Tasmanian Audit Office

Strive, lead, excel
To Make a Difference

Report of the Auditor-General

Volume 1 - Analysis of Treasurer's Annual Financial Report 2009-10

THE ROLE OF THE AUDITOR-GENERAL

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

Our primary 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 and those established under the *Local Government Act 1993*. Specifically, the definition covers 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 Responsible Ministers, and we 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, compliance audits and carry out 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), legislation, account balances or projects.

Investigations can relate only to public money or to public property.

Performance and compliance audits and investigations 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 Legislative Council and the House of Assembly in their review of the performance of Executive Government.

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

TASMANIA

2010
PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL

Volume 1

Analysis of Treasurer's Annual Financial Report

November 2010

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

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16 November 2010

President

Legislative Council

HOBART

Speaker

House of Assembly

HOBART

Dear Madam President
Dear Mr Speaker

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the audit of the General Government Financial Statements and Public Account Statements and the Total State Financial Statements for the year ended 30 June 2010. The requirement of section 29(3) relating to describing the basis on which audit fees are calculated was met in my Report No 1 of 2010.

Yours sincerely

H M Blake

AUDITOR-GENERAL

TABLE OF CONTENTS

FOREWORD	5
EXECUTIVE SUMMARY	6
AUDITS DISPENSED WITH	8
GENERAL GOVERNMENT SECTOR FINANCIAL STATEMENTS AND PUBLIC ACCOUNTS	11
TOTAL STATE SECTOR FINANCIAL STATMENTS	35
SPECIAL CAPITAL INVESTMENT FUNDS	55
APPENDIX 1 – GUIDE TO USING THIS REPORT	59
APPENDIX 2 – ACRONYMS AND ABBREVIATIONS	65
APPENDIX 3 – RECENT REPORTS	66
INDEX	67
VISION AND PURPOSE	68

FOREWORD

This Report provides an analysis of the General Government Sector and Total State Sector financial statements and of the Public Account Statements which form part of the Treasurer's Annual Financial Report. It also represents a change in the manner in which we report to Parliament on the outcomes of our annual audits of the financial statements of State entities.

This financial year we will provide five separate volumes:

- Volume 1 (which is this Report) tabled on 16 November
- Volume 2 which deals with our audits of the Executive and Legislature, Ministerial Departments and other General Government Sector entities, also tabled on 16 November
- Volume 3 which deals with our audits of government businesses, the local government owned water companies and the Retirement Benefits Fund Board to be tabled on 18 November 2010
- Volume 4 which will deal with our audits of non-General Government Sector entities and those entities with a 31 December 2010 balance date. We plan to table this report in April 2011 and
- Volume 5 which will deal with local government councils and their subsidiaries and joint authorities. We also plan to table this report in April 2011.

Our intention is to provide detailed and summary analysis at a sector level aimed at reducing the volume provided in individual reports.

Our audits of the financial statements of the General Government and Total State Sectors and of the Public Account Statements resulted in unqualified audit opinions being issued in time for the Treasurer to table those statements by 31 October.

HM Blake
Auditor-General
16 November 2010

EXECUTIVE SUMMARY

This volume summarises our audits and analysis of the General Government Sector (GGS) Financial Statements, the Total State Sector (TSS) Financial Statements, and Public Account (PA) Statements for the financial year ended 30 June 2010. Further detail can be found in the overview summaries in this Volume and in the individual Chapters.

The GGS and TSS Financial Statements are prepared in accordance with Australian Accounting Standard AASB 1049 Whole of Government and General Government Sector Financial Reporting.

GENERAL GOVERNMENT SECTOR

The General Government Sector (GGS) reported a 2009-10 Net Operating Balance surplus of $18m (2008-09, deficit $78m).

However, excluding one-off Australian Government funding for specific major capital programs the Net Operating Balance was a deficit of $363m (2008-09, deficit $106m) and 2009-10 was the third financial year in a row where expenditure growth outstripped revenue growth.

The GGS Comprehensive Result was $1.527bn in 2009-10 (2008-09, $391m), and Net Worth grew by $1.416bn to $13.066bn. This improvement was mainly due to inclusion for the first time of water and sewerage corporations, $1.749bn and high levels of capital works investments, offset to an extent by an unfavourable movement in the net GGS unfunded Superannuation liability. In addition, an investment of $82m was made in Tasmanian Railways Pty Ltd.

The Net unfunded Superannuation liability as at 30 June 2010, $4.860bn, exceeded the Superannuation Provision Account (SPA) by $3.496m. This variance is $1.350m or 63% worse than the difference that existed at 30 June 2006 and indicates the SPA is not keeping pace with the growth in the Superannuation liability.

Total cash decreased by $261m to $966m in 2009-10 (2008-09, $79m decrease) and resulted in GGS Net Debt deteriorating $234m to be favourable $748m.

PUBLIC ACCOUNT STATEMENTS

At 30 June 2010 the balance of the Special Deposits and Trust (SDTF) fund was $2.376bn (2008-09, $2.346bn) before the Temporary Debt Repayment of $1.438bn ($1.156bn). In addition to various interdepartmental operating accounts, major balances included in the SDTF were the Superannuation Provision Account, $1.364bn ($1.324bn), the Infrastructure Tasmania Fund, $85m ($95m), Australian Government Funding Management Account, $172m ($113m), and the Tasmanian State Service Risk Management Account, $169m ($163m).

TOTAL STATE SECTOR

The Total State Sector reported a 2009-10 Net Operating Balance surplus of $192m (2008-09, deficit $20m). However, excluding one-off Australian Government funding for specific major capital programs the Net Operating Balance was a deficit of $189m (2008-09, deficit $8m).

Grant revenues represented 39% (2008-09, 40%) and State taxes 12% (2008-09, 12%) of total revenues and Employee expenses were 33% (2008-09, 33%) of total expenses.

The State's Net Operating Result was a deficit of $697m. It included an increase in the State's unfunded Superannuation liability of $755m.

The Comprehensive Result for 2009-10 was a surplus of $1.416bn, (2008-09, $268m). This improvement was mainly due to inclusion of water and sewerage corporations, $1.749bn, offset by the unfavourable movement in the unfunded Superannuation liability.

The State's Net Worth was $13.065bn at 30 June 2010 compared to $11.650bn a year earlier. This improvement of $1.416bn, lines up with the Comprehensive result. However, cash and cash equivalents decreased $1.115bn as funds were applied to repaying debt and investments in infrastructure.

Despite debt repayments in 2009-10, at a total state level, Net Debt deteriorated $555m to unfavourable $962m. The higher Net debt was due to the decrease in Cash and Investments, $1.470bn, being greater than the net decrease in Borrowings of $0.916bn.

AUDITS DISPENSED WITH

The Auditor-General has the discretion, under the Audit Act to dispense with certainaudits if considered appropriate in the circumstances. The dispensation is subject toconditions determined by the Auditor-General. We have imposed the followingconditions:

- that the entity must demonstrate to us that its financial reporting and auditing arrangements are appropriate.
- To satisfy this condition, thedispensed with audit entities are required to submit their audited financial statements to us each year. The financial statements are reviewed and, where necessary, feedback is provided to the entity or
- that the entity is a subsidiary of a State entity whose financial transactions and balances are audited as part of the preparation of the consolidated financial statements of the controlling entity or
- grants made to a category of entities are properly managed under Treasurer's Instruction 709 "Grant Management Framework" (discussed further under the heading 'Categories of audits and Non-Government Organisations' later in this Chapter).

The Audit Act also requires the Auditor-General to consult with the Treasurer before exercising the power to dispense with audits. It is important to note that dispensing with the audit does not limit any of the Auditor-General's functions or powers given under the Audit Act.

Following consultation with the Treasurer, the audits of the annual financia statements of the following specific audits, or categories of audits, were dispensed with:

SPECIFIC AUDITS

Controlled Subsidiaries – Year Ended 30 June 2010 (controlling entity shown inbrackets)

- Agility Interactive Pty Ltd (TOTE Tasmania Pty Ltd)
- Auroracom Pty Ltd (Aurora Energy Pty Ltd)
- Aurora Energy (Tamar Valley) Pty Ltd (Aurora Energy Pty Ltd)
- Aurora Gas Pty Ltd (Aurora Energy Pty Ltd)
- Ezikey Group Pty Ltd (Aurora Energy Pty Ltd)
- Flinders Island Ports Corporation Pty Ltd (Tasmanian Ports Corporation Pty Ltd)
- Metro Coaches (Tas) Pty Ltd (Metro Tasmania Pty Ltd)
- Newood Energy Pty Ltd (Newood Holdings Pty Ltd)
- Newood Huon Pty Ltd (Newood Holdings Pty Ltd)
- Newood Smithton Pty Ltd (Newood Holdings Pty Ltd)
- Ports Logistics and Services Pty Ltd (Tasmanian Ports Corporation Pty
- Ltd); wound up and deregistered 9 January 2010
- Tas Radio Pty Ltd (TOTE Tasmania Pty Ltd).

Drainage Trusts – Year Ended 30 June 2010

- Brittons Swamp District Water Board
- Brittons Swamp Drainage Trust
- Cheshunt Drainage Trust (dissolved 2 June 2010)
- Egg Lagoon Drainage Trust
- Forthside Irrigation Water Trust
- Lake Nowhere-Else Dam/Whitehawk Creek Irrigation Trust
- Lawrenny Irrigation Trust
- Lower Georges River Works Trust
- Mowbray Swamp Drainage Trust
- Richmond Irrigation Trust
- Togari Drainage Trust.

We note that the Minister exempted the Lower Georges River Works Trust from submitting financial statements until September 2009 for the financial period November 2007 to June 2009 as the Trust was only formed in November 2007. Therefore, this Trust's first financial statements will cover a period commencing 1 October 2009.

Registration Boards – Year Ended 30 June 2010

- Chiropractors and Osteopaths Registration Board*
- Dental Board of Tasmania*
- Dental Prosthetists Registration Board*
- Medical Council of Tasmania*
- Medical Radiation Science Professionals Registration Board
- Nursing Board of Tasmania*
- Optometrists Registration Board*
- Physiotherapists Registration Board*
- Podiatrists Registration Board*
- Psychologists Registration Board*
- Schools Registration Board.

* Indicates Registration Boards which ceased to exist on 30 June 2010 due to the establishment of a single national registration and accreditation regime. Net assets were transferred to the newly established Australian Health Practitioner Regulation Agency. Final audited financial statements have been received, or arrangements to obtain them have been made, for the year ended 30 June 2010.

Drainage Trusts – Year Ended 31 July 2010

- Elizabeth Macquarie Irrigation Trust.

Registration Boards – Year Ending 31 December 2010

- Plumbers and Gasfitters Registration Board.

Categories of audits and Non-Government Organisations

The definition of State entities encompasses public bodies and Non-Government Organisations that traditionally are in receipt of Government grants. Agencies managing these grants are subject to the provisions of Treasurer's Instruction 709 – *"Grant Management Framework"*.

Compliance with the requirements of Treasurer's Instruction 709 should ensure appropriate reporting and auditing requirements are satisfied. It is our intention to keep the status quo, that is, those agencies dispensing the funds will be responsible for implementing and monitoring the requirements of the above Treasurer's Instruction.

As a result, separate audits of these entities were not conducted by our Office and we have not specifically dispensed with each of these audits.

GENERAL GOVERNMENT SECTOR FINANCIAL STATEMENTS AND PUBLIC ACCOUNT STATEMENTS

OVERVIEW

General Government Sector

The General Government Sector (GGS) reported a Net Operating Balance surplus of $18m compared to a deficit in the prior year of $78m.

The 2009-10 Net Operating Balance of $18m would have been significantly worse without the one-off Australian Government funding for specific major capital programs. One-off Australian Government funding for 2009-10 included Nation Building – Economic Stimulus Plan and additional funding for Nation Building, formerly Aus-link and Water for the Future, and totalled $381m. This large contribution is of a short-term nature and was in response to the global economic downturn. By 30 June 2011 nearly all the Commonwealth-State Financial Arrangements funding under the Plan will have ceased.

Excluding this revenue source, the underlying Net Operating Balance would have been a deficit of $363m. Similarly, in 2008-09 the result would have been a Net Operating Balance deficit of $106m, and 2009-10 was the third financial year in a row where expenditure growth outstripped revenue growth.

The Comprehensive result was $1.527bn, an improvement on the Net Operating Balance due to:

- inclusion of water and sewerage corporations, $1.749bn,
- inclusion of Tasmanian Railway Pty Ltd (Tasrail) for the first time, $72m,
- upwards revaluation of the State's land, building and infrastructure assets, $387m, less
- unfavourable movement in the GGS Superannuation liability of $692m.

Net Worth grew by $1.415bn to $13.065bn in 2009-10 in line with the Comprehensive result and Equity transfers as owners, $111m. This included $82m to Tasrail and $21m to the Rivers and Water Supply Commission.

The Superannuation liability is calculated by subtracting the balance of plan assets from the gross Superannuation liability. For the General Government Sector this liability increased by $826m, or 20%, to $4.860bn between 30 June 2009 and 30 June 2010. This movement comprised:

- a $908m, or 17%, increase in the present value of the superannuation liability to $6.231bn, partly offset by
- an increase of $82m, or 6%, in the fair value of plan assets to $1.371bn. It is expected the net unfunded Superannuation liability will continue to increase in the medium term.

The 2009-10 cash flow reported a Net decrease in cash held, $261m, compared to a decrease, $80m, in 2008-09. The reasons for the 2009-10 decrease in cash held included:

- equity injections, $111m, including $82m contributed to Tasrail for the purchase of the operating rail network
- repayment of a Capital Index bond on 30 June 2010, $30m,
- purchases of non-financial assets, $607m, partly offset by Australian Government Nation Building Revenue, $381m. Capital investments included the Department of Education,

$216m, Department of Health and Human Services, $111m, and Department of Infrastructure, Energy and Resources, $202m.

Net cash flows from operating activities for 2009-10 was $39m compared to $272m for 2008-09. The decline in cash generated from operating activities included:

- higher Employee entitlements and superannuation costs, $188m,
- increased Grant payments, $132m.

These higher cash outflows were partly offset by increased Grants received, $96m, and increased Taxation revenues, $75m.

Public Account Statements

At 30 June 2010 the balance of the Special Deposits and Trust (SDTF) fund was $2.376bn (2008-09, $2.346bn) before the Temporary Debt Repayment of $1.438bn ($1.156bn). Major balances included in the SDTF were:

- Superannuation Provision Account, $1.364bn ($1.324bn),
- various infrastructure funds, including the Infrastructure Tasmania Fund , $85m ($95m),
- Australian Government Funding Management Account, $172m ($113m),
- Tasmanian State Service Risk Management Account, $169m ($163m),
- Other departmental operating accounts. For example, Economic Development, Tourism and the Arts, $28m ($32m), Health and Human Services, $85m ($58m), and Primary Industries, Parks, Water and Environment, $124m ($145m).

INTRODUCTION

The General Government Sector Financial Statements (the GGS Statements) are prepared in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. They incorporate the reporting requirements of the Australian Accounting Standards Board (AASB) and the Uniform Presentation Framework (UPF), based on the reporting standards of the Australian Bureau of Statistics' Government Finance Statistics framework. The GGS Statements comprise a Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and notes thereto.

Explanations of the UPF Key Fiscal Aggregates for preparing the GGS Statements are provided in notes to the GGS Statements and are not reproduced here.

The Public Account Statements (the PA Statements) are a special purpose financial report prepared on a cash accounting basis. Explanations for applying this basis for the PA Statements are provided in Note 1 to the Statements and are not reproduced here.

LEGISLATIVE REQUIREMENTS

The Treasurer and the Secretary of the Department of Treasury and Finance sign both Statements, which are included as chapters within the Treasurer's Annual Financial Report (the TAFR).

The requirement for TAFR to be prepared is in section 26A of the *Financial Management and Audit Act 1990* (FMAA), which requires that:

1) As soon as practicable after the end of each financial year, the Treasurer is to prepare an annual report for that financial year.

2) The annual report is to contain for the financial year to which the report relates-

    a) The original estimates disclosed in the budget papers in respect of the major Government Finance Statistics statements

    b) The results in respect of the major GFS statements

    c) Statements reporting on the transactions within the Public Account during that financial year and the balances in the Public Account at the end of that financial year

    d) An explanation of any significant variations between the results for the financial year and the financial estimates and projections described in the budget papers

    e) An assessment of the Government's fiscal performance against its current fiscal strategy statement, within the meaning of the Charter of Budget Responsibility Act 2007

    f) The Auditor-General's report on the results and statements referred to in section 16 of the Audit Act.

3) The Treasurer may include in the annual report, in such form or manner as the Treasurer may determine, any other financial or statistical report.

The GGS Statements satisfy the requirements specified in section 26A(2)(b) above and the PA Statements satisfy the requirements specified in section 26A(2)(c).

AUDIT OF THE 2009-10 GENERAL GOVERNMENT SECTOR FINANCIAL STATEMENTS AND PUBLIC ACCOUNT STATEMENTS

Statements referred to in sections 26A(2)(b) and (c) of the FMAA must be submitted to the Auditor General for audit before 30 September in each year. Signed GGS Statements and signed PA Statements were received on 27 September 2010.

The Treasurer is required to table in the Parliament audited GGS Statements and audited PA Statements by no later than 31 October 2010. Separate unqualified audit opinions were issued on 20 October 2010.

