



Tasmanian Audit Office

Making a Difference

**REPORT OF THE AUDITOR-GENERAL
No. 2 of 2009**

**Government Departments and
Other State Entities 2008-2009**

VOLUME TWO

**Government Businesses, Superannuation Funds
and Other State Entities**

November 2009

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 *Audit Act 2008*.

Our major responsibility is to conduct financial or ‘attest’ audits of the annual financial reports of State entities. As defined by the Act, State entity includes all public sector entities including those established under the *Local Government Act 1993*. It includes an agency, council, Government Business Enterprise, State-owned Company, State Authority, Corporations established by the *Water and Sewerage Corporations Act 2008* and the governing body of any corporation, body of persons or institution that are appointed by a Minister or by the Governor. We also audit those elements of the Treasurer’s Annual Financial Report which report on financial transactions in the Public Account, the General Government financial report and the Whole of Government financial report.

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

In the main accountable authorities prepare financial reports 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, we issue a variety of reports to State entities and report periodically to the Parliament. In combination these reports give opinions on the truth and fairness of financial reports, and comment on 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 and, from time to time, special investigations. Performance audits examine whether a state entity 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 a State entity’s operations, or consider particular issues across a number of State entities.

Compliance audits are aimed at ensuring compliance 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, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General’s reports to the Parliament normally tabled in May and November each year. In doing so the Auditor-General is providing information to the Parliament to assist both the House of Assembly and the Legislative Council in their review of the performance of Executive Government.

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



TASMANIA

2009
PARLIAMENT OF TASMANIA

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

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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 2009 comprised the following seven Government Business Enterprises and six State Owned Companies:

Entity	Responsible Minister
Forestry Tasmania	Minister for Economic Development
Hydro-Electric Corporation	Minister for Energy and Resources
Motor Accidents Insurance Board	Minister for Infrastructure
Port Arthur Historic Site Management Authority	Minister for Environment, Parks and Heritage
Rivers and Water Supply Commission	Minister for Primary Industries and Water
Tasmanian Public Finance Corporation	Treasurer
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 \$3.998bn (2007-08, \$3.728bn) in net assets, generate \$360.986m (\$477.302m) in after tax profits, employ about 4 195 (3 958) full time employees and are of fundamental importance to the Tasmanian economy. Also of significance is that during 2008-09 these entities paid out \$704.031m (\$315.423m) in capital expenditure.

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

- Government business enterprises
- State owned corporations.

For each Government Business this Report provides a comparative analysis of financial results for the four year period to 2008-09.

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 2009, 5.52%) 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).

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 included:

- A clearer commercial focus for GBEs
- Greater accountability for financial performance
- Increased return on investment from each GBE
- Payment of financial returns to the State
- 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 were 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 \$2.560bn (2007-08, \$2.271bn), employ over 1 568 people (1 481), and generated \$106.045m (\$86.252m) in after tax profits in 2008-09.

SUMMARY FINANCIAL PERFORMANCE

- The following three GBEs made up 98% of the net assets controlled by all GBEs:
 - Forestry Tasmania
 - Hydro-Electric Corporation (Hydro)
 - Motor Accidents Insurance Board (MAIB).

They contributed \$309.451m profit after tax in the current year compared to \$97.840m in the prior year. The primary reason for the increase was 2007-08 being affected by negative returns generated by Forestry Tasmania and the MAIB.

- The 2008-09 year for **Hydro** saw the continuation of the storage rebuild program initiated last year. This strategy was implemented by Hydro by adjusting its trading and generation strategies so that electricity is imported from Victoria to meet Tasmania's energy demands while prudently managing storage levels. On 31 August 2008 Hydro acquired Momentum Energy Pty Ltd, an energy retailer based in Melbourne with retail licenses in Victoria, South Australia, New South Wales and ACT. During the year the R40s joint venture was restructured with the joint venture partner CLP acquiring the international operations.

Hydro's profitability increased mainly due to higher electricity sales revenue of \$144.707m in 2008-09, net favourable movements in fair values in electricity derivatives of \$77.760m and reversal of asset impairments totalling \$186.925m.

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 **MAIB's** performance was strongly influenced by negative returns generated by the financial and equities markets in 2008-09 and in the prior year. For the year ended 30 June 2009 the MAIB incurred a loss before taxation of \$26.306m, which included an unrealised investment loss of \$133.789m. Investment revenue was a negative return of \$68.519m versus last years negative of \$95.446m. Net assets reduced by \$53.660m to \$220.240m. The major component of the MAIB's total assets was its investment portfolio (including cash), which at 30 June 2009 represented 90.86% of total assets (2007-08, 94.06%).
- 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 an operating profit of \$1.397m this year compared to a profit of \$1.249m in 2007-08 before recognition of the actuarial superannuation expense. Total Equity increased by \$1.579m in 2008-09 to \$14.883m due to the Net profit for the year and revaluation of assets, \$0.456m.
- **Forestry Tasmania** operated at a before tax profit of \$9.256m in 2008-09 compared to a profit of \$8.567m in 2007-08 with the levels of revenue and expenditure similar. The after tax profit of \$32.286m in 2008-09 versus a loss of \$38.456m in 2007-08 reflected the Biological asset valuation adjustment which was the major factor driving the substantial improvement of \$70.743m. Net assets increased \$33.049m from the prior year to \$581.526m largely attributable to the increase in Biological assets of \$55.542m.

Forestry's Net increase in Cash for the year ended 30 June 2009 was \$16.124m compared to a net decrease in cash of \$9.776m for the ended 30 June 2008, an improvement of \$25.900m. This improvement was mainly due to the receipt of TCFA monies which had yet to be expended at 30 June 2009.

As its cash position has become tighter, Forestry has utilised the TCFA 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. Management are aware that the money 'withdrawn' as at 30 June 2009 needs to be replaced and expended on TCFA specified activities and regularly manage the overall cash position of the organisation on this basis. In the absence of TCFA funds, Forestry would need the flexibility provided by a working overdraft account. The TCFA infers the agreement can be terminated by the Commonwealth if there is a failure to use money for the purpose for which it was allocated. There is no indication that Forestry will breach this agreement.

- **Tasmanian Public Finance Corporation's** (Tascorp) role is to meet the non transactional banking needs of Government and State entities 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.

The 2008-09 financial year saw continuation of the market challenges experienced in 2007-08 which continued to test Tascorp's risk management systems. Despite these challenges, Tascorp operated at a net profit before tax for the year of \$20.659m (2007-08, \$2.706m net loss before tax) and at 30 June 2009 it had net assets of \$31.113m (30 June 2008, \$16.652m).

- **Public Trustee** experienced a decline in its Net profit before tax generating \$0.690m which was \$0.220m less than the prior year. Total revenue rose by \$0.228m with increased Commission and fees of \$0.540m and CSO funding of \$0.057m. However, Total expenses increased by \$0.543m including an asset revaluation decrement \$0.132m, increased employee costs \$0.297m and higher Administration expenses \$0.130m.

Net assets increased marginally over the prior year by \$0.129m. In 2008-09 the Public Trustee's Watchorn Street car park was sold for \$0.850m, which had formed part of Investment properties, and an agreement for sale was signed for its Murray Street building for \$4.235m.

- **Rivers and Water Supply Commission.** At the time of writing this Report, our audit of this GBE was incomplete.

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. Consistent with requirements of other Government Business Enterprises, its principle objectives under the *Government Business Enterprises Act 1996* (GBE Act) are to perform its functions by operating in accordance with sound commercial practice and achieve a sustainable commercial rate of return.

Forestry holds a 100% interest in Newwood Holdings Pty Ltd (Newwood) 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. Refer to the final page of this Chapter for further information on Newwood.

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 Energy and Resources.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

The Board signed the financial statements on 14 August 2009 and an unqualified audit report was issued on 17 August 2009.

The audit was completed satisfactorily with no major items outstanding.

We have recommended the Board:

- give consideration to restructuring Forestry's Income Statement to separately highlight community service obligation costs and other costs not directly associated with forestry activities. The disclosure of such information may assist a readers to better understand the impact of such costs on Forestry's financial performance
- review and document its policies concerning the allocation of costs to the model used to determine the valuation of its Biological assets.

FINANCIAL RESULTS

During the four year period under review, Forestry's profit before accounting for valuation outcomes, capital grant income and tax increased from \$1.593m in 2005-06 to \$9.256m in the current year. Over the four year period Revenue from forest sales increased and Employee entitlements decreased resulting in the improved profit. These factors were offset in part by consistent increases in amounts paid to contractors over the period and reductions in Forest management services revenue.

The 2008-09 levels of revenue and expenditure were similar to 2007-08. However, the 2008-09 financial year was very much one of two halves. Sales were 25 percent lower in the second half of the financial year compared to the first half. This resulted in the majority of the 2008-09 profit of \$9.256m was derived in the first six months of the year.

The strong revenue stream for the first six months of the year resulted from improved prices under the Gunns Wood Supply Agreement. The fall in revenue in the later six months was primarily due

to the global financial crisis which had a significant impact on the volume and price of forest sales. Forestry's operating margin and cash flow suffered as a result.

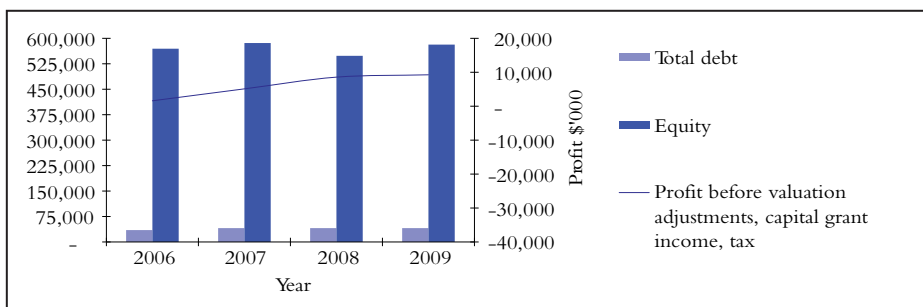
Significant accounting valuation outcomes included the Biological asset valuation adjustment and superannuation liability movement. A \$43.449m increase in Biological assets was primarily driven by an increase in the average stumpage price for native forest pulpwood which was used in the valuation calculation. Refer to the Balance Sheet section of this Chapter for a detailed analysis.

Forestry's capacity to generate cash from operating activities declined over the four year period, with this source of funds decreasing from \$10.597m in 2005-06 to \$3.315m in 2008-09. 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 borrowings and proceeds from the Tasmania Community Forest Agreement (TCFA). The TCFA money was to compensate Forestry for forest lost for production with the requirement that TCFA funds be invested into more intensive forest management, mainly, plantation establishment.

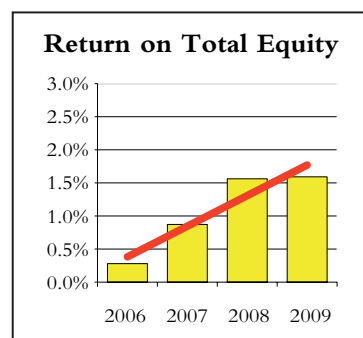
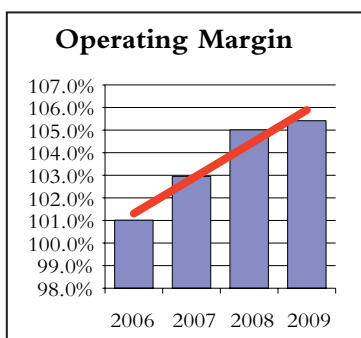
Forestry proposed no dividend for the 2008-09 financial year. It was also noted that no dividend was paid during 2008-09 in relation to the 2007-08 financial year.

Improved profits and higher levels of cash from operating activities are required if Forestry is to return to paying dividends. In light of the current international market and continued reduced demand, 2009-10 will be a challenging year for Forestry.

The graph below shows movements in Forestry's equity, debt and profitability over the past four years:



The graph illustrates the level of debt has been consistently low compared to total equity and that the level of profitability over the four year period improved, which is also reflected in the Operating Margin and Return on Equity graphs below.



Return on Total Equity is calculated using profit before accounting valuation adjustments, capital grant income and tax. The Operating margin also excludes accounting valuation adjustments, capital grant income and tax. The major factors which impacted favourably on the Operating margin and Return on Total Equity were an improved price per tonne as a result of the Gunns wood supply agreement and a reduction in expenditure.

INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Revenue from forest sales	136 773	137 755	123 540	107 331
Share of GMO Joint Venture revenues	18 499	18 519	27 929	24 432
Forest management services revenue	7 624	10 182	11 788	13 626
Tasmanian Community Forest Agreement	3 504	3 768	4 360	496
Other operating revenue	14 068	14 474	11 712	12 513
Non-operating revenue	0	0	18	57
Total Revenue	180 468	184 698	179 347	158 455
Employee benefits	29 935	32 037	30 049	33 758
Contractors expenses	88 259	85 469	76 795	65 888
Share of GMO JV expenses	15 674	17 680	26 581	23 010
Net finance costs	807	2 410	1 224	1 073
Depreciation	14 279	12 470	10 220	9 594
Other operating expenses	22 243	25 818	29 317	23 486
Non-operating expenses	15	247	49	53
Total Expenses	171 212	176 131	174 235	156 862
Profit before:	9 256	8 567	5 112	1 593
Income tax (credit)/expense*	(2 784)	(2 603)	0	0
Profit after tax on above items, but before:	6 472	5 964	5 112	1 593
Biological asset valuation adjustment	43 449	(73 889)	11 997	6 745
Tasmanian Community Forest Agreement – capital grant income	9 484	15 670	17 931	17 220
Superannuation investment market value adjustment	(2 217)	(2 885)	3 933	0
Superannuation liability movement	(14 950)	(2 198)	(15 828)	5 754
Impairment of non-current assets	(773)	(508)	(3 723)	0
Profit/(loss) before tax on these items	41 465	(57 846)	24 534	32 905
Income tax (credit)/expense on these items*	9 179	(19 389)	4 781	8 526
Net profit (loss)	32 286	(38 457)	19 753	24 379

* Income tax expense/credit split in two most recent years only due to availability of information.

Comment

For 2008-09 Forestry recorded a \$9.256m profit before the impacts of the Biological asset valuation adjustment, Capital grant income, movements in the unfunded superannuation liability and superannuation investment account, impairment of assets and Income tax. This result was a \$0.689m, 8%, improvement compared to the prior year.

After allowing for the above named items, Forestry made a Net profit after tax of \$32.286m in 2008-09 compared to a Net loss of \$38.457m in 2007-08. The Biological asset valuation adjustment was the major factor driving the substantial improvement of \$70.743m.

The table below details Forestry's profitability expressed in percentages.

Profit Margin Analysis

	2008-09	2007-08
	\$'000s	\$'000s
Total revenue (excluding TCFA capital grant income)	180 468	184 698
Profit before accounting valuation outcomes	9 256	8 567
Operating profit margin	5.13%	4.64%

This table shows that the Profit margin before accounting valuation outcomes increased approximately half a percent in 2008-09. The major factors which impacted favourably on the 2008-09 profit margin were an improved price per tonne as a result of the Gunns wood supply agreement and a \$4.919m reduction in expenditure. The lower volume of forest sales during 2008-09 limited the potential increase in operating margin from the improved in price.

Revenue

Total revenue for 2008-09 decreased \$4.230m, 2%, compared to 2007-08. The decline in revenue was primarily due to decreased Revenue from Forest sales, \$0.982m, and lower forest management services revenue, \$2.558m. These movements are explained later in this Chapter.

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.

Revenue from forest sales for 2008-09 was consistent with 2007-08, the variance being less than one percent. Notwithstanding earlier comments that 2008-09 was a year of 'two halves'. The table below shows the movements between years relating to the different products within Revenue from forest sales.

Sales Product	Movement
	2007-08 to 2008-09
	\$'000s
Pulp	2.136
Sawlog	(2.982)
Sawlog Rotary Peeler	4.820
Export*	(7.611)
Harvest and Transport*	4.275
Other	0.364
Total Movement	1.002

* = Movement is largely offset by corresponding decrease in related expenditure.

Pulpwood net revenue increased 6.37%, \$2.136m, in 2008-09 due to the price per tonne having increased by an approximate average of \$3.00 per tonne throughout the year. However, the increase in revenue from the improved price per tonne was limited by a decrease in volume, approximately 10% (233,000 tonnes) down on the prior year.

Sawlog revenue decreased approximately 20%, \$2.982m, in 2008-09. Although price per tonne remained consistent, the volume dropped in 2008-09 by approx 90 000 tonnes, 23%, resulting in lower revenue. The fall in sawlog volumes was primarily due to a fragile housing sector.

Sawlog rotary peeler logs were processed at the Ta Ann export veneer mills. The rotary peeled veneer production is mainly exported to Malaysia for processing into ply. The commencement of this new product during 2007-08 produced sales of \$2.953m and increased in 2008-09 to \$7.773m.

Export sales declined due to the ability to sell logs into the domestic market for higher returns.

Forestry has four large customers for the sale of forest products, being Gunns Ltd (56% of total forest sales), Artec Pty Ltd (11%), Ta Ann (10%) and Norske Skog Boyer (6%).

Forestry's Share of revenue from its joint venture with GMO (also referred to as the Taswood Growers JV) remained consistent with the prior year and is primarily driven by harvested volumes.

The \$2.006m decrease in Forestry's share of the GMO JV expenditure resulted in a \$2.825m net profit compared to \$0.839m for 2007-08.

Forest management services revenue decreased in 2008-09 by \$2.558m, 14%, due to reduced plantation establishment on State forest by external parties and a consequent reduction in the requirement for forest management services. A consequential reduction in some operating expenses also resulted.

The TCFA is a significant source of revenue for Forestry. However, this revenue is matched by the balancing expenditure incurred under the agreement. Expenditure primarily related 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. The TCFA is designed to increase plantation establishment, enhance the productivity of the forest and improve timber value recovery.

Refer to the Cash Position section of this Chapter for further analysis on the TCFA.

Expenditure

Total expenses decreased \$4.919m, 2.7%, in 2008-09 compared to the prior year. The decrease was primarily due to:

- lower Employee benefits of \$2.102m, 6%. After adding back capitalised wages costed to asset projects (2008-09, \$3.718m; 2007-08, \$3.576m) there was a real decrease of \$1.960m, 5.5%, from 2008-09 to 2007-08. This decrease reflected Forestry's focus on controlling costs in line with tightening profit margins
- net finance costs decreasing \$1.603m in 2008-09 primarily as a result of an increase in interest income of \$0.697m and favourable movement in foreign exchange, \$0.529m
- lower Other operating expenses of \$3.575m, including freight, \$2.652m, as a result of the decline in exports
- a decrease in Forestry's Share of expenses from the Taswood Growers JV of \$2.006m.

The above factors were offset by increased Contractor expenses, \$85.469m in 2007-08 to \$88.259m in 2008-09, an increase of \$2.790m, 3%.

The major items which comprised contractor expenses are analysed below:

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Total Contractors Expenses (CE)	88 259	85 469	76 795	65 888
<i>The major components of CE include:</i>				
Harvesting and Transport Costs (H&T) (excl. export)	66 419	59 950	44 688	39 142
Export Harvesting Costs	1 085	3 710	9 708	6 967
External Plant Hire	8 777	10 813	11 630	11 096

Harvesting and haulage costs increased \$6.469m, 11%, from the prior year and was the major contributor to the increase in Contractor expenses due to increased volume sold at mill door.

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

Depreciation increased by \$1.809m, 14%. This increase was due to the further impairment of Tarkine Forest Adventures (formerly Dismal Swamp) and an additional depreciation charge to offset unearned grant revenue of \$1.839m.

Accounting Valuation Outcome Adjustments

The Biological asset (native forest and plantations) are accounted for under Australian Accounting Standard AASB 141 *Agriculture*. The biological asset valuation increments or decrements were primarily due to changes to discount rates and valuation inputs including prices, costs and volumes. A detailed explanation of the Biological asset valuation adjustment is provided within the Balance Sheet section of this Chapter.

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 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 profit line more accurately reflects the true operating profit. Further details are noted in the Balance Sheet section of this Chapter.

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

The Superannuation liability movements related 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 years, this movement is volatile and not within Forestry's control.

Impairment of non-current assets included the Tarkine Forest Adventures (2008-09, \$0.773m; 2007-08, \$0.508m). The impairment loss was attributed to lower visitor numbers, which impacted the amounts that could be expected to be recovered through future operating cash flows of the Centre. At 30 June the carrying amount of Forestry's investment in Tarkine Forest Adventures was nil.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	37 043	20 919	30 450	26 436
Receivables	30 879	24 061	20 422	26 042
Inventories	10 825	10 343	9 995	9 247
Biological assets	23 864	14 620	21 655	21 230
Prepayments	682	795	675	558
Total Current Assets	103 293	70 738	83 197	83 513
Payables	17 449	18 711	21 978	22 902
Unearned Revenue - TCFA	47 101	18 798	23 197	16 914
Deferred government grants	0	0	110	110
Borrowings	19 800	19 800	19 800	14 000
Finance lease	164	151	0	0
Provisions - leave and other	5 766	6 259	6 294	6 148
Provisions - superannuation	4 685	14 849	13 338	10 388
Total Current Liabilities	94 965	78 568	84 717	70 462
Net Working Capital	8 328	(7 830)	(1 520)	13 051
Biological assets	361 433	315 135	367 014	339 288
Forest estate	392 422	388 155	382 302	375 431
Property, plant and equipment	58 475	60 226	35 008	30 286
Intangible assets	560	936	1 142	1 067
Receivables	12	50	1 550	50
Investments (equity accounting)	216	231	0	0
Investment property	570	570	570	570
Other financial assets	12 680	15 181	24 233	18 651
Deferred tax assets	39 715	35 893	34 737	31 785
Total Non-Current Assets	866 083	816 377	846 556	797 128
Borrowings	21 000	21 000	21 000	21 000
Finance lease	11 885	12 049	0	0
Deferred government grants	8 855	11 863	3 751	3 861
Deferred tax liabilities	145 841	129 757	145 013	137 019
Provisions - leave and other	914	761	1 251	1 137
Provisions - superannuation	104 390	84 640	87 855	77 720
Total Non-Current Liabilities	292 885	260 070	258 870	240 737
Net Assets	581 526	548 477	586 166	569 442
Contributed equity	235 457	235 457	235 457	234 057
Reserves	287 815	286 684	285 249	292 659
Retained profits	58 254	26 336	65 460	42 726
Total Equity	581 526	548 477	586 166	569 442

Comment

Forestry's Total equity increased \$33.049m from the prior year primarily as a result of the 2008-09 Net profit of \$32.286m.

Net assets increased \$33.049m from the prior year, largely attributable to the increase in Biological assets of \$55.542m.

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

- application of a varied discount rate used in the cash flow model to derive a net present value of the existing forest crop
- wood yields and timing of wood flows
- changed costs of production and sales prices.

The 2008-09 valuation resulted in a positive Biological asset valuation adjustment of \$43.449m, being the movement in value of standing timber less current year plantation establishment costs incurred during the financial year.

A breakdown of the current year movements in native forest biological assets is detailed in the table below:

Biological Assets	Plantations	Native Forest	Total
	\$m	\$m	\$m
Balance at 30 June 2008	200	130	330
Revaluations – change in discount rate	0	7	7
Revaluation – Price	1	46	47
Revaluations – changes in forest management & costs	(7)	9	2
Revaluation adjustment - Yields	15	(15)	0
Balance at 30 June 2009	209	177	386

The stumpage price was the main driver behind the increase in Biological assets.

The average three year stumpage price for native forest pulpwood used in the valuation calculation increased from \$12.31 per tonne to \$14.41 per tonne resulting in a price valuation increment of \$46.000m.

The methodology relating to the calculation of the biological asset's valuation stumpage price was updated in 2008-09 from using an average based on the prior three years actual results to using an average based on prior year, current year and next year's budgeted price to more accurately reflect movement in average prices.

A small decrease in the native forest discount rate from 9.69% to 9.00% resulted in a \$7.000m increase in Biological assets. The wood-flows included in the valuation are from the 2007 Wood Review.

Other factors contributing to the increase in Net assets included:

- Cash increased \$16.124m as a result of TCFA funding. Cash is commented on within the Cash Position section of this Chapter
- increased Receivables of \$6.818m, 28%, as a result of slow payment from clients as evidenced by the debtor turnover of 65 days
- \$4.267m increase in Forest estate assets, due to the construction of roads, offset by depreciation
- increased Deferred tax assets, \$3.822m, 10.65%, largely as consequence of changes in the superannuation and other provisions.

These were partly offset by:

- increased Deferred tax liabilities, \$16.084m, (12% which was largely a consequence of changes in the valuation of Biological assets)
- Superannuation liability increase of \$9.586m, primarily as a result of a lower discount rate
- \$25.295m increase in Revenue received in advance primarily related to the TCFA. 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. For a detailed analysis of the TCFA funding, refer to the Cash Position Section later in this Chapter.

Other items of interest in the Balance Sheet included:

- Non-current Investments, which represented the Hollybank joint venture, are accounted for using the equity method
- Other financial assets, which comprised the superannuation investment account and Forestry's investment in Ta Ann Tasmania. During 2008-09 losses in relation to the superannuation investment account totalled \$2.101m
- Borrowings, from Tascorp, primarily related to funding essential capital expenditure. The level of borrowings remained unchanged from the prior year at \$40.800m
- Finance lease liability relating to Newwood's lease agreement with Transend Networks Pty Ltd. During 2006-07 Newwood 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 Newwood was a wholly owned subsidiary from 1 July 2007 this lease was recognised in Forestry's accounts.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	162 861	169 215	164 679	143 805
Proceeds from TCFA	0	0	3 150	496
Distributions received	1 875	625	1 250	750
Interest received	2 166	1 253	1 182	989
Payments to suppliers and employees	(161 633)	(163 550)	(154 555)	(136 874)
Borrowing costs	(1 954)	(2 848)	(2 457)	(2 092)
Tax equivalents recovered (paid)	0	0	0	3 523
Cash from operations	3 315	4 695	13 249	10 597
Proceeds from investments	0	5 968	400	0
Payments for investments	0	0	(3 900)	0
Proceeds from the TCFA	41 792	13 764	29 574	22 485
Proceeds from sale of property, plant and equipment	2 069	888	450	1 111
Payments to suppliers and employees - plantations	(12 094)	(14 433)	(16 147)	(11 932)
Payments for property, plant and equipment	(17 775)	(19 488)	(24 515)	(16 069)
Cash (used in) investing activities	13 992	(13 301)	(14 138)	(4 405)
Equity Contribution	0	0	400	1 000
Proceeds from borrowings	0	0	5 800	3 000
Finance lease payments	(1 183)	(1 170)	0	0
Dividends paid	0	0	(1 297)	(2 447)
Cash from financing activities	(1 183)	(1 170)	4 903	1 553
Net increase in cash	16 124	(9 776)	4 014	7 745
Cash at the beginning of the year	20 919	* 30 695	26 436	18 691
Cash at end of the year	37 043	20 919	30 450	26 436

* Variance in 2007-08 Cash at the beginning of the year was due to consolidating of Newwood.

Comment

The Net increase in Cash for the year ended 30 June 2009 was \$16.124m compared to a net decrease in cash of \$9.776m for the ended 30 June 2008, an improvement of \$25.900m. This improvement was mainly due to the receipt of TCFA monies which had yet to be expended at 30 June 2009 as illustrated below.

TCFA

TCFA funds received and expended on capital items are correctly recognised within Investing activities rather than Operational activities. TCFA receipts in 2008-09 were \$41.792m, an increase of \$28.028m compared to the prior year.

Under the TCFA the Commonwealth agreed to contribute \$131.200m of funding for specific activities including the establishment of new hardwood plantations and research and development activities. The State agreed to contribute \$90.000m under the agreement.

As at 30 June 2009 Forestry had receipted \$135.300m of TCFA funds, with the Commonwealth and State having provided approximately \$70.300m and \$65.000m, respectively. Total payments

relating to TCFA activities as at 30 June 2009 were \$95.292m, resulting in a TCFA unspent cash balance of \$40.008m.

Given Forestry's cash balance as at 30 June 2009 was \$37.043m the TCFA funding represented the entire cash balance at year end.

The Revenue received in advance (RRIA) balance of \$55.956m (comprising Unearned Revenue – TCFA, \$47.101m plus Deferred government grants, \$8.855m on the Balance Sheet), comprised primarily TCFA revenue received, \$51.274m. The table below reconciles TCFA RRIA to the TCFA Cash held as at 30 June 2009:

Consolidated TCFA RRIA	\$51.274m
Unamortised balance of TCFA funds	(\$11.266m)*
TCFA Cash received not spent	\$40.008m
Less Withdrawal of TCFA funds	(\$2.965m)**
Forestry Cash held as at 30 June 2009	\$37.043m
<p>* These are monies expended at 30 June 2009 on fixed assets in respect of which the RRIA balance will be taken to income over the life of the related fixed assets.</p> <p>** This is our estimate of funds drawn by Forestry from TCFA monies to meet other day to day operating costs.</p>	

As its cash position has become tighter, Forestry has 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. Management are aware that the money 'withdrawn' as at 30 June 2009 needs to be replaced and expended on TCFA specified activities and regularly manage the overall cash position of the organisation on this basis. In the absence of TCFA funds, Forestry would need the flexibility provided by a working overdraft account. The TCFA infers the agreement can be terminated by the Commonwealth if there is a failure to use money for the purpose for which it was allocated. There is no indication that Forestry will breach this agreement.

The majority of the unamortised balance of \$11.266m related to Newwood, \$6.909m, and roading, \$3.807m.

The major investing activities funded to date through the TCFA totalled \$95.290m and included:

- additional plantation management \$40.727m
- existing plantation upgrades \$18.524m
- road infrastructure \$16.000m
- additional native forest thinning \$4.000m
- support for clear felling reductions \$7.000m
- support for special species \$4.437m
- other tourism, nursery, bio-energy \$4.500m

Other revenue received in advance included Newwood infrastructure fees \$2.664m and other government grants.

Cash from operating activities, excluding TCFA funds, for the previous four years was as follows:

2005-06 - \$10.101m

2006-07 - \$10.099m

2007-08 - \$4.695m

2008-09 - \$3.315m.

This declining trend requires close monitoring by management.

Other factors to note include:

- movement in Receipts from customers and Payments to suppliers and employees reflected the changes in sales and consequential operational costs noted earlier
- Proceeds from investments of \$5.968m in 2007-08 primarily represented a transfer of funds from the superannuation investment account and applied to meet pensions and lump sum payments to ex-employees. These payments were included in payments to suppliers and employees in 2007-08
- Finance lease payments in 2008-09 and 2007-08 related to the Newwood finance lease with Transend for the power substation.

Forestry did not propose a dividend for the 2008-09 financial year, and no dividend was paid during the 2008-09 financial year in relation to 2007-08.

In summary, the closing Cash position for 2008-09 of \$37.043m represented TCFA and other funds received in advance committed to expenditure in future years.

Cash from operations remained tight with investing activities having been funded primarily through short term funding from the TCFA funds. Management are keenly aware of this position and are monitoring operations closely. We are advised that management is developing longer term strategies to maintain future cash flows.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Profit before valuation adjustments, capital income, tax		9 256	8 567	5 112	1 593
EBIT (\$'000s)		9 377	9 750	6 336	2 666
Operating margin	>1.0	1.05	1.05	1.03	1.01
Return on assets		4.1%	(7.3%)	0.3%	1.7%
Return on equity before valuation adjustments, capital income, tax (\$'000)		1.6%	1.5%	0.9%	0.3%
Financial Management					
Debt to equity		3.6%	3.8%	3.6%	3.7%
Debt to total assets		2.2%	2.4%	2.3%	2.4%
Interest cover	>2	4	4	3	1
Current ratio	>1	1.09	0.90	0.98	1.19
Cost of debt	6.9%	5.6%	6.5%	6.4%	6.1%
Debt collection	30 days	65	50	41	60
Creditor turnover	30 days	36	38	42	54
Returns to Government					
Dividends paid (\$'000s)		0	0	1 297	2 447
Dividend payout ratio	50%	0.0%	0.0%	6.6%	10.0%
Dividend to equity ratio		0.0%	0.0%	0.2%	0.4%
Income tax paid (\$'000s)		0	0	0	(3 523)
Effective tax rate	30%	0.0%	0.0%	0.0%	(221.2%)
Total return to the State (\$'000s)		0	0	1 297	(1 076)
Total return to equity ratio		0.0%	0.0%	0.2%	(0.2%)
Other Information					
Staff numbers (FTEs)		483	483	502	516
Average staff costs (\$'000s)		63	61	60	65
Average leave balance per employee per FTE (\$'000s)		12	12	12	12

Comment

Profit, EBIT and Operating margin are calculated on the result before accounting valuation adjustments, TCFA capital grant income and tax. 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 were primarily due to the combined effect of the decrement in the net valuation adjustment of the biological asset and the increased superannuation liability in those years. These ratios were positive in 2008-09, 2006-07 and 2005-06 when the net effect of these accounting valuation adjustments changes was positive.

Current ratio increased to 1.09 in 2008-09 from 0.90 in 2007-08. This reflected the \$9.244m increase in the current portion of biological assets and a \$10.164m decrease in the current portion of the superannuation liability. The decline in the Current ratio over the four year period reflected Forestry Tasmania's weakened working capital position. When current assets are insufficient to

cover current liabilities it can indicate additional sources of funds are needed to meet operational and investing cash flows.

Debt collection days increased over the period to 65 days in 2008-09 due to the late payment of a number of large invoices reflecting a slower than usual payment cycle due to reduced sales turnover in some sectors of the forest industry.

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. No dividend was proposed for 2008-09 or 2007-08. Total returns to the State over the period of review have been low.

Staff numbers at 30 June 2009 remained consistent with those at 30 June 2008. Staff numbers declined over the period as part of a strategy to reduce costs in response to decreased sales. Average staff costs rose in 2005-06 due to redundancy payments and timing issues, but reduced in 2006-07.

Newood Holdings Pty Ltd

Newood Holdings Pty Ltd is a wholly owned subsidiary of Forestry. The Newood group comprises 100% controlled entities Newood Huon Pty Ltd, Newood Smithton Pty Ltd, Newood Energy Pty Ltd.

Newood was established to develop the Huon Wood Centre and the Smithton saw mill sites with the intention of renting the site to users. The Huon Valley and Smithton sites are now housing interrelated forest product processing operations including Rotary Peel Veneer plants, saw mills and merchandising yards.

Ta Ann Tasmania Pty Ltd received \$7.900m in funding to help build a rotary veneer plant to add value to small logs from regrowth forests and plantations. The Huon Valley site was operational for all of 2008-09 whereas the Ta Ann Smithton Mill was only opened on 28 November 2008.

TCFA funding assisted Forestry with the cost of infrastructure, such as road works, sewerage, water and power, at the Newood sites. Work at the Huon Wood Centre also involved preparing a site for a wood fired power station.

The significant revenue items for Newood in 2008-09 comprised power supply revenue and site rental.

Newood reported a net loss before tax for 2008-09 of \$664.839m (2007-08, profit of \$297.501m) and Net asset deficit of \$359.270m (Net asset surplus of \$159.580m).

It is our understanding that the ongoing viability of Newood Energy is dependent on an investor being found who will construct a wood fired power station on the Newood Huon site on a lease arrangement. The required planning approvals are already in place to facilitate this as an 'investment ready' site.

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 a renewable electricity generator in the State of Tasmania
- operates a consulting division nationally and internationally
- is a renewable energy developer
- acquired a retail business with retail licenses in Victoria, South Australia, New South Wales and ACT in the current year
- owns the electricity distribution assets on the Bass Strait Islands
- invests in renewable energy joint venture activities in Australia
- is a 50% owner of Roaring 40s Renewable Energy Pty Ltd, a joint venture with China Light and Power (CLP), which develops and invests in wind farms in Australia.

With the commissioning of the Aurora Energy Tamar Valley (AETV) power station, expected to occur in about September or October 2009, Hydro will no longer have the obligation for security of electricity supply to Tasmania.

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. Under the Asset Sale Agreement the existing thermal plant is available to be used until the new AETV power station is commissioned. Following AETV commissioning BBP has the responsibility for demolition of the thermal station. BBP has raised a provision for demolition. The station ceased operations in April 2009. For the period that it operated in 2008-09, it incurred a loss after tax of \$5.232m (2007-08, \$7.083m profit after tax.)
- **Bell Bay Three Pty Ltd** was incorporated on 7 December 2005. Its assets have been disposed of and the company did not operate in 2008-09
- **Lofty Ranges Power Pty Ltd** owns a 50% interest in an electricity generating joint venture in South Australia. It generated a net profit after tax of \$0.026m in 2008-09 (2007-08, \$0.139m)
- **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. The Indian subsidiary made a loss during the year of \$A0.589m on turnover of \$A0.955m
- **RE Storage Project Holding Pty Ltd** has entered into joint ventures to investigate renewable energy commercial opportunities. However at 30 June 2009 it was not operating
- **Roaring 40s Renewable Energy Pty Ltd** (R40s) is a joint venture between Hydro Tasmania and CLP. During the year CLP acquired the international operations from the

joint venture. The joint venture will now focus on domestic opportunities. The operations will be discussed further below

- Momentum Energy Pty Ltd is an energy retailer with licences in Victoria, South Australia, New South Wales and the ACT. It was acquired during the year. The operation will be discussed further below.

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

As at 30 June 2009 the Responsible Minister was the Minister for Energy.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

The directors signed Hydro's financial statements on 13 August 2009 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major items outstanding.

The audits of the 100% owned subsidiaries were completed at the same time, with unqualified audit opinions being issued for all by 13 August 2009.

The audit of Momentum Energy Pty Ltd was completed at the same time, with an unqualified audit opinion being issued by 13 August 2009.

A letter of comfort was received on 13 August 2009 from Price Waterhouse Coopers in respect of their audit of R40s Renewable Energy Pty Ltd.

FINANCIAL RESULTS

The 2008-09 year has seen the continuation of the storage rebuild program initiated last year. This strategy was implemented by Hydro 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. This program was projected to be completed in the current five year plan period. As a consequence of a statistical review of low inflow patterns over the last 12 years Hydro has de-rated the system inflows by a further 300 GWh per annum to where 8 700 GWhs of inflows are now assumed for planning and financial modelling purposes. Storages at 30 June 2009 were significantly higher than last year in line with the projections in the five year plan.

On 31 August 2008 Hydro acquired Momentum Energy Pty Ltd, an energy retailer based in Melbourne with retail licences in Victoria, South Australia, New South Wales and ACT. The acquisition is to be completed in two tranches. On 31 August 2009 the first settlement including costs of \$17.763m occurred. The balance will be paid in accordance with a formula included in the contract on 31 August 2010. At 30 June 2009 the present value of this payment is estimated to be \$42.150m which is included as a provision in the financial statements. This gives rise to goodwill on consolidation of \$47.796m. At 30 June 2009 it was anticipated that the final settlement would be in line with the provision.

During the year the R40s joint venture was restructured with the joint venture partner CLP acquiring the international operations. The share of profit from this restructure recorded by Hydro was \$6.715m. The operating loss for the year was \$2.092m (2007-08 \$3.022m).

The Bell Bay thermal plant was used for part of the year but has not been used in recent months.

The ongoing cash issues for Hydro are:

- the loss of revenue associated with low inflows which results in reduced hydro generation attributable to electricity being imported from Victoria

- funding the Corporation's capital refurbishment program
- funding continued investment in R40s
- funding the acquisition costs and working capital of Momentum.

Hydro's capital investment program continued in 2008-09 and was targeted at sustaining generation assets and reducing their risks to assist Hydro to actively operate in the National Electricity Market (NEM).

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

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

INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Electricity sales revenue	552 506	407 799	445 662	405 646
Other operating revenue	73 231	62 209	47 523	64 010
Total Revenue	625 737	470 008	491 581	469 656
Operating expenses	219 945	128 476	92 927	107 029
Basslink expenses	93 205	97 713	93 598	29 409
Gas and pipeline expenses	21 854	45 328	33 205	31 860
Labour	88 822	88 574	84 868	83 260
Total Operating Expenses	423 826	360 091	304 598	251 558
Earnings before interest, tax, depn and amortisation (EBITDA)	201 911	109 917	186 983	218 098
Depreciation	73 766	68 043	69 014	87 945
Earnings before interest & tax (EBIT)	128 145	41 874	117 969	130 153
Borrowing costs	(86 684)	(95 663)	(90 695)	(85 860)
Loss on disposal of non-current assets	(1 283)	(1 191)	(5 225)	(5 188)
Share of loss of joint venture	(2 092)	(3 022)	(2 554)	(5 562)
Profit(Loss) before fair value gains and share of profit of joint venture asset sale	38 086	(58 002)	19 495	33 543
Bell Bay sale agreement	0	0	11 151	0
Fair value movements in Electricity derivatives	173 790	96 030	(132 192)	(2 204)
Fair value movements in Treasury derivatives	(2)	12	213	(7)
Gain on revaluation of JV interests	0	0	0	35 044
Basslink financial asset and liability	12 377	28 267	61 026	5 127
Impairment (loss)/reversal on property plant and equipment	186 925	164 852	155 127	(23 206)
Impairment loss on financial and intangible assets	0	(6 974)	(1 328)	(8 478)
Share of profit of joint venture from asset sale	6 715	0	0	0
Profit (Loss) before income tax equivalents	417 891	224 185	113 492	39 819
Income tax expense/(credit)	126 685	64 612	34 126	14 644
Profit (Loss) after taxation	291 206	159 573	79 366	25 175

Comment

When assessing Hydro's operating performance in 2008-09, the following issues are noted:

1. The storage rebuild program commenced last year continued. This saw the substitution of Tasmanian generation by mainland generation imported over Basslink.

When electricity is imported into Tasmania over Basslink Hydro receives the southbound Inter Regional Revenues (IRRs) associated with Basslink. There was an import of 2600 GWh during the year.

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

For part of the year the Bell Bay thermal plant was used. Because of plant reliability issues and improved hydro storages it ceased operating in April 2009. It will be decommissioned with the commissioning of the AETV gas fired power station.

3. Increased prices for Environmental Energy Products (EEP)

During the year Hydro achieved higher prices for EEP. This was partially offset by costs associated with EEP purchases made to supplement those created through generation. The creation of EEPs has been reduced because of the reduced generation resulting from the storage rebuild program.

4. Retail Sales made by Momentum Energy Pty Ltd

These were included for ten months of the year. Similarly there are ten months of expenses for this business included in operating expenses. We comment on Momentum Energy as a stand alone business below.

5. Tasmanian Energy Prices

As predicted last year Hydro was able to achieve overall higher energy prices during the year due to an increase in the regulated price for retail sales and the negotiation of new contracts for some major industry customers. There were also changes in some of the economic hedge contracting arrangements in place between the parties.

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 lower this year reflecting the lower levels of debt following the capital injection last year.

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, contract renegotiation and the introduction of carbon pricing.

As the 2004-05 impairment has now been fully recovered, any future upward changes will be reflected through an asset revaluation reserve. Downward movement will continue to be made through the profit and loss account, but only to the extent that an asset revaluation reserve does not exist.

Joint venture – R40s

During the year the R40s joint venture was restructured whereby the joint venture partner CLP purchased the Asian joint venture assets from R40s. R40s will now use the cash injection from this sale to focus on domestic opportunities. At 30 June 2009 R40s had \$146.700m in its bank account.

Momentum Energy Pty Ltd

On 31 August 2008 Hydro acquired Momentum Energy Pty Ltd, an energy retailer based in Melbourne with retail licences in Victoria, South Australia, New South Wales and ACT. This acquisition delivered vertical integration opportunities in those markets and therefore some natural hedging opportunities.

Until the final tranche of the acquisition is made the company is supported by a \$20.000m working capital loan facility from Hydro. All contracts entered into by Momentum are subject to load following hedging arrangements with Hydro. No residual pricing risk is retained in Momentum. For the year ended 30 June 2009, Momentum operated at a loss after tax of \$13.115m, (2007-08 \$2.976m profit), of which \$12.203m resulted from negative fair value movements on hedge arrangements with Hydro.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	4 315	1 504	1 615	660
Receivables	154 356	59 997	153 153	98 832
Investments	26 247	91 798	50 000	15 091
Inventories	51 815	18 363	1 533	705
Financial assets	166 005	62 975	53 695	22 630
Tax refund receivable	16 948	14 792	7 397	0
Assets held for sale	0	18 118	0	0
Total Current Assets	419 686	267 547	267 393	137 918
Payables	171 576	67 333	121 591	102 866
Borrowings	146 241	66 166	2 200	7 000
Financial liabilities - Basslink and PCA*	152 916	153 941	210 126	97 446
Tax liabilities	0	0	0	15 623
Provisions	70 384	43 030	44 036	43 888
Total Current Liabilities	541 117	330 470	377 953	266 823
Working Capital	(121 431)	(62 923)	(110 560)	(128 905)
Property, plant and equipment	4 146 346	4 056 372	3 520 541	3 440 848
Investments	122 826	108 464	88 365	80 005
Financial assets - Basslink	476 245	413 224	323 081	141 885
Goodwill	47 796	0	0	0
Other	0	0	50 110	50 110
Total Non-Current Assets	4 793 213	4 578 060	3 982 097	3 712 848
Borrowings	794 994	905 208	1 190 000	1 070 000
Provisions	295 195	280 563	290 609	256 599
Financial liabilities - Basslink and PCA*	1 238 430	1 373 893	950 358	876 355
Deferred tax liabilities	677 681	559 033	482 380	463 207
Total Non-Current Liabilities	3 006 300	3 118 697	2 913 347	2 666 161
Net Assets	1 665 482	1 396 440	958 190	917 782
Reserves	(9 720)	12 694	8 838	4 649
Contributed equity	270 000	270 000	0	0
Retained profits	1 405 202	1 113 746	949 352	913 133
Total Equity	1 665 482	1 396 440	958 190	917 782

* Comprises Basslink Services Agreement and Facility Fee Swap, Gas Pipe Line Capacity Agreement and energy derivatives. At 30 June 2009 the amount reported for the Gas Pipeline Capacity Agreement was Nil.

Comment

Commentary below deals with Balance Sheet movements between the 2008-09 and 2007-08 financial years.

Property, plant and equipment valuation and depreciation

The 2004-05 impairment of the deemed cost valuation of property, plant and equipment was fully reversed during the year to reflect an improvement in forecast electricity pool prices, improved storage position, renegotiation of some contract prices and hedging arrangements and

the introduction of the impact of carbon trading. In completing this calculation Hydro also took into account the system de-rating by 300GWh per annum to 8700GWh per annum. The Hydro's generating assets are recorded at fair value which has been the case since 1 July 2008.

Any future revaluations will be credited to an asset revaluation reserve account. Future revaluation downward will in the first instance be debited to the asset revaluation reserve until it is exhausted and then be debited to the profit and loss account.

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
- Energy trading derivatives including 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. Note 16 to Hydro's financial statements details the impacts of movements in these balances between the last two financial years.

Superannuation

At 30 June 2009 Hydro's provision for superannuation liability totalled \$297.648m (\$299.228m at 30 June 2008). The movement in this liability was caused by changes in discounts rates, a change in the treatment of the contributions tax liability and the value of contributory scheme assets and liabilities, as determined by the Actuary.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	596 010	544 130	432 234	481 189
Government grants	8 530	9 525	6 762	0
Payments to suppliers and employees	(499 359)	(453 136)	(304 505)	(259 635)
Interest received	4 252	3 657	2 178	3 722
Borrowing costs	(61 113)	(73 640)	(70 537)	(66 247)
Government guarantee fee	(4 477)	(5 579)		
Income tax equivalent paid	0	0	(28 737)	(19 061)
Cash from operations	43 843	24 957	37 395	139 968
Payments for investments	(8 974)	(21 468)	(15 001)	(15 783)
Payments for financial assets	10 838	13 598	(24 499)	(50 110)
Payments for property, plant and equipment	(78 032)	(51 274)	(57 888)	(116 984)
Business Acquisition	(17 763)			
Proceeds from sale of property, plant and equipment	15 659	33 074	1 857	2 547
Cash (used in) investing activities	(78 272)	(26 070)	(95 531)	(180 330)
Proceeds from borrowings	0	235 000	405 000	482 254
Repayment of borrowings	(30 000)	(242 200)	(289 800)	(526 639)
Equity Contribution	0	50 000	0	0
Cash balances acquired in business acquisition	7 037			
Repayment of shareholder loans of acquired business	(5 165)			
Repayment of finance lease	(183)			
Dividend paid	0	0	(21 200)	(40 000)
Cash from (used in) financing activities	(28 311)	42 800	94 000	(84 385)
Net increase (decrease) in Cash	(62 740)	41 687	35 864	(124 747)
Cash at the beginning of the year	93 302	51 615	15 751	140 498
Cash at end of the year	30 562	93 302	51 615	15 751

Comment

The Cash from operations in 2008-09 of \$43.843m increased by \$18.886m from 2007-08. This is a reflection of the improved trading performance of Hydro during the year. The cash generated from operations is not sufficient to meet its capital work in progress needs, the needs of the new retail business and the needs of R40s. The improved storage position at 30 June 2009 and the continued rainfall and improvement since balance date significantly improve the flexibility of Hydro. The commissioning of the AETV power station will also significantly change the dynamic in the Tasmanian market, as will the removal of the obligation for security of electricity supply to Tasmania.

In the context of this we reiterate our 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
- meeting its capital commitments to its joint ventures and trading subsidiaries without compromising the needs of its core business.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Profit before income tax equivalent expense (\$'000s)		417 891	224 185	113 492	39 819
Movements in fair value		373 090	282 187	82 846	6 276
Bell Bay sale agreement		0	0	11 151	0
Profit(Loss) before fair value gains and share of profit of joint venture asset sale (\$'000s)					
		38 086	(58 002)	19 495	33 543
EBIT (\$'000s)		41 874	41 874	117 969	130 153
EBITDA (\$'000s)		109 917	109 917	186 983	218 098
Operating margin	>1.0	1.48	1.50	1.62	1.87
Return on assets		0.8%	0.9%	2.9%	3.7%
Return on equity		19.0%	13.6%	8.5%	3%
Financial Management					
Debt to equity		56.5%	69.6%	124.4%	117.3%
Debt to total assets		18.1%	20.0%	28.1%	28.0%
Interest cover - EBIT		0.48	0.44	1.30	1.52
Interest cover - EBITDA	>2	1.80	1.49	2.65	3.51
Interest cover - operating cash flows		1.72	1.34	1.53	3.32
Current ratio	>1	0.78	0.81	0.71	0.52
Leverage ratio		313.0%	347.0%	443.5%	419.6%
Cost of debt	6.9%	6.6%	6.5%	6.5%	6.2%
Debt collection	30 days	93	47	86	75
Creditor turnover	30 days	41	26	29	19
Capex/Depreciation		1.06	0.75	0.84	1.33
Returns to and from Government					
Dividends paid (\$'000s)		0	0	21 200	40 000
Dividend payout ratio	50%	0.0%	0.0%	26.7%	158.9%
Dividend to equity ratio		0.0%	0.0%	2.3%	4.3%
Income tax paid (\$'000s)		0	0	28 737	19 061
Effective tax rate	30%	0.0%	0.0%	25.3%	n/a
Government guarantee fees (*\$'000s)		4 477	5 579	5 105	4 124
Total return to the State (\$'000s)		4 477	5 579	55 042	63 185
Total return to equity ratio		0.3%	0.5%	5.9%	6.8%
CSO funding (\$'000s)		7 900	7 200	6 400	6 200
Other Information					
Staff numbers (FTEs)		873	791	781	832
Average staff costs (\$'000s)		102	112	109	100
Average leave balance per FTE (\$'000s)		23	25	26	23

Comment

Hydro's Debt to equity ratio improved during the year due to the improved trading performance and the fair value adjustments made through the profit and loss.

