Tasmanian Audit Office

Making a Difference

REPORT OF THE AUDITOR-GENERAL
No. 2 of 2008

Government Departments and
Public Bodies 2007-2008

VOLUME TWO

Government Businesses,
Superannuation Funds and Other Public Bodies

November 2008

THE ROLE OF THE AUDITOR-GENERAL

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

Our major responsibility is to conduct financial or 'attest' audits of State public sector entities' annual financial reports. We also audit the General Government Financial Statements, the Public Account Statements and the Whole-of-Government Financial Statements.

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

Financial reports by agencies are prepared consistent with Accounting Standards and other mandatory financial reporting requirements in Australia. On occasion reports are "special purpose financial reports" such as the Public Account Statements. In all cases our audits are conducted in accordance with Australian Auditing Standards.

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

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

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

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

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

2008 (No. 28)

2008

PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL No. 2 of 2008

GOVERNMENT DEPARTMENTS AND PUBLIC BODIES 2007-2008

Volume Two

Government Businesses, Superannuation Funds and Other Public Bodies

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Presented to both Houses of Parliament in accordance with the requirements of Section 57 of the Financial Management and Audit Act 1990

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

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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 2008 comprised the following 9 Government Business Enterprises and six State Owned Companies:

Entity	Responsible Minister
Forestry Tasmania	Minister for Economic Development
Hydro-Electric Corporation	Minister for Energy
Motor Accidents Insurance Board	Minister for Infrastructure
Port Arthur Historic Site management Authority	Minister for Environment, Parks, Heritage and the Arts
Rivers and Water Supply Commission	Minister for Primary Industries and Water
Southern Regional Cemetery Trust	Minister for Local Government
Tasmanian Public Finance Corporation	Treasurer
The Public Trustee	Attorney-General
Aurora Energy Pty Ltd	Minister for Energy and Resources
Metro Tasmania Pty Ltd	Minister for Infrastructure
TOTE Tasmania Pty Ltd	Minister for Racing
Transend Networks Pty Ltd	Minister for Energy and Resources
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 \$3.728bn (2005-06, \$3.536bn) in net assets, generate \$477.302m (\$291.887m) in after tax profits, employ about 3 958 (4 033) full time employees and are of fundamental importance to the Tasmanian economy. Also of significance is that during 2007-08 these entities paid out \$315.423m (\$295.903m) 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 four year period to 2007-08.

In the case of the Energy Businesses a separate section is included comparing performance between the four businesses in 2007-08.

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 2008, 6.44%) 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 2007-08

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 2005-06 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 financial performance and financial position.

The three entities are Hydro-Electric Corporation (Hydro Tasmania or Hydro), Aurora Energy Pty Ltd (Aurora) and Transend Networks Pty Ltd (Transend). For further detail regarding the financial performance of each utility, refer to individual Chapters in this Report.

OVERVIEW/KEY FINDINGS AND OUTCOMES FROM AUDITS

Each entity experienced various events and/or changes during 2007-08 the more important of which are:

Hydro:

- Moved from valuing its generation assets at fair value rather than deemed cost. This results in significant assets and liabilities on its balance sheet being valued on a similar basis
- Established the existence of a reliable Tasmanian yield curve enabling it to separately value its Tasmanian contracts
- Received a $50m equity contribution from the State which enabled it to make further capital investments in the R40s joint venture and transferred $220m in a debt for equity swap with Transend
- Continues to experience low water storages requiring it to import power over Basslink and to operate the Bell Bay Power station for longer periods than planned.

Aurora:

- Was awarded a significant price increase for its residential and non-contestable business customers from 1 January 2008 the full impact of which is still be assessed
- Faces increasing competition as the Tasmanian energy market is progressively opened through to 2010
- Entered into a long term energy supply contract with a subsidiary of Babcock & Brown Power Limited (B&B)
- Concluded that it was unable to develop reliable models to estimate its Tasmanian yield curves resulting in it not recognising the assets or liabilities associated with its Tasmanian contracts

- Was required by Government, post 30 June 2008, to acquire from B&B the Tamar Valley Power Station at an estimated total cost of $340m of which $100m will be funded via an equity contribution from the State.

Transend:

- Took on $270m in debt from Hydro resulting in total debt at 30 June 2008 of $408.6m (30 June 2007, $118.1m)
- Continues to apply the Depreciated Optimised Replacement Cost methodology for revaluing its transmission assets with its total assets recognised at an amount of $1,259.m at 30 June 2008 (30 June 2007, $1,110.4m).

INCOME STATEMENTS

	Hydro	Aurora	Transend
	$'000	$'000	$'000
Electricity sales/transmission/distribution	407 799	860 650	131 640
Other operating revenue	179 544	42 192	5 034
Non-operating revenue	164 852	51	0
Total Revenue	**752 195**	**902 893**	**136 674**
Borrowing costs	95 663	34 639	10 499
Depreciation	68 043	71 301	51 495
Labour	88 574	67 857	19 309
Energy and transmission purchases	0	625 264	0
Other operating expenses**	275 730	65 915	26 776
Total Expenses	**528 010**	**864 976**	**108 079**
Net profit before superannuation adjustment	**224 185**	**37 917**	**28 595**
Superannuation actuarial adjustment *	9 461	1 724	(1 785)
Net profit before taxation	**233 646**	**39 641**	**26 810**
Income tax expense	(64 612)	(12 570)	(8 083)
Profit after taxation	**169 034**	**27 071**	**18 727**
Profit after taxation in 2006-07	**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.*

*** In Hydro's case other operating costs include Basslink, gas and pipeline expenses.*

Comment

These entities made a combined profit after tax of $215.102m (2006-07, $101.667m) with Hydro contributing 79%, Aurora 13% and Transend 8% of this profit. Aurora's energy and other operating costs includes $611.629m (2006-07, $538.600m 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 and non-operating revenues represent 46% of its total revenues (Aurora, 5% and Transend, 4%) primarily due to:

- Revenues generated by its Consulting Division, $45.188m (2006-07, $32.393m)
- $96.030m (2006-07, $132.192m loss) earned from fair value movements electricity derivatives
- $28.267m (2006-07, $61.026m gain) earned from net favourable movements in re-assessment of its Basslink financial assets and liabilities
- $164.852m (2006-07, $155.127m gain) in non-operating revenue resulting from further reversal of the impairment loss it recorded in 2004-05 when it impaired its generation assets by $542.269. At 30 June 2008 an approximate amount of $245m remains impaired.

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

	2007-08	**2006-07**	**2005-06**
Hydro	18.12%	15.20%	18.47%
Aurora	4.00%	4.01%	4.01%
Transend	9.56%	6.97%	6.97%

Hydro's total borrowing costs increased by $4.968m in 2007-08 (2006-07, $6.442m). It is anticipated that Hydro's borrowings costs will decline in 2008-09 due to the debt swap with Transend on 30 June 2008. The reverse will be the case for Transend. In Aurora's case, its borrowing costs increased by $4.040m (2006-07, $2.230m) although as a percentage of total costs this cost remained constant. Transend's increased by $3.986m (2006-07, $2.363m) due to increases in borrowings resulting from the $50m debt for equity swap with Hydro and further borrowings raised in 2007-08 to finance its on-going capital investment program. The debt for equity swap with Hydro of $220m had little impact on borrowing costs of either Hydro or Transend as it was effected on 30 June 2008.

Hydro's other operating expenses include costs associated with Basslink and gas and pipeline costs totalling $143.041m (2006-07, $126.803m).

BALANCE SHEETS

	Hydro $'000	Aurora $'000	Transend $'000
Cash and investments	93 302	3 172	21 499
Receivables	59 997	74 611	22 943
Unbilled energy	0	71 569	0
Inventories	18 363	14 857	423
Financial assets	62 975	12 586	0
Other	32 910	1 382	811
Total Current Assets	**267 547**	**178 177**	**45 676**
Payables	67 333	108 707	24 825
Borrowings	493	0	408 677
Financial liabilities	153 941	0	0
Provisions	43 030	28 956	9 293
Tax (assets)/liabilities	0	2 009	2 436
Other	0	18 389	32 019
Total Current Liabilities	**264 797**	**158 061**	**477 250**
Working Capital	**2 750**	**20 116**	**(431 574)**
Property, plant and equipment	4 056 372	1 065 413	1 259 312
Investments	108 464	0	0
Intangible assets	0	33 836	1 514
Financial assets - Basslink	362 091	0	0
Other financial assets	51 133	9 523	0
Total Non-Current Assets	**4 578 060**	**1 108 772**	**1 260 826**
Borrowings	970 881	555 212	0
Provisions	280 563	52 574	19 496
Financial liabilities	1 373 893	0	0
Deferred tax liabilities	559 033	109 832	218 390
Other non-current liabilities	0	788	0
Total Non-Current Liabilities	**3 184 370**	**718 406**	**237 886**
Net Assets	**1 396 440**	**410 482**	**591 366**
Capital	270 000	201 555	66 549
Reserves	12 694	110 933	452 192
Minorities/joint ventures	0	0	0
Retained profits	1 113 746	97 994	72 625
Total Equity	**1 396 440**	**410 482**	**591 366**
Total Equity at 30 June 2007	**958 190**	**403 162**	**764 619**
Total Equity at 30 June 2006	**907 435**	**333 145**	**528 508**

Comment

In previous years, all three entities reported negative working capital suggesting that, before adjusting for employee and other provisions, and subject to available credit, liquidity was tight. However, that assumed that all short term borrowings were to be paid rather than re-negotiated. At 30 June 2008, other than $493,000 at Hydro, only Transend was reporting any of its Borrowings as having to be settled within the next 12 months. In all likelihood, these borrowings will also be re-negotiated suggesting that all three utilities had sufficient liquidity at 30 June 2008 to meet short term commitments.

As expected, infrastructure assets, resulting in relatively high depreciation charges, dominate each entity's balance sheet. Another large non-current asset at Hydro is its $108.464m (30 June 2007, $80m) 50%, investment in the R40s joint venture.

Other major assets and liabilities include:

- Net deferred tax liabilities – these primarily arise from offsetting effects of asset revaluations giving rise to deferred tax liabilities and the establishment of provisions, in the main provisions for unfunded superannuation liabilities, giving rise to deferred tax assets
- In the case of Hydro, financial assets and liabilities relating primarily to its Basslink contracts and because it has in 2008 established a Tasmanian yield curve enabling it to value the financial impacts on both its generation assets and liabilities of its Tasmanian contracts
- Provisions comprising provisions for annual and long service leave and unfunded superannuation obligations.

A significant difference between these three entities continues to be the manner in which their capital structures have been established with, until this year, 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 and particularly in 2007-08 when Transend took up $270m of Hydro's debt, as demonstrated by gross borrowings recorded in the following table:

	Hydro	**Aurora**	**Transend**
	$'000	$'000	$'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
Borrowings at 30 June 2008	1 006 013	555 212	408 677
Increase/(decrease) in borrowings	(205 505)	118 337	355 776
Percentage change in borrowings	(16.96%)	27.09%	672.53%

The Borrowings of all three entities has grown primarily due to their on-going capital investment programs, development of new systems including those associated with entry into the National Energy Market and investments in joint ventures. Other observations include:

Hydro's debt:

- decreased primarily due to the deconsolidation of the R40s group of companies in 2005-06
- by a further $270m following the debt for equity swap with Transend in 2007-08.

Aurora's growth in Borrowings has primarily been associated with its asset investment programs including the development of new systems. Transend's borrowings increased in the period 2005 to 2008 for the same reasons and also by the $270m debt for equity swap with Hydro. At 30 June 2007 Aurora's Issued capital totalled $336.549m reducing to $66.549m at 30 June 2008.

CASH POSITION

	Hydro $'000	Aurora $'000	Transend $'000
Receipts from customers	553 655	974 214	166 702
Payments to suppliers and employees	(453 136)	(864 050)	(62 975)
Interest received	3 657	1 844	9
Borrowing costs	(74 114)	(32 510)	(8 376)
Income tax equivalents paid	0	(14 363)	(19 271)
Government guarantee fee paid	(5 105)	(1 498)	0
Cash From Operations	**24 957**	**63 637**	**76 089**
Payments for investments	(21 468)	0	0
Proceeds from financial assets	13 598	0	0
Payments for assets and intangibles	(51 274)	(134 923)	(60 666)
Proceeds from investments and asset sales	33 074	1 319	279
Cash (Used in) Investing Activities	**(26 070)**	**(133 604)**	**(60 387)**
Proceeds from borrowings	235 000	368 800	115 639
Repayment of borrowings	(242 200)	(318 800)	(45 000)
Dividend paid	0	(10 733)	(15 000)
Proceeds from equity issue	50 000	0	(50 000)
Cash From Financing Activities	**42 800**	**39 267**	**5 639**
Net Increase in Cash	41 687	(30 700)	21 341
Cash at the beginning of the year	51 615	33 272	158
Cash at End of the year	**93 302**	**2 572**	**21 499**

Comment

These entities continue to generate significant cash from operations, which totalled $164.683m although cash generated has declined in recent years - $205.267m generated in 2006-07, $286.949m in 2005-06 and $271.609m in 2004-05. They continue to invested heavily in capital expenditure – gross $246.863m in 2007-08 ($253.396m in 2006-07, $348.757m in 2005-06 and $256.658m in 2004-05).

Hydro's Cash from operations continued to decline - $24.957m in 2007-08 from $139.968m in 2005-06 and $37.395min 2006-07. This is a reduction of $115.011m and continues to be primarily due to low water inflows and therefore low water storages meaning that it continues to import rather than export energy over Basslink. The other factors were the facility fee payments 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 ($'000s)		(58 002)	31 508	28 595
EBIT ($'000s)		41 874	74 280	37 309
EBITDA ($'000s)		109 917	145 581	88 804
Operating margin	>1.0	1.31	1.04	(1.20)
Return on assets		0.9%	5.7%	3.1%
Return on equity		13.6%	6.7%	2.8%
Financial Management				
Debt to equity		69.6%	135.3%	69.1%
Debt to total assets		20.0%	42.3%	31.3%
Interest cover - EBIT		0.44	2.1	3.2
Interest cover - EBITDA	>2	1.50	4.2	8.5
Interest cover - operating cash flows		1.32	2.8	10.1
Current ratio	>1	1.01	1.13	0.10
Leverage ratio		347%	320%	148%
Cost of debt	7.50%	6.5%	6.5%	7.5%
Debt collection	30 days	47	29	31
Creditor turnover	30 days	26	33	27
Capital Exp/Depreciation	1	0.75	1.89	1.08
Returns to Government				
Dividends paid or payable ($'000s)		-	9 930	9 360
Dividend payout ratio	50%	0%	36.7%	50.0%
Dividend to equity ratio	6%	0%	2.4%	1.4%
Income tax paid or payable ($'000s)		0	12 197	19 271
Effective tax rate	30%	0.0%	38.7%	30.1%
Government guarantee fees		5 105	1 498	0
Total return to the State ($'000s)		5 105	23 622	28 631
Total return to equity ratio		0.4%	5.8%	4.2%
CSO funding		7 200	14 207	0
Other Information				
Staff numbers (FTEs)		791	1 056	210
Average staff costs ($'000s)		112	64	100
Average leave balances per employee ($'000s)		25	20	27

Comment

Hydro's improved Return on equity arises primarily from the impact on its profit before tax of the fair value movements in its energy derivatives.

Hydro's debt to equity ratio has improved for the reasons previously outlined. The debt to equity ratios of Aurora and Transcend indicate that they rely to a greater extent on debt funding than does Hydro. These debt related ratios might present a more meaningful picture at 30 June 2009 following a full year of the revised debt/ equity arrangements.

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 $57.358m (2006-07, $95.365m, 2005-06, $108.732m, 2004-05, $129.900m) to the State in 2007-08.

APPROACH TO INFRASTRUCTURE ASSET RECOGNITION

All three entities now adopt the accounting policy permitted by accounting standards of recognising their primary infrastructure assets at revaluation rather than cost. Aurora and Transend have been on a valuation basis for some years and Hydro change to this basis on 30 June 2008. I have noted in previous reports to the Parliament my view that long-lived infrastructure assets should be recognised at valuation rather than at cost or deemed cost so the position now arrived at is supported. However, and again, as permitted by accounting standards, the valuation bases applied vary. Details are:

Hydro – valuations are based on discounted future income streams

Aurora – valuations are based on discounted future income streams based on models developed by the Energy Regulator which Aurora regards as representing depreciated optimised replacement cost (DORC)

Transend – valuations are based on DORC which are greater than valuations determined based on discounted future income streams.

As noted, each method is allowed under accounting standards. However, the methods applied can vary the carrying amounts of core infrastructure assets on each entity's balance sheet potentially impacting:

- pricing
- depreciation charges
- maintenance programs
- asset replacement programs
- capitalisation of cattail expenditure.

These matters are currently under discussion.

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 is 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 include:

- 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
- 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 AND OUTCOMES FROM AUDITS

- The audits of the financial statements of all seven GBEs have been completed. All audit opinions were unqualified
- All audits were completed satisfactorily with no major issues outstanding
- All GBEs submitted financial statements within the statutory deadline being 45 days following the end of the financial year
- Tasmania's GBEs collectively have net assets recorded at $2.271bn (2006-07, $1.941bn), employ over 1 481 people (1 540), and generated $86.252m ($206.295m) in after tax profits in 2007-08.
- The following three GBEs make up 98% of the net assets controlled by all GBEs. They contributed $99.005m profit after tax in the current year compared to $207.092m in the prior year. The primary reason for the decrease was negative returns from Forestry Tasmania and the Motor Accident Insurance Board:
  - Forestry Tasmania
  - Hydro-Electric Corporation (Hydro)
  - Motor Accidents Insurance Board.
- 2007-08 has again been a challenging year for **Hydro**. It has had to continue 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 profitability increased mainly due to favourable movements in fair values in electricity derivatives, Basslink assets and liabilities and generation assets.
- Hydro's liquidity and Balance Sheet position continues to be 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 maintaining its borrowings at a sustainable level.
- The challenge to Hydro continues to be one of the balancing its internal capital needs, the capital needs of its ventures, particularly Roaring 40s, and responding to the low storage situation as a result of the hydrological situation.
- **The Motor Accidents Insurance Board's** performance was strongly influenced by negative returns generated by the financial and equities markets in 2007-08. Investment revenue declined by $232.755m to a negative return of $95.446m. A loss after taxation of $22.624m was recorded compared to a net profit after tax of $113.084m in the previous year. This contributed to Net Assets reducing by $65.574m to $273.900m.
- 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 profit of $1.249m compared to a small operating loss of $0.460m in 2006-07 before recognition of the actuarial superannuation liability expense and assets not previously recognised.
- The financial position of **Rivers and Water Supply Commission,** due to lateness of statements being finalised, will be reported in the next report in early 2009.
- **Forestry Tasmania** operated at an after tax loss of $38.456m in 2007-08. This compares with a net profit of $14.641m in 2006-07. The before tax result was a loss of $55.242m ($19.422m profit). Profitability reduced primarily due to increases in amounts paid to contractors which represented 62% of Forest revenue in 2007-08 (53% in 2004-05) and a downward adjustment of $73.889m ($11.997m increase in 2006-07) in the valuation of its forest resource. Its Net Assets were $548.477m at 30 June 2008 (2006-07, $586.560m). The reduction in Net Assets was mainly due to a decrease in both plantation and native forests principally due to timing of the wood flows over the 90 year forecast period.
- 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 2007-08 Tascorp operated at a loss after income tax equivalents of $1.894m compared to a profit after tax the previous year of $3.846m. Its net assets at 30 June 2008 were $16.652m. At this date its Total Assets were $6.492bn (2007, $6.477bn) and its Total Liabilities were $6.475bn (2007, $6.455bn).

FORESTRY TASMANIA

INTRODUCTION

Forestry Tasmania (Forestry) was established under the *Forestry Amendment (Forestry Corporation) Act 1994*, which amended the *Forestry Act 1920*. Forestry 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 holds a 100% interest in Newood Holdings Pty Ltd and a 50% share in a softwood joint venture with Grantham, Mayo and Osterloo (GMO). All figures in the following tables and analysis are based upon consolidated figures.

Forestry'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.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

The Board signed the financial statements on 15 August 2008 and an unqualified audit report was issued the same day.

The 2007-08 audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

During the four year period under review, Forestry's operating results (before accounting valuation outcomes) fluctuated from an operating profit in 2004-05 of $17.289m to operating profits of less than $2m in each of 2005-06 and 2006-07 improving to $8.568m in the current year. Total revenue in 2007-08 returned to the same level as that achieved in 2004-05 – around $184.500m. However, operating profitability was less than half that achieved in 2004-05 primarily due to increases in amounts paid to contractors which represented 62% of Forest revenue in 2007-08 (53% in 2004-05). During the period Forestry also faced exposure to fluctuating international demand and varying exchange rates impacting sale prices, volumes and ultimately returns on sales. During this period, Forestry's working capital declined significantly from positive $31.084m at 30 June 2005 to negative $7.830m at 30 June 2008 due principally to conversion of a proportion of the longer term borrowings into short term. Its capacity to generate cash from operating activities also declined, with this source of funds declining from $21.265m in 2004-05 to $4.695m in 2007-08. Despite this, Forestry continued to invest in plantations, roads and other capital assets with the average annual cash spend exceeding $27.000m funded primarily by small equity contributions, borrowings and proceeds from the Tasmania Community Forest Agreement (TCFA). Higher borrowings resulted in net interest costs increasing from $1.425m in 2004-05 to $2.410m in 2007-08. Returns to government in the form of taxes and dividends paid declined from a high of $9.010m in 2004-05 to nil in 2007-08.

Not surprisingly, as a result of its tight liquidity position, Forestry proposed no dividend for the 2007 08 financial year. It is also noted that no dividend was paid during 2007-08 in relation to the 2006-07 financial year.

Improved Operating profits and cash flows are required if Forestry is to return to paying dividends. Management are keenly aware of this position and are monitoring operations closely. I am advised that management is developing longer term strategies to maintain future sustainability.

INCOME STATEMENT

	2007-08 $'000	**2006-07** $'000	**2005-06** $'000	**2004-05** $'000
Revenue from forest sales	137 755	123 540	107 331	137 589
Share of GMO Joint Venture revenues	18 519	27 929	24 432	22 350
Forest management services revenue	10 182	11 788	13 626	14 251
Tasmanian Community Forest Agreement	3 768	4 360	496	0
Other operating revenue	14 474	11 712	12 513	9 204
Non-operating revenue	0	18	57	8
Total Revenue	**184 698**	**179 347**	**158 455**	**183 402**
Employee benefits	32 037	30 049	33 758	32 288
Contractors expenses	85 469	76 795	65 888	73 438
Share of GMO JV expenses	17 680	26 581	23 010	20 705
Net finance costs	2 410	1 224	1 073	1 425
Depreciation	12 470	10 220	9 594	9 065
Other operating expenses	26 064	29 317	23 486	29 200
Non-operating expenses	0	49	53	(8)
Total Expenses	**176 130**	**174 235**	**156 862**	**166 113**
Profit before:	**8 568**	**5 112**	**1 593**	**17 289**
Forest net market value adjustment	(73 889)	11 997	6 745	(12 645)
Tasmanian Community Forest Agreement - capital grant income	15 670	17 931	17 220	0
Superannuation net market value adjustment	(2 885)	3 933	0	0
Superannuation liability movement	(2 198)	(15 828)	5 754	(15 739)
Impairment of non-current assets	(508)	(3 723)	0	0
Profit/(loss) before income tax	**(55 242)**	**19 422**	**31 312**	**(11 095)**
Income tax (credit)/ expense	(16 786)	4 781	8 526	(4 392)
Net profit (loss)	**(38 456)**	**14 641**	**22 786**	**(6 703)**

Comment

For each of the four financial years covered by this review Forestry recorded a profit before the impacts of the Forest net market value adjustment, Capital grant income, movements in the unfunded superannuation liability and superannuation investment account, and Income tax. After allowing for these items Forestry made Net losses in 2007-08 and 2004-05 and a Net profit in 2006-07 and 2005-06.

In 2004-05 the State and Federal Governments signed the TCFA which resulted in Forestry receiving funds for specific projects including the establishment of new hardwood plantations, increased forest management activities, road construction and specialty timber management. The first amount received under this agreement was $12.500m in 2004-05 all of which were advance receipts with expenditure only commencing in 2005-06.

The table below details Forestry's operating profitability expressed in percentiles.

Operating Profit Margin Analysis

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000	$'000	$'000	$'000
Total revenue (excluding TCFA capital grant income)	184 698	179 347	157 959	183 402
Operating profit before non-operating adjustments	8 568	5 112	1 593	17 289
Operating profit margin	**4.64%**	**2.85%**	**1.01%**	**9.43%**

This table shows that after adjusting for those components of the TCFA grants that related to capital grants, the Operating profit margin before non-operating adjustments from 2005-06 to 2007-08 was well below that of 2004-05. There were a number of reasons for this including:

- a decline in sales of forestry products, particularly in 2005-06 and 2006-07 due to the low Australian dollar and low international demand for pulpwood particularly from Japan
- increasing, in percentage terms, contractor costs
- higher depreciation
- high freight costs
- increasing interest costs.

These items are explained in greater detail later in this analysis.

Revenue

Forest sales comprised revenue from sawlogs, pulpwood, export sales, road-tolls, and harvesting and haulage.

The level of sales was primarily driven by volume and price which included a harvest and haulage component for mill door sales.

Pulpwood revenue increased in 2007-08 (2006-07, $123.540m), as a result of an increase in demand at a $13.90 (price per tonne). Pulpwood volumes and revenues are still well below those of 2004-05. During 2007-08 the international market for export pulpwood from Tasmania improved over the prior two years due principally to favourable freight costs and exchange rates.

Whilst Sawlog category volumes declined slightly from the 2004-05 high, returns are stable with a slight increase in the average price. Sawlog revenues also included rotary peeler logs processed at the Ta Ann export veneer mills. Veneer production is mainly being exported to Malaysia for processing into ply. The commencement of this new product during 2007-08 produced sales of $2.953m and was the major contributor to an increase in sawlog revenues. Logs are predominately sourced from native forest pulpwood grades that would previously have been processed into woodchips for export.

Export sales of peeler logs declined to $12.112m in 2007-08 due to the ability to sell peeler logs into the domestic market for higher returns.

The harvesting and haulage component of forest sales increased $8.882m (19%) from 2004-05 to 2007-08. Combined with road-tolls, this component comprises 50% of 2007-08 forest sales.

Forestry is reliant on its three largest customers in Gunns Ltd (47% of total forest sales) Artec Pty Ltd (17%) and Norske Skog Boyer (7%) for the sale of forest products.

Forestry's Share of revenue from its joint venture with Grantham, Mayo, and Osterloo Renewable Resources (GMO) (also referred to as the Taswood Gowers JV), having increased in 2005-06 and 2006-07, decreased in 2007-08 to $18.519m. The decrease in revenue is due to reduced harvested volumes due to the lack of availability of harvestable resource.

The movement in Forestry's share of GMO revenue was consistent with Forestry's share of expenses which also fell. The net margin for 2007-08 was $0.839m. Whilst net contributions have been falling, this is well below the prior three year average of $1.471m.

Forest management services revenue continued to decrease in 2007-08 due to a reduction in plantation establishment on State forest by external parties and consequently a reduction in the requirement for forest management services. A consequential reduction in some operating expenses was also incurred.

The TCFA is a significant source of revenue (2005-06, $17.716m; 2006-07, $22.291m; 2007-08, $19.438m). This revenue is matched by expenditure incurred under the agreement. Expenditure primarily relates to projects associated with the establishment of new hardwood plantations, increased forest management activities, road construction for Special Timber Management Units and various other research related tasks. The majority of funds expended were on capital programs.

To date $90.078m has been received by Forestry Tasmania with $71.280m earned to date. At 30 June 2008 $18.798m was carried forward to future years to match expenditure still to be incurred. This balance 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. The TCFA is designed to increase plantation establishment, enhance the productivity of the forest and improve timber value recovery.

Other operating revenue increased significantly in 2007-08 ($2.762m or 23%) predominately due to the consolidation of Newood Holdings Pty Ltd (Newood). Effective 1 July 2007 Forestry purchased for $1, a further 50% share of Newood from John Holland Investment Pty Ltd thereby gaining 100% ownership. The net assets of Newood as at 1 July 2007 totalled $1.322m and a gain on acquisition was recognised in Forestry's own accounts (i.e. not in the consolidation) for this amount.

Newood was established to develop the Huon and Smithton Wood Centres. The Huon and Smithton sites are capable of housing interrelated forest product processing operations.

The increase in Other operating revenue in 2005-06 was mainly the result of payments by Newood Holdings Pty Ltd to Forestry, of 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.

Expenditure

Total Employee benefits have effectively decreased over the four year period. After adding back capitalised wages costed to asset projects, there was a real decrease of $0.384m or 1% between 2004-05 to 2007-08. The decrease reflects Forestry's focus on controlling costs in–line with tightening profit margins.

Employee benefits comprise:

	2007-08 $'000	**2006-07** $'000	**2005-06** $'000	**2004-05** $'000
Employee benefits (Income Statement)	32 037	30 049	33 757	32 288
Add back capitalised wages	3 576	3 621	2 952	3 709
Total Salaries and Wages	**35 613**	**33 670**	**36 709**	**35 997**

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

Contractor expenses are analysed below:

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Total Contractors Expenses (CE)	85 469	76 795	65 888	73 438
The major components of CE include:				
Harvesting and Transport costs (H&T) (excl. export)	59 950	44 688	39 142	47 628
Export harvesting costs	3 710	9 708	6 967	3 424
External plant hire	10 813	11 630	11 096	11 719

Harvesting and haulage costs increased $12.322m (25%) over the period and was the major contributor to the increase in CE.

Export harvesting costs have fluctuated over the period primarily due to volumes harvested.

Depreciation increased over the four years of the review by $3.405m, or 38%. This is due primarily to capital expenditure on Roads and road structures of $53.701m over the period. 2007-08 also included $1.092m of depreciation relating to Newood.

Net finance costs for 2007-08 of $2.410m included the finance charge for the first time, $1.031m, in relation to Newood's finance lease with Transend Networks Pty Ltd. During 2006-07 Newood entered into a 25 year finance lease relating to the repayment of the capital contribution towards the construction of the transmission line on the Huon Wood Centre site.

Other operating expenses fluctuated over the four year period under review. The reduction in 2005-06 coincided with the reduction of sales. Expenditure increased in 2006-07 largely as a result of fire fighting expenses, aerial work for the native forests regeneration program, pest control, rates, legal costs other professional services and trading stock adjustments. Consistent with the decline in export sales during 2007-08, a decrease in freight costs from $8.622m in 2006-07 to $4.178m was the main driver in the 2007-08 reduction in other operating expense of $3.253m.

The Income tax benefit or expense is calculated based on the accounting result for the financial year adjusted for permanent and timing differences, which impact on the Deferred tax liabilities and Deferred tax asset balances in the Balance Sheet.

Non-Operating Adjustments

The 2004-05 and 2005-06 Forest net market value adjustments related solely to hardwood plantation and softwood plantation standing timber. The native forest asset class for those years was accounted for under AASB116 *Property, Plant and Equipment* with the movement taken directly to equity. In 2007-08 the Board determined that native forest asset should be accounted for under AASB 141 *Agriculture*, in line with plantation biological assets, 2006-07 balances have been adjusted to reflect this policy change. I was satisfied that the changes in forestry practices and future growth modelling justified the change in policy.

The Forest net market value adjustments were primarily due to changes to discount rates, valuation inputs including costs and changes to a market based value for some joint venture timber resources. A detailed explanation of the Forest net market value adjustments is provided within the Balance Sheet section of this Chapter.

As mentioned previously, the TCFA was signed in 2004-05 by the State and Federal governments. Forestry is a recipient of funds for specific projects within the agreement. Forestry's accounting policy relating to the disclosure of TCFA funds received was amended in 2005-06 whereby monies received and expended on capital items were to be recognised after the operating profit line. Given expenditure of a capital nature is recognised on the Balance Sheet, recognising the monies receipted in relation to this expenditure below the operating profit line more accurately reflects the true operating profit. Further details are noted in the Balance Sheet section of this Chapter.

The Superannuation net market value adjustment reflects the net gain or loss from Forestry's superannuation investment account and is further explained later in this Chapter.

Superannuation liability movements relate to Forestry's unfunded superannuation commitments and 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 volatile and not within Forestry's control.

Impairment of non-current assets included the Dismal Swamp Visitor Centre, (2007-08, \$0.508m; 2006 07, \$1.304m) and expensing of the Maydena Hauler project (2006-07, \$2.419m). The impairment loss was attributed to lower visitor numbers, which impacted the amounts that could be recovered through future operating cash flows of the Centre.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Cash	20 919	30 450	26 436	18 691
Receivables	24 061	20 422	26 042	28 796
Inventories	10 343	9 995	9 247	6 997
Biological assets	14 620	21 655	21 230	26 336
Other	795	675	558	560
Total Current Assets	**70 738**	**83 197**	**83 513**	**81 380**
Payables	18 711	21 978	22 902	22 374
Unearned Revenue - TCFA	18 798	23 197	16 914	12 500
Deferred government grants	0	110	110	109
Borrowings	19 800	19 800	14 000	0
Finance lease	151	0	0	0
Provisions - leave and other	6 259	6 294	6 148	6 554
Provisions - superannuation	14 849	13 338	10 388	8 759
Total Current Liabilities	**78 568**	**84 717**	**70 462**	**50 296**
Net Working Capital	**(7 830)**	**(1 520)**	**13 051**	**31 084**
Biological assets	315 135	367 014	339 288	340 088
Forest estate	388 155	382 302	375 431	370 085
Property, plant and equipment	60 226	35 008	30 286	30 009
Intangible assets	936	1 142	1 067	745
Receivables	50	1 550	50	202
Investments (equity accounting)	231	0	0	0
Investment property	570	570	570	623
Other financial assets	15 181	24 233	18 651	15 953
Deferred tax assets	35 893	34 737	31 785	33 728
Total Non-Current Assets	**816 377**	**846 556**	**797 128**	**791 433**
Borrowings	21 000	21 000	21 000	32 000
Finance lease	12 049	0	0	0
Deferred government grants	11 863	3 751	3 861	3 999
Deferred tax liabilities	129 757	145 013	137 019	137 794
Provisions - leave and other	761	1 251	1 137	1 287
Provisions - superannuation	84 640	87 855	77 720	85 102
Total Non-Current Liabilities	**260 070**	**258 870**	**240 737**	**260 182**
Net Assets	**548 477**	**586 166**	**569 442**	**562 335**
Contributed equity	235 457	235 457	234 057	233 057
Reserves	286 684	285 249	292 659	306 893
Retained profits	26 336	65 460	42 726	22 385
Total Equity	**548 477**	**586 166**	**569 442**	**562 335**

Comment

Forestry's Net assets decreased by $13.858m over the four-year period which in summary comprised:

	$m
Increases in Contributed equity	2.400
Operating profits	(8.355)
Income tax benefits	13.471
Dividends paid	(3.744)
Devaluations of biological assets	(23.939)
Revaluations fixed assets	6.309
Total Movement	**(13.858)**

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. For 2004-05, 2005-06 and 2006-07 $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 $13.471m 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.

Cash is commented on within the Cash Position section of this Chapter.

Receivables decreased over the four year period mainly due to improvements by Forestry in managing recoveries from customers. The increase in Receivables of 17.82% from 2006-07 to 2007-08 reflects the higher level of sales achieved in 2007-08 and therefore higher debtor balances at year end.

Non-current receivables in 2006-07 included the $1.500m loan repayable by Newood Holdings Pty Ltd for power supply arrangements at the Huon Wood Centre. The loan was eliminated on consolidation for 2007-08 as Newood became wholly owned as at 1 July 2007.

Inventories increased significantly in 2005-06 due to higher gravel stocks held in preparation for road capital works, increased export stock held and increases in the value of seeds and seedlings as a result of greater demand. Increased freight and collection costs have added to the carrying value of seeds.

The 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 yields and timing of wood flows
- changes in costs of production and sales prices.

The outcome of the 2007-08 valuation was a decrease of $73.795m from the previous financial year.

Movements in total biological assets over the four year period under review are detailed in the table below:

Biological Assets	Plantations $m	Native Forest $m	Total $m
Balance at 30 June 2005	**142.2**	**224.2**	**366.4**
Additions	11.9	0.0	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	(11.9)
Balance at 30 June 2006	**161.4**	**199.1**	**360.5**
Additions	16.1	0.0	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	**214.7**	**173.9**	**388.6**
Additions	14.9	0.0	14.9
Revaluations – change in discount rate	0.0	(2.5)	(2.5)
Revaluation – Price	4.5	(16.0)	(11.5)
Revaluations – changes in costs and volumes	(2.1)	(12.3)	(14.4)
Revaluation adjustment to timing of wood flows	(18.0)	(13.0)	(31.0)
Consumption/reallocations	(14.0)	(0.4)	(14.4)
Balance at 30 June 2008	**200.0**	**129.7**	**329.7**

The net 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 decrease of $58.914m in 2007-08 related to a decrease in both the plantation and native forests. The decrease in native forests was principally due to timing of the wood-flows over the 90 year forecast period. The wood-flows included in the valuation are from the 2007 Wood Review. The native forest volumes over the period to 2092 have increased by 30 million tonnes. The previous 2003 wood review produced higher volumes earlier and this has now had a detrimental impact on the asset value. The average three year stumpage price for native forest pulpwood has also decreased from $13.20/tonne to $12.31/tonne resulting in a reduction in price valuation of $16.000m. The remainder of the decrease related to timing of costs, $12.300m, as these were dependent upon wood flows and a small increase in the discount rate to 9.69% of $2.500m.

The hardwood plantation volumes from the Wood Review over the period to 2038 increased by 1.6 million tonnes. However the decrease of $18.000m is because the majority of the additional volume is not achieved until post 2021, thus producing a higher portion of sawlogs which would otherwise have been harvested as pulp.

Forest estate assets, comprising land, roads and road structures, increased $18.070m over the period due to the construction of roads and other infrastructure, offset by depreciation.

Property, plant and equipment increased $25.218m in 2007-08 from 2006-07 due to the acquisition of Newood comprising a Transmission line asset, $14.811m, and site infrastructure and development assets, $10.273m. Property, plant and equipment increased $4.254m in 2006-07 due to the capitalisation of the Southwood merchandising yard at Huonville, offset by impairment of the Dismal Swamp Visitors Centre.

Non-current Investments relate to the Holly Bank joint venture accounted for using the equity method.

Other financial assets consist of the superannuation investment account, invested with a number of fund managers and Forestry's investment in Ta Ann Tasmania.

The value of the superannuation investment account had been increasing due to gains in the share portfolio component (2004-05, $15.952m; 2005-06, $18.651m; 2006-07, $22.633m). However 2007-08 losses in relation to the investment account totalled $2.885m. In addition Forestry withdrew $5.568m to pay benefits resulting in a 2007-08 year end balance of $14.381m.

Forestry 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 for $2.400m. Purchases during 2007-08 totalled $0.800m, such that the balance of Forestry's investment in Ta Ann Tasmania was $0.800m at 30 June 2008.

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

Payables, which include trade creditors, share of GMO JV payables and accrued expenses, had remained consistent from 2004-05 to 2006-07. In 2007-08 there was an even decrease in each of these categories when compared to 2006-07 totalling $3.267m.

Unearned revenue –TCFA relates to the TCFA revenue received in advance. The level of revenue received in advance is determined primarily by the timing of the receipt of funds and the timing of the actual usage of those funds.

Over the four years under review, Forestry's working capital position has shown a downward trend from a positive position of $31.084m at 30 June 2005 to a negative $7.830m at 30 June 2008. The main reason for this has been decreasing current assets, including a decrease of $11.716m in the current portion of biological assets, and the timing of debt repayments. However, in the main Forestry renegotiates its debt (see later comments) and the net working capital position before current borrowings was positive being:

2005 - $31.084m

2006 - $27.051m

2007 - $18.280m

2008 - $11.970m.

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

Borrowings increased from $32.000m in 2004-05 to $40.800m in 2007-08 which primarily relates to funding essential capital expenditure.

The Finance lease liability relates to Newood's lease agreement with Transend Networks Pty Ltd. During 2006-07 Newood entered into a 25 year finance lease relating to the repayment of the capital contribution towards the construction of the transmission line onto the Huon Wood Centre site. As Newood was a wholly owned subsidiary from 1 July 2007 this lease is now recognised in Forestry's accounts.

The Superannuation liability movements were caused by changes in discount 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 $5.628m in this liability.

Deferred government grants increased in 2007-08 with the inclusion of Newood's deferred income including $5.631m being Newood's share of non-current TCFA revenue received in advance.

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

CASH POSITION

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Receipts from customers	169 215	164 679	143 805	177 638
Proceeds from TCFA	0	3 150	496	1 208
Distributions received	625	1 250	750	2 200
Interest received	1 253	1 182	989	485
Payments to suppliers and employees	(163 550)	(154 555)	(136 874)	(154 894)
Borrowing costs	(2 848)	(2 457)	(2 092)	(1 594)
Tax equivalents recovered (paid)	0	0	3 523	(3 778)
Cash from operations	**4 695**	**13 249**	**10 597**	**21 265**
Proceeds from investments	5 968	400	0	3 000
Payments for investments	0	(3 900)	0	0
Proceeds from the TCFA	13 764	29 574	22 485	11 292
Proceeds from sale of property, plant and equipment	888	450	1 111	1 646
Payments to suppliers and employees - plantations	(14 433)	(16 147)	(11 932)	(11 292)
Payments for property, plant and equipment	(19 488)	(24 515)	(16 069)	(20 508)
Cash (used in) investing activities	**(13 301)**	**(14 138)**	**(4 405)**	**(15 862)**
Equity Contribution	0	400	1 000	1 000
Equity Contribution - TCFA	0	0	0	0
Proceeds from borrowings	0	5 800	3 000	7 000
Finance lease payments	(1 170)	0	0	0
Dividends paid	0	(1 297)	(2 447)	(5 232)
Cash from (used in) financing activities	**(1 170)**	**4 903**	**1 553**	**2 768**
Net increase (decrease) in cash	**(9 776)**	**4 014**	**7 745**	**8 171**
Cash at the beginning of the year*	30 695	26 436	18 691	10 520
Cash at end of the year	**20 919**	**30 450**	**26 436**	**18 691**

**Opening cash for 2007-08 now includes consolidation of Newood.*

Comment

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

As mentioned previously, additional funding flowed from the TCFA, the majority of which was 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.

TCFA funds received and expended on capital items are recognised within Investing activities rather than Operational activities. Cash from operations excluding TCFA funds, for the four years under review was as follows:

2004-05 - $20.057m

2005-06 – $10.101m

2006-07 - $10.099m

2007-08 - $4.695m.

This declining trend requires close monitoring by management.

Major investing activities funded to date through the TCFA include:

- Additional plantation management, $49.215m
- Existing plantation upgrades, $15.000m
- Road infrastructure, $12.000m
- Additional native forest thinning, $4.000m.

Funds received in advance are held until such time as the appropriate forest activities are completed. As Forestry's cash position tightened it utilised these funds on a short term basis to meet operational requirements. Funds withdrawn are replaced at a future date when cash from normal activities is available to do so.

Proceeds from investments of $5.968m in 2007-08 primarily represents a transfer of funds from the superannuation investment account and applied to meet pensions and lump sum payments to ex-employees. These Payments are included in payments to suppliers and employees and contributed to the lower cash generated from operations in 2007-08.

Over the period of review additional Borrowings of $15.800m were also been sourced to meet investing needs. Total Borrowings as at 30 June 2008 were $40.800m, which is within $4.200m of Forestry's current loan facility limit.

The Financial Analysis Table within the following section notes Forestry's Current ratio has steadily declined from 1.62 in 2004-05 to 0.90 as at 30 June 2008. When current assets are insufficient to cover current liabilities it can indicate, as has occurred, additional sources of funds are needed to meet operational and investing cash flows. An outcome of this has been lower or no dividend payments in recent years.

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.

Finance lease payments in 2007-08 relates to the Newood finance lease with Transend for the power substation.

The closing Cash position for 2007-08 of $20.919m (2006-07, $30.450m) included TCFA and other funds received in advance committed to expenditure in future years of $11.595m (2006-07, $24.598m). The closing Cash position also included JV cash of $2.259m (2006-07, $1.670m).

As at 30 June 2008 total TCFA funding transferred to Forestry was $90.078m. The agreement allows for a total of $141.800m to be provided to Forestry over six years.

Forestry's cash balances are detailed below and breaks the total cash balance as reported within the balance sheet into specific components to which cash relates:

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000	$'000	$'000	$'000
TCFA funds - Term deposit	10 279	21 740	15 137	1 064
Joint Venture cash	2 259	1 670	1 933	1 705
Operating Cash	8 381	7 040	9 366	15 922
Total	**20 919**	**30 450**	**26 436**	**18 691**

This table demonstrates that a large portion of Forestry's cash comprises TCFA funds. The operating cash balance decreased by 47% from 30 June 2005 despite additional borrowings during the period.

As a result of the tightening cash position not surprisingly Forestry did not propose a dividend for the 2007-08 financial year, and no dividend was paid during the 2007-08 financial year in relation to 2006-07.

In summary, Cash generated from operating activites is tight. Management are keenly aware of this position and are monitoring operations closely. I am advised that management is developing longer term strategies to maintain long term sustainability.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		8 568	5 161	1 646	17 281
EBIT ($'000s)		9 751	6 385	2 719	18 706
Operating margin	>1.0	1.05	1.03	1.01	1.10
Return on assets		(7.3%)	0.3%	1.7%	(1.1%)
Return on equity		(6.8%)	2.5%	4.0%	(1.0%)
Underlying result ratio ($'000s)		4.6%	2.9%	1.0%	9.4%
Self Financing Ratio ($'000s)		2.5%	7.4%	6.7%	11.6%
Financial Management					
Debt to equity		3.8%	3.6%	3.7%	5.7%
Debt to total assets		2.4%	2.3%	2.4%	3.7%
Interest cover	>2	4	3	1	9
Current ratio	>1	0.90	0.98	1.19	1.62
Cost of debt	7.5%	6.5%	6.4%	6.1%	6.0%
Debt collection	30 days	50	41	60	42
Creditor turnover	30 days	38	42	54	41
Returns to Government					
Dividends paid ($'000s)		0	1 297	2 447	5 232
Dividend payout ratio	50%	0.0%	8.9%	10.7%	(78.1%)
Dividend to equity ratio		0.0%	0.2%	0.4%	0.8%
Income tax paid ($'000s)		0	0	n/a	3 778
Effective tax rate (benefit) ($'000s)	30%	0.0%	0.0%	n/a	21.9%
Total return to the State ($'000s)		0	1 297	2 447	9 010
Total return to equity ratio		0.0%	0.2%	(0.2%)	1.4%
Other Information					
Staff numbers (FTEs)		483	502	516	560
Average staff costs ($'000s)		61	60	65	58
Average leave balance per FTE ($'000s)		12	12	12	11

Comment

Result from operations, EBIT and Operating margin are calculated on the operating result before non-operating revenue and expenditure items such as the TCFA capital grant income, unfunded superannuation liability movement and biological asset net market movement. However, the Return on assets and Return on equity percentages are determined after accounting for these items. The negative return on assets and equity for 2007-08 and 2004-05 was primarily due to the combined effect of the decrement in the net market value of the forest asset and the increase in the unfunded superannuation liability in those years. These ratios were positive in 2006-07 and 2005-06 when the net effect of these accounting adjustments changes was positive.

The Underlying result ratio is weaker in 2006-07 and 2007-08 due to the lower Result from operations in those years. This is also reflected in the declining Self financing ratio in those periods. Combined these indicate a weaker position to fund asset investment activities and superannuation requirements.

The Current ratio declined to be below the benchmark level of 1, to 0.90 in 2007-08 and 0.98 in 2006-07. This reflects Forestry Tasmania's weakening working capital position discussed previously.

Debt collection days increased in 2007-08 to 50 days due to an increase in sales and the late payment of a few large invoices which were all paid within 24 hours of the close of the financial year. The 60 days in 2005-06, which was reflective of a slower than usual payment cycle, was due to reduced sales turnover in some sectors of the forest industry.

The Creditor turnover remained consistent with the exception of the 54 days in 2005-06 due to tighter cash flow management towards the end of that financial year.

Dividends and Income tax are cash payments and relate to the prior year. Forestry received a tax refund of $3.523m in 2005-06 due to a tax adjustment, causing a negative ratio in 2005-06. No dividend was proposed for 2007-08 or 2006-07. The dividend payout ratio is negative in 2004-05 because the dividend was paid from the previous year's profit, Forestry 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. The total returns to the State over the period of review have not been significant.

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

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, operates the gas fired Bell Bay Power Station, is a renewable energy developer, owns the electricity distribution assets on the Bass Strait Islands and invests in joint venture activities in Australia. Hydro is also 50% owner of Roaring 40s Renewable Energy Pty Ltd, a joint venture with China Light and Power, which develops and invests in wind farms in Australia and Asia.