Audits of the 2009-10 GGS Financial Statements and of the PA Statements were completed with satisfactory results and no major issues outstanding.

GENERAL GOVERNMENT FINANCIAL STATEMENTS

Comments in this Chapter should be read along with the TAFR and GGS Statements which include audited and un-audited commentary explaining 2009-10 financial results against prior years and budget.

In preparing this analysis, some material that does not appear in the Statements has been extracted from our Volume 2 Report, for example FTE staffing numbers.

COMPREHENSIVE INCOME STATEMENT

	2009-10 Budget $m	2009-10 Actual $m	2008-09 Actual $m	2007-08 Actual $m
Revenue				
Grants	2 441	2 730	2 677	2 466
Taxation	810	872	804	830
Sales of goods and services	375	289	303	295
Fines and regulatory fees	64	97	92	83
Interest income	34	45	68	74
Dividend, tax and rate equivalent income	100	79	210	132
Other revenue	74	109	105	106
Total Revenue	**3 898**	**4 221**	**4 259**	**3 986**
Expenditure				
Depreciation	228	229	229	233
Employee expenses	1 875	1 957	1 863	1 654
Superannuation	213	233	257	215
Supplies, consumables and Other operating expenses	982	1 004	1 000	980
Nominal superannuation interest expense	203	208	193	163
Borrowing costs	18	18	16	20
Grant expenses	814	935	807	668
Total Expenditure	**4 333**	**4 584**	**4 365**	**3 933**
NET OPERATING BALANCE BEFORE:	**(435)**	**(363)**	**(106)**	**53**
Commonwealth Nation Building Revenue	**318**	**381**	**28**	**0**
NET OPERATING BALANCE	**(117)**	**18**	**(78)**	**53**
***Plus* Other economic flows - Included in Operating Result**				
Gain (loss) on sale of non-financial assets	(6)	(24)	3	(19)
Revaluation of equity investment in GBEs/SOCs	110	1 893	387	150
Special dividend and other flows fromGBEs/SOCs	0	0	0	293
Movements in Superannuation liability	0	(692)	(148)	107
Other gains (losses)	2	(41)	(28)	13
Other economic flows - net	**106**	**1 136**	**214**	**544**
OPERATING RESULT	**(11)**	**1 153**	**136**	**597**
***Plus* Other economic flows - other movements in equity**				
Revaluations of non-financial assets	223	387	277	1 020
Other non-owner movements in equity	(1)	(14)	(22)	38
Total Other equity movements	**221**	**373**	**255**	**1 058**
COMPREHENSIVE RESULT	**211**	**1 527**	**391**	**1 655**
KEY FISCAL AGGREGATES				
Net Operating Balance	(117)	18	(78)	53
less Net acquisition of non-financial assets				
Purchase of non-financial assets	758	607	286	252
Less Sale of non-financial assets	78	69	41	68
Less Depreciation	228	229	228	233
Net acquisition of non-financial assets	**452**	**309**	**17**	**(49)**
FISCAL BALANCE	**(569)**	**(291)**	**(95)**	**102**

COMMENT

Net Operating Balance

The underlying GGS Net Operating Balance before Australian Government Funding for Specific Major Capital Programs, including Nation Building – Economic Stimulus Plan, was a deficit of $363m, compared to a deficit of $106m for the prior year.

The decline in the Net Operating Balance was due to:

- higher Employee expenses, up $94m, due partly to the Public Service Wage Agreement and additional costs for the Department of Health and Human Services (DHHS), $61m, the Department of Education (DoE) and the Post Year Ten Statutory Authorities, $30m, and the Department of Justice (Justice), $2m,
- lower Interest income, $23m, due to a reduction in the Cash held in the Public Account
- lower Dividend, tax and rate equivalent revenue, down $131m, due to lower income tax equivalents received from GBEs and SOCs, $116m, and lower dividend revenues, $15m,
- increased Grant and subsidy expenses of $128m, driven by additional grant funding provided to non-government schools, $78m and increased grants provided by the DHHS, $22m.

The effects of the foregoing were offset in part by:

- higher grants from the Australian Government, up $53m,
- higher taxation revenues, up $68m, mainly due to Payroll tax, $12m, Land tax, $11m, Taxes on financial and capital transactions, $12m, Guarantee fees, $9m and Other motor vehicles fees and taxes, $9m,
- lower Superannuation expense, $24m, due to lower current service cost, $32m. The lower superannuation expense was partly offset by an increase in the Nominal superannuation interest expense of $15m.

The overall 2009-10 Net Operating Balance, $18m surplus, included $381m of Australian Government funding under the Nation Building – Economic Stimulus Plan. The overall 2008-09 Net Operating Balance, $78m deficit, included $28m of economic stimulus funding.

The budgeted Net Operating Balance was a deficit of $117m. The actual result was a surplus of $18m, an overall improvement against budget of $135m. This was a result of actual revenue being higher $323m, 8.3%, while expenses exceeded original budget by $251m, 5.8%.

Material variances included:

- higher total Grants revenue, $351m, due to the receipt from the Australian Government of higher than anticipated Goods and Services Tax of $112m, increased National Partnership payments, $126m, primarily for the Economic Stimulus Plan- Building the Education Revolution, $72m, increased Grants to the State for Local Government, $17m, and increased Specific Purpose Payments of $17m mainly for Grants to the State for Non-Government Schools. The increase also reflected the reclassification by the DHHS of $55m in Mersey Community Hospital Australian Government revenue from Sales of goods and services to Grants
- higher Taxation revenue, $62m, due to higher than anticipated receipts including increased Payroll tax collections, $14m, increased Duties, $29m, due to additional conveyance duty resulting from several large transactions and improving property values, and increased Motor Vehicle taxes and Fees, $8m,

- lower Sale of goods and services, $86m, due to reclassification of revenue that was included in Sales of goods and services in the original Budget estimate. The DHHS reclassified $55m of Mersey Community Hospital Australian Government revenue to Grants. Department of Treasury and Finance reclassified $10m to Fines and regulatory fees and Justice reclassified $9m to Fines and regulatory fees

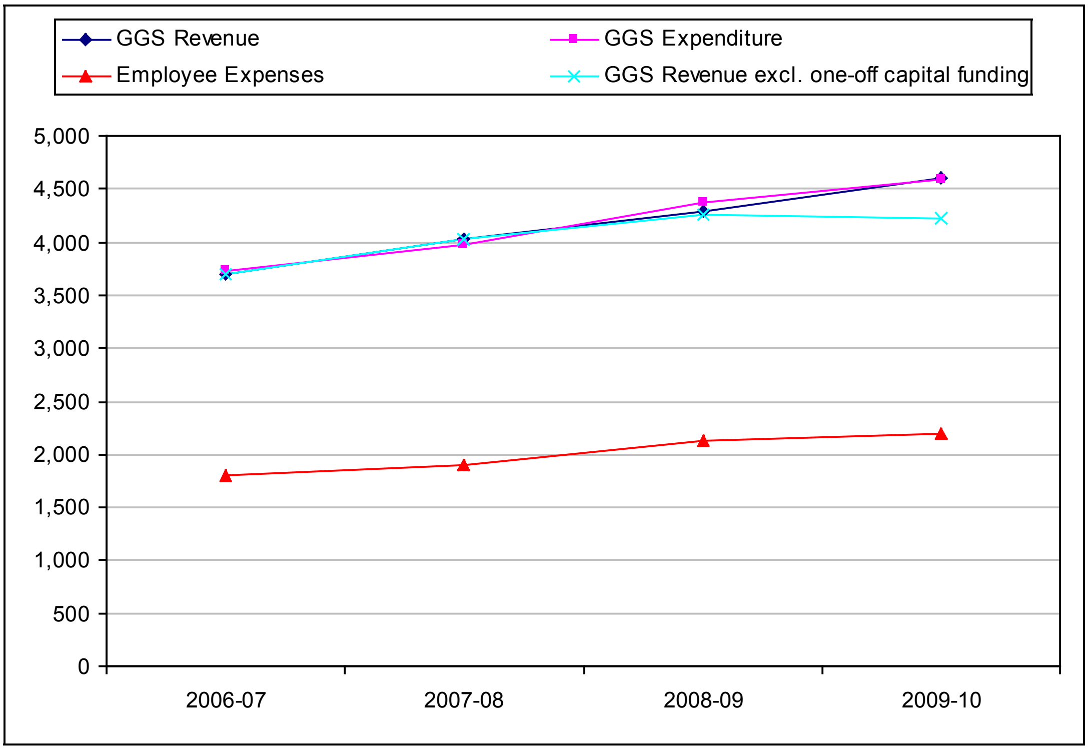
- lower income from Dividend, tax and rate equivalent revenue, down $21m, due lower income tax equivalent income, $28m, partially offset by additional dividend income, $8m

- higher Grant expenses, $121m, primarily due to additional grants received mentioned previously

- higher Employee expense, $82m, primarily reflecting increases in the DHHS, $30m, Justice, $8m, and the Post Year 10 Statutory Authorities, $14m.

Figure 1 presents, at the Net Operating Balance level, revenue, expenditure and employee cost trends for the GGS over the past four years. An additional revenue line excluding one-off capital funding has been included

Figure 1: GGS Revenue and expenditure



Note: Employee expenses in 2007-08 were adjusted to include the secondment of 382 employees from the Mersey Community Hospital to the Australian Government. In 2008-09, 264 FTEs were returned back to the State. Revenue and expenditure for 2007-08 were also adjusted for the Mersey Community Hospital.

Figure 1 indicates that the rate of expenditure growth from 2006-07 to 2009-10 (annual average of 7.36%) exceeded the rate of revenue growth (annual average of 6.55%, but only 4.3% if one-off Australian Government Funding for specific major capital programs is excluded). In 2009-10 revenue growth from 2008-09 was 7.35% (2007-08, 6.56%) and expenditure growth was 5.02% (9.98%). However, revenue growth excluding one off Australian Government Funding for specific major capital programs was negative. On a before capital receipts basis, expenditure growth outstripped revenue growth in both 2008-09 and 2009-10.

Table 1 presents sources of State revenues, expressed as percentages, over the past four years. The table excludes Commonwealth revenues received for capital stimulus purposes.

Table 1: Revenues expressed as a percentage

	2009-10 %	2008-09 %	2007-08 %	2006-07 %
Australian Government - General purpose payments (GST)	42.8	39.1	41.8	42.4
Australian Government - Specific purpose payments	15.1	12.6	12.3	12.0
Australian Government - Capital grants	0.0	2.1	1.6	1.3
Total revenue from the Australian Government*	**57.9**	**53.8**	**55.6**	**55.7**
Other grants and subsidies	3.2	8.1	6.2	5.9
Payroll tax	7.1	6.2	6.3	5.9
Taxes on property	8.5	7.0	8.2	7.6
Gambling taxes	2.6	2.3	2.3	2.4
Motor vehicle fees and taxes	3.4	2.9	3.1	3.3
Taxes on insurance	1.2	1.0	1.0	1.0
Sales of goods and services	7.5	7.3	7.4	8.6
Dividends and income taxes	2.1	5.1	3.3	4.7
Interest income	1.2	1.6	1.9	1.2
Other revenue	5.4	4.7	4.8	3.7
Total	**100.0**	**100.0**	**100.0**	**100.0**

** Total revenue from Australian Government excludes National Partnership Payments, 2009 10, $769m and 2008-09, $130m.*

In percentage terms, Tasmania's share of the Goods and Services Tax (GST) pool represented 42.8% of the State's revenues with this revenue source slightly increasing in percentage terms. Figure 2 graphs revenues received from the Commonwealth over time with other grants including stimulus receipts in both 2008-09 and 2009-10.

Figure 2: Commonwealth revenues from transactions

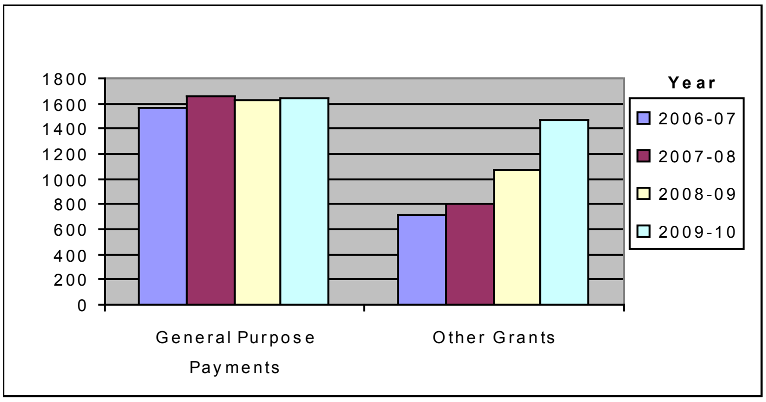


Figure 2 illustrates that General purpose revenue remained consistent. However, other Australian Government grants increased significantly, and included National Partnership Payments, $769m in 2009-10 (2008-09, $130m) and specific purpose payments, $580m (2008-09, $522m). The 2009-10 Net Operating Balance of $18m would have been significantly worse without the one-off Australian Government funding for specific major capital programs. One-off Australian Government funding for 2009-10 included Nation Building – Economic Stimulus Plan and additional funding for Nation Building formerly Aus-link and Water for the Future, and totalled $381m, meaning that excluding this revenue source, the Net Operating Balance would have been a deficit of $363m (2008-09, deficit $106m).

Table 2 summarises amounts received from State-owned Companies and Government Business Enterprises in the form of dividends, tax equivalent payments. Guarantee fees have not been included because a breakdown was not available at the time of this Report.

Table 2: Total return to the State, includes dividends and income tax equivalents

	2009-10	2008-09	2007-08	2006-07	Total
	$'000s	$'000s	$'000s	$'000s	$'000s
Motor Accidents Insurance Board	24 690	52 971	88 604	61 378	227 643
Transend Networks Pty Ltd	23 505	22 226	28 631	33 988	108 350
Hydro Tasmania	15 158	9 809	5 579	55 042	85 588
Aurora Energy Pty Ltd	10 677	22 286	23 622	28 617	85 202
Tasmanian Ports Corporation Pty Ltd	tba	6 154	8 031	21 056	35 241
Tasmanian Public Finance Corporation	8 866	5 386	3 500	3 500	21 252
Tasmanian Water and Sewerage Corporations	18 013	0	0	0	18 013
TOTE Tasmania Pty Ltd	10 017	1 194	572	146	11 929
Public Trustee	805	644	818	957	3 224
Forestry Tasmania	0	0	0	1 297	1 297
TOTAL	**111 731**	**120 670**	**159 357**	**205 981**	**597 739**

Note: The following GBEs and SOCs provided no returns for the 4 year period: Metro Tasmania, TT-Line Company, Rivers and Water Supply Commission, Port Arthur Historic Site Management Authority, Tasrail, Tasracing.

tba- Corporation had yet to announce its dividend at the time of this report

Table 2 indicates that returns to the State from State Owned Companies (SOCs) and Government Business Enterprises (GBEs) steadily declined over the four year period. Motor Accident Insurance Board (MAIB) and the three electricity businesses provided the highest returns.

Turning now to movements in expenditure. Employee expenses (including superannuation expenditure but not nominal superannuation expense) in 2009-10 represented 47.8% (2008 09, 48.6%) of total expenditure. Employee expenses increased by 3.3%, $70m, in 2009-10 to $2.190bn. The increase was mainly a result of the new Public Service Wage Agreement and higher staff numbers, primarily in DHHS.

The GGS is primarily comprised of Government Departments and their staffing levels are detailed in Table 3.

Table 3: Departmental FTEs

Government Departments	FTEs at 30 June 2010	FTEs at 30 June 2009	FTEs at 30 June 2008	FTEs at 30 June 2007
Economic Development, Tourism and the Arts★★★	479	400	404	240
Education★	7155	7 215	8 102	8 068
Environment, Parks, Heritage and Arts ★★★	0	714	613	757
Health and Human Services★★	9510	9 010	8 618	8 992
Infrastructure, Energy and Resources	503	558	537	503
Justice	957	961	999	972
Police and Emergency Management	1631	1 658	1 672	1 658
Premier and Cabinet	448	485	480	467
Primary Industries Parks Water and Environment★★★	1369	988	984	966
Treasury and Finance (excluding GPOC)	322	325	316	324
Sub total★★★★	**22 373**	**22 314**	**22 725**	**22 947**
TAFE Tasmania	★	★	1 077	1 061
Tasmanian Academy	191	149	★	★
Tasmanian Polytechnic	1070	1039	★	★
Tasmanian Skills Institute	356	358	★	★
Total	**23 990**	**23 860**	**23 802**	**24 008**

** Education and TAFE were restructured during 2008-09 under the Tasmania Tomorrow initiative.*

*** In November 2007, 382 FTEs from the Mersey Community Hospital were seconded to the Australian Government. In September 2008, 264 FTEs were returned back to DHHS.*

**** DEPHA responsibilities were transferred to DPIPWE and DEDTA on 1 July 2009.*

***** Also excludes Tasmanian Audit Office, State Fire Commission, Inland Fisheries, MAST and Executive Legislature Agencies.*

Table 3 shows that the number of Full Time Equivalents (FTEs) remained fairly consistent in comparison to prior year. DHHS FTE's increased 500 or 5.5% during 2009-10. At 30 June 2009 the Department of Environment, Parks, Heritage and the Arts closed. The operational Divisions of the Department were transferred to the Departments of Primary Industries, Parks, Water and Environment and Economic Development, Tourism and the Arts, effective 1 July 2009.