Return on assets of 2.5% improved this year. It is still at a low level which is reflective of the costs associated with the storage rebuild program.

Correspondingly Hydro's Leverage ratio has continued to improve. 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 is a reflection of the improved profit performance.

Debt collection ratio and the Creditor turnover ratio are both significantly impacted by the size of the debtors and creditors balance with the Australian Energy Market Operator (formerly NEMMCO) at balance date. These balances were large at 30 June 2009 compared to other times during the year.

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). Its principal business 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 2009, the MAIB's Board of Directors 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 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2009 and an unqualified audit report was issued the same day.

The audit was completed satisfactorily with no major items outstanding.

BUSINESS OVERVIEW

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

Premiums are levied on classes of motor vehicles under the current Premiums Order and are 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 and losses on investments.

The Board adopts an investment strategy which seeks to maximise long-term growth within acceptable risk parameters to ensure sufficient funds are available to meet its claim liabilities. To achieve this outcome it invests in a mix of growth and defensive asset classes. At 30 June 2009 the Board's actual investment holdings were 51% in the growth category (including Australian and international equities, property and infrastructure) and 49% defensive (including cash and fixed interest). 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 are expected to provide returns in excess of the cash rate.

The main costs are claims expenses, which include claims 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 (which recognises that the estimation of future payments over an extended timeframe is inherently imprecise) is added to give the total Provision for outstanding and unreported claims.

The nature of the MAIB's business is "long-tailed" meaning that, for some claimants, benefits payments will be paid for many years. 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

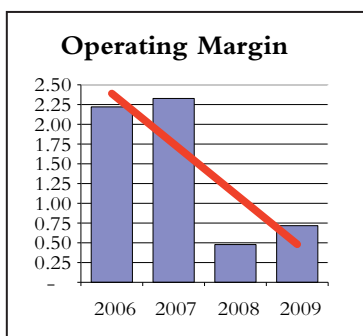
The MAIB indemnifies motorists for common law damages awarded to persons injured as the result of a motor vehicle accident. Injured persons can take action to obtain damages under common law where the fault of another party can be established. An action must be commenced within the timeframes prescribed in the *Limitations Act 1974*.

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 throughout Tasmania. Although relatively few in number, they represent a significant and increasing component of the MAIB's outstanding claims liability.

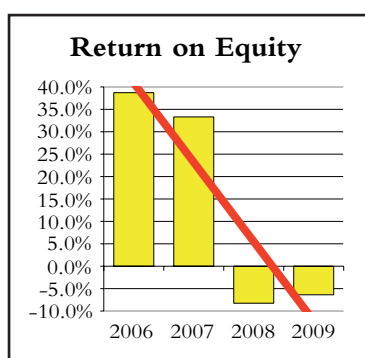
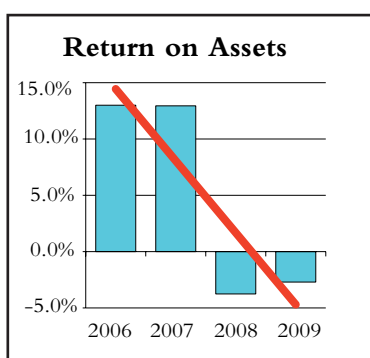
FINANCIAL RESULTS

The following graphs summarise key ratios highlighting important aspects of MAIB's financial performance over the past four years. In general, the ratios indicate:



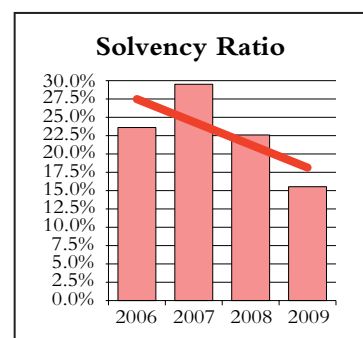
Operating margin highlights the strong investment returns in 2005-06 and 2006-07 compared to the investment losses in 2007-08 and 2008-09 as a result of the global financial crisis.

The two graphs below illustrate the volatility of net profits and losses recorded over the past four years. The graphs demonstrate the positive returns in 2005-06 and 2006-07 were higher in percentage terms than the negative returns in 2007-08 and 2008-09.



Solvency

Solvency ratio is the MAIB's primary indicator of balance sheet strength (capital adequacy). A positive solvency ratio represents the additional assets held over and above the outstanding claims liabilities. These additional assets provide a buffer to the volatility that exists in claims costs and investment markets. It is usual for insurers to maintain such a buffer. In conjunction with its external actuary, the MAIB has set a target solvency range of 20% to 25% which takes into account the claims liability profile and investment strategy along with the fact that the MAIB is a monopoly provider and government business enterprise. The target range is reviewed annually and MAIB monitors its solvency level on a monthly basis to ensure appropriate strategies are in place to maintain solvency within the target range. The solvency level at 30 June 2007 was 29.7% but dropped to 15.5% at 30 June 2009 following the global financial crisis. MAIB representatives advise that the current forecast is for long term solvency to remain within the 20% to 25% range but that short term volatility inherent in claims experience and/or financial markets may mean that at year end the reported solvency may be outside of that range.



For the year ended 30 June 2009 the MAIB incurred a loss before taxation of \$26.306m, which included an unrealised investment loss of \$133.789m. Chart 1 below shows the movement in Net profit/(loss) before taxation. Despite the unfavourable 2008-09 result total investments remained well above the Provision for outstanding and unreported claims as illustrated by Chart 2 below.

Chart 1

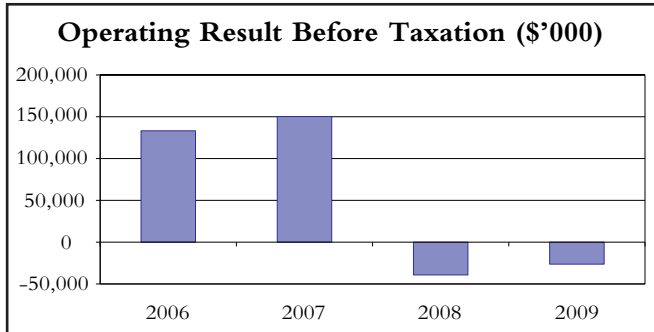
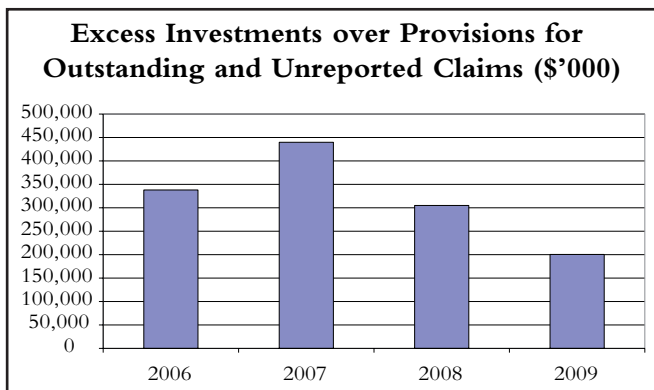


Chart 2



INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Premium revenue	126 079	123 224	120 246	117 354
Outwards reinsurance expense	(5 139)	(4 979)	(4 774)	(4 711)
Claims expense	(74 698)	(59 111)	(96 212)	(94 533)
Recovery revenue	10 786	5 339	473	(542)
Unexpired risk expense	(1 710)	2 774	5 428	993
Other underwriting expenses	(2 427)	(2 471)	(2 395)	(2 293)
Underwriting result	52 891	64 776	22 766	16 268
Investment revenue	(68 519)	(95 446)	137 309	124 512
General and administration expenses	(5 166)	(4 413)	(4 438)	(4 136)
Interest expense	0	0	(782)	0
Road Safety Initiative, Road Infrastructure & Motorcycle Safety Strategy	(4 606)	(3 398)	(3 690)	(2 425)
Injury Prevention and Management Foundation	(906)	(746)	(912)	(1 024)
Profit (Loss) before taxation	(26 306)	(39 227)	150 253	133 195
Income tax expense	12 265	16 603	(37 169)	(37 008)
Net Profit (Loss)	(14 041)	(22 624)	113 084	96 187

Comment

For the year ended 30 June 2009, the MAIB generated a net loss before income tax expense of \$26.306m. This result was a \$12.921m, 32.93%, improvement on 2007-08. The 2008-09 loss was principally attributable to the poor investment result, which is explained later in this Chapter.

The MAIB produced positive underwriting results in all four years under review. The Underwriting result comprises two significant components, Premium revenue and Claims expense.

Premium revenue in 2008-09 increased by \$2.855m, 2.31%, which was attributable to an increase in the number of registered vehicles. There have been no premium increases since 2004. The following table demonstrates the relationship between premium revenue and registered vehicle numbers:

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Premium revenue (\$'m)	126 079	123 224	120 246	117 354
Total registered vehicles (\$'000s)	441 476	435 595	424 052	414 590
Average premium	286	283	284	283

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

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Claims paid	69 551	70 536	63 468	57 927
Movement in the provision for outstanding and unreported claims	4 684	(11 899)	32 306	36 228
Other claims paid	463	474	438	378
Total claims expenses	74 698	59 111	96 212	94 533

The claims expense for 2008-09 included an increase of 0.7% in the Provision for outstanding and unreported claims, following an actuarial review as at 30 June 2009.

Recovery revenue increased \$5.447m, 102%, in 2008-09 to \$10.786m. This increase is attributable mainly to the receipt of reinsurance recoveries resulting from the commutation of the 1991-95 accident years. Settlement of claims with reinsurers occurs at irregular intervals meaning that recoveries received will vary from year to year.

In 2008-09, Investment revenue reflected a loss in the MAIB's investment portfolio. The table below shows \$18.591m in realised losses and \$133.789m in unrealised losses in 2008-09.

	2008-09	2007-08	2006-07	2005-06
	\$'000	\$'000	\$'000	\$'000
Investment income	85 674	109 330	42 582	48 993
Changes in net market values				
Investments held at end of reporting period	(133 789)	(138 236)	74 879	71 006
Investments realised during the reporting period	(18 591)	(65 300)	21 387	6 242
Less investment related expenses	(1 813)	(1 240)	(1 539)	(1 729)
Total investment revenue	(68 519)	(95 446)	137 309	124 512

As noted previously, the Board adopts an investment strategy in which it seeks 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 global financial crisis resulted in significant decreases in the value of investments held by MAIB as shown in the table above. The poor investment results in 2008-09 and 2007-08 must not be taken in isolation, and should be considered together with the previous strong market results.

The MAIB continues to fund the Road Safety Task Force (RSTF), Black Spot Program and the Motorcycle Safety Strategy with total contributions in 2008-09 of \$4.606m (2007-08, \$3.398m).

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash and cash equivalents	182 084	157 916	277 115	181 091
Accounts receivable	1 358	1 767	1 968	1 919
Reinsurance recoveries receivable	13 842	17 514	13 322	14 221
Debt securities and other investments	3 577	38 038	199 332	199 415
Listed instruments	112 396	92 456	40 670	81 801
Unlisted instruments*	570 875	678 245	601 797	528 920
Investment properties	15 345	15 510	12 920	11 965
Plant and equipment	449	515	527	575
Deferred tax asset	73 244	41 934	13 085	4 674
Other assets	27	27	31	35
Total Assets	973 197	1 043 922	1 160 767	1 024 616
Sundry creditors and accrued expenses	2 651	2 014	5 913	1 852
Provision for tax	7 897	32 892	31 887	20 434
Provision for unearned premium	53 817	53 632	52 486	52 143
Provision for injury prevention	1 104	882	1 060	1 055
Provision for unexpired risk	3 493	1 766	4 546	9 986
Provision for outstanding and unreported claims	679 220	674 536	686 435	654 128
Provision for employee benefits - leave	456	404	352	345
Provision for employee benefits - superannuation	2 877	2 398	2 333	2 039
Deferred tax liability	1 442	1 498	36 281	34 181
Total Liabilities	752 957	770 022	821 293	776 163
Net Assets	220 240	273 900	339 474	248 453
Retained Earnings	220 240	273 900	339 474	248 452
Total Equity	220 240	273 900	339 474	248 452
* Unlisted instruments comprised investments in unlisted unit trusts. Unlisted unit trusts hold investments in various products including cash and fixed income products, property, and listed instruments, including Australian, international and emerging market equities.				

Comment

The value of total investments decreased from 2007-08 by \$97.888m, 9.96%, and equity by \$53.660m, 19.59%. These movements reflect the net effect of the Board's normal trading activities, which were negatively impacted of the global financial crisis, and dividend and tax payments to the Government.

The major component of the MAIB's total assets was its investment portfolio (including cash), which at 30 June 2009 represented 90.86% of total assets (2007-08, 94.06%) as shown in the table below.

In 2008-09 to better reflect the MAIB's direct investment exposure it moved to reporting its investments on a registered holdings basis. The change in classification did not result in changes in overall reported value but reallocations in individual classifications. The following table summarises the investments on that basis.

Cash and Investments	2008-09		2007-08		2006-07		2005-06	
	\$'000s		\$'000s		\$'000s		\$'000s	
Cash and cash equivalents	182 084	21%	157 916	16%	277 115	24%	181 091	18%
Debt securities and other investments	3 577	0.4%	38 038	4%	199 332	18%	199 415	20%
Listed instruments	112 396	13%	92 456	9%	40 670	4%	81 801	8%
Unlisted instruments	570 875	65%	678 245	69%	601 797	53%	528 920	53%
Investment properties	15 345	2%	15 510	2%	12 920	1%	11 965	1%
Total Investments	884 277	100%	982 165	100%	1 131 834	100%	1 003 192	100%

The major component of the MAIB's total liabilities was its Provision for outstanding and unreported claims, which at 30 June 2009 represented 90.38 % of total liabilities (2007-08, 87.60%). The composition of the claims liability is provided in the table below.

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Future Care	460 172	459 105	463 606	420 129
Common Law	180 248	174 499	175 795	181 182
Scheduled Benefits	38 800	40 932	47 034	52 818
Total Claims Liability	679 220	674 536	686 435	654 129

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from premiums	139 353	136 572	132 601	131 243
Payments for claims	(74 406)	(75 283)	(67 687)	(62 098)
Other payments	(27 062)	(25 730)	(25 673)	(23 975)
Other receipts	16 098	3 027	2 852	3 341
Tax paid	(44 096)	(49 262)	(28 789)	(7 503)
Dividends received	61 997	101 127	32 774	36 998
Interest received	22 857	6 413	8 509	11 099
Cash from operations	94 741	96 864	54 587	89 105
Payments for investments	(30 591)	(169 983)	66 665	(33 974)
Payments for property, plant and equipment	(511)	(1 914)	(654)	(312)
Proceeds from sale of property, plant and equipment	147	74	91	88
Cash (used in) investing activities	(30 955)	(171 823)	66 102	(34 198)
Dividends paid	(39 618)	(42 950)	(22 062)	(12 805)
Net increase (decrease) in cash	24 168	(117 909)	98 627	42 102
Cash at the beginning of the year	157 916	275 825	177 198	135 096
Cash at end of the year	182 084	157 916	275 825	177 198

Comment

As at 30 June 2009, MAIB held \$182.084m in cash, comprising cash at bank for trading activities with the majority held in direct cash investments. Cash is primarily generated from premium revenue and interest and dividend receipts. Cash holdings at year end can vary significantly and are driven largely by the Board's short to medium term financial obligations and investing activities.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
EBIT (\$'000s)		(26 306)	(39 227)	150 253	133 195
Operating margin	>1.0	0.72	0.48	2.33	2.22
Underlying result ratio		(0.39)	(1.09)	0.57	0.55
Self financing ratio		1.42	2.70	0.21	0.37
Return on assets		(2.7%)	(3.8%)	12.9%	13.0%
Return on equity		(6.4%)	(8.3%)	33.3%	38.7%
Financial Management					
Solvency ratio	20-25%	15.5%	22.6%	29.5%	23.6%
Returns to Government					
Dividends paid or payable (\$'000s)		33 103	39 618	22 951	22 062
Dividend payout ratio	50%	(236.5%)	(175.1%)	20.3%	22.9%
Dividend to equity ratio	6%	13.4%	12.9%	7.8%	10.7%
Income tax paid or payable (\$'000s)		19 867	48 986	38 427	23 709
Effective tax rate	30%	(75.5%)	(124.9%)	25.6%	17.8%
Total return to the State (\$'000s)		53 070	88 604	61 378	45 771
Total return to equity ratio		21.5%	28.9%	20.9%	22.1%
Other Information					
Staff numbers (FTEs)		38	37	37	37
Average staff costs (\$'000s)		75	71	71	60
Average leave balance per FTE (\$'000s)		12	11	10	9

Comment

The loss incurred in 2008-09, primarily from negative investment returns is reflected in poor financial performance ratios in 2008-09.

Dividends totalling \$33.103m were paid or are payable to the State Government relating to 2008-09. This amount comprises:

- a dividend of \$23.103m under the dividend averaging policy agreed between the Board and Government. In accordance with the policy, dividends are based on the average of profits and losses over the current and four preceding years
- a special dividend of \$10.000m. During 2006-07, the State Government announced that, subject to Parliamentary approval, the Board would be required to pay a special dividend of \$30.000m in equal instalments over three financial years beginning 2007-08. The second instalment of \$10.000m was paid in 2008-09.

The Board is required under the *Government Business Enterprise Act 1995* to make taxation equivalent payments to the State Government. The total tax equivalent payable in respect of the 2008-09 financial year amounted to \$19.867m. Although the MAIB recorded accounting losses for 2007-08 and 2008-09, taxable profits arose due to the tax calculations excluding unrealised losses relating to investments.

The combination of dividend and taxation equivalent payments produced strong Total return to equity ratios. The ratios for 2007-08 and 2008-09 included the effect of the payment of special dividends (\$10.000m for each year).

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, including the Chief Executive Officer. The Responsible Minister was the Minister for Environment, Parks, Heritage and the Arts.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

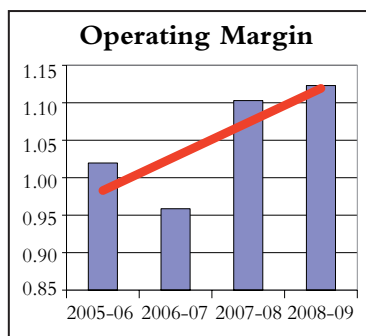
Signed financial statements were received on 14 August 2009 and an unqualified audit report was issued on 25 September 2009.

The audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

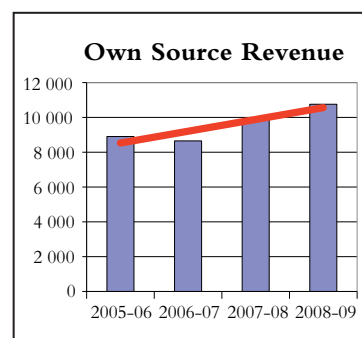
The Authority operates two distinct activities, firstly to conserve the fabric of the historic site for posterity, and secondly to operate the site as a tourist destination.

Government provides support funding in recognition of the unique heritage value and economic benefits of the site to the Tasmanian economy. This funding is used to support conservation of the site.



The Operating Margin is generally above 1.0, indicating that the Authority's operates at a profit.

The Authority's Own Source Revenue was gradually increasing in line with higher visitor numbers.



INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000	\$'000	\$'000	\$'000
Entrance fees ^a	5 603	4 871	4 366	4 226
Ghost tours ^b	755	684	613	670
Food and merchandise sales ^c	3 673	3 525	3 317	3 541
Interest	234	222	168	195
Other income	491	567	186	271
Conservation funding	2 000	3 515	2 000	2 000
Total Revenue	12 756	13 384	10 650	10 903
Visitor services expenses ^d	2 623	2 522	2 385	2 376
Ghost tour expenses ^e	321	310	297	343
Food and merchandise expenses ^f	3 445	3 234	3 241	3 453
Site maintenance expenses	814	565	492	473
Conservation expenses	2 422	3 370	3 304	2 511
Corporate service expenses	1 438	1 855	1 111	1 276
Marketing expenses	296	280	280	261
Total Expenses	11 359	12 135	11 110	10 693
Profit (Loss) before:	1 397	1 249	(460)	210
Superannuation liability expense	(275)	(105)	(967)	(169)
Net Profit (Loss)	1 122	1 144	(1 427)	41
Net Loss (before Conservation funding and superannuation liability expense)*	(603)	(2 266)	(2 460)	(1 790)
Entrance Fees (Net) (a-d)*	2 980	2 349	1 981	1 850
Ghost tours (Net) (b-e)*	434	374	316	327
Food & Merchandise Sales (Net) (c-f)*	228	291	76	88

* Provided for additional information only: balances are not commented on specifically within this Chapter.

Comment

Net Profit decreased by \$0.022m, 2%, in 2008-09 to \$1.122m. Total revenue decreased \$0.628m, which was offset to some extent by decreased expenditure, \$0.776m.

The decreased revenue primarily resulted from a reduction in Conservation funding of \$1.515m, offset by \$0.732m increased Entrance fees due to a record number of visitors in 2008-09.

The decreased expenditure primarily resulted from a reduction in Conservation expenses of \$0.948m due to completion of work on the Separate Prison Project and lower Corporate service expenses of \$0.416m, offset by higher Site maintenance expenses of \$0.249m.

The Authority received annual funding of \$2.000m from Government since 2000 01 for the purpose of preserving the site's convict heritage for future generations. These funds were expended to conserve the site in accordance with the Act and the *Port Arthur Historic Site Conservation Plan 2000*. The majority of conservation works were carried out on heritage assets and ruins, which were not recognised as assets of the Authority due to difficulty in determining an appropriate value. As a result, all conservation works were 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.

Higher Conservation funding in 2007-08 was associated with the Separate Prison Project which included \$0.500m provided by the Commonwealth Government, matched dollar for dollar by the Authority. Other key conservation projects during 2008-09 included developing a new statutory management plan, a new asset management system and the historic oak trees preservation project.

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 evidenced by the fluctuation between the years, this movement was quite volatile and not within the Authority's control.

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

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000	\$'000	\$'000	\$'000
Cash assets	5 488	3 840	2 311	2 592
Receivables	105	159	110	134
Inventories	425	459	419	413
Other	23	51	15	15
Total Current Assets	6 041	4 509	2 855	3 154
Payables	1 025	761	966	479
Provisions	1 143	1 294	1 214	1 425
Other				
Total Current Liabilities	2 168	2 055	2 180	1 904
Working Capital	3 873	2 454	675	1 250
Property, plant and equipment	15 788	15 407	14 760	13 465
Total Non-Current Assets	15 788	15 407	14 760	13 465
Provisions	4 778	4 557	4 609	3 804
Total Non-Current Liabilities	4 778	4 557	4 609	3 804
Net Assets	14 883	13 304	10 826	10 911
Retained earnings	9 591	8 468	7 324	8 752
Reserves	5 292	4 836	3 502	2 159
Total Equity	14 883	13 304	10 826	10 911

Comment

Total Equity increased \$1.579m in 2008-09 to \$14.883m due to the Net profit for the year, \$1.122m, and revaluation of assets, \$0.457m.

Net assets increased by the same amount primarily represented by:

- increased Cash, \$1.648m (refer to Cash Flow section for explanation)
- increased Property, plant and equipment, \$0.381m, due to primarily upward revaluation of infrastructure.

Offset by:

- increased Payables, \$0.264m.

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 did not include any value attributed to these assets.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000	\$'000	\$'000	\$'000
Receipts from customers	10 553	9 949	8 486	8 683
Payments to suppliers and employees	(11 001)	(11 540)	(10 722)	(10 319)
Unearned income	359	0	372	0
Interest received	265	206	168	194
Cash from (used in) operations	176	(1 385)	(1 696)	(1 442)
Cash flow from government				
Tasmanian Government	2 000	3 142	2 000	2 000
Cash from operations and government	2 176	1 757	304	558
Payments for property, plant and equipment	(585)	(291)	(650)	(899)
Proceeds from sale of property, plant and equipment	57	63	65	22
Cash (used in) investing activities	(528)	(228)	(584)	(877)
Net increase (decrease) in cash	1 648	1 529	(281)	(319)
Cash at the beginning of the year	3 840	2 311	2 592	2 911
Cash at end of the year	5 488	3 840	2 311	2 592

Comment

The Authority's cash balance increased by \$1.648m during 2008-09. Its Cash from operations increased \$1.561m compared to 2007-08 due to increased revenue arising from by higher visitor numbers and the net profit for the year. Cash generated from operations and from government was partly used to invest in assets, \$0.585m being \$0.294m higher than invested in 2007-08.

The Authority had deposits with financial institutions of \$5.198m at 30 June 2009 which were to cover, in part, its superannuation liability.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Result from operations (\$'000s)		1 397	1 249	(460)	210
Operating margin	>1.0	1.12	1.10	0.96	1.02
Return on assets		6.69%	6.66%	(2.69%)	1.26%
Return on equity		7.96%	9.48%	(13.13%)	0.38%
Underlying result ratio		10.95%	9.33%	(4.32%)	1.93%
Self financing ratio		17.06%	13.13%	2.85%	5.12%
Financial Management					
Current ratio	>1	2.79	2.19	1.31	1.66
Debt collection	30 days	7	10	8	10
Creditor turnover	30 days	33	23	32	16
Other Information					
Staff numbers (FTEs)		90	84	85	85
Average staff costs (\$'000s)		56	58	56	56
Daytime Visitors *		261 356	254 726	237 664	250 616
Ghost Tour Visitors *		47 122	49 406	46 765	53 477
* Numbers are not subject to audit.					

Comment

The Result from operations for 2008-09 was a profit of \$1.397m compared to profit of \$1.249m in 2007-08, a loss in 2006-07 and a modest profit in 2005-06. The profits recorded in 2007-08 and 2008-09 resulted in the Operating margin being above the benchmark, and reasonable Return on assets and Return on equity ratios. These profit movements were also reflected in the Underlying result ratio.

Results for 2006-07 were lower than other years mainly due to conservation expenditure relating to the Separate Prison Project.

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

Staff numbers (FTEs) increased by six in 2008-09.

As noted previously, day time visitor numbers increased to a record number during 2008-09.

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, Government Business Enterprises, Other State Authorities, State Owned Companies and inner budget agencies.

The Responsible Minister is the Treasurer.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Financial statements were received on 10 August 2009 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major items outstanding.

2008-09 saw the continuation of the challenges of the 2007-08 year. The following market events occurred which tested the risk management systems maintained by Tascorp:

- September 2008 Collapse of Lehman Brothers
- October 2008 Government Guarantee of Bank Deposits announced
- November 2008 Government Guarantee of Bank Deposits introduced
- post June 30 2009 Government Guarantee extended to State Government funding bodies.

These impacts are discussed in this Chapter.

Despite these challenges, Tascorp operated at a net profit before tax for the year of \$20.659m (2007-08, \$2.706m net loss before tax) and at 30 June 2009 it had net assets of \$31.113 m (30 June 2008, \$16.652m) primarily comprising:

	June 2009	June 2008
	\$m	\$m
Investments	3 709	3 785
Advances to State entities	3 084	2 643
Deposits received from State entities	(2 055)	(1 763)
Borrowings	(4 440)	(4 257)

FINANCIAL RESULTS

INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Interest revenue	362 739	434 875	386 457	382 882
Other operating revenue	260	452	582	431
Net gains/ losses from financial instruments	16 507	(39 352)	7 627	(1 846)
Total Revenue	379 506	395 975	394 666	381 467
Interest expense	354 434	394 617	385 363	367 414
Other operating expenses	4 413	4 064	3 808	4 230
Total Expenses	358 847	398 681	389 171	371 644
Profit/(Loss) before:	20 659	(2 706)	5 495	9 823
Income tax expense/(benefit)	6 198	(812)	1 649	2 947
Net Profit/(Loss)	14 461	(1 894)	3 846	6 876

Comment

Tascorp's Profit after income tax equivalents for the year ended 30 June 2009 was \$14.461m (2007-08, \$1.894m loss). The risk management systems maintained by Tascorp have enabled it to minimise the impact of the events described in the Snapshot. The more significant impacts relate to liquidity which are discussed under the Cash Position section of this Chapter.

Note 5 to Tascorp's financial statements, which summarises its operating revenues, discloses the following:

	2008-09	2007-08	2006-07
	\$'000s	\$'000s	\$'000s
Net Margin Income	20 430	11 854	8 530
Credit Margin Gains/(Losses)	(11 867)	(9 039)	3
Liability Margin Gains/(Losses)	16 332	(1 909)	188
Fee Income	177	452	582
Revenue from Operations*	25 072	1 358	9 303

* Revenue from Operations is before accounting for other operating expenses of \$4.413m (2007-08, \$4.064m and 2006-07, \$3.808m).

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

Reduction in depth of market in securities

This has led to quoted market prices being unreliable for mark to market accounting. Tascorp have 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 Tascorp will be exposed to this market volatility for some time.

In the context of the size of Tascorp's book, that is \$6.924bn at 30 June 2009 (2007-08, \$6.491bn) and of its capital, which was \$31.113m at 30 June 2009 (\$16.652m), the volatility of its outcomes have been kept to a minimum. Note 19(f) in Tascorp's financial statements shows its Value at Risk (VaR) analysis.

The VaR risk measure estimates the potential loss in pre-tax profit due to a change in benchmark interest rates and Tascorp liability risk margins over a given holding period for a specified confidence level. Note 19(f) discloses Tascorp's VaR during 2008-09 as follows:

Historical VaR (99% one-day)	Average		Minimum		Maximum		Year end	
	2008-09 A\$'000	2007-08 A\$'000	2008-09 A\$'000	2007-08 A\$'000	2008-09 A\$'000	2007-08 A\$'000	2008-09 A\$'000	2007-08 A\$'000
Total VaR exposure	445	389	259	234	1299	656	273	497

These value at risk numbers put the operating result in context.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	681	11 453	11 885	1 128
Investments *	3 708 683	3 785 282	3 985 448	3 216 831
Advances *	3 084 483	2 643 182	2 425 043	2 294 979
Derivative instruments receivable	130 171	50 542	54 069	64 991
Property, plant and equipment	155	201	273	697
Intangibles and other	187	1 104	293	174
Total Assets	6 924 360	6 491 764	6 477 011	5 578 800
Payables	267 049	339 321	144 698	70 964
Deposits *	2 054 688	1 762 773	1 786 341	1 446 060
Borrowings *	4 439 802	4 257 165	4 457 084	4 004 382
Derivative instruments payable	125 951	115 470	64 328	33 478
Current tax liabilities	5 386	0	1 654	2 952
Provisions	371	383	860	918
Total Liabilities	6 893 247	6 475 112	6 454 965	5 558 754
Net Assets	31 113	16 652	22 046	20 046
Reserves	10 000	10 000	10 000	10 000
Retained earnings	21 113	6 652	12 046	10 046
Total Equity	31 113	16 652	22 046	20 046

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

Comment

During 2008-09 Tascorp endeavoured to maintain its level of borrowings and investments in line with:

- its liquidity policy
- available capital
- the need to be able to service client borrowing needs when they are required
- the opportunities available in the market to issue new paper at the best price.

This has proved difficult in the current climate where all banks are effectively rated ahead of Tascorp, primarily due to the Commonwealth Government's Guarantee provided to commercial banks, making it difficult to meet funding requirements in a cost effective way. The business model has been changed for the duration of the Commonwealth Government Guarantee. This is discussed further under Cash Position.

Tascorp's Total equity increased by \$14.461m in 2008-09, being its net profit after tax for the financial year.

Investments decreased by 2%, \$76.599m, while Advances to State owned entities increased by 17%, \$441.301m. This increase was primarily increases in loans of \$339.943m to Aurora, to enable it to continue its asset upgrade program and its construction of the Tamar Valley power station, and additional advances to local government totalling \$69.473m.

Deposits increased by 17% or \$291.915m primarily due to increases in funds deposited with Tascorp by the State Government, \$138.094m, and by Government Business Enterprises and State-owned companies, \$166.734m.

Tascorp's borrowings increased by 4%, \$182.637m, which, along with the increase in Deposits of \$291.915m enabled it to increase its advances to State entities referred to above. These movements are discussed further under the Cash Position section.

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

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Interest and other receipts	354884	431255	411 979	424 170
Interest payments	(406 506)	(398 295)	(384 079)	(388 273)
Payments to suppliers and employees	(4 113)	(4 404)	(3 669)	(3 941)
Taxation expense	0	(1 654)	(2 947)	(35)
Net increase (decrease) in deposits & others	(23 791)	(238 437)	83 887	(136 506)
Net (increase) decrease in advances & others	(427 849)	(56 768)	(84 848)	303 179
Payments for financial assets at fair value through profit and loss	203 068	60 299	439 543	888 833
Cash from (used in) operations	(304 307)	(208 004)	459 866	1 087 427
Payments for property, plant and equip.	(138)	(114)	(21)	(337)
Proceeds from sale of property, plant and equip.	25	18	28	71
Cash from (used in) investing activities	(113)	(96)	7	(266)
Receipts from other financial liabilities at fair value through profit and loss (borrowings)	183 493	(198 810)	298 577	(1 207 388)
Dividends paid	(3 500)	(1 846)	(553)	(6 164)
Cash from (used in) financing activities	179 993	(200 656)	298 024	(1 213 552)
Net increase (decrease) in cash	(124 427)	(408 756)	757 897	(126 391)
Cash at the beginning of the year	1 078 546	1 487 302	729 405	855 796
Cash at end of the year	954 119	1 078 546	1 487 302	729 405

Comment

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

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

Note 19(e), Liquidity Risks, to Tascorp's Financial Statements highlights the liquidity issues being faced by Tascorp. The funding need in the first three months of the 2009-10 year is \$627.472m greater than the corresponding period last year. In a normal market this would not present a problem to Tascorp because of demand for their paper. However these are not normal markets and therefore Tascorp has had to implement other options such as a Banking Book. This book is funded by hard core deposits with Tascorp. The net cash shortfall of \$1.042bn in the three months to 30 September 2009 implies that the deposit book maturing in the period will not be reinvested. This is not the case. Most of the book other than the immediate cash needs of the customers of Tascorp will be reinvested.

Options such as the Banking Book are short term solutions. The longer term issues caused by the market turmoil are discussed previously. As also noted previously, Tascorp anticipates this turmoil will continue for some time.

The reader's attention is drawn to Note 19 *Financial Instruments and Risk Management* of Tascorp's 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	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Profit/(Loss) (\$'000s)		20 659	(2 706)	5 495	9 823
Return on equity		66.4%	(16.3%)	24.9%	49.0%
Returns to Government					
Dividends paid or payable (\$'000s)		3 500	3 500	1 846	553
Dividend payout ratio	50%	24.2%	(184.8%)	48.0%	8.0%
Dividend to equity ratio		11.2%	21.0%	8.4%	2.8%
Income tax (receivable)/payable (\$'000s)		6 198	(812)	1 654	2 947
Effective tax rate	30%	30.0%	30.0%	30.1%	30.0%
Total return to the State (\$'000s)		3 500	3 500	3 500	3 500
Total return to equity ratio		11.2%	21.0%	15.9%	17.5%
Other Information					
Staff numbers (FTEs)		14	14	14	14
Average staff costs (\$'000s)		140	120	112	91
Average leave balance per FTE (\$'000s)		19	18	17	20

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 adopts 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 noted in the next paragraph.

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 State entities 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. However the market turmoil discussed previously will see continued difficulty in completing this role.

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

PUBLIC TRUSTEE

INTRODUCTION

The Public Trustee was 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 and Treasurer, appoints all members of the Board except the Chief Executive Officer.

The Responsible Minister is the Attorney-General.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2009. Final amended statements were received on 31 August 2009 with an unqualified audit report issued on the same day.

The audit was completed satisfactorily with no major items outstanding. However, audit matters reported to the Board included the need to:

- and update the Strategic Risk Register and Business Continuity Plan
- address situations where annual leave balances for five staff (seven at 30 June 2008) exceeded 40 days.

These matters are being addressed by management.

MANAGEMENT RESPONSE

In response to the first matter the Chairperson of the Board of the Public Trustee has written to the Auditor-General advising that the Board and the Public Trustee have been active in risk management. The Chairperson pointed out the risk management actions that have occurred in the past two years at the Public Trustee.

MAJOR DEVELOPMENTS

In 2008-09 the following two major Non-current assets were either sold or a sales agreed as at 30 June 2009:

- Watchorn Street car park, sold in late 2008-09 for \$0.850m. This was previously included in the Financial Statements as part of Investment properties.

- Murray Street building, an agreement for sale was agreed \$4.500m. This was previously included as both Property plant and equipment and Investment property, reflecting that the Public Trustee occupied the building as well as leasing out a number of floors.

Proceeds from the Watchorn Street carpark were invested in the Public Trustee's Common Fund investment. The Murray Street building was shown as a current asset under the classification Assets Held for Sale, \$4.235m. As a consequence, Investment property in the Balance Sheet was reduced to nil and Property, plant and equipment decreased by the buildings carrying amount, \$2.185m.

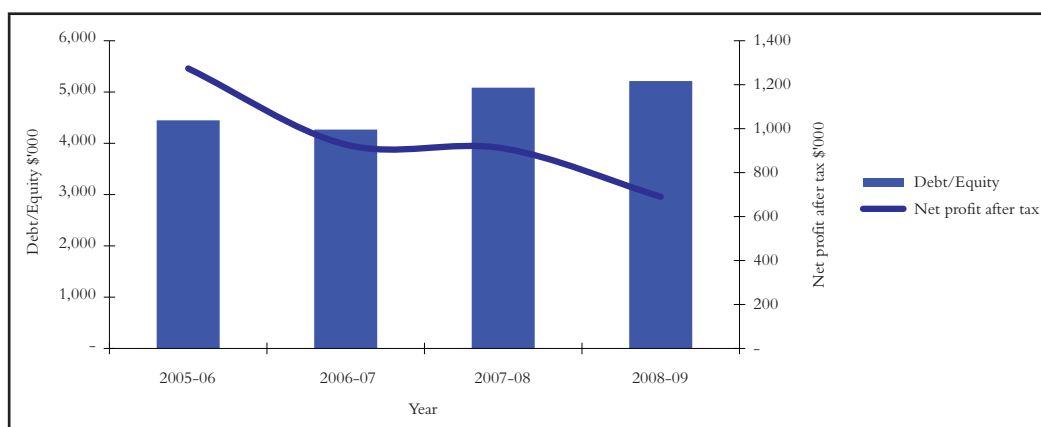
These transactions had a significant impact on the following analysis particularly the Balance Sheet and the Financial Analysis.

Funds Held in Trust on Behalf of Clients

The Public Trustee's financial statements only recognise funds owned by the Public Trustee as a body corporate. As part of its executor and trustee role, the Public Trustee also holds funds in trust on behalf of clients during the course of estate and trust administrations. These funds were not included in the financial statements as financial reporting requirements and accounting standards do not permit recognition of funds under management. However, a note to the financial statements disclosed funds managed as at 30 June 2009 which totalled \$119.203m. Interest earned on these funds was not treated as income of the Public Trustee.

FINANCIAL RESULTS

The graph below summarises the Public Trustee's profitability and Equity over the past four years..



Over the four year period the Public Trustee operated at an average annual net profit after tax of \$0.951m with the profit in 2008-09 down to \$0.690m. Net profit after tax dropped from \$1.274m in 2005-06 to \$0.690m this year, a decline of 46%. A significant contributor to this was the accounting for gains or losses from asset revaluations. For example, a gain of \$0.587m was reported in 2005-06 while a loss of \$0.132m was reported in 2008-09.

Total Equity steadily increased, from \$4.448m in 2005-06 to \$5.214m in 2008-09.

Other significant financial results summarised from later in this Chapter include:

- Net working capital increased by \$6.271m, 145%, mainly due to the addition of Assets held for sale, \$4.235m, and proceeds from the sale of the Watchorn Street car park, \$0.851m
- Over the four year review period cash generated from operations averaged \$0.899m but increased to \$1.229m this year, due mainly to higher Commissions and Fees revenue
- the Dividend provided for this year was \$0.455m, compared to \$0.464m last year.

INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Commission and fees	5 447	4 907	4 566	4 483
Funding of community service obligations	1 127	1 070	793	793
Income from investments	517	536	503	414
Gain from asset revaluations	(132)	218	481	587
Other income	0	0	1	2
Total Revenue	6 959	6 731	6 344	6 279
Employee costs	4 096	3 799	3 588	3 291
Accommodation expenses	253	172	148	128
Administration expenses	1 583	1 453	1 307	1 290
Depreciation	77	42	54	63
Total Expenses	6 009	5 466	5 097	4 772
Net profit before tax	950	1 265	1 248	1 507
Income tax expense	260	355	320	233
Net profit after tax	690	910	928	1 274

Comment

Net profit before tax in 2008-09 decreased by \$0.220m to \$0.690m. The main factors that contributed to the lower profit were:

- an Asset revaluation decrement for the investment property of \$0.132m compared to an increment of \$0.218m in 2007-08
- increased Employee costs of \$0.297m, due to award increases and higher costs associated with the defined benefits superannuation scheme
- higher Administration expenses of \$0.130m, related to the purchase of new software and associated costs, expenditure incurred on a number of new projects and marketing/printing costs associated with a new marketing campaign
- higher Accommodation expenses of \$0.081m, related to Murray Street and new leasehold premises at Burnie and Launceston.

These were offset partly by:

- increased Commission and fees of \$0.540m, due to a large 2007-08 distribution from a Group Investment Fund received in July 2009. Capital Commissions also rose due to the higher monetary value of deceased estates being managed
- CSO funding increased by \$0.057m, 5%, in line with the new agreement covering the three year period ending 2009-10. CSO funds represent matters in relation to the administration of probate for low value clients, administration of trusts and administrations under the *Guardianship and Administration Act 1995*. Prior to the new agreement 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.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	1	1	1	1
Receivables	545	429	422	450
Investments	7 647	6 444	6 430	6 290
Assets held for sale	4 235	0	0	0
Other	1	45	45	72
Total Current Assets	12 429	6 920	6 898	6 813
Payables	816	722	617	474
Provisions	754	1 928	2 055	1 687
Income tax liability	265	(52)	41	183
Total Current Liabilities	1 835	2 597	2 713	2 344
Working Capital	10 594	4 323	4 185	4 469
Property, plant and equipment	571	2 412	2 202	1 879
Investment property	0	3 100	2 883	2 500
Deferred tax asset	2 932	2 791	2 982	2 613
Total Non-Current Assets	3 503	8 302	8 067	6 992
Provisions	8 816	7 273	7 818	7 010
Deferred tax liability	67	268	166	3
Total Non-Current Liabilities	8 883	7 540	7 984	7 013
Net Assets	5 214	5 085	4 268	4 448
Retained profits	4 990	4 794	4 099	4 448
Asset revaluation reserve	224	292	169	0
Total Equity	5 214	5 085	4 268	4 448

Comment

Net assets increased marginally over the prior year by \$0.124m, 2.44%. Major movements from last year other than Assets held for sale and Property plant and equipment included:

- Investments increased by \$1.203m, 16%, due to an additional \$1.200m that was transferred into the Common fund (cash) invested with Tascorp
- Current provisions decreased \$1.174m but Non-current provisions increased by \$1.544m due to a transfer from the current to non-current RBF provision. The overall increase in provisions was \$0.370m, 4%.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from clients, Government and Common Fund	6 989	6 506	5 882	6 209
Payments to suppliers and employees	(5 571)	(5 585)	(4 527)	(4 867)
Taxation paid	(189)	(314)	(466)	(470)
Cash from operations	1 229	608	889	872
(Increase) decrease in investment in Common Fund	(1 200)	0	(100)	(800)
Payments for property, plant and equipment	(429)	(129)	(113)	(15)
Proceeds from sale of property, plant and equipment	859	0	1	1
Cash (used in) investing activities	(770)	(129)	(212)	(814)
Dividends paid	(455)	(464)	(637)	0
Cash (used in) financing activities	(455)	(464)	(637)	0
Net increase in cash	4	14	40	58
Cash at the beginning of the year	345	331	291	233
Cash at end of the year	349	345	331	291

Comment

The balancing item of cash on hand showed little movement being \$0.349m, compared to the opening position of \$0.345m. Funds generated from operations was a positive \$1.229m in 2008-09, up from \$0.608m in 2007-08. This was due to strong revenue growth and a reduced tax payment.

Investment of funds showed an increase in cash deposits of \$1.200m, plus payments for capital items of \$0.429m and the receipt of funds of \$0.859m from asset sales (carpark receipts \$0.851m). The dividend paid for the year was similar to 2007-08.

Reasons for variations in cash flow receipts and payment amounts are consistent with explanations provided in previous sections of this Chapter.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Profit/(Loss) (\$'000s)		950	1 265	1 248	1 507
Operating margin	>1.0	1.16	1.23	1.24	1.32
Return on assets		6.1%	8.4%	8.7%	11.5%
Return on equity		13.4%	19.5%	21.3%	35.2%
Underlying result ratio		14%	19%	20%	24%
Financial Management					
Current ratio	>1	6.77	2.66	2.54	2.91
Creditor turnover	30 days	88	54	80	53
Returns to Government					
Dividends paid or payable (\$'000s)		455	464	637	0
Income tax paid (\$'000s)		189	355	320	233
Effective tax rate	30%	19.9%	28.0%	25.6%	15.5%
Total return to the State (\$'000s)		644	819	957	233
Total return to equity ratio		12.5%	17.5%	22.0%	6.4%
Other Information					
Staff numbers (FTEs)		49	47	49	48
Average staff costs (\$'000s)		84	81	73	69
Average leave balance per FTE (\$'000s)		12	13	13	15

Comment

Result from operations of \$0.950m this year was 24% less than the average of \$1.242m over the review period and has been consistently decreasing, except in 2007-08. This indicates that expenditure as a percentage of each dollar of revenue has been increasing. However, the impact of gains and losses arising from asset revaluations need to be borne in mind when assessing the financial results.

Other benchmarks also declined over the review period including:

- Operating margin of 1.16, while over the benchmark has decreased by around 12% from 2005-06
- Return on assets decreased reflecting the lower Results from operations (while the value of average Total asset over the current and prior year increased the Return on assets is not as high as the preceding year)
- steady decreases in Return on equity and Underlying results ratios were also due to the lower Results from operations.

Current ratio, which was consistent over the first three years of the review period, increased markedly from last year indicating the Public Trustee is able to comfortably meet all its short term commitments. The improvement this year was due to one-off factors such as the proceeds from sale of the Watchorn Street car park and inclusion of the Assets held for re-sale.

Creditor turnover fluctuated over the review period and in 2008-09 was quite high. This was due to a number of software upgrade projects being undertaken, increased media advertising and larger than average purchases of fixed assets.

Total return to the State reflected the total of Dividends paid or payable and the Income tax (equivalent) payments for the year. Over the period the Public Trustee returned \$2.652m to the State or an average of \$0.663m per annum.

Average staff costs over the four years under review increased progressively due to increased wages and salary, payroll tax and superannuation expenses.

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 were completed with unqualified audit opinions issued in each case.
- All audits were completed satisfactorily with no major issues outstanding though a number of matters were reported to respective Boards and management. In all cases remedial action was agreed with management.
- Tasmania's SOCs collectively have net assets reported at \$1.437bn (2007-08, \$1.456n), employ 2 627 (2 477) people, and reported a profit of \$25.431m (\$378.297m) after taxation in 2008-09.

BRIEF FINANCIAL ANALYSIS

- **Aurora Energy Pty Ltd** (Aurora) trades in a competitive environment with tight margins leading to relatively low net profits based on turnover. Its cash situation at 30 June 2009 improved from the prior year mainly due to higher revenues, with the full impact of retail price increases taking effect this year and the Cash balance of \$128.790m at 30 June 2009 included a security deposit held by the Australian Energy Market Operator, \$119.098m, required due to the significant payable balance of \$162.518m at 30 June 2009, for the purchase of power in June 2009. This deposit reduced significantly post balance date with the settlement of accrued expenses relating to the purchase of power and offsetting market traded receivables. Major events during the year included the purchase of the issued capital of Alinta Energy (Tamar Valley) Pty Ltd (acquired on 1 September 2008 for \$100.000m now Aurora Energy (Tamar Valley) Pty Ltd), the valuation and recognition of its Tasmanian hedge electricity contracts for the first time and the signing of a non-binding Memorandum of Understanding with the Commonwealth Government in June 2009 to undertake the construction of the Tasmanian section of the National Broadband Network. In 2008-09 its Net profit before tax was \$9.100m (2007-08, \$27.071m) and its Net assets grew from \$410.482m at 30 June 2008 to \$518.228m at 30 June 2009

- **Metro Tasmania Pty Ltd** (Metro) receives a significant proportion, approximately 70%, of its revenue as a Government contribution and it therefore it remains economically dependent on the State Government for its continued operations. Metro reported a loss before tax of \$0.511m for 2008-09, compared to a loss of \$0.300m for 2007-08. Net assets increased \$2.493m from the prior year to \$32.032m at 30 June 2009
- **Tasmanian Port Corporation Pty Ltd** (TasPorts) reported a net profit after tax of \$5.167m for the year ended 30 June 2009. The result was a significant fall on the \$313.361m after tax profit for the year ended 30 June 2008. However that year's results included the profit on the sale of its shares in Hobart International Airport Pty Ltd of \$302.489m. During the current year, TasPorts continued to consolidate its activities after expanding into a tug boats business by acquiring assets of North Western Shipping and Towage Pty Ltd in August 2007 and 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.
- **TOTE Tasmania Pty Ltd's** (TOTE) posted a net profit before tax and other adjustments of \$8.712m (2007-08, \$4.079m). The passage of the *Racing Regulation Amendment (Governance Reform) (Transitional and Consequential Provisions) Act 2008* resulted in Net assets totalling \$45.596m being transferred to the Tasmanian Racing Board. This resulted in consolidated net assets of TOTE of \$4.905m at 30 June 2009 (\$46.104m at 30 June 2008). Growth in operating activities, in particular wagering, due to increased turnover garnered through large and internet betting customers, was significant for 2008-09. Net wagering income increased by 108% over the four year period under review with Internet turnover the primary driver of this increase.

On 8 January 2009, the Government announced that it intended to explore the potential sale of TOTE. Through the appointed sale advisors, an Information Memorandum was released in June 2009 and indicative bids for the purchase of the Company were sought. The closing date for the bids was 14 July 2009. The result of that bidding process has not been reported to date and TOTE has continued to operate on a "business as usual" basis.

On 29 May 2009, TOTE's Sportsbet pooling agreement with Tabcorp was terminated. TOTE entered into a joint venture with two other betting agencies to establish a new pool operator for its sportsbet product

- In 2008-09, **Transend Networks Pty Ltd** recorded a profit from operating activities, before defined benefit plan superannuation expense, gifted assets and taxation of \$19.153m, compared to \$28.595m and \$34.358m in the previous two years. The decrease in profit was primarily due to an increase in borrowing costs of \$21.914m and additional depreciation and amortisation expenses, \$7.057m with these costs partially offset by higher Transmission revenue.

Transend's 2008-09 financial performance and position was underpinned by the change in the debt/equity structure that occurred in 2007-08 resulting in the significantly higher finance costs. 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. Transend also undertook further borrowings in 2008-09 to fund its major infrastructure developments which resulted in total debt at 30 June 2009 of \$488.000m (30 June 2008, \$408.677m). As a consequence, Transend's finance costs were \$32.413m for 2008-09 (\$10.499m).

