cash holdings is predominantly due to Council's debt repayments and investments in infrastructure – further details are provided in the Cash Position section of this Chapter.

Council's Cash balance at 30 June 2007 totalled \$4.851m (2005-06, \$5.524m; 2004-05, \$6.055m). This balance comprised cash at bank and on hand of \$0.317m (\$0.543m, \$0.305m) and short term investments of \$4.534m (\$4.981m, \$5.750m).

In 2006-07, Payables totalled \$1.159m (2005-06, \$1.105m). The nature of Payables makes it difficult to compare the balance from year to year. Main items in 2006-07 included capital road works and ongoing operating expenses and in 2005-06 included bridge work on the Maldon Creek Back Cam Link Road.

Total Borrowings decreased by \$1.405m over the period under review due to principal loan repayments and no new borrowings in the last two years.

Non-current investments represent Council's investment in Cradle Coast Water. This increased by \$3.382m during 2006-07, principally as a result of revaluation increments reported by Cradle Coast Water.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	12 408	12 440	11 998
Cash flows from government	2 429	2 316	2 214
Payments to suppliers and employees	(11 084)	(11 303)	(10 408)
Interest received	503	474	449
Borrowing costs	(191)	(232)	(245)
Cash from operations	**4 065**	**3 695**	**4 008**
Capital grants and contributions	583	1 005	2 113
Payments for property, plant and equipment	(5 061)	(4 819)	(5 217)
Proceeds from sale of property, plant and equipment	419	314	350
Cash (used in) investing activities	**(4 059)**	**(3 500)**	**(2 754)**
Proceeds from borrowings	0	0	500
Repayment of borrowings	(680)	(725)	(733)
Cash (used in) financing activities	**(680)**	**(725)**	**(233)**
Net increase (decrease) in cash	**(674)**	**(530)**	**1 021**
Cash at the beginning of the year	5 525	6 055	5 034
Cash at end of the year	**4 851**	**5 525**	**6 055**

Comment

Overall, for 2006-07 Council recorded a decrease in cash of $0.674m (2005-06, $0.530m). The increase in cash during 2004-05 was mainly due to additional State and Federal capital project funding received.

Cash from operations is relatively consistent across all years under review. Receipts from customers increased during 2005-06 because of increases in Rate revenue. This was offset by increases in Payments to suppliers and employees due to general increases in employee costs and materials and contracts.

Council maintained its investment in Property, plant and equipment throughout all three years with additions to non-current assets totalling $15.097m compared with the depreciation expense for the same period of $7.836m. The consistent capital investment, declining capital grants over the three years and debt repayments have been key drivers in the reduction of Council's Cash balance.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		767	908	1 036
Operating margin	>1.0	1.05	1.07	1.08
Financial Management				
Current ratio	>1	2.01	2.38	2.66
Cost of debt	7.5%	6.1%	6.0%	5.6%
Debt service ratio		5.9%	6.6%	6.9%
Debt collection	30 days	18	18	18
Creditor turnover	30 days	42	40	32
Capital expenditure/depreciation	100%	182.9%	183.7%	213.3%
Capital expenditure on existing assets/depreciation		146.7%	97.2%	110.7%
Other Information				
Employee costs expensed ($'000)		3 947	3 616	3 488
Employee costs capitalised ($'000)		472	310	340
Total employee costs ($'000)		**4 419**	**3 926**	**3 828**
Employee costs as % of operating expenses		28%	27%	27%
Staff numbers (FTE)		81	81	85
Average staff costs ($'000s)		55	48	45
Average leave balance per FTE ($'000s)		12	11	11

Comment

The financial performance ratios show that Council recorded operating surpluses in all years under review resulting in Operating margins above benchmark.

Council maintained a Current ratio well above the benchmark with the majority of its current assets comprising cash and receivables. Although declining, this result indicates Council is able to meet all short-term liabilities.

The Cost of debt has increased marginally as older low rate fixed loans mature. Debt collection has remained steady at 18 days which is under the benchmark of 30 days.

The Creditor turnover ratio rose to 40 days at 30 June 2006 as a result of year end Payables balance including large capital creditors. This situation recurred again at 30 June 2007.

The Capital expenditure to depreciation ratio is well above the benchmark for all years reported. The ratio was considerably greater than the benchmark due to the impact of new asset projects such as the Sisters Beach sewerage scheme and the Wonders of Wynyard Exhibition Centre.

Council's Capital expenditure on existing assets to depreciation ratio, being consistent with benchmark for all three years under review, confirms that Council is investing sufficiently in the replacement of existing infrastructure. However, as noted under the Overall Comment section later in this Chapter, with the exception of road infrastructure, depreciation charges are based on assets recorded at cost and may be too low.

Employee costs as a percentage of operating expenses, Staff numbers and Average leave balances per employee are fairly consistent for all years. Average staff costs increased mainly due to EBA increases and staffing movements.

OVERALL COMMENT

The 2006-07 audit was completed satisfactorily however, it was recommended that Council adopt a fair value basis for measuring the carrying value of all property, equipment and infrastructure assets (excluding roads which are already included at fair value) and update the road valuation which was last performed at 30 June 2005.

By applying appropriate indices from the previous valuation date, Council have determined that at 30 June 2007 the fair value of Property, plant and equipment on a current fair-value basis is $109.403m, as opposed to that shown in the financial report of $83.427m. This difference of $25.976m could give rise to a number of potential impacts for Council including:

- Asset replacement programs could be too low;
- Depreciation charges are likely to increase; and
- Under-rating.

This recommendation was agreed to by the General Manager.

WEST TAMAR COUNCIL

INTRODUCTION

West Tamar Council was created in 1993 and was formerly the Municipality of Beaconsfield, which was established in 1907. The municipality includes the townships of Beaconsfield, Exeter, Legana, Beauty Point and Bridgenorth as well as Launceston suburbs of Riverside and Trevallyn. The Council services a population of approximately 20 800 people and covers an area of 690 square kilometres.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 13 September 2007 and an unqualified audit report was issued on 24 September 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Rates	12 300	11 218	10 684
User charges	3 176	2 362	2 260
Grants	2 604	2 278	2 180
Other operating revenue	1 370	1 045	1 319
Profit on disposal of assets	279	23	132
Total Revenue	**19 729**	**16 926**	**16 575**
Employee costs	5 378	5 067	4 603
Borrowing costs	130	135	160
Depreciation	4 207	3 731	3 583
Other operating expenses	7 731	7 053	6 556
Loss on disposal of assets	62	74	92
Total Expenses	**17 508**	**16 060**	**14 994**
Surplus before:	**2 221**	**866**	**1 581**
Capital grants and contributions	995	735	112
Revaluation decrements	0	0	(2 947)
Contributions of non-current assets	2 265	2 257	1 804
Surplus	**5 481**	**3 858**	**550**

Comment

In 2006-07 Council recorded a surplus before Capital grants and Contributions of $2.221m, compared to a surplus of $0.866m in 2005-06 and a surplus of $1.581m in 2004-05. This surplus indicates that Council is generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. The Surplus in

2004-05 was low due to a revaluation decrement relating to water infrastructure and bridge assets of $2.947m. Council's Surpluses for the three years, totalling $9.889m, included Capital grants and contributions, $1.842m, and Contributions of non-current assets $6.326m.

Revenue from Rates increased by $1.616m, (or 15.13%), in the period under review. The increase was due to a combination of increases in the general rate levied, 5.00% in 2006-07 (2005-06, 3.00%), the waste management charge, average of 19.00% (2005-06, 7.22%), and the AAV of properties. The waste management charge was increased to cover rising operating costs.

The majority of Grant revenue for 2006-07 represented the Commonwealth tax sharing grant, $2.294m (2005-06, $2.179m; 2004-05, $2.004m) which increased by 14.47% during the period under review. Grant revenue for 2006-07 also included $0.150m received from the State Government towards maintenance costs for the Grubb Shaft Museum and $0.064m reimbursement for storm damage.

The increase in User charges from 2005-06 to 2006-07 of $0.814m was primarily due to:

- Increased water consumption charges of $0.358m resulting from a combination of an increase in water usage of 24.66% and a rise in the water charge of 4.92%;
- Increased revenue from entrance charges and the sale of merchandise at the Grubb Shaft Museum, $0.258m, which was due to a rise in visitor numbers following the mine disaster in April 2006; and
- Increased revenue from rate certificates issued of $0.083m.

Employee costs increased by $0.775m, (16.84%), from 2004-05 to 2006-07. This was mainly due to:

- Pay rises under Council's Enterprise Agreement of 4.00% in both 2005-06 and 2006-07, combined with the flow on effect to employee provisions; and
- Increased number of staff employed by Council, a total of six FTEs over the period, which, at an average staff cost of $0.058m over the period indicates these extra staff cost approximately $0.348m in 2006-07.

Depreciation expense increased by $0.624m, (17.42%), from 2004-05 to 2006-07. The main increase was in 2006-07, $0.476m, due to:

- The impact of increased valuations following the revaluation of stormwater assets effective 1 July 2006 and the application of indices to the valuations of road, water, sewerage, building and bridge assets; and
- A decrease in the estimated useful lives of road assets effective 30 June 2006.

Other operating expenses increased by $1.175m, (17.92%), during the period under review due mainly to increased:

- Bulk water purchases of $0.214m;
- State fire levy of $0.152m;
- Valuation fees of $0.070m, as Council was subject to a municipal revaluation in 2006-07; and

- Road maintenance expenditure.

Capital grant funding varies from year to year. In 2006-07, Council received $0.490m from the Commonwealth Government for expansion of the Grubb Shaft Museum and the construction of a mine rescue display. The total grant is for $0.980m, with the remaining $0.490m due in 2007-08. The funding forms part of the $8.000m Beaconsfield Community Fund (the Fund) which is being administered by the Commonwealth Government through AusIndustry. The purpose of the Fund is to provide financial support for development initiatives for the benefit of the Beaconsfield community.

Council's capital grants for 2006-07 also included Roads to Recovery funding of $0.367m, (2005-06, $0.679m).

Contributions of non-current assets consisted of subdivision assets taken over by Council.