Table 4 summarises movements, expressed in millions of dollars and in percentages, in employee entitlements by department for the period 2007-08 to 2009-10.

Table 4: Departmental changes in employee entitlements

Department	Employee Entitlements ($m)	
Treasurey and Finance	3	14%
Police and Emergency Services	11	9%
Infrastructure, Energy and Resources	7	18%
Justice	8	10%
Economic Development, Tourism and the Arts	8	23%
Health and Human Services	157	19%
Education (Including Acadmey, Skills and Polytechnic	86	14%
Premier and Cabinet	3	13%
Primary, Industries, Parks, Water and Environment	3	3%

Table 4 illustrates that in percentage terms each department reported increases in employee entitlements. In dollar terms DHHS and DoE had the highest impact.

Operating Result

The Operating result showed a surplus in 2009-10 of $1.153bn (2008-09, $136m) and was arrived at after adjusting the Net Operating Balance for Other Economic Flows. Other Economic Flows are changes in the value of an asset or liability that does not result from a transaction. The increase of $1.017bn was mainly due to:

- increased Net Operating Balance, $96m, explained previously
- inclusion of water and sewerage corporations $1.749bn
- inclusion of Tasrail, $72m,
- increased Movements in superannuation liability, up $544m, as a result of revised actuarial projections. In general terms the increase was caused by a lower discount rate, $468m, lower assumed pensioner mortality rates, $22m, higher than anticipated salary increases, $139m, higher than projected scheme asset balance, $46m, and other miscellaneous experience adjustments, $81m,
- decreased Other gains/losses, $13m, primarily due to TT Line prior year tax loss, $36m, a write down of road replacements, $14m, demolition of partially destroyed rental properties, $8m, net increase in the Tasmanian Risk Management Fund Liability, $5m, and impairment loss, $5m, in the Department of Economic Development, Tourism and the Arts' equity investment in Screen Tasmania
- Loss on sale of Non-financial assets, $28m, which included assets written off by DPIPWE, $28m.

Comprehensive Result

The Comprehensive result reports a surplus in 2009-10 of $1.527bn (2008-09, $391m) and was arrived at after adjusting the Operating Result for Other Economic Flows – Other movements in equity. The major item in this category of economic flows was Revaluations of non-financial assets, $387m.

Key Fiscal Aggregates - disclosure of the State's fiscal balance

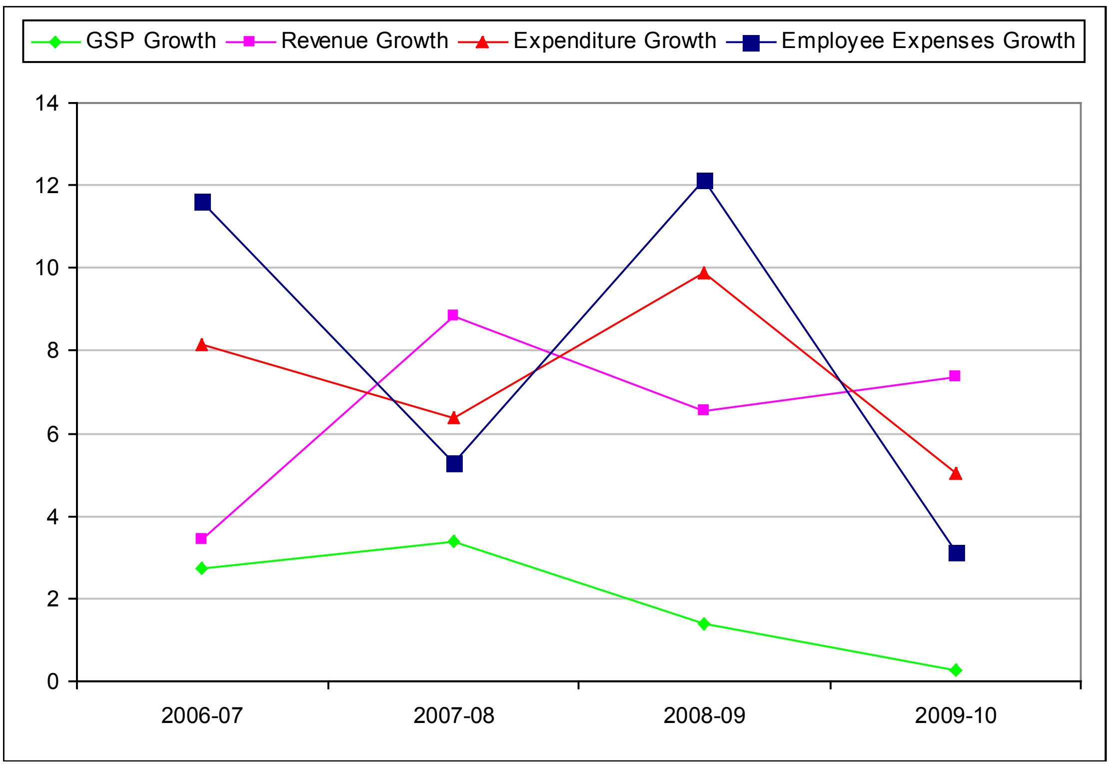
AASB 1049 does not require disclosure of this information on the face of the Statement of Comprehensive Income. However, this was the practice under GFS and we support its inclusion. Essentially this information shows the impact on the Net Operating Balance of net expenditure on non-financial assets rather than the depreciation charge.

In the 2009-10 financial year, gross investment on non-financial assets was $321m higher than the previous year. Expenditure on non-financial assets is commented on in the Statement of Financial Performance section of this Chapter.

Comparison of operating revenues and expenditures with Gross State Product

Figure 3 compares the growth in revenues, expenditures and employee expenses with the growth in the State economy as measured by Gross State Product (GSP) over the past four years. While there was a change to accounting under AASB 1049 in 2007 08, because the changes between AASB 1049 and GFS were not material at the Net Operating Balance level, this comparison is made over the period 2006-07 to 2009-10.

Figure 3: GGS Revenue and Expenditure growth compared to GSP growth (%)



Note: Growth figures for 2007-08 were adjusted to include revenue and expenditure for the Mersey Community Hospital The rate of growth in employee expenses in 2007-08 was adjusted to include the secondment of 382 employees from the Mersey Community Hospital to the Australian Government. In 2008-09, 264 of these employees returned to the State.

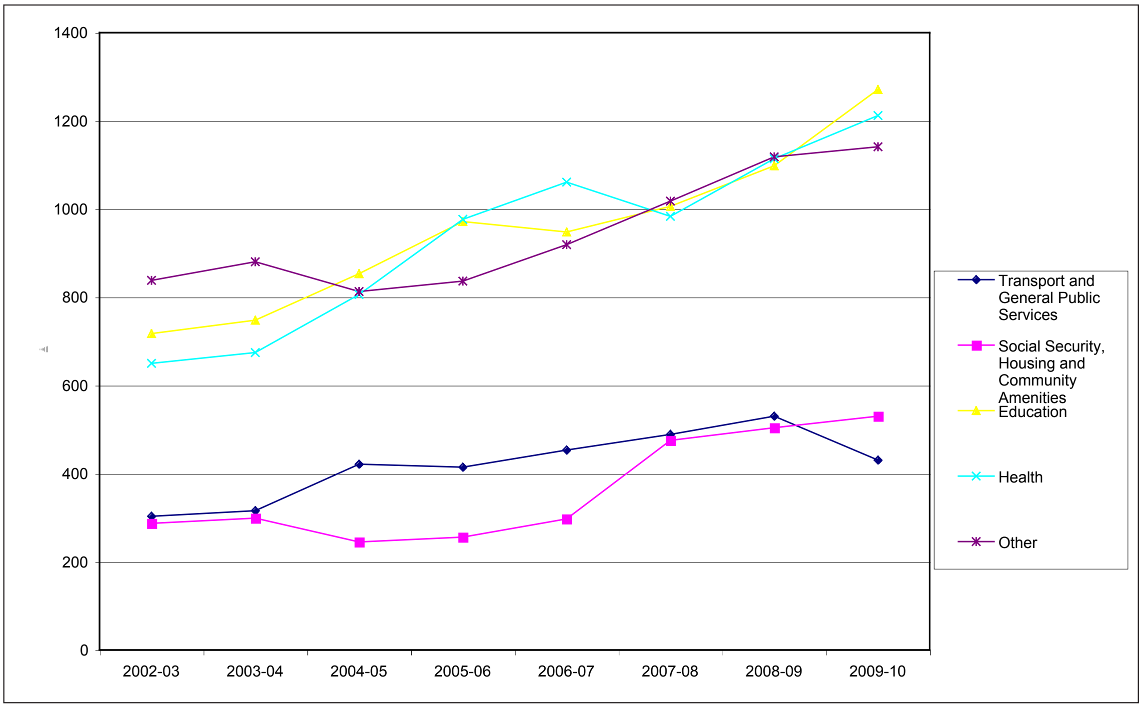
GSP data for financial years up to 2008-09 is sourced from the ABS, while the estimated GSP for 2009-10 is sourced from the Department of Treasury and Finance. GSP is defined similarly to Gross Domestic Product (GDP) but refers to production at a State level. Therefore, GSP is the total market value of goods and services produced in Tasmania within a given period, after deducting the cost of goods and services used up in the process of production, but before deducting allowances for the consumption of fixed capital.

Figure 3 shows that both GGS revenue and GGS expenditure grew at a faster rate than the Tasmanian economy in each of the years under review (2009-10: revenue, 7.35%; expenditure, 5.02%; GSP, 0.25%). However, the State cannot sustain expenditure increases at this level.

General Government Expenses by Purpose

The TAFR includes details of general government recurrent expenses by purpose rather than by function. Figure 4 depicts graphically recurrent expenditure incurred over the past seven years by purpose.

Figure 4: Government expenses by purpose



Note: Other includes Economic affairs, recreation, culture, fuel, energy, agricultural, forestry, fish, hunting, mining, mineral resources, manufacturing, construction and Nominal Interest on unfunded superannuation

Figure 4 highlights the continued investment in health and education and, to a lesser extent, in social security, housing and community services with transport and general public services declining in relative terms.

STATEMENT OF FINANCIAL POSITION

	30 June 2010 Original Budget	30 June 2010 Actual	30 June 2009 Actual	30 June 2008 Actual
	$m	$m	$m	$m
Assets				
Financial assets				
Cash and deposits	728	966	1 227	1 306
Investments	70	56	48	39
Equity in GBEs and SOCs	3 966	5 950	4 105	3 717
Other equity investments	3	3	6	6
Receivables	154	185	183	145
Other financial assets	922	942	1 009	996
	5 843	**8 102**	**6 578**	**6 209**
Non-financial Assets				
Land and buildings	5 235	5 219	4 807	4 636
Infrastructure	4 906	4 837	4 641	4 538
Plant and equipment	157	216	213	241
Heritage and cultural assets	454	553	447	417
Investment proprty	11	13	13	11
Intangible Assets	24	34	29	25
Assets held for sale	7	21	15	5
Other non-financial assets	27	37	38	32
	10 821	**10 930**	**10 203**	**9 905**
Total assets	**16 664**	**19 032**	**16 781**	**16 114**
Liabilities				
Borrowings	312	274	293	315
Superannuation	4 494	4 860	4 034	3 710
Employee entitlements	416	461	459	389
Payables	76	104	91	83
Other liabilities	254	267	254	236
Total liabilities	**5 552**	**5 966**	**5 131**	**4 733**
Net Assets	**11 112**	**13 066**	**11 650**	**11 381**
Equity				
Accumulated surplus	6 280	7 627	6 921	6 953
Asset revaluation reserve	4 701	4 508	4 448	4 272
Other reserves	131	930	281	156
Net Worth	**11 112**	**13 065**	**11 650**	**11 381**
Net Worth	**11 112**	**13 065**	**11 650**	**11 381**
Net Financial Worth	**262**	**2 135**	**1 447**	**1 476**
Net Financial Liabilities	**3 674**	**3 814**	**2 658**	**2 241**
Net Debt	**(487)**	**(748)**	**(982)**	**(1 031)**

COMMENT

The GGS showed a negative Net Debt position in recent years because debt-related financial assets exceeded gross debt liabilities, by $748m as at 30 June 2010. However, the level of Net debt declined in 2009-10 due to the lower Cash and deposits, $261m, which exceeded the decrease in Borrowings, $19m.

Net Worth grew by $1.415bn in 2009-10 to $13.065bn in line with the Comprehensive result, $1.527bn, offset by equity injections, $111m. The increase was attributed to:

- higher Equity investments, $1.845bn. Equity investments vary each year depending on the net assets of GBEs and SOCs. As mentioned previously, the majority of the increase reflected the newly created local government water and sewerage corporations, $1.749bn, and Net assets of Tasrail, $72m.
- higher Non-financial Assets, up $727m, which was a combination of additions, $701m, and revaluation increments, $370m, partly offset by depreciation, $225m, and other movements. Land and Buildings increased by $412m due to capital expenditure by the DoE, $191m, revaluation of land and buildings also by the DoE, $72m, and the recognition of rail corridor land by the Department of Infrastructure, Energy and Resources (DIER), $51m. Infrastructure assets increased by $196m, due to the revaluation of roads and bridges by the DIER and additional capital expenditure on road infrastructure projects, including the Brighton Bypass and the Brighton Transport Hub.

These were offset partly by:

- lower Cash and deposits, down $261m, explained in the Statement of Cash Flows section of this Chapter
- increased Superannuation liability, up $826m, explained earlier.

The Superannuation liability is calculated by subtracting the balance of plan assets from the gross Superannuation liability. For the General Government Sector, Superannuation liability increased by $826m, or 20%, to $4.860bn from 30 June 2009 to 30 June 2010. This movement comprised:

- a $904m, or 17%, increase in the present value of the superannuation liability to $6.231bn, partly offset by
- an increase of $82m, or 6%, in the fair value of plan assets to $1.371bn.

It is expected the Superannuation liability will continue to increase in the medium term.

Figure 5 shows the growth in the Superannuation Liability, broken down into the present value of the liability and fair value of plan assets, by dollars and percentage.

Figure 5: Superannuation Liability and Plan Assets and Fluctuations

The graphs illustrate the significant movement in 2009-10 and the general upwards trend in the net present value of the liability and fluctuations, in the liability and in plan assests caused by the global financial crisis.

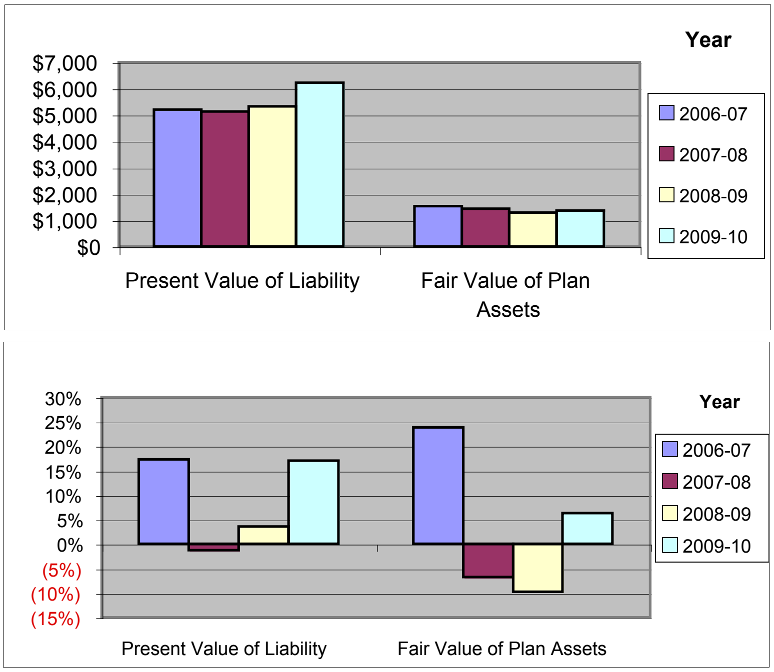
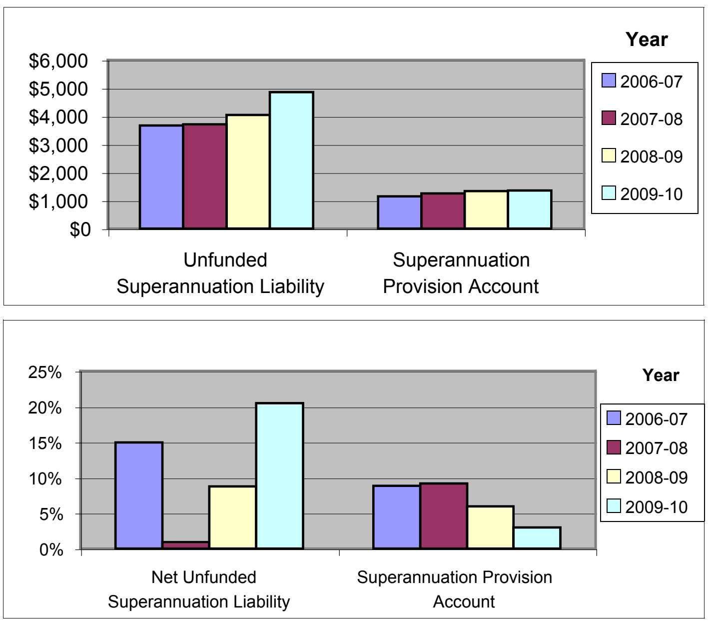


Figure 6 shows the growth in the Superannuation Liability compared to the growth in the Superannuation Provision Account, by dollars and percentage.

