Tasmanian Audit Office

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Report of the Auditor-General

Volume 2 - Executive and Legislature, Government Departments and other General Government State Sector Entities 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 Two

Executive and Legislature, Government Departments and other General Government Sector State entities 2009-10

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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Tasmanian Audit Office
GPO Box 851
Hobart
TASMANIA 7001

Phone: (03) 6226 0100, Fax (03) 6226 0199
Email:admin@audit.tas.gov.au
Home Page: www.audit.tas.gov.au

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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 financial statements of Executive and Legislature, Government Departments and other General Government Sector State Entities 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

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FOREWORD

This Report is the second Volume of our revised reporting arrangements regarding outcomes of our annual financial audit work. It summarises the results of audits, and the financial performance, of those State entities comprising the General Government Sector for the year ended 30 June 2010. It covers the audits of nine government departments and 14 other GGS entities.

In the financial year ended 30 June 2010, entities making up the GGS incurred $4.584bn expenses from transactions and managed $19.031bn assets. The Departments of Health and Human Services (36.7%) and Education (21.5%) made up 58.2% of these expenses with Finance General (38.0%), Infrastructure, Energy and Resources (25.6%) and Health (13.9%), holding 77.5% of total assets. In the main these assets comprised investments in Government Business Enterprises and State-owned Companies (including the three new water and sewerage companies included for the first time this year) and land, buildings and roads. Major categories of expenditure on transactions included employee expenses (42.79%), supplies and consumables (21.2%) and grants and subsidies (20.4%) or 84.3% in total.

All audits were completed with unqualified audit opinions issued although, without qualifying the opinion on the financial statements of Education, we drew the attention of readers to aspects of their approach to valuing school buildings and, in the cases of the three Tasmania *Tomorrow* entities, we drew attention to their economic dependence on the State.

Where relevant, individual chapters in this Report draw attention to internal control weaknesses and other matters drawn to the attention of those charged with governance. With the exception of Education, whose audit opinion was signed on 6 October 2010 (six days late), all audits were completed by the statutory deadline of 30 September 2010.

HM Blake
Auditor-General
16 November 2010

INTRODUCTION

SCOPE OF THIS REPORT

This Report deals with the outcomes from audits completed of the financial statements prepared by the Executive and Legislature, Government Departments and other General Government Sector State entities, together with comments on audit findings.

STATUS OF AUDITS

All audits for the year ended 30 June 2010 have been completed. Statutory financial reporting requirements are detailed in the Chapter headed “Timeliness and quality of financial statements”.

Appendix 2 provides details of the status of all 30 June 2010 audits.

FORMAT OF THE REPORT

Unless specifically indicated, comments in this Report are current as at 31 October 2010.

In addition to this Introduction this report includes:

- an Executive Summary
- Timeliness and Quality of Financial Statements
- Executive and Legislature
- Ministerial Departments
- Other General Government Sector State entities.

EXECUTIVE SUMMARY

This Report contains analysis of financial information reported by the Executive and Legislature, Government Departments, and other General Government Sector State entities.

The accompanying text summarises significant matters identified from our analysis of the financial statements of these entities.

Our Report includes details of matters raised with entity management during the course of audits but only where the matter(s) raised warrant it. The rationale for inclusion rests on our perception of the public interest in each point.

MATTERS RAISED FOR THE ATTENTION OF THOSE CHARGED WITH GOVERNANCE

Included in individual chapters of this Report are brief outlines of matters reported to those charged with governance, for example Departmental Secretary, Board of Directors etc.

Internal control and other findings from audits included:

- For the Departments of Education and Health and Human Services various matters were raised with management related to the need to improve controls and processes over the accounting and reporting of transactions.
- The need for the Department of Justice to develop a new model for estimating the impairment of fines collection receivables and for the model to take account of observable data including the movements between receivable ageing classes. We also recommended this department develop better evidence supporting checks of back pay, overtime and allowances.
- For a number of Departments we identified opportunities to improve their IT control environment. Specific recommendations included updating IT policies, periodic reviews of system administrator and user access, and timely review of activity logs for super users. The Departments included Health and Human Services, Education, Justice, Primary Industries, Parks, Water and Environment, and Infrastructure, Energy and Resources.
- A number of matters relating to the need to improve accounting controls within Tasmanian Polytechnic's Shared Services, were reported including the fact that bank reconciliations contained numerous unreconciled items. We also noted the absence of the transfer notice/ gazettal notice for the transfer of Elizabeth College from the Department of Education (DOE) on 1 January 2010.
- The need for the House of Assembly, Legislature Council and Legislature – General to better manage staff annual leave arrangements.

It was pleasing to note that all items reported were being addressed by management.

EXECUTIVE AND LEGISLATURE

Audits of the four entities making up the Executive and Legislature were completed within statutory deadlines with unqualified audit opinions issued in all cases.

MINISTERIAL DEPARTMENTS

Audits of all departmental financial statements were completed with unqualified audit opinions issued in each case. However, without qualification the Department of Education's audit report included an 'emphasis of matter' comment. This 'emphasis of matter' drew attention to the manner in which the Department's buildings were revalued. The approach adopted applied a utility factor in order to reflect spare capacity in the State's schools with the emphasis of matter paragraph drawing attention to the potentially significant uncertainty associated with applying the utility factor. We concluded that the utility factor was a significant, although reasonable, assumption.

Department of Economic Development and Tourism incurred redundancy and restructure costs of $2.922m during the year as a result of the closure of Tasmania's Temptations Holidays in 2008-09. The Department also wrote off the Etech loan advance, $2.095m, and impaired Screen Tasmania investments by $5.347m. Following the year end, Tascot Templeton Carpets Pty Ltd, to which the Department had advanced loans totalling $3.850m, was placed into voluntary administration. The Department was not in a position to reliably measure any potential impairment at 30 June 2010.

Net assets increased $509.360m to $597.876m reflecting the transfer of the net assets from Tasmanian Museum and Art Gallery and Arts Tasmania, $420.912m, and an upwards revaluation of heritage and other assets, $96.300m. The Department increased its level of borrowings by $13.000m to fund, under the Tasmanian Industry Support Scheme, $10.615m assistance to industry.

Department of Education recorded a Net surplus of $198.499m for 2009-10. This surplus was primarily driven by capital works revenue, $228.645m, which included Commonwealth receipts for 'Building the Education Revolution' (BER) funding.

During 2009-10 one of the Department's colleges, Elizabeth College, $12.626m was transferred to the Tasmanian Academy. Also during 2009-10 the Australian Technical College, $13.343m, was transferred from the Commonwealth to the Department.

During the year Net assets increased by $250.174m to $1.058bn due mainly to the significant capital investment spend, $214.793m, primarily in respect to the BER initiative.

Department of Health and Human Services recorded a Net surplus of $50.257m, a large increase of $82.367m compared to the deficit in 2008-09 of $32.110m. Our analysis of this Department's financial results was complicated by changes to Commonwealth/State funding arrangements which resulted in some transactions transferring from Administered to Controlled transactions. This was a major cause behind the Department's higher recurrent appropriation, lower grants revenues and higher grants and subsidies paid.

The Department's salaries grew by $73.969m, due to the recruitment of an additional 500 FTE's and award increases. Net assets increased by $72.377m to $2.123bn primarily due higher Property, plant and equipment, mainly in Housing Tasmania. The Department also recorded a net increase in cash of $26.786m mainly because at 30 June 2010 it still held funds committed to capital expenditure.

Housing Tasmania received additional capital funding, provided by the Australian Government under the Nation Building Economic Stimulus Program, of $39.061m, for the construction and purchase of new housing stock, and improvements to existing dwellings. The four year Affordable Housing Strategy funding ended during 2010.

Department of Infrastructure, Energy and Resources recorded increased capital revenue, $93.685m, primarily to fund rail maintenance expenditure, the Brighton Bypass and the Brighton Transport Hub. The Department also received $81.865m of Federal and State funding for the establishment and ongoing operations of Tasmanian Railway Pty Ltd (Tasrail), which flowed through DIER to Tasrail as equity injections.

Department of Justice included income of $12.711m being a reversal of impairment of fines collection receivables, in its 2009-10 Administered Comprehensive Result. The introduction of the *Monetary Penalties Enforcement Act 2005* in April 2008 resulted in an overall collection rate of penalties and infringement notices in 2009-10 of 90% compared to 67% in 2007-08. This resulted in a significant reversal in the provision for impairment of fines collection receivables (Schedule of Administered Assets and Liabilities) from $29.126m to $16.414m.

Department of Primary Industries, Parks, Water and Environment (DPIPWE) recorded a Net deficit for the year of $4.907m before transfers to the Consolidated fund. The former Department of Environment, Parks, Heritage and Arts (DEPHA) (other than Arts Tasmania and Tasmanian Museum and Art Gallery) merged into the renamed DPIPWE. The Department assumed Net assets of $636.493m on this re-structure, with the major item transferred being property, plant and equipment of $537.111m.

Department of Treasury and Finance, through the Division of Finance General, receipted increased Australian Government grants of $1.043bn due to higher than anticipated goods and services tax, national partnership payments and special purpose payments from the Australian Government. This funding included additional economic stimulus monies.

During 2009-10 Finance-General recognised, following advice to do this by the Australian Bureau of Statistics, within Equity investments in Government Business Enterprises and State-owned Companies, net assets totalling $1.728bn relating to the local government owned regional water and sewerage corporations. This is a classification matter only and has no impact on the ownership and control of water and sewerage assets which rests with local government under the *Water and Sewerage Corporations Act 2008*.

The net assets of Tasrail, $71.857m, are also now included as part of Equity investments within Finance-General's assets. Tasrail was created by combining the below rail assets (track and associated infrastructure) that the Government had assumed responsibility for in 2007 with the above rail (rolling stock) and business assets purchased from Pacific National late in 2009 for $30.449m.

OTHER STATE ENTITIES

Audits of other General Government Sector State entities were completed with unqualified audit opinions issued in each case. However without qualification the audit reports for Tasmanian Polytechnic, Tasmanian Academy and Tasmanian Skills Institute included an 'emphasis of matter' comment. This 'emphasis of matter' drew attention to the economic dependency of these three entities on Government.

The Tasmania *Tomorrow* entities, the Polytechnic, Academy and Skills Institute, recorded a combined Net deficit for 2009-10 (before capital funding) of $23.067m. The deficit indicated the three entities failed to generate sufficient revenue to fulfil their operating requirements. Capital revenue totalling $27.546m was received by these three entities. Cash as at 30 June 2010, $22.646m, primarily represented unspent capital funding.

In June 2010 the Minister for Education and Skills announced that the Tasmania *Tomorrow* initiative was to be refined, and that it was proposed to transfer the management of the Polytechnic and Academy to Department of Education effective 1 January 2011. This refinement will see the abolition of the current Polytechnic and Academy Boards of Management. The Tasmanian Skills Institute will continue to operate training centres within Tasmanian.

To support continued operations over the next six months the Secretary for the Department of Education, on behalf of the Minister, provided the Boards of these three Authorities with a letter of comfort which confirms that the Department, through a Memorandum of Understanding, will continue to fund each Authority for its financial obligations in relation to services as contracted.

TIMELINESS AND QUALITY OF FINANCIAL STATEMENTS

STATUTORY FINANCIAL REPORTING AND AUDITING TIMING REQUIREMENTS

Under Section 17 of the *Audit Act 2008* (the Audit Act) specific dates are set by when accountable authorities of State entities are to provide financial statements to the Auditor-General to formally allow the audit process to commence. The requirement is that financial statements are submitted for audit within 45 days after the end of the financial year. Transitional provisions apply to a number of entities whereby the provisions of the Audit Act will not apply until the year ending 30 June 2011.

Our responsibility under the Section 19 of the Audit Act is to complete our audits within 45 days of receiving financial statements from State entities.

In all cases covered by this report entities have a 30 June financial year-end making 15 August the statutory date by when financial statements are to be transmitted with our deadline being 30 September.

These dates were set to allow sufficient time for audits to be completed and for entities to prepare annual reports for tabling in Parliament by 31 October each year.

SIGNED STATEMENTS NOT RECEIVED ON OR BEFORE STATUTORY DEADLINES

Listed below are entities whose signed financial statements were not received prior to the statutory deadline. Dates shown in brackets represent the date signed financial statements were received, unless otherwise stated.

15 AUGUST DEADLINE

Executive and Legislature, Departments and other General Government Sector State entities

- Department of Economic Development, Tourism and the Arts (17 August 2010)
- Tasmanian Museum and Art Gallery (17 August 2010)
- Tasmania Development and Resources (18 August 2010)
- The Nominal Insurer (23 August 2010).

However, we accepted there were good reasons for these State entities missing this deadline.

COMPLIANCE WITH FINANCIAL REPORTING STANDARDS

Unless otherwise stated in legislation, General Government Sector State entities must prepare their annual financial statements in compliance with Australian Accounting Standards. Compliance with the Department of Treasury and Finance's 'model financial statements' achieves this.

All entities covered by this report complied with Australian Accounting Standards.

QUALITY OF FINANCIAL REPORTING

Section 17 of the Audit Act also provides for the Auditor-General to determine whether the signed financial statements submitted are complete in all material respects. Upon receipt of signed financial statements, we immediately conduct a desk-top review, utilising a checklist, to ensure they are complete and presentation complies with Australian Accounting Standards. We also confirm the accuracy of comparatives, cross references, and ensure the statements are arithmetically correct.

Following audits, only two of the financial statements had to be re-signed. However three of the nine Departments', or 33%, and five of the ten other General Government Sector State entities', or 50%, financial statements required many amendments.

This indicated whilst overall the quality of financial statements were generally of a high standard, some technical or complex matters required amendment.

EXECUTIVE AND LEGISLATURE

OVERVIEW

All financial statements were submitted in time and audits completed prior to 30 September. The only matter of concern was high levels of outstanding annual leave particularly at House of Assembly and Legislative Council.

INTRODUCTION

The Parliament of Tasmania is comprised of the Crown (represented by the Governor), the Legislative Council and the House of Assembly that collectively form the Legislature. Legislature-General provides, amongst other matters, support for general parliamentary functions including the Parliamentary Catering and Reporting Services.

Designated officers of the Parliament administer these entities and financial transactions are recorded in the financial statements of:

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

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

This Report includes separate Chapters for each of the four Parliamentary agencies with financial information on each summarised under the following headings:

- Audit of the 2009-10 Financial Statements
- Key Findings and Developments
- Summary of Financial Results
- Other Information.

KEY FINDINGS AND OUTCOMES FROM AUDITS

Key findings and outcomes from our audits were:

- All four agencies submitted financial statements within the statutory deadline.
- For the House of Assembly and Legislative General we reported that levels of annual leave owing to several employees remained high. Management assured us that steps are being taken to reduce levels of annual leave accrued.
- Unqualified audit opinions on financial statements were issued on:

House of Assembly	28 September 2010
Legislative Council	28 September 2010
Legislature-General	28 September 2010
Office of the Governor	30 September 2010.

HOUSE OF ASSEMBLY

The House's primary source of Revenue is the annual Appropriation provided to fund Member benefits, salaries for House staff and operating costs.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010 and an unqualified audit report was issued on 28 September 2010.

KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

The level of annual leave owing to several employees remains high. Details are provided in the Other Information section of this Chapter. Recommendations were made to House management who are taking steps to manage down this growing liability.

SUMMARY OF FINANCIAL RESULTS

	2009-10 Actual	2008-09 Actual
	$'000s	$'000s
Total Revenue	7 131	7 086
Total Expenses	7 061	7 371
Net Surplus (Deficit)	**70**	**(285)**
Total Assets	1 351	1 391
Total Liabilities	857	968
Net Assets	**494**	**423**
Total Equity	**494**	**423**

Comment

The House's Net Surplus improved by $0.355m in 2009-10 as a result of:

- additional appropriation to fund allowances and benefits provided to Members of the Tasmanian Parliament, arising from the report of the Second Committee of Reviews
- lower employee and member benefits due to fewer Parliamentary sitting days because of the State election. Correspondently, travel allowances to Members and overtime payments to permanent staff decreased and
- lower supplies and consumables resulting from a reduction in travel, communication and IT expenses.

The House's Total Equity increased by $0.071m during 2009-10 due to the Net Surplus.

The decrease in Total Assets equalled the depreciation of plant and equipment.

Total Liabilities decreased due to more invoices being paid before year end.

OTHER INFORMATION

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Other Information					
Staff numbers (FTEs)		19	19	20	20
Average staff costs ($'000s)		83	86	71	64
Average Recreational leave balance per FTE (days)	20	35	36	33	33
Average Long Service Leave balance per FTE (days)	100	59	65	59	61

Comment

Average Recreation Leave balance Per FTE was very high reflecting the level of leave owing to several employees as noted under the Key Findings and Developments section.

Average Long Service Leave balance per FTE decreased 6 days from 65 days to 59 days because staff took more long service leave in 2009-10.

LEGISLATIVE COUNCIL

INTRODUCTION

Officers of the Legislative Council (the Council) provide the Council, its Committees, the President and Members with advisory, procedural, research and administrative support services to assist them to effectively undertake their constitutional and Parliamentary duties.

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

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010 and an unqualified audit report was issued on 28 September 2010.

KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

The level of annual leave owing to several employees remains high. Details are provided in the Other Information section of this Chapter. Reccommendations were made to Council management who are taking steps to manage down this growing liability.

SUMMARY OF FINANCIAL RESULTS

	2009-10 Actual	**2008-09 Actual**
	$'000s	$'000s
Total Revenue	5 656	5 657
Total Expenses	5 757	5 750
Net Surplus (Deficit)	**(101)**	**(93)**
Total Assets	1114	1135
Total Liabilities	803	723
Net Assets	**311**	**412**
Total Equity	**311**	**412**

Comment

The Council incurred a deficit of $0.101m in 2009-10 (2009, $0.093m). The increase in the deficit was the result of higher employee benefits during 2009-10, which was partly offset by decreases in supplies and consumables and depreciation costs.

The increase in employee benefits was the result of increases in long service leave entitlements and superannuation costs.

Equity similarly decreased by $0.101m.

Total Assets decreased by $0.021m, due to depreciation charges. Total Liabilities increased during 2009-10 by $0.080m, due to higher employee entitlements, $0.739m (2009, $0.647m). This was partly offset by a decrease in the payables balance.

OTHER INFORMATION

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Other Information					
Staff numbers (FTEs)		29	29	26	24
Average staff costs ($'000s)		77	74	69	70
Average Recreational Leave balance per FTE (days)	20	35	35	40	
Average Long Service Leave balance per FTE (days)	100	49	44	76	

Comment

We have written to the Clerk of the Council advising our view that average Recreational leave balances of 35 days is high and recommending that steps be taken to reduce this average balance. Leave balances for 2006-07 are not available.

LEGISLATURE-GENERAL

The Legislature-General is funded by annual Appropriation to provide the Legislative Council and House of Assembly with administrative support.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010 and an unqualified audit report was issued on 28 September 2010.

KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major issues outstanding.

The level of annual leave owing to several employees remains high. Details are provided in the Other Information section of this Chapter. Recommendations were made to Legislature-General management who are taking steps to manage down this growing liability.

SUMMARY OF FINANCIAL RESULTS

	2009-10	**2008-09**
	Actual	**Actual**
	$'000s	$'000s
Total Revenue	5 984	10 339
Total Expenses	6 587	8 949
Net Surplus (Deficit)	**(603)**	**1 390**
Total Assets	31 530	32 128
Total Liabilities	882	877
Net Assets	**30 648**	**31 251**
Total Equity	**30 648**	**31 251**

Comment

The Legislature-General incurred a Net Deficit of $0.603m in 2009-10 primarily due to depreciation and the increase in employee entitlements not being funded. This result is not directly comparable with the Net Surplus of $1.390m generated in 2008-09 because that year included revenue from government-capital of $4.300m for completion of the Parliamentary Restoration Project. Some of the $4.300m funding was applied to non-capitalised restoration costs being maintenance type expenditure.

Total Revenue dropped by $0.055m predominately due to the decrease in recurrent appropriation revenue.

Total Expenses decreased by $2.362m as a result of:

- lower supplies and consumables, down $2.541m due to the completion of refurbishment of the House of Assembly chamber and leasehold improvements to the Treasurer's office.

These declines in expenses were in part offset by:

- higher employee and member benefits of $0.011m, due to salary award increases and

- higher depreciation of $0.144m due to additional depreciation from Parliament Restoration Project costs capitalised and the Parliament House valuation increments at 30 June 2009.

Total Assets decreased by $0.598m primarily due to depreciation of $0.608m, offset by additional plant and equipment, $0.043m.

Total Equity decreased by $0.603m in 2009-10 being the Net Deficit for the financial year. From a Net Assets perspective this decrease was primarily represented by lower plant and equipment at year end, due to depreciation.

OTHER INFORMATION

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Other Information					
Staff numbers (FTEs)		32	33	33	30
Average staff costs ($'000s)		88	83	78	78
Average Recreational Leave balance per FTE (days)	20	25	26	25	29
Average Long Service Leave balance per FTE (days)	100	45	46	45	49

Comment

Average Recreation Leave balance Per FTE was high reflecting the level of leave owing to several employees as noted under the Key Findings and Developments section.

OFFICE OF THE GOVERNOR

INTRODUCTION

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

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2010 and an unqualified audit report was issued on 30 September 2010.

KEY FINDINGS

The audit was completed satisfactorily with no major items outstanding.

SUMMARY OF FINANCIAL RESULTS

	2009-10 Actual	2008-09 Actual
	$'000s	$'000s
Total Revenue	3 078	3 168
Total Expenses	3 370	3 380
Net (Deficit)	**(292)**	**(212)**
Total Assets	35 045	34 145
Total Liabilities	496	477
Net Assets	**34 549**	**33 668**
Total Equity	**34 549**	**33 668**

Comment

The Office's Net Assets increased by $0.881m to $34.549m in 2009-10, due to an asset revaluation increment of $1.174m, based on revaluations of heritage assets and land and buildings during the year. The increment was offset by the Net Deficit of $0.292m for the year ended 30 June 2010.

Total Assets comprised predominantly land and buildings, $31.957m (2009, $31.066m) and heritage assets, $2.733m ($2.687m).

The Net Deficit increased by $0.080m, mainly due the decrease in the recurrent annual appropriation, $0.102m, reflecting the impact of the Government's Budget Management Strategies.

MINISTERIAL DEPARTMENTS

SUMMARY FINANCIAL ANALYSIS

We summarise below significant financial results for each Department. The commentary below commences with discussion about each Department's Net (deficit) or surplus after accounting for other economic flows.

When evaluating the financial performance of Departments it is important to note that, while they are funded on an accruals basis, this does not include funding for depreciation and amortisation charges or for increases in provisions for employee entitlements such as recreational and long service leave.

The **Department of Economic Development and Tourism** (incorporating Tasmania Development and Resources (TDR), Tasmanian Museum and Art Gallery (TMAG) and Tourism Tasmania (TT). TMAG and Arts Tasmania were transferred to the Department on 1 July 2009) recorded a Net deficit of $7.851m this year compared to a Net deficit of $5.908m last year.

During 2009-10 the Department was provided with additional funds for the North West Assistance Package, $5.300m and the Forest Contractor Support Program, $1.800m.

As a result of the closure of Tasmania's Temptations Holidays in 2008-09 redundancy and restructure costs of $2.922m were incurred during the year.

The Department wrote off the Etech loan advance, $2.095m, and impaired Screen Tasmania investments by $5.347m. Following the year end, Tascot Templeton Carpets Pty Ltd, to which TDR had advanced loans totalling $3.850m, was placed into voluntary administration. TDR was not in a position to reliably measure any potential impairment at 30 June 2010.

Net assets increased $509.360m to $597.876m reflecting the transfer of the net assets from TMAG and Arts Tasmania, $420.912m, and an upwards revaluation of heritage and other assets, $96.300m. The Department increased its level of borrowings by $13.000m to fund, under the Tasmanian Industry Support Scheme, $10.615m assistance to industry.

The **Department of Education** recorded a Net surplus of $198.499m for 2009-10 compared to a 2008-09 Net deficit of $13.579m. This surplus was primarily driven by capital works revenue, $228.645m, which included Commonwealth receipts for 'Building the Education Revolution' (BER) funding.

During 2009-10 one of the Department's colleges, Elizabeth College, transferred to the Tasmanian Academy which resulted in a decrease of 61 FTE's equating to $4.762m of savings. Also this year, the Department paid as grants and subsidies $58.736m to the Tasmania *Tomorrow* entities.

Net assets increased by $250.174m to $1.058bn due mainly to the significant capital investment spend, $214.793m, primarily in respect to the BER initiative. Other factors increasing Net assets were an upwards revaluation of land and buildings, $56.259m, and heritage assets, $12.000m and the transfer from the Commonwealth of the Australian Technical College to the Department, $13.343m. These movements were offset by the transfer of Elizabeth College, $12.626m, to the Academy.

Department of Health and Human Services (incorporating Housing Tasmania, although separate commentary is provided below, and Ambulance Tasmania). Our analysis of this Department's financial results was complicated by changes to Commonwealth/State funding arrangements which resulted in some transactions transferring from Administered to Controlled transactions. This was a major cause behind the Department's higher recurrent appropriation, lower grants revenues and higher grants and subsidies paid.

The Department recorded a Net surplus of $50.257m, a large increase of $82.367m compared to the deficit in 2008-09 of $32.110m. Recurrent, special capital investment funds and Capital Revenue from Government increased $216.164m, however the Department's salaries grew by $73.969m, due to the recruitment of an additional 500 FTE's and award increases.

Net assets increased by $72.377m to $2.123bn primarily due to higher Property, plant and equipment, mainly in Housing Tasmania. The Department also recorded a net increase in cash of $26.786m mainly because at 30 June 2010 it still held funds committed to capital expenditure.

Housing Tasmania incurred a Net surplus this year of $33.791m, a significant improvement from the prior year's deficit of $7.203m. However, the improvement was almost entirely due to additional capital funding, provided by the Australian Government under the Nation Building Economic Stimulus Program, of $39.061m, for the construction and purchase of new housing stock, and improvements to existing dwellings.

The four year Affordable Housing Strategy funding ended during 2010.

Total Net assets increased by $25.744m, 1.5%, to $1.632bn. Net capital improvements, $49.648m were offset by depreciation, $26.265m, downwards revaluation, $8.047m, and disposals and impairments, $24.419m. Cash and deposits increased $12.629m which represented unspent capital funding provided to finance the Construction of new dwellings and improvements to dwellings.

Ambulance Tasmania (formerly Tasmanian Ambulance Service) reported a Net surplus of $7.164m this year, an increase of $10.793m compared to the prior year's deficit, $3.692m. The improved result was primarily due to increased Capital revenue, $2.035m, and the actuarial superannuation adjustment being favourable this year, $2.593m, compared to last year's unfavourable movement of $5.867m.

Total revenue excluding the above items increased $5.445m and was closely matched by increased expenditure, $5.229m. Net assets increased $7.723m to $21.588m due to capital additions $5.733m and the lower superannuation liability.

Department of Infrastructure, Energy and Resources recorded a Net surplus of $171.184m in 2009-10 compared to a Net deficit of $2.550m in the prior year. Excluding capital revenue, Tasrail funding, and asset write downs, the Net result was $9.307m better than the prior year, primarily due to a reduction in supplies and consumables costs of $13.892m.

Capital revenue increased by $93.685m primarily to fund rail maintenance expenditure, the Brighton Bypass and the Brighton Transport Hub.

The Department also received $81.865m of Federal and State funding for the establishment and ongoing operations of Tasrail, which flowed through DIER to Tasrail as equity injections.

Net assets increased by $222.053m primarily due to asset revaluation increments. Road infrastructure represented 97% of total assets.

The **Department of Justice** reported a Net Surplus of $0.663m, a decrease of $6.709m from the prior year's surplus of $7.372m. Net Assets increased by the net surplus amount to $149.594m.

The Department's recurrent appropriation increased by $11.100m this financial year. However, its capital appropriations decreased from $11.905m to nil in 2009-10 as funding for the Prison Infrastructure Redevelopment Program was completed during 2008-09.

Total expenditure, excluding grants, increased $5.282m, 4%. Grants expenditure increased $4.601m and related to Commonwealth funding for Sullivans Cove Waterfront Authority being received by the Department first rather than direct to Sullivan's Cove.

The introduction of the *Monetary Penalties Enforcement Act 2005* (MPEA) in April 2008 resulted in an overall collection rate of penalties and infringement notices in 2009-10 of 90% compared to 67%

in 2007-08. This resulted in a significant reversal in the provision for impairment of fines collection receivables (reported in the Schedule of Administered Assets and Liabilities) from $29.126m to $16.414m. The reversal of impairment on fines collection receivables, $12.711m, is recognised as income in the 2009-10 Administered Comprehensive Result.

The **Department of Police and Emergency Management** reported a Net deficit of $4.254m this year, a decline of $3.830m from the 2008-09 deficit, $0.424m. Grant expenditure increased $2.569m due to a one-off grant of $2.440m for the upgrade of the Tasmanian Mobile Radio Network.

Total Net assets increased by $3.762m to $164.369m mainly due an upward revaluation of land and buildings.

Department of Premier and Cabinet recorded a higher Net deficit this year of $1.009m, an increase of $0.409m on the prior year's $0.600m deficit. Total revenue increased by $1.259m,1.2%, to $101.388m and total expenditure increased by $1.668m, 1.6% to $102.397m.

The reduction in the Department's Total Equity of $1.009m to $2.298m represented the Net deficit incurred this year.

The Department administers the State's and the Commonwealth's contributions under the Tasmanian Community Forest Agreement (TCFA). During 2009-10 final payments of $18.000m were made to Forestry Tasmania.

The **Department of Primary Industries, Parks, Water and Environment** (DPIPWE) reported a Net deficit for the year of $4.907m before transfers to the consolidated fund. The former Department of Environment, Parks, Heritage and Arts (DEPHA) (with the exception of Arts Tasmania and Tasmanian Museum and Art Gallery) merged into the renamed DPIPWE. The Department assumed Net assets of $636.493m on this re-structure, with the major item being property, plant and equipment of $537.111m.

During 2009-10 the Department received $18.000m for the Australian Government Water for the Future initiative. Recurrent revenue from special capital investment funds included additional funding from the Urban Renewal and Heritage Fund, Infrastructure Tasmania Fund and incorporated the Cradle Mountain Central Sewage Treatment project. During 2009-10 $21.908m (2008-09, $14.224m) was provided to Rivers and Water Supply Commission from the Water Infrastructure fund.

The Department's Net Assets increased to $986.242m from $369.095m primarily as a result of the DEPHA merger.

The **Department of Treasury and Finance** reported a Net surplus of $1.885m compared to the 2008-09 net deficit of $6.068m. The 2008-09 result was adversely affected by a $5.000m transfer from a trust account to the Consolidated fund. This $5.000m represented contract management income earned in prior years. Grants and subsidies payments decreased due to a Community Service Levy (CSL) grant payment, $1.769m, being withheld pending receipt of a budget submission from DHHS.

Total Equity at 30 June 2010 was $0.177m, a turnaround of $1.885m. The increase in Net Assets included a higher Cash and deposits balance, $2.033m, due to the CSL grant payment being retained.

The Division of Finance-General reported a net surplus of $770.339m (2008-09, $46.953m) and Net Assets of $1.606bn (2008-09, $826.002m).

Australian Government grants increased $1.043bn due to the receipt of higher than anticipated goods and services tax, national partnership payments and special purpose payments from the Australian Government. This funding included additional economic stimulus monies.

During 2009-10 Finance-General recognised, within Equity investments in Government Business Enterprises and State-owned Companies, net assets of $1.728bn relating to the local government owned regional water and sewerage corporations. This inclusion follows a decision by the Australian Bureau of Statistics requiring the incorporation of these entities within the Public Non-Financial Corporations Sector. This is a classification matter only and has no impact on the ownership and control of water and sewerage assets which rests with local government under the *Water and Sewerage Corporations Act 2008*.

The net assets of Tasrail, $71.857m, are now also included as part of Equity investments within Finance-General's assets. Tasrail was created by combining the below rail assets (track and associated infrastructure), that the Government had assumed responsibility for in 2007, with the above rail (rolling stock) and business assets purchased from Pacific National late in 2009 for $30.449m.

Other Equity investments in 2009-10 included:

- $4.900m to Aurora Energy Pty Ltd in support of the TasGovNet Strategic partnership agreement between Aurora Energy and NBN Tasmania. This company's objective is to bring competition into the Tasmanian broadband network.
- $0.861m to Tasracing to fund completion of Mowbray Lights Project.

INTRODUCTION

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

This part of the Report provides financial information on the Departments of:

- Economic Development, Tourism and the Arts (including separate Chapters on Tasmania Development and Resources (TDR), Tourism Tasmania (TT), and Tasmanian Museum and Art Gallery (TMAG)
- Education
- Health and Human Services (including separate Chapters for Housing Tasmania and Ambulance Tasmania – formerly Tasmanian Ambulance Service)
- Infrastructure, Energy and Resources
- Justice
- Police and Emergency Management
- Premier and Cabinet
- Primary Industries, Parks, Water and Environment
- Treasury and Finance.

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

- Audit of the 2009-10 Financial Statements
- Key Findings and Developments
- Financial Results:
    - Comprehensive Income Statement
    - Statement of Financial Position
    - Statement of Cash Flows
    - Financial Performance
- Administered Financial Transactions.

For those entities which are incorporated into the results of Departments, namely, TDR, TT, TMAG, Housing Tasmania and Ambulance Tasmania, the information within their Chapters is summarised under the following headings:

- Audit of the 2009-10 Financial Statements
- Key Findings and Developments
- Abridged Comprehensive Income Statement
- Abridged Statement of Financial Position
- Financial Performance.

The financial results discussed are derived from the audited financial statements that include Cash and Accrual components. The reporting framework for Departments is prescribed through Treasurer's Instructions issued under the *Financial Management and Audit Act 1990* and the requirements of Australian Accounting Standards. Full (unabridged) financial statements are required to be published as part of each Department's annual report which must be tabled in Parliament by 31 October following the end of the financial year; at which time they become public documents.

Departments are required to present financial statements in accordance with the Model Departmental Financial Statements developed by Treasury, which require the inclusion of budget information, in line with the original budget, on the face of the statements. While the budget information reported is not subject to audit, we have ensured that the information reported agrees to the original Budget Papers.

In all cases our audits concluded that Departments completed their financial statements in accordance with Australian Accounting Standards. However, in our analysis of each Department's financial performance we have, in some cases, reallocated certain revenue or expenditure items to better assist readers interpret financial performance. For example, in the Statement of Comprehensive Income appropriations received on capital account are shown after arriving at a Net surplus or deficit from transactions for the year and in the Statement of Cash Flows funds received on capital account are shown as investing activities rather than as operating cash receipts.

KEY FINDINGS AND OUTCOMES FROM AUDITS

Key outcomes from audits included:

- Audits of all Departmental financial statements were completed with unqualified audit opinions issued in each case. However, without qualification the Department of Education's audit report included an 'emphasis of matter' comment. This 'emphasis of matter' drew attention to the manner in which the Department's buildings were revalued. The approach adopted applied a utility factor in order to reflect spare capacity in the State's schools with the emphasis of matter paragraph drawing attention to the potentially significant uncertainty associated with applying the utility factor. We concluded that the utility factor was a significant, although reasonable, assumption
- All Departments submitted financial statements within the statutory deadline of 15 August 2010, except for:
    - Department of Economic Development, Tourism and the Arts – 17 August 2010
    - Tasmanian Museum and Art Gallery – 17 August 2010
    - Tasmania Development and Resources – 18 August 2010.