BALANCE SHEET

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Cash	10 575	7 802	6 576
Receivables	676	588	600
Inventories	221	169	169
Other	219	442	210
Total Current Assets	**11 691**	**9 001**	**7 555**
Payables	987	970	930
Borrowings	363	387	342
Provisions - employee benefits	1 176	1 116	945
Other	388	112	77
Total Current Liabilities	**2 914**	**2 585**	**2 294**
Working Capital	**8 777**	**6 416**	**5 261**
Property, plant and equipment	176 518	159 134	142 708
Investments	17 010	15 645	16 553
Other	16	36	51
Total Non-Current Assets	**193 544**	**174 815**	**159 312**
Borrowings	1 757	1 819	1 907
Provisions - employee benefits	133	128	146
Other	10	210	260
Total Non-Current Liabilities	**1 900**	**2 157**	**2 313**
Net Assets	**200 421**	**179 074**	**162 260**
Reserves	140 040	124 592	111 635
Accumulated surpluses	60 381	54 482	50 625
Total Equity	**200 421**	**179 074**	**162 260**

Comment

Total Equity rose by $38.161m over the period under review due to:

- Council surpluses of $9.339m (2006-07, $5.481m and 2005-06, $3.858m);
- Asset revaluation increments of $28.551m; and
- Increases in Council's investment in Esk Water of $0.271m. This increase arose from Council recognising its share of the increase in the Authority's asset revaluation reserve combined with the impact of a change in ownership interest taken directly to retained surpluses.

Council's cash balance at 30 June 2007 was $10.575m. This balance comprised cash at bank and on hand of $10.568m and short-term deposits of $0.007m.

Council had a positive Working Capital for each year under review. At 30 June 2007 Working Capital was $8.777m (2005-06, $6.416m and 2004-05, $5.261m), giving a current ratio of 4.01 (2005-06, 3.48 and 2004-05, 3.29), which indicates a strong capacity to meet short term commitments.

Council applies the revaluation model to the majority of its infrastructure assets, which results in the assets being recorded at fair value. To ensure valuations remain current, Council undertakes periodic revaluations of its assets and applies indices in the intervening periods where movements are considered material. Construction indices issued by the Australian Bureau of Statistics are used for infrastructure assets and adjustment factors issued by the Valuer-General are used for land assets. The Property, plant and equipment balance increased by $33.810m over the period under review. The increase was primarily due to the revaluation and indexation of land, buildings and infrastructure assets, $28.551m. This caused a corresponding increase to the asset revaluation reserve, accounting for the overall upward movement in Reserves.

The Non-current investment balance comprised Council's share of Esk Water's equity. The increase in this balance, $0.457m, comprised Council's share of the profits of the Authority, $0.738m, less dividends received, $0.553m, less the share of the Authority's asset revaluation decrements, $0.145m, plus the impact of a change in ownership interest, $0.417m.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	16 067	14 242	14 189
Cash flows from government	3 541	2 957	2 216
Payments to suppliers and employees	(14 107)	(12 783)	(11 664)
Interest received	672	465	415
Borrowing costs	(131)	(135)	(161)
Cash from operations	**6 042**	**4 746**	**4 995**
Capital grants and contributions	995	735	112
Payments for property, plant and equipment	(4 920)	(4 431)	(4 040)
Proceeds from sale of property, plant and equipment	722	204	359
Cash (used in) investing activities	**(3 203)**	**(3 492)**	**(3 569)**
Proceeds from borrowings	300	300	300
Repayment of borrowings	(387)	(342)	(808)
Repayment of loan receivables	21	14	0
Cash (used in) financing activities	**(66)**	**(28)**	**(508)**
Net increase in cash	**2 773**	**1 226**	**918**
Cash at the beginning of the year	7 795	6 569	5 651
Cash at the end of the year	**10 568**	**7 795**	**6 569**

Comment

As previously noted, Council's total cash balance at 30 June 2007, $10.575m, comprised cash at bank and on hand, $10.568m, and short-term deposits, $0.007m. The balance of short term deposits is not included in the cash analysis.

Council recorded an overall increase in cash in 2006-07 of $2.773m, compared with $1.226m in 2005-06 and $0.918m in 2004-05. The main reason for the increase in 2006-07 was increased Cash from operations, $6.164m, compared with $4.802m in 2005-06 and $5.071m in 2004-05. The increase was predominantly due to the higher cash flows from Government. The movement reflected increased Grants revenue, explained previously in the Income Statement section.

Payments for Property, plant and equipment totalled $13.391m for the three years under review. Additions to Non-current assets included road reconstructions, development of a waste transfer station at Bowens Jetty Road, a new workshop facility at Exeter, improvements at the Riverside swimming pool and plant and fleet replacements.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		2 221	866	1 581
Operating margin	>1.0	1.13	1.05	1.11
Financial Management				
Current ratio	>1	4.01	3.48	3.29
Cost of debt	7.5%	6.0%	6.1%	6.4%
Debt service ratio		2.6%	2.8%	5.8%
Debt collection	30 days	16	16	17
Creditor turnover	30 days	23	25	27
Capital expenditure/depreciation	100%	117%	119%	113%
Capital expenditure on existing assets/depreciation		103%	75%	n/a
Other Information				
Employee costs expensed ($'000)		5 378	5 067	4 603
Employee costs capitalised ($'000)		205	189	179
Total employee costs ($'000)		**5 583**	**5 256**	**4 782**
Employee costs as % of operating expenses		31%	32%	31%
Staff numbers (FTE)		93	91	87
Average staff costs ($'000s)		60	58	55
Average leave balance per FTE ($'000s)		14	14	13

Comment

For the reasons noted previously the financial performance ratios show that Council recorded operating surpluses in all years under review resulting in Operating margins above benchmark.

As noted previously in the Balance Sheet section, the Current ratio was above the benchmark in all years indicating that Council is able to meet all short-term liabilities when they fall due.

Debt collection and Creditor turnover ratios were both under the benchmark of 30 days for the period under review. The ratios reflect Council's good debt recovery procedures and its policy to pay outstanding creditors within a 30-day period.

The Capital expenditure to depreciation ratio was above 100% for all years reported, which reflects Council's significant payments for Property, plant and equipment in those years.

After removing the effect of expenditure on new assets, Council's Capital expenditure on existing assets to depreciation ratio was above the benchmark in 2006-07, but below the benchmark in 2005-06 indicating that Council might not have invested sufficiently in maintaining existing assets in that financial year.

Employee costs as a percentage of operating expenses, Average staff costs and Average staff entitlements are fairly consistent for all years under review.

OVERALL COMMENT

The 2006-07 audit was completed satisfactorily with no major issues outstanding.

LATROBE COUNCIL

INTRODUCTION

Latrobe Council was created in 1993 and was formerly the Municipality of Latrobe, which was established in 1907. The municipality covers an area of approximately 600 square kilometres, including the townships of Latrobe, Port Sorell, Shearwater and Hawley. Council services a population of approximately 8 700 people.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Initial signed financial statements were received on 11 September 2007 with amended signed statements received on 28 September 2007 and an unqualified audit report was issued on 11 October 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Rates	6 687	6 264	5 953
User charges	1 189	874	886
Grants	1 108	1 090	1 026
Other operating revenue	830	842	707
Profit on disposal of assets	760	435	281
Total Revenue	**10 574**	**9 505**	**8 853**
Employee costs	2 783	2 578	2 535
Borrowing costs	111	126	136
Depreciation	2 581	2 279	2 066
Other operating expenses	4 999	4 342	4 213
Total Expenses	**10 474**	**9 325**	**8 950**
Surplus (deficit) before:	**100**	**180**	**(97)**
Capital grants	224	456	27
Contributions of non-current assets	1 971	1 829	867
Surplus	**2 295**	**2 465**	**797**

Comment

In 2006-07 Council recorded a Surplus before Capital grants and Contributions of $0.100m, compared to a surplus of $0.180m in 2005-06 and a deficit of $0.097m in 2004-05. These recent small operating surpluses indicate that Council is now generating sufficient revenue to fulfil its operating requirements including coverage of its depreciation charges. Council's Surpluses for the three years, totalling $5.557m, include Capital grants of $0.707m and Contributions of non-current assets of $4.667m. Contributions of non-current assets comprised subdivision assets taken over by Council.

Revenue from rates increased by $0.734m, (or 12.33%), in the period under review. The increase was due to a combination of increases in the garbage collection levy of 8.7% in 2006-07 (2005-06, 23%), and the number of assessed properties in Port Sorell during 2005-06 of 26% and the AAV of properties.

Council established a controlling authority under the provisions of the *Local Government Act 1993* to manage Camp Banksia – a recreational camp. Council commenced control of the camp in conjunction with a lease from the Crown on 1 July 2006. Venue hire fees for the camp of $0.190m were included in User charges for 2006-07, accounting for the majority of the increased revenue.

The majority of Grant revenue for 2006-07 represented the Commonwealth tax sharing grant, $1.078m, (2005-06, $1.049m; 2004-05, $1.008m), which increased by 6.94% during the period under review.

The majority of Council's Profit on disposal of assets in all years relates to the sale of land in the Latrobe Industrial Estate and Council's commercial development at Port Sorell.

Depreciation expense increased by $0.515m, (24.93%), from 2004-05 to 2006-07. The increases were due primarily to the impact of revaluations of infrastructure assets as follows:

- Sewerage infrastructure – 30 June 2005;
- Bridges – 1 July 2005;
- Buildings 30 June 2005 and 30 June 2006; and
- Water and stormwater infrastructure 1 July 2006.

Other operating expenses rose by $0.129m in 2005-06 as a result of one-off consultancy costs which were incurred by Council in relation to rehabilitation of waste sites, $0.114m.