Figure 6: Growth in Net Unfunded Superannuation Liability & Superannuation Provision Account



The graphs illustrate that in 2006-07, 2008-09 and 2009-10 the net unfunded Superannuation liability increased at a higher rate than the growth in the Superannuation Provision Account.

The overall outcome over the four year period is therefore a much larger difference between the Superannuation liability and the Superannuation Provision Account.

As mentioned earlier, the State's investments in GBEs and SOCs increased by $1.845bn to $5.950bn.

Table 5 details the Net Assets of these entities 30 June 2010.

Table 5: Net assets of GBEs and SOCs at 30 June 2010

GBE/SOC	2009-10	2008-09	2007-08	2006-07
	$m	$m	$m	$m
Aurora Energy Pty Ltd	496	518	410	403
Forestry Tasmania	327	629	548	597
Hydro Tasmania	1882	1665	1397	959
Metro Tasmania Pty Ltd	33	32	30	30
Motor Accidents Insurance Board	271	220	274	339
Port Arthur Historic Site Managment Authority	14	15	13	11
Printing Authority**	-	-	-	3
Rivers and Waters Supply Commission	63	42	-	10
Southern Regional Cemetery Trust**	-	-	-	7
Tasmanian Ports Corporation Pty Ltd***	123	126	125	157
Tasmanian Public Finance Corporation	38	31	17	22
Tasracing Pty Ltd*	53	-	-	-
Public Trustee	4	5	5	4
TOTE Tasmania Pty Ltd	9	5	46	42
Transend Networks Pty Ltd	564	525	591	757
TT-Line Company Pty Ltd	249	237	259	235
Tasmanian Railway Pty Ltd****	72	-	-	-
Water and Sewerage Corporation (Northern-Region) Pty Ltd****	489	-	-	-
Water and Sewerage Corporation (North-Western-Region) Pty Ltd****	327	-	-	-
Tasmanian Water and Sewerage Corporation (Southern-Region) Pty Ltd****	935	-	-	-
Total Net Assets	**5 949**	**4 050**	**3 715**	**3 576**
Amount recorded as equity	**5 950**	**4 105**	**3 717**	**3 577**

** Commenced operations during 2008-09*
*** Sold during 2007-08*
**** Hobart International Airport Pty Ltd sold in 2007-08*
***** Commenced operations during 2009-10*

Table 5 confirms that a significant reason for the higher Equity investment in these entities was inclusion for the first time of the water and sewerage corporations and Tasrail.

The GGS' infrastructure assets are primarily roads, bridges and rail assets. In 2009-10, the value of these assets increased by $196m, 4%, from $4.641bn as at 30 June 2009 to $4.837bn as at 30 June 2010.

General Government Assets by purposes

The TAFR includes details of general government assets purpose rather than by function.

Figure 7 depicts assets by function for 30 June 2010, excluding the equity investment in PNFC and PFC sectors.

Figure 7: GGS Assets by Function (Excluding Equity Investments in PNFC and PFC)

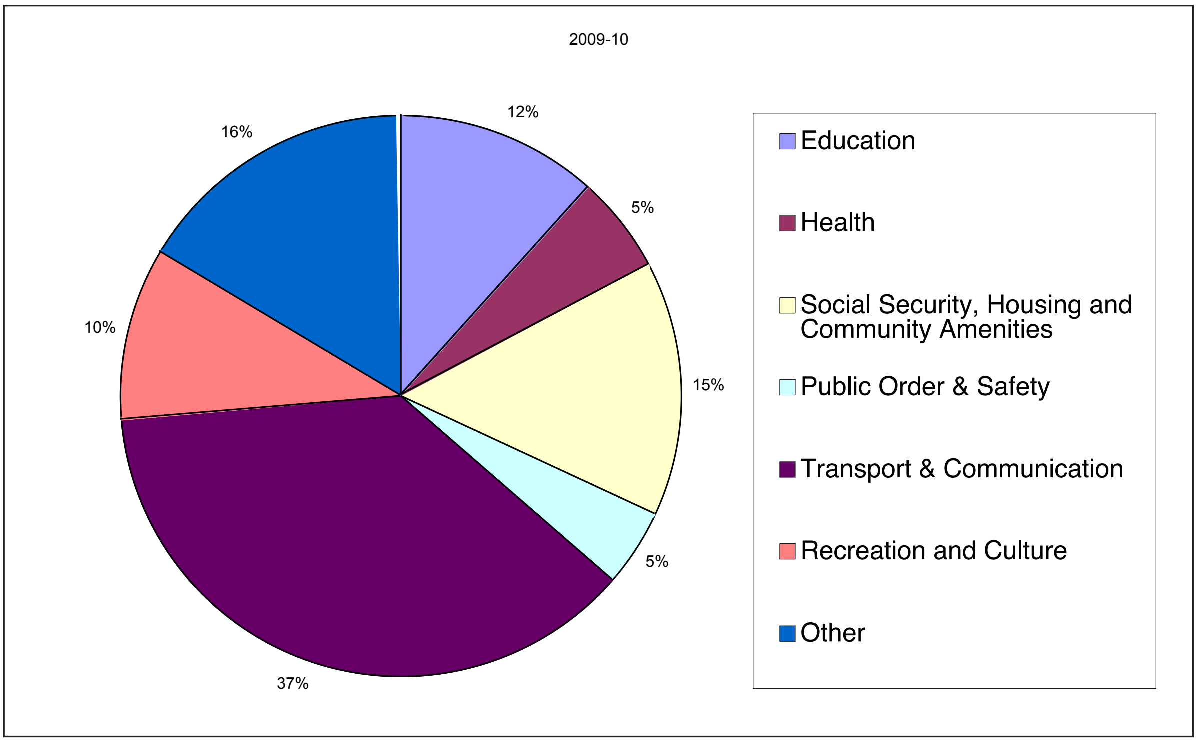
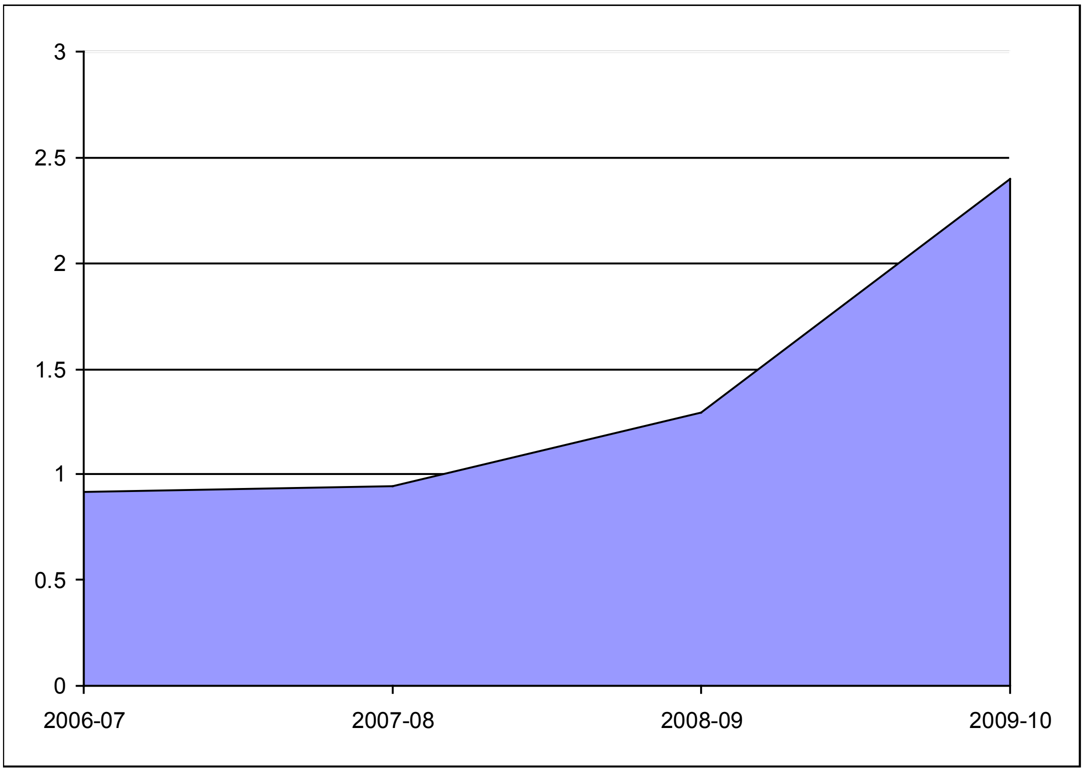


Figure 7 highlights that the majority of the State's assets are in transport and communications

One indicator of the State's financial position in relation to maintaining its infrastructure assets is the difference between the rate at which existing infrastructure was being used up and the rate it was being replaced. This can be measured by comparing the amount spent investing in these assets with the annual depreciation charge on these assets. This is also referred to as the renewal ratio with a target of not less than 1:1, or 100%, indicating expenditure on infrastructure is sufficient to maintain the asset base.

Figure 8 shows the results calculated for infrastructure replacement for the financial years 2006-07 to 2009-10.

Figure 8: GGS Investment Ratio



Based on reported amounts, the investment ratio for the State increased from 0.92 in 2006-07 to 2.40 in 2009-10 indicating spending on infrastructure increased over the period to the point that by 30 June 2010 it exceeded depreciation by 2.4 times suggesting investment in infrastructure is strong. The increases in 2008-09 and 2009 10 reflected the one-off Commonwealth capital funding under the economic stimulus plan.

Caution is required when interpreting these results as annual expenditure on infrastructure includes both renewal of existing assets and acquisition of new assets. At this point it is not possible to conclude to what extent asset renewals alone are keeping in pace with consumption (depreciation expense) of those assets.

STATEMENT OF CASH FLOWS

	2009-10 Budget $m	2009-10 Actual $m	2008-09 Actual $m	2007-08 Actual $m
Cash flows from operating activities				
Cash inflows				
Taxation	810	867	792	851
Sales of goods and services	370	291	307	286
Grants received	2 441	2 749	2 653	2 466
Dividend, tax and rate equivalents	100	106	152	166
Fines and regulatory fees	58	86	63	61
Interest received	33	44	71	72
Other receipts	207	293	279	263
	4 019	**4 436**	**4 317**	**4 165**
Cash outflows				
Employee entitlements	(1 874)	(1 958)	(1 805)	(1 643)
Superannuation	(268)	(304)	(269)	(222)
Supplies and consumables	(937)	(933)	(951)	(886)
Grants and subsidies paid	(814)	(929)	(797)	(681)
Borrowing costs	(17)	(17)	(16)	(19)
Other payments	(172)	(256)	(207)	(206)
	(4 082)	**(4 397)**	**(4 045)**	**(3 657)**
Net cash flows from (used in) operating activities	**(63)**	**39**	**272**	**508**
Cash flows from investing activities				
Net cash flows used in investment in non-financial assets				
Commonwealth Nation Building Revenue	318	381	28	0
Purchases of non-financial assets	(758)	(606)	(286)	(252)
Sales of non-financial assets	73	69	41	68
	(367)	**(156)**	**(217)**	**(184)**
Net cash flows used in investment in financial assets for policy purposes				
Equity injections	(31)	(111)	(117)	303
Net advances paid	(25)	(11)	(12)	6
	(56)	**(122)**	**(129)**	**309**
Net cash flows from investment in financial assets for liquidity purposes				
Net purchase of investments	….	1	5	1
	….	**1**	**5**	**1**
Net Cash flows (used in) investing activities	**(423)**	**(278)**	**(341)**	**125**
Cash flows from (used in) financing activities				
Net borrowing	13	(22)	(22)	(60)
Other financing	….	….	12	(7)
Net Cash flows (used in) financing activities	**13**	**(22)**	**(10)**	**(67)**
Net increase (decrease) in cash held	**(473)**	**(261)**	**(79)**	**566**
Cash at the beginning of the year	**1 201**	**1 227**	**1 306**	**740**
Cash at the end of the year	**728**	**966**	**1 227**	**1 306**
KEY FISCAL AGGREGRATES				
Net cash from operating activities	(63)	39	272	508
***plus* Net cash from investments in non-financial assets**	(367)	(156)	(217)	(184)
EQUALS CASH SURPLUS (DEFICIT)	**(430)**	**(117)**	**55**	**324**

COMMENT

In total, GGS Cash decreased by $261m to $966m at 30 June 2010. The decrease arose primarily due to:

- equity injections, $111m, including $82m contributed to Tasrail for the purchase of the operating rail network and $21m to Rivers and Water Supply Commission
- purchases of non-financial assets, $607m, mainly related to increased capital investment by the DoE, $216m, DHHS, $111m, and DIER, $202m. This was in part funded by $381m capital receipts from the Australian Government for specific major capital programs
- Repayment of a Capital Index bond on 30 June 2010, $30m, included in net borrowings of $22m in the Statement of Cash Flows.

The decreased cash resulted in GGS Net debt deteriorating $234m to be negative $748m.

Reasons for movements in the State's cash flows are consistent with the commentary previously provided in the Statement of Comprehensive Income Statement and Statement of Financial Position sections of this Chapter.

The Net Operating Balance, $18m, excluding Depreciation, $229m, and Nominal superannuation interest expense, $208m, and the favourable movement in the superannuation current service cost, $32m, came to $423m, which is close to the Net cash from operating activities, $420m. Grants received under cash operating activities include Capital funding which is subsequently recorded under investing activities when expended.

PUBLIC ACCOUNT STATEMENTS

When reviewing the commentary below it needs to be borne in mind that the PA Statements are reported on a cash basis meaning that there is no distinction between receipts or payments of a capital or operating nature and borrowings received or paid.

PUBLIC ACCOUNT BALANCE

	2009-10 Actual $m	2008-09 Actual $m	2007-08 Actual $m	2006-07 Actual $m
Special deposits and trust fund balance 30 June (before Temporary debt repayments)	**2 376**	**2 346**	**2 393**	**1 889**
Less Temporary debt repayments	(1 438)	(1 156)	(1 129)	(1 170)
Balance 30 June (after Temporary debt repayments)	**938**	**1 189**	**1 264**	**719**
Represented by:				
Westpac Banking Corporation	(22)	(19)	14	(45)
Treasurer's account fixed deposits	0	0	1 165	710
Specific trust account fixed deposits	0	0	85	54
Tascorp Investments	960	1 209	0	0
Balance 30 June	**938**	**1 189**	**1 264**	**719**

COMMENT

The Special Deposits and Trust Fund (SDTF) consisted of various accounts established by the Treasurer. The majority of these funds represented departmental operating accounts, where funds appropriated from the Consolidated Fund by the annual Appropriation Act are deposited. In addition, operating accounts can retain funds that are approved by the Treasurer as retained revenue.

Other accounts in the SDTF include trust funds, approved overdraft, whole-of-government, business unit accounts and accounts established under legislation, as detailed in the Table 6.

Surplus cash is used to repay debt maturing within a financial year, thus delaying any refinancing until the latest possible time and to minimise borrowing costs. This is shown above as Temporary debt repayments.

Table 6 below details the main balances making up the $2.376bn SDTF balance at 30 June 2010.

Table 6: Composition of SDTF

	2009-10 $m	2008-09 $m
Superannuation Provision Account	1 364	1 324
Infrastructure Tasmania Fund	85	95
Risk Management Account	169	163
Housing Fund	47	56
DHHS	85	58
DIER*	40	50
DPIPWE**	124	145
Australian Government Funding Management Account	172	113

**Includes: Mines Deposit Account, $8m (2008-09, $5m), East Tamar Highway Redevelopment Account, $30m ($46m), Abt Railway Account, $1m*
***Includes: Crown Lands Administration Fund, $11m, ($39m), Water Infrastructure Fund, $48m ($62m)*

CONSOLIDATED FUND OUTCOME

	2009-10 Original Budget	2009-10 Actual	2008-09 Actual	2007-08 Actual
	$m	$m	$m	$m
Receipts				
Recurrent receipts	3 945	4 329	3 631	3 466
Capital receipts	1	0	89	418
Total	**3 946**	**4 329**	**3 720**	**3 884**
Expenditure				
Recurrent services	3 675	4 004	3 475	3 209
Works and services	621	591	256	674
Total	**4 296**	**4 595**	**3 731**	**3 883**
Consolidated Fund Outcome	**(350)**	**(266)**	**(11)**	**1**

COMMENT

Consolidated Fund Outcome was a deficit of $266m in 2009-10, compared to a deficit of $11m in 2008-09. The increased deficit was a result of:

- lower Capital receipts, down $89m. Capital receipts included National Highway System, $42m, and Rail, $31m, in 2008-09
- higher Recurrent services expenditure, $529m, due to increased funding across the GGS, mainly DIER, $113m, DHHS, $203m and DoE,$305m.
- higher Work and services, $335m, due to increased funding, mainly DIER, $104m, and DoE, $194m.

These were partly offset by:

- higher Recurrent receipts, up $698m, due to additional funding from the Australian Government.

The Consolidated Fund deficit was $84m better than budget mainly because of increased Recurrent services receipts of $384m, 9.7%. GST revenue, $112m, and Specific purpose payments for schools, $17m. Also, Works and services expenditure was $30m under budget caused by savings for DHHS, $67m, which was offset by DIER over spending, $24m.