  However, we accepted there were good reasons for these State entities missing this deadline.
- Internal control and other findings from audits.

- For the Departments of Education and Health and Human Services various matters were raised with management related to the need to improve controls and processes over the accounting and reporting of transactions
- The need for the Department of Justice to develop a new model for estimating the impairment of fines collection receivables and for the model to take account of observable data including the movements between receivable ageing classes. We also recommended this department develop better evidence supporting checks of back pay, overtime and allowances
- For a number of Departments we identified opportunities to improve their IT control environment. Specific recommendations included updating IT policies, periodic reviews of system administrator and user access, and timely review of activity logs for super users. The Departments included Health and Human Services, Education, Justice, Primary Industries, Parks, Water and Environment, and Infrastructure, Energy and Resources.

DEPARTMENT OF ECONOMIC DEVELOPMENT, TOURISM AND THE ARTS

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements for the Department of Economic Development, Tourism and the Arts (the Department) were received on 17 August 2010. An unqualified audit report was issued on 29 September 2010.

BACKGROUND

The Department manages a number of activities including for example Culture, Recreation and Sport and Industry Development. These activities are managed by itself or through separate entities, being:

- Tasmania Development and Resources (TDR)
- Tourism Tasmania
- Tasmanian Museum and Art Gallery (TMAG).

It also provides corporate support for its own activities as well as the above three entities.

The Department, through TDR provides industry support by making loans and grants from its own resources and loans from the Tasmanian Industry Support Scheme (TISS) $100m facility.

For a more detailed analysis of the operations of these three entities, separate commentaries have been included in this Report with this Chapter reporting financial outcomes at a consolidated departmental level.

KEY FINDINGS AND DEVELOPMENTS

RESTRUCTURING ORDER 2009

As a result of the administrative order, the Department of Environment, Parks, Heritage and the Arts (DEPHA) ceased to exist on 30 June 2009. The administrative order transferred the TMAG and Arts Tasmania to the Department on 1 July 2009.

The financial impact in 2009-10 of the Department taking control of TMAG and Arts Tasmania was:

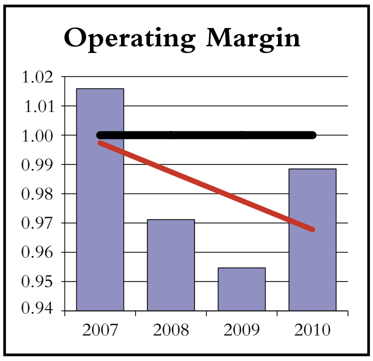
- recognition of net assets of $420.912m including Heritage and cultural assets of $393.080m
- recurrent funding increased as a result of funds appropriated to the former DEPHA for funding of TMAG and Arts Tasmania
- other revenue increased mainly due to TMAG and Arts Tasmania property identified by the Department for the first time
- contributions received by TMAG being donations from the Cultural Gifts program
- employee entitlements increased following the transfer of TMAG, Arts Tasmania and associated corporate staff
- depreciation expenses related to TMAG and Arts Tasmania represented $0.487m or 26% of the total Department's depreciation
- grants and subsidies increased as the Department disbursed $6.485m in Art Tasmania grants
- Approximately 122 employees joined the Department as a result of the restructure.

The takeover had a significant impact on the Department's 2009-10 financial statements and is often referred to in our comparative analysis detailed in the following Chapters.

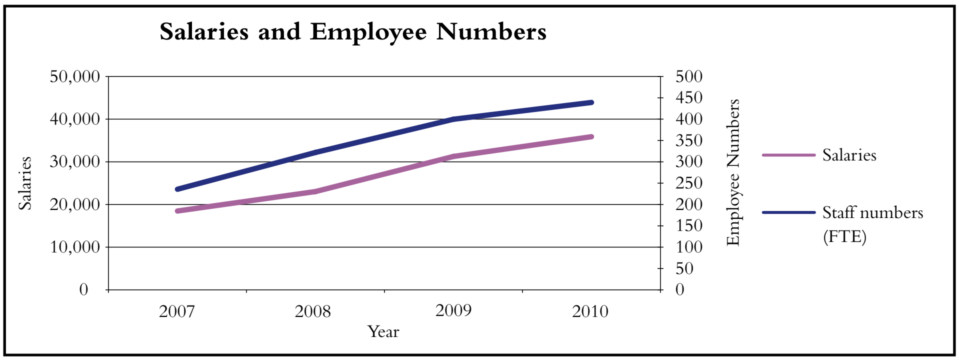
The audit was completed satisfactorily with no matters outstanding.

FINANCIAL RESULTS

The following two graphs highlight important aspects of the Department's financial results:



Operating Margin trended downwards from 2007 to 2009 and was consistently below the benchmark of one. This reflected the deficits in the period under review which were consistent with budgeted outcomes. There was a slight improvement to the operating margin in 2009-10.



The Department's salaries and employee expenses continue to grow. The number of FTE's increased in line with the expense. The increase from 2007 to 2010 is mainly due to administrative restructures transferring staff of Tourism, TMAG and Arts Tasmania to the Department including associated corporate support staff.

COMPREHENSIVE INCOME STATEMENT

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Revenue from government - recurrent	83 130	96 644	78 114	60 301
Revenue from government - appropriation carried forward	0	140	940	1 309
Revenue from Special Capital Investment Funds	17 326	14 180	14 554	17 281
Grants	1 887	230	20	262
Sales of goods and services	2 832	2 957	3 684	5 697
Interest	3 002	3 268	2 426	4 023
Other revenue	999	6 741	6 859	7 288
Total Revenue	**109 176**	**124 160**	**106 597**	**96 161**
Employee benefits	32 224	38 807	32 388	23 033
Depreciation and amortisation	1 721	1 862	1 321	1 122
Supplies and consumables	31 937	33 031	27 805	28 287
Grants and subsidies	41 739	46 958	44 413	37 379
Finance costs	2 193	1 866	1 302	1 690
Other expenses	1 843	4 945	5 749	8628
Total Expenses from transactions	**111 657**	**127 469**	**112 978**	**100 139**
Net (deficit) Result from transactions	**(2 481)**	**(3 309)**	**(6 381)**	**(3 978)**
Other economic flows included in net result				
Net gain (loss) on non-financial assets	0	(232)	398	1 226
Net gain (loss) on financial instruments and statutory receivables/payables	0	(7 868)	75	1 335
Fair value of land and buildings identified	0	3 050	0	0
Contributions received	0	508	0	175
Total other economic flows included in net result	**0**	**(4 542)**	**473**	**2 736**
Net (Deficit) attributable to the State	**(2 481)**	**(7 851)**	**(5 908)**	**(1 242)**
Net Deficit after other economic flows	**(2 481)**	**(7 851)**	**(5 908)**	**(1 242)**
Other economic flows - other non-owner changes in equity				
Changes in physical asset revaluation reserve	7 994	96 300	805	0
Comprehensive Surplus (Deficit)	**5 513**	**88 449**	**(5 103)**	**(1 242)**

Comment

The Net deficit from transactions of $3.309m improved by $3.072m from 2008-09 and was substantially in line with budget. Movements in individual line items were due mainly to:

- increased Revenue from government $18.530m, due to additional funds provided for North West Assistance package, $5.300m, Forest Contract Support Program, $1.800m, National Broadband Network, $1.000m and Tourism Marketing and Events, $4.000m
- increased Interest revenue of $0.842m, 35%, due to higher interest rates and a $10.615m increase in loan advances (refer Statement of Financial Position section later in this Chapter)
- lower sales of goods and services primarily due to a decline in sales of travel products through Tasmania's Temptations Holidays of $0.727m. This business unit ceased operation as at 30 September 2009
- redundancy payments from the closure of Tasmania's Temptations Holidays, and administrative restructure of approximately $2.922m
- increased Finance costs of $0.562m, due to higher levels, $13.000m, of borrowings (refer Statement of Financial Position section later in this Chapter).

Net Deficit after accounting for other economic flows increased by $1.943m from 2008-09 due mainly to:

- write off of Etech loan advance of $2.095m
- impairment loss for Screen Tasmania of $5.347m
- offset by the initial recognition of land and building assets at Moonah, $2.000m and Tasma Street, $1.050m.

Comprehensive Surplus represented an improvement of $93.552m compared to the deficit in 2008-09, $5.103m. This was mainly due to the revaluation of Heritage Assets totalling $96.300m offset by the Net Deficit of $7.851m for the current year.

The primary reasons for variations between budget and actual results were:

- Appropriation revenue and Grants and subsidies higher than budget due to additional funds provided for North West Assistance Package, $5.300m, Forest Contract Support Program, $1.800m, National Broadband Network, $1.000m and Tourism Marketing and Events, $4.000m
- Revenue from Special Capital Investment Funds lower than budget primarily due to delayed Economic and Social Infrastructure Fund projects, $7.400m, offset by additional Urban Renewal and Heritage Funds grants, $3.600m, announced during 2009-10
- Grants lower than budget mainly due to decreased Australian Government grants and the reclassification of funds received under the Community Support Levy, $1.200m
- Employee benefits higher than budget due to the original budget not including estimates for employee separation payments, $2.900m, increases as a result of the award translation process, positions funded from external sources and the increase in accrued employee benefits
- Borrowing costs lower than budget due to lower than budgeted disbursement of loans under the Tasmanian Industry Support Scheme
- Other expenses higher than budget due to a reclassification of salary on-costs from other supplies and consumables, expenditure related to additional funding provided, increased payroll tax expense as a result of employee separation payments, the award translation process and positions funded from external sources.

INTELLIGENT ISLAND PROGRAM

Intelligent Island Program aims to create higher, long-term sustainable growth of the State's Information Communications and Technology (ICT) industries.

Initial funding of $40.000m was provided by the Australian Government from the partial sale of Telstra. On 21 December 2005, the Australian and Tasmanian Governments jointly announced new directions for Phase 2 of the Intelligent Island Program, which included a new research centre established in the State and a new grants program that would encourage local ICT companies to develop products and market them globally.

The table below showed the financial status of the program since 2006-07:

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash Opening balance	**13 079**	**21 423**	**28 638**	**31 953**
Interest received	336	1 112	1 659	1 749
Project grants	6 748	8 987	8 437	4 452
Administration	127	469	437	612
Total Payments	**6 875**	**9 456**	**8 874**	**5 064**
Cash Closing balance	**6 540**	**13 079**	**21 423**	**28 638**

STATEMENT OF FINANCIAL POSITION

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Financial Assets				
Cash and deposits	25 424	27 533	31 964	55 246
Receivables	766	810	444	763
Loan advances	46 535	32 202	21 587	5 995
Equity investments	3 553	589	5 695	6 142
Non-financial Assets				
Inventories	0	459	0	0
Property, plant and equipment	41 462	71 852	38 069	37 740
Heritage and culural assets	404 360	486 520		
Investment property	11 100	11 310	11 570	11 100
Intangibles	398	1 237	655	550
Other assets	2 518	3 448	3 336	3 596
Total Assets	**536 116**	**635 960**	**113 320**	**121 132**
Liabilities				
Payables	4 359	1 938	3 491	4 399
Interest bearing liabilities	39 024	25 021	12 021	14 024
Provisions	0	2 023	1 768	1 541
Employee entitlements	6 543	7 424	6 415	5 106
Other liabilities	2 832	1 678	1 109	2 443
Total Liabilities	**52 758**	**38 084**	**24 804**	**27 513**
Net Assets	**483 358**	**597 876**	**88 516**	**93 619**
Accumulated funds	99 016	497 272	84 212	90 120
Reserves	384 342	100 604	4 304	3 499
Total Equity	**483 358**	**597 876**	**88 516**	**93 619**

Comment

During 2009-10 the Department's Total Equity increased by $509.360m due to the administrative restructure of $420.912m, revaluation of Land and building, mainly Heritage assets, $96.300m, offset by the Net Deficit, $7.851m. The main assets taken over by the Department as a result of the administrative restructure was the TMAG collections and properties.

The corresponding increase in Net Assets mainly comprised the following:

- Loan advances increased by $10.615m due to the Tasmanian Industry Support Scheme (TISS). The TISS is an initiative of the Tasmanian Government that provides support for sustainable private sector businesses which are otherwise at risk of closure or significant downsizing, or are experiencing impaired investment capacity, as a result of the current volatility in financial markets and consequent credit conditions
- Heritage Assets and Property, plant and equipment increased by $486.520m and $33.783m, respectively, primarily due to the inclusion of Arts Tasmania, TMAG and the revaluation of assets.

These factors were offset partly by:

- decreased Cash and deposits of $4.431m. Details are provided in the Statement of Cash Flows section later in this Chapter
- decreased value of Equity investments of $5.106m due to the impairment of investments made in Screen Tasmania
- increased Employee entitlements of $1.009m, primarily due to wage increases, higher FTE numbers and redundancy payments explained previously
- increased Interest bearing liabilities of $13.000m, due to new borrowings in September 2009 to fund assistance to industry.

The primary reasons for variations between budget and actual results not explained above, were:

- Loan advances lower than budget due to lower than budgeted disbursement of loans under the Tasmanian Industry Support Scheme
- Inventories higher than budget due to TMAG inventories not being included in the original budget
- Property, plant and equipment and Heritage assets higher than budget due to revaluation increments on Sport, TMAG and Arts Tasmania properties and TMAG collection which consequently impacted the variance in Reserves
- Payables lower than budget due to the reduction in amounts held in trust for external entities
- Employee benefits higher than budget due to calculation of employee entitlements for the 2009-10 financial year including the increases as a result of the award translation process
- Other liabilities higher than budget mainly due to the 2009-10 Section 8A(2) carry forward requests, $0.969m.

Commitments

The majority of the Department's commitments relate to loans approved but not drawn down by clients totalling $14.267m (2008-09, $6.550m) and assistance to industry commitments of $53.512m ($20.300m). The assistance to industry commitments represents committed funding over a period greater than one year, on which the actual amount payable dependent upon approved recipients meeting certain conditions.

Lease commitments, which represented rental costs for leased premises occupied by the Department, office equipment and motor vehicles, were estimated to be $7.181m at the end of the current year (2008-09, $7.864m). Capital commitments were $0.029m ($0.057m).

STATEMENT OF CASH FLOWS

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Cash flows from operating activities				
Cash inflows				
Appropriation receipts - recurrent	83 130	97 613	78 255	61 240
Receipts from Special Capital Investment Funds	17 326	14 180	14 554	17 281
Grants	1 887	230	20	262
Sales of goods and services	2 829	1 655	3 378	6 571
GST receipts	6 500	613	700	5 013
Interest received	3 002	2 988	2 529	4 094
Other cash receipts	999	5 594	6 296	2 306
Total cash inflows	**115 673**	**122 873**	**105 732**	**96 767**
Cash Outflows				
Employee benefits	(32 042)	(39 273)	(31 457)	(23 040)
Grants and subsidies	(41 639)	(42 256)	(39 295)	(37 999)
GST payments	(6 500)	(8 453)	(7 793)	(6 023)
Interest payments	(2 143)	(2 143)	(1 477)	(1 747)
Supplies and consumables	(31 969)	(29 553)	(25 314)	
Other cash payments	(1 743)	(4 256)	(5 530)	(29 461)
Total cash outflows	**(116 036)**	**(125 934)**	**(110 866)**	**(98 270)**
Cash (used in) operations	**(363)**	**(3 061)**	**(5 134)**	**(1 503)**
Cash flows from investing activities				
Cash inflows				
Proceeds from disposal of non-financial assets	0	458	651	2 050
Repayment of loans by other entities	2 385	1 347	2 249	4 814
Receipts from investments	600	39	690	569
Total Cash inflows	**2 985**	**1 844**	**3 590**	**7 433**
Cash outflows				
Loans made to other entities	(27 250)	(14 114)	(17 130)	(2 060)
Payments for acquisition of assets	(8 650)	(1 665)	(1 628)	(2 516)
Payments for investments	0	(391)	(819)	(533)
Other cash payments	0	(721)	(158)	(540)
Total Cash outflows	**(35 900)**	**(16 891)**	**(19 735)**	**(5 649)**
Cash from (used in) investing activities	**(32 915)**	**(15 047)**	**(16 145)**	**1 784**
Cash flows from financing activities				
Cash inflows				
Proceeds from borrowings	23 000	18 000	0	25 000
Total cash inflows	**23 000**	**18 000**	**0**	**25 000**
Cash outflows				
Repayment of borrowings	0	(5 000)	(2 003)	(25 003)
Total cash outflows	**0**	**(5 000)**	**(2 003)**	**(25 003)**
Net cash from (used by) financing activities	**23 000**	**13 000**	**(2 003)**	**(3)**
Net increase (decrease) in cash	**(10 278)**	**(5 108)**	**(23 282)**	**278**
Cash at the beginning of the year	35 702	31 964	55 246	55 209
Cash inflow on administrative restructure	0	677	0	(241)
Cash at end of the year	**25 424**	**27 533**	**31 964**	**55 246**

Comment

The Department's cash position decreased by $5.108m to $27.533m at 30 June 2010 mainly due to:

- net Cash applied to operations, $3.061m. We would anticipate that Cash generated from operations would approximately equal the Net deficit from transactions of $3.309m after adding back depreciation of $1.862m, that is, $1.447m, which differs from our expectation by $1.614m. The main reason was the decline in the Payables balance on the Statement of Financial Position
- increased Loan advances, $14.114m, as explained in the Statement of Financial Position section previously
- net proceeds from borrowings, $13.000m.

The decline in cash holdings of $5.108m was better than budget mainly because:

- loan advances were below budget as were borrowings
- acquisitions were below budget because the Department delayed expenditure on the TMAG redevelopment project.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result from operations ($'000s)		(3 309)	(6 381)	(3 978)	229
Own source revenue		12 966	12 969	17 008	10 630
Financial Management					
Debt collection	30 days	30	15	21	36
Creditor turnover	30 days	3	11	10	22
Capital Management					
Investment gap %	100%	89%	123%	224%	459%
Capital replacement %	100%	89%	123%	224%	459%
Other Information					
Average staff numbers (FTEs)		447	400	322	236
Average staff costs ($'000s)		82	78	72	78
Average Recreational Leave balance per FTE (days)	20	16	16	20	15

Comment

As expected, because departments are not funded for depreciation or increases in employee entitlements, the Result from operations was in deficit.

Debt collection days were below or equal to benchmark for all years under review except 2006-07. The slightly higher level in 2006-07 was explained by fit-out costs recoverable by the Department from its Technopark tenants.

The Department's salaries and employee expenses continue to grow. The number of FTE's increased in line with the expense. The increase from 2007 to 2010 was mainly due to administrative restructures and involving the transfer of staff from Tourism, TMAG and Arts Tasmania to the Department and associated corporate support staff. In 2009-10 the Department acquired an additional 122 employees as a result of the restructure and as 50 employees received redundancy payments.

ADDITIONAL FINANCIAL INFORMATION

Administered Financial Transactions

Administered transactions are those that the Department manages on behalf of the Government. These transactions were not shown in the Department's Statement of Comprehensive Income, Statement of Financial Position or Statement of Cash Flows. The Department has only recorded administered activities since 2006-07, following a transfer of activities resulting from a departmental restructure.

In 2009-10 the Administered Income and Expenses related to the Tasmanian Icons Program, Ten Days on the Island program, Tasmanian Symphony Orchestra and the Theatre Royal program.

The table below summarises administered incomes and expenditures, which were in line with budget, on these programs.

Administered Income and Expenses

	2009-10 Budget $'000s	**2009-10 Actual** $'000s	**2008-09 Actual** $'000s	**2007-08 Actual** $'000s
Administered revenue and other income from transactions				
Revenue from Government				
Appropriation revenue - recurrent	3 785	3 785	1 000	2 005
Total administered revenue and other income from transactions	**3 785**	**3 785**	**1 000**	**2 005**
Administered expenses from transactions				
Grants and subsidies	3 785	3 785	1 000	2 005
Total administered expenses from transactions	**3 785**	**3 785**	**1 000**	**2 005**

TASMANIA DEVELOPMENT AND RESOURCES

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements for Tasmania Development and Resources (TDR) were received on 17 August 2010. An unqualified audit report was issued on 29 September 2010.

KEY FINDINGS AND DEVELOPMENTS

Under the provisions of the *Tasmanian Development Act 1983*, TDR has the power to provide loans to clients that assist in the development and expansion of the Tasmanian economy. Generally these loans are provided on the basis of commercial terms, conditions, interest rates and security.

On 19 February 2010, a loan advance, $2.095m to Etech Group International Pty Ltd (EGI) was written off as a result of its subsidiary companies Etech Group P/L (EG) and Etech Tasmania P/L (ET) being placed into liquidation.

On 23rd of September 2010, Tascot Templeton Carpets Pty Ltd (Tascot) was placed in voluntary administration due to Director concerns over future product orders slowing to the point where potentially insolvent trading may occur. TDR had provided loans totalling $3.850m to Tascot. TDR holds mortgages and other charges as security for these loans. Due to the early stages of the voluntary administration, TDR was not in a position to reliably measure any potential impairment at 30 June 2010.

During 2009-10, a review of the valuation of Screen Tasmania's equity investments was conducted and the investments were assessed as being impaired due to uncertainties over recovery of funds invested. The amount of the impairment loss was $5.347m and represented the total carrying amount of these investments.

The audit was completed satisfactorily with no matters outstanding.

ABRIDGED COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Total Revenue	49 244	48 482	55 941	60 454
Total Expenses	47 255	47 680	52 524	59 646
Net surplus from transactions	**1 989**	**802**	**3 417**	**808**
Net gain (loss) on non financial assets	(261)	414	0	0
Net gain (loss) on financial instruments	(7 528)	75	0	0
Total other economic flows included in net result	**(7 789)**	**489**	**0**	**0**
Net surplus (deficit) after accounting for other economic flows	**(5 800)**	**1 291**	**3 417**	**808**
Comprehensive Surplus (Deficit)	**(5 800)**	**1 291**	**3 417**	**808**

Comment

Net surplus from transactions improved by $1.187m from 2008-09 primarily due to:

- increased interest revenue of $1.538m, or 110%, due to higher interest rates and a greater level of loan advances
- lower grants and subsidies payments of $1.786m due to the finalisation of the Menzies Centre project
- decreased other operating expenses of $1.494m, due to the international education program being transferred to the Tasmanian Polytechnic in January 2009, (2008-09, $0.891m).

The above factors were partly offset by:

- decreased revenue from economic and social infrastructure funds, $3.500m, 78%, due to finalisation of the Menzies Centre project and less funding received for the Automotive Components Ltd project
- increased finance costs of $0.565m, 44%, due to higher interest rates and borrowings in comparison to prior year.

In 2009-10 the Net deficit after accounting for economic flows was $5.800m, a decline of $7.091m compared to the Net surplus after accounting for economic flows in the prior year, largely due to:

- write off of Etech loan advance of $2.095m and
- impairment loss for Screen Tasmania, $5.347m.

ABRIDGED STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Total Assets	70 257	62 317	63 078	60 615
Total Liabilities	33 020	19 280	21 332	22 286
Net Assets	**37 237**	**43 037**	**41 746**	**38 329**
Total Equity	**37 237**	**43 037**	**41 746**	**38 329**

Comment

During 2009-10 TDR's Total Equity decreased by $5.800m due to the Net deficit for the year.

The corresponding decrease in Net Assets was reflected in:

- decreased equity investments of $5.106m due to the impairment of investments made by Screen Tasmania
- decreased property, plant and equipment of $0.715m, mainly attributable to War Service Land Settlement properties sold during the year, amortisation of leasehold improvements and depreciation charges for other equipment
- increased interest bearing liabilities of $13.000m, 14%, due to new borrowings in September 2009 to fund assistance to industry. One of the distinctions between TDR and a government agency in general, is TDR's ability to borrow money to fund its activities, mainly lending and equity and property investments.

These factors were offset partly by:

- increased cash of $3.604m due to the improved Net result from transactions as previously discussed

- higher loan advances which increased by $10.424m due to the Tasmanian Industry Support Scheme (TISS). The TISS is an initiative of the Tasmanian Government that provides support for sustainable private sector businesses which are otherwise at risk of closure or significant downsizing, or are experiencing an impaired investment capacity, as a result of current volatility in financial markets and the consequent credit conditions
- decreased payables of $0.638m, 30%, due to lower funds held in trust as a result of nil balances this year for the Council of Managers of National Antarctic Programs (COMNAP) (2009, $0.316m) and Tasmanian Leaders Inc ($0.244m)

Commitments

At 30 June 2010 TDR had commitments related to loans approved but not drawn down by clients totalling $14.268m (2008-09, $6.550m) and assistance to industry commitments of $19.835m ($6.395m). The assistance to industry commitments represented committed funding over a period greater than one year, on which the actual amount payable was dependent upon the approved recipients meeting certain conditions.

In addition, TDR had lease commitments, which represented rental costs for leased premises occupied by TDR, office equipment and motor vehicles, estimated at $4.422m at 30 June 2010 (2008-09, $4.890m).

Interest bearing liabilities did not include a loan from the State Government of $7.895m, which was a non-repayable advance. However, TDR was required to pay interest on this loan, which totalled $0.291m in the current year (2008-09, $0.427m), which was included in finance costs and funded by appropriation. We continue to recommend that the Department resolve recording the liability with Treasury.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result from operations ($'000s)		1 989	802	3 417	808
Own source revenue ($'000s)		5 258	4 261	5 939	5 874
Operating margin		1.04	1.02	1.07	1.01
Financial Management					
Debt collection	30 days	61	32	29	50
Creditor turnover	30 days	19	18	25	10

Comment

Financial Performance indicators show that TDR operated at a surplus each year. TDR's overall results were greatly affected by non-operating transactions, such as movement in fair-value of its investment properties and impairment losses. Operating margin was above benchmark, reflecting positive Result from operations. Own source revenue increased in comparison to prior year due to higher interest revenue.

Debt collection was above the 30 day benchmark in 2009-10 due to an outstanding invoice for Industry Capability Network Ltd of $0.138m.

TOURISM TASMANIA

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010. An unqualified audit report was issued on 29 September 2010.

KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

ABRIDGED COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Total Revenue	36 139	39 358	42 330	35 885
Total Expenses	36 829	37 738	43 411	34 352
Net surplus (deficit) from transactions (net operating balance)	**(690)**	**1 620**	**(1 081)**	**1 533**
Net surplus (deficit) after accounting for other economic flows	**(690)**	**1 620**	**(1 081)**	**1 533**
Comprehensive Surplus (Deficit)	**(690)**	**1 620**	**(1 081)**	**1 533**

Comment

In 2009-10 Tourism Tasmania (the Authority) recorded a net deficit from transactions of $0.690m which was a significant reversal from the $1.620m surplus recorded in 2008-09. The deficit resulted from:

- decreased Special Capital Investment Fund (SCIF) revenue, $2.845m, due to a reduction in funding provided through the Tourism Promotion Plan (TPP)
- lower sales of goods and services, $1.868m, representing final revenue received from Tasmania's Temptations Holidays (TTH). This business unit ceased operation as at 30 September 2009 following the announcement of its closure in May 2009.

The above factors were partly offset by:

- reduced attributed employee entitlements, $1.286m. Employee expenditure, excluding superannuation and other employee related costs, decreased by $1.766m, reflecting the reduction in the average number of FTE's, by 24, due to the closure of TTH and other redundancies in 2009-10. This was offset by higher expenditure on terminations and redundancies by $0.534m to $1.566m
- decreased supplies and consumables expenditure, $2.081m, mainly due to the cessation of the activities of TTH. All categories included in this expenditure item decreased i.e. consultants, communications and information technology

- decreased grant and subsidy expenditure, $0.690m, due to reduced funding from the TPP, $0.260m. In 2008-09 there were a number of one-off funding commitments totalling $0.464m.

ABRIDGED STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Total Assets	2 871	5 716	4 686	5 631
Total Liabilities	2 576	4 731	5 321	5 252
Net Assets (Liabilities)	**295**	**985**	**(635)**	**379**
Total Equity	**295**	**985**	**(635)**	**379**

Comment

Total Equity decreased this year due to the Net deficit of $0.690m. The corresponding decrease in Net Assets was reflected in lower Cash and deposits which reduced from $2.655m to $0.780m. The decrease related to the closure of TTH and reflected the winding down of its trust account and payments for redundancies and outstanding accounts payables invoices.

The above factors were partially offset by:

- a large drop in accounts payable of $1.333m to $0.359m following the repayment of outstanding amounts due to travel providers following the closure of TTH
- decreased attributed employee benefits by $0.634m to $1.503m related to the reduction in the number of FTEs mentioned previously.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result from operations ($'000s)		(690)	1 620	(1 081)	1 533
Operating margin	>1.0	0.98	1.04	0.98	1.04
Own source revenue ($'000s)		1 821	3 881	4 639	6 826
Financial Management					
Debt collection	30 days	24	11	7	14
Creditor turnover	30 days	5	26	14	19

Comment

The majority of the Authority's own source revenue was represented by sales revenue generated by TTH which, as noted previously, ceased operations on the 30 September 2009.

TASMANIAN MUSEUM AND ART GALLERY

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 18 August 2010 and an unqualified audit report was issued on 29 September 2010.

KEY FINDINGS AND DEVELOPMENTS

State Service (Restructuring) Order 2009

As a result of an administrative restructuring order, the Department of Environment, Parks, Heritage and the Arts ceased to exist on 30 June 2009. Consequently, the Tasmanian Museum and Art Gallery and Arts Tasmania moved to the Department of Economic Development, Tourism and the Arts from 1 July 2009.

Redevelopment of the new museum

In October 2009, the Premier announced Francis Jones Morehen Thorp as the successful tenderers for the architectural design of the new museum. The Redevelopment will be the largest investment in cultural infrastructure in Tasmania's history. It is estimated to cost around $200 million in today's prices, and will be delivered as a multi-stage project. Construction for the first stage is scheduled to commence in mid-2011.

Revaluations of Assets

Land and buildings and Heritage assets were revalued in the current year to ensure they reflected fair value at balance date. The revaluations were performed by appropriately qualified valuers.

The revaluation increased the amount reported for Land and buildings by $1.631m to $31.251m and of Heritage assets by $92.934m to $486.522m.

The audit was completed satisfactorily with no matters outstanding.

ABRIDGED STATEMENT OF COMPREHENSIVE INCOME

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Total Revenue	10 300	10 774	9 913	8 255
Total Expenses	8 557	10 103	9 623	6 657
Net surplus from transactions	**1 743**	**671**	**290**	**1 598**
Other economic flows included in net result				
Net (loss) on non financial assets	(7)	0	0	0
Fair value of land and buildings identified	4 224	0	0	0
Contributions received	508	16 737	0	0
Change in accounting estimates	0	0	(484)	0
Total other economic flows included in net result	**4 725**	**16 737**	**(484)**	**0**
Net Surplus (Deficit)	**6 468**	**17 408**	**(194)**	**1 598**
Other economic flows - other non-owner changes in equity				
Changes in physical asset revaluation reserve	94 565	9 552	0	0
Total other economic flows - other non-owner changes in equity	**94 565**	**9 552**	**0**	**0**
Comprehensive Surplus (Deficit)	**101 033**	**26 960**	**(194)**	**1 598**

Comment

Net surplus from transactions increased, $1.072m, compared to prior year primarily due to a decrease in supplies and consumables of $1.691m. This reflected reductions in the overall costs associated with the TMAG redevelopment, especially decreases in consultants and contracted costs, $0.884m, maintenance, $0.359m and other supplies, $0.478m.

Net Surplus decreased, $10.940m, compared to prior year primarily due to lower contributions of $16.229m. In 2008-09 TMAG received significant donated assets comprising an Antarctic Herbarium Collection, $14.517m, and a property at Hampden Road, $2.220m. These were offset in part by initial recognition of land and building, $4.224m, at Moonah and for the "Narryna".

Comprehensive Surplus increased by $74.073m due to revaluation of Heritage assets, $92.934m and Land and buildings, $1.631m and the Net Surplus of $6.468m.

ABRIDGED STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Total Assets	521 907	421 281	393 777	377 596
Total Liabilities	1 352	1 759	1 215	997
Net Assets	**520 555**	**419 522**	**392 562**	**376 599**
Total Equity	**520 555**	**419 522**	**392 562**	**376 599**

Comment

Increased Total Equity, $101.033m, comprised revaluations, $94.565m, and Net Surplus, $6.468m, previously noted.

Total Assets were predominantly made up of cash and deposits, $2.503m (2008-09, $2.342m), property, plant and equipment, $31.624m ($25.158m), as well as heritage and cultural assets, $486.522m ($393.080m).

Total liabilities largely comprised provisions for employee entitlements.

DEPARTMENT OF EDUCATION

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010. An unqualified audit report with an 'emphasis of matter' was issued on 6 October 2010. This 'emphasis of matter' was in respect to the revaluation of the Department's buildings. Further detail regarding the 'emphasis of matter' is contained in the Key Findings and Developments section of this Chapter.

KEY FINDINGS AND DEVELOPMENTS

Tasmania *Tomorrow* reforms

On 1 January 2010, as a result of the restructuring of senior secondary education associated with the Tasmania *Tomorrow* initiative, one of the Department's colleges and some administrative support activities were transferred to Tasmanian Academy and Tasmanian Polytechnic. This was in addition to the four colleges transferred in 2008-09.

The Minister for Education and Skills announced in June 2010 that the Tasmania *Tomorrow* initiative was to be refined, and that it was proposed to transfer the management of the Tasmanian Academy and Polytechnic to the Department effective from 1 January 2011. This refinement will see the abolition of the current Tasmanian Academy and Polytechnic Boards.

Internal control related matters

During our audit we identified a number of opportunities to improve controls and processes related to the Department's accounting and reporting of transactions.

Emphasis of matter – Revaluation of Buildings

Without qualification the Department's audit report included an 'emphasis of matter' comment. This 'emphasis of matter' drew attention to the manner in which the Department's buildings were revalued. The approach adopted applied a utility factor in order to reflect spare capacity in the State's schools with the emphasis of matter paragraph drawing attention to the potentially significant uncertainty associated with applying the utility factor.

Determination of this 'utility' factor is particularly subjective and needs to have regard to a number of elements which include, but are not limited to, the long term student occupancy, future plans or intentions of the Department on school capacity and the potential differential costs to construct Schools of different capacity.

The impact of the 'utility' factor on the fair value of the building assets was material to the Department's financial statements for the year ended 30 June 2010 and resulted in a $221.962m, or 32.14%, decrement to the base depreciated replacement cost. The potential uncertainty on the fair value of the buildings reported, arising from the subjectivity in this particular assumption, is considered to be between $nil and $221.962m.

We concluded that the utility factor was a significant, although reasonable, assumption. Details of the approach to the 2010 valuation are outlined in the notes to the Department's audited financial statements.

Notwithstanding the current valuation approach applied in respect to 'utility' factors, it is the intention of the Department to conduct further research into the application of these factors through consultation with other independent experts during 2010-11. These consultations will include work by the Department on further assessing the impacts on its buildings of the long term student occupancy and future plans or intentions regarding school capacity.