- **TT-Line Company Pty Ltd** recorded a profit before taxation of \$5.823m for 2008-09 (2007-08 \$13.698m). However, tax expense reduced the result to an after tax loss of \$2.436m (\$16.532m profit). The net asset position at 30 June 2009 reduced by \$21.709m to \$236.835m as a result of the devaluation of vessels \$7.067m (net of tax), decreases in reserves as a result of a fuel cash flow hedge and the loss after taxation for the year. Revenue increased \$8.820m from the prior year, mainly due to higher passenger and vehicle numbers and from increased yield volumes on freight. This was offset by increased expenditure, which grew by \$16.807m predominantly due to increased costs of bunker fuel. However, borrowing costs declined because TT-Line paid off \$25.000m in borrowings.

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 Economic Regulator sets the maximum retail prices Aurora can charge residential and non-contestable business customers which currently represent about 37% of Aurora's retail business.

The parent company consisted of four core operating units:

- **Network:** Responsible for the management, development and operation of the distribution system including poles, lines and substations, asset stewardship and network management
- **Network Services:** Helped the Network Division manage Aurora's distribution assets. This division oversaw the distribution resource and response centres, designing and programming, including arranging contracts and service agreements for carrying out construction, operations and maintenance activities. The division also managed customers connections, meter reading, transmission capabilities, the Bass Strait islands and the standards and compliance group, which included the electrical inspection team and the Aurora Training Centre
- **Wholesale:** Responsible for sourcing energy contracts (electricity and gas) and for risk management of the energy portfolio
- **Retail:** Responsible for customer services including electricity sales to business and residential customers

In addition to the above four operating divisions, Aurora had a number of shared services, including:

- **Office of the CEO:** Incorporating CEO, business risk and internal audit services, corporate reception and Board
- **Office of the CFO and Commercial Services:** Incorporated a whole-of-business corporate finance function and shared services, including finance and treasury management, legal services, supply chain services (including facilities, fleet, procurement and contracts and material management), energy risk and information services management
- **Strategy and Corporate Affairs:** Responsible for leading whole-of-business strategic direction. This division included public affairs, external relations, communications, sustainability strategy, market monitoring, major business and policy development, National Electricity Market, Basslink technical issues, forecasting, analytical services and telecommunications
- **People and Culture:** Responsible for business people strategy and organisational culture, incorporating change management, employee relations, safety, health and environmental management, remuneration and benefits and organisational development.

At balance date, the consolidated entity comprised of Aurora and the following wholly owned subsidiaries:

- **Ezikey Group Pty Ltd (Ezikey)** (formed in 2000-01): the subsidiary was created to promote pre-payment metering systems. In July 2008, Bill Express which collected monies on behalf of Ezikey for the prepayment of electricity sales went into liquidation. Monies owed to the subsidiary were recovered, but its operations were restricted and transferred to Aurora.

The subsidiary was maintained and will now be responsible for the commercialisation of broken neutral detection technology owned by Aurora

- Aurora Gas Pty Ltd (formed in 2002): the subsidiary was created to enter the gas tender process. To date, this subsidiary has not traded
- Auroracom Pty Ltd (formed in 2006): the subsidiary was created for the purpose of obtaining a Telecommunications Carrier Licence. To date, this subsidiary has not traded
- Aurora Energy (Tamar Valley) Pty Ltd (AETV) which was purchased in September 2008. The company is currently constructing gas turbines to generate power to be sold into the National Energy Market and to contract with the Wholesale business of Aurora. (refer later in this Chapter for further information).

In May 2005 Aurora joined the National Electricity Market (NEM) and purchases wholesale electricity from the Australian Energy Market Operator (AEMO) (formerly 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 contracts 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. The portfolio Minister is the Minister for Energy.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 21 September 2009 and an unqualified audit report was issued on 23 September 2009.

The audit was completed satisfactorily with no major items outstanding

Matters reported to the Board included:

- Control weaknesses in relation to payroll systems
- Recommendations regarding the information system general environment and application controls.

Significant developments during the year included:

1. Acquisition of - Tamar Valley Power Station (TVPS)

Aurora purchased the entire issued capital of Alinta Energy (Tamar Valley) Pty Ltd (acquired on 8 August 2008 for \$100.000m and funded by Aurora via an equity injection from the State Government of the same amount) and subsequently changed the company's name. The subsidiary, on acquisition, was in the process of constructing the Tamar Valley Power Station, which at 30 June 2009 was nearing completion.

During March 2009 AETV acquired contractual rights securing the supply of gas to the TVPS and giving it additional rights in relation to wholesale gas trading and wholesale electricity rights attached to the Bairnsdale Power Station.

AETV did not traded significantly in 2008-09 due to the on going construction of the power station. However, its acquisition significantly effected the consolidated financial statements of Aurora primarily by bringing to account the partly completed power station and new borrowings. The following table summaries the financial transactions for AETV's operations from 8 August 2008 to 30 June 2009 and balances at 30 June 2009:

	2008-09
Income Statement (10 months to June 2009)	\$'000s
Total revenue	23 518
Total expenses	37 271
Loss before:	(13 753)
Income tax benefit	4 138
Net loss	(9 615)
Balance Sheet	
Current assets	48 656
Non-current assets	287 027
Current liabilities	33 075
Non-current liabilities	212 206
Equity	90 402

The net loss for the period was expected due to AETV's continuing initial construction and set-up phases and, as illustrated above, has eroded the initial equity invested in AETV. A better reflection of AETV's operations will occur over an extended period of time once its power station has been fully commissioned.

Revenue reflects the sale of electricity in testing completed segments of the power station and the sale of gas.

The non-current asset of \$287.027m primarily represents assets and work in progress on acquisition on 1 September plus further construction costs incurred post ownership to 30 June 2009.

On-going construction was funded by new borrowings. Non-current liabilities include \$192.800m in debt owing to Aurora who borrowed these funds from Tascorp on-lending them to AETV.

2. Impact of bringing to account for the first time Aurora’s Energy contractual assets and obligations measured by application of the Tasmanian Market Price Curve (referred to below as the “Yield Curve”)

During 2008-09, Aurora valued and recognised its Tasmanian market hedge electricity contracts for the first time. The recognition of these contracts impacted the income statement and balance sheet for 2008-09 details of which are provided in the Income Statement and Balance Sheet sections of this Chapter and highlighted in Table 3 in the Balance Sheet section.

3. National Broadband Network (NBN)

Aurora signed a non-binding Memorandum of Understanding with the Commonwealth Government in June 2009 to form a company to undertake the construction of the Tasmanian section of the NBN (TNBNCo).

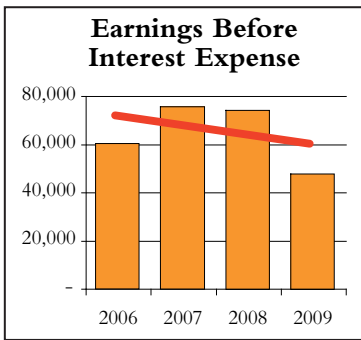
In August 2009, Aurora entered into an agreement with TNBNCo providing the contractual framework for the roll-out of the NBN. Under the agreement Aurora will provide project management and support services for the first stage of network construction. There were no implications of these arrangements at 30 June 2009.

FINANCIAL RESULTS

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

- In September 2007, the Tasmanian Energy Regulator finalised a report of his investigation into setting 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. Further price increases were applied on 1 July 2008. The impact on Aurora’s revenue is detailed in the Income Statement analysis
- Aurora faces further competition from other retailers over the next two years as the Tasmanian market is progressively opened up through a series of annual tranches. This process commencing on 1 July 2006 and progresses through to 1 July 2010, leading to full contestability subject to public benefit assessment
- All figures in the following tables and analysis are based upon the consolidated entity. The 2008-09 balances include AETV transactions and balances for the first time, with the recognition of its assets and work in progress balance and debt funding having an impact on the consolidated Balance Sheet
- In 2008-09, Aurora recognised for the first time its Tasmanian market electricity contracts and associated hedging arrangements. In previous years the absence of a reliable Tasmanian Market price curve for electricity, precluded the recognition of these contracts
- Our analysis concentrates on the 2008-09 balances and movements compared to the 2007-08 figures. Balances for 2006-07 and 2005-06 are provided for information only.

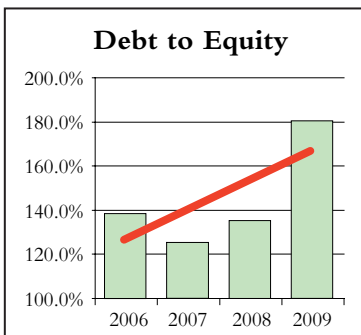
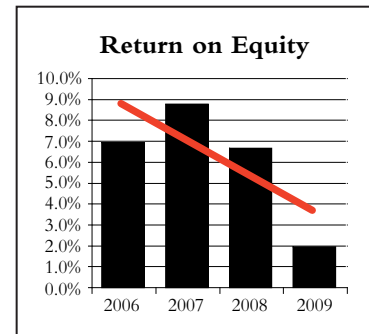
The following graphs summarise key ratios highlighting important aspects of Aurora’s consolidated financial performance over the past four years. In general, the ratios indicate:



Earnings before interest expense compares net profits before tax and interest expense. In 2008-09 Aurora traded in a competitive environment with small margins leading to relatively low net profits based on turnover. The deterioration in profit for 2008-09 was primarily due to losses in AETV of \$9.615m, the impact of recognising Tasmanian market hedge contracts, superannuation liability losses following the most recent Actuarial review and unusually high peaks in the National Energy Market, which resulted in unexpected increases in the cost of power.

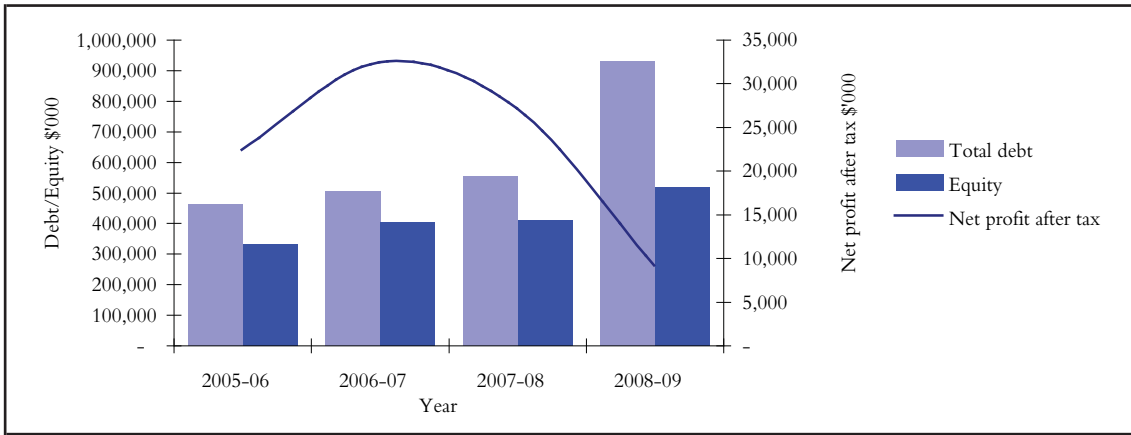
For the year ended 30 June 2009 Aurora's Profit before tax, superannuation liability losses, financial instrument fair value movements and customer contributions was \$25.400m, which decreased by \$4.551m, 15.19%, from 2007-08. For the year ended 30 June 2009 Aurora generated a Net Profit after tax of \$9.100m which decreased by \$17.917m, 66.38%, from 2007-08. Major movements in revenue and expenditure, which impacted the lower profit, are in the Income Statement section of this Chapter.

In 2008-09 the lower profit and additional equity injection from Shareholders for AETV (when that station was not yet generating returns) resulted in a lower Return on equity in comparison with previous years.

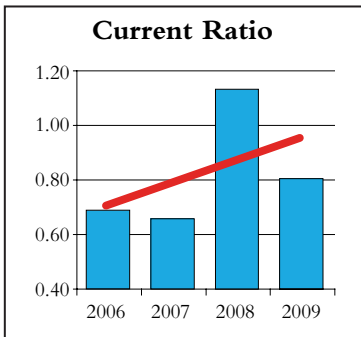


Aurora's gross Debt to equity ratio increased significantly in 2008-09 due to \$377.493m in net borrowings to fund its capital works program, including \$192.800m for AETV, and to fund short-term security deposits with NEMMCO in accordance with market arrangements of \$119.098m which were largely repaid to Aurora in July 2009. The ratio is well above its gearing level benchmark ratio of around 60:40, 150%.

The impact of increased borrowings against decreasing profits is summarised in the graph below. The purchase of AETV had a significant effect on Aurora's consolidated result in 2008-09, with increased debt and an operating loss. However, management anticipate that, with the full commissioning of the plant in September 2009, and sale of power into the national energy market, will generate sufficient revenue to service the associated debt.



Aurora's Net profit after tax in 2008-09 was significantly affected by two non-cash adjustments for superannuation liability losses and energy derivatives as illustrated in the Income Statement section of this Chapter.



Except for 2008, when all loan debt was recorded as non-current, Aurora's Current Ratio has been below the benchmark of one.

INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Sales revenue	967 916	860 650	778 405	715 981
Other revenue	53 680	47 285	51 901	63 840
Total Revenue	1 021 596	907 935	830 306	779 821
Energy and transmission purchases	686 152	611 629	538 600	497 986
Renewable energy credit purchases	17 036	13 635	7 385	6 842
Employee expenses	79 695	67 857	69 852	67 703
Borrowing costs	40 201	34 639	30 599	28 369
Depreciation	78 427	71 301	65 339	61 026
Other expenses	94 685	78 923	84 332	97 208
Total Expenses	996 196	877 984	796 107	759 134
Profit before:	25 400	29 951	34 199	20 687
Income tax expense	(3 897)	(9 663)	(9 530)	(6 317)
Net Profit before:	21 503	20 288	24 669	14 370
Customer contributions	10 002	10 819	10 763	7 473
Superannuation liability movement	(5 996)	1 724	(6 546)	3 918
Gain arising on derivatives in a designated fair value hedge	446 540	0	0	0
Loss arising on derivatives in a designated fair value hedge	(444 036)	0	0	0
Unrealised energy derivate gain/(losses)	(24 228)	(2 853)	6 735	(2)
Income tax expense/benefit	5 315	(2 907)	(3 286)	(3 417)
Net Profit	9 100	27 071	32 335	22 342

Comment

For the year ended 30 June 2009 Aurora's Profit before tax, superannuation liability losses, financial instrument fair value movements and customer contributions was \$25.400m, which decreased by \$4.551m, 15.19% from 2007-08.

For the year ended 30 June 2009 Aurora generated a net profit after tax of \$9.100m which decreased by \$17.917m, 66.38%, from 2007-08. Major movements in revenue and expenditure, which impacted the lower profit, are discussed below.

Aurora's Sales revenue in 2008-09 increased by \$107.266m, 12.46%, due to:

- a full 12 month impact of price increases on 1 January 2008 (residential customers 15.7% and non-contestable business customers 16.4%)
- an additional price increase on 1 July 2008 (residential customers 4% and non-contestable business customers 1%)
- gas sales of \$9.9m by AETV
- growth in sales in the mainland retail market of \$13m.

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

TABLE 1
Installation numbers and sales volume in million kWh

	2009	2008	2007	2006
Installation Numbers				
Business and Residential	269 541	265 812	263 251	259 590
Sales (in million kWh)				
Business and Residential	10 154	10 536	10 484	10 298

Installation numbers steadily increased over the past four years, with sales revenue increasing up to 2008. However, in 2008-09 sales, in kWh terms, decreased due to “global financial crisis” reductions in production of several large customers.

Other revenue includes interest, community service agreement funding, external work sales, rental and leases, and other sundry revenue. The 2008-09 balance increased by \$6.395m, 13.52%, due to:

- an increase of \$8.709m in community service agreement funding from the Department of Health and Human Services to meet the cost of pensioner discounts, \$22.916m (2007-08, \$14.207m). The increase was caused by timing of recoveries and additional applications in 2008-09.
- revenue from the reversal of a previously recorded asset impairment relating to fibre optic assets totalling \$2.441m

Offset by:

- a decrease in gross external work sales to \$18.367m (\$24.968m). 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 transmission purchases, increased by \$74.523m, 12.18%, in 2008-09. As noted previously, Aurora purchases the majority of its power from AEMO. The increase reflects a general increase in power costs, with an additional \$7.400m expended on regulated transmissions costs and \$10.500m for gas purchases made by AETV.

Aurora managed its 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

	2008-09	2007-08	2006-07	2005-06	Total
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Total sales	967 916	860 650	778 405	715 981	2 355 036
Energy and transmission purchases	686 152	611 629	538 600	497 986	1 648 215
Energy purchases as percentage of total sales	70.9%	71.1%	69.2%	69.6%	70.0%

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 saw an increase in the value of renewable energy credit purchases surrendered, which totalled \$17.036m in 2008-09 (\$13.635m).

Employee expenses increased by \$11.838m, 17.45%, in 2008-09 primarily due to additional costs associated with Aurora's EBA and step payroll increase \$5.000m, redundancies \$1.800m and the inclusion of AETV payroll costs totalling \$3.300m and in servicing the expanded business.

Borrowing costs increased by \$5.562m, 16.06%, in 2008-09 as a result of Aurora increasing its debt levels by \$377.493m. The impact of new debt on borrowing costs was partially offset by lower interest rates and new borrowings not being held for the entire 12 month period. Interest costs associated with the construction of AETV's power station were capitalised.

Depreciation increased by \$7.126m, 9.99%, in 2008-09. This was due to annual asset revaluations (indexation CPI 4.5%) and high levels of capital works including upgrading the grid network. The carrying amount of Property, plant and equipment at 30 June 2009 before accumulated depreciation was \$2.441bn, with depreciation representing 3.21% of this balance.

Other expenses include materials, operating lease expenses, contracted services, IT service provider charges, interest contributions to superannuation and community service costs to meet pensioner discounts. Other expenses increased by \$15.762m, 19.97%, in 2008-09 primarily due to:

- an increase in community service agreement expenditure by \$8.709m to \$22.916m (2007-08, \$14.207m), which corresponded to the matching revenue item noted previously
- increased contracted services costs of \$4.428m
- the inclusion of cost associated with AETV, totalling \$4.800m.

The superannuation liability movement expense of \$5.996m increased by \$7.720m in 2008-09. The expense was determined by the State Actuary in an independent actuarial assessment. A major factor in the expense was the decrease in interest rates resulting in the application of a lower discount rate leading to the superannuation liability increasing in 2008-09.

As noted previously, Aurora recognised Tasmanian market contracts hedge arrangements for the first time in 2008-09. In its Tasmanian portfolio, Aurora is holding several specific industrial sales contracts with major customers and corresponding hedge contracts with Hydro Tasmania. The contracts existed prior to disaggregation and have a minimal impact on Aurora's profit. The recognition of the contracts resulted in a:

- gain arising on derivatives in a designated fair value hedge of \$446.540m. Corresponding asset balances have been recorded under Financial assets. The balance reflects hedge contracts with Hydro Tasmania that offset specific industrial sales contracts with several major customers
- loss arising on derivatives in a designated fair value hedge of \$444.036m. The corresponding liability is recognised under Financial liabilities. The balance represents the sales contracts to major industrial users.

The difference in the balances reflects a fee that Aurora will receive for the management of the contracts.

Aurora's hedges predominantly take the form of either 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. Hedges have been classified as either Fair Value or Cash Flow hedges. Movement in the market value of a hedge is reflected in a change to either the asset and liability value. Depending on the assessed hedge effectiveness unrealised energy derivative gains or losses are either recorded:

- in Aurora's Income Statement, where the hedge contract has been assessed as ineffective, or
- as an equity item in the cash flow hedge reserve.

The accounting treatment adopted complies with Australian Accounting Standard *AASB 139 Financial Instruments: Recognition and Measurement*. The gain or loss is the difference between the result of energy traded derivatives recognised at fair value on the date a derivative contract was entered into and the remeasured fair value at reporting date.

At 30 June 2009, Aurora recorded unrealised energy derivate losses of \$24.228m, an increase of \$21.375m, 749.21%, from 2007-08. The increase is primarily attributable to the impact of two hedge contracts which, based upon the contract terms and accounting requirements, are viewed as ineffective and must be recognised in the Income Statement. As per normal market arrangements the Retail division of Aurora entered into contracts of various terms with customers. To eliminate exposure to future changes in market energy purchase rates after customer contracts are finalised, hedge contracts are put in place to minimise market risk. As these contracts lock in a price for energy purchases beyond the current accounting period, these losses are non-cash losses in 2008-09 and offset movements in contracted energy purchases in future accounting periods.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	128 790	3 172	33 272	12 359
Receivables	269 028	155 395	161 512	121 506
Inventories	21 526	14 857	9 170	6 700
Financial assets	84 857	3 371	43 715	1 326
Current tax asset	2 162	0	0	0
Other	17 237	1 382	1 487	3 090
Total Current Assets	523 600	178 177	249 156	144 981
Payables	241 826	108 707	147 285	106 272
Borrowings	252 482	0	181 924	62 325
Provisions - employee benefits	24 808	28 956	28 458	29 934
Current tax payable	0	2 009	4 461	0
Financial liabilities	111 396	2 305	4 294	653
Other	23 726	16 084	15 717	12 840
Total Current Liabilities	654 238	158 061	382 139	212 024
Working Capital	(130 638)	20 116	(132 983)	(67 043)
Property, plant and equipment	1 450 046	1 065 413	995 292	922 675
Deferred tax asset	176 407	25 619	27 244	23 197
Intangible assets	47 421	33 836	23 283	14 622
Financial assets	371 732	9 523	5 980	1 010
Other	17 044	0	0	52
Total Non-Current Assets	2 062 650	1 134 391	1 051 799	961 556
Borrowings	680 223	555 212	323 449	399 081
Provisions - employee benefits	69 300	52 574	51 650	42 189
Provisions - decommissioning costs	1 057	0	0	0
Deferred tax liability	278 548	135 451	140 242	119 310
Financial liabilities	380 210	788	313	788
Other	4 446	0	0	0
Total Non-Current Liabilities	1 413 784	744 025	515 654	561 368
Net Assets	518 228	410 482	403 162	333 145
Capital	301 555	201 555	201 555	201 555
Reserves	119 509	110 933	119 858	86 652
Retained earnings	97 164	97 994	81 540	44 920
Minority Interest	0	0	209	18
Total Equity	518 228	410 482	403 162	333 145

Comment

At 30 June 2009, Aurora's Equity totalled \$518.228m, an increase of \$107.746m, 26.25%, from 2007-08. The increase includes the following major items:

- Aurora's profit (parent company after tax) \$19.068m
- asset revaluation increases on grid assets \$25.308m
- additional equity contribution from owners of \$100.000m (*) to assist in the purchasing AETV.

Offset by:

- AETV's loss in 2008-09 of \$9.615m
- dividend payments \$9.930m
- cash flow hedge reserve movement, being a decrease of \$16.732m.

() Treasury contributed Aurora \$102.900m in 2008-09 for the purchase of AETV and an equity contribution in support of the TasGovNet strategic partnership. As shares for the \$2.9m contribution were not issued at 30 June 2009, Aurora recorded this balance in Payables.*

Cash balances increased by \$125.618m in 2008-09 (excluding an overdraft balance of \$0.600m at 30 June 2008). The increase is analysed in detail, under the Cash Position commentary.

The increase in Receivables of \$113.633m, 73.13%, was attributed to the recognition of \$26.762m of debt held by AETV, an increase of \$4.951m in unbilled energy and a \$75.178m increase in market trade receivables. Other receivable balances remained fairly constant between years.

Unbilled energy (\$76.520m) is an estimate of unbilled power sales to 30 June, where meters were still to be read. The increase in this balance reflects the increase in Business customers and General sales and increased tariffs and unit sales. During 2008-09, Aurora reviewed and refined its calculation process for unbilled energy.

The Tasmanian Economic Regulator sets maximum prices for retail and contestable electricity customers in Tasmania. Consequently, Aurora and Hydro Tasmania have an arrangement where contracted differences in the spot price set by AEMO and the agreed regulated price will be settled. The amount receivable (or payable) from Hydro Tasmania for power purchases over the five week period to 30 June 2009 was recorded as market trade receivables of \$84.393m. The balance increased significantly from 2007-08, \$9.215m, due to the spikes in relevant spot price in June 2009.

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 were 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. At 30 June 2009, renewable energy certificates totalled \$11.890m (2007-08, \$6.728m), which contributed to the inventory balance increasing by \$6.669m in 2008-09.

As also noted previously, Aurora manages risk associated with the purchase of power from AEMO by entering hedge contracts. The contracts, which will be held to maturity, enable Aurora to match both the retail and purchase price of power aimed at ensuring sales contracts are profitable. The majority of hedge contracts were designated as effective hedges because they follow the commodity for which they were being hedged. The designation as effective enables recognition on the Balance Sheet (ie 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 were 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, the recognition of Tasmanian contracts during 2008-09 resulted in a significant increase in both asset and liability balances. However, Aurora's net hedge position was determined by the spot price at balance date. The unfavourable position at 30 June 2009 was due to the average prices in hedge contracts held exceeding the spot price. The derivatives were not cash flow items and were unrealised.

TABLE 3
Summary of hedge assets and liabilities

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Hedge derivatives (current asset)	84 857	3 371	43 715	1 326
Hedge derivatives (non-current asset)	371 732	9 523	5 980	1 010
Hedge derivatives (current liability)	(111 396)	(2 305)	(4 294)	(653)
Hedge derivatives (non-current liability)	(380 210)	(788)	(313)	(788)
Net hedge position	(35 017)	9 801	45 088	895

Other current assets increased \$15.855m in 2008-09. The increase was due to AETV holding prepaid security deposits \$10.185m and gas supply contracts \$2.478m at balance date.

Payables, which included general creditors and accruals, increased \$133.119m in 2008-09. A major accrual, which varied considerably depending upon the relevant spot prices, related to amounts payable to AEMO for the purchase of power. At 30 June 2009, the AEMO accrual totalled \$162.518, an increase of \$110.128m. The balance increased significantly from 2007-08 due to spikes in relevant spot price in June 2009. The increased spot prices had a corresponding effect on Receivables, as mentioned earlier. Other items impacting the Payables balance included AETV payables of \$12.924m and an increase of \$1.300m in the loan interest accrual.

Total Borrowings (current and non-current) increased by \$377.493m, 67.99%, from 2007-08. The increase in debt was attributable to:

- \$192.800m borrowed for the capital works being undertaken by AETV. The borrowings were in Aurora's name and were on-lent to AETV
- \$15.000m borrowed to fund the purchase of gas contracts for AETV
- of the remaining increase of \$169.693m related to fund short-term security deposits with NEMMCO and Aurora's expanded capital expenditure program, as shown by the \$312.278m increase in capital expenditure funded in the Cash section of this Chapter. This included Aurora's \$100m investment in AETV funded by the equity injection from the State.

Debt to equity increased to 180.00% due to the additional borrowings as shown in the Table 4 below.

TABLE 4
Debt to Equity Ratio

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Borrowings	932 705	555 212	505 373	461 406
percentage increase	68.0%	9.9%	9.5%	5.6%
Capital expenditure funded in cash	432 380	120 102	107 194	121 757
Debt to equity ratio	180.0%	135.3%	125.4%	138.5%

The additional borrowings had an impact on Aurora's Working capital position which deteriorated to a negative \$130.618mm as at 30 June 2009. The positive position as at 30 June 2008 was primarily due to the classification of all borrowings as non-current.

In total, Provisions–employee benefits increased by \$12.578m, 15.4%, to \$94.108m at 30 June 2009. The majority of the movement was due to the superannuation liability increasing by \$9.767m. This liability was determined by an independent actuarial assessment with the movement primarily attributable to lower interest rates at 30 June 2009 leading to the use of a lower discount rate resulting in an increased liability.

Property, plant and equipment (PPE) increased by \$384.633m (36.1%) from 2007–08. Major movements in the balance included:

- PPE capital works and additions completed by Aurora, \$134.054m
- PPE additions and capital works in progress related to AETV, \$268.444m
- revaluation of Aurora’s grid assets, \$36.155m

Offset by:

- depreciation expense of \$67.171m.

The valuation methodology applied to Aurora’s distribution assets (net book value at 30 June 2009 \$1.067bn) reflected 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.

The Deferred tax asset increased by \$150.788m from 2007–08 and included temporary differences relating to Aurora’s employee provisions and derivate liabilities. The significant increase was primarily due to the recognition of the Tasmanian hedge contract liabilities, recognised for the first time in 2008–09. The recognition of Tasmanian hedge contract assets had a similar impact on the Deferred tax liability, as noted in the following paragraph.

The Deferred tax liability increased by \$143.097m, 105.64%, from 2007–08 and included temporary differences relating to Aurora’s derivative assets (current and non current), Unbilled energy accrued receivable and non-current PPE assets (specifically revaluation increments). The Deferred tax liability increased due to the recognition of Tasmanian hedge contract derivative assets recorded on the Balance Sheet for the first time in 2008–09.

Intangible assets increased by \$13.585m, 40.15%, from 2007–08 and included costs associated with upgrades for the general ledger and billing systems.

Other non-current assets at 30 June 2009, \$17.044m predominantly included gas supply contracts held by AETV. Other non-current liabilities of \$4.446m also related to gas supply contracts held by AETV, which on valuation were deemed to be a liability.

The Provision – decommissioning costs, \$1.057m relates to AETV and was recognised on acquisition.

As at 30 June 2009, Aurora had the following significant guarantee facilities:

- \$75.000m (2007–08, \$124.100m) to AEMO as a requirement for NEM entry
- \$240.000m (\$100.000m) to meet ASIC’s requirements relating to Aurora’s Australian Financial Services licence.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	1 061 292	974 214	893 579	828 016
Payments to suppliers and employees	(884 913)	(864 050)	(753 295)	(710 305)
Interest received	1 514	1 844	1 409	3 273
Borrowing costs paid	(37 294)	(34 008)	(28 713)	(27 776)
Taxation paid	(14 119)	(14 363)	(9 570)	(17 104)
Cash from operations	126 480	63 637	103 410	76 104
Payments for intangible assets	(24 284)	(14 821)	(17 115)	(12 679)
Payments for property, plant and equipment	(432 380)	(120 102)	(107 194)	(121 757)
Payment for purchase of gas contracts and generation dispatch rights	(15 000)	0	0	0
Proceeds from sale of property, plant and equipment	939	1 319	7 269	1 505
Cash (used in) investing activities	(470 725)	(133 604)	(117 040)	(132 931)
Proceeds from borrowings	452 993	368 800	121 784	197 833
Repayment of borrowings	(75 500)	(318 800)	(78 000)	(173 304)
Dividends paid	(9 930)	(10 733)	(9 585)	(11 977)
Funds received pending issue of equity	2 900	0	0	0
Proceeds from issue of equity	100 000	0	344	0
Cash from financing activities	470 463	39 267	34 543	12 552
Net increase (decrease) in cash	126 218	(30 700)	20 913	(44 275)
Cash at the beginning of the year	2 572	33 272	12 359	56 634
Cash at end of the year	128 790	2 572	33 272	12 359

Comment

Aurora's cash position increased \$126.218m at 30 June 2009 mainly due to:

- increased Receipts from customers \$87.078m, due to the full impact of price increases
- proceeds from issue of equity received from the State government as a capital injection to assist in the purchase of AETV, \$100.00m
- increased net Proceeds from borrowings, \$327.493m, to fund capital works programs, the purchase of AETV, associated construction costs and gas contract purchases, and the payment of dividends.

These were offset by:

- increased Payments to suppliers, \$20.863m
- increased cash payments in investing activities for property, plant and equipment, \$312.278m, gas contracts, \$15.000m, and intangible assets, \$9.463m
- an increase in Borrowing costs paid due to additional borrowings, \$3.286m.

Included in the 30 June 2009 Cash balance was \$119.098m relating to a security deposit held by AEMO. The deposit was required due to the significant payable balance, of \$162.518m, for the

purchase of power in June 2009. This deposit will reduce significantly past balance date with the settlement of accrued expenses relating to the purchase of power and offsetting of market traded receivables.

At 30 June 2009 Aurora had a committed standby facility of \$240.000m, committed intra-day credit accommodation facility of \$30.000m, unused bank overdraft facility of \$1.000m and a corporate MasterCard facility balance of \$3.691m.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Net profit after tax (\$'000s)		9 100	27 071	32 335	22 342
EBIT (\$'000s)		47 883	74 280	75 750	60 445
EBITDA (\$'000s)		126 310	145 581	141 089	121 471
Operating margin	>1.0	1.01	1.05	1.06	1.04
Return on assets		2.5%	5.7%	6.3%	5.8%
Return on equity		2.0%	6.7%	8.8%	6.9%
Financial Management					
Debt to equity		180.0%	135.3%	125.4%	138.5%
Debt to total assets		36.1%	42.3%	38.8%	41.7%
Interest cover - EBIT	>2	1.2	2.1	2.5	2.1
Interest cover - cash from operations	>2	4.1	2.8	4.3	3.7
Current ratio	>1	0.80	1.13	0.65	0.68
Leverage Ratio		499%	320%	323%	332%
Cost of debt	6.9%	5.4%	6.5%	6.3%	6.3%
Debt collection	30 days	92	60	69	56
Creditor turnover	30 days	84	33	57	37
Total capital expenditure/depreciation		582%	189%	190%	220%
Returns to Government					
Dividends payable (\$'000s)		10 124	9 930	10 733	9 585
Dividend payout ratio	50%	111.3%	36.7%	33.2%	42.9%
Dividend to equity ratio	6%	2.2%	2.4%	2.9%	3.0%
Income tax paid (\$'000s)		9 948	12 194	16 041	10 381
Effective tax rate	30%	39.2%	40.7%	46.9%	50.2%
Government guarantee fees		2 214	1 498	1 843	1 492
Total return to the State (\$'000s)		22 286	23 622	28 617	21 458
Total return to equity ratio		4.8%	5.8%	7.8%	6.7%
Other Information					
Staff numbers (FTEs)		1 231	1 056	1 069	1 042
Average staff costs (\$'000s)		65	64	65	65
Average leave balance per FTE (\$'000s)		76	77	75	21

Comment

For the year ended 30 June 2009 Aurora's Profit before tax, superannuation liability losses, financial instrument fair value movements and customer contributions was \$25.400m, which decreased by \$4.551m, 15.19% from 2007-08.

Net profit before tax in 2008-09 totalled \$9.100m, resulting in a positive Operating margin. For the reasons noted previously, the Financial Performance ratios show that Aurora's profit deteriorated in the 2008-09 year. 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.

Debt to equity ratio fluctuated over the period under review with a significant increase in 2008-09. In previous years, the ratio was considered reasonable based on a debt/equity ratio of around 60:40, 150%. The 2008-09 ratio was well above this benchmark due to increased debt. The significant increase in debt levels was used to fund capital works, and to fund short-term security deposits with NEMMCO which were largely repaid to Aurora in July 2009, as noted in the Cash Flow section of this Chapter, with the Debt to total assets ratio decreasing in 2008-09.

Aurora recorded Interest cover ratios above the benchmark in each of the four years under review. Aurora apply an internal benchmark of 1.9.

As noted previously, Aurora's Current ratio was generally been well below the benchmark of one.

Aurora's Leverage ratio increased by 179% to 499% at 30 June 2009. The increase was due to the heavy investment in capital works in 2009, including at AETV.

Debt collection days remained reasonably consistent in the previous three years. The 2008-09 figure was abnormally high due to the significant increase in Receivables at year end as noted under the Balance Sheet section of this Chapter.

Creditor turnover days fluctuated above the benchmark in each of the years under review. The 2008-09 figure incorporated the year end accrual relating to power purchases from AEMO, which can vary significantly due to the nature of the spot price. However, Aurora pays its creditors within the benchmark and settles its AEMO payable within five weeks.

Aurora's Total capital expenditure/depreciation ratio was well above 100% in each of the years under review reflecting its significant investment in Property, plant and equipment. The 582% ratio for 2008-09 represents the strong capital works program and the construction of the power station by AETV.

Over the four year period, Aurora returned \$95.983m to the State or an average of \$23.996m per year, comprising, in total, dividends of \$40.372m, income taxation equivalents (paid or payable) of \$48.564m and guarantee fees of \$7.047m.

Aurora's average staff costs of \$65 000 and Average leave balances remained constant since 30 June 2005. Staff numbers increased by 175 due to AETV and the high level of the capital work program, which includes infrastructure construction and IT capital projects.

METRO TASMANIA PTY LTD

INTRODUCTION

Metro Tasmania Pty Ltd (Metro or the company) is a State-Owned Company that provides public urban road transport services in the urban areas of Hobart, Launceston and Burnie under service contracts with the Tasmanian Government through the Department of Infrastructure, Energy and Resources (DIER). It also provides passenger transport services to a number of non-urban areas around Hobart and Burnie 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.

The Responsible Minister is the Minister for Infrastructure.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed financial statements of Metro were received on 13 August 2009 and an unqualified audit report was issued on the same day.

The 2008-09 audits were completed satisfactorily with no major items outstanding.

Matters reported to management and the Board included the need to address monthly stock take variances and approximately 60 employees having either annual leave balances in excess of 40 days, or long service leave balances in excess of 80 days. Management is addressing these matters.

Our ratio analysis in this Chapter also highlighted that during 2008-09 Metro's:

- Current ratio, a measure of working capital, decreased from 1.38 to 0.96. A ratio of greater than one is acceptable in most industries and the decreasing trend is something the Metro Board and Management need to monitor.
- Self financing ratio decreased from 8.9% to 6.7% in 2008-09. This ratio measures Metro's ability to fund the replacement of assets from cash generated from operations. The low ratio may indicate sufficient cash may not be generated to replace assets. 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 may have to consider alternative mechanisms for raising funds to replace assets including borrowings, leasing, grants and/or improving profitability.

Significant developments during the year included Metro signing a New Services Contract (NSC) with the Government (via DIER), on 23 December 2008 for the period 1 January 2009 – 31 December 2013 (with a further five year option). Metro has continued to finalise the negotiations for this contract and its other non-urban contracts to ensure that contract payments are sustainable in the long-term helping Metro to meet its capital and operational expenditure.

Also, during 2008-09, Metro committed itself to two major capital projects:

- the purchase of 18 standard buses for \$8.000m (eight of which related to 2007-08)
- the purchase of a new ticketing system for a contract price of \$3.333m.

In 2008-09, Metro made instalments of \$3.897m (2007-08, \$3.769m) and \$1.218m (\$0.666m) towards payments of buses and the ticketing system, respectively, leaving \$4.535m committed to be funded over the next two years. This requirement was in addition to Metro funding operational activities. Metro generated \$2.793m in 2008-09 (2007-08, \$4.293m) in cash from its operating activities. Given this and the low rate of return on assets, it appears that Metro will struggle to generate enough cash to fund this level of capital expenditure in any one financial year. However, part of this commitment relates to previous years and funds have been invested and set aside for this significant capital expenditure. To finalise these key projects Metro plans to draw on its remaining cash reserves though this will negatively impact its capacity to earn interest revenues. Interest revenue decreased substantially in 2008-09 from \$0.925m to \$0.325m. Interest revenue was a significant contributor to net profit and cash generated in previous years as cash was being accumulated to meet future capital expenditures.

Metro receives the majority of its revenue from the contract with DIER, approximately 70%. As a result of this Government contribution it remains economically dependent on the State Government for its continued operations. In 2008-09 the contribution was \$29.148m (2007-08, \$27.845m), an increase of 4.6% over the period.

During the year Metro continued with its major bus replacement program aimed at:

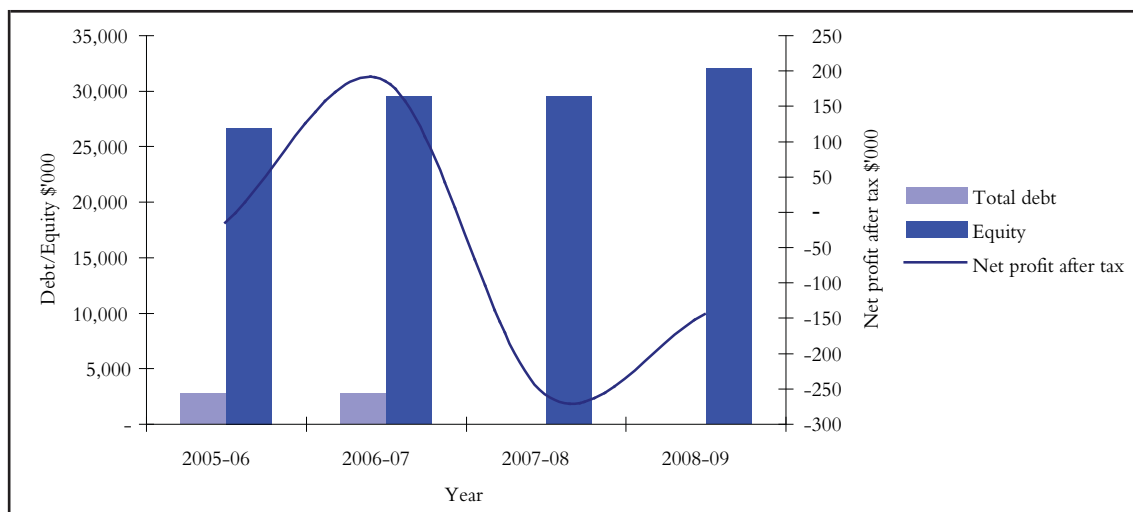
- stabilising the average age of its vehicle fleet at around 12 years
- meeting the requirements of the *Commonwealth Disability Discrimination Act 1992*
- providing Metro customers and staff with a fleet of modern, convenient and comfortable vehicles.

This program was designed to ensure 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 18 buses and implementation of a new ticketing system during 2009.

FINANCIAL RESULTS

Metro operated at a net loss after tax in three of the four year's under review generally reflecting the position that its contract with DIER is aimed at Metro breaking even. Despite this, its Equity increased primarily due to revaluations of its bus fleet.

The graph below shows the trend in performance, debt levels and equity for the past four years.



The graph confirms that except for 2006-07, Metro recorded deficits after tax. Metro reduced borrowings over the four year period as reflected in the Debt bar. Debt was fully repaid in 2007-08. Equity increased over the period under review.

INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Government contribution	29 148	27 845	26 421	24 939
Fare revenue	10 647	10 301	9 943	9 490
Other operating revenue	1 791	1 661	1 653	1 412
Gain on sale of non-financial assets	28	57	181	58
Total Revenue	41 614	39 864	38 198	35 899
Borrowing costs	0	124	175	173
Depreciation	3 565	3 067	3 050	3 131
Administration	2 102	2 014	2 143	3 793
Employee expenses	26 371	24 455	23 035	21 679
Other operating expenses	10 087	10 504	9 488	7 093
Total Expenses	42 125	40 164	37 891	35 869
Profit (Loss) before Taxation	(511)	(300)	307	30
Income tax expense	365	41	(123)	(46)
Net Profit (Loss)	(146)	(259)	184	(16)

Comment

Loss before Taxation increased in comparison to the prior year. Overall, Total revenues increased by 4.39% whilst expenses (not including tax) increased by 4.88%. While this differential is reasonably small in percentage terms, it represented approximately a \$0.211m decrease in profitability which had a detrimental effect on Metro's ability to break-even, as required by the existing Shareholders Expectation Statement. It should be noted that a new draft Shareholders Expectations Statement is being drafted which we understand will remove the reference to achieving a break-even outcome.

The main factors contributing to higher Net loss in 2008-09 were:

- Government contribution increased by 4.6%, \$1.303m, in comparison to prior year. In 2008-09 this revenue source represented 70% (2007-08, 70%) of Metro's total revenue
- Fare revenue grew by 3.59%, \$0.370m. This was due to an increase in patronage, 1.3%, fare increases and additional service contracts taken over during the year
- Other operating revenue increased by \$0.106m. This was predominately due to the inclusion of \$0.325m for the sale of the New Norfolk service contract and \$0.455m related to funding from councils for the joint grant application for National Crime Prevention Program. Councils and Metro were granted funding from the Federal government for Closed Circuit TV. This increase was offset by decreased interest revenue of \$0.610m
- Gain on sale of fixed assets varies from year to year in line with Metro's asset replacement program.

The effects of the foregoing were offset partly by higher:

- Depreciation expense of 16.24%, \$0.498m, due to the full year effect of four new buses in 2007-08 as well as 18 new buses in 2008-09
- Employee expenses of 7.8% in 2008-09, from \$24.455m to \$26.371m, due mainly to a 4% wage increase and additional wages for new service contracts together with higher than expected increases in superannuation and workers compensation expenditure. The average number of Full-time equivalents (FTE's) remained relatively constant over the period.

Metro realised an Income tax benefit of \$0.365m during the current period (2007-08 benefit of \$0.041m) primarily as a result of incurring a loss before income tax from its operations.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	4 327	9 000	13 446	11 246
Receivables	809	713	609	635
Inventories	917	919	849	853
Assets classified as held for sale	511	861	67	242
Other	1 017	696	564	571
Total Current Assets	7 581	12 189	15 535	13 547
Payables	2 575	3 649	2 621	3 187
Borrowings	0	0	2 792	0
Provisions - leave and other	4 209	3 977	3 735	2 894
Provisions - superannuation	1 097	4 441	4 443	3 720
Total Current Liabilities	7 881	12 067	13 591	9 801
Working Capital	(300)	122	1 944	3 746
Property, plant and equipment	45 604	38 702	36 889	33 076
Investments				-
Intangible assets	254	346	367	166
Deferred tax assets	10 201	9 848	10 038	9 777
Total Non-Current Assets	56 059	48 896	47 294	43 019
Borrowings	0	0	0	2 792
Provisions - leave and other	601	560	667	900
Provisions - superannuation	18 017	13 757	13 787	12 579
Deferred tax liabilities	5 109	5 162	5 269	3 809
Total Non-Current Liabilities	23 727	19 479	19 723	20 080
Net Assets	32 032	29 539	29 515	26 685
Capital	15 503	15 503	15 503	15 503
Reserves	12 587	10 069	10 317	6 785
Retained earnings	3 942	3 967	3 695	4 397
Total Equity	32 032	29 539	29 515	26 685

Comment

Equity increased during 2008-09 due to a revaluation of its land and buildings in Burnie, Launceston and Hobart leading to the higher Asset revaluation reserve. This was offset by the Net loss after tax of \$0.146m.

Net Assets increased in 2008-09 by \$2.493m due to:

- increased Property, plant and equipment of \$6.902m. This increase was mainly due to additional buses purchased over the period, \$8.009m, (2007-08, \$1.811m) and the revaluations of Land and buildings referred to earlier, \$2.491m. These increases were offset by Depreciation of \$3.418m (\$3.067m)
- increased Other assets, \$0.321m, mainly due to higher premiums for prepaid comprehensive bus insurance, \$0.264m. The increase was due to higher insurance claims in the previous year including a significant claim for a bus destroyed by fire
- decreased Payables, \$1.074m. This was due to decreases in Trade creditors, \$0.448m, and Accrued workers compensation, \$0.619m. Trade creditors decreased as the prior year balance included a Scania invoice, \$0.534m, for the purchase of new busses. The workers compensation accrual decreased as during the year as Metro was required to make adjustments under burner cost policies in the order of \$0.700m. These amounts had been accrued in previous years and were now due and payable based on claims experience.

The effects of the foregoing were offset in part by:

- decreased Cash and cash equivalents by \$4.673m. The decrease was attributable to capital purchases and is discussed in more detail in the Cash Position section of this Chapter
- increased Employee Provisions - leave and other of \$1.091m. The increase was mainly due to the increase in Provision for superannuation, \$0.916m which was due to the RBF defined benefits valuation as assess by the State actuary. The general increase in Employee provisions was due to a 4% pay rise during the year and application of a lower discount rate when calculating long service leave.

Metro recognises Deferred tax asset and liability balances in its Balance Sheet. These balances mainly related to defined benefit superannuation, net losses and differences between tax and accounting values of Property, plant and equipment.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	43 596	40 707	38 687	37 355
Payments to suppliers and employees	(41 118)	(37 215)	(35 280)	(34 644)
Interest received	315	925	890	660
Borrowing costs	0	(124)	(175)	(173)
Cash from operations	2 793	4 293	4 122	3 198
Proceeds from investments				0
Payments for property, plant and equipment	(7 566)	(6 050)	(2 662)	(4 024)
Proceeds from sale of property, plant and equipment	100	103	740	423
Cash (used in) investing activities	(7 466)	(5 947)	(1 922)	(3 601)
Repayment of borrowings	0	(2 792)	0	(35)
Cash (used in) financing activities	0	(2 792)	0	(35)
Net increase (decrease) in cash	(4 673)	(4 446)	2 200	(438)
Cash at the beginning of the year	9 000	13 446	11 246	11 684
Cash at end of the year	4 327	9 000	13 446	11 246

Comment

Overall the Net decrease in cash in 2008-09, \$4.673m, was similar to that recorded in 2007-08 primarily reflecting Metro's continued bus replacement program and, in 2007-08, repayment of debt. The main movements are discussed below.

Cash from operations decreased by \$1.500m mainly due to decreased Interest received of \$0.610m. This decrease was due to lower interest rates and cash holdings.

Cash used in investing activities increased in 2008-09 primarily due to the purchase of additional buses and a new ticketing system, which at 30 June 2009 was work in progress.

Cash used in financing activities reduced to nil as loans were fully repaid in 2007-08.

To a large extent the cash holdings at 30 June 2009 were committed for future bus purchases and paying for the new fare collection system.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Profit/(Loss) (\$'000s)		(511)	(300)	307	30
EBIT (\$'000s)		(511)	(176)	482	203
Operating margin	>1.0	0.99	0.99	1.00	1.00
Return on assets		(0.8%)	(0.3%)	0.8%	0.4%
Return on equity		(0.5%)	(0.9%)	0.7%	(0.1%)
Underlying Result Ratio		(1.2%)	(0.8%)	0.8%	0.1%
Financial Management					
Debt to equity		-	-	9.5%	10.5%
Debt to total assets		-	-	4.4%	4.9%
Interest cover	>2	-	(1.42)	2.8	1.2
Current ratio	>1	0.96	1.01	1.14	1.38
Leverage ratio		198.7%	206.8%	212.9%	212.0%
Cost of debt	6.9%	-	8.9%	6.3%	6.2%
Debt collection	30 days	7	6	5	5
Creditor turnover	30 days	22	37	20	31
Self Financing Ratio		6.7%	10.8%	10.8%	8.9%
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)		29 148	27 845	26 421	24 939
Other Information					
Average staff numbers (FTEs)		377	369	367	361
Average staff costs (\$'000s)		70	66	63	60
Average leave balance per FTE (\$'000s)		13	12	12	11

Comment

The lower Profit/(Loss) and EBIT are commented upon in the Income Statement section of this Chapter.

As mentioned previously, due to the contract with Government historically 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 was confirmed by the low Return on assets, low Return on equity and no return to the State in the form of taxes and dividends.

Underlying result ratio steadily dropped over the period, from 0.1% in 2005-06 to (1.2%) in 2008-09. This was consistent with the weakening operating result caused by reduced interest revenue, higher depreciation expenditure and employee benefits as against relatively static revenue.