This was partly offset by higher Recurrent expenditure, $330m, due to increased expenditure in the following areas, DoE, $82m, DIER, $93m and DHHS, $68m.

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TOTAL STATE SECTOR FINANCIAL STATEMENTS

OVERVIEW

Total State Net Operating Balance for 2009-10 was a surplus of $192m compared with $20m in 2008-09. The 2009-10 Net Operating Balance of $192m would have been significantly worse without the one-off Australian Government funding for specific major capital programs. One-off Australian Government funding for 2009-10 included Nation Building – Economic Stimulus Plan and additional funding for Nation Building formerly Aus-link and Water for the Future, and totalled $381m. This large contribution is of a short-term nature and was in response to the global economic downturn. From 2011-12, nearly all the Commonwealth-State Financial Arrangements funding under the Plan will have ceased. Excluding this revenue source, the Net Operating Balance would have been a deficit of $189m. Similarly, in 2008-09 the result would have been a Net Operating Balance deficit of $8m.

At a gross level, the $172m improvement primarily resulted from:

- increased Grants revenue, $425m or 16%. The increased Grants related to the General Government Sector (GGS) and included additional Australian Government funding referred to above
- higher Sales of goods and services, $476m or 19%. This was primarily due to revenue from the new local government water and sewerage corporations brought to account for the first time, $190m, and additional revenue generated by Aurora Energy, $193m, and Hydro Tasmania, $105m.

The increased revenue was offset by:

- higher Supplies and consumables, $384m or 16%, which was due to costs incurred by the local government water and sewerage corporations, $96m, and by Aurora Energy, $170m, and Hydro Tasmania, $82m,
- growth in Employee expenses, $186m or 9%. Approximately half, $94m, of the higher employee expenses related to GGS entities
- higher depreciation, $70m or 15%, again due to the water and sewerage corporations, $51m, and Aurora, $13m.

The Total State **Operating result** for 2009-10 was a deficit of $697m, compared to a surplus of $73m in 2008-09. The $770m decrease primarily related to:

- A decline of $168m in the State's unfunded superannuation liability in 2008-09 compared to a decline of $755m in 2009-10. The higher liability in 2009-10 was caused by a combination of:
  - lower discount rate, from 6% to 5.35%
  - higher than anticipated salary increases
  - lower assumed pensioner mortality rates.
- Other losses of $107m (2008-09 Other gain, $217m) which in the main comprised:
  - Forestry Tasmanian's loss, $359m, being the combined impact of the revised valuation approach and application of normal valuation techniques on the carrying amount of Forestry's net biological and forest estate assets compared to 30 June 2009

- Tascorp loss, $29m, arising from fair value movements in its financial instruments
- TT-Line ship valuation downward adjustment, $25m,
- DIER loss, $15m, related to write down of assets.

Offset partly by:

- Hydro gain, $257m, on electricity derivatives, treasury derivatives and Basslink financial asset and liabilities related to energy market prices and interest rates changes
- Department of Education (DoE) gain on insurance recovery, $8m, and assets brought to account for the first time, $13m,
- Department of Justice (Justice) impairment gain on accounts receivable, $8m,
- Motor Accident Insurance Board (MAIB) gain, $55m, which represented gains on the investment portfolio, including realised gains, $17m, and unrealised gains $38m.

The **Comprehensive result** for 2009-10 was a surplus of $1.416bn, compared to a surplus of $268m in 2008-09. The 2009-10 Comprehensive result included Revaluation (gains) on non-financial assets of $116m, compared to $235m in 2008-09 and Other non-owner movements in equity of $1.997bn compared to a loss of $40m in 2008-09. Other non-owner movements in equity included the water and sewerage corporations, $1.749bn brought to account for the first time.

Gross acquisition of non-financial assets for 2009-10 was $1.324bn, an increase of $308m on 2008-09. This was primarily due to asset investments at the GGS level with capital expenditure of $308m related to the National Building – Economic Stimulus Plan and to infrastructure and other investments at the GGS and PNFC levels. The main departments included Department of Health and Human Services (DHHS), $111m, DoE, $216m and Department of Infrastructure, Energy and Resources (DIER), $202m. Other investments included:

- Aurora, $234m,
- Transend, $148m,
- Hydro, $134m,
- Water and sewerage corporations, $72m,
- Tasrail, $45m.

The State's **Net assets** and **Equity** (also referred to as the State's **Net worth**) increased by $1.415bn, 12.15%, primarily due to the first time recognition of water and sewerage corporations, $1.917bn, and net Non-current assets additions, $1.474bn. These were offset by unfavourable movements in the State's Superannuation liability, $912m or 20%. The net unfunded Superannuation liability is calculated by subtracting the balance of plan assets from the gross Superannuation liability. The increase in the Superannuation liability of $912m comprised:

- a $1.008bn, or 17%, increase in the present value of the gross Superannuation liability to $7.036bn, partly offset by
- an increase of $97m, or 7%, in the fair value of plan assets to $1.539bn.

It is expected the Superannuation liability will continue to increase in the medium term.

Net financial worth (also referred to as **Net financial liabilities**) increased by $1.239bn to negative $8.276bn. This item represents the difference between the State's total financial assets less its total liabilities and is mainly represented by the State's unfunded Superannuation liability and the extent to which financial liabilities such as borrowings and other financial liabilities were used to fund infrastructure assets.

Net Debt was negative $748m at 30 June 2010, while Total State positive $962m. This is due to the PNFC's holding higher borrowings.

Total State's Net Debt represents the difference between the state's cash, deposits and investment assets, $3.450bn, and Borrowings, $4.411bn. Net Debt improved $20m compared to 2008-09, primarily due to the decrease in Cash and Investments, $895m, being lower than the net decrease in Borrowings of $916bn.

Consistent with the lower Net Operating Balance (before accounting for capital receipts), the Total State **Net cash inflows** generated from operating activities decreased from $583m in 2008-09 to $397m in 2009-10. During 2009-10 there was net $695m cash outflow on investing activities and net $817m outflow on financing activities. These represented strong investments in infrastructure and repayments of borrowings. Cash at the end of the year was $1.574bn which was $1.115bn lower than prior year.

INTRODUCTION

The Total State Sector Financial Statements (the Statements) consolidate all entities controlled by the State of Tasmania with segmented financial information provided for the General Government Sector (GGS), Public Non-Financial Corporation (PNFC), Public Financial Corporation (PFC) and Total State levels. The consolidated level is after eliminating inter-sector transactions.

The Statements provide information about the financial performance, financial position and cash flows of the State of Tasmania with the principal objective of providing to the Parliament informative, comprehensive and clear information on the State's overall financial position.

Comments in this Chapter should be read alongside the Treasurer's Annual Financial Report (TAFR), which includes the General Government Sector Financial Statements, Public Account Statements and Total State Sector Financial Statements. These reports include audited and un-audited commentary explaining the 2009-10 financial results against budget and prior years. In preparing the analysis in this Chapter, some material does not appear in the Statements and has been extracted from other Chapters in this Volume and in Volume 2 Executive and Legislature, Government Departments and other General Government Sector State entities 2009 10 and Volume 3 Government Business Enterprises, State Owned Companies and Superannuation Funds 2009-10.

AUDIT OF THE 2009-10 TOTAL STATE FINANCIAL STATEMENTS

Total State Sector Financial Statements were signed and received on the 12 October 2010. An unqualified audit report was issued on 20 October 2010. The audit was completed satisfactorily with no major items outstanding.

STATEMENT OF COMPREHENSIVE INCOME

	2009-10	2008-09	2007-08	2006-07
Revenue	**$m**	**$m**	**$m**	**$m**
Grants	2 748	2 676	2 472	2 275
Taxation	829	775	803	721
Sales of goods and services	3 021	2 545	2 281	2 197
Fines and regulatory fees	97	92	83	70
Interest income	147	245	319	272
Dividend income	31	62	101	34
Other revenue	153	168	146	128
Total Revenue	**7 026**	**6 563**	**6 205**	**5 697**
Expenditure				
Depreciation	540	470	453	415
Employee expenses	2 358	2 172	1 953	1 880
Superannuation	269	291	244	236
Supplies, consumables and Other operating expenses	2 731	2 347	2 124	1 926
Nominal superannuation expense	233	225	185	168
Borrowing costs	212	310	351	364
Grant expenses	826	713	621	557
Other expenses	47	43	57	165
Total Expenditure	**7 216**	**6 571**	**5 988**	**5 711**
NET OPERATING BALANCE BEFORE:	**(190)**	**(8)**	**217**	**(14)**
Commonwealth Nation Building Revenue	381	28	0	0
NET OPERATING BALANCE	**192**	**20**	**217**	**(14)**
***Plus* Other economic flows - Included in Operating Result**				
Gain (loss) on sale of non-financial assets	(27)	3	(20)	27
Gain on sale of HIAPL	0	0	278	0
Movements in Superannuation liability	(755)	(168)	125	(367)
Other gains (losses)	(107)	218	(60)	209
Other economic flows - net	**(889)**	**53**	**323**	**(131)**
OPERATING RESULT	**(697)**	**73**	**540**	**(145)**
***Plus* Other economic flows - other movements in equity**				
Revaluations of non-financial assets	116	235	1 133	513
Other non-owner movements in equity	1 997	(40)	(18)	174
Total Other equity movements	**2 113**	**195**	**1 115**	**687**
COMPREHENSIVE RESULT	**1 416**	**268**	**1 655**	**542**
KEY FISCAL AGGREGATES				
Net Operating Balance	**192**	**20**	**217**	**(14)**
less Net acquisition of non-financial assets				
Purchase of non financial assets	1 324	1 016	592	585
Less Sale of non financial assets	109	76	124	181
Less Depreciation	540	470	453	415
Net acquisition of non-financial assets	**675**	**470**	**15**	**(11)**
FISCAL BALANCE	**(483)**	**(450)**	**202**	**(3)**

COMMENT

The Net Operating Balance, Operating result and Comprehensive result was commented on within the "Overview" section at the start of this Chapter.

Key Fiscal Aggregates - Disclosure of the State's Fiscal Balance

AASB 1049 requires disclosure of key fiscal aggregates on the face of the Statement of Comprehensive Income. Tasmania presented the key fiscal aggregates in a style that is consistent with the practice under General Finance Statistics (GFS) and we support its inclusion on this basis. Essentially this information shows the impact on the Net Operating Balance of net expenditure on non-financial assets rather than the depreciation charge.

In 2009-10, the gross investment on non-financial assets was $1.324bn, being $308m higher than the previous year. Expenditure on non-financial assets is commented on further, later in this Chapter.

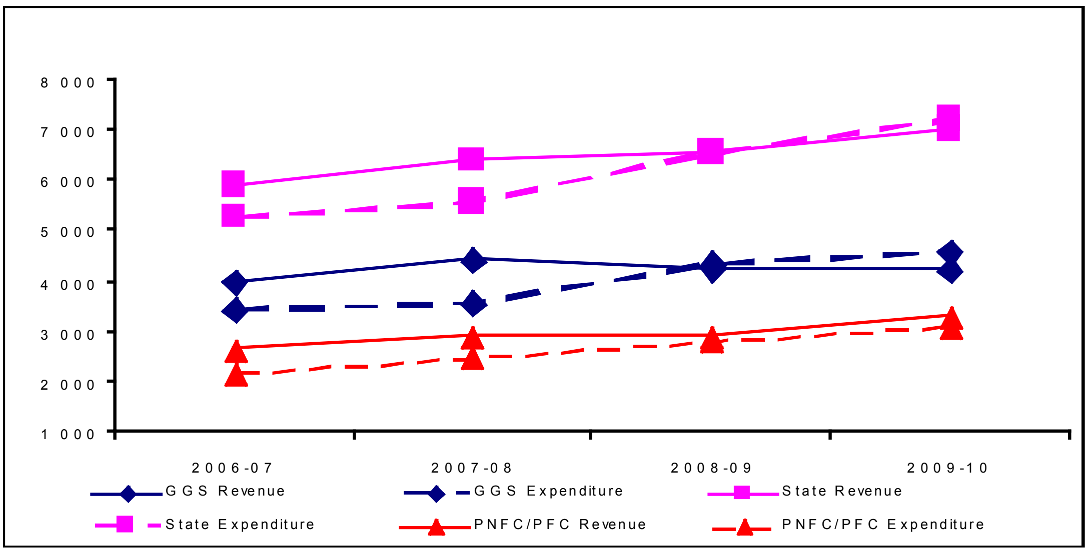
This concludes our analysis of the Statement of Comprehensive Income. However, the notes to the Total State Sector Financial Statements, and this Report, include other financial information some of which is now dealt with. The observations below are aimed at further analysing components of the Total State Sector results.

Four year revenue and expenditure analysis

Revenue and expenditure

Figure 1 presents revenue and expenditure trends for the GGS, PNFC's and PFC's, and the Total State over the past four years. The revenue and expenditure trends exclude other economic flows and the Commonwealth national Building grants.

Figure 1: Revenue and Expenditure before Other economic flows and Commonwealth National Building grant



General government revenue for 2009-10 was fairly consistent with prior years. Grant revenue (excluding Commonwealth National Building grants) increased by $455m which was offset by lower Investment income, $171m.

General government expenditure increased in 2009-10 compared to 2006-07 primarily due to higher employee entitlements, $364m, and grants payments, $323m.

PNFC/PFC sector revenue for 2009-10 improved on prior year primarily due to increased sales of goods and services, $820m.

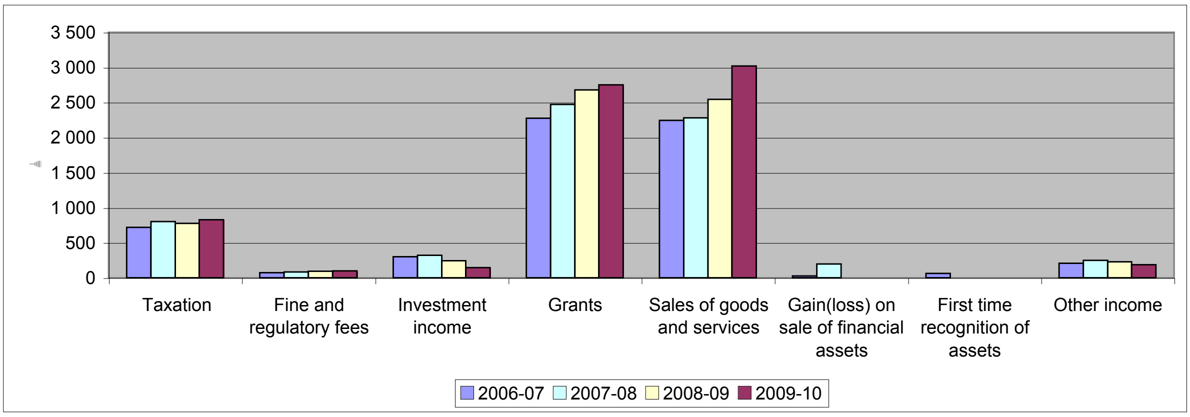
Increased PNFC/PFC sector expenditure comprised higher supplies and consumables expenditure, $691m, which was offset by lower borrowing costs, $116m, and other expenses, $102m.

The main reason for the improvement in revenue for 2007 08 at all three levels was the effect of the gain on sale of Hobart International Airport Pty Ltd.

Revenue

Total revenue, including net gains from economic flows (after inter-agency transactions are eliminated) but excluding Commonwealth Nation Building grants, rose from $5.697bn in 2006-07 to $7.026bn in 2009-10, an increase of $1.331bn, 49%, in nominal terms. Figure 2 shows total revenue broken down into major categories over four years.

Figure 2: Total Revenue by Category (excluding Commonwealth Nation Building Grants)

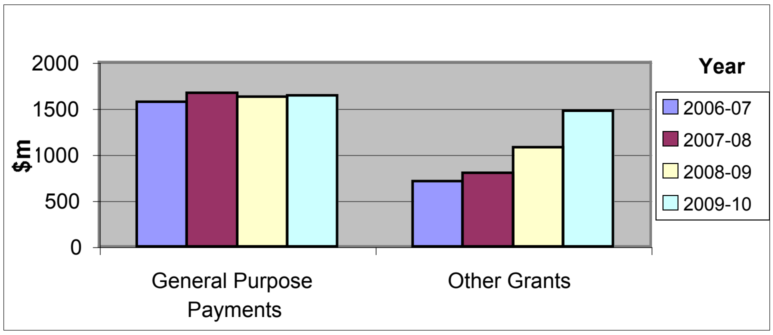


Taxation revenue collected by the Government increased by $108m, 15%, from $721m to $829m over the four years, mainly due to higher payroll tax, land tax and stamp duties.

Grant revenues primarily comprised revenues from the Commonwealth in the form of GST and specific purpose grants. This revenue source increased $473m, 21%, over the four years. In percentage terms, in 2009-10 Grants of $2.748bn (excluding Commonwealth Nation Building grant) represented 39% of the State's revenues.

Figure 3 shows the split between General Purpose grants and Other grants.