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

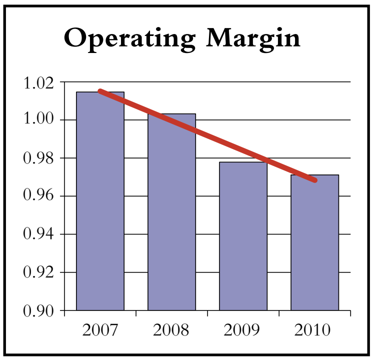
FINANCIAL RESULTS

The Department returned a Net surplus attributable to the State of $198.499m in 2009-10 against a budget result of $193.569m. This surplus was primarily driven by the receipt of Commonwealth 'Building the Education Revolution' (BER) funding recognised as income in the Statement of Comprehensive Income which was primarily spent on capital projects resulting in a corresponding increase in assets in the Statement of Financial Position.

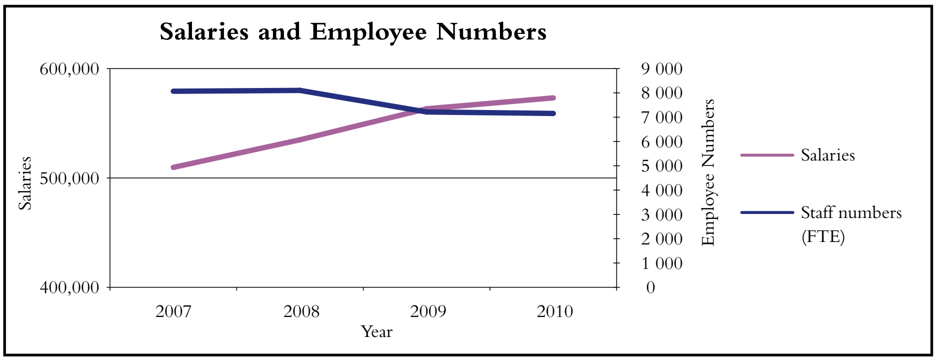
At 30 June 2010, the Department had Total Equity of $1 058.282m against a budgeted result of $1 124.508m. The difference was primarily due to budgeting difficulties in forecasting the revaluation movements for land, buildings and heritage assets. This was also due to less capital expenditure being incurred than budgeted for capital projects due to differing project timeframes and the associated project cashflows.

Full details of the variances in the Statements of Comprehensive Income and of Financial Position are explained in the relevant sections of this chapter.

The graphs below highlight relevant aspects of the Department's financial performance:



The operating margin trended downwards over the four year period. The fall in 2009-10 was primarily due to operating expenses or low value capital expenditure that did not meet the Department's capitalisation thresholds, which had been funded through non-recurrent revenues.



Staff numbers (FTE's) declined over the four year period. The decrease in 2009-10 was due to the progressive transfer out of colleges and associated staff from the control of the Department to the Tasmanian Polytechnic under the Tasmania *Tomorrow* Government initiative. Despite the decrease in staff numbers, salary costs continue to trend upwards with the key drivers being increased expenditure on relief teachers and agreed annual increases.

STATEMENT OF COMPREHENSIVE INCOME

	2009-10 Budget	2009-10 Actual	2008-09 Actual	2007-08 Actual
	$'000s	$'000s	$'000s	$'000s
Revenue from government - recurrent	842 614	877 308	794 473	759 002
User charges, fees, fines and other revenue	30 395	37 820	42 767	42 195
Interest revenue	2 886	1 382	2 814	2 847
Australian Government grants	9 445	3 502	3 955	5 113
Gain/(loss) on sale of non-financial assets	(3 193)	1 029	866	116
School levies	9 243	9 243	9 204	8 816
Total Revenue	**891 390**	**930 284**	**854 079**	**818 089**
Employee benefits	592 666	573 206	563 264	534 887
Depreciation	32 843	27 898	34 051	31 204
Grants and subsidies	114 811	174 372	115 636	99 202
Supplies and consumbles	147 977	168 522	153 542	142 429
Impairment losses	0	219	231	228
Other expenses	40 994	41 599	40 754	38 720
Total Expenses	**929 291**	**985 816**	**907 478**	**846 670**
Net (deficit) from transactions	**(37 901)**	**(55 532)**	**(53 399)**	**(28 581)**
Other economic flows included in net result				
Revenue from government - works	231 390	228 645	39 614	20 452
Asset brought to account for first time	80	13 343	206	187
Insurance recovery re school damage	0	12 043	0	7 362
Write down of school buildings	0	0	0	(5 483)
Total other economic flows included in net result	**231 470**	**254 031**	**39 820**	**22 518**
Net surplus (deficit)	**193 569**	**198 499**	**(13 579)**	**(6 063)**
Other economic flows - other non-owner changes in equity				
Changes in asset revaluation reserve	15 780	68 806	(4 070)	55 546
Total other economic flows - Other non-owner changes in equity	**15 780**	**68 806**	**(4 070)**	**55 546**
Comprehensive surplus (deficit)	**209 349**	**267 305**	**(17 649)**	**49 483**

Comment

Overall the Department's comprehensive result of $267.305m was greater than prior year by $284.954m. This movement is attributable to the operating, non operating and other comprehensive income factors detailed below.

The Department's Net deficit from transactions, $55.532m, was greater than prior year by $2.133m. The following factors increased this net deficit:

- increased Employee benefits of $9.942m due to:
  - o increased teacher aides and classroom assistance staff expenditure, $1.762m
  - o salary increases, which are broadly in line with CPI, of approximately $12.942m
  - o decrease in FTE's of 61 employees equating to $4.762m of employee benefit savings.

- increased Supplies and consumables expenditure of $14.980m. This was due to:
    - o increased school maintenance expenditure of $10.589m primarily in relation to additional funding received from the Commonwealth 'National Schools Pride' initiative to redecorate and enhance the appearance of schools
    - o increased computer hardware purchases of $4.391m in relation to the purchase of laptop computers funded through the Commonwealth's 'Digital Education Revolution'
- increased Grants and subsidies of $58.736m related to funding received by the Department which was then dispersed to the Polytechnic, Academy and Skills Institute by separate grant arrangements.

The above factors, which contributed to an increased Net deficit from transactions, were partly offset by a number of factors, including:

- increased Recurrent appropriations of $82.835m to fund the higher expenses noted in Employee benefits, Grant and subsidies primarily due to increased payments to Skills Institute, Polytechnic and Academy, and supplies and consumables
- decreased Depreciation expense of $6.153m due primarily to lower depreciation charges in respect of buildings. Whilst the building balance at 30 June 2010 was higher than that at 30 June 2009, when considering the timing of additions, disposals and revaluation increments the average depreciable asset base in 2009-10 was lower than compared to 2008-09 hence resulting in a lower depreciation charge.

The Net surplus attributable to the State, was $198.499m, up $212.078m compared to the prior year. This was primarily due to:

- increased works and services appropriations of $189.035m due to appropriations in respect of capital and operational funding received from the Commonwealth's BER funding package, $173.000m, and also the state government Capital Investment Program, $16.035m
- insurance proceeds of $12.043m in 2009-10 related to Burnie High School following fire damage and the New Town High School following flood damage
- assets brought to account for the first time of $13.343m in 2009-10 which related to the transfer of the Australian Technical College from the Commonwealth to the Department.

Other economic flows, other non-owner changes in equity, increased $72.876m compared to the prior year. This was mainly due to the revaluation increment in respect of land and building as detailed in the Statement of Financial Position section of this Chapter.

Overall the Department's Comprehensive surplus of $267.305m was greater than budget by $57.956m. This movement was attributable to the operating, non operating and other comprehensive income factors detailed below.

The current year deficit before non-operational items of $55.532m was greater than budget by $17.631m. The following factors increased the net deficit before non-operating items:

- reduced Grants income of $5.943m due to the delay in spending funds associated with the Bridgewater and Southern Midlands Education Renewal Projects as a result of works currently being focused on the rebuilding activities following the Bridgewater High School Fire
- higher than budgeted Supplies and consumables spend of $20.454m when compared with budget due to the budget treating all BER expenditure as capital. However, some of the BER funding, such as the 'National Schools Pride' initiative, related to maintenance expenditure whilst minor asset spend did not meet the Department's capitalisation thresholds and on this basis was expensed

- higher Grants and subsidies of $59.561m when compared with budget due to reallocation and additional expenditure, some of which was classified in other areas of the budget in respect of payments made under the Tasmania *Tomorrow* educational initiative to the Skills Institute, Polytechnic and Academy
- decreased User charges, fees, fines and other revenue, $7.425m, due to the impact of allocating out school levies from this budget account when they were not built into the budget to start with.

These factors were partly offset by the following movements:

- additional Recurrent appropriation revenue received of $34.694m when compared to the budget to fund increased Grant and subsidies expenditure of $59.561m offset by the reduction in salary expense of $16.781m consistent with comments below
- reduced Employee benefits costs of $19.460m when compared to budget. This was due to a general reduction in staff numbers and the loss of some staff associated with the transfer of college assets from the Department
- reduced Depreciation and amortisation of $4.945m when compared to budget which was due to a lower asset base than budgeted. Refer to the commentary on the Statement of Financial Position for further detail.

The Net surplus was $198.499m, up $4.930m from budget. This was due to:

- unbudgeted insurance proceeds of $12.043m in 2009–10 which related to Burnie High School following fire damage and the New Town High School following flood damage
- unbudgeted assets brought to account for the first time of $13.343m in 2009–10 which related to the transfer of the Australian Technical College from the Commonwealth to the Department.

Other comprehensive surplus was up $53.026m on budget. This was due to the revaluation increment in respect of land and building as detailed in the Statement of Financial Position.

STATEMENT OF FINANCIAL POSITION

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Financial Assets				
Cash and deposits	64 177	63 315	59 199	72 975
Receivables	11 162	15 687	8 362	10 452
Non-financial Assets				
Assets held for sale	5 367	9 633	4 275	3 479
Heritage assets	46 813	58 320	45 760	44 995
Plant and equipment	20 184	5 231	5 290	5 937
Land and buildings	1 099 128	1 050 883	806 351	857 137
Library book stock	14 762	13 880	14 452	14 325
Other non-financial assets	1 497	2 081	1 255	1 443
Total Assets	**1 263 090**	**1 219 030**	**944 944**	**1 010 743**
Liabilities				
Payables	7 290	21 424	8 207	7 024
Employee benefits	120 204	118 093	111 563	105 167
Other liabilities	11 088	21 231	17 066	18 069
Total Liabilities	**138 582**	**160 748**	**136 836**	**130 260**
Net Assets	**1 124 508**	**1 058 282**	**808 108**	**880 483**
Reserves	147 502	194 875	126 069	130 139
Accumulated funds	977 006	863 407	682 039	750 344
Total Equity	**1 124 508**	**1 058 282**	**808 108**	**880 483**

Comment

In 2009-10 the Department's Total Equity increased $250.174m, 31.1%. This was mainly due to the Net surplus in 2009-10 of $198.499m, the Asset revaluation reserve increment of $68.806m offset by transfers to the Crown Land Administration Fund of $3.727m and administrative restructures
of $13.404m.

The corresponding increase in Net Assets was due to the following factors:

- increased cash position of $4.111m. For analysis of this movement refer to the Statement of Cash Flows later in this Chapter. The cash balance of $63.315m included $46.200m of cash held by State schools. This cash was derived from a variety of sources including school levies, income generated at a school level, BER funding given directly to schools, funding in relation to other initiatives such as "raising the bar" and payment of relief teachers. The amount at each balance date may not be representative of amounts held throughout the financial year with lower levels likely to be held around calendar year end. The level of cash held by schools reflected a shift in the education industry where Principals and School Management have a higher level of control over setting priorities for expenditure of funds. In this regard there is increased School level accountability with respect to delivering educational and budget outcomes
- increased Receivables of $7.325m in respect of higher GST receivables and other debtors
- increased Assets held for sale of $5.358m attributable to a number of land and building assets identified by the Department at 30 June 2010 which were surplus to requirements. These assets were registered for sale with Crown Land with sales still to be completed.

This increase was offset by the disposal of some assets during 2009-10 which were held for sale at 30 June 2009

- increased Land and Buildings, $244.532m, which related to the following factors:
  - o formal revaluation of land and building assets following a formal independent valuation which resulted in a net increment of $56.259m
  - o significant capital investment spend of $214.793m in respect to the BER initiative and the Department's own capital investment program
  - o Net asset transfers of $5.989m relating to the inwards transfer of the Australian Technical College from the Commonwealth of $11.982m, Burnie High School insurance contributions of $6.800m offset by the outward transfer of the Elizabeth College of $12.626m
  - o Depreciation charges of $24.487m as detailed in the Statement of Comprehensive Income section of this Chapter
  - o transfer of $7.801m of land and buildings to assets held for sale
- Heritage assets increased by $12.560m. This related to the upwards revaluation increment recognised at 30 June 2010 following a formal independent valuation.

The factors which contributed to increased net assets were offset by the following movements:

- increased payables of $13.217m which related primarily to higher capital creditors associated with the BER program
- higher employee benefits of $6.530m which comprised an increase in the provision for long service and annual leave, $3.296m, and an increase in the year end payroll accrual, $3.234m. This was primarily reflective of the annual wage increase offset by a small reduction in FTE's as noted previously under the Comprehensive Income Statement section
- increased revenue received in advance which related to income carried forward under Section 8A(2) of the *Public Account Act 1986* for unused funding in 2009-10. The carried forward balance in 2009-10 related to unspent capital funding.

In 2009-10 the Department's Total Equity of $1.058bn was under budget by $66.226m, 5.89%. This was mainly due to differences in the actual and budgeted Reserves being $47.373m over budget and Accumulated funds being $113.599m under budget.

The corresponding decline in Net assets compared to budget of $66.226m was due to:

- property, plant and equipment being lower than budgeted by $63.198m due to the budget assuming the BER spending program would fully utilise the allocated funding in 2009-10 and that all this expenditure would be taken to the Statement of Financial Position. However, as noted previously, the 2009-10 BER capital spend program was not fully spent and some of this expense was of an operational nature or failed to meet the Department's capitalisation thresholds
- payables were higher than budget by $10.306m due to the actual recognition of capital expenditure creditors when the budget had assumed all capital expenditure would be paid in the year incurred
- increased revenue received in advance related to Section 8A(2) income carried forward while the budget assumed that all expected income would be spent in the year received.

The factors which contributed to lower Net assets were offset by a number factors, including:

- the land and building revaluation budget movement being based on an indexation of land and building assets whilst the actual figures were derived following a full independent revaluation. The actual revaluation was $41.519m higher than budgeted
- heritage assets being higher than budgeted by $11.507m due to a higher than expected revaluation increment following the independent revaluation at 30 June 2010.

STATEMENT OF CASH FLOWS

	2009-10 Budget	2009-10 Actual	2008-09 Actual	2007-08 Actual
	$'000s	$'000s	$'000s	$'000s
Receipts from government - recurrent	842 614	893 005	802 082	759 002
User charges, other cash receipts, fees and fines	39 514	34 925	42 933	39 386
Grants	9 445	3 502	3 955	5 113
School levies	0	9 243	9 204	8 816
GST receipts	24 960	48 496	22 626	20 156
Interest received	2 886	1 382	2 814	2 847
Payments to employees	(582 602)	(566 699)	(552 685)	(527 980)
Grants and subsidies	(114 811)	(174 372)	(115 636)	(99 202)
Other cash payments	(188 439)	(212 302)	(192 520)	(177 814)
GST payments	(24 954)	(50 024)	(22 929)	(21 258)
Net Cash from (used in) operations	**8 613**	**(12 844)**	**(156)**	**9 066**
Proceeds from disposal of assets	0	59	48	46
Appropriations - Works and Services	222 590	221 036	32 124	23 857
Payments for acquisition of assets	(239 991)	(203 776)	(44 188)	(21 063)
Cash from (used in) investing activities	**(17 401)**	**17 319**	**(12 016)**	**2 840**
Cash outflow on administrative restructure	0	(359)	(1 604)	0
Cash from (used in) financing activities	**0**	**(359)**	**(1 604)**	**0**
Net increase (decrease) in cash	**(8 788)**	**4 116**	**(13 776)**	**11 906**
Cash at the beginning of the year	72 965	59 199	72 975	61 069
Cash at end of the Year	**64 177**	**63 315**	**59 199**	**72 975**

Comment

Overall the final cash position at 30 June 2010 was consistent with budget and up on the prior year by $4.116m. In this regard we note:

- net operating cash flow for the year ended 30 June 2010 was down $12.688m on prior year due to cash payments exceeding cash receipts
- net cash flows from investing activities was up by $29.335m due to Appropriations – Works and Services exceeding payment for assets.

Detailed reasons for movements in cash flows are consistent with commentary already provided in the Statement of Comprehensive Income and the Statement of Financial Position sections of this Chapter.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result from operations ($'000s)		(55 532)	(53 399)	(28 581)	(17 299)
Own source revenue		48 445	55 651	53 974	54 041
Financial Management					
Debt collection	30 days	122	58	75	59
Creditor turnover	30 days	19	7	7	5
Capital Management					
Investment gap %	100%	730%	130%	68%	60%
Other Information					
Teaching staff numbers (FTEs)		4 446	4 465	4 871	4 732
Total staff numbers (FTEs)		7 155	7 215	8 102	8 068
Average staff costs ($'000s)		80	78	66	63
Average Annual Leave balance per FTE (days)	20	5.27	5.29	4.85	4.82
Average Long Service Leave balance per FTE (days)	100	34.90	34.58	31.68	31.95

Comment

Results from operations are consistent with observations made previously in the Statement of Comprehensive Income section of this Chapter.

Own source revenue represented revenue generated by the Department from User charges, fees, fines and other sources plus interest earned.

Outstanding Debt collection days increased in the current year. This was primarily due to higher debtors at 30 June 2010 due to GST and other receivables.

The high investment gap percentage resulted from investment of BER funding.

The Capital replacement percentage has not been reported as expenditure has been on the construction of new assets. The Department's primary assets are maintained through maintenance programs rather than direct capital replacement.

Overall staff FTE numbers decreased by 60 FTEs and teaching staff FTEs decreased by 19 FTEs over the past year primarily due to staff transferring to the Tasmanian Academy and Tasmanian Polytechnic as part of the Tasmania *Tomorrow* reforms.

ADDITIONAL FINANCIAL INFORMATION

Administered Financial Transactions

Administered transactions are those that the Department managed on behalf of the Government. These transactions are not shown in the Department's Statement of Comprehensive Income, Statement of Financial Position or Statement of Cash Flows.

The Department's Administered statements primarily relate to the funding of non-government schools.

Administered Income and Expenses

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Revenue from government - recurrent	234 802	277 625	59 029	41 468
Australian government grants	3 923	15 388	200 171	245 029
Sale of goods, services, fees and fines	434	184	194	300
Other revenue	0	46	41	77
Total Revenue	**239 159**	**293 243**	**259 435**	**286 874**
Grants and subsidies	234 802	277 625	200 674	174 263
Supplies and consumables	0	218	1 653	9 512
Total Expenses	**234 802**	**277 843**	**202 327**	**183 775**
Net Surplus	**4 357**	**15 400**	**57 108**	**103 099**
Transfer to Consolidated Fund	4 357	16 361	57 999	105 886
Net Surplus (Deficit) Attributable to the State	**0**	**(961)**	**(891)**	**(2 787)**
Other Comprehensive Income	**0**	**0**	**0**	**0**
Comprehensive Deficit	**0**	**(961)**	**(891)**	**(2 787)**

Comment

The net deficit of $0.961m was consistent with last year and slightly below budget. The overall net result was essentially a function of receiving additional levels of funding from the Commonwealth Government offset by administered payment of these amounts to non government operated schools.

The variance between budget and actual recurrent revenue was the result of additional funding from Australian Government for non-government schools.

The variance between 2009-10 and 2008-09 actual recurrent revenue was due to a change in funding arrangements whereby during 2009-10 funding from the Australian Government was paid into consolidated fund revenue and then subsequently appropriated to the Department through its controlled activities.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements of the Department of Health and Human Services (the Department or DHHS) were received on 13 August 2010 and an unqualified opinion was issued on the 29 September 2010.

KEY FINDINGS AND DEVELOPMENTS

A number of audit findings were identified during the audit on which management comment was still being sought at the time of this Report. These matters related to:

- compliance tests of payroll controls
- change, security and data operations management controls of computer information systems
- accounts receivable including the creation of credit notes and cut-off testing
- implementation and operation of the pharmaceutical inventory system IPharmacy
- plant and equipment and the estimation of useful lives
- excessive annual leave balances
- special purpose bank accounts in overdraft

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

During 2008-09 and 2009-10 the Department spent a total of $8.826m from the Commonwealth to carry out additional medical procedures aimed at reducing waiting lists.

In 2009-10 the Department received increased appropriations for recurrent and capital purposes. Payments for acquisition of non-financial assets amounted to $110.252m compared to $57.394m in 2008-09. The Department undertook upgrades to the Royal Hobart Hospital Paediatric Clinic, Launceston General Hospital for gas conversion, district hospitals and oral health services buildings. The Department also constructed a new ambulance communications centre and a number of stations.

The Department also commissioned new ambulances, purchased new equipment such as defibrillators and ventilator packages as well as undertook a number of major information technology projects for pharmacy and hospital administration.

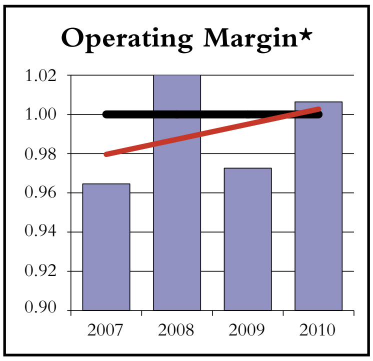
In addition, the Department's housing stock increased and was improved through a number of projects funded by the State and Australian governments; this is covered in the Housing Tasmania chapter of this Report. $39.061m was spent on these projects.

Appropriations for recurrent purposes were used to fund increased demand for the Department's services, new positions and general wage and price increases. This is elaborated later in this Chapter.

Capital replacement ratio for the current year was below the benchmark, which may indicate the Department is underinvesting in its existing assets.

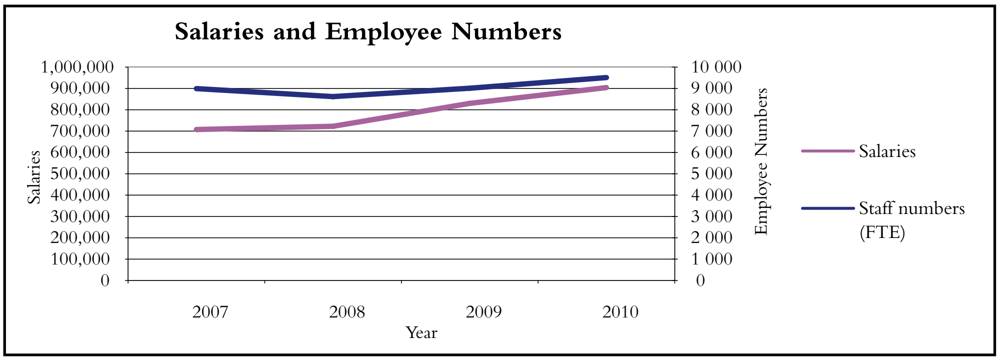
FINANCIAL RESULTS

The following two graphs summarise key financial information about the Department:



The operating margin (which is before accounting for depreciation) fluctuated during the four year period under review with deficits in 2006-07 and 2008-09 and net operating surpluses in the other two years.

* *Operating margin calculated before depreciation and capital appropriations.*



The Department's salaries and employee expenses continue to grow. The number of FTE's increased by 518 over the four year period with the increase between 2008-09 and 2009-10 totalling 500. A number of new positions were created this year in response to demands on the Department's services, and changes in service delivery such as in-sourcing previously outsourced maintenance functions. Average salaries increased from $79 000 per FTE in 2006-07 to $95 000 this year, resulting in approximately $47.500m additional employee costs.

COMPREHENSIVE INCOME STATEMENT

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Revenue from government - recurrent	1 331 408	1 393 282	1 204 068	1 139 283
Revenue from Special Capital Investment Funds - recurrent	0	0	0	3 598
Grants	50 486	54 504	104 902	44 524
Sale of goods and services	214 592	159 345	159 119	151 245
Interest revenue	1 464	1 349	2 181	3 196
Contributions received	0	0	2 029	0
Other revenue	24 813	34 224	35 984	28 228
Total Revenue	**1 622 763**	**1 642 704**	**1 508 283**	**1 370 074**
Employee entitlements	865 500	903 953	829 984	722 652
Depreciation and amortisation	50 356	50 612	49 714	48 374
Supplies and consumables	427 289	451 698	464 389	392 197
Grants and subsidies	198 048	191 348	169 519	153 087
Finance costs	10 201	10 197	10 469	10 728
Other expenses	60 702	75 079	76 433	63 138
Total Expenses	**1 612 096**	**1 682 887**	**1 600 508**	**1 390 176**
Net Surplus (Deficit) from transactions	**10 667**	**(40 183)**	**(92 225)**	**(20 102)**
Loss on sale of assets	1 689	1 143	(851)	(14 116)
Impairment losses	0	(7 701)	(2 987)	(3 288)
Revenue from government - capital	142 635	61 992	41 569	31 757
Revenue from Special Capital Investment Funds - capital	0	32 393	25 866	15 351
Actuarial superannuation adjustment	0	2 613	(3 482)	(3 111)
Net Surplus (Deficit) attributable to the State	**154 991**	**50 257**	**(32 110)**	**6 491**
Other Comprehensive Income				
Net gain (loss) on financial instruments	(87)	877	0	0
Changes in physical asset revaluation reserve	53 362	21 243	106 344	0
Other	1 883	0	898	0
Comprehensive Surplus	**210 149**	**72 377**	**75 132**	**6 491**

Comment

The Net Surplus (Deficit) from transactions comprised:

	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s
DHHS	(27 357)	(68 229)	4 438
Housing	(11 069)	(22 031)	(21 410)
Ambulance	(1 757)	(1 965)	(3 130)
Total (Deficit)	**(40 183)**	**(92 225)**	**(20 102)**

The 2009-10 deficit of $40.183m was an improvement of $52.042m on the previous year and is explained as follows:

- Revenue from government – recurrent in 2009-10 amounted to $1.393bn an increase of $189.214m, 15.7%. These additional funds were for salary indexation and new staff, new initiatives for ambulance and patient transport as well as the disability services industrial wage outcome. The additional funds were also for the 27th pay that occurred in 2009-10. Also, as outlined previously, changes between departmental administered items to controlled resulted in higher appropriations and lower grant revenues
- Supplies and consumables decreased by $12.691m mainly due to reduced expenditure on consultants, $5.559m, including cessation of the New Royal Hobart Hospital project and maintenance, $6.107m, because the RHH maintenance function was no longer outsourced. Other supplies and consumables included, $19.354m of which $15.257m was unspent carried forward funds returned to Treasury during 2008-09 offset by greater expenditure on Medical, surgical and pharmacy supplies, $12.782m, and information technology, $5.901m.

The above factors were offset by:

- Grants received in 2009-10 decreased by $50.398m. The Grant revenue now entirely relates to Australian Government funding of the Mersey Community Hospital. The decrease was due to the new financial arrangements mentioned previously
- There were no Contributions received this year. Last year this amounted to $2.029m and represented properties formerly controlled by non-government organisations donated to the Department
- Employee costs rose by $73.969m, 8.9%, this year. This increase can be attributable to the additional employment, in terms of full time equivalent positions (FTE's), of 500 FTE which included 225 nurses, 13 ambulance officers, 75 medical practitioners and 38 allied health professionals. Of the increase of $73.969m, approximately $47.500m related to new staff and about $26.500m to award increases
- Increased Grants and subsidies paid of $21.829m, a 12.8% increase, was mainly attributable to payments to the disability sector and subsidies to reform the home and community care system.

The primary reason for the Department's deficit was that its funding excluded depreciation, impairment losses or increases in employee provisions. In addition, deficits incurred by Housing Tasmania and Ambulance Tasmania, as detailed in the previous table, contributed to the DHHS deficit.

The Net Surplus attributable to the State of $50.257m was a significant improvement on the deficit in the previous year of $32.110m, a turnaround of $82.367m. This movement was mainly attributed to:

- The improved Net Operating deficit from transactions of $52.042m previously explained

- Revenue from government – capital increased by $20.423m due to additional funds received through the National Stimulus Package, approximately $46.597m, offset by a reduction in the Section 8A(2) Carried Forward amount, $18.136m. The National Stimulus Package provided funds for direct investment and maintenance upgrades to the social housing sector
- Revenue from Special Capital Investment Funds – capital increased by $6.527m to fund investments in health information technology, infrastructure, such as community and service centres, regional hospitals and housing urban renewal projects
- Actuarial superannuation adjustment amounted to a gain this year, a turnaround of $6.095m on the previous year. The Department is responsible for meeting the obligations of defined benefit schemes for Housing Tasmania and Ambulance Tasmania. Whilst operational service costs and employer contributions were recorded within Employee entitlements, actuarial gains or losses were separately shown in the Comprehensive Income Statement.

These items were offset in part by increased impairment losses of $4.714m as a result of the demolition of partially destroyed rental properties. These properties were then rebuilt using funding from the Stimulus package.

The Comprehensive Result this year amounted to $72.377m. The final determinant of this result was Changes in physical asset revaluation reserve of $21.243m following a revaluation of land and buildings.

In 2009-10 DHHS budgeted for a surplus attributable to the State of $154.991m but achieved a surplus of $50.257m, a decrease of $104.734m, due to:

- Sale of goods and services were $55.247m less than budget due to the Mersey Community Hospital revenue budget being included in this item but receipted against Grants
- Employee entitlements budget was $38.453m less than actual due to unbudgeted positions being created and filled and the effect of general wage rises in excess of the amount budgeted
- Supplies and consumables were $24.409m more than budget due to increased demand for Medical, surgical and pharmacy supplies, as well as patient and client services. Included in this item was an unspent Section 8A(2) carried forward amount of $15.257m paid to Treasury during 2008-09
- Other expenses were $14.377m more than budget due to the underestimation of salary on-costs on Employee entitlement liabilities at year end
- Revenue from government – capital was $80.643 less than budget as a result of the deferral of a number of projects.

The above factors were offset in part by the following:

- Revenue for government – recurrent actual amount was $61.874m more than budget due to new accounting arrangements whereby Australian Government revenue is now paid directly to Treasury and appropriated rather than being paid to the Department
- Grants received were $4.018m more than budget as this revenue item was underestimated in the budget
- there was no budget for Revenue from Special Capital Investment Funds – capital of $32.393m
- Grants and subsidies expenditure was $6.700m less than budget primarily due to a re-classification of Disability grants to Supplies and consumables.

Further reasons for the movements relating to Housing Tasmania and Ambulance Tasmania are contained in the separate Chapters for each of these entities.

STATEMENT OF FINANCIAL POSITION

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Financial Assets				
Cash and deposits	49 349	83 232	56 446	69 680
Receivables	21 930	25 159	26 076	19 886
Loan advances	10 536	7 130	9 201	11 583
Equity investments	0	2 459	188	0
Superannuation asset	0	0	0	2 038
Other financial assets	8 957	3 227	1 018	0
Non-financial Assets				
Inventory	9 481	11 896	11 007	7 710
Assets held for sale	0	6 161	6 301	
Property, plant and equipment	2 582 346	2 486 379	2 446 445	2 348 862
Intangibles	0	11 952	4 099	236
Other non-financial assets	0	2 491	1 434	5 753
Total Assets	**2 682 599**	**2 640 086**	**2 562 215**	**2 465 748**
Liabilities				
Payables	34 056	42 720	48 270	43 580
Interest bearing liabilities	218 289	223 289	229 820	236 081
Other financial liabilities	0	19 614	6 590	6 042
Superannuation liability	16 313	14 877	17 251	15 915
Employee entitlements	159 996	176 753	186 509	154 933
Other liabilities	37 303	39 549	22 868	33 422
Total Liabilities	**465 957**	**516 802**	**511 308**	**489 973**
Net Assets	**2 216 642**	**2 123 284**	**2 050 907**	**1 975 775**
Contributed capital	6 094	6 094	6 094	6 094
Accumulated funds	561 354	435 728	384 594	415 806
Reserves	1 649 194	1 681 462	1 660 219	1 553 875
Total Equity	**2 216 642**	**2 123 284**	**2 050 907**	**1 975 775**

Comment

Net Assets increased from $2.051bn at 30 June 2009 to $2.123bn at 30 June 2010. Before accounting for inter-entity transactions, Net Assets comprised:

	2009-10 $'000s	2008-09 $'000s	2007-08 $'000s
DHHS	469 891	430 981	428 887
Housing	1 631 805	1 606 061	1 531 509
Ambulance	21 588	13 865	15 379
Total Net Assets	**2 123 284**	**2 050 907**	**1 975 775**

Overall Net Assets for the Department increased by $72.377m, with significant movements between the 2008-09 and 2009-10 including:

- Cash and deposits increased by $26.786m for reasons provided in the Statement of Cash Flows section of this Chapter
- Equity investments of $2.459m were introduced this year being the new Housing initiative, Homeshare. Discussion of this initiative is contained in the Housing Tasmania Chapter
- Other financial assets increased by $2.209m primarily due to a $1.700m accrual for a Community Service Levy payment to be reimbursed by Treasury
- Property, plant and equipment increased by $39.934m This item consisted mainly of land and buildings which predominately relates to Housing Tasmania. The item also consists of medical, computer and motor vehicles such as ambulances. There were additions during the year of $102.039m as well as asset revaluation increments of $21.242m. These items were partly offset by disposals of $24.367m and depreciation of $50.401m
- Intangibles increased by $7.853m, primarily due to the work in progress on health information technology projects undertaken in the year
- Payables decreased by $5.550m explained by a fall of approximately $6.822m of "creditors on desk", being 2009-10 expenditure accrued after balance day. Improved business efficiencies in the processing and payment of invoices and management of cash may have contributed to this result
- Interest bearing liabilities decreased by $6.531m with the repayment of loans used for funding social housing developments
- Superannuation liability decreased by $2.374m attributable to better investment returns by the superannuation funds reducing the Department's obligation
- Employee entitlements decreased by $9.756m due to the reduction of $25.600m in accrued salaries offset by net increases in long service leave liabilities of $15.447m.

The above were offset partly by the following:

- Receivables decreased by $0.917m attributable to a lower goods and services tax receivable
- Loan advances decreased by $2.071m as a result of running down the Housing loan portfolio such as the Home Ownership Assistance Program (HOAP) which is discussed in the Housing Chapter
- Other financial liabilities increased by $13.024m attributable to the Payroll suspense account holding large PAYG and payroll tax installments at year end
- Other liabilities increased $16.681m in 2009-10. This relates to an increase in appropriations carried forward of $15.096m, other revenues in advance of $5.004m offset by lower employee on-costs of $3.569m.

The Superannuation asset and liability mentioned previously represented the Department's present obligations and/or benefits under the defined benefit schemes of Housing Tasmania and Ambulance Tasmania. These superannuation assets and liabilities are recorded on the Statement of Financial Position due to the requirements of Australian Accounting Standard AASB 119 *Employee Benefits*.