Capital grant funding varies from year to year. In 2006-07 Council received Capital grant revenue totalling $0.224m (2005-06, $0.456m). The main items were:

- Federal Government funding under the Roads to Recovery initiative of $0.041m, ($0.360m);
- Funding for the Latrobe main street makeover of $0.084m;
- Latrobe swimming pool, $0.040m;
- Regional Flood Mitigation funding of $0.010m, ($0.012m); and
- Black Spot Funding during 2005-06 of $0.085m.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	1 447	2 198	2 455
Receivables	186	250	261
Inventories	24	17	15
Other	407	509	507
Total Current Assets	**2 064**	**2 974**	**3 238**
Payables	930	776	628
Borrowings	293	414	367
Provisions - employee benefits	572	495	442
Other	513	656	868
Total Current Liabilities	**2 308**	**2 341**	**2 305**
Working Capital	**(244)**	**633**	**933**
Property, plant and equipment	75 326	70 288	62 956
Investments	6 717	4 255	4 201
Other	36	192	282
Total Non-Current Assets	**82 079**	**74 735**	**67 439**
Borrowings	1 078	1 370	1 657
Provisions - employee benefits	25	43	87
Provisions - rehabilitation	800	800	800
Other	334	366	471
Total Non-Current Liabilities	**2 237**	**2 579**	**3 015**
Net Assets	**79 598**	**72 789**	**65 357**
Reserves	34 454	29 941	27 084
Accumulated surpluses	45 144	42 848	38 273
Total Equity	**79 598**	**72 789**	**65 357**

Comment

Total Equity rose by $14.241m over the period under review due to:

- Council surpluses of $4.760m (2006-07, $2.295m; 2005-06, $2.465m);
- Asset revaluation increments of $7.166m; and
- Increases in Council's investment in Cradle Coast Water (CCW) of $2.315m. This increase arose from Council recognising its share of the increase in CCW's asset revaluation reserve.

Council's cash balance at 30 June 2007 was $1.447m. This balance comprised cash at bank and on hand of $0.388m and short term deposits of $1.059m.

Council had a positive Working Capital for the first two years under review. At 30 June 2007 Council had a Working Capital deficit of $0.244m. Positive Working

Capital indicates a strong capacity to meet short term commitments. I note that Council's current liabilities included:

- Employee entitlement provisions of $0.572m;
- Bonds and security deposits of $0.250m; and
- Refundable Donor Fees for Elderly Persons Units, $0.085m.

While it is unlikely that these liabilities will all have to be paid out at once during the next financial year, Council needs to monitor its liquidity position to ensure that it has sufficient capacity to meet liabilities as they fall due.

Council applies the revaluation model to the majority of its infrastructure assets, which results in the assets being recorded at fair value. To ensure valuations remain current, Council undertakes periodic revaluations of its assets and applies indices in the intervening periods where movements are considered material. Construction indices issued by the Australian Bureau of Statistics are used for infrastructure assets and adjustment factors issued by the Valuer-General are used for land assets. The Property, plant and equipment balance increased by $12.370m over the period under review. The increase included revaluations totalling $7.181m including land, $2.087m, buildings $2.734m, storm water, $1.867m and subdivision assets taken over of $3.800m.

Non-current investments comprised Council's investment in its associates, CCW, $6.600m, and Dulverton Regional Waste Management Authority, $0.117m. Council's investment in CCW has increased by $2.399m since 2004-05 principally as a result of revaluation increments reported.

Non-current provisions include $0.800m for the rehabilitation costs associated with the Alexander Street refuse site.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	8 919	8 573	8 666
Cash flows from government	1 108	1 119	1 139
Payments to suppliers and employees	(8 293)	(7 895)	(7 434)
Interest received	193	177	167
Borrowing costs	(111)	(126)	(136)
Cash from operations	**1 816**	**1 848**	**2 402**
Capital grants and contributions	224	456	27
Proceeds from investments	82	0	90
Payments for investments	(11)	0	(15)
Payments for property, plant and equipment	(3 637)	(2 828)	(2 833)
Proceeds from sale of property, plant and equipment	1 189	639	779
Cash (used in) investing activities	**(2 153)**	**(1 733)**	**(1 952)**
Proceeds from borrowings	0	0	0
Repayment of borrowings	(414)	(372)	(321)
Cash (used in) financing activities	**(414)**	**(372)**	**(321)**
Net increase (decrease) in cash	**(751)**	**(257)**	**129**
Cash at the beginning of the year	2 198	2 455	2 326
Cash at the end of the year	**1 447**	**2 198**	**2 455**

Comment

Council's cash balance has been steadily declining since 30 June 2005. Cash from operations is positive for all years, however cash used in investing and financing activities in the last two years is greater than that received from operations.

Payments for property, plant and equipment totalled $9.298m for the three years under review. Additions to non-current assets included road reconstructions, an upgrade of the Latrobe Memorial Hall, construction of a weir, footpath and bridge at Bells Parade, land purchases and development works related to Council's commercial development at Port Sorell, and plant and fleet replacements.

Proceeds from sale of property, plant and equipment of $2.607m included $2.140m for land sales discussed earlier in the Income Statement section.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		100	180	(97)
Operating margin	>1.0	1.01	1.02	0.99
Financial Management				
Current ratio	>1	0.89	1.27	1.40
Cost of debt	7.5%	7.0%	6.6%	6.7%
Debt service ratio		5.0%	5.2%	5.2%
Debt collection	30 days	9	13	10
Creditor turnover	30 days	30	33	23
Capital expenditure/depreciation	100%	141%	124%	137%
Capital expenditure on existing assets/depreciation		79%	73%	92%
Other Information				
Employee costs expensed ($'000)		2 783	2 578	2 535
Employee costs capitalised ($'000)		240	286	233
Total employee costs ($'000)		**3 023**	**2 864**	**2 768**
Employee costs as % of operating expenses		27%	28%	28%
Staff numbers (FTE)		55	52	52
Average staff costs ($'000s)		55	55	53
Average leave balance per FTE ($'000s)		11	10	10

Comment

For the reasons noted previously, the Financial Performance ratios show that Council recorded small operating surpluses in both 2005-06 and 2006-07 and a small deficit in 2004-05. The Operating margin is around benchmark for all years under review.

Council's Current ratio decreased from 1.40 at 30 June 2005, to 0.89 at 30 June 2007 due to the decreased cash balance. This ratio highlights Council's ability to meet all short-term liabilities as and when they fall due. As discussed previously, Council need to monitor this to ensure that it is able to meet future commitments.

Both Council's Cost of debt and Debt service ratios are consistent across the period under review, with the Cost of debt below benchmark in all years.

The Debt collection ratio is well below benchmark for all years under review which reflects Council's good debt recovery procedures.

The Creditor turnover ratio is below benchmark for 2004-05 and 2006-07. The increase to 33 days during 2005-06 is not of concern bearing in mind Council's policy of paying outstanding creditors within a 30-day period.

Capital expenditure to depreciation ratio was above 100% for all years reported, which reflects Council's significant payments for property, plant and equipment.

After removing the effect of expenditure on new assets, Council's Capital expenditure on existing assets to depreciation is below benchmark in all years, indicating that Council might not have invested sufficiently in maintaining existing assets.

Employee costs as a % of operating expenses and Average staff costs and Average staff entitlements are fairly consistent throughout the period under review.

OVERALL COMMENT

The 2006-07 audit was completed satisfactorily with no major items outstanding.

BREAK O'DAY COUNCIL

INTRODUCTION

Break O'Day Council was created in 1993 when the former municipalities of Portland and Fingal were amalgamated. The Break O'Day area covers approximately 3 521 square kilometres and comprises the eastern portion of the Fingal Valley and the coastal zone from the Denison River in the south, to Eddystone Point in the north. The Council services a population of approximately 6 200.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 28 September 2007 and an unqualified audit report was issued on 12 October 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s
Rates	6 005	5 544	4 851
User charges	1 171	1 065	1 139
Grants	2 383	2 078	1 885
Other operating revenue	836	800	625
Profit on disposal of assets	0	490	235
Total Revenue	**10 395**	**9 977**	**8 735**
Employee costs	3 102	2 693	2 348
Borrowing costs	138	142	106
Depreciation	2 569	2 327	2 265
Other operating expenses	3 546	3 442	3 264
Loss on disposal of assets	77	0	0
Total Expenses	**9 432**	**8 604**	**7 983**
Surplus before:	**963**	**1 373**	**752**
Capital grants	247	2 745	502
Contributions of non-current assets	31	55	0
Surplus	**1 241**	**4 173**	**1 254**

Comment

In 2006-07 Council recorded a Surplus before Capital grants and Contributions of $0.963m, compared to a surplus of $1.373m in 2005-06 and a surplus of $0.752m in 2004-05. This Surplus indicates that Council is generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. Council's surpluses for the three years, totalling $6.668m, included Capital grants of $3.494m and Contributions of non-current assets of $0.086m.

Revenue from Rates increased by $1.154m, (or 23.79%), in the period under review. The increase was due to a combination of increases in the general rate levied, 6% in 2006-07 (2005-06, 8%), the water rate charged on properties in Scamander, St Helens and St Marys, 8% in 2006-07, (27%), the sewerage rate in 2006-07, 10%, (16%), and the Assessed Annual Valuation (AAV) of properties. The majority of the increases were to cover rising operating expenses, including increased wages and energy costs. There was also growth due to new subdivisions created within the municipality and new plants commencing operation.

The majority of Grant revenue for 2006-07 represented the Commonwealth tax sharing grant, $2.259m, (2005-06, $2.044m; 2004-05, $1.880m), which increased by 20.16% during the period under review to assist Council to meet its operating costs.

Employee costs increased by $0.754m, (32.11%), predominantly as a result of:

- Pay rises under Council's enterprise agreement of 4.5% in both July 2005 and July 2006, combined with the flow on effect to employee provisions; and
- An increase in full-time equivalent, (FTE), staff numbers to 62 in 2006-07, (2005-06, 53; 2004-05, 51). At an average FTE cost of $56 000, the nine additional FTE in 2006-07 cost Council approximately $0.504m.

Depreciation expense increased by $0.304m, (13.42%), from 2004-05 to 2006-07. The main increase was in 2006-07, $0.242m, due to the impact of increased road asset values following a revaluation at 30 June 2006.