Figure 3: Revenue From Transactions - Grants ($m)



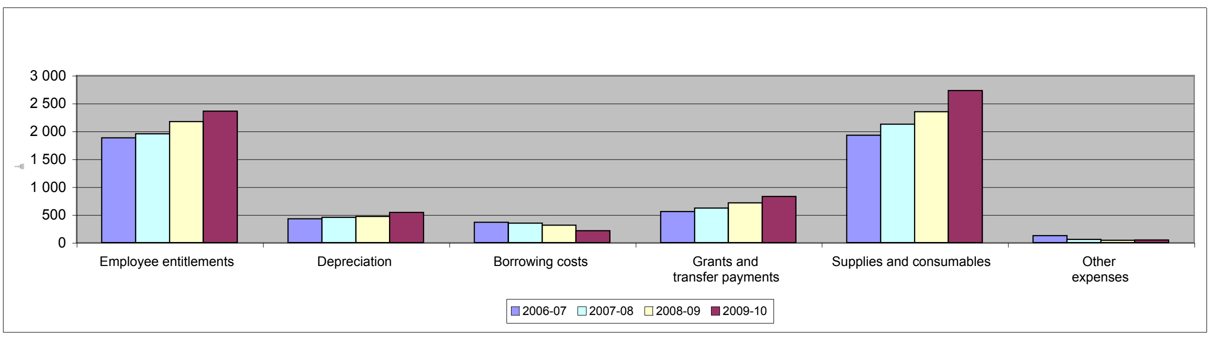
The graph illustrates that General Purpose revenues (including GST revenues) remained consistent. However, other Australian Government grants increased significantly, and included National Partnership Payments, $769m in 2009-10 and Specific Purpose Payments, $580m. The 2009-10 Net Operating Balance of $192m would have been significantly worse without one-off Australian Government funding for specific major capital programs. One-off Australian Government funding for 2009-10 included Nation Building – Economic Stimulus Plan and additional funding for Nation Building formerly Aus-link and Water for the Future, and totalled $381m.

Sales of goods and services, predominantly by Government Businesses, contributed around 43% of State revenue. This revenue source increased by $778m, 35%, over the four years under review. Much of this increase was related to the three electricity businesses.

Expenditure

Total expenditure (after inter-agency transactions are eliminated), and excluding Other economic flows, increased from $5.711bn in 2006-07 to $7.216bn in 2009-10, an increase of $1.504bn, 26%, in nominal terms. Figure 4 details annual movements by major categories of expenditure.

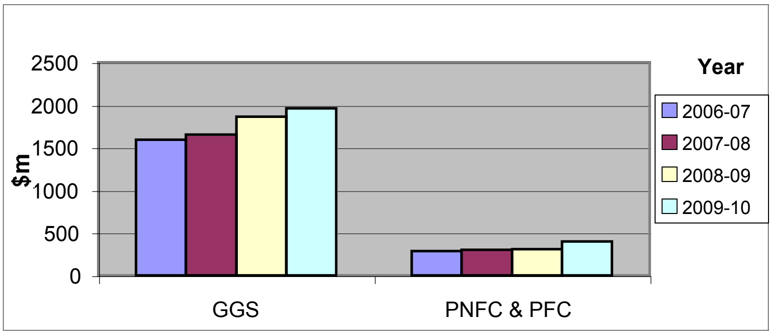
Figure 4: Total Expenditure (excluding Other economic flows)



Employee costs increased $478m, 25%, from 2006-07 to $2.358bn in 2009-10. The increase was caused primarily by award wage rises and recruitment of additional staff, particularly in the health and electricity sectors.

Figures 5 and 6 below provide further analysis of the two largest categories of expenditure, employee entitlements and supplies and consumables, by sector.

Figure 5: Employee Entitlements ($m)



These figures confirm high growth in employee costs on 2009-10 in all sectors. The significant growth in supplies and consumables in 2009-10 was mainly related to the electricity entities.

Figure 6: Supplies and Consumables ($m)

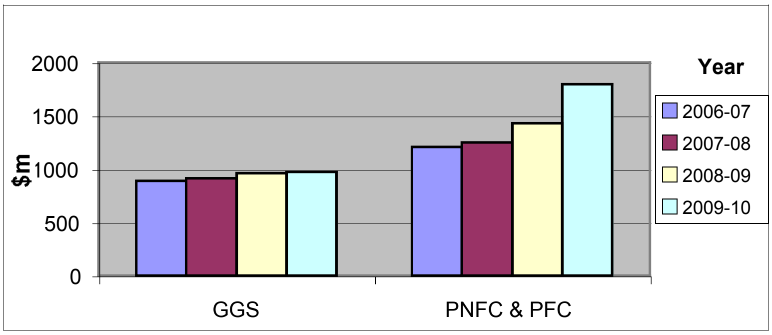


Table 1 summarises movements from 2007-08 to 2009-10, for Sales of goods and services, employee entitlements and in supplies and consumables for the larger GBEs and SOCs.

Table 1: Movement analysis of major expenditure items for selected GBEs and SOCs

Entity	Sales of goods and Services ($m)		Supplies and Consumables		Employee Entitlements ($m)	
TT - Line	22	12%	14	14%	2	4%
Aurora Energy	303	26%	288	30%	23	28
Hydro Tasmania	264	37%	139	35%	4	4%
Forestry Tasmania	(24)	(17%)	(7)	(5%)	0	2%
Metro Tasmania	(0)	(3%)	1	10%	2	9%
Transend Networks	38	22%	(1)	(5%)	7	32%
TOTE Tasmania	19	20%	2	3%	0	2%
Tasports	(30)	(38%)	(2)	(6%)	1	3%

The table illustrates that in percentage terms each entity reported increases in employee entitlements. The table also demonstrates the three electricity entities had a significant financial impact at a Total State Sector level.

Grant expenses increased over the period by $269m, 48%, primarily funded through increased grant revenue from the Commonwealth.

Borrowing costs declined in line with lower net borrowings in Tascorp and lower interest rates.

Depreciation charges increased over the period by $125m, 30%, mainly because of ongoing investments in infrastructure and asset revaluations.

The nominal superannuation expense fluctuated primarily due to changes in actuarial assumptions such as applying different discount rates, lower values attributed to investments due to the global financial crisis and due to lower pensioner mortality rates.

Earnings generated by GBEs and SOCs

Table 2 details the consolidated profits and losses, before taxation and dividends, of Government Businesses, also referred to as entities in the Public Financial (MAIB and TASCORP) and Public Non-Financial sectors. Table 3 details surpluses or deficits of the State's Government Departments. The amounts noted in the tables are prior to eliminating inter-entity transactions.

Table 2: Consolidated Profit (Loss) Before Tax of GBEs and SOCs

PFC/PNFC	Profit (Loss) before tax ($000s)			
	2009-10	**2008-09**	**2007-08**	**2 6-07**
Aurora Energy Pty Ltd	(30 360)	25 400	29 951	34 199
Forestry Tasmania	(379 630)	44 249	(55 242)	19 422
Hydro Tasmania	332 080	417 891	224 185	113 493
Metro Tasmania Pty Ltd	56	(511)	(300)	307
Port Arthur Historic Site Management Authority	205	1 009	1 144	(1 427)
Printing Authority of Tasmania*	0	0	0	68
Rivers and Water Supply Commission	1 038	1 300	4 485	(2 349)
Tasmanian International Velodrome Management Authority **	0	0	0	(310)
Southern Regional Cemetery Trust*	0	0	0	(287)
Tasmanian Ports Corporation Pty Ltd	1 484	7 604	309 290	12 850
Hobart International Airport Pty Ltd*	0	0	0	6 753
Public Trustee	(148)	950	1 265	1 248
TOTE Tasmania Pty Ltd	9 917	9 768	4 078	2 315
Tasmanian Railway Pty Ltd***	(10 135)	0	0	0
Tasracing Pty Ltd	(414)	0	0	0
Transend Networks Pty Ltd	37 022	16 571	26 810	30 081
TT-Line Company Pty Ltd	(11 857)	5 823	13 698	4 712
Tasmanian Water and Sewerage Corporation - Common Services***	31	0	0	0
Tasmanian Water and Sewerage Corporation - North-West***	1 128	(966)	0	0
Tasmanian Water and Sewerage Corporation - Southern Region***	17 064	(1 929)	0	0
Tasmanian Water and Sewerage Corporation - Northern Region***	7 488	(640)	0	0
Motor Accidents Insurance Board	101 796	(26 306)	(39 227)	150 253
Tasmanian Public Finance Corporation	16 219	20 659	(2 706)	5 495
Total Profit (Loss) Before Income Tax	**92 984**	**521 500**	**517 707**	**377 580**

** Sold in 2007-08*

*** Transferred to Department of Economic Development in 2006-07*

**** Commenced operations 2009-10*

The four largest variances in net profits (losses) for individual entities between 2008 09 and 2009-10 were:

- MAIB, profit improved $128.102m, primarily due to higher revenue from investments, which included dividends $33m, realised gains $17m and unrealised gains, $38m, on their investment portfolio
- Hydro's result decreased $85.811m, primarily due to fair value movements on electricity derivatives, treasury derivatives and Basslink financial asset and liabilities related to energy market prices and interest rate changes
- Forestry Tasmania's result decreased by $423.879m, primarily due to the lower valuation of biological and forest estate assets, $390m and
- Aurora's $55.760m worse result was mainly caused by increased borrowing costs and the need for it to expense $20.643m relating to its customer care and billing system.

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Surpluses and deficits generated by Ministerial departments

Table 3 summarises the financial results of some of the government departments.

Table 3: Surplus (Deficit) of Government Departments.

Government Departments	Surplus (Deficit) ($ms)			
	2009-10	**2008-09**	**2007-08**	**2006-07**
Economic Development, Tourism and the Arts*	(7 851)	(5 908)	(1 242)	19 655
Education	198 499	(13 579)	(6 063)	25 747
Health and Human Services	50 257	(32 110)	6 491	(57 386)
Infrastructure, Energy and Resources	171 184	(27 550)	14 985	(14 027)
Justice	663	7 372	8 426	17 509
Police and Emergency Management	(4 254)	(424)	6 019	(355)
Premier and Cabinet	(1 009)	(600)	(646)	2 592
Primary Industries Parks Water and Environment*	(74 999)	(34 457)	55 747	(1 906)
Environment, Parks, Heritage and the Arts*	0	22 377	4 081	10 499
Treasury and Finance	1 885	(6 068)	(397)	608
Net Surplus (Deficit) Attributable to the State	**334 375**	**(90 947)**	**87 401**	**2 936**

** DEPHA responsibilities were transferred to DPIPWE and DEDTA on 1 July 2009*

The four largest movements between 2008-09 and 2009-10 were:

- DoE, an increase of $212m, primarily driven by the receipt of Commonwealth Building the Education Revolution funding totalling $229m
- DIER, an increase of $199m, due to higher capital revenue from government, an increase of $94m, and revenue for transfer to Tasrail, $82m,
- DHHS, an increase of $83m, due to increased revenue from government
- The higher deficit in Primary Industries, Parks, Water and Environment of $40.542m, primarily due to a change in estimate of $28.220m relating to land and buildings transferred to local government and Forestry Tasmania in prior years.

STATEMENT OF FINANCIAL POSITION

	30 June 2010	30 June 2009	30 June 2008	30 June 2007
	$m	$m	$m	$m
Assets				
Financial Assets				
Cash and deposits [a]	147	325	346	16
Investments [b 1]	3303	4 595	4 077	4 374
Equity investments [c 2]	243	243	652	737
Receivables [d]	517	590	426	453
Other financial assets [e 3]	826	841	594	546
Total Financial Assets [f]	**5 036**	**6 594**	**6 095**	**6 126**
Non-financial Assets				
Land and buildings	5501	5 302	5 121	4 734
Infrastructure	14168	11 849	11 288	9 957
Plant and equipment	430	381	394	369
Heritage and cultural assets	553	447	417	399
Biological assets	319	385	330	389
Investment property	29	29	30	28
Goodwill	55	55		
Intangible assets	105	90	67	44
Assets held for sale	32	20	24	75
Other	149	128	88	64
Total Non-Financial Assets	**21 341**	**18 686**	**17 759**	**16 059**
Total Assets	**26 377**	**25 280**	**23 854**	**22 185**
Liabilities				
Borrowings [g]	4411	5 327	4 734	5 070
Superannuation	5497	4 585	4 231	4 214
Employee entitlements	567	544	469	455
Payables	282	425	304	473
Other liabilities	2555	2 749	2 734	2 247
Total Liabilities [h]	**13 312**	**13 630**	**12 472**	**12 459**
Net Assets	**13 065**	**11 650**	**11 382**	**9 727**
Equity				
Accumulated surpluses	8012	6 382	6 193	5 141
Asset revaluation reserves	5078	5 290	5 155	4 022
Other reserves	(25)	(22)	34	564
Equity	**13 065**	**11 650**	**11 382**	**9 727**
Net Worth	**13 065**	**11 650**	**11 382**	**9 727**
Net Financial Worth (f-h)	**(8 276)**	**(7 037)**	**(6 378)**	**(6 333)**
Net Financial Liabilities (h-f)	**8 276**	**7 037**	**6 378**	**6 333**
Net Debt (a+b-g)	**962**	**407**	**312**	**680**

Note:

1 - Majority of Investments represented Tascorp loan advances and securities.

2 - Equity investments primarily related to MAIB investments.

3 - Other financial assets included Basslink related financial assets.

COMMENT

The State's Net Assets at 30 June 2010 was $13.065bn, an increase of $1.415bn, 12%, from 2008-09. This movement comprised mainly:

- increased Infrastructure assets, $2.319bn primarily due to the inclusion of $1.873bn for the water and sewerage corporations and Tasmanian Railway Pty Ltd, $9m, and capital investment in infrastructure assets mainly undertaken by the electricity companies
- increased Land and buildings, $199m, mainly due to the inclusion of the water and sewerage corporations, $52m, and revaluations, $111m
- a change in the structure of the portfolio of assets held by the Public Financial Corporation (PFC) Sector which led to a significant decrease in PFC Sector Investments and Other equity investments of $1.042bn, and a corresponding decrease in PFC Sector Borrowings of $1.096bn
- decreased Other Liabilities held by the PNFC Sector of $168m due to a decline in the value of energy price derivatives held by Hydro Tasmania.
- increased Superannuation liability, up $912m, explained earlier

Total Equity increased $1.415bn in 2009-10 due to Comprehensive surplus.

Figures 7 to 9 provide graphical representations of Total Assets, Total Liabilities, and Net Asset movements over the review period for each sector.

Figure 7: Total State assets, liabilities and net assets ($m)

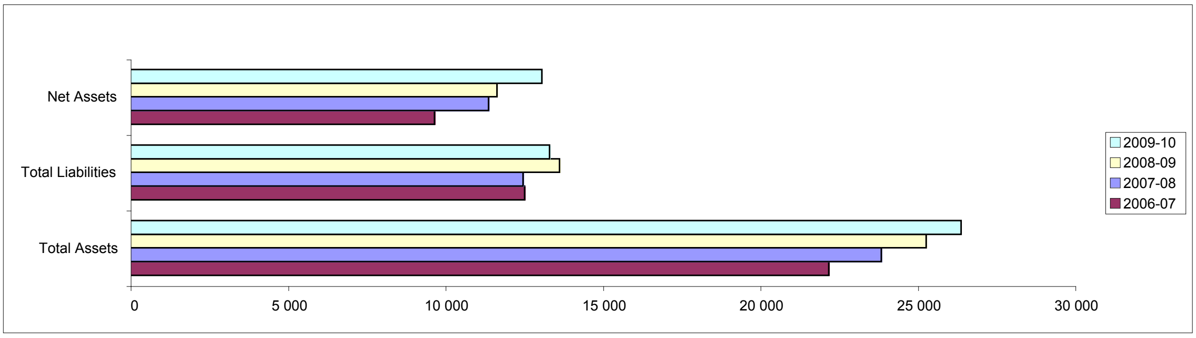


Figure 8: General Government Sector assets, liabilities and net assets ($m)

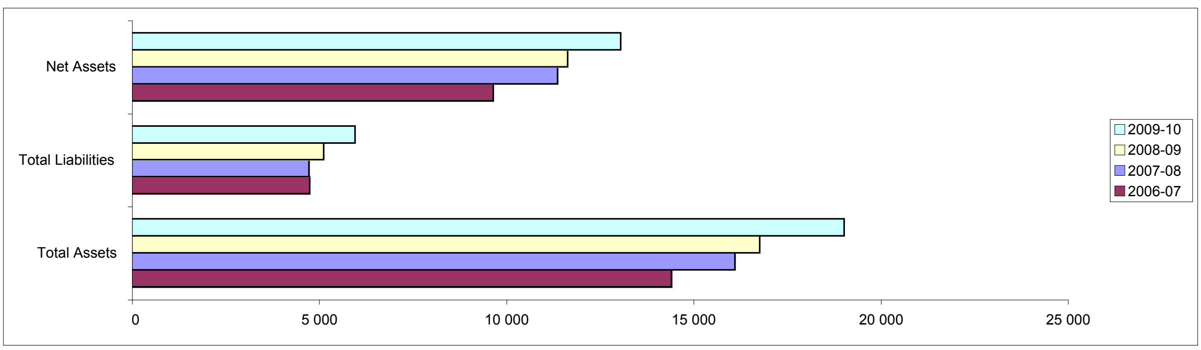
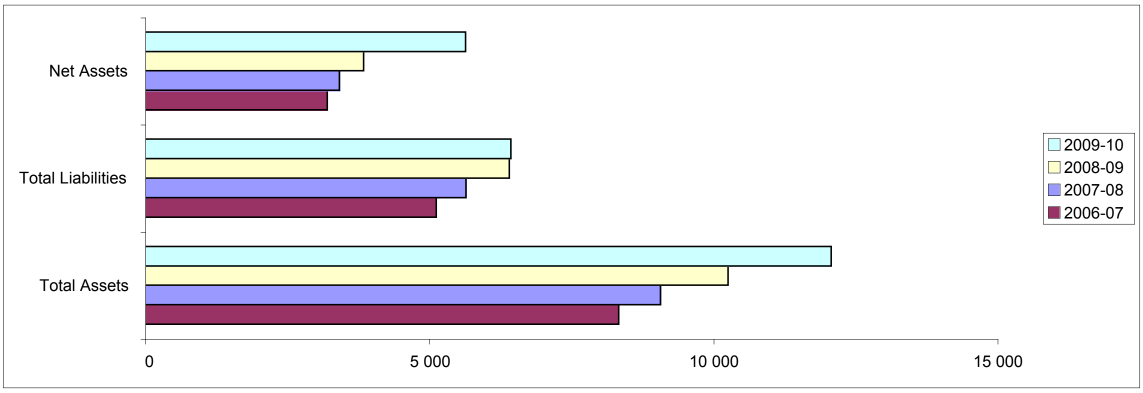


Figure 9: PNFC assets, liabilities and net assets ($m)



Net Assets increased $3.338bn since 2006-07. Factors which contributed to this included higher non financial assets, $5.282bn, 33%, mainly:

- increased Infrastructure, $4.211bn, 42%. Combined movements for the four years included road infrastructure revaluation, $1.228bn, and infrastructure, $1.961bn, (not including of water and sewerage, $1.873bn), offset by depreciation expense, $291m, and declines in Forestry assets. Investments in infrastructure over the period included construction of the Tamar Valley Power Station, water and sewerage assets and capital upgrade programs of DIER, Aurora, Transend and Hydro.