Subsidiary and Associated Companies

- **Bell Bay Power Pty Ltd** (BBP), established on 20 December 2001, owned and operated the Bell Bay power station. Under the Bell Bay Sale Agreement the land held by this entity was sold in the 2006-07 financial year to Babcock and Brown Power, the proponents of a new gas fired power station currently under construction. Under the Asset Sale Agreement the existing thermal plant is available to be used until the new power station is commissioned and BBP has the responsibility for demolition of the thermal station. BBP has raised a provision for demolition.
- **Bell Bay Three Pty Ltd** was incorporated on 7 December 2005. Its assets have been disposed of and the company is now non-operating.
- **Lofty Ranges Power Pty Ltd** owns a 50% interest in an electricity generating joint venture in South Australia.
- **Hydro Tasmania Consulting (Holding) Pty Ltd** 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** has entered into joint ventures to investigate renewable energy commercial opportunities.
- **Roaring 40s Renewable Energy Pty Ltd** (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 2008 the Responsible Minister was the Minister for Energy.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

The directors signed Hydro's financial statements on 14 August 2008 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 2008.

The 2007-08 audit was completed with satisfactory results.

FINANCIAL RESULTS

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 subsequently transferred to Transend on 1 July 2000.

The 2007-08 year has seen a continuation of historically low inflows into Hydro storages. Hydro responded to this by adjusting its trading and generation strategies so that electricity is imported from Victoria to meet Tasmania's energy demands while prudently managing the storage levels. As a consequence of a statistical review of low inflow patterns over the last 11 years Hydro has de-rated the system inflows by 500 GWh per annum to where 9 000 GWhs of inflows are now assumed for planning and financial modelling purposes.

Hydro also continued to operate the Bell Bay thermal plant.

On 30 June 2008 the Government indicated its support for Hydro by providing a $220m capital injection in the form of a swap of debt and equity between Transend and Hydro. In addition, during the year, the Government provided $50m in new equity capital to support Hydro's continued investment in R40s. The capital injection by the Government was designed to improve the credit standing of Hydro in the NEM. It was not designed to counter the impacts of low inflows into storages.

Hydro historically had a high level of borrowings. At disaggregation Hydro was left with $1.046bn in debt. During 2007-08 gross debt was reduced by $221m and cash holdings increased by $42m. At an operational level Hydro was cash positive but at a level significantly lower than prior years. Liquidity was assisted by the removal of the cash flow ratios associated with the Australian Financial Services licence by the Australian Securities and Investment Commission. The ongoing cash constraints of Hydro are associated with:

- The loss of revenue associated with low inflows which results in reduced hydro generation attributable to electricity being imported from Victoria and increased gas fired generation at Bell Bay
- Funding the Corporation's capital refurbishment program and
- Funding continued investment in R40s.

Hydro's capital investment program continued in 2007-08 and was targeted at sustaining generation assets and reducing their risks to assist Hydro to actively operate in the NEM.

The most significant accounting issues for 2007-08 were the decision to adopt fair value accounting for generation assets and to adopt a Tasmanian yield curve for the valuation of Tasmanian contracts. The financial impacts of these decisions are outlined later in this Chapter.

The challenge to Hydro continues to be one of balancing its internal capital needs, the capital needs of its joint ventures, particularly Roaring 40s and responding to the low storage situation as a result of the hydrological situation.

The financial information presented below summarises the consolidated financial statements of Hydro and its subsidiaries.

CHANGES IN ACCOUNTING POLICIES

Hydro amended its accounting policy for valuation of its generation assets as at 30 June 2008 from the cost method to the revaluation method. This change brings the accounting for generation assets onto the same basis as the other significant assets and liabilities in the Balance Sheet.

INCOME STATEMENT

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Electricity sales revenue	407 799	445 662	405 646	399 177
Other operating revenue	62 209	47 523	64 010	62 745
Total Revenue	**470 008**	**491 581**	**469 656**	**461 922**
Operating expenses	128 476	92 927	107 029	121 567
Basslink expenses	97 713	93 598	29 409	0
Gas and pipeline expenses	45 328	33 205	31 860	0
Labour	88 574	84 868	83 260	80 229
Total Operating Expenses	**360 091**	**304 598**	**251 558**	**201 796**
Earnings before interest, tax, depn and amortisation (EBITDA)	**109 917**	**186 983**	**218 098**	**260 126**
Depreciation	68 043	69 014	87 945	83 135
Earnings before interest & tax (EBIT)	**41 874**	**117 969**	**130 153**	**176 991**
Borrowing costs	(95 663)	(90 695)	(85 860)	(88 594)
Loss on disposal of non-current assets	(1 191)	(5 225)	(5 188)	(9 572)
Share of loss of joint venture	(3 022)	(2 554)	(5 562)	(316)
Result from ordinary activities	**(58 002)**	**19 495**	**33 543**	**78 509**
Bell Bay sale agreement	0	11 151	0	0
Fair value movements in Electricity derivatives	96 030	(132 192)	(2 204)	0
Fair value movements in Treasury derivatives	12	213	(7)	0
Gain on revaluation of JV Interests	0	0	35 044	0
Basslink financial asset and liability	28 267	61 026	5 127	0
Impairment (loss)/reversal on property plant and equipment	164 852	155 127	(23 206)	(542 269)
Impairment loss on financial and intangible assets	(6 974)	(1 328)	(8 478)	0
Profit (Loss) before income tax equivalents	**224 185**	**113 492**	**39 819**	**(463 760)**
Income tax expense/(credit)	64 612	34 126	14 644	(149 908)
Profit (Loss) after taxation	**159 573**	**79 366**	**25 175**	**(348 413)**

Comment

When assessing Hydro's operating performance in 2007-08, the following issues are noted:

1. Significant reduction in revenue associated with low inflows and Hydro's low storage situation. This has lead to increased reliance on imports over Basslink to assist in maintaining storages:

   When electricity is imported into Tasmania over Basslink Hydro only receives the southbound Inter Regional Revenues (IRRs) associated with Basslink. There was a net import of 2264 GWh during the year.

2. Higher cost of electricity generation by the Bell Bay thermal plant:

   The hydrological situation also resulted in increased generation from the gas fired Bell Bay power station. The cost of electricity generated by this plant is significantly higher than the cost of hydro electricity generation.

3. The reduction in energy prices since 30 June 2007:

   During the year ended 30 June 2008 energy prices in the Victorian region of the National Electricity Market were lower than the prices which existed at 30 June 2007. This resulted in a reduction in the fair value of the Victorian contract portfolio which was recorded in the Income Statement as a gain. In 2007 this was reported as an expense.

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

Finance Costs

Finance costs are consistent with the prior year. With the capital injection at 30 June 2008 finance costs are expected to reduce in 2009.

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 forecast electricity pool prices.
- **Impairment loss on assets held for sale:** As at 30 June 2008 Hydro was in negotiations for the sale of its telecommunications assets. The assets have been classified as held for sale and their carrying value has been impaired to the latest estimated sale proceeds.

BALANCE SHEET

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Cash	1 504	1 615	660	10 221
Receivables	59 997	153 153	98 832	103 392
Investments	91 798	50 000	15 091	130 277
Inventories	18 363	1 533	705	549
Financial assets	62 975	53 695	22 630	0
Tax refund receivable	14 792	7 397	0	0
Assets held for sale	18 118	0	0	5 099
Total Current Assets	**267 547**	**267 393**	**137 918**	**249 538**
Payables	67 333	121 591	102 866	105 110
Borrowings	493	2 200	7 000	32 912
Financial liabilities - Basslink and PCA*	153 941	210 126	97 446	0
Tax liabilities	0	0	15 623	0
Provisions	43 030	44 036	43 888	42 180
Other	0	0	0	1 048
Total Current Liabilities	**264 797**	**377 953**	**266 823**	**181 250**
Working Capital	**2 750**	**(110 560)**	**(128 905)**	**68 288**
Property, plant and equipment	4 056 372	3 520 541	3 440 848	2 824 639
Investments	108 464	88 365	80 005	9 767
Financial assets - Basslink	413 224	323 081	141 885	2 061
Other	0	50 110	50 110	19 028
Total Non-Current Assets	**4 578 060**	**3 982 097**	**3 712 848**	**2 855 495**
Borrowings	970 881	1 190 000	1 070 000	1 178 606
Provisions	280 563	290 609	256 599	286 360
Financial liabilities - Basslink and PCA*	1 373 893	950 358	876 355	0
Deferred tax liabilities	559 033	482 380	463 207	498 221
Other	0	0	0	19 028
Total Non-Current Liabilities	**3 184 370**	**2 913 347**	**2 666 161**	**1 982 215**
Net Assets	**1 396 440**	**958 190**	**917 782**	**941 568**
Reserves	12 694	8 838	4 649	1 000
Contributed equity	270 000	0	0	0
Retained profits	1 113 746	949 352	913 133	940 568
Total Equity	**1 396 440**	**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 2007-08 and 2006-07 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 an improvement in forecast electricity pool prices since the impairment occurred. In completing this calculation Hydro also took into account the system de-rating by 500GWh per annum to 9000GWh per annum.

At 30 June 2008 the decision was made to amend the policy for valuation of generation assets from the cost method to the revaluation method. This change in policy brings the basis of recording of these assets into line with the other significant assets and liabilities on the Balance Sheet. In the 2007-08 year this change in policy did not give rise to any adjustment to the Profit and Loss or Balance Sheet.

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
- Energy trading derivatives and
- Tasmanian Energy Contracts.

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.

In the 2008 year Hydro developed a model to calculate the fair value of its Tasmanian contracts. The value of these contracts was previously reflected in the fair value of the generation assets. The effect of this is that they have now been disclosed in gross terms and included in the fair values of generation assets and disclosed as a separate financial liability. The financial impact was a $413.55m increase in generation assets and a corresponding increase in the financial liability for energy trading derivatives.

Superannuation

At 30 June 2008 Hydro's provision for superannuation liability totalled $299.228m ($310.269m at 30 June 2007). The movement in this liability was caused by changes in discounts rates and the value of contributory scheme assets and liabilities, as determined by the Actuary.

CASH POSITION

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Receipts from customers	544 973	432 234	481 189	455 731
Government grants	8 682	6 762	0	0
Payments to suppliers and employees	(453 136)	(304 505)	(259 635)	(232 891)
Interest received	3 657	2 178	3 722	2 654
Borrowing costs	(79 219)	(70 537)	(66 247)	(71 284)
Income tax equivalent paid	0	(28 737)	(19 061)	(29 955)
Cash from operations	**24 957**	**37 395**	**139 968**	**124 255**
Payments for investments	(21 468)	(15 001)	(15 783)	(9 000)
Payments for financial assets	13 598	(24 499)	(50 110)	0
Payments for property, plant and equipment	(51 274)	(57 888)	(116 984)	(79 759)
Proceeds from sale of property, plant and equipment	33 074	1 857	2 547	1 096
Cash (used in) investing activities	**(26 070)**	**(95 531)**	**(180 330)**	**(87 663)**
Proceeds from borrowings	235 000	405 000	482 254	740 705
Repayment of borrowings	(242 200)	(289 800)	(526 639)	(605 745)
Equity Contribution	50 000	0	0	(3 991)
Dividend paid	0	(21 200)	(40 000)	(40 000)
Cash from (used in) financing activities	**42 800**	**94 000**	**(84 385)**	**90 969**
Net increase (decrease) in Cash	**41 687**	**35 864**	**(124 747)**	**127 561**
Cash at the beginning of the year	51 615	15 751	140 498	12 937
Cash at end of the year	**93 302**	**51 615**	**15 751**	**140 498**

Comment

The Cash from operations in 2007-08 of $24.957m decreased by $12.438m from 2006-07. This is the direct impact of the low inflow and storage situation which resulted in reduced hydro generation and higher levels of Basslink imports and increased generation from the Bell Bay thermal plant.

I therefore reiterate my comments of last year. 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 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	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Profit before income tax equivalent expense ($'000s)		224 185	113 492	39 819	(463 760)
Movements in fair value		289 161	84 174	6 276	(542 269)
Bell Bay sale agreement		0	11 151	0	0
Result from operating activities ($'000s)		(58 002)	19 495	33 543	53 520
EBIT ($'000s)		41 874	117 969	130 153	176 991
EBITDA ($'000s)		109 917	186 983	218 098	260 126
Operating margin	>1.0	1.31	1.62	1.87	2.29
Return on assets		0.9%	2.9%	3.7%	n/a
Return on equity		13.6%	8.5%	3%	n/a
Financial Management					
Debt to equity		69.6%	124.4%	117.3%	128.7%
Debt to total assets		20.0%	28.1%	28.0%	39.0%
Interest cover - EBIT		0.44	1.30	1.52	n/a
Interest cover - EBITDA	>2	1.50	2.65	3.51	3.87
Interest cover - operating cash flows		1.32	1.53	3.32	2.91
Current ratio	>1	1.01	0.71	0.52	1.38
Leverage ratio		347.0%	443.5%	419.6%	329.8%
Cost of debt	7.5%	6.5%	6.5%	6.2%	5.9%
Debt collection	30 days	47	86	75	51
Creditor turnover	30 days	26	29	19	25
Capex/Depreciation		0.75	0.84	1.33	0.96
Returns to and from Government					
Dividends paid ($'000s)		0	21 200	40 000	40 000
Dividend payout ratio	50%	0.0%	26.7%	158.9%	n/a
Dividend to equity ratio		0.0%	2.3%	4.3%	2.7%
Income tax paid ($'000s)		0	28 737	19 061	29 955
Effective tax rate	30%	0.0%	25.3%	n/a	n/a
Government guarantee fees ('$'000s)		5 105	5 105	4 124	4 020
Total return to the State ($'000s)		5 105	55 042	63 185	73 975
Total return to equity ratio		0.4%	5.9%	6.8%	n/a
CSO funding ($'000s)		7 200	6 400	6 200	6 030
Other Information					
Staff numbers (FTEs)		791	781	832	829
Average staff costs ($'000s)		112	109	100	97
Average leave balance per FTE ($'000s)		25	26	23	21

Comment

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

Hydro's Debt to equity ratio improved during the year due to the capital injection which was all in the form of a debt for equity swap which occurred at 30 June 2008 together with the asset revaluation.

Correspondingly Hydro's Leverage ratio has reduced. 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 improvement in the ratio reflects the capital changes during the year.

The debt collection ratio and the creditor turnover ratio have both improved significantly because of lower prices in the NEM in June 2008 compared to June 2007.

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 Act). 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 2008, the Board of Directors of the MAIB comprised eight members, including the Chief Executive Officer, who are appointed by the Governor on the joint recommendation of the Treasurer and Portfolio Minister.

The Portfolio Minister is the Minister for Infrastructure.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2008 and an unqualified audit report was issued on 19 August 2008.

The 2007-08 audit was completed satisfactorily with no issues outstanding.

BUSINESS OVERVIEW

The nature of the MAIB's business 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 four financial years.

Operating revenue consists of two major components, premium revenue and investment revenue.

Premiums are levied on classes of motor vehicles under the current Premiums Order. Premium revenue is collected by the Department of Infrastructure Energy and Resources on behalf of the Board under a service level agreement.

Investment revenue consists of receipts of interest and dividends as well as realised and unrealised gains on investments. The Board's investments have been measured at fair value at the end of each reporting period in accordance with Australian Accounting Standard AASB 1023 *General Insurance Contacts*. The fair value measurement basis requires the recognition of unrealised gains/losses within the Income Statement.

The Board has adopted an investment strategy which seeks to maximise long-term growth within acceptable risk parameters to ensure sufficient funds are available to meet its long tail claim liabilities. To achieve this outcome it invests in a mix of growth and defensive asset classes. As at 30 June 2008 the Board's actual holdings were 56% in the growth category and 44% defensive. Given the high weighting to growth assets the investment portfolio contains an inherent volatility that may cause returns from year to year to fluctuate significantly but over the longer term will provide returns in excess of the cash rate.

The main costs are claims expenses, which include payments and movements in the Provision for outstanding and unreported claims.

An independent actuary is engaged by the Board to undertake the valuation of the year end Provision for outstanding and unreported claims (claims liability). This process involves the actuary first determining 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
- 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 Provision for outstanding and unreported claims.

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 four accounting periods and currently provides the Board with a probability of not less than 75% that the Provision for outstanding and unreported claims is sufficient to meet the cost of claims incurred.

In addition, the MAIB, through its independent actuary is required to undertake a liability adequacy test to assess 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 then the Provision for unearned premium is deemed to be deficient. The deficiency is recognised as a Provision for unexpired risk. In order to obtain the equivalent probability of sufficiency that applies to the Provision for outstanding and unreported claims, the prudential margin applied in the calculation of the Provision for unexpired risk is at a higher level in recognition of the greater uncertainty over accidents that are yet to occur.

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
- disability allowance and benefits.

Common Law

The 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. The MAIB's Future 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 the MAIB's outstanding claims liability.

FINANCIAL RESULTS

For the year ended 30 June 2008 the MAIB incurred a loss before taxation of $39.227m, which included an unrealised investment loss of $138.236m. Chart 1 below shows the movement in net profit before taxation. Despite the unfavourable 2007-08 result the Board maintained a strong Solvency ratio and total investments remained well above the Provision for outstanding and unreported claims as illustrated by Chart 2 below.

Chart 1: Operating Result Before Taxation ($'000)

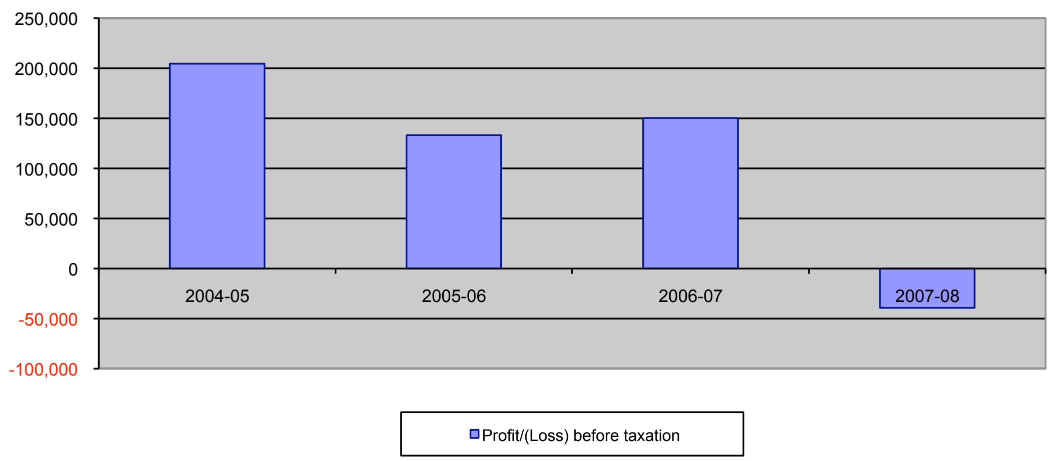
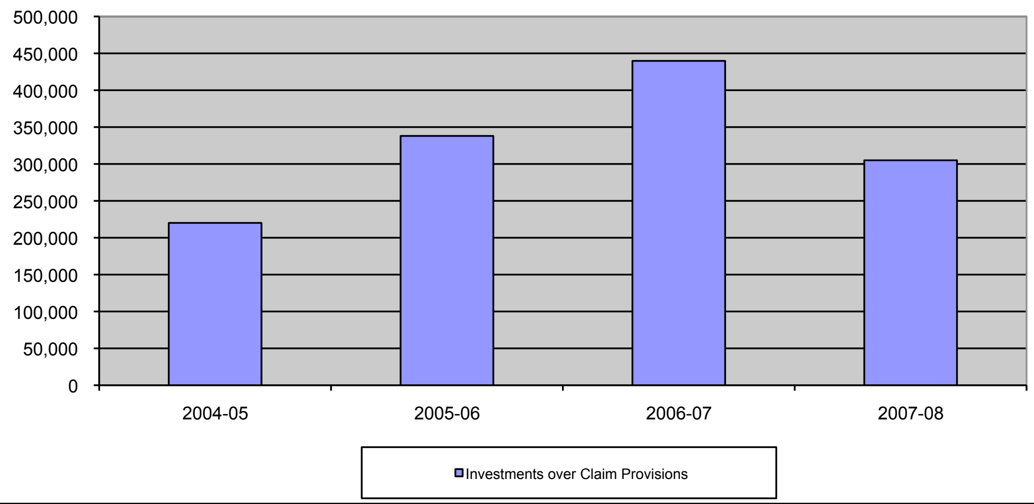


Chart 2: Excess of Investments over Provision for Outstanding and Unreported Claims ($'000)



INCOME STATEMENT

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Premium revenue	123 224	120 246	117 354	111 412
Outwards reinsurance expense	(4 979)	(4 774)	(4 711)	(4 159)
Claims expense	(59 111)	(96 212)	(94 533)	16 209
Recovery revenue	5 339	473	(542)	2 352
Unexpired risk expense	2 774	5 428	993	(3 806)
Other underwriting expenses	(2 471)	(2 395)	(2 293)	(2 236)
Underwriting result	**64 776**	**22 766**	**16 268**	**119 772**
Investment revenue	(95 446)	137 309	124 512	91 840
General and administration expenses	(4 413)	(4 438)	(4 136)	(4 051)
Interest expense	0	(782)	0	0
Road Safety Initiative, Road Infrastructure & Motorcycle Safety Strategy	(3 398)	(3 690)	(2 425)	(2 284)
Injury Prevention and Management Foundation	(746)	(912)	(1 024)	(748)
Profit/(Loss) before taxation	**(39 227)**	**150 253**	**133 195**	**204 529**
Income tax expense	16 603	(37 169)	(37 008)	(63 032)
Net Profit/(Loss)	**(22 624)**	**113 084**	**96 187**	**141 497**

Comment

The MAIB recorded significant operating surpluses in the first three years under review, but incurred a loss for 2007-08 before income tax expense of $39.227m. This loss was principally attributable to the poor investment result, which is explained later in this Chapter.

The particularly strong result in 2004-05 was mainly due to the impact of changes to economic assumptions, including discount rates and superimposed inflation rates used in the calculation of the claims liability. This change resulted from the first time adoption of Australian Equivalents to International Financial Reporting Standards (AIFRS). 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 changes in economic assumptions as mentioned above have been consistently applied since 2004-05.

The MAIB produced positive underwriting results in each of the four years. The Underwriting result comprises two significant components, Premium revenue and Claims expense.

Premium revenue increased consistently over the four-year period, with a total increase of $11.812m or 10.6%. The increase was primarily attributable to the number of registered vehicles and a 2.5% increase in premiums on 1 December 2004 across all vehicle classes. There have been no further premium increases (or any other relativity increases/adjustments) since 2004. The following table demonstrates the relationship between premium revenue and registered vehicle numbers:

	2007-08	**2006-07**	**2005-06**	**2004-05**
Premium revenue ($'000s)	123 224	120 246	117 354	111 412
Total registered vehicles (number)	435 595	424 052	414 590	403 827
Average premium ($)	283	284	283	276

The other main contributor impacting on the Board's Underwriting result was the Claims expense, which comprises:

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000	$'000	$'000	$'000
Claims paid	70 536	63 468	57 927	64 488
Movement in the provision for outstanding and unreported claims	(11 899)	32 306	36 228	(81 046)
Other claims paid	474	438	378	349
Total claims expenses	**59 111**	**96 212**	**94 533**	**(16 209)**

As previously noted changes to economic assumptions, due to AIFRS, had the effect of decreasing the 30 June 2005 claims liability by $119.900m compared with the prior year and as such does not represent a true reduction in the claims provision.

The claims expense for 2007-08 included an actuarial write down in the claims outstanding provision. The decrease comprised:

- lower assumed payments per claim incurred for scheduled Benefit claims and lower ultimate claim numbers due to lower than expected numbers reported in 2007-08
- higher numbers of Common Law settlements, particularly at nil cost, resulting in lower open claim numbers, offset by a slight increase in the payment per claim finalised
- lower than expected number of future care Incurred But Not Reported (IBNR) claims reported in 2007-08
- updated estimates of care costs for a number of existing claims
- the exit of some existing claimants
- revisions to the future care model as a result of investigations conducted during the year. These revisions resulted in:
    - a change to the manner in which future care claims were recognised (which resulted in a reduction to IBNR numbers)

- a reduction in the size of those claims that take longer to be classified as future care
- recognition of the closure of future care claims for reasons other than death.

In the initial three-year period under review, the positive Underwriting results were further enhanced by Investment revenue, resulting in a strong Net profit before taxation. The Board's investment portfolio includes Australian equities, international equities, emerging market equities, diversified property, direct property, infrastructure and cash. Given the varied portfolio the Board's investment result was influenced by a number of financial markets across the globe.

In 2007-08, Investment revenue reflected a loss in the MAIB's investment portfolio. The table below shows $65.300m in realised losses and $138.236m in unrealised losses in 2007-08.

	2007-08 $'000	**2006-07** $'000	**2005-06** $'000	**2004-05** $'000
Investment income	109 330	42 582	48 993	44 663
Changes in net market values				
Investments held at end of reporting period	(138 236)	74 879	71 006	42 079
Investments realised during the reporting period	(65 300)	21 387	6 242	6 348
Less investment related expenses	(1 240)	(1 539)	(1 729)	(1 250)
Total investment revenue (loss)	**(95 446)**	**137 309**	**124 512**	**91 840**

As noted previously, the Board adopted an investment strategy in which it sought to maximise long-term growth, consequently the investment portfolio contains an inherent volatility that may cause returns from year to year to fluctuate significantly. The poor investment result in 2007-08 must not be taken in isolation, and should be considered together with the previous strong market results.

Investment income represents dividends, interest and rents and increased during 2007-08 primarily due to dividend distributions from the investment portfolio.

The MAIB continues to fund the Road Safety Task Force (RSTF), Black Spot Program and the Motorcycle Safety Strategy with total contributions in 2007-08 of $3.398m (2006-07, $3.690m; 2005-06, $2.425m; 2004-05, $2.284m).

BALANCE SHEET

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Cash and cash equivalents	335 201	275 825	177 198	135 096
Accounts receivable	1 767	1 968	1 919	1 744
Reinsurance recoveries receivable	17 514	13 322	14 221	17 100
Fixed income and debt securities	95 619	199 973	200 691	216 943
Listed instruments	485 236	643 116	613 337	486 877
Unlisted instruments	50 599	0	0	0
Investment properties	15 510	12 920	11 965	10 960
Plant and equipment	515	527	575	535
Deferred tax asset	41 934	13 085	4 674	5 054
Other assets	27	31	35	39
Total Assets	**1 043 922**	**1 160 767**	**1 024 615**	**874 348**
Sundry creditors and accrued expenses	2 014	5 913	1 852	1 715
Provision for tax	32 892	31 887	20 434	4 680
Provision for unearned premium	53 632	52 486	52 143	49 978
Provision for injury prevention	882	1 060	1 055	820
Provision for unexpired risk	1 766	4 546	9 986	11 047
Provision for outstanding and unreported claims	674 536	686 435	654 128	617 900
Provision for employee benefits - leave	404	352	345	401
Provision for employee benefits - superannuation	2 398	2 333	2 039	1 927
Deferred tax liability	1 498	36 281	34 181	20 810
Total Liabilities	**770 022**	**821 293**	**776 163**	**709 278**
Net Assets	**273 900**	**339 474**	**248 452**	**165 070**
Retained Earnings	273 900	339 474	248 452	165 070
Total Equity	**273 900**	**339 474**	**248 452**	**165 070**

Comment

The 2007-08 Balance Sheet and notes to the financial statements have been presented on a liquidity basis for the first time, as provided for in AASB 101 *Presentation and Disclosure of Financial Statements*. Assets and liabilities are presented in order of liquidity within the balance sheet in accordance with the liquidity basis of presentation.

It was deemed by the Board that this method of disclosure provides information that is more relevant and reliable than the traditional current/non-current classifications.

The major component of the MAIB's total assets was its investment portfolio (including cash), which at 30 June 2008 represented 94.06% of total assets (2006-07, 97.51%; 2005-06, 97.91%; 2004-05, 97.20%). The table below summarises its investments.

Cash and Investments	**2007-08**		**2006-07**		**2005-06**		**2004-05**	
	$'000		$'000		$'000		$'000	
Cash and cash equivalents	335 201	34%	275 825	24%	177 198	18%	135 096	16%
Fixed income and debt securities	95 619	10%	199 973	18%	200 691	20%	216 943	26%
Listed instruments	485 236	49%	643 116	57%	613 337	61%	486 877	57%
Unlisted instruments	50 599	5%	0	0%	0	0%	0	0%
Investment properties	15 510	2%	12 920	1%	11 965	1%	10 960	1%
Total Investments	**982 165**	**100%**	**1 131 834**	**100%**	**1 003 191**	**100%**	**849 876**	**100%**

The movements in the total investment portfolio correlate with the investment revenue reported during each of the four years and is also impacted by tax and dividend payments, $86.493m and $85.086m respectively.

The major component of the MAIB's total liabilities was its Provision for outstanding and unreported claims, which at 30 June 2008 represented 87.60% of total liabilities (2006-07, 83.58%, 2005-06, 84.28% and 2005-06, 87.12%). The composition of the claims liability is provided in the table below.

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000	$'000	$'000	$'000
Future Care	459 105	463 606	420 129	373 689
Common Law	174 499	175 795	181 182	194 392
Scheduled Benefits	40 932	47 034	52 818	49 819
Total Claims Liability	**674 536**	**686 435**	**654 129**	**617 900**

The decrease in the Provision for outstanding and unreported claims has been explained in the Income Statement section of this Chapter.

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

CASH POSITION

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Receipts from premiums	136 572	132 601	131 243	122 932
Payments for claims	(75 283)	(67 687)	(62 098)	(68 021)
Other payments	(25 730)	(25 673)	(23 975)	(23 094)
Other receipts	3 027	2 852	3 341	1 857
Tax paid	(49 262)	(28 789)	(7 503)	(939)
Dividends received	101 127	32 774	36 998	32 499
Interest received	6 413	8 509	11 099	11 349
Cash from operations	**96 864**	**54 587**	**89 105**	**76 583**
Proceeds fom (Payments for) investments	7 302	66 665	(33 974)	21 326
Payments for property, plant and equipment	(1 914)	(654)	(312)	(212)
Proceeds from sale of property, plant and equipment	74	91	88	81
Cash from (used in) investing activities	**5 462**	**66 102**	**(34 198)**	**21 195**
Dividends paid	(42 950)	(22 062)	(12 805)	(7 269)
Net increase in cash	**59 376**	**98 627**	**42 102**	**90 509**
Cash at the beginning of the year	275 825	177 198	135 096	44 587
Cash at end of the year	**335 201**	**275 825**	**177 198**	**135 096**

Comment

The cash balance increased by $290.614m (or 651.79%) since 1 July 2004 to 30 June 2008. The increase reflected the MAIB's ability to generate $317.139m in Cash from operations over the period, with a net $61.319m redeemed from non-cash investments. Cash inflows were offset by the payment of $85.086m in dividends and $86.493m in tax payments. The significant cash balance at 30 June of each year is predominately comprised of cash investments.

Significant receipts and payments over the four year period under review included:

- total receipts from premiums of $523.348m. Receipts in 2007-08, $136.572m, represented an increase of $13.640m (or 11.10%) compared with the 2004-05 level, $122.932m. The increase reflected the growth in premium revenue primarily from increased vehicle numbers
- total dividend and interest receipts of $240.768m
- total claim payments of $273.089m. Payments in 2007-08, $75.283m, represented an increase of $7.262m (or 10.68%) compared with the 2004-05 level, $68.021m. The payments are made in respect of scheduled benefits and future care expenses and common law settlements and relate to claims received in the current year as well as prior years' claims.

- tax paid over the period totalled $86.493m and reflected the level of profitability in the first three years
- total dividends paid of $85.086m which increased from $7.269m in 2004-05 to $42.950m in 2007-08. The level of dividends reflected increased average profit calculated under the Board's dividend averaging policy together with the payment of special dividends.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
EBIT ($'000s)		(39 227)	149 471	133 195	204 529
Operating margin	>1.0	0.48	2.33	2.22	(73.89)
Underlying result ratio		(1.09)	0.57	0.55	1.01
Self financing ratio		2.70	0.21	0.37	0.38
Return on assets		(3.8%)	12.9%	13.0%	23.4%
Return on equity		(8.3%)	33.3%	38.7%	85.7%
Financial Management					
Solvency ratio		22.6%	29.5%	23.6%	19.8%
Returns to Government					
Dividends paid or payable ($'000s)		39 618	22 951	22 062	12 805
Dividend payout ratio	50%	(175.1%)	20.3%	22.9%	9.0%
Dividend to equity ratio	6%	12.9%	7.8%	10.7%	8.9%
Income tax paid or payable ($'000s)		48 986	38 427	23 709	5 619
Effective tax rate	30%	(124.9%)	25.6%	17.8%	2.7%
Total return to the State ($'000s)		88 604	61 378	45 771	18 424
Total return to equity ratio		28.9%	20.9%	22.1%	12.8%
Other Information					
Staff numbers (FTE)		37	37	37	39
Average staff costs ($'000s)		71	71	60	56
Average leave balance per FTE ($'000s)		11	10	9	10

Comment

The $119.900m decrease in the claims expense during 2004-05, as a result of the first time adoption of AIFRS as previously explained in the Income Statement section of this report, resulted in the financial performance ratios for that year being abnormally affected.

The strong financial performance ratios for 2005-06 and 2006-07 were the result of strong profits before taxation and resulted in Operating margins well above benchmarks, favourable Underlying results and Self financing ratios, as well as solid Return on assets and Return on equity percentages. The loss incurred in 2007-08, primarily from negative investment returns (refer Income Statement section of this report), resulted in poor financial performance ratios.

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

Dividends totalling $97.436m were paid or are payable to the State Government relating to the financial years under review. It is noted that the dividends were 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 were 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 be required to pay a special dividend of $30.000m in equal instalments over three financial years beginning 2007-08. The first special dividend of $10.000m was paid in 2007-08.

The Board is required under the *Government Business Enterprise Act 1995* to make taxation equivalent payments to the State Government. At 30 June 2008, the Board had a taxation equivalent payable of $32.892m, which comprised total tax payable for the year of $48.986m less tax instalments paid of $16.094m. Although the MAIB recorded an accounting loss for 2007-08, it produced a taxation profit primarily due to the tax calculations excluding unrealised losses relating to investments. Over the four year period under review the MAIB has paid or made payable $116.741m in taxation equivalent payments.

The combination of dividend and taxation equivalent payment over the four years period produced strong Total return to equity ratios by the Board. In particular, the past three years saw the ratio well above 20%. The ratios for 2007-08 and 2006-07 improved because of the requirement to pay special dividends ($10.000m for each year).

Average staff costs increased from $0.056m in 2004-05 to $0.070m in 2007-08 and included annual EBA pay increases of 4.5% in 2007-08 and 4.25% in each other year under review. The average was also affected by movements in the RBF Provision and terminations. The significant movement in 2006-07 included an increase in the RBF liability of $0.483m (2007-08, $0.265m; 2005-06, $0.291m; 2004-05, $0.221m).

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
- 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 2008. The Responsible Minister is the Minister for Environment, Parks, Heritage and the Arts.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2008 and an unqualified audit report was issued on 14 October 2008.

The 2007-08 audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

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.

INCOME STATEMENT

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Entrance fees	4 871	4 366	4 226	4 232
Ghost tours	684	613	670	684
Food and merchandise sales	3 525	3 317	3 541	3 516
Interest	222	168	195	190
Other income	567	186	271	278
Conservation funding	3 515	2 000	2 000	2 000
Total Revenue	**13 384**	**10 650**	**10 903**	**10 900**
Visitor services expenses	2 522	2 385	2 376	2 228
Ghost tour expenses	310	297	343	396
Food and merchandise expenses	3 234	3 241	3 453	3 436
Site maintenance expenses	565	492	473	245
Conservation expenses	3 370	3 304	2 511	2 368
Corporate service expenses	1 854	1 111	1 276	1 882
Marketing expenses	280	280	261	283
Total Expenses	**12 135**	**11 110**	**10 693**	**10 838**
Profit (Loss) before:	**1 249**	**(460)**	**210**	**62**
Assets not previously recognised	0	0	0	250
Superannuation liability expense	(105)	(967)	(169)	(826)
Net Profit (Loss)	**1 144**	**(1 427)**	**41**	**(514)**

Comment

Over the three year period to 2006-07, 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 was mainly due to a $1.515m increase in conservation funding and because of generally higher earnings from all other sources of revenue.

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 State 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. Without such funding the Authority would have to curtail conservation work, as tourism activities do not generate sufficient income to cover such costs.

The $0.066m increase in conservation costs during 2007-08 was primarily due to expenditure on the separate prison project of which $0.500m was provided for by the Commonwealth Government matched dollar for dollar by the Authority. Other key conservation projects included developing a new statutory management plan, a new asset management system and the historic oak trees preservation project.

All other operating costs have been well contained.

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 four years.

REVENUE BY SEGMENT

2007-08				
Segment	**Conservation**	**Tourism**	**Unallocated**	**Consolidated**
	$'000	$'000	$'000	$'000
Funding	3 515	0	0	3 515
External sales	12	9 508	0	9 520
Internal sales	15	38	296	349
Total Segment Revenue	3 542	9 546	296	13 384
2006-07				
Segment	**Conservation**	**Tourism**	**Unallocated**	**Consolidated**
	$'000	$'000	$'000	$'000
Funding	2 000	0	0	2 000
External sales	12	8 599	0	8 611
Internal sales	16	24	0	40
Total Segment Revenue	2 028	8 623	0	10 651
2005-06				
Segment	**Conservation**	**Tourism**	**Unallocated**	**Consolidated**
	$'000	$'000	$'000	$'000
Funding	2 000	0	0	2 000
External sales	37	8 832	0	8 869
Internal sales	22	12	0	34
Total Segment Revenue	2 059	8 844	0	10 903
2004-05				
Segment	**Conservation**	**Tourism**	**Unallocated**	**Consolidated**
	$'000	$'000	$'000	$'000
Funding	2 000	0	0	2 000
External sales	45	8 811	0	8 856
Internal sales	21	23	0	44
Total Segment Revenue	2 066	8 834	0	10 900

BALANCE SHEET

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Cash assets	3 840	2 311	2 592	2 911
Receivables	159	110	134	137
Inventories	459	419	413	441
Other	51	15	15	13
Total Current Assets	**4 509**	**2 855**	**3 154**	**3 502**
Payables	761	966	479	503
Provisions	1 294	1 214	1 425	1 433
Other				0
Total Current Liabilities	**2 0565**	**2 180**	**1 904**	**1 936**
Working Capital	**2 454**	**675**	**1 250**	**1 566**
Property, plant and equipment	15 407	14 760	13 465	13 118
Total Non-Current Assets	**15 407**	**14 760**	**13 465**	**13 118**
Provisions	4 557	4 609	3 804	3 814
Total Non-Current Liabilities	**4 557**	**4 609**	**3 804**	**3 814**
Net Assets	**13 304**	**10 826**	**10 911**	**10 870**
Retained earnings	8 468	7 324	8 752	8 711
Reserves	4 836	3 502	2 159	2 159
Total Equity	**13 304**	**10 826**	**10 911**	**10 870**

Comment

Over the three years to 2006-07, Total Equity remained fairly constant with Retained earnings declining, from $8.711m in 2004-05 to $7.324m 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. In 2007-08 Total Equity increased significantly due to the Net Profit result for the year and revaluation of assets.

During 2007-08 the Authority revalued land, building and infrastructure assets. The increase in Total Non-Current Assets in 2007-08 was mainly the result of a net revaluation increment, $1.334m, 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

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Receipts from customers	9 949	8 486	8 683	8 763
Payments to suppliers and employees	(11 540)	(10 722)	(10 319)	(9 921)
Unearned income	0	372	0	0
Interest received	206	168	194	190
Cash (used in) operations	**(1 385)**	**(1 696)**	**(1 442)**	**(968)**
Cash flow from government				
Tasmanian Government	3 142	2 000	2 000	2 000
Cash from operations and government	**1 757**	**304**	**558**	**1 032**
Payments for property, plant and equipment	(290)	(650)	(899)	(909)
Proceeds from sale of property, plant and equipment	62	66	22	79
Cash (used in) investing activities	**(228)**	**(584)**	**(877)**	**(830)**
Net increase (decrease) in cash	**1 529**	**(281)**	**(319)**	**202**
Cash at the beginning of the year	2 311	2 592	2 911	2 709
Cash at end of the year	**3 840**	**2 311**	**2 592**	**2 911**

Comment

The Authority's cash balance increased by $1.050m over the period, from $2.709m at 1 July 2004 to $3.840m at 30 June 2008, mainly due to increased revenue arising from by higher visitor numbers, and, in 2007-08, higher conservation contribution by the Government.

The Authority had deposits with financial institutions of $2.848m at 30 June 2008 which were to cover, in part, its superannuation liability.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		1 249	(460)	210	62
Operating margin	>1.0	1.10	0.96	1.02	1.01
Return on assets		6.66%	(2.69%)	1.26%	0.40%
Return on equity		9.48%	(13.13%)	0.38%	(5.04%)
Underlying result ratio		9.33%	(4.32%)	1.93%	0.57%
Self financing ratio		13.13%	2.85%	5.12%	9.47%
Financial Management					
Current ratio	>1	2.19	1.31	1.66	1.81
Debt collection	30 days	10	8	10	10
Creditor turnover	30 days	23	32	16	17
Other Information					
Staff numbers (FTEs)		84	85	85	85
Average staff costs ($'000s)		58	56	56	52
Daytime Visitors *		254 726	237 664	250 616	253 362
Ghost Tour Visitors *		49 406	46 765	53 477	56 542

** Numbers are not subject to audit.*

Comment

The Result from operations for 2007-08 was a profit of $1.249m compared to a loss in 2006-07 and modest profits in 2005-06 and 2004-05. These results have been previously discussed under the Income Statement section. This resulted in the Operating margin rising above the benchmark in 2007-08 as well as the positive changes to the Return on assets and Return on equity ratios. These movements are also reflected in the Underlying result ratio and Self financing ratio.

The Current ratio was high in each of the four years indicating that the Authority is able to meet short term commitments.

As noted previously, day time visitor numbers increased to a record number during 2007-08.

SOUTHERN REGIONAL CEMETERY TRUST

INTRODUCTION

The Southern Regional Cemetery Trust (the Trust) was established under the *Southern Regional Cemetery Act 1981.*

The Trust was responsible for the control and management of cemeteries and crematoria vested in or acquired by it for the burial or cremation of persons who were former residents of the southern area of the State, and ensuring that adequate cemeteries and crematoria are available to meet future requirements.

The Trust comprised six members appointed by the Governor.

In 2001-02 a number of changes took place to the legislative framework under which the Trust operates. The *Burial and Cremation Act 2002* was enacted and amendments were made to the *Southern Regional Cemetery Act 1981*. Legislative changes also included the re-constitution of the Trust from representation by Local and State Governments, with an independent chair, to an expertise based Trust with members from the broad community with an independent chair. The appointment of new Trustees took effect from 1 July 2002.

As at 30 June 2008 the Responsible Minister was the Minister for Local Government.

In June 2007 the Government announced its intention to sell the Trust. The sale was conducted via a competitive bid undertaken by Department of Treasury and Finance. The Trust was sold on 30 June 2008 and net residual assets returned to the State on that date.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 25 August 2008 and an unqualified audit report was issued on the same day.

The 2007-08 audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

The sale of the Trust on 30 June 2008 for $0.665m to Southern Cemeteries Pty Ltd resulted in a loss on sale of $0.808m. The purchaser acquired real property, plant and equipment, debtors and employee leave liabilities of the Trust as at 30 June 2008. The State retained residual net assets of $2.617m made up of cash held in the Trust, as well as investments, the Cornelian Bay property including the Crematorium, and assumed the outstanding creditors and other liabilities as at 30 June 2008.

INCOME STATEMENT

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Operating revenue	1 965	1 866	1 745	1 581
Total Revenue	**1 965**	**1 866**	**1 745**	**1 581**
Depreciation	256	225	254	173
Salaries	847	929	649	650
Other operating expenses	917	999	879	820
Total Expenses	**2 020**	**2 153**	**1 782**	**1 643**
Result from Operating Activities	**(55)**	**(287)**	**(37)**	**(62)**
Loss on sale of business	(808)	0	0	0
Distribution to the State	(2 617)	0	0	0
Income tax (benefit)/ expense	0	0	0	0
Net Loss	**(3 480)**	**(287)**	**(37)**	**(62)**

Comment

In 2007-08 the Result from Operating Activities recorded a deficit of $0.055m, compared to a deficit of $0.287m in 2006-07 and a deficit of $0.037m in 2005-06. The Result from Operating Activities indicates that the Trust did not have sufficient revenue to fulfil all of its operating requirements.

Operating revenue increased $0.099m (or 5.31%) in the period under review. The increase was due to a general increase in revenue.

Depreciation increased $0.031m (or 13.69%) which was due to an increase in the value of infrastructure, specifically crypts in use during 2007-08.

Salaries and employee costs decreased by $0.082m (or 8.83%) in 2007-08 compared to 2006-07. Salaries and employee benefits expenses reduced in 2007-08 in part from an Actuarial Gain in the superannuation provision of $0.020m and approximately $0.050m of leave entitlements settled as part of the cost of sale process for staff whose annual and long service leave was in excess of those stipulated in the sale contract. Employee benefits increased by $0.280m (or 43.14%) in 2006-07 due to government approved increases in payments to trustees and salary and wage employees as per movements in salary and wage agreement.

Other operating expenses decreased by $0.082m (or 8.20%) in 2007-08. The decrease reflects general decreases in the operating expenses excluding depreciation.

Non-operating expenses include the loss on the sale of the business by the Government of $0.808m and the return of residual net assets of $2.617m to the State.

The loss on sale of net assets sold of $0.808m was determined as follows:

	30 June 2008 $
Purchase Price	**665 511**
Less net assets sold represented by;	
Assets	
Property, plant & equipment	1 347 318
Trade receivables	120 867
Stock	64 118
Total Assets	**1 532 303**
Liabilities	
Prepaid services	9 174
Employee leave liability	49 307
Total Liabilities	**58 481**
Total net assets sold	**1 473 822**
Loss on disposal	**808 311**

The return of residual net assets, of $2.617m to the State, not included in the sale contract, was determined as follows;

	30 June 2008 $
Assets	
Cash and cash equivalents	1 912 629
Trade and other receivables	850 722
Investments	206 470
Property, plant and equipment	1 712 489
Total Assets	**4 682 310**
Liabilities	
Trade and other payables	107 502
Employee liabilities/superannuation	1 957 782
Total Liabilities	**2 065 284**
Distribution to the State	**2 617 026**

Although the Trust fell within the National Taxation Equivalent Regime (NTER), its marginal level of returns resulted in minimal tax payments to the State.

BALANCE SHEET

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Cash	0	73	84	109
Receivables	0	330	339	294
Investments	0	2 567	2 440	2 367
Other	0	38	25	25
Total Current Assets	**0**	**3 008**	**2 888**	**2 795**
Payables	0	60	82	52
Provisions	0	310	324	251
Other	0	367	338	303
Total Current Liabilities	**0**	**737**	**744**	**606**
Working Capital	**0**	**2 271**	**2 144**	**2 189**
Property, plant and equipment	0	7 216	7 245	5 410
Total Non-Current Assets	**0**	**7 216**	**7 245**	**5 410**
Deferred tax liability	0	560	560	0
Provisions	0	2 042	1 657	1 204
Total Non-Current Liabilities	**0**	**2 602**	**2 217**	**1 204**
Net Assets	**0**	**6 885**	**7 172**	**6 395**
Capital	0	1 002	1 002	1 002
Reserves	0	7 319	7 319	6 012
Accumulated losses	0	(1 436)	(1 149)	(619)
Total Equity	**0**	**6 885**	**7 172**	**6 395**

Comment

As noted previously, at 30 June 2008, assets and liabilities specified in the sale contract were transferred to the purchaser on sale and the net residual returned to the State.

As a result, at 30 June 2008, the Trust had no assets or liabilities.

CASH POSITION

	2007-08 $'000	**2006-07** $'000	**2005-06** $'000	**2004-05** $'000
Receipts from customers	1 973	1 779	1 580	1 571
Payments to suppliers and employees	(2 137)	(1 647)	(1 444)	(1 311)
Income Tax	0	11	0	0
Interest received	0	0	0	126
Cash from (used in) operations	**(164)**	**143**	**136**	**386**
Interest received and return on investments	144	158	133	24
Payments for investments	(56)	(77)	(135)	0
Payments for property, plant and equipment	(310)	(115)	(189)	(268)
Proceeds from sale of property, plant and equipment	4	7	30	41
Bonding of prepaid services	(345)	0	0	0
Distribution of cash to the State	(1 913)	0	0	0
Cash (used in) investing activities	**(2 476)**	**(27)**	**(161)**	**(203)**
Net increase/(decrease) in cash	**(2 640)**	**116**	**(25)**	**183**
Cash at the beginning of the year	2 640	2 524	2 549	(74)
Cash at end of the year*	**0**	**2 640**	**2 524**	**109**

** Opening cash for 2005-06 included liquid investments previously not treated as cash.*

Comment

Movements in the Trust's cash flows are consistent with explanations provided in the Income Statement section of this Chapter.

FINANCIAL ANALYSIS

In view of the sale of the Trust, no financial analysis was prepared.

TASMANIAN PUBLIC FINANCE CORPORATION

INTRODUCTION

The Tasmanian Public Finance Corporation (Tascorp or the Corporation) 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 2007-08 FINANCIAL STATEMENTS

Financial statements were received on 13 August 2008 and an unqualified audit report was issued on the same day.

The audit of the financial statements for the 2007-08 year was completed with satisfactory results.