Actuarial reviews of Housing Tasmania's defined benefit scheme determined present liabilities of $13.726m in 2009-10 and $13.695m in 2008-09. For Ambulance Tasmania the liability was $1.151m for 2009-10, and $3.556m in 2008-09.

The variation between budget and actual Net Assets for 2009-10 amounted to $93.358m. Significant budget variations included the following:

- Loan advances budget less than actual by $3.406m as Equity investments were originally included in this budget line item
- Other financial assets $5.730m less than budget with accrued revenue being lower than budgeted

- Property, plant and equipment $95.967m less than budget due to an unexpected revaluation decrement to Housing Tasmania's land
- Payables greater than budget by $8.664m as liabilities were more readily identifiable with the introduction of improved accounts payable processes by the Department
- Employee entitlements greater than budget by $16.757m due to not fully taking FTE position growth and wage increases into account when preparing the budget.

The above factors were offset in part by the following:

- Cash and deposits higher than budget by $33.883m as a result of funds received in advance of $26.000m, increased donations $2.000m and retained revenue
- Receivables more than budget by $3.229m due to unbudgeted activity
- Equity investments of $2.459m, a new Housing initiative, which commenced this year. The item was not budgeted for in the original estimates as a separate line item
- Assets held for sale of $6.161m, intangibles of $11.952m and Other non-financial assets were not budgeted
- Superannuation liability less than budget by $1.436m due the better investment returns mentioned previously in this Chapter.

STATEMENT OF CASH FLOWS

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Cash flows from operating activities				
Cash inflows				
Receipts from government - recurrent	1 331 408	1 395 488	1 204 718	1 134 943
Receipts from special capital investment funds - recurrent	0	0	0	3 209
Grants	50 486	59 947	101 370	44 524
Sales of goods and services	213 089	155 476	156 390	144 438
Interest received	1 470	1 593	2 224	3 177
Other cash receipts	24 996	32 349	36 296	28 228
GST receipts	45 059	70 823	64 902	52 282
Total cash inflows	**1 666 508**	**1 715 676**	**1 565 900**	**1 410 801**
Cash outflows				
Payments to employees	874 981	904 617	803 395	713 301
Supplies and consumerables	425 582	454 973	464 889	390 170
Community grants	198 048	191 213	169 957	153 087
Finance costs	10 201	10 197	10 469	10 725
Other cash payments	56 650	75 889	57 093	55 081
GST Payments	45 063	70 412	65 648	55 846
Total cash outflows	**1 610 525**	**1 707 301**	**1 571 451**	**1 378 210**
Cash from (used in) operations	**55 983**	**8 375**	**(5 551)**	**32 591**
Cash flows from investing activities				
Cash inflows				
Receipts from government - capital	142 085	74 883	22 783	29 198
Receipts from special capital investment funds - capital		33 475	24 785	15 740
Proceeds from disposal of assets	13 753	26 147	6 188	8 895
Receipts from investments		1 445	2 215	3 100
Total cash inflows	**155 838**	**135 950**	**55 971**	**56 933**
Cash outflows				
Payments for acquisition of assets	204 822	110 252	57 394	48 360
Payment for equity investment	0	755	0	0
Net loans granted(repaid)	1 155	0	0	0
Total cash outflows	**205 977**	**111 007**	**57 394**	**48 360**
Cash from (used in) investing activities	**(50 139)**	**24 943**	**(1 423)**	**8 573**
Cash flows from financing activities				
Cash outflows				
Repayment of borrowings	(6 396)	(6 532)	(6 260)	(6 000)
Cash (used in) financing activities	**(6 396)**	**(6 532)**	**(6 260)**	**(6 000)**
Net increase (decrease) in cash	**(552)**	**26 786**	**(13 234)**	**35 164**
Cash at the beginning of the year	49 901	56 446	69 680	34 516
Cash at end of the year	**49 349**	**83 232**	**56 446**	**69 680**

Comment

The Department's net cash holdings increased by $26.786m in 2009-10 due to:

- positive cash generated from operations of $8.375m. This amount seems reasonable as it approximates the Operating loss of $40.183m less depreciation and amortisation charges of $50.612m
- a combination of the Department not spending all of its capital receipts and asset sales to the extent of $24.943m. Asset sales totalled $26.147m primarily comprising sales of houses and land. Unspent capital receipts in the main related to Commonwealth stimulus funding unspent this year. Further details are provided in the Housing Tasmania Chapter.

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

The Department paid $110.252m in 2009-10 for acquisition of assets. These were funded predominately by capital appropriations, SCIF funding and, in Housing's case, in part by asset sales.

The cash resources of the Department at 30 June were attributable to:

	2009-10	**2008-09**	**2007-08**
	$'000s	$'000s	$'000s
DHHS	56 104	41 947	60 015
Housing	27 128	14 499	9 665
Ambulance	0	0	0
Total Cash at year end	**83 232**	**56 446**	**69 680**

Included in the Department's balance in 2009-10 and 2008-09 were $19.458m and $4.362m, respectively, being funds carried forward under Section 8A(2) of the *Public Account Act 1986*.

The Department budgeted to break even on a cash basis as represented by a budgeted decrease in net cash of $0.552m. We have not attempted to explain variances in line items because in many cases they differ significantly from actual outcomes indicating the Department needs to address its budgeting processes on a line item basis. Some reasons for variances against budget were provided within the Department's annual financial statements.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result from operations ($'000s)		(40 183)	(92 225)	(20 102)	(91 270)
Own source revenue ($'000s)		194 918	197 284	182 669	170 993
Financial Management					
Debt collection (excluding GST)	30 days	43	42	36	34
Creditor turnover	30 days	16	29	37	35
Capital Management					
Investment gap	100%	228%	116%	106%	97%
Capital replacement %	100%	88%	n/a	n/a	n/a
Other Information					
Staff numbers (FTEs)		9 510	9 010	8 618	8 992
Average staff costs ($'000s)		95	92	84	79
Average Recreational Leave balance per FTE (days)	20	20	23	22	n/a
Average Long Service Leave balance per FTE (days)	100	40	38	n/a	n/a
Selected Hospital Statistics *					
Department of Emergency Medicine Presentations		141 967	125 954	109 453	119 554
Outpatient Department – Occasions of Service		n/a**	892 085	819 274	823 344
Admitted Patients -Weighted Separations		101 286	101 510	94 962	99 091

* *Not subject to audit.*
** *Data not available due to implemetation of new administration system*

Comment

Results from operations were in deficit for reasons outlined previously in the Comprehensive Income Statement section. The above figures are before capital revenues, asset transfers and actuarially determined movements on superannuation liabilities.

Own source revenue dropped slightly in 2009-10 but improved over the period because the Department had an emphasis on cost recovery. During the year there were increased revenues from private patient schemes, however these was offset by a decrease in other client charges.

Debt collection continued to be above benchmark and remaining high. The Department has experienced delays in the recovery of debts, such as those raised by Ambulance Tasmania.

Creditor turnover decreased in 2009-10 due to improved accounts payable processes implemented by the Department. This result reversed the upward trend in previous years. These processes included implementation of a purchase order system and encouraging creditors' payments by electronic means.

Investment gap was well above the benchmark in the current year, as capital asset additions, excluding land, were well in excess of the depreciation expense. Funding for capital expenditure in the current year was discussed previously in this Chapter.

Capital replacement ratio for the current year was below benchmark. This indicated that capital expenditure on existing assets was less than the annual depreciation charge on those assets. Subject to adequate investment in maintenance, investing less than the annual depreciation charge may indicate the Department is under investing in its existing assets.

Average staff costs increased this year, consistent with current trends in health industry wage and salary movements.

Average recreational annual leave per full time equivalents (FTE's) met the benchmark and improved over the period of review. Average long service leave per full time equivalents (FTE's) also met bench mark but increased on the previous period.

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

ADDITIONAL FINANCIAL INFORMATION

Administered Financial Transactions

Administered transactions are those that the Department manages on behalf of the Government. These transactions relate primarily to funding community service obligations paid to Aurora Energy Pty Ltd to support pensioners and health card holders for power costs and to fund grant programs. As noted previously in this Chapter, funding arrangements between the States and Commonwealth changed resulting all but the Aurora CSOs now being controlled items.

Administered Income and Expenses

	2009-10 Budget	**2009-10 Actual**	**2008-09 Actual**	**2007-08 Actual**
	$'000s	$'000s	$'000s	$'000s
Revenue from government - recurrent	34 919	38 653	25 992	13 999
Australian government grants	22 226	28 385	311 787	336 576
Total Revenue	**57 145**	**67 038**	**337 779**	**350 575**
Grants and subsidies	35 016	36 155	30 616	14 729
Total Expenses	**35 016**	**36 155**	**30 616**	**14 729**
Net Surplus	**22 129**	**30 883**	**307 163**	**335 846**
Transfer to Consolidated Fund	22 226	42 052	295 787	336 576
Comprehensive Surplus (Deficit)	**(97)**	**(11 169)**	**11 376**	**(730)**

Comment

Net deficit attributable to the State decreased by $22.545m this year. This was due to:

- Australian government grants decreased by $283.402m, primarily due to the change in accounting arrangements previously referred to. Programs funded by the Commonwealth are now all controlled activities
- Grants and subsidies increased by $5.539m comprising a Community Service Agreement (CSA) with Aurora and ex-gratia payments. The CSA with Aurora is for the provision of pensioner concessions to approximately 67 000 Tasmanian pensioners and Health Care Card Holders.

These were partly offset by:

- Revenue from government – recurrent increased by $12.661m being the appropriation for Community Service Obligation payments to Aurora
- Transfer to Consolidated Fund decreased by $253.735m attributable to a reduction in grants from the Federal Government.

HOUSING TASMANIA

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Financial statements were received on 13 August 2010. An unqualified audit report was issued on 28 September 2010.

KEY FINDINGS AND DEVELOPMENTS

Housing Tasmania received a significant increase in capital funding for 2009-10 for the construction of new rental dwellings, and improvements to existing stock. Capital expenditure increased by $49.535m in 2009-10, with a further increase in capital funding to be provided to Housing in future years. The majority of additional capital funds were provided by the Australian Government under the Nation Building Economic Stimulus Program (NBESP). This program released funds to the states and territories to stimulate the building sector, mainly through the construction of schools, social housing, defence service housing and transport infrastructure.

The Affordable Housing Strategy was funded for a four year period ending in 2010. The Strategy assisted over 5 500 households to access and maintain affordable housing options. Achievements included:

- purchase or construction of 402 public housing properties
- upgrading of 428 public housing properties
- upgrading or replacement of six disability properties
- commencement of three new supported residential facilities
- a range of other local initiatives including minor grants to community organisations and local employment training programs.

The HomeShare shared equity program was introduced by the Government in December 2008 to assist Tasmanians with low to moderate incomes to transition into home ownership. HomeShare is a Shared Equity program administered by the Bendigo Bank. Under this scheme, the Director of Housing either retains 25 per cent equity in surplus Housing Tasmania properties sold, or co-purchases with eligible scheme participants in which case Housing Tasmania purchases between 20-25 per cent equity in newly constructed houses. Where the Director purchased equity in new houses, the funds are provided from the unexpended HOAP surplus funds as approved by the Treasurer. Combined with HOAP surpluses, these funds are expected to fund shared equity purchases for approximately the next four years.

The 2009-10 audit was completed satisfactorily with no major items outstanding.

COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Revenue from government - recurrent	42 375	39 802	32 991	32 357
Revenue from special capital investment funds - recurrent	9 055	4 087	3 598	3 898
User charges	166	656	903	1 246
Interest revenue	1 076	1 225	1 980	1 584
Rental revenue	65 219	63 365	59 632	53 258
Other revenue	6 273	7 090	3 510	2 439
Total Revenue	**124 164**	**116 225**	**102 614**	**94 782**
Employee entitlements	16 913	15 824	14 068	15 251
Depreciation and amortisation	26 241	24 933	25 407	23 112
Goods and services	31 669	28 279	24 142	24 528
Recurrent maintenance	31 573	38 953	29 996	22 734
Administration	3 516	4 236	8 770	7 752
Grants and subsidies	4 202	3 230	4 024	4 975
Finance costs	10 195	10 467	10 727	10 997
Impairment losses	0	0	0	0
Other expenses	10 900	9 383	4 474	3 733
Total Expenses	**135 209**	**135 305**	**121 608**	**113 082**
Net surplus (deficit) from transactions	**(11 045)**	**(19 080)**	**(18 994)**	**(18 300)**
Revenue from government - capital	51 504	12 443	4 086	3 258
Net gain (loss) on non financial assets	(6 129)	(2 274)	(18)	(853)
Net gain (loss) on financial instruments and statutory receiavbles and payables	(536)	(677)	(2 398)	(3 025)
Actuarial Superannuation adjustment	21	2 385	1 136	(1 848)
Net surplus (deficit) attributable to the State	**33 815**	**(7 203)**	**(16 188)**	**(20 768)**
Other Comprehensive Income				
Changes in physical asset revaluation reserve	(8 047)	81 755	157 903	38 599
Comprehensive Surplus	**25 768**	**74 552**	**141 715**	**17 831**

Comment

The above analysis has differentiated capital funding and the actuarial gain or loss on superannuation by recording it below operating activities. This enables an assessment of Housing's management of operating revenues and expenses.

In 2009-10 Housing recorded a net deficit before capital revenue of $11.069m, an improvement of $8.011m over the prior year. Housing records a deficit before capital and other items since it does not charge full market rents to tenants and offers rebates based on an assessment of tenant incomes. Potential rental income and the rebates over the four years of review were as follows:

Rental Revenue Break Down				
	2009-10	**2008-09**	**2007-08**	**2006-07**
	$'000s	$'000s	$'000s	$'000s
Potential rental income	105 725	103 740	94 206	76 286
Rebate	(40 506)	(40 375)	(34 574)	(23 028)
Reported rental revenue	**65 219**	**63 365**	**59 632**	**53 258**

Overall, the Comprehensive surplus of $25.768m decreased by $48.784m in 2009-10. Reasons contributing favourably to the result were as follows:

- an increase in capital appropriations revenue of $39.061m to directly fund the construction and purchase of new housing stock, and improvements to existing dwellings
- a reduction in maintenance expenditure of $8.416m primarily due to a deliberate strategy undertaken by Housing in 2008-09 to reduce the outstanding work orders, which in turn necessitated an increase in maintenance expenditure. This increase was coupled with additional maintenance expenditure relating to works undertaken as part of the repairs and maintenance component of the Nation Building Economic Stimulus Package
- an increase in recurrent revenue from Special Capital Investment Funds of $4.916m to fund capital improvements
- an increase in Appropriations revenue of $2.573m to fund recurrent activities related to the National Partnership Agreements for Homelessness and Remote Indigenous persons

These improved results were more than offset by the following:

- a reduction in the Asset revaluation reserve movement of $89.802m due to the fact that land values were assessed slightly downwards to reflect current market conditions
- a reduction in the actuarial gain of $2.364m in 2009-10, due to the change in taxation status of gains in 2008-09
- a higher net loss on sale of financial assets of $3.858m due to impairment losses on demolished properties, which are being re-developed using capital funding referred to previously
- increases in Employee benefit expenditure of $1.089m due to an increase in award salaries under the State Service Wage Agreement
- an increase in Goods and services expenditure of $3.390m due to a higher incidence of insurable claims
- a reduction in Contributions received of $2.130m, due to a one-off contribution received in 2008-09 being for a building acquired at no cost from the Salvation Army.

ABRIDGED STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Total Financial Assets	38 674	26 645	25 090	29 156
Total Non Financial Assets	1 846 861	1 842 069	1 768 918	1 631 062
Total Assets	1 885 535	1 868 714	1 794 008	1 660 218
Total Financial Liabilities	230 286	242 723	239 697	244 945
Total Non Financial Liabilities	23 444	19 930	22 802	25 480
Net Assets	**1 631 805**	**1 606 061**	**1 531 509**	**1 389 793**
Contributed capital	6 094	6 094	6 094	6 094
Accumulated funds	281 410	247 619	254 822	271 009
Reserves	1 344 301	1 352 348	1 270 593	1 112 690
Total Equity	**1 631 805**	**1 606 061**	**1 531 509**	**1 389 793**

Comment

Housing Tasmania's Total Equity increased by $25.768m in 2009-10 due to the net surplus for the year attributable to the State of $33.815m offset by the downward revaluation of assets of $8.047m.

Major movements in line items in the Statement of Financial Position were due to:

- an increase in Cash and deposits of $12.629m, represented by unspent capital funding provided to finance the Construction of new dwellings and improvements to dwellings. Unspent capital funds were fully committed on future capital improvements
- a reduction in payables of $6.942m, due to a larger than usual level of payables recorded in 2008-09 accrued for maintenance expenditure
- a reduction in interest bearing liabilities of $6.531m due to the repayment of principal on outstanding State and Commonwealth loans
- an increase in Property plant and equipment of $4.792m, largely represented by the net of capital improvements of $49.648m less:
    - o current year depreciation and amortisation charges of $26.265m
    - o downwards revaluation of properties of $8.047m
    - o book value of assets disposed of and impaired, $24.419m
- an increase in Equity investments of $2.199m, following the introduction of the "HomeShare" shared equity product whereby the Director of Housing either retains 25 per cent equity in sold surplus properties or co-purchases with eligible scheme participants, purchasing between 20-25 per cent equity in newly constructed houses
- an increase in other liabilities of $3.774m, due to additional Appropriation revenue carried forward under Section 8(2)(a) of the *Public Account Act* to fund future capital expenditure
- a decrease in other financial assets of $2.400m, being the repayment of borrowings under the Home Ownership Assistance Scheme, which was closed in 2007.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result from operations ($'000s)		(11 069)	(19 080)	(18 994)	(18 300)
Operating margin	>1.0	0.92	0.86	0.84	0.84
Own source revenue ($'000s)		72 734	72 336	66 025	58 527
Financial Management					
Debt collection	30 days	9	11	9	25
Creditor turnover	30 days	38	66	21	19
Capital Management					
Investment ratio	100%	274.52%	90.47%	57.96%	38.74%
Other Information					
Average staff numbers (FTEs)		233	222	214	202
Average staff costs ($'000s)		70	73	71	79
Average Recreational Leave balance per FTE (days)	20	16	15	15	15
Average Long Service Leave balance per FTE (days)	100	35	34	36	37
Rental dwellings (no. of properties) *		13 082	12 645	12 563	12 602
Occupancy Rate (%) *		99.3%	99.3%	99.3%	98.9%

* *Not subject to audit.*

Comment

As indicated in the Comprehensive Income Statement section of this Chapter, Housing Tasmania's Result from operations improved resulting in a better Operating margin but which is still below the benchmark of one. As mentioned previously, this is because Housing Tasmania does not charge full market rents to tenants and offers rebates based on an assessment of tenant incomes, consistent with other jurisdictions' housing authorities. The Occupancy rate remains very strong reflecting the high demand for Housing Tasmania properties.

The debt collection days is favourable since the majority of Housing Tasmania debtors pay by direct debit every fortnight.

While the creditor ratio improved, it was above the benchmark mainly representing high levels of unpaid maintenance contracts which was also the case in 2008-09. These high levels of outstanding creditors are mainly invoices for work done at year end that are not received until the subsequent financial year.

The investment ratio increased substantially in 2009-10, due to the higher level of capital funding referred to in the Comprehensive Income Statement section of this Chapter.

Capital replacement ratio was not included because in the main current year expenditure was to new assets.

AMBULANCE TASMANIA (FORMERLY TASMANIAN AMBULANCE SERVICE)

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010 and an unqualified audit report was issued on 27 September 2010.

KEY FINDINGS AND DEVELOPMENTS

Ambulance Tasmania (or the Service) received a significant increase in attributed recurrent appropriation and capital funding for 2009-10. The additional attributed appropriation revenue was used to fund initiatives targeted towards building a sustainable ambulance service. This included:

- appointment of additional paramedics at Huonville, New Norfolk and Sorell
- appointment of paramedics associated with new ambulance stations at Triabunna, Nubeena and Queenstown
- provision towards costs associated with the outcome of the 2010 Enterprise Bargaining Agreement
- new cardiac monitor defibrillators
- purchase and redevelopment of a building at Scottsdale to accommodate the new ambulance paramedic service
- extensions to the Launceston Ambulance station
- new ambulance vehicles
- construction of the State Communication Centre in Hobart and ambulance stations at Triabunna and Nubeena. A new ambulance residence at Queenstown was also built.

The audit was completed satisfactorily with no major items outstanding.

FINANCIAL INFORMATION

ABRIDGED COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Total Income	44 685	39 240	32 668	30 138
Total Expenses	46 226	40 997	36 181	32 773
Net (deficit) from transactions	**(1 541)**	**(1 757)**	**(3 513)**	**(2 635)**
Attributed revenue from government - capital	6 001	3 966	4 676	1 835
Actuarial superannuation assessment	2 593	(5 867)	(3 964)	(317)
Gain (loss) on sale of assets	204	81	(154)	(500)
Impairment losses	(93)	(52)	(179)	(3)
Net surplus (deficit) attributable to the State	**7 164**	**(3 629)**	**(3 134)**	**(1 620)**
Other Comprehensive Income				
Change in physical asset revaluation reserve	559	589	6 724	0
Comprehensive Surplus (Deficit)	**7 723**	**(3 040)**	**3 590**	**(1 620)**

Comment

In 2009-10 Ambulance Tasmania recorded a Net deficit from transactions of $1.541m, a slight improvement of $0.166m on the prior year. The Net deficit from transactions indicated that the Service had not generating sufficient revenue to fulfil all of its operating requirements, including coverage of its depreciation charges.

The Comprehensive surplus increased by $10.763m to a surplus of $7.723m in 2009-10. Reasons contributing favourably to the result were as follows:

- attributed recurrent and capital appropriation revenue increased by $7.710m, $5.675m in recurrent funding and $2.035m in capital funding. These additional government revenues were made available in 2009-10 to ensure Ambulance Tasmania's sustainable funding. The higher funding was for additional paramedics services in branch stations, additional management and training personnel, clinical supervision in State Communications, additional patient transport officers in South, increased salary costs as well as costs associated with new ambulance stations being commissioned. Major capital additions and projects covered by the higher government funding included: acquisition of 59 Cardiac Monitor Defibrillators, $1.623m, and 21 new ambulance vehicles, $2,455m; construction of the State Communication Centre in Hobart, $0.203m; Ambulance stations at Triabunna, Nubeena and Scottsdale, $1.297m; an Ambulance residence at Queenstown, $0.160m; and Launceston Ambulance station extension, $0.159m
- net actuarial gains of superannuation defined benefit plan - Tasmanian Ambulance Service Superannuation Scheme (TASSS), increased $8.460m due to favourable investment activity in 2009-10
- the physical assets revaluation reserve increment of $0.559m which resulted from the revaluation of buildings and land during the year.

These factors were partially off set by

- attributed employee benefits increased $2.698m, mainly due to recruitment of new Ambulance employees, $1.840m, a wage increment associated with the outcome of the 2010 Enterprise Bargaining Agreement and increased TASSS superannuation expenses of $0.402m
- an increase in supplies and consumables expenses of $0.975m, mainly due to additional ambulance stations being commissioned, and a larger ambulance fleet which required fittings and other consumables
- higher administration expenses of $0.793m, mainly due to the purchase of laptops for electronic patient care records using the Victoria Ambulance Clinical Information System (VACIS).

While we note that the Service's funding improved in 2009-10, it is still not funded to cover its depreciation charges which averaged $1.674m per annum over the four years under review.

ABRIDGED STATEMENT OF FINANCIAL POSITION

	2009-10	**2008-09**	**2007-08**	**2006-07**
	$'000s	$'000s	$'000s	$'000s
Total Assets	32 986	27 641	24 328	19 558
Total Liabilities	11 398	13 776	8 949	8 725
Net Assets	**21 588**	**13 865**	**15 379**	**10 833**
Total Equity	**21 588**	**13 865**	**15 379**	**10 833**

Comment

Total Equity increased by $7.723m in line with the Comprehensive surplus for the year.

Major reasons for the increase in Net Assets were as follows:

- an increase in receivables of $1.272m, due to outstanding invoices of $1.825m at 30 June 2010 owed by the Department of Veteran's Affair (DVA)
- an increase in property plant and equipment of $4.107m due to the revaluation increment relating to buildings and land of $0.559m and capital additions of $5.733m offset by depreciation of $2.152m
- the lower net superannuation liability of $2.405m. The decrease was attributable to investment profits achieved by TASSS in the period.

These factors were offset by an increase in employee entitlements of $0.387m, mainly due to employees accumulating one more year of long service leave and wage increase associated with the outcome of the 2010 Enterprise Bargaining Agreement.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result from operations ($'000s)		(1 541)	(1 757)	(3 513)	(2 635)
Operating margin	>1.0	0.97	0.96	0.90	0.92
Own source revenue ($'000s)		4 993	5 224	4 799	3 816
Financial Management					
Debt collection (exclude DVA billings)*	30 days	65	59	55	66
Creditor turnover	30 days	16	35	28	25
Capital Management					
Capital replacement % (renewal gap)	100%	194%	228%	N/A	N/A
Investment gap % (cap spend/depn)	100%	279%	316%	234%	206%
Other Information					
Staff numbers (FTEs)		300	278	273	252
Average staff costs ($'000s)		96	94	85	84
Average Annual Leave balance per FTE (days)	90 days	41	N/A	N/A	N/A
Average Long Service Leave balance per FTE (days)	100 days	47	N/A	N/A	N/A

* *DVA is the Department of Veterans Affairs*

Comment

Operating margin remained below the bench mark in 2009-10, despite an improvement in the Result from operations compared to the prior year. This was predominantly due to depreciation which was not funded.

Debt collection (excluding DVA billings) continues to be above the bench mark.
The ratio provides an indication of the effectiveness of debt collection practises to ensure timely receipt of monies owed. Ambulance Tasmania has historically experienced a relatively slow collection of debts owed by clients. This situation may be indicative of the industry.

Creditor turnover was above the bench mark in 2008-09 mainly due to unpaid invoices totalling $0.288m as at 30 June 2009 for the purchase of new Ambulance vehicles.

The Investment gap and Capital replacement ratios remain high due to capital works undertaken by Ambulance Tasmania referred to previously in this Chapter.

The increase in Average staff costs in 2009-10 was partly attributed to wage increases associated with the outcome of the 2010 Enterprise Bargaining Agreement.

Average annual leave balance per FTE was high due to the fact that most Ambulance employees are entitled to 35 annual leave days per annum plus 10 accrued days off taken in one or two week blocks. However, these balances are not in excess of the two year benchmark.

DEPARTMENT OF INFRASTRUCTURE, ENERGY AND RESOURCES

In this Chapter the Department is referred to as either DIER or the Department.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2010. An unqualified audit report was issued on 1 September 2010.

The audit was completed satisfactorily with no major items outstanding. However, on conclusion of our audit we reported a number of matters to DIER management including:

- DIER has a comprehensive IT policy but it was written in 1998 and does not always reflect DIER's current operating environment, for example referring to positions that no longer exist. Also, the current IT policy does not address the Finance One system
- A number of DIER staff had access, without review of database access, to both the username and password for the Financials System background database which stores all data entered through Financials. Direct access to the Financials System database allows unlimited access without the control restrictions and audit trail of the application thus increasing the possibility that the integrity of data within financials is compromised
- Super users, such as the systems administrator, have a standard operating access profile as well as a separate super user access profile. While there is a review of the activity logs for super users it is informal and does not require sign off. Super user access allows unrestricted access to the system which if combined with a lack of strong review procedures increases the risk of inappropriate transactions occurring.

KEY FINDINGS AND DEVELOPMENTS

A number of developments arose in the 2009-10 financial year including:

Rail Infrastructure

On 30 June 2009 a Heads of Agreement was signed by the Crown to purchase the Pacific National Tasmania (PNT) business. Following this Tasmanian Rail Pty Ltd (Tasrail) was established with all rail infrastructure, other than the Abt Railway (Abt), transferred to Tasrail along with various related plant and equipment. Federal and state funding received for the establishment and ongoing operations of Tasrail, totalling $81.865m in the 30 June 2010 financial year, flowed through DIER to Tasrail as equity injections.

Land in Rail Corridors was included in DIER's financial statements for the first time in 2010. All titles relating to Land in Rail Corridors were recorded and a valuation obtained either through direct Valuer-General valuations previously conducted or by reference to the average rateable value per hectare valuations conducted as at 30 June 2010.

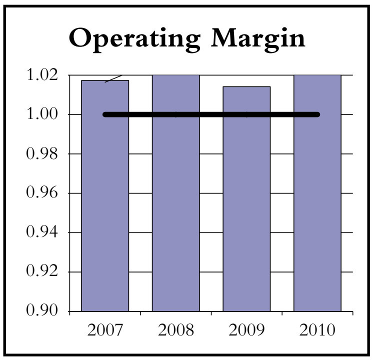
Road Works

During 2009-10 DIER Commenced work on the Brighton Transport Hub, Kingston Bypass and continued work on the East Tamar Highway.

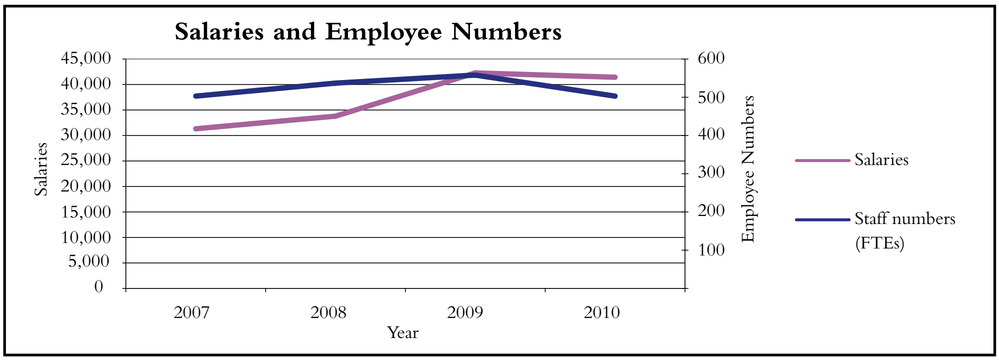
We also noted that, on the basis of the benchmark of 100% for the Capital replacement ratio, see Financial Performance section of this Chapter, and subject to adequate road maintenance expenditure, over the period 2006-07 to 2009-10 the Department's investment in its existing road network may not be adequate.

FINANCIAL RESULTS

The following two graphs highlight important aspects of the Department's operating activities:



In this graph, operating margin is before depreciation because it, along with increases in employee provisions, are not funded. The graph indicates DIER has consistently operated slightly better than the benchmark of one.



DIER's staff numbers totalled 503 in 2006-07, increased to 558 in 2008-09 and reduced back to 503 in 2009-10. The decline by 55 FTE in 2009-10 had the effect of reducing employee costs by about $4.500m which almost matched award increases this year resulting in a flattening of the salary cost line. Employee costs increased by $8.487m, or 25.11%, between 2007-08 and 2008-09.

STATEMENT OF COMPREHENSIVE INCOME

	2009-10 Budget	2009-10 Actual	2008-09 Actual	2007-08 Actual
	$'000s	$'000s	$'000s	$'000s
Revenue from government - recurrent	93 346	93 083	96 578	96 338
Revenue from government - capital maintenance	75 050	90 920	81 898	67 716
Revenue from special capital investment funds	558	1 381	4 885	407
Grants	1 069	1 714	3 195	2 403
Sales of goods and services	584	1 361	1 730	988
Fines and regulatory fees	9 965	10 009	9 707	5 547
Other revenue	3 819	6 328	5 259	6 464
Total Revenue	**184 391**	**204 796**	**203 252**	**179 863**
Employee entitlements	36 565	41 425	42 280	33 793
Depreciation and amortisation	90 974	89 513	86 941	80 580
Grants and subsidies	53 706	61 600	59 328	51 209
Supplies and consumables	56 316	82 275	96 167	84 658
Loss on sale of assets	0	1986	25	89
Other expenses	2 600	2 796	2 617	2 215
Total Expenses	**240 161**	**279 595**	**287 358**	**252 544**
Net Deficit from transactions:	**(55 770)**	**(74 799)**	**(84 106)**	**(72 681)**
Revenue from government - capital	157 006	165 331	71 646	52 196
Revenue for transfer to Tasrail	0	81 865	0	0
Write down of assets	0	(14 683)	(570)	(5 718)
Revenue from special capital investments funds - capital	20 301	13 470	10 480	16 188
Net Surplus (Deficit) before	**121 537**	**171 184**	**(2 550)**	**(10 015)**
Urban Renewal and Heritage Fund transfer*	0	0	(25 000)	25 000
Net Surplus (Deficit) attributable to the State	**121 537**	**171 184**	**(27 550)**	**14 985**
Other Comprehensive Income				
Rail corridor land not previoulsy brought to account	0	0	46 530	0
Changes to asset revaluation reserve	128 106	86 204	210 948	436 895
Comprehensive Surplus	**249 643**	**257 388**	**229 928**	**451 880**

* *Government established the Urban Renewal and Heritage Fund in 2007-08 allocating it to the Department. In 2008-09 this Fund was transferred to the Department of Treasury and Finance.*

Comment

Prior to accounting for capital revenues, Tasrail funding and asset write downs, the Department reported Deficits of $74.799m and $84.106m in the two years under review. This is expected because the Department is funded on a cash basis, which excludes depreciation or changes in employment provisions. Depreciation is a significant expense. In both years the Deficit was in the right ball park relative to the Depreciation expense.

Capital funding is used to facilitate both asset replacement and asset maintenance. The above analysis has separated capital funding expended on asset replacement and recorded it below operating activities. It also separates funding received for transfer to Tasrail and shows separately the impact of the decision made in 2008-09 to allocate responsibility for the Urban Renewal and Heritage Fund to Treasury. After the Net Deficit is adjusted for these and similar items, the

Department recorded a Net surplus attributable to the State of $171.184m compared to a deficit of $27.550m last year.

Revenue from government–capital and SCIF used in asset maintenance was recorded as operating income. This enables an assessment of the Department's management of operating revenues and expenditures.

Total Revenue for 2009-10 was $465.462m, up 63% on the prior year result of $205.378m, an increase of $83.409m. Revenue from government – capital was $178.801m up 218% on the prior year of $80.084m. Significant changes included:

- Revenue for transfer to Tasrail – new item of $81.865m represents funds transferred to Tasrail for the purchase of the PNT's rail operations and the funding of Tasrail and administered payments
- Revenue from Government – capital increased by $93.685m primarily to fund rail maintenance expenditure, the Brighton Bypass and the Brighton Transport Hub
- an increase in special capital investment funds of $2.990m.

Total Expenses for 2009-10 were $294.278m, up 2.21% on the prior year result of $287.928m, an increase of $6.350m. Significant changes included:

- Depreciation and amortisation increased by $2.572m, 2.96%, primarily relating to the road infrastructure
- Supplies and consumables decreased by $13.892m, 14.44%. The decrease was principally the result of the transfer of responsibility for rail assets to Tasrail
- The asset write down increase of $14.113m reflected the change in value of assets recorded at fair value.