- Land and buildings increased $767m, 16%. Significant movements comprised asset acquisitions, $790m, and revaluations, $656m, offset by asset sales, $142m, and depreciation expense, $414m.

These were partly offset by an increase of $853m, 7%, in Total Liabilities. In the main this related to unfunded Superannuation liability, $1.283bn, partly offset by lower borrowings, $659m.

Figure 10 shows the State's gearing ratio for each sector, that is, interest bearing liabilities as a percentage of Total Assets, for the period.

Figure 10: Gearing (interest-bearing liabilities to total assets) (%)

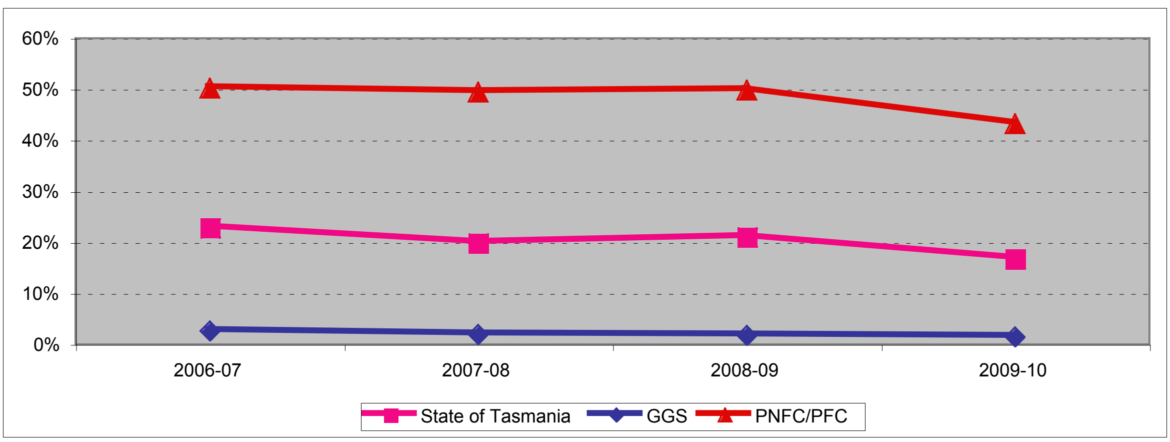


Figure 10 illustrates that the State's gearing ratio declined slightly over the past four years indicating that borrowings declined relative to growth in the State's assets.

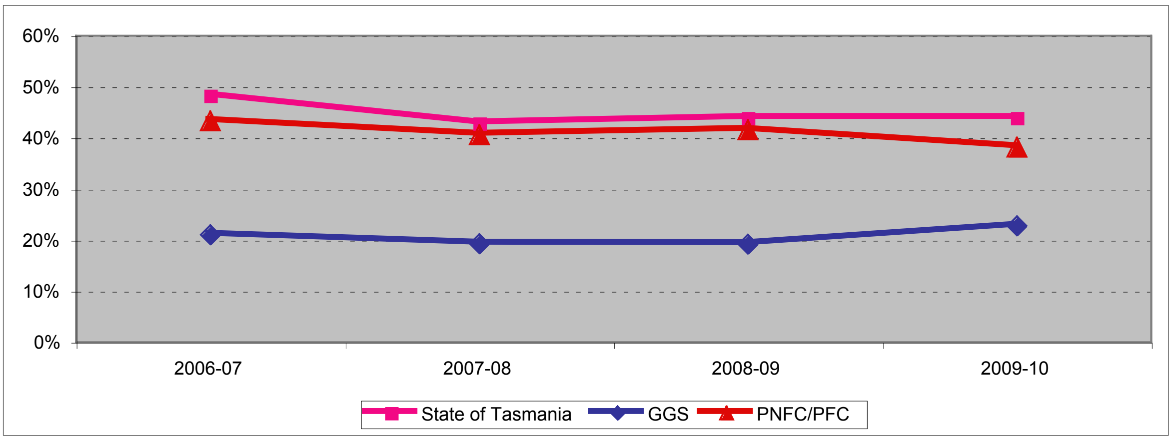
Figures 10 to 12 depict debt sustainability at the following levels for each sector over the period:

- Interest bearing liabilities and unfunded superannuation liabilities to Gross State Product (GSP)
- Interest bearing liabilities to GSP
- Unfunded Superannuation liabilities to GSP.

Debt sustainability is a key measure of the State's ability to support and finance its debt. The lower the ratio, the better the State is able to service its debt obligations. Debt sustainability is determined by expressing interest bearing liabilities plus unfunded superannuation compared to GSP.

Actual 2008-09 GSP has been used for 2009-10 due to actual 2009-10 GSP not being available at the date of completing this Report.

Figure 11: Debt Sustainability (interest bearing liabilities and unfunded superannuation liabilities to GSP) (%)



The State's Superannuation liability increased by $1.283m, 30%, from 2006-07 to 2009-10 primarily due to changes in actuarial assumptions primarily revised actuarial projections due to the lower discount rate, lower assumed pensioner mortality rates, higher than anticipated salary increases, higher than projected scheme asset balance and other miscellaneous experience adjustments.

Figure 12: Debt Sustainability (interest bearing liabilities to GSP) (%)

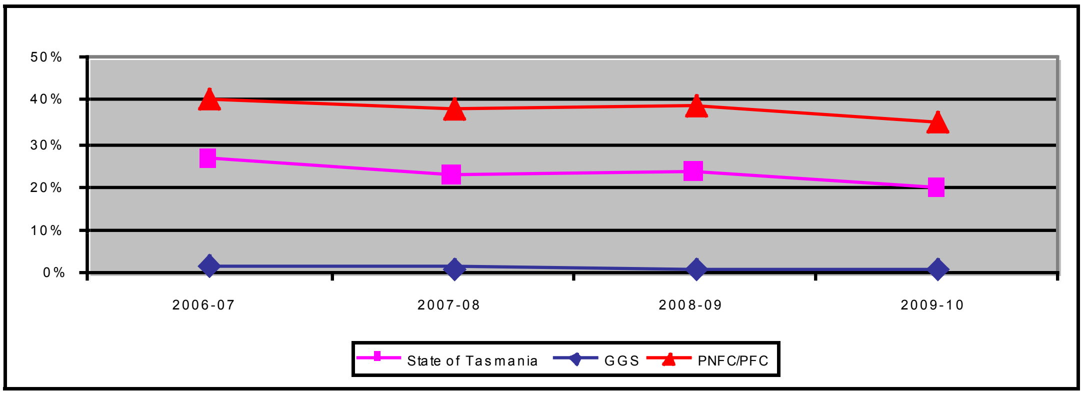


Figure 12 confirms the State's ability to support and finance its interest bearing liabilities remained relatively unchanged since 2006 07. The major reason for the variations between individual years was in the PNFC sector, due to higher interest bearing liabilities.

Table 4 details interest bearing liability balances within the PNFC and PFC sectors.

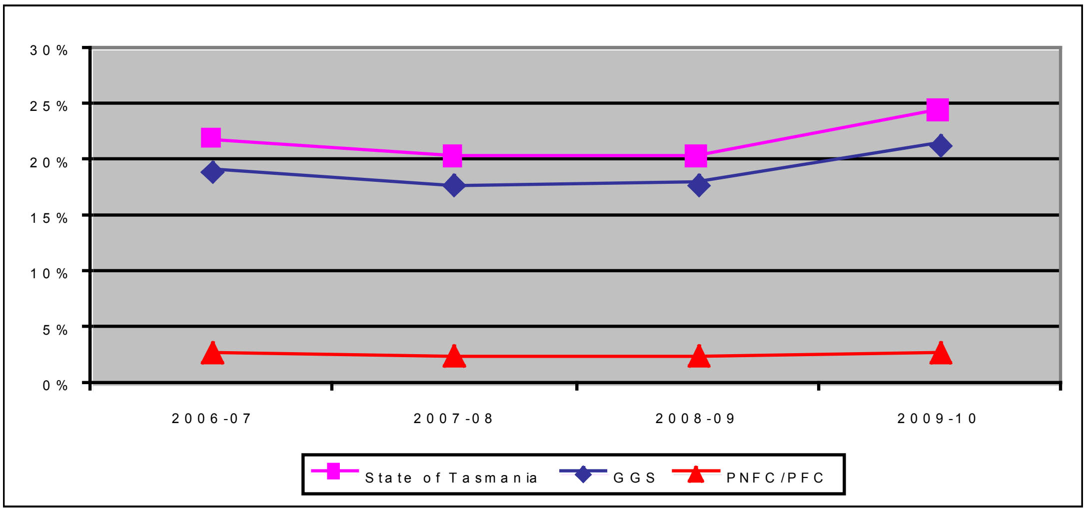
Table 4: Interest Bearing Liabilities by Entity for the PNFC sector

PNFC	**2009-10**	**2008-09**	**2007-08**	**2006-07**	**2005-06**
	$m	$m	$m	$m	$m
Aurora Energy Pty Ltd	1030	933	555	505	461
Forestry Tasmania	41	41	41	41	35
Hydro Tasmania	873	941	971	1 192	1 077
Metro Tasmania Pty Ltd	0	0	0	3	3
Port Arthur Historic Site Management Authority	0	0	0	0	0
Private Forests Tasmania	1	1	1	1	
Rivers and Water Supply Commission	23	25	25	15	4
Public Trustee	0	0	0	0	0
TOTE Tasmania Pty Ltd	10	0	2	2	2
Tasmanian Railway Pty Ltd	0	0	0	0	0
Tasracing Pty Ltd	2	2	0	0	0
Transend Networks Pty Ltd	518	488	409	118	93
TT-Line Company Pty Ltd	25	50	75	75	186
Tasmanian Ports Corporation Pty Ltd	20	20	18	33	65
Tasmanian Water and Sewerage Corporation - Common Services	7	0	0	0	0
Tasmanian Water and Sewerage Corporation - North-West	79	0	0	0	0
Tasmanian Water and Sewerage Corporation - Southern Region	108	0	0	0	0
Tasmanian Water and Sewerage Corporation - Northern Region	17	0	0	0	0

NB –Most borrowings are from Tascorp to GBEs and SOCs and therefore Tascorp is not listed
Debt = Borrowings (current) + Borrowings (non current)

Within the PNFC sector total borrowings increased $779m from 2006 07 to $2.764bn in 2009-10. Hydro and Aurora comprise the major portion of the sector's overall borrowing. Borrowings increased each year over the four year period for Aurora and Transend and decreased for Hydro and TT-line.

Figure 13: Debt Sustainability (unfunded superannuation liabilities to GSP) (%)



Debt sustainability ratio (unfunded superannuation liabilities to GSP), as illustrated in Figure 13, worsened slightly between 2006-07 and 2008-09 but improved in 2009-10.

The Superannuation liability increased by $1.283bn, 30%, from 2006 07 to 2009-10 for reasons outlined previously.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
Cash flows from operating activities				
Cash inflows	$m	$m	$m	$m
Taxation	825	765	825	722
Sales of goods and services	3 305	2 497	2 401	2 220
Grants received	2 770	2 651	2 466	2 260
Dividend, tax and rate equivalents	31	0	0	0
Fines and regulatory fees	86	63	61	55
Interest received	140	218	313	290
Other receipts	457	511	679	550
	7 614	**6 705**	**6 745**	**6 097**
Cash outflows				
Employee entitlements	(2 321)	(2 109)	(1 941)	(1 795)
Superannuation	(355)	(303)	(271)	(229)
Supplies and consumables	(3 034)	(2 304)	(2 274)	(2 002)
Grants and subsidies paid	(812)	(703)	(636)	(636)
Borrowing costs	(301)	(319)	(337)	(339)
Other payments	(394)	(384)	(478)	(506)
	(7 217)	**(6 122)**	**(5 937)**	**(5 507)**
Net cash flows from operating activities	**397**	**583**	**808**	**590**
Cash flows from investing activities				
Net cash flows from investment in non-financial assets				
Commonwealth Nation Building Revenue	381	28	0	0
Purchases of non-financial assets	(1 324)	(1 016)	(592)	(585)
Sales of non-financial assets	109	76	123	182
	(834)	**(912)**	**(469)**	**(403)**
Net cash flows from investment in financial assets for policy purposes				
Equity injections	0	0	0	(1)
Net advances paid	(12)	(12)	35	10
	(12)	**(12)**	**35**	**9**
Net cash flows from investment in financial assets for liquidity purposes				
Net purchase of investments	151	199	330	440
	151	**199**	**330**	**440**
Net Cash flows from (used in) investing activities	**(695)**	**(725)**	**(104)**	**46**
Cash flows from financing activities				
Net borrowing	(833)	29	(461)	285
Other financing	16	12	(7)	0
Total	**(817)**	**41**	**(468)**	**285**
Net increase (decrease) in cash held	**(1 115)**	**(100)**	**236**	**921**
Cash at the beginning of the year	**2 689**	**2 789**	**2 728**	**1 806**
Cash at the end of the year	**1 574**	**2 689**	**2 964**	**2 728**
KEY FISCAL AGGREGRATES				
Net cash from operating activities	397	583	808	590
***plus* distributions paid as Dividends**	(16)			
***plus* Net cash from investments in non-financial assets**	(834)	(912)	(469)	(403)
EQUALS CASH SURPLUS (DEFICIT)	**(453)**	**(329)**	**(339)**	**(187)**

COMMENT

This year's cash flows resulted in a Net decrease in cash of $1.115bn. The decrease was caused mainly by:

- repayment of borrowings, $833m,
- Purchases of non-financial assets, $1.324m, mainly due to increased capital investment by the Department of Education, $216m, Department of Health and Human Services, $111m, and Department of Infrastructure, Energy and Resources, $202m, Aurora, $233m, Hydro, $134m, Transend, $147 and This was in part funded by $381 capital receipts from the Australian Government for specific major capital programs.

Reasons for other variations in cash flow receipt and payment amounts reflect comments made previously under the Statement of Comprehensive Income and Statement of Financial Position sections of this Chapter.

Table 7 provides a summary of the State's capital expenditure during the four years to 30 June 2010 (based on cash outflows, not accrued expenditure).

Table 7: Capital Expenditure

	2009-10	**2008-09**	**2007-08**	**2006-07**
	$m	$m	$m	$m
Capital Expenditure				
General government sectore	607	286	252	233
PNFCs and PFCs	717	730	340	352
Total	**1324**	**1 016**	**592**	585

The higher capital expenditure by GGS in 2009-10 was primarily due to increased capital investment by the Department of Education, $216m, Department of Health and Human Services, $111m, Department of Infrastructure, $202m.The increase in capital expenditure by PNFCs in 2008 09 was primarily due to Aurora's capital spending of $457m in the main associated with the TVPS. Further high levels of investment were made by Aurora in 2009-10.

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SPECIAL CAPITAL INVESTMENT FUNDS

Infrastructure investment decisions are managed through the Government's Capital Investment Program (CIP). The CIP includes the Roads and Housing Programs, and is supplemented through allocations from Special Capital Investment Funds such as the Royal Hobart Redevelopment Fund, the Better Roads Fund and the Economic and Social Infrastructure Fund. The Government established several new infrastructure related funds during 2007 08 including the Infrastructure Tasmania Fund, the Hospitals Capital Fund, the Urban Renewals and Heritage Fund, the Water Infrastructure Fund and the Housing Fund.

The following table sets out the transactions of each of the Funds during 2009-10.