Capital grant funding varies from year to year. In 2006-07, Council received Capital grant revenue totalling $0.247m (2005-06, $2.745m). The main items were:

- Federal Government funding under the Roads to Recovery initiative of $0.090m in 2006-07, (2005-06, $1.077m; 2004-05 $0.404m);
- Funding for sewerage works in St Helens during 2005-06 of $1.288m, from the Department of Primary Industries and Water; and
- Funding for the St Helens main street makeover of $0.083m in 2006-07 (2005-06, $0.167m).

Contributions of non-current assets consisted of subdivision assets taken over by Council.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	6 768	10 811	7 358
Receivables	348	297	271
Inventories	132	147	139
Other	89	138	240
Total Current Assets	**7 337**	**11 393**	**8 008**
Payables	703	708	540
Borrowings	177	172	144
Provisions - employee benefits	706	631	657
Provisions - rehabilitation	18	33	0
Other	838	173	386
Total Current Liabilities	**2 442**	**1 717**	**1 727**
Working Capital	**4 895**	**9 676**	**6 281**
Property, plant and equipment	94 059	81 828	56 484
Total Non-Current Assets	**94 059**	**81 828**	**56 484**
Borrowings	2 019	2 067	1 902
Provisions - employee benefits	65	64	28
Provisions - rehabilitation	97	77	110
Total Non-Current Liabilities	**2 181**	**2 208**	**2 040**
Net Assets	**96 773**	**89 296**	**60 725**
Reserves	92 996	91 653	64 185
Accumulated surpluses (deficits)	3 777	(2 357)	(3 460)
Total Equity	**96 773**	**89 296**	**60 725**

Comment

Total Equity rose by $36.048m over the period under review due to:

- Council surpluses of $5.414m (2006-07, $1.241m; 2005-06, $4.173m); and
- Asset revaluation increments of $30.634m, predominantly roads and streets of $24.397m.

Council transferred $1.823m from Reserves to Accumulated surplus within Equity during this period.

Council's cash balance at 30 June 2007 was $6.768m. This balance comprised cash at bank and on hand of $5.582m, short term deposits of $0.733m and cash held in trust of $0.453m. The cash held in trust was received from the State Government as a result of the December 2006 bushfires. This amount did not form part of Council operations and is to be distributed in accordance with the Community Recovery Fund Deed of Agreement.

Other current liabilities at 30 June 2007 included the bushfire trust funds, $0.453m, and retentions held, $0.230m, (2005-06, $0.020m). The majority of the increase in retentions held was due to capital works undertaken on the St Helens sewage Treatment Plant.

Council had positive Working Capital for each year under review. At 30 June 2007 Working capital was $4.895m, (2005-06, $9.676m; 2004-05, $6.281m), giving a Current ratio of 3.00, (6.42; 4.64), which indicates a strong capacity to meet short term commitments. Working Capital decreased in 2006-07 due to the high level of Council investment in Infrastructure assets. Details are provided in the Cash Position section later in this Chapter.

Council applies the revaluation model to the majority of its infrastructure assets, which results in the assets being recorded at fair value. To ensure valuations remain current, Council undertakes periodic revaluations of its assets and applies indices in the intervening periods where movements are considered material. Construction indices issued by the Australian Bureau of Statistics are used for infrastructure assets.

The increase in Property, plant and equipment during 2005-06 of $25.344m included a revaluation of roads and streets, $24.397m, following a detailed study by an external consultant. A further increase of $12.231m occurred during 2006-07. Major items included:

- Water, sewerage and stormwater indexation totalling $3.001m;
- Land and building revaluations, $3.235m;
- Completed capital additions, $2.621m; and
- An increase in work in progress of $6.148m, including $5.262m relating to the St Helens sewage treatment plant.

Provisions, current and non-current include $0.115m, (2005-06, $0.110m, 2004-05, $0.110m), for rehabilitation costs associated with Council’s refuse and quarry sites.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	8 476	7 397	6 799
Cash flows from government	2 383	2 078	1 885
Payments to suppliers and employees	(7 443)	(6 815)	(5 846)
Interest received	632	557	362
Borrowing costs	(137)	(143)	(107)
Cash from operations	**3 911**	**3 074**	**3 093**
Capital grants and contributions	247	2 745	502
Payments for property, plant and equipment	(8 610)	(3 516)	(2 491)
Proceeds from sale of property, plant and equipment	0	956	649
Cash from (used in) investing activities	**(8 363)**	**185**	**(1 340)**
Proceeds from borrowings	128	355	616
Repayment of borrowings	(172)	(161)	(162)
Cash from (used in) financing activities	**(44)**	**194**	**454**
Net increase (decrease) in cash	**(4 496)**	**3 453**	**2 207**
Cash at the beginning of the year	10 811	7 358	5 151
Cash at the end of the year	**6 315**	**10 811**	**7 358**

Comment

As previously noted, Council's total cash balance at 30 June 2007 of $6.768m included trust funds of $0.453m. The trust funds are not recorded in the cash analysis.

Cash from operations for 2005-06 was consistent with 2004-05. The increase in 2006-07 was due to greater net GST receipts from the Australian Taxation Office as a result of increased payments, including capital payments, made during 2006-07.

Council recorded an overall decrease in cash in 2006-07 of $4.496m. This was a result of increased Payments for property, plant and equipment including:

- St Helens sewage treatment plant, $5.262m;
- Binalong Bay Road, including a bridge replacement, $0.946m;
- St Helens main street makeover, $0.231m;
- Coobrooga and Long Hill reservoir roofs, $0.200; and
- Plant and equipment purchases, $0.352m.

Cash from investing activities was positive for 2005-06 due to the large capital grant funding discussed previously in the Income Statement section.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		963	1 373	752
Operating margin	>1.0	1.10	1.16	1.09
Financial Management				
Current ratio	>1	3.01	6.64	4.64
Cost of debt	7.5%	6.2%	6.6%	5.8%
Debt service ratio		3.0%	3.1%	3.1%
Debt collection	30 days	18	16	17
Creditor turnover	30 days	17	31	29
Capital expenditure/depreciation	100%	335%	151%	110%
Capital expenditure on existing assets/depreciation		91%	24%	77%
Other Information				
Employee costs expensed ($'000)		3 102	2 693	2 348
Employee costs capitalised ($'000)		372	242	326
Total employee costs ($'000)		**3 474**	**2 935**	**2 674**
Employee costs as % of operating expenses		33%	31%	29%
Staff numbers (FTE)		62	53	51
Average staff costs ($'000s)		56	55	52
Average leave balance per FTE ($'000s)		12	13	13

Comment

For the reasons noted previously, the financial performance ratios show that Council recorded operating surpluses in all years under review resulting in Operating margins above benchmark.

As noted previously in the Balance Sheet section, the Current ratio was above the benchmark in all years indicating that Council is able to meet all short-term liabilities when they fall due.

Both Council's Cost of debt and Debt service ratio are consistent across the period under review, with the Cost of debt below benchmark in all years.

The Debt collection ratio is below benchmark for all years under review which reflects Council's good debt recovery procedures.

The Creditor turnover ratio is below benchmark for 2004-05 and 2006-07. The increase to 31 days during 2005-06 is not considered a cause for concern. Council has a policy of paying outstanding creditors within a 30-day period.

Capital expenditure to depreciation ratio was above 100% for all years reported, which reflects Council's significant payments for property, plant and equipment in those years, especially 2006-07.

After removing the effect of expenditure of new assets, Council's Capital expenditure on existing assets to depreciation is below benchmark in all years, indicating that Council might not have invested sufficiently in maintaining existing assets.

Employee costs as a % of operating expenses and Average staff costs and Average staff entitlements are fairly consistent throughout the period under review.

OVERALL COMMENT

The 2006-07 audit was completed satisfactorily with no major issues outstanding.

CRADLE COAST WATER

INTRODUCTION

The North West Water Authority (the Authority) was established by the Minister for Local Government on 10 August 1999 as a Joint Authority of the Circular Head, Waratah-Wynyard, Central Coast, Devonport City, Latrobe and Kentish Councils under Section 38 of the *Local Government Act 1993.*

In accordance with the *North West Water (Arrangements) Act 1997* the then Minister for Primary Industries, Water and Environment published a notice in the Gazette on 9 August 1999 transferring to the Authority all the prescribed property, obligations and liabilities of the North West Regional Water Authority.

In December 2001, the Authority changed its name from the North West Water Authority to Cradle Coast Water.

A five-person Board of Management administers the Authority, and is responsible under its Rules to a Governance Board made up of representatives from the six owner councils.

While the directors of the Authority have determined that Cradle Coast Water is a not-for-profit entity for financial reporting purposes, a view that is contrary to my opinion that the Authority meets the criteria for classification as a for-profit entity, the financial statements comply with the requirements for reporting as a for-profit entity.

The directors of the Authority confirm in the financial statements that all Australian equivalents to International Financial Reporting Standards are complied with.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 20 August 2007, and an unqualified audit report was issued on 18 September 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Sales revenue	9 168	8 278	8 284
Interest revenue	49	63	29
Other operating revenue	869	438	576
Non-operating revenue	22	23	15
Total Revenue	**10 108**	**8 802**	**8 904**
Borrowing costs	1 328	1 366	1 321
Depreciation	2 125	1 353	1 339
Cost of sales (less depreciation)	2 118	1 961	2 084
Other operating expenses	3 237	2 875	2 816
Total Expenses	**8 808**	**7 555**	**7 560**
Profit before taxation	**1 300**	**1 247**	**1 344**
Income tax expense	390	374	403
Profit	**910**	**873**	**941**

Comment

Based upon revenues, it is reasonable to conclude that the Authority recorded solid operating profits before tax in all three years under review. In each of the three years, the profit before tax exceeded 13% of total revenue. However, percentage returns, based on total equity and total assets, are less strong – see further comment in the Financial Analysis section.

The main movements in revenue and expense items are discussed below.