FINANCIAL RESULTS

2007-08 was a challenging year for Tascorp. The sub-prime collapse in August last year and the resultant fallout in financial markets tested the risk management systems in place at Tascorp.

During 2007-08 it operated at a loss after income tax equivalents of $1.894m compared to a profit after tax the previous year of $3.846m. Its Net Assets at 30 June 2008 were $16.652m. At this date its Total Assets were $6.492 bn (2007, $6.477bn) and its Total Liabilities were $6.475bn (2007, $6.455bn).

INCOME STATEMENT

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Interest revenue	434 875	386 457	382 882	422 642
Other operating revenue	452	582	431	2 098
Gains less losses from financial instruments	(39 352)	7 627	(1 846)	2 236
Total Revenue	**395 975**	**394 666**	**381 467**	**426 976**
Interest expense	394 617	385 363	367 414	413 355
Other operating expenses	4 064	3 808	4 230	4 798
Total Expenses	**398 681**	**389 171**	**371 644**	**418 153**
Profit/(Loss) before:	**(2 706)**	**5 495**	**9 823**	**8 823**
Income tax (benefit)/expense	(812)	1 649	2 947	2 647
Net Profit/(Loss)	**(1 894)**	**3 846**	**6 876**	**6 176**

Comment

Tascorp's loss after income tax equivalents for the year ended 30 June 2008 was $1.894m (2007, $3.846m profit). The revised risk management systems put in place during the last two years enabled Tascorp to contain the impact of the sub-prime collapse to a minimum.

Note 3 to the financial statements discloses the following:

	2007-08	2006-07
	$'000	$'000
Net Margin Income	11 854	8 530
Credit Margin Gains/(Losses)	(9 039)	3
Liability Margin Gains/(Losses)	(1 909)	188
Fee Income	452	582
Revenue from Operations	**1 358**	**9 303**

The movements in credit margin losses and liability margin losses were the focus of Tascorp during the year. The major outcomes and responses to these have been:

Exposure to widening credit margins	Tascorp sought to contain this risk by investing short term. As at 30 June 2008, 80% of Tascorp's investment portfolio was invested for periods of no more than 12 months.
Significant change in liability margins	Tascorp minimised its excess holdings of long term borrowings by issuing Preferred Stocks more frequently and in smaller amounts.

Reduction in depth of market in securities	This led to quoted market prices being unreliable for mark to market accounting. Tascorp researched the issue extensively and refined the sources of valuation data.
Increased difficulty for Tascorp to maintain the desired balance of its investment strategy	This is related directly to the depth of market issue. There are few quality securities available to Tascorp at the risk profile they are prepared to hold at this time. This has meant greater concentration of exposures to Australian Banks.

The strength of the risk management systems in place at Tascorp provides comfort that there are no undisclosed exposures in the Balance Sheet and that the Financial Statements are fairly stated.

There is an expectation that this market volatility will be with us for some time.

In the context of the size of the book and the capital of Tascorp the losses have been kept to minimum. Note 18(f) shows the Value at Risk (VaR) analysis for Tascorp.

	Average		**Minimum**		**Maximum**		**Year End**	
Historical VaR	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
(99% one-day)	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Total VaR exposure	389	407	234	264	656	514	497	307

In this context the loss is just under six times the daily risk numbers at historical prices in the most difficult of market conditions.

BALANCE SHEET

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Cash	11 453	11 885	1 128	4 836
Investments *	3 785 282	3 985 448	3 216 831	3 910 187
Advances *	2 643 182	2 425 043	2 294 979	2 659 654
Derivative instruments receivable	50 542	54 069	64 991	73 251
Property, plant and equipment	201	273	697	652
Intangibles and other	1 104	293	174	27 829
Total Assets	**6 491 764**	**6 477 011**	**5 578 800**	**6 676 409**
Payables	339 321	144 698	70 964	154 157
Deposits *	1 762 773	1 786 341	1 446 060	1 468 486
Borrowings *	4 257 165	4 457 084	4 004 382	5 019 434
Derivative instruments payable	115 470	64 328	33 478	13 904
Current tax liabilities		1 654	2 952	39
Provisions	383	860	918	691
Total Liabilities	**6 475 112**	**6 454 965**	**5 558 754**	**6 656 711**
Net Assets	**16 652**	**22 046**	**20 046**	**19 698**
Reserves	10 000	10 000	10 000	10 000
Retained earnings	6 652	12 046	10 046	9 698
Total Equity	**16 652**	**22 046**	**20 046**	**19 698**

* *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 2007-08 Tascorp maintained its level of borrowings and investments in line with:

- its investment profile
- 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
- the opportunities available in the cycle to issue new paper at the best price.

There has been strong demand for sovereign debt during the year. Tascorp has not taken advantage of this situation but has continued with its long term strategy.

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

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Interest and other receipts	431255	411 979	424 170	419 597
Interest payments	(398 295)	(384 079)	(388 273)	(421 400)
Payments to suppliers and employees	(4 404)	(3 669)	(3 941)	(2 190)
Taxation expense	(1 654)	(2 947)	(35)	(2 960)
Net increase/(decrease) in deposits & others	(238 437)	83 887	(136 506)	(161 304)
Net (increase)/decrease in advances & others	(56 768)	(84 848)	303 179	152 348
Payments for financial assets at fair value through profit and loss	60 299	439 543	888 833	(117 674)
Cash from/(used in) operations	**(208 004)**	**459 866**	**1 087 427**	**(133 583)**
Payments for property, plant and equip.	(114)	(21)	(337)	(82)
Proceeds from sale of property, plant and equip.	18	28	71	27 156
Cash from/(used in) investing activities	**(96)**	**7**	**(266)**	**27 074**
Receipts from other financial liabilities at fair value through profit and loss (borrowings)	(198 810)	298 577	(1 207 388)	770 273
Dividends paid	(1 846)	(553)	(6 164)	(6 289)
Cash from/(used in) financing activities	**(200 656)**	**298 024**	**(1 213 552)**	**763 984**
Net increase (decrease) in cash	**(408 756)**	**757 897**	**(126 391)**	**657 475**
Cash at the beginning of the year	1 487 302	729 405	855 796	198 322
Cash at end of the year	**1 078 546**	**1 487 302**	**729 405**	**855 797**

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 reduction in cash holdings was 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 18 *Financial Instruments and Risk Management* of the Financial Statements. It provides a comprehensive description of the financial instruments held, their risk profiles and the risk management systems in place.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(2 706)	5 495	9 823	8 823
Return on equity		(16.3%)	24.9%	49.0%	44.8%
Returns to Government					
Dividends paid or payable ($'000s)		3 500	1 846	553	6 164
Dividend payout ratio	50%	(184.8%)	48.0%	8.0%	99.8%
Dividend to equity ratio		21.0%	8.4%	2.8%	31.3%
Income tax (receivable)/ payable ($'000s)		(812)	1 654	2 947	2 641
Effective tax rate	30%	30.0%	30.1%	30.0%	29.9%
Total return to the State ($'000s)		3 500	3 500	3 500	8 805
Total return to equity ratio		21.0%	15.9%	17.5%	44.7%
Other Information					
Staff numbers (FTEs)		14	14	14	14
Average staff costs ($'000s)		120	112	91	106
Average leave balance per FTE ($'000s)		18	17	20	49

Comment

Tascorp is the banker to the government sector 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 previously, Tascorp refined its risk management strategies to operate within its capital constraint 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. This has been achieved within a clearly defined capital at risk and an appropriate risk management system approved by the Board.

The outcome for the year is reflective of the strength of those risk management systems.

THE PUBLIC TRUSTEE

INTRODUCTION

The Public Trustee is established by the *Public Trustee Act 1930* and is a Government Business Enterprise (GBE). Principal commercial activities undertaken include the provision to the general community of access to professional advice and service in relation to trustee services including preparation of wills, estate administration, trust management and powers of attorney; and the protection of the financial interests of individuals under a legal, physical or intellectual disability where The Public Trustee is appointed to act on their behalf.

The Public Trustee collects fees and commissions for providing these services. In addition, it receives funding from the State Government to enable it to satisfy its Community Service Obligations.

The financial statements of The Public Trustee report the results of its provision of the above services and its management of the Common Fund and three group investment funds. Estate and other assets under administration are not included in its financial statements but are dealt with elsewhere in its annual report.

The Public Trustee's Board comprises six members, including the Chief Executive Officer. The Governor, on the recommendation of the Minister, appoints all members of the Board.

The Responsible Minister is the Attorney-General.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2008, with final amended statements being received on 17 October 2008. An unqualified audit report was issued on 27 October 2008.

The audit was completed satisfactorily with no major issues outstanding.

Whilst The Public Trustee's prescribed financial reporting requirements and accounting standards do not require financial reporting on funds under management, a note to the financial statements discloses funds being managed as at 30 June 2008 totalling $115.195m. Interest earned on these funds does not accrue to The Public Trustee.

FINANCIAL RESULTS

Over the four year period under review The Public Trustee operated at an average annual net profit after tax of $1.076m with the profit in 2007-08 slightly down at $0.910m. Community Service Obligation funding represented 16% (13% in 2004-05) of revenue in 2007-08 and Income from investments 8% of revenue (6% in 2004-05).

Net working capital remained healthy at $4.323m ($3.785m at 30 June 2005) and Equity increased from $2.791m at 30 June 2005 to $5.085m at 30 June 2008 primarily due to annual net profits already referred to.

Over the four year period cash generated from operations averaged $0.930m per year but dropped to $0.608m in 2007-08. Dividends of $0.637m and $0.464m were paid in 2006-07 and 2007-08 respectively.

INCOME STATEMENT

	2007-08 $'000	**2006-07** $'000	**2005-06** $'000	**2004-05** $'000
Commission and fees	4 907	4 566	4 483	4 614
Funding of community service obligations	1 070	793	793	793
Income from investments	536	503	414	360
Gain from asset revaluations	218	481	587	237
Other income	0	1	2	2
Total Revenue	**6 731**	**6 344**	**6 279**	**6 006**
Employee costs	3 799	3 588	3 291	3 028
Accommodation expenses	172	148	128	115
Administration expenses	1 453	1 307	1 290	1 219
Depreciation	42	54	63	71
Total Expenses	**5 466**	**5 097**	**4 772**	**4 433**
Net profit before tax	**1 265**	**1 248**	**1 507**	**1 573**
Income tax expense	354	320	233	378
Net profit after tax	**910**	**928**	**1 274**	**1 195**

Comment

The Public Trustee's Operating revenue is derived from Commission and fees charged on the administration of estates and trusts under its control, and receipt of funding for performing Community Service Obligations (CSO's) on behalf of the Government. Other Operating revenue comprises rental income and interest earned on its investments. The Public Trustee's funds are invested, along with other funds that it holds in Trust, in a Common Fund.

In respect to 2007-08, the Net profit before tax increased by $0.017m to a surplus of $1.265m due to an increase in commission and fees of $0.341m primarily arising from the finalisation of a number of estates, and an increase of CSO funding to $1.070m, partially offset by an increase in salaries and associated expenses of $0.211m resulting from wage awards.

CSO funding of $0.793m was received in each of the last three years recorded above under a three-year agreement ended 30 June 2007. The payment in 2007-08 was an interim payment pending the next three-year agreement. The CSO funds represent matters in relation to the administration of probate for low value clients, administration of estates, guardianships and administrations that The Public Trustee administers under the *Guardianship and Administration Act 1995*. As a comprehensive review was undertaken prior to the new contract being issued, a temporary agreement was in place during 2007-08. During this time CSO funding was based on an estimate of the net avoidable costs of administering CSO matters. The calculation of avoidable costs was based on an agreed percentage of individual expenditure items determined by an estimate of the relative time spent on these matters. A new contract will take effect from 1 July 2008, and is expected to be closer aligned to actual costs than the original contract which had a majority fixed component combined with a minor variable component.

In 2006-07, the Net profit before tax decreased by $0.259m to $1.248m, primarily due to an increase in salaries and associated expenses of $0.279m, offset in part by Commission and fees increasing by $0.083m due to the finalisation of estates and an increase of $0.089m in Income from Investments because of strong returns from equity markets.

Employee costs were higher in 2005-06 compared to 2004-05 when the costs were low due to a high number of staff vacancies, which were subsequently filled in 2005-06.

BALANCE SHEET

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000	$'000	$'000	$'000
Cash	1	1	1	1
Receivables	429	422	450	419
Investments	6 444	6 430	6 290	5 431
Other	45	45	72	66
Total Current Assets	**6 920**	**6 898**	**6 813**	**5 917**
Payables	722	617	474	537
Provisions	1 928	2 055	1 687	1 330
Income tax liability	(52)	41	183	265
Total Current Liabilities	**2 597**	**2 713**	**2 344**	**2 132**
Working Capital	**4 323**	**4 185**	**4 469**	**3 785**
Property, plant and equipment	2 412	2 202	1 879	1 579
Investment property	3 100	2 883	2 500	2 263
Deferred tax asset	2 791	2 982	2 613	2 632
Total Non-Current Assets	**8 302**	**8 067**	**6 992**	**6 474**
Provisions	7 272	7 818	7 010	7 456
Deferred tax liability	267	165	3	12
Total Non-Current Liabilities	**7 540**	**7 984**	**7 013**	**7 468**
Net Assets	**5 085**	**4 268**	**4 448**	**2 791**
Retained profits	4 793	4 099	4 448	2 791
Asset revaluation reserve	292	169	0	0
Total Equity	**5 085**	**4 268**	**4 448**	**2 791**

Comment

Net assets increased by $2.294m over the fours years under review primarily due to asset revaluations credited to Reserves, $0.292m, net profits after tax of $3.112m less dividends paid of $1.101m .

The increase in retained profits in 2005-06 of $1.657m consisted of the net profit for the year after tax of $1.274m plus net income recognised directly in equity from an actuarial gain in the superannuation liability, $0.382m.

The Public Trustee's Net assets increased by $0.817m in 2007-08 due to:

- Investments increasing by $0.014m
- Property, plant and equipment increasing by $0.209m and Investment property increasing by $0.217m, primarily as a result of revaluations
- a decrease in employee provisions by $0.673m mainly resulting from the Actuary's valuation of The Public Trustee's liability for superannuation.

The Public Trustee's net working capital was healthy in each of the four year's under review indicating it is in a sound position to meet short term obligations.

CASH POSITION

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Receipts from clients, Government and Common Fund	6 506	5 882	6 209	5 680
Payments to suppliers and employees	(5 585)	(4 527)	(4 867)	(4 087)
Taxation paid	(313)	(466)	(470)	(241)
Cash from operations	**608**	**889**	**872**	**1 352**
(Increase) decrease in investment in Common Fund	0	(100)	(800)	(1 350)
Payments for property, plant and equipment	(129)	(113)	(15)	(22)
Proceeds from sale of property, plant and equipment	0	1	1	0
Cash used in investing activities	**(129)**	**(212)**	**(814)**	**(1 372)**
Dividends paid	(464)	(637)	0	0
Cash used in financing activities	**(464)**	**(637)**	**0**	**0**
Net increase (decrease) in cash	**14**	**40**	**58**	**(20)**
Cash at the beginning of the year	331	291	233	253
Cash at end of the year	**345**	**331**	**291**	**233**

Comment

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and the Balance Sheet sections of this Chapter. The only matter of concern is the decreasing level of cash generated from operations which is down 55% since 30 June 2005.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		1 047	767	920	1 336
EBIT ($'000s)		1 265	1 248	1 507	1 573
Operating margin	>1.0	1.19	1.15	1.19	1.30
Return on assets		8.4%	8.7%	11.5%	12.7%
Return on equity		19.5%	21.3%	35.2%	42.8%
Underlying result ratio		19%	20%	24%	26%
Self financing ratio		9%	14%	14%	23%
Financial Management					
Current ratio	>1	2.66	2.54	2.91	2.78
Creditor turnover	30 days	54	80	53	67
Returns to Government					
Dividends paid or payable ($'000s)		464	637	0	0
Income tax paid ($'000s)		354	320	233	363
Effective tax rate	30%	28.0%	25.6%	15.5%	23.1%
Total return to the State ($'000s)		818	957	233	363
Total return to equity ratio		17.5%	22.0%	6.4%	13.0%
Other Information					
Staff numbers (FTEs)		47	49	48	50
Average staff costs ($'000s)		80	73	69	61
Average leave balance per FTE ($'000s)		13	13	15	13

Comment

The Result from operations over the four years under review were consistent and as reflected in the Operating margins being above the benchmark in each year.

However, the Return on assets and Return on equity both declined mainly due to dropping profitability, and growing Net Assets and Total Equity over the same period for reasons discussed under the Income Statement and Balance Sheet sections of this Chapter.

The Current ratio remained consistently high over the last four years under review indicating that The Public Trustee is able to meet short term commitments.

Creditor turnover over the last four years was high due to a large number of significant projects and general consulting at year-end. The creditor turnover was higher in 2006-07 due to a significant media advertising campaign on radio and television, a computer upgrade and an increase in the use of consultants at year-end.

Average staff costs over the four years under review increased progressively in excess of wages agreements, due to increased payroll tax and superannuation expenses resulting from actuarial assessments.

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 or State Owned Companies (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*, the Constitution of each SOC and in Corporate Governance Guidelines developed by the Department of Treasury and Finance.

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 AND OUTCOMES FROM AUDITS

- 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 $1.460bn (2006-07, $1.594bn), employ 2 488 (2 493) people, and reported a profit of $378.488m ($71.090m) after taxation in 2007-08.
- **Aurora Energy Pty Ltd** (Aurora) Aurora trades in a competitive environment with tight margins leading to relatively low net profits based on turnover. Its cash situation at 30 June was tight as indicated by low cash holdings at that point in time due primarily to its on going capital investment program and dividend payments. Major events occurring during the year included the lease of the Tamar Valley Power Station development, a key contractor Bill Express going into liquidation, valuation issues around the hedge arrangements for its Tasmanian market contracts and a price redetermination effective 1 January 2008.

  In 2007-08 its operating profit was $39.641m (2006-07, $45.011m) and its Net assets grew from $403.162m at 30 June 2007 to $410.482m at 30 June 2008. During the period June 2004 to June 2008, Aurora invested net $495.621m in property, plant and equipment and intangible assets which was funded internally and by increased borrowings totalling $189.814m. It also paid $111.124m in taxes and dividends to the State Government.
- As **Metro Tasmania Pty Ltd** receives a significant proportion, approximately 70%, of its revenue as a Government contribution it remains economically dependent on the State Government for its continued operations. Metro reported a loss before tax of $0.300m for 2007-08, compared to a profit of $0.307m for 2006-07. Net assets increased by $0.024m from $29.515m to $29.539m at 30 June 2008.

- In January 2008 the **Tasmanian Port Corporation Pty Ltd** (TasPorts) sold its shares in Hobart International Airport Pty Ltd for $353.134m. This is the most significant event since the Company was formed. The sale had a major impact on operating results with a net profit of $313.361m reported for the year ended 30 June 2008. The result is a significant improvement on the $5.491m after tax profit for the year ended 30 June 2007. Without this contribution, the net profit after tax was $25.872m.

  During the current year, TasPorts expanded into a tug boats business by acquiring assets of North Western Shipping and Towage Pty Ltd in August 2007 with these activities operated on a divisional basis rather than in a separate company. TasPorts also expanded its stevedoring operations by forming a joint venture with P&O Automotive and General Stevedoring Pty Ltd (POAGS). The new entity, Capital P&O Logistics Pty Ltd (CPOL) commenced trading on 1 May 2008. Both expansions were funded from existing cash reserves.

- **TOTE Tasmania Pty Ltd**'s (TOTE) results in 2007-08 in relation to the prior year, along with its improved net asset position, were characterised by significantly improved profit. TOTE posted a Net profit before tax of $4.079m (2006-07, $2.315m).

  Growth in operating activities, in particular wagering, due to increased turnover garnered through large and internet betting customers, was significant for 2007-08 despite the effects of the equine influenza outbreak on race meetings. Net wagering income increased by $27.498m or 60% over the four year period under review. Internet turnover was the primary driver of the increase in wagering turnover, an increase of 48% for the current year. During the year Net assets increased by $3.856m to $46.104m from $42.248m.

  The $4.250m (2006-07, $5.750m) in funds received from Government with respect to the licensing of Betfair in Tasmania was returned to the racing industry in prize-money, benefits and incentives.

- In 2007-08, **Transend Networks Pty Ltd** recorded a result from operating activities, before defined benefit plan superannuation expense, gifted assets and taxation of $28.595m, compared to $34.358m and $42.396m in the previous two years. The decrease in profit was primarily due to an increase in borrowing costs of $3.986m, additional depreciation expense, $5.519m, and higher contractor and consultant costs, totalling approximately $6.947m. These costs were partially offset by higher Transmission revenue in accordance with an Australian Competition and Consumer Commission (ACCC) determination. Total equity decreased $173.253m between 2006-07 and 2007-08 due predominately to Return of share capital to shareholders of $270.000m offset by recorded net profits after taxation and net revaluation increments of $93.020m

- The **TT-Line Company Pty Ltd**'s Operating profits before taxation and other accounting adjustments improved to $13.570m in 2007-08. The improved results also strengthened the Balance Sheet with Net Assets as 30 June 2008 now $258.544 (2007, $235.399m). The improvement reflects a positive impact on the financial position of the Company largely due to the sale of Spirit III in early 2005-06. The primary factor for the improved result in 2007-08, was an increase in revenue, which was mainly due to increased yields in the passenger side of the business and from an increase in freight volumes. There was also an increase in the asset revaluation reserve of $6.613m as a result of the annual revaluation of Spirits I and II.

RESPONSIBLE MINISTER

The Ministers responsible at 30 June 2008 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 and Resources, owns Aurora on behalf of the State of Tasmania. The Office of the Tasmanian Electricity Regulator sets the maximum prices Aurora can charge residential and non-contestable business customers.

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).

At balance date, Aurora held a 100% interest in Ezikey Group Pty Ltd formed in 2000-01, which promotes pre-payment metering systems. 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 former Broadband Over Powerline project and the TasCOLT trial. During 2007-08, Aurora sold a majority interest in Aurora Energy AAPT Pty Ltd (trading as TasTel).

All figures in the following tables and analysis are based upon the consolidation of:

- Ezikey Group Pty Ltd transactions and balances for the full year ended 30 June 2008
- Aurora Energy AAPT Pty Ltd transaction to date of sale, 15 February 2008.

There were no transactions for either Aurora Gas Pty Ltd or Auroracom Pty Ltd in the financial period under review.

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 energy price to the regulated price for franchise customers (non contestable customers). See further comments under the Balance Sheet section.

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

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 28 August 2008 and an unqualified audit report was issued on the same day.

The 2007-08 audit was completed satisfactorily with no major issues outstanding.

Three significant developments this year were:

1. Subsequent event - Tamar Valley Power Station (TVPS)

Aurora included in its financial statements a subsequent event note which is reproduced as follows:

> 'The Tasmanian Government announced on 18 August 2008 that it had entered into a heads of agreement with Babcock & Brown Power Limited (BBP) under which the State would purchase from BBP the Tamar Valley Power Station development. The Government has indicated that the purchasing entity will be Aurora Energy or an Aurora subsidiary.
>
> The heads of agreement provides for the sale and purchase agreement to the development to be executed by 29 August 2008 and for completion of the sale by 15 September 2008. A number of conditions precedent are included in the sale and purchase agreement, including ACCC approval, with the right of termination if the conditions precedent are not satisfied or waived.
>
> The purchase price of the partially constructed power station will be $100M and the estimated cost to complete the project is $240M. The Government intends to make a $100M equity injection into Aurora to facilitate the transaction and Aurora will fund the completion costs by borrowing from Tascorp.
>
> Aurora had previously entered into an operating lease with BBP, relating to the purchase of electricity from the Tamar Valley Power Station, which was due to commence in April 2009.'

As at 30 June 2008, the operating lease for the TVPS was for a term of nine years, with options to extend for a further 16 years. The total amount of commitments for this lease as disclosed in Aurora's financial report at 30 June 2008 was $215.930m over the initial nine year term.

At the time of finalising this Report to Parliament on 31 October 2008, all conditions precedent had been met and Aurora had established a subsidiary company which now owns the TVPS.

2. Subsequent event - Ezikey Group Pty Ltd (Ezikey)

As noted previously, Aurora fully owns and operates Ezikey, which promotes pre-payment metering systems. Through its operations, Ezikey have a contract with Bill Express, which collects monies on behalf of Ezikey for the prepayment of electricity sales.

On 8 July 2008 Bill Express went into liquidation. Funds outstanding to Ezikey were recovered during July 2008.

3. Impact of not recognising the existence of a Tasmanian Market Price Curve (referred to below as the "Yield Curve")

Aurora has in place hedge arrangements for its Tasmanian market contracts with contestable customers. The hedges take the form of load following or fixed volume electricity swap agreements. The economic effect of these arrangements is to transfer to the counterparties the variable price risk and to fix the cost of electricity to Aurora, in line with the revenue streams that are contracted with customers. These hedges have been classified as either a Fair Value or Cash Flow hedges.

In the absence of a Tasmanian Market price curve for electricity, Aurora values these contracts against the contract price. As a result there is no mark to market movement or valuation of these hedges in the financial statements. Aurora is currently assessing the effectiveness of using a derived Tasmanian Market price curve to value these hedges in future. While Aurora is able to construct such a curve, it cannot be assured that it will be sufficiently robust to meet the valuation methodology requirements of the accounting standards.

On the analysis currently available the derived Tasmanian Market price curve together with the adoption of hedge accounting would have resulted in an estimated fair value of financial assets of $692m at 30 June 2008, with financial liabilities of $694m and equity movements of $2m debit (excluding tax impacts).

Aurora viewed the net effect on the Balance Sheet as immaterial, with any valuations based on the Tasmanian market yield curve not sufficiently robust for financial reporting purposes.

FINANCIAL RESULTS

Aurora trades in a competitive environment with tight margins leading to relatively low net profits based on turnover. Its cash situation at 30 June was tight as indicated by low cash holdings at that point in time due primarily to its on going capital investment program and dividend payments. Management are aware of this situation and are managing it. This conclusion was reached not taking into account any impacts on Aurora's profitability or liquidity of the recent announcement by Government in relation to the possible acquisition of the Tamar Valley Power Station. Whilst prices did increase for residential and non contestable business customers in January 2008, net profit still declined due to reasons noted in the Income Statement section below.

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

- in September 2007, the Tasmanian Energy Regulator produced a Report of his investigation to set maximum prices for electricity customers (residential and non-contestable business customers) until mid-2010. The Report resulted in price increases in January 2008, the first major review of pricing since 2003. The impact on Aurora's revenue is detailed below in the Income Statement analysis

- Aurora continues to operate in a challenging environment being one of price volatility in the wholesale spot energy market, and it must manage contracts for differences and the net cost of energy purchases, and enters into competitive hedge contracts

- Aurora faces competition from other retailers over the next three years as the Tasmanian market is progressively opened up through a series of annual tranches, refer to Tranche Table following, dated 1 July 2006 progressively through to 1 July 2010 leading to full contestability subject to public benefit assessment.

- as expected, Aurora faces increasing customer expectations for reliability and quality
- Aurora continues to promote pre-paid metering in Tasmania and is receiving encouraging take up levels of the product in South Australia
- Aurora has entered a fully contestable market interstate winning a number of customers, among them a number of hotels and factories, with licences to operate in Victoria, South Australia, the ACT, New South Wales and Queensland.

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 contestability	1-Jul-10	<0.15 GWh/yr	244 000	Residential and small business customers

Source: Aurora Energy Annual report 06/07

INCOME STATEMENT

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Business customer sales	559 512	482 462	453 759	439 561
General sales	301 138	295 943	262 222	247 780
Other operating revenue	31 373	24 884	22 696	26 516
Total Revenue	**892 023**	**803 289**	**738 677**	**713 857**
Energy and telecommunication transmission purchases	611 629	538 600	497 986	477 024
Renewable energy credit purchases	13 635	7 385	6 842	5 573
Employee expenses	67 857	69 852	67 703	56 729
Borrowing costs	34 639	30 599	28 369	27 110
Depreciation	71 301	65 339	61 026	52 845
Other operating expenses	61 454	57 266	56 852	52 652
Total Expenses	**860 515**	**769 041**	**718 778**	**671 933**
Profit before:	**31 508**	**34 248**	**19 899**	**41 924**
Customer contributions	10 819	10 763	7 473	7 921
Superannuation liability movement	1 724	(6 546)	3 918	(7 271)
Impairment of non-current assets (net)	(1 276)	(2 223)	1 042	105
Unrealised energy derivate gain/(loss)	(2 858)	6 712	(2)	0
Non-operating revenue	51	2 197	(254)	(406)
Non-operating expenses	(327)	0	0	0
Profit before taxation	**39 641**	**45 151**	**32 076**	**42 273**
Income tax expense	(12 570)	(12 816)	(9 734)	(12 857)
Net Profit	**27 071**	**32 335**	**22 342**	**29 416**

Comment

In the four years under review Aurora generated net profits before taxation totalling $159.141m. However, the profit from operations, excluding non-operating items totalled $127.579m, which was generated from operating revenue of $3.147bn. This indicates a return against turnover of 4.1% over the four year period, which indicates Aurora is operating with a low profit margin in the retailing of electricity.

Aurora's Business customer and General sales increased by $173.309m or 25.2% over the period under review. The increase included:

- an 11% increase in 2007-08 due to price increases on 1 January 2008 (residential customers 15.7% and non-contestable business customers 16.4%)
- greater success in contesting in the mainland retail market.

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

TABLE 1: Installation numbers and sales volume in million kWh

	2008	2007	2006	2005
Installation Numbers				
Business and Residential	265 812	263 584	259 590	256 469
Sales (in million kWh)				
Business and Residential	10 536	10 483	10 298	10 028

It is clear from the table that installations and sales in kWh are increasing across business and residential customers leading to higher revenue and energy purchases. However, growth in the volume of power sales per kWh over the four year period under review has been slower than growth in revenue from sales (business and residential). Sales in kWhs increased by 5.07% (508 kWhs) compared to sales revenue which increased by 25.21% ($173.309m) over the same period. The discrepancy in the movement is primarily attributable to price increases noted previously.

Other operating revenue includes Community service agreement funding from the Department of Health and Human Services to meet the cost of pensioner discounts (2007-08, $14.207m) and the gross margin on external work sales (2007-08, $10.403m). The majority of the external work was completed for Transend Networks Pty Ltd as Aurora has the appropriate expertise in its workforce to undertake line maintenance.

Aurora's major operating expense Energy and telecommunication transmission costs increased by $134.605m (or 28.2%) over the period under review. As noted previously, Aurora purchases the majority of its power from NEMMCO. However, Aurora effectively managed the power cost increases through contracts for differences and competitive hedge contracts. Table 2 below illustrates that Aurora managed to maintain energy purchase costs at approximately 70% of sales.

TABLE 2: Energy purchases as percentage of total sales

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000	$'000	$'000	$'000
Business customer sales	559,512	482,462	453,759	439,561
General sales	301,138	295,943	262,222	247,780
Total sales	**860,650**	**778,405**	**715,981**	**687,341**
Energy and telecommunication transmission purchases	611,629	538,600	497,986	477,024
Energy purchases as percentage of total sales	71.1%	69.2%	69.6%	69.4%

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 has seen an increase in renewable energy credit purchases of $8.062m (or 144.7%) over the period.

Employee expenses increased by $11.128m (or 19.6%) over the period primarily due to additional costs associated with NEM entry in 2004-05. These costs include the recruitment of more apprentices, and additional salaries associated with external works and capital expenditure. The reduction in 2007-08 was primarily due to positions not being filled and lower redundancy costs.

Borrowing costs increased by $7.529m (or 27.8%) over the period under review as a result of Aurora increasing its debt levels, which increased $118.337m (or 27.1%) over the same period.

Depreciation increased by $18.456m (or 34.9%) over the period under review. The increase is due to annual asset revaluations (indexation) and high levels of capital works including upgrading the grid network. The carrying amount of Property, plant and equipment at 30 June 2008 before accumulated depreciation was $2.100bn, with depreciation representing 3.4% of this balance (2006-07, 3.3%; 2005-06, 3.4% and 2004-05, 3.2%).

Other operating expenses average approximately 7.5% of total expenses and include materials, operating lease expenses, contracted services, IT service provider charges, interest contributions to superannuation and community service costs to meet pensioner discounts.

During 2007-08 Aurora reviewed capital work in progress expenditure relating to the commercialisation of Broadband over Powerlines trial. It was decided to cease the trial and as a result $0.942m was written off during 2007-08. Over the period of the trial Aurora's total costs written off were $3.100m.

Major non-operating items include:

- customer contributions, which represent funds received from customers who are required to make a contribution towards the cost of capital works
- superannuation liability movements. In 2006-07 following a review by the State Actuary the movement was an expense of $6.546m, 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. An expense of $7.271m was recorded in 2004-05 due to the move to revised accounting standards, which required an actuarial re-assessment of the liability
- unrealised energy derivative gains or losses, which represent ineffective hedge contracts at balance date that are required by Australian Accounting Standard *AASB 139 Financial Instruments: Recognition and Measurement* to be recorded in Aurora's Income Statement. The gain or loss is the difference between the result of energy traded derivatives recognised at fair value on the date a derivative contract is entered into and the remeasured fair value at reporting date.

BALANCE SHEET

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Cash	3 172	33 272	12 359	56 634
Receivables	74 611	68 182	63 367	59 143
Unbilled energy	71 569	57 271	51 251	37 882
Inventories	8 129	7 218	6 361	5 749
Renewable energy certificates	6 728	1 952	339	830
Contracts for difference for energy purchases	9 215	36 059	6 888	43 994
Hedge derivatives at fair value	3 371	43 715	1 326	34
Other	1 382	1 487	3 090	1 560
Total Current Assets	**178 177**	**249 156**	**144 981**	**205 826**
Payables	108 707	147 285	106 272	130 009
Borrowings	0	181 924	62 325	19
Provisions - leave and other	19 574	19 373	20 346	18 721
Provisions - superannuation	9 382	9 085	9 588	8 112
Current tax payable	2 009	4 461	0	4 680
Hedge derivatives at fair value	2 305	4 294	653	0
Other	16 084	15 717	12 840	10 601
Total Current Liabilities	**158 061**	**382 139**	**212 024**	**172 142**
Working Capital	**20 116**	**(132 983)**	**(67 043)**	**33 684**
Property, plant and equipment	1 065 413	995 292	922 675	841 147
Investments	0	0	52	318
Deferred tax assets	25 619	27 244	23 197	22 583
Intangible assets	33 836	23 283	14 622	8 093
Hedge derivatives at fair value	9 523	5 980	1 010	0
Total Non-Current Assets	**1 134 391**	**1 051 799**	**961 556**	**872 141**
Borrowings	555 212	323 449	399 081	436 856
Provisions - leave and other	2 037	1 688	1 594	1 317
Provisions - superannuation	50 537	49 962	40 595	41 528
Deferred tax liability	135 451	140 242	119 310	114 543
Hedge derivatives at fair value	788	313	788	0
Total Non-Current Liabilities	**744 025**	**515 654**	**561 368**	**594 244**
Net Assets	**410 482**	**403 162**	**333 145**	**311 581**
Capital	201 555	201 555	201 555	201 555
Reserves	110 933	119 858	86 652	75 478
Retained earnings	97 994	81 540	44 920	34 473
Minority Interest	0	209	18	75
Total Equity	**410 482**	**403 162**	**333 145**	**311 581**

Comment

Over the period under review Aurora's Equity increased by $98.901m or 31.7%, primarily comprising net asset revaluations increases of $42.700m, profits of $82.075m, less dividends paid of $32.295m and transfers from general reserves of $12.743m.

Cash balances decreased by $53.462m (or 94.4%) over the period in review. The decrease is analysed in detail, under the Cash Position commentary.

The Receivables balance increased by $15.468m (or 26.2%), but remained static between 8.6% and 8.9% of Business customer and General sales in each of the four years.

Unbilled energy is an estimate of unbilled power sales to 30 June each year, where meters are still to be read. The increase in this balance reflects the increase in Business customer and General sales and increased tariffs and unit sales.

As noted previously, Aurora is required to annually purchase and surrender Renewable Energy Certificates under the *Commonwealth Government's Renewable Energy (Electricity) Act 2000*. Renewable energy certificates are purchased and held as inventory until February each year, when they are surrendered. Pursuant to this Act, increasing targets are being phased in over the period of 2001 – 2010, which has resulted in the balance increasing by $5.898m over the period under review.

As noted previously, the Tasmanian Energy Regulator sets maximum prices for electricity customers in Tasmania. Consequently, Aurora and Hydro Tasmania have an arrangement where differences in the spot price set by NEMMCO and the agreed regulated price will be settled. The Contracts for difference for energy purchases represents amount receivable (or payable) from Hydro Tasmania for power purchases over the five week period to 30 June. The balance will fluctuate due to the relevant spot price in the period.

As noted previously, Aurora manages risk associated with the purchase of power from NEMMCO by entering hedge contracts. The contracts, which will be held to maturity, enable Aurora to match both the retail and purchase price of power and ensure sales contracts are profitable.

The hedge contracts 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 (i.e. assets, liabilities and equity - cash flow hedge reserve). Ineffective hedges result in unrealised energy derivative gains or losses recorded in the Income Statement.

Hedge derivatives (excluding Tasmanian contracts) are valued at fair value at balance date based upon contract prices and expected future prices as determined through an appropriate yield curve. As noted in Table 3 below, except for 2006-07, Aurora's exposure to the market has not been significant. In 2006-07, an increase in Aurora's tradeable securities and the doubling of the spot price at year end resulted in a favourable net position. However, these derivatives are not cash flow items and are unrealised. The majority of the increases in 2006-07 were written back against the cash flow hedge reserve in 2007-08, where they were initially recognised.

TABLE 3: Summary of hedge assets and liabilities

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Hedge derivates (current asset)	3 371	43 715	1,326	34
Hedge derivates (non current asset)	9,523	5,980	1,010	0
Hedge derivates (current liability)	(2 305)	(4 294)	(653)	0
Hedge derivates (non current liability)	(788)	(313)	(788)	0
Net hedge position	**9 801**	**45 088**	**895**	**34**

A major balance in current liabilities is Payables which includes general creditors and accruals. A major accrual relates to amounts payable to NEMMCO for the purchase of power, which dependent upon relevant spot prices, will vary considerably between years. In both 2004-05 and 2006-07, the Payables balance included greater accruals to NEMMCO, which were offset by increased Contracts for difference for energy purchases receivable in these years.

Over the initial three years under review, Aurora's working capital position deteriorated significantly from a positive $33.684m at 30 June 2005 to a negative $132.983m at 30 June 2007. The position has improved in 2007-08 primarily due to the classification of borrowings as non-current. If total borrowings had been treated as non-current liabilities in each of the previous three years, working capital would have been, 2006-07, $48.941m; 2005-06, $4.718m and 2004-05, $33.703m.

Current Borrowings fluctuated significantly in each of the years under review. At 30 June 2008 Aurora did not intend to make any principal repayments on loans during 2008-09. The high current debt level at 30 June 2007 of $181.924m was due to holding a high proportion of the debt portfolio as current, in anticipation that this be re-financed during the Regulator's Weighted Average Cost of Debt (WACD) reset period during August 2007.

In view of the fluctuations in that element of Borrowings regarded as current or non-current, we set out in table 4 details of Aurora's total Borrowings at each year end.

TABLE 4: Debt to Equity Ratio

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Borrowings	555 212	505 373	461 406	436 875
percentage increase	9.86%	9.53%	5.62%	-
Capital expenditure funded in cash	120 102	107 194	121 757	97 454
Debt to equity ratio	135.26%	125.35%	138.50%	140.21%

Total borrowings increased by $118.337m (or 27.1%) over the period in response to the expanded capital expenditure program and cash requirements associated with NEM. Cash expended on Property, plant and equipment over the past four years totalled $446.507m. Debt to equity has remained reasonably constant due to growth in retained profits and asset revaluations.

Property, plant and equipment increased by $224.266m (or 26.7%) over the period under review. The increase included capital expenditure of $336.659m and revaluation increments of (net) $65.358m offset by depreciation totalling $173.841m.

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, with adjustments to these values as determined by the Regulator.

Intangible assets increased by $25.743m over the period which included computer software associated with NEM treasury functions and requirements and costs associated with upgrades for the general ledger and billing systems.

Deferred tax assets increased by $3.036m (or 13.4%) and include a temporary difference relating to Aurora's superannuation liability, which increased over the past four years. The increase in the deferred tax liability of $20.908m (or 18.3%) was caused predominately 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.

As at 30 June 2008, Aurora had the following significant guarantee facilities:

- $124.100m (2006-07, $122.000m; 2005-06, $140.000m) to NEMMCO as a requirement for NEM entry
- $100.000m (2006-07, $250.000m; 2005-06, $150.000m) to meet ASIC's requirements relating to Aurora's AFSL.

CASH POSITION

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Receipts from customers	974 214	893 579	828 016	780 042
Payments to suppliers and employees	(864 050)	(753 295)	(710 305)	(653 827)
Interest received	1 844	1 409	3 273	3 107
Borrowing costs paid	(34 008)	(28 713)	(27 776)	(24 824)
Taxation paid	(14 363)	(9 570)	(17 104)	(23 850)
Cash from operations	**63 637**	**103 410**	**76 104**	**80 648**
Payments for intangible assets	(14 821)	(17 115)	(12 679)	(4 499)
Payments for property, plant and equipment	(120 102)	(107 194)	(121 757)	(97 454)
Proceeds from sale of property, plant and equipment	1 319	7 269	1 505	1 038
Cash (used in) investing activities	**(133 604)**	**(117 040)**	**(132 931)**	**(100 915)**
Proceeds from borrowings	368 800	121 784	197 833	161 910
Repayment of borrowings	(318 800)	(78 000)	(173 304)	(90 409)
Dividends paid	(10 733)	(9 585)	(11 977)	(13 942)
Proceeds from issue of equity	0	344	0	0
Cash from financing activities	**39 267**	**34 543**	**12 552**	**57 559**
Net increase (decrease) in cash	**(30 700)**	**20 913**	**(44 275)**	**37 292**
Cash at the beginning of the year	33 272	12 359	56 634	19 342
Cash at end of the year	**2 572**	**33 272**	**12 359**	**56 634**

Comment

Over the four year period under review Aurora's cash from operations decreased by $17.011m. Aurora, predominately a monopoly retailer, benefits from a regular inflow of cash from its electricity customers to meet its obligations to suppliers, employees, lenders (borrowing costs) and the State government (taxation equivalents).

The Cash from operations position decreased by $39.773m at 30 June 2008 largely due to:

- increased receipts from customers of $80.635m which was more than offset by
- increased payments to suppliers of $110.755m
- increased payments for tax of $4.793m
- increased borrowing costs of $5.295m.

Aurora's cash position at 30 June 2008 deteriorated due to:

- its ongoing capital investment program and its investment in information technology (classified as intangible assets) which totalled net $134.923m in 2007-08
- these investments were funded by new borrowings of $49.839m with the remainder funded from existing cash reserves and from cash generated from operations
- the payment of a dividend of $10.733m.

Aurora embarked upon a very large capital program to improve the reliability and service delivery to Tasmanian customers. Over the four year period under review, Aurora expended cash on Property plant and equipment of $446.507m and intangible assets of $49.114m.

This capital expenditure was funded from cash from operations and additional borrowings of $189.814m. Therefore, after the payment of dividends $46.237m, Aurora re-invested 85.72% of its cash from operations into its asset base.

TABLE 5: A high level summary of Aurora's results in cash terms

	$'000
Cash at 1 July 2004	**19 342**
Cash generated from operations	323 799
Net investments in Property, Plant and Equipment	(484 490)
Net funds generated from borrowings and equity	190 158
Dividends paid	(46 237)
Cash at 30 June 2008-09	**2 572**

This analysis suggests that:

- Aurora continued to embark on a significant capital investment program funded by a mix of cash generated from operations and borrowings
- at 30 June 2008 its cash holdings were low particularly when compared with prior years
- if this capital investment program continues, the payment of dividends should be reconsidered.

It is however noted that at 30 June 2008 Aurora had a committed standby facility of $100.000m, committed intra-day credit accommodation facility of $30.000m, unused bank overdraft facility of $4.000m and corporate mastercard facility balance of $3.645m.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		31 508	34 248	19 899	41 924
EBIT ($'000s)		74 280	75 750	60 445	69 383
EBITDA ($'000s)		145 581	141 089	121 471	122 228
Operating margin	>1.0	1.04	1.04	1.03	1.06
Return on assets		5.7%	6.3%	5.5%	7.0%
Return on equity		6.7%	8.8%	6.9%	8.6%
Financial Management					
Debt to equity		135.3%	125.4%	138.5%	140.2%
Debt to total assets		42.3%	38.8%	41.7%	40.5%
Interest cover - EBIT	>2	2.1	2.5	2.1	2.6
Interest cover - cash from operations	>2	2.8	4.3	3.7	3.9
Current ratio	>1	1.13	0.65	0.68	1.20
Leverage Ratio		320%	323%	332%	346%
Cost of debt	7.5%	6.5%	6.3%	6.3%	6.8%
Debt collection	30 days	29	29	29	28
Creditor turnover	30 days	33	60	40	63
Total capital expenditure/ depreciation		189%	190%	220%	193%
Returns to Government					
Dividends payable ($'000s)		9 930	10 733	9 585	11 977
Dividend payout ratio	50%	36.7%	33.2%	42.9%	40.7%
Dividend to equity ratio	6%	2.4%	2.9%	3.0%	3.5%
Income tax paid ($'000s)		12 197	16 041	10 381	19 657
Effective tax rate	30%	38.7%	46.8%	52.2%	46.99%
Government guarantee fees		1 498	1 843	1 492	1 393
Total return to the State ($'000s)		23 622	28 617	21 458	33 027
Total return to equity ratio		5.8%	7.8%	6.7%	9.6%
Other Information					
Staff numbers (FTEs)		1 056	1 069	1 042	981
Average staff costs ($'000s)		64	65	65	58
Average leave balance per FTE ($'000s)		20	20	21	20

Comment

Aurora recorded positive Results from operations in each of the four years under review. The ability to generate profits is outlined in the Income Statement section of this Chapter. Those comments also explain the positive Earnings before interest and tax (EBIT), Earnings before interest, tax and depreciation (EBITDA), Return on assets and Return on equity.

Aurora's operating margin has been fairly constant over the period and supports the previous comments that Aurora is operating profitably, but with a low profit margin.

The debt to equity ratio fluctuated over the period under review. The ratio is considered reasonable based on a current gearing level benchmark ratio around 60:40 (150%) compared to 57:43 (135%) at 30 June 2008. This is supported by the Debt to total assets ratio which has remained stable at approximately 40%.

Aurora recorded Interest cover ratios above the benchmark in each of the four years under review. Aurora apply an internal benchmark of 1.9. The current ratios are considered acceptable, but Aurora will need to monitor its borrowings and interest expense commitments.

At 30 June 2008, Aurora's Current ratio was above the benchmark for the first time since 2004-05. This reflects Aurora's working capital position discussed previously. The fluctuations in the current ratio relate specifically to the classification of borrowings between current and non-current. The positive 2007-08 ratio has been achieved by Aurora determining that it will not make any principal repayments in 2008-09.

Creditor turnover ratio fluctuated above the benchmark in each of the years under review. The ratio incorporates the year end accrual relating to power purchases from NEMMCO, which can vary significantly due to the nature of the spot price. However, Aurora pays its creditors within the benchmark and settles its NEMMCO payable with 5 weeks.

Aurora's Total capital expenditure/depreciation ratio was well above the benchmark of 100% in each of the years under review and reflects its significant investment in Property, plant and equipment.

Over the four year period, Aurora returned \$106.724m to the State or an average of \$26.681m per year, comprising, in total, dividends of \$42.225m, income taxation equivalents (paid or payable) of \$58.273m and guarantee fees of \$6.145m.

Over the four years, Aurora's FTE numbers increased by 75, from 981 in 2004-05 to 1 056 in 2007-08. 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 since 30 June 2005.

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 2007-08 FINANCIAL STATEMENTS

Signed financial statements of Metro were received on 22 August 2008 and an unqualified audit report was issued on 26 August 2008.

The 2007-08 audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

Metro has been negotiating a new Community Service Agreement (CSA) with the Government (via the Department of Infrastructure, Energy and Resources (DIER)), with contract payments historically 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 the contract with DIER, it is approximately 70%, of its revenue. As a result of this Government contribution it remains economically dependent on the State Government for its continued operations. In 2007-08 the contribution was $27.845m (2006-07, $26.421m; 2005-06, $24.939m; 2004-05, $22.617m). This is an increase of 5.4% over the two most recent periods under review. This contract expired on 30 June 2008, however DIER recently granted an extension of the contract to 31 December 2008. Despite this renewal, Metro has raised with me concerns about its ability, in the absence of a viable long term contract with DIER, to fund future capital expenditure necessary to meet its community service obligations. This lack of certainty is commented on again later in this Chapter.

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*
- 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. Metro has committed itself to new capital purchases of 20 buses and implementation of a new ticketing system during 2008. This is discussed further later in the Chapter.

Metro presently faces a number of uncertainties with the CSA yet to be renewed, its capital expenditure commitments are high, profitability has decreased and its current ratio is falling.