	Opening Balance	**Deposits**	**Withdrawals**	**Closing Balance**
	$m	$m	$m	$m
Economic and Social Infrastructure Fund	22.955	20.366	14.666	28.655
Infrastructure Tasmania Fund	94.792	13.645	23.168	85.269
Housing Fund	56.439	0.000	8.996	47.443
Hospitals Captial Fund	79.501	0.000	9.629	69.872
Royal Hobart Hospital Redevelopment Fund	2.249	0.000	1.485	0.764
Better Roads Fund	2.030	0.000	1.883	0.147
Urban Renewal and Heritage Fund	21.499	0.000	10.337	11.162
Water Infrastructure Fund	62.076	18.015	32.040	48.051
TOTAL	**341.541**	**52.026**	**102.204**	**291.363**

The **Economic and Social Infrastructure Fund (ESIF)** was established in 2003-04 and funds projects assisting economic development and the provision of social infrastructure. Social infrastructure projects relate to education, tourism, parks, heritage, health and housing throughout the State. Economic development projects relate to a range of infrastructure and related developments, including the maintenance of the State's roads and bridges, and water infrastructure. Total expenditure in 2009-10 from this fund was $14.666m and included:

- AFL arrangement – Hawthorn Football Club, $3.404m,
- Bellerive Oval lighting, $2.850m,
- Domain Tennis Centre, $1.050m,
- Tasmanian Museum and Art Gallery, $1.589m,
- Hospital equipment fund, $1.743m,
- Forestry Tasmania, $1.000m,
- Main street makeover, $0.706m.

The **Infrastructure Tasmania Fund (ITF)** was created in 2007-08 to provide significant investment in Tasmania's major infrastructure including roads, health infrastructure and information technology. The ITF was established with the proceeds of $312.900m from the sales of Hobart International Airport Pty Ltd and Printing Authority of Tasmania.

Expenditure from the ITF for 2009-10 was $23.168m and comprised:

- Health Infrastructure, $4.640m,
- Health Information Technology, $5.841m,
- Brighton Transport Hub, $9.500m,
- North West Tourist Route, $1.711m.

The **Housing Fund (HF)** was established in 2007-08 with initial funding of $60.000m to assist with increasing the supply of public housing. Expenditure from the Housing Fund for 2009-10 was $8.992m.

The **Hospitals Capital Fund (HCF)** was established in 2007-08 with initial funding of $75.000m to provide capacity to invest in the State's major hospital facilities at Hobart, Launceston and Burnie.

Expenditure from the HCF for 2009-10 was $9.629m, and related to:

- Royal Hobart Hospital, $5.765m,
- Launceston General Hospital carpark, $1.035m,
- North West Regional Hospital Capital and Equipment Upgrade, $1.562m.

The **Royal Hobart Hospital (RHH)** Redevelopment Fund was established in 2004-05 to develop and enhance the facilities at the RHH. Expenditure from this fund was $1.562m in 2009-10.

The **Better Roads Fund (BRF)** was established in 2004-05 for road projects including associated maintenance. Expenditure from the BRF for 2009-10 was $1.883m, and related to the Sisters Hill project managed by Department of Infrastructure, Energy and Resources.

The **Urban Renewal and Heritage Fund (URHF)** was established in 2007-08 with initial funding of $25.000m from the ITF to provide for the restoration of heritage assets and the renewal of urban areas in communities throughout Tasmania.

Expenditure from the URHF for 2009-10 was $10.337m and comprised:

- Department of Economic Development, Tourism and the Arts, $1.000m, relating to Mersey Bluff Precinct project, $0.900m, relating to the Channel Heritage Museum, $0.450m, relating to the Launceston City Council - Northern Regional Tennis Centre and $0.450m relating to the Queen Victoria Museum and Art Gallery
- Department of Infrastructure, Energy and Resources, $0.549m, relating to Oatlands Underground Powerlines Project, $0.216m, Stanley Underground Powerlines Project, $0.174m and Tasman Bridge cycle and pedestrian facilities, $0.085m,
- Department of Justice, $0.448m, relating to Franklin Wharf Development
- Department of Primary Industries, Parks, Water and Environment, $3.313m, relating to Legerwood Memorial and Recreational Park, $0.060m, Mt Lyell General office Essential Maintenance, $0.050m, Oatlands Gaol restoration, $0.500m, Scottsdale Walking Trail Extension, $0.255m, Swansea Great Short Walk extension, $0.090m, Swansea Heritage Museum Redevelopment, $0.250m, and Stanley Town Hall restoration, $0.410m,

- Department of Treasury and Finance, $1.116m, relating to Princes Wharf Redevelopment Project.

The **Water Infrastructure Fund (WIF)** was established in 2007-08 with initial funding of $80.000m from the ITF to facilitate major investment in Tasmania's water infrastructure.

Expenditure from the WIF was $32.040m in 2009-10 and related to the Water Infrastructure Initiative Project managed by the Department of Primary Industries, Parks, Water and Environment.

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APPENDIX 1 – GUIDE TO USING THIS REPORT

This Report is prepared under section 29 of the Audit Act 2008 (the Audit Act), which requires the Auditor-General, on or before 31 December in each year, to report to Parliament in writing on the audit of State entities and audited subsidiaries of State entities in respect of the preceding financial year. The issue of more than one report now satisfies this requirement each year.

During the 2010 calendar year two reports were tabled:

- Report No. 1 of 2010 tabled on 10 June 2010 – this report dealt with June 2009 financial statement audits incomplete at the time of tabling the November 2009 report and those financial statement audits with 31 December 2009 balance dates
- Report No. 2 of 2010 tabled on 16 and 18 November 2010 – which is this Report. It deals with those audits of financial statements of entities with a 30 June 2010 financial year-end completed on 31 October 2010 with the exception of local government authorities. The outcomes from audits of local government authorities together with those audits completed after this date will be reported in the first half of 2011.

Report No. 2 of 2010 comprises three volumes:

- Volume 1 – Analysis of the General Government Sector Financial Statements, the Public Account Statements and the Total State Sector Financial Statements
- Volume 2 – Executive and Legislature, Government Departments and other General Government Sector State entities
- Volume 3 – Government Business Enterprises, State Owned Corporations, and local government owned Water Corporations and Superannuation Funds.

Where relevant, State entities are provided with the opportunity to comment on any of the matters reported. Where they choose to do so, responses are detailed within that particular section.

FORMAT OF THE FINANCIAL ANALYSIS

Each entity's financial performance is analysed by discussing the Comprehensive Income Statement, Statement of Financial Position and Statement of Cash Flows supplemented by financial analysis applying the indicators documented in the Financial Performance sections of this Report. The layout of some of these primary statements has been amended from the audited statements to, where appropriate:

- make the statements more relevant to the nature of the entity's business
- highlight the entity's working capital, which is a useful measure of liquidity

Departments are required to present budget amounts on the face of their primary statements. As a consequence details and commentary in relation to these amounts have been included in this Report.

FINANCIAL ANALYSIS

The following tables illustrate the methods of calculating:

- performance indicators used in the individual financial analysis sections of this Report, together with a number of benchmarks used to measure financial performance

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Earnings Before Interest and Tax (EBIT) ($'000s)		Result from Ordinary Activities before Tax and before Gross Interest Expense
EBITDA ($'000s)		Result from Ordinary Activities before Tax, before Gross Interest Expense, Depreciation and Amortisation
Operating margin	>1.0	Operating Revenue divided by Operating Expenses
Own source revenue		Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments
Result from operations ($'000s)		Operating Revenue less Operating Expenses
Return on assets		EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Return on investments	5.5%	Net Investment income divided by Average Investments
Self financing ratio		Net Operating Cash Flows divided by Operating Revenue
Underlying result ratio		Operating Net Surplus divided by Operating Revenue

Financial Management		
Capital expenditure/ depreciation (investment ratio)	>100%	Payments for Property, plant and equipment divided by Depreciation expenses
Capital expenditure on existing assets/depreciation (renewal ratio)	100%	Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Cost of debt	6.9%	Gross Interest Expense divided by Average Borrowings (include finance leases)
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Current ratio	>1	Current Assets divided by Current Liabilities
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Debt service ratio		Borrowing costs plus Repaid borrowings divided by Operating revenue
Debt to equity		Debt divided by Total Equity
Debt to total assets		Debt divided by Total Assets
Indebtedness Ratio		Non Current Liabilities divided by Own Source Revenue
Interest cover – EBIT	>2	EBIT divided by Gross Interest Expense
Interest cover – Funds from Operations	>2	Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense
Leverage ratio		Total Assets divide by Shareholders' Equity
Returns to Government		
Dividends paid or payable ($'000s)		Dividends paid or payable that relate to the year subject to analysis
Dividend payout ratio	50%	Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity
Effective tax rate	30%	Income Tax paid or payable divided by Result form Ordinary Activities before Tax
Income tax paid or payable ($'000s)		Income Tax paid or payable that relates to the year subject to analysis
Total return to the State ($'000s)		Dividends plus Income Tax and Loan Guarantee fees
Total return to equity ratio		Total Return divided by Average Equity
Other Information		
Average staff costs (2)($'000s)		Total employee expenses (including capitalised employee costs) divided by Staff Numbers

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Average leave per FTE ($'000s)		Total employee annual and long service leave entitlements divided by Staff Numbers
Days annual leave due	20 days	Actual average days due extracted from personnel records
Days long service leave due	Not more than 100 days	Actual average days due extracted from personnel records
Employee costs (2) as a % of operating system		Total employee costs divided by Total Operating Expenses
Employee costs capitalised ($'000s)		Capitalised employee costs
Employee costs expensed ($'000s)		Total employee costs per Income Statement
Government Funding %		Income from Government divided by Surplus/Deficit excluding Income from Government.
Staff numbers FTEs		Effective full time equivalents
Self Sufficiency %		Own Source Revenue divided by Operating Expenses.

[1] *Benchmarks vary depending on the nature of the business being analysed. For the purposes of this Report, a single generic benchmark has been applied.*

[2] *Employee costs include capitalised employee costs, where applicable, plus on-costs.*

An explanation of the performance indicators is provided below:

FINANCIAL PERFORMANCE

- Earnings before interest and tax (EBIT) – measures how well an entity can earn a profit, regardless of how it is financed (debt or equity) and before it has to meet external obligations such as income tax. This is a measure of how well it goes about its core business.
- Earnings before income tax, depreciation and amortisation (EBITDA) – measures how well an entity can generate funds without the effects of financing (debt or equity), depreciation and amortisation and before it has to meet external obligations such as income tax. This measure is of particular relevance in cases of entities with large amounts of non-current assets as the distortionary accounting and financing effects on the entity's earnings are removed, enabling comparisons to be made across different entities and sectors.
- Operating margin – this ratio serves as an overall measure of operating effectiveness.
- Own source revenue – represents revenue generated by a council' through its own operations. It excludes any external government funding, contributed assets and revaluation adjustments.
- Result from operations – summarises revenue transactions and expense transactions incurred in the same period of time and calculates the difference.
- Return on assets – measures how efficiently management used assets to earn profit. If assets

are used efficiently, they earn profit for the entity. The harder the assets work at generating revenues, and thus profit, the better the potential return for the owners.

- Return on equity – measures the return the entity has made for the shareholders on their investment.
- Return on investments – measures how effective management have been in earning interest income from available investment assets.
- Self financing ratio – this is a measure of council's ability to fund the replacement of assets from cash generated from operations.
- Underlying results ratio - this ratio provides a measure of the strength of the operating result. The higher the ratio, the stronger the result. Negative results indicate an operating deficit that can not be sustained in the longer term.

FINANCIAL MANAGEMENT

- Capital expenditure/depreciation (investment ratio) – indicates whether the entity is maintaining its physical capital by reinvesting in or renewing non-current assets (caution should be exercised when interpreting this ratio for entities with significant asset balances at cost as the level of depreciation may be insufficient).
- Capital expenditure on existing assets/depreciation (renewal ratio) – indicates whether the entity is maintaining its physical capital by reinvesting in or renewing existing non-current assets (caution should be exercised when interpreting this ratio as the amount of capital expenditure on existing assets has largely been provided by the respective councils and not subject to audit).
- Cost of debt – reflects the average interest rate applicable to debt.
- Creditors turnover – indicates how extensively the entity utilises credit extended by suppliers.
- Current ratio – current assets should exceed current liabilities by a 'considerable' margin. It is a measure of liquidity that shows an entity's ability to pay its short term debts.
- Debt collection – indicates how effectively the entity uses debt collection practices to ensure timely receipt of monies owed by its customers.
- Debt service ratio – indicates the capacity of the entity to service debt by repaying principal as well as interest on borrowings.
- Debt to equity – an indicator of the risk of the entity's capital structure in terms of the amount sourced from borrowings and the amount from Government.
- Debt to total assets – an indicator of the proportion of assets that are financed through borrowings.
- Indebtedness ratio – compliments the liquidity ratio and illustrates a council's ability to meet longer term commitments.
- Interest cover – EBIT – an indicator of the ability to meet periodic interest payments from current profit (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced profitability.
- Interest cover – Funds from operations – examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is

for interest payments to be maintained in the face of interest rate increases or reduced funds from operations.

- Leverage ratio – measures the proportion of equity funding in the asset base.

RETURN TO GOVERNMENT

- Dividends paid or payable – payment by the entity to its shareholders (whether paid or declared as a payable).
- Dividend payout ratio – the amount of dividends relative to the entity's net income.
- Dividend to equity – the relative size an entity's dividend payments to shareholders' equity. A low dividend to equity ratio may indicate that profits are being retained by the entity to fund capital expenditure.
- Effective tax rate – is the actual rate of tax paid on profits.
- Income tax paid or payable – tax payments (paid or payable) by the entity to the State.
- Total return to the State – is the funds paid to the Owners consisting of income tax, dividends and guarantee fees.
- Total return to equity ratio – measures the Government's return on its investment in the entity.

OTHER INFORMATION

- Average staff costs – measures the average cost of employing staff in the entity for the year.
- Average leave balance per FTE ($'000s) – indicates the extent of unused leave at balance date.
- Days annual leave due – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- Days long service leave due – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days annual leave.
- Employee costs as a percentage of operating expenses indicates the relative significance of employee costs compared to other operating expenses.
- Employee costs capitalised ($'000s) – represents employee costs that have been capitalised rather than expensed.
- Employee costs expensed ($'000s) – represents the level of employee costs expensed, ie. included in the Income Statement. This together with the Employee costs Capitalised will provide a total employee cost figure for use in other related ratios.
- Government funding percentage – indicates the level of reliance on government funding.
- Staff numbers FTEs – as at the end of the reporting period the number of staff employed expressed as full-time equivalents (FTEs).
- Self sufficiency percentage – shows the level of independent funding that the entity generated for use in achievement of its objectives.

The above indicators are used because they are commonly applied to the evaluation of financial performance. Care should be taken in interpreting these measures, as by definition they are only indicators, and they should not be read in isolation.

APPENDIX 2 – ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
AGAAP	Australian Generally Accepted Accounting Principles
BRF	Better Roads Fund
CIP	Capital Investment Program
ESIF	Economic and Social Infrastructure Fund
FMAA	Financial Management and Audit Act 1990
FTE	Full-time equivalent
GBE	Government Business Enterprise
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GG	General Government
GGS	General Government Sector
GPOC	Government Prices Oversight Commission
GSP	Gross State Product
GST	Goods and Services Tax
HCF	Hospitals Capital Fund
HF	Housing Fund
HIAPL	Hobart International Airport Pty Ltd
ITF	Infrastructure Tasmania Fund
MAIB	Motor Accidents Insurance Board
NEM	National Electricity Market
PA	Public Account
PFC	Public Financial Corporation
PNFC	Public Non-Financial Corporation
RHH	Royal Hobart Hospital
RWSC	Rivers and Water Supply Commission
SCIF	Special Capital Investment Funds
SDTF	Special Deposits and Trust Fund
SOC	State Owned Company
TAFR	Treasurers Annual Financial Report
TASCORP	Tasmanian Public Finance Corporation
Tasrail	Tasmanian Railway Pty Ltd
UPF	Uniform Presentation Framework
URHF	Urban Renewal and Heritage Fund
WIF	Water Infrastructure Funda

APPENDIX 3 – RECENT REPORTS

DATE	REPORT TITLE
October 2010	Annual Report 2009-10
October 2010	Special Report No. 92 - Public sector productivity: a ten-year comparison
September 2010	Special Report No. 91 - Follow up of special reports: 62-65 and 70
July 2010	Special Report No. 90 - Science education in public high schools
June 2010	Auditor-General's Report No. 1 of 2010 - Local Government Authorities, Including Business Units and Other State Entities 2008-2009
June 2010	Special Report No. 89 - Post-Year 10 enrolments
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INDEX

A

ACRONYMS AND ABBREVIATIONS, 65

AUDITS DISPENSED WITH, 8

C

CONTROLLED SUBSIDIARIES, 8

D

DRAINAGE TRUSTS, 9

E

EXECUTIVE SUMMARY, 6

F

FOREWORD, 5

G

GENERAL GOVERNMENT SECTOR, 6, 11

GENERAL GOVERNMENT SECTOR FINANCIAL STATEMENTS AND PUBLIC ACCOUNT STATEMENTS, 11

GUIDE TO USING THIS REPORT, 59

P

PUBLIC ACCOUNT STATEMENTS, 6, 12, 32

R

RECENT REPORTS, 66

REGISTRATION BOARDS, 9

S

SPECIAL CAPITAL INVESTMENT FUNDS, 55

T

TOTAL STATE SECTOR FINANCIAL STATEMENTS, 6, 35

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

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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 issued by the Australian Auditing and Assurance Standards Board.

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