The majority of the Authority's revenue is derived from bulk water sales to municipal consumers. This is shown as sales revenue in the above table, with the $0.890m increase reflecting increases in both the fixed charge to Councils, up $0.458m, as well as higher volumes of water usage with variable charges up $0.413m, 18% higher than 2005-06. The price per kilolitre increased from $0.2040 for the 2004-05 year to $0.2224 for 2006-07, an increase of 9.02%. Water consumption over the same period rose from 15 109 megalitres in 2004-05 to 15 425 megalitres during 2006-07, an increase of 2.09%.

The main component of Other operating revenue was external contract works, which increased by $0.431m (2005-06 decrease of $0.138m) over the period under review. This was primarily due to demand for irrigation water, with revenue increasing by $0.284m to $0.333m.

Costs related to the derivation of contract income of $0.459m (2005-06, $0.226m) are included in Other operating expenses and these direct costs changed in line with the higher sales activity, reducing the impact on the overall result.

Depreciation expense increased by $0.725m or 57%, as a result of the substantial hike in infrastructure assets arising from the revaluation completed in 2005-06. It was noted that the abnormally high revaluation increment in that year was a reflection on the nature of prior years' valuations, which consisted primarily of updating for new assets capitalised, without factoring increases in costs for existing assets.

Cost of sales represents the production costs associated with collecting, conserving and treating water to a saleable point. Historically, cost of sales has varied between 23% and 29% of sales revenue, and the figures for the period under review are within that range. Depreciation is recorded as a separate item in the above table, but the Authority included a portion of depreciation as a 'cost of sales' within its financial statements.

Other operating expenses include administration, occupancy and distribution expenses, as well as the external contract work costs noted above. Distribution expenses for the current year were impacted by the increased volumes and the need to supplement some water supplies from alternative systems, with electricity for pumping up $0.161m. The 2005-06 total includes some expenditure relating to projects and investigations undertaken during the year, largely focusing on future developments and opportunities for the Authority, which have contributed to the higher overall expense in that period.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	2 121	1 390	1 088
Receivables	576	502	516
Inventories	179	162	128
Other	236	240	218
Total Current Assets	**3 112**	**2 294**	**1 950**
Trade payables	363	283	361
Borrowings	1 417	60	2 207
Provisions - superannuation	464	227	206
Provisions - leave and other	474	440	392
Other	738	773	774
Total Current Liabilities	**3 456**	**1 783**	**3 940**
Working Capital	**(344)**	**511**	**(1 990)**
Property, plant and equipment	97 882	92 397	62 257
Deferred tax asset	4 104	4 061	5 685
Total Non-Current Assets	**101 986**	**96 458**	**67 942**
Borrowings	20 414	21 831	19 091
Provisions - superannuation	532	613	685
Provisions - leave and other	92	78	82
Deferred tax liability	9 402	7 338	41
Total Non-Current Liabilities	**30 440**	**29 860**	**19 899**
Net Assets	**71 202**	**67 109**	**46 053**
Reserves	56 327	52 520	31 583
Retained earnings	14 875	14 589	14 470
Total Equity	**71 202**	**67 109**	**46 053**

Comment

The Authority's Cash balance at 30 June 2007 comprised cash at bank and on hand of $0.016m and short term investments of $2.105m. The Authority has a sound cash balance, however at balance date a negative Working Capital position of $0.344m existed.

As noted previously, the Authority manages significant long life infrastructure assets. Property, plant and equipment represent approximately 93% of all the Authority's total assets. The Authority applies a fair value basis of valuation, with the last full revaluation of assets undertaken in 2005-06. To ensure the currency of the asset values, the Authority applied an index to its infrastructure assets based on advice received from the Australian Valuation Office in 2006-07.

I concur with the current accounting policies applied by the Authority in relation to its infrastructure assets. Relevant and current asset information is vital in managing an operation with a strong reliance on long-life infrastructure assets.

Property, plant and equipment increased by $5.485m in 2006-07, due primarily to new assets acquired, $2.218m, and asset revaluation increments, $5.010m, offset by depreciation of $2.125m. Included in the total revaluation figure is the Yolla water scheme acquired at no cost from Waratah-Wynyard Council in July 2006, and which was subsequently revalued by $0.428m.

The 2005-06 revaluation increment of $29.484m represented an increase of 50% on the 2004-05 carrying value of infrastructure assets, which was a reflection on the nature of prior years' valuations, as noted in comments on depreciation above. The 2006-07 revaluation includes a 7% indexation factor to approximate increases in construction costs.

Total borrowings, $21.831m, were largely unchanged from 2005-06 and 2004-05. Borrowings as a current liability in 2006-07 was back in line with more normal historical levels, following the unusually low $0.060m in 2005-06 as a result of new loans being financed on a long term basis.

The net deferred tax balance changed from a net tax asset of $5.644m in 2004-05 to a net tax liability of $3.277m in 2005-06, with a further increase to a net tax liability position of $5.298m at 30 June 2007. The primary cause of this was recognition of deferred tax liabilities of $1.631m (2006, $8.547m) relating to the asset revaluation increment previously referred to, which were offset against the revaluation increment in the asset revaluation reserve.

Total Equity increased during the period under review by $25.149m. Retained profits increased by $0.405m whilst Reserves increased by $24.744m. The increase in Reserves can be largely attributed to revaluation increments during 2005-06 of $20.937m, offset by an associated adjustment in the Deferred tax liability arising on revaluation of $6.281m. Revaluation increments of $3.807m were recorded during 2006-07 and the corresponding adjustment to the Deferred tax liability was an increase of $1.142m.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	10 674	9 200	9 458
Payments to suppliers and employees	(5 824)	(5 459)	(5 312)
Interest received	44	63	29
Borrowing costs	(1 347)	(1 366)	(1 319)
Cash from operations	**3 547**	**2 438**	**2 856**
Payments for property, plant and equipment	(2 219)	(2 087)	(2 677)
Proceeds from sale of property, plant and equipment	87	102	93
Cash (used in) investing activities	**(2 132)**	**(1 985)**	**(2 584)**
Proceeds from borrowings	800	2 800	5 300
Repayment of borrowings	(860)	(2 207)	(5 327)
Dividends paid	(624)	(744)	(629)
Cash (used in) financing activities	**(684)**	**(151)**	**(656)**
Net increase (decrease) in cash	**731**	**302**	**(384)**
Cash at the beginning of the year	1 390	1 088	1 472
Cash at end of the year	**2 121**	**1 390**	**1 088**

Comment

The Authority generates strong Cash from operations due to the profitability of its operations. Cash from operations primarily reflects operating profits before taxation and depreciation. Despite the Authority reinvesting Cash from operations into Property, plant and equipment ($6.983m over the period) and paying dividends ($1.997m over the period), its cash position improved over the three year period under review by $0.649m or 44%. However, this improvement includes $0.506m net inflow of borrowings over the period.

Payments for property, plant and equipment in 2006-07, $2.219m, was marginally higher than 2005-06, although short of the 2004-05 outlays following the substantial completion of the reservoir roofing program, which was a major focus of that year. Capital expenditure projects for 2005-06 included a major upgrade of the Forth pump station, relining of several reservoirs and acquisition of telemetry infrastructure from Burnie City Council. 2006-07 saw the construction of a new pump station at Turners Beach linking the Forth water system to Ulverstone, and substantial refurbishment of the Barrington treatment plant and reservoir.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		1 278	1 224	1 329
EBIT ($'000s)		2 628	2 613	2 665
Operating margin	>1.0	1.15	1.16	1.18
Return on assets		2.6%	3.1%	3.9%
Return on equity		1.3%	1.5%	2.2%
Financial Management				
Current ratio	>1	0.90	1.29	0.49
Debt to equity		30.7%	32.6%	46.2%
Debt to total assets		20.8%	22.2%	30.5%
Interest cover	>3	2.0	1.9	2.0
Cost of debt	7.5%	6.1%	6.3%	6.2%
Debt service ratio		22%	41%	75%
Debt collection	30 days	21	21	21
Creditor turnover	30 days	25	20	23
Capital expenditure/depreciation	100%	104%	154%	200%
Returns to Owners				
Dividends payable ($'000s)		650	624	744
Dividend payout ratio	50%	71.4%	71.5%	79.1%
Dividend to equity ratio		0.9%	1.1%	1.7%
Income tax paid or payable ($'000s)		0	0	0
Total return ($'000s)		650	624	744
Total return to equity ratio		0.9%	1.1%	1.7%
Other Information				
Staff numbers (FTE)		29	28	27
Average staff costs ($'000s)		80	62	64
Average leave balance per FTE ($'000s)		20	19	17

Comment

The Financial Performance ratios show that the Authority recorded operating profits in the three years under review resulting in Operating margins above benchmark.

Return on assets ratio is low. As noted in reviews by the Government Prices Oversight Commission, the return on equity remains below that expected for a commercial rate of return (7%). Prices are set by the Joint Authority. The result is that water users, including member Councils, effectively receive subsidies from the owners of the Authority.

Working Capital, as reflected by the current ratio, is significantly influenced by the current portion of borrowings, which fluctuated significantly over the three years and this is reflected in the ratio. The underlying trend, however, is positive with current assets compared to current liabilities excluding borrowings showing significant improvement over the three years. It is noted that $13.791m of the Authority's loan portfolio is due to mature in February 2008, although it is expected that renewal of new borrowings to replace the majority of these funds will be negotiated.

The Debt to equity and Debt to total assets ratios decreased over the period, again primarily as a result of revaluations impacting on the carrying amount of assets and the corresponding increase in reserves.

The change in Debt service ratio from 41% in 2005-06 to 22% in 2006-07, reflects the debt rollover of $2.207m in 2005-06 and $0.860m in 2006-07. Had these borrowings not been rolled over, the Debt service ratio would have reduced to around 15%.

Capital expenditure to depreciation ratio was above the benchmark of 100% for the two years under review, indicating that the Authority continues to invest sufficiently in infrastructure assets to maintain them at least at their current standard, although the downward trend over the three years reflects the increasing replacement cost of assets which impacts on depreciation expense. Future capital works priorities and projected funding sources are addressed in the Authority's corporate plan, which contains a 10-year forecast of anticipated asset replacements and additions.

Dividends paid were in accordance with Part 3A of the *Local Government Act 1993*, and in line with the Authority's policy of maintaining a payout ratio of 50% of after tax profits.