Current ratio, a measure of working capital, decreased from 1.38 to 0.96. A ratio of greater than one is acceptable in most industries and the decreasing trend is something the Metro Board and Management need to monitor.

Self financing ratio decreased from 10.8% to 6.7% in 2008-09. This ratio measures Metro's ability to fund the replacement of assets from cash generated from operations. The low ratio may indicate sufficient cash are not being generated. 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 borrowings over the four year period as reflected in the Debt to equity and Debt to total assets ratios over this period. The 2008-09 Leverage ratio of 198.7% reflected a balance sheet where assets are twice the amount of liabilities. This indicated that there is capacity for Metro to borrow, however this will depend upon Metro being able to generate enough cash to service any borrowings.

Average staff costs rose during the four years, primarily because of general wage increases. Average employee leave balances increased only slightly over the same period with the defined benefit superannuation constituting 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 operators¹ as at 30 June 2007

Ratio	Metro at 30 June 2009	Urban transport government trading enterprises at 30 June 2007²
Return on assets	0.8%	2.9%
Return on equity	0.5%	(22.2)%
Debt to equity	0.0%	31.2%
Debt to assets	0.0%	22.4%
Current ratio	96%	34.4%
Leverage ratio	198.7%	149.7%
Grant revenue ratio	70.0%	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% compared to Metro's 70%.

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*. Until 1 January 2009 it was also responsible for the development of an efficient and effective racing and breeding industry under the *TOTE Tasmania Act 2000*. These responsibilities were transferred to the Tasmanian Racing Board (TRB) on 1 January 2009. 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 three directors who are appointed by the Government.

The Responsible Minister is the Minister for Racing.

At balance date, the consolidated entity comprised the Company and the following wholly owned subsidiaries:

- TasRadio Pty Ltd, a commercial radio broadcaster, which provides race broadcasts throughout most of Tasmania
- Agility Interactive Pty Ltd (Agility) acquired 1 July 2008, a software developer which provided and enhanced the interactive products used by the customers of the TOTE.

The financial information presented in this Chapter represents the consolidated results and financial position of the Company and its subsidiaries, noting that some of the racing responsibilities of the Company were divested from 1 January 2009 as is further detailed below.

On 8 January 2008, the Government announced that it intended to explore the potential sale of TOTE. Through the appointed sale advisors, an Information Memorandum was released in June 2009 and indicative bids for the purchase of the Company were sought. The closing date for the bids was 14 July 2009. The result of that bidding process has not been reported to date and TOTE has continued to operate on a "business as usual" basis.

The passage of the *Racing Regulation Amendment (Governance Reform) (Transitional and Consequential Provisions) Act 2008* had a significant impact on operations of the Company. The Act transferred all responsibilities the Company had for the administration and conduct of racing in Tasmania to the TRB from 1 January 2009. As a result of the creation of the TRB, the Income Statement contains six months of income and expenditure that relates to the administration of racing. TOTE's Balance Sheet was also impacted as assets and liabilities as at 31 December 2008 relating to racing were transferred to the TRB.

The Sportsbet pooling agreement was terminated by Tabcorp and ceased on 29 May 2009. TOTE entered into a joint venture with two other betting agencies to establish a new pool operator for its sportsbet product. This required significant development work and a re-branding of the wagering product.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 25 August 2009 and an unqualified audit report was issued on the following day.

The audit was completed satisfactorily with no major items outstanding.

Audit findings reported to management and the Board noted improvements needed in the following areas:

- security management of electronic funds transfers and the frequency of changing passwords at the operator and administrator level
- the lack of a policy dealing with the risk of fraud
- improvements needed regarding general journal and payment controls and over controls relating to Cash at Outlets and the recording thereof
- need to deal more promptly with outstanding cheques as part of monthly bank reconciliation
- removing as signatories to bank accounts employees who had left TOTE.

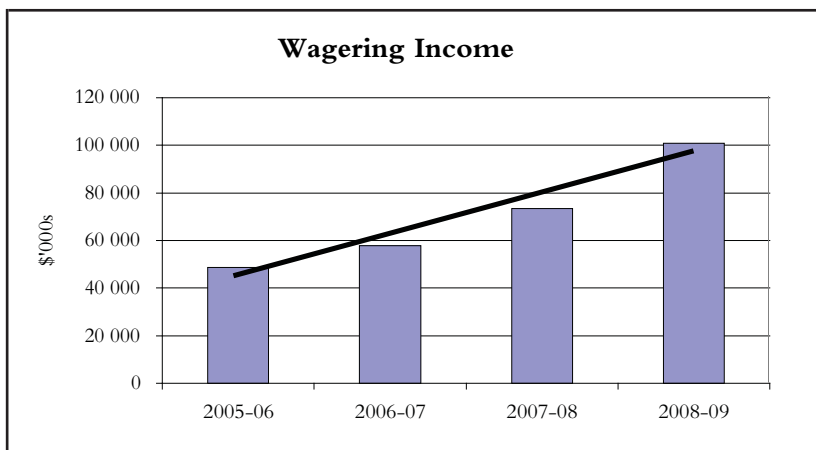
Actions to remedy these matters are either underway or have been completed.

FINANCIAL RESULTS

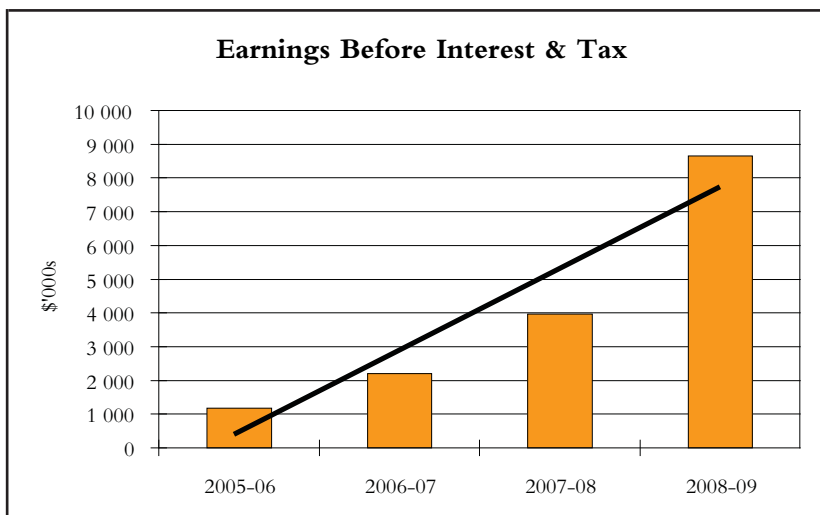
Over the four year period to 30 June 2009, TOTE's net profit increased steadily primarily due to higher wagering income which increased by 108% over this period. The increase in wagering income resulted from:

- attracting large non-retail customers to TOTE through the use of incentives such as commissions and rebates
- providing customers with internet, telephone and interactive options
- having a comprehensive range of pari-mutuel and fixed odds wagering products
- a presence in major wagering pools
- development of alliances with other agencies such as Betfair.

The graph below illustrates TOTE's higher wagering performance:



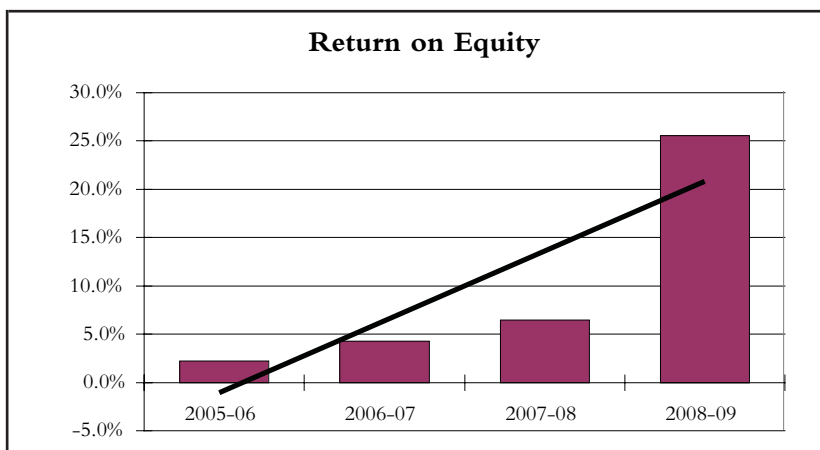
The graph below shows TOTE's net profit for the four years before tax and interest paid and before GST recovered and capital payments to the TRB:



This graph confirms TOTE's improving profitability over the period under review.

During 2008-09 Net Assets totalling \$45.596m were transferred to the TRB resulting in Consolidated Net Assets of \$4.905m as at 30 June 2009 (\$46.104m at 30 June 2008).

The graph below illustrates the impact on TOTE's Return on equity of the lower equity balance:



A higher profit in 2008-09 and a lower equity, due to the assets transferred to the TRB, resulted in a significant increase in the Return on equity ratio.

INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Investments from customers	746 613	498 412	387 106	321 584
Settlement from other TABs	62 783	45 225	31 243	24 907
Cost of dividends and taxes	(708 389)	(470 064)	(360 611)	(297 905)
Wagering Income	101 007	73 573	57 738	48 586
Other income from operating activities	7 604	12 171	14 110	12 613
Total Income	108 611	85 744	71 848	61 199
Employee benefits expense	(11 448)	(10 995)	(11 178)	(8 916)
Prizemoney, benefits and incentives	(8 175)	(20 119)	(20 105)	(18 226)
Wagering and pooling fees	(14 709)	(12 426)	(8 894)	(7 017)
Depreciation and amortisation expense	(3 082)	(3 499)	(3 479)	(3 804)
Borrowing and leasing costs	(1 556)	(1 433)	(1 411)	(1 330)
Commission expense	(33 638)	(16 317)	(9 079)	(7 306)
Communication and broadcasting expenses	(6 625)	(5 979)	(5 504)	(4 800)
Racing administration expenses	(1 860)	(3 266)	(2 914)	(3 010)
Administration expenses	(4 366)	(3 674)	(3 343)	(2 856)
Distribution to Tasmanian Racing Board	(10 410)	0	0	0
Other expenses	(4 030)	(3 957)	(3 626)	(2 679)
Total Expenses	(99 899)	(81 665)	(69 533)	(59 944)
Profit before taxation, GST recovered and capital contribution to the TRB	8 712	4 079	2 315	1 255
GST recovered	9 448	0	0	0
Capital transferred to TRB	(8 392)	0	0	0
Income tax effect of these items	(317)	0	0	0
Profit before taxation	9 451	4 079	2 315	1 255
Income tax expense	(2 937)	(1 214)	(556)	(378)
Net Profit	6 514	2 865	1 759	877

Comment

For the year ended 30 June 2009 TOTE generated a Profit before tax, GST recovered and capital transfers to the TRB of \$8.712m, an increase of \$4.633m on that generated in 2007-08. This increase is broadly in line with the growth in wagering income.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Current Assets				
Cash and cash equivalents	3 071	6 145	4 897	4 419
Trade and other receivables	5 264	5 574	4 321	4 634
Consumables stores	92	82	76	66
Prepayments	174	553	363	403
Total Current Assets	8 601	12 354	9 657	9 522
Current Liabilities				
Telephone betting deposits	9 021	5 062	3 654	3 247
Dividends and refunds due and unpaid	1 033	789	783	630
Accruals and accounts payable	7 978	8 052	5 142	7 556
Income received in advance	0	16	16	16
Bonds on deposit	283	287	298	296
Borrowings - unsecured interest bearing	0	0	0	500
Deferred taxation liabilities	97	0	0	0
Income tax payable	2 678	572	146	96
Provisions - superannuation	0	167	146	124
Provisions - leave and other	700	956	863	785
Racing industry funds	0	6	89	113
Total Current Liabilities	21 790	15 907	11 137	13 363
Working Capital	(13 189)	(3 553)	(1 480)	(3 841)
Non-Current Assets				
Property, plant and equipment	5 518	47 396	43 129	42 940
Deferred tax assets	0	499	706	708
Intangibles	8 552	5 753	3 864	3 150
Goodwill	4 150	0	0	0
Total Non-Current Assets	18 220	53 648	47 699	46 798
Non-Current Liabilities				
Borrowings - unsecured interest bearing	0	1 500	1 500	1 000
Income received in advance	0	47	62	78
Provisions - superannuation	0	2 317	2 309	1 613
Provisions - leave and other	126	127	100	99
Total Non-Current Liabilities	126	3 991	3 971	2 790
Net Assets	4 905	46 104	42 248	40 167
Equity				
Contributed equity	0	22 600	22 600	22 600
Retained earnings	4 600	18 859	15 003	12 922
Asset revaluation reserve	305	155	155	155
Equity transfer - Racing Tasmania	0	4 490	4 490	4 490
Total Equity	4 905	46 104	42 248	40 167

Comment

At 30 June 2009, TOTE's equity totalled \$4.905m a decrease of \$41.992m from 2007-08. The decrease was primarily due to:

- transfer of Net Assets totalling \$45.597m to the TRB. The breakdown of the transfer was:
 - Cash \$2.814m
 - Other current assets \$1.170m
 - Property, plant and equipment \$46.985m
 - Other current liabilities \$0.783m
 - Employee entitlements \$0.275m
 - Loan – Tascorp \$1.500m
 - Unfunded superannuation liability \$2.814m
- Telephone betting deposits increased by \$3.959m as a result wagering turnover and additional large non-retail customers
- Income tax payable increased by \$2.678m which related to the wagering turnover result.

The above factors were offset in part by:

- Intangibles increased to \$2.799m with new software developments such as two new wagering products and the new sports betting arrangement
- Goodwill increased to \$3.996m with the acquisition of Agility and resulted in:
 - reduction in cash \$4.000m
 - increase in equipment \$0.004m
 - increase in goodwill \$3.996m
- Accruals and accounts payable marginally declined. However, there were large decreases in racing related creditors offset by new creditors for commissions and rebates payable to non-retail customers and race field fees payable to interstate racing jurisdictions
- Borrowings decreased by \$1.500m with the transfer of the loan to TRB
- Provisions – superannuation decreased by \$2.317m with the transfer of employees who were members of the defined benefit fund to the TRB.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers and other				
TABs	422 007	266 841	249 511	227 803
Other receipts	7 171	13 035	14 868	11 744
Interest received	476	463	333	758
GST recovery	9 448	0	0	0
Payments to customers	(318 397)	(193 118)	(190 798)	(179 180)
Payments to suppliers and employees	(83 581)	(76 233)	(68 799)	(53 533)
Borrowing costs	(54)	(109)	(71)	(88)
Payments to the Tasmanian Racing Board	(18 802)	0	0	0
Other payments	(1 194)	(582)	(504)	(618)
Cash from operations	17 074	10 297	4 540	6 886
Payments for property, plant and equipment	(11 307)	(10 112)	(4 417)	(21 789)
Proceeds from sale of property, plant and equipment	0	72	32	315
Proceeds of loans to external parties	0	991	323	137
Acquisition of Agility cash at bank	153	0	0	0
Investment in subsidiary	(4 000)	0	0	0
Release of racing reserves	(4 993)	0	0	0
Cash (used in) investing activities	(20 147)	(9049)	(4 062)	(21 337)
Net increase (decrease) in cash	(3 073)	1 248	478	(14 451)
Cash at the beginning of the year	6 145	4 897	4 419	18 870
Cash at end of the year	3 072	6 145	4 897	4 419

Comment

During 2008-09 cash decreased \$3.073m to \$3.072m. This compared to an increase in cash during 2007-08 of \$1.248m. This outcome is explained as follows:

- Payments to customers increased by \$125.279m for dividends, commissions and rebates paid in relation to wagering operations
- Payments to supplies and employees increased by \$7.348m for the cost of consultants and contractors used in software development and the potential sale of TOTE
- Funding for TRB operations of \$18.802m, which included a capital injection for infrastructure works
- Increased payments for property, plant and equipment of \$0.925m mainly for software development for new pari-mutuel and sports bet products
- Investment of \$4.000m for the acquisition of Agility
- Release of racing reserves of \$4.993m which represented payment from equity of amounts owing to the racing clubs.

The above factors were partly offset by:

- Receipts from customers and other TABs increased to \$155.166m due to more large non-retail customers and TOTE customers winning a larger share of wagering pools.

Dividends have not been paid since 2004-05. The non payment of dividends has assisted TOTE fund its capital expenditure program. TOTE also contributed its own funds (over and above funds from government) in investments in racecourse leasehold improvements over the last six years. These assets were transferred to the TRB.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Profit/(Loss) (\$'000s)		8 712	4 079	2 315	1 255
EBIT (\$'000s)		8 658	3 971	2 208	1 167
Operating margin	>1.0	1.09	1.05	1.03	1.02
Return on assets		18.7%	6.4%	3.9%	2.2%
Return on equity		25.5%	6.5%	4.3%	2.2%
Underlying result ratio		6.0%	3.3%	2.4%	1.4%
Financial Management					
Debt to equity		0.0%	3.3%	3.6%	3.7%
Debt to total assets		0.0%	2.3%	2.6%	2.7%
Interest cover	>2	160.33	36.77	20.64	13.26
Current ratio	>1	0.39	0.78	0.87	0.71
Cost of debt	6.9%	7.2%	7.2%	7.1%	5.8%
Debt collection	30 days	27	55	57	53
Creditor turnover	30 days	48	42	34	57
Self financing ratio		15.7%	12.0%	6.3%	11.3%
Returns to Government					
Dividends paid or payable (\$'000s)		0	0	0	0
Income tax paid or payable (\$'000s)		2 678	572	146	96
Effective tax rate	30%	30.7%	14.0%	6.3%	7.6%
Total return to the State (\$'000s)		2 678	572	146	96
Total return to equity ratio		54.6%	1.2%	0.3%	0.2%
Other Information					
Average staff numbers (FTEs)		110	143	132	136
Average staff costs (\$'000s)#		92	76	85	60
Average leave balance per FTE (\$'000s)		14	8	7	7

Figures for 2005-06 and 2006-07 are not available.

Comment

Returns on equity and assets ratios, improved significantly in 2008-09 compared to prior years. This was primarily due to higher profitability of the business as noted in the Income Statement section and the reduction of equity in 2008-09. Consequently the Operating Margin improved over the four year period.

Return on assets and equity significantly improved in 2008-09 due to improved profitability and the smaller net asset base with the transfer of racing assets to TRB.

In the four year period of review the Underlying result ratio, which measures the strength of TOTE's operating result, improved each year. The low Debt to equity and Debt to total assets and the very strong Interest cover ratios confirmed TOTE's low reliance on debt to fund its activities.

Current ratio, while below benchmark, dipped significantly in 2008-09 due to increased telephone betting account balances and a drop in cash held. TOTE managed its business over the four year period on a Current ratio less than benchmark.

Debt collection fell to a new low as TOTE no longer administered racing related debts which were historically slow in being paid.

Creditor turnover increased to 48 days as at 30 June 2009 when there were large amounts owing for race field fees and commissions. There was also a large Tabcorp settlement due at 30 June 2008.

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 2005-06 to 14.5% in 2008-09. This was primarily due to increased cash flows from wagering revenue over the period.

Average staff costs increased significantly in 2008-09. This was primarily due to the acquisition of Agility, higher number of staff within the Information Technology Group to support business growth, increased operating hours for the call centre and the transfer of employees to TRB. Average leave balance per FTE also increased due to lower FTE following the transfer of employees to the TRB.

Returns to the State solely related to income tax payable. The Directors again resolved that no dividends would be paid in respect of the 2008-09 financial year.

TRANSEND NETWORKS PTY LTD

INTRODUCTION

Transend Networks Pty Ltd (Transend - or the Company) was established under the *Electricity Companies Act 1997* and 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 and Resources 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. The Company owns 3650 circuit kilometres of transmission lines, 47 substations and nine switching stations. Transend is a participant in Australia's National Electricity Market (NEM). The NEM operates on an interconnected power system that extends from Queensland to South Australia. Tasmania is connected to the NEM via Basslink.

In November 2008, Transend acquired a telecommunications business from Hydro Tasmania. This business (now known as Transend Communications Services) serves customers in the electricity supply industry and other external customers.

The Responsible Minister is the Minister for Energy and Resources.

The board comprises seven directors, including the Managing Director.

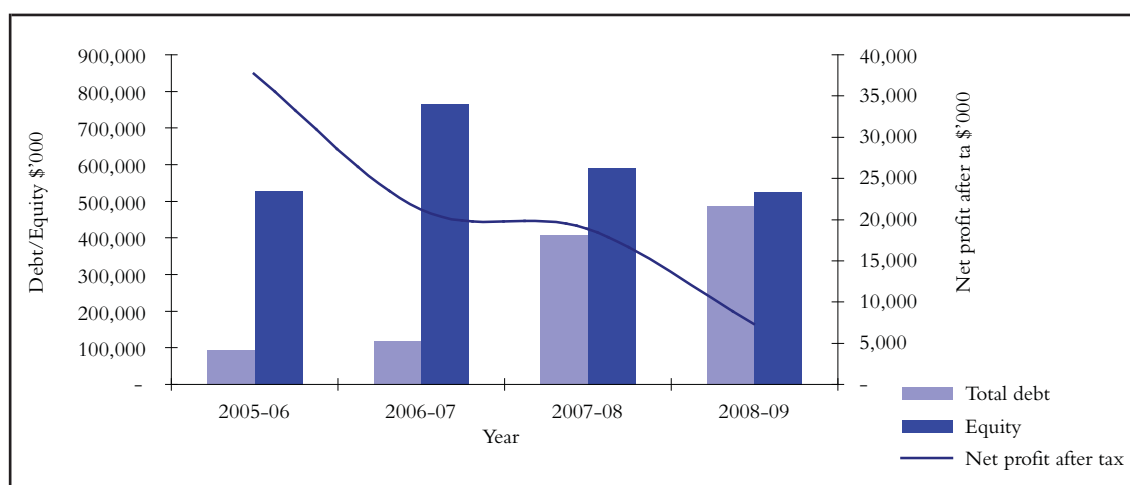
AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 27 August 2009 and an unqualified audit report was issued on 8 September 2009.

The 2008-09 audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

Transend's 2008-09 financial performance and financial position was underpinned by the change in the debt/equity structure that occurred in 2007-08 resulting in significantly higher finance costs. The graph below shows the trend in performance, debt levels and equity for the past four years.



Whilst Transend's Total revenue increased \$22.609m in 2008-09, Net profit after tax decreased \$11.495m with the majority of this being driven by:

- higher depreciation expense, increase of \$7.057m in 2008-09, resulting from Transend's continued significant capital expenditure program
- higher defined benefit plan superannuation expense, increase of \$7.481m
- higher finance costs, increase of \$21.914m, driven by the increase in borrowings.

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. Transend also undertook further borrowings in 2008-09 to fund its major infrastructure developments which resulted in total debt at 30 June 2009 of \$488.000m (30 June 2008, \$408.677m). As a consequence, Transend's finance costs were \$32.413m for 2008-09 (2007-08, \$10.499m).

INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Transmission use of system (TUOS)	144 223	130 120	123 294	115 098
Other revenue	14 396	6 554	4 480	5 027
Total Revenue	158 619	136 674	127 774	120 125
Finance costs	(32 413)	(10 499)	(6 513)	(4 150)
Depreciation and amortisation expense	(58 552)	(51 495)	(45 976)	(35 461)
Other operating expenses	(49 165)	(46 085)	(40 927)	(38 118)
Total Expenses	(140 130)	(108 079)	(93 416)	(77 729)
Profit before:	18 489	28 595	34 358	42 396
Defined benefit plan superannuation expenses	(9 266)	(1 785)	(4 277)	1 204
Gifted assets	0	0	0	10 047
Gain on acquisition of business	664	0	0	0
Profit before taxation	9 887	26 810	30 081	53 647
Income tax expense	(2 655)	(8 083)	(8 949)	(16 099)
Net Profit	7 232	18 727	21 132	37 548

Comment

In 2008-09, Transend recorded a Profit, before defined benefit plan superannuation expense, gifted assets and taxation of \$19.153m, compared to \$28.595m in the prior year. The decrease in the profit of \$9.442m, or 33.02%, in 2008-09 was primarily due to:

- an increase in borrowing costs of \$21.914m due to the full impact of the debt transfer from Hydro which occurred on 30 June 2008 therefore not impacting 2007-08
- additional depreciation and amortisation expense of \$7.057m, as a result of significant additions to property, plant and equipment.

The increase in these costs was offset by:

- transmission revenue increasing \$14.103m, or 10.84%, due to higher transmission service billings in accordance with the Australian Competition and Consumer Commission (ACCC)

revenue determination. In 2008-09 Transend received the Australian Energy Regulator's (AER) final decision on revenue for the period 2009-10 to 2013-14. The AER's decision resulted in an increase in the revenue determination of 14.2% for 2009-10

- other income increased \$7.842m primarily due to the acquisition of the Communications business in November 2008 from Hydro Tasmania. This business was renamed Transend Communications Services.

The movement in Transend's defined benefit superannuation expense fluctuated in the four years under review, with a significant increase in the expense of \$7.481m in 2008-09. The movement was caused by changes in discount rates, a change in the treatment of the contributions tax liability and changes in the value of contributory scheme assets and liabilities.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	23 775	21 499	158	29
Receivables	24 970	22 943	17 692	19 589
Inventories	423	423	488	152
Current tax assets	5 260	0	0	0
Other	6 084	811	691	551
Total Current Assets	60 512	45 676	19 029	20 321
Payables	35 681	24 825	15 951	16 162
Borrowings	0	408 677	38 059	27 724
Employee benefits	6 114	4 680	4 137	3 870
Superannuation	1 035	4 613	4 378	2 764
Current tax liability	0	2 436	5 162	7 067
Other	33 037	32 019	10 951	17 106
Total Current Liabilities	75 867	477 250	78 638	74 693
Working Capital	(15 355)	(431 574)	(59 609)	(54 372)
Property, plant and equipment	1 241 180	1 259 312	1 110 452	761 297
Other	4 266	1 514	353	572
Total Non-Current Assets	1 245 446	1 260 826	1 110 805	761 869
Borrowings	488 000	0	80 000	65 053
Employee benefits	1 322	1 004	820	585
Superannuation	34 116	18 492	17 852	15 453
Deferred tax liability	181 269	218 390	187 905	97 898
Total Non-Current Liabilities	704 707	237 886	286 577	178 989
Net Assets	525 384	591 366	764 619	528 508
Capital	66 549	66 549	336 549	336 549
Reserves	388 338	452 192	359 172	125 419
Retained earnings	70 497	72 625	68 898	66 540
Total Equity	525 384	591 366	764 619	528 508

Comment

Total equity decreased \$65.982m during 2008-09 due predominately to:

- recorded net profits after taxation of \$7.232m (2007-08, \$18.727m), less the dividend paid during the year of \$9.360m (\$15.000m)
- Net revaluation decrements of \$63.854m, net of tax effect, as a result of the network assets revaluation undertaken in 2008-09.

Corresponding to the decrease in Total equity, Net Assets also decreased by \$65.982m. This mainly related to:

- Decreased Property, plant and equipment of \$18.132m. This decrease was attributable to:
- a revaluation of network assets resulted in a net decrement of \$91.364m (2007-08, increment of \$133.334m) and depreciation expense for 2008-09 of \$58.552 (\$51.495m)

Offset by:

- capital expenditure during the period of \$109.933m (2007-08, \$67.055)
- acquisition of the Communications business of \$20.071m.

Following from the full independent valuation of Transend's asset network undertaken in 2006-07, the independent valuer was again engaged in 2008-09 to assess the fair value of these assets.

The decrease in 2008-09 was attributed to the revised valuation approach which uses long-term average annual network asset cost escalation rates

- Increased Total borrowings of \$79.323m in 2008-09 used to fund capital expenditure and purchase of the Communications business. 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.

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 in 2008-09. Transend renegotiated this debt and the debt is now classified as non-current consistent with the renegotiation period of 2013-14.

- Defined benefits superannuation liability increased by \$12.046m (2007-08, \$0.875m). The increase in 2008-09 is explained in the Income Statement section of this Chapter. 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.

Offset in part by:

- Transend's Deferred tax liability decreased by \$37.121m in 2008-09 (2007-08, \$30.485m increase), primarily due to the downward revaluation of Property, plant and equipment.
- Increased Payables by \$10.856m due mainly to the inclusion of refundable advances, \$11.761m, arising from the renegotiated debt arrangements with Tascorp.
- Increased Other current assets due to the inclusion of recoverable transmission use of system fees of \$4.987m.

Despite Transend's profitability, working capital continues to be negative in that current liabilities exceeded current assets by \$15.355m at 30 June 2009.

CASH FLOW STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	170 986	166 711	136 040	141 824
Payments to suppliers and employees	(62 922)	(62 975)	(46 392)	(48 148)
Finance costs	(29 814)	(8 376)	(6 198)	(4 163)
Taxation paid	(18 610)	(19 271)	(18 988)	(18 636)
Cash from operations	59 640	76 089	64 462	70 877
Proceeds from sale of property and plant	531	279	326	312
Payments for property, plant and equipment	(124 412)	(60 666)	(71 199)	(97 337)
Payments for business	(15 207)	0	0	0
Cash (used in) investing activities	(139 088)	(60 387)	(70 873)	(97 025)
Proceeds from borrowings	749 261	115 639	30 314	44 920
Repayment of borrowings	(658 177)	(45 000)	(5 000)	(5 000)
Return of shareholder's capital	0	(50 000)	0	0
Dividends paid	(9 360)	(15 000)	(18 774)	(13 766)
Cash from financing activities	81 724	5 639	6 540	26 154
Net increase in cash	2 276	21 341	129	6
Cash at the beginning of the year	21 499	158	29	23
Cash at end of the year	23 775	21 499	158	29

Comment

Transend continued to generate significant cash from operations in 2008-09. However, there was a decrease of \$16.449m (2007-08, \$11.627m increase) for the year. This was primarily due to the increase in finance costs paid of \$21.438m (\$2.178m).

Payments for property, plant and equipment continued to be significant and increased \$63.746m in 2008-09. This was funded partly through borrowings. Transend also paid \$15.207m for the purchase of the Communications business from Hydro Tasmania in November 2008.

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.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Profit/(Loss) (\$'000s)		18 489	28 595	34 358	42 396
EBIT (\$'000s)		42 300	37 309	36 594	57 797
EBITDA (\$'000s)		100 852	88 804	82 570	93 258
Operating margin	>1.0	1.03	1.20	1.32	1.48
Return on assets		3.2%	3.1%	3.8%	7.8%
Return on equity		1.3%	2.8%	3.3%	7.3%
Financial Management					
Debt to equity		92.9%	69.1%	15.4%	17.6%
Debt to total assets		37.4%	31.3%	10.4%	11.9%
Interest cover - EBIT	>3	1.2	3.2	4.7	10.0
Interest cover - funds from operations	>3	3.0	10.1	11.4	18.0
Current ratio	>1	0.80	0.10	0.24	0.27
Cost of debt	6.9%	7.6%	* 4.4%	7.4%	7.9%
Debt collection	30 days	34	31	20	24
Creditor turnover	30 days	11	27	11	17
Capex/Depreciation		212%	108%	144%	263%
Returns to Government					
Dividends paid or payable (\$'000s)		3 616	9 360	15 000	18 774
Dividend payout ratio	50%	50%	50.0%	71.0%	50.0%
Dividend to equity ratio	6%	0.6%	1.4%	2.3%	3.7%
Tax paid		18 610	19 271	18 988	18 636
Effective tax rate	30%	26.9%	30.1%	29.7%	30.0%
Total return to the State (\$'000s)		22 210	28 631	33 988	37 410
Total return to equity ratio		4.0%	4.2%	5.3%	7.3%
Other Information					
Staff numbers (FTEs)		244	210	182	189
Average staff costs (\$'000s)		142	100	112	99
Average employee benefits (\$'000s)		30	27	27	24
Average superannuation benefits (\$'000s)		144	110	122	96

* Lower borrowings rate due to significant debt incurred as at 30 June 2008 and hence not incurring interest for 2007-08.

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 the Current ratio being below benchmark.

Debt to equity ratio continued to increase in 2008-09 by 23.8%, driven by additional borrowings used to fund capital expenditure. Interest coverage showed a downward trend due to higher interest costs arising from higher borrowings coupled with the lower net profit after taxation.

Cost of debt increased 3.2% in 2008-09 to 7.6% compared to 2007-08, 4.4%. The primary reason for the increase in this ratio was that in 2007-08 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 that financial year. If this amount is excluded from the ratio, the Cost of debt for 2007-08 increases to 7.5% which is consistent with 2008-09 and prior periods.

Total return to the State decreased \$6.421m for 2008-09. This was primarily due to the lower net profit after tax leading to a lower dividend. However, the Total return to equity ratio remained consistent with 2007-08 due to the lower equity balance arising from the significant return of capital to the State in 2007-08.

Average staff costs over the period were \$0.113m. This fluctuated with movements in the defined superannuation benefit and employee numbers.

TT-LINE COMPANY PTY LTD

INTRODUCTION

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

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

The 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.

The Company's Board consists of seven directors appointed by the Government, and the Chief Executive Officer.

The Responsible Minister is the Minister for Infrastructure.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

The board signed the Company's financial statements on 20 August 2009 and an unqualified audit report was issued on 27 August 2009.

The audit was completed satisfactorily with no major items outstanding.

The Company faced a number of challenges during 2008-09, which included:

- the impact of the global financial crisis on the tourism industry
- strong competition from low-cost airline companies
- high fuel prices, especially at the beginning of the year.

In response to high fuel costs, the Company adopted a fuel-hedging strategy in order to gain long-term certainty over one of its largest expenditure items and limit the volatility on its financial results.

The value of the Company's ships decreased from \$145.233m (\$90.000m Euro) to \$137.139m (\$80.000m Euro) each at 30 June 2009. The full impact of the devaluation was taken to the Asset revaluation reserve.

The Company continued to offer various promotions and discounted fares to maintain and increase passenger numbers during the year. Details on the success of its promotions and discount fares are detailed in the Income Statement section of this commentary.

When reading this commentary it needs to be borne in mind that the analysis concentrates on the 2008-09 balances and movements compared to the 2007-08 figures. Balances for 2006-07 and 2005-06 are provided for information only.

FINANCIAL RESULTS

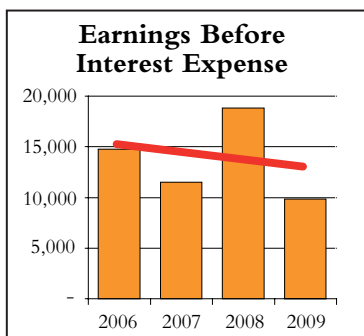
The Company recorded a profit before taxation of \$5.823m for 2008-09 (2007-08 \$13.698m). However, a tax expense reduced the result to an after tax loss of \$2.436m (\$16.532m profit).

The Net asset position at 30 June 2009 reduced by \$21.709m as a result of:

- the devaluation of the vessels \$7.067m (net of tax)
- decreases in reserves as a result of the fuel cash flow hedge, \$12.206m (net of tax)
- the loss after taxation for the year.

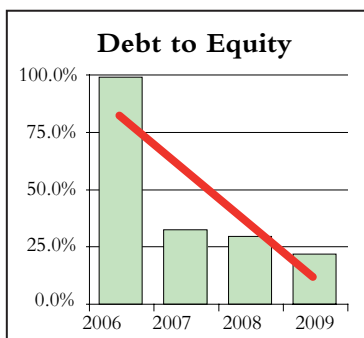
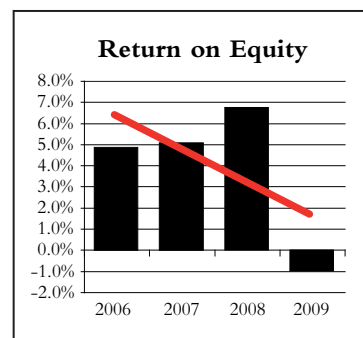
The following four graphs summarise key ratios highlighting important aspects of

TT-Line's financial performance over the past four years.



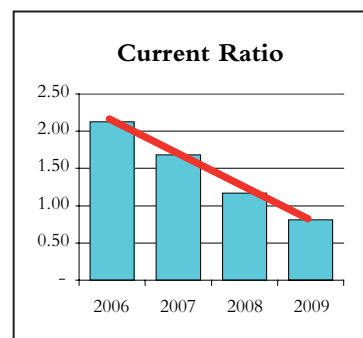
Earnings before interest expense records net profits/losses before tax and interest expense. TT-line maintained positive Earnings before interest expense in each of the four years under review.

The loss after tax for 2008-09 resulted in a negative return on equity in comparison with previous years, where the company generated profits.



TT-Line's Debt to equity ratio decreased in the four year period. The significant decrease between 2005-06 and 2006-07 resulted from cessation of the Sydney operation, with the sale of Spirit III and corresponding repayment of debt attached to the vessel.

Current ratio was below the benchmark of one for 2008-09 due to reduced cash balances held and the inclusion in current liabilities of the fuel cash flow hedge.



INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Revenue				
Devonport-Melbourne	172 990	164 351	150 988	124 416
Devonport-Sydney	0	0	2 122	29 892
Other	3 050	2 869	2 739	2 840
Total revenue	176 040	167 220	155 849	157 148
Expenses				
Devonport-Melbourne	(162 126)	(145 482)	(139 270)	(124 402)
Devonport-Sydney	0	0	(2 858)	(51 611)
Other	(3 121)	(2 958)	(2 675)	(2 875)
	(165 247)	(148 440)	(144 803)	(178 888)
Total expenses	247)	440)	803)	(178 888)
Borrowing costs				
Devonport-Melbourne	(4 049)	(5 161)	(5 844)	(6 080)
Devonport-Sydney	0	0	(965)	(6 033)
Total Borrowing costs	(4 049)	(5 161)	(6 809)	(12 113)
Operating results before accounting and other adjustments	6 744	13 619	4 237	(33 853)
Represented by:				
Devonport-Melbourne	6 815	13 708	5 874	(6 066)
Devonport-Sydney	0	0	(1 701)	(27 752)
Other	(71)	(89)	64	(35)
	6 744	13 619	4 237	(33 853)
Other accounting adjustments:				
Ship valuation adjustment	0	0	0	43 237
Spirit III sale costs/adjustments	0	0	1 132	(7 110)
Interest received/(paid) on financial assets	44	159	0	115
Defined benefits superannuation adjustment	(965)	(80)	(657)	293
Profit (Loss) before taxation	5 823	13 698	4 712	2 682
Income tax benefit/ (expense)	(8 259)	2 834	5 928	4 459
Profit (Loss) after taxation	(2 436)	16 532	10 640	7 141

Comment

For the year ended 30 June 2009 TT-Line generated a net profit before tax of \$5.823m which decreased by \$7.875m, 57.49%, from 2007-08. However, a tax expense of \$8.259m (2007-08, \$2.834m benefit) resulted in the company incurring a loss after tax of \$2.436m.

The unusually high tax expense was the result of the Company recording the tax effect of a cash flow hedging reserve, \$5.230m and the revaluation of the vessels, \$3.029m. In normal circumstances, the tax impact of these transactions would be recorded in a deferred tax asset or liability balance. The Company does not recognise tax balances as it is not considered probable that sufficient taxable profits will be available in future periods to utilise the balances. Consequently, the tax effect of the cash flow hedge and revaluation were recorded as an income tax expense in the current year.

The majority of TT-Line's revenue was generated from Spirits I and II. Details of passenger and vehicle numbers and freight for Spirits I and II are shown in the table below.

	2008-09	2007-08	2006-07	2005-06
Passenger Numbers	390 746	385 028	393 677	440 552
% Increase (decrease)	1.49%	(2.20%)	(10.64%)	(2.51%)
Vehicle Numbers	182 595	177 265	177 786	200 306
% Increase (decrease)	3.01%	(0.29%)	(11.24%)	(2.77%)
Freight (TEU)	85 288	85 594	77 734	69 946
% Increase	-0.36%	10.11%	11.13%	1.78%

*TEU = *Twenty foot equivalent units*

Devonport to Melbourne revenue increased by \$8.639m or 5.26% in 2008-09 due to:

- an overall increase in passenger revenue of \$1.480m. Average fares decreased during the year, but promotions by the Company resulted in growth of 1.49% in passenger numbers
- growth of 3.01% in vehicle numbers along with small increases in rates, resulting in an additional \$4.110m in revenue
- overall freight volume was comparable with the prior year, but changes in the composition resulted in higher yield volumes being shipped resulting in an increase in revenue of \$5.770m.

The increase in revenue was offset by the impact of the factors noted below.

The Tasmanian government discontinued a contribution to marketing in 2008-09. In 2007-08, the Company received \$2.394m.

Devonport to Melbourne expenses increased by \$16.644m, 11.44%, in 2008-09 predominantly due to increases in the cost of bunker fuel of \$14.473m.

The Company entered into a cash flow hedge during July 2008 in order to manage the risks associated with fluctuations in the price of bunker fuel. At the time of entering the hedge agreement fuel prices had increased significantly and were approximately \$815 per metric tonne, with an expectation of further price increases. Entering into the hedge agreement resulted in TT-Line being committed to future prices for fuel based on current expectations. The hedge agreement insulated TT-Line from the effects of movements in the global price of fuel, however global price decreases later in the year found the company exposed to the hedge prices.

Although the hedge contracts resulted in the Company expending more on fuel in 2008-09, the strategy is based on long-term forecasts and it is expected that the hedges will provide benefits in future years.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	38 724	50 160	27 608	3 521
Receivables	10 588	12 274	12 459	11 245
Inventories	1 839	2 247	1 280	2 229
Assets held for sale - Spirit III	0	0	0	109 646
Other	512	451	1 622	545
Total Current Assets	51 663	65 132	42 969	127 186
Payables	12 076	15 180	10 943	12 135
Borrowings	25 000	25 000	0	25 000
Provisions	7 860	7 443	6 839	6 368
Liabilities re-sale of Spirit III	0	0	0	7 725
Other	18 934	8 102	7 704	8 594
Total Current Liabilities	63 870	55 725	25 486	59 822
Working Capital	(12 207)	9 407	17 483	67 364
Property, plant and equipment	287 220	303 689	297 596	285 615
Other	175	0	0	0
Total Non-Current Assets	287 395	303 689	297 596	285 615
Borrowings	25 000	50 000	74 999	160 600
Provisions	5 884	4 552	4 681	3 953
Other	7 469	0	0	0
Total Non-Current Liabilities	38 353	54 552	79 680	164 553
Net Assets	236 835	258 544	235 399	188 426
Capital	328 981	328 981	328 981	306 481
Cash flow hedge reserve	(12 206)	0	0	0
Asset revaluation reserve	14 733	21 800	15 187	10 405
Accumulated losses	(94 673)	(92 237)	(108 769)	(128 460)
Total Equity	236 835	258 544	235 399	188 426

Comment

The Company's Equity reduced by \$21.709m during 2008-09 due to:

- a loss after tax of \$2.436m
- asset revaluation reserve decrement after tax of \$7.067m as a result of the revaluation of Spirits I and II
- fuel hedge reserve losses after tax of \$12.206m.

The corresponding decrease in Net assets is the result of the following factors:

- Cash balance at 30 June 2009 decreased by \$11.436m from 2007-08. The movement in cash is analysed in detail in the Cash Position commentary.

The balance of Property plant and equipment decreased by \$16.469m during 2008-09 due to:

- devaluation, gross of tax, of Spirit I and Spirit II \$10.095m

- depreciation expense \$14.648m, offset by
- net capital additions of \$8.274m (refer Cash Position section for further details).

As discussed earlier in the Chapter, the Company entered into a fuel hedging strategy in 2008-09. The fair value of the cash flow hedge is based on mark to market valuation reports. The difference between the contractual forward price and the mid market settlement rate at close of trade on the relevant day determines the cash flows for the relevant periods. These cash flows are discounted to determine the market value at balance date.

The Cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges net of income tax. The deferred gain or loss on the hedge is recognised in profit or loss at the date of the fuel purchases and corresponding hedge settlement.

The impact on the Balance sheet at 30 June 2009 of the hedge contracts entered into was the recognition of:

- current and non-current other assets, totalling \$0.176m
- other current liabilities of \$10.233m
- other non-current liabilities of \$7.379m
- a negative cash flow hedge reserve balance of \$12.206m.

The Provisions balance comprised the Company's liability for workers compensation, annual leave, long service leave and employee superannuation. The superannuation liability increased by \$0.882m, 21.88%, in 2008-09. The superannuation liability was determined by an independent actuarial assessment with the increase attributable to lower interest rates at 30 June 2009 used in discounting future cash flows. The combined increase in the remaining provisions was \$0.865m, 10.86%, due predominantly to wage increases.

The impact of the above factors was offset by a decrease in Total loan debt in 2008-09 due to the repayment of \$25.000m debt, reducing total debt at 30 June 2009 to \$50.000m. A further \$25.000m will be repaid during 2009-10. The remaining debt will be settled in 2010-11, with the Company expecting to be debt free by the end of 2010-11.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	193 489	181 311	166 537	174 776
Payments to suppliers and employees	(169 470)	(147 128)	(153 952)	(179 877)
Interest received	2 160	2 646	974	248
Borrowing costs	(4 341)	(5 169)	(8 381)	(14 377)
Cash from (used in) operations	21 838	31 660	5 178	(19 230)
Payments for property, plant and equipment	(8 318)	(9 201)	(2 760)	(3 683)
Proceeds from sale of property, plant and equipment	44	93	109 769	95
Cash from (used in) investing activities	(8 274)	(9 108)	107 009	(3 588)
Repayment of borrowings	(25 000)	0	(110 600)	(38 782)
Contribution from owners	0	0	22 500	62 267
Cash from (used in) financing activities	(25 000)	0	(88 100)	23 485
Net increase in cash	(11 436)	22 552	24 087	667
Cash at the beginning of the year	50 160	27 608	3 521	2 854
Cash at end of the year	38 724	50 160	27 608	3 521

Comment

The Company's cash position decreased \$11.436m at 30 June 2009 mainly due to:

- TT-Line repaid \$25.000m of loan debt during 2008-09
- Capital purchases of \$8.318m. Of this amount, \$4.722m (2007-08, \$2.194m) related to the capitalisation of major cyclical maintenance dry dock expenditure. Dry dock scheduled maintenance and marine safety inspections are performed every two years on the vessels on an alternating basis. The remainder of capital purchases included the completion of the Edgewater Hotel improvements \$0.471m, computers and security system improvements \$0.281 and further vessel additions of \$2.249m. Included in the vessel additions was the fitting of super polished propeller blades to Spirit II, in an attempt to reduce the ship's fuel consumption.

These were offset by Cash from operations, which contributed \$21.838m in 2008-09.

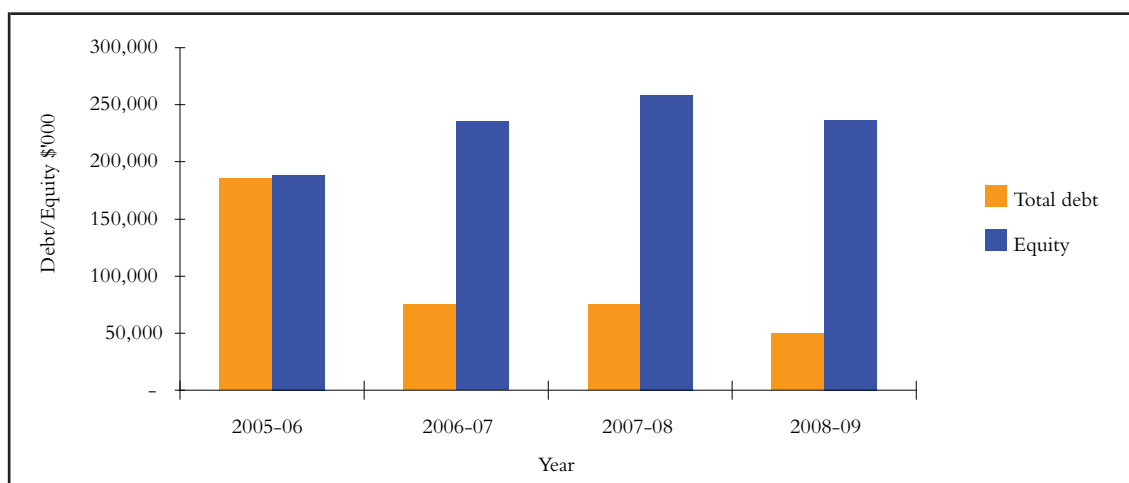
FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Result from operations (\$'000s)		6 744	13 619	4 237	(33 853)
EBIT (\$'000s)		9 872	18 859	11 521	14 795
Operating margin	>1.0	1.04	1.09	1.03	0.82
Return on assets		2.8%	5.3%	3.1%	3.78%
Return on equity		(1.0%)	6.7%	5.0%	4.81%
Underlying result ratio		3.8%	8.1%	2.7%	(21.5%)
Self financing ratio		12.4%	18.9%	3.3%	(12.2%)
Financial Management					
Debt to equity		21.1%	29.0%	31.9%	98.5%
Debt to total assets		14.7%	20.3%	22.0%	45.0%
Interest cover	>2	2.44	3.65	1.69	1.22
Current ratio	>1	0.81	1.17	1.69	2.13
Debt collection	30 days	22	27	29	26
Creditor turnover	30 days	23	29	16	14
Other information					
Employee costs as % of operating expenses		22.1%	25.9%	23.6%	21.5%
Staff numbers (FTEs)		474	480	521	634
Average staff costs (\$'000s)		65	66	56	53
Average leave balance per FTE ('\$000)		16	14	12	10

Comment

Result from operations in 2008-09 totalled \$6.744m, resulting in an Operating margin of 1.04, which is above benchmark.

The financial management ratios remained strong for 2008-09. Debt to equity (as illustrated in the graph below) and Debt to total assets continued to improve as the Company maintained it's debt reduction plan with the aim of being debt free by the end of 2010-11.



The reduction in debt over the period reduced interest expense, with the Company's interest cover above the benchmark in 2007-08 and 2008-09.

Current ratio dropped below benchmark of one in 2008-09 due to reduced cash balances held and the inclusion in current liabilities of the fuel cash flow hedge.

The Company has significant tax losses primarily resulting from the write down of the Spirit of Tasmania and its subsequent sale, and from operating losses in 2003-2004 and 2004-05. 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. The Directors noted in their Directors' Report that, in accordance with the Government's dividend policy for 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.

TASMANIAN PORTS CORPORATION PTY LTD

INTRODUCTION

Tasmanian Ports Corporation Pty Ltd (the Company or Tasports) was formed in July 2005 through the amalgamation of Tasmania's major port operators. The enabling legislation is the *Tasmanian Ports Corporation Act 2005*.

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

- King Island Ports Corporation Pty Ltd (see separate Chapter in this Report)
- Flinders Island Ports Company Pty Ltd (did not trade in 2008-09)
- Port Logistics and Services Pty Ltd (did not trade in 2008-09).

In January 2008, the Company sold its shares in Hobart International Airport Pty Ltd. The sale had a major impact on that year's operating results with a net profit of \$313.361m reported for 2007-08. Proceeds from the sale, \$309.714m, were returned to the State by way of a special dividend, \$302.489m, and capital reduction, \$7.225m.

Tasports also has a 50% interest in Capital P&O Logistics Pty Ltd, which is a joint venture with P&O Automotive and General Stevedoring 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 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 17 September 2009 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major items outstanding.