The variation between budget and actual net surplus attributable to the State for 2009-10 amounted to $49.647m. The major variations included the following:

- Revenue from government – Tasrail, $81.865m - funding for the purchase of Tasrail operations and on-going financial support not budgeted
- Revenue from government – capital and SCIF capital was $24.195m in excess of budget reflecting the timing of expenditure on major projects spanning over the end of the financial year
- Write down of assets of $14.683m relating to the road asset replacement and demolition of buildings on property acquired for the Brighton and Kingston bypasses not budgeted for
- Supplies and consumables exceeded budget by $28.904m primarily because of expenditure planned to be capitalised in the budget which was subsequently expensed as maintenance. This was also, to an extent, reflected in the higher than budgeted revenue from government for capital maintenance
- Other revenue exceeded budget by $1.713m due to the receipt of one-large mine rehabilitation bond
- Employee entitlements exceeded budget by $4.860m reflecting the impact of large termination payments during the year and general salary increases
- Grants and subsidies were $7.894m above budget due to higher payments to Metro Tasmania Pty Ltd and additional funding for administered payments.

STATEMENT OF FINANCIAL POSITION

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Financial Assets				
Cash and deposits	36 351	37 627	48 301	91 558
Receivables	1 265	1 242	2 116	1 265
Other financial assets	5 098	9 258	7 717	5 096
Non-financial Assets				
Plant and equipment	11 907	12 007	12 078	12 536
Land and buildings	24 251	71 932	25 212	21 568
Road infrastructure	4 724 601	4 685 121	4 489 346	4 266 946
Other infrastructure	33 986	33 961	33 986	34 504
Intangibles	16 136	14 988	16 841	17 252
Total Assets	**4 853 595**	**4 866 136**	**4 635 597**	**4 450 725**
Liabilities				
Payables	3 220	16 217	9 702	6 128
Employee entitlements	10 063	10 804	11 014	9 581
Other liabilities	3 373	3 360	1 179	4 712
Total Liabilities	**16 656**	**30 381**	**21 895**	**20 421**
Net Assets	**4 836 939**	**4 835 755**	**4 613 702**	**4 430 304**
Reserves	2 043 499	2 079 563	1 993 359	1 782 411
Accumulated funds	2 793 440	2 756 192	2 620 343	2 647 893
Total Equity	**4 836 939**	**4 835 755**	**4 613 702**	**4 430 304**

Comment

During 2009-10 the Department's Net Assets increased by $222.053m primarily due to asset revaluation increments and the Department's high road investment program. The Department revalues road, land under roads and bridge infrastructure on an annual basis through full revaluations or by applying indices between valuations.

As illustrated in the Statement of Financial Position, the Department's assets are dominated by road infrastructure assets, totalling $4.685bn (or 96.89% of Total Assets).

The Cash and deposits balance as at 30 June 2010 was $37.627m (2009, $48.301m) consisting of:

- East Tamar Highway Fund, $29.518m
- Operating account, $8.109m.

Explanations for the movements in the Cash and deposits balances are provided under the analysis of DIER's Cash Flow Statement later in this Chapter.

The increase in Road infrastructure in 2009-10 of $195.775m was due to indexation increases to all categories, and commencement of major projects such as the Kingston bypass, the Brighton transport hub and Brighton bypass and continued work on the East Tamar Highway.

Major variations between budget and actual Net Assets for 2009-10 included the following:

- Other financial assets were higher due to GST refunds due on contractor payments

- Lands and buildings were higher because the recognition of the value of land under the rail corridor was not budgeted
- Payables increased reflecting higher than anticipated creditor and expense accruals due to more major capital projects underway at year end this year.

STATEMENT OF CASH FLOWS

	2009-2010 Budget $'000s	2009-2010 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Receipts from government - recurrent	93 346	93 756	96 443	94 879
Receipts from government - capital maintenance	75 050	90 686	78 485	69 868
Revenue from special capital investment funds	558	1 381	4 885	411
Grants	1 069	2 157	2 448	3 006
Sales of goods and services	584	1 336	1 035	994
Fines and regulatory fees	9 965	10 015	9 711	5 538
GST receipts	10 398	32 483	23 476	20 980
Other cash receipts	3 819	4 733	6 210	5 868
Payments to employees	(36 324)	(41 618)	(40 804)	(32 835)
Grants and subsidies	(53 706)	(61 536)	(59 173)	(53 119)
Payments to suppliers	(56 316)	(85 220)	(95 160)	(83 029)
GST payments	(10 399)	(34 715)	(24 445)	(21 116)
Other cash payments	(2 600)	(2 437)	(2 403)	(2 235)
Cash from operations	**35 444**	**11 021**	**708**	**9 210**
Receipts from government - capital	157 006	165 331	71 646	52 196
Revenue from special capital investment funds	20 301	13 470	10 480	16 188
Proceeds from disposal of assets	4	18	4	5
Payments for acquisition of assets	(226 871)	(202 314)	(101 095)	(82 248)
Receipts from government - Tasrail	0	81 865	0	0
Transfer to Tasrail	0	(81 865)	0	0
Cash used in investing activities	**(49 560)**	**(23 495)**	**(18 965)**	**(13 859)**
Trust receipts	0	2 125	0	0
Urban Renewal and Heritage fund transfer	0		(25 000)	25000
Trust Payments	0	(325)	0	0
Cash flows from financing activities	**0**	**1 800**	**(25 000)**	**25 000**
Net increase (decrease) in cash	**(14 116)**	**(10 674)**	**(43 257)**	**20 351**
Cash at the beginning of the year	50 467	48 301	91 558	71 207
Cash at end of the year	**36 351**	**37 627**	**48 301**	**91 558**

Comment

Despite the higher cash from operations, in total the cash from operations increased by $10.313m to $11.021m mainly as a result of lower payments to suppliers which had the impact of pushing up the year end Payables balance on the Statement of Financial Position by $6.515m

Cash and deposits balance decreased by $10.674m over the two year period under review primarily due to:

Offset to an extent by investment of $16.054m in the East Tamar Highway utilising funds brought forward for that purpose

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

Major variations between budget and actual cash flows for 2009-10 included the following:

- allocations of capital receipts for maintenance and capital purposes was $23.961m higher than budget reflecting the timing of expenditure on major projects spanning over the end of the financial year
- Payments to employees were higher due to unbudgeted termination payments
- Payments to suppliers was higher by $28.904m due to expenditure being expensed as maintenance which was capitalised in the budget
- Payment for the acquisition of assets was less than budget by $24.557m mainly due to the inclusion in the budget as capital expenditure which was expensed as maintenance
- Receipts and Transfers to Tasrail were not budgeted.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Operating deficit ($'000s)	>1	(74 799)	(84 106)	(72 681)	(76 282)
Own source revenue ($'000s)		19 412	19 891	15 402	9 922
Financial Management					
Debt collection	30 days	23	39	25	33
Creditor turnover	30 days	56	29	14	27
Capital Management					
Investment gap %	100%	226%	115%	102%	85%
Capital replacement %	100%	79%	76%	91%	81%
Other Information					
Staff numbers (FTEs)		503	558	537	503
Average staff costs ($'000s)		82	76	63	62
Average Annual Leave balance per FTE (days)	20	22	20	18	17
Average Long Service Leave balance per FTE (days)		48	46	46	47

Comment

The Operating deficit is in line with prior years and with commentary provided in the Statement of Comprehensive Income section of this Chapter. The result is less than the benchmark of one, which represents a break even expectation, primarily due to the unfunded depreciation expense and increases in employee entitlement provisions. Because depreciation is such a significant expense, it is expected that a deficit operating result and low operating margin will continue.

Own source revenue grew steadily over the four year period of the review. The increase in 2009-10 was attributable to mining rehabilitation bonds, interest income and Road Safety levies.

Debt collection improved from 39 days in 2008-09 to 23 days in 2009-10 primarily due to the raising of a provision against a large debt outstanding, $0.700m as at 30 June 2010, reflecting doubt regarding a recovery of damages to a bridge which had previously been accrued as a Receivable.

Creditor turnover varied over the four year period. This ratio was affected by the amount of project activity undertaken by the Department with consequential impact on the size of contractor payments unpaid at balance date.

The Investment ratio was well in excess of the benchmark for the current year. As mentioned earlier in the Chapter, this reflects the large amount of capital expenditure on new and existing roads that was invested during the year. Over the four year period the Department's total investment in physical assets has been increasing.

The Capital replacement ratio provides an indication whether investment in existing physical assets has been in line with an expectation that they be replaced at least to the extent of the annual depreciation charge. On the basis of the 100% benchmark, this indicates that over the four year period the Department's investment in existing road assets may not be adequate. However, this measure does not take into account the Department's annual maintenance program.

Employment numbers reduced in 2009-10 by 55 FTE's. This reduction occurred across the Department.

Average staff costs generally increased over the four year period. The increase in 2009-10 was attributable to negotiated wage increases, including reclassifications of positions in new bands, new agreement for engineers, annual wage escalation and a number of termination payments.

ADDITIONAL FINANCIAL INFORMATION

Administered Financial Transactions

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

Transactions administered by the Department included the Forest Practices Authority, taxi licences, motor vehicle registrations, drivers' licenses and collecting mining royalties. Commentary below focuses only on the administered statement of cash flows.

Administered Statement of cash flows

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Receipts from government - recurrent	51 558	63 821	28 245	20 700
Receipts from government - capital	0	0	2 000	500
Grants	417	177	73 737	44 510
Sales of goods and services	24 289	40 726	33 521	48 975
Fines and regulatory fees	40 049	40 582	38 557	39 090
Other receipts	33	19	496	365
Payments to employees	(1 833)	(1 930)	(1 858)	(1 802)
Grants and subsidies	(50 422)	(62 569)	(28 994)	(19 900)
Other cash payments	(853)	(1 958)	(2 685)	(4 234)
Transfers to the consolidated fund	(63 693)	(79 166)	(143 906)	(128 320)
Cash from (used in) operating activities	**(455)**	**(298)**	**(887)**	**(116)**
Cash from (used in) investing activities	**350**	**720**	**390**	**(40)**
Net increase (decrease) in cash	(105)	422	(497)	(156)
Cash at the beginning of the year	3 027	2 605	3 102	3 258
Cash at end of the year	**2 922**	**3 027**	**2 605**	**3 102**

Comment

In comparing actual to budget for 2009-10, major variances related to:

- appropriation revenue recurrent was $12.263m higher due to increased allocations to school bus contracts and transport subsidies
- increased Fees and fines reflected stronger than expected revenues from motor registrations and drivers' licences, and sales of Perpetual Taxi Licences
- increased Sales of goods and services in 2009-10 due principally to a $15m increase in mineral royalties.

Major Grants and subsidies expended in 2009-10 included:

- school bus operators route service, $23.804m
- transport access scheme, $3.836m
- conveyance allowance, $1.494m
- National Road Transport Commission, local government contribution, $1.500m
- Tasmanian racing assistance, $27.000m
- contribution to Marine and Safety Tasmania, $1.044m
- Private Forests Tasmania, $1.347m
- Forest Practices Authority, $1.269m.

Transfer to Consolidated Fund was lower in 2009-10 due to Commonwealth funding for roads and rail being directed to State Treasury from 1 July 2009 instead of the Department, but more than the budget estimate due to higher than expected mineral royalty revenue collections.

DEPARTMENT OF JUSTICE

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2010. An unqualified audit report was issued on the same day.

KEY FINDINGS AND DEVELOPMENTS

The introduction of the *Monetary Penalties Enforcement Act 2005* (MPEA) in April 2008 significantly changed the way monetary penalties and specifically infringement notices are enforced. The MPEA provides a range of enforcement sanctions to encourage compliance and as a result the overall collection rate in 2009-10 was 90% compared to 67% in 2007-08. This resulted in a significant reversal in the provision for impairment of fines collection receivables (Schedule of Administered Assets and Liabilities) from $29.126m to $16.414m. The reversal of impairment on fines collection receivables, $12.711m, is recognised as income in the 2009-10 Administered Comprehensive Result.

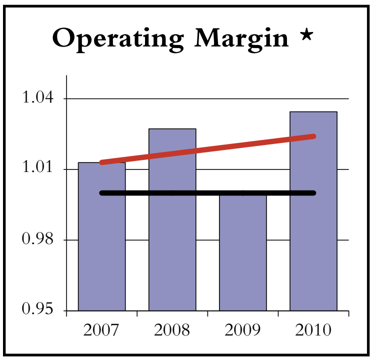
Whilst we were comfortable with this decrease we noted that if receipts continue to exceed fines issued the current model for calculating the impairment balance may require revision. As a result, we recommended the Department develop a new model for estimating the impairment of fines collection receivables. We suggested such a model take account of observable data including the movements between ageing classes.

Management agreed to review this during 2010-11.

During our audit we also identified opportunities to improve controls over the periodic reviews of system administrator changes made to the fines and infringements system and the need for better evidence supporting checks of back pay, overtime and allowances.

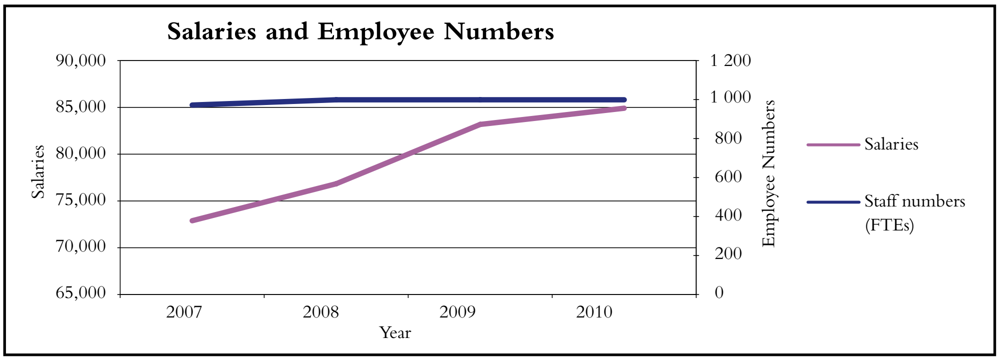
The audit was completed satisfactorily with no other major items outstanding.

FINANCIAL RESULTS



Operating margin has trended upwards over the four year period due to increased appropriation revenue. In 2009 the margin declined below the benchmark of 1.00 as a result of expenditure related to the completion of the Monetary Penalty Enforcement Project and the significant increase in employee entitlement provision as a result of wage increases.

* = *Operating margin calculated before depreciation and capital appropriations*



Whilst employee numbers (FTE's) remained relatively constant over the four year period, employee expenses increased by 16.5%, an average of 4.1% per annum over the 4 years. This increase primarily represented public sector wage agreement indexation.

COMPREHENSIVE INCOME STATEMENT

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Revenue from government - recurrent	124 533	129 884	118 784	112 941
Revenue from Special Capital Investment Funds	1 000	475	0	1 045
Sale of goods and services, fees and fines and grants	10 444	14 262	13 264	12 067
Other revenue	3 876	7 497	4 991	5 435
Total Revenue	**139 853**	**152 118**	**137 039**	**131 488**
Employee entitlements	77 436	84 910	83 180	76 837
Depreciation and amortisation	4 465	4 407	4 450	4 303
Grants and subsidies	11 847	13 292	8 691	5 991
Impairment losses	0	647	131	487
Other expenses	51 267	48 199	45 120	44 686
Total Expenses	**145 015**	**151 455**	**141 572**	**132 304**
Net surplus (deficit) from transactions	**(5 162)**	**663**	**(4 533)**	**(816)**
Other economic flows included in net result				
Capital appropriations	0	0	11 905	9 242
Total other economic flows included in net result	**0**	**0**	**11 905**	**9 242**
Net surplus (deficit) attributable to the State	**(5162)**	**663**	**7 372**	**8 426**
Other economic flows - other non-owner changes in equity				
Changes in physical asset revaluation reserve	0	0	21 522	0
Total other econcomic flows - other non-owner changes in equity	**0**	**0**	**21 522**	**0**
Comprehensive Surplus (Deficit)	**(5 162)**	**663**	**28 894**	**8 426**

Comment

The Net surplus (deficit) from transaction for the year increased, $5.196m, compared to prior year primarily due to:

- increased Revenue from Government – recurrent, $11.100m or 9.3%
- higher Other revenue, $2.506m, which included recoveries for Local Government election funding, $1.229m, and recoveries in regard to confiscation of profits, $0.790m.

The above factors were partly offset by higher:

- Grants and subsidies, $4.601m, which reflected the full year effect of the Commonwealth grant to the Legal Aid Commission
- Other expenses, $3.084m, primarily related to supplies and consumables, $2.402m, including Information technology expenditure, $1.800m, due to technology costs for the Rental Deposit Authority bond management system and the purchase of IT equipment for the House of Assembly and Legislative Council elections.

The capital appropriations in 2008-09, $11.905m, related to the Prison Infrastructure Redevelopment Program Stage C. Funding for this project was completed during 2008-09.

The 2009-10 Net Surplus (Deficit) from transactions exceeded budget by $5.825m primarily due to:

- Revenue from government – recurrent exceeding budget by $5.351m
- Sales of goods and services, fees and fines and grants exceeding budget by $3.818m, primarily due to revenues received by Workplace Standards for the Building Administration fund and the Building Practitioner Accreditation and Electrical Safety Inspection Service which were not included in the 2009-10 budget
- Other revenue exceeding budget by $3.621m, primarily due to revenue collected by the Tasmanian Electoral Commission and cost recoveries by the Tasmanian Planning Commission.

These movements were partly offset by Employee entitlements exceeding budget by $7.474m.

STATEMENT OF FINANCIAL POSITION

	2009-10 Budget	2009-10 Actual	2008-09 Actual	2007-08 Actual
	$'000s	$'000s	$'000s	$'000s
Financial Assets				
Cash and deposits	13 168	17 136	15 079	14 193
Receivables	2 567	4 016	3 060	2 267
Non-financial Assets				
Inventory	436	441	461	436
Property, plant and equipment	124 318	148 680	150 085	131 737
Intangibles	3 369	3 807	4 278	3 718
Total Assets	**143 858**	**174 080**	**172 963**	**152 351**
Liabilities				
Payables	4 392	2 992	3 288	4 192
Interest bearing liabilities	0	0	0	11 311
Employee entitlements	16 757	19 114	18 646	15 850
Other liabilities	987	2 380	2 098	961
Total Liabilities	**22 136**	**24 486**	**24 032**	**32 314**
Net Assets	**121 722**	**149 594**	**148 931**	**120 037**
Reserves	19 302	40 824	40 824	19 302
Accumulated funds	102 420	108 770	108 107	100 735
Total Equity	**121 722**	**149 594**	**148 931**	**120 037**

Comment

Total Equity as at 30 June 2010 increased, $0.663m, compared to the prior year. This movement represented the 2009-10 comprehensive result.

Individual asset and liability class balances remained relatively consistent with 2008-09. The most significant movements were:

- increased Cash and deposits, $2.057m, mainly due to section 8A(2) carry forwards of $1.200 million and additional funds retained by the Crown Solicitor, Workplace Standards and the Criminal Injuries Compensation Fund
- higher Receivables, $0.956m, due to outstanding cost recoveries to be collected by the Tasmanian Planning Commission for current planning assessments, and debts associated with court orders in relation to confiscation of profit
- decreased Property, plant and equipment, $1.400m, due to depreciation, $3.936m exceeding capital additions, $2.568m.

The 2009-10 Net Assets, $149.594m, exceeded budget by $27.872m primarily due to Property, plant and equipment exceeding budget by $24.362m. The variance related to the revaluation increment during 2008-09, $21.522m, which was not factored into the 2009-10 budgeted opening balance or closing balance of Property, plant and equipment.

STATEMENT OF CASH FLOWS

	2009-10 Budget	2009-10 Actual	2008-09 Actual	2007-08 Actual
	$'000s	$'000s	$'000s	$'000s
Receipts from government - recurrent	125 283	130 596	119 750	112 941
Sales of goods and services, fees and fines and grants	10 294	14 550	13 247	11 841
GST receipts	5 700	4 921	4 376	4 812
Other cash receipts	3 876	5 695	4 050	7 670
Payments to employees	(76 966)	(84 188)	(80 598)	(74 893)
Payments to suppliers	(63 014)	(61 852)	(54 384)	(49 900)
GST payments	(5 700)	(5 163)	(4 337)	(4 878)
Cash from (used in) operations	**(527)**	**4 559**	**2 104**	**7 593**
Receipts from government - capital	0	0	11 905	9 242
Payments for acquisition of assets	0	(2 502)	(1 845)	(2 022)
Cash outflow on administrative restructure	0	0	0	(315)
Cash from (used in) investing activities	**0**	**(2 502)**	**10 060**	**6 905**
Repayment of borrowings (including interest)	0	0	(11 278)	(8 741)
Cash used in financing activities	**0**	**0**	**(11 278)**	**(8 741)**
Net increase (decrease) in cash	**(527)**	**2 057**	**886**	**5 757**
Cash at the beginning of the year	13 168	15 079	14 193	8 436
Cash at end of the year	**12 641**	**17 136**	**15 079**	**14 193**

Comment

Cash generated from operations during 2009-10, $4.559m, was $2.455m higher than 2008-09. This increase reflected higher appropriation receipts, $10.846m, and fees and Other cash receipts, $1.303m and $1.645m, respectively. The increase in appropriations funded higher Payments to employees, $3.590m and Payments to suppliers, $7.468m.

Approximately 55% of cash generated from operations funded Payments for the acquisition of assets, $2.503m. Payments for the acquisition of assets exceeded the nil budget balance due to timing differences with the actual expenditure related to Risdon Prison Security fence. The capital appropriation receipts in 2008-09, $11.905m, related to the Prison Infrastructure Redevelopment Program Stage C. This payment funded the 2008-09 Repayment of borrowings, $11.278m.

Movements within individual cash flow items are consistent with commentary already provided in the Comprehensive Income Statement and Statement of Financial Position sections of this Chapter.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result before capital appropriations ($'000s)		663	(4 533)	(816)	(2 395)
Own source revenue ($'000s)		21 604	17 645	16 302	15 956
Financial Management					
Debt collection	30 days	103	84	69	132
Creditor turnover	30 days	23	27	34	25
Capital Management					
Investment gap %	100%	57%	41%	47%	183%
Other Information					
Staff numbers (FTEs)		957	961	999	972
Average staff costs ($'000s)		89	87	77	75
Average Recreational leave balance per FTE (days)	20	24	25	22	22
Average Long Service leave balance per FTE (days)	100	74	71	66	70

Comment

Own source revenue increased over the period primarily due to higher Crown Law fees, new electrical licensing fees and higher fines and levies raised by Workplace Standards.

Debt collection increased over the last three years mainly due to a significant increase in legal work in progress compared to the prior year and changes in the process of invoicing Court Orders.

The Investment gap percentage over the four years averaged 82% which is slightly below the benchmark. The low Capital replacement percentage reflected that capital expenditure has been on the construction of new assets. The Department's primary assets comprise courts and prisons and these are maintained through maintenance programs rather than direct capital replacement.

The average recreation leave balance per FTE exceeds the benchmark of 20 days as a result of Corrective Services officers who, in accordance with the *State Service Act 2008*, are able to hold up to 80 days annual leave.

ADDITIONAL FINANCIAL INFORMATION

Administered Financial Transactions

Administered transactions are those that the Department manages on behalf of the Government.

The Department's administered statements primarily relate to the enforcement of monetary penalties, Supreme and Magisterial court services, Births, Deaths and Marriages, Maintenance of a fair, safe and equitable market place and the WorkCover Tasmania Board.

Administered Income and Expenses

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Revenue from government - recurrent	1 755	1 755	0	0
Australian government grants	0	0	610	4 107
Sales of goods and services, fees and fines	31 828	33 565	36 944	28 906
Other revenue	5 106	5 945	6 207	6 078
Impairment gain on accounts receivable	0	12 711	0	0
Total Revenue	**38 689**	**53 976**	**43 761**	**39 091**
Grants and subsidies	2 555	1 755	43	23
Employee entitlements	1 014	2 104	2 143	1 660
Depreciation and amortisation	0	2	0	0
Impairment losses	0	0	3 066	2 465
Other expenses	3 412	7 312	6 168	5 308
Total Expenses	**6 981**	**11 173**	**11 420**	**9 456**
Net Surplus	**31 708**	**42 803**	**32 341**	**29 635**
Transfer to Consolidated Fund	25 828	27 301	25 720	23 434
Administered Comprehensive Surplus	**5 880**	**15 502**	**6 621**	**6 201**

Comment

The 2009-10 Administered comprehensive result increased, $8.881m, compared to 2008-09, primarily due to the 2009-10 reversal of impairment on fines collection receivables, $12.711m (2008-09 Impairment loss, $3.066m).

The decrease in the provision for impairment of fines collection receivables from $29.126m to $16.414m reflected an increase in collection receipts since the establishment of Monetary Penalties Enforcement Service (MPES).

The introduction of the *Monetary Penalties Enforcement Act 2005* (the Act) in April 2008 significantly changed the way monetary penalties and specifically infringement notices are enforced. A recipient of an infringement notice is no longer automatically subject to prosecution before the court, this now only occurs if the alleged offender elects to contest the matter.

The Act provides a range of enforcement sanctions available to MPES to encourage compliance. To date not all sanctions have been implemented and it is envisaged that as the more resource intensive sanctions are imposed there will be further improvements in recoveries as compliance rates continue to improve. The overall collection rate in 2009-10 was 90% compared to 67% in 2007-08.

The Revenue from government – recurrent, $1.755m, funded Grants and subsidies relating to payments to the Sullivan's Cove Waterfront Authority.

Fines and infringements decreased $3.065m primarily due to lower number of infringement notices issued.

DEPARTMENT OF POLICE AND EMERGENCY MANAGEMENT

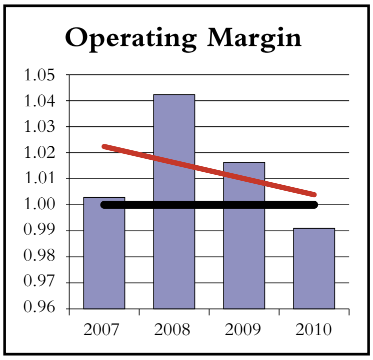
AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010. An unqualified audit report was issued on the 9 September 2010.

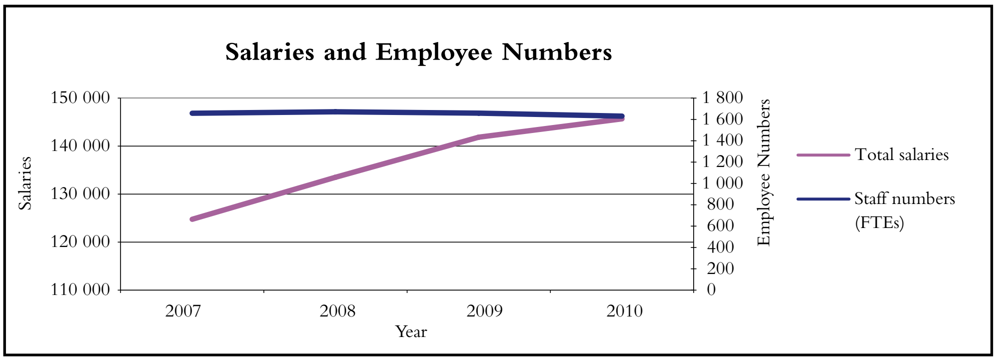
KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS



The operating margin, calculated before unfunded depreciation, decreased since 2008. In 2009-10 the operating margin was below the benchmark of one, indicating the Department was not generating sufficient revenue to meet expenses. The margin decreased due to higher Employee benefits expenditure arising from the public sector wage agreement which was not fully funded by Appropriation revenue.



Whilst employee numbers (FTE's) decreased marginally over the four year period, employee expenses increased 16.5%, an annual average of 4.1%. The increase was due to the public sector wage agreement indexation

COMPREHENSIVE INCOME STATEMENT

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Revenue from government				
Appropriation revenue - recurrent	179 914	180 513	180 579	169 275
Other revenue from Government	0	646	0	0
Grants	630	5 581	3 998	18 638
Other revenue	4 130	15 179	9 288	16 696
Total Revenue	**184 674**	**201 919**	**193 865**	**204 609**
Employee benefits	139 825	145 678	141 859	133 508
Depreciation and amortisation	5 023	5 235	4 715	4 513
Supplies and consumables	31 809	40 238	34 428	25 026
Grants and subsidies	1 654	5 119	2 550	14 310
Resources provided free of charge	0	0	0	158
Other expenses	11 273	12 725	11 915	23 292
Total Expenses	**189 584**	**208 995**	**195 467**	**200 807**
Net Surplus (Deficit) from transactions	**(4 910)**	**(7 076)**	**(1 602)**	**3 802**
Appropriation revenue - works and services	3 104	3 104	1 207	1 000
Revenue from special capital investments	0	0	0	1 102
Net gain (loss) on sale of non-financial assets	0	0	(29)	115
Net gain (loss) on financial instruments and statutory receivables/payables	0	(282)	0	0
Net Surplus (Deficit) Attributable to the State	**(1 806)**	**(4 254)**	**(424)**	**6 019**
Other Comprehensive Income				
Changes in physical asset revaluation reserves	0	8 016	21 043	19 189
Comprehensive Surplus (Deficit)	**(1 806)**	**3 762**	**20 619**	**25 208**

Comment

In 2009-10 the Department's Net Deficit was $7.076m, an increase of $5.474m. The main reasons for this were due to higher:

- Employee benefits expenditure of $3.819m
- Supplies and consumables expenditure of $5.810m mainly due to higher communications costs related to the Tasmanian Mobile Radio Network (TMRN), $3.629m. This correlated to a similar increase in service fee revenue
- Grants and subsidies expenditure of $2.569m in 2009-10 due to a one-off grant of $2.440m on the upgrade of the TMRN.

These were offset partly by increased:

- Other revenue of $5.891m, mainly due to:
  - o TRMN revenue of $3.278m
  - o Additional revenue of $1.546m due to continued secondment of police officers to the Australian Federal Police and other jurisdictions
- Other revenue from Government of $0.646m in 2009-10 due to the appropriation revenue carried forward to 2009-10 for the Automatic Vehicle Location Project.

The Comprehensive result decreased in 2009-10 by $16.857m, due mainly to the higher Net Deficit described previously and a smaller Change in physical asset revaluation reserve, $13.027m, offset partly by higher Appropriation revenue – works and services, $1.897m.

The reasons for major variations between the 2009-10 Budget and Actual figures are as follows:

- Appropriation revenue - works and services higher than original budget by $1.897m because of funding for the refurbishment of the Bellerive Headquarters
- Grants above budget by $4.951m mainly because of revenue received for the Tasmanian Mobile Radio Network upgrade, $2.440m, and MAIB funding, $2.278m, classified as Grants instead of Other Revenue as originally budgeted
- Other revenue higher than budget, $11.049, due to the Department receiving unbudgeted revenue for continued secondment arrangements of police officers to the Australian Federal Police, $2.295m, marine reserve patrolling program, $0.473m, and contracted revenue received to offset the cost of the TMRN service fees, $5.823m
- Employee benefits above budget by $5.853m due to an increase in the long service provision, $1.271m and increased salaries and wages costs
- Supplies and consumables expenditure was $8.429m over budget. This predominantly related to TMRN service fees, which were higher then originally budgeted
- Net loss on financial instruments and statutory payables/receivables, $0.282m
- Changes in physical asset revaluation reserves, not budgeted for, related to revaluation of Departmental Land and buildings using indices provided by a registered valuer.

STATEMENT OF FINANCIAL POSITION

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Financial Assets				
Cash and deposits	3 807	7 092	10 401	9 209
Receivables	1 339	1 689	708	1 339
Non-financial Assets				
Inventory	600	635	585	600
Property, plant and equipment	174 213	205 587	196 907	170 331
Other non-financial assets	2 087	1 460	1 170	2 087
Total Assets	**182 046**	**216 463**	**209 771**	**183 566**
Liabilities				
Payables	2 724	4 190	3 902	3 321
Employee benefits	37 718	43 964	42 053	37 944
Other liabilities	2 910	3 940	3 209	2 313
Total Liabilities	**43 352**	**52 094**	**49 164**	**43 578**
Net Assets	**138 694**	**164 369**	**160 607**	**139 988**
Accumulated funds	37 938	43 896	48 150	48 574
Reserves	100 756	120 473	112 457	91 414
Total Equity	**138 694**	**164 369**	**160 607**	**139 988**

Comment

Total Equity increased in comparison to the prior year by $3.762m. This was due to increased Reserves due to upward revaluation of land and buildings, $8.016m, offset by the Net deficit for the year, $4.254m.

The corresponding increase in Net Assets, $3.762m, was attributed to the following:

- Receivables increased by $0.981m, 138%, as a result of three significant invoices being raised towards the end of 2009-10
- Property, plant and equipment increased by $8.680m, principally due to the upward revaluation of land and buildings, $8.016m. The change to the balance also included additions, $1.510m, and work-in-progress, $4.389m, offset by depreciation, $5.235m.

These were offset in part by:

- decrease in Cash and deposits of $3.309m due to $6.007m spent on fixed assets with only $3.104m of this funded from Special Capital Investment Funds. This is discussed further in the Statement of Cash Flows section of this Chapter
- Employee benefits increased by $1.911m, mainly due to salary increases and provision effects noted previously in the Comprehensive Income Statement section of this Chapter.

In terms of budgeted to actual Net Assets, actual were higher than budget by $25.675m for the following reasons:

- Cash and deposits exceeded budget by $3.285m. This was due to the fact the Department administers a number of grant programs on behalf of the Federal and State Governments, and this variance reflected timing issues associated with the receipt and payment of grant instalments

- Property, plant and equipment exceeded budget, $31.374m, as the original budget did not reflect the effect of the upward revaluation of Land and buildings and the upgrade of the TMRN
- Payables exceeded budget by $1.466m predominately due to the outstanding PAYG instalment at 30 June 2010
- Employee benefits exceeded budget by $6.246m due to higher than anticipated leave balances for employees, associated wage increases and a decline in discount rates since the budget was originally formulated.

STATEMENT OF CASH FLOWS

	2009-10 Budget	2009-10 Actual	2008-09 Actual	2007-08 Actual
	$'000s	$'000s	$'000s	$'000s
Receipts from government - recurrent	179 914	180 513	180 579	169 275
Revenue from government - other	0	1 265	646	0
Grants	630	5 654	4 458	18 062
GST receipts	3 000	5 682	6 358	5 831
Other cash receipts	4 130	13 605	10 079	16 445
Total Cash Inflows	**187 674**	**206 719**	**202 120**	**209 613**
Cash Outflows				
Payments to employees	(139 938)	(143 574)	(136 010)	(132 180)
Payments to suppliers	(31 809)	(39 993)	(35 066)	(61 403)
Grants and transfer payments	(1 654)	(5 190)	(2 698)	0
Other cash payments	(11 273)	(12 596)	(12 385)	0
GST payments	(3 000)	(5 772)	(5 924)	(5 997)
Cash from (used in) operations	**(187 674)**	**(207 125)**	**(192 083)**	**(199 580)**
Net cash used for (used by) operating activities	**0**	**(406)**	**10 037**	**10 033**
Revenue from government - works and services	3 104	3 104	1 207	1 000
Revenue from special capital investments	0	0	0	1 102
Proceeds from disposal of assets	0	0	13	122
Payments for acquisition of assets	(3 104)	(6 007)	(10 065)	(4 945)
Cash (used in) investing activities	**0**	**(2 903)**	**(8 845)**	**(2 721)**
Net increase (decrease) in Cash	**0**	**(3 309)**	**1 192**	**7 312**
Cash at the beginning of the year	3 807	10 401	9 209	1 897
Cash at end of the year	**3 807**	**7 092**	**10 401**	**9 209**

Comment

The Net decrease in cash for 2009-10, $3.309m, was predominately due to:

- negative cash generated from operations of $0.406m which is consistent with the Operating loss for the year reflecting reasons provided in the Comprehensive Income Statement section of this Chapter
- actual expenditure on Property, plant and equipment exceeding available funding by $2.903m.