With substantial prior year tax losses to absorb current year income tax liabilities, no tax payments were made in the years under review.

Increased staff costs in 2006-07 can be attributed to seasonal, employment market and superannuation factors. In 2005-06, Average staff costs were low due to it being an exceptionally wet year resulting in lower overtime by plant operators and the Authority took the best part of the financial year to replace an employee. The average for 2006-07 increased due to a wage review and employees being offered individual contracts, overtime increasing by 16% due to 2006-07 being one of the driest years on record and the defined benefit superannuation liability increasing by $0.209m.

OVERALL COMMENT

The 2006-07 audit was completed with satisfactory results.

ESK WATER AUTHORITY

INTRODUCTION

Esk Water Authority (the Authority) was declared a Joint Authority by the Minister for Local Government on 25 June 1997. The Authority commenced operations on 1 July 1997 and had transferred to it all bulk water assets, property, rights, obligations and liabilities of the North Esk Regional Water Supply Scheme, the West Tamar Water Supply Scheme, the Launceston City Council and the Meander Valley Council following enactment of the *Northern Regional Water (Arrangements) Act 1997.*

The Authority is a bulk water business servicing the Launceston/Tamar Valley region in northern Tasmania and is owned and controlled by the Launceston City, West Tamar, Meander Valley and George Town Councils. Representatives from each of the four owner councils serve on the Joint Authority. The Authority appointed an independent management board comprised of four directors, to manage the resources of the Authority and be responsible for the collection, treatment, conservation and supply of water in bulk. The Chief Executive Officer is appointed by the directors and is not a member of the management board.

The Authority is subject to periodic reviews by the Government Prices Oversight Commission (GPOC) which recommends maximum prices and pricing principles for each of the three Tasmanian bulk water supply authorities.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 28 August 2007 and an unqualified audit report was issued on 12 September 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Sales revenue	9 804	9 039	9 008
Interest revenue	459	377	258
Other operating revenue	214	264	265
Non-operating revenue	176	84	629
Total Revenue	**10 653**	**9 764**	**10 160**
Borrowing costs	0	118	120
Depreciation	2 665	2 788	2 485
Cost of sales (less depreciation)	2 502	2 264	2 368
Other operating expenses	1 890	1 598	1 876
Total Expenses	**7 057**	**6 768**	**6 849**
Profit before taxation	**3 596**	**2 996**	**3 311**
Income tax expense	1 082	900	995
Net Profit	**2 514**	**2 096**	**2 316**

Comment

Based on revenues, it is reasonable to conclude that the Authority recorded solid Profits before taxation in all three years under review. In each of the three years, the profit before tax exceeded 30% of total revenue. However, percentage returns, based on total equity and total assets, are less strong – see further comment in the Financial Analysis section.

The main movements in revenue and expense items are discussed below.

The majority of the Authority's revenue is obtained from the sale of bulk water to municipal, industrial and wayside consumers. Sales revenue increased by $0.796m (or 8.84%) from 2004-05 to 2006-07. The increase was largely due to a combination of increases in both water charges and water consumption, particularly in 2006-07.

The Authority levies a fixed charge for each customer as well as a variable price per kilolitre. The price per kilolitre has increased from $0.3000 for the 2004-05 year to $0.3190 for 2006-07, an increase of 6.33%. Water consumption over the same period has risen from 15 516 megalitres in 2004-05 to 16 058 megalitres during 2006-07, an increase of 3.49%.

Borrowing costs were eliminated following the repayment of Authority loans in June 2006.

In supplying bulk water, the Authority manages significant physical infrastructure. The utilisation of various treatment plants, reservoirs and a considerable pipeline system has resulted in a significant Depreciation expense. Depreciation is approximately 38% of the Authority's total expenses.

Cost of sales represents the production costs associated with collecting, conserving and treating the water to a saleable point. Over the three years under review the Authority maintained cost of sales at approximately 25% of Sales revenue.

Other operating expenses included administration, engineering and distribution expenses. Employee costs are allocated across a number of operations and are included in both Cost of sales and Other operating expenses.

BALANCE SHEET

	2006-07	**2005-06**	**2004-05**
	$’000s	$’000s	$’000s
Cash	8 867	5 744	6 355
Receivables	542	695	153
Inventories	231	230	210
Other	857	917	870
Total Current Assets	**10 497**	**7 586**	**7 588**
Payables	96	185	329
Interest bearing liabilities	0	0	2 000
Provisions - superannuation	62	61	56
Provisions - leave and other	321	305	342
Other	349	353	409
Total Current Liabilities	**828**	**904**	**3 136**
Working Capital	**9 669**	**6 682**	**4 452**
Property, plant and equipment	109 354	103 854	112 987
Deferred tax asset	5 614	6 250	6 842
Other	4	5	5
Total Non-Current Assets	**114 972**	**110 109**	**119 834**
Deferred tax liabilities	19 632	17 276	19 415
Provisions - superannuation	1 977	1 734	1 292
Provisions - leave and other	18	11	582
Total Non-Current Liabilities	**21 627**	**19 021**	**21 289**
Net Assets	**103 014**	**97 770**	**102 997**
Capital	81 548	81 548	81 548
Reserves	20 401	15 931	21 865
Retained earnings (Accumulated losses)	1 065	291	(416)
Total Equity	**103 014**	**97 770**	**102 997**

Comment

The Authority’s Cash balance at 30 June 2007 comprised cash at bank and on hand of $0.135m and short term investments of $8.732m. The strong cash position resulted in the positive Working Capital position for each year under review. This position was strengthened by the Authority repaying all loan debt in 2005-06.

As noted previously, the Authority manages significant long-life infrastructure assets. Property, plant and equipment represent approximately 87% of all the Authority's total assets. The Authority applies a fair value basis of valuation, with the last full revaluation of assets undertaken in 2005-06. To ensure the currency of the asset values, the Authority applied an index to its infrastructure assets based on advice received from the Australian Valuation Office in 2006-07.

I concur with the current accounting policies applied by the Authority in relation to its infrastructure assets. Relevant and current asset information is vital in managing an operation with a strong reliance on long-life infrastructure assets.

Deferred tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences caused primarily by accounting for asset revaluations. Deferred tax assets are recognised for all deductible temporary differences, such bringing to account annual leave, long service leave and provisions for superannuation liabilities, plus the benefits of unused tax losses.

Whilst the Authority does not currently make tax payments due to carry forward losses, it is considered probable that sufficient future taxable profits will be made to allow the Deferred tax asset to be utilised.

Total Equity increased during the period under review by $0.017m. Retained earnings increased by $1.481m whilst Reserves decreased by $1.464m. The decrease in Reserves can be largely attributed to revaluation decrements during 2005-06 of $8.382m, off-set by an associated adjustment in the Deferred tax liability arising on revaluation of $2.449m. Revaluation increments of $6.070m were recorded during 2006-07 and the corresponding adjustment to the Deferred tax liability increased by $1.911m.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	10 560	9 082	9 904
Payments to suppliers and employees	(4 601)	(4 489)	(4 155)
Interest received	462	371	260
Borrowing costs	0	(120)	(120)
Cash from operations	**6 421**	**4 844**	**5 889**
Payments for property, plant and equipment	(1 594)	(1 926)	(1 013)
Proceeds from sale of property, plant and equipment	61	79	48
Cash (used in) investing activities	**(1 533)**	**(1 847)**	**(965)**
Repayment of borrowings	0	(2 000)	0
Dividends paid	(1 765)	(1 608)	(1 662)
Cash (used in) financing activities	**(1 765)**	**(3 608)**	**(1 662)**
Net increase (decrease) in cash	**3 123**	**(611)**	**3 262**
Cash at the beginning of the year	5 744	6 355	3 093
Cash at end of the year	**8 867**	**5 744**	**6 355**

Comment

The Authority generates strong Cash from operations due to the profitability of its operations. The cash flow from operations primarily reflects Profits before taxation and depreciation. Despite the Authority reinvesting Cash from operations into Property, plant and equipment ($4.533m over the period), repayment of debt, $2.000m, and paying dividends ($5.035m over the period), its cash position improved over the three year period under review by $2.512m or 40%.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		3 420	2 912	2 682
EBIT ($'000s)		3 596	3 114	3 431
Operating margin	>1.0	1.48	1.43	1.39
Return on assets		3.0%	2.5%	2.9%
Return on equity		2.5%	2.1%	2.3%
Financial Management				
Current ratio	>1	12.68	8.39	2.42
Debt to equity		n/a	n/a	1.9%
Debt to total assets		n/a	n/a	1.6%
Interest cover	>3	n/a	26.4	28.6
Cost of debt	7.5%	n/a	n/a	6.0%
Debt service ratio		n/a	1.2%	1.3%
Debt collection	30 days	20	28	6
Creditor turnover	30 days	10	18	38
Capital expenditure/depreciation	100%	60%	69%	41%
Returns to Owners				
Dividends paid or payable ($'000s)		1 783	1 625	1 761
Dividend payout ratio	50%	70.9%	77.5%	76.0%
Dividend to equity ratio		1.8%	1.6%	1.8%
Total return ($'000s)		1 783	1 625	1 761
Total return to equity ratio		1.8%	1.6%	1.8%
Other Information				
Staff numbers (FTE)		25	25	25
Average staff costs ($'000s)		77	65	65
Average leave balance per FTE ($'000s)		13	12	13

Comment

The Financial Performance ratios show that the Authority recorded operating profits in the three years under review resulting in Operating margins above benchmark.

Return on assets ratio is low. As noted in reviews by the GPOC, the return on equity remains below that expected for a commercial rate of return (7%). Prices are set by the Joint Authority. The result is that water users, including member Councils, effectively receive subsidies from the owners of the Authority.

The Current ratio is above benchmark in all years under review. The repayment of the Authority's debt during 2005-06 substantially strengthened its working capital position. As there is no debt at 30 June 2006 or 2007, the Debt ratios did not apply.