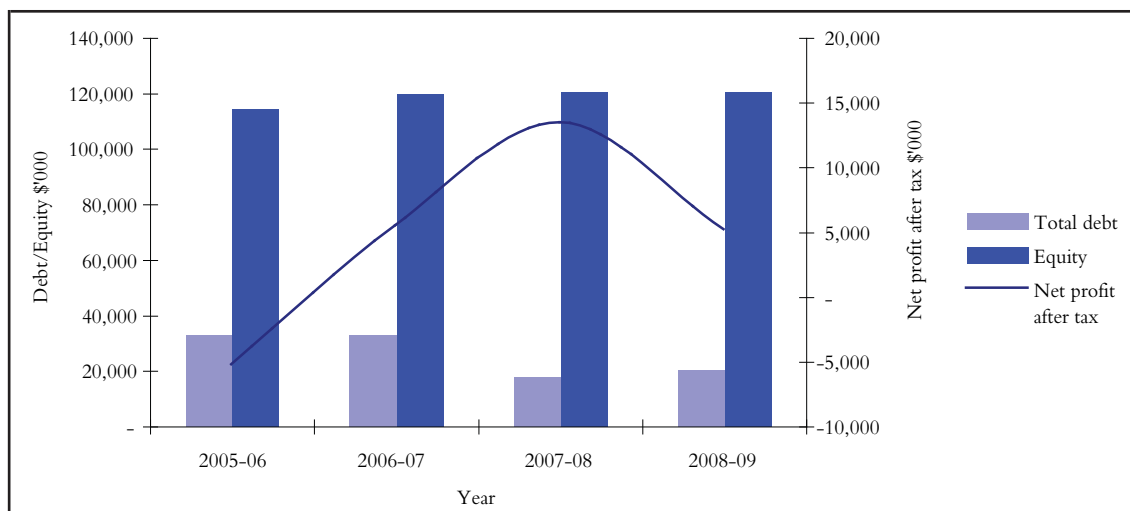
We did however raise with the Board the need for improved management of staff leave entitlements. As indicated under the Financial Analysis section of this Chapter, at 30 June 2009 the average leave entitlement (annual and long service leave) per FTE was \$22 000 which is high with some employees having in excess of a two-year annual leave entitlement or more than 100 days long service leave due to them. This matter was also reported in 2007-08. Management are addressing this according to the Company's policy guidelines.

In the current year, the Company agreed to pay an interim dividend of 70% of its Net Profit. A final dividend of 30% is under consideration by the Board. Based upon the interim dividend, the Company returned \$4.529m to Government in the form of dividends and income tax equivalents, excluding payroll tax, land tax and guarantee fees. The decision to require Tasports to pay a higher dividend is likely to negatively impact its already low current ratio.

FINANCIAL RESULTS

The following analysis is based on the parent entity results only. A separate Chapter is included in this Report for King Island Ports Corporation Pty Ltd, which was the only wholly-owned subsidiary trading as at 30 June 2009.

The graph below shows the trend in performance, debt levels and equity for the past four years but excludes the impact of the profit of \$302.489m on the sale of the Hobart International Airport Pty Ltd in 2007-08.



Tasports' initial period of operating was for the six months ended 30 June 2006 when its profit was adversely affected by a number of one-off expenses associated with its start-up. This resulted in a loss of \$5.243m. Since then, Tasports has delivered solid results reporting average after tax profits of about \$7.000m per annum. Over the past four years, the Company reduced its borrowings from \$33.006m in 2005-06 to \$20.388m as at 30 June 2009. The debt reduction was funded from existing cash reserves and operating profits. Equity remained comparatively steady during the period under review.

INCOME STATEMENT

	2008-09	2007-08	2006-07	2006 6 months ended
	\$'000s	\$'000s	\$'000s	\$'000s
Operating revenue	64 220	67 142	58 977	28 920
Interest revenue	467	1 386	1 718	766
Dividend revenue	95	19 152	2 147	0
Gain on sale of shares	0	287 489	0	0
Gain on disposal of non-current assets	1 291	645	0	10
Total Revenue	66 073	375 814	62 842	29 696
Employee expenses	26 500	27 828	24 818	14 250
Operating expenses	24 362	22 756	20 072	14 086
Depreciation	7 335	7 261	6 253	3 094
Borrowing costs	1 174	2 045	1 959	1 099
Total Expenses	59 371	59 890	53 102	32 529
Profit (Loss) before:	6 702	315 924	9 740	(2 833)
Impairment losses	0	0	2 199	4 411
Profit (Loss) before taxation	6 702	315 924	7 541	(7 244)
Income tax expense (benefit)	1 535	2 563	2 050	(2 001)
Net Profit (Loss)	5 167	313 361	5 491	(5 243)

Comment

The 2007-08 results were largely influenced by the sale of Hobart International Airport Pty Ltd (the Airport). If the results of the sale, Gain on sale of shares of \$287.489m and a \$15.000m option fee included in Dividend revenue, were eliminated, the profit before tax would have been \$13.435m.

Comparison of the 2008-09 result before tax with the adjusted 2007-08 profit showed a decrease of \$6.733m, which resulted from:

- dividends forgone due to the Airport sale, \$3.888m
- lower operating revenue, down \$2.922m, mainly caused by lower revenue from shipping operations due to a downturn in freight activity
- reduced Interest revenue, down \$0.919m, due to the fall in interest rates and a lower cash balance
- higher Operating expenses, up \$1.606m. The increase was caused mainly by an increase in maintenance expenditure, up \$1.431m as the Company increased its outlay on infrastructure maintenance.

The effects of the foregoing were offset in part by:

- reduced Employee benefits expenses, down \$1.328m due to the transfer of stevedoring staff to Capital P&O Logistics Pty Ltd and lower redundancies
- lower Borrowing costs, down \$0.871m due to refinancing under more favourable interest rate conditions

- increased Gain on disposal of non-current assets, up \$0.646m, as the Company continued its non-essential assets divestment program.

BALANCE SHEET

	2008-09	2007-08	2006-07	2006
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	8 958	12 345	29 999	26 908
Receivables	8 766	8 976	7 334	6 775
Investment in subsidiary held for sale	0	0	7 225	0
Other	2 037	2 179	8 898	2 620
Total Current Assets	19 761	23 500	53 456	36 303
Payables	9 237	9 325	7 662	6 352
Borrowings	17 398	5 573	15 046	6 771
Tax liability	238	1 434	165	(366)
Provisions - employee benefits	4 412	4 287	4 288	5 311
Provisions - remediation	0	0	927	1 550
Deferred revenue	1 283	1 200	1 200	1 200
Total Current Liabilities	32 568	21 819	29 288	20 818
Working Capital	(12 807)	1 681	24 168	15 485
Property, plant and equipment	134 153	129 237	116 224	119 806
Goodwill	2 801	2 801	0	0
Investment in subsidiaries	0	0	0	7 225
Investment in jointly controlled entities	1 110	1 110	0	0
Deferred tax asset	3 637	3 897	5 038	6 477
Other	715	1 000	0	1 507
Total Non-Current Assets	142 416	138 045	121 262	135 015
Borrowings	2 990	12 388	17 960	26 235
Deferred tax liabilities	3 569	3 466	3 558	3 964
Provisions - employee benefits	554	645	369	644
Deferred revenue	354	1 200	2 400	3 600
Other	1 763	1 380	1 397	1 733
Total Non-Current Liabilities	9 230	19 079	25 684	36 176
Net Assets	120 379	120 647	119 746	114 324
Capital	112 342	112 342	119 567	119 567
Retained earnings (Accumulated Losses)	8 037	8 305	179	(5 243)
Total Equity	120 379	120 647	119 746	114 324

Comment

Net assets as at 30 June 2008 and 30 June 2009 remained fairly constant. The Working capital deficit was caused by maturing debt, with 85% or \$17.398m of loans being recognised as current. Loans to the value of \$7.400m were refinanced in the first quarter of 2009-10. The Company also took advantage of low interest rates by maintaining a portion of its borrowing at floating interest rates.

Significant movements between 2007-08 and 2008-09 were:

- Cash decreased by \$3.387m (discussed later in the Cash Position section)
- Property, plant and equipment increased by \$4.916m. The increase was mainly due to an acquisition of land at Bell Bay, security upgrade and redevelopment of the Burnie office.
- Borrowings increased by \$2.427m and included a new loan to finance land acquisition
- 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 were recognised at cost or deemed cost. Long-lived assets included land and building, wharves, harbour improvements and other major infrastructure assets and represented over 75% of total Property, plant and equipment. In our view, reporting long-lived assets such as these on the basis of cost or deemed cost, although consistent with Australian Accounting Standards, remains inappropriate. Valuation on a fair value basis, preferably on optimised depreciated replacement cost, is considered more appropriate. Continuing difficulties experienced by management in obtaining relevant market values due to the unique nature of many of these assets meant that all non-current assets were carried at cost, or deemed cost, less accumulated depreciation.

However, the Company provided estimates of the fair values of its long-lived infrastructure assets in the notes to its financial statements. The estimates were calculated using the net income valuation method, taking into account the income earning capacity of these assets over the next 20 years, inflation rates and the weighted average cost of capital. The Company believes that the income method of determining fair value is more appropriate than the market value approach due to the long life nature of the assets, the unlikely event that the assets would be sold and the absence of a market for the assets.

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

	2008-09	2007-08	2006-07	2006
	\$'000s	\$'000s	\$'000s	\$'000s
Long-lived infrastructure assets and land and buildings				
at cost less accumulated depreciation	97 432	98 332	100 450	n/a
at fair value	111 882	122 436	122 075	n/a

n/a = information not available at that date

If long-lived infrastructure assets were carried at fair values based upon market value and this resulted in an increase in the asset value, this would have an unfavourable effect on net profit, as the depreciation expense would go up.

CASH POSITION

	2008-09	2007-08	2006-07	2006 6 months ended
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	69 826	70 611	62 989	34 679
Payments to suppliers and employees	(56 952)	(56 265)	(49 530)	(27 527)
Interest received	488	1 384	1 782	733
Borrowing costs	(1 283)	(2 229)	(2 003)	(806)
Income taxes	(2 368)	(246)	(555)	(946)
Net cash from operating activities	9 711	13 255	12 683	6 133
Proceeds from sale of property, plant and equipment	3 218	2 306	731	221
Dividends received	95	4 153	2 147	0
Purchase of property, plant and equipment	(14 003)	(23 045)	(5 601)	(1 180)
Purchase of goodwill	0	(2 801)	0	0
Net cash (used in) investing activities	(10 690)	(19 387)	(2 723)	(959)
Proceeds from (repayments of) borrowings	3 027	(8 776)	250	(1 026)
Loan to subsidiary companies	0	0	(7 119)	0
Dividends paid	(5 435)	(2 746)	0	0
Net cash (used in) financing activities	(2 408)	(11 522)	(6 869)	(1 026)
Net increase (decrease) in cash	(3 387)	(17 654)	3 091	4 148
Cash at the beginning of the year	12 345	29 999	26 908	22 760
Cash at end of the year	8 958	12 345	29 999	26 908

Comment

The Company reported a negative cash flow for the second consecutive year reporting a decrease in cash for the year ended 30 June 2009 of \$3.387m (2007-08, \$17.654m).

The improved result in 2008-09, \$14.267m, was due to:

- A decrease in Net cash used in investing activities. The 2007-08 financial year included the acquisition of North Western Shipping and Towage. In the current year, main acquisitions included land at Bell Bay, Burnie office redevelopment and infrastructure and security upgrades.
- Less cash used in financing activities as the Company borrowed \$3.027m compared to a net repayment of borrowings of \$8.776m in 2007-08. Dividends paid, \$5.435m, related to the 2007-08 profit.
- Lower Borrowing costs, down \$0.946m due to refinancing under more favourable interest rate conditions.

The effects of the foregoing were offset in part by:

- Decreased Net cash from operating activities, down \$3.544m, due to a combination of:
 - higher Income taxes paid, up \$2.122m
 - higher Payments to suppliers and employees, up \$0.687 mainly as a result of increased maintenance expenses, offset by lower employee costs
 - lower Receipts from customers, down \$0.785m due to the slowdown in freight activity.

FINANCIAL ANALYSIS

	Bench Mark	2009	2008 **	2007	2006
Financial Performance					
Profit/(Loss) (\$'000s)		6 702	13 435	9 740	(2 833)
EBIT (\$'000s)		7 876	15 480	11 699	(1 734)
Operating margin	>1.0	1.11	1.22	1.18	0.91
Return on assets		4.9%	9.2%	6.8%	(1.01%)
Return on equity		4.3%	9.1%	4.7%	(4.6%)
Financial Management					
Debt to equity		16.9%	14.9%	27.6%	28.9%
Debt to total assets		12.6%	11.1%	18.9%	19.3%
Interest cover	>2	6.71	7.57	5.97	(1.58)
Current ratio	>1	0.61	1.12	1.83	1.74
Cost of debt	7.5%	6.1%	8.0%	5.9%	6.7%
Debt collection	30 days	50	49	45	43
Creditor turnover	30 days	29	32	15	18
Returns to Government					
Dividends paid or payable (\$'000s)		3 617	5 436	2 745	n/a
Dividend payout ratio	50%	70.0%	50.0%	50.0%	n/a
Dividend to equity ratio	6%	4.3%	4.5%	2.3%	n/a
Income tax paid or payable (\$'000s)		912	1 694	1 158	n/a
Effective tax rate	30%	13.6%	4.8%	8.6%	n/a
Total return to the State (\$'000s)		6 079	6 082	3 583	n/a
Total return to equity ratio		5.0%	5.1%	3.1%	n/a
Other information					
Average staff numbers (FTEs)		224	219	237	264
Average staff costs (\$'000s) *		118	127	102	92
Average leave balance per FTE (\$'000s)		22	23	20	23

n/a = information not available at that date

** 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

The decline in financial performance ratios was affected by dividends forgone due to the Airport sale, \$3.888m, and the global economic slowdown which impacted adversely on revenue from shipping operations and interest revenue. Despite the downturn, the Operating margin remained above the benchmark.

As noted previously, the Company valued long-lived assets at cost or deemed cost. If the Company recognised those assets at fair value, Return on assets ratio would drop to 4.35% (2008, 8.10%) and Return on equity would fall to 3.7% (2008, 7.6%).

There was a slight increase in Debt to equity and Debt to total assets ratios as the Company borrowed additional money to fund the acquisition of land at Bell Bay. The 2007-08 Cost of debt ratio was slightly skewed as the majority of debt was repaid towards the end of that financial year.

The Company's Current ratio has declined from 1.74 to 0.61. In most industries a ratio of one or better is good practice. This is consistent with the Net working capital position reported on the Balance Sheet and was partly due to a larger portion of current borrowings at 30 June 2009.

In the current year, the Company agreed to pay an interim dividend of 70% of its Net Profit. A final dividend of 30% is under consideration by the Board. Based upon the interim dividend, the Company returned \$4.529m to Government in the form of dividends and income tax equivalents, excluding payroll tax, land tax and guarantee fees. The decision to require Tasports to pay a higher dividend is likely to negatively impact the already low Current ratio.

Fluctuations in both Average staff costs and Average leave balance per FTE were caused by staff movements, especially the transfer of stevedoring staff to Capital P&O Logistics Pty Ltd towards the end of 2007-08, cessation of stevedoring operations in Melbourne and Bell Bay and uptake of North Western Shipping and Towage during last year. Average staff costs comprised salaries and wages, superannuation, hire labour, travel and accommodation expenses.

KING ISLAND PORTS CORPORATION PTY LTD

INTRODUCTION

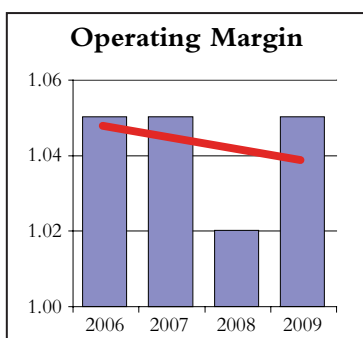
King Island Ports Corporation Pty Ltd (the Company) is a wholly owned subsidiary of Tasmanian Ports Corporation Pty Ltd (Tasports). The portfolio Minister is the Minister for Infrastructure.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Financial statements were signed by the board on 7 August 2009. An unqualified audit report was issued on 11 August 2009.

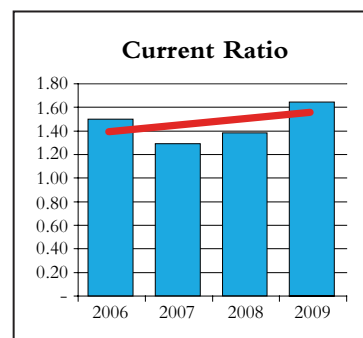
The 2008-09 audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS



The Operating margin strengthened compared with last year and returned to levels similar to 2006 and 2007. The improvement reflected the increase in net profit, despite the reduction in revenue from the Company's main operation which is the sale of fuel on both King and Flinders Islands. The favourable result was achieved through cost savings and margin improvements.

The Company's financial position is solid. Its Current ratio shows an improvement on last year, as borrowings were reduced and cash increased. However, the Company is heavily reliant on revenues from the sale of petrol and diesel and faces challenging trading conditions in the light of the volatility in oil prices, rising transport costs and increased competition.



INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Service revenue	13 911	14 096	13 896	14 121
Rental income	49	41	39	30
Interest revenue	26	39	40	53
Gain on sale of non-current assets	(2)	3	6	0
Other revenue	0	3	3	2
Total Revenue	13 984	14 182	13 984	14 206
Cost of sales	10 717	11 227	10 898	11 356
Employee benefit expenses	1 294	1 172	1 004	947
Depreciation	339	341	338	316
Finance costs	37	56	69	64
Other expenses	969	1 110	964	792
Total Expenses	13 356	13 906	13 273	13 475
Profit before taxation	628	276	711	731
Income tax expense	179	85	215	222
Net Profit	449	191	496	509

Comment

The Company recorded strong profit growth on last year's results. Wages rose in the current year due to a restructure of key positions, but savings in other areas together with a moderate increase in revenue from port operations, as shown in the Service Revenue Analysis table below, helped to achieve the improved profit.

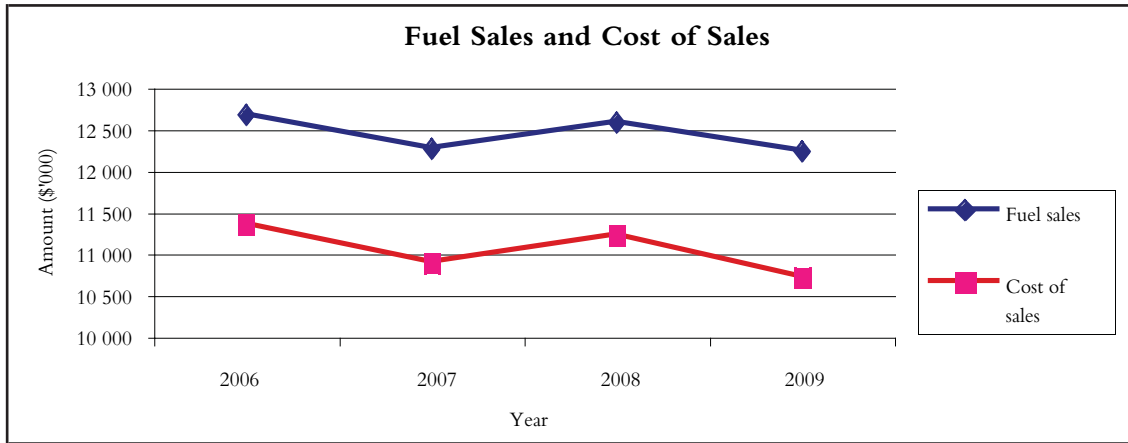
In total, Service revenue, which comprised revenues from fuel sales (storage and supply of bulk diesel fuel and petroleum products) and port operations (wharfage, transport, fertiliser sales and equipment hire), decreased slightly from the prior year. The following analysis provides a breakdown between the two components:

Service Revenue Analysis

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Fuel sales	12 239	12 582	12 266	12 675
Port operations	1 672	1 514	1 630	1 446
Total Service revenue	13 911	14 096	13 896	14 121
Cost of sales	10 717	11 227	10 898	11 356

In dollar terms Fuel sales are by far the largest component of the Company's operations representing over 87% of its annual income. Changing demand, due to high petrol prices and increased competition on both King and Flinders Islands were the main contributing factors to fluctuations in Fuel sales and Cost of sales over recent years.

The graph below shows the margin, being the difference between Fuel sales and Cost of sales, remained fairly constant throughout the period under review.



BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash and cash equivalents	758	411	527	1 531
Trade and other receivables	545	595	604	560
Inventories	664	1 179	517	573
Other Current Assets	90	144	141	199
Total Current Assets	2 057	2 329	1 789	2 863
Trade and other payables	886	1 280	783	977
Income tax payable	188	69	88	99
Interest bearing loans and borrowings	0	200	400	750
Employee benefits	182	144	123	96
Total Current Liabilities	1 256	1 693	1 394	1 922
Working Capital	801	636	395	941
Deferred tax asset	121	66	46	45
Property, plant and equipment	3 160	3 179	3 467	2 986
Total Non-Current Assets	3 281	3 245	3 513	3 031
Long-term borrowings	450	600	500	750
Long-term provisions	20	8	7	17
Deferred tax liability	40	55	109	71
Other non-current liabilities	0	0	0	277
Total Non-Current Liabilities	510	663	616	1 115
Net Assets	3 572	3 218	3 292	2 857
Reserves	2 144	2 144	2 144	2 472
Retained earnings	1 428	1 074	1 148	385
Total Equity	3 572	3 218	3 292	2 857

Comment

The Company improved its Working Capital position and Net Assets as it reduced borrowings by \$0.150m to \$0.450m while at the same time it increased cash holdings by \$0.347m to \$0.758m. These positive movements were partly offset by increased Employee benefits, caused by higher

wages and salaries as a result of the Company's restructure and employees accruing large leave balances. As there were no goods in transit this year, the value of Inventory and Trade and other payables decreased by \$0.515m and \$0.394m respectively. Lower fuel prices also impacted on the value of fuel stock.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	13 984	15 465	15 367	15 516
Payments to suppliers and employees	(12 729)	(15 055)	(14 385)	(14 134)
Interest received	26	37	41	53
Interest paid	(38)	(56)	(85)	(60)
Income tax paid	(129)	(93)	(271)	(136)
Cash from operations	1 114	298	667	1 239
Payments for property, plant and equipment	(339)	(74)	(938)	(439)
Proceeds from sale of property, plant and equipment	17	24	122	115
Cash from (used in) investing activities	(322)	(50)	(816)	(324)
Proceeds from borrowings	0	50	0	1 200
Repayment of borrowings	(350)	(150)	(600)	(739)
Dividends paid	(95)	(264)	(254)	(195)
Cash from (used in) financing activities	(445)	(364)	(854)	266
Net increase (decrease) in cash	347	(116)	(1 003)	1 181
Cash at the beginning of the year	411	527	1 530	349
Cash at the end of the year	758	411	527	1 531

Comment

Cash at the end of the year almost doubled to \$0.758m due to a significant increase in Cash from operations which increased by \$0.816m because of cost savings reflected in a 15.5% (\$2.326m) reduction in Payments to suppliers and employees and despite a 9.5% (1.481m) drop in Receipts from customers. The Company utilised some of this cash to acquire assets, repay borrowings and pay a dividend to Tasports.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Profit/(Loss) (\$'000s)		628	276	711	731
EBIT (\$'000s)		665	332	780	795
Operating margin	>1.0	1.05	1.02	1.05	1.05
Return on assets		12.2%	6.1%	13.9%	15.1%
Return on equity		13.2%	5.9%	16.1%	18.9%
Financial Management					
Debt to equity		12.6%	24.9%	27.3%	52.5%
Debt to total assets		8.4%	14.4%	17.0%	25.4%
Interest cover - EBIT	>2	17.97	5.93	11.30	12.42
Current ratio	>1	1.64	1.38	1.28	1.49
Cost of debt	6.9%	5.9%	6.6%	5.8%	5.0%
Debt collection	30 days	14	15	16	14
Creditor turnover	30 days	21	29	19	23
Returns to Owners and Government					
Dividend paid or payable (\$'000s)		95	264	254	195
Dividend payout ratio	50%	21.2%	138.2%	51.2%	38.3%
Dividend to equity ratio		2.8%	8.1%	8.3%	7.2%
Income tax paid or payable (\$'000s)		129	93	271	136
Effective tax rate	30%	20.5%	33.7%	38.1%	18.6%
Total return (\$'000s)		224	357	525	331
Total return to equity ratio		6.6%	11.0%	17.1%	12.3%
Other Information					
Staff numbers (FTEs)		18	17	n/a	n/a
Average staff costs (\$'000s)		69	66	n/a	n/a
Average leave balance per FTE (\$'000s)		11	9	n/a	n/a

n/a = information not available at that date

Comment

The Company improved its Operating margin to 1.05 because of higher operating revenues and lower operating expenses. Return on assets and Return on equity ratios also improved on last year, but have not yet reached the same levels as in 2005-06 or 2006-07.

Debt to equity and Debt to total assets ratios continued to improve due to the ongoing repayment of borrowings. The improved in the Interest cover (based on EBIT) ratio was a combination of lower Finance costs, due to the reduction in borrowings, and the rise in EBIT. Current ratio was strong improving on previous years.

Returns to Owners and Government, being dividend and income tax payments, were skewed due to the timing of payments but overall correlated with changes in the Company's profit.

The Company continued to pay income tax to the State on profits at the standard rate, 30%, and returned 50% of its 2007-08 after tax profit to Tasports as dividends.

The Company relies on employing a casual workforce to meet seasonal demand and shipping schedules. Staff numbers in 2008 and 2009 were adjusted to include casual staff employed during the year. The increase in both Average staff costs and Average leave balance per FTE reflected restructure of key positions. Average staff costs included training and development expenses.

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 (RBF) 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 Retirement Benefits Fund Board (RBFB) is responsible for the management and administration of the Funds established under the *Retirement Benefits Act 1993*, *Retirement Benefits Regulations 1994*, *Retirement Benefits (State Fire Commission Superannuation Scheme) Act 2005*, *Retirement Benefits (Tasmanian Ambulance Service Superannuation Scheme) Act 2006*, the *Public Sector Superannuation Reform Act 1999*, and the *Retirement Benefits (Parliamentary Superannuation) Regulations 2002*.

The fully funded Tasmanian Accumulation Scheme (TAS) was established under the provisions of the *Public Sector Superannuation Reform Act 1999* and replaced the unfunded RBF non-contributory scheme on 25 April 2000. The Fund now has two Schemes (Contributory and Tasmanian Accumulation Scheme - TAS) and an Investment Account, each of which 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 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 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 RBF as a sub-fund and RBFB becoming the corporate Trustee of this sub-fund.

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

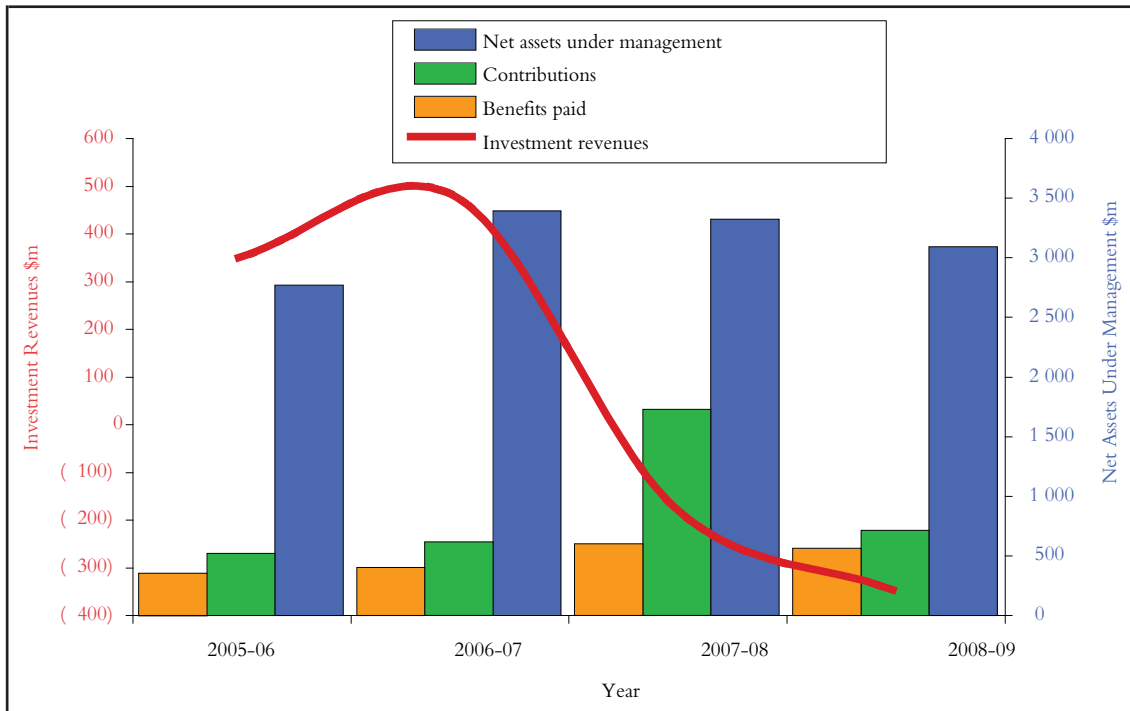
Incomes, expenses, net assets and member benefits	2008-09	2007-08	2006-07	2005-06
	\$m	\$m	\$m	\$m
Investment revenues	(353.9)	(181.0)	468.9	341.9
Contributions from members, employers and transfers	701.8	749.3	609.1	510.7
Benefits paid	554.2	591.9	393.9	344.8
Administration expenses	25.9	30.0	22.8	20.3
Net assets under management	3 081.9	3 311.8	3 382.0	2 758.4
Total liability for accrued benefits	5 306.0	4 663.8	3 999.9	3 991.6
Net unfunded superannuation liability	3 678.2	3 184.6	2 747.8	2 742.6
Total vested benefits	5 519.9	5 227.7	4 966.5	4 611.3

Comment

The continued effects of the previous year's sub-prime crisis in the United States combined with a sustained stock market decline, at least until late in 2008-09, flowed through into 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, had significant exposure to equity markets. Australian and international equity markets had been particularly buoyant in previous years, as evident in the following chapters. Up until 31 December 2007 returns remained high, but experienced significant deterioration leading up to 30 June 2008 and for most of 2008-09. The net market value of Property investments in 2008-09 was also significantly impacted, recording a negative result for the first time.

Over the four years under review net returns and gains in the change in market values of 2005-06 and 2006-07 were, on average, reversed by net reductions in 2006-07, 2007-08 and 2008-09. Average Investment revenue over the four years of review was \$69.000m per annum.

Fund performance is summarised in the following graph:



The effect of negative net investment income in 2006-07 and 2007-08, was partially offset by increased Contributions from members, employers and transfers. Contributions increased significantly in 2007-08 as members sought to maximise personal entitlements for retirement before the Commonwealth Government’s *Better Super* initiatives took full effect. In 2008-09 Contributions dropped back in line with those of previous years. Benefits paid to members remained reasonably consistent over the four years of review, but reached a high point in 2007-08 due to the *Better Super* initiatives. In all years Contributions were greater than Benefits paid.

As a consequence of the foregoing, Net Assets in 2008-09 continued the decline that commenced in the previous year. Over the four year period Net Assets increased \$323.000m, 11.73%, to \$3.082bn.

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

RESPONSIBLE MINISTER

The Responsible Minister is the Treasurer.

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 RFBF.

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 relevant State Employing Authority was 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 was 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.

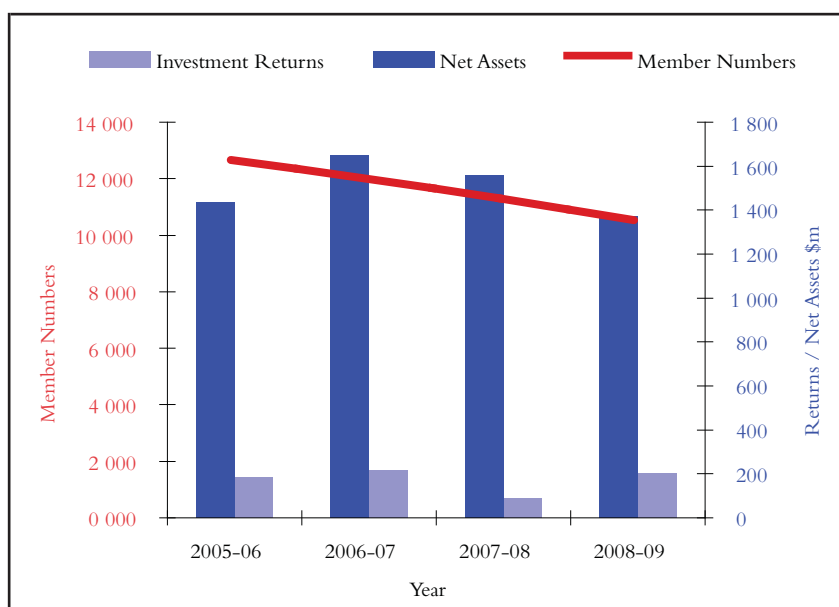
AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 24 September 2009 and an unqualified audit report was issued on 6 October 2009.

The audit was completed with satisfactorily with no major items outstanding.

FINANCIAL RESULTS

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



Being a closed scheme Member numbers continued to fall over the four year period. Net assets and Investment returns showed steady growth up to 2006-07 but declined from 2007-08 due to the downturn in Australian and International markets.

STATEMENT OF CHANGES IN NET ASSETS

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Investment revenue	75 667	107 691	95 785	86 909
Change in net market value of investments	(233 918)	(158 710)	150 542	111 346
Direct investment expense	(5 088)	(5 515)	(4 987)	(4 350)
Employer contributions	202 364	174 611	149 867	136 023
Member contributions	42 540	50 191	47 395	53 742
Other revenue	(3 280)	(6 689)	(4 108)	(1 826)
Total Revenue	78 285	161 579	434 494	381 844
Pensions	176 095	162 236	153 379	144 666
Lump sums	90 181	79 222	59 238	54 897
Refunds and interest	1 354	2 132	1 565	999
Administration expenses	11 379	9 112	9 540	7 373
Superannuation contributions surcharge	109	115	283	797
Total Expenses	279 118	252 817	224 005	208 732
(Deficit)/Surplus Before Tax	(200 833)	(91 238)	210 489	173 112
Income tax benefit/(expense)	14 651	(497)	4 012	9 715
Surplus/(Deficit) After Tax	(186 182)	(91 735)	214 501	182 827
Net Assets available to pay benefits at start of year	1 557 606	1 649 341	1 434 840	1 252 013
Net Assets Available to Pay Benefits at End of Year	1 371 424	1 557 606	1 649 341	1 434 840

Comment

In 2008-09 the Contributory Scheme recorded a Deficit after tax of \$186.182m, compared to a Deficit after tax of \$91.735m in the prior year. The result varied significantly in 2008-09 predominantly due to:

- Change in net market value of investments decreased \$75.208m. This was due predominantly to an increase in realised losses from Australian equities, \$15.425m, International equities, \$20.784m, and alternative investments, \$20.976m. Unrealised losses also increased, in this case by \$15.716m, mainly due to Property losses, \$74.238, (being the difference between a \$56.664m unrealised loss in 2008-09 and an unrealised gain in the prior year of \$17.574m). These losses were offset by decreases in the unrealised losses for Australian equities, \$23.297m and International equities, \$35.896m
- Investment revenues decreased \$32.024m, due to reduced returns from Australian equities, \$9.971m, International equities, \$12.160m, and diversified fix interest, \$68.884m, as the market value of investments declined
- Member contributions decreased \$7.651m. In 2007-08 members made additional contributions seeking to maximise entitlements due to changes under the Better Super initiatives
- Pension payments increased \$13.859m, due to CPI indexing and member retirement
- Lump Sum payments increased \$10.959m as members continue to exit at an increasing rate

- Administration expenses increased \$2.267m, mainly due to increased salary related payments and unfavourable movement in the valuation of the unfunded superannuation liability.

The above factors were partially offset by:

- Increased Income tax benefit of \$15.148m predominantly due to final clarification of Pre 1 July 1988 funding credits with the Australian Taxation office (ATO) previously included in the 2007-08 calculation
- Increased Employer contributions of \$27.753m primarily 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 compared to the total of Employer and Member contributions.

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

	Note	2008-09	2007-08	2006-07	2005-06	
Employer Funding Share						
Employer contributions (\$m)	(a)	202	175	150	136	
Pension and lump sum payments (\$m)	(b)	266	241	213	200	
Percentage payments to employer contributions	(b)/(a)	1	132%	138%	142%	147%
Employer and Member funded shares						
Employer contributions (\$m)		202	175	150	136	
Member contributions (\$m)		43	50	47	54	
Employer and member contributions (\$m)	(c)	245	225	197	190	
Pension and lump sum payments (\$m)	(d)	266	241	213	200	
Percentage payments to employer and member contributions	(d)/(c)	2	109%	107%	108%	105%
Number of Members	3	10 392	11 163	11 880	12 521	

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

Note 2 – In 2007-08 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.

With the exception of 2007-08, the general decline in Member contributions was expected. The retirement and exiting of members, without replacement, affected the reduction and/or shift to employer contributions.

Note 3 – The number of Scheme members, as anticipated, declined. In 2008-09 the decline from the prior year was 6.91% and the decrease since 2006-07 was 16.18%. The average reduction per year was 5.73% which was consistent with reduction in members since the scheme was closed in 1999.

Administration expenses included the increase in superannuation expense as it relates to employees on the Fund. Application of accounting standard AASB119 *Employee Benefits* resulted in volatility in the valuation of the superannuation obligation from year to year, as it required application of the long term government bond rate. Separating out these effects resulted in the following assessment of the scheme's Net administration costs:

	2008-09	2007-08	2006-07	2005-06
	\$'000	\$'000	\$'000	\$'000
Administration expenses	11 379	9 112	9 540	7 373
Superannuation movement	(2 897)	(1 262)	(2 010)	(395)
Net administration costs	8 482	7 850	7 530	6 978

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 general office and staff related expenses.

STATEMENT OF NET ASSETS

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash at bank	1 206	849	3 334	3 600
Contributions and pensions receivable	5 327	13 625	7 387	4 221
Income receivable	6 790	7 494	444	1 235
Other receivables	79 986	13 555	15 123	13 208
Investments	1 314 433	1 620 936	1 694 118	1 477 550
Property, plant and equipment	4 405	5 062	8 566	7 722
Deferred tax asset	2 608	3 080	2 704	2 103
RBF-TAS Planning Pty Ltd	139	170	170	108
Total Assets	1 414 894	1 664 771	1 731 846	1 509 747
Other Payables	4 909	60 217	27 761	28 480
Contributions and pensions payable	735	669	295	52
Contributions in advance	14 688	13 589	12 086	10 991
Provision for employee entitlements	17 053	14 422	14 484	13 744
Deferred tax liability	3 341	15 019	24 460	18 320
Superannuation contributions surcharge payable	2 744	3 249	3 419	3 320
Total Liabilities	43 470	107 165	82 505	74 907
Net Assets Available to Pay Benefits	1 371 424	1 557 606	1 649 341	1 434 840

Comment

Net Assets Available to Pay Benefits decreased significantly during 2008–09, \$186.182m, 11.95%, due to the Deficit after tax for the year. This was mainly caused by the decline in Investments of \$306.503m, 18.91%, due to investment losses as noted in the Statement of Changes in Net Assets section of this Chapter.

Other receivables increased \$66.431m due to an increase in Income tax receivable of \$15.846m and inclusion of an inter-fund receivable of \$50.003m. The inter-fund balance was a result of rebalancing asset allocations and other transactions with RBF sub funds. An inter-fund payable of \$56.835m was recorded in 2007–08 and was the main reason for the decrease in Other payables of \$55.308m.

Provisions for employee entitlements increased \$2.631m primarily due to the actuarial adjustment to the defined superannuation scheme liability of \$1.851m.

A decrease of \$11.678m in the assessed Deferred tax liability primarily arose from timing differences relating to increased unrealised investment income (loss) 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 2008–09 and disclosed in the notes to the Statements. As at 30 June 2009, the when the State Actuary performed a comprehensive valuation of the Scheme, the Accrued liability and liability to be funded from scheme assets were \$5.194bn and \$1.548bn, respectively. Therefore the unfunded liability was \$3.646bn. This shortfall will be funded by the State Government on an emerging cost basis.

A full actuarial review was undertaken for 2008–09. Vested benefits, as at 30 June 2008, were \$5.113bn and \$5.405bn as at 30 June 2009.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Investments (\$'000s)		1 314 433	1 620 936	1 694 118	1 477 550
Net investment income (\$'000s)		(163 339)	(56 534)	241 340	193 905
Return on investments		(11.1%)	(3.4%)	15.2%	14.1%
Other Information					
Members (number)		10 392	11 163	11 880	12 521
Net Assets (\$'000)		1 371 424	1 557 606	1 649 341	1 434 840
Return on net assets		(11.15%)	(3.53%)	15.7%	14.4%
Staff numbers (FTEs)		167	154	130	125
Average staff costs (\$'000s)		61	53	53	56
Average annual and long service leave per FTE (\$'000s)		6	5	6	5

Comment

Total funds under management increased from \$1.478bn in 2005-06 to \$1.694bn in 2006-07, an increase of \$0.216bn, 14.6%. From 2006-07, however there has been a reduction of \$0.380bn due to the major downturn in Financial Markets.

The increase in net investment income for 2005-06 and 2006-07 reflected the strong performance of International and Australian equity markets respectively. By contrast the negative investment revenue in 2007-08 of \$56.534m and 2008-09, \$163.339m, were attributable to the major downturn in Financial Markets. This resulted in Changes in net market value of investments recording negative amounts of \$158.710m and \$233.918m respectively. Of the amount outstanding as at 30 June 2009, \$144.031m was unrealised. The main asset classes contributing to the losses were property, International equities, Australian equities and alternative investments.

Return on investments represents a return on average net investments for any given year. The 2006-07 and 2005-06 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 and prior year the Return on investments was negative 3.4% and 11.1% and reflected the poor results of Financial Markets for those years.

Staff numbers increased over the period to meet operational requirements. The Average staff cost in 2005-06 and 2008-09 were higher, as these 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.

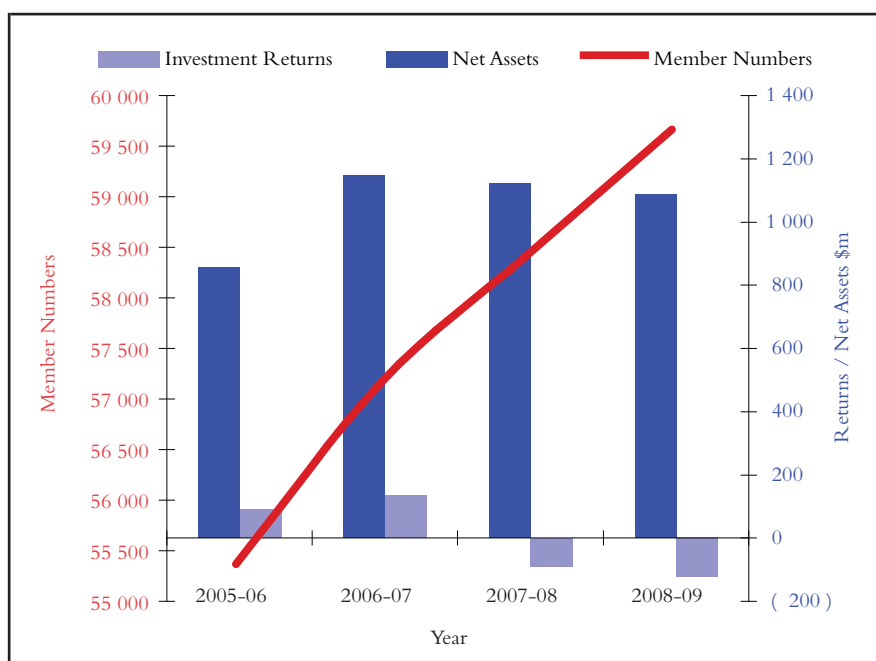
Members can choose to invest in one investment option or in a number of options and can switch between options as often as they like. Members who do not choose an investment option will have their investments in the default investment option, RBF Actively Managed.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 24 September 2009 and an unqualified audit report was issued on 6 October 2009. The audit was completed satisfactorily with no major items 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 and 2008-09 due to the downturn in financial markets.

INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Investment revenue	62 690	68 262	66 099	48 476
Changes in net market values	(171 675)	(141 020)	81 162	54 730
Direct investment expenses	(3 706)	(2 860)	(3 422)	(3 061)
Employer contributions	70 770	71 172	55 959	40 090
Member contributions	51 424	77 243	116 051	63 653
Transfers from other funds	153 625	157 842	113 643	103 299
Total Revenue	163 128	230 639	429 492	307 187
General operating fee	9 486	13 416	8 431	8 417
Superannuation contributions surcharge	102	250	885	824
Total Expenses	9 588	13 666	9 316	9 241
Benefits Accrued Before Tax	153 540	216 973	420 176	297 946
Income tax benefit/(expense)	3 051	1 796	(15 982)	(10 717)
Benefits Accrued after income tax	156 591	218 769	404 194	287 229
Benefits paid	(189 109)	(247 707)	(112 019)	(91 327)
Liability for accrued benefits at year start	1 119 568	1 148 506	856 331	660 428
Liability for Accrued Benefits at Year End	1 087 050	1 119 568	1 148 506	856 331

Comment

Benefits accrued as a result of operations of \$156.591m in 2008-09, decreased \$62.178m compared to the prior year. The decline was predominantly due to:

- Investment revenue decreased \$5.572m. This was mainly due to a decrease in distribution revenues of \$14.753m due to the continued downturn in Financial Markets. This was offset by increased returns from Interest revenue \$5.498m and Dividends \$3.780m
- Change in net market value of investments decreased by an additional \$30.655m. This was due predominantly to higher realised losses from Australian equities, \$18.578m, International equities, \$5.092m, and alternative investments, \$8.799m. Unrealised losses improved slightly by \$2.233m with a reduction in Australian and International equity losses outweighing the unrealised losses in Property
- Member contributions decreased \$25.819m as members made additional contributions in 2007-08 seeking to maximise entitlements due to changes under the Better Super initiatives
- Transfers in also decreased, in this case by \$4.217m due to the prior year being higher as a result of the Better Super initiatives.

These factors were offset in part by the lower General operating fees, \$3.930m, due to fewer Member contributions and Benefit payments. The Investment Account reimburses the Contributory scheme from the General operating provision based upon an activity-based costing model.

Benefits paid decreased \$58.598m in 2008-09 with 483 fewer members exiting. 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 (e.g. a pension) or transfer 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 compared to the total of Employer and Member contributions and Transfers from other funds.

Table 1 Contributions received as a percentage of benefits paid

	2008-09	2007-08	2006-07	2005-06
Employer contributions (\$m)	71	71	56	40
Member contributions (\$m)	51	77	116	64
Transfers from other funds (\$m)	154	158	114	103
Total Contributions received (\$m)	276	306	286	207
Benefits paid (\$m)	189	248	112	91
Percentage payments to Contributions	68%	81%	39%	44%

In 2008-09 the Percentage payments to contributions declined with fewer Member contributions and the reduction in members exiting reducing Benefits paid. In 2007-08 there was a significant increase in the Percentage payments to contributions because of a substantial increase of \$136m in Benefits paid. This was because 3 227 members reached retirement age exiting the scheme. This contrasts with the preceding years where membership numbers and contributions increased.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash at bank	6 598	6 548	960	1 049
Interest receivable	3 572	3 396	265	10
Other receivables	18 508	80 449	47 258	33 012
Investments	1 078 473	1 065 352	1 145 116	852 556
Deferred tax asset	20 811	4 955	0	0
Total Assets	1 127 962	1 160 700	1 193 599	886 627
Other payables	46	108	152	93
Contributions payable	292	0	2 619	1 657
General operating provision	29 035	27 372	20 390	15 045
Provision for income tax	11 539	13 652	11 461	7 593
Deferred tax liability	0	0	10 471	5 908
Total Liabilities	40 912	41 132	45 093	30 296
Net Assets Available To Pay Benefits	1 087 050	1 119 568	1 148 506	856 331
Represented by:				
Liability for Accrued Benefits				
Allocated to members accounts	1 088 872	1 124 040	1 109 867	832 231
Not yet allocated	(1 822)	(4 472)	38 639	24 100
Total Liability For Accrued Benefits	1 087 050	1 119 568	1 148 506	856 331

Comment

Net Assets available to pay benefits decreased significantly during 2008-09, \$32.518m, 2.90%, due to the reduction in Benefits accrued for the year. This was mainly due to:

- Other receivables declining by \$61.941m, predominantly due to a reduction in the inter-fund transfer of \$61.001m.

This was offset by:

- Deferred tax asset increasing by \$15.856m due realised investment losses
- Investments increasing by \$13.121m, 1.23%, due mainly to a combination of increased Contribution revenues offsetting losses in the Change in net market values of investments. Members also increased the proportion of cash deposits seeking to avoid risks associated with current market volatility
- Increases in the General operating provision of \$1.663m because amounts deducted from member accounts were greater than that required to pay actual administration and income tax expenses.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Employer contributions	70 770	71 172	55 959	40 090
Member contributions	51 716	74 624	117 013	63 806
Transfers from other funds	153 625	157 841	113 643	103 299
Interest received	5 473	79	3 069	2 795
Investment income received	7 189	5 623	2 436	1 784
Benefits paid	(189 109)	(247 707)	(112 019)	(91 327)
Income tax paid	(14 918)	(11 439)	(7 551)	(7 372)
Direct investment expenses	(3 943)	(3 297)	(3 042)	(2 797)
Interfund transfers	61 001	(32 251)	(14 246)	(16 364)
Operating fees paid	(7 408)	(6 432)	(3 256)	(2 884)
Superannuation contribution surcharge	(164)	(291)	(827)	(821)
Cash from operations	134 232	7 922	151 179	90 209
Proceeds from the sale of investments	376 132	529 255	291 509	218 965
Payments for purchase of investments	(372 614)	(502 848)	(420 264)	(287 710)
Cash from (used in) investing activities	3 518	26 407	(128 755)	(68 745)
Net increase in cash	137 750	34 329	22 424	21 464
Cash at the beginning of the year	156 133	121 804	99 380	77 916
Cash at end of the year	293 883	156 133	121 804	99 380

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.

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. The increase in 2008-09 and 2007-08 was partly due to members increasing investments in cash deposits seeking to avoid risks associated with market volatility.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Investments (\$'000s)		1 078 473	1 065 352	1 145 116	852 556
Net investment income (\$'000s)		(112 691)	(75 618)	143 839	100 145
Return on investments		(21.16%)	(6.84%)	14.40%	13.21%
Other Information					
Members (number)		59 629	58 382	57 127	55 328

Comment

In 2008-09 total funds under management increased slightly by \$13.121m, 1.23%, a positive turnaround from the decrease of \$79.764m in 2007-08 considering the downturn in the Financial Markets. Over the four year period total funds increased \$225.917m.

In the current year Net investment revenue was negative \$112.691m (2007-08, negative \$75.618m), or 21.16% (8.40%), due to volatile changes experienced in Financial Markets. MIC allows members access up to 14 different investment options. Returns vary according to the MIC objective and potential risk exposure.

Return on investments represents a return on average net investments for any given year before fees and taxes were deducted. The Return on investment for 2005-06 and 2006-07 both showed solid performance well above the bench mark. Return on investments in the current and prior year were negative due to adverse performance of Financial Markets. Over the four year period Return on investments was slightly unfavourable at an average of negative 0.10%.