INCOME STATEMENT

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000	$'000	$'000	$'000
Government contribution	27 845	26 421	24 939	22 617
Fare revenue	10 301	9 943	9 490	8 095
Other operating revenue	1 661	1 653	1 412	2 764
Gain on sale of non-financial assets	57	181	58	126
Total Revenue	**39 864**	**38 198**	**35 899**	**33 602**
Borrowing costs	124	175	173	192
Depreciation	3 067	3 050	3 131	3 391
Administration	2 014	2 143	3 793	3 691
Employee expenses	24 455	23 035	21 679	19 418
Other operating expenses	10 504	9 488	7 093	7 004
Total Expenses	**40 164**	**37 891**	**35 869**	**33 696**
Profit (Loss) before Taxation	**(300)**	**307**	**30**	**(94)**
Income tax expense	41	(123)	(46)	(211)
Net Profit (Loss)	**(259)**	**184**	**(16)**	**(305)**

Comment

Profit (Loss) before Taxation deteriorated over the two most recent periods of review. The main factors contributing to this were the increases in fuel and employee benefits with no corresponding increase in revenue.

An analysis over the four year period shows:

- the Government contribution increased by 23.1% or $5.228m over the four year period, from $22.617m in 2004-05 to $27.845m in 2007-08. In 2007-08 this revenue source represented 70% (2006-07, 69%; 2005-06, 69%; 2004-05, 68%) of Metro's total revenue
- Fare revenue grew by 27.5% or $2.206m
- Other operating revenue, primarily related to interest income, increased in 2007-08 due to Metro investing a larger amount of surplus funds. Also rental income increased to $0.346m from $0.309m in 2006-07
- Gain on sale of fixed assets varied from year to year in line with Metro's asset replacement program.

The effects of the foregoing were offset by:

- increased Employee expenses of 25.9% over the four years, from $19.418m in 2004-05 to $24.455m in 2007-08, due mainly to wage increases awarded to bus drivers. The average number of Full-time equivalents (FTE's) remained relatively constant over the period
- increased Other operating expenses of 33.3% over the four year period, from $7.004m in 2004-05 to $10.504m in 2007-08 due mainly to increased fuel costs.

Overall, during this four year period, Total Revenue increased by 18.64% whilst expenses increased by 19.20%. While this differential is reasonably small in percentage terms, it represents approximately $220 000 decrease in profitability which is detrimental to Metro's ability to break even.

Metro incurred an Income tax benefit of $0.041m during the current period (2006-07 tax expense of $0.123m) primarily as a result of incurring a loss before income tax from its operations.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Cash	9 000	13 446	11 246	11 684
Receivables	713	609	635	980
Inventories	919	849	853	861
Assets classified as held for sale	861	67	242	505
Other	696	564	571	461
Total Current Assets	**12 189**	**15 535**	**13 547**	**14 491**
Payables	3 649	2 621	3 187	3 496
Borrowings	0	2 792	0	35
Provisions - leave and other	3 977	3 735	2 894	2 761
Provisions - superannuation	4 441	4 443	3 720	3 291
Total Current Liabilities	**12 067**	**13 591**	**9 801**	**9 583**
Working Capital	**122**	**1 944**	**3 746**	**4 908**
Property, plant and equipment	38 702	36 889	33 076	29 477
Investments			-	-
Intangible assets	346	367	166	230
Deferred tax assets	9 848	10 038	9 777	10 719
Other	0	0	0	193
Total Non-Current Assets	**48 896**	**47 294**	**43 019**	**40 619**
Borrowings	0	0	2 792	2 792
Provisions - leave and other	560	667	900	894
Provisions - superannuation	13 757	13 787	12 579	15 026
Deferred tax liabilities	5 162	5 269	3 809	3 926
Total Non-Current Liabilities	**19 479**	**19 723**	**20 080**	**22 638**
Net Assets	**29 539**	**29 515**	**26 685**	**22 889**
Capital	15 503	15 503	15 503	15 503
Reserves	10 069	10 317	6 785	4 292
Retained earnings	3 967	3 695	4 397	3 094
Total Equity	**29 539**	**29 515**	**26 685**	**22 889**

Comment

Net Assets increased slightly by $0.024m during the two most recent periods under review. The factors contributing to this were:

- increased Property, plant and equipment of $1.813m over the period of the review. This increase was mainly due to the additional buses purchased over the period of $1.811m (2006-07, $1.688m) and work in progress of $3.592m (2006-07, $0.505m). These increases were offset by Depreciation of $3.067m (2006-07, $3.050m)
- increased Assets classified as Assets held for sale increased to $0.861m from $0.067m in 2006-07. These are buses which Metro no longer use or have been identified for sale within the next 12 months and are transferred from Property, plant and equipment
- increase in Receivable and Inventory balances of $0.104m and $0.070m respectively, as a result of timing differences and holding more fuel
- repayment of Borrowings of $2.792m has resulted in Metro being debt free at 30 June 2008.

The effects of the foregoing were offset in part by:

- decrease of Cash and cash equivalents from $13.446m in 2006-07 to $9.000m in 2007-08, a decrease of $3.446m. The decrease was attributable to repayment of Borrowings and capital purchases
- increased Employee Provisions - leave and other of $0.103m. This position reflected the current problem where some employees have many years of service scheduling extended leave is difficult. Metro has implemented a strategy to reduce the excessive leave balances
- increase in Trade and other payables to $3.649m in 2007-08 from $2.621m in 2006-07. This is due to increases in workers compensation and employee benefits accruals as well as trade creditors including $0.534m for bus purchases.

Metro recognised Deferred tax asset and liability balances which are netted off in the Balance Sheet. These balances mainly relate to defined benefit superannuation, revenue losses and differences between the tax and accounting values of Property, plant and equipment items.

CASH POSITION

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Receipts from customers	40 707	38 687	37 355	34 589
Payments to suppliers and employees	(37 215)	(35 280)	(34 644)	(29 756)
Interest received	925	890	660	546
Borrowing costs	(124)	(175)	(173)	(234)
Cash from operations	**4 293**	**4 122**	**3 198**	**5 145**
Proceeds from investments			0	0
Payments for investments	0	0	0	(3 347)
Payments for property, plant and equipment	(6 050)	(2 662)	(4 024)	(2 310)
Proceeds from sale of property, plant and equipment	103	740	423	448
Restatement of investments to cash	0	0	0	9 337
Cash from (used in) investing activities	**(5 947)**	**(1 922)**	**(3 601)**	**4 128**
Proceeds from borrowings	0	0	0	2 792
Repayment of borrowings	(2 792)	0	(35)	(2 826)
Cash (used in) financing activities	**(2 792)**	**0**	**(35)**	**(34)**
Net increase (decrease) in cash	**(4 446)**	**2 200**	**(438)**	**9 239**
Cash at the beginning of the year	13 446	11 246	11 684	2 445
Cash at end of the year	**9 000**	**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 increased in 2006-07 mainly due to increased revenue from Government contributions for service contracts. In 2007-08, Cash from operations increased mainly due to increased revenue from Government contributions for service contracts and ticket fares.

Cash used in investing activities increased in 2007-08 primarily due to the purchase of additional buses, a new ticketing system and a larger work in progress. In 2006-07 Payments for property, plant and equipment increased primarily due to buses being purchased in the year.

During 2007-08 Metro repaid its remaining borrowings resulting in negative funds from financing activities.

The significant cash holdings represent funds committed for future bus purchases and fare collection system.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(300)	307	30	(94)
EBIT ($'000s)		(176)	482	203	98
Operating margin	>1.0	0.99	1.00	1.00	0.99
Return on assets		(0.3%)	0.8%	0.4%	0.2%
Return on equity		(0.9%)	0.7%	(0.1%)	(1.4%)
Underlying Result Ratio		(0.8%)	0.8%	0.1%	(0.3%)
Financial Management					
Debt to equity		n/a	9.5%	10.5%	12.4%
Debt to total assets		n/a	4.4%	4.9%	5.1%
Interest cover	>2	(1. 42)	2.8	1.2	0.5
Current ratio	>1	1.01	1.14	1.38	1.51
Leverage ratio		206.8%	212.9%	212.0%	240.8%
Cost of debt	7.5%	8.9%	6.3%	6.2%	6.8%
Debt collection	30 days	6	5	5	5
Creditor turnover	30 days	37	20	31	42
Self Financing Ratio		10.8%	10.8%	8.9%	15.3%
Returns to and from Government					
Dividends paid or payable ($'000s)		0	0	0	0
Income tax paid or payable ($'000s)		0	0	0	0
Total return to the State ($'000s)		0	0	0	0
CSA funding ($'000s)		27 845	26 421	24 939	22 617
Other Information					
Average staff numbers (FTE)		369	367	361	366
Average staff costs ($'000s)		66	63	60	53
Average employee liabilities		62	62	56	60
Average leave balance per FTE ($'000s)		12	12	11	10

Comment

Result from operations deteriorated over the period under review. This was mainly attributable to increased input costs such as fuel and employee expenses. The contract payment adjustments that Metro receives under the CSA have not covered these input cost rises. In turn the EBIT deteriorated from the previous year, although the tax benefit that Metro receives has reduced the impact of these worsening conditions.

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 no return to the State in the form of taxes and dividends.

The Underlying result ratio dropped to (0.8)% from 0.8% on the previous period. This indicates a weakening of the operating result from fuel price and employee benefit increases and having relatively static revenue.

During 2007-08, Metro committed itself to two major capital projects. Those commitments were:

- the purchase of 20 standard buses for $8.525m
- the purchase of a new ticketing system for $3.333m.

During 2007-08, Metro had made instalments of $3.769m and $0.666m towards payments of the buses and ticketing system respectively, leaving $7.423m committed to be funded over the next three years. This requirement is in addition to Metro funding operational activities. Over the four year period of review, Metro generated a little over $4m per annum in cash from its operating activities. Given this and the low rate of return on assets over the four year period of review, it appears that Metro will struggle to generate enough cash to fund this level of capital expenditure in any one financial year. It is likely that Metro will have to draw on its cash reserves which will negatively impact its capacity to earn interest revenues. During the four years under review Metro earned $3.021m or an average of $0.755m per annum which is a significant contributor to net profit and cash generated.

It is recognised that Metro no longer has any Borrowings, and the interest expense saved, based on the 2007-08 amount will only be $0.120m per annum.

Over the four year period of the Current ratio, a measure of working capital, decreased from 1.51 to 1.01. A ratio of greater than one is acceptable in most industries but the decreasing trend is something the Metro Board and Management need to monitor.

The Self financing ratio remained static in the period under review at 10.8% (2006-07, 10.8%). This ratio measures Metro's ability to fund the replacement of assets from cash generated from operations; the current result may not be enough. Depreciation may be a better yard stick to set funds aside for capital expenditure. However, the current annual charge of $3.067m may also not be enough to fund replacements given price rises for new assets.

Metro reduced its borrowings over the four year period and this is reflected in the Debt to equity and debt to total assets ratios over the same period. The current Leverage ratio is 206.8% which reflects a balance sheet where assets are twice the amount of liabilities. This indicates that there is capacity to borrow, which will depend upon Metro being able to generate enough cash to service any borrowings which may be dependent on funding levels negotiated as part of finalising a new CSA.

Average staff costs rose during the four years, primarily because of general wage increases. Average employee provision balances have increased only slightly over the same period, of which the defined benefit superannuation constitutes the majority of these provisions.

Public urban transport bodies face many financial obstacles in the provision of their services. In terms of a national overview the following table provides comparisons between Metro's financial ratios compared with other public sector transport operators[1] as at 30 June 2007.

Ratio	Metro	Urban transport government trading enterprises[2]
Return on assets	0.8%	2.9%
Return on equity	0.7%	(22.2)%
Debt to equity	9.5%	31.2%
Debt to assets	4.4%	22.4%
Current ratio	114%	34.4%
Leverage ratio	212.9%	149.7%
Grant revenue ratio	69.0%	43.3%

The statistics indicate that most government enterprises in this sector provide low returns on assets but are more highly geared than Metro. These enterprises may also rely more on passenger fares than Metro given the grant revenue ratio of these government enterprises is 43.3%.

1 *Information from the Productivity Commission's Research Paper – Financial Performance of Government Trading Enterprises 2004-05 to 2006-07 issued in July 2008 .*

2 *This is the average of all public transport entities in the Productivity Commission's report including Metro*

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 directors who are appointed by the 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 in this Chapter represents the consolidated results and financial position of the Company and its subsidiary.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 28 August 2008 and an unqualified audit report was issued on the same day.

The 2007-08 audit was completed with satisfactory results.

FINANCIAL RESULTS

TOTE's financial results in 2007-08 compared to prior years, along with its improved net asset position, are characterised by improved profits and the near completion of the Tasman Park race facility.

Growth in operating activities, in particular wagering, due to increased turnover garnered through large and internet betting customers, was significant for 2007-08 despite the effects of the equine influenza outbreak on race meetings. Net wagering income increased by $27.498m or 60% over the four year period under review $15.835m occurring in 2007-08. This led to a $3.232m increase in net profit before tax since 2004-05 with the increase in 2007-08 being $1.764m or 76.2%. These operating results led to a $6.980m increase in TOTE's equity. Its debt remained largely unchanged since 30 June 2006. During the period under review, TOTE paid a dividend on only one occasion that being $0.249m paid in 2004-05 but relating to 2003-04.

INCOME STATEMENT

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Investments from customers	498 412	387 106	321 584	303 209
Settlement from other TABs	45 225	31 243	24 907	23 034
Cost of dividends and taxes	(470 064)	(360 611)	(297 905)	(280 168)
Wagering Income	**73 573**	**57 738**	**48 586**	**46 075**
Other income from operating activities	12 171	14 110	12 613	9 423
Total Income	**85 744**	**71 848**	**61 199**	**55 498**
Employee benefits expense	(10 995)	(11 178)	(8 916)	(8 416)
Prizemoney, benefits and incentives	(20 119)	(20 105)	(18 226)	(13 670)
Wagering and pooling fees	(12 426)	(8 894)	(7 017)	(6 394)
Depreciation and amortisation expense	(3 499)	(3 479)	(3 804)	(3 577)
Borrowing and leasing costs	(1 433)	(1 411)	(1 330)	(1 224)
Commission expense	(16 317)	(9 079)	(7 306)	(7 070)
Communication and broadcasting expenses	(5 979)	(5 504)	(4 800)	(5 229)
Racing administration expenses	(3 266)	(2 914)	(3 010)	(3 383)
Administration expenses	(3 674)	(3 343)	(2 856)	(2 896)
Other expenses	(3 957)	(3 626)	(2 679)	(2 792)
Total Expenses	**(81 665)**	**(69 533)**	**(59 944)**	**(54 651)**
Profit before taxation	**4 079**	**2 315**	**1 255**	**847**
Income tax expense	(1 214)	(556)	(378)	(259)
Net Profit	**2 865**	**1 759**	**877**	**588**

Comment

In the four years under review, wagering income increased by 60% or $ 27.498m, (2006, $2.511m; 2007, $9.152m; 2008, $15.835m). The 2007-08 year produced the highest ever turnover by the TOTE with turnover of $498.412m, up 28.75% on 2006-07. The result was underpinned by an increase of 26.30% in pari-mutuel turnover to $474.303m and an increase in Sports Bet turnover to $18.934m.

Internet turnover was the primary driver of the increase in wagering turnover, an increase of 48% for the current year. There was a slight increase in on-course turnover but a drop in telephone betting, retail outlets and hotel turnover primarily due to the equine influenza break-out.

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

Major components of Other income from operating activities include the licensing of Betfair (2008, $4.250m; 2007, $5.750m) and compensation received relating to poker machines (2008, $1.060m; $1.060m). The Betfair grant decreased in total by $1.500m in 2006-07 due to a change in the funding model which is based on Betfair turnover. Other components of Other income are Sky Channel income $1.644m (2006-07, $1.637m), rental income $1.129m ($1.159m), unclaimed dividends $0.770m ($0.756m), broadcast income $0.637m ($0.556m) and interest of $0.470m ($0.353m). In earlier years, government grant funding was received to enable TOTE to provide assistance to the racing industry for capital works, but this has been nil in the past two years.

Over the four year period of review, Prize money, benefits and incentives increased by 47% or $6.449m with most of this increase arising in 2005-06, being $4.556m. These increases were all primarily due to funds received relating to Betfair licensing with stakes increasing by $1.879m in 2006-07 and $4.556m in 2005-06 but decreasing by $1.500m in 2007-08.

Employee benefits expense decreased by $0.183m during 2007-08 due to a smaller increase in the defined benefit and long service leave liabilities when compared to the previous period being $0.457m and $0.102m respectively. This was offset by increases in wages and salaries arising from CPI adjustments and superannuation payments to defined contribution superannuation funds of $0.268m and $0.087m respectively. In 2006-07 employee expenses increased by $1.100m (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 separation payments to a former employee, and an actuarially determined $0.464m top up of the provisions relating to the defined benefit plan.

Wagering and pooling fees are directly related to wagering income and are primarily paid to Tabcorp. The increase in wagering and pooling fees over the four year period of review can be attributable to the increase in wagering income over the same period. In 2007-08 there were also significant increases in pooling fees paid to Tabcorp.

Commission expenses in 2007-08 increased on the previous year by 80% ($7.238m), (2007, 24%, $1.773m; 2006, 3%, $0.236m). These expenses represent amounts paid by TOTE to outlets and customers, and is directly related to turnover. The increase over the four year period can also be attributed to the payments of commissions on increases in wagering income and, more recently, to affiliates and large clients.

Communication and broadcast expenses increased by 8% ($0.475m) in 2007-08, these costs primarily relating to broadcasting costs of Sky Channel. These costs have been relatively stable, increasing by 14.3% over the four year period,

TOTE's direct contribution to the Racing industry includes the provision of prize money, benefits and incentives. It also includes payment of racing administration expenses which are race day and code council operating expenses. Over the four year period racing administration expenses were relatively stable whereas prize money increased substantially. The 47.1% increase in prize money is primarily due to the commencement of Betfair and the receipt of fees from its operations.

In 2007-08 Other expenses increased by $0.298m due primarily to higher marketing and advertising costs directed towards the Internet business and entering new markets.

In line with the increase in net profits, Income tax expense increased by 368% over the four year period.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Current Assets				
Cash and cash equivalents	6 145	4 897	4 419	18 870
Trade and other receivables	5 574	4 321	4 634	2 525
Consumables stores	82	76	66	34
Prepayments	553	363	403	333
Total Current Assets	**12 354**	**9 657**	**9 522**	**21 762**
Current Liabilities				
Telephone betting deposits	5 062	3 654	3 247	2 384
Dividends and refunds due and unpaid	789	783	630	614
Accruals and accounts payable	8 052	5 142	7 556	4 886
Income received in advance	16	16	16	16
Bonds on deposit	287	298	296	268
Borrowings - unsecured interest bearing	0	0	500	1 000
Income tax payable	572	146	96	222
Provisions - superannuation	167	146	124	188
Provisions - leave and other	956	863	785	668
Racing industry funds	6	89	113	142
Total Current Liabilities	**15 907**	**11 137**	**13 363**	**10 388**
Working Capital	**(3 553)**	**(1 480)**	**(3 841)**	**11 374**
Non-Current Assets				
Property, plant and equipment	47 396	43 129	42 940	26 634
Deferred tax assets	499	706	708	593
Intangibles	5 753	3 864	3 150	2 749
Total Non-Current Assets	**53 648**	**47 699**	**46 798**	**29 976**
Non-Current Liabilities				
Borrowings - unsecured interest bearing	1 500	1 500	1 000	528
Income received in advance	47	62	78	94
Provisions - superannuation	2 317	2 309	1 613	1 523
Provisions - leave and other	127	100	99	81
Total Non-Current Liabilities	3 991	3 971	2 790	2 226
Net Assets	**46 104**	**42 248**	**40 167**	**39 124**
Equity				
Contributed equity	22 600	22 600	22 600	22 600
Retained earnings	18 859	15 003	12 922	11 837
Asset revaluation reserve	155	155	155	197
Equity transfer - Racing Tasmania	4 490	4 490	4 490	4 490
Total Equity	**46 104**	**42 248**	**40 167**	**39 124**

Comment

Equity increased by $6.980m over the period under review all of which represents retained earnings after tax.

During 2007-08 Cash and cash equivalents increased by $1.248m largely due to increased inflows from wagering activities. There was a considerable outflow during the period of review for the Tasman Park racecourse and wagering administration system development. The large cash balance at 30 June 2005, represented funds received in that financial year to develop Elwick and other racing tracks.

The $1.252m increase in Trade and other receivables at 30 June 2008 was predominantly due to a higher settlement balance for Sports Bet wagering with Tabcorp. Also included in Trade and other receivables was the settlement balance for non Sports Bet wagering which at 30 June 2008 was $2.963m (2007, $2.501m).

Working Capital deteriorated to negative $3.553m at 30 June 2008 compared to the prior year when it was negative $1.480m. This deterioration was primarily attributable to the increases in Telephone betting deposits $5.062m (2007, $3.654m) and Accruals and accounts payable $8.052m (2007, $5.142m). The positive Working Capital position at 30 June 2005 was attributable to the large cash balance held for the Elwick development.

Property, plant and equipment increased by $4.267m compared to 2006-07. Most of this increase was attributable to the re-development of Tasman Park and work performed on the wagering computer system. The increase in 2005-06 was primarily due to capital expenditure on racetrack infrastructure mainly at Elwick and Brighton.

Intangibles increased by $3.004m since 2004-05 due to significant additions to the Interactive business unit as well as capitalised costs relating to the enhancement of the wagering systems.

Consistent with growth in wagering turnover, Accruals and accounts payable increased over the four year period of review mainly due to larger amounts owing to TabCorp and for software development in 2007-08.

The $0.149m increase in total employee benefits liabilities during 2007-08 is due to increases in the annual, long service leave and to a lesser extent the defined superannuation provision. Over the four-year period, these liabilities have been increasing, with a sharper increase in 2006-07 attributable to the higher defined benefit superannuation provision at that balance date.

CASH POSITION

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Receipts from customers and other TABs	266 841	249 511	227 803	217 590
Other receipts	13 035	14 868	11 744	7 749
Interest received	463	333	758	1 464
Payments to customers	(193 118)	(190 798)	(179 180)	(170 849)
Payments to suppliers and employees	(76 233)	(68 799)	(53 533)	(52 652)
Borrowing costs	(109)	(71)	(88)	(98)
Other payments	(582)	(504)	(618)	(443)
Cash from operations	**10 297**	**4 540**	**6 886**	**2 761**
Payments for property, plant and equipment	(10 112)	(4 417)	(21 789)	(16 090)
Proceeds from sale of property, plant and equipment	72	32	315	32
Proceeds of loans to external parties	991	323	137	447
Cash (used in) investing activities	**(9049)**	**(4 062)**	**(21 337)**	**(15 611)**
Proceeds from issue of shares	0	0	0	22 600
Dividends paid	0	0	0	(249)
Repayment of borrowings	0	0	0	(1 485)
Cash from financing activities	**0**	**0**	**0**	**20 866**
Net increase (decrease) in cash	**1 248**	**478**	**(14 451)**	**8 016**
Cash at the beginning of the year	4 897	4 419	18 870	10 854
Cash at end of the year	**6 145**	**4 897**	**4 419**	**18 870**

Comment

Changes in the Cash Position reflect comments made through the Income Statement and Balance Sheet sections of this Chapter.

Higher turnover drove significant growth in operating cash inflows over the period under review. Other receipts increased primarily due to the receipt of $5.325m in Government funds in 2005-06, largely as a result of the Betfair licensing arrangement. The increase in payments to suppliers over the four year period is largely as a result of increased operating activity particularly dividends payable on winnings.

The increase in cash balances in 2007-08 is attributable to the significant growth in turnover despite the effects that the equine influenza breakout had on the business. In 2004-05 government funding was provided for development of Elwick and Mowbray race courses which contributed to the high cash balance at 30 June 2005.

Dividends have not been paid since 2004-05. The non-payment of dividends has assisted TOTE to fund its capital expenditure program and TOTE has contributed over $25m of its own funds (over and above funds from government) in investments in racecourse leasehold improvements over the last five years.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		4 079	2 315	1 255	847
EBIT ($'000s)		4 187	2 422	1 343	943
Operating margin	>1.0	1.05	1.03	1.02	1.02
Return on assets		6.8%	4.3%	2.2%	2.2%
Return on equity		6.5%	4.3%	2.2%	2.1%
Underlying result ratio ($'000s)		3.3%	2.4%	1.4%	1.1%
Financial Management					
Debt to equity		3.3%	3.6%	3.7%	3.9%
Debt to total assets		2.3%	2.6%	2.7%	3.0%
Interest cover	>2	38.77	22.64	15.26	9.82
Current ratio	>1	0.78	0.87	0.71	2.09
Cost of debt	7.5%	7.2%	7.1%	5.8%	4.2%
Debt collection	30 days	55	57	53	50
Creditor turnover	30 days	42	34	57	24
Self Financing ratio		12.0%	6.3%	11.3%	5.0%
Returns to Government					
Dividends paid or payable ($'000s)		0	0	0	0
Income tax paid or payable ($'000s)		572	146	96	222
Effective tax rate	30%	14.0%	6.3%	7.6%	26%
Total return to the State ($'000s)		572	146	96	222
Total return to equity ratio		1.2%	0.3%	0.2%	0.8%
Other Information					
Staff numbers (FTE)		143	132	136	122
Average staff costs ($'000s)		77	85	66	69
Average leave balance per FTE ($'000s)		8	7	7	6

Comment

The Return on equity and assets measures, improved significantly in 2007-08 compared to prior years. This is primarily due to the higher profitability of the business as noted in the Income Statement section. Consequently the operating margin improved.

In the four year period of review the Underlying result ratio, which measures the strength of TOTE's operating result, improved from 1.1% in 2004-05 to 3.3% in 2007-08. Stronger growth in income, particularly in 2007-08 provided this result.

The low Debt to equity and Debt to total assets and the very strong interest cover ratios confirm TOTE's low reliance on debt funding.

The Current ratio, while below benchmark, dipped again in 2007-08 for the reasons mentioned in the Balance Sheet section. Debt collection, whilst high, was constant for the period of review. It is TOTE's policy to collect its receivables in 30 days, however a number of receivables relate to long outstanding amounts with various miscellaneous counter parties and racing clubs causing the ratio to be greater than the 30 days benchmark.

Creditor turnover has increased to 42 days. This was primarily due to a large TabCorp settlement amount as at 30 June 2008. Creditor turnover decreased significantly to 12 days in 2006-07 due mainly to the elimination of significant trade payables of a capital nature that were outstanding at 30 June 2006.

The Self financing ratio, which measures TOTE's capacity to fund asset replacement from cash generated from operations, improved significantly over the four year period from 5.0% in 2004-05 to 12.0% in 2007-08. This was primarily due to the increase in cash inflows from wagering revenue during the period of review.

Average staff costs decreased in 2007-08 primarily due to a smaller increase in the liability for defined benefit superannuation funds compared to 2006-07. Wages and salaries did increase slightly due to CPI increments during the year. The average leave balance per FTE remains constant.

Returns to the State is due solely to income tax payable. The Directors resolved that no dividends would be paid in respect of the 2007-08 financial year.

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 Energy 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.

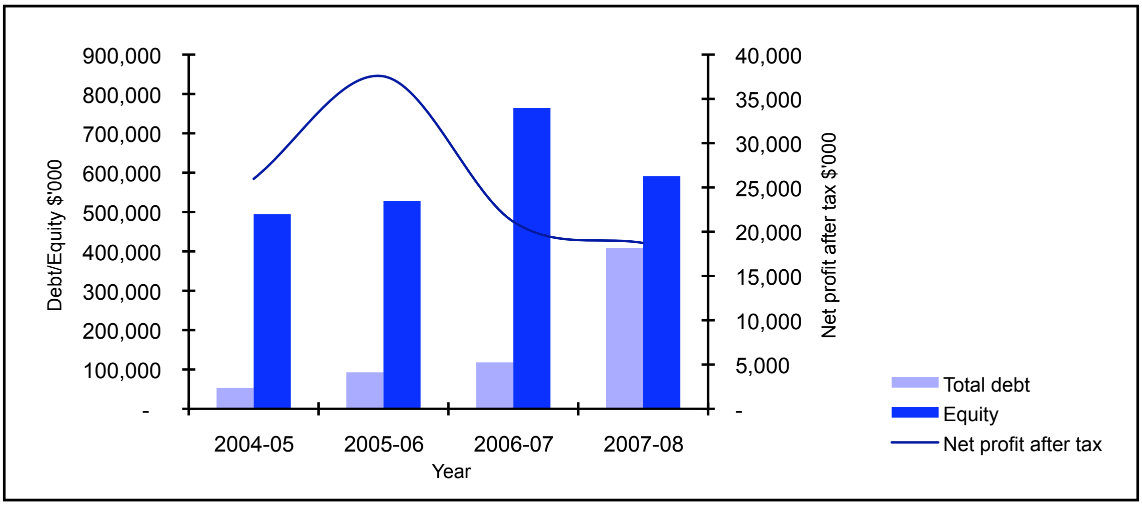
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 25 September 2008 and an unqualified audit report was issued on 30 September 2008.

The 2007-08 audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

Transend's performance and financial position for the financial year was underpinned by the change in the debt/equity structure and revaluation of non-current assets. The graph below shows the trend in performance, debt levels and equity for the past four years.



In December 2007, Transend made a return to shareholders of $50.000m and in June 2008 the Treasurer directed Transend to make another return to shareholders of $220.000m. Both shareholder returns were funded by debt increasing Transend's total debt at 30 June 2008 to $408.6m (30 June 2007, $118.1m). As a consequence, Transend's Debt to equity ratio changed from 15.44% at 30 June 2007 to 69.11% at 30 June 2007-08.

Transend continues to apply the Depreciated Optimised Replacement Cost methodology for valuing its transmission assets with its total assets recognised at an amount of $1 259bn at 30 June 2008 (30 June 2007, $1 110.4bn). As at 30 June 2008 Transend revalued its network assets based on the application of appropriate indices. This resulted in uplift to these assets by approximately $133.334m and followed the full revaluation undertaken in 2006-07 which resulted in a substantial increase in the value of these assets and a consequential increase in depreciation expense, one of the major drivers for the decrease in profit in both 2006-07 and 2007-08.

Transend's net profit after tax decreased $2.405m in 2007-08 with the majority of this driven by the higher depreciation expense, higher finance costs driven by the increase in borrowings and increasing use of consultants and contractors.

INCOME STATEMENT

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000	$'000	$'000	$'000
Transmission use of system (TUOS)	130 129	123 300	115 100	108 029
System Controller	0	0	0	9 536
Other revenue	6 545	4 474	5 025	1 736
Total Revenue	**136 674**	**127 774**	**120 125**	**119 301**
Finance costs	(10 499)	(6 513)	(4 150)	(2 449)
Depreciation and amortisation expense	(51 495)	(45 976)	(35 461)	(32 955)
Other operating expenses	(46 085)	(40 927)	(38 118)	(43 729)
Total Expenses	**(108 079)**	**(93 416)**	**(77 729)**	**(79 133)**
Profit from operations before	**28 595**	**34 358**	**42 396**	**40 168**
Defined benefit plan superannuation expenses	(1 785)	(4 277)	1 204	(3 035)
Gifted assets	0	0	10 047	0
Profit before taxation	**26 810**	**30 081**	**53 647**	**37 133**
Income tax expense	(8 083)	(8 949)	(16 099)	(11 164)
Net Profit	**18 727**	**21 132**	**37 548**	**25 969**

Comment

In 2007-08, Transend recorded a Profit from operations, before defined benefit plan superannuation expense, gifted assets and taxation of $28.595m, compared to $34.358m and $42.396m in the previous two years, respectively. The decrease in the profit of $5.763m (or 16.77%) in 2007-08 was primarily due to:

- an increase in borrowing costs of $3.986m
- additional depreciation expense, $5.519m, as a result of significant additions to and revaluations of property, plant and equipment
- higher contractor and consultant costs, totalling approximately $6.947m.

The increase in these costs was offset by Transmission revenue increasing for the 2007-08 year by $6.829m (or 5.54%) due to higher transmission service billings in accordance with the Australian Competition and Consumer Commission (ACCC) revenue determination. The increase in transmission revenue is a continuing trend from the increase in 2004-05, which was mainly due to a higher capital base allowed by the ACCC. The ACCC made a determination of the regulated income for five and a half years from January 2004. In 2007-08 Transend has submitted a revenue proposal to the Australian Energy Regulator for determination of the revenue cap for future periods. This final revenue determination is expected to be delivered in April 2009.

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 2007-08, 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.

Finance costs increased in 2007-08 due to an increase in borrowings of $290.618m during the period. However, the effect on finance costs was not felt fully in 2007-08 with $220.000m of this increase in borrowings only occurring at 30 June 2008.

The movement in Transend's defined benefit superannuation expense fluctuated in the four years under review, with an expense of $1.785m in 2007-08. The movement in the liability is based upon independent actuarial assessments provided annually.

In 2007-08 there were no gifted assets recognised compared to 2005-06 when $10.047m of gifted assets associated with the Basslink System Protection Scheme and connection equipment at George Town were recorded.

BALANCE SHEET

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Cash	21 499	158	29	23
Receivables	22 943	17 692	19 589	12 659
Inventories	423	488	152	153
Other	811	691	551	365
Total Current Assets	**45 676**	**19 029**	**20 321**	**13 200**
Payables	24 825	15 951	16 162	18 253
Borrowings	408 677	38 059	27 724	17 806
Employee benefits	4 680	4 137	3 870	3 754
Superannuation	4 613	4 378	2 764	3 148
Current tax liability	2 436	5 162	7 067	7 972
Other	32 019	10 951	17 106	1 270
Total Current Liabilities	**477 250**	**78 638**	**74 693**	**52 203**
Working Capital	**(431 574)**	**(59 609)**	**(54 372)**	**(39 003)**
Property, plant and equipment	1 259 312	1 110 452	761 297	676 912
Other	1 514	353	572	2 240
Total Non-Current Assets	**1 260 826**	**1 110 805**	**761 869**	**679 152**
Borrowings	0	80 000	65 053	35 095
Employee benefits	1 004	820	585	603
Superannuation	18 492	17 852	15 453	15 068
Deferred tax liability	218 390	187 905	97 898	95 068
Total Non-Current Liabilities	**237 886**	**286 577**	**178 989**	**145 834**
Net Assets	**591 366**	**764 619**	**528 508**	**494 315**
Capital	66 549	336 549	336 549	336 549
Reserves	452 192	359 172	125 419	115 008
Retained earnings	72 625	68 898	66 540	42 758
Total Equity	**591 366**	**764 619**	**528 508**	**494 315**

Comment

Total equity decreased $173.253m between 2007 and 2008 due predominately to:

- return of share capital to shareholders of $270.000m off set by
- the recorded net profits after taxation of $18.727m (2006-07, $21.132m), less the dividend paid during the year of $15.000m (2006-07, $18.774m)
- net revaluation increments of $93.020m (net of tax effect) as a result of the network assets revaluation undertaken in 2007-08.

Total borrowings increased by $290.618m in 2007-08 with $270.000m being used to fund the return of share capital to shareholders. The majority of the remaining increase in debt was used to fund capital expenditure. 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.

This change in debt/equity structure has resulted in a significant change in the company's gearing level which was below 20% for the past three years but for at 30 June 2008 was 65.4%. All of Transend's borrowings were classified as current for 2007-08 because of the maturity of the debt in its existing form being due within the next twelve months. Tascorp has confirmed that the renegotiation of this debt will proceed with negotiations to be undertaken in the second half of 2008-09.

In 2007-08 Property, plant and equipment increased $148.860m (or 13.40%). This increase was attributable to:

- Capital expenditure during the period of $66.052m (2006-07, $64.494)
- Revaluation of network assets resulting in a net increment of $133.334m (2006-07, $329.318m)

Following from the full independent valuation undertaken in 2006-07, the independent valuer was again engaged in 2007-08 to assess the fair value of network assets. The increase in 2007-08 was attributed to the increase in commodity prices, labour prices and construction costs. 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 $431.574m at 30 June 2008 (an increase of $371.965m on 2006-07). The main reason for this is current borrowings increasing $370.618m in 2007-08.

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 2008 was $0.813m.

The defined benefits superannuation liability increased by $0.875m (2006-07, $4.013m). The defined benefit superannuation plan pays lump sum and pension benefits to members when taking retirement (benefits are calculated as a multiple of members' average salary).

Transend's Deferred tax liability increased by $30.485m in 2007-08 (2006-07, $90.007m), primarily due to the revaluation of Property, plant and equipment.

Cash increased $21.341m in 2007-08 due to the receipt of income in advance relating to works to be performed for Alinta. This also resulted in a corresponding increase in income received in advance which is recognised within other current liabilities.

CASH POSITION

	2007-08 $'000	**2006-07** $'000	**2005-06** $'000	**2004-05** $'000
Receipts from customers	166 711	136 040	141 824	134 986
Interest received	0	0	0	48
Payments to suppliers and employees	(62 975)	(46 392)	(48 148)	(51 120)
Finance costs	(8 376)	(6 198)	(4 163)	(2 464)
Taxation paid	(19 271)	(18 988)	(18 636)	(14 744)
Cash from operations	**76 089**	**64 462**	**70 877**	**66 706**
Proceeds from sale of property and plant	279	326	312	213
Payments for property, plant and equipment	(60 666)	(71 199)	(97 337)	(74 946)
Cash (used in) investing activities	**(60 387)**	**(70 873)**	**(97 025)**	**(74 733)**
Proceeds from borrowings	115 639	30 314	44 920	22 970
Repayment of borrowings	(45 000)	(5 000)	(5 000)	(5 000)
Return of shareholder's capital	(50 000)	0	0	0
Dividends paid	(15 000)	(18 774)	(13 766)	(9 924)
Cash from financing activities	**5 639**	**6 540**	**26 154**	**8 046**
Net increase in cash	**21 341**	**129**	**6**	**19**
Cash at the beginning of the year	158	29	23	4
Cash at end of the year	**21 499**	**158**	**29**	**23**

Comment

During the four year period under review Transend, in total, generated $278.134m in cash from operations. This significantly exceeded Net profits after tax of $103.376m for the four year period due primarily to the non-cash effect of depreciation, $165.887m over the period, income recognised as earned in advance but received in cash, $31.206m, gifted assets not received in cash, $10.047m, and other non-cash based adjustments.

Overall, for 2007-08 Transend recorded an increase in cash of $21.341m, a significant increase on prior periods. This increase was primarily due to the new contract with Alinta which resulted in cash being received upfront prior to completion of works, such that the income has been recognised as income in advance in the Balance Sheet. Transend is generating significant cash from its operations and in 2007-08 cash from operating activities increased by $11.627m.

Finance costs increased $2.178m (or 35.14%) due to an increase in interest rates and borrowings required to help fund the capital expenditure program and the return of share capital to shareholders. Cash generated from operations was also used to help fund this expenditure program.

During this four year period Transend paid $304.148m for Property, plant and equipment. Payments decreased in 2007-08 by $10.533m due to lower value projects undertaken during the period.

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

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		28 595	34 358	42 396	40 168
EBIT ($'000s)		37 309	36 594	57 797	39 582
EBITDA ($'000s)		88 804	82 570	93 258	72 537
Operating margin	>1.0	1.20	1.32	1.48	1.49
Return on assets		3.1%	3.8%	7.8%	5.9%
Return on equity		2.8%	3.3%	7.3%	5.4%
Financial Management					
Debt to equity		69.1%	15.4%	17.6%	10.7%
Debt to total assets		31.3%	10.4%	11.9%	7.6%
Interest cover - EBIT	>2	3.2	4.7	10.0	12.2
Interest cover - funds from operations	>2	10.1	11.4	18.0	28.1
Current ratio	>1	0.10	0.24	0.27	0.25
Cost of debt	7.5%	7.5%	7.4%	7.9%	7.3%
Debt collection	30 days	31	20	24	7
Creditor turnover	30 days	27	11	17	16
Capex/Depreciation		108%	144%	263%	230%
Returns to Government					
Dividends paid or payable ($'000s)		9 360	15 000	18 774	13 767
Dividend payout ratio	50%	50.0%	71.0%	50.0%	53.0%
Dividend to equity ratio	6%	1.4%	2.3%	3.7%	2.8%
Tax paid ($'000)		19 271	18 988	18 636	14 744
Effective tax rate	30%	30.1%	29.7%	30.0%	30.1%
Total return to the State ($'000s)		28 631	33 988	37 410	27 354
Total return to equity ratio		4.2%	5.3%	7.3%	5.6%
Other Information					
Staff numbers (FTEs)		210	182	189	183
Average staff costs ($'000s)		100	112	99	108
Average employee benefits ($'000s)		27	27	24	24
Average superannuation benefits ($'000s)		110	122	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.

The Debt to equity ratio increased by 53.67% in 2007-08 which was driven by the additional borrowings resulting from the return of capital to shareholders. 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. This trend is expected to continue given the substantial increase in the debt to equity ratio.

The Cost of debt actually decreased 3.0% in 2007-08 to 4.57% compared to 2006-07. The primary reason for the decrease in this ratio was that a significant amount of the increase in borrowings, $220.000m, was only made at 30 June 2008, hence no interest expense on these borrowings was incurred during the financial year. If this amount is excluded from the ratio, the cost of debt increases to 7.5% which is consistent with prior periods.

The Average staff costs over the period were $105 000. This fluctuated with movements in the defined superannuation benefit and employee numbers.

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 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 seven directors, appointed by the Government, manages the Company.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

The board signed the Company's financial statements on 3 September 2008 and an unqualified audit report was issued on 10 September 2008.

The 2007-08 audit was completed with satisfactory results.

FINANCIAL RESULTS

Since the Company sold Spirit III early in the 2005-06 financial year, its financial performance has continued to improve resulting in a stronger balance sheet. Operating profits before taxation and other accounting adjustments improved from a loss of $36.044m in 2004-05 to a profit of $13.570m in 2007-08. A number of factors have contributed to this including:

- sales growth particularly in freight operations
- lower costs as evidenced by the decreasing expenses relative to sales. Review of the Income Statement indicates that expenses as a percentage of sales dropped from 97.2% in 2004-05 to 88.7% in 2007-08
- lower Borrowing costs which decreased from $16.110m in 2004-05 to $5.161m in 2007-08. Debt repayments over the period of review were made possible by shareholder capital injections of $159.948m and from the sale of Spirit III. Capital injections ceased in 2006-07.

The improved operating performance resulted in:

- Cash generated from operations improving from a deficit in 2004-05 of $8.933m to surplus cash of $31.660m in 2007-08
- Debt repayments totalling $205.560m funded by proceeds from the sale of Spirit III in 2006-07 of $110.600m and shareholder injections
- Equity improving from $108.613m at 30 June 2005 to $258.544m at 30 June 2008. This improvement of $149.931m comprised capital injections since 30 June 2005 of $84.767m, $21.800m in asset revaluations and with the remaining $43.364m being retained profits.

The primary factor for the improved result in 2007-08, was an $11.527m increase in revenue, which was mainly due to increased yields in the passenger side of the business and from an increase in freight volumes. The Net asset position at 30 June 2008 improved by $23.145m due to the net profit after tax for the year of $16.532m and by $6.613m due to an increase in the fair value of Spirits I and II.

INCOME STATEMENT

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000	$'000	$'000	$'000
Revenue				
Devonport-Melbourne	164 351	150 988	124 416	128 149
Devonport-Sydney	0	2 122	29 892	24 093
Other	2 869	2 739	2 840	2 606
Total revenue	**167 220**	**155 849**	**157 148**	**154 848**
Expenses				
Devonport-Melbourne	(145 709)	(139 270)	(124 402)	(124 554)
Devonport-Sydney	0	(2 858)	(51 611)	(47 471)
Other	(2 780)	(2 675)	(2 875)	(2 757)
Total expenses	**(148 489)**	**(144 803)**	**(178 888)**	**(174 782)**
Borrowing costs				
Devonport-Melbourne	(5 161)	(5 844)	(6 080)	(9 954)
Devonport-Sydney	0	(965)	(6 033)	(6 156)
Total Borrowing costs	**(5 161)**	**(6 809)**	**(12 113)**	**(16 110)**
Operating results before other accounting adjustments	**13 570**	**4 237**	**(33 853)**	**(36 044)**
Represented by:				
Devonport-Melbourne	13 481	5 874	(6 066)	(6 359)
Devonport-Sydney	0	(1 701)	(27 752)	(29 534)
Other	89	64	(35)	(151)
	13 570	**4 237**	**(33 853)**	**(36 044)**
Other accounting adjustments:				
Ship valuation adjustment	0	0	43 237	(43 237)
Spirit III sale costs/ adjustments	0	1 132	(7 110)	0
Interest received/(paid) on financial assets	159	0	115	(355)
Defined benefits superannuation adjustment	(31)	(657)	293	(512)
Profit (Loss) before taxation	**13 698**	**4 712**	**2 682**	**(80 148)**
Income tax benefit	2 834	5 928	4 459	0
Profit (Loss) after taxation	**16 532**	**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 four year period covered by the above Income Statement. Spirit III provided a service between Devonport and Sydney in 2004-05, 2005-06 and until August 2006.

Spirits I and II 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 were reflective of 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 increased passenger and vehicle numbers and also carriage of freight. In 2007-08, passenger numbers decreased slightly from the prior year, but this was offset with a significant increase in the carriage of freight.

Details of passenger and vehicle numbers and freight for Spirits I and II are shown in the table below.

	2007-08	**2006-07**	**2005-06**	**2004-05**
Passenger Numbers	385 028	387 972	359 712	392 392
% Increase / (decrease)	(0.76%)	7.86%	(8.33%)	n/a
Vehicle Numbers	177 265	175 298	164 037	178 375
% Increase / (decrease)	1.12%	6.86%	(8.04%)	n/a
Freight (TEU)*	85 594	77 105	63 946	64 526
% Increase	11.01%	20.58%	(0.90%)	n/a

**TEU = Twenty foot equivalent units*

To obtain a comparable assessment of TT-Line's financial performance from 2004-05 to 2007-08 it is appropriate to exclude the impact of the sale of Spirit III and ship revaluations.

	2007-08	**2006-07**
Continuing operations:	$m	$m
Profit per financial statements	16.532	11.209
Less tax benefit re revaluation reserve:		
Spirits I & II	(2.834)	(5.928)
Operating profit	**13.698**	**5.281**
Discontinuing operations:		
Loss per financial statements	0	(0.569)
Add: costs re-sale of Spirit III	0	(1.132)
Operating profit/(loss)	**0**	**(1.701)**

On a comparable basis, TT-Line operated at a profit before tax in 2007-08 of $13.698m, an improvement of $8.986m from 2006-07 due to:

- increased amount charged for passenger and vehicle fares
- the continuation of a winter fare to maintain passenger numbers
- continued cancellation of Sunday sailings in winter
- special daylight crossing fares
- large revenue increase from the freight business as a result of increased volume
- increased interest income attributed to improved cash reserves
- modest increases in cost of sales and administrative costs including savings of approximately $2.706m in staff costs (see Financial Analysis section of this Chapter)
- lower borrowing costs (attributable to debt reduction arising from the sale of Spirit III).

In 2005-06, depreciation decreased by $4.182m to $19.824m due to the reduction in the fair value of the ships at that time. Depreciation charged in 2006-07 decreased by a further $5.946m to $13.878m. This decrease was 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. In 2007-08, depreciation increased by $2.050m to $12.466m primarily due to an increase in fair value of the ships.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Cash	50 160	27 608	3 521	2 854
Receivables	12 274	12 459	11 245	12 206
Inventories	2 247	1 280	2 229	1 738
Assets held for sale - Spirit III	0	0	109 646	0
Other	451	1 622	545	2 408
Total Current Assets	**65 132**	**42 969**	**127 186**	**19 206**
Payables	15 180	10 943	12 135	16 900
Borrowings	25 000	0	25 000	224 381
Provisions	7 443	6 839	6 368	6 522
Liabilities re-sale of Spirit III	0	0	7 725	0
Other	8 102	7 704	8 594	8 209
Total Current Liabilities	**55 725**	**25 486**	**59 822**	**256 012**
Working Capital	**9 407**	**17 483**	**67 364**	**(236 806)**
Property, plant and equipment	303 689	297 596	285 615	349 972
Total Non-Current Assets	**303 689**	**297 596**	**285 615**	**349 972**
Borrowings	50 000	74 999	160 600	0
Provisions	4 552	4 681	3 953	4 553
Total Non-Current Liabilities	**54 552**	**79 680**	**164 553**	**4 553**
Net Assets	**258 544**	**235 399**	**188 426**	**108 613**
Capital	328 981	328 981	306 481	244 214
Asset revaluation reserve	21 800	15 187	10 405	0
Accumulated losses	(92 237)	(108 769)	(128 460)	(135 601)
Total Equity	**258 544**	**235 399**	**188 426**	**108 613**

Comment

The Company's Equity improved by $23.145m during 2007-08 due to:

- profit for the year of $16.532m
- increase in the asset revaluation reserve of $6.613m as a result of the annual revaluation of Spirits I and II.

The Cash position improved by $22.552m primarily due to:

- Cash flows from operating activities of $31.660m (representing profit for the year of $16.532m plus depreciation of $11.935m plus other operating cash flow adjustments of $3.193m), less
- Net capital expenditure on Property, plant and equipment (including expenditure on the two ships) of $9.201m.

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, primarily due to a reduction of $1.572m in interest accrued as a result of reduced borrowings. Payables increased by $4.237m in 2007-08 primarily due to the timing of supplier and employee payments.