The Debt collection ratio is dependent on the balance of Receivables at 30 June each year. The timing of receipt of payment for May water usage invoices from the member councils had a significant impact on this ratio in 2006-07. At 30 June 2005 the majority of these invoices were paid during June, whilst in 2005-06 payment was not received until early July. In 2006-07, the majority of invoices were again paid in June. The collection ratio was still within the Authority's terms of payment for this class of customer.

The Creditor turnover ratio has remained below the benchmark over the past two years due to prompt payments to suppliers.

The Capital expenditure to depreciation ratio was above expected in 2005-06 due to the completion of several major projects including the Casino Reservoir duplication project that cost approximately $1.456m.

The Authority completed a strategic asset management plan that included an asset replacement schedule based on the age profile of its assets. This plan highlighted that a major asset replacement is due near 2040, when two major pipelines will theoretically reach the end of their useful lives. It is expected that the Capital expenditure ratio will remain well below 100% as the Authority generates cash to fund major asset replacement. It is not expected that the surplus depreciation funding will be sufficient to meet the future asset replacement needs and the Authority has amended its dividend policy, as referred to below, to prevent all profits being distributed. In addition, water pricing will be reviewed to increase profits.

As the Authority has carried forward tax losses, no tax payments were made.

The Authority continued to pay dividends each financial year. It has a dividend payout policy of the lesser of the prior year dividend indexed for CPI or 100% of profit after tax for the year. The policy aims to retain equity within the Authority to finance future asset replacements. A further calculation is performed each year to ensure that this formula does not result in any Council being financially disadvantaged.

OVERALL COMMENT

The 2006-07 audit was completed satisfactorily with no major items outstanding.

HOBART REGIONAL WATER AUTHORITY

INTRODUCTION

The Hobart Regional Water Authority (the Authority or Hobart Water) was established under section 38 of the *Local Government Act 1993* following the enactment of the *Hobart Regional Water (Arrangement) Act 1996*. This Act transferred all the assets, property, rights and liabilities of the former Hobart Regional Water Board to the Authority effective 1 January 1997.

The Authority is a Joint Authority trading under the name of Hobart Water. It is a commercial business owned by the eight constituent councils in the Hobart Regional Water District, which comprises the cities of Hobart, Clarence and Glenorchy as well as the municipal areas of Kingborough, Sorell, Brighton, Derwent Valley and Southern Midlands. An independent board of management is responsible for the conduct of business and affairs of the Authority. Its core business is to provide bulk water supplies to its customers. The scope of activities includes:

- Collection and treatment of raw water to the required standard;
- Bulk transport of treated water to reticulation storages or networks;
- Planning, development and management of headworks; and
- Sale of bulk water on a commercial basis.

In addition to these core activities, the Authority also provides services under contract to Derwent Valley Council in respect to operations and maintenance of their water and waste water reticulation system. In June 2007, Hobart Water signed a long term operation and maintenance agreement with Glamorgan Spring Bay Council to provide water and waste water services.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 20 September 2007 and an unqualified audit report was issued on the same day.

The Authority did not adopt any new accounting standards in 2006-07, but did implement the following accounting policy changes:

- Restatement of minor assets to cost; and
- Restatement of intangible assets to cost.

In both instances, these assets were previously recognised at revaluation. The financial effects of these changes are discussed below.

FINANCIAL RESULTS

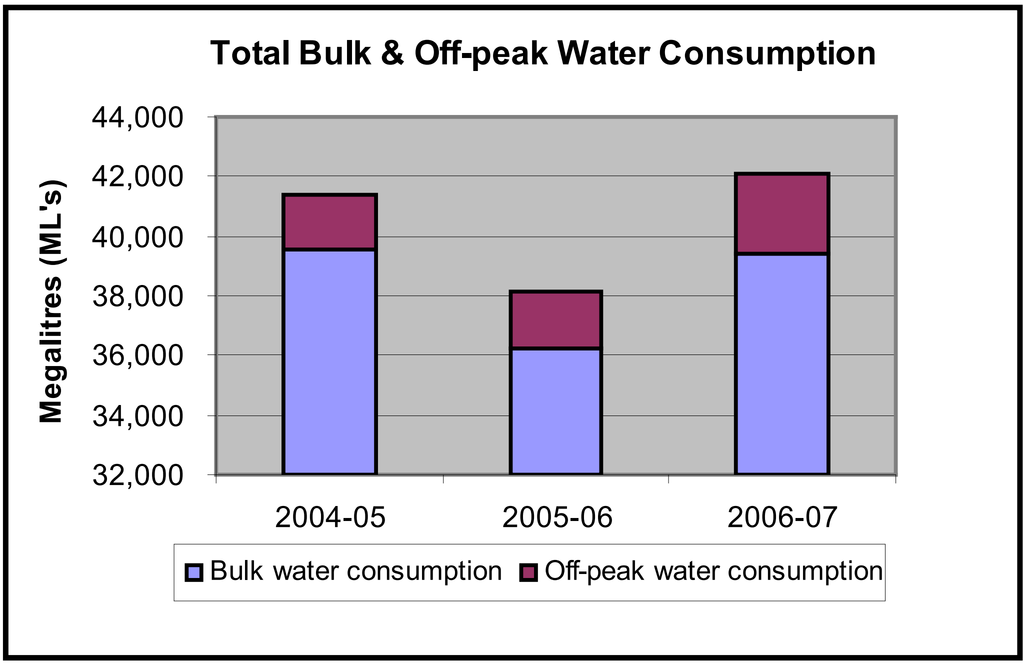
INCOME STATEMENT

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Operating revenue	26 711	24 416	23 386
Non-operating revenue	723	584	533
Total Revenue	**27 434**	**25 000**	**23 919**
Borrowing costs	2 379	2 448	2 432
Depreciation	5 999	5 228	5 182
Other operating expenses	14 053	12 516	11 444
Total Expenses	**22 431**	**20 192**	**19 058**
Profit before:			
Change in fair value of financial instruments	381	633	0
Defined benefit superannuation actuarial gains (losses)	(359)	466	(542)
Profit before taxation	**5 025**	**5 907**	**4 319**
Income tax expense	1 544	1 773	1 324
Net profit	**3 481**	**4 134**	**2 995**

Comment

Operating revenue from water sales fluctuates in accordance with consumption and it is noted that recent years' figures reflect drier conditions, leading to increasing consumption. In contrast, water consumption was lower in 2005-06, compared to 2004-05, however price increases and the commencement of the Derwent Valley operations and maintenance contract resulted in the slight increase in operating revenue overall for this year. Refer to the graph on the following page for an overview of water consumption over this period.

In addition, the 2006-07 net profit includes the once-off effect of the addition of a new Cambridge pipeline, which had to be relocated by a third-party for external reasons. As such, that third-party contributed $0.735m to the costs of the new pipeline.



Bulk water sales to constituent councils represented almost 89% of normal operating revenue for the current year, down slightly from 92% in the prior year and over 95% in the 2004-05 year. This percentage decrease is attributed to both:

- the once-off effect of the Cambridge pipeline noted above; and
- revenue from a contract with Derwent Valley Council for Hobart Water to provide operations and maintenance services, which increased operating revenue from other sources.

Non-operating revenue increased in each of the 2005-06 and 2006-07 years, due predominantly to higher interest income from cash reserves. The 2005-06 increase was a result of the improved cash position, and in 2006-07 due to improved interest rates resulting from the majority of cash assets invested being in a term deposit account.

In the past, the Authority undertook derivative trading as part of managing its debt. From 2005-06, the Authority moved to a less active approach to debt management which was aimed at reducing, and eventually eliminating, derivatives. However, from its existing portfolio of derivative instruments, the Authority generates interest income and incurs interest expense. In 2006-07 interest received from this activity amounted to $1.381m, down from $1.568m in 2005-06 and $1.721m in 2004-05. Similarly, interest expense in 2006-07 was $1.504m, down from $1.801m in 2005-06 and $1.977m in 2004-05. This downward trend is due to the gradual maturity and close out of the derivatives as the Authority implements its policy of eliminating all derivatives. Four swaps were closed out during the 2006-07 year, by payment of $0.176m. The overall decrease in Borrowing costs attributable to derivatives has been offset to some degree by increased interest on the underlying debt portfolio.

The net fair value of swaps at 30 June 2007 was a net balance of $0.129m gain. In comparison, the net fair value of the swaps at 30 June 2006 was a net balance of $0.428m loss ($1.061m loss as at 30 June 2005). This amount was recognised on the Balance Sheet for the first time in 2005-06, when a liability to the amount of $1.061m was recognised at 1 July 2005 and a gain of $0.633m arising from the change in fair value of financial instruments was recognised in the 2005-06 year. Similarly, this year's gain resulted in recognition of an asset to the value of $0.129m in the Authority's Balance Sheet, with a gain of $0.381m recognised after taking account of costs of closing out the four swaps during the year.

Borrowing costs shown in the Income Statement are the net of the interest expense on the underlying debt portfolio, swap interest expense, swap interest revenue and debt management costs.

Depreciation expense remained largely consistent from 2004-05 to 2005-06. On the basis of independent advice, Hobart Water revalued its major classes of non-current assets as at 1 July 2006 on the basis of current replacement values and this resulted in an increase in asset values of $104.009m. This revaluation led to the increased depreciation expense for that year. However the impact of this increase was reduced as a result of a reassessment of the useful lives of some assets at the date of the revaluation.

Other operating expenses include employee costs, royalties and direct costs of power and chemicals used in treatment. This operating expenditure generally fluctuates in line with water sales averaging around 50% of operating revenue. Other operating expenses for 2006-07 are marginally above this level due to the impact of increasing power costs during the year and the once-off impact of a $0.178m loss on disposal of property, arising from the disposal of the old Cambridge pipeline, which was replaced during the year.

AASB 119 *Employee Benefits* requires the defined benefit superannuation liability to be calculated using a discount rate equal to the government bond rate. This resulted in a defined benefit actuarial expense of $0.542m recognised in 2004-05. In 2005-06, there was a decrease in the net liability and a defined benefit actuarial gain of $0.466m was recognised due to an increase in the government bond rate. In 2006-07, based on the actuary's assessment, the net liability increased slightly and an actuarial expense was again recognised, to the value of $0.359m.