These reasons apply equally when comparing actual year end cash position with budget.

FINANCIAL ANALYSIS

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result from operations ($'000s)		(7 076)	(1 602)	3 802	(2 075)
Own source revenue ($'000s)		15 179	9 288	11 696	8 141
Financial Management					
Debt collection	30 days	41	28	29	69
Creditor turnover	30 days	31	38	25	26
Capital Management					
Capital replacement %		65%	78%	77%	100%
Investment gap %		115%	213%	110%	0%
Other Information					
Staff numbers (FTEs)		1 631	1 658	1 672	1 658
Average staff costs ($'000s)		89	86	80	75
Average Recreational Leave balance per FTE (days)	30	30	31	30	31
Average Long Service Leave balance per FTE (days)	100	49	48	47	47

Comment

Comments on the Results from operations and Own source revenue are included in the Comprehensive Income Statement section of this Chapter.

Higher Debt collection in 2009-10 was related to three significant invoices raised in June 2010, as discussed in the Statement of Financial Position section of this Chapter.

Despite a small increase in the year end balance for Payables, Creditor turnover decreased in comparison to 2008-09 mainly because of the higher amounts paid in 2009-10 for supplies and other expenses meaning that, relatively speaking, payables were lower than at 30 June 2009.

Staff numbers declined slightly over the period but there was an upward trend in Average staff costs related to increases in wage awards.

The Average Recreational Leave balance of 30 days per FTE is regarded as high requiring management attention.

ADDITIONAL FINANCIAL INFORMATION

Administered Financial Transactions

Administered transactions are those that the Department manages on behalf of the Government. These transactions are not shown in the Department's Comprehensive Income Statement, Statement of Financial Position or Cash Flow Statement and relate primarily to Commonwealth recurrent grants for emergency management, Police Academy board payments, firearms registration and licence fees.

Administered Income and Expenses

	2009-10 Budget	2009-10 Actual	2008-09 Actual	2007-08 Actual
	$'000s	$'000s	$'000s	$'000s
Grants	671	250	160	160
Sales of goods and services	335	177	305	269
Fees and fines	0	545	470	894
Other Revenue	1 796	0	0	0
Total Revenue	**2 802**	**972**	**935**	**1 323**
Transfer to Consolidated Fund	2 802	972	935	1 323
Net Surplus (Deficit) Attributable to the State	**0**	**0**	**0**	**0**

Comment

The variance between budget and actual for Other revenue was the result of changes to the payment of Specific Purpose Payments from the Australian Government. Previously these funds were receipted by the Department into the Consolidated Fund. Under a new process from 1 January 2009 funds were forwarded to the Department of Treasury and Finance by the Australian Government. These funds are then appropriated to the Department to fund controlled activities.

Sales of goods and services decreased from 2008-09, and were below budget, due to a proportion of the Budget amount being reallocated to Fees and fines, causing variances for both items. Fees and fines consist of firearm licences and registrations.

All administered income was transferred to the Consolidated Fund.

DEPARTMENT OF PREMIER AND CABINET

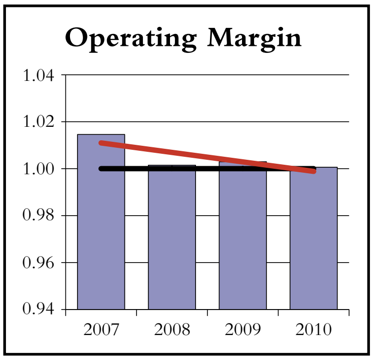
AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010 and an unqualified audit report was issued on 1 September 2010.

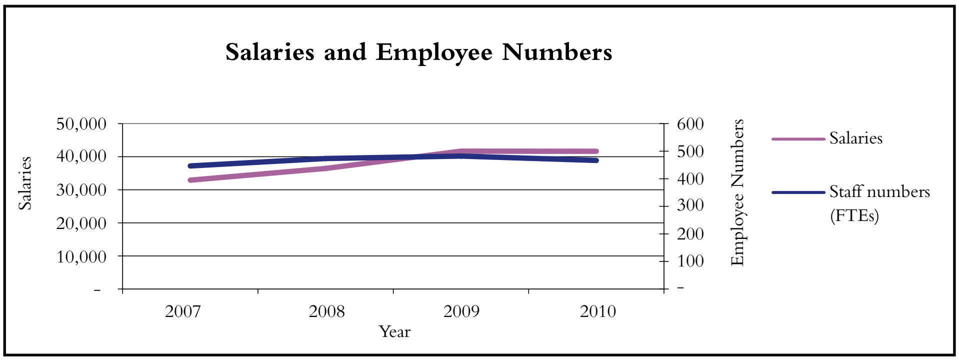
KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS



The Department's Operating Margin was at or slightly above the benchmark of one. This favourable result was due to the services offered by the Department being provided on a cost recovery basis and its programs being fully appropriated. In addition, the annual depreciation and amortisation expense had a lesser effect on operating results than at other agencies, as the Department had a much lower base of physical assets.



There was a slight increase in Staff numbers between 2007 and 2009. In 2010, Staff numbers were reduced partly due to staff changes following the March 2010 State election and the Voluntary Targeted Employment Separation Arrangement (VTESA) Program. The growth in Salaries in 2009 was attributed to the Public Service Wage Agreement. In 2010, Salaries included separation payments with the full benefit of the reduction in Staff numbers still to be realised.

COMPREHENSIVE INCOME STATEMENT

	2009-10 Budget	2009-10 Actual	2008-09 Actual	2007-08 Actual
	$'000s	$'000s	$'000s	$'000s
Revenue from government	64 640	68 761	67 858	60 472
Revenue from Special Capital Investment Funds	726	1 107	1 693	1 520
Grants	0	284	424	51
Sale of goods and services	31 336	30 520	29 044	27 322
Other revenue	0	716	1 110	917
Total Income	**96 702**	**101 388**	**100 129**	**90 282**
Employee benefits	37 036	41 640	41 675	36 450
Supplies and consumables	39 188	35 262	35 836	34 448
Transfers to Service Tasmania lead agencies	9 843	11 008	10 520	10 423
Other transfer payments	2 945	3 665	2 585	2 098
Grants and subsidies	5 203	6 509	6 160	3 843
Depreciation and amortisation	1 066	958	889	810
Other expenses	2 539	3 242	3 059	2 887
Total Expenses	**97 820**	**102 284**	**100 724**	**90 959**
Net (Deficit) from transactions	**(1 118)**	**(896)**	**(595)**	**(677)**
Net gain(loss) on non-financial assets	0	(113)	(5)	31
Net (Deficit) attributable to the State	**(1 118)**	**(1 009)**	**(600)**	**(646)**
Other Comprehensive Income				
Asset revaluation increment	0	0	83	0
Comprehensive Deficit	**(1 118)**	**(1 009)**	**(517)**	**(646)**

Comment

The Department's Net Deficit, from transactions, increased by $0.301m to $0.896m in 2009-10. This increase was primarily caused by:

- higher Transfers to Service Tasmania lead agencies, up $0.488m to compensate for rising operating costs incurred by lead agencies providing services on behalf of Service Tasmania (TMD, Department of Education and Department of Primary Industries, Parks Water and Environment)
- increased Other transfer payments, up $1.080m, largely due to a payment to Aurora Energy Pty Ltd in relation to the roll-out of the National Broadband Network, $0.696m and contributions to the Council of Australian Government and Council for the Australian Federation Secretariat
- higher Grants and subsidies, up $0.349m predominantly due to an increase in the discretionary funding from the Premier's Sundry Grants program of $0.207m and other sundry grants
- decreased Other revenue, down $0.394m reflecting a drop in fees and recoveries for services provided to other agencies.

The effects of the foregoing were offset in part by:

- higher revenue from Sale of goods and services, up $1.476m, mainly driven by Service Tasmania transaction fees, up $0.831m and Tasinet charges, up $0.651m

- lower Supplies and consumables, down $0.574m as cost saving strategies were implemented across the Department, resulting in lower spending on costs such as travel, printing and advertising.

Taken as a whole, the Department reported a Net Deficit of $1.009m following a write-off of obsolete stock, $0.133m.

Originally, the Department budgeted for a deficit of $1.118m. This budget deficit reflected mainly the annual depreciation charge, $1.066m, which is not funded by the Government. A lower than budgeted Depreciation and amortisation expense of $0.958m, down by $0.108m, resulted in a favourable budget variance of $0.109m.

Actual revenue was 4.8% higher than initially estimated, as the Department received additional funding from the Government, $4.121m to cover:

- increased Employee benefits, up $4.552m, largely caused by personnel changes in Ministerial and Members' offices following the March 2010 State election
- other increased costs as explained previously.

The increase in Government funding was partly offset by a fall in Sales of goods and services, down $0.816m as demand for services provided by TMD, a commercial arm of the Department, dropped following the closure of the former Department of Environment, Parks, Heritage and the Arts and budget management strategies implemented across government.

In comparison, actual expenses exceeded the budget by 4.6%. The increase was mainly caused by the increase in Employee benefits associated with the personnel changes after the March 2010 State election and the VTESA Program. The higher Employee benefits were partly offset by savings in Supplies and consumables, down $3.926m. The saving reflected the lower demand for telecommunications services on-sold by TMD. The increase in Other expenses, up $0.703m, was partly due to a severance payment and reimbursement of legal cost to the former Commissioner of Police.

STATEMENT OF FINANCIAL POSITION

	2009-10 Budget	2009-10 Actual	2008-09 Actual	2007-08 Actual
	$'000s	$'000s	$'000s	$'000s
Financial Assets				
Cash and deposits	2 051	5 902	4 695	3 684
Receivables	5 183	4 909	5 153	5 291
Non-financial Assets				
Property, plant and equipment	3 422	3 412	3 998	4 014
Other non-financial assets	3 572	2 660	3 104	3 478
Total Assets	**14 228**	**16 883**	**16 950**	**16 467**
Liabilities				
Payables	2 729	2 488	2 795	2 646
Interest bearing liabilities	0	915	0	0
Employee entitlements	8 190	9 007	9 346	8 030
Other liabilities	1 826	2 175	1 502	1 967
Total Liabilities	**12 745**	**14 585**	**13 643**	**12 643**
Net Assets	**1 483**	**2 298**	**3 307**	**3 824**
Accumulated funds	1 386	2 118	3 127	3 727
Reserves	97	180	180	97
Total Equity	**1 483**	**2 298**	**3 307**	**3 824**

Comment

The Department's Total Equity decreased by $1.009m being the Comprehensive result for the year. The decrease in Net Assets, as represented by the movement in Total Equity, was caused by:

- an increase in Interest bearing liabilities, up $0.915m as the Department borrowed to fund its VTESA Program
- an increase in Other liabilities, up $0.673m due to the Department carrying forward unspent funding, $0.561m
- a decrease in Property, plant and equipment, down $0.586m reflecting the annual utilisation of assets, $0.958m, offset by new capital additions, $0.372m
- a decrease in Other non-financial assets, down $0.444m reflecting the write-off of obsolete stock, $0.113m and a reduction in prepayments.

The effects of the foregoing were offset in part by:

- a higher Cash and deposits balance, up $1.207m which was made up predominantly of the carried-forward appropriation and unspent VTESA funds
- reduced Employee entitlements, down $0.339m as a result of staff changes following the March 2010 State election and the implementation of the VTESA Program.

STATEMENT OF CASH FLOWS

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Receipts from government	64 640	69 322	67 673	60 434
Receipts from Special Capital Investment Fund	726	1 099	1 702	1 520
Grants	0	284	422	51
Sale of goods and services	31 408	30 966	29 185	26 660
GST receipts	4 772	6 461	6 411	6 153
Other cash receipts	0	620	1 112	915
Employee benefits	(36 956)	(41 847)	(40 637)	(35 614)
GST payments	(4 772)	(6 452)	(6 404)	(6 124)
Supplies and consumables	(38 898)	(35 363)	(38 049)	(34 068)
Other cash payments	(20 530)	(24 427)	(19 610)	(20 056)
Cash from (used in) operations	**390**	**663**	**1 805**	**(129)**
Proceeds from disposal of assets	0	0	0	8
Payments for acquisition of non-financial assets	(975)	(371)	(794)	(703)
Cash from (used in) investing activities	**(975)**	**(371)**	**(794)**	**(695)**
Proceeds from borrowings	0	915	0	0
Net cash from (used by) financing activities	**0**	**915**	**0**	**0**
Net (decrease) increase in cash	**(585)**	**1 207**	**1 011**	**(824)**
Cash at the beginning of the year	2 645	4 695	3 684	4 508
Cash at end of the year	**2 060**	**5 902**	**4 695**	**3 684**

Comment

The Department increased its cash holdings by $1.207m to $5.902m in 2009-10. This increase was largely a combination of:

- unspent borrowings to fund the VTESA Program, $0.412m
- funds carried forward into 2010-11, $0.561m
- a reduction in Payments for acquisition of non-financial assets, down $0.423m as per the Capital Investment Program.

Reasons for variations in cash flow amounts, including budget variances, mostly reflect comments made in previous sections of this Chapter. The budget variance in Payment for acquisition of non-current assets was due to the Service Tasmania Shops Capital Investment Program, $0.250m being included within Cash used in operations, as the Program's funding is passed on to Service Tasmania lead agencies.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result from operations ($'000s)		(896)	(595)	(677)	543
Own source revenue ($'000s)		31 236	30 154	28 239	28 078
Financial Management					
Debt collection	30 days	44	51	56	31
Creditor turnover	30 days	18	20	21	14
Capital Management					
Investment gap %	100%	39%	89%	87%	n/a
Capital replacement %	100%	69%	125%	373%	n/a
Employee Information					
Average staff numbers (FTEs)		466	482	473	447
Average staff costs ($'000s)		89	86	77	74
Average Recreational Leave balance per FTE (days)	20	15	18	18	17
Average Long Service Leave balance per FTE (days)	100	33	39	38	37

Comment

The growth in Own source revenue over the past four years was mainly driven by *Service* Tasmania transaction fees and revenues generated by TMD.

Debt collection was affected by the timing of billing cycles. Creditor turnover remained fairly steady at around 20 days.

In comparison to other agencies, the Department has relatively few physical assets, comprising mainly of leasehold improvements, telecommunications infrastructure and computer hardware. The Investment program is limited, with the exception of a regular replacement of computer hardware. The unusually high Investment gap and Capital replacement ratios in 2008 and 2009 were a result of a relocation of TMD operations to new premises.

Average FTEs decreased in the current year due to the VTESA Program and staff changes following the March 2010 State election. Average staff costs increased in line with the Public Service Wage Agreement. As mentioned previously, the full benefit of the VTESA Program has still to be realised. Average leave balances, expressed in days due, decreased in 2009-10 due to continued efforts made by the Department to reduce excess leave balances.

ADDITIONAL FINANCIAL INFORMATION

Administered Financial Transactions

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

The Department administers the State's and the Commonwealth's contributions under the Tasmanian Community Forest Agreement (TCFA). Payments are made to Forestry Tasmania.

Administered Income and Expenses

	2009-10 Budget	2009-10 Actual	2008-09 Actual	2007-08 Actual
	$'000s	$'000s	$'000s	$'000s
Receipts from government	18 000	18 000	15 000	14 000
Grants and transfer payments	12	0	19 200	0
Other revenue	0	0	8	16
Total Revenue	**18 012**	**18 000**	**34 208**	**14 016**
Transfers to the Consolidated Fund	0	0	8	16
Tasmanian Community Forest Agreement	19 911	19 911	41 400	13 875
Other payments	12	0	0	5 000
Total Expenses	**19 923**	**19 911**	**41 408**	**18 891**
Net Deficit Attributable to the State	**(1 911)**	**(1 911)**	**(7 200)**	**(4 875)**
Comprehensive Deficit	**(1 911)**	**(1 911)**	**(7 200)**	**(4 875)**

Comment

Receipts from government in 2009-10 were solely for the TCFA.

The Comprehensive result reflected the final payment under the TCFA resulting in a nil balance in the TCFA Fund.

DEPARTMENT OF PRIMARY INDUSTRIES, PARKS, WATER AND ENVIRONMENT

INTRODUCTION

As a result of the State Service (Restructuring) Order 2009 made under section 11 of the *State Service Act 2000*, the Department of Primary Industries and Water (DPIW) was restructured effective from 1 July 2009. The Order had the effect of merging the former Department of Environment, Parks, Heritage and Arts (DEPHA) (with the exception of Arts Tasmania and the Tasmanian Museum and Art Gallery) into the renamed Department of Primary Industries, Parks, Water and Environment (DPIPWE).

As the comparative figures are of the DPIW, this analysis focuses on comparing original budget estimates and actual results. For the same reasons, the tables do not include the results for 2007-08.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010 with an unqualified audit report issued on 27 August 2010.

A number of audit findings were raised with the Secretary and remedial action agreed with management. Those findings were not of a high risk nature and covered the following areas:

- Weaknesses in the Active Directory (network) settings
- Network user accounts not terminated in a timely manner and
- Fully depreciated assets still in use.

KEY FINDINGS AND DEVELOPMENTS

The major development for the Department was the merger, mentioned above. The Department assumed net assets of $636.493m on re-structure, with the major item being property, plant and equipment of $537.111m.

The Capital replacement gap remains well below the benchmark indicating that, subject to adequate asset maintenance programs, the Department may be under-investing in existing assets. We were advised that the Department operates various maintenance programs including the Priority Asset Maintenance Program for parks and reserves, essential maintenance program and Crown Land Services structural assets upgrade program.

The audit was completed with satisfactory results with no major items outstanding.

COMPREHENSIVE INCOME STATEMENT

	2009-10 Budget	2009-10 Actual	2008-09 Actual
	$'000s	$'000s	$'000s
Revenue from government - recurrent	140 739	163 919	93 860
Revenue from special capital investment funds - recurrent	1 915	6 075	0
Grants	539	4 347	21 209
Sales of goods and services	15 293	14 287	2 701
Fees and fines	304	8 097	6 502
Interest revenue	2 369	1 602	1 042
Other revenue	25 577	25 048	26 014
Total Revenue	**186 736**	**223 375**	**151 328**
Employee entitlements	96 130	101 048	68 685
Depreciation and amortisation	8 896	10 230	2 687
Grants and subsidies	22 010	40 527	38 988
Supplies and consumables	53 119	58 301	42 441
Other expenses	12 810	19 092	12 199
Total Expenses	**192 965**	**229 198**	**165 000**
Net Surplus (Deficit) from transactions	**(6 229)**	**(5 823)**	**(13 672)**
Other economic flows included in net result			
Revenue from government - capital	5 056	5 056	1 056
Gain on sale of non-financial assets	13 489	1 551	1 599
Contribtions received	0	16 111	1 864
Contributions provided	0	(21 802)	(208)
Transfer to Administered funds	(42 000)	(42 000)	(17 900)
Total other economic flows included in net result	**(23 455)**	**(41 084)**	**(13 589)**
Net surplus (deficit) attributable to the State	**(29 684)**	**(46 907)**	**(27 261)**
Other economic flows - other non-owner changes in equity			
Changes in physical asset revaluation reserve	2 178	77 543	(421)
Change in estimate of non-financial assets	0	(28 220)	(7 179)
Net gain (loss) of financial instruments	0	128	(17)
Total other economic flows - other non-owner changes in equity	**2 178**	**49 451**	**(7 617)**
Comprehensive Surplus (Deficit)	**(27 506)**	**2 544**	**(34 878)**

Comment

The Net Deficit from transactions for the merged Department was $5.823m which was an improvement of $0.406m on the budgeted deficit of $6.229m. Whilst the variance was not significant, there were material movements in income and expense items as follows:

- Recurrent revenue from government was greater by $23.180m due to additional funding approved by State and Commonwealth governments of $27.803m offset by budget savings and appropriation carried forward of $4.623m. The largest additional allocation was $18.015m by the Australian Government for the Water Infrastructure Fund

- Recurrent revenue from special capital investment funds was $6.075m but the budget was only $1.915m. The extra funding was for additional projects approved from the Urban Renewal and Heritage Fund and Infrastructure Tasmania Fund, and additional funding for the Cradle Mountain Central Sewage Treatment project
- The combination of Fees and fines, Sales of goods and services and Other was $6.787m over budget. There were classification differences between budget and actual line items, with the combined variance mainly attributable to unbudgeted revenue collected for disbursement and council certificate revenue.

The above factors were offset by:

- Employee entitlements were greater than budget by $4.918m due to higher separation payments and employee costs arising from additional State Government funding approved during 2009-10. This included new initiative funding for land tax reform and Parks and Wildlife front line services, as well as funding for wildfire suppression costs
- Depreciation and amortisation expenditure was under budgeted by $1.334m due to an incorrect estimate
- Grants and subsidies were greater than budget by $18.517m which was mainly attributable to payments of $10.200m made through the Water Infrastructure Fund not included in the original budget. Remaining variances were attributable to additional approved payments through the Urban Renewal and Heritage Fund of $1.300m and classification differences of $3.500m
- Supplies and consumables were greater than budget by $5.182m due to increases in costs associated with Crown Land Administration Fund (CLAF) activity and other expenditure resulting from new initiatives and requests for additional funds
- Other expenses were greater than budget by $6.282m mainly related to disbursement of revenue expenditure not included in the original budget.

The budgeted Net Deficit attributable to the State of $29.684m differed from actual of $46.907m by $17.223m which was due to:

- Movements in the Net operating deficit referred to previously
- The Department does not include budget estimates for Contributions provided which totalled $21.802m. This item consisted of the transfer of the Cradle Mountain Central Sewage Treatment plant and the Llewellyn dam transferred to the Tasmanian Water and Sewage Corporation (Northern Region) with a written down value of $16.100m. It also included the fair value of land transferred under the Crown Land Assessment and Classification project
- The Department does not include budget estimates for Contributions received which were $16.111m. This item included the fair value of land recognised sold through the CLAF, $9.911m and gazetted Marine Conservation Areas, $6.200m
- The Gain on sale of non-financial asset was budgeted at $13.489m with the actual, $1.551m, due to the budget being incorrectly estimated.

The Comprehensive result was a surplus of $2.544m, whilst the Department originally budgeted for a deficit, ($27.506m). This result was due to:

- the Net Deficit attributable to the State already explained
- revaluation increments of $77.543m mainly from a revaluation by the Valuer-General of vacant land (National Parks and Crown land)
- a change in estimate of $28.220m relating to land and buildings transferred to local government and Forestry Tasmania in prior years. The transfer consisted of $23.998m in land and $4.142m in buildings.

STATEMENT OF FINANCIAL POSITION

	2009-10 Budget $'000's	2009-10 Actual $'000's	2008-09 Actual $'000's
Financial Assets			
Cash and deposits	134 015	123 958	143 555
Receivables	6 511	3 798	3 357
Other financial assets	711	839	693
Non-financial Assets			
Inventory	1 072	801	272
Property, plant and equipment	822 659	818 848	237 513
Infrastructure	67 278	70 269	2 576
Intangibles	2 656	1 346	675
Other non-financial assets	12 606	11 024	1 176
Total Assets	**1 047 508**	**1 030 883**	**389 817**
Financial Liabilities			
Payables	5 056	4 732	3 059
Employee entitlements	22 142	22 900	16 114
Provisions	8 928	9 785	172
Other liabilities	4 570	7 224	1 377
Total Liabilities	**40 696**	**44 641**	**20 722**
Net Assets	**1 006 812**	**986 242**	**369 095**
Contributed capital	0	636 493	0
Accumulated funds	0	133 552	216 417
Reserves	0	168 145	90 602
Water Infrastructure Fund	0	48 052	62 076
Total Equity	**1 006 812**	**986 242**	**369 095**

Comment

The Department's Net Assets increased to $986.242m from $369.095m primarily as a result of the merger. Net Assets were originally budgeted to be $1 006.812m a difference of $20.570m or 2.1% from actual. This variance is explained as follows:

- Cash and deposits had an original budget of $134.015m and actual $123.958m, a difference of $10.057m. This variance is explained in the Cash Flow Statement section of this Chapter
- Receivables was $2.713m less than budget, due to an over estimate based on historical data.
- Property, plant and equipment were budgeted at $822.659m, which was $3.811m greater than actual. This variance was attributable to a number of different events, each not being significant
- Intangibles were budgeted at $2.656m a difference of $1.310m from budget. This was due to an overstatement of the budget estimate
- Other non-financial assets had a budget of $12.606m, a difference of $1.582m from actual. This was due to the re-classification of leasehold improvements
- Other liabilities had a budget of $4.570m but actual was $7.224m, a difference of $2.654m. This reflects an appropriation carry forward of $2.000m and a bond received in 2008-09 not included in original budget estimates.

These items are partially offset by under-estimation of Infrastructure assets of $2.991m due to higher than estimated revaluation outcomes.

Total Equity was $986.242m up from $369.095m in the prior year. The major changes were:

- The restructure of the Department resulted in the addition of $636.493m in Contributed Capital
- Reserves increased by $77.543m being the revaluation increment described earlier this Chapter
- Water Infrastructure Fund decreased by $14.024m primarily from a transfer payment to Rivers and Waters Supply Commission of $21.890m offset by additional appropriations of $18.015m less Grants and contributions paid of $10.149m
- Accumulated Funds decreased by $82.865m mainly comprising the deficit attributable to the State of $46.907m and the $28.220m transfer of land to Forestry Tasmania and Councils.

The table below details the movements in the CLAF account.

Crown Land Administration Fund (CLAF)

	2009-10	2008-09
	$'000s	$'000s
Opening balance	**39 170**	**53 251**
Receipts (Note 1)	19 085	11 770
Transfers out (Note 2)	(46 732)	(25 851)
Closing Balance	**11 523**	**39 170**
Note 1 - Receipts		
Proceeds from asset sales	12 591	4 126
Rent on Government owned properties	5 960	7 081
Other receipts	534	563
Total Receipts	**19 085**	**11 770**
Note 2 - Transfers Out		
Employee entitlements	687	674
Professional and consulting fees	1 296	5 105
Disbursement of revenue to other agencies	0	381
Legal costs	1 360	465
General property expenses	823	370
Other Transfers	565	956
Administration costs	4 731	7 951
Transfer to administered funds	42 000	17 900
Total Transfers Out	**46 731**	**25 851**

Comment

Receipts into the CLAF were $7.315m more than last year due to the following:

- Proceeds from asset sales increased as a result of the sale of 124 Murray Street, 116 Bathurst Street and 132 Elizabeth Street (Launceston) properties; and
- Rent from government owned properties was down as many of the shack lease sites have now been sold and rent from Treasury has declined.

Transfers out from the CLAF were $20.881m more than last year, due to a combination of the following:

- Professional and consulting fees declined due to a reduction the use of these services in asset sales by Treasury
- Legal costs were higher due to increased sales activity and
- Transfer to administered funds was greater due to the budgeted transfer determined by Treasury.

STATEMENT OF CASH FLOWS

	2009-10 Budget	2009-10 Actual	2008-09 Actual
	$'000s	$'000s	$'000s
Receipts from government - recurrent	140 739	165 919	91 489
Receipts from special capital investment funds - recurrent	1 915	6 075	0
Grants	539	4 856	21 446
Sales of goods and services	15 273	14 076	3 270
Fees and fines	304	8 275	6 476
Interest received	2 369	1 490	1 142
Other cash receipts	34 578	36 942	34 363
Payments to employees	(95 665)	(102 433)	(66 236)
Payments to suppliers	(97 913)	(129 919)	(102 234)
Cash from (used in) operations	**2 139**	**5 281**	**(10 284)**
Water Infrastructure Fund (WIF) investments			
Funds received	0	0	0
Funds transferred to Rivers and Water Supply Commission	(27 120)	(21 890)	(14 224)
Cash from (used in) WIF	**(27 120)**	**(21 890)**	**(14 224)**
Proceeds from disposal of assets	29 620	12 738	4 346
Receipts from government - capital	5 056	5 056	1 056
Loan payment received	0	16	23
Payments for acquisition of assets	(9 113)	(9 586)	(3 137)
Transfer to Administered Funds	(42 000)	(42 000)	(17 900)
Administrative restructure	0	30 788	0
Cash from (used in) investing activities	**(16 437)**	**(2 988)**	**(15 612)**
Net increase (decrease) in cash	**(41 418)**	**(19 597)**	**(40 120)**
Cash at the beginning of the year	175 433	143 555	183 675
Cash at end of the year	**134 015**	**123 958**	**143 555**

Comment

DPIPWE budgeted for a Net decrease in cash of $41.418m but achieved an actual deficit of $19.597m. This improvement in the budgeted cash deficit of $21.821m can largely be explained by the transfer of $30.788m held by the former DEPHA to DPIPWE on 1 July 2009 being treated as a within year transfer in actuals compared to it being reflected in the cash at the beginning of the year figure in the budget estimates.

In 2009-10 DPIPWE generated cash from its operating activities of $5.281m which is very consistent with expectation in that we would anticipate this amount to almost equate to the Deficit from transactions, $5.823m less depreciation and amortisation charges, $10.230m or $4.407m.

Reasons for variations between budget and actual operating cash flow line items are to a large extent the same as those already provided in the Comprehensive Income Statement section of this Chapter.

Proceeds from disposal of assets were under budget by $16.882m due to a lower level of CLAF sales than the estimate provided by Treasury.

FINANCIAL PERFORMANCE

	Bench Mark	**2009-10**	**2008-09**
Financial Performance			
Result from operations ($'000s)		(5 823)	(13 672)
Own source revenue ($'000s)		49 034	36 259
Financial Management			
Debt collection	30 days	21	34
Creditor turnover	30 days	4	26
Capital Management			
Investment gap %	100%	94%	117%
Capital replacement gap %	100%	17%	22%
Other Information			
Staff numbers (average FTEs)		1 325	984
Average staff costs ($'000s)		76	70
Average Recreational leave balance per FTE (days)	20	19	19
Average Long Service leave balance per FTE (days)	100	43	42

Comment

The Net deficit from transactions before capital transactions of $5.823m was an improvement on the prior year result of $13.672m. The deficit was lower than the budget expectation of $6.229m.

Own source revenue increased to $49.034m, from $36.259m, an improvement of $12.775m. This increase was predominantly the result of the merged operations in particular fees earned by Parks and Wildlife.

The Investment gap decreased from 117% to 94% on the prior year. Both years were close to benchmark indicating that the Department may be adequately investing in new assets. However, the Capital replacement gap remains well below benchmark indicating that, subject to adequate asset maintenance programs, the Department may be under-investing in existing assets. We were advised that the Department operates various maintenance programs including the Priority Asset Maintenance Program for parks and reserves, essential maintenance program and Crown Land Services structural assets upgrade program.

Following the merger of the two departments staff numbers increased. However, the merger overall resulted in savings in FTE's due to amalgamation efficiencies. The Department experienced an increase in average staff costs as a result of Tasmanian State Service Award increases and separation costs incurred in 2009-10. As a result of the merger, long service leave probability factors were reassessed which resulted in a more favourable valuation of the long service provision.

ADDITIONAL FINANCIAL INFORMATION

Administered Financial Transactions

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

As a result of the merger, the Department acquired the 30 June 2010 balances of DEPHA's administered assets and liabilities. The Department has also took over the former department's administered revenue and expenditure streams.

The funding arrangements between the States and Commonwealth have changed resulting in all Australian Government grants being directed to Treasury and then appropriated to the Department.

Administered items included:

- Grants paid to research and industry body joint ventures. The Tasmanian Institute of Agricultural Research (TIAR) and the Tasmanian Aquaculture and Fisheries Institute (TAFI) are joint ventures between the University of Tasmania (UTAS) and the Department. TIAR has research centres in Hobart, New Town, Launceston Devonport and Burnie. TIAR works closely with industry in research, development and extension programs to address agricultural productivity, efficiency, safe food production, social and national resource management issues. TAFI is a marine research centre that supports the development and sustainable management of living marine resources with the UTAS
- Grants paid to the Inland Fisheries Service, Port Arthur Historic Site Management Authority, Wellington Park contribution and contributions to Commonwealth, State and Industry organisations
- Australian Government grants
- Lands and title office fees for land dealings and copies
- Abalone licences, other marine licences, water royalty and quarantine fees
- Transfers from CLAF
- Environment permits.

Administered Income and Expenses

	2009-10 Budget $'000's	2009-10 Actual $'000's	2008-09 Actual $'000's
Revenue from government - recurrent	8 344	8 344	6 218
Australian Government Grants	2 798	11 603	13 175
Fees and fines	30 957	34 037	29 672
Other revenue	42 000	42 000	17 900
Total Revenue	**84 099**	**95 984**	**66 965**
Grants and subsidies	8 344	8 344	6 194
Other expenses	0	0	0
Total Expenses	**8 344**	**8 344**	**6 194**
Net Surplus before:	**75 755**	**87 640**	**60 771**
Transfer to the Consolidated Fund	75 755	87 365	60 775
Net Surplus (Deficit) Attributable to the State	**0**	**275**	**(4)**
Other Comprehensive Income			
Net gain (loss) on financial instruments	0	(275)	4
Comprehensive Surplus	**0**	**0**	**0**

Comment

The budgeted Net surplus before Transfer to Consolidated Fund was $75.755m, being $11.885m less than actual due to:

- Australian government grants were $8.805m more than budget as a result of the new National Partnership Payment arrangements
- Fees and fines were higher due to increased abalone licence fees, environmental fees and lands title office revenue of $3.080m.

These were offset by a larger transfer to Consolidated fund of $11.610m due to the increase in revenue.

DEPARTMENT OF TREASURY AND FINANCE

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010, with final amended statements received on 21 September 2010. An unqualified audit report was issued on the 30 September 2010.

The Department of Treasury and Finance (the Department) is responsible for implementing strategies to achieve the Government's economic and financial objectives and is the central agency responsible for management of Government financial resources.

Appropriation from the Consolidated Fund is provided to the Department under two Divisions (3: Finance-General, and 11: Treasury and Finance) of the *Consolidated Fund Appropriation Act 2009.*

The resources of the Department are managed through the Treasury and Finance Division and are reported as controlled including all funds through which the Department controls its resources to carry out its functions.

The Administered Statements encompass all activities of the Finance-General Division that are administered on behalf of Government. The revenues and expenditure that are managed through the Finance-General Division reflect whole-of-government activities. These include management of Government's financial assets and liabilities, accounting for State taxation receipts and the majority of Australian Government funding, meeting the Government's superannuation commitments, administration of the Tasmanian Risk Management Fund, management of Government's light vehicle fleet and property portfolio and transactions with Government businesses.

KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

Water related entities

During 2009-10 Finance-General recognised within Equity investments net assets, $1.728bn, for the local government owned regional water and sewerage corporations following a decision by the Australian Bureau of Statistics to incorporate these entities within the Public Non Financial Corporations Sector. This is a classification issue only and has no impact on the ownership and control of water and sewerage assets which rests with local government under the *Water and Sewerage Corporations Act 2008*. A separate Chapter reporting outcomes of our audits of the four water related entities is included in the Auditor-General's report Volume 3 – Government Business Enterprises, State Owned Companies and Superannuation Funds 2009-10.

Tasrail

Following the Government's decision to acquire Pacific National's operating rail network, Tasmanian Railway Pty Ltd (Tasrail) was established under the *Rail Company Act 2009.* Tasrail was created by combining the below rail assets (track and associated infrastructure) that the Government had assumed responsibility for in 2007 with the above rail (rolling stock) and the business assets purchased from Pacific National late in 2009 for $30.449m. The net assets of Tasrail, $71.857m, are included as part of Equity investments within Finance-General's assets. Further details about Tasrail's financial performance are included in Auditor General's Report Volume 3 – Government Business Enterprises, State Owned Companies and Superannuation Funds 2009-10.

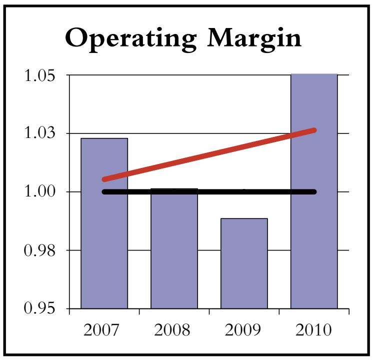
Equity contributions in 2009-10

During 2009-10, Government provided equity contributions as follow:

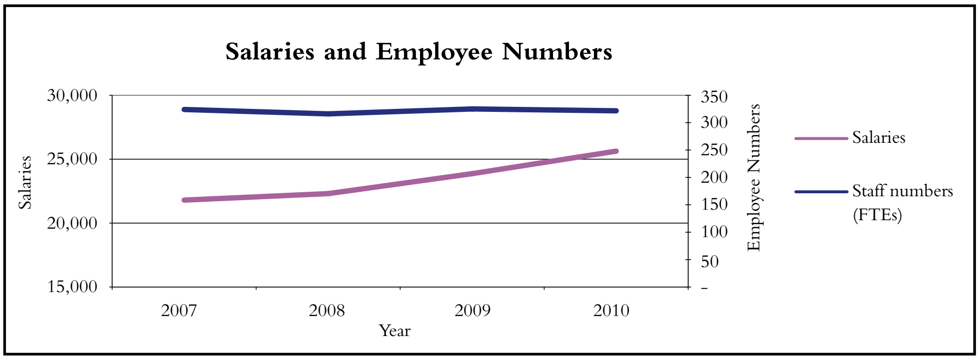
- $4.900m to Aurora Energy Pty Ltd in support of the TasGovNet Strategic partnership agreement between Aurora Energy and NBN Tasmania. This company's objective is to bring competition into the Tasmanian broadband network
- $0.861m to Tasracing to fund completion of Mowbray Lights Project.

FINANCIAL RESULTS

The following two graphs summarise aspects of Treasury's financial performance.



Operating Margin trended downwards from 2007 to 2009 but improved in 2010 because the increase in Total Revenue, 7%, exceeded the increase in Total Expenditure, 1%. The increased Revenue was primarily due to higher Revenue from Special Capital Investment funds for the Princes Wharf Renewal project. However, revenues included $1.769m for payment to DHHS but retained pending the receipt from DHHS of an approved budget.



Whilst employee numbers (FTEs) remained relatively constant over the four year period, employee expenses increased by 14.9%, an average of $4.9% per annum over the 4 years. This increase primarily represented public sector wage agreement indexation.

COMPREHENSIVE INCOME STATEMENT – TREASURY AND FINANCE

	2009-10 Budget	2009-10 Actual	2008-09 Actual	2007-08 Actual
	$'000s	$'000s	$'000s	$'000s
Revenue from government - recurrent	40 892	40 871	39 266	37 398
Revenue from Special Capital Investment Funds	1 300	1 717	347	143
Fees and Fines	9 902	6 574	6 784	6 376
Other revenue	0	1 969	1 191	961
Total Revenue	**52 094**	**51 131**	**47 588**	**44 878**
Employee expenses	26 675	25 627	23 866	22 304
Depreciation	536	565	522	459
Supplies and consumables	9 099	10 150	8 435	5 929
Grants and subsidies	14 736	11 264	14 325	13 138
Other expenses	1 633	1 630	1 512	3 447
Total Expenses	**52 679**	**49 236**	**48 660**	**45 277**
Net result from transactions	**(585)**	**1 895**	**(1 072)**	**(399)**
Other economic flows included in net result				
Net gain (loss) on sale of non-financial assets	(8)	0	0	0
Liquor licensing revenue	0	773	742	693
Transfer to the Consolidated Fund	(681)	(776)	(5 738)	(691)
Total other economic flows included in net result	**(689)**	**(3)**	**(4 996)**	**2**
Net result attributable to the State	**(1 274)**	**1 892**	**(6 068)**	**(397)**
Other economic flows - other non-owner changes in equity				
Changes in physical asset revaluation reserve	0	(7)	0	0
Total other economic flows - Other non-owner changes in equity	**0**	**(7)**	**0**	**0**
Comprehensive Surplus (Deficit)	**(1 274)**	**1 885**	**(6 068)**	**(397)**

Comment

Treasury's Net Result from transactions improved by $2.967m to a surplus of $1.895m in 2009-10. Total Income grew by 7%, $3.543m, but was offset by a 1% increase, $0.576m, in Total Expenses. Expenses in the 2009-10 did not include a Community Service Levy grant payment of $1.769m to the Department of Health and Human Services (DHHS) as it was retained pending receipt of an approved budget.

Individual line item movements were:

- increased Revenue from government – recurrent, primarily to cover inflationary increases
- higher Revenue from Special Capital Investment Funds, $1.370m, due to funding for the Princes Wharf Renewal project funded from the Urban Renewal and Heritage Fund. The amount provided for this and other projects funded from SCIF totalled $1.717m all of which was expended and included in Supplies and consumables

- higher Other revenue related to recovery of Parliament Square costs from the Crown Land Administration Fund (CLAF), $0.186m, recovery of Director selection panel costs, $0.271m, and Water and Sewerage (Onstream) cost recovery, $0.218m
- decreased Grants and subsidies payments, $3.061m, due to a Community Service Levy (CSL) grant payment to the DHHS being retained pending receipt of a budget submission from DHHS
- Employee expenses, up $1.761m, 7%, as a result of the new Public Service Wage Agreement.

The Transfer to the Consolidated Fund represented Liquor licensing fees collected by Treasury on behalf of the State Government. In the prior year, this included $5.000m transferred from Treasury's Contract Management Account, Special Deposits and a Trust Fund Account, as a result of a budget management strategy to alleviate the Consolidated fund deficit. This balance represented income generated from contract management fees accumulated over a number of years.

Actual total income and expenses were under budget by 2%, $0.963m, and 7%, $3.443m, respectively. The Fees and fines budget figure included Other revenue and Liquor licensing revenue, with the combined actual revenue totalling $8.543m which was $0.586m less than budget.

The lower than expected revenues were offset by savings in Employee expenses, $1.048m, and Grants and subsidies, $3.472m. As discussed previously, Grants and subsidies costs were under-budget due to a CSL grant payment to DHHS being retained.

STATEMENT OF FINANCIAL POSITION – TREASURY AND FINANCE

	2009-10 Budget	2009-10 Actual	2008-09 Actual	2007-08 Actual
	$'000s	$'000s	$'000s	$'000s
Financial Assets				
Cash and deposits	2 607	4 911	2 878	7 976
Receivables	118	307	260	55
Non-financial Assets				
Plant and equipment	72	253	133	126
Leasehold improvements	880	866	1 078	1 196
Heritage assets	73	62	73	73
Intangibles	1 255	303	579	856
Other non-financial assets	525	717	649	652
Total Assets	**5 530**	**7 419**	**5 650**	**10 934**
Liabilities				
Payables	900	910	1 705	1 478
Employee entitlements	5 999	5 949	5 307	4 786
Other liabilities	309	383	346	310
Total Liabilities	**7 208**	**7 242**	**7 358**	**6 574**
Net Assets (Liabilities)	**(1 678)**	**177**	**(1 708)**	**4 360**
Accumulated funds (deficit)	(1 685)	177	(1 715)	4 353
Reserves	7	0	7	7
Total Equity (Deficit)	**(1 678)**	**177**	**(1 708)**	**4 360**

Comment

This year's surplus resulted in Total Equity being positive $0.177m as at 30 June 2010, compared to negative $1.708m at 30 June 2009. Consistent with the Comprehensive Result, Treasury's Net Assets increased by $1.885m during the financial year.

Significant movements in 2009-10 which impacted on the overall increase in Net Assets included:

- higher Cash and deposits, $2.033m, due to the CSL grant payment being retained from DHHS
- lower Payables, $0.795m, largely due to an invoice payable in the prior year to Hydro Tasmania for $0.356m and a lower CSO Bass Straight Island accrual at year-end
- decreased Leasehold improvements, $0.212m, due to the annual depreciation charge
- higher Employee entitlements, $0.521m, due to increased salaries under the new Public Sector Wage Agreement and related growth in accrued recreational and long service leave balances. This increase had a flow-on effect on Other liabilities, which comprised payroll tax for employee entitlements.

Net Assets were originally budgeted to be negative $1.678m, a difference of $1.855m from actual Net Assets of $0.177m, once again due to the Comprehensive Result for the year. Reasons behind material individual line item movements were:

- Cash and deposits had an original budget of $2.607m and an actual balance of $4.911m, a difference of $2.304m. This was mainly due to the CSL grant payment being retained from DHHS
- Intangibles were $0.952m lower than budget because Treasury anticipated capitalising additional intangible assets in 2009-10 which did not occur.

STATEMENT OF CASH FLOWS – TREASURY AND FINANCE

	2009-10 Budget	2009-10 Actual	2008-09 Actual	2007-08 Actual
	$'000s	$'000s	$'000s	$'000s
Receipts from government - recurrent	40 892	40 871	39 266	37 395
Receipts from Special Capital Investment Funds	1 300	1 717	347	143
Fees and fines	9 907	7 450	7 367	7 048
Other cash receipts	1 600	2 882	2 200	1 922
Payments to employees	(26 714)	(24 978)	(23 244)	(22 125)
Grants and subsidies	(14 736)	(12 014)	(14 239)	(12 555)
Supplies and consumables	(12 672)	(12 922)	(10 923)	(10 444)
Transfers to the Consolidated Fund	(681)	(776)	(5 738)	(691)
Cash from (used in) operations	**(1 104)**	**2 230**	**(4 964)**	**693**
Payments for acquisition of assets	0	(197)	(134)	(451)
Cash from (used in) investing activities	**0**	**(197)**	**(134)**	**(451)**
Net increase (decrease) in cash	**(1 104)**	**2 033**	**(5 098)**	**242**
Cash at the beginning of the year	3 711	2 878	7 976	7 734
Cash at end of the year	**2 607**	**4 911**	**2 878**	**7 976**

Comment

The Net increase in cash of $2.033m resulted primarily from the retained CSL grant payment for DHHS as previously discussed. Had this payment been made cash from operations would have totalled $0.461m and the Net increase in cash would have been an increase of $0.264m.

Negative cash generated from operations in 2008-09 of $(4.964m) in 2008-09 resulted from the transfer of $5.000m from the Contract Management Account to Consolidated Fund referred to previously. Without this transfer, cash generated from operations would have totalled positive $0.036m.

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

FINANCIAL PERFORMANCE – TREASURY AND FINANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result from operations ($'000s)		1 895	(1 072)	(399)	605
Own source revenue ($'000s)		8 543	7 975	7 337	7 206
Financial Management					
Debt collection	30 days	35	43	11	20
Creditor turnover	30 days	1	1	1	1
Capital Management					
Investment gap %	100%	35%	26%	98%	77%
Capital replacement gap %	100%	35%	26%	98%	77%
Other Information					
Average staff numbers (FTEs)		323	321	320	324
Average staff costs ($'000s)		79	74	70	70

Comment

Results from operations are before transfers to the Consolidated Fund. This year's surplus of $1.895m was mainly due to the retained CSL grant payment to DHHS previously referred to. Government departments are generally expected to operate at a deficit or break-even as they are not funded for depreciation or increases to employee provisions.

Own source revenue, which included the Community Support Levy, contract management fees and recovery of expenses, increased marginally over the period under review. The 2009-10 amount included extra recovery expenses for Parliament Square, Director selection panel costs and Water and Sewerage (Onstream).

Debt collection was affected by the timing of billing cycles. In the prior year, large contract management fees remained outstanding at year end resulting in the ratio deteriorating to 43 days. Creditor turnover remained low consistent with the Department's policy of paying its suppliers in a timely manner.

As expected the investment and capital replacement gap ratios are below benchmark with the Department's assets primarily comprising office equipment, furniture and leasehold improvements.

ADDITIONAL FINANCIAL INFORMATION

Administered Financial Transactions

Administered transactions are those that the Department manages on behalf of the whole-of-Government. These transactions were shown in the Department's Administered Statements and comprised the activities of Finance-General.

Administered Income and Expenses – Finance-General

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Revenue from government - recurrent	396 773	426 726	572 595	470 517
Revenue from government - capital	15 750	18 470	17 650	493 043
Revenue from government - other	0	0	0	821
Australian Government grants	2 717 542	2 983 559	1 940 205	1 729 001
State taxation	842 885	913 809	855 278	858 045
Sales of goods and services	75 142	76 678	72 623	70 843
Investment income	133 919	156 938	226 159	245 121
Other revenue	80 968	83 817	130 006	384 421
Total Revenue	**4 262 979**	**4 659 997**	**3 814 516**	**4 251 812**
Employee expenses	5 625	0	0	0
Superannuation	308 421	323 851	347 667	180 011
Depreciation and amortisation	21 273	20 961	21 972	21 520
Supplies and consumables	113 478	70 581	73 905	89 128
Grants and subsidies	221 419	221 401	210 675	302 551
Borrowing costs	18 944	22 813	24 553	30 518
Impairment losses	0	0	0	86
Transfer to the Consolidated Fund	4 100 191	4 338 506	3 143 149	3 214 655
Other expenses	10 681	5 809	71	17 654
Total Expenses	**4 800 032**	**5 003 922**	**3 821 992**	**3 856 123**
Net (Deficit) Surplus from transactions	**(537 053)**	**(343 925)**	**(7 476)**	**395 689**
Other economic flows included in net result				
Net gain (loss) on revaluation of equity investments	137 442	1 814 643	236 497	446 385
Net gain (loss) on non-financial assets	0	4 452	(27 449)	5 731
Net actuarial gain (loss) on superannuation liability	0	(699 509)	(137 916)	0
Net actuarial gain (loss) on Tasmanian risk Management				
Fund liability	4 449	(4 851)	(15 616)	0
Net gain (loss) on financial instruments and statutory receivables	0	(471)	(1 087)	0
Total other economic flows included in net result	**141 891**	**1 114 264**	**54 429**	**452 116**
Net Result attributable to the State	**(395 162)**	**770 339**	**46 953**	**847 805**
Other economic flows - other non-owner changes in equity				
Crown land transfers	(17 827)	(3 600)	0	0
Changes in physical asset revalution reserve	0	13 553	0	0
Total other economic flows - other non owner changes in equity	**(17 827)**	**9 953**	**0**	**0**
Comprehensive Surplus (Deficit)	**(412 989)**	**780 292**	**46 953**	**847 805**

Comment

The higher Deficit from transactions of $336.449m in 2009-10 was a combination of higher revenues, up by 22%, $845.481m, offset by higher expenses, up by 30%, $1.182bn.

This year's results were affected by:

- decreased Revenue from government – recurrent, $145.869m or 25%. Recurrent funding in 2008-09 was significantly affected by additional funding for the acquisition of Alinta Energy (Tamar Valley) Pty Ltd, $100.000m
- decreased Investment income, $69.221m, due to lower dividends from State Owned Companies and Government Business Enterprises, down $45.978m, and lower interest income, down $23.404m, due to lower cash holdings
- decreased Other revenue, $46.189m, due to prior year inclusions of a transfer of the Urban Renewal and Heritage Fund of $25.000m from the Department of Infrastructure, Energy and Resources and a return of unexpended funds from the Department of Health and Human Services of $15.279m
- increased Grants and subsidies expense, $10.726m, due to higher Special Capital Investment Fund grants of $11.049m, Business Land Tax rebates, $13.847m, Water and Sewerage Community Service Obligation concessional payments, $5.606m, and Mobile Radio Network Implementation, $2.559m. These higher grants and subsidies were offset by a decrease in Local Government grants, $13.999m, First Home Owner grants, $6.310m, and Betting Exchange Payments to the Tasmanian Racing Industry, $4.803m
- increased Other expenses, $5.738m, due to the final payment of $5.700m to the Australian Government to extinguish future payment obligations through payment of the net present value of the State's expected future cellar door rebate savings
- increases in Australian Government grants of $1.043bn due to the receipt of higher than anticipated goods and services tax, national partnership payments and special purpose payments from the Australian Government. This funding included additional economic stimulus funding
- increased State taxation, $58.531m, due to higher than expected receipts of land tax and financial transactions tax, $29.250m, additional gambling taxes, $5.725m, GBE and SOC guarantee fees, $8.879m and payroll tax, $10.122m.

Transfers to the Consolidated Fund related to revenue collections administered by the Finance-General Division, which largely comprised State taxation revenue, returns from Government businesses, Australian Government funding and interest income. The amount fluctuates depending on revenues collected.

The actual Net result attributable to the State, surplus of $770.339m, was $1.165bn better than the original budgeted result being a deficit of $395.162m. This result stems mainly from the Net gain from the revaluation of equity investments, $1.815bn, offset by the Actuarial loss on superannuation liability, $699.509m.

Net gain from the revaluation of equity investments represented a small growth in net assets of entities owned by the Government, $13.600m, and the inclusion of the Rail and Water and Sewerage entities, $71.857m and $1.728bn respectively. Revaluations of equity investments represented changes in the net carrying amounts of Government's ownership interests in Government Business Enterprises (GBEs) and State-owned Companies (SOCs). This is discussed further in the Administered assets and liabilities section of this Chapter.

The actuarial loss on Superannuation liability, $699.509m, arose from actual experiences during the financial year which differed from the actuarial underlying assumptions used to value the liability. Adjustments also arose from changes in actuarial assumptions used to value the liability, such as a change in the discount rate.

The actual Comprehensive result amounted to a surplus of $780.292m and factored in the revaluation increment of $13.553m for Land and buildings and the Crown land transfer related to the sale of Highfield House and 114-116 Bathurst St.

Variances between Budget and actual outcomes were largely the result of movements previously explained. Other material variances included:

- higher than budgeted capital appropriations, $2.720m, which reflected additional appropriation revenue for the Infrastructure Tasmania Fund for various capital projects in North-West Tasmania
- lower than budgeted Employee benefits, $5.625m, which reflected employee costs associated with the implementation of the Government's Budget Management Strategies. Loans provided to agencies to support redundancy payments were accounted for through Other Financial Assets
- lower than budgeted Supplies and consumables, $42.897m, reflected savings of $20.000m from Treasurer's Reserve provision as well as lower than anticipated claim costs through Tasmanian Risk Management Fund and a reclassification of expenditure for contributions to the Department of Police and Emergency Management associated with the Mobile Radio Network to grants expense
- higher than budgeted Borrowing costs, $3.869m, reflected the cost of closing out a Capital Indexed Bond on 30 June 2010, which was not included in the original 2009-10 budget
- lower than budgeted Other expenses, $4.872m, reflected a reclassification of payments under the *Water and Sewerage Industry (Community Service Obligation) Act 2009*. The legislation provides the State Government will fund the full cost of the water and sewerage concessions. This funding was originally classified within Other expenses in the 2009-10 Budget and was subsequently reclassified as grant expenditure.

Tasmanian Risk Management Fund

The Tasmanian Risk Management Fund (the Fund) is the Tasmanian Government's self-insurance fund managed by the Department. A Fund Administration Agent is retained on a contract basis for claims administration, the provision of advice in relation to claims management and the placement of insurance as required.

In 2009-10, the Fund reported a surplus of $3.831m, which was a turnaround of $5.021m on the net deficit of $1.190m reported in 2008-09.

Net assets grew from $3.909m at 30 June 2009 to $7.739m at 30 June 2010. The increase, $3.830m, was a result of higher Cash, up $6.350m which was partly offset by growth in Outstanding claims, up $2.746m. The increase in Outstanding claims liability was a result of new claims and an actuarial reassessment, which was impacted by the application of a lower discount rate.

Optic Fibre Cable

In 2003 the State Government acquired the optic fibre cable for $23.000m following which further costs were incurred such that by 2009 the investment totalled $30.473m. This investment in optic fibre infrastructure spanned across the State extending alongside the gas distribution network into Hobart, Burnie, Devonport and Launceston. During the 2008-09 financial year, the Government and Aurora entered into a *Strategic Alliance State-wide Fibre Network Agreement*, under which Aurora was appointed to operate, maintain and commercialise the optic fibre cable network. An annual license fee and a percentage of gross revenue from commercial services using the network are payable to the TMD of the Department of Premier and Cabinet. As there was no direct economic benefit to Finance-General, the asset was fully impaired. The impairment resulted in recognition of impairment losses of $30.473m in 2008-09.

Administered Assets and Liabilities – Finance-General

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Financial Assets				
Cash and deposits	612 339	914 132	1 166 977	1 240 588
Receivables	68 946	80 446	73 786	68 598
Equity investments	3 966 026	5 877 332	4 056 928	3 717 531
Other financial assets	232 453	233 181	240 505	245 548
Non-financial Assets				
Assets held for sale	1 600	1 237	4 668	1 687
Motor vehicles	69 731	67 708	70 777	65 263
Land and buildings	30 972	58 730	46 105	50 970
Infrastructure	31 039	0	0	29 659
Total Assets	**5 013 106**	**7 232 766**	**5 659 746**	**5 419 844**
Liabilities				
Payables	3 245	7 546	4 839	3 245
Interest-bearing liabilities	271 938	243 794	275 986	279 911
Superannuation	4 476 150	4 839 586	4 005 869	3 692 994
Other liabilities	458 192	535 545	547 050	664 646
Total Liabilities	**5 209 525**	**5 626 471**	**4 833 744**	**4 640 796**
Net Assets (Liabilities)	**(196 419)**	**1 606 295**	**826 002**	**779 048**
Accumulated funds (deficits)	(211 489)	1 584 778	810 932	763 978
Asset revaluation reserve	15 070	21 517	15 070	15 070
Total Equity (Deficit)	**(196 419)**	**1 606 295**	**826 002**	**779 048**

Comment

Finance-General's Total Equity increased 94%, $780.293m, to $1.606bn as a result of this year's surplus. Significant movements in Finance-General's various assets and liabilities during the period under review were:

- increased Equity investments, $1.820bn. 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 entities, $1.728bn and the Net assets for Tasmanian Railway Pty Ltd $71.857m. The original budget did not anticipate inclusion of these items
- increased Superannuation liability of $833.717m which arose from changes in actuarial assumptions used to value the liability, including the application of a lower discount rate as well as fund experience adjustments, including membership movements and salary increases
- lower Interest-bearing liabilities, $32.192m primarily represented by the closing out of a Capital Indexed Bond on 30 June 2010, which was not included in the original 2009-10 budget.

Cash and deposits was the third single largest item on the Administered assets and Liabilities statement following Equity investments and Superannuation. Cash and deposits included the balance of the Special Deposits and Trust Fund Accounts held by Finance-General and other cash administered or held in a trustee capacity or under an agency arrangement. The majority of monies were invested with Tasmanian Public Finance Corporation. The decrease is discussed later in the Administered Cash Flows section of this Chapter.

Administered Cash Flows – Finance-General

	2009-10 Budget $'000s	2009-10 Actual $'000s	2008-09 Actual $'000s	2007-08 Actual $'000s
Receipts from government - recurrent	396 773	432 116	572 595	471 338
Receipts from government - capital	15 750	18 470	17 650	493 043
Australian Government grants	2 717 542	2 983 559	1 940 205	1 729 001
State taxation	842 885	909 685	831 243	878 915
Sales of goods and services	75 142	74 264	73 570	70 824
GST receipts	13 500	18 099	19 507	19 714
Interest received	33 300	50 120	77 886	76 648
Dividends and income tax equivalents	100 002	106 351	152 167	165 805
Other cash receipts	81 040	83 367	132 634	90 787
Employee entitlements	(5 625)	0	0	0
Superannuation	(161 003)	(187 418)	(171 462)	(145 707)
Supplies and consumables	(113 933)	(72 595)	(77 494)	(92 534)
Finance costs	(18 798)	(20 005)	(25 255)	(30 497)
GST payments	(13 500)	(17 925)	(19 518)	(19 123)
Grants and subsidies	(221 419)	(222 068)	(210 220)	(298 360)
Transfers to the Consolidated Fund	(4 100 191)	(4 338 506)	(3 143 149)	(3 214 655)
Other cash payments	(10 681)	(8 293)	0	(4 482)
Cash from operations	**(369 216)**	**(190 779)**	**170 359**	**190 717**
Proceeds from disposal of assets	26 287	26 416	28 358	27 482
Repayment of loans by other entities	6 747	6 632	6 364	6 466
Other cash receipts	0	0	0	304 602
Payments for acquisition of assets	(48 281)	(37 483)	(52 261)	(47 880)
Payments for investments	(4 900)	(5 073)	(104 414)	0
Cash from (used in) investing activities	**(20 147)**	**(9 508)**	**(121 953)**	**290 670**
Public Account cash collection	0	0	0	124 434
Repayment of borrowings	(4 164)	(34 830)	(3 926)	(43 441)
Public Account cash reimbursement	(73 832)	(17 727)	(118 091)	0
Cash from (used in) financing activities	**(77 996)**	**(52 557)**	**(122 017)**	**80 993**
Net increase (decrease) in cash	**(467 359)**	**(252 844)**	**(73 611)**	**562 380**
Cash at the beginning of the year	1 079 698	1 166 977	1 240 588	678 208
Cash at end of the year	**612 339**	**914 132**	**1 166 977**	**1 240 588**

Comments

This year's cash flows resulted in a Net decrease in cash of $252.844m. The decrease was caused mainly by:

- Repayment of a Capital Indexed bond on 30 June 2010, $29.964m
- Public Account cash reimbursements of $17.727m, which represented the net movement of funds held on behalf of other agencies in the Special Deposits and Trust Fund.

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

Cash at the end of the period consists of balances within the Special Deposits and Trust Fund, excluding true trust accounts.

OTHER GENERAL GOVERNMENT SECTOR STATE ENTITIES

AT A GLANCE - OTHER GENERAL GOVERNMENT SECTOR STATE ENTITIES

Tasmania *Tomorrow* Entities
– *Tasmanian Polytechnic*
– *Tasmanian Academy*
– *Tasmanian Skills Institute*

The Polytechnic, Academy and Skills recorded a combined Net deficit for 2009-10 (before capital funding) of $23.067m. The deficit indicated the three entities failed to generate sufficient revenue to fulfil their operating requirements. Capital revenue totalling $27.546m was received by these three entities. Cash as at 30 June 2010, $22.646m, primarily represented unspent capital funding.

A number of matters relating to the need to improve accounting controls within Tasmanian Polytechnic's Shared Services, were reported including the fact that bank reconciliations contained numerous unreconciled items. We also noted the absence of the transfer notice/gazettal notice for the transfer of Elizabeth College from the Department of Education (DOE) on 1 January 2010.

In June 2010 the Minister for Education and Skills announced that the Tasmania Tomorrow initiative was to be refined, and that it was proposed to transfer the management of the Polytechnic and Academy to DoE effective 1 January 2011. This refinement will see the abolition of the current Polytechnic and Academy Boards of Management. The Tasmanian Skills Institute will continue to operate training centres within Tasmanian.

To support continued operations over the next six months the Secretary for the Department of Education, on behalf of the Minister, provided the Boards of these three Authorities with a letter of comfort which confirms that the Department, through a Memorandum of Understanding, will continue to fund each Authority for its financial obligations in relation to services as contracted.

Office of the Tasmanian Economic Regulator

On 1 June 2010, the *Economic Regulator Act 2009* established the Office of the Tasmanian Economic Regulator (the Office) and a three-person Tasmanian Economic Regulator board which replaced the statutory positions of Electricity Regulator, Director of Gas, Government Prices Oversight Commission and Water and Sewerage Economic Regulator.

The Office generated fees from special projects and licenses totalling $1.070m, with 85% of this amount related to electricity activities. For 2009-10 the Office reported a net deficit of $0.253m and Net Assets of $33 000.

The State Fire Commission

The State Fire Commission recorded a Net Surplus of $4.437m in 2009-10, an improvement from 2008-09 of $1.827m. Analysis of its finances shows negative Working Capital in all four years under review, which may indicate that the Commission is not generating sufficient cash from its own or other sources to provide for capital expenditure and operating payments. However, its net working capital improved considerably since 2006-07 to be negative only $0.232m as at 30 June 2010.

INTRODUCTION

The general government sector consists of all government departments and non-profit state entities controlled and mainly financed by government. Non-profit State entities are created for the purpose of producing or distributing goods and services but are not a source of income, profit or other financial gain for the Government.

Audits of their annual financial statements are conducted by virtue of requirements specified in enabling legislation or other arrangements.

This part of the Report provides information on other General Government Sector State entities being:

- Inland Fisheries Service
- Marine *and* Safety Tasmania
- Office of the Ombudsman
- Office of the Tasmanian Economic Regulator
- Royal Tasmanian Botanical Gardens
- State Fire Commission
- Tasmanian Academy
- Tasmanian Polytechnic
- Tasmanian Skills Institute
- The Nominal Insurer.

This Report includes separate Chapters for each of these entities with financial information on each summarised under the following headings:

- Audit of the 2009-10 Financial Statements
- Key Findings and Developments
- abridged Comprehensive Income Statement
- abridged Statement of Financial Position
- Financial Performance.

For some entities the Income Statement and Statement of Financial Position are summarised into one statement.

KEY FINDINGS AND OUTCOMES FROM AUDITS

Audits of other General Government Sector State entities were completed with unqualified audit opinions issued in each case. However without qualification the audit reports for Tasmanian Polytechnic, Tasmanian Academy and Tasmanian Skills Institute included an 'emphasis of matter' comment. This 'emphasis of matter' drew attention to the economic dependency of these three entities on Government.

Except for The Nominal Insurer, whose statements were received on 23 August 2010 all these entities submitted financial statements within the statutory deadline of 15 August 2010.

INLAND FISHERIES SERVICE

The Inland Fisheries Service (the Service) is the State's natural resource manager of freshwater fisheries in Tasmania. The *Inland Fisheries Act 1995* created the position of the Director of Inland Fisheries.

The principal role of the Service is to provide advice to the Minister for Primary Industries, Parks Water and Environment on all matters relating to freshwater fisheries' policy and management and to manage the States freshwater fisheries.

The Director manages the Service and is responsible for the sustainable management of Tasmania's freshwater resources; ensuring the best use is made of these resources and ensuring the freshwater fauna and its habitat are protected for the benefit of future generations. The Service produces its own fish stocks at its New Norfolk premises with ova sourced from wild fish stocks.

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

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

The financial statements were received in advance of the due date of 15 August 2010. Final amended statements were received on 27 September 2010 and an unqualified audit opinion was issued on 30 September 2010.

KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

ABRIDGED COMPREHENSIVE INCOME STATEMENT

	2009-10	**2008-09**
	$'000s	$'000s
Total Revenue	4 050	3 814
Total Expenses	4 126	3 598
Net surplus (deficit) from transactions	**(76)**	**216**
Net surplus (deficit) after accounting for other economic flows	**(76)**	**216**
Other Comprehensive Income		
Valuation adjustment investment property	202	0
Comprehensive Surplus	**126**	**216**

Comment

In 2009-10 the Service recorded a Net deficit from transactions of $0.076m. This net result deteriorated from the prior year primarily due to:

- employee expenses increasing by $0.221m. These expenses would have decreased except for payments to three staff who accepted separation packages and
- other expenses increasing by $0.305m due primarily to higher property costs including repairs and maintenance.

To an extent these higher costs were offset by higher income predominantly additional angling licence fees and grant revenues.

The Comprehensive surplus after accounting for non-owner changes in equity was as a result of the revaluation of an investment property.

ABRIDGED STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09
	$'000s	$'000s
Total Current Assets	1 241	1 370
Total Non-Current Assets	5 713	5 425
Total Current Liabilities	590	519
Total Non-Current Liabilities	251	290
Net Assets	**6 113**	**5 986**
Total Equity	**6 113**	**5 986**

Comment

Equity increased by $0.126m in 2009-10, due to the Comprehensive surplus after accounting for non-owner changes in equity for the year.

Non-current assets increased by $0.288m due principally to the revaluation of the investment property, noted previously.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result from operations ($'000s)		(76)	216	(52)	197
Own source revenue ($'000s)		2 156	2 073	2 061	1 934
Financial Management					
Debt collection	30 days	28	34	42	45
Creditor turnover	30 days	52	28	26	66
Capital Management					
Investment ratio	100%	143%	N/A	N/A	N/A
Renewal ratio	100%	121%	N/A	N/A	N/A
Other Information					
Staff numbers (FTEs)		25	30	31	32
Average staff costs ($'000s)		94	72	76	59
Average Recreational Leave balances per FTE (days)	20	7	7	9	9
Average Long Service Leave balances per FTE (days)	100	6	4	5	6

Comment

The improvement in Own source revenue shows that revenue generated by the Service through its own operations gradually increased over the period under review.

Debt collection improved strongly over the period, such that by 30 June 2010 it was better than the benchmark. This improvement was due to focused efforts from management to improve collection.

The Service changed its payments policy; accounts were paid before the invoice due date to on the due date in 2009-10, which together with six large non-routine payments constituting about 40% of creditors resulted in the Creditor turnover exceeding the bench mark.

Average staff costs increased significantly in 2009-10 due to the separation payments to three members of staff mentioned previously in this Chapter.

The investment and renewal ratios were above the 100% benchmark in 2009-10 indicating the Service was investing in its capital assets at rates above the annual depreciation charge. The replacement of assets for 2009-10 was mainly motor vehicles, being $0.293m.

MARINE AND SAFETY AUTHORITY OF TASMANIA

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 30 July 2010 and an unqualified audit report issued on 10 August 2010.

KEY FINDINGS AND DEVELOPMENTS

The Marine and Safety Authority of Tasmania (the Authority) has relatively steady revenue and expenditure streams, with turnover averaging $5.000m per annum, and operates on a break-even basis. The Authority receives an annual recurrent grant of $0.800m from the State Government each year. However, the cost of services it provides is covered mainly by revenue derived by the Authority. Recently, the State Government provided capital grants for the reconstruction of jetties and the dredging of channels.

The Authority maintained a strong financial position with positive operating margins and current ratios. Its cash assets were relatively high over the past two years due to unspent funds provided for capital works.

The audit was completed satisfactorily with no unresolved issues.