RETIREMENT BENEFITS FUND BOARD – TASMANIAN ACCUMULATION SCHEME

INTRODUCTION

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

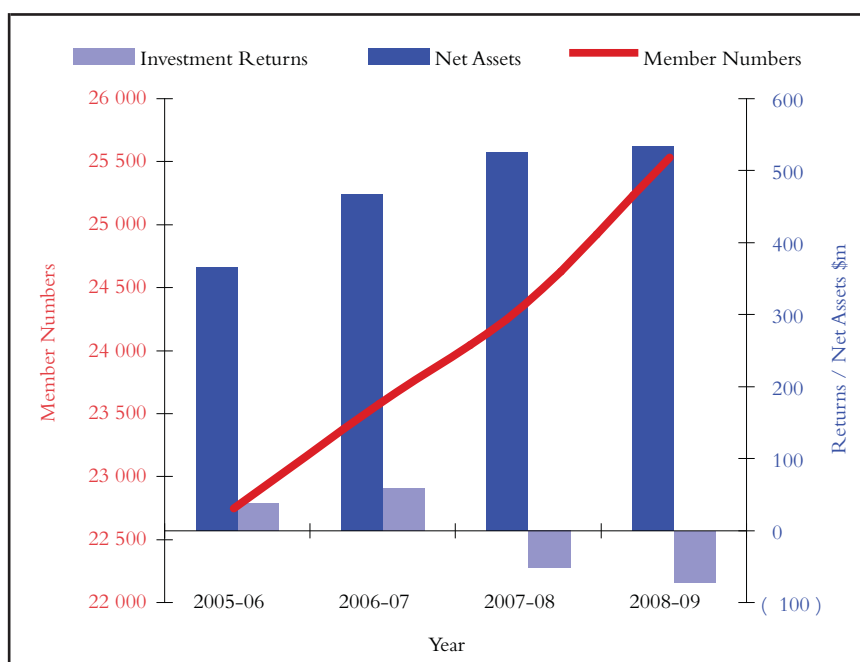
TAS comprised three components being Superannuation Guarantee (Employer contribution currently 9%), and member funded Allocated Pensions and Term Allocated Pensions. Member Investment Choice (MIC) options are available to members.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 24 September 2009 and an unqualified audit report was issued on 6 October 2009. The audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

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



Member numbers and Net assets grew steadily over the period. Investment returns showed solid growth up to 2006-07 but declined from 2007-08 onward due to the downturn in financial markets.

INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Investment income	34 548	34 439	29 357	22 156
Changes in net market values	(96 081)	(73 631)	39 672	25 659
Direct investment expense	(2 192)	(1 641)	(1 615)	(1 477)
Employer contributions	88 248	78 867	73 391	64 931
Member contributions	85 509	132 651	45 991	46 913
Other income	38	0	37	51
Total Revenue	110 070	170 685	186 833	158 233
General operating fee	3 651	6 007	3 868	4 335
Death and incapacity insurance	5 214	4 646	4 341	3 850
Superannuation contributions surcharge	1	40	530	453
Total Expenses	8 866	10 693	8 739	8 638
Benefits Accrued before Tax	101 204	159 992	178 094	149 595
Income tax expense	(7 477)	(6 184)	(13 680)	(11 859)
Benefits Accrued after tax	93 727	153 808	164 414	137 736
Benefits paid	(86 265)	(93 729)	(62 973)	(50 788)
Liability for accrued benefits at year start	526 307	466 228	364 787	277 839
Liability for Accrued Benefits at Year End	533 769	526 307	466 228	364 787

Comment

Benefits accrued as a result of operations were \$93.727m in 2008-09, a decrease of \$60.081m, on the 2007-08 result. The decline was predominantly due to:

- change in net market value of investments decreased \$22.450m. This was due predominantly to higher realised losses from Australian equities, \$11.473m, International equities, \$3.224m, and alternative investments, \$5.164m. Unrealised losses were also slightly greater, \$2.656m, mainly due to Property unrealised losses
- Member contributions decreased \$47.142m as members made additional contributions in 2007-08 seeking to maximise entitlements due to changes under the *Better Super* initiatives.

The above factors were partially offset by:

- increased Employer contributions of \$9.381m primarily attributed to increased number of members and salary increases
- lower General operating fees of \$2.356m due to reduced member activity post implementation of the *Better Super* initiatives in the prior year. TAS deducts from members an administration and taxation fee based upon set percentages. The Fund's Contributory Scheme pays the operating expenses for all of RBF's administration. TAS reimburses the Contributory Scheme from the General operating provision based upon an activity-based costing model.

Benefits paid decreased by \$7.464m in 2008-09 with 109 more members exiting. Where members resign or withdraw funds, all or part can be rolled over into the Investment account, used to purchase other retirement products (e.g. a pension) or transferred to another complying superfund.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash at bank	2 793	2 479	167	241
Interest receivable	1 854	1 886	139	16
Other receivables	0	37	0	205
Investments	622 546	573 932	522 265	400 201
Deferred tax asset	8 497	2 046	0	0
Total Assets	635 690	580 380	522 571	400 663
Payables	61 416	15 216	20 486	7 906
Provision for death and incapacity insurance	15 322	14 678	12 528	9 918
General operating provisions	11 731	11 883	7 627	5 975
Provision for income tax	13 450	12 288	11 653	10 073
Deferred tax liability	0	0	4 049	2 004
Superannuation contribution surcharge payable	2	8	0	0
Total Liabilities	101 921	54 073	56 343	35 876
Net Assets Available To Pay Benefits	533 769	526 307	466 228	364 787
Represented by:				
Liability for Accrued Benefits				
Allocated to members accounts	540 693	524 102	426 288	349 267
Not yet allocated	(6 924)	2 205	39 940	15 520
Total Liability For Accrued Benefits	533 769	526 307	466 228	364 787

Comment

Net Assets available to pay benefits increased by only \$7.462m, 1.42%, during 2008-09. The most significant movements were in Investments and Payables. While Investments increased \$48.614m, 8.47%, this was largely offset by higher Payables of \$46.200m which included the Inter-fund Payable. The Inter-fund Payable comprised the majority of the Payables balance. It was a result of rebalancing asset allocations and other transactions between the various funds managed by the RBFB. The combined effect was an increase of \$2.414m.

The remainder of the increase was predominantly due to an increase in the Deferred tax asset of \$6.451m due mainly to movements in investment income.

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

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Employer contributions	88 248	78 861	73 391	64 931
Member contributions	85 509	132 651	45 995	46 913
Other contributions	75	(37)	37	51
Interest received	2 842	427	1 472	1 347
Investment income received	3 827	3 008	1 164	861
Benefits paid	(86 198)	(93 592)	(62 762)	(50 927)
Direct investment expenses	(2 286)	(1 712)	(1 453)	(1 326)
Management fees paid	(3 561)	(1 765)	(2 282)	(2 012)
Income tax paid	(12 766)	(11 647)	(10 057)	(9 787)
Interfund transfers	46 133	(5 398)	12 572	6 198
Death and incapacity benefits paid	(4 570)	(2 496)	(1 731)	(1 281)
Superannuation contribution surcharge	(7)	(32)	(530)	(460)
Cash from operations	117 246	98 268	55 816	54 508
Proceeds from the sale of investments	215 727	283 893	158 823	104 533
Payments for purchase of investments	(272 329)	(363 081)	(204 097)	(145 938)
Cash (used in) investing activities	(56 602)	(79 188)	(45 274)	(41 405)
Net increase in cash	60 644	19 080	10 542	13 103
Cash at the beginning of the year	68 026	48 946	38 404	25 301
Cash at end of the year	128 670	68 026	48 946	38 404

Comment

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

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 will therefore fluctuate in line with members' investment strategies. The increase in 2008-09 and 2007-08 was partly due to members increasing investments in cash deposits seeking to avoid risks associated with market volatility.

FINANCIAL ANALYSIS

	2008-09	2007-08	2006-07	2005-06
Financial Performance				
Investments (\$'000s)	622 546	573 932	522 265	400 201
Net investment income (\$'000s)	(63 725)	(40 833)	67 414	46 338
Return on investments	(10.65%)	(7.45%)	14.62%	13.23%
Other Information				
Members (number)	25 503	24 332	23 546	22 719

Comment

In 2008-09, total funds under management increased by \$48.614m, 8.47%. Over the four year period total funds increased \$222.345m.

In the current and prior year, Net investment income was negative due to volatile changes experienced in Financial Markets. MIC allows members access up to 14 different investment options. Returns vary according to the MIC objective and potential risk exposure.

Return on investments represents a return on average net investments for any given year before fees and taxes are deducted. The Return on investment for 2005-06 and 2006-07 both showed solid performance well above the bench mark. Return on investments in the current and prior year were negative due to adverse performance on Financial Markets. Over the four year period the Return on investments was favourable at an average of 2.44%.

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 three fund members for all years shown.

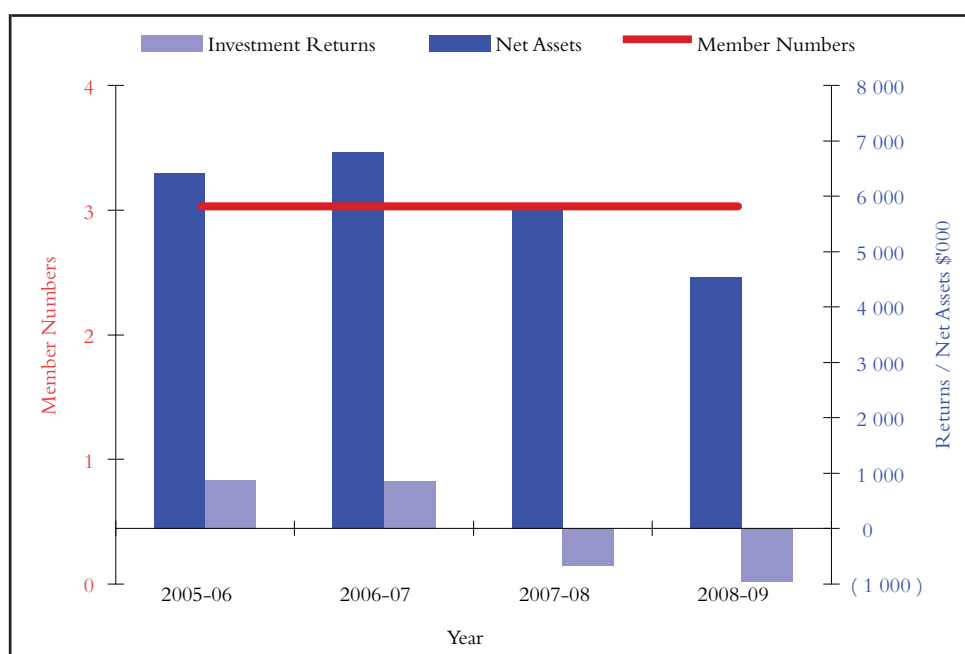
The Fund's growth and performance will be affected by the lack of new members and as existing members leave the fund. Nevertheless, as a defined benefit scheme, any unfunded liability must be met over time from the Consolidated Fund by appropriations through Finance-General.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 24 September 2009 and an unqualified audit report was issued on 6 October 2009. The audit was completed satisfactorily with no major items 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 declined in 2008-09 and in 2007-08.

STATEMENT OF CHANGES IN NET ASSETS

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Investment income	365	471	425	394
Changes in net market values	(1 159)	(908)	598	523
Direct investment expense	(28)	(29)	(33)	(34)
Employer contributions	994	931	973	950
Member contributions	40	40	32	33
Total Revenue	212	505	1 995	1 866
Pensions	1 366	1 332	1 335	1 294
Administration expenses	131	200	126	(2)
Superannuation contributions surcharge	(2)	(2)	1	0
Total Expenses	1 495	1 530	1 462	1 292
Change in net assets before tax	(1 283)	(1 025)	533	574
Income tax benefit/(expense)	34	28	(166)	(155)
Change in net assets after tax	(1 249)	(997)	367	419
Net Assets available to pay benefits at year start	5 791	6 788	6 421	6 002
Net Assets Available to Pay Benefits at Year End	4 542	5 791	6 788	6 421

Comment

The Fund recorded a loss of \$1.283m in 2008-09, an increase of \$0.258m on the loss of \$1.025m in 2007-08.

Investment income remained positive over the review period, however in 2008-09 Changes in net market values of investments returned a negative \$1.159m, with \$0.685m of this amount being unrealised losses. Losses incurred on Australian and international equities were the main drivers in the decrease in market values. As expected, Employer and Member contributions remained stable.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash at bank	0	0	0	0
Receivables	24	20	39	75
Investments	5 549	6 921	7 698	6 733
Total Assets	5 573	6 941	7 737	6 808
Payables	540	681	463	17
General operating provision	468	402	241	150
Deferred tax liabilities	23	67	245	220
Total Liabilities	1 031	1 150	949	387
Net Assets Available To Pay Benefits	4 542	5 791	6 788	6 421

Comment

The Net Assets of the PSF decreased \$1.249m in the current year and by \$0.997m in the prior year. Since 2005-06, the Net Assets Available to Pay Benefits have fallen by \$1.879m, 30%. In view of the absence of new members and as existing members exit, subject to improved investment performance, net assets will gradually decline.

The liability for accrued benefits (scheme as a whole) when last determined by the State Actuary as at 30 June 2009 was \$17.843m, resulting in an unfunded portion of accrued benefits of \$13.301m. 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 \$18.368m.

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 a specified rate of salary.

FINANCIAL ANALYSIS

	2008-09	2007-08	2006-07	2005-06
Financial Performance				
Investments (\$'000s)	5 549	6 921	7 698	6 733
Net investment income (\$'000s)	(822)	(466)	990	883
Return on investments	(13.14%)	(6.35%)	13.6%	13.5%

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 2008-09 and 2007-08, being negative returns of 13.14% and 6.35% respectively, impacted the performance of the fund. These compare unfavourably with the strong returns experienced over the previous two 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.

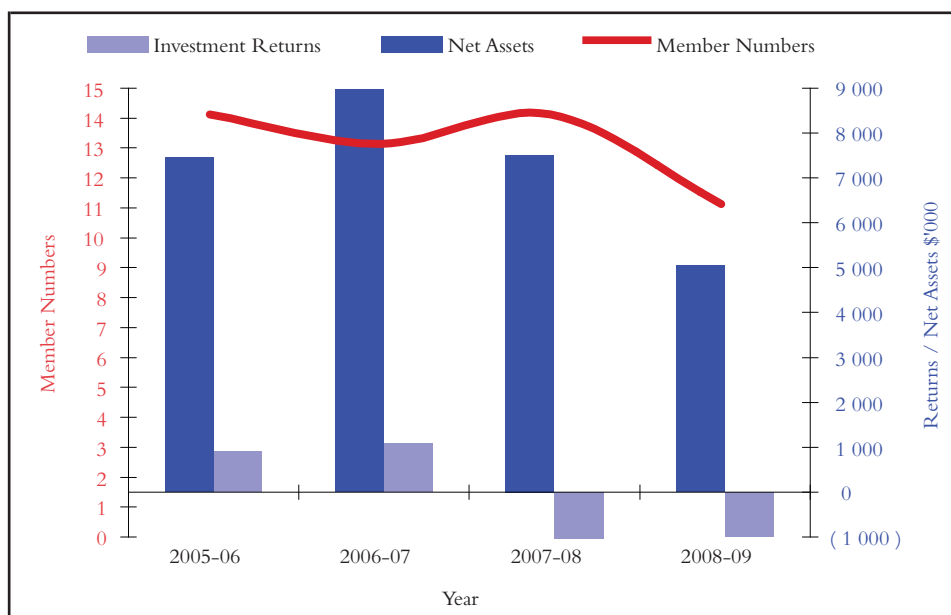
Legislation was enacted by Parliament in 2002 to facilitate the winding up of PRBF and transfer of funds to a sub-fund of the Retirement Benefits Fund Board (RBFB) effective from 1 January 2003. This sub-fund prepares an annual financial report for audit and inclusion in the annual report of the RBFB 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 2009 was 11 (2008, 13, 2007, 13, and 2006, 14). The PRBF's performance was affected by the lack of new members and payments to existing members on retirement.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed statements were received on 24 September 2009 and an unqualified audit opinion was issued on 6 October 2009. The audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

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



Net assets and Investment returns declined in both 2008-09 and in 2007-08. Fund membership also decreased resulting in fewer members available to share increasing administration costs.

STATEMENT OF CHANGES IN NET ASSETS

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Investment income	441	645	565	499
Changes in net market values	(1 460)	(1 237)	804	664
Direct investment expense	(31)	(39)	(42)	(42)
Employer contributions	338	385	405	442
Member contributions	131	173	142	172
Other revenue	0	1	0	1
Total Revenue	(581)	(72)	1 874	1 736
Lump sum benefits paid	1 803	1 050	0	838
General operating fees	167	217	205	178
Superannuation contributions surcharge	(3)	181	38	31
Total Expenses	1 967	1 448	243	1 047
Change in net assets before tax	(2 548)	(1 520)	1 631	689
Income tax benefit/(expense)	84	63	(128)	(119)
Change in net assets after tax	(2 464)	(1 457)	1 503	570
Net Assets available to pay benefits at year start	7 512	8 969	7 466	6 896
Net Assets available to Pay Benefits at Year End	5 048	7 512	8 969	7 466

Comment

Due to negative Changes in net Market Value, the Fund recorded a loss this year of \$2.548m, \$1.028m higher than the 2007-08 deficit of \$1.520m.

The poor performance by Financial Markets this year produced negative Changes in net market value of investments of \$1.460m (of which \$0.862m was unrealised losses). The decline in Employer and Member contributions revenue continues, due to the lower number of members which was reflected in the Lump sum benefits paid.

STATEMENT OF NET ASSETS

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receivables	65	75	87	45
Investments	6 323	8 942	10 152	8 381
Other assets	109	1	1	1
Total Assets	6 497	9 018	10 240	8 427
Payables	675	660	566	486
General operating provision	495	442	335	199
Other liabilities	279	404	370	276
Total Liabilities	1 449	1 506	1 271	961
Net Assets Available To Pay Benefits	5 048	7 512	8 969	7 466

Comment

Net Assets Available to Pay Benefits declined by \$2.464m, 32.80%, on the prior year. Since 2005-06, Net Assets have fallen by \$2.418m, 32%. The absence of new members and drop in existing members, subject to improvements in market performance, will see Net Assets gradually decline.

The liability for accrued benefits (scheme as a whole) when last determined by the State Actuary as at 30 June 2009 was \$7.007m, resulting in the PRBF being unfunded by \$1.959m. The liability for vested benefits (scheme as a whole) was \$8.065m.

However, the PRBF receives regular contributions from the State at a multiple of member contributions. 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

	2008-09	2007-08	2006-07	2005-06
Financial Performance				
Investments (\$'000s)	6 323	8 942	10 152	8 381
Net Investment Income (\$'000s)	(1050)	(631)	1 327	1 121
Return on investments	(13.54%)	(6.55%)	14.2%	14.0%

Comment

As previously discussed, the negative investment returns generated by the poor performance of Financial Markets resulted in a negative return on investments this year of 13.54% compared to 6.55% in 2007-08.

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 (RBF) 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 RBF.

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 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 24 September 2009 and an unqualified audit report was issued on 6 October 2009. The audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

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



Member numbers have fallen since commencement with the RBF. Net Assets and Investment returns declined in 2008-09 and 2007-08 in line with poor market performance and departure of members.

STATEMENT OF CHANGES IN NET ASSETS

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Investment revenue	2 020	2 569	2 157	0
Changes in net market values	(6 409)	(5 039)	3 216	0
Direct investment expenses	(146)	(126)	(156)	0
Employer contributions	1 819	1 388	1 388	0
Member contributions	511	811	908	0
Transfers from other funds	0	1	0	32 622
Total Revenue	(2 205)	(396)	7 513	32 622
Benefits Paid	2 477	2 729	638	486
Administration expenses	433	462	396	0
Total Expenses	2 910	3 191	1 034	486
Change in net assets before tax	(5 115)	(3 587)	6 479	32 136
Income tax benefit/(expense)	189	146	(553)	0
Change in net assets after tax	(4 926)	(3 441)	5 926	32 136
Net assets available to pay benefits at beginning of year	34 621	38 062	32 136	0
Net assets available to pay benefits at end of year	29 695	34 621	38 062	32 136

Comment

Change in net assets after income tax declined by a further \$1.485m in 2008-09. The major contributor to the movement was negative Changes in net market value of investments of \$6.409m, of which \$3.802m was unrealised. The main asset classes that contributed to the negative return were Australian and International equities.

In 2005-06 Net assets available to pay benefits 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.

STATEMENT OF NET ASSETS

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Other receivables	140	236	132	120
Investments	31 239	38 016	39 350	32 641
Deferred tax asset	899	364	1	2
Total Assets	32 278	38 253	39 483	32 763
Payables	1 837	3 256	739	569
General Operating Provision	445	346	130	0
Provisions for income tax	301	393	552	58
Total Liabilities	1 685	3 995	1 421	627
Net Assets Available To Pay Benefits	29 695	34 621	38 062	32 136

Comment

In 2008-09, Net assets available to pay benefits decreased by \$4.926m, 14.23% to \$29.695m. This was predominantly due to the decline in Investments of \$5.528m.

The liability for accrued benefits (scheme as a whole) as at 30 June 2009 was \$29.869m when last determined by the fund's actuary. Resulting in an unfunded liability of \$0.174m. Vested benefits were \$30.478m as at 30 June 2008 when last determined by the actuary. TASSS receives regular contributions from TAS. The objective of such funding is to ensure that the benefit entitlement to members and other beneficiaries are financed from TAS by the time they become payable.

FINANCIAL ANALYSIS

	2008-09	2007-08	2006-07	2005-06
Financial Performance				
Investments (\$'000s)	31 239	38 016	39 350	32 641
Net investment income (\$'000s)	(4 535)	(2 596)	5 217	0
Return on investments	(14.52%)	(6.83%)	13.26%	0.00%
Other Information				
Members (number)	167	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 2008-09 and 2007-08 resulted in negative returns of 14.52% and of 6.83% respectively. This combined with exiting members resulted in the decline in Investments over the last three years.

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 (RBF) 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 RBF. 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.

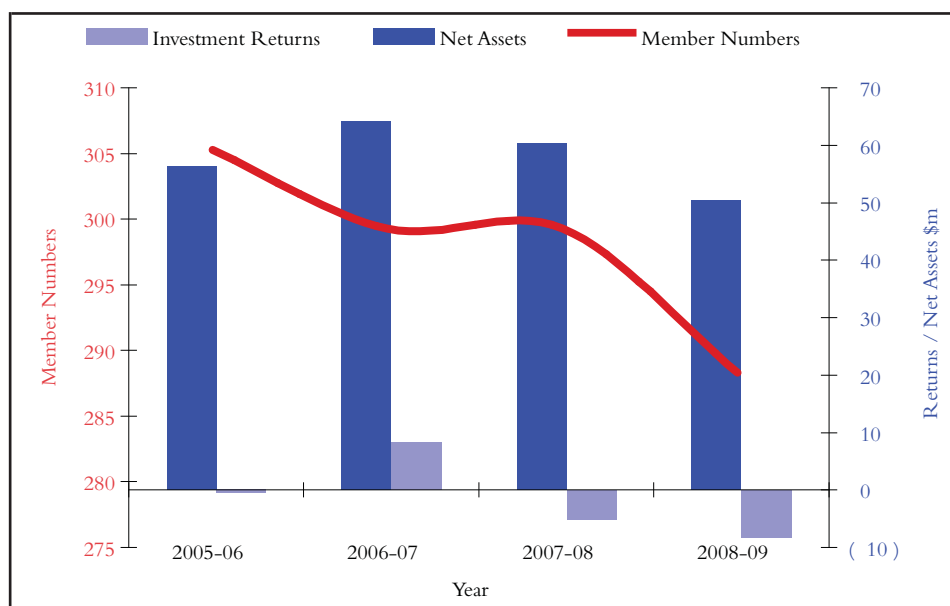
Member numbers have fallen since commencement with the RBF. Net assets and Investment returns declined in 2008-09 and 2007-08.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 24 September 2009 and an unqualified audit report was issued on 6 October 2009. The audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

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



Member numbers have fallen since commencement with the RFBF. Net Assets and Investment returns declined in 2008-09 and 2007-08 in line with poor market performance and departure of members.

STATEMENT OF CHANGES IN NET ASSETS

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Investment revenue	3 443	4 342	3 640	1 029
Changes in net market values	(10 932)	(8 484)	5 388	(1 438)
Direct investment expenses	(248)	(213)	(232)	(65)
Employer contributions	3 195	2 220	2 016	316
Member contributions	271	782	916	137
Transfers from other funds	0	3	0	56 499
Total Revenue	(4 271)	(1 350)	11 728	56 478
General operating fee	377	621	279	44
Other expenses	113	167	191	0
Superannuation Contributions				
Surcharge	(2)	0	0	0
Benefits paid	5 597	1 787	2 699	0
Total Expenses	6 085	2 575	3 169	44
Change in Net Assets before Tax	(10 356)	(3 925)	8 559	56 434
Income tax benefit/(expense)	291	256	(897)	(11)
Change in Net Assets after Tax	(10 065)	(3 669)	7 662	56 423
Net assets available to pay benefits at year start	60 416	64 085	56 423	0
Net Assets Available to Pay Benefits at Year End	50 351	60 416	64 085	56 423

Comment

Change in net assets before tax was \$10.356m in 2008-09, an increase of \$6.431m on 2007-08.

Investment income remained positive over the review period, however in 2008-09 Changes in net market values of investments returned a negative \$10.932m, with \$6.449m of this amount being unrealised losses.

Benefits paid in 2008-09 were \$5.597m, an increase of \$3.810m from 2007-08. This represented resignation, retirement and withdrawal of funds as members exited. All or part of funds may be rolled over into the Investment account, used to purchase other retirement products (e.g. an allocated pension) or transferred to another complying superfund.

The first full year of operation of the scheme with the RFBF was 2006-07. In 2005-06 total funds transferred into the SFCSS represented the defined benefit component of the Scheme on transfer to the RBF, which was invested as soon as received.

STATEMENT OF NET ASSETS

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Interest receivable	234	202	27	7
Other receivables	0	0	166	167
Investments	54 078	63 833	66 883	56 592
Deferred tax asset	1 626	720	0	91
Total Assets	55 938	64 755	67 076	56 857
Other payables	4 424	3 169	2 020	49
General operating provision	623	519	181	(2)
Provision for income tax	540	651	604	405
Deferred tax liability	0	0	186	0
Superannuation contributions surcharge payable	0	0	0	(2)
Total Liabilities	5 587	4 339	2 991	450
Net Assets Available To Pay Benefits	50 351	60 416	64 085	56 407

Comment

Net Assets Available to Pay benefits in 2008-09 was \$50.351m, a decrease of \$10.065m or 16.66% from the prior year. This was predominantly due to the decline in Investments of \$9.755m.

The increase in Other payables compared to 2007-08 of \$1.255m represented inter-fund payables as part of monthly rebalancing of allocations between funds.

The liability for accrued benefits as at 30 June 2009 was \$56.639m (scheme as a whole) when last determined by the fund's actuary. Resulting in an unfunded liability of \$6.288m. Vested benefits were \$57.910m as at 30 June 2008 when last determined by the actuary.

The SFCSS receives regular contributions from the SFC. The objective of such funding is to ensure that the benefit entitlement to members and other beneficiaries are financed from the SFCSS by the time they become payable.

FINANCIAL ANALYSIS

	2008-09	2007-08	2006-07	2005-06
Financial Performance				
Investments (\$'000s)	54 078	63 833	66 883	56 592
Net investment income (\$'000s)	(7 737)	(4 355)	8 796	(474)
Return on investments	(14.31%)	(6.82%)	13.15%	(0.84%)
Other Information				
Members (number)	288	299	305	313

Comment

The SFCSS performance may vary considerably depending on the volatility of financial markets and benefits paid out in any one financial year.

The poor performance of financial markets in 2008-09 and 2007-08 resulted in negative returns of 14.31% and of 6.82% respectively. This combined with exiting members resulted in the decline in Investments over the period of review.

OTHER STATE ENTITIES

INTRODUCTION

Other State Entities 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 were 33 such bodies, details of which are provided in Appendix 1, Status of Audits, of this Report.

KEY FINDINGS AND OUTCOMES FROM AUDITS

Key findings included:

- at the time of publication of this Report, financial statement audits of 27 of the 33 other State entities had been completed
- three of these bodies did not submit financial statements within applicable statutory deadlines
- audits were completed satisfactorily with no major issues outstanding
- the **Legal Aid Commission** is reliant on recurrent funding provided by the Commonwealth and State Governments to deliver legal services to each funder's legal jurisdiction. Grant revenue accounted for 93% of total revenue over the review period (2005-06 to 2008-09). The timing of the receipt and expenditure of Commonwealth grants has a considerable impact on whether the year end financial result is a Net surplus or deficit.
- significant developments during the year for **Marine and Safety Authority of Tasmania** included the receipt of \$3.250m of state capital investment program grants for dredging operations at Pelican Point and Sand Removal at Blanche Beach, Stage 2 Southport Jetty reconstruction and Bridport Jetty and Nubeena Jetty reconstructions.

In financial terms the Authority is relatively small with annual revenues and expenditures averaging \$4.600m. It is unlikely to operate at anything much above break-even before accounting for capital investment grants and annual net results will fluctuate depending on the timing of triennial recreational motor boat licence renewals

- the **State Fire Commission** recorded Net Surpluses in each of the years under review with the exception of 2006-07 and its Equity similarly increased. Analysis of its finances shows negative Working Capital in all years and delays in paying suppliers reflected by high Creditor turnover days. These indicate that the Commission is not generating sufficient cash from its own or other sources to provide for capital expenditure. The Commission budgets for operating and capital expenditure in accordance with available funds. The quarterly receipt of the Fire Service Contribution places periodic strain on the Commission's finances, but with adequate overdraft facilities the Commission was able to meet current financial obligations
- to support continued operations of the **Tasmanian Polytechnic, Tasmanian Academy and the Tasmanian Skills Institute** over the next 12 months the Secretary for the Department of Education, on behalf of the Minister, provided the Boards of these Authorities with a letter of comfort confirming that the Department, through a Memorandum of Understanding, will continue to fund each Authority for its 2009-10 financial obligations in relation to services as contracted.

The Boards of the Authorities have agreed to progress the assignment of land and building assets, which currently reside within the Polytechnic, such that they will be distributed across the Authorities. It is expected that the necessary changes will be reflected in future balance sheets, once agreement has been reached on the distribution.

Audits in Progress

The audits of following public bodies are either in progress or are due to commence shortly:

- Clyde Water Trust
- Tasmanian Beef Industry (Research and Development) Trust
- Tasmanian Museum and Art Gallery.

INLAND FISHERIES SERVICE

INTRODUCTION

The Inland Fisheries Service (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 advice 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 is producing its own fish stocks and relying less on other hatcheries.

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

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

The financial statements were received in advance of the due date of 15 August 2009. Final amended statements were received on 4 September 2009 and an unqualified audit opinion was issued on 29 September 2009.

The audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

Over the four year period under review the Service operated at an average annual surplus of \$0.178m. The only deficit, \$0.052m in 2007-08, was due to one-off arrears payments of payroll tax and employee allowances. The position improved in 2008-09 due to a focused effort by management to reduce expenditure where possible in order to maintain future business viability.

Revenue remained consistent over the period with licence fees representing 40% of revenue in 2008-09 (2007-08, 37%) and government and external grants 45% of revenue (2008-09, 48%).

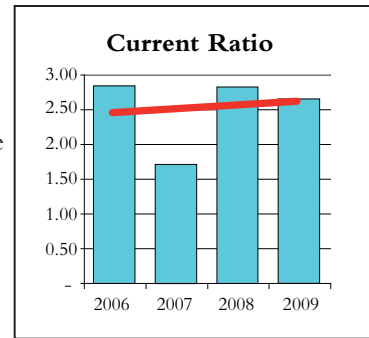
Net equity increased from \$4.269m at 30 June 2006 to \$5.987m at 30 June 2009. Net working capital steadily improved over the past three years from \$0.533m in 2006-07 to \$0.815m in 2008-09. The Service was in a strong position to meet its commitments.

The following two graphs highlight important aspects of the Service's financial performance over the past four years.



Operating margin failed to meet the benchmark of one in two years of the period under review. In 2005-06 this was due to a dip in revenue received from all facets of the Service's operations. Since then revenue increased each period. However in 2007-08 there was increased expenditure due to payroll tax in arrears which caused the Operating margin to fall below one.

Current ratio was above the benchmark of one in each year of the period under review. This indicated that the Service was able to meet all its short-term liabilities as and when they fell due.



INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Licence fees	1 529	1 479	1 488	1 398
Government grants	1 230	1 179	1 158	1 137
External grants and reimbursements	512	742	397	253
Other operating revenue	535	586	448	397
Gain(Loss) on sale of non-financial assets	9	(4)	(2)	497
Total Revenue	3 814	3 982	3 489	3 682
Employee expenses	2 149	2 401	1 869	1 936
Operating expenses	1 232	1 405	1 239	1 258
Depreciation	217	228	184	137
Total Expenses	3 598	4 034	3 292	3 331
Net surplus/(deficit) before:	216	(52)	197	351
Capital grant	0	0	200	0
Net surplus/(deficit) for the year	216	(52)	397	351

Comment

In 2008-09 the Service recorded a Surplus for the year of \$0.216m, compared to a deficit of \$0.052m in the prior year. The net result improved in 2008-09 predominately due to:

- Employee expenses fell by \$0.252m primarily as a result of a one off payroll tax back payment in 2007-08. The Service was advised it was not eligible for a payroll tax exemption
- Operating expenses decreased by \$0.174m due to a focused effort by management to reduce expenditure to address sustainability.

The above factors were partly offset by:

- Decreased external grants of \$0.230m in 2008-09 related to completion of works to Woods Lake Roads.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	1 186	977	1 072	1 695
Receivables	184	226	223	42
Total Current Assets	1 370	1 203	1 295	1 737
Property, plant and equipment	4 027	5 108	5 017	3 194
Investment property	1 398	0	0	0
Total Non-Current Assets	5 425	5 108	5 017	3 194
Payables	262	163	257	72
Provisions	257	265	505	543
Total Current Liabilities	519	428	762	615
Provisions	290	298	43	47
Total Non-Current Liabilities	290	298	43	47
Net Assets	5 986	5 585	5 507	4 269
Reserves	1 709	1 524	1 394	553
Accumulated funds	1 077	861	913	516
Contributed Capital	3 200	3 200	3 200	3 200
Total Equity	5 986	5 585	5 507	4 269

Comment

Equity increased \$0.402m in 2008-09 due to the Net Surplus of \$0.216m and increased Reserves of \$0.185m, following revaluations of land and buildings at 30 June 2009.

Movements in Net Assets were due to:

- improved cash position of \$0.209m. Refer to Cash Position section of this Chapter for details
- Investment property increased to \$1.398m in 2008-09 from a nil balance in the previous year due to a reclassification of the 6B Lampton Avenue property to comply with AASB 140 *Investment Property*.

The above factors were partly offset by:

- Property, plant and equipment decreased by \$1.081m during 2008-09 compared to the previous year due to a reclassification to Investment Property detailed above. This was offset by the upward revaluation of land and buildings of \$0.185m, and additions made to the laboratory and office complex at New Norfolk of \$0.346m
- higher Payables of \$0.099m at 30 June 2009 mainly due to increased funds held for external projects. This was based upon grants received in 2008-09 from Anglers Alliance Tasmania to conduct projects improving angling access to various locations around the state.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	2 677	2 628	1 678	1 754
Payments to suppliers and employees	(3 762)	(3 970)	(3 011)	(3 399)
Interest received	102	131	123	104
Receipts from Government	1 230	1 179	1 158	1 137
Receipts from external projects	201	70	397	253
Cash from/(used in) operations	447	38	345	(151)
Payments for property, plant and equipment	(274)	(334)	(1 329)	(218)
Proceeds from sale of property, plant and equipment	36	201	160	1 048
Capital grants	0	0	200	0
Cash from/(used in) investing activities	(238)	(133)	(969)	830
Net increase (decrease) in cash	209	(95)	(624)	679
Cash at the beginning of the year	977	1 072	1 696	1 017
Cash at end of the year	1 186	977	1 072	1 696

Comment

The Service's cash position improved \$0.209m at 30 June 2009 mainly due to:

- increased Receipts from external projects of \$0.131m due to funding received in 2008-09 from Anglers Alliance Tasmania to conduct projects improving angling access to various locations around the State
- Decreased Payments to suppliers and employees of \$0.208m due to back tax that was required to be paid during 2007-08, and efforts made by management to reduce spending, as detailed in the Income Statement section of this Chapter.

The above factors were partly offset by:

- Decreased Proceeds from sale of property, plant and equipment of \$0.165m due to only one motor vehicle being disposed of in 2008-09.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Surplus/(Deficit) (\$'000s)		216	(52)	197	351
Operating margin	>1.0	1.06	0.99	1.06	0.96
Underlying result ratio		5.66%	(1.21%)	5.65%	9.53%
Own source revenue		2 073	2 061	1 934	2 292
Financial Management					
Current ratio	>1	2.64	2.81	1.70	2.82
Debt collection	30 days	34	42	45	9
Creditor turnover	30 days	28	26	66	15
Other Information					
Staff numbers (FTEs)		30	31	30	31
Average staff costs (\$'000s)		72	76	59	63
Average leave balances per FTE (\$'000s)		18	17	16	19

Comment

The Service recorded a surplus in all years except for 2007-08. During 2008-09 the Net result from operations increased by \$0.268m from a deficit of \$0.052m in 2007-08 due to decreased expenditure as detailed in the Income Statement section of this Chapter.

The Operating margin and Underlying result ratios correlate with the movement in expenditure. The Own source revenue indicator represents revenue generated by the Service through its own operation which remained consistent over the entire period.

The current ratio improved in 2007-08 due to the re-classification of current employee provisions during that period, and remained consistent in 2008-09.

The Debt collection ratio did not meet the benchmark for the majority of the period, but showed improvement in 2008-09 due to focused efforts from management to improve collection.

Creditor turnover consistently exceeded the bench mark over all years except for 2006-07, primarily due to a number of large unpaid accounts on hand at balance date at 30 June 2007.

Average staff costs decreased in 2008-09 due to one-off arrears payments of payroll tax and allowances in 2007-08. This was off-set by additional expenditure attributable to the new Public Service Wage agreement.

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.

Marine and Safety Authority (the Authority or MAST) 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 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 3 August 2009 and an unqualified audit report was issued on 21 August 2009.

The audit was completed satisfactorily with no major items outstanding.

An audit matter reported to the Board included a suggested improvement to controls over the use of MAST's Corporate Online Bank account system. Remedial action has been agreed with and implemented by management.

Significant developments during the year included the receipt of \$3.250m of state capital investment program grants for dredging operations at Pelican Point and sand removal at Blanche Beach, Stage 2 Southport Jetty reconstruction and Bridport Jetty and Nubeena Jetty reconstructions.

FINANCIAL RESULTS

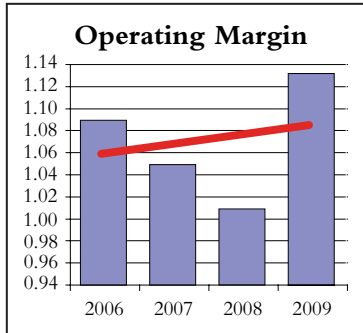
In financial terms the Authority is relatively small with annual revenues and expenditures averaging \$4.600m. It is unlikely to operate at anything much above break-even before accounting for capital investment grants and annual net results will fluctuate depending on the timing of triennial recreational motor boat licence renewals. In 2008-09 the Authority produced a larger than normal surplus of \$3.775m, an increase of \$3.919m compared to 2007-08. This was because of the timing of triennial boat licence renewals due at the end of 2008-09, a new revenue item in 2008-09, Personal Watercraft (PWC) endorsements, higher levels of capital investment program grants, and effect in 2007-08 of 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 \$9.674m at 30 June 2006 to \$15.212m at 30 June 2009. Over this period its net working capital improved from \$2.049m to \$5.307m. The Authority is in a strong position to meet its commitments. It is noted that,

in addition to liabilities and provisions totalling \$1.340m at 30 June 2009, the Authority was committed to projects totalling \$9.670m for which some cash is held.

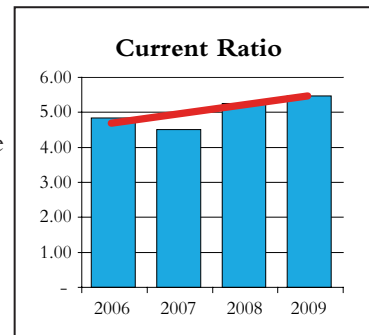
The following three graphs summarise key ratios highlighting important aspects of the Authority's financial performance over the past four years.

In general, the ratios indicate:



Operating margin exceeded the benchmark of one in each year of the period under review. Operating margins showed fluctuations consistent with the triennial renewal of recreational boat licences at 30 June 2006 and 30 June 2009. The majority of renewal payments were received in June (approx 70%) however payments for expired renewals were accepted in the following three months.

Current ratio was above the benchmark of one in each year of the period under review. This indicated that the Authority was able to meet all its short-term liabilities as and when they fell due.



INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Commercial vessel fees	757	715	714	658
Certificates of competency fees	183	176	150	129
Recreational boating fees	3 330	1 941	2 317	2 383
Mooring	271	245	255	269
Government recurrent contribution	800	800	800	700
Commonwealth grants	0	71	172	73
Interest received	312	220	168	131
Other operating revenue	77	68	77	301
Total Revenue	5 730	4 236	4 653	4 644
Employee expenses	1 609	1 457	1 369	1 317
Depreciation	468	468	468	415
Other operating expenses	2 991	2 278	2 603	2 535
Total Expenses	5 068	4 203	4 440	4 267
Surplus (Deficit) before:	662	33	213	377
State capital investment program grants	3 250	500	600	950
Loss on disposal of non-current assets	(137)	(677)	(10)	0
Surplus (Deficit) for the year	3 775	(144)	803	1 327

Comment

In 2008-09 the Authority recorded a Surplus for the year of \$3.775m, compared to a Deficit of \$0.144m in the prior year. The operating result varied significantly in 2008-09 predominantly due to:

- Recreational boating fees increased \$1.389m primarily as a result of the timing of recreational boating renewal fees which are renewed on a triennial basis. Revenue of \$147,799 was also derived in 2008-09 from a new income item, Personal Watercraft (PWC) Endorsements which commenced in December 2008 for eligible motor boat licences
- increased State capital investment program grants of \$2.750m in 2008-09 for dredging operations at Pelican Point and Sand Removal at Blanche Beach, \$1.250m, Stage 2 Southport Jetty reconstruction, \$1.000m, and Bridport Jetty and Nubeena Jetty reconstructions, \$1.000m
- decreased loss on disposal of non-current assets for 2008-09, of \$0.540m, due to 2007-08 including \$0.677m relating to the 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.

The above factors were offset by:

- increased Other operating expenses of \$0.713m primarily due to Sand Removal at Blanche Beach, \$0.306m, and higher Recreational Boat Fund (RBF) contributions to eligible projects funded by revenue received from triennial Motor Boat Licence renewal revenues. Major projects in 2008-09 included contributions to Break O'Day Council for the Burns Bay Ramp at St Helens, \$0.172m, and to Inland Fisheries Service for a project at Lake Echo, \$0.020m. In addition, previously capitalised costs associated with Rocky Cape walkway project were expensed as it is now owned by the Department of Primary Industries, Water and Environment, \$0.129m.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	6 243	2 887	2 049	2 401
Receivables	191	127	359	166
Other	69	72	74	20
Total Current Assets	6 503	3 086	2 482	2 587
Payables	931	362	392	387
Provisions	265	230	162	151
Total Current Liabilities	1 196	592	554	538
Net Working Capital	5 307	2 494	1 928	2 049
Property, plant and equipment	10 049	8 733	9 460	7 754
Total Non-Current Assets	10 049	8 733	9 460	7 754
Provisions	143	134	151	129
Total Non-Current Liabilities	143	134	151	129
Net Assets	15 212	11 093	11 237	9 674
Capital	9 939	9 939	9 939	9 939
Reserves	1 531	1 186	1 186	426
Accumulated surpluses (deficits)	3 742	(32)	112	(691)
Total Equity	15 212	11 093	11 237	9 674

Comment

Equity increased significantly during 2008-09 due predominantly to the Net surplus of \$3.775m and an increase to the Asset revaluation reserve of \$0.345m, following revaluations of Navigation Aids at 30 June 2009. Marine facilities were not revalued during 2008-09 but will be in 2009-10 in conjunction with a three-yearly condition audit.

Net Assets increased by \$4.119m due to:

- improved Cash position of \$3.357m. Refer to Cash Position section of this Chapter for details
- Property, plant and equipment increased by \$1.316m during 2008-09 compared to the previous year due predominantly to completion of the Southport Jetty reconstruction project, \$1.358m, and upward revaluation of Navigation Aids, \$0.345m. This was offset by disposal of assets including partial disposal of Brid River Jetty and Nubeena Jetty, \$0.137m, and reclassification of work in progress relating to the Commonwealth funded Rocky Cape walkway project as previously noted in the Income Statement section of this Chapter, \$0.129m.

These were offset by:

- higher Payables at 30 June 2009 mainly due to the inclusion of outstanding invoices not due for payment on major projects in progress, including Blanche Beach sand removal, \$0.266m, Southport Jetty reconstruction, \$0.115m, Demolition and reconstruction of Nubeena Jetty, \$0.089m, and the Bridport Wharf reconstruction, \$0.090m.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	5 355	4 285	4 740	4 143
Payments to suppliers and employees	(4 160)	(3 747)	(4 460)	(3 726)
Interest received	312	220	168	131
Cash from (used in) operations	1 507	758	448	548
Payments for property, plant and equipment	(1 400)	(421)	(1 420)	(623)
Proceeds from sale of property, plant and equipment	0	0	21	0
Capital investment program grants	3 250	500	600	950
Cash from (used in) investing activities	1 850	79	(799)	327
Net increase (decrease) in cash	3 357	837	(351)	875
Cash at the beginning of the year	2 887	2 050	2 401	1 526
Cash at end of the year	6 243	2 887	2 050	2 401

Comment

The Authority's cash position increased \$3.357m at 30 June 2009 mainly due to:

- increased Receipts from customers of \$1.070m because of triennial motor boat licence renewals and PWC Endorsements to eligible motor boat licences
- higher capital investment grants for dredging at St Helens, \$1.250m, and Jetty reconstruction at Nubeena, \$0.400m, Bridport, \$0.600m, and Southport, \$1.000m.

These were offset by:

- increased cash payments for Property, plant and equipment in 2008-09 due mainly to final completion of the Southport Jetty reconstruction, \$1.139m.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Surplus/(Deficit) (\$'000s)		662	33	213	377
Operating margin	>1.0	1.13	1.01	1.05	1.09
Underlying result ratio		12%	1%	5%	8%
Self financing ratio		26%	18%	10%	12%
Own source revenue (\$'000s)		4 930	3 436	3 853	3 944
Financial Management					
Current ratio	>1	5.44	5.21	4.48	4.81
Debt collection	30 days	18	33	84	23
Creditor turnover	30 days	54	28	21	34
Other Information					
Staff numbers (FTEs)		19	19	19	20
Average staff costs (\$'000s)		85	78	72	66
Average leave balance per FTE (\$'000s)		22	19	16	14

Comment

The Authority recorded its highest Result from operations for the period under review in 2008-09 of \$0.662m. This was due predominantly to receipt of triennial motor boat licence renewals due 30 June 2009 and new revenue item PWC Endorsements which commenced in December 2008 to eligible licences. The low result in 2006-07 reflected the finalisation of the previous triennial motor licence renewals. The Authority's Underlying result ratio and Own source revenue also moved in line with the triennial boat licences. The Self financing ratio moved in line with this except in 2006-07 and 2007-08. These years were affected by a higher level of receivables in 2006-07 relating to amounts invoiced to the Commonwealth for grants under the Recreational Fishing Programme. The effect was lower cash from operations in 2006-07 causing a reduction in the ratio. On receipt of the funds in 2007-08 both cash from operations and the ratio increased.

Debt collection was below benchmark in all years except 2006-07 and 2007-08. The former was impacted by \$0.245m invoiced in late June 2007 for several recreational boating project contributions and grants that were not received until July 2007. Without these debts the turnover 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 resulted in a turnover of 28 days.

Creditor turnover was above benchmark in 2008-09 mainly due to unpaid invoices in relation to Blanche beach sand removal, Brid Wharf, Nubeena Jetty and Southport Jetty reconstructions. In 2005-06 Creditor turnover was also above benchmark because of level of creditors at year end including significant capital works in progress.

Employee numbers were relatively constant over the period. Average staff cost increases were consistent with wage and salary award increases over the period. In 2008-09 the increase was due to two salary increases (4% in December 2008 and 1.5% in March 2009). The increase was also attributed to the effect of full year employment of Commercial Vessel Safety Officer, increased working hours for two permanent part-time employees and increased use of a casual Naval Architect.

Average leave balance per FTE steadily increased, because staff continued to accrue leave, not taking all of their entitlements as they became available, and due to the effect of salary increases.

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 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2009, with amended statements received on 29 September 2009. An unqualified audit report was issued on 30 September 2009.

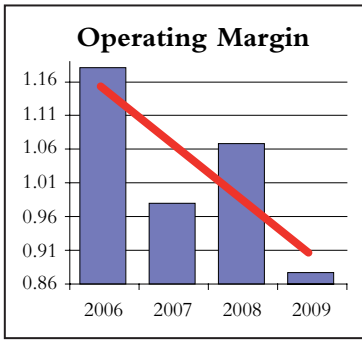
The audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

In financial terms the Authority is relatively small with annual revenues and expenditures averaging \$2.500m. 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 are not any large operating surpluses or deficits in any financial year.

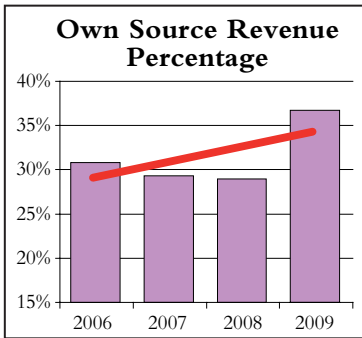
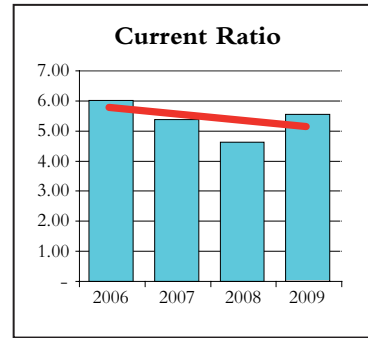
The Authority continues to maintain a solid working capital position, however, the Authority continues to rely heavily on contributions from the State Government, with the majority of its revenue consisting of grant funding.

The following three graphs summarise key ratios highlighting important aspects of the Authority's financial performance over the past four years. In general, the ratios indicate:



Operating margin was above or close to the benchmark of one in all four years. An Operating margin below the benchmark indicates the Authority might not be generating sufficient revenue to fulfil its operating requirements. The Operating margin was slightly below the benchmark in 2007 and 2009 because of decreased grant funding and decreased bank interest received.