The majority of the Provisions balance for the last three years related 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 2007-08 by $0.476m due to increases in all of the above categories.

Property, plant and equipment decreased by $64.357m from 2004-05 to 2005-06. This was primarily as a consequence of Spirit III being classified as an Asset held for sale. For 2005-06, depreciation of $15.909m was offset by the increase in the fair values of Spirits I and II of $31.083m. The balance increased by $11.981m in the 2006-07 year due to the increase in the fair values of Spirits I and II of $10.883m in total and capital expenditure of $2.760m, less the depreciation charge for the year. The balance increased by $6.099m in 2007-08. This was due to capital additions (including to Spirits I and II) of $7.007m, capitalisation of $2.194m dry dock expenditure as a result of change in accounting policy as well as disposals of $0.089m.

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. During the period under review these contributions totalled $159.948m but which ceased with the contribution of $22.500m in 2006-07 being the last such contribution.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Receipts from customers	181 311	166 537	174 776	176 025
Payments to suppliers and employees	(147 128)	(153 952)	(179 877)	(167 471)
Interest received	2 646	974	248	83
Borrowing costs	(5 169)	(8 381)	(14 377)	(17 570)
Cash from (used in) operations	**31 660**	**5 178**	**(19 230)**	**(8 933)**
Payments for property, plant and equipment	(9 201)	(2 760)	(3 683)	(7 840)
Proceeds from sale of property, plant and equipment	93	109 769	95	81
Cash from (used in) investing activities	**(9 108)**	**107 009**	**(3 588)**	**(7 759)**
Repayment of borrowings	0	(110 600)	(38 782)	(57 178)
Contribution from owners	0	22 500	62 267	75 181
Cash from (used in) financing activities	**0**	**(88 100)**	**23 485**	**18 003**
Net increase in cash	**22 552**	**24 087**	**667**	**1 311**
Cash at the beginning of the year	27 608	3 521	2 854	1 543
Cash at end of the year	**50 160**	**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 in 2006-07, as discussed earlier in the Income Statement section of this Chapter, was reflected in a net cash inflow of $5.178m. Cash flows from operating activities of $31.660m for 2007-08 represented profit for the year of $16.532m plus depreciation of $11.935m plus other operating cash flow adjustments of $3.193m.

Payments for Property, plant and equipment in 2004-05 of $7.840m primarily represented capital works for The Edgewater Hotel 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, deck extensions and other sundry items. In 2007-08, there were purchases totalling $9.201m. $5.634m of this amount related to vehicle deck works on Spirits I and II, $2.194m to the capitalisation of dry dock expenditure resulting from a change in accounting policy, and the remainder related to further upgrades of crew accommodation, and replacement capital 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	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		13 570	4 237	(33 853)	(36 044)
EBIT ($'000s)		18 731	11 046	(21 740)	(19 934)
Operating margin	>1.0	1.09	1.03	0.82	0.81
Return on assets		5.3%	2.9%	(5.56%)	(5. 0%)
Return on equity		6.7%	5.0%	4.81%	(71.95%)
Underlying result ratio		8.1%	2.7%	(21.5%)	(23.3%)
Self financing ratio		18.9%	3.3%	(12.2%)	(5.8%)
Financial Management					
Debt to equity		29.0%	31.9%	98.5%	206.6%
Debt to total assets		20.3%	22.0%	45.0%	60.8%
Interest cover	>2	3.63	1.62	(1.79)	(1.24)
Current ratio	>1	1.17	1.69	2.13	0.08
Debt collection	30 days	27	29	26	29
Creditor turnover	30 days	29	16	14	28
Other information					
Employee costs as % of operating expenses		25.9%	23.6%	21.5%	21.5%
Staff numbers (FTEs)		480	521	634	636
Average staff costs ($'000s)		66	56	53	53
Average leave balance per FTE ('$'000)		14	12	10	11

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, and the further improved result in 2007-08, largely due to increased freight revenue.

The loss in operations for 2004-05 resulted in a negative return on equity of 71.9%. As stated previously, the reversal of the earlier valuation decrements for Spirits I, II and III in 2005-06 resulted in a profit after tax of $7.141m and a positive return on equity for the year of 4.8%. The positive returns of 5.0% for 2006-07, and 6.7% in 2007-08 reflected further improvement in operating results.

The Debt to Equity ratio improved significantly over the four year period due to the repayment of a significant proportion of borrowings in the preceding three year period in particular, 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. This ratio further improved in 2007-08 due to reduced interest expense for the year. This expense reduced in comparison to 2006-07 as there was still debt relating to Spirit III in the Company's balance sheet for the first two months of 2006-07.

In 2005-06, 2006-07 and 2007-08, 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 2007-08 ratio decreased as compared to the previous two years for the same reason, i.e. $25.000m of the total debt of $75.000m had been classified as current, whereby all of this $75.000m debt was classified as non-current in the previous two years. It appears likely that the Company will now be able to repay debt from internal sources.

The Debt collection and Creditor turnover ratios were 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, no income tax payments have been made in the past four years. It is also noted that during the period under review, no dividend payments were made. In its Directors' Report attached to the 2007-08 audited financial statements, the Directors noted that, in accordance with the government's dividend policy for the TT-Line, the Company will retain its annual profit for the purpose of debt repayment and funding the replacement cost of its two vessels. As a result, no dividends were recommended.

Employee numbers reduced in 2007-08 primarily due to a further reduction in the number of ship staff. This was because in the prior year, the Company attempted to provide positions on Spirits I and II for as many ex-Spirit III staff as possible. Some of these staff were subsequently made redundant, or chose to leave the Company voluntarily. This has changed the mix of ship and shore staffing. The combination of these factors combined with salary increases has resulted in the increases in Average staff costs and Average leave balances.

TASMANIAN PORTS CORPORATION PTY LTD

INTRODUCTION

Tasmanian Ports Corporation Pty Ltd (the Company or Tasports) was formed in July 2005 by amalgamating Tasmania's four major port operators: Hobart Port Corporation Pty Ltd, Port of Devonport Corporation Pty Ltd, Burnie Port Corporation Pty Ltd and Port of Launceston Pty Ltd. The enabling legislation is the *Tasmanian Ports Corporation Act 2005*. The Company's principle objectives are to facilitate trade for the benefit of Tasmania and to operate its activities in accordance with sound commercial practice.

Although the Company was incorporated 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 the new company for no consideration on 1 January 2006.

The following wholly owned subsidiaries form part of the Tasports group:

- Hobart International Airport Pty Ltd (sold on 31 January 2008)
- King Island Ports Corporation Pty Ltd
- Flinders Island Ports Company Pty Ltd
- Port Logistics and Services Pty Ltd.

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

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 25 September 2008 and an unqualified audit report was issued on 2 October 2008.

The audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

The following analysis is based on the parent entity results and excludes the balances and transactions of Tasport's subsidiary companies and joint ventures which it is a party to. A separate Chapter is included in this Report for King Island Ports Corporation Pty Ltd, which was the only subsidiary trading as at 30 June 2008.

In January 2008, the Company sold its shares in Hobart International Airport Pty Ltd for $353.134m. This is the most significant event since the Company was formed. The sale had a major impact on this year's operating results with a net profit of $313.361m reported for the year ended 30 June 2008.

During the current year, the Company expanded into a tug boats business by acquiring assets of North Western Shipping and Towage Pty Ltd in August 2007 with these activities operated on a divisional basis rather than in a separate company.

Tasports also expanded its stevedoring operations by forming a joint venture with P&O Automotive and General Stevedoring Pty Ltd (POAGS). The new entity, Capital P&O Logistics Pty Ltd (CPOL) commenced trading on 1 May 2008. Both expansions were funded from existing cash reserves.

HOBART INTERNATIONAL AIRPORT PTY LTD

Hobart International Airport Pty Ltd (the Airport) was a fully owned subsidiary of Tasports. As part of the 2007-08 budget announced in June 2007, the State Government decided to sell the Airport. The successful bidder was Tasmanian Gateway Corporation Pty Ltd. The sale was finalised on 31 January 2008. The following tables provide a summary of the financial effect of the discontinued operation for the seven months period to the date of sale:

	2007-08 7 months ended	**2006-07 12 months ended**
	$'000	$'000
Total Revenue	27 890	17 789
Total Expenses	(6 621)	(11 037)
Profit before:	**21 269**	**6 753**
Income tax expense	(1 530)	(1 976)
Gain on sale of discontinued operation	278 339	0
Net Profit	**298 078**	**4 777**

Proceeds from the sale were returned to the State by way of a special dividend and capital reduction as detailed below:

	$'000
Sale Proceeds	
Purchase price	350 500
Adjustment to purchase price	2 634
Total Sale Proceeds before:	**353 134**
Repayment of loan from Tascorp	(35 890)
Repayment of inter-company loan	(6 930)
Option fee	(15 000)
Stamp Duty	(600)
Net Sale Proceeds	**294 714**
Return to Government	
Net sale proceeds	294 714
Option fee	15 000
Total Return to Government	**309 714**
Reconciliation of Return to Government	
Dividend	302 489
Return of capital	7 225
Total Return to Government	**309 714**
Reconciliation of Sale Proceeds to Gain on Sale of Shares	
Net sale proceeds	294 714
less Tasports' initial investment	(7 225)
Gain on sale of shares as per Tasport's Income Statement	**287 489**

INCOME STATEMENT

	2007-08	2006-07	6 months ended 30 June 2006
	$'000	$'000	$'000
Operating revenue	67 142	58 977	28 920
Interest revenue	1 386	1 718	766
Dividend revenue	19 152	2 147	0
Gain on sale of shares	287 489	0	0
Gain on disposal of non-current assets	645	0	10
Total Revenue	**375 814**	**62 842**	**29 696**
Borrowing costs	2 045	1 959	1 099
Depreciation	7 261	6 253	3 094
Employee benefit expenses	27 828	24 818	14 250
Property costs	2 534	2 412	1 283
Equipment hire	585	2 101	1 194
Maintenance	6 570	3 904	6 657
Administration	4 368	3 317	1 955
Other operating expenses	8 699	8 338	2 997
Total Expenses	**59 890**	**53 102**	**32 529**
Profit (Loss) before:	**315 924**	**9 740**	**(2 833)**
Impairment losses	0	2 199	4 411
Profit (Loss) before taxation	**315 924**	**7 541**	**(7 244)**
Income tax expense (benefit)	2 563	2 050	(2 001)
Net Profit (Loss)	**313 361**	**5 491**	**(5 243)**

Comment

The current year's profit before tax of $315.924m was significantly influenced by the sale of the Airport. If the results of the Airport sale were eliminated, the profit before tax would be $13.435m, representing an increase of $5.894m or 78% on the last year's profit. This was a considerable improvement on the $7.244m loss recorded in the Company's initial six months of operations to 30 June 2006. The main factors that contributed to the 2006 loss were:

- Maintenance expenses, due to the cost of dredging at Burnie of $1.311m and the recognition of a provision for remediation costs for Hobart's Macquarie Wharf of $1.550m
- the cost of the merger process and of incorporating the new entity $1.518m
- redundancy payments following the merger of $0.668m and recognition of provision for future redundancies in the amount of $1.467m.

Apart from the sale of the Airport, this year's results were also affected by the acquisition of the tugs company NWST in August 2007. Since the acquisition, tug boats operations contributed $3.100m towards the Company's profit before tax.

The majority of the Company's revenue is derived from the provision of the following services:

	2007-08	2006-07	6 months ended 30 June 2006
	$'000	$'000	$'000
Seaport	50 244	41 340	20 126
Rental income	9 326	9 966	5 119
Cold storage	5 841	6 136	3 147
Airport	1 157	1 054	528
Sale of goods	574	481	0
Total Operating Revenue	**67 142**	**58 977**	**28 920**

Seaport income comprised revenue from the Company's core business activities of providing port and shipping services. This year's increase in seaport revenue was mainly a result of the acquisition of the tug boats business, which generated more than $10.000m of additional revenue. However, the increase was partly off-set by lower revenues from stevedoring services, due to the discontinuation of stevedoring operations in Melbourne and Bell Bay and the transfer of stevedoring business to CPOL in May 2008.

The Company's rental income is derived from leasing commercial premises, port related premises and car parking. While revenues from long-term commercial tenancies and car parking outperformed last year's results, a decline in the demand for short-term storage caused the overall drop in rental income.

Other service revenue streams remained fairly constant over the period under review. The decline in Cold storage revenue was a result of the closure of the cold store at Burnie, reduced occupancy of the Devonport cold store and sale of the East Devonport cold store.

Other significant revenue movements contributing to the overall results were increases in:

- Dividend revenue totalling $19.152m. The Company received a special dividend of $15.000m from the Airport, being the consideration received for granting an option fee. The remaining dividend revenue comprised of ordinary dividends from the Airport of $2.388m (2006-07, $1.893m) and from King Island Ports Corporation of $0.264m (2006-07, $0.254m). The Company also received an interim dividend for 2007-08 of $1.500m from the Airport
- Gain on disposal of non-current assets totalling $0.645m. The gain was largely a result of the sale of plant and equipment to the CPOL joint venture and was partly offset by a loss on the sale of East Devonport cold store premises.

The largest component of expenditure was employee benefit expenses, which rose by 12% over the past year. The increase was predominantly due to the take on of additional staff as part of the NWST acquisition and annual increments under a new workplace agreement. The new three-year workplace agreement was signed in May 2007 and harmonised a number of individual agreements in place since before the formation of Tasports. Additional employee costs were partly offset by the loss of Melbourne and Bell Bay stevedoring operations and the transfer of stevedoring staff to CPOL in May this year.

This Company's expansion into the tug boats business helped to reduce its Equipment hire expenses, but contributed to an increase in Maintenance costs and Depreciation charges. Borrowing costs remained constant over the period under review, even though the Company repaid $15.046m of its borrowings during the current year. However, majority of the repayments took place in the second half of the year.

The impairment of a number of infrastructure assets resulted in Impairment losses of $4.411m in 2006 and $2.199m in 2006-07. No impairment losses were recognised in the current year.

The movement in Income tax expense correlated with movements in the Company's profits.

BALANCE SHEET

	2007-08	**2006-07**	**2005-06**
	$'000	$'000	$'000
Cash	12 345	29 999	26 908
Receivables	8 976	7 334	6 775
Investment in subsidiary	0	7 225	0
Inventories	843	559	654
Other	2 336	8 339	1 966
Total Current Assets	**24 500**	**53 456**	**36 303**
Payables	9 325	7 662	6 352
Borrowings	5 573	15 046	6 771
Tax liability	1 434	165	(366)
Provisions - employee benefits	4 287	4 288	5 311
Provisions - remediation	0	927	1 550
Deferred revenue	1 200	1 200	1 200
Total Current Liabilities	**21 819**	**29 288**	**20 818**
Working Capital	**2 681**	**24 168**	**15 485**
Property, plant and equipment	129 237	116 224	119 806
Goodwill	2 801	0	0
Investment in subsidiaries	0	0	7 225
Investment in jointly controlled entities	1 110	0	0
Financial asset	0	0	1 507
Deferred tax asset	3 897	5 038	6 477
Total Non-Current Assets	**137 045**	**121 262**	**135 015**
Borrowings	12 387	17 960	26 235
Deferred tax liabilities	3 466	3 558	3 964
Provisions - employee benefits	645	369	644
Deferred revenue	1 200	2 400	3 600
Other	1 380	1 397	1 733
Total Non-Current Liabilities	**19 078**	**25 684**	**36 176**
Net Assets	**120 648**	**119 746**	**114 324**
Capital	112 343	119 567	119 567
Retained earnings (Accumulated losses)	8 305	179	(5 243)
Total Equity	**120 648**	**119 746**	**114 324**

Comment

Net assets grew slightly by 1% or $0.902m in the current year, compared to a growth of 5% or $5.422m between 2006-07 and 2006. Working capital, which represents the difference between short-term assets and current liabilities, decreased significantly in the current year compared to the past two years. However, any evaluations of this measure need to take into account the affect of the sale of the Airport, and in particular:

- reclassification of the investment in the Airport, $7.225m, and an inter-company loan to the Airport, $7.200m; as current assets in 2006-07, following the announcement to sell the Airport that year
- de-recognition of the investment in the current year, following the sale of the Airport in January 2008
- repayment of the inter-company debt of $7.200m during the current year (included within Other current assets)
- capital reduction of $7.225m, representing Tasports' original investment in the Airport.

Apart from the sale of the Airport, the following two events had a significant impact on the Company's financial position:

- acquisition of NWST in August 2007, which was fully financed by existing cash resources. The table below shows the impact of the transaction on the key Balance sheet items:

Balance sheet item	**Explanation of the movement**	**Total** $'000
Property, plant and equipment	Additional plant and equipment, mainly tug boats	17 158
Goodwill	Difference between fair value of net assets and purchase price	2 801
Inventories	Purchased inventory items, mainly spare parts	250
Provisions - employee benefits	Liability for employee benefits (annual leave, long service leave and sick leave)	(292)
Cash	**Net Cost of Acquisition**	**19 917**

- formation of a new joint venture with POAGS. The new entity, CPOL commenced trading on 1 May 2008. Both Tasports and POAGS contributed capital in the form of net assets of their existing stevedoring operations (plant and equipment less employee benefits in respect of stevedoring staff). Ownership interest is shared equally between the two joint venture parties. The table below shows the impact on the key Balance sheet items:

Balance sheet item	**Explanation of the movement**	**Total** $'000
Property, plant and equipment	Decrease in the written-down value of plant and equipment, as a result of sale to CPOL	1 561
Deferred tax liability	Tax effect of the assets transfer	(28)
Provisions - employee benefits	Liability for employee entitlement of staff transferred to CPOL	(594)
Deferred tax asset	Tax effect of the employee benefits transfer	171
Investments in jointly controlled entities	Tasports' investment in CPOL	1 110

Other significant movements in assets and liabilities were:

- decrease in Borrowings of almost 60% from $33.006m to $17.960m as the Company repaid $15.046m of its loans in the current year
- reduction in Provision for the Macquarie Wharf remediation costs to nil as the works were completed in 2007-08 ($0.580m of unused balance was written back)
- movements in Provision for employee benefits over the past three years were due to restructuring following the merger, additional NWST staff taken on during the current year as well as the transfer of stevedoring staff to CPOL
- deferred revenue, which represented the balance of a prepayment of $12.000m received in 2001 under a ten-year service contract entered into by one of the former port companies. Each year, $1.200m is recognised as revenue in the Income Statement. Movement between years represented the amount of annual amortisation.

Valuation of long-lived assets

Non-current assets are recognised at cost or deemed costs. Long-lived assets included land and building, wharves, harbour improvements and other major infrastructure assets. As these assets represented over 75% of total property, plant and equipment, valuation on fair value basis would be considered more appropriate. Continuing difficulties with obtaining market values due to the unique nature of many of these assets meant that non-current assets were still carried at cost less accumulated deprecation. However, the Company provided estimates of the fair values in the notes to the financial statements. The estimates were calculated using the net income valuation method, taking into account income earning capacity of these assets over the next 20 years, inflation rates and the weighted average cost of capital.

The following table provides comparison of the two bases of valuation:

	2007-08	2006-07	2006
	$'000	$'000	$'000
Long-lived infrastructure assets			
at cost less accumulated depreciation	98 332	100 450	n/a
at fair value	122 436	122 075	n/a

n/a = information not available at that date

CASH POSITION

	2007-08	2006-07	6 months ended 30 June 2006
	$'000	$'000	$'000
Receipts from customers	70 611	62 989	34 679
Payments to suppliers and employees	(56 265)	(49 530)	(27 527)
Interest received	1 384	1 782	733
Income taxes	(246)	(555)	(946)
Net cash from operating activities	**15 484**	**14 686**	**6 939**
Proceeds from sale of property, plant and equipment	2 306	731	221
Dividends received	4 153	2 147	0
Purchase of property, plant and equipment	(23 045)	(5 601)	(1 180)
Purchase of goodwill	(2 801)	0	0
Borrowing costs	(2 229)	(2 003)	(806)
Net cash (used in) investing activities	**(21 616)**	**(4 726)**	**(1 765)**
Repayment of borrowings	(8 776)	250	(1 026)
Loan to subsidiary companies	0	(7 119)	0
Dividends paid	(2 746)	0	0
Net cash (used in) financing activities	**(11 522)**	**(6 869)**	**(1 026)**
Net increase (decrease) in cash	**(17 654)**	**3 091**	**4 148**
Cash at the beginning of the year	29 999	26 908	22 760
Cash at end of the year	**12 345**	**29 999**	**26 908**

Comment

When analysing the current year's cash position, it is important to understand that under the Airport sale arrangements, all payments by the purchaser were made directly to the State Government. In the case of the intercompany loan, the repayment was made directly to Tasports in 2006-07. Therefore, the sale had no impact on the Company's cash flow other than repayment of the inter-company loan.

Movements in cash flow amounts and cash balances reflected the comments made previously in the Income Statement and Balance Sheet sections. Despite the operating cash flow being boosted by additional cash generated by NWST and general increases in operating activities, the Company reported a negative cash flow of $17.654m for the 2007-08 financial year. The key factors contributing to the decrease in cash were:

- acquisition costs of NWST, which were partly offset by the amount of dividends received from the Company's subsidiaries and proceeds from the sale of property, plant and equipment
- net repayments of borrowing totalling $8.776m
- the current year was the first period in which the Company paid dividends.

FINANCIAL ANALYSIS

	Bench Mark	2007-08**	2006-07	6 months ended 30 June 2006
Financial Performance				
Result from operations ($'000s)		13 435	9 740	(2 833)
EBIT ($'000s)		15 480	11 699	(1 734)
Operating margin	>1.0	1.22	1.18	0.91
Return on assets		9.2%	6.8%	(1.01%)
Return on equity		9.0%	4.7%	(4.6%)
Financial Management				
Debt to equity		14.9%	27.6%	28.9%
Debt to total assets		11.1%	18.9%	19.3%
Interest cover	>2	7.57	5.97	(1.58)
Current ratio	>1	1.12	1.83	1.74
Cost of debt	7.5%	8.0%	5.9%	6.7%
Debt collection	30 days	49	45	43
Creditor turnover	30 days	32	15	18
Returns to Government				
Dividends paid or payable ($'000s)		5 436	2 745	n/a
Dividend payout ratio	50%	50.0%	50.0%	n/a
Dividend to equity ratio	6%	4.5%	2.3%	n/a
Income tax paid or payable ($'000s)		646	838	n/a
Effective tax rate	30%	4.8%	8.6%	n/a
Total return to the State ($'000s)		6 082	3 583	n/a
Total return to equity ratio		5.1%	3.1%	n/a
Other information				
Average staff numbers (FTE)		219	237	264
Average staff costs ($'000s) *		127	102	92
Average leave balance per FTE ($'000s)		23	20	23

** The average staff cost for 2006 has been extrapolated to reflect a full year. Where relevant the ratios for 2006 are based on 6 months result.*

*** The 2007-08 Financial Performance measures exclude the sale of the Airport*

Comment

In the first six months of its operations, the Company's Results from operations and EBIT was a loss. However, the negative results were impacted by a number of one-off expenses associated with the start-up of the Company, as discussed earlier. The loss impacted on the Operating margin and the Returns on assets and equity in 2005-06.

After losses in the first six months of operations, the Company delivered solid operating results and healthy returns as indicated by the Return on assets and Return on equity ratios.

Most ratios showed an improvement on prior years, mainly due to the repayment of debt. The 2007-08 Cost of debt ratio is slightly skewed as the majority of debt was repaid towards the end of the financial year. Debt collection remained between 13 to 19 days above the 30-day benchmark and is reflective of late payments by some customers. This year's Creditor turnover slowed to 32 days as the Company tightened its cash flow management, however this is within standard commercial terms.

The Company's returns to Government in the form of dividends and income tax equivalents increased in line with the increase in earnings. The improved financial performance meant that both the Dividend to equity and Total return to equity ratios were higher.

Staff numbers decreased in 2006-07 due to redundancies following the merger. The decrease in the current year's FTE was due to the Company ceasing its stevedoring operations in Melbourne and at Bell Bay and transfer of employees to CPOL, which was partly offset by additional staff taken on following the acquisition on NWST. The movements in staff numbers during the current year, especially the transfer of stevedoring staff to CPOL towards the end of 2007-08 impacted on this year's Average staff costs and Average leave balances.

KING ISLAND PORTS CORPORATION PTY LTD

INTRODUCTION

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

The main functions and services carried out by the Company 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
- provision of rental facilities.

The board comprised five directors, whose appointment was approved by the Company's shareholders.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Financial statements were signed by the board on 17 September 2008. An unqualified audit report was issued on 19 September 2008.

The 2007-08 audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

Higher oil prices combined with the drop in fuel demand, higher employee costs and increased spending on maintenance resulted in a significant drop in the Company's net profit and operating cash flow. The Company's financial position remains relatively strong, thanks to its capacity to generate sufficient cash from operations and low levels of debt. However, the Company is heavily reliant on revenues from the sale of diesel and petrol, which may tighten trading conditions in the light of high oil prices, raising transport costs and increased competition on both King and Flinders Islands.

INCOME STATEMENT

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Service revenue	14 096	13 896	14 121	12 502
Rental income	41	39	30	27
Interest revenue	39	40	53	19
Gain on sale of non-current assets	3	6	0	465
Other revenue	3	3	2	0
Total Revenue	**14 182**	**13 984**	**14 206**	**13 013**
Cost of goods sold	11 227	10 898	11 356	9 890
Finance costs	56	69	64	63
Depreciation	341	338	316	314
Employee benefit expenses	1 172	1 004	947	821
Other operating expenses	1 110	964	792	1 080
Total Expenses	**13 906**	**13 273**	**13 475**	**12 168**
Profit before taxation	276	711	731	845
Income tax expense	85	215	222	101
Net Profit	**191**	**496**	**509**	**744**

Comment

In 2007-08, the Company recorded an operating profit after tax of $0.191m, compared to an average after tax profit of $0.470m over the last three years (adjusted for gain on disposal of land of $0.340m in 2004-05). The decline in this year's profit was primarily due to:

- higher oil prices, which had a negative impact on profit from the sale of fuel
- an increase in employee expenses following changes at management level
- increase in Other operating expenses with not much corresponding increase in revenue.

Each of these points is discussed in detail below.

Service revenue, which comprises revenues from fuel sales (storage and supply of bulk diesel fuel and petroleum products) and port operations (wharfage, transport, fertiliser sales and equipment hire), increased only slightly over the period under review. The following analysis provides a breakdown between the two components:

Service Revenue Analysis

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Fuel sales	12 582	12 266	12 675	11 148
Port operations	1 514	1 630	1 446	1 354
Total Service revenue	**14 096**	**13 896**	**14 121**	**12 502**
Cost of sales	11 227	10 898	11 356	9 890
Mark-up	12%	13%	12%	13%
Profit margin	11%	11%	10%	11%

In dollar terms Fuel sales are by far the largest component of the Company's operations representing 99% of its annual income. The increase in revenue from Fuel sales and Cost of sales during 2005-06, was a result of an increase in fuel base prices and delivery charges.

The above analysis shows that both the Mark-up and Profit margin remained at similar levels throughout the four-year period under review. This indicates, that Fuel sales were not directly affected by rising petrol prices, but instead indirectly through lower demand. Increased competition on both King and Flinders Islands was also a contributing factor and is expected to have a strong impact on the Company's income from fuel operations in the future.

In the current year, the Company has undergone management changes, which saw a resignation of the former General Manager, an end to acting arrangements and the permanent appointments of a new General Manager and Company Secretary in October 2007. A new accountant was appointed in February 2008. Employee expenses increased partly as a result of these changes. Increasing use of casual labour to upload and unload cargo vessels also had an impact on employee expenses.

The most noticeable increase in Other operating expenses was an increase in maintenance expenditure, which increased by around 50% from an average of $0.168m over the previous three years to $0.248m in the current year. This increase is due to the Company implementing its new asset management strategy.

The movement in Income tax expense correlates with movements in the Company's profits.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	411	527	1 531	350
Trade and other receivables	595	604	560	542
Inventories	1 179	517	573	562
Income tax receivable	0	0	0	36
Other	144	141	199	113
Total Current Assets	**2 329**	**1 789**	**2 863**	**1 603**
Trade and other payables	1 280	783	977	557
Income tax payable	69	88	99	0
Interest bearing loans and borrowings	200	400	750	540
Employee benefits	144	123	96	86
Total Current Liabilities	**1 693**	**1 394**	**1 922**	**1 183**
Working Capital	**636**	**395**	**941**	**420**
Deferred tax asset	66	46	45	38
Property, plant and equipment	3 179	3 467	2 986	3 031
Total Non-Current Assets	**3 245**	**3 513**	**3 031**	**3 069**
Interest bearing loans and borrowings	600	500	750	500
Employee benefits	8	7	17	11
Deferred tax liability	55	109	71	112
Other non-current liabilities	0	0	277	323
Total Non-Current Liabilities	**663**	**616**	**1 115**	**946**
Net Assets	**3 218**	**3 292**	**2 857**	**2 543**
Reserves	2 144	2 144	2 472	2 472
Retained earnings	1 074	1 148	385	71
Total Equity	**3 218**	**3 292**	**2 857**	**2 543**

Comment

This year saw an increase of over 60% in the Company's Working Capital to $0.636m, Working Capital is a good measure of liquidity, as it indicates an entity's capacity to meet short term commitments. Positive Working Capital is an indication that the Company has adequate levels of liquid assets to cover its short-term obligations. This is discussed further in the Financial Analysis section of this Chapter.

Net assets decreased slightly by $0.074m after two consecutive increases of $0.435m in 2006-07 and $0.314m in 2005-06. The increase in 2006-07 was partly due to the completion of a wharf upgrade and a $0.600m repayment of borrowings. In 2005-06, the Company took a loan from its parent of $1.000m to finance the wharf upgrade in the following year. In the meantime, the amount borrowed was invested, thus the increase in Cash.

The increase in Inventories in the current year was partly due to higher supply costs of fuel and partly due to timing of deliveries towards the end of the reporting period (fuel was dispatched from the supplier before year end but was not received until after 1 July 2008. This fuel was brought to account as goods in transit.). These two factors also impacted on the higher balance of Trade and other payables. Higher employee benefits are a result of general increases in wages and salaries and employees accruing leave, but not using their entitlements as they become available;

Correction of prior period error

In 2001, the Company recognised a liability of $0.197m to a supplier, representing the amount it would be required to pay if certain contractual obligations were not met in the future. An additional liability for $0.250m of a similar nature was recognised in 2004. Both liabilities were progressively amortised since their inception. It is now the view that the probability of the Company not meeting its obligations under either of the two contracts, and therefore of the liability arising, are remote and indeed have been remote since their initial recognition. The incorrect recognition of the liability overstated the net liabilities of the Company as at 1 July 2006 by $0.230m. De-recognition of the liability increased the balance of Retained earnings at 1 July 2006 by $0.194 and resulted in the recognition of a further Deferred tax liability of $0.083m. The amortisation of the liability previously recognised in the Income statement also had the effect of overstating profit for the year ended 30 2007 by $0.470m, the income tax expense for that year by $0.014m and the net deferred tax liability as at 30 June 2007 by $0.069m.

These adjustments are detailed in the following table:

	2005-06	Increase/ (Decrease)	2006-07 (Restated)
	$'000	$'000	$'000
Balance Sheet (extract)			
Other non-current liabilities	277	(277)	0
Deferred tax liabilities	71	38	109
Retained earnings	386	762	1 148
	2006-07	**Increase/ (Decrease)**	**2006-07 (Restated)**
	$'000	$'000	$'000
Income Statement (extract)			
Cost of goods sold	(10 852)	(47)	(10 898)
Profit before income tax	758	(47)	711
Income tax expense	(229)	14	(215)
Profit	529	(33)	496

CASH POSITION

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Receipts from customers	15 465	15 367	15 516	13 525
Payments to suppliers and employees	(15 055)	(14 385)	(14 134)	(13 016)
Interest received	37	41	53	19
Interest paid	(56)	(85)	(60)	(64)
Income tax paid	(93)	(271)	(136)	(181)
Cash from operations	**298**	**667**	**1 239**	**283**
Payments for property, plant and equipment	(74)	(938)	(439)	(344)
Proceeds from sale of property, plant and equipment	24	122	115	698
Cash from (used in) investing activities	**(50)**	**(816)**	**(324)**	**354**
Proceeds from borrowings	50	0	1 200	800
Repayment of borrowings	(150)	(600)	(739)	(1 244)
Dividends paid	(264)	(254)	(195)	0
Cash from (used in) financing activities	**(364)**	**(854)**	**266**	**(444)**
Net increase (decrease) in cash	**(116)**	**(1 003)**	**1 181**	**193**
Cash at the beginning of the year	527	1 530	350	157
Cash at the end of the year	**411**	**527**	**1 531**	**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. The most evident movements were:

- decline in cash generated from operating activities for the reasons outlined previously
- proceeds from sale of Property, plant and equipment in 2004-05 were unusually high due to the sale of land and corresponding proceeds of $0.469m
- Cash used in investing activities decreased in 2007-08 as the Company did not have any major capital expenditure this year. Last year's amount was mainly associated with the wharf upgrade

Dividend payments and Repayments of borrowings caused the financing activities cashflow to be negative in three out of the four years under review. The positive inflow in 2005-06 was due mainly to the $1.000m inter-company loan.

Overall, the Company's cash position remained favourable over the period under review, with positive cashflows from operations in each of the four years reviewed. However, the declines in 2006-07 and 2007-08 need to be monitored.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		276	711	731	845
EBIT ($'000s)		332	780	795	908
Operating margin	>1.0	1.02	1.05	1.05	1.07
Return on assets		5.1%	12.7%	13.8%	17.0%
Return on equity		5.9%	16.1%	18.9%	29.9%
Financial Management					
Debt to equity		24.9%	27.3%	52.5%	40.9%
Debt to total assets		14.3%	17.0%	25.4%	22.3%
Interest cover	>2	5.93	11.30	12.23	14.41
Current ratio	>1	1.38	1.28	1.49	1.36
Cost of debt	7.5%	6.6%	5.8%	5.1%	5.0%
Debt collection	30 days	15	16	14	16
Creditor turnover	30 days	29	19	23	15
Returns to Government					
Dividend paid or payable ($'000s)		264	254	195	0
Dividend payout ratio	50%	138.2%	51.2%	38.3%	0.0%
Dividend to equity ratio		8.1%	8.3%	7.2%	0.0%
Income tax paid or payable ($'000s)		93	271	136	181
Effective tax rate	30%	33.7%	38.1%	18.6%	21.4%
Total return on the State ($'000s)		357	525	331	181
Total return to equity ratio		11.0%	17.1%	12.3%	7.3%
Other Information					
Staff numbers (FTE)		11	13	11	11
Average staff costs ($'000s)		98	84	86	75
Average leave balance per FTE ($'000s)		14	10	10	9

Comment

The Company's Operating margin of 1.02 is just above the benchmark and has been declining since 2004-05. There has also been a sharp decline in Return on assets and Return on equity, caused by the drop in operating profits.

All Financial management ratios were favourable, with most showing improvement on prior years. The Interest cover ratio dropped due to the decline in this year's earnings and the Cost of debt increased slightly as interest rates went up. The Creditor turnover is now at the standard credit terms of 30 days. The Current ratio was positive for all periods indicating the Company's liquidity position is sound.

The unusually high Dividend payout ratios arise because dividends are recorded when paid but based on the previous year's profits. In a time of declining profits, as has occurred here, dividend payout ratios will be high.

Staff numbers remained relatively constant throughout the four years under review and does not include casual labour. The use of casual labour is increasing and to a large degree distorts the Average staff costs. The increase in average leave balance per FTE is a consequence of personnel changes at management level and employees accruing leave, but not using their entitlements as they become available.

SUPERANNUATION FUNDS

INTRODUCTION

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

Superannuation may be provided in a number of ways:

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

The Retirement Benefits Fund Board (RBFB) is Tasmania's public sector superannuation fund and has been Tasmanian-owned and operated since it was established in 1904. Membership is available to people working on a casual, contract, permanent or temporary, full or part-time basis for a Tasmanian public sector employer and their spouses.

The RBFB is responsible for the management and administration of the Funds established under the *Retirement Benefits Act 1993*, *Retirement Benefits Regulations 1994*, the *Public Sector Superannuation Reform Act 1999*, the *Retirement Benefits (Parliamentary Superannuation) Regulations 2002*, the *State Fire Commission Superannuation Act 200*5, and the *Tasmanian Ambulance Service Superannuation Scheme 2006.*

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

The *Retirement Benefits (Parliamentary Superannuation Trustee Arrangements and Miscellaneous Amendments) Act 2002* received Royal Assent on 27 November 2002 with effect from 1 January 2003. This resulted in the Parliamentary Superannuation

Fund and the Parliamentary Retiring Benefits Fund being transferred to the RBF as sub-funds and the RBFB becoming the corporate Trustee of these sub-funds.

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

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

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

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

In summary the RBFB manages the following:

Incomes, expenses, net assets and member benefits

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$m	$m	$m	$m
Investment revenues	(181.0)	468.9	341.9	264.5
Contributions from members, employers and transfers	1 749.3	609.1	510.7	392.3
Benefits paid	591.9	393.9	344.8	307.2
Administration expenses	30.0	22.8	20.3	20.1
Net assets under management	3 311.8	3 382.0	2 758.4	2 203.2
Total liability for acrued benefits	4 663.8	3 999.9	3 991.6	3 918.2
Net unfunded superannuation liability	3 184.6	2 747.8	2 742.6	2 727.5
Total vested benefits	5 227.7	4 966.5	4 611.3	4 286.3

Comment

In 2005-06 benefits were transferred following the transfer to the RBFB of the Tasmanian Ambulance Service Superannuation Scheme and State Fire Commission Superannuation Scheme. These are discussed in their respective Chapters which follow.

The combined effects of the previous year's sub-prime crisis in the United States and the current stock market decline has flowed through into the International and Australian equities markets. The effect is of particular relevance in that each of RBFB's diversified options, including those in the Contributory Scheme, has significant exposure to equity markets. Australian and international equity markets have been particularly buoyant in recent years, as evident in the following chapters. Up until 31 December 2007 returns remained high but experienced significant volatility leading up to and beyond 30 June 2008.

RBFB's main investment managers has advised that the RBFB "has managed to avoid the major problem areas that have plagued markets over the past year by having:

- no direct exposure to US sub-prime debt issuance
- no direct exposure to collateralised debt obligations (CDOs)
- near zero exposure to listed property trusts, including Centro."

Although the RBFB has avoided the major problems, it has still been impacted. In the period under review the net gains in the change in market values of prior years have, on average, been reversed by net reductions in the current year. The average net investment income over the three financial years 2005-2007 was $358.0m per year. However, the impact of the recent market decline resulted in negative net investment income of $181.0m in the current year. The effect of the negative net investment income was partially offset by Contributions from members, employers and transfers, which increased from $609.1m in 2006-07 to $1.749bn in 2007-08. Consequently, Net Assets of $3.312bn have only reduced marginally when compared to the previous year ($3.382bn). Over the period Net Assets increased by $1.109bn.

A number of legislative amendments have been made to give effect to the Commonwealth Government's *Better Super* initiatives to streamline contributions and withdrawal rules. Changes took effect on 1 July 2007. Numerous amendments by the RBFB to procedures and systems were required to achieve compliance. The effects of the Commonwealth government initiatives were noted in increased voluntary contributions by some members in the months leading up to 30 June 2008 and in the prior year leading up to 30 June 2007, as they sought to maximise their personal entitlements for retirement. These changes are the primary reasons for the significant growth in contributions in 2007-08.

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

Subsequent Events

Since the end of the financial year (and up to the time of signing the financial statements) global financial markets continued to experience volatility with the ASX200 and MSCI World (in Australian Dollars) falling 11.79% (Standard & Poor's Indices) and 3.68% JANA, respectively during the period July to September 2008.

INVESTMENT POLICY

RBFB's general investment philosophy is one of researched and disciplined decision-making combined with asset diversification. Investment performance typically varies over time. As superannuation is a long term investment, long term figures are aimed at smoothing out short term results. Members of some accounts have the ability to select their own Member Investment Choice (MIC) options.

RESPONSIBLE MINISTER

The Responsible Minister is the Treasurer.

DEFINITIONS

Accrued Benefits

Represents the present obligation to pay benefits to a member and beneficiaries and has been determined on the basis of the present value of expected future payments arising from membership to a scheme up to the reporting date. Calculations are based on expected future salary levels and by application of a market-based risk-adjusted discount rate and relevant actuarial assumptions.

Vested Benefits

Vested benefits are benefits which are not conditional upon continued membership of a scheme (other than resignation) and include benefits which members were entitled to receive had they terminated their membership as at the reporting date. Vested benefits are guaranteed by regulations related to the particular fund or scheme

Member Investment Choice (MIC)

Members who have an RBF Investment Account, RBF-TAS SG Account, an RBF Allocated Pension, or an RBF Term Allocated Pension Account, have access to 14 different investment options. This allows individual exposure options to portfolio diversification and returns. The default option is RBF Actively Managed, which aims to provide a moderate to high level of capital growth over the medium to long term.

REPORTING

The remainder of this section of this Report provides commentary on each fund managed by the RBFB.

RETIREMENT BENEFITS FUND BOARD – CONTRIBUTORY SCHEME

INTRODUCTION

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

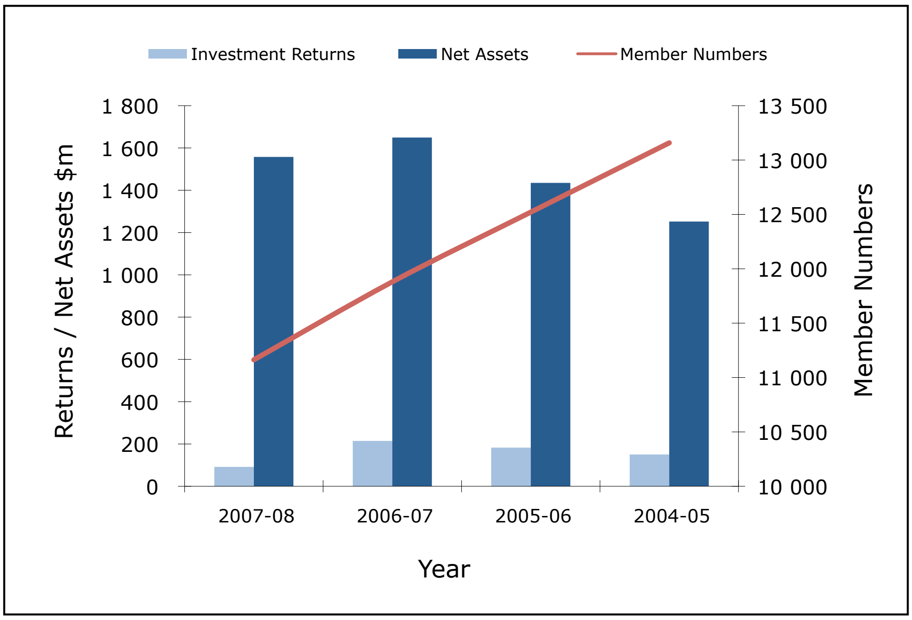
Since membership is only available to permanent employees; or long-term employees who started employment prior to 15 May 1999 this scheme will slowly decline over future years.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 22 October 2008 and an unqualified audit report was issued on the same day. The 2007-08 audit was completed with satisfactory results and no major issues outstanding.

FINANCIAL RESULTS

The graph below provides a snapshot of the Contributory scheme's financial performance.



Whilst Member numbers have fallen, Net assets and Investment returns showed steady growth up to 2006-07 but declined in 2007-08.

STATEMENT OF CHANGES IN NET ASSETS

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Investment revenue	107 691	95 785	86 909	77 423
Change in net market value of investments	(158 710)	150 542	111 346	86 873
Direct investment expense	(5 515)	(4 987)	(4 350)	(5 119)
Employer contributions	174 611	149 867	136 023	127 901
Member contributions	50 191	47 395	53 742	58 570
Other revenue	(6 689)	(4 108)	(1 826)	255
Change in net market value of other assets	0	0	0	(1 977)
Total Revenue	**161 579**	**434 494**	**381 844**	**343 926**
Pensions	162 236	153 379	144 666	137 509
Lump sums	79 222	59 238	54 897	55 474
Refunds and interest	2 132	1 565	999	518
Administration expenses	9 112	9 540	7 373	10 104
Superannuation contributions surcharge	115	283	797	1 026
Total Expenses	**252 817**	**224 005**	**208 732**	**204 631**
Surplus/(Deficit) Before Tax	**(91 238)**	**210 489**	**173 112**	**139 295**
Income tax expense/(benefit)	497	(4 012)	(9 715)	(11 069)
Surplus/(Deficit) After Tax	**(91 735)**	**214 501**	**182 827**	**150 364**
Net Assets available to pay benefits at start of year	1 649 341	1 434 840	1 252 013	1 101 649
Net Assets Available to Pay Benefits at End of Year	**1 557 606**	**1 649 341**	**1 434 840**	**1 252 013**

Comment

The Surplus after tax decreased markedly over the period under review from $150.364m in 2004-05 to a deficit of $91.735m this year, a decline of 161% over the period.

The increased surpluses in 2004-05, 2005-06 and 2006-07 were primarily due to a positive change in the market value of investments in those years. However, in 2007-08 the investment markets suffered a major downturn with a negative Change in net market value of investments of $158.710m, a turnaround of $309.252m from 2006-07. This was the major contributor to the Deficit after tax result of $91.735m in 2007-08.

Investment revenue includes interest, dividends, distributions (distributions are recognised when equity goes ex-dividend) and property rentals. The main contributor to the $30.268m increase over the period was in 2007-08 when distributions increased by $25.881m. However, this was offset by declines in both interest and dividends by $1.298m and $13.018m respectively, when compared to the previous year. The increase in 2005-06 was due to higher interest of $4.041m, and dividends of $6.699m.

The financial markets downturn in 2007-08 resulted in the Change in net market value of investments producing a negative return of $158.710m. Of this negative return $30.395 was realised. The negative return was mainly in the sectors of Australian Equities ($69.642m) and International Equities ($67.954m). In contrast, the positive movement in 2006-07 was due to extremely high returns from Australian equities, $75.366m, and international equities, $25.950m. In 2005-06 the increase was primarily due to strong growth in international equities and property and alternative investments held at year-end.

Employer contributions increased by 37% over the period under review. The increase can primarily be attributed to a combination of indexing of pensions and wage increases for remaining members. For example a life pension is guaranteed by the Government and is indexed by the Consumer Price Index (CPI) twice a year.

Another way to assess movements in Employer contributions is by comparison with Pensions and Lump sums paid, otherwise known as "the Employer Funding Share". The table below details this comparison in percentage terms and includes details of the movement between Pensions and Lump sums paid to the total of Employer and Member contributions.

Table 1 Contributions received as a percentage of pension and lump sum payments

	Note	2007-08	2006-07	2005-06	2004-05
Employer Funding Share					
Employer contributions ($m) (a)		175	150	136	128
Pension and lump sum payments ($m) (b)		241	213	200	193
Percentage payments to employer contributions (b)/(a)	**1**	**138%**	**142%**	**147%**	**151%**
Employer and Member funded shares					
Employer contributions ($m)		175	150	136	128
Member contributions ($m)		50	47	54	59
Employer and member contributions ($m) (c)		**225**	**197**	**190**	**186**
Pension and lump sum payments ($m) (d)		241	213	200	193
Percentage payments to employer and member contributions (d)/(c)	**2**	**107%**	**108%**	**105%**	**104%**
Number of Members	**3**	**11 163**	**11 880**	**12 521**	**13 158**

Note 1 – This indicates that employer percentage contributions received are decreasing over time when compared to payments made. This is reasonable given the Contributory Scheme is a closed scheme and corresponds with fewer member upgrades.

Note 2 – In the current year employer contributions increased due in part due to Commonwealth Government initiatives encouraging increased voluntary contributions in the months leading up to 30 June 2008 aimed at improving personal entitlements for retirement.

The decline in Member contributions over the previous three years was expected. The retirement and exiting of members, without replacement, has affected the reduction and/or shift to employer contributions.

Note 3 – The number of Scheme members, as anticipated, declined. In the period under review the decline was 6.42% and the decrease since 2004-05 is 15.16%. The average reduction per year is slightly over 5.00% which is consistent with reduction in members since the scheme was closed in 1999.

Other revenue was negative over the past three years due to the decrease in value of other assets. This includes items from the annual review of the values of property, plant and equipment. As all the Fund's assets are recorded at market value, accounting standards require that the movement in the value of these assets is recognised and reflected in Other revenue.

The introduction of accounting standard AASB119 *Employee Benefits* in 2004-05 resulted in an increase in superannuation expenses for employees of the Scheme of $1.600m as indicated in the table below. This amount was included in Administration expenses in that year. Introduction of the standard added volatility to the valuation of total superannuation obligations because, for example, it required application of the long term government bond rate which fluctuates from year to year. Separating out these effects results in the following assessment of the scheme's Net administration costs:

	2007-08 $'000	**2006-07** $'000	**2005-06** $'000	**2004-05** $'000
Administration expenses	9 112	9 540	7 373	10 104
Adjustment when new standard introduced	0	0	0	(1 600)
Superannuation movement	(1 262)	(2 010)	(395)	(1 300)
Net Administration expense	7 850	7 530	6 978	7 204

Administration expenses in 2005-06 were lower due to changes in cost allocations, an increase in capitalisation of project costs and other economies identified. In the current and prior year, Administration expenses increased across the board in areas such as marketing, training, stationery, development and election expenses.