BALANCE SHEET

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Cash	9 864	9 582	8 191
Receivables and prepayments	7 010	6 451	6 154
Inventories	1 143	1 126	1 053
Derivative financial instruments	129	0	0
Total Current Assets	**18 146**	**17 159**	**15 398**
Payables	3 312	3 913	2 232
Borrowings	11 400	7 000	9 900
Derivative financial instruments	0	428	0
Provisions	1 622	1 167	1 363
Current tax liability	536	733	0
Total Current Liabilities	**16 870**	**13 241**	**13 495**
Working Capital	**1 276**	**3 918**	**1 903**
Property, plant and equipment	290 502	174 696	172 374
Intangibles	1 150	1 510	1 715
Total Non-Current Assets	**291 652**	**176 206**	**174 089**
Borrowings	21 798	26 198	23 298
Provisions	47 438	13 632	13 076
Total Non-Current Liabilities	**69 236**	**39 830**	**36 374**
Net Assets	**223 692**	**140 294**	**139 618**
Capital	5 974	5 974	5 974
Reserves	206 437	124 359	122 085
Retained earnings	11 281	9 961	11 559
Total Equity	**223 692**	**140 294**	**139 618**

Comment

Cash in all three years presented consisted of both the general cash bank accounts and the cash management account held with Tasmanian Public Finance Corporation (Tascorp). Cash increased in 2005-06 due to cash generated from operations being greater than funds invested in capital expenditure and payment of dividends. Cash levels for 2006-07 remained relatively constant.

Receivables for 2006-07 comprised normal bulk water accounts to the Joint Authority members and other water customers, accrued interest and other receivables. The increase in Receivables in 2006-07 is consistent with the increase in revenue for that year.

The Authority's inventory levels remained largely consistent over the three years considered.

As noted previously, the net fair value of swaps at 30 June 2007 was a net balance of $0.129 gain, resulting in recognition of an asset in the current year, compared with a liability for a $0.428m loss in 2005-06. These items were recognised for the first time in 2005-06, so there is no comparative for the 2004-05 year.

Payables for 2006-07 comprised normal trade creditors and accruals, $2.593m (2005-06, $1.542m and 2004-05, $1.424m) and accrued interest expense of $0.719m ($0.771m and $0.808m). An interim dividend payable of $1.600m was also recognised in 2005-06, explaining the peak in the payables balance for that year, but not in 2006-07 or 2004-05 because the dividend had not been declared prior to 30 June. The Authority's Board of Management recommended a final dividend, based on the 2006-07 operating results, of $1.900m, making a total dividend of $3.400m for the year (2005-06, $4.000m and 2004-05, $3.400m), which has been disclosed as a note to the financial statements. The absence of a comparable dividend accrual in 2006-07 has, however, been in part off-set, by an increase in capital expenditure creditors and accruals as at 30 June 2007.

Current Borrowings increased by $4.400m compared to the 2005-06 balance of $7.000m. This increase is off-set by a decrease in non-current Borrowings of the same amount. Similarly, 2005-06 current Borrowings decreased by $2.900m compared to the 2004-05 balance of $9.900m, which was offset by an increase in non-current Borrowings of the same amount. These current and non-current fluctuations reflect the timing of loan terms. In total, Borrowings have remained unchanged over the period under review.

The Authority's current Provisions relate to employee benefits, which have remained largely consistent across the three years considered, with the exception of the effect of the movements in the defined benefit superannuation liability discussed previously.

The Authority's Working Capital is positive. The decrease in 2006-07 is due to the reallocation of Borrowings from non-current to current during the year, as discussed above. With this movement taken into account, the position has improved. Conversely, the apparent improvement in the Working Capital position noted in 2005-06 was primarily due to the reallocation of $2.900m Borrowings from current to non-current during that financial year.

As noted previously, during 2006-07, Hobart Water re-valued its major classes of Non-current Assets on the basis of current replacement values as at 1 July 2006. This resulted in an increase in asset values by $104.009m. In addition to this, Property, plant and equipment was subject to indexation as at 30 June 2007, which increased net asset values by a further $11.766m. Both transactions are also reflected in the movement in the asset revaluation reserve, discussed further below. The increase in Property, plant and equipment during 2005-06 was due to a combination of additions and the effect of indexation for that year.

The Authority's intangibles balance consists of computer software. The decrease in Intangibles in 2005-06 comprised amortisation of $0.367m, offset by additions of $0.133m and an upward revaluation due to indexation of $0.029m. As at 1 July 2006, intangibles were restated to cost resulting in the lower balance noted at 30 June 2007.

Non-current provisions include employee entitlements, superannuation and a provision for net deferred tax liability. The balance of the net deferred tax liability varies from year to year according to the Profit before taxation from ordinary activities, changes in tax rates and timing differences, including the effect of asset revaluations and indexations. In line with the increase in assets of $115.806m discussed previously, this net deferred tax liability increased by $33.869m. Income tax paid during 2006-07 amounted to $1.329m (2005-06, $0.637m) and a Current tax liability of $0.536m ($0.733m) was recognised as at 30 June 2007.

CASH POSITION

	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s
Receipts from customers	27 648	25 172	23 748
Payments to suppliers and employees	(14 562)	(13 733)	(12 179)
Interest received	2 151	2 180	2 112
Borrowing costs	(3 799)	(4 005)	(4 095)
Income tax paid	(1 329)	(637)	0
Cash from operations	**10 109**	**8 977**	**9 586**
Payments for property, plant and equipment	(5 781)	(4 411)	(3 026)
Proceeds from sale of property, plant and equipment	130	225	313
Payments to terminate derivative financial instruments	(176)	0	0
Cash (used in) investing activities	**(5 827)**	**(4 186)**	**(2 713)**
Proceeds from borrowings	12 000	9 900	15 000
Repayment of borrowings	(12 000)	(9 900)	(15 000)
Dividends paid	(4 000)	(3 400)	(2 800)
Cash (used in) financing activities	**(4 000)**	**(3 400)**	**(2 800)**
Net increase in cash	**282**	**1 391**	**4 073**
Cash at the beginning of the year	9 582	8 191	4 118
Cash at end of the year	**9 864**	**9 582**	**8 191**

Comment

Movements in Receipts from customers and Payments to suppliers and employees were consistent with variations noted in cash-based operating revenues and expenses.

Payments to suppliers and employees included payments to the State Government for the water royalty of $1.260m in 2006-07 (2005-06, $1.120m and 2004-05, $1.190m).

Interest received included interest from derivatives (swaps) and has been consistently higher than would be anticipated given cash holdings. This is a result of the Authority's current portfolio of derivatives which are designed to minimise net borrowing costs. However, it is expected that this will progressively decline in future years as the Authority reduces and eventually eliminates derivatives, with this downward trend commencing this year. Borrowing costs in the table were similarly grossed up for interest paid on swaps.

Despite the existence of tax losses available to the Authority, it has resolved to pay income tax to its owners, the Joint Authority. This resulted in income tax of $1.329m being paid during 2006-07.

The increase in Payments for property, plant and equipment in 2005-06 and again in 2006-07 was predominantly due to capital works undertaken in relation to Bryn Estyn, dams and pipelines.

Dividend payments totalling $3.400m were made during 2005-06, relating to the distribution of profits generated in the 2004-05 year. Similarly, dividend payments totalling $4.000m were made during 2006-07, relating to the distribution of profits from the 2005-06 year.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations ($'000s)		4 280	4 224	4 328
EBIT ($'000s)		7 404	8 355	6 751
Operating margin	>1.0	1.19	1.21	1.23
Return on assets		2.9%	4.4%	3.7%
Return on equity		1.9%	3.0%	2.2%
Financial Management				
Debt to equity		14.8%	23.7%	23.8%
Debt to total assets		10.7%	17.2%	17.5%
Interest cover	>3	3.3	3.9	3.1
Current ratio	>1	1.1	1.3	1.1
Cost of debt	7.5%	7.2%	7.4%	7.3%
Debt service ratio		14%	16%	18%
Debt collection	30 days	93	92	86
Creditor turnover	30 days	54	21	16
Capital expenditure/depreciation	100%	96%	84%	58%
Returns to owners				
Dividends paid or payable ($'000s)		3 400	4 000	3 400
Dividend payout ratio	50%	97.7%	96.8%	113.5%
Dividend to equity ratio		1.3%	2.9%	2.5%
Income tax paid or payable ($'000s)		1 133	1 370	0
Effective tax rate	30%	22.5%	23.2%	0
Total return ($'000s)		3 533	5 370	3 400
Total return on equity ratio		1.9%	3.8%	2.5%
Other Information				
Staff numbers FTE		90	74	70
Average staff costs ($'000s)		72	81	73
Average leave balance per FTE ($'000s)		12	12	13

Comment

Hobart Water consistently recorded sound operating margins which are generally better than the benchmark. However, due to its large asset and equity base, and because

Hobart Water continues to charge water at prices below the maximum recommended by the Water Regulator, returns on assets and on equity are low. This has been further exacerbated for the 2006-07 year due to the large increase in asset values arising from the revaluation during the year. While the revaluation results in a lower return on assets and equity, it enables a better assessment of financial performance.

The Current ratio remained above the benchmark due primarily to the Authority's strong cash position for each of the years considered. The reallocation of borrowings from current to non-current during 2005-06 resulted in the slightly higher ratio than in the prior year.

Cost of debt and associated ratios remain steady.

Water sales to member councils are billed quarterly resulting in the high Debt collection ratio. The Authority experiences no difficulty collecting these debts.

The Capital expenditure to depreciation ratio was low in 2004-05 due to the timing of capital projects. It increased in 2005-06, and again in 2006-07, due to increased expenditure on capital projects. This is consistent with the Authority's planned capital expenditure programs, which should also result in this ratio continuing to increase.

The Authority continued to pay dividends each financial year.

The increase in employee numbers reflects growth in new business opportunities, in particular the Derwent Valley Council operations and maintenance contract.

OVERALL COMMENT

The audit of the financial statements for 2006-07 was completed with satisfactory results.