Current ratio was above the benchmark of one in all four years indicating that the Authority was able to meet all short-term liabilities.



Own source revenue percentage showed the Authority generated the majority of its operating revenue from State Government funding with the percentage increasing to 37% in 2009.

INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Government contributions	1 311	1 288	1 243	1 247
Commonwealth grants	43	620	536	667
Private forests service levy	466	441	432	472
Interest on pine loans	21	30	48	59
Bank interest	106	147	123	124
Other revenue	187	154	129	191
Total Revenue	2 134	2 680	2 511	2 760
Salary, wages and employee entitlements	1 194	1 348	1 299	1 325
Borrowing costs	21	30	48	60
Depreciation	163	77	56	56
Other expenses	999	1 058	1 165	899
Loss on disposal of assets	3	0	0	0
Impairment	58	0	0	0
Total Expenses	2 438	2 513	2 568	2 340
Surplus (Deficit) before:	(304)	167	(57)	420
Capital grants	0	127	73	100
Refund of grants	0	141	32	0
Surplus (Deficit) for the year	(304)	153	(16)	520

Comment

In 2008-09 the Authority recorded a Deficit of \$0.304m compared to a Surplus of \$0.153m in the prior year. The main factors contributing to this decrease in result were:

- reduced commonwealth grant revenue of \$0.577m, as most projects were completed in 2007-08. The funding varies from year to year dependent on project schedules and priorities. Major grant funding comprised Sustainable Farm Forestry, \$0.043m in 2008-09 (2007-08, \$0.290m) and Targeted Protection of High Priority Terrestrial and Riparian Vegetation, with no funding received in 2008-09 (\$0.279m)
- reduced bank interest of \$0.041m, due to reduced interest rates and lower investment balances being held in 2008-09 compared to 2007-08
- increased depreciation charges of \$0.086m due mainly to the capitalisation of the Authority's high-resolution satellite imagery facilities.

The above factors were offset partly by:

- decreased salary, wages and employee entitlements charges of \$0.154m, due to staff resignations and acting arrangements, with several positions remaining vacant for periods throughout the year
- decreased other operating expenses of \$0.059m, primarily due to a decrease in motor vehicle charges flowing from staff resignations and acting arrangements mentioned above.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	1 197	1 387	1 586	1 339
Receivables	474	835	621	801
Loans for private forestry	66	51	60	58
Other	6	7	6	8
Total Current Assets	1 743	2 280	2 273	2 206
Property, plant and equipment	404	331	94	124
Loans for private forestry	294	333	679	887
Total Non-Current Assets	698	664	773	1 011
Payables	23	218	124	72
Borrowings	33	33	60	58
Provisions	235	223	224	209
Other	25	22	18	30
Total Current Liabilities	316	496	426	369
Borrowings	878	891	1 219	1 427
Provisions	25	31	28	32
Total Non-Current Liabilities	903	922	1 247	1 459
Net Assets	1 222	1 526	1 373	1 389
Accumulated surpluses	1 222	1 526	1 373	1 389
Total Equity	1 222	1 526	1 373	1 389

Comment

The Authority's Total Equity and Net Assets both decreased by \$0.304m at 30 June 2009 from 30 June 2008 due to the operating loss for the year. The decrease was primarily due to:

- deteriorated Cash position of \$0.190m. Further details are provided in the Cash Position section of this Chapter
- reduced Receivables of \$0.361m, due to the inclusion of accrued grant revenue of \$0.263m in 2007-08, fewer levy debtors as at 30 June 2009 and the recognition of a provision for impairment of \$0.058m.

These were partially offset with:

- increased Property, plant and equipment of \$0.073m. The increase was due to net capital additions of \$0.236m, offset by annual depreciation expense of \$0.163m
- reduced Payables at 30 June 2009 of \$0.195m. The balance decreased significantly due to the inclusion of \$0.141m in 2007-08 for grant refunds relating to two projects which were delivered under budget.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	2 345	2 627	2 843	2 212
Payments to suppliers and employees	(2 412)	(2 660)	(2 703)	(2 332)
Interest received on surplus funds	107	157	133	120
Borrowing costs	(21)	(30)	(48)	(60)
Cash from (used in) operations	19	94	225	(60)
Payments for property, plant and equipment	(239)	(314)	(26)	(40)
Cash from (used in) investing activities	(239)	(314)	(26)	(40)
Receipts from pine loan repayments	44	382	264	145
State Government loans repaid	(14)	(361)	(216)	(85)
Cash from financing activities	30	21	48	60
Net increase (decrease) in cash	(190)	(199)	247	(40)
Cash at the beginning of the year	1 387	1 586	1 339	1 379
Cash at end of the year	1 197	1 387	1 586	1 339

Comment

As the Authority is reliant on recurrent grant funding, it does not generate strong operating cash flows.

The Authority's cash position decreased \$0.190m at 30 June 2009 due to:

- internally funded capital works of \$0.239m, the majority being the continuation of the development of high-resolution satellite imagery facilities, which totalled \$0.215m. The Authority 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 2009, the Authority had expended \$0.459m for approximately ninety percent of the target area. The project is due to be completed in 2009-10.

Partly offset by:

- decreased cash from operations of \$0.075m
- increased cash from financing activities of \$0.009m.

Included in the Authority's cash balance was an amount for borrowings not on-lent to private forest applicants. At 30 June 2009 the funds held totalled \$0.539m, which cannot be used for any purpose other than private forestry loans.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Surplus/(Deficit) (\$'000s)		(304)	167	(57)	420
EBIT (\$'000s)		(283)	197	(9)	480
Operating margin	>1.0	0.88	1.07	0.98	1.18
Underlying result ratio		(14.2%)	6.2%	(2.3%)	15.2%
Self financing ratio		0.9%	3.5%	9.0%	(2.2%)
Own source revenue		780	772	732	846
Return on assets		(10.5%)	6.6%	(0.3%)	15.8%
Return on equity		(22.1%)	11.5%	(4.1%)	37.2%
Financial Management					
Debt to equity		74.5%	60.6%	93.2%	106.9%
Debt to total assets		37.3%	31.4%	42.0%	46.2%
Interest cover	>2	(13)	7	(0)	8
Current ratio	>1	5.52	4.60	5.34	5.98
Indebtedness ratio		115.8%	119.4%	170.4%	172.5%
Cost of debt	7.5%	2.3%	2.7%	3.5%	3.9%
Creditor turnover	30 days	8	23	32	32
Other Information					
Staff numbers (FTEs)		17	19	19	19
Average staff costs (\$'000s)		70	73	68	70
Average leave balance per FTE (\$'000s)		15	14	13	13

Comment

The Financial Performance ratios show the Authority recorded operating surpluses in two of the four years under review as reflected in the Result from operations. The EBIT, Underlying result ratio, Return on assets and Return on equity movements were consistent with movements in the Authority's Result from operations.

As discussed previously in Financial Results section of this Chapter, the Authority is reliant on government funding. This was further illustrated by the Authority's Own source revenue comprising only 37% of total revenue (2007-08, 29%).

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. As noted under the Cash Position section of this Chapter, a significant portion of the borrowings is held in cash, 60% (58%).

Debt to equity and Debt to total assets both increased slightly during 2008-09 due to a minimal reduction in Borrowings, \$0.013m but substantial decreases in equity, \$0.304m as a result of the deficit result and \$0.503m in total assets.

Current ratio was well above benchmark for all years under review indicating the Authority was able to meet all short-term liabilities.

The Authority's Indebtedness ratio has continued to decrease as Borrowings are repaid.

Average staff numbers and costs remained relatively stable, with average staff costs increasing consistently over the period due to general payroll increases. However, the decrease in 2008-09 was due to the impact of a staff resignations and acting arrangements as discussed above in the Income Statement section of this Chapter.

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 Retained 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.

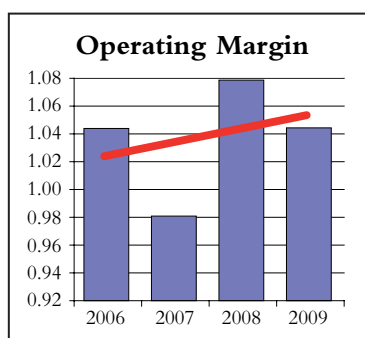
AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2009, with revised financial statements received on 14 September 2009. An unqualified audit report was issued on 21 September 2009.

FINANCIAL RESULTS

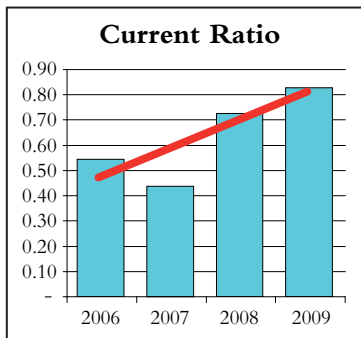
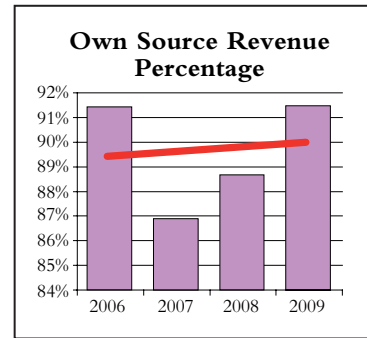
The Commission recorded Net Surpluses in each of the years under review with the exception of 2006-07. Analysis of its finances illustrates negative Working Capital in all years and high Creditor turnover. These indicate that the Commission is not generating sufficient cash to provide for capital expenditure. The Commission budgets for operating and capital expenditure in accordance with available funds. The quarterly receipt of the Fire Service Contribution does place periodic strain on the Commission's finances, but with adequate overdraft facilities the Commission was able to meet current financial obligations.

The following three graphs summarise key ratios highlighting important aspects of the Commission's financial performance over the past four years.



Operating margin was close or above the expected benchmark of one in each year of the period under review. The margin was slightly below the benchmark in 2006-07 due to deficit in that year. An Operating margin above the benchmark indicates that the Commission is generating sufficient revenue to fulfil operational requirements.

Own source revenue percentage shows the Commission generated on average 90% of operating revenue from its own sources. The 2006-07 and 2007-08 years were lower due to higher wildfire contributions.



While the Current ratio has improved steadily since 2007, it remained below the benchmark in all years under review. This indicates that the Commission may experience difficulty in meeting all short-term obligations.

INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Fire service contribution	28 434	27 080	24 617	21 882
Insurance fire levy	15 574	14 793	12 942	14 486
Motor vehicle fire levy	5 739	5 544	5 403	5 023
State contribution - recurrent	3 310	2 810	2 812	2 808
State contribution - wildfire expenses	1 511	2 790	4 120	730
Commonwealth contribution	573	1 258	500	889
Fire prevention charges	5 480	4 492	4 406	4 413
Other revenue	2 276	1 480	1 712	1 136
Total Revenue	62 897	60 247	56 512	51 367
Salaries, wages and related expenses	38 079	35 633	34 938	31 398
Borrowing costs	337	397	396	332
Depreciation	4 591	4 803	4 632	4 374
Other expenses	17 280	15 060	17 702	13 149
Total Expenses	60 287	55 893	57 668	49 253
Net Surplus (Deficit)	2 610	4 354	(1 156)	2 114

Comment

The Commission recorded a Net Surplus in 2008-09 of \$2.610m, compared to a surplus of \$4.354m the prior year. This was principally due to expenditure increasing by 7.9% over the period, compared to revenues which increased by only 4.4%. The lower Net Surplus can be attributed to:

- Reduced State wildfire contributions of \$1.279m due to fewer reported bushfires, 1 899, compared to prior year, 2 356
- Increased Employee related costs \$2.446m, 6.9%, due to EBA increases for staff, both operational and non-operational, which also resulted in increased annual and long service leave expenses
- Other expenses increased by \$2.220m, 14.7%, predominantly due to increases in Cost of Goods Sold, Professional fees and Minor equipment expenses.

These factors were partially offset by:

- Increased Fire Service Contribution of \$1.354m, 5.0%, to fund salaries and CPI increases in other expenditure
- Increased in Fire Prevention Charges of \$0.988m, 2.2%, reflecting increased services provided, inspection fees and the sale of new alarm equipment
- Increased Insurance Fire Levy of \$0.781m, 5.3%, reflecting contributions from new businesses as well as increased premiums
- Increased Other revenue of \$0.796m, 5.4%, which included \$0.752m as reimbursement for interstate and overseas deployments, including assisting Victoria in the days following the tragic fires on 7 February 2009
- Increased Motor Vehicle Fire Levy received of \$0.195m, 3.5%.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	6 884	6 846	912	2 115
Receivables	1 863	1 042	1 020	891
Inventories	2 713	1 360	1 310	1 143
Other	1 857	1 610	2 021	2 156
Total Current Assets	13 317	10 859	5 263	6 305
Payables	4 770	5 016	2 645	2 643
Borrowings	1 830	1 500	1 368	1 830
Provisions - leave and other	9 604	8 556	8 165	7 236
Total Current Liabilities	16 204	15 072	12 178	11 709
Working Capital	(2 887)	(4 213)	(6 915)	(5 404)
Property, plant and equipment	85 920	81 266	76 504	75 300
Capital work in progress	5 851	6 331	3 654	3 454
Superannuation fund net asset	0	0	5 050	1 029
Total Non-Current Assets	91 771	87 597	85 208	79 783
Borrowings	2 868	3 198	3 330	2 868
Superannuation fund net liability	10 741	1 347	0	0
Provisions - leave and other	1 123	1 075	1 448	1 233
Total Non-Current Liabilities	14 732	5 619	4 778	4 101
Net Assets	74 152	77 765	73 515	70 278
Reserves	13 493	10 321	4 029	3 657
Accumulated surpluses	60 659	67 443	69 486	66 621
Total Equity	74 152	77 765	73 515	70 278

Comment

Total Equity decreased by \$3.613m in 2008-09 due to a significant reduction in the valuation of the Commission's defined benefit superannuation scheme under the *State Fire Commission Superannuation Scheme Act 1994*, \$9.394m, offset by the Net surplus of \$2.610m and an increment in the asset revaluation reserve of \$3.172m following the revaluation of land and buildings.

Corresponding to the decrease in Total Equity, Net Assets also decreased by \$3.613m. This mainly related to:

- Superannuation fund net liability increased by \$9.394m due to the worsening market conditions affecting the value of investments held by the fund
- Provisions increased by \$1.096m, 11.4%, due to wage and salary indexation
- Capital work in progress decreased by \$0.480m, 7.6%, due to the completion of a number of assets and subsequent transfer to Property plant and equipment.

These were offset in part by:

- Property plant and equipment increased by \$4.654m, 5.7%, due primarily to net capital additions and revaluation increments, less depreciation expense
- Inventory increased by \$1.353m, 99.5%, due to new product lines being held for sale

- Receivables increased \$0.821m, 78%, reflecting increased fire prevention charges, sale of inventory and other services.

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.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from operating activities	60 425	59 320	55 230	50 320
Payments to suppliers and employees	(54 489)	(47 027)	(50 194)	(43 473)
Interest received	165	57	48	45
Borrowing costs	(337)	(397)	(396)	(332)
Cash from operations	5 764	11 953	4 688	6 560
Payments for property, plant and equipment	(6 049)	(6 159)	(6 604)	(5 639)
Proceeds from sale of property, plant and equipment	323	140	712	680
Cash (used in) investing activities	(5 726)	(6 019)	(5 892)	(4 959)
Proceeds from borrowings	1 500	1 368	1 830	2 868
Repayment of borrowings	(1 500)	(1 368)	(1 830)	(2 868)
Cash from financing activities	0	0	0	0
Net increase (decrease) in cash	38	5 934	(1 203)	1 601
Cash at the beginning of the year	6 846	912	2 115	514
Cash at end of the year	6 884	6 846	912	2 115

Comment

The Commission generated positive cash from operations in each year under review. In 2008-09 operating cash flows decreased \$6.189m primarily due to higher payments to suppliers and employees as noted in the Income Statement section of this Chapter.

The Commission effectively applied all Cash from operation to its capital investment program in Payment for property plant and equipment. We consider that the Commission cannot sustain this level of capital investment without increasing surpluses, increasing borrowings (something it has not done over the past four year period), or seeking further contributions from the State Government.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Surplus/(Deficit) (\$'000s)		2 610	4 354	(1 156)	2 114
Operating margin	>1.0	1.04	1.08	0.98	1.04
Financial Management					
Current ratio	>1	0.82	0.72	0.43	0.54
Debt collection	30 days	20	12	13	12
Creditor turnover	30 days	84	87	44	60
Underlying result ratio %		4.1%	7.2%	(2.1%)	4.1%
Own source revenue (\$'000s)		57 503	53 389	49 080	46 940
Other Information					
Staff numbers (FTEs) - total		462	459	462	437
- Operational - firefighters (FTEs)		290	290	303	286
- Support staff (FTEs)		169	169	159	151
Average staff costs (\$'000s)		70	65	62	60
Average leave balance per FTE (\$'000s)		21	20	20	18

Comment

Result from operations and Operating margin are consistent with explanations provided in the Income Statement section of this Chapter.

The low Current Ratio reflected the negative Working Capital position discussed previously in the Balance Sheet section.

Creditor turnover was above the 30 day benchmark in each of the years under review. Both 2008-09 and 2007-08 included a higher level of outstanding accounts at 30 June at year end, including capital works items.

The increased Average staff costs for 2008-09 were mainly due to an average pay rate increase of 4.0% (2007-08, 4.0%) for management and corporate staff under the State Service Wage Agreement, and 3.6% (5.7%) for officers and fire fighters under the Tasmanian Fire Fighting Industry Employees Award.

TASMANIAN RACING BOARD

INTRODUCTION

The Tasmanian Racing Board (TRB) was formed under the *Racing Regulation Amendment Act 2008* (the Act). The new entity is a Statutory Authority under the Department of Infrastructure, Energy and Resources (DIER). The principle act is the *Racing Regulation Act 2004*.

Pursuant to the *Racing Regulation Amendment (Government Reform) (Transitional and Consequential Provisions) Act 2008*, the TRB was separated from TOTE Tasmania Pty Ltd (TOTE) and set up as an independent body. This resulted in the transfer of assets, liabilities, rights and employees that related to the administration and conduct of Racing from TOTE to the State Government on 1 January 2009. The State Government then transferred them to the TRB on the same day. This equity transfer in total amounted to \$45.823m including buildings and leasehold property totalling \$45.266m. In addition, net assets of \$0.775m were transferred from the Tasmanian Thoroughbred Council.

Section 11 of the Act sets TRB's principal activity as the administration of racing in Tasmania.

The responsible Minister for the TRB is the Minister for Racing.

AUDIT OF THE 2009 FINANCIAL STATEMENTS

As the TRB was established on 1 January 2009, the 2009 audit covers the six month period to 30 June 2009.

Signed financial statements were received on 13 August 2009 and an unqualified audit report was issued on 6 October 2009.

The audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

For financial reporting purposes, the TRB was classified as not-for-profit. During the first six months of its operations, it relied on funding from TOTE and Betfair, via the State government, to provide services to the racing industry and develop and maintain its assets.

TRB's Balance Sheet was reasonably healthy with equity increasing from \$46.598m at 1 January 2009 to \$53.014m at 30 June 2009, due to the Net Surplus of \$6.415m for the period. TRB's net working capital of \$10.826m is healthy placing it in a strong position to meet its short term commitments. However, the bulk of these monies are committed to capital expenditure programs and to meet staff superannuation commitments.

INCOME STATEMENT

	6 months to 30 June 2009
	\$'000s
Operational funding	17 914
Other income	1 565
Total Revenue	19 479
Employee benefits expense	1 977
Prizemoney, benefits and incentives	11 891
Depreciation and amortisation expense	1 120
Borrowing and leasing costs	134
Commission expense	728
Raceday and racing expenses	1 872
Other expenses	2 629
Total Expenses	20 351
Deficit before:	(872)
Capital funding	7 287
Surplus for the six months	6 415

Comment

The TRB recorded a Deficit before capital funding of \$0.872m for the six months ended 30 June 2009. The surplus after capital funding of \$7.287m was \$6.415m.

Major components of the Income Statement included:

- Operational funding, \$17.914m, represented 92% of total revenue and comprised funding received directly from TOTE and Betfair
- Other income, \$1.565m, the major components of which were sponsorship income, \$0.738m and rental income, \$0.383m
- Employee benefits expense, \$1.977m, comprising mainly salaries and wages of \$1.592m
- Prize money, benefits and incentives, the largest TRB's expense, was \$11.891m or 58%. The major components were prize money, \$10.366m and owner benefits, \$0.790m. The Betfair funds contribute to prize money
- Depreciation and amortisation expense for the six month period was \$1.120m, the main component of which was the amortisation of racecourse leasehold improvements, \$0.907m
- Raceday and racing expenses, \$1.872m, the most significant component being training and racing facilities expenses, \$1.252m
- Other operating expenses were \$2.628m, mainly comprising administration expenses, \$0.901m, marketing expenses, \$0.712m and insurance expenses of \$0.567m.

Capital funding, all of which was received from TOTE, totalled \$7.287m, and related to various capital projects, the most significant is for the replacement of lights at the TOTE Racing Centre of \$4.60 which will commence in 2009-10.

BALANCE SHEET

	30 June 2009	Net Assets on Formation 1 January 2009
	\$'000s	\$'000s
Cash and cash equivalents	11 206	904
Trade and other receivables	2 162	3 449
Prepayments	173	551
Total Current Assets	13 541	4 904
Property, plant and equipment	46 334	46 981
Total Non-Current Assets	46 334	46 981
Trade and other payables	2 319	677
Employee benefits	384	237
Other financial liabilities	12	4
Total Current Liabilities	2 715	918
Borrowings	1 500	1 500
Employee benefits	2 647	2 869
Total Non-Current Liabilities	4 147	4 369
Net Assets	53 013	46 598
Contributed equity	46 598	46 598
Accumulated surplus	6 415	0
Total Equity	53 013	46 598

Comment

From the date of formation on 1 January 2009 to 30 June 2009, the TRB's equity increased by \$6.415m due to the Surplus of \$6.415m.

The main factors contributing to changes net assets from formation to 30 June 2009 were:

- increased Cash and cash equivalents of \$10.302m, due primarily to capital funding of \$7.287m received prior to 30 June 2009 with only \$0.865m spent prior to year end. In addition, TOTE paid the \$2.830m superannuation commitment after 1 January.

This was offset partly by:

- Trade and other receivables decreasing by \$1.287m, mainly due to payment by TOTE of its superannuation liability of \$2.830m. This amount was included as a receivable on formation. This decrease was offset by an increase in trade receivables, \$1.543m due primarily to an amount due from the Department of Treasury and Finance of \$1.201m
- Trade and other payables increasing by \$1.642m, primarily due to net goods and services tax, \$0.473m and increased payables of \$0.788m.

CASH POSITION

	6 months to 30 June 2009
	\$'000s
Receipts	17 903
Payments to suppliers and employees	(16 860)
Interest received	20
Interest and other costs of finance	(56)
Cash from operations	1 007
Capital proceeds received	7 287
Proceeds from sales of property, plant and equipment	43
Payments for property, plant and equipment	(865)
Cash from investing activities	6 465
Net increase (decrease) in cash	7 472
Cash on 1 January 2009	904
Superannuation receivable paid by TOTE	2 830
Cash at end of the period	11 206

Comment

The above table provides information on TRB's cash position at 30 June 2009 and reflects comments made in the Income Statement and Balance Sheet sections in this Chapter.

FINANCIAL ANALYSIS

	Bench Mark	6 months to 30 June 09
Financial Performance		
(Deficit) (\$'000s)		(872)
Operating margin	>1.0	0.96
Underlying result ratio		(4.5%)
Self financing ratio		5.2%
Own source revenue (\$'000s)		1 565
Financial Management		
Current ratio	>1	4.99
Debt collection	30 days	111
Creditor turnover	30 days	39
Other Information		
Self-sufficiency ratio		7.7%
Government funding ratio		95.4%
Staff numbers (FTEs)		76
Average staff costs (\$'000s)		52
Average leave balance per FTE (\$'000s)		5

Comment

The Deficit for the period under review was explained in the Income Statement section of this Chapter. The Deficit resulted in a negative Underlying result ratio.

At 30 June 2009 TRB was in a strong working capital position as indicated by a positive Current ratio and it being well above benchmark.

Debt collection days was well above the benchmark due to the high receivables balance at year end relative to the own source revenue. This was because sponsorship invoices, which comprise a large part of own source revenue, were raised late in the financial period.

The Self-sufficiency ratio highlights that the TRB is dependent on TOTE to fund its activities. For the same reason, the Government funding ratio was high.

TASMANIAN TOMORROW INITIATIVE

Under the State Government's Tasmania *Tomorrow* initiative, the following three Statutory Authorities were created and commenced business on 1 January 2009:

- The Tasmanian Polytechnic (Polytechnic) created under the *Education and Training (Tasmanian Polytechnic) Act 2008*
- The Tasmanian Skills Institute (Skills Institute) created under the *Education and Training (Tasmanian Skills Institute) Act 2008*
- The Tasmanian Academy (Academy) created under the *Education and Training (Tasmanian Academy) Act 2008*.

Each Authority has a statutory requirement to work collaboratively with one another to maximise the qualifications and skills of Tasmanians obtained through education and training undertaken after the completion of Year 10.

Also established was a Shared Services Division designed to provide common administrative functions to all three Statutory Authorities. These administrative functions include the provision of systems and staff relating to Financial Services, Human Resources, Client Services, Student Management, Information Technology, Capital Planning and Facilities Management. The Shared Services Division is contained within the Polytechnic, and the costs of providing these services are charged to the Authorities on a regular basis. In addition, there is one bank account, operated by Shared Services and shared by all three Authorities.

To support continued operations over the next 12 months the Secretary for the Department of Education, on behalf of the Minister, has provided the Boards of the Authorities with a letter of comfort which confirms that the Department, through a Memorandum of Understanding, will continue to fund each Authority for its 2009-10 financial obligations in relation to services as contracted.

The Boards of the Authorities have agreed to progress the assignment of land and building assets, which currently reside within the Polytechnic, such that they will be distributed across the Authorities. It is expected that the necessary changes will be reflected in future balance sheets, once agreement has been reached on the distribution.

The activities managed by these three Authorities were previously undertaken either within the Department or by TAFE Tasmania.

TASMANIAN POLYTECHNIC

INTRODUCTION

The assets and liabilities of the Tasmanian Polytechnic (Polytechnic) were created through the amalgamation of the former TAFE Tasmania and participating state senior secondary colleges. In accordance with the *Education and Training (Tasmanian Polytechnic) Act 2008*, the Minister for Education transferred the agreed assets, liabilities, contracts and staff to the Polytechnic. This transfer was effective from 1 January 2009 with major assets recorded at fair value by the Polytechnic.

Four of the state senior secondary colleges took part in the first stage of the Tasmania Tomorrow initiative. They were Don College in Devonport, Hellyer College in Burnie, Hobart College in Hobart and Newstead College in Launceston.

In subsequent years, it is intended that those parts of Elizabeth College, Rosny College, Claremont College and Launceston College which relate to the core functions of the Polytechnic will also transfer from the Department of Education (DoE).

The Responsible Minister is the Minister for Education and Skills.

AUDIT OF THE 2009 FINANCIAL STATEMENTS

As the Polytechnic was established on 1 January 2009, the 2009 audit covers the six-month period to 30 June 2009.

Signed financial statements were received on 13 August 2009. Following the audit, the financial statements were resigned on 28 September 2009 and an unqualified audit report was issued on 30 September 2009. However, without qualification, the audit report drew attention to the Polytechnic's economic dependency on Government by inclusion of the following comment:

.... 'To support continued operations over the next 12 months the Secretary for the Department of Education, on behalf of the Minister, has provided the Board of the Tasmanian Polytechnic with a letter of comfort which confirms that the Department, through a Memorandum of Understanding (MoU), will continue to fund the Tasmanian Polytechnic for 2009-10 financial obligations in relation to services as contracted....'.

This comment was included because, as indicated on the Polytechnic's Income Statement, it is significantly reliant on Government for its funding.

The 2008-09 audit was completed with no issues outstanding. However, concerns were identified relating to the operation of the Shared Services activities shared by the three new Authorities and housed within the Polytechnic. Our concerns included:

- bank reconciliations containing numerous unreconciled items
- journals lacking secondary reviews
- instance of staff with excessive annual leave balances
- employee files lacking documentation
- lack of a service level agreement between the three Authorities dealing with how to allocate costs associated with the Shared Services Division.

Management are addressing these matters.

FINANCIAL RESULTS

In financial terms the Polytechnic is classified as not-for-profit and is likely to operate at a deficit before accounting for capital investment grants primarily due to not being funding for depreciation. The Polytechnic relied 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 also fluctuate depending on the timing of MoU funding which is provided on a calendar year basis. In the current financial period two MoUs were in place, one with the Department of Education and one with Skills Tasmania. The MoUs were transitional in nature and designed to facilitate the implementation of Tasmania Tomorrow Reforms regarding vocational education and training (VET) and educational services for the period 1 January 2009 to 31 December 2009.

Polytechnic's Balance Sheet was reasonably healthy with Net Assets at 30 June 2009 of \$255.329m. This amount included all land and buildings related to the Polytechnic, Academy and Skills Institute. The Boards of the Authorities have agreed to progress the assignment of these assets, such that they will be distributed across the three Authorities. It is expected that the changes will be reflected in future balance sheets once agreement has been reached on the distribution.

Equity decreased from \$259.526m at 1 January 2009 to \$255.329m at 30 June 2009, due to the net deficit of \$4.197m for the period.

The Polytechnic's net working capital of \$2.102m was sound, meaning that it was in a strong position to meet its current commitments.

INCOME STATEMENT

	6 Months to 30 June 2009
	\$'000s
Memorandum of Understanding recurrent funding	33 451
Other government revenue	2 927
User charges, fees and fines	3 754
Shared Services contribution	4 699
Commercial services	1 737
Other operating revenue	2 038
Total Revenue	48 606
Employee expenses	41 101
Depreciation	5 813
Other operating expenses	10 333
Total Expenses	57 247
Deficit before:	(8 641)
Capital funding	4 210
Assets identified	234
Deficit for the six months	(4 197)

Comment

The Polytechnic recorded a Deficit before capital funding and Assets identified of \$8.641m for the six months ended 30 June 2009. This deficit indicated that the Polytechnic was not generating sufficient revenue to fulfil all of its operating requirements, including coverage of its depreciation charges.

The MoUs with the Department of Education (DOE) and Skills Tasmania under which the Polytechnic operates does not include funding for depreciation and the level of capital funding was not linked to the depreciation charge.

Deficit before capital funding was predominantly due to depreciation which was not funded and the timing of MoU funding, previously mentioned.

Other major components of the Income Statement included:

- MoU recurrent funding, \$33.451m, which were provided on a calendar year basis, accounted for approximately 69% of total revenue for the six month period
- Other government revenue, \$2.927m, include both State and Commonwealth grants for the provision of specific training services
- Shared Service contribution revenue was \$4.699m, representing the recovery of costs from the Tasmanian Academy and Tasmanian Skills Institute for the delivery of services for the six month period. All costs associated with the Shared Services Division are included in the total expenses of \$57.247m
- Employee expenses, the largest portion of the Polytechnic's expenses, were \$41.101m. The major components were teaching staff, \$16.980m, non-teaching staff, \$13.380m, and the movement in employee benefits, \$3.786m
- Depreciation expense for the six month period was \$5.813m, the main component was buildings, \$5.427m
- Other operating expenses was \$10.333m, the most significant components were: material and supplies, \$1.160m, power and heating, \$1.007m, property services, \$1.290m and repairs and maintenance, \$1.337m.

During the period under review, capital funding received totalled \$4.210m which primarily related to the following major capital projects:

- Alanvale Campus redevelopment Block B, \$1.259m
- Multi sites infrastructure upgrade, \$0.567m
- Devonport upgrade Block A, \$0.278m
- Don Campus miscellaneous upgrades, \$0.275m.

During the period a workshop with a valuation of \$0.199m, and land, \$0.035m were identified at Queenstown. These had been removed from the asset register in error when the assets were transferred from the former TAFE Tasmania.

BALANCE SHEET

	30 June 2009	Net Assets on Formation 1 January 2009
	\$'000s	\$'000s
Cash	7 032	5 849
Receivables	4 280	719
Inventories	225	212
Other	388	1 652
Total Current Assets	11 925	8 432
Property, plant and equipment	264 973	267 701
Total Non-Current Assets	264 973	267 701
Payables	2 920	1 860
Employee provisions	5 040	3 522
Other	1 863	795
Total Current Liabilities	9 823	6 177
Employee provisions	11 017	9 815
Other	729	615
Total Non-Current Liabilities	11 746	10 430
Net Assets	255 329	259 526
Accumulated deficits	(4 197)	0
Contributed equity	259 526	259 526
Total Equity	255 329	259 526

Comment

From date of formation on 1 January 2009 to 30 June 2009, the Polytechnic's equity decreased by the Deficit of \$4.197m.

The main impact of this on net assets from formation to 30 June 2009 were:

- Other current assets decreased by \$1.264m due primarily to the timing of prepayments. Prepayments were previously renewed on a calendar year basis
- Property, plant and equipment decreased by \$2.728m due mainly to depreciation of \$5.813m, offset against additions of \$3.086m
- Payables increased by \$1.060m, due mainly to increased net GST payable of \$0.483m and increased payables of \$0.443m
- Employee provisions increased by \$2.720m due to employees' accumulating additional leave entitlements, caused by annual wage and salary award increases in March 2009, and an increase in the provision for staff superannuation entitlements
- Other current and non-current liabilities increased by \$1.182m, due primarily to an increase in revenue in advance of \$0.583m and increased payroll tax on employee provisions.

These were off-set partly by:

- Increased cash of \$1.183m due primarily to capital funding of \$4.210m received prior to 30 June 2009 with only \$3.086m spent prior to year end

- Receivables increased by \$3.561m mainly due to an outstanding balance from Skills Tasmania of \$2.690m which related to the April to June MoU instalment.

CASH POSITION

	6 Months to 30 June 2009
	\$'000s
Government grants	33 688
Receipts from customers	18 440
Interest received	116
Payments to suppliers and employees	(52 185)
Cash from (used in) operations	59
Receipts from government - capital	4 210
Payments for property, plant and equipment	(3 086)
Proceeds from sale of property, plant and equipment	0
Cash from (used in) investing activities	1 124
Net increase (decrease) in cash	1 183
Cash on 1 January 2009	5 849
Cash at end of the period	7 032

Comment

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

FINANCIAL ANALYSIS

	Bench Mark	6 Months to 30 June 2009
Financial Performance		
Results from operations (\$'000s)		(8 641)
Operating margin	>1.0	0.85
Underlying result ratio		-17.8%
Self financing ratio		0.1%
Own source revenue (\$'000s)		12 228
Financial Management		
Current ratio	>1	1.21
Debt collection	30 days	77
Creditor turnover	30 days	81
Other Information		
Self-sufficiency ratio		21.4%
Government funding ratio		90.6%
Staff numbers (FTEs)* - total		1 044
Administration and teaching support (FTEs)*		500
Delivery (FTEs)* (teaching)		544
Average staff costs (\$'000s)		39
Average leave balance per FTE (\$'000s)		15

* Excludes casual staff

Comment

The deficit incurred resulted in a negative Underlying result ratio. This was consistent with the Polytechnic's depreciation charge not being fully funded.

The Self financing ratio is extremely low due to the Polytechnic not being funded for maintenance of its significant Property, plant and equipment base of \$264.973m.

At 30 June the Polytechnic was in a strong working capital position as indicated by a positive Current ratio above benchmark.

Debt collection days were above the benchmark for the period due to increased student activity and delays in collecting amounts due by them, in particular debtors within the 60 to 90 days category.

Creditor turnover was above the benchmark due to high creditors balances at period end.

Shared Services provides the finance function for the three entities. The average debt collection for the three entities is 102 days. The average Creditor turnover is 34 days.

Self-sufficiency ratio shows the level of independent funding that the Polytechnic generated for use in achievement of its objectives. As expected this ratio was quite low as the Polytechnic was heavily reliant on government funding. For the same reason, the Government funding ratio was high.

TASMANIAN ACADEMY

INTRODUCTION

The Tasmania *Tomorrow* initiative will see, over a three year transition period, certain areas of the eight state senior secondary colleges, which offer post-year 10 learning within Tasmania, become part of the Tasmanian Academy (Academy). These colleges were formerly administered by the Department of Education (DoE). This transfer was effective from 1 January 2009 with major assets recorded at fair value when transferred to the Academy. DoE remains the Academy's primary funder.

Four of the state senior secondary colleges took part in the first stage of these reforms; they were Don College in Devonport, Hellyer College in Burnie, Hobart College in Hobart and Newstead College in Launceston.

In subsequent years, it is intended that parts of Elizabeth College, Rosny College, Claremont College and Launceston College relating to the core functions of the Academy will also transfer from DoE.

Not all assets, liabilities, contracts or staff of the four former colleges related to the core functions of the Academy.

The Responsible Minister is the Minister for Education and Skills.

AUDIT OF THE 2009 FINANCIAL STATEMENTS

As the Academy was established on 1 January 2009, the 2009 audit covers the six-month period to 30 June 2009.

Signed financial statements were received on 13 August 2009 and an unqualified audit report was issued on 30 September 2009. However, without qualification, the audit report drew attention to the Academy's economic dependency on Government by inclusion of the following comment:

... 'To support continued operations over the next 12 months the Secretary for the Department of Education, on behalf of the Minister, has provided the Board of the Tasmanian Academy with a letter of comfort which confirms that the Department, through the Memorandum of Understanding (MoU), will continue to fund the Tasmanian Academy for 2009-10 financial obligations in relation to services as contracted....'

This comment was included because, as indicated on the Academy's Balance Sheet, net assets transferred to it on 1 January 2009, and at 30 June 2009, were negative and due to its high level of dependence on Government for its funding.

The 2008-09 audit was completed with no issues outstanding. However, concerns were identified relating to the operation of the Shared Services activities shared by the three new Authorities. These are dealt with in the Chapter of this Report dedicated to the Tasmanian Polytechnic in which the Shared Services function is housed.

FINANCIAL RESULTS

In financial terms the Academy is classified as not-for-profit and its annual surpluses and deficits will fluctuate depending on the timing of the MoU funding provided by DoE on a calendar year basis. The MoU was transitional in nature and was designed to facilitate the implementation of Tasmania *Tomorrow* Reforms in regard to the provision of educational services for year 11 and 12 students seeking university entrance for the period 1 January 2009 to 31 December 2009.

The Academy's Balance Sheet recorded net liabilities of \$1.751m at 30 June 2009 and it generated a surplus of \$0.610m for the first six months of its activities. The net liabilities arose mainly due to the Academy taking on significant employment benefits from DoE employees who were transferred to the Academy upon formation on 1 January 2009. No land or buildings were transferred to the Academy, all of these being transferred to the Polytechnic.

The Boards of the three new Authorities have agreed to revisit the assignment of these assets, such that they are distributed across the three of them. It is expected that the changes will be reflected in future balance sheets once agreement is reached on the distribution.

The Academy had net working capital of \$0.724m at 30 June 2009, meaning that, despite its negative equity, it was in a strong position to meet its current commitments.

INCOME STATEMENT

	6 months to 30 June 2009
	\$'000s
Memorandum of Understanding recurrent funding	9 308
Other government revenue	20
User charges, fees and fines	689
Commercial services	51
Other operating revenue	289
Total Revenue	10 357
Employee expenses	6 644
Shared Service allocation	1 679
Depreciation	10
Other operating expenses	1 414
Total Expenses	9 747
Surplus for the six months	610

Comment

The Academy recorded a Surplus for the six-month period of \$0.610m. The Surplus indicates that the Academy was generating sufficient revenue to fulfil all of its operating requirements, including coverage of its depreciation charges.

The Surplus was predominantly due to the receipt of MoU recurrent funding, \$9.308m, which accounted for approximately 90% of total revenue for the six months period under review.

Other major components of the Income Statement included:

- Employee expenses, the largest portion of the Academy's expenses, were \$6.644m. The major components were for teaching staff, \$4.902m, non-teaching staff, \$0.542m and superannuation, \$0.577m
- Share service allocation of \$1.679m, represented the Academy's contribution towards the operation of the centralised Shared Service function established to provide of financial, human resource, facility, capital planning, ICT and client services
- Other operating expenses of \$1.414m with the most significant components being contractors, \$0.627m, materials and supplies, \$0.273m and administration expense, \$0.122m.

BALANCE SHEET

	30 June 2009	On Formation 1 January 2009
	\$'000s	\$'000s
Cash	1 284	409
Receivables	68	0
Other	57	0
Total Current Assets	1 409	409
Plant and equipment	152	162
Total Non-Current Assets	152	162
Payables	173	0
Employee provisions	483	330
Other	29	20
Total Current Liabilities	685	350
Employee provisions	2 476	2 433
Other	151	149
Total Non-Current Liabilities	2 627	2 582
Net Assets (Liability)	(1 751)	(2 361)
Accumulated surpluses	610	0
Deficit transferred on formation	(2 361)	(2 361)
Net Deficit	(1 751)	(2 361)

Comment

From the date of formation on 1 January 2009 to 30 June 2009 the Academy's Net deficit improved by \$0.610m due to its Surplus for the period.

The main factors contributing to the corresponding decrease in net liabilities from formation to 30 June 2009 were:

- Cash asset increased by \$0.875m due mainly to the surplus for the period
- Employees provisions increasing by \$0.196m due to additional leave entitlements arising from the employment of additional employees, an increase in outstanding superannuation entitlements and annual wage and salary awards increases in March 2009.

CASH POSITION

	6 Months to 30 June 2009
	\$'000s
Government grants	9 328
Receipts from customers	1 623
Interest received	42
Suppliers payments	(10 118)
Cash from (used in) operations	875
Net increase (decrease) in cash	875
Cash on 1 January 2009	409
Cash at end of the period	1 284

Comment

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

FINANCIAL ANALYSIS

	Bench Mark	6 months to 30 Jun 2009
Financial Performance		
Results from operations (\$'000s)		610
Operating margin	>1.0	1.06
Underlying result ratio		5.9%
Self financing ratio		8.4%
Own source revenue (\$'000s)		1 029
Financial Management		
Current ratio	>1	2.06
Debt collection	30 days	24
Creditor turnover	30 days	12
Other Information		
Self-sufficiency ratio		10.6%
Government funding ratio		93.9%
Staff numbers (FTEs)* - total		157
Admin and teaching support (FTEs)*		14
Delivery (FTEs)* (teaching)		143
Average staff costs (\$'000s)		42
Average leave balance per FTE (\$'000s)		19

* Excludes casual staff

Comment

The Academy recorded a surplus from operation at 30 June 2009 indicating that it was generating sufficient revenue to fulfil all of its operating requirements, including coverage of its depreciation charges. This was also demonstrated by its Operating margin which was above the benchmark and its positive Underlying result and Self financing ratios.

Current ratio was above the benchmark of one, indicating the Academy was able to meet all its short-term liabilities as and when they fell due.

Debt collection was below the benchmark at 30 June 2009 indicating the Academy adopted practices to ensure timely receipt of debts owed by its customers.

Creditor turnover was well below the benchmark indicating that, while the Academy was timely in paying its suppliers, it could better utilise credit extended by suppliers for normal credit terms of 30 Days.

Shared Services provides the finance function for the three entities. The average Debt collection for the three entities is 102 days. The average Creditor turnover is 34 days.

Self sufficiency ratio was relatively low indicating that the Academy was heavily reliant on government funding in providing training to targeted recipients. For the same reason, Government funding ratio was also high.

TASMANIAN SKILLS INSTITUTE

INTRODUCTION

In accordance with the *Education and Training (Tasmanian Skills Institute) Act 2008*, the Minister for Education, transferred the agreed assets, liabilities, contracts and staff from the former TAFE Tasmania to the Tasmanian Skills Institute (TSI). This transfer was effective from 1 January 2009 and was recorded at fair value by the TSI.

The TSI has a statutory requirement to work collaboratively with the Polytechnic and the Academy to maximise the qualifications and skills of Tasmanians obtained through education and training undertaken after the completion of year 10.

The Responsible Minister is the Minister for Education and Skills.

AUDIT OF THE 2009 FINANCIAL STATEMENTS

As the TSI was established on 1 January 2009, the 2009 audit covers the six-month period to 30 June 2009.

Signed financial statements were received on 13 August 2009. Following the audit, the financial statements were re-signed on 28 September 2009 and an unqualified audit report was issued on 30 September 2009. However, without qualification, the audit report drew attention to TSI's economic dependency on Government by inclusion of the following comment:

'...To support continued operations over the next 12 months the Secretary for the Department of Education, on behalf of the Minister, has provided the Board of the Tasmanian Skills Institute with a letter of comfort which confirms that the Department, through the Memorandum of Understanding (MoU), will continue to fund the Tasmanian Skills Institute for 2009-10 financial obligations in relation to services as contracted...'

This comment was included because of the TSI's high level of dependency on funding from Government.

The audit was completed satisfactorily with no major items outstanding. However, concerns were identified relating to the operation of the Shared Services activities shared by the three new Authorities. These are dealt with in the Chapter of this Report dedicated to the Tasmanian Polytechnic in which the Shared Services function is housed.

FINANCIAL RESULTS

In financial terms the TSI is classified as not-for-profit and its annual surpluses and deficits will fluctuate depending on the timing of the MoU funding which is provided by Skills Tasmania on a calendar year basis. The MoU was transitional in nature and was designed to facilitate the implementation of Tasmania *Tomorrow* Reforms regarding vocational education and training (VET) to employed persons for the purpose of workforce skill development for the period 1 January 2009 to 31 December 2009.

TSI's Balance Sheet showed minimal net assets, with Net Assets at 30 June 2009 of \$1.172m. This amount did not include land and buildings, these were all held by the Polytechnic. The Boards of the Authorities have agreed to progress the re-assignment of these assets, such that they will be distributed across the three Authorities. It is expected that the changes will be reflected in future balance sheets once agreement has been reached on the distribution.

Equity decreased from \$2.333m at 1 January 2009 to \$1.172m at 30 June 2009, due to the net deficit of \$1.161m for the period.

TSI's had net working capital of \$0.731m at 30 June 2009, meaning that it was in a reasonable position to meet its current commitments.

INCOME STATEMENT

	6 months to 30 June 2009
	\$'000s
Memorandum of Understanding recurrent funding	12 679
Other government revenue	1 384
User charges, fees and fines	2 407
Commercial services	2 811
Other operating revenue	728
Total Revenue	20 009
Employee expenses	15 590
Depreciation	176
Share Services contribution	3 019
Other operating expenses	2 385
Total Expenses	21 170
Deficit for the six months	(1 161)

Comment

The TSI recorded a Deficit for the six months period of \$1.161m. The deficit indicated that the TSI was not generating sufficient revenue to fulfil all of its operating requirements, including coverage of its depreciation charges.

The Deficit was predominantly due to depreciation which was not funded and the timing of MoU payments received, previously mentioned. Other major components of the Income Statement included:

- MoU recurrent funding, \$12.679m accounted for approximately 63% of total revenue for the six month period under review
- Other government revenue, \$1.384m which included both State and Commonwealth grants for the provision of specific training services
- Employee expenses, the largest portion of the TSI's expenses, were \$15.590m. The major components was teaching staff, \$8.429m, non-teaching staff, \$2.843m and an increase in employee benefits, \$1.753m
- Share Service allocation, \$3.019m, representing TSI's contribution towards the operation of Shared Service for the provision of financial, human resource, facility, capital planning, ICT and client services
- Other operating expenses were \$2.385m, the most significant components being materials and supplies, \$0.918m, travel, \$0.304m and operating leases, \$0.203m.

BALANCE SHEET

	30 June 2009	Net Assets on Formation on 1 January 2009
	\$'000s	\$'000s
Cash	(2 761)	253
Receivables	5 872	1 967
Inventories	180	202
Other	11	2
Total Current Assets	3 302	2 424
Plant and equipment	4 821	4 902
Total Non-Current Assets	4 821	4 902
Payables	765	0
Employee provisions	1 702	1 097
Other	104	39
Total Current Liabilities	2 571	1 136
Employee provisions	4 128	3 636
Other	252	221
Total Non-Current Liabilities	4 380	3 857
Net Assets	1 172	2 333
Accumulated deficits	(1 161)	0
Contributed equity	2 333	2 333
Total Equity	1 172	2 333

Comment

From the date of formation on 1 January 2009 to 30 June 2009, the TSI's equity decreased by the Deficit of \$1.161m.

The main factors contributing to the corresponding reduction in net assets from formation to 30 June 2009 were:

- Cash was in deficit, \$2.761m at 30 June 2009 due mainly to the timing of MoU funding from Skills Tasmania of \$2.548m (included in Receivables) which was received after 30 June 2009
- Plant and equipment decreased by \$0.081m due to depreciation of \$0.176m, offset by additions of \$0.094m
- Payables increased by \$0.765m due to no creditors transferred to the TSI on 1 January 2009
- Employee provisions increased by \$1.097m due to higher employee leave entitlements, caused by employment of additional employees and annual wage and salary awards increases in March 2009, and higher amounts due for employee superannuation provisions.

These were off set by:

- The increase in Receivables by \$3.905m due mainly to outstanding funding of \$3.352m owing by Skills Tasmania at 30 June 2009, of which \$2.548m was in relation to MOU recurrent funding for the period from April to June 2009.

CASH POSITION

	6 Months to 30 June 2009
	\$'000s
Government grants	11 516
Receipts from customers	5 642
Interest received	21
Payments to suppliers and employees	(20 110)
Cash from (used in) operations	(2 931)
Payments for property, plant and equipment	(83)
Cash from (used in) investing activities	(83)
Net increase (decrease) in cash	(3 014)
Cash on 1 January 2009	253
Cash at end of the period	(2 761)

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.

FINANCIAL ANALYSIS

	Bench Mark	6 Months to 30 June 2009
Financial Performance		
Results from operations (\$'000s)		(1 161)
Operating margin	>1.0	0.95
Underlying result ratio		(5.8%)
Self financing ratio		(14.6%)
Own source revenue (\$'000s)		5 946
Financial Management		
Current ratio	>1	1.28
Debt collection	30 days	204
Creditor turnover	30 days	8
Other Information		
Self-sufficiency		28.1%
Government funding ratio		92.4%
Staff numbers (FTEs)* - total		357
Admin and teaching support (FTEs)*		105
Delivery (FTEs)* (teaching)		252
Average staff costs (\$'000s)		44
Average leave balance per FTE (\$'000s)		16

* Excludes casual staff

Comment

The TSI recorded a Deficit at 30 June 2009 indicating that it was not generating sufficient revenue to fulfil all of its operating requirements, including coverage of its depreciation charges. This was also demonstrated by its Operating margin, which was less than the benchmark, and negative Underlying result and Self financing ratios.

Current ratio was above the benchmark of one at 30 June 2009, indicating the TSI was able to meet all its short-term liabilities as and when they fell due.

Debt collection days was well above the benchmark due to delays in the payment by Skills Tasmania of the quarterly MoU payment.

Creditor turnover was well below the benchmark indicating that the TSI is paying its suppliers promptly but that it could better utilise credit extended by suppliers for a normal credit terms of 30 Days.

Shared Services provides the finance function for the three entities. The average Debt collection for the three entities is 102 days. The average Creditor turnover is 34 days.

Self sufficiency ratio was relatively low indicating that the TSI was heavily reliant on government funding in providing vocational education and training to targeted recipients. For the same reason, Government funding ratio was also high.