ABRIDGED COMPREHENSIVE INCOME STATEMENT

	2009-10	**2008-09**	**2007-08**	**2006-07**
	$'000s	$'000s	$'000s	$'000s
Total Revenue	5 331	5 730	4 236	4 653
Total Expenses	5 617	5 068	4 203	4 440
Net surplus (deficit) from transactions	**(286)**	**662**	**33**	**213**
State capital investment program grants	1 550	3 250	500	600
Loss on disposal of non-current assets	(40)	(137)	(677)	(10)
Net surplus (deficit) after accounting for other economic flows	**1 224**	**3 775**	**(144)**	**803**
Other Comprehensive Income				
Changes in physical asset revaluation reserve	9 878	345	0	0
Comprehensive Surplus (Deficit)	**11 102**	**4 120**	**(144)**	**803**

Comment

The Net surplus after accounting for other economic flows varies significantly each year due to the timing of triennial motor boat licence renewals and State capital investment program grants. In 2009-10 the Authority recorded a Net surplus after accounting for other economic flows for the year of $1.224m, a decrease of $2.551m from the prior year, which was largely due to:

- a decrease of $1.700m in State Government capital investment grants. Funding in 2008-09 was received for: dredging at St Helens, $1.250m; Southport jetty reconstruction Stage 2, $1.000m; Nubeena jetty reconstruction, $0.400m; and Bridport jetty reconstruction, $0.600m. Funding in 2009-10 was received for: Margate jetty reconstruction, $1.300m; and dredging at St Helens, $0.250m and

- a decrease of $0.509m in Recreational boating fees, being the second year of the triennium.

The Changes in physical assets revaluation reserve, $9.878m, resulted largely from the triennial revaluation of marine facilities during the year.

Revenue principally comprised commercial vessel registration fees, certificates of competency, recreational boating registration fees and mooring fees.

Expenses principally comprised employee expenses, supplies and consumables, facilities maintenance, depreciation and recreational boating fund projects.

ABRIDGED STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Total Current Assets	6 492	6 503	3 086	2 482
Total Current Liabilities	736	1 196	592	554
Total Non-Current Assets	20 633	10 049	8 733	9 460
Total Non-Current Liabilities	75	143	134	151
Net Assets	**26 314**	**15 212**	**11 093**	**11 237**
Total Equity	**26 314**	**15 212**	**11 093**	**11 237**

Comment

Equity increased by $11.102m during 2009-10 due to the Net surplus after accounting for other economic flows of $1.224m and the asset revaluation reserve, $9.878m, following the revaluation of marine facilities as at 30 June 2010.

Non-Current Assets increased $10.584m, largely due to the revaluation of marine facilities as noted above, $9.878m, asset additions, $1.281m, offset by depreciation, $0.523m, and other items, $0.052m.

Current Assets principally comprise cash and deposits, $6.312m.

Current Liabilities mainly comprise employee benefits, $0.410m and payables, $0.261m.

Non-Current Assets consist of navigation aids, marine facilities and plant and equipment.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Net surplus (deficit)		(286)	662	33	213
Own source revenue ($'000s)		4 531	4 930	3 436	3 853
Financial Management					
Debt collection	30 days	24	16	33	84
Creditor turnover	30 days	23	54	28	21
Capital Management					
Investment ratio	100%	241%	299%	90%	303%
Renewal ratio	100%	263%	467%	116%	347%
Other Information					
Staff numbers (FTEs)		17	17	16	16
Average staff costs ($'000s)		102	97	91	86
Average Recreational Leave balance per FTE (days)	20	16	16	17	17
Average Long Service Leave balance per FTE (days)	100	56	57	53	51

Comment

As noted under the Abridged Comprehensive Income Statement section the Net surplus (deficit) after accounting for other economic flows fluctuates each year due to the timing of triennial motor boat licence renewals.

The Investment gap and Capital replacement ratios remain high due to capital works undertaken by the Authority.

Creditor turnover was above the benchmark in 2008-09 mainly due to unpaid invoices in relation to Blanche Beach sand removal, Bridport Wharf, Nubeena Jetty and Southport Jetty reconstructions.

Average staff cost increases were consistent with movements in wage and salary award rates over the period.

THE OFFICE OF THE OMBUDSMAN AND HEALTH COMPLAINTS COMMISSIONER (THE OMBUDSMAN)

INTRODUCTION

The Ombudsman is an independent officer appointed by the Governor, and answerable to the Parliament.

The Health Complaints Commissioner is an independent officer appointed by the Governor.

The role of the Office of the Ombudsman and Health Complaints Commissioner (the Office) is to fulfil the functions of the Ombudsman and Health Complaints Commissioner to investigate the administrative actions, either on the Office's own initiative or following a complaint, of public authorities to ensure that their actions are lawful, reasonable and fair.

Authorities within the Ombudsman's jurisdiction include Tasmanian government departments, local government councils, water and sewerage corporations, prisons, state-owned companies, government business enterprises and a range of other public authorities.

The Health Complaints Commissioner's role is:

- to promote and protect the rights of consumers who use health services
- to help resolve problems between consumers and providers of health services
- to improve the safety and quality of health services in Tasmania.

This section of the Office looks into complaints from individuals or organisations about the provision of health services in both the public and private sectors.

The Ombudsman is also the Energy Ombudsman and responsible for the Official Visitor program.

KEY FINDINGS AND DEVELOPMENTS

Signed financial statements were received on 16 August 2010 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major items outstanding.

ABRIDGED COMPREHENSIVE INCOME STATEMENT

	2009-10 Actual	**2008-09 Actual**
	$'000s	$'000s
Total Revenue	2 121	1 786
Total Expenses	2 140	1 851
Net Surplus (Deficit)	**(19)**	**(65)**

Comment

The Office's Net Deficit improved by $0.046m to $0.019m in 2009-10. The Ombudsman receives Parliamentary appropriation to meet recurrent expenditure. However, the Ombudsman is not funded for depreciation or increases in employee provisions which were the principal reasons for the deficit in both years. It is noted that the Office's budget anticipates deficits in future years.

ABRIDGED STATEMENT OF FINANCIAL POSITION

	2009-10 Actual	2008-09 Actual
	$'000s	$'000s
Total Assets	355	385
Total Liabilities	336	347
Net Assets	**19**	**38**
Total Equity	**19**	**38**

Comment

Total Assets comprised predominantly the Office's Special Deposits and Trust Fund Account, $0.127m (2009, $0.208m) and Intangible assets which included its Resolve Case Management System and its website upgrade, $0.145m (2009, $0.136m).

Total liabilities were largely represented by provisions for employee entitlements.

OFFICE OF THE TASMANIAN ECONOMIC REGULATOR

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 16 August 2010 and an unqualified audit report was issued on 30 September 2010.

KEY FINDINGS AND DEVELOPMENTS

On 1 June 2010, the *Economic Regulator Act 2009* was proclaimed by the Governor of Tasmania. This Act established the Office of the Tasmanian Economic Regulator (the Office) and a three-person Tasmanian Economic Regulator board which replaced the statutory positions of Electricity Regulator, Director of Gas, Government Prices Oversight Commission and Water and Sewerage Economic Regulator.

The Act included a Section allowing the Office to report as if it was established on 1 July 2009. As a result, the Financial Statements incorporate combined opening balance, comprised of figures previously reported separately by the Government Prices Oversight Commission, Office of the Tasmanian Energy Regulator and the Water and Sewerage Economic Regulator.

The audit was completed satisfactorily with no items outstanding.

SUMMARY OF FINANCIAL RESULTS

	2009-10 Actual	**2008-09 Actual**
	$'000s	$'000s
Total Revenue	1 205	1 408
Total Expenses	1 458	1 416
Net deficit	**(253)**	**(8)**
Total Assets	434	753
Total Liabilities	401	467
Net Assets	**33**	**286**
Total Equity	**33**	**286**

Comment

Total Revenue for 2009-10, $1.205m, comprised appropriation revenue, $0.135m (2009, $0.701m), and fees from special projects and licences, $1.070m ($0.707m). Recoveries from electricity related activities comprised 85% of fees revenue. In the main the Office is self sufficient from fee revenues earned.

Total Expenses for 2009-10, $1.458m, comprised employee benefits, $0.948m (2009, $1.016m), and supplies and consumables, $0.510m ($0.400m).

In 2009-10 the Office recorded a Net deficit $0.253m, compared to a deficit of $0.008m in the prior year. The increase was predominately due to decreased appropriation revenue, down $0.566m, due to additional funding being provided in 2008-09 for the establishment of the Water and Sewerage Economic Regulator.

This was partially offset by an increase in fees and fines revenue of $0.363m in 2009-10 due to increased recoveries from electricity related activities.

Total Assets for 2009-10, $0.434m, comprised cash and deposits $0.267m (2009, $0.708m), receivables, $0.077m ($0.001m), and other assets, $0.090m ($0.044m). Total Liabilities, $0.401m, comprised employee benefits, $0.247m ($0.249m), and other liabilities, $0.154m ($0.218m).

Total Equity decreased by $0.253m during 2009-10, due to the Net deficit incurred by the Office. This resulted in the same decrease in Net assets with the largest decrease occurring in the Office's Cash and deposits, down by $0.411m due to expenditure on operating activities exceeding cash revenues.

ROYAL TASMANIAN BOTANICAL GARDENS

INTRODUCTION

The Royal Tasmanian Botanical Gardens (RTBG) is a State entity, governed by the *Royal Tasmanian Botanical Gardens Act 2002* and administered by the Department of Primary Industries, Parks, Water and Environment. RTBG is managed by the Botanical Gardens Board appointed by the Minister.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010, with amended financial statements received on 28 September 2010. An unqualified audit report was issued on 30 September 2010.

The audit was completed satisfactorily with no major items outstanding.

SUMMARY OF FINANCIAL RESULTS

	2009-10	**2008-09**
	$'000s	$'000s
Government grants	2 399	2 431
Other grants	217	224
Other revenue	1 700	1 573
Total Revenue	**4 316**	**4 228**
Total Expenses	**5 085**	**5 020**
Net (deficit) from transactions	**(769)**	**(792)**
Land received at no cost	0	153
Net deficit after accounting for other economic flows	**(769)**	**(639)**
Current assets	524	708
Non-current assets	16 166	14 825
Total Assets	**16 690**	**15 533**
Current liabilities	529	437
Non-current liabilities	146	144
Total Liabilities	**675**	**581**
Net Assets	**16 015**	**14 952**
Total Equity	**16 015**	**14 952**

Comment

Despite a decrease in Government funding, down $0.032m, and higher operating costs, up $0.065m, RTBG reduced its Net deficit from transactions by $0.023m to $0.769m in the current year. This slightly improved result was achieved through an increase in Other revenue, up $0.127m, predominantly due to higher proceeds from restaurant and Botanical Shop sales.

Current assets comprised largely of cash, $0.390m with the majority, 75% or $0.292m being restricted by grant deeds. Liabilities were mainly represented by Employee provisions, $0.531m, with $0.384m reported as current.

The RTBG's net working capital position deteriorated from positive $0.271m at 30 June 2009 to negative $0.005m at 30 June 2010. This deterioration primarily arose from a decline by $0.233m in cash balances. This decline was caused by two factors:

- negative cash generated from operations of $0.083m and
- net investments in plant and equipment of $0.150m.

At 30 June 2010 RTBG was clearly able to meet its short term commitments. However, its liquidity requires close management.

The immediately preceding comments are supported by the current ratio, which measures the ability to pay short-term debt obligations and dropped from 1.6:1 in 2008-09 to 1:1 in the current year. A generally accepted benchmark current ratio is 2:1, in other words, current assets should exceed current liabilities by a 'considerable' margin.

An indexation of the value of buildings and other infrastructure assets, $1.832m, contributed largely to the increase in Non-current assets and the consequent increase in equity.

STATE FIRE COMMISSION

INTRODUCTION

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

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

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

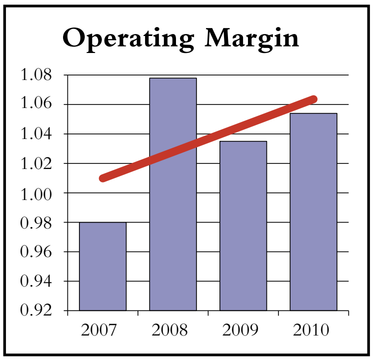
Signed financial statements were received on 11 August 2010, with revised financial statements received on 9 September 2010. An unqualified audit report was issued on 14 September 2010.

KEY FINDINGS AND DEVELOPMENTS

The Commission recorded a Net Surplus for 2009-10 of $3.647m (2008-09, $2.110m) before accounting for capital revenues and other comprehensive income. This increase was driven by higher income from contribution levies, State Government Contribution and fire prevention charges.

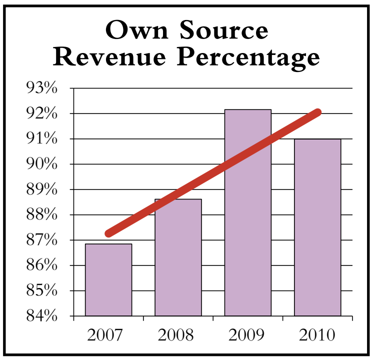
Analysis of the finances of the Commission shows a continued improvement in Working Capital over the past four years. Despite the improvement, Working Capital still remains negative, indicating that there may not be sufficient cash to provide for capital expenditure and operating payments. The Commission budgets for operating and capital expenditure in accordance with available funds. The quarterly receipt of the Fire Service Contribution places periodic strain on the Commission's finances, but with adequate overdraft facilities the Commission was able to meet current financial obligations.

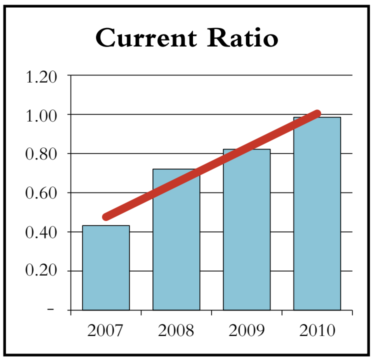
The following three graphs summarise key ratios highlighting important aspects of the Commission's financial performance over the past four years.



Operating margin was close or above the expected benchmark of one for each of the past four years. In the last three years the Operating margin was above one indicating the Commission was generating sufficient revenue to fulfil operational requirements.

Own source revenue percentage shows the Commission generated on average 90% of revenue from its own sources. The 2009-10 year was lower than 2008-09 due to a significant rise in State Contribution, which increased 32% (2008-09, 14% decrease), attributable to funding for fighting wildfires.





The Current ratio continued to improve steadily with it just being below the benchmark of one at 30 June 2010. This improvement reflected the Commission's better Working Capital position such that current obligations can be met by current assets.

COMPREHENSIVE INCOME STATEMENT

	2009-10	**2008-09**	**2007-08**	**2006-07**
	$'000s	$'000s	$'000s	$'000s
Fire service contribution	29 856	28 434	27 080	24 617
Insurance fire levy	17 016	15 574	14 793	12 942
Motor vehicle fire levy	6 457	5 739	5 544	5 403
State contribution - recurrent	3 073	2 810	2 810	2 812
State contribution - wildfire expenses	2 486	1 511	2 790	4 120
Commonwealth contribution	855	573	1 258	500
Fire prevention charges	8 523	5 480	4 492	4 406
Other revenue	2 939	2 276	1 480	1 712
Total Revenue	**71 205**	**62 397**	**60 247**	**56 512**
Salaries, wages and related expenses	40 538	38 079	35 633	34 938
Borrowing costs	336	337	397	396
Depreciation	4 688	4 591	4 803	4 632
Other expenses	21 996	17 280	15 060	17 702
Total Expenses	**67 558**	**60 287**	**55 893**	**57 668**
Net Surplus (Deficit) from transactions	**3 647**	**2 110**	**4 354**	**(1 156)**
State contribution to capital program	790	500	0	0
Net Surplus (Deficit)	**4 437**	**2 610**	**4 354**	**(1 156)**
Other comprehensive income				
Gain (loss) on movement in superannuation scheme obligation	5 210	(9 394)	(6 397)	4 022
Increase (decrease) in asset revaluation reserve	797	3 171	6 292	373
Total other comprehensive income for the year	**6 007**	**(6 223)**	**(105)**	**4 395**
Total Comprehensive Surplus (Deficit)	**10 444**	**(3 613)**	**4 249**	**3 239**

Comment

The Commission recorded a Comprehensive surplus for the year of $10.444m compared to a deficit in 2008-09 of $3.613m. This result was due to the gain of $5.210m (2008-09, $9.394m loss) on the change in the superannuation scheme obligation and due to the Net Surplus of $4.437m (2008-09, $2.610m surplus). The higher Net Surplus of $1.827m can be attributed to:

- Fire service contributions and levies increased $3.582m, 7.2%, which reflected contributions from new businesses as well as higher insurance premiums
- higher Fire prevention charges of $3.043m, 55.5%, due to increased sales of alarm equipment and of fire safety services and equipment. This increase was driven by Telstra advising of the withdrawal of their voice grade dedicated line services and customers being required to change to a wireless internet protocol solution which required the purchase of an additional piece of alarm equipment. Additional revenue generated from the sale of the alarm equipment was almost entirely offset by an increase in the cost of sales of those alarms
- higher Wildfire fighting reimbursements, $2.486m, due to the nature of fires this year requiring an increase in the usage of helicopters and heavy equipment resulting in increases in:
  - State wildfire contributions of $0.975m
  - Commonwealth contributions for helicopter hire, $0.296
  - reimbursements from Forestry Tasmania and the Parks and Wildlife Service of $1.595m, included in Other revenue. This was offset by lower level of reimbursement for interstate and overseas deployments, $0.751m, resulting in an overall increase in Other revenue of $0.663m.

However, the increased reimbursements were primarily offset by increases in the cost of fighting wildfires which included the cost of equipment used such as helicopters

These revenue increases were offset in part by:

- higher Other expenses of $4.714m, 27.3%, predominantly due to increases in cost of goods sold and increased wildfire fighting equipment used, such as helicopters
- Increased salaries, wages and related expenses of $2.459m, 6.5%.

Movements in Other comprehensive income related to:

- a decline in the Commission's superannuation obligations of $5.212m (2008-09, increase of $9.394m). This improvement was primarily caused by the transfer of 163 members to other superannuation options
- an increase in the Commission's asset revaluation reserve of $0.797m (2008-09, $3.171m). These movements are discussed further in the Statement of Financial Position section of this Chapter.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash	8 938	6 884	6 846	912
Receivables	1 960	1 863	1 042	1 020
Inventories	1 672	2 713	1 360	1 310
Other	2 886	1 857	1 610	2 021
Total Current Assets	**15 456**	**13 317**	**10 859**	**5 263**
Payables	4 413	4 770	5 016	2 645
Borrowings	1 368	1 830	1 500	1 368
Provisions - leave and other	9 907	9 604	8 556	8 165
Total Current Liabilities	**15 688**	**16 204**	**15 072**	**12 178**
Working Capital	**(232)**	**(2 887)**	**(4 213)**	**(6 915)**
Property, plant and equipment	88 873	85 920	81 266	76 504
Capital work in progress	5 686	5 851	6 331	3 654
Superannuation fund net asset	0	0	0	5 050
Total Non-Current Assets	**94 559**	**91 771**	**87 597**	**85 208**
Borrowings	3 330	2 868	3 198	3 330
Superannuation fund net liability	5 529	10 741	1 347	0
Provisions - leave and other	870	1 123	1 075	1 448
Total Non-Current Liabilities	**9 729**	**14 732**	**5 619**	**4 778**
Net Assets	**84 598**	**74 152**	**77 765**	**73 515**
Reserves	14 290	13 493	10 321	4 029
Accumulated surpluses	70 308	60 659	67 443	69 486
Total Equity	**84 598**	**74 152**	**77 765**	**73 515**

Comment

Total Equity increased $10.446m in 2009-10 due to a decrease of $5.212m in the valuation of the Commission's defined benefit superannuation scheme obligations under the *State Fire Commission Superannuation Scheme Act 1994*, coupled with a gain on the revaluation of land and buildings of $0.797m and the Net Surplus for the year of $4.437m.

Corresponding to the increase in Total Equity, Net Assets also increased by $10.446m. This mainly related to:

- The corresponding decrease of $5.212m in the Commission's provision for its obligations under the superannuation fund net liability
- Increased Cash of $2.054m due to strong operating cash flows
- Other current assets increasing $1.029m, primarily due to higher accrued revenue relating to insurance levies
- Property plant and equipment increased $2.953m, 3.4%, due primarily to net capital additions of $6.844m, plus land and building revaluation increments of $0.797m, less depreciation expense.

Working Capital was still negative, but it has improved considerably over the past four years. This remains an area that the Commission will need to continue to address.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Receipts from operating activities	69 176	60 425	59 320	55 230
Payments to suppliers and employees	(60 712)	(54 489)	(47 027)	(50 194)
Interest received	98	165	57	48
Borrowing costs	(336)	(337)	(397)	(396)
Cash from operations	**8 226**	**5 764**	**11 953**	**4 688**
Payments for property, plant and equipment	(6 584)	(6 049)	(6 159)	(6 604)
Proceeds from sale of property, plant and equipment	412	323	140	712
Cash (used in) investing activities	**(6 172)**	**(5 726)**	**(6 019)**	**(5 892)**
Proceeds from borrowings	(1 368)	1 500	1 368	1 830
Repayment of borrowings	1 368	(1 500)	(1 368)	(1 830)
Cash from financing activities	**0**	**0**	**0**	**0**
Net increase (decrease) in cash	**2 054**	**38**	**5 934**	**(1 203)**
Cash at the beginning of the year	6 884	6 846	912	2 115
Cash at end of the year	**8 938**	**6 884**	**6 846**	**912**

Comment

The Commission generated positive Cash from operations in each of the past four years. In 2009-10, Cash from operations increased $2.462m primarily due to higher Revenue as discussed previously in the Comprehensive Income Statement section of this Chapter.

Payments for property, plant and equipment in 2009-10 were consistent with previous years, reflecting the stable capital investment program adopted by the Commission.

FINANCIAL ANALYSIS

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Operating margin ($'000s)		3 647	2 110	4 354	(1 156)
Own source revenue ($'000s)		64 791	57 503	53 389	49 080
Financial Management					
Debt collection	30 days	19	20	12	13
Creditor turnover	30 days	44	84	87	44
Captial Management					
Capital replacement % (renewal gap)		140%	132%	128%	143%
Investment gap %		160%	142%	72%	135%
Other Information					
Staff numbers (FTEs) - total		460	462	459	462
- Operational - firefighters (FTEs)		277	290	290	303
- Support staff (FTEs)		183	169	169	159
Average staff costs ($'000s)		71	70	65	62
Average Annual Leave balance per FTE (days)	20	23	25	23	28
Average Long Service Leave balance per FTE (days)	100	53	51	51	50

Comment

Operating margin and Own source revenue are consistent with explanations previously provided in the Comprehensive Income Statement section of this Chapter and the graphs presented under Key findings and developments.

Creditor turnover was above the 30 day benchmark in each of the years under review but there was a significant improvement in 2009-10 which saw it reduce by 36 days. This reduction was driven by a lower creditor balance as a result of efforts to pay creditors prior to the end of the year end.

Average staff costs remained relatively consistent in 2009-10 compared to 2008-09 reflecting stability in staffing numbers throughout the year. Average Annual Leave balance per FTE was above benchmark but did reduce in 2009-10. Average Long Service balance per FTE was significantly below benchmark which reflects that employees took their long service leave when entitled to do so.

TASMANIAN ACADEMY

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

The Tasmanian Academy (the Academy) was established on 1 January 2009. The 2009 audit covered the six-month period to 30 June 2009 and 2009-10 covered the financial year ended 30 June 2010.

Signed financial statements were received on 12 August 2010. Following the audit, the financial statements were resigned on 16 September 2010 and an unqualified audit report was issued on 20 September 2010. However, without qualification, the audit report drew attention to the Academy's economic dependency on Government by inclusion of the following comment:

> '….To support continued operations over the next six months the Secretary for the Department of Education, on behalf of the Minister, has provided the Board of the Tasmanian Academy with a letter of comfort which confirms that the Department, through the Memorandum of Understanding, will continue to fund the Tasmanian Academy for the remaining 2010 financial obligations in relation to services as contracted….'

This comment was included because, as indicated by the Academy's Comprehensive Income Statement, it is significantly reliant on Government for its funding.

This confirmation of Government support enabled the Board to prepare its financial statements on the basis that the Academy is a going concern.

KEY FINDINGS AND DEVELOPMENTS

As part of the Tasmania *Tomorrow* reforms, effective 1 January 2010, certain assets, liabilities and staff of Elizabeth College made the transition from the Department of Education (DoE) to the Academy.

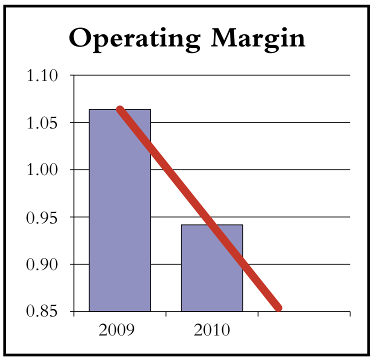
Subsequently, the Minister for Education and Skills announced in June 2010 that the Tasmania *Tomorrow* initiative was to be refined, and it was proposed to transfer the management of the Academy to DoE effective 1 January 2011. This will see the abolition of the current Academy Board Management.

Shared Services are utilised by the Academy, Tasmanian Polytechnic (the Polytechnic) and Tasmanian Skills Institute and is housed within the Polytechnic. During our audit we raised with management of Shared Services a number of matters related to accounting controls including bank reconciliations containing numerous unreconciled items. This had also been raised in 2009 and we did note some improvement this year. We also raised the absence of transfer notice/gazettal notice for the transfer of Elizabeth College from DoE on 1 January 2010.

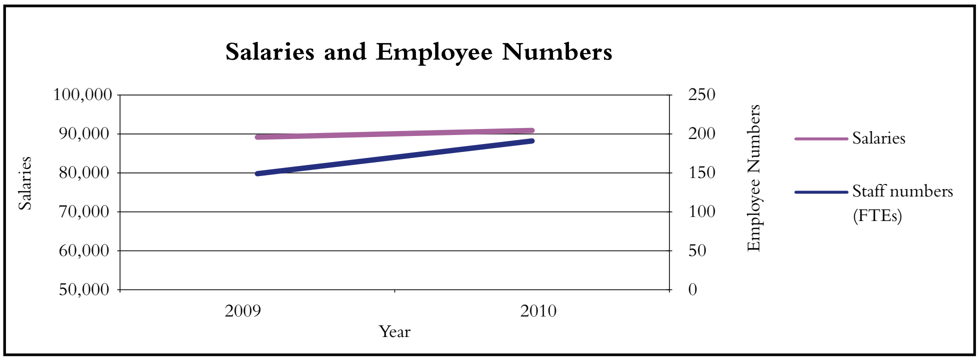
The 2009-10 audit was completed with no other issues outstanding.

FINANCIAL RESULTS

The two graphs below summarise important aspects of the Academy's financial performance.



Operating margin fell below the benchmark of one in 2009-10, due to the Net deficit in this financial period. An operating margin below the benchmark indicated the Academy might not be generating sufficient revenue to fulfil its operating requirement.



Employee number (FTE's) increased by 42 in 2009-10, mainly reflecting the initial transfer of 45 employees from Elizabeth College Campus. The slight increase in salaries was mainly attributable to annual salary increments.

COMPREHENSIVE INCOME STATEMENT

	2009-10	6 Months to 30 June 2009
	$'000s	$'000s
Memorandum of Understanding recurrent funding	20 932	9 308
Other government revenue	252	20
User charges, fees and fines	1 295	689
Commercial services	60	51
Other revenue	983	289
Total Revenue	**23 522**	**10 357**
Employee expenses	17 362	6 644
Shared Service allocation	3 956	1 679
Depreciation	22	10
Other expenses	3 660	1 414
Total Expenses	**25 000**	**9 747**
Net Surplus (Deficit)	**(1 478)**	**610**
Comprehensive Surplus (Deficit)	**(1 478)**	**610**

Comment

The Academy recorded a Net deficit of $1.478m in 2009-10. The deficit indicates the Academy was not generating sufficient revenue to fulfil its operating requirements.

Key revenue items were:

- Recurrent funding, $20.932m (2009, $9.308m). The Academy is funded via the Memorandum of Understanding (MoU) with DoE, provided on a calendar year basis, and represented approximately 89% (90%) of total revenue
- Other revenue was $0.983m ($0.289m), and mainly represented salary recoveries from the Polytechnic. Under a collaborative arrangement between the Academy and the Polytechnic, fair and reasonable staffing resources were allocated according to actual teaching and support staff numbers at the shared campuses throughout the State.

Key expenditure items were:

- Employee expenses, $17.362m ($6.644m), the largest portion of the Academy's expenses, 69%, (68%). The major components were teaching staff, $12.806m ($4.901m), non-teaching staff, $1.200m ($0.542m), and superannuation, $1.518m ($0.577m). The increase in employee expenses was mainly due to the initial transfer of 45 employees from Elizabeth College, salary increments and pay increases
- Shared Service allocation was $3.956m ($1.679m), and represented the Academy's contribution towards the operation of the Shared Service function established to provide financial, human resources, facilities management, student information management, capital planning and information technology services
- Other operating expenses were $3.660m ($1.414m), the most significant components being:
    - Contractors, $1.498m ($0.627m)
    - Material and suppliers, $0.816m ($0.273m)
    - Administration expenses, $0.348m ($0.122m)

  The increases were primarily due to the transfer of Elizabeth College and various school programs and award evenings.

STATEMENT OF FINANCIAL POSITION

	2010	2009	On Formation 1 January 2009
	$'000s	$'000s	$'000s
Cash	821	1 284	409
Receivables	158	68	0
Other	359	57	0
Total Current Assets	**1 338**	**1 409**	**409**
Plant and equipment	201	152	162
Total Non-Current Assets	**201**	**152**	**162**
Payables	166	173	0
Employee provisions	3 790	2 813	2 628
Other	1 051	172	20
Total Current Liabilities	**5 007**	**3 158**	**2 648**
Employee provisions	273	145	135
Other	17	9	149
Total Non-Current Liabilities	**290**	**154**	**284**
Net Assets (Liabilities)	**(3 758)**	**(1 751)**	**(2 361)**
Accumulated surpluses	(868)	610	0
Deficit transferred on formation	(2 890)	(2 361)	(2 361)
Total Equity	**(3 758)**	**(1 751)**	**(2 361)**

Comment

The Academy's Total Equity decreased by $2.007m due to the Net deficit for the period, $1.478m, and negative contributed equity transferred from Elizabeth College, $0.529m.

The main movements in Net Liability from 30 June 2009 to 30 June 2010 were:

- a reduction in cash of $0.463m, as explained in the Statement of Cash Flows section later in this Chapter
- higher Employee provision, $1.105m, primarily due to additional leave entitlements related to employees transferred from Elizabeth College
- higher Other current liabilities, $0.879m, due to accrued salaries contribution payable to the Polytechnic at 30 June 2010.

These were partially offset by,

- higher Receivables, $0.090m, which was principally due to more student debtors at 30 June 2010
- higher Other current asset, $0.302m, arising from salary recoveries from the Polytechnic
- higher Plant and equipment, $0.049m, largely due to additions of $0.071m for the installation of solar panels in Don Campus, offset by depreciation of $0.022m.

STATEMENT OF CASH FLOWS

	2009-10	6 Months to 30 June 2009
	$'000s	$'000s
Government grants	21 184	9 328
Receipts from customers	3 999	1 623
Interest received	69	42
Suppliers payments	(25 943)	(10 118)
Cash from (used in) operations	**(691)**	**875**
Payments for property, plant and equipment	(62)	0
Cash from (used in) investing activities	**(62)**	**0**
Net increase (decrease) in cash	**(753)**	**875**
Cash equity contribution	290	0
Cash at the beginning of the period	1 284	409
Cash at end of the year	**821**	**1 284**

Comment

Overall, the Academy's Cash decreased by $0.463m during 2009-10. This resulted from the combined effects of net cash used to fund operations, $0.691m, and Payments for property, plant and equipment, $0.062m, offset in part by $0.260m Cash equity contribution from the transfer of Elizabeth College.

Reasons for the $0.691m Cash used in operations are consistent with those made in relation to the Academy's deficit result for the year in the Comprehensive Income Statement section earlier in this Chapter. As noted in that section, the Academy is not generating sufficient revenue to fulfil it operating requirements.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	6 Months to 30 June 2009
Financial Performance			
Result from operations ($'000s)		(1 478)	610
Own source revenue ($'000s)		2 338	1 029
Financial Management			
Debt collection	30 days	25	24
Creditor turnover	30 days	21	27
Capital Management			
Investment gap %	100%	282%	0%
Other Information			
Staff numbers (FTEs) - total		191	149
Average staff costs ($'000s)		91	89
Average Recreational Leave balance per FTE (days) *	20	21	20
Average Long Service leave balance per FTE (days) *	100	59	58

** Recreation leave and long service leave is based on number of employee entitled not FTE's. Not all employees are entitled to Recreation leave. Recreation leave excludes teaching staff who are required to use up all flexible leave in a calendar year.*

Comment

Own Source revenue increased by $1.309m, primarily due to the prior period being six months.

Investment gap ratio related to the installation of solar panels in Don Campus. There was no capital expenditure in 2009.

Staff numbers (FTEs) increased with the transfer of Elizabeth College, previously mentioned.

TASMANIAN POLYTECHNIC

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

The Tasmanian Polytechnic (the Polytechnic) was established on 1 January 2009. The 2009 audit covered the six-month period ended 30 June 2009 and the 2009-10 audit covered the financial year ended 30 June 2010.

Signed financial statements were received on 12 August 2010 and were subsequently resigned on 16 September 2010. An unqualified audit report was issued on 20 September 2010. However, the audit report drew attention to the Polytechnic's economic dependency on Government by inclusion of the following comment:

> '…. The Acting Secretary of the Department of Education, on behalf of the Minister, has provided the Board of the Polytechnic with a letter of assurance that the Department will take those steps that are necessary to enable the Tasmanian Polytechnic to continue to operate on a going concern basis until such time as the activities of the Tasmanian Polytechnic become part of the operational activities of the Department of Education.…'

This comment was included because, as shown on the Polytechnic's Comprehensive Income Statement, it is significantly reliant on Government for its funding.

This confirmation of Government support enabled the Board to prepare its financial statements on the basis that the Polytechnic is a going concern.

KEY FINDINGS AND DEVELOPMENTS

As part of the Tasmania *Tomorrow* reforms, certain assets, liabilities and staff of Elizabeth College made the transition to the Polytechnic, effective 1 January 2010 from the Department of Education (DoE).

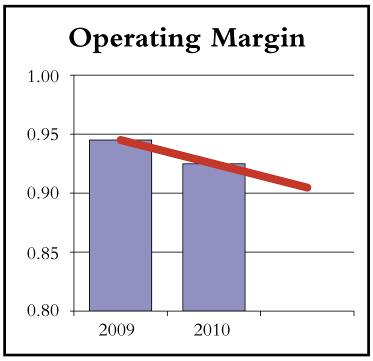
Subsequently, the Minister for Education and Skills announced in June 2010 that the Tasmania *Tomorrow* initiative was to be refined, and that it was proposed to transfer the management of the Polytechnic to DoE effective from 1 January 2011. This refinement will see the abolition of the current Polytechnic Board of Management.

Shared Services are utilised by the