In previous years the income tax expense was actually a benefit as deductions and tax offsets exceeded what was assessable for the Scheme. This result was due to the use of pre-July 1988 funding credits, having exempt investment income due to pension liabilities and imputation credits. Consequently a refund was shown as being owed to the Scheme for three years leading up to 2006-07.

In the current year, the taxation situation changed from a refund due to an income tax expense of $0.497m. This was primarily due to under provisions brought about from the 2006 Federal Budget changes relating to the use of Pre 1 July 1988 Funding Credits (PJFC's). The changes introduced a new methodology for the calculation of the tax credit available for PJFC's, effective for the 2005-06 financial year. The resultant calculation changes were not finalised by the Government until December 2006.

STATEMENT OF NET ASSETS

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash at bank	849	3 334	3 600	4 092
Contributions and pensions receivable	13 625	7 387	4 221	3 515
Income receivable	7 494	444	1 235	397
Other receivables	13 555	15 123	13 208	21 344
Investments	1 620 936	1 694 118	1 477 550	1 274 775
Property, plant and equipment	5062	8 566	7 722	6 117
Deferred tax asset	3080	2 704	2 103	2 329
RBF-TAS Planning Pty Ltd	170	170	108	100
Total Assets	**1 664 771**	**1 731 846**	**1 509 747**	**1 312 669**
Other Payables	60 217	27 761	28 480	18 680
Contributions and pensions payable	669	295	52	243
Contributions in advance	13 589	12 086	10 991	10 420
Provision for employee entitlements	14 422	14 484	13 744	13 855
Deferred tax liability	15 019	24 460	18 320	14 537
Superannuation contributions surcharge payable	3 249	3 419	3 320	2 921
Total Liabilities	**107 165**	**82 505**	**74 907**	**60 656**
Net Assets Available to Pay Benefits	**1 557 606**	**1 649 341**	**1 434 840**	**1 252 013**

Comment

The Net Assets Available to Pay Benefits surpluses noted above increased over the period by $305.593m or 24.41%.

The decrease in Other receivables of $7.789m over the period under review was due to lower income tax refunds.

The increase in Other payables of $41.537m was due to higher interfund payables as part of monthly rebalancing of asset allocations between funds.

An increase of $0.482m in the assessed Deferred tax liability primarily arose from timing differences relating to decreased unrealised investment income and accrued Employer and Member contributions.

The Contributory Scheme's Statement of Net Assets represents the assets available to pay member's benefits. The Accrued and Vested benefits for the Scheme were reviewed in 2006-07 and disclosed in the notes to the Statement. As at 30 June 2007, the last occasion when the State Actuary performed a comprehensive valuation of the Scheme, the Accrued liability and liability to be funded from scheme assets were $4.556bn and $1.404bn, respectively. Therefore the unfunded liability is $3.152bn. This shortfall will be funded by the State Government on an emerging cost basis.

A full actuarial review was undertaken for 2007-08. Vested benefits, as at 30 June 2007, were $4.851bn and $5.113bn as at 30 June 2008.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Investments ($'000s)		1 620 936	1 694 118	1 477 550	1 274 775
Net investment income ($'000s)		(56 534)	241 340	193 905	159 177
Return on investments	7.5%	(3.41%)	15.2%	14.1%	13.3%
Other Information					
Members (number)		11 163	11 880	12 521	13 158
Net Assets ($'000)		1 557 606	1 649 341	1 434 840	1 252 013
Return on net assets		(3.53%)	15.7%	14.4%	12.7%
Staff numbers (FTEs)		154	130	125	117
Average staff costs ($'000s)		53	53	56	47
Average annual and long service leave per FTE ($'000s)		5	6	5	6

Comment

Total funds under management steadily increased from $1.275bn in 2004-05 to $1.621bn in 2007-08, an increase since 1 July 2004 of $346.161m or 27.15%. The reduction in 2007-08 compared to the previous year $73.182m, can primarily be attributed to the volatility of the Financial Markets which suffered a major downturn during the year.

The increase in net investment income for 2005-06 and 2006-07 reflected the strong performance of the International and Australian equity markets respectively. By contrast the negative investment revenue in 2007-08 of $56.534m was attributable to the major downturn in Financial Markets. This resulted in Changes in net market value of investments recording negative $158.710m. Of this amount, losses of $128.315m were unrealised. The main asset classes contributing to the losses were International and Australian equities.

Return on investments represents a return on average net investments for any given year. The previous three years show solid performance consistent with the performance of investment markets in those years well above the Board's bench mark of 7.5%. In the current year the return on investments was negative 3.41% and reflected the poor Financial Markets result for the year.

Staff numbers increased over the period to meet the operational requirements in managing greater funds under management. The Average staff cost in 2005-06 was higher, as it included some redundancy costs.

RETIREMENT BENEFITS FUND BOARD – INVESTMENT ACCOUNT

INTRODUCTION

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

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

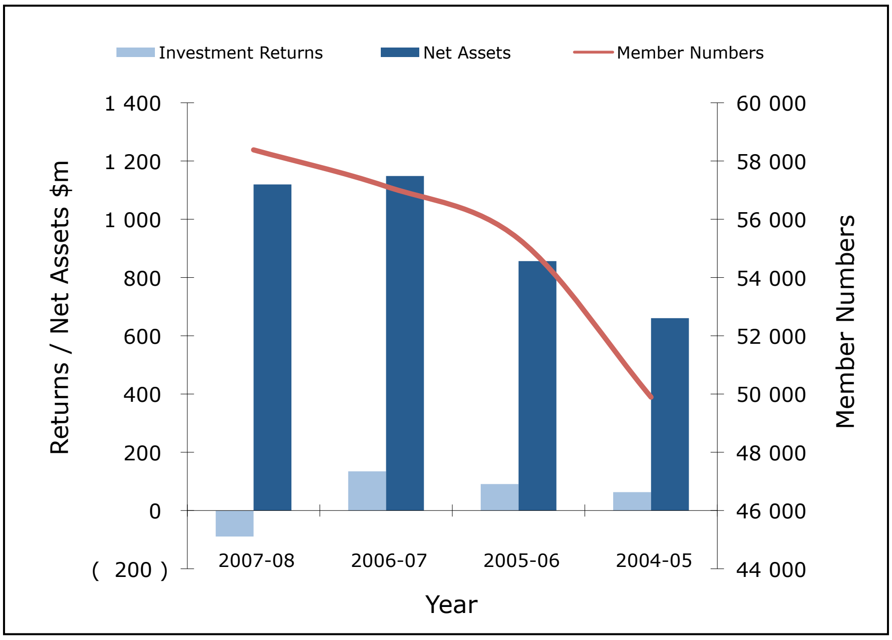
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 22 October 2008 and an unqualified audit report issued on the same day.

The 2007-08 audit was completed with satisfactory results and no major issues outstanding.

FINANCIAL RESULTS

The graph below provides a snapshot of the Investment Account's financial performance.



Whilst Member numbers have risen, Net assets and Investment returns showed solid growth up to 2006-07 but declined in 2007-08.

INCOME STATEMENT

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Investment revenue	68 262	66 099	48 476	39 596
Changes in net market values	(141 020)	81 162	54 730	36 422
Direct investment expenses	(2 860)	(3 422)	(3 061)	(1 780)
Employer contributions	71 172	55 959	40 090	35 444
Member contributions	77 243	116 051	63 653	54 255
Transfers from other funds	157 842	113 643	103 299	84 548
Other revenue			0	0
Total Revenue	**230 639**	**429 492**	**307 187**	**248 485**
General operating fee	13 416	8 431	8 417	6 615
Superannuation contributions surcharge	250	885	824	487
Total Expenses	**13 666**	**9 316**	**9 241**	**7 102**
Benefits Accrued Before Tax	**216 973**	**420 176**	**297 946**	**241 383**
Income tax benefit (expense)	1 796	(15 982)	(10 717)	(8 046)
Benefits Accrued as a Result of Operations	**218 769**	**404 194**	**287 229**	**233 337**
Benefits paid	(247 707)	(112 019)	(91 327)	(80 704)
Liability for accrued benefits at year start	1 148 506	856 331	660 428	507 795
Liability for Accrued Benefits at Year End	**1 119 568**	**1 148 506**	**856 331**	**660 428**

Comment

Benefits accrued as a result of operations decreased markedly in 2007-08, down $185.425m. In 2006-07 it increased substantially, by $116.965m. This was $53.892m higher than 2004-05. The 2007-08 reduction was primarily due to decreases in Changes in net market values in investments of $222.182m, and in net contribution revenue, $23.595m. Transfers in from other funds increased by $44.199m partly due to additional marketing to encourage members to roll over and combine their superannuation accounts.

Member contributions substantially increase from 2005-06 to 2006-07 by $52.398m (82.3%). This is attributable to an increase in voluntary contributions, including co-contributions, as a result of the Commonwealth Government superannuation initiatives at that time, and slight membership growth. Member contributions decreased in 2006-07 by $38.808m (33.44%). This is primarily due to the initiatives of the prior year no longer being available and an increase in member use of salary sacrifice to increase savings. The salary sacrifice component is collected by the employer and appears in Employer contributions. This was the main reason for the increase in Employer contributions in 2007-08 of $15.214m (27.19%). Over the current year membership increased by 1 255 members (2006-07, 1 799). The increase in members over the period from 2004-05 was 8 789.

Employer contributions increased by $15.214m ($15.869m in 2006-07). This income source comprises funded compulsory preserved account items (where former members reach preservation age) of $26.413m ($22.285m) and salary sacrifice payments of $44.759m ($33.673m).

The Financial Markets suffered a substantial downturn in 2007-08. This resulted in the Changes in net market values of investments recording unrealised losses of $115.074m and realised losses of $25.046m giving a negative movement of $141.020m. In both 2005-06 and 2006-07 there were increases in unrealised gains of $18.121m and $35.924m, respectively.

The asset classes which recorded the greatest unrealised change in market values at 30 June 2008 were Australian equities, down $73.158m, and International equities, down $50.076m. Realised losses were recorded in Australian equities $14.897m and International equities $10.651m. In 2005-06 market values increased predominantly in international equities by $12.513m, and in 2006-07 mainly in Australian equities, by $22.489m.

Transfers in consist of internal (eg Contributory scheme) and external rollovers into the Investment Account. A degree of growth is expected with the closure of other funds and growth of members, the movement in 2007-08 was $44.199m.

Investment revenue in total increased only marginally in 2007-08 due to the effects of the major downturn in Financial Markets in the latter half of the financial year. In 2007-08, Interest revenue increased by $3.432m.

The Investment Account deducts from members an administration and taxation fee based upon set percentages. This is disclosed as the General operating fee which increased significantly by $4.985m. This was mainly due to an increase in marketing, training, stationery and development expenses. The Contributory Scheme of the Fund pays the operating expenses of all of RBFB’s administration. The Investment Account reimburses the Contributory scheme from the General operating provision based upon an activity-based costing model.

Benefits paid increased over the period with the majority of this in withdrawals (increasing $132.685m or 118%). As members retire or resign from the public sector, various options and conditions apply as to how they access funds. Depending upon individual circumstances members are able to access cash, purchase other retirement products (eg. a pension) or transferred amounts to another complying superfund.

Another way to assess Benefits paid, is to compare them with relevant revenues collected. The table below details this comparison in percentage terms showing details of the movement between Benefits paid to the total of Employer and Member contributions and transfers from other funds.

TABLE 1: Contributions received as a percentage of benefits paid

	Note	2007-08	2006-07	2005-06	2004-05
Employer contributions ($m)		71	56	40	35
Member contributions ($m)		77	116	64	54
Transfers from other funds ($m)		158	114	103	85
Total Contributions received		**306**	**286**	**207**	**174**
Benefits paid ($m)		248	112	91	81
Percentage payments to contributions	1	81%	39%	44%	47%

In 2007-08 there was a significant increase in the Percentage payments to contributions due to a substantial increase of $136m in Benefits paid due to 3,227 members reaching retirement age and exiting the scheme. This contrasts with the preceding three years where membership numbers and contributions increased.

BALANCE SHEET

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Cash at bank	6 548	960	1 049	1 311
Interest receivable	3 396	265	10	179
Other receivables	80 449	47 258	33 012	16 649
Investments	1 065 352	1 145 116	852 556	663 459
Other assets	59	54	40	168
Total Assets	**1 155 804**	**1 193 653**	**886 667**	**681 766**
Other payables	108	152	93	90
Contributions payable	0	2 619	1 657	1 505
General operating provision	27 372	20 390	15 045	9 420
Provision for income tax	13 652	11 461	7 593	6 882
Deferred tax (asset) liability	(4 896)	10 525	5 948	3 441
Total Liabilities	**36 236**	**45 147**	**30 336**	**21 338**
Net Assets Available To Pay Benefits	**1 119 568**	**1 148 506**	**856 331**	**660 428**
Represented by:				
Liability for Accrued Benefits				
Allocated to members accounts	1 124 040	1 109 867	832 231	648 154
Not yet allocated	(4 472)	38 639	24 100	12 274
Total Liability For Accrued Benefits	**1 119 568**	**1 148 506**	**856 331**	**660 428**

Comment

Net Assets available to pay benefits increased over the period of review by $459.140m, due to the strong investment returns over the previous three years and growth in contributions received noted previously. Total investments increased by $401.893m in the period 2004-05 to 2007-08. However, Changes in net market values of investments of negative $141.020m in the current year contributed to a reduction in Net assets available to pay benefits at 30 June 2008.

Other movements in Balance Sheet amounts included:

- an increase in Receivables of $36.322m being fluctuations in inter-fund transfers, offset by
- increases in the General operating provision of $6.982m. This was mainly to provide for items such as marketing, training, stationery and development expenses in order to supply services to members in a complex superannuation environment in accordance with current legislative and statutory requirement in order to remain a complying superannuation fund, and
- a decrease of $15.421m in the deferred tax liability caused by the unrealised investment losses.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Employer contributions	71 172	55 959	40 090	35 444
Member contributions	74 624	117 013	63 806	53 957
Transfers from other funds	157 841	113 643	103 299	84 548
Interest received	79	3 069	2 795	7 041
Dividends received	5 623	2 436	1 784	1 552
Benefits paid	(247 707)	(112 019)	(91 327)	(80 704)
Income tax paid	(202 62)	(7 551)	(7 372)	(1 097)
Direct investment expenses	(3 297)	(3 042)	(2 797)	(1 648)
Interfund transfers	(32 251)	(14 246)	(16 364)	(12 268)
Operating fees paid	(2 391)	(3 256)	(2 884)	(2 935)
Superannuation contribution surcharge	(291)	(827)	(821)	(366)
Other Income			0	0
Cash from operations	**3 140**	**151 179**	**90 209**	**83 524**
Proceeds from the sale of investments	529 255	291 509	218 965	184 775
Payments for purchase of investments	(502 848)	(420 264)	(287 710)	(267 245)
Cash from (used in) investing activities	**26 407**	**(128 755)**	**(68 745)**	**(82 470)**
Net increase in cash	**29 547**	**22 424**	**21 464**	**1 054**
Cash at the beginning of the period	121 804	99 380	77 916	76 862
Cash at end of the period	**151 351**	**121 804**	**99 380**	**77 916**

Comment

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

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

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Investments ($'000s)		1 065 352	1 145 116	852 556	663 459
Net investment income ($'000s)		(75 618)	143 839	100 145	74 238
Return on investments	7.5%	(6.84%)	14.4%	13.2%	12.7%
Other Information					
Members (number)		58 382	57 127	55 328	49 593

Comment

Total funds under management increased $401.193m from $663.459m in 2004-05 to $1.065bn in 2007-08. However, there was a decrease of $79.764m in 2007-08 due to the downturn in the Financial Markets.

There were increases in net investment income for the period to 2006-07 which reflected the strong performance of the share investments at that time. In the current year net investment revenue was negative $75.618m or negative 6.8% due to the volatile changes experienced in the Financial Markets. MIC allows members access up to 14 different investment options. Returns vary according to the MIC objective and potential risk exposure.

The Return on investments in the table represents a return on average net investments for any given year before fees and taxes have been deducted. All years show solid performance well above the bench mark to 2006-07, complying with the Board's target benchmark.

As discussed, the Return on investments in the current year was negative 6.8% due to adverse Financial Markets' performance. However the benchmark over the period remains favourable at an average of 8.37%

RETIREMENT BENEFITS FUND BOARD – TASMANIAN ACCUMULATION SCHEME

INTRODUCTION

The Tasmanian Accumulation Scheme (TAS) was established under the Public Sector Reform Act 1999 and commenced on 25 April 2000. On 25 April 2000, the initial balances of TAS, being the account balances of the Non-Contributory Scheme at that date, were funded using surplus assets from the Contributory Scheme, adjusted to take account of the income taxation differences between the two Schemes.

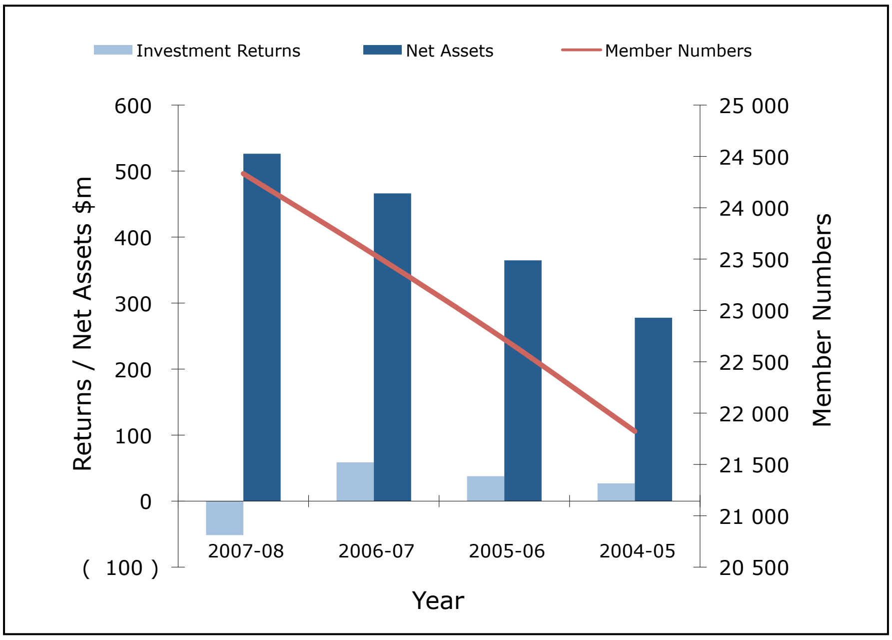
TAS comprises three components being Superannuation Guarantee (Employer contribution currently 9%), and member funded Allocated Pensions and Term Allocated Pensions. Member Investment Choice (MIC) options are available to members.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 22 October 2008 and an unqualified audit report was issued on the same day. The 2007-08 audit was completed with satisfactory results with no major issues outstanding.

FINANCIAL RESULTS

The graph below provides a snapshot of the scheme's financial performance.



Member numbers and Net assets have grown steadily over the period. Investment returns showed solid growth up to 2006-07 but declined in 2007-08.

INCOME STATEMENT

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Investment income	34 439	29 357	22 156	17 548
Changes in net market values	(73 631)	39 672	25 659	16 737
Direct investment expense	(1 641)	(1 615)	(1 477)	(823)
Employer contributions	78 867	73 391	64 931	55 649
Member contributions	132 651	45 991	46 913	28 485
Other income	0	37	51	(44)
Total Revenue	**170 685**	**186 833**	**158 233**	**117 552**
General operating fee	6 007	3 868	4 335	3 131
Death and incapacity insurance	4 646	4 341	3 850	3 287
Superannuation contributions surcharge	40	530	453	127
Total Expenses	**10 693**	**8 739**	**8 638**	**6 545**
Benefits Accrued before Tax	159 992	178 094	149 595	111 007
Income tax expense	(6 184)	(13 680)	(11 859)	(9 161)
Benefits Accrued as a Result of Operations	**153 808**	**164 414**	**137 736**	**101 846**
Benefits paid	(93 729)	(62 973)	(50 788)	(31 381)
Liability for accrued benefits at year start	466 228	364 787	277 839	207 374
Liability for Accrued Benefits at Year End	**526 307**	**466 228**	**364 787**	**277 839**

Comment

Benefits accrued as a result of operations improved substantially over the period of review increasing from $101.846m in 2004-05 to $153.808m in 2007-08, a movement of $51.962m or 51.01%

This was primarily due to increases in Investment revenue, $16.891m, Contribution revenue, $104.166m and a reduction of $2.977m in Income tax expense. This was offset by an increase in expenditure of $4.148m.

As a result of the downturn in Financial Markets, Changes in net market values of investments recorded a negative return of $73.631m in 2007-08. Of this negative $60.197m was unrealised.

Australian and international equities were the major contributors to the decrease in Changes in net market values of investments with negative returns of $44.489m (negative $36.554m unrealised) and $33.149m (negative $27.356m unrealised).

Employer contributions increased over the period as a result of an increase in the number of members and salary increases. Member contributions included increased revenues associated with allocated and term allocated pensions in 2005-06, which reversed slightly in 2006-07 resulting in the decline in that year. In 2007-08 Member contributions increased markedly to $132.651m as this is now the default scheme.

Over the period under review Member contributions increased by $104.160m in line with movements in wages and salaries.

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

Benefits paid increased by $61.348m over the period as a result of fund maturity, fund choice and greater competition. Where members resign or withdraw funds, all or part can be rolled over into the Investment account, used to purchase other retirement products (eg. a pension) or transferred to another complying superfund.

BALANCE SHEET

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s	2004-05 $'000s
Cash at bank	2 479	167	241	248
Interest receivable	1 886	139	16	97
Other receivables	37	0	205	5
Investments	573 932	522 265	400 201	300 105
Other assets	28	27	21	67
Total Assets	**578 362**	**522 598**	**400 684**	**300 522**
Payables	15 216	20 486	7 906	1 647
Provision for death and incapacity insurance	14 678	12 528	9 918	7 350
General operating provisions	11 883	7 627	5 975	3 607
Provision for income tax	12 288	11 653	10 073	9 032
Deferred tax (asset) liability	(2 018)	4 076	2 025	1 040
Superannuation contribution surcharge payable	8	0	0	7
Total Liabilities	52 055	56 370	35 897	22 683
Net Assets Available To Pay Benefits	**526 307**	**466 228**	**364 787**	**277 839**
Represented by:				
Liability for Accrued Benefits				
Allocated to members accounts	524 102	426 288	349 267	270 198
Not yet allocated	2 205	39 940	15 520	7 641
Total Liability For Accrued Benefits	**526 307**	**466 228**	**364 787**	**277 839**

Comment

The strong growth in Net assets available to pay benefits was primarily due to the large increase in contributions made. The trend of increasing membership will continue as contributors to the RBF Contributory Scheme retire and new State Service employees join TAS. Funds available for investment also rose due mainly to increased contributions from members. As this is an accumulation scheme, movements in the investments balance result in consequent changes in the liabilities for accrued benefits. This increase was offset mainly by the following in 2007-08:

- increased payables of $13.569m due to higher inter-fund payables as part of monthly rebalancing of allocations between funds
- an increase of $7.328m in the Provision for death and incapacity insurance as advised by the fund actuary determined in accordance with the Trust Deed
- a higher General operating provision, $8.276m, due to a rise in general operating fees attributable to the increase in funds under management.

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

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Employer contributions	78 861	73 391	64 931	55 650
Member contributions	132 651	45 995	46 913	28 478
Other contributions	(37)	37	51	(44)
Interest received	427	1 472	1 347	2 640
Dividends received and property returns	3 008	1 164	861	731
Benefits paid	(93 592)	(62 762)	(50 927)	(31 290)
Direct investment expenses	(1 712)	(1 453)	(1 326)	(757)
Management fees paid	(1 765)	(2 282)	(2 012)	(2 185)
Income tax paid	(11 647)	(10 057)	(9 787)	(2 971)
Interfund transfers	(5 398)	12 572	6 198	(1 574)
Death and incapacity benefits paid	(2 496)	(1 731)	(1 281)	(1 040)
Superannuation contribution surcharge	(32)	(530)	(460)	(119)
Cash from operations	**98 268**	**55 816**	**54 508**	**47 519**
Proceeds from the sale of investments	283 893	158 823	104 533	84 269
Payments for purchase of investments	(363 081)	(204 097)	(45 938)	(126 393)
Cash (used in) investing activities	**(79 188)**	**(45 274)**	**(41 405)**	**(42 124)**
Net increase in cash	**19 080**	**10 542**	**13 103**	**5 395**
Cash at the beginning of the year	48 946	38 404	25 301	19 906
Cash at end of the year	**68 026**	**48 946**	**38 404**	**25 301**

Comment

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

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

FINANCIAL ANALYSIS

	2007-08	2006-07	2005-06	2004-05
Financial Performance				
Investments ($'000s)	573 932	522 265	400 201	300 105
Net investment income ($'000s)	(40 833)	67 414	46 338	33 462
Return on investments	(7.45%)	14.62%	13.23%	12.85%
Other Information				
Members (number)	24 332	23 546	22 719	21 823

Comment

Total funds under management increased $273.872m from $300.105m in 2004-05 to $573.932m in 2007-08. However, there was a decrease of $108.247m in 2007-08 due to the downturn in the Financial Markets.

There was increased net investment income for the period to 2006-07 which reflected the strong performance of the equity investments at that time. In the current year net investment revenue was negative $40.833m, or negative 7.45%, due to the volatile changes experienced in the Financial Markets. MIC allows members access up to 14 different investment options. Returns vary according to the MIC objective and potential risk exposure.

The Return on investments in the table represents a return on average net investments for any given year before fees and taxes have been deducted. All years show solid performance well above the bench mark to 2006-07, complying with the Board's target benchmark.

As discussed previously, the Return on investments in the current year was negative 7.4% due to adverse Financial Markets' performance. However the benchmark over the period remains favourable at an average of 8.3%.

PARLIAMENTARY SUPERANNUATION FUND

INTRODUCTION

The Parliamentary Superannuation and Retiring Benefits Trust was responsible for the management and administration of the Fund established under the *Parliamentary Superannuation Act 1973*. The Parliamentary Superannuation Fund (PSF) was closed to new members as at 11 November 1985 with the Retirement Benefits Fund being the default scheme for their superannuation.

Legislation was enacted by Parliament in 2002 to facilitate the winding up of the PSF and transfer funds to a sub-fund of the Retirement Benefits Fund Board (RBFB) effective from 1 January 2003. This sub-fund prepares an annual financial report for audit and inclusion with the annual report of the RBFB and retains its status as a defined benefits scheme. The PSF provides members with a benefit paid as a pension. There were 3 fund members for all years shown.

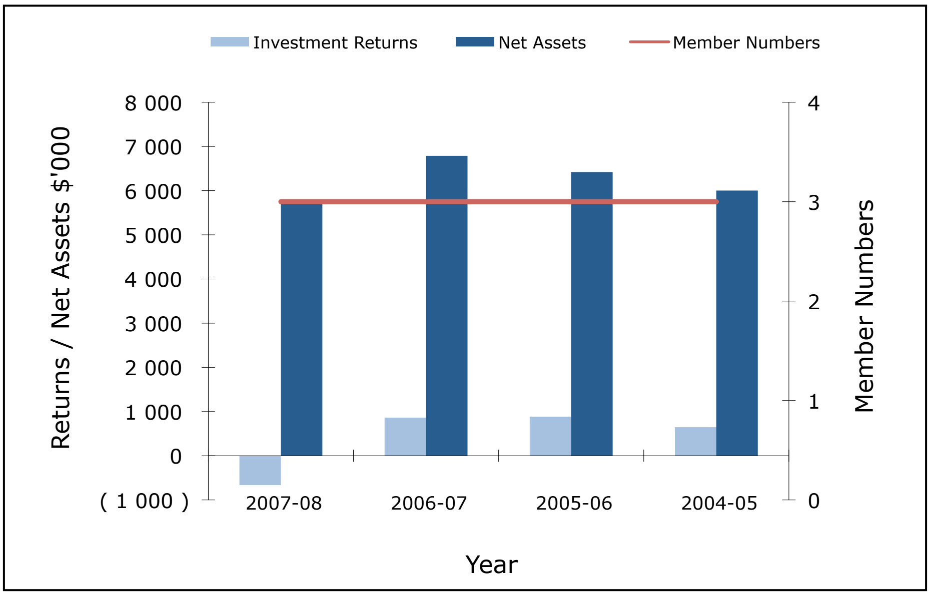
The Fund's growth and performance will be affected by the lack of new members and as existing members leave the fund. Nevertheless, as a defined benefit scheme, any unfunded liability must be met over time from the Consolidated Fund by appropriations through Finance-General.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed statements were received on 22 October 2008 and an unqualified audit opinion was issued on the same day. The 2007-08 audit was completed with satisfactory results with no major issues outstanding.

FINANCIAL RESULTS

The graph below provides a snapshot of the Fund's financial performance.



Whilst Member numbers have remained stable, Net assets and Investment returns were consistent up to 2006-07 but declined in 2007-08.

STATEMENT OF CHANGES IN NET ASSETS

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Investment income	471	425	394	382
Changes in net market values	(908)	598	523	405
Direct investment expense	(29)	(33)	(34)	(27)
Employer contributions	931	973	950	997
Member contributions	40	32	33	32
Total Revenue	**505**	**1 995**	**1 866**	**1 789**
Pensions	1 332	1 335	1 294	1 236
Administration expenses	200	126	(2)	116
Superannuation contributions surcharge	(2)	1	0	(2)
Total Expenses	**1 530**	**1 462**	**1 292**	**1 350**
Result from operating activities	**(1 025)**	**533**	**574**	**439**
Income tax benefit/(expense)	28	(166)	(155)	(8)
Result after income tax	**(997)**	**367**	**419**	**431**
Net Assets available to pay benefits at year start	6 788	6 421	6 002	5 571
Net Assets Available to Pay Benefits at Year End	**5 791**	**6 788**	**6 421**	**6 002**

Comment

The Fund performed well over the period 2004-05 to 2006-07. However, mainly as a result of poor Financial Market performance in 2007-08, the Fund recorded a deficit of $1.025m in its operating activities. Returns on Australian and international equities were the main driver in the decrease in market values. As expected, Employer and Member contributions remained stable.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash at bank	0	0	0	0
Receivables	20	39	75	28
Investments	6 921	7 698	6 733	6 260
Other assets	0	0	0	1
Total Assets	**6 941**	**7 737**	**6 808**	**6 289**
Payables	681	463	17	30
General operating provision	402	241	150	187
Deferred tax liability	67	245	220	70
Total Liabilities	**1 150**	**949**	**387**	**287**
Net Assets Available To Pay Benefits	**5 791**	**6 788**	**6 421**	**6 002**

Comment

The financial position of the PSF decreased by $0.997m (14.7%) in 2007-08. Investment income was positive, however Changes in net market values of investments provided a negative $0.908m with $0.743 being unrealised. With the absence of new members and as existing members exit, net assets will gradually decline in future.

The liability for accrued benefits (scheme as a whole) when last determined by the State Actuary as at 30 June 2007 was $17.949m resulting in an unfunded portion of accrued benefits of $13.103m. The State liabilities are not matched by assets in the PSF, as they are unfunded liabilities which are met by the State as and when they become payable. The liability for vested benefits (scheme as a whole) was $18.452m.

Employer contributions to the PSF are funded on an emerging cost basis. Employee contributions, which are fully funded by members and vest fully in them, are made at specified rate of salary.

FINANCIAL ANALYSIS

	2007-08	2006-07	2005-06	2004-05
Financial Performance				
Investments ($'000s)	6 921	7 698	6 733	6 260
Net investment income ($'000s)	(466)	990	883	760
Return on investments	(6.35%)	13.6%	13.5%	12.7%

Comment

As with most small funds, the PSF performance varies considerably due to the volatility of the investment market and the amount of benefits paid out in any one financial year. The poor return on investments in 2007-08 of negative 6.3% impacted the performance of the fund. It compares unfavourably with the strong returns experienced over the previous three years.

PARLIAMENTARY RETIRING BENEFITS FUND

INTRODUCTION

The Parliamentary Superannuation and Retiring Benefits Trust was responsible for the management and administration of the Fund established under the Parliamentary *Retiring Benefits Act 1985*. The Parliamentary Retiring Benefits Fund (PRBF) was closed to new members as at 1 July 1999 with the Retirement Benefits Fund being the default scheme for their superannuation.

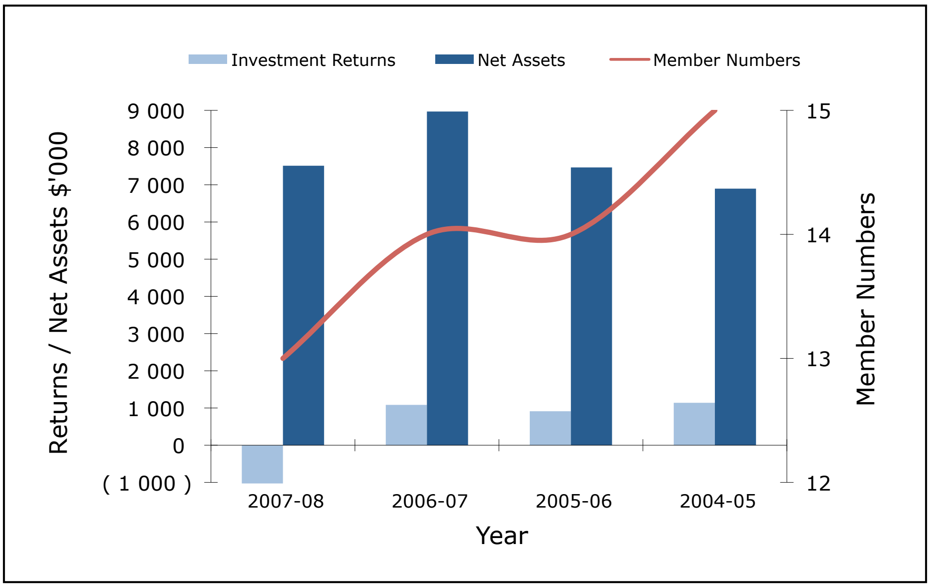
Legislation was enacted by Parliament in 2002 to facilitate the winding up of PRBF and transfer of funds to a sub-fund of the Retirement Benefits Fund Board (RBFB) effective from 1 January 2003. This sub-fund prepares an annual financial report for audit and inclusion in the annual report of the RBFB and it retains its status as a defined benefits scheme. The PRBF provides members with a benefit paid as a lump sum. The number of fund members as at 30 June 2008 was 13, (2007, 14, 2006, 14 and 2005, 15). The PRBF's performance was affected by the lack of new members and payments to existing members on retirement.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed statements were received on 22 October 2008 and an unqualified audit opinion was issued on the same day. The 2007-08 audit was completed with satisfactory results with no major issues outstanding.

FINANCIAL RESULTS

Decreasing fund membership resulted in fewer members available to share increasing administration costs. Net assets and Investment returns were stable up to 2006-07 but declined in 2007-08. The graph below provides a snapshot of the Fund's financial performance.



STATEMENT OF CHANGES IN NET ASSETS

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Investment income	645	565	499	460
Changes in net market values	(1 237)	804	664	475
Direct investment expense	(39)	(42)	(42)	(31)
Employer contributions	385	405	442	517
Member contributions	173	142	172	184
Other revenue	1	0	1	408
Total Revenue	**(72)**	**1 874**	**1 736**	**2 013**
Lump sum benefits paid	1 050	0	838	390
General operating fees	217	205	178	124
Superannuation contributions surcharge	181	38	31	48
Total Expenses	**1 448**	**243**	**1 047**	**562**
Result from Operating Activities	**(1 520)**	**1 631**	**689**	**1 451**
Income tax (benefit) expense	(63)	128	119	106
Result from Operating Activities after Tax	**(1 457)**	**1 503**	**570**	**1 345**
Net Assets available to pay benefits at year start	8 969	7 466	6 896	5 551
Net Assets available to Pay Benefits at Year End	**7 512**	**8 969**	**7 466**	**6 896**

Comment

The Fund performed well over the period 2004-05 to 2006-07 as a result of strong investment returns in the actively managed portfolio.

The poor performance by the Financial Markets in 2007-08 produced negative Changes in net market value of investments of $1.237m (of which negative $1.002m was unrealised). This contributed to a deficit Result from operating activities of $1.520m. The decline in Employer and Member contributions revenue was due to the exiting of a member during 2005-06. This was reflected in the high Lump sum benefits paid in that year.

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

STATEMENT OF NET ASSETS

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receivables	75	87	45	54
Investments	8 942	10 152	8 381	7 526
Other assets	1	1	1	2
Total Assets	**9 018**	**10 240**	**8 427**	**7 582**
Payables	660	566	486	359
General operating provision	442	335	199	100
Deferred tax liability	404	370	276	227
Total Liabilities	**1 506**	**1 271**	**961**	**686**
Net Assets Available To Pay Benefits	**7 512**	**8 969**	**7 466**	**6 896**

Comment

The financial position of the PRBF declined by $1.457m (16.24%) in 2007-08 due to very poor return in 2007-08. Previous returns in the period under review had been strong. This, together with an increase in payments resulted in a decrease in net assets. With the absence of new members, and as existing members retire, will see Net assets gradually decline in future.

The liability for accrued benefits (scheme as a whole) when last determined by the State Actuary as at 30 June 2007 was $8.019m resulting in an the PRBF being fully funded at that time of $0.950m. The liability for vested benefits (scheme as a whole) was $9.488m.

The PRBF receives regular contributions from the State at a multiple of member contributions, and is therefore considered to be fully funded. The objective of such funding is to ensure that the benefit entitlement of members and other beneficiaries are fully financed from the PRBF by the time they become payable.

FINANCIAL ANALYSIS

	2007-08	2006-07	2005-06	2004-05
Financial Performance				
Investments ($'000s)	8 942	10 152	8 381	7 526
Net Investment Income ($'000s)	(631)	1 327	1 121	904
Return on investments	(6.55%)	14.2%	14.0%	13.2%

Comment

As previously discussed, the very poor investment performance of the Financial Markets resulted in a negative return on investments in 2007-08 of 6.6%. This contrasts markedly with the strong investment market performance over the previous three years.

RETIREMENT BENEFITS FUND BOARD – TASMANIAN AMBULANCE SERVICE SUPERANNUATION SCHEME

INTRODUCTION

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

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

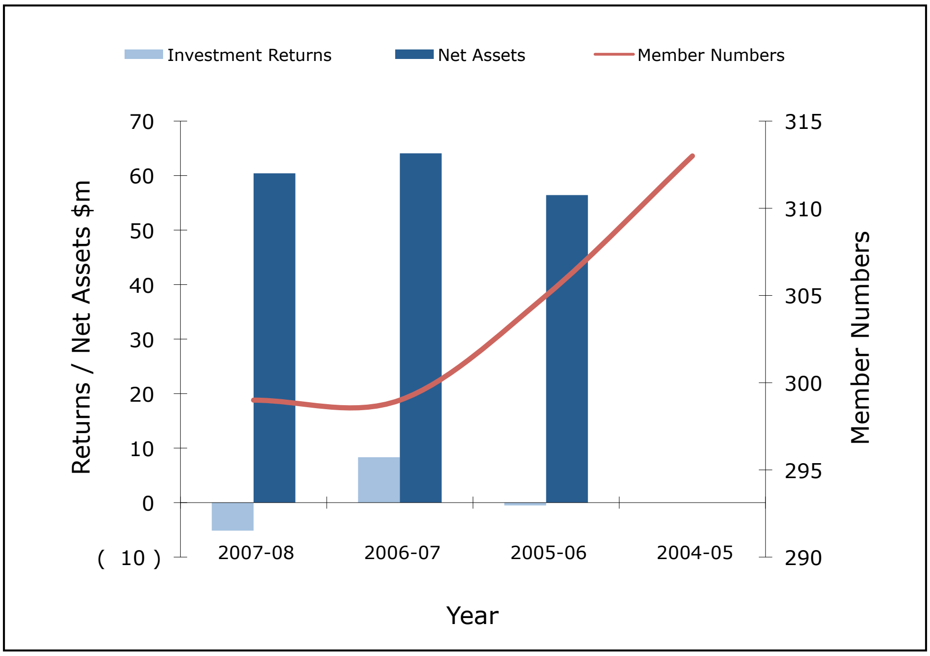
Accumulation entitlements in TASSS were rolled over to the Tasmanian Accumulation Scheme and deposited into the RBF Investment Account for one day's operation effective 30 June 2006.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 22 October 2008 and an unqualified audit report issued on the same day. The 2007-08 audit was completed with satisfactory results with no major issues outstanding

FINANCIAL RESULTS

The graph below provides a snapshot of the scheme's financial performance.



Member numbers have fallen since commencement with the RBFB. Net assets and Investment returns increased in 2006-07 but declined in 2007-08.

STATEMENT OF CHANGES IN NET ASSETS

	2007-08	2006-07	2005-06
	$'000s	$'000s	$'000s
Investment revenue	2 569	2 157	0
Changes in net market values	(5 039)	3 216	0
Direct investment expenses	(126)	(156)	0
Employer contributions	1 388	1 388	0
Member contributions	811	908	0
Transfers from other funds	1	0	32 622
Total Revenue	**(396)**	**7 513**	**32 622**
Benefits Paid	2 729	638	486
Administration expenses	462	396	0
Total Expenses	**3 191**	**1 034**	**486**
Benefits Accrued before Tax	**(3 587)**	**6 479**	**32 136**
Income tax benefit (expense)	146	(553)	0
Net Assets Available to Pay Benefits	**(3 441)**	**5 926**	**32 136**
Liability for Accrued Benefits at year start	38 062	32 136	0
Liability for Accrued Benefits at year end	**34 621**	**38 062**	**32 136**

Comment

Net assets available to pay benefits in 2005-06 represented total net funds transferred, less benefits payable from the former TASSS to the RBFB on 30 June 2006.

The first full year of operation with the RBFB was 2006-07, where revenues from Investments and Changes in net market values resulted in strong positive returns. Earnings on Australian equities were the main driver in these increases. Investment returns totalled $5.217m or 69.4% of Total revenue.

The major contributor to the negative Net assets available to pay Benefits in 2007-08 was negative Changes in net market value of investments of $5.039m of which negative $4.121m was unrealised. This represented a reduction of $8.255m on the previous year. The main asset classes that contributed to the negative return were Australian and International equities.

STATEMENT OF NET ASSETS

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s
Cash at bank	3 834	3 930	32 641
Other receivables	236	132	120
Investments	34 182	35 420	0
Other assets	1	1	2
Total Assets	**38 253**	**39 483**	**32 763**
Payables	3 256	739	569
General Operating Provision	346	130	0
Deferred tax liability	30	552	58
Total Liabilities	**3 632**	**1 421**	**627**
Net Assets Available To Pay Benefits	**34 621**	**38 062**	**32 136**

Comment

Net assets available to pay benefits at 30 June 2006 were primarily represented by Cash at bank. Cash received was invested in 2006-07 with Investment growth being the main driver for the 18.4%, or $5.926m, increase in Net Assets available to pay benefits.

In 2007-08, Net assets available to pay benefits decreased to $34.621m, a reduction of 9.04%. The main contributor in this reduction was higher payables, being interfund transfers of $3.256m representing an increase of $2.517m when compared to the previous year.

The liability for accrued benefits (scheme as a whole) was $25.503m as at 30 June 2006, when the last comprehensive valuation of the scheme was determined by the fund's actuary. At that date the liability for vested benefits (scheme as a whole) was $27.843m. The TASSS receives regular contributions from the TAS and is considered to be fully funded.

Vested benefits as at 30 June 2007 increased to $29.263m. This was the last time they have been valued. Net assets available to pay benefits were greater than vested benefits for all years by $4.793m in 2005-06, $8.799m in 2006-07 and $5.358m in 2007-08.

FINANCIAL ANALYSIS

	2007-08	2006-07	2005-06
Financial Performance			
Investments ($'000s)	38 016	39 350	32 641
Net investment income ($'000s)	(2 596)	5 217	0
Return on investments	(6.83%)	13.26%	0.00%
Other Information			
Members (number)	176	189	205

Comment

The performance of TASSS will vary depending on the volatility of the investment market and the amounts of benefits paid out in any one financial year.

The poor performance of Financial Markets in 2007-08 resulted in a negative return of 6.83% being recorded. This contrasts with the strong Return on investments in the previous year of 13.26%.

RETIREMENT BENEFITS FUND BOARD – STATE FIRE COMMISSION SUPERANNUATION SCHEME

INTRODUCTION

The State Fire Commission Superannuation Scheme (SFCSS) is a defined benefit scheme. The Scheme was closed to new members from 1 July 2005. It had been established for permanent uniformed employees of the Tasmania Fire Service (TFS). The SFCSS was transferred to the Retirements Benefit Fund Board (RBFB) on 1 May 2006 under a Successor Fund arrangement. This arrangement involved the trustee, fund administration and investment functions of the scheme being transferred to the RBFB. Accumulation entitlements in SFCSS were rolled over to the RBF Investment Account effective 1 May 2006.

Members receive benefits based on their final average salary and years of service and they contribute at the rate of 5%. Member Investment Choice does not apply to these contributions. Members wishing to contribute more than 5% do so via the RBF Investment Account. The employer, State Fire Commission (SFC), contributes at the rate of 11% for each employee and it retains responsibility for any shortfall in fund assets.

Being a closed scheme growth and performance will be affected by the lack of new members in future years and as existing members exit from the scheme. Nevertheless, as a defined scheme, any future unfunded liability must be met over time by the SFC.

Member numbers have fallen since commencement with the RBFB. Net assets and Investment returns increased in 2006-07 but declined in 2007-08.

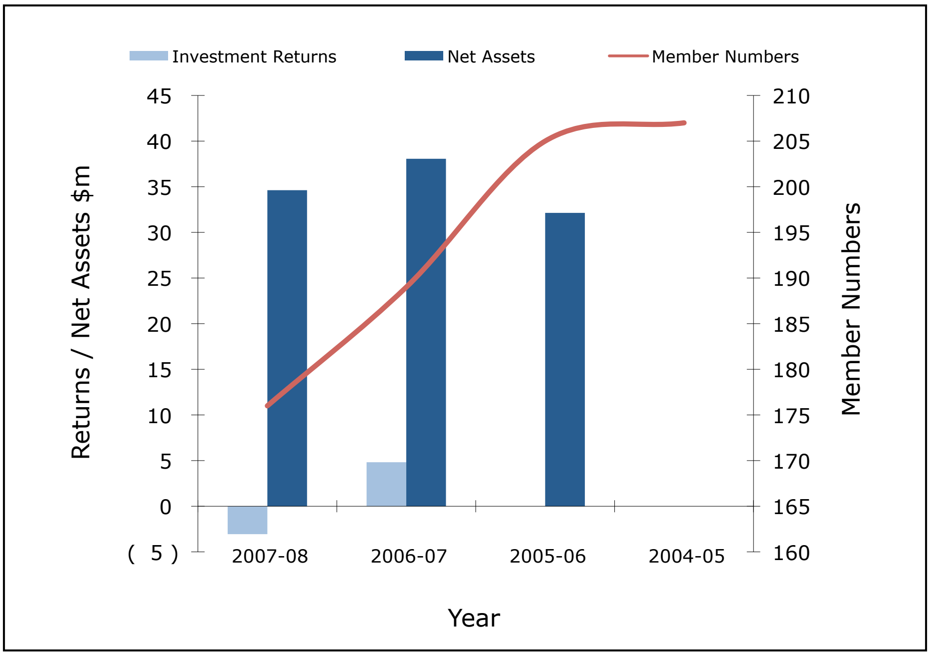
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 22 October 2008 and an unqualified audit report issued on the same day.

The 2007-08 audit was completed with satisfactory results with no major issues outstanding.

FINANCIAL RESULTS

The graph below provides a snapshot of the scheme's financial performance.



STATEMENT OF CHANGES IN NET ASSETS

	2007-08 $'000s	2006-07 $'000s	2005-06 $'000s
Investment revenue	4 342	3 640	1 029
Changes in net market values	(8 484)	5 388	(1 438)
Direct investment expenses	(213)	(232)	(65)
Employer contributions	2 220	2 016	316
Member contributions	782	916	137
Transfers from other funds	3	0	56 499
Total Revenue	**(1 350)**	**11 728**	**56 478**
General operating fee	621	279	44
Other expenses	167	191	0
Total Expenses	**788**	**470**	**44**
Benefits Accrued Before Tax	**(2 138)**	**11 258**	**56 434**
Income tax benefit (expense)	256	(897)	(11)
Benefits Accrued as a Result of Operations	**(1 882)**	**10 361**	**56 423**
Benefits paid	(1 787)	(2 699)	0
Liability for accrued benefits at year start	64 085	56 423	0
Liability for Accrued Benefits at Year End	**60 416**	**64 085**	**56 423**

Comment

In 2005-06 total funds transferred into the SFCSS represented the defined benefit component of the Scheme on transfer to the RBFB, which was invested as soon as received. Without this transfer, the Scheme operated at a before tax deficit of $0.065m. The downward Changes in net market values of $1.438m in 2005-06 resulted from Scheme market based investments experiencing an unrealised net downturn in the final two months of that year.

The first full year of operation of the scheme with the RBFB was 2006-07 when an increase in Investment revenues and positive Changes in net market values, resulted in an increase in accrued benefits. Returns on Australian and International equities were the main driver for the increase in market values.

Benefits accrued before tax of negative $2.138m was recorded in 2007-08. The major contributor to this result was negative Changes in net market value of investments of $8.484m of which negative $6.933m was unrealised. This represented a reduction in investment revenue of $13.872m on the previous year's result.

Benefits paid in the year amounted to $1.787m, (2006-07, $2.699m). This represented resignation, retirement and withdrawal of funds as members exit. All or part of funds may be rolled over into the Investment account, used to purchase other retirement products (eg. an allocated pension) or transferred to another complying superfund.

STATEMENT OF NET ASSETS

	2007-08	2006-07	2005-06
	$'000s	$'000s	$'000s
Interest receivable	202	27	7
Other receivables	0	166	167
Investments	63 833	66 883	56 592
Other assets	7	7	8
Total Assets	**64 042**	**67 083**	**56 774**
Other payables	3 169	2 020	49
General operating provision	519	181	(2)
Provision for income tax	651	604	405
Deferred tax (asset) liability	(713)	193	(99)
Superannuation contributions surcharge payable	0	0	(2)
Total Liabilities	**3 626**	**2 998**	**351**
Net Assets Available To Pay Benefits	**60 416**	**64 085**	**56 423**

Comment

Net assets available to pay benefits in 2005-06 was effectively the total funds received less the deficit for the first two months of operations.

The negative returns on Investments in 2007-08, contributed to the decrease in Net assets available to pay benefits of $3.669 when compared to the previous year.

The increase in Other payables in 2007-08 represented inter-fund payables as part of monthly rebalancing allocations between funds.

The liability for accrued benefits as at 30 June 2006 was $56.296m (scheme as a whole) when the last comprehensive valuation of the scheme was determined by the fund's actuary. At that date the liability for vested benefits (scheme as a whole) was $57.910m. The SFCSS receives regular contributions from the SFC and is considered to be fully funded. The objective of such funding is to ensure that the benefit entitlement to members and other beneficiaries is fully financed from the SFCSS by the time they become payable.

Vested benefits as at 30 June 2008 reduced to $57.910m from $58.854m at 30 June 2007. Net assets available to pay benefits were greater than vested benefits for the three years by surpluses of $1.787m in 2005-06, $5.231m in 2006-07 and $2.506m in 2007-08.

FINANCIAL ANALYSIS

	2007-08	2006-07	2005-06
Financial Performance			
Investments ($'000s)	63 833	66 883	56 592
Net investment income ($'000s)	(4 355)	8 796	(474)
Return on investments	(6.82%)	13.15%	(0.84%)
Other Information			
Members (number)	299	305	313

Comment

The SFCSS performance may vary considerably depending on the volatility of the Financial Markets and benefits paid out in any one financial year. The return of 13.15% in 2006-07 was consistent with strong market performance in that year.

In 2007-08, after a very poor performance by Financial Markets, the fund returned a negative 6.82%.

OTHER PUBLIC BODIES

INTRODUCTION

Other Public Bodies fulfil a variety of functions. Audits of their annual financial statements are conducted by virtue of requirements specified in enabling legislation or other arrangements. There are 33 such bodies, details of which are provided in Appendix 1, Status of Audits, of this Report.

KEY FINDINGS AND OUTCOMES FROM AUDITS

- At the time of publication of this Report, the audits of 26 of the 33 other public bodies had been completed.
- Ten of these bodies did not submit financial statements within applicable statutory deadlines.
- Audits were completed satisfactorily with no major issues outstanding.
- The audit opinion on the financial statements of the **National Trust of Australia (Tasmania)** for the year ended 30 June 2008 contained the following "except for" audit qualification:

  Qualification

  Included in revenue are amounts relating to proceeds from functions, fundraising activities, donations and admittance fees, totalling $277 104 (2007, $191 226) over which it is not practicable to establish accounting controls prior to receipt of such funds due to the cash nature of that revenue. Accordingly, it was not practicable for my examination to extend beyond amounts recorded as having been received and as shown in the accounting records of the Trust.

  The Trust has failed to comply with Australian Accounting Standards AASB 116 Property, Plant and Equipment by not depreciating or amortising freehold buildings and leasehold improvements respectively. In addition, the Trust possesses certain heritage collections referred to in Note 1 of the financial statements, but these assets have not been recognised in the financial statements. Due to the nature of the assets, it is not possible to quantify the financial effects of the Trust's failure to comply with the accounting standard.

  As detailed in Note 7 to its financial statements, the Trust recognised grant income in advance totalling $75 000 effectively treating this balance as a liability. The income in advance does not meet the recognition criteria for a liability. Accordingly, current liabilities should be reduced by $75 000 and the surplus for the year and retained earnings should be increased by $75 000.
- Analysis of the financial situation of the **State Fire Commission** identifies that it reported negative Working Capital in each of the last four years and that it was taking on average 63 days to pay its creditors. After incurring a deficit for the year ended 30 June 2007 of $1.156m it reverted to making net surpluses in 2007-08, $4.354m. My concern at 30 June 2007, based on its deficit and negative working capital position, was that the Commission could not maintain its capital expenditure program without government support. Whilst its working

capital was again negative at 30 June 2008, and at that date it was taking 87 days to pay its suppliers, the surplus of $4.354m indicates to me that its financial position improved this year.

Audits in Progress

The audits of following public bodies are either in progress or are due to commence shortly:

- Clyde Water Trust
- Council of Law Reporting
- Nominal Insurer
- Tasmanian Wilderness Heritage Area
- Tasmanian Beef Industry (Research and Development) Trust
- Tasmanian Museum and Art Gallery.

INLAND FISHERIES SERVICE

INTRODUCTION

The Inland Fisheries Service (IFS or the Service) is the State's natural resource manager of inland fisheries in Tasmania.

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

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

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

In 2006-07 the Service moved to new premises at New Norfolk. These premises comprise land, buildings and a hatchery, from which the Service aims to produce its own fish stocks in the future, rather than relying on commercial hatcheries or the Salmon Ponds.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

The financial statements were received in advance of the due date of 15 August 2008. Final amended statements were received on 1 October 2008 and an unqualified audit opinion was issued on the 2 October 2008.

The audit for 2007-08 was completed satisfactorily.

INCOME STATEMENT

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Licence fees	1 479	1 488	1 398	1 332
Government grants	1 179	1 158	1 137	1 117
External grants and reimbursements	742	397	253	389
Other operating revenue	586	448	397	724
Total Revenue	**3 986**	**3 491**	**3 185**	**3 562**
Employee expenses	2 401	1 869	1 936	2 029
Operating expenses	1 405	1 239	1 258	1 303
Depreciation	228	184	137	153
Total Expenses	**4 034**	**3 292**	**3 331**	**3 485**
Net operating Surplus/(Deficit) before:	**(48)**	**199**	**(146)**	**77**
Gain(Loss) on sale of non-financial assets	(4)	(2)	497	(42)
Capital Grant	0	200	0	0
Net Surplus/(Deficit) for the year	**(52)**	**397**	**351**	**35**

Comment

The Deficit from operating activities for 2007-08 was mainly due to two main contributing factors. The IFS grant from Government has not been indexed to keep pace with State Wages Agreements or Consumer Price Index movements for operating expenses. This is evidenced by the movement in employee expenses from 2006-07 to 2007-08. In addition increasing fuel costs impacted on motor vehicle expenses. Further, the change in government policy as to the status of the Service in relation to payroll tax resulted in an additional amount payable of approximately $60 000 per annum.

The 2006-07 Net Surplus before sales of non-financial assets and Capital grants increased significantly. The main contributing factors were:

- Licensing revenue increasing by $0.156m as a result of the implementation of programs designed to increase fisheries performance and participation rates
- Employee expenses decreasing by $0.160m, see comments under the Financial Analysis section where reasons are noted for a decrease in average staff costs.

There was also a one-off Capital grant of $0.200m in 2006-07 to fund the upgrade of the Woods Lake and Lake Echo roads.

The Deficit from operating activities in 2005-06 was mainly due to the decrease in operating revenue, as previously described. Without the large gain on sale of non-financial assets in that financial year, as a result of property disposals including houses at Cora Linn, the Service made a deficit of $0.146m.

BALANCE SHEET

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Cash	977	1 072	1 695	1 017
Receivables	226	223	42	127
Total Current Assets	**1 203**	**1 295**	**1 737**	**1 144**
Property, plant and equipment	5 108	5 017	3 194	3 281
Total Non-Current Assets	**5 108**	**5 017**	**3 194**	**3 281**
Payables	163	257	72	146
Provisions	265	505	543	618
Total Current Liabilities	**428**	**762**	**615**	**764**
Provisions	298	43	47	125
Total Non-Current Liabilities	**298**	**43**	**47**	**125**
Net Assets	**5 585**	**5 507**	**4 269**	**3 536**
Reserves	1 524	1 394	553	171
Accumulated funds	861	913	516	165
Contributed Capital	3 200	3 200	3 200	3 200
Total Equity	**5 585**	**5 507**	**4 269**	**3 536**

Comment

Non-Current Liabilities increased in 2007-08. The reason for this was the application of accounting standards relating to leave liabilities which resulted in a shift from current liabilities to non-current liabilities as compared to the previous year. The provisions were also required to take into account the new Payroll Tax regime, increasing the Service's liability.

Net Assets increased by $2.049m over the four year period of review. The main contributing factors were:

- the purchase of new premises and hatchery at New Norfolk in 2006-07, $1.011m. The acquisition comprised:
    - Land and buildings $0.500m
    - Associated plant and equipment $0.106m
    - Hatchery $0.358m.
- 0ther purchase of five new vehicles costing $0.163m
- Land and buildings being revalued in 2006-07, $0.841m, resulting in a corresponding increase in Reserves
- a reduction in provisions.

The increase in Net Assets was offset by an average increase in payables over the period. This was mainly due to a number of larger payables at the end of 2006-07 in relation to printing, publishing, fuel and hatchery costs. In addition, during the 2007-08 financial year there were some disposals of non-financial assets mainly comprising vehicles, totalling $0.163m.

Receivables for years 2004-05 and 2006-07 appear high due to one large outstanding debtor in each of these years. The outstanding amount for 2006-07 was $0.128m (2004-05, $0.079m). The receivable was recovered in 2007-08.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Receipts from customers	2 628	1 678	1 754	2 326
Payments to suppliers and employees	(3 970)	(3 011)	(3 399)	(3 380)
Interest received	131	123	104	81
Receipts from Government	1 179	1 158	1 137	1 117
Receipts from external projects	70	397	253	404
Cash from/(used in) operations	**38**	**345**	**(151)**	**548**
Payments for property, plant and equipment	(334)	(1 329)	(218)	(312)
Proceeds from sale of property, plant and equipment	201	160	1 048	289
Capital grants	0	200	0	0
Cash from/(used in) investing activities	**(133)**	**(969)**	**830**	**(23)**
Net increase (decrease) in cash	**(95)**	**(624)**	**679**	**525**
Cash at the beginning of the year	1 072	1 696	1 017	492
Cash at end of the year	**977**	**1 072**	**1 696**	**1 017**

Comment

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

The main reason for the increased cash position in 2005-06 was proceeds on the sale of property of $1.048m which, to a large extent, was used to finance the expenditure of $1.329m on property, plant and equipment in 2006-07.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(48)	199	(146)	77
Operating margin	>1.0	0.99	1.06	0.96	1.02
Underlying result ratio		(1.20%)	5.70%	(4.58%)	2.16%
Own source revenue		2365	1 936	1 795	2 056
Financial Management					
Current ratio	>1	2.81	1.70	2.82	1.50
Debt collection	30 days	42	45	9	23
Creditor turnover	30 days	26	66	15	40
Other Information					
Staff numbers (FTEs)		31	30	31	31
Average staff costs ($'000s)		80	58	63	66
Average leave balances per FTE ($'000s)		17	16	19	22

Comment

The Underlying result ratio provides an indicator of strength of the operating result. The Service is not funded for depreciation or increases in leave liabilities. In addition the Service's funding arrangements do not provide for adjustments for the impact of State Wages Agreements or general price movements. This could have an impact on future operating results and capital expenditure programs.

The Own source revenue indicator represents revenue generated by the Service through its own operation. This has improved over the period of the review.

The high Debt collection ratio in 2006-07 was due to one large outstanding debtor.

The high Creditor turnover ratio in both 2006-07 and 2004-05 was primarily due to a number of large unpaid accounts on hand at 30 June.

Average staff costs decreased until 2007-08 mainly as a result of timing issues related to staff vacancies, and a number of employees reducing their hours of work from full-time to part-time. This contributed to the drop in Average leave balances per FTE in 2005-06. In 2006-07, two permanent employees left the Service, resulting in a decrease in provision balances, in particular long service leave. This is reflected in the lower average leave balances per FTE for this year.

The current ratio improved in 2007-08 due to the re-classification of current employee provisions into non current for reasons discussed earlier.

MARINE AND SAFETY AUTHORITY OF TASMANIA

INTRODUCTION

The *Marine and Safety Authority Act 1997* created the Authority and its functions are to:

- Ensure safe operations of vessels
- Provide and manage marine facilities
- Manage environmental issues relating to vessels.

The Authority commenced operations on 30 July 1997. The former Department of Transport and the former Port Authorities transferred a large number of marine facilities to the Authority. The Port Authorities divested all boat ramps and jetties and all the navigation aids that were outside their immediate port areas or were not part of their core commercial activities. The Authority also assumed the assets and liabilities of the former Navigation and Survey Authority of Tasmania.

The Responsible Minister is the Minister for Infrastructure.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 1 August 2008, with re-signed financial statements received on 15 September 2008. An unqualified audit report was issued on 17 September 2008.

The 2007-08 audit was completed with satisfactory results.

FINANCIAL RESULTS

In financial terms the Authority is relatively small with annual revenues and expenditures of around $4.500m. It is unlikely to operate at anything much above break-even before accounting for capital investment grants and annual net profits will fluctuate depending on the timing of triennial recreational motor boat licence renewals. In 2007-08 the Authority operated at a small operating surplus of $0.023m, a drop of $0.190m compared to 2006-07, but at an overall deficit of $0.144m primarily caused by the decision to transfer, for no consideration, the Ulverstone Wharf and Western Rock Training Wall to the Crown resulting in a "loss on disposal" of $0.677m. A significant and growing contributor to annual operating results was interest earned on the Authority's cash deposits.

Its Balance Sheet is reasonably healthy with equity increasing from $8.004m at 30 June 2005 to $11.093m at 30 June 2008. Over this period its net working capital improved from $1.100m to $2.494m. The Authority is in a strong position to meet its commitments. It is noted that, in addition to liabilities and provisions totalling $0.726m at 30 June 2008, the Authority was committed to projects totalling $6.972m for which some cash is held.

INCOME STATEMENT

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Commercial vessel fees	715	714	658	560
Certificates of competency fees	176	150	129	137
Recreational boating fees	1 941	2 317	2 383	1 505
Mooring	245	255	269	172
Government recurrent contribution	800	800	700	700
Commonwealth grants	71	172	73	0
Interest received	220	168	131	94
Other operating revenue	68	77	301	42
Total Revenue	**4 236**	**4 653**	**4 644**	**3 210**
Employee expenses	1 474	1 369	1 317	1 289
Depreciation	468	468	415	446
Other operating expenses	2 271	2 603	2 535	2 424
Total Expenses	**4 213**	**4 440**	**4 267**	**4 159**
Surplus (Deficit) from Operations before:	**23**	**213**	**377**	**(949)**
State capital investment program grants	500	600	950	426
Loss on disposal of non-current assets	(667)	(10)	0	0
Surplus (Deficit) for the year	**(144)**	**803**	**1 327**	**(523)**

Comment

In 2007-08 the Authority recorded a Deficit for the year of $0.144m, compared to Surpluses of $0.803m in 2006-07 and $1.327m in 2005-06. It's operating result varied significantly during the four-year period under review predominantly due to:

- timing of the receipt and recognition of recreational boating fees. These are renewed on a triennial basis resulting in an increase in income from renewals during 2005-06 continuing into 2006-07. The triennial motor boat licence renewals were finalised during 2006-07
- the quantum of the State capital investment program grants received in any one year
- transfer for no consideration of the Ulverstone Wharf and Western Rock Training Wall to the Crown as part of the partnership agreement between Government and the Central Coast Council in August 2007.

Recreational boating fees increased during 2007-08 due to new licences issued over the period under review (3 056 new licences were issued, 556 above budget).

Expenditure from ordinary activities over the period under review has been well controlled. Depreciation remains consistent, with slight fluctuations due to a combination of the contribution of assets, disposals and revaluations over the period of review. The increase in Employee expenses during the 2007-08 year was consistent with wage and salary award increases.

State capital investment program grants fluctuate from year to year according to projects funded by the Government. Funding was received in 2006-07 for dredging operations at St Helens. The capital contribution in 2007-08 included funding of $0.500m for reconstruction of an inner section of the Southport Jetty. With only design work on the facility having been completed by the 30 June 2008, building work is not expected to commence until 2008-09 and further funding of $0.950m for the remainder of the jetty is to be received in 2008-09. Capital investment program grants were received in 2005-06 for the reconstruction of the Dover, $0.500m, and Triabunna, $0.350m, jetties. The decrease in the Capital contribution in 2006-07 was due to the completion of the reconstruction of the Dover and Triabunna jetties during the course of the 2006-07 year. The Government contribution in 2004-05 included funding for reconstruction of the Opossum Bay jetty, $0.200m, and funds for dredging the Denison canal and the St Helens Barway, $0.200m.

The Loss on disposal of non-current assets in 2007-08 resulted from the transfer as noted previously of the Ulverstone Wharf and Western Rock Training Wall to the Crown as part of a partnership agreement between the State Government and the Central Coast Council. The written down value of the disposed assets amounted to $0.667m, with no proceeds received for the disposal.

BALANCE SHEET

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000	$'000	$'000	$'000
Cash	2 887	2 049	2 401	1 526
Receivables	127	359	166	102
Other	72	74	20	19
Total Current Assets	**3 086**	**2 482**	**2 587**	**1 647**
Payables	362	392	387	356
Provisions	230	162	151	191
Total Current Liabilities	592	554	538	547
Net Working Capital	**2 494**	**1 928**	**2 049**	**1 100**
Property, plant and equipment	8 733	9 460	7 754	6 943
Total Non-Current Assets	**8 733**	**9 460**	**7 754**	**6 943**
Provisions	134	151	129	39
Total Non-Current Liabilities	**134**	**151**	**129**	**39**
Net Assets	**11 093**	**11 237**	**9 674**	**8 004**
Capital	9 939	9 939	9 939	9 939
Reserves	1 186	1 186	426	9
Accumulated surpluses (deficits)	(32)	112	(691)	(1 944)
Total Equity	**11 093**	**11 237**	**9 674**	**8 004**

Comment

Equity decreased marginally during 2007-08, the first time during the 4-year period of review. This was due predominantly to the Net deficit of $0.444m recorded in 2007-08. The increases in Equity prior to 2007-08 were due to the Asset revaluation reserve increase of $1.177m in 2006-07 as a result of revaluations of marine facilities, and in 2005-06 from a revaluation of Navigation Aids. Non-Current Assets were not revalued during 2007-08.

The Authority's changing cash position resulted from:

- the Cash increase in 2007-08 due partly to reconstruction of the Southport Jetty (stage 1) having been deferred to 2008-09 when the whole structure will be re-built. The increase in Cash was also due to lower than budget spending on the Rocky Cape and Pirate Bay projects jointly funded by the Recreational Boating Fund and the Recreational Fishing Community Grants Program of the Commonwealth. These projects will be finalised in 2008-09 with costs brought to account from project accounts
- in 2006-07 Cash decreased due to payments for capital projects, in particular the Opossum Bay and Swansea jetties and the completion of the Port Sorell Pontoon
- in 2005-06 the increase in Cash was attributable to the timing of the receipt of recreational motor boat licence renewal fees. In addition, Commonwealth funding of $0.072m had been received and held in a separate bank account in respect of the Port Sorell project.

Receivables were higher in 2006-07 mainly due to amounts invoiced to the Commonwealth for Grants received under the Recreational Fishing Programme. They dropped in 2007-08 due to lower GST Input Tax Credits on taxable purchases and capital works in 2007-08.

Property, plant and equipment decreased by $0.667m during 2007-08 compared to the previous year due predominantly to the transfer of the Ulverstone Wharf and Western Rock Training Wall reported previously.

Major asset purchases during the past three years were:

- 2007-08:
  - jointly funded Commonwealth projects under way at Rocky Cape, Pirates Bay, Bridport
  - projects in relation to replacement facilities at Southport, Bridport and Boomer Bay.
- 2006-07:
  - completion of the Opossum Bay, Dover and Triabunna jetties which commenced in 2005-06
  - the Port Sorell launching ramp and pontoon,
  - Swansea Jetty
  - purchase of a replacement patrol vessel.
- 2005-06:
  - Opossum Bay, Dover and Triabunna jetties.

Payables remained consistent over the period under review with a small increase in 2006-07 due to larger outstanding capital works creditors as at 30 June 2007.

The increase in current Provisions in 2007-08 was mainly due to a number of staff achieving 10 years of service with long service leave benefits able to be taken during the next 12 months. This was offset by a decrease in non-current Provisions. The overall increase in Provisions over the period under review relates to accumulating long service leave.

CASH POSITION

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Receipts from customers	4 557	4 740	4 143	3 117
Payments to suppliers and employees	(4 019)	(4 460)	(3 726)	(3 417)
Interest received	220	168	131	94
Cash from (used in) operations	**758**	**448**	**548**	**(206)**
Payments for property, plant and equipment	(421)	(1 420)	(623)	(67)
Proceeds from sale of property, plant and equipment	0	21	0	0
Capital investment program grants	500	600	950	426
Cash from (used in) investing activities	**79**	**(799)**	**327**	**359**
Net increase (decrease) in cash	837	(351)	875	153
Cash at the beginning of the year	2 050	2 401	1 526	1 372
Cash at end of the year	**2 887**	**2 050**	**2 401**	**1 525**

Comment

The Authority's Cash Position improved significantly over the period of review for the reasons set out in the Income Statement section and movements in the Cash amount in the Balance Sheet reported earlier in this Chapter.

In 2007-08 Cash increased due partly to funding received for the reconstruction of the Southport Jetty (stage 1) and construction deferred to 2008-09 when the whole structure will be re-built. The increase in Cash was also due to lower than budget spending on the Rocky Cape and Pirate Bay projects jointly funded by the Recreational Boating Funds and the Recreational Fishing Community Grants Programme of the Commonwealth. These projects will be finalised in 2008-09 and costs brought to account from project accounts.

In 2006-07 Cash decreased due to payments for capital projects. In 2005-06 the increase in Cash was attributable to the timing of the receipt of recreational motor boat licence renewal fees. This was partially off-set by increases in Payments to suppliers and employees due to general increases in employee costs and operating expenses.

Increased cash payments for Property, plant and equipment in 2006-07 were due mainly to capital projects spanning 2005-06 and 2006-07.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		23	213	377	(949)
Operating margin	>1.0	1.01	1.05	1.09	0.77
Financial Management					
Current ratio	>1	5.21	4.48	4.81	3.01
Debt collection	30 days	33	84	23	22
Creditor turnover	30 days	28	21	34	42
Other Information					
Staff numbers (FTEs)		19	19	20	20
Average staff costs ($'000s)		78	72	66	64
Average leave balance per FTE ($'000s)		19	16	14	12

Comment

Most performance indicators show fluctuations consistent with the activities of the Authority reported previously.

In 2007-08 the Authority recorded a surplus for the year of $0.023m due predominantly to the finalisation of the triennial motor licence renewals during 2006-07.

The increase in Current ratio during the period under review was mainly due to increased cash balances held by the Authority. The cash position improved significantly in 2007-08 for the reasons set out in the Cash Position section.

The high Debtor collection ratio in 2006-07 was due to $0.245m invoiced in late June 2007 for several recreational boating project contributions and grants that were not received until July. Without these debts the ratio would have been 23 days for that year. Similarly, the 2007-08 ratio was distorted by unpaid invoices due by the Commonwealth Government; which, if ignored would have been 28 days.

Average staff cost increases are consistent with wage and salary award increases noted in the Income Statement section. The Average leave balance per FTE has been steadily increasing, indicating that staff are accruing leave and not using their entitlements as they become available.

PRIVATE FORESTS TASMANIA

INTRODUCTION

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

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

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

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

The Responsible Minister is the Minister for Energy and Resources.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 26 August 2008 with amended statements received on 3 October 2008. An unqualified audit report was issued on 20 October 2008.

The 2007-08 audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

The nature of the Authority's business is service driven to achieve its objectives, noted above and its operations are generally "not for profit". Consequently, it is expected that there will not be any large operating surpluses or deficits in any financial year.

The Authority improved its financial performance in 2007-08, after recording a small deficit result in 2006-07. In addition, the Authority continues to maintain a solid working capital position. However, the Authority relies heavily on contributions from the State Government, with the majority of its revenue consisting of grant funding.

INCOME STATEMENT

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Government contributions	1 288	1 243	1 247	1 214
Commonwealth grants	620	536	667	341
Private Forests service levy	441	432	472	325
Interest on Pine Loans	30	48	59	67
Bank interest	147	123	124	100
Other operating revenue	154	129	191	170
Total Revenue	**2 680**	**2 511**	**2 760**	**2 217**
Salary, wages and employee entitlements	1 348	1 299	1 325	1 101
Borrowing costs	30	48	60	67
Depreciation	77	56	56	76
Other operating expenses	1 058	1 165	899	845
Loss on disposal of assets	0	0	0	37
Total Expenses	**2 513**	**2 568**	**2 340**	**2 126**
Surplus (Deficit) from operating activities before:	**167**	**(57)**	**420**	**91**
Capital grants	127	73	100	0
Refund of grants	141	32	0	0
Surplus (Deficit) for the year	**153**	**(16)**	**520**	**91**

Comment

In 2007-08 the Authority recorded a Surplus of $0.153m compared to a Deficit of $0.016m in 2006-07, and Surpluses $0.520m in 2005-06 and $0.091m in 2004-05. The main movements in revenue and expense items are discussed below.

The Authority is reliant on recurrent government funding provided by the State Government. Its funding from grant revenue approximates 49% of total revenue for the four years under review.

In addition, it receives specific project grant funding, mainly derived from Commonwealth and State grants. The funding varies from year to year dependent on project schedules and priorities. Major grant funding included:

- Sustainable Farm Forestry, $0.290m in 2007-08 ($0.268m in 2006-07 and $0.290m in 2005-06)
- Targeted Protection of High Priority Terrestrial and Riparian Vegetation, $0.279m in 2007-08 ($0.215m in 2006-07 and $0.180m in 2005-06).

An amendment to the *Private Forests Act 1994* in 2001 allowed for the introduction of a Private forests service levy on all certified forest practices plans. The levy raised is dependent on the number of forest practices plans certified each year and the area of forest operations included in those plans, with the Authority charging the levy on a per hectare basis. The Authority raised the levy on certified forest practices plans totalling an area of approximately 31 000 hectares in 2007-08, compared with approximately 29 000 hectares in 2006-07, 33 000 hectares in 2005-06, and 23 000 hectares in 2004-05. This resulted in the increased Private forests services levy revenue in 2007-08 and 2005-06.

Employee costs as a percentage of revenue approximate 50% for the period concerned, being the Authority's major expense. The increase in employee costs of $0.224m in 2005-06 was due to a combination of factors, including an increase in:

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

Other operating expenses primarily includes motor vehicle and travel related expenses, directors allowances and expenses, devolved grants to land owners, and office rental. Other operating expense increased from $0.899m in 2005-06 to $1.165m in 2006-07 due primarily to an increase in:

- devolved grants paid to landowners of $0.177m
- consultancy and contractor expenses of $0.064m which included project leader costs for the Targeted Protection of High Priority Terrestrial and Riparian Vegetation project and development costs for the Farm Forestry Toolbox project.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Cash	1 387	1 586	1 339	1 379
Receivables	835	621	801	319
Loans for private forestry	51	60	58	62
Other	7	6	8	7
Total Current Assets	**2 280**	**2 273**	**2 206**	**1 767**
Property, plant and equipment	331	94	124	140
Loans for private forestry	333	679	887	963
Total Non-Current Assets	**664**	**773**	**1 011**	**1 103**
Payables	218	124	72	40
Borrowings	33	60	58	62
Provisions	223	224	209	206
Other	22	18	30	137
Total Current Liabilities	**496**	**426**	**369**	**445**
Borrowings	891	1 219	1 427	1 539
Provisions	31	28	32	17
Total Non-Current Liabilities	**922**	**1 247**	**1 459**	**1 556**
Net Assets	**1 526**	**1 373**	**1 389**	**869**
Accumulated surpluses	1 526	1 373	1 389	869
Total Equity	**1 526**	**1 373**	**1 389**	**869**

Comment

The Authority's Total Equity increased between 30 June 2005 to 30 June 2008 due to surpluses totalling $1.657m.

Its Cash balance comprised operating bank accounts, cash on hand and investment funds of $1.387m at 30 June 2008. Further details are provided in the Cash Position section of this Chapter.

The Receivables balance at 30 June 2008, $0.835m, represented an increase on the prior year of $0.214m which was primarily due to higher accrued grant revenue of $0.182m up from $0.081m in 2006-07 to $0.263m in 2007-08.

The Receivables balance increased by $0.482m from 2004-05 to 2005-06 as a result of two main factors:

- an increase in Private forests services levy debtors of $0.104m which is in line with the increase in revenue noted in the Income Statement section. The payment of levies is not required until six months after certification
- inclusion of two grant debtors totalling $0.343m.

Total Loans for private forestry (current and non-current) decreased by $0.641m from 30 June 2005 to 30 June 2008. The balance of private pine plantation loan debtors is continuing to decrease as loan instalments are repaid and some loans are fully repaid due primarily to the sale of property.

The decrease in total Borrowings from 30 June 2005 to 30 June 2008 of $0.677m, is a result of repayments made by the Authority to the Department of Treasury and Finance.

Borrowings received from the Department of Treasury and Finance to facilitate private plantation loans is greater than the amount owing from Loans to private forestry because not all borrowings were on-lent. Consequently, the Authority is holding the excess borrowings in cash.

Property, plant and equipment increased by $0.237m over the period under review due mainly to the capitalisation of the Authority's high-resolution satellite imagery facilities. The Authority received a contribution of $0.127m (2006-07, $0.073m) for the imagery. It is leading a consortium of public and private sector bodies in acquiring high-resolution satellite imagery for most of mainland Tasmania private property. As at 30 June 2008, the Authority had expended $0.244m for approximately sixty percent of the target area. The project is due to be completed in 2008-09.

The balance of Payables at 30 June 2008 included $0.141m for grant refunds related to two projects which were delivered under budget.

The balance of other current liabilities at 30 June 2005, $0.137m, included $0.128m relating to unexpended grant funding. Prior to 2005-06, government grants received by the Authority as contributions to operating expenses were recognised in the year the expense was incurred. At 30 June 2005, the Authority had received grants totalling $0.128m which had not yet been expended. A liability was therefore recognised for the amount of funding not spent at year-end.

CASH POSITION

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Receipts from customers	2 627	2 843	2 212	2 135
Payments to suppliers and employees	(2 660)	(2 703)	(2 332)	(2 152)
Interest received on surplus funds	157	133	120	120
Borrowing costs	(30)	(48)	(60)	(67)
Cash from (used in) operations	**94**	**225**	**(60)**	**36**
Payments for property, plant and equipment	(314)	(26)	(40)	(36)
Cash from (used in) investing activities	**(314)**	**(26)**	**(40)**	**(36)**
Receipts from pine loan repayments	382	264	145	255
State Government loans repaid	(361)	(216)	(85)	(191)
Cash from financing activities	**21**	**48**	**60**	**64**
Net increase (decrease) in cash	**(199)**	**247**	**(40)**	**64**
Cash at the beginning of the year	1 586	1 339	1 379	1 315
Cash at end of the year	**1 387**	**1 586**	**1 339**	**1 379**

Comment

As the Authority is reliant on recurrent grant funding, it does not generate strong operating cash flows. It recorded an increase in cash over the period under review of $0.072m which resulted from cash from operations of $0.295m and cash from financing activities of $0.193m. These funding sources were in part applied to fund capital projects of $0.416m.

As noted previously in the Balance Sheet section, the Authority's cash balance includes an amount of borrowings not on-lent to private forest applicants. At 30 June 2008 the funds held totalled $0.532m, which can not be used for any purpose other than private forestry loans.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		167	(57)	420	91
EBIT ($'000s)		197	(9)	480	158
Operating margin	>1.0	1.07	0.98	1.18	1.04
Underlying Result Ratio		6.2%	(2.3%)	15.2%	4.1%
Self Financing Ratio		3.5%	9.0%	(2.2%)	1.6%
Own Source Revenue		772	732	846	662
Return on assets		6.6%	(0.3%)	15.8%	5.4%
Return on equity		11.5%	(4.1%)	37.2%	11.1%
Financial Management					
Debt to equity		60.6%	93.2%	106.9%	184.2%
Debt to total assets		31.4%	42.0%	46.2%	55.8%
Interest cover	>2	7	0	8	2
Current ratio	>1	4.60	5.34	5.98	3.97
Indebtedness Ratio		119.4%	170.4%	172.5%	235.0%
Cost of debt	7.5%	2.7%	3.5%	3.9%	4.0%
Debt collection	30 days	n/a	n/a	n/a	n/a
Creditor turnover	30 days	23	32	32	19
Other Information					
Staff numbers (FTEs)		19	19	19	19
Average staff costs ($'000s)		73	68	70	58
Average leave balance per FTE ($'000s)		14	13	13	12

Comment

The Financial Performance ratios show the Authority recorded operating surpluses in three of the four years under review. The Operating margin and Underlying result ratios support previous comments that the Authority's operation did not generate significant surpluses.

The reliance on government funding is further illustrated by the Authority's Own source revenue being approximately 30% of total revenue. The Self financing ratio indicates the Authority is not generating significant cash flows from its operations with the negative 2.2% in 2005-06 arising from the negative cash generated in that year (see Cash Position).

Due to the nature of the Authority's operations and the composition of its Balance Sheet, the Return on asset and Return on equity ratios vary from year to year. In 2007-08, the Return on assets ratio of 6.6% reflects the EBIT of $0.197m and the return on equity ratio of 11.5% results from the operating surplus of $0.167m.

The nature of the Authority's operations requires it to hold borrowings to facilitate private plantation loans. This resulted in unusually high Debt to equity and Debt to total asset ratios. However, both ratios have improved over the period under review as a result of repayments made during the past three years.

The Current ratio was well above benchmark in each of the four years indicating the Authority was able to meet all short-term liabilities.

The Authority's Indebtedness ratio has gradually decreased due mainly to the reduction in non-current Borrowings noted in the Balance Sheet section.

As the majority of the Authority's revenue is derived from grant funding, the Debt collection ratio is not relevant.

The Creditor turnover ratio was slightly above the benchmark of 30 days in 2005-06 and 2006-07. This was due to an increase in the year end Payables balance which included purchases of computer equipment at 30 June 2006 and outstanding grants to landowners totalling $0.047m at 30 June 2007.

While staff numbers remained stable, Average staff costs have increased consistently over the period due to general payroll increases. However, the decrease in 2006-07 was due to the impact of a staff retirement in 2005-06 and non-replacement of that position.

STATE FIRE COMMISSION

INTRODUCTION

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

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

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

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2008, with revised financial statements received on 2 September 2008. An unqualified audit report was issued on 19 September 2008.

The audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

Although the Commission recorded Net Surpluses in each of the four years under review except in 2006-07 and its Equity has increased at the same time, analysis of its finances shows a negative Working Capital in each of the years under review and a high Creditor turnover. The Commission is not generating enough cash from its own or other sources to provide for its capital expenditure.

INCOME STATEMENT

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Fire service contribution	27 080	24 617	21 882	20 940
Insurance fire levy	14 793	12 942	14 486	14 498
Motor vehicle fire levy	5 544	5 403	5 023	4 533
State contribution - recurrent	2 810	2 812	2 808	3 453
State contribution - wildfire expenses	2 790	4 120	730	0
Commonwealth contribution	1 258	500	889	322
Fire prevention charges	4 492	4 406	4 413	4 221
Other operating revenue	1 480	1 712	1 136	1 886
Total Revenue	**60 247**	**56 512**	**51 367**	**49 853**
Salaries, wages and related expenses	35 633	34 938	31 398	29 780
Borrowing costs	397	396	332	290
Depreciation	4 803	4 632	4 374	3 974
Other operating expenses	15 060	17 702	13 149	13 187
Total Expenses	**55 893**	**57 668**	**49 253**	**47 231**
Net Operating Surplus (Deficit) before:	**4 354**	**(1 156)**	**2 114**	**2 622**
State contribution to capital program	0	0	0	2 000
Net Surplus (Deficit) for the year	**4 354**	**(1 156)**	**2 114**	**4 622**

Comment

The Commission recorded Net Surpluses in each of the four years under review except in 2006-07. The Net Surplus in 2007-08 was mainly due to:

- an increase in the Fire Service Contribution of $2.463m or 10.0%
- an increase in the Insurance Fire Levy of $1.851m or 14.3%, reflecting contributions from new businesses as well as increased premiums
- an increase in Commonwealth contributions of $0.758m for a number of Commonwealth funded projects
- a decrease of $2.641m in operating expenses because of the relatively smaller wildfire season during 2007-08 compared to 2006-07.

The Surplus before State contribution to capital funding generally increased over the period from $2.622m to $4.354m. This was principally due to revenues increasing by 20.8% over the period, compared to expenditures increasing by 18.3%. This was predominantly due to:

- Fire Service Contribution increased by $6.140m or 29.3% over the period to fund significant increases in salaries for operational staff, CPI increases in non-salary expenditure and the ongoing capital expenditure program, particularly with respect to fire appliances, offset by

- Employee related costs increased by $5.853m or 19.7% over the period because of:
  - salary increases for operational staff and for non-operational staff
  - significant wildfire activity resulting in an increase of wildfire related salary expenses, reimbursed by the State contribution included as revenue
  - an increase in the number of employees (FTEs) over the period of around 22 or 5.0%.

Borrowing costs have increased 37% from $0.290m to $0.397m over the period due to higher amounts and periods of overdraft and higher interest rates.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Cash	6 846	912	2 115	1 109
Receivables	1 042	1 020	891	1 209
Inventories	1 360	1 310	1 143	1 021
Other	1 610	2 021	2 156	2 150
Total Current Assets	**10 859**	**5 263**	**6 305**	**5 489**
Bank overdraft	0	0	0	595
Payables	5 016	2 645	2 643	2 686
Borrowings	1 500	1 368	1 830	2 868
Provisions - leave and other	8 556	8 165	7 236	3 015
Total Current Liabilities	**15 072**	**12 178**	**11 709**	**9 164**
Working Capital	**(4 213)**	**(6 915)**	**(5 404)**	**(3 675)**
Property, plant and equipment	81 266	76 504	75 300	70 892
Capital work in progress	6 331	3 654	3 454	4 669
Superannuation fund net asset	0	5 050	1 029	0
Total Non-Current Assets	**87 597**	**85 208**	**79 783**	**75 561**
Borrowings	3 198	3 330	2 868	1 830
Superannuation fund net liability	1 347	0	0	6 508
Provisions - leave and other	1 075	1 448	1 233	4 954
Total Non-Current Liabilities	**5 619**	**4 778**	**4 101**	**13 292**
Net Assets	**77 765**	**73 515**	**70 278**	**58 594**
Reserves	10 321	4 029	3 657	1 624
Accumulated surpluses	67 443	69 486	66 621	56 970
Total Equity	**77 765**	**73 515**	**70 278**	**58 594**

Comment

Over the four-year period under review, the Commission's equity increased by $19.171m or 32.7% due mainly to:

- land and buildings net revaluation increments of $8.697m
- overall surpluses totalling $9.934m.

The main factors contributing to movements in the balances of assets and liabilities over the period were:

- Property plant and equipment increased by $10.374m or 14.6% due primarily to net capital additions and revaluation increments, offset by depreciation expense
- Capital work in progress increased by $1.662m or 35.6% resulting from the construction of 30 Hino Tanker Pumpers appliances
- Provisions increased by $1.662m or 20.8% over the period due to wage and salary indexation and higher staff numbers previously mentioned.

Of concern is the negative Working Capital recorded in each of the four years under review. This indicates that the Commission could have difficulty in meeting its financial obligations as they arise.

The higher Payables and Cash balances at 30 June 2008 both reflect an increase in outstanding accounts caused by temporary software problems with the Commission's finance system, Prophecy.

The Superannuation fund net liability $1.347m in 2007-08 is due to the recognition of the Commission's defined benefit superannuation plan liability under the *State Fire Commission Superannuation Scheme Act 1994 (SFCSS)*.

CASH POSITION

	2007-08 $'000	**2006-07** $'000	**2005-06** $'000	**2004-05** $'000
Receipts from operating activities	59 320	55 230	50 320	46 662
Payments to suppliers and employees	(47 027)	(50 194)	(43 473)	(40 407)
Interest received	57	48	45	97
Borrowing costs	(397)	(396)	(332)	(290)
Cash from operations	**11 953**	**4 688**	**6 560**	**6 062**
Contributions to capital program	0	0	0	2 000
Payments for property, plant and equipment	(6 159)	(6 604)	(5 639)	(14 296)
Proceeds from sale of property, plant and equipment	140	712	680	2 263
Cash (used in) investing activities	**(6 019)**	**(5 892)**	**(4 959)**	**(10 033)**
Proceeds from borrowings	1 368	1 830	2 868	1 500
Repayment of borrowings	(1 368)	(1 830)	(2 868)	(1 500)
Cash from financing activities	**0**	**0**	**0**	**0**
Net increase (decrease) in cash	**5 934**	**(1 203)**	**1 601**	**(3 971)**
Cash at the beginning of the year	912	2 115	514	4 485
Cash at end of the year	**6 846**	**912**	**2 115**	**514**

Comment

The Commission generated positive cash from operations in each year under review. These operating cash flows, $29.263m for the four years ended 30 June 2008, together with the one-off contribution of $2.000m in the 2005 financial year from the State government towards the Commission's capital program, were applied to its capital investment program with $32.698m paid during this period. In the main this expenditure was on the Commission's vehicle fleet and on fire appliances.

This expenditure contributed to a reduction in the Commission's cash resources over the period by $2.361m. It is my view that the Commission cannot sustain this level of capital investment without increasing its surpluses, increasing borrowings (something it has not done over the four year period), or seeking further contributions from the State Government.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		4 354	(1 156)	2 114	2 622
Operating margin	>1.0	1.08	0.98	1.04	1.06
Financial Management					
Current ratio	>1	0.72	0.43	0.54	0.60
Debt collection	30 days	12	13	12	17
Creditor turnover	30 days	87	44	60	61
Underlying result ratio		7.2%	(2.0%)	4.1%	5.3%
Own source revenue ($'000s)		53 389	49 080	46 940	46 078
Other Information					
Staff numbers (FTEs) - total		459	462	437	437
- Operational - firefighters (FTEs)		290	303	286	284
- Support staff (FTEs)		169	159	151	153
Average staff costs ($'000s)		65	62	60	55
Average leave balance per FTE ($'000s)		20	20	18	17

Comment

The Result from operations and Operating margin are consistent with explanations provided in the Income Statement section of this chapter.

The low Current ratio reflects the negative Working Capital discussed in the Balance Sheet section.

Creditor turnover increased to 87 days in 2007-08 as a result of a higher level of outstanding accounts at 30 June 2008.

The positive result in the Underlying result ratio reflected that operations have been sustained during the year under review, except for the negative result in 2006-07.

The increase in Average staff costs for 2007-08 is mainly due to an average pay rate increase of 4.0% for management and corporate staff under the State Service Wage Agreement, and 5.7% for officers and fire fighters under the Tasmanian Fire Fighting Industry Employees Award. These increases flowed through to the expenses associated with movements in provisions for employee related expenses.

TAFE TASMANIA

INTRODUCTION

TAFE Tasmania (TAFE) was established under the *TAFE Tasmania Act 1997* as a provider of vocational and further education. It is managed by a board of five directors appointed by the Government.

TAFE is the largest registered training organisation in Tasmania. It provides vocational education and training at 21 major training campuses throughout the State.

In 2007-08, TAFE accessed 82% (2006-07, 83%) of its funds via a Purchase Agreement with the Minister for Education and relies on capital funds from Commonwealth and State Government sources to develop, maintain and refurbish its non-financial assets.

TAFE provides concessions and exemptions of service fees for students under various circumstances. These fees are not recorded in student fees revenue and no expense is recognised for revenue foregone. Concessions were 30% of the gross value of student fees for 2007-08 (2006-07, 34%).

TAFE also provides commercial services on a fee for service basis. Delivery programs include commercial training and retail trading as a by product of certain training activities such as in the restaurant industry.

The level of training provided in a number of TAFE programs including enrolled nursing, electro technology, plumbing, motor body, children's services and the mining sector was increased to support industry-generated demand for training. In addition, there was growth in a range of pathways programs and support for students with literacy and numeracy needs.

Under the Tasmania Tomorrow reforms to post year 10 education, the *TAFE Tasmania Act 1997* is to be repealed. TAFE Tasmania and the eight state secondary colleges, currently under the Department of Education portfolio, are being combined over the next three years to form three new Statutory Authorities; a polytechnic, an Academy and a Training Enterprise. The new entities will commence from 1 January 2009.

Despite this, TAFE's annual financial statements at 30 June 2008 were prepared on a going concern basis.

The Responsible Minister is the Minister for Education and Skills.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2008 and an unqualified audit report was issued on 19 September 2008.

The 2007-08 audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

In financial terms TAFE is classified as not-for-profit and is likely to operate at a deficit before accounting for capital investment grants, which is primarily due to TAFE not being funding for depreciation. As noted previously, TAFE relies on capital funds from Commonwealth and State Government sources to develop, maintain and refurbish its non-financial assets with these funds primarily received via capital investment grants. Annual surpluses and deficits will fluctuate depending on the timing of the Purchase agreement recurrent funding which are provided on a calendar year basis. In 2007-08 TAFE operated at a deficit of $7.675m, a drop of $8.288m compared to 2006-07 due partly to the timing of cash flows from recurrent funding.

TAFE's Balance Sheet is reasonably healthy with equity increasing from $186.237m at 30 June 2005 to $205.046m at 30 June 2008, mainly due to revaluation increments of land and buildings. Over this period TAFE's net working capital has remained sound ranging from $5.041m to $5.252m meaning that it is in a strong position to meet its current commitments.

INCOME STATEMENT

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000	$'000	$'000	$'000
Purchase agreement recurrent funding	75 969	80 215	68 086	64 531
Other government revenue	6 621	5 310	5 259	5 579
User charges, fees and fines	7 071	6 588	6 122	5 552
Commercial services	9 677	8 746	8 467	8 303
Other operating revenue	1 540	1 931	1 816	1 307
Gain on sale of non-current assets	0	122	518	0
Total Revenue	**100 878**	**102 912**	**90 268**	**85 272**
Employee expenses	79 227	75 533	69 418	62 607
Depreciation	7 757	8 105	8 534	8 261
Other operating expenses	25 942	23 677	24 048	23 021
Loss on sale of non-current assets	357	0	0	0
Total Expenses	**113 283**	**107 315**	**102 000**	**93 889**
Net operating (Deficit) before:	**(12 405)**	**(4 403)**	**(11 732)**	**(8 617)**
Capital funding	4 730	5 016	7 105	5 111
Net Surplus (Deficit) for the year	**(7 675)**	**613**	**(4 627)**	**(3 506)**

Comment

TAFE recorded Deficits before capital funding in all four years under review, these deficits indicate TAFE is not generating sufficient revenue to fulfil all of its operating requirements, including coverage of its depreciation charges.

Net Operating Deficit before capital funding generally increased over the period from \$8.617m to \$12.405m. This is principally due to expenditures increasing by 21% over the period, compared to revenues increasing by 18%.

It is noted that the Purchase Agreement with the Department of Education (DOE) under which TAFE operates does not include funding for depreciation and the level of capital funding is not linked to the depreciation charge.

Net Operating Deficit before capital funding varied over the four periods predominantly due to:

- Purchase agreement recurrent funding decreased by \$4.246m or 5% between 2006-07 and 2007-08 due partly to the timing of cash flows. The purchase agreement cash flow is managed on a calendar year basis, which affects financial year comparisons. This impacts the timing of payments received
- Purchase agreement recurrent funding increased by \$12.129m or 18% between 2005-06 and 2006-07 due mainly to the flow-on effects of additional Commonwealth revenue provided in 2005-06 under agreements to improve vocational education and training programs and to fund the increased demand across the State for training places in traditional trades in 2006-07
- User charges, fees and fines revenue increased by 27% over the four periods due to greater demand for training courses and increased student activity, driven in part for more concessions for students
- Employees expenses increased by \$16.620m or 27% over the four periods due mainly to:
    - higher levels of staff due to greater student activity and commercial courses. The Financial Analysis section of this Chapter notes that full time equivalent employees (FTE) increased over the period under review by 141 which at an average staff cost of \$69 000 represents additional employee costs of \$9.729m
    - wage increases of 3.50% for administration and clerical staff and 4.07% for teaching staff in 2007-08, these increases are relatively consistent from year to year.
- Other operating expenses increased over the period by \$2.921m or 13%. Other operating expenses increased by \$2.265m between 2006-07 and 2007-08 due to increased expenditure in relation to information technology (IT) infrastructure and equipment due to obsolescence and increased capital funding.

However, the deficits were offset by Depreciation expenses having decreased by \$0.504m or 6% across the period due mainly to a majority of computer equipment reaching the end of its useful life during 2006-07. Gross disposals of \$4.575m in relation to plant and equipment, motor vehicles and IT equipment resulted in less than expected depreciation expense during 2007-08.

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

During the period under review, capital funding received totalled $21.962m which primarily related to the following major capital projects:

- multi-sites infrastructure upgrade, $1.830m and IT infrastructure development, $0.550m in 2007-08
- Burnie Campus redevelopment, $0.630m, Alanvale Campus redevelopment, $2.010m Alanvale and Thynes campus redevelopment, $1.600m, and IT infrastructure development, $0.550m in 2006-07
- Claremont Centre redevelopment, $1.900m and Devonport Campus redevelopment, $0.730m in 2005-06
- Clarence Campus redevelopment, $10.110m, IT Flexible Delivery Project, $1.600m, Multi-sites infrastructure upgrade, $1.770m, and Wellington Square Campus redevelopment, $1.200m in 2004-05.

BALANCE SHEET

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000	$'000	$'000	$'000
Cash	7 814	7 328	6 309	6 398
Receivables	3 653	5 025	2 149	1 594
Inventories	491	447	494	436
Asset held for sale	320	0	0	0
Other	285	104	81	900
Total Current Assets	**12 563**	**12 904**	**9 033**	**9 328**
Property, plant and equipment	210 171	192 513	186 086	190 084
Total Non-Current Assets	**210 171**	**192 513**	**186 086**	**190 084**
Payables	2 737	2 522	1 386	1 419
Provisions	3 747	2 655	2 895	2 716
Other	827	130	0	152
Total Current Liabilities	**7 311**	**5 307**	**4 281**	**4 287**
Provisions	9 765	9 895	9 557	8 872
Other	612	620	16	16
Total Non-Current Liabilities	**10 377**	**10 515**	**9 573**	**8 888**
Net Assets	**205 046**	**189 595**	**181 265**	**186 237**
Reserves	89 238	65 971	57 869	58 215
Accumulated deficits	(19 785)	(12 109)	(12 723)	(8 097)
Contributed equity	135 593	135 733	136 119	136 119
Total Equity	**205 046**	**189 595**	**181 265**	**186 237**

Comment

Over the four periods under review, TAFE's equity increased by $18.809m or 10% due mainly to:

- land and building revaluations of $31.023m
- Deficits totalling $15.195m
- the small decrease in contributed equity of $0.386m in 2006-07, due to the transfer to the Crown of the property at Hopkins Street, and by $0.140m in 2007-08 due to the restructuring of administrative arrangements which resulted in TAFE relinquishing its responsibility for the land located at Link Road, Claremont to the DOE.

The main factors contributing to movements in the balances of assets and liabilities over the four periods were due to:

- Assets held for sale increased by $0.320m between 2006-07 and 2007-08 due to TAFE having elected to dispose of approximately 2.904 hectares of the 15.814 hectares of land on which its campus at Alanvale in Launceston is situated.
- Property plant and equipment have remained relatively consistent over the period under review. Property, plant and equipment increased by $17.658m between 2006-07 and 2007-08 due primarily to net capital additions of $5.378m and revaluation increments of $23.267m, offset by the depreciation expense of $7.757m.
- Receivables increased by $2.059m or 129% over the period under review due mainly to increased courses and commercial activity and higher student numbers. Receivables increased by $2.876m between 2005-06 and 2006-07 due to a large receivable of $2.882m, which was the final instalment under the Purchase Agreement for 2006-07 recorded on 29 June 2007.
- Provisions increased by $1.924m or 17% over the period under review due to wage and salary indexation and higher staff numbers previously mentioned.
- Payables increased by $1.318m or 93% over the period under review due to more stringent systems for capturing data at year-end.
- Other current liabilities increased by $0.675m over the period under review. Other current liabilities increased by $0.697m from 2006-07 to 2007-08 due to TAFE having entered into an agreement to sell the land, referred to as assets held for sale, to the Director of Housing for $0.650m, these funds were received on 25 June 2008.
- Other non-current liabilities increased by $0.604m between 2005-06 and 2006-07 mainly due to the recognition of accrued payroll tax on non current employee benefits for the first time.

CASH POSITION

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Government grants	82 589	82 562	74 171	70 110
Receipts from customers	27 768	25 348	23 902	21 245
Interest received	686	573	469	552
Payments to suppliers and employees	(112 322)	(105 800)	(101 373)	(93 602)
Cash from (used in) operations	**(1 279)**	**2 683**	**(2 831)**	**(1 695)**
Receipts from government - capital	4 730	5 016	7 105	5 111
Payments for property, plant and equipment	(4 222)	(7 349)	(5 436)	(5 968)
Income in advance from sale of assets	650	0	0	0
Proceeds from sale of property, plant and equipment	607	669	1 073	176
Cash from (used in) investing activities	**1 765**	**(1 664)**	**2 742**	**(681)**
Net increase (decrease) in cash	**486**	**1 019**	**(89)**	**(2 376)**
Cash at the beginning of the year	7 328	6 309	6 398	8 774
Cash at end of the year	**7 814**	**7 328**	**6 309**	**6 398**

Comment

TAFE's year end cash balances remained reasonably constant throughout the period under review. In view of the basis upon which TAFE is funded, it is unlikely that it will generate significant cash from operations and, to an extent, year end cash balances vary depending on the timing of contracted receipts and when capital funds are received and expended.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(12 405)	(4 403)	(11 732)	(8 617)
Operating margin	>1.0	0.89	0.96	0.88	0.91
Current ratio	>1	1.72	2.43	2.11	2.18
Debt collection	30 days	76	110	49	40
Creditor turnover	30 days	30	30	14	13
Underlying result ratio %		(12.3%)	(4.3%)	(13.0%)	(10.1%)
Own source revenue ($'000s)		18 288	17 387	16 923	15 162
Other Information					
Self-sufficiency %		16	16	17	16
Government funding %		92	101	95	96
Staff numbers (FTEs)* - Total		1 077	1 061	1 028	936
Admin and teaching support (FTEs)*		575	498	485	441
Delivery (FTEs)* (teaching)		501	563	543	495
Average staff costs ($'000s)		74	70	66	65
Average leave balance per FTE ($'000s)		12	11	12	12
Student enrolments at 30 June		36 569	35 258	32 342	31 686

** Excludes casual staff*

Comment

Results from operations shows a deficit for each of the four years under review for the reasons explained earlier in this Chapter. The deficits incurred by TAFE is further illustrated by the negative Underlying result ratio in all years under review.

During the period under review TAFE had a strong working capital position as indicated by the positive current ratio.

Debt collection days have been above the benchmark for the period due to an increase in student activity, in particular debtors within the 60 to 90 days category. Debt collection days increased by 61 days between 2005-06 and 2006-07 due to a large receivable of $2.882m recorded on 29 June 2007, which represented the final instalment under the Purchase Agreement, previously mentioned.

The Creditor turnover increased by 17 days over the period under review. It increased by 16 days between 2005-06 and 2006-07 due to higher creditors balances at year end.

The negative result in the Underlying result ratio reflects the deficits incurred by TAFE mainly due to the depreciation charge not being fully funded.

The Self-sufficiency ratio shows the level of independent funding that TAFE generated for use in achievement of its objectives. This has remained constant over the four years under review.

The Government funding ratio fluctuates depending on the timing of funding under contracts with government.

Staff numbers increased due to an increase in student activity and a greater demand for training courses.

TASMANIAN RISK MANAGEMENT FUND

INTRODUCTION

The Tasmanian Risk Management Fund (the Fund) is the Tasmanian Government's self-insurance fund established on 1 January 1999 to provide a whole-of-government approach to funding and managing specific identified insurable liabilities of inner-budget agencies. On 1 July 2001 the Tasmanian State Service Workers Compensation Scheme merged with the Fund.

Classes of risk covered by the Fund include:

- Personal injury
  - Workers' compensation
  - Personal accident
- Property
  - General property
  - Motor vehicle
  - Marine hull
- Liability
  - General liability
  - Medical liability
- Miscellaneous
  - Travel
  - Government contingency.

The Department of Treasury and Finance is responsible for the management of the Fund, and an inter-agency Steering Committee serves as a consultative forum through which agencies can provide input into the operations of the Fund.

A Fund Administration Agent is retained on a contract basis for claims administration, the provision of advice in relation to claims management and the placement of insurance as required.

The Responsible Minister is the Treasurer.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 2 September 2008 and an unqualified audit report was issued on 17 October 2008.

The audit was completed satisfactorily with no outstanding issues.

FINANCIAL RESULTS

The Fund is now in a stronger position than in any of the four years under review. However, the size of the surplus is very sensitive to the actuarial assumptions, which could change in the future.

INCOME STATEMENT

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Agency contributions	29 559	27 837	29 451	28 560
Recoveries	0	1 232	1 012	725
Investment income	9 339	7 581	6 322	5 069
Revenue from government	30 200	5 000	5 000	5 000
Other income	0	2	27	21
Total income	**69 098**	**41 652**	**41 812**	**39 375**
Claims expense	55 750	44 053	36 402	39 636
Other underwriting expenses	1 800	1 440	1 435	1 343
General administration expenses	517	320	426	644
Total expenses	**58 067**	**45 813**	**38 263**	**41 623**
Surplus (Deficit) for the year	**11 031**	**(4 161)**	**3 549**	**(2 248)**

Comment

The changes in the Surplus (Deficit) each year were principally due to changes in the Underwriting result, which varied from year to year because claim payments were for incidents that occurred in both current and previous years. The makeup of the Underwriting result is shown in the following table.

Underwriting Result	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Agency contributions	29 559	27 837	29 451	28 560
Recoveries	0	1 232	1 012	725
Claims expense	(55 750)	(44 053)	(36 402)	(39 636)
Other underwriting expenses	(1 800)	(1 440)	(1 435)	(1 343)
Underwriting deficit	**(27 991)**	**(16 424)**	**(7 374)**	**(11 694)**

The Underwriting deficit was fully or part funded by Investment income and Revenue from government.

Prior year recoveries comprise costs recovered from legally liable third parties and excess payments from agencies.

The Fund receives an annual Government contribution of $5.000m each year for the unfunded pre-1 July 2001 medical liability claims. It meets the costs of medical liability claims in excess of $50 000 including post-1 July 2001 claims.

As at 30 June 2008 the total estimate of the Bridgewater High School fire claim was $30.200m. The Fund will cover $5.000m and difference of $25.200m was received from the Government during the 2007-08 financial year. Expenditure to 30 June 2008 totalled $8.764m, so the Actuary included $21.436m in the outstanding liabilities for the claim.

The makeup of the Claims expense is shown in the following table:

Claims Expense	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Claims paid	36 122	28 745	19 949	23 997
Claims accrued	833	(1 885)	764	384
Movement in outstanding claims	16 754	13 983	13 777	13 390
Management expenses	2 041	1 978	1 912	1 865
Total expenses	**55 750**	**42 821**	**36 402**	**39 636**

Claims paid vary from year to year depending on the type and nature of claims processed in any given year.

The Movement in outstanding claims is the increase each year in the Outstanding claims liability, which is calculated by the Actuary (see further comments under the Balance Sheet section).

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Cash and cash equivalents	152 010	122 735	112 805	95 961
Receivables	588	1 386	2 104	839
Total Assets	**152 598**	**124 121**	**114 909**	**96 800**
Outstanding claims	146 037	129 283	115 300	101 523
Payables	1 385	709	1 315	531
Provisions	77	61	65	66
Total Liabilities	**147 499**	**130 053**	**116 680**	**102 120**
Net Assets (Liabilities)	**5 099**	**(5 932)**	**(1 771)**	**(5 320)**
Accumulated Surplus (Deficits)	5 099	(5 932)	(1 771)	(5 320)
Total Equity	**5 099**	**(5 932)**	**(1 771)**	**(5 320)**

Comment

The Total Equity in 2007-08 was positive because of the $11.031m surplus for the year.

The Actuary determines the Outstanding claims liability. The largest changes in past years have been for the workers' compensation and medical liability risks. The increase in 2007-08 included an increase of $23.480m for general property cover, the most significant component of which relates to the Bridgewater High School fire.

Workers' compensation liability increased by only $0.434m in 2007-08 due to the changed development pattern assumed at 30 June 2008 and an increase in the average payment per claim, offset by an increase in the discount rate and a reduction in outstanding liabilities for claims more than ten years old.

Medical liabilities decreased by $7.830m in 2007-08 due to changes in case estimates resulting from improvements in the data used to estimate the liability.

Cash and cash equivalents have increased because claims paid are less than the sum of contributions from agencies and the Government. The increase in 2007-08 resulted primarily from the Government's contribution of $25.200m towards the cost of the Bridgewater High School fire claim noted under the Income Statement section.

Payables include reimbursements owing to the Fund Administration Agent and vary from year to year depending on the amount and timing of invoices submitted for payment.

The increase in Receivables in 2005-06 resulted from a timing change for collecting information about estimated salaries from agencies for the purpose of calculating workers' compensation contributions.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000	$'000	$'000	$'000
Agency contributions	30 479	28 681	28 275	28 126
Recoveries	0	1 202	1 064	725
Other revenue	30 200	5 000	5 000	5 021
Interest received	9 158	7 487	6 208	5 035
Claims and expenses paid	(36 122)	(28 745)	(19 949)	(24 880)
Fund management fees	(2 202)	(1 817)	(1 913)	(1 865)
Underwriting expenses	(1 800)	(1 440)	(1 435)	(1 343)
General and administration expenses	(438)	(438)	(406)	(631)
Cash from operations	**29 275**	**9 930**	**16 844**	**10 188**
Net increase in cash	**29 275**	**9 930**	**16 844**	**10 188**
Cash at the beginning of the year	122 735	112 805	95 961	85 773
Cash at end of the year	**152 010**	**122 735**	**112 805**	**95 961**

Comment

The Cash Position of the Fund continued to improve principally because cash inflows from agencies and because other revenue exceeded the cash outflows for claims and other expenses. The increase in 2007-08 resulted from the Government's contribution towards the cost of the Bridgewater High School fire claim noted under the Income Statement section.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		11 031	(4 161)	3 549	(2 248)
Operating margin	>1.0	1.19	0.91	1.09	0.95
Financial Management					
Debt collection	30 days	0	9	19	5
Creditor turnover	30 days	9	6	13	5
Other Information					
Staff numbers (FTEs)		3	3	4	4
Average staff costs ($'000s)		84	88	70	67

Comment

The lower Operating margins in 2004-05 and 2006-07 reflected the operating deficits in those years, with a margin greater than the bench mark for the 2007-08 financial year resulting from the surplus in that period.

As expected for this type of business, Debt collection and Creditor turnover ratios are both well within the benchmarks. The increases in 2005-06 corresponds with the increases in Receivables and Payables noted under the Balance Sheet section.

The fluctuations in Average staff costs were largely due to staff movements and salary award increases. The increase in 2006-07 was caused by the need to employ an additional staff member for six months.

ABORIGINAL LAND COUNCIL

INTRODUCTION

The Aboriginal Land Council of Tasmania (the Council) was established as a statutory authority on 14 November 1995 under the *Aboriginal Lands Act 1995* (the Act).

Its primary functions are to:

- use and sustainably manage Aboriginal land and its natural resources for the benefit of all Aboriginal persons
- exercise, for the benefit of all Aboriginal persons, the Council's powers as owner of Aboriginal land
- prepare management plans in respect of Aboriginal land
- use and sustainably manage any other land in which the Council acquires an interest.

Schedule 3 of Section 27 of the Act vests Land managed by the Council in the Council.

At a land handover ceremony at Risdon Cove on 10 December 1995, twelve parcels of land were returned to the Tasmanian Aboriginal Community. Since this date four more parcels of land have been handed over, including Wybalenna and recently, Cape Barren Island and Clarke Island on 10 May 2005.

The Council consists of eight councillors elected by eligible voters to represent five regions across the state.

The Responsible Minister is the Premier.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 13 October 2008 and an unqualified audit report was issued on 21 October 2008.

The audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

Council has an economic dependency on continued funding from both State and Commonwealth Governments. Without continued funding, the viability of the Council's operation would be in question.

INCOME STATEMENT

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
State government operating grant	153	153	153	153
Other grants	384	548	286	25
Lease and licence fees	3	7	19	2
Reimbursements	5	8	13	12
Other	34	13	9	6
Total Revenue	**579**	**729**	**480**	**198**
Employee costs	46	70	46	37
Depreciation	114	112	113	92
Other grant expenditure	405	342	212	28
Other expenses	102	121	136	151
Total Expenses	**667**	**645**	**507**	**308**
Surplus (Deficit) from Operations before:	**(88)**	**84**	**(27)**	**(110)**
Land and buildings vested in Council	0	100	12 076	0
Surplus (Deficit)	**(88)**	**184**	**12 049**	**(110)**

Comment

The Council recorded a total deficit from operations of $0.141m over the four years under review. The nature of the Council's operations is to administer grant funding in completing its functions as defined in the Introduction. Consequently, its operations would be expected to achieve a break even position.

The majority of the Council's revenue was obtained through State Government operating grants and project funding from both State and Commonwealth sources. The Council received $0.153m annually as a contribution towards its general operations, which represents 31% of its income over the period under review. Other grants related to specific funding of projects and included:

- National Heritage Trust funding to progress work on Big Dog Island of $0.283m (2007-08), $0.133m (2006-07) and $0.175m (2005-06)
- State government funding for Cape Barren Island of $0.071m (2007-08 and 2006-07) and $0.111m (2005-06)
- Commonwealth Government for renovations to the historic houses at larapuna of $0.930m (2007-08) and $0.344m (2006-07).

Other grant expenditure fluctuated depending on the level of funding and the timing of the expenditure. In 2007-08 the Council expended $0.312m of National Heritage Trust funding on Big Dog Island (2006-07, $0.029m and 2005-06, $0.183m). In addition, $0.093m was expended on the larapuna renovations project (2006-07, $0.314m).

The Council employed one full time Office Manager with casual staff engaged as required to perform land management functions on land controlled by it. Over the period under review Employee costs fluctuated between eight to ten percent of total revenue.

Employee costs in 2006-07 were higher than other years due to a greater use of casual employees.

Depreciation expense related to buildings, plant and equipment and motor vehicles owned by the Council and were stable over the period under review.

Other expenses represented general operating costs including land management, insurance, consultant's fees, rent and rates.

In April 2005 additional land, being Cape Barren and Clarke Islands, was vested in the Council under the *Aboriginal Lands Amendment Act (No. 2) 2005*. The island acquisitions were not included in the 2004-05 financial statements as the fair value had not been determined at that time. In 2005-06, the Valuer-General of Tasmania performed valuations and the islands were recorded at their fair values, $12.076m.

BALANCE SHEET

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000	$'000	$'000	$'000
Cash	359	340	183	111
Receivables	7	14	6	8
Other	3	1	1	1
Total Current Assets	**369**	**355**	**190**	**120**
Payables	8	21	17	16
Provisions	6	6	6	5
Total Current Liabilities	**14**	**27**	**23**	**21**
Working Capital	**355**	**328**	**167**	**99**
Property, plant and equipment	18 981	18 038	18 014	2 738
Total Non-Current Assets	**18 981**	**18 038**	**18 014**	**2 738**
Provisions	7	6	5	3
Total Non-Current Liabilities	**7**	**6**	**5**	**3**
Net Assets	**19 329**	**18 360**	**18 176**	**2 834**
Accumulated surpluses	14 553	14 641	14 457	2 409
Revaluation reserve	4 776	3 719	3 719	425
Total Equity	**19 329**	**18 360**	**18 176**	**2 834**

Comment

Total Equity increased by $16.495m over the period under review. The majority of the increase was the result of recognising Cape Barren and Clarke Islands in 2005-06, which increased equity by $12.076m. In addition, the revaluation of land and buildings in 2007-08 and 2005-06 resulted in an increase in the asset revaluation reserve of $1.057m and $3.294m respectively.

Cash at 30 June 2008 was $0.359m and comprises cash at bank and short term deposits.

The majority of the Council's Property, plant and equipment assets were freehold land, $17.112m, and buildings, $1.829m. Property was independently valued at 30 June 2006, with CPI indexation to 30 June 2008.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Operating grant receipts	537	703	483	196
Receipts from customers	20	5	38	21
Payments to suppliers and employees	(567)	(528)	(430)	(251)
Interest revenue	29	13	0	0
Cash from (used in) operations	**19**	**193**	**91**	**(34)**
Payments for property, plant and equipment	0	(36)	(19)	(5)
Cash (used in) investing activities	**0**	**(36)**	**(19)**	**(5)**
Net increase/(decrease) in cash	**19**	**157**	**72**	**(39)**
Cash at the beginning of the year	340	183	111	150
Cash at end of the year	**359**	**340**	**183**	**111**

Comment

Cash from operations is driven primarily by grant revenue and its subsequent expenditure. Cash from operations totalled $0.269m over the four year period, in comparison to operating deficits of $0.139m primarily due to the fact that Council's annual depreciation charge ($0.439m over the four year period) has not been re-invested in asset replacement.

There were no significant investments in Property, plant and equipment in the four years under review. Asset purchases included the purchase of a new motor vehicle (2005-06), a boat (2006-07) and other small plant items.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(88)	84	(27)	(110)
Operating margin	>1.0	0.82	1.11	0.93	0.62
Underlying result ratio		(0.15)	0.12	(0.06)	(0.56)
Self financing ratio		3.3%	26.5%	19.0%	-17.2%
Own source revenue		42	28	41	20
Financial Management					
Current ratio	>1	26.36	13.15	8.26	5.71
Creditor turnover	30 days	6	15	17	32
Other Information					
Staff numbers FTEs		1	1	1	1
Average staff costs ($'000s)		46	47	46	37
Average leave balance per FTE ($'000s)		13	12	11	8

Comment

As noted previously, the Council is dependent upon government funding for its operations and consequently, strong operating results are not expected. The Council recorded a deficit operating result in three of the four years under review, which is reflected in the Operating margin ratios and low Underlying result ratios.

The reliance on government funding is further illustrated by the Council's Own source revenue being low in comparison to total revenue. The Self financing ratio indicates the Council is not generating significant cash flows from its operations in comparison to it total revenue.

Current ratio was driven well above the benchmark in all the years under review and is driven from a sound cash position, low levels of payables and provision balances, and no loan debt.

Staff numbers remained stable, Average staff costs and Average leave balances increased in 2005-06 by approximately $0.009m and $0.003m as a result of a salary increase.

INTRODUCTION

The Commission is an independent statutory body established by the *Legal Aid Commission Act 1990*. It is principally funded by the State and Commonwealth Governments, with other sources of income derived from the recovery of legal costs in successful cases, contributions from legally assisted clients and interest on invested monies.

The Commission seeks to increase access to justice for all Tasmanians by the provision of legal representation, advice, information and referral services. It ensures that within the limits of funds available, no person is denied access to the law by reason of financial or social disadvantage.

The Responsible Minister is the Attorney-General.

The Act requires that the Commission shall, on or before 31 August in each year, prepare financial statements with respect to the preceding financial year.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 20 September 2008, with amended and re-signed financial statements received on 20 October 2008. An unqualified audit opinion was issued on 22 October 2008.

The audit of the financial statements for the year ended 30 June 2008 was completed with satisfactory results.

FINANCIAL PERFORMANCE

Over the four year period under review the Commission's financial performance has deteriorated from a surplus four years ago of $1.042m to a deficit of $0.808m in 2007-08. This has occurred because Commonwealth and State government funding, the Commission's primary funding sources, have not kept pace with growing employee and outsourced legal costs.

Despite these operating results, the Commission was in a sound net working capital position at each balance date. However, the Commission will need to keep under review declines in its cash generated from operations.

INCOME STATEMENT

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Commonwealth grants and contributions	5 375	5 035	5 036	4 737
Commonwealth community legal centre grants	1 425	1 046	1 011	1 018
State Government grants	5 108	4 308	4 277	3 890
Client contributions and cost recoveries	254	178	170	220
Interest	194	240	192	124
Other revenue	438	4	1	0
Total Revenue	**12 794**	**10 811**	**10 687**	**9 989**
Legal services expense	4 852	3 813	3 243	2 775
Employee expenses	5 774	4 623	3 797	3 673
Payments to community legal centres	1 066	1 034	1 117	1 018
Depreciation and amortisation	166	99	96	88
Other expenses	1 744	1 299	1 509	1 393
Total Expenses	**13 602**	**10 868**	**9 762**	**8 947**
Net Surplus (Deficit)	**(808)**	**(57)**	**925**	**1 042**

Comment

The Commission is funded by the Commonwealth and State Governments to deliver legal services to each funder's legal jurisdiction. The timing of receipt and expenditure of Commonwealth grants has a considerable effect on the Net surpluses and deficits each year. For example, $0.359m of Commonwealth community legal centre grants received in 2007-08 will not be disbursed until 2008-09.

Over the four year period under review, the Commission moved from generating a surplus or $1.042m to a deficit of $0.808m, a $1.850m turnaround caused primarily by:

- increased staff numbers – the Commission took on eight extra staff since 30 June 2005
- higher salaries – the average staff cost was $64 000 in 2005-05 and $89 000 in 2007-08
- increased Legal service expenses (legal services are outsourced to the private sector) – these increased by $2.077m over the period under review
- growth in grants received from the State and Commonwealth governments not keeping pace.

The Net deficit in 2007-08 was mainly due to:

- an increase of $1.151m in Employee expenses resulting from a new legal practitioners wage agreement, comprising of salary increases ranging from a minimum of 18% to 26%, with some high executive legal salaries by negotiation

- an increase in Legal services expenses of $1.039m due to the rise in the number and cost of payments made to the private sector business partners for legal work and medical and specialist services
- an increase in Depreciation resulting from the amortisation of the new Visual Files Case Management System
- overall higher Other expenses, including:
    - a return to normal information technology system maintenance and development costs following the development of the Visual Files Case Management System
    - increased accommodation expenses due to increased area for the Launceston office and off-site storage
    - write-off of bad debts following an extensive case file review and changes to the Case Management System.

These increases were offset in part by:

- an increase in Commonwealth community legal centre grants of $0.379m including some one-off project funding
- an increase in State Government grants of $0.800m, which included $0.500m in addition to CPI and salary award increases
- a distribution of $0.420m from the Solicitors' Guarantee Fund included in Other revenue. (A further disbursement of $0.660m was also received in July 2008.) These distributions are in accordance with Section 108 of the *Legal Profession Act 1993*.

The Net deficit of $0.059m in 2006-07 was mainly due to:

- an increase of $0.826m in Employee costs due to award increases, particularly legal staff, and the filling of a number of positions that were previously left vacant because of the uncertainty of funding
- an increase of $0.570m in Legal services expense resulting from fee increases from $115 to $125 per hour.

These cost increases were off-set by a $0.208m decrease in Other expenses, largely due to less maintenance of the previous computer system which was superseded in July 2007.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Cash	2 406	2 986	3 317	2 622
Receivables	233	189	111	155
Other	50	11	20	17
Total Current Assets	**2 689**	**3 186**	**3 448**	**2 794**
Property, plant and equipment	1 082	1 143	636	482
Total Non-Current Assets	**1 082**	**1 143**	**636**	**482**
Payables	98	135	87	114
Provisions	705	484	435	418
Total Current Liabilities	**803**	**619**	**522**	**532**
Provisions	271	201	120	228
Total Non-Current Liabilities	271	201	120	228
Net Assets	**2 697**	**3 509**	**3 442**	**2 516**
Capital	325	325	325	325
Reserves	203	203	79	79
Accumulated surpluses	2 169	2 981	3 038	2 112
Total Equity	**2 697**	**3 509**	**3 442**	**2 516**

Comment

Net Assets decreased by $0.812m in 2007-08, principally because of:

- a decrease in Cash of $0.580m due to the deficit
- an increase of $0.291m in total employee annual and long service leave Provisions due to the higher salaries being paid.

Significant changes in 2006-07 were:

- a decrease of $0.331m in total Cash assets largely due the to increases in Legal services expense and Employee expenses noted previously
- an increase of $0.078m in Receivables, resulting from increased funding of advances and a detailed review of case arrangements prior to movement of data to the new computer system
- an increase in Property, plant and equipment of $0.508m principally resulting from a revaluation of the Burnie Office property, $0.124m, and capitalisation of the Assigned Grants computer system, $0.397m.

Net Assets increased by $0.926m in 2005-06 mainly due to:

- an increase of $0.695m in total Cash assets largely due to the surplus of $0.925m earned in that financial year
- an increase of $0.154m in Property, plant and equipment, principally the result of the development of the new legal aid grants management system
- an overall decrease of $0.091m in Provisions, mainly due to some staff taking long service leave.

CASH POSITION

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Commonwealth grants	5 375	5 035	5 036	4 737
Commonwealth grants for community legal centres	1 425	1 046	1 011	1 018
State Government grants	5 108	4 308	4 277	3 890
Receipts from clients	195	146	211	179
GST receipts	826	676	683	427
Interest received	212	244	193	124
Other	420	0	0	0
Payments for legal services	(4 885)	(3 851)	(3 243)	(2 775)
Payments to community legal centres	(1 066)	(1 034)	(1 117)	(1 018)
Payments to employees	(5 481)	(4 432)	(3 968)	(3 489)
Payments to suppliers	(1 774)	(1 295)	(1 513)	(1 317)
GST payments	(830)	(692)	(625)	(498)
Cash from (used in) operations	**(475)**	**151**	**945**	**1 278**
Payments for property, plant and equipment	(105)	(482)	(250)	(102)
Cash used in investing activities	**(105)**	**(482)**	**(250)**	**(102)**
Net increase (decrease) in cash	**(580)**	**(331)**	**695**	**1 176**
Cash at the beginning of the year	2 986	3 317	2 622	1 446
Cash at end of the year	**2 406**	**2 986**	**3 317**	**2 622**

Comment

The Net deficit in 2007-08 resulted, for the first time during the period under review, in negative Cash from operations. This source of cash declined steadily over the period. Other 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	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		(808)	(57)	925	1 042
Underlying result ratio		(0.06)	(0.01)	0.09	0.10
Operating margin	>1.0	0.94	0.99	1.09	1.12
Financial Management					
Current ratio	>1	3.35	5.15	6.61	5.25
Creditor turnover	30 days	9	23	15	21
Other Information					
Employee costs as a % of operating expenses		42%	43%	39%	41%
Staff numbers (FTEs)		65	57	53	57
Average staff costs ($'000s)		89	81	71	64
Average leave balance per FTE ($'000s)		15	12	10	11

Comment

The Operating margin and Underlying result declined over the four-year period under review such that in both 2006-07 and 2007-08 the former was less than the benchmark and the latter was below zero, indicating that the Commission was unable to fully recover its operating costs in either year.

Employee costs increased as a percentage of operating expenses from 2006-07 because of the employment of additional legal staff noted previously.

The increases in Average staff costs was the result of increased salary costs associated with the legal practitioners award noted previously.

NATIONAL TRUST OF AUSTRALIA (TASMANIA)

INTRODUCTION

The National Trust of Australia (Tasmania) (the Trust) is an independent statutory body that was established under the *National Trust of Australia (Tasmania) Act 1975*.

The Trust is administered under the *National Trust Act 2006* (the Act), which came into effect on 22 December 2006, following a period of administration which commenced in December 2004. The Administrator was appointed to manage the Trust for up to two years with an objective to resolve the Trust's financial difficulties.

Pursuant to the Act, the objects of the Trust are as follows:

a) Acquiring, promoting or ensuring the preservation and maintenance for the public benefit of places and objects of beauty or that have a historical, scientific, artistic, architectural or cultural interest

b) Encouraging and promoting, among the public, knowledge of, interest in and respect for those places and objects

c) Promoting or ensuring the provision and maintenance of amenities and services to facilitate the enjoyment by the public of those places and objects

d) Protecting and preserving the natural features of, and conserving the fauna and flora on, any place referred to in paragraph (a) and acquired by, or under the control of, the Trust

e) Encouraging and promoting public appreciation, knowledge and enjoyment of, respect for and interest in any land, buildings, works, structures or articles

f) Cooperating with the Crown or with any corporation, body or society, either within or outside Tasmania, having objects wholly or substantially similar to the objects of the Trust, in promoting the objects of the corporation, body or society or the Trust.

The Trust's primary aim is to promote community awareness and appreciation of Tasmania's built heritage. It is a member organisation of the Australian Council of National Trusts.

The Trust owns and/or manages several properties throughout the State, including:

- Clarendon
- Franklin House
- Old Umbrella Shop
- Ellis House
- Penghana and other property in Queenstown
- Oak Lodge
- Hobart Penitentiary Chapel and Criminal Courts
- Runnymede
- Home Hill
- Courthouse Museum in Latrobe
- White House in Westbury (lease was terminated on 30 September 2008).

The Trust does not pay dividends or income tax equivalents.

The Act provided for the appointment of a Board of seven Directors who were appointed by the Minister in March 2007. The Board includes the Trust's Managing Director.

The Responsible Minister is the Minister for Environment, Parks, Heritage and the Arts.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 3 October 2008 and a qualified audit opinion issued on 13 October 2008.

FINANCIAL RESULTS

It is pleasing to note that the Trust has improved its financial situation over the past year. After recording deficit results, the surplus from operating activities totalling $0.072m and moved to a positive working capital position for the 2007-08 financial period.

The Trust net assets increased significantly in 2007-08 with the Trust revaluing its freehold properties, which increased by $1.525m. However, apart from an improvement in the bank overdraft balance, loan borrowings remained unchanged in 2007-08.

The Trust is some way from financial sustainability and continues to rely on contributions from the State Government. However, it is pleasing to note that the new Board has implemented improved financial management practices and governance arrangements.

However, the audit opinion on the financial statements of the Trust for the year ended 30 June 2008 contained the following "except for" audit qualification:

Qualification

Included in revenue are amounts relating to proceeds from functions, fundraising activities, donations and admittance fees, totalling $277 104 (2007, $191 226) over which it is not practicable to establish accounting controls prior to receipt of such funds due to the cash nature of that revenue. Accordingly, it was not practicable for my examination to extend beyond amounts recorded as having been received and as shown in the accounting records of the Trust.

The Trust has failed to comply with Australian Accounting Standards AASB 116 *Property, Plant and Equipment* by not depreciating or amortising freehold buildings and leasehold improvements respectively. In addition, the Trust possesses certain heritage collections referred to in Note 1 of the financial statements, but these assets have not been recognised in the financial statements. Due to the nature of the assets, it is not possible to quantify the financial effects of the Trust's failure to comply with the accounting standard.

As detailed in Note 7 to the financial statements, the Trust has recognised grant income in advance totalling $75 000. The income in advance does not meet the recognition criteria for a liability. Accordingly, current liabilities should be reduced by $75 000 and the surplus for the year and retained earnings should be increased by $75 000.

INCOME STATEMENT

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
State Government grants - recurrent	300	275	240	164
Commonwealth grants - recurrent	76	73	72	70
State Government grants - specific purpose	103	57	128	87
Subscriptions and admission fees	173	166	144	191
Trading activities	148	106	106	109
Fundraising	36	27	26	30
Donations, bequests and sponsorships	40	37	20	42
Rentals	60	51	38	40
Other operating revenue	40	28	35	18
Profit on sale of assets	0	0	23	3
Total Revenue	**976**	**820**	**832**	**754**
Depreciation	32	22	12	17
Cost of goods sold	93	56	64	77
Employee expenses	317	303	268	286
Borrowing costs	37	38	55	26
Consultants and legal costs	15	25	28	9
Repairs and maintenance expenses	98	110	144	45
Other operating expenses	311	272	285	303
Loss on sale of assets and investments	1	3	0	0
Total Expenses	**904**	**829**	**856**	**763**
Surplus (Deficit) from Operations before:	**72**	**(9)**	**(24)**	**(9)**
Proceeds from sale of asset to State Government	0	0	0	150
GST adjustments from prior years	68	0	0	0
Surplus (Deficit) for the year	**140**	**(9)**	**(24)**	**141**

Comment

The Trust recorded an operating surplus of $0.072m in 2007-08 compared with small operating deficits in the first three years under review. The improved operating result is due to higher operating revenues including increases in:

- specific purpose grants
- shop sales, particularly at the Old Umbrella Shop.

The overall surplus of $0.141m recorded in 2004-05 was due to proceeds from the sale of an antique desk to the State Government, $0.150m.

The Trust generates revenue from a number of sources including admissions, membership, rentals and donations, bequests and sponsorship. Despite this revenue, the Trust is reliant on recurrent government funding, which has increased from $0.234m (or 31.0% of total Revenue) in 2004-05 to $0.376m (or 38.5%) in 2007-08. The majority of this funding is received from the State Government.

Specific purpose grants in 2007-08, $0.103m, included grants from the Tasmanian Community Fund and the Tasmanian Heritage Council for remedial works at Oak Lodge totalling $0.060m. Specific purpose grants in 2005-06, $0.128m, included $0.064m for the restoration of Penghana in Queenstown.

The Trust has few paid employees as it relies heavily on volunteers. Employee expenses decreased slightly in 2005-06, due to a reduction in the gross salaries and wages paid following the resignation of staff. Employee expenses increased by $0.035m in 2006-07. The increase was due primarily to the appointment of a Managing Director in September 2006. The Administrator's costs were paid by the State Government and not reflected in the Trust's financial records.

Borrowing costs increased by $0.029m in 2005-06 due mainly to interest charged by the Tasmanian Heritage Council of $0.024m. The interest relates to a loan of $0.102m, which originally had a fixed term of one year from 13 May 2002. The loan bears interest at a fixed rate in arrears upon full repayment of the loan. Up until 30 June 2005, the Trust had not recognised the accrued interest on the loan. However, in June 2006, the Tasmanian Heritage Council wrote to the Trust seeking repayment of the loan together with interest incurred of $0.024m. Additional interest of $0.008m was charged in both 2006-07 and 2007-08. The Trust is currently seeking to have this debt discharged as a grant without reimbursement.

In most cases, material Repairs and maintenance expenses are funded by specific purpose grants. Repairs and maintenance expenses have included remedial works to Oak Lodge in 2007-08, repairs to walls and paths at Clarendon and plastering undertaken at Garden Cottage, Runnymede in 2006-07 and repair of the Penghana roof in 2005-06.

Other operating expenses represented 31.9% of total Revenue in 2007-08 compared with 40.2% in 2004-05. The 2007-08 expenses of $0.311m included the following major items:

- insurance, $0.047m (2006-07, $0.053m)
- advertising, $0.031m ($0.029m)
- light, water and power costs, $0.033m ($0.026m)
- rates and land taxes, $0.024m ($0.022m)
- telephone, facsimile and internet charges, $0.024m ($0.021m)
- travelling and motor vehicle expenses, $0.024m ($0.012m)
- printing and stationery, $0.021m ($0.015m).

BALANCE SHEET

	2007-08 $'000	2006-07 $'000	2005-06 $'000	2004-05 $'000
Cash	81	45	275	154
Receivables	50	33	14	17
Inventories	69	72	59	54
Investments	354	179	199	157
Other Assets	4	0	0	0
Total Current Assets	**558**	**329**	**547**	**382**
Payables	138	126	141	127
Bank overdraft	44	199	198	187
Borrowings	102	102	105	107
Employee benefit provisions	48	40	41	39
Other	215	76	244	33
Total Current Liabilities	**547**	**543**	**729**	**493**
Working Capital	**11**	**(214)**	**(182)**	**(111)**
Property, plant and equipment	5 141	3 608	3 557	3 549
Total Non-Current Assets	**5 141**	**3 608**	**3 557**	**3 549**
Borrowings	100	100	100	103
Employee benefit provisions	8	8	7	9
Other	351	258	230	265
Total Non-Current Liabilities	**459**	**366**	**337**	**377**
Net Assets	**4 693**	**3 028**	**3 038**	**3 061**
Accumulated surpluses	3 168	3 028	3 038	3 061
Reserves	1 525	0	0	0
Total Equity	**4 693**	**3 028**	**3 038**	**3 061**

Comment

The Trust's Equity increased by $1.632m from 30 June 2005 to 30 June 2008 due to surpluses of $0.107m and asset revaluations in 2007-08 of $1.525m.

Cash is comprised operating bank accounts, cash on hand and funds held by committees and groups. Although this balance decreased from $0.154m at 30 June 2005 to $0.081m at 30 June 2008, the Trust's bank overdraft also decreased from $0.187m at 30 June 2005 to $0.044m at 30 June 2008. Further details are provided in the Cash Position section of this Chapter. The Trust's overdraft facility is $0.200m.

While the Trust held current Investments of $0.354m at 30 June 2008, these balances relate to restoration appeal funds held for specific purposes which are not available to meet general operating costs. The Trust administers appeal monies on behalf of individual restoration appeals and it must approve expenditure before any appeal monies are paid out.

The Trust had negative Working Capital in the initial three years under review. At 30 June 2008 Working Capital was positive, $0.011m (2006-07, negative $0.214m), giving a Current ratio of 1.02 (2006-07, 0.61) which reflects the Trust's improved cash situation as noted in the Cash Position commentary later in this Chapter.

Total Other liabilities at 30 June 2008 mainly comprised the restoration appeal funds liability, $0.481m (2006-07, $0.334m). As noted previously, the balance of Investments comprised cash held for restoration appeals. The difference between investments held and the provision for restoration appeal funds at 30 June 2008 was $0.127m. This represented an improvement on the deficit recorded at 30 June 2007 of $0.155m. Given the nature of the funds, I have previously recommended that the Trust take appropriate action to ensure the liability is fully represented by cash. It is pleasing to note that the Trust is taking action to improve this situation.

The majority of the Trust's Property, plant and equipment balance consists of freehold properties and leasehold property improvements. In 2007-08, the Trust revalued its freehold properties which resulted in an increase in asset values of $1.525m. The Trust has also recorded Antiques at cost totalling $0.300m (2006-07, $0.279m). In addition, the Trust owns a considerable quantity of furniture, within the properties, which have not been valued or recorded.

At 30 June 2008 the Trust had Borrowings totalling $0.202m (2006-07, $0.202m). The current portion, $0.102m, related to the interest only loan from the Tasmanian Heritage Council which was secured by a first registered mortgage over Franklin House. As noted in the Income Statement section of this Chapter, the Tasmanian Heritage Council has sought reimbursement of the loan, plus accrued interest of $0.040m.

Non-current Borrowings, $0.100m, comprised an interest only loan from Tasmanian Trustees Limited, secured by a first registered mortgage over The Old Umbrella Shop. The loan does not have any fixed term and interest is payable quarterly in arrears.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
State Government grants	478	207	493	251
Commonwealth grants	76	73	72	70
Receipts from customers	638	485	448	409
Interest received	0	0	1	0
Payments to suppliers and employees	(902)	(891)	(885)	(740)
Interest paid	(29)	(30)	(27)	(26)
Cash from (used in) operations	**261**	**(156)**	**102**	**(36)**
Proceeds from investments	0	4	9	65
Payments for investments	(29)	0	0	0
Payments for non-current assets	(41)	(86)	(19)	(26)
Proceeds from sale of non-current assets	0	10	23	153
Cash from (used in) investing activities	**(70)**	**(72)**	**13**	**192**
Repayment of borrowings	0	(3)	(5)	(5)
Cash (used in) financing activities	**0**	**(3)**	**(5)**	**(5)**
Net (decrease) increase in cash	**191**	**(231)**	**110**	**151**
Cash at the beginning of the year	(154)	77	(33)	(184)
Cash at end of the year*	**37**	**(154)**	**77**	**(33)**

** Net of the bank overdraft*

Comment

The Trust recorded a total increase in cash from 30 June 2004 to 30 June 2008 of $0.221m. The increases recorded in 2004-05, 2005-06 and 2007-08 were primarily due to the following:

- the receipt of $0.150m from the State Government for the sale of an antique desk in 2004-05
- State Government funding received in advance in June 2006 of $0.125m
- State Government funding received in advance in June 2008 of $0.075m
- refunds from the ATO of $0.068m relating to GST adjustments.

The higher Payments to suppliers and employees recorded in the last three financial years under review were mainly due to increased Repairs and maintenance expenses noted under the Income Statement section of this Chapter.

Payments for non-current assets in 2006-07, $0.086m, included $0.033m for a new motor vehicle and $0.007m for two ride-on mowers.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		72	(9)	(24)	(9)
Earnings before interest ($'000s)		103	(47)	(79)	115
Operating margin	>1.0	1.08	0.99	0.97	0.99
Return on assets		2.1%	(1.2%)	(2.0%)	3.0%
Return on equity		3.6%	(0.3%)	(0.8%)	4.5%
Underlying result ratio		7.4%	(1.1%)	(2.9%)	(1.2%)
Self financing ratio		26.7%	(19.0%)	12.3%	(4.8%)
Own source revenue ($'000s)		497	415	392	433
Financial Management					
Current ratio	>1	1.02	0.61	0.75	0.77
Indebtedness ratio		92.4%	88.2%	86.0%	87.1%
Debt to equity		5.24%	13.24%	13.27%	12.97%
Debt to total assets		4.32%	10.19%	9.82%	10.10%
Interest cover	>2	2.78	(1.24)	(1.44)	4.42
Cost of debt	7.5%	11.4%	9.5%	13.8%	6.4%
Debt collection	30 days	69	32	16	28
Creditor Turnover	30 days	56	53	65	86
Other Information					
Staff Numbers (FTEs)		6	6	6	7
Average staff costs ($'000s)		53	50	2	41
Average leave balance per FTE ($'000s)		9	8	7	7

Comment

The Trust's surplus from operations in 2007-08 of $0.072m resulted in an Operating margin above benchmark, positive returns on assets and equity and a positive Underlying result ratio. The Self financing ratio of 26.7% in 2007-08 was due to the positive net cash flows from operating activities in that year which is explained under the Cash Position section. The increase in Own source revenue in 2007-08 was mainly due to an increase in revenue from shop sales and the refunds from the ATO.

The Trust's Current ratio improved significantly in 2007-08 and was above the benchmark at 30 June 2008 for the first time in the period under review. The table below highlights the Trust's improved ability to meet short term commitments:

	2007-08	2006-07	2005-06	2004-05
	$'000	$'000	$'000	$'000
Payables	138	126	141	127
Bank Overdraft	44	199	198	187
Current interest bearing loans	102	102	105	110
Current restoration fund liability	130	76	119	33
Less Financial assets	(485)	(257)	(488)	(328)
Net amount due (available)	**(71)**	**246**	**75**	**129**

The Indebtedness ratio decreased slightly in 2007-08 due to the increase in Own source revenue, as noted previously. The Debt to equity and Total assets ratios were fairly consistent over the first three years, but improved in 2007-08 due to a reduction in the bank overdraft. The Interest cover reflected the surpluses in 2007-08 and 2004-05 and small deficits in 2005-06 and 2006-07. The Cost of debt in 2005-06 was relatively high at 13.8% due to the interest accrued on the Tasmanian Heritage Council loan of $0.024m.

The Debt collection ratio was well above the benchmark in 2007-08 (54 days) due to two larger debtors relating to grant funding and debts owing from bookstores relating to the sale of a book.

The Creditor turnover ratio was over the benchmark in all years under review. The ratio of 86 days in 2004-05 was due to three large creditors outstanding at 30 June 2005 totalling $0.054m. All three amounts were subsequently paid.

Average staff costs increased from $0.042m in 2005-06 to $0.050m in 2006-07 due mainly to commencement of the Managing Director. Average leave balance was fairly consistent over the four years under review.

Our Vision

STRIVE | LEAD | EXCEL | TO MAKE A DIFFERENCE

Our Purpose

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector

Availability of reports

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

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Cover picture, Salamanca Market by Sean Reardon

AUDIT MANDATE AND STANDARDS APPLIED

MANDATE

Section 39 of the *Financial Management and Audit Act 1990* states that the Auditor-General is:

> '… the auditor of the accounts of the Treasurer, of all Government departments and public bodies and of the financial administration of each appropriation referred to in Column 1 of Schedule 2. …'

The conduct of such audits is generally known as financial auditing.

Under the provisions of section 40, the Auditor-General:

> '… (1) On performing an audit under this or any other Act of the financial statements of the Treasurer, a Government department, a public body or the financial administration of an appropriation referred to in Column 1 of Schedule 2, the Auditor-General must, except as provided by any other written law, make a report on those financial statements in accordance with this section.
>
> (2) Subject to subsection (3), a report made under subsection (1) -
>
> (a) is to include an opinion as to whether the financial statements have been drawn up so as to present fairly the financial transactions during the period specified in the statements and the financial position at the end of that period; and
>
> (b) may include particulars of any other matter arising from the audit which the auditor-General considers should be included in the report.
>
> (3) Where, under this or any other Act, the financial statements are not required to make full disclosure of financial position, the Auditor-General's opinion as to financial position may be limited to such components of financial position as may be specified in the Treasurer's Instructions and such other components of financial position as are included in those statements. …'

STANDARDS

Section 43 specifies that:

> '… The Auditor-General shall perform the audits required by this or any other Act in such manner as the Auditor-General thinks fit having regard to -
>
> (a) this Act and any other relevant written law relating to the financial management of the Government department or public body concerned; and
>
> (b) recognised professional auditing standards and practices. …'

The auditing standards referred to above are Australian Auditing Standards as produced by the Australian Auditing Standards Boards.

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