LEGAL AID COMMISSION OF TASMANIA

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, interest on invested monies and non-regular distributions from the Solicitors Guarantee Fund.

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.

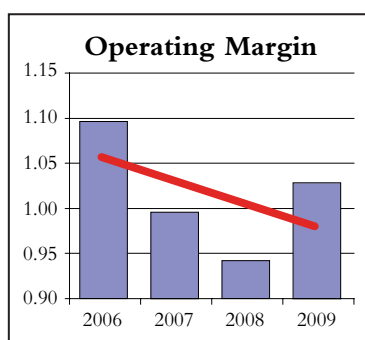
The Act requires that the Commission shall, on or before 31 August in each year, prepare financial statements with respect to the preceding financial year.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2009 and an unqualified audit opinion was issued on 15 October 2009. The audit was completed satisfactorily with no major items outstanding.

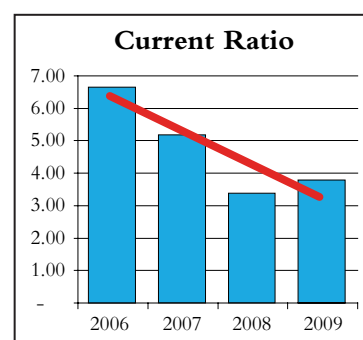
FINANCIAL PERFORMANCE

The Commission is reliant on recurrent funding provided by the Commonwealth and State Governments to deliver legal services to each funder's legal jurisdiction. Grant revenue accounted for 93% of total revenue over the review period (2005-06 to 2008-09). The timing of the receipt and expenditure of Commonwealth grants has a considerable impact on whether the year end financial result is a Net surplus or deficit.



Fluctuations in the Operating margin over the review period were largely due to the timing of the receipt and expenditure of Commonwealth grants, which also affect the Net surpluses and deficits each year.

Current ratio was above the benchmark of one in all years over the review period and had been decreasing until this year. The decrease was mainly due to the reducing cash balance. This benchmark indicates that the Commission is able to meet all its short-term liabilities as and when they fall due.



INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Commonwealth grants and contributions	5 893	5 375	5 035	5 036
Commonwealth community legal centre grants	1 359	1 425	1 046	1 011
State Government grants	5 281	5 108	4 308	4 277
Client contributions and cost recoveries	227	254	178	170
Interest	159	194	240	192
Other revenue	1 471	438	4	1
Total Revenue	14 390	12 794	10 811	10 687
Legal services expense	4 661	4 852	3 813	3 243
Employee expenses	5 565	5 774	4 623	3 797
Payments to community legal centres	1 819	1 066	1 034	1 117
Depreciation and amortisation	160	166	99	96
Other expenses	1 803	1 744	1 299	1 509
Total Expenses	14 008	13 602	10 868	9 762
Net surplus (deficit)	382	(808)	(57)	925

Comment

In 2008-09 the Commission recorded a Net surplus of \$0.382m, compared to deficits in the prior two years due to:

- a large distribution from the Solicitors Guarantee Fund, \$1.440m, included in Other revenue
- increased Commonwealth grants and contributions, \$0.518m
- decreased Employee expenses, \$0.209m, relating to a reduction in employee entitlement provision expenses, \$0.370m, offset by an increase, \$0.161m, in salaries and other personnel expenses.

This improvement was offset by:

- higher payments to Community Legal Centres, \$0.753m, due to the disbursement of additional special purpose Commonwealth Government funding. The special funding was for a variety of purpose including some relief with operational cost pressures, enhancement of family relationship centres and assistance with homelessness matters.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	2 842	2 406	2 986	3 317
Receivables	288	233	189	111
Other	7	50	11	20
Total Current Assets	3 137	2 689	3 186	3 448
Property, plant and equipment	975	1 082	1 143	636
Total Non-Current Assets	975	1 082	1 143	636
Payables	136	98	135	87
Provisions	700	705	484	435
Total Current Liabilities	836	803	619	522
Provisions	197	271	201	120
Total Non-Current Liabilities	197	271	201	120
Net Assets	3 079	2 697	3 509	3 442
Capital	325	325	325	325
Reserves	203	203	203	79
Accumulated surpluses	2 551	2 169	2 981	3 038
Total Equity	3 079	2 697	3 509	3 442

Comment

Net assets increased by \$0.382m in 2008-09, primarily due to:

- an increase in cash of \$0.436m (refer to Cash Position section of this Chapter for details).

Offset by:

- a decrease of \$0.107m in Property, plant and equipment resulting from depreciation expense, \$0.160m, offset by capital additions, \$0.053m.

Accumulated surpluses increased by \$0.382m, being the 2008-09 Net surplus.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Commonwealth grants	5 893	5 375	5 035	5 036
Commonwealth grants for community legal centres	1 359	1 425	1 046	1 011
State Government grants	5 282	5 108	4 308	4 277
Receipts from clients	181	195	146	211
GST receipts	854	826	676	683
Interest received	169	212	244	193
Other receipts	1 460	420	0	0
Payments for legal services	(4 731)	(4 885)	(3 851)	(3 243)
Payments to community legal centres	(1 819)	(1 066)	(1 034)	(1 117)
Payments to employees	(5 617)	(5 481)	(4 432)	(3 968)
Payments to suppliers	(1 702)	(1 774)	(1 295)	(1 513)
GST payments	(839)	(830)	(692)	(625)
Cash from (used in) operations	490	(475)	151	945
Payments for property, plant and equipment	(54)	(105)	(482)	(250)
Cash used in investing activities	(54)	(105)	(482)	(250)
Net increase (decrease) in cash	436	(580)	(331)	695
Cash at the beginning of the year	2 406	2 986	3 317	2 622
Cash at end of the year	2 842	2 406	2 986	3 317

Comment

The increase in Cash, \$0.436m, in 2008-09 mainly resulted from:

- increased Commonwealth grants, \$0.518m
- the large distribution from the Solicitors Guarantee Fund, \$1.440m, included in Other receipts.

These additional funding sources were offset by increased payments to community legal centres, \$0.753m.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Surplus/(Deficit) (\$'000s)		382	(808)	(57)	925
Underlying result ratio		0.03	(0.06)	(0.01)	0.09
Operating margin	>1.0	1.03	0.94	0.99	1.09
Financial Management					
Current ratio	>1	3.75	3.35	5.15	6.61
Creditor turnover	30 days	17	9	23	15
Other Information					
Employee costs as a % of operating expenses		40%	42%	43%	39%
Staff numbers (FTEs)		68	65	57	53
Average staff costs (\$'000s)		81	89	81	71
Average leave balance per FTE (\$'000s)		13	15	12	10

Comment

The Underlying results ratio and Operating margin fluctuated over the review period mainly reflecting the timing of the receipt and expenditure of Commonwealth grants.

Employee costs as a percentage of operating expenses reduced in 2008-09, reflecting the decline in the Employee costs noted under the Income Statement section.

Average staff costs were abnormally high in 2007-08 due to the implementation of a new legal practitioners award.

TASMANIAN WATER AND SEWERAGE CORPORATIONS

INTRODUCTION

In February 2008 State and Local Government reached agreement to establish three Local Government owned, vertically integrated Tasmanian Water and Sewerage Corporations (TWSC) to provide bulk, distribution and retail water and sewerage services. A common service provider subsidiary company was also established. The *Water and Sewerage Corporations Act 2008* (the Act) was subsequently enacted and received Royal Assent on 13 June 2008. The three regional companies and the shared services company, trading names and operational commencement dates were:

- TWSC (Southern Region) Pty Ltd – Southern Water: 11 November 2008 (33.3%*)
- TWSC (Northern Region) Pty Ltd – Ben Lomond Water: 11 November 2008 (33.3%*)
- TWSC (North-Western Region) Pty Ltd – Cradle Mountain Water: 11 November 2008 (33.3%*)
- TWSC (Common Services) Pty Ltd – Onstream: 9 December 2008

** This represents each Corporation's percentage ownership in Onstream. The three Regional Corporations are owned by the Councils in their respective regions with ownership interests to be finalised.*

The Act required the transfer of water and sewerage assets, rights, liabilities and employees of councils and bulk water authorities to the newly formed Regional Corporations and to the Common Services Corporation on 1 July 2009.

Minimal transactions occurred in the period to 30 June 2009 and no revenue was generated except for Common Services who generated revenue from provisions of services to the Regional Corporations. This time was used by each company to establish places of business, prepare budgets and develop asset management systems in readiness for the transfer of staff, assets and liabilities.

Full transfer of water and sewerage assets, liabilities and staff took place on 1 July 2009. From that date, responsibility for the provision of water and sewerage services moved from local councils to the corporations.

In conjunction with the above Act, the *Water and Sewerage Industry Act 2008* was also proclaimed on 13 June 2008. This Act provided for the establishment of an economic regulatory framework for the water and sewerage industry, including the establishment of a licensing regime and regulation of prices, customer service standards and performance monitoring.

Full transition to the new regulatory framework including water pricing and servicing standards is not expected until January 2012.

As at 30 June 2009, the Corporations, whilst owned by Councils, were responsible to the Minister for Primary Industries and Water.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed financial statements for the four corporations were received on 12 August 2009. Unqualified audit reports were issued the following day.

The audits were completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

INCOME STATEMENTS

	Southern Region	Northern Region	North Western Region	Common Services
	11/11/08 to 30/6/09	11/11/08 to 30/6/09	11/11/08 to 30/6/09	9/12/08 to 30/6/09
	\$'000s	\$'000s	\$'000s	\$'000s
Sales revenue	0	0	0	1 305
Other operating revenue	0	0	0	0
Total Revenue	0	0	0	1 305
Depreciation	1	0	0	0
Other operating expenses	1928	640	966	1 297
Total Expenses	1 929	640	966	1 297
Profit (Loss) before:	(1 929)	(640)	(966)	8
Financial Income	0	0	0	8
Financial Expense	0	0	0	(16)
(Loss) before taxation	(1 929)	(640)	(966)	0
Income tax expense (benefit)	(581)	(192)	(290)	0
Net Loss	(1 348)	(448)	(676)	0

Comment

Common Services

As noted previously, Common Services (CS) is owned by the three regional Corporations. Its role is to provide administrative services (billing, payroll, financial reporting, procurement, accounts payable and information technology) to the three owner Corporations.

The CS Income statement illustrated a breakeven result as the owner Corporations agreed all expenses incurred by CS were to be recharged to the owners. The apportionment of the recharge was 50.0% to Southern Region (SR), 25.0% to Northern Region (NR) and 25.0% to North-Western Region (NW).

Operating expenses of \$1.297m comprised salary related and administrative expenses.

Salary related expenses of \$0.295m comprised directors' fees, \$0.076m, with the balance related to the cost of six staff.

Administrative expenses for the period were \$1.002m, and 70% of this expenditure related to consultants costs. Consultants' costs included fees from Hobart Water and Councils involved in setting up the infrastructure of CS. The infrastructure included billing systems, payroll systems, information systems and planning. Charges by the Department of Treasury and Finance and consultant costs related to the development of the financial model used in determining initial pricing orders.

SOUTHERN, NORTHERN AND NORTH WESTERN REGIONS

On 1 July 2009, water and sewerage assets from Councils and water authorities transferred to the regional corporations. During the period from incorporation to 30 June 2009, the regional corporations incurred development costs relating to the integration of assets to be transferred from owner councils and costs associated with establishing leasehold premises.

TWSC Southern Region P/L (SR)

SR's net loss before tax, \$1.929m represented:

- Staff related costs, \$0.383m, being for the CEO, directors and a number of staff transferred directly from Councils during May 2009
- Costs of services, \$0.715m, provided by CS
- Administrative expenses, \$0.829m, which comprised:
 - a write off in building improvements, \$0.264m, as the relevant Council did not approve the improvements
 - development of metering communications
 - consulting
 - public relations
 - leasing costs.

TWSC Northern Region P/L (NR)

NR's net loss before tax, \$0.448m represented:

- Staff related costs, \$0.265m, being the CEO, directors and a number of staff transferred directly from Councils during May 2009
- Costs of services, \$0.295m, provided by CS
- Administrative expenses, \$0.074m, which included:
 - consulting
 - property
 - other administration.

TWSC Northern Western Region P/L (NW)

NW's net loss before tax, \$0.676m represented:

- Staff related costs, \$0.398m, being the CEO, directors and a number of staff transferred directly from Councils during May 2009
- Costs of services, \$0.295m, provided by CS
- Administrative expenses, \$0.268m, which comprised:
 - consulting
 - other administration.

BALANCE SHEETS

	Southern Region	Northern Region	North Western Region	Common Services
	11/11/08 to 30/6/09	11/11/08 to 30/6/09	11/11/08 to 30/6/09	9/12/08 to 30/6/09
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	0	0	0	1 116
Receivables and prepayments	54	32	15	2 705
Total Current Assets	54	32	15	3 821
Payables	2 710	679	1 303	1 187
Borrowings	0	0	0	3 491
Provisions employee entitlements	10	9	10	0
Current tax liability	0	0	0	24
Total Current Liabilities	2 720	688	1 313	4 702
Working Capital	2 720	(656)	(1 298)	(881)
Property, plant and equipment	737	16	332	821
Net deferred tax assets	581	192	290	24
Intangibles	0	0	0	36
Total Non-Current Assets	1 318	208	622	881
Net Liabilities	(1 348)	(448)	(676)	0
Reserves	0	0	0	0
Retained earnings	(1 348)	(448)	(676)	0
Total Deficits	(1 348)	(448)	(676)	0

Comment

Common Services (CS)

The Net Asset balance in the CS Balance Sheet was nil as a result of a breakeven result and no issued capital.

During the year, CS borrowed \$2.000m from the Local Government Association of Tasmania and \$1.491m from Tascorp. The cash balance at year end, \$1.116m, represented the remaining unspent funds.

Receivables of \$2.645m related to amounts owed by the three owner Corporations for administrative services provided.

Net deferred tax asset related to expenditure expensed in the Income Statement in accordance with accounting standards. However, under tax legislation these costs are required to be amortized over three years giving rise to timing differences.

Property, plant and equipment, \$0.821m, related to work in progress on leasehold improvements and IT systems.

Payables, \$1.171m, related to IT systems, accommodation fit-out and consulting costs.

Southern Region (SR)

The deficiency of assets at 30 June 2009 of \$1.348m resulted from:

- Payables, \$2.710m, which related to amounts owing to CS, \$1.366m, building modifications, \$0.840m, and general administrative costs.

Offset by:

- Property, plant and equipment, \$0.737m, related to work in progress on building modifications and metering system for water supplies
- Net deferred tax asset, \$0.581m, related to carried forward tax losses.

Northern Region (NR)

The deficiency of assets at 30 June 2009 of \$0.448m, resulted from:

- Payables, \$0.679m, related to amounts owing to CS, \$0.531m, and general administrative costs.

Offset by:

- Net deferred tax asset, \$0.192m, due to carried forward tax losses.

Northern-Western Region (NW)

The deficiency of assets at 30 June 2009 of \$0.448m, resulted from:

- Payables, \$0.679m, related to amounts owing to CS, \$0.531m, and general administrative costs.

Offset by:

- Net deferred tax asset, \$0.192m, due to carried forward tax losses.

CASH POSITION

	Southern Region	Northern Region	North Western Region	Common Services
	11/11/08 to 30/6/09	11/11/08 to 30/6/09	11/11/08 to 30/6/09	9/12/08 to 30/6/09
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	0	0	0	0
Payments to suppliers and employees	0	0	0	(2 081)
Interest received	0	0	0	8
Borrowing costs	0	0	0	
Income tax paid	0	0	0	0
Cash from operations	0	0	0	(2 073)
Payments for property, plant and equipment	0	0	0	(302)
Proceeds from sale of property, plant and equipment	0	0	0	0
Payments to terminate derivative financial instruments	0	0	0	0
Cash (used in) investing activities	0	0	0	(302)
Proceeds from borrowings	0	0	0	3 491
Repayment of borrowings	0	0	0	0
Dividends paid	0	0	0	0
Cash (used in) financing activities	0	0	0	3 491
Net increase (decrease) in cash	0	0	0	1 116
Cash at the beginning of the year	0	0	0	0
Cash at end of the period	0	0	0	1 116

Comment

Common Services (CS)

All cash transactions up to 30 June 2009 were incurred by CS on behalf of the owner Corporations.

During the year, CS borrowed \$2.000m from the Local Government Association of Tasmania and \$1.491m from Tascorp. The cash balance at year end, \$1.116m, represented remaining operating capital after disbursements for salaries, administration expenses, capital improvements and work in progress on behalf of the owners and CS itself.

FINANCIAL ANALYSIS

In view of the minimal level of operations of these four Corporations, no financial analysis was conducted.

LOCAL GOVERNMENT WATER AUTHORITIES

INTRODUCTION

Section 30 of the *Local Government Act 1993* (the Act) enables councils to establish a single authority or a joint authority with one or more councils. A single or joint authority may be established to:

- carry out any scheme, work or undertaking
- provide facilities or services
- perform any functions or exercise any powers of a council under the Act or any other relevant legislation.

With the full transfer of bulk water assets, other associated assets and liabilities and staff, by each water Authority on 1 July 2009 to the new Regional Corporations, the financial statements prepared at 30 June 2009 will be each Authority's final statements.

Up until 30 June 2009 there were three joint water authorities operating in Tasmania:

- Cradle Coast Water (CCW)
- Esk Water Authority (Esk)
- Hobart Regional Water Authority (Hobart).

These authorities are also referred to as bulk water authorities.

Owner Councils

The owner councils of these three Authorities are noted in the table below.

CCW	Esk	Hobart
Central Coast	George town	Brighton
Circular Head	Launceston City	Clarence City
Devonport City	Meander Valley	Glenorchy City
Kentish	West Tamar	Hobart City
Latrobe		Kinborough
Waratah-Wynyard		Sorell
		Southern Midlands
		Derwent Valley

Councils which do not currently participate in the three existing Authorities, operating arrangements on their own account, are:

- Break O'Day
- Burnie City
- Central Highlands
- Dorset
- Flinders Island
- Glamorgan Spring Bay, although in June 2007 it signed a long term operation and maintenance agreement with Hobart Water
- Huon Valley
- King Island
- Northern Midlands
- Tasman
- West Coast.

At the time of preparing this Report the audit of Cradle Coast Authority had not been completed and as a result a separate Chapter has not been included.

ESK WATER AUTHORITY

INTRODUCTION

Esk Water Authority (Esk Water or the Authority) was declared a Joint Authority by the Minister for Local Government on 25 June 1997. The Authority commenced operations on 1 July 1997 and had transferred to it all bulk water assets, property, rights, obligations and liabilities of North Esk Regional Water Supply Scheme, West Tamar Water Supply Scheme, Launceston City Council and the Meander Valley Council following enactment of the *Northern Regional Water (Arrangements) Act 1997*.

The Authority was the bulk water business servicing the Launceston/Tamar Valley region in Northern Tasmania until 30 June 2009 and was owned and controlled by Launceston City, West Tamar, Meander Valley and George Town Councils. Representatives from each of the four owner councils served on the Joint Authority. The Authority appointed an independent management board comprised of four directors, to manage the resources of the Authority and be responsible for the collection, treatment, conservation and supply of water in bulk. The Chief Executive Officer was appointed by the directors and was not a member of the management board.

The Authority was subject to periodic reviews by the Government Prices Oversight Commission (GPOC) which recommends maximum prices and pricing principles for each of the three Tasmanian bulk water supply authorities.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

Signed financial statements were received on 31 August 2009 and an unqualified audit report was issued on 30 September 2009.

The audit was completed satisfactorily with no major items outstanding.

Due to the water and sewerage reforms, the financial statements prepared at 30 June 2009 are the final for the Authority which as a legal entity was formally wound up with the Authority's AGM held on 28 October 2009.

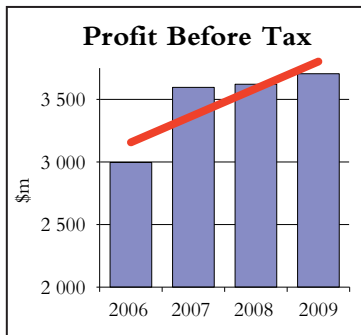
When reading this commentary it needs to be borne in mind that the analysis concentrates on the 2008-09 balances and movements compared to the 2007-08 figures. Balances for 2006-07 and 2005-06 are provided for information only.

Significant developments during the year included:

- the Authority obtained, for no consideration, control of a length of pipeline constructed on behalf of Aurora Energy (Tamar Valley) Pty Ltd (AETV) for the provision of water to the new Tamar Valley Power Station
- commencement of the construction of a replacement treatment plant at Distillery Creek (DCTP). It is anticipated that this project will be finished within budget in early 2010. The \$10.200m project is funded entirely by internal sources.

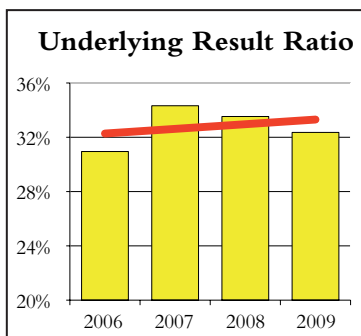
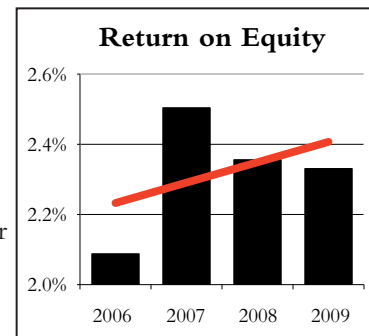
FINANCIAL RESULTS

The following five graphs summarise key ratios highlighting important aspects of the Authority's financial performance over the past four years.



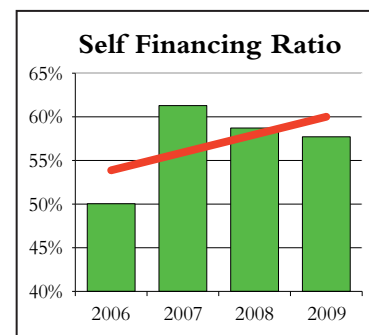
The Authority was a “for profit” entity and was expected to generate profits, pay tax and provide dividends to its owner councils. As the graph indicates, over the past four years, the Authority consistently generated profits before tax.

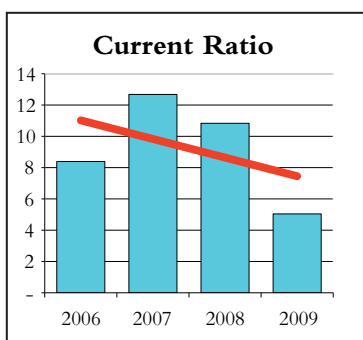
Return on equity was below expectation in each of the four years. The lower return on equity was due to the Authority not achieving a commercial rate of return, 7%, as recommended by GPOC. However, as the member councils were both the owner and major customer, reduced return on equity was offset by lower prices for the purchase of water.



Underlying result ratio indicated the Authority's profit remained consistent with increases in revenue over the four year period. As a monopoly supplier of bulk water, the Authority was able to price water sales to ensure a specific return.

The Authority generated strong operating cash flows compared to Total Revenue. This result was expected as the Authority had a significant infrastructure asset base valued at fair value and ensured its pricing met all operating expenses including depreciation. The Authority generated sufficient cash to contribute to future infrastructure requirements. The cash flow was assisted by the Authority being debt free and not having to pay interest on borrowings.





Current ratio was more than adequate and indicated the Authority was able to meet all short-term liabilities.

INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Sales revenue	10 405	9 845	9 804	9 039
Interest revenue	659	753	459	377
Other operating revenue	386	201	214	264
Total Revenue	11 450	10 799	10 477	9 680
Borrowing costs	0	0	0	118
Depreciation	3 398	3 077	2 665	2 788
Cost of sales (less depreciation)	2 829	2 732	2 502	2 264
Other operating expenses	2 184	1 834	1 890	1 598
Gain/(Loss) from the disposal of assets	127	22	135	686
Total Expenses	8 538	7 665	7 192	7 454
Profit before:	2 912	3 134	3 285	2 226
Asset revaluation increments to offset previously recognised decrements	3	487	311	1
Asset contributions	790	0	0	769
Profit before taxation	3 705	3 621	3 596	2 996
Income tax expense	1 084	1 087	1 082	900
Net Profit	2 621	2 534	2 514	2 096

Comment

In 2008-09 Esk Water recorded a Profit after taxation of \$2.621m, compared to a Profit after taxation of \$2.534m in the prior year. The operating results for the two years were consistent. Major factors that influenced the profit are detailed below.

The majority of the Authority's revenue was obtained from the sale of bulk water to municipal, industrial and wayside consumers. Sales revenue increased by \$0.560m or 5.69% from 2007-08 due to:

- an increase in water charges of 2.90% (2007-08; 2.50%) in accordance with the movement in the Consumer Price Index
- a new industrial client connecting during the year

- offset by a decrease in water sales volumes of 675 megalitres (ML).

Water consumption during 2008-09 sales volumes totalled 14 866 ML, which decreased from the consumption of 15 540 ML in 2007-08, which was higher than expected due to the drought experienced by Tasmania that year.

The Authority received Asset contributions of \$0.790m, which represent a length of pipeline obtained, for no consideration, during the year from AETV, as discussed previously.

Other operating revenue included rendering of services, rental and miscellaneous revenue. The majority of the increase during 2008-09 was due to reimbursement of services provided by Esk Water on behalf of Ben Lomond Water (BLW) prior to BLW commencing operations on 1 July 2009.

The above factors which provided additional revenue during the year were offset by the following expense increases.

Depreciation expense

The Authority managed significant physical asset infrastructure. The utilisation of various treatment plants, reservoirs and pipeline systems has resulted in a significant annual depreciation expense. Depreciation was approximately 40% of the Authority's Total expenses. The table below illustrates the depreciation charge had increased in line with movements in Property, plant and equipment (PPE) balances, with the Depreciation percentage remaining fairly constant.

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Depreciation	3,398	3,077	2,665	2,788
Property, plant and equipment - average (i)	121,388	114,664	106,604	108,421
Depreciation as percentage of average PPE	2.80%	2.68%	2.50%	2.57%
(i) average based on opening and closing written down value				

Other expenses

Cost of sales represented the production costs associated with collecting, conserving and treating the water to a saleable point. In 2008-09, the percentage of Cost of sales to Sales revenue was 27% (28%).

Other operating expenses included administration, engineering and distribution expenses. Employee costs were allocated across a number of operations and were included in both Cost of sales and Other operating expenses. The increase during 2008-09 of \$0.350m included:

- expenses incurred on behalf of BLW \$0.144m as discussed in other revenue above
- increased insurance costs of \$0.066m, including directors and officer's run-off cover.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	13 687	12 260	8 867	5 744
Receivables	1 211	607	542	695
Inventories	269	256	231	230
Other	224	970	857	917
Total Current Assets	15 391	14 093	10 497	7 586
Payables	316	316	96	185
Interest bearing liabilities	0	0	0	0
Provisions superannuation	96	65	62	61
Provisions employee entitlements	408	354	321	305
Provisions dividend	1 038	0	0	0
Other	1 195	566	349	353
Total Current Liabilities	3 053	1 301	828	904
Working Capital	12 338	12 792	9 669	6 682
Property, plant and equipment	122 803	119 973	109 354	103 854
Deferred tax asset	3 671	4 830	5 614	6 250
Other	4	4	4	5
Total Non-Current Assets	126 478	124 807	114 972	110 109
Deferred tax liabilities	23 850	23 502	19 632	17 276
Provisions superannuation	2 153	1 986	1 977	1 734
Provisions employee entitlements	13	23	18	11
Total Non-Current Liabilities	26 016	25 511	21 627	19 021
Net Assets	112 800	112 088	103 014	97 770
Capital	81 548	81 548	81 548	81 548
Reserves	29 635	28 724	20 401	15 931
Retained earnings (Accumulated Losses)	1 617	1 816	1 065	291
Total Equity	112 800	112 088	103 014	97 770

Comment

At 30 June 2009, Esk Water's Equity totalled \$112.800m, an increase of \$0.712m, 0.64%, from 2007-08. The increase included the following major items:

- profit after tax \$2.621m
- an asset revaluation increment \$0.988m (after tax)
- dividends paid or payable \$2.897m.

Net Assets increased by \$0.712m due to:

- improved cash position of \$1.427m. The increase is analysed in detail, under the Cash Position commentary
- increased debtors due to the cessation of the Authority's operations at 30 June 2009. Council and industrial revenue invoices for June were raised on 30 June 2009, rather than

accrued and raised in July as in previous years, resulting in an increase of \$0.604m in the Receivables balance. There was a corresponding decrease of \$0.746m in Other assets which included accrued revenue

- increased Property, plant and equipment of \$2.830m. The increase was due to revaluation increments of \$1.415m, net capital additions of \$4.813m and annual depreciation expense of \$3.398m.

These increases were offset by:

- inclusion of a provision for final dividend for 2008-09 of \$1.038m as the dividend was declared prior to year-end and recognised in the financial statements, in order to better reflect the true equity position of the Authority at wind up
- increased other liabilities of \$0.629m, primarily due to the inclusion of a progress payment for capital works at DCTP totalling \$0.581m in accrued expenses
- increased Provisions for superannuation of \$0.198m, 9.65%. The superannuation liability was determined by an independent actuarial assessment with the increase attributed to lower interest rates at balance date used in discounting future cash flows
- decreased deferred tax assets of \$1.159m, due mainly to a reduction of \$1.232m in the future benefit from unused tax losses
- increased deferred tax liability of \$0.348m caused primarily by the tax impact of asset revaluations of \$0.424m.

Although the Authority did not make tax payments due to carry forward losses, it was considered probable that sufficient future taxable profits would be generated to enable the Deferred tax asset to be utilised. In accordance with the asset transfer notice dated 1 July 2009, which transferred the assets and liabilities of Esk Water to BLW, tax losses were transferred.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	11 396	10 217	10 560	9 082
Payments to suppliers and employees	(5 487)	(4 585)	(4 601)	(4 489)
Interest received	699	709	462	371
Borrowing costs	0	0	0	(120)
Cash from operations	6 608	6 341	6 421	4 844
Payments for property, plant and equipment	(3 377)	(1 200)	(1 594)	(1 926)
Proceeds from sale of property, plant and equipment	55	59	61	79
Cash (used in) investing activities	(3 322)	(1 141)	(1 533)	(1 847)
Repayment of borrowings	0	0	0	(2 000)
Dividends paid	(1 859)	(1 807)	(1 765)	(1 608)
Cash (used in) financing activities	(1 859)	(1 807)	(1 765)	(3 608)
Net increase (decrease) in cash	1 427	3 393	3 123	(611)
Cash at the beginning of the year	12 260	8 867	5 744	6 355
Cash at end of the year	13 687	12 260	8 867	5 744

Comment

The Authority's cash position increased by \$1.427m at 30 June 2009 due to:

- cash from operations totalling \$6.608m, a minor increase of \$0.267m from the prior year offset by:
 - internally funded capital works of \$3.377m, the majority being the construction of the DCTP as mentioned earlier, which totalled \$3.115m
 - dividend payments of \$1.859m, which comprised a final dividend of \$1.009m for 2007-08 and an interim dividend for 2008-09 of \$0.850m.

The Authority anticipated that the current cash surplus generated from operations would be used to undertake future capital projects, which included the completion of the DCTP, which had an outstanding contract commitment of \$6.561m at 30 June 2009.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Profit (\$'000s)		2 912	3 134	3 285	2 226
EBIT (\$'000s)		3 705	3 621	3 596	3 114
Operating margin	>1.0	1.34	1.41	1.46	1.30
Return on assets		2.6%	2.7%	3.0%	2.5%
Return on equity		2.3%	2.4%	2.5%	2.1%
Underlying result ratio		32.4%	33.5%	34.3%	31.0%
Self financing ratio		57.7%	58.7%	61.3%	50.0%
Financial Management					
Current ratio	>1.0	5.04	10.83	12.68	8.39
Indebtedness ratio		227.2%	236.2%	206.4%	196.5%
Debt collection	30 days	42	23	20	28
Creditor turnover	30 days	17	28	10	18
Capital expenditure/ depreciation	>100%	99%	39%	60%	69%
Returns to Owners					
Dividends paid or payable (\$'000s)		1 888	1 835	1 783	1 625
Dividend payout ratio	50%	72.0%	72.4%	70.9%	77.5%
Dividend to equity ratio		1.7%	1.7%	1.8%	1.6%
Total return (\$'000s)		1 888	1 835	1 783	1 625
Total return to equity ratio		1.7%	1.7%	1.8%	1.6%
Other Information					
Staff numbers (FTEs)		25	25	25	25
Average staff costs (\$'000s)		76	64	69	56
Average leave balance per FTE (\$'000s)		16	14	12	12

Comment

Financial Performance ratios showed the Authority recorded an operating profit of \$2.912m in 2008-09, which resulted in a positive Operating margin. The profitability of the Authority was further illustrated by the strong Underlying result ratio.

The Self financing ratio highlighted the Authority's ability to generate strong cash flows from its operations in comparison to its Total Revenue. The cash generated was required to meet future capital funding requirements due to the Authority's significant long-life infrastructure assets.

Return on assets ratio was low. As noted in reviews by GPOC, the Return on equity remains below that expected for a commercial rate of return, 7%. Pricing guidelines were set by the Joint Authority. The result was that water users, specifically member Councils, effectively received subsidies.

The Current ratio reduced at 30 June 2009 primarily due to the recognition of the provision for dividend and a large capital accrual, which substantially increased the current liabilities total.

Debt collection ratio increased for 2008-09 due to additional council and industrial invoices being raised at 30 June 2009 rather than accrued. Of the \$1.211m (2008, \$0.607m) Receivables balance at 30 June 2009, \$1.205m, 99.5%, was less than 30 days outstanding.

Capital expenditure to depreciation ratio was slightly below the benchmark for 2008-09 due to significant expenditure on capital works during the year. The Authority had completed a strategic asset management plan that included an asset replacement schedule based on the age profile of its assets. This plan highlighted that a major asset replacement is due near 2040, when two major pipelines would theoretically reach the end of their useful lives. It was expected that the Capital expenditure ratio would remain well below 100% as the Authority generates cash to fund major asset replacement.

Whist the Dividend payout ratio was above benchmark, the Total return to equity ratio was below expectation. This was attributable to the Authority:

- not making any tax payments due to carried forward tax losses
- setting pricing below expected commercial returns recommended by GPOC (as discussed previously).

The Authority had a dividend payout policy of the lesser of the prior year dividend indexed for CPI or 100% of profit after tax for the year. The policy aimed to retain equity within the Authority to finance future asset replacements. A further calculation was performed each year to ensure that the formula did not result in any Council being financially disadvantaged.

HOBART REGIONAL WATER AUTHORITY

INTRODUCTION

The Hobart Regional Water Authority (the Authority) was established under section 38 of the *Local Government Act 1993* following the enactment of the *Hobart Regional Water (Arrangement) Act 1996*. This Act transferred all assets, property, rights and liabilities of the former Hobart Regional Water Board to the Authority effective 1 January 1997.

The Authority is a Joint Authority trading under the name of Hobart Water. It is a commercial business owned by eight constituent councils in the Hobart Regional Water District, which comprises the cities of Hobart, Clarence and Glenorchy as well as the municipal areas of Kingborough, Sorell, Brighton, Derwent Valley and Southern Midlands. An independent board of management is responsible for the conduct of business and affairs of the Authority. Its core business is to provide bulk water supplies to its customers. Its scope of activities includes:

- collection and treatment of raw water to the required standard
- bulk transport of treated water to reticulation storages or networks
- planning, development and management of headworks
- sale of bulk water on a commercial basis.

In addition to these core activities, the Authority also provides services under contract to Derwent Valley Council in respect to operations and maintenance of their water and waste water reticulation system. In June 2007, Hobart Water signed a long term operation and maintenance agreement with Glamorgan Spring Bay Council to provide water and waste water services.

AUDIT OF THE 2008-09 FINANCIAL STATEMENTS

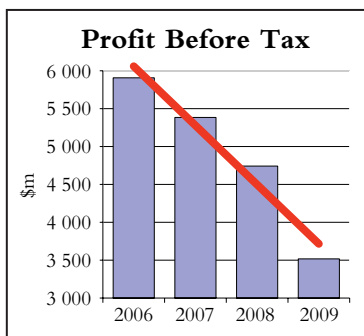
Signed financial statements were received on 17 September 2009 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major items outstanding.

Significant developments during the year included preparation for the transition of staff and facilities to three new water corporations, completion of pipelines located in Howrah and Warrane on the eastern shore and pipeline projects in Claremont and Hobart Mountain. In addition, the Authority commenced the \$8.510m water supply project at Swansea which involved a dam, water treatment plant and pipelines. The project is scheduled for completion in October/November 2009.

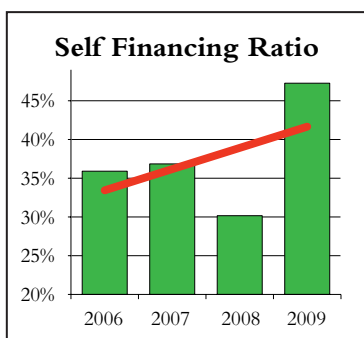
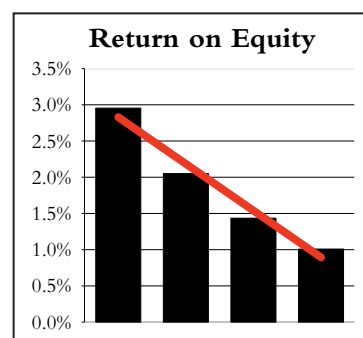
FINANCIAL RESULTS

The following five graphs summarise key ratios highlighting important aspects of the Authority's financial performance over the past four years.



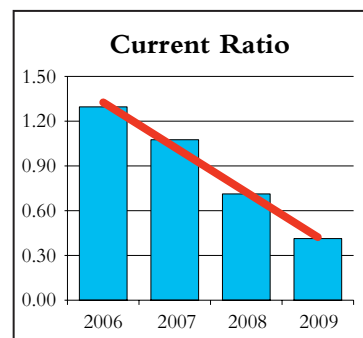
The Authority is a “for-profit” entity and is expected to generate profits, pay tax and provide dividends to its owner councils. As the graph indicates, over the past four years, the Authority has consistently generated Profits before tax although these have been declining.

Return on equity was below expectation and resulted from the Authority not setting a commercial rate of return, 7%, as recommended by Government Prices Oversight Commission (GPOC). However, as the member councils are both the owner and major customer, reduced Return on equity arising from lower profits was offset by lower prices for the purchase of water.



The Authority generated strong operating cash flows compared to its total revenue. This result was expected as the Authority had a significant infrastructure base and ensured its pricing was meeting all operating expenses including depreciation. The Authority generated sufficient cash to contribute to future infrastructure requirements.

The Current ratio in the first three years under review was adequate as current assets exceeded current liabilities. In 2008-09, the ratio deteriorated due to a reduction in cash (refer Cash Position analysis later in this Chapter), increased current borrowings payable at 30 June 2009 and the recognition of a current liability for a dividend payment.



INCOME STATEMENT

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Sales revenue	26 706	25 225	24 320	22 810
Other operating revenue	4 908	5 684	3 114	2 190
Total Revenue	31 614	30 909	27 434	25 000
Borrowing costs	2 362	2 359	2 379	2 448
Depreciation and amortisation	7 084	6 369	5 999	5 228
Other operating expenses	18 390	17 474	14 053	12 516
Total Expenses	27 836	26 202	22 431	20 192
Profit before:	3 778	4 707	5 003	4 808
Change in fair value of financial instruments	(261)	35	381	633
Defined benefit superannuation actuarial gain / (loss)	0	0	0	466
Profit before taxation	3 517	4 742	5 384	5 907
Income tax expense	1 101	1 463	1 652	1 773
Net Profit	2 416	3 279	3 732	4 134

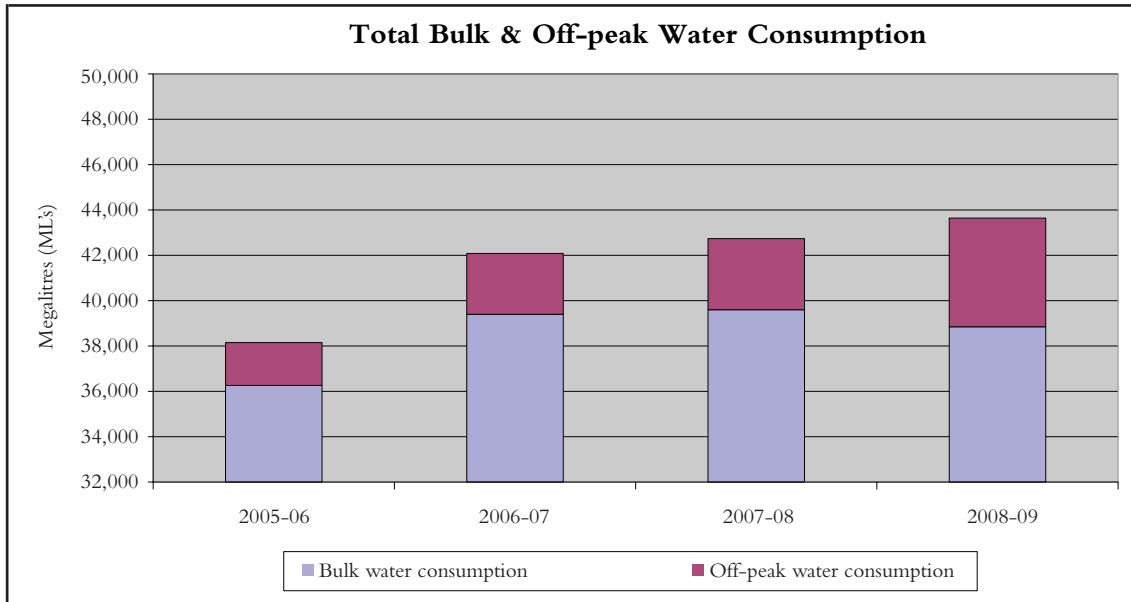
Comment

In 2008-09 the Authority recorded a fall of \$1.225m in Profit before taxation (PBT) to \$3.517m primarily due to:

- increased Employee expenses of \$0.870m, due mainly to a 5% award increase and the addition of new staff
- Contributions by Clarence City Council to the Howrah/ Warrane pipeline project fell by \$0.715m to \$0.385m due to the completion of this project in 2008-09
- Depreciation increased by \$0.715m because of revaluations by indexation and capitalisation of the \$4.000m electrical upgrade at Bryn Estyn in August 2008
- interest income decreased by \$0.545m due to lower interest rates and reduction in investments as cash was utilised for capital projects
- close-out of interest swaps of \$0.261m.

The above factors were partly offset by increased water sales of \$1.481m due to 6.1% price rise and increased off peak sales.

Water sales fluctuate in accordance with consumption and it is noted that recent years' figures reflect drier conditions, leading to increased consumption. As a result Sales revenue increased by \$2.432m, 10.67%, over the last four years. The following graph details water consumption expressed in mega litres over the period. Bulk water consumption in 2005-06 was low because there was above average rainfall from September 2005 to December 2005. In the current year bulk water consumption fell due to good rains late in the year but off-peak water consumption (mainly farmers) rose as dams were dry from recent droughts.



The Authority managed significant physical asset infrastructure. The utilisation of various treatment plants, reservoirs and pipeline systems resulted in a significant annual depreciation expense. Depreciation is approximately 25% of the Authority's total expenses. The table below illustrates the depreciation charge, expressed as a percentage of Property plant and equipment (PPE), fell from 2.98% to 2.15% over the four year period. This fall was attributed to some asset lives being extended. Dam lives were extended from 140 years to 200 years and pipelines from 80 years to 100 years.

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Depreciation	7 084	6 369	5 999	5 228
Property, plant and equipment - average (i)	330 167	301 446	233 929	175 148
Depreciation as percentage of average PPE	2.15%	2.11%	2.56%	2.98%

(i) average based on opening and closing written down value

In addition, all Infrastructure, land and buildings were indexed annually to maintain current values. This also contributed to higher depreciation expenses in the last three years.

BALANCE SHEET

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Cash	5 539	6 228	9 864	9 582
Receivables and prepayments	1 939	7 728	7 010	6 451
Inventories	1 534	1 158	1 143	1 126
Derivative financial instruments	0	98	129	0
Total Current Assets	9 012	15 212	18 146	17 159
Payables	3 423	3 613	3 312	2 313
Borrowings	16 398	13 798	11 400	7 000
Derivative financial instruments	0	0	0	428
Provision for dividend	0	1 600	0	1 600
Provisions superannuation	313	839	636	377
Provisions employee entitlements	1 260	1 175	986	790
Current tax liability	422	329	536	733
Total Current Liabilities	21 816	21 354	16 870	13 241
Working Capital	(12 804)	(6 142)	1 276	3 918
Property, plant and equipment	347 831	309 986	290 502	174 696
Intangibles	1 263	1 254	1 150	1 510
Total Non-Current Assets	349 094	311 240	291 652	176 206
Borrowings	27 800	19 400	21 798	26 198
Provisions superannuation	4 036	3 522	3 514	3 574
Provisions employee entitlements	269	214	174	177
Deferred tax liabilities	58 531	48 639	43 750	9 881
Total Non-Current Liabilities	90 636	71 775	69 236	39 830
Net Assets	245 654	233 323	223 692	140 294
Reserves	241 451	217 874	212 411	130 333
Retained earnings	4 203	15 449	11 281	9 961
Total Equity	245 654	233 323	223 692	140 294

Comment

Equity increased by \$12.331m during 2008-09 due predominantly to the Net Profit of \$2.416m and increased revaluation reserve, net of tax, of \$23.614m, following revaluations and indexation of infrastructure assets at 30 June 2009, less dividends paid totalling \$13.800m in respect of the 2008-09 financial year of which \$9.000m was a special dividend.

The main factors contributing to higher Net Assets were:

- Property, plant and equipment increased by \$37.845m during 2008-09 compared to the previous year as a result of:
 - completion of pipelines located in Howrah and Warrane on the eastern shore, pipeline projects in Claremont and Hobart Mountain and an electrical upgrade at Bryn Eston valued at \$13.302m
 - indexation of infrastructure assets of \$20.649m

- revaluation of Knights Creek dam from nil to \$13.035m as this commenced supplying water in the period.

Partly offset by:

- depreciation of \$6.762m
- reduction in work in progress of \$4.375m.

This was offset by:

- net additional Borrowings of \$11.000m predominantly to fund capital payments of \$11.250m
- increased deferred tax liabilities of \$9.892m due to the profit before taxation and timing differences, including the effect of asset revaluations and indexations
- decreased receivables of \$5.789m as the owners agreed to pay fixed water charges early in June 2009 so they could receive payment of a special dividend of \$9.000m prior to the wind up of the Authority.

CASH POSITION

	2008-09	2007-08	2006-07	2005-06
	\$'000s	\$'000s	\$'000s	\$'000s
Receipts from customers	39 173	31 728	27 648	25 172
Payments to suppliers and employees	(20 991)	(19 156)	(14 562)	(13 733)
Interest received	683	651	770	612
Borrowing costs	(2 658)	(2 462)	(2 418)	(2 437)
Income tax paid	(1 264)	(1 438)	(1 329)	(637)
Cash from operations	14 943	9 323	10 109	8 977
Payments for property, plant and equipment	(11 250)	(9 887)	(5 781)	(4 411)
Proceeds from sale of property, plant and equipment	180	262	130	225
Payments to terminate derivative financial instruments	(162)	66	(176)	0
Cash (used in) investing activities	(11 232)	(9 559)	(5 827)	(4 186)
Proceeds from borrowings	24 798	11 400	12 000	9 900
Repayment of borrowings	(13 798)	(11 400)	(12 000)	(9 900)
Dividends paid	(15 400)	(3 400)	(4 000)	(3 400)
Cash (used in) financing activities	(4 400)	(3 400)	(4 000)	(3 400)
Net increase (decrease) in cash	(689)	(3 636)	282	1 391
Cash at the beginning of the year	6 228	9 864	9 582	8 191
Cash at end of the year	5 539	6 228	9 864	9 582

Comment

The Authority's cash position decreased \$0.689m at 30 June 2009 mainly due to:

- payment of a \$9.000m special dividend prior to year end
- payment of \$3.200m 2008-09 dividends before year end instead of in following year and payment of 2007-08 dividends, \$3.200m
- additional \$1.363m on capital expenditure.

These were offset by:

- higher receipts from customers, \$7.445m, which included early settlement by owner councils of network charges for the June quarter, normally paid after year end to part fund payment of the special dividend
- additional borrowings of \$11.000m.

FINANCIAL ANALYSIS

	Bench Mark	2008-09	2007-08	2006-07	2005-06
Financial Performance					
Result from operations (\$'000s)		3 778	4 707	5 003	4 808
EBIT (\$'000s)		5 879	7 101	7 763	8 355
Operating margin	>1.0	1.14	1.18	1.22	1.24
Return on assets		1.7%	2.2%	3.1%	4.4%
Return on equity		1.0%	1.4%	2.1%	3.0%
Underlying result ratio		11.1%	15.3%	19.6%	23.6%
Self financing ratio		47.3%	30.2%	36.8%	35.9%
Financial Management					
Indebtedness ratio		286.7%	232.2%	252.4%	159.3%
Debt to equity		18.0%	14.2%	14.8%	23.7%
Debt to total assets		12.3%	10.2%	10.7%	17.2%
Interest cover	>2	2.5	3.0	3.5	3.9
Current ratio	>1	0.4	0.7	1.1	1.3
Cost of debt	6.9%	6.1%	7.1%	7.2%	7.4%
Debt service ratio		10%	10%	10%	11%
Debt collection	30 days	22	102	93	92
Creditor turnover	30 days	26	34	46	21
Capital expenditure/ depreciation	>100%	159%	155%	96%	84%
Returns to Owners					
Dividends paid or payable (\$'000s)		15 400	3 200	3 400	4 000
Dividend payout ratio	50%	637.4%	97.6%	91.1%	96.8%
Dividend to equity ratio		6.4%	1.4%	1.9%	2.9%
Income tax paid or payable (\$'000s)		1 313	1 269	1 241	1 370
Effective tax rate	30%	37.3%	26.8%	23.0%	23.2%
Total return (\$'000s)		16 713	4 469	4 641	5 370
Total return on equity ratio		7.0%	2.0%	2.6%	3.8%
Other Information					
Staff numbers (FTEs)		106	102	90	79
Average staff costs (\$'000s)		83	77	72	76
Average leave balance per FTE (\$'000s)		14	13	12	12

Comment

Hobart Water's Debt to equity ratio was strong at 18% in 2008-09 which was broadly consistent over the period and reflected the conservative requirements of its owners.

Return on assets of 1.7% fell this year due to lower returns as noted at the beginning of this Chapter under Return on equity.

Debt collection fell to 22 days due to the arrangement with the owners to pay fixed charges early to facilitate part payment of a special dividend.

Creditor turnover improved due to Hobart Water adopting a policy of payment within 30 days.

Returns to owners improved due to payment of a \$9.000m special dividend in advance of the wind-up of Hobart Water and the transfer of its assets, liabilities and staff to the Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd.



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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AUDIT MANDATE AND STANDARDS APPLIED

MANDATE

Section 17(1) of the *Audit Act 2008* states that “... An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects. ...”

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

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

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

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

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

STANDARDS APPLIED

Section 31 specifies that:

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

- (a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and
- (b) the Australian Auditing and Assurance Standards. ...’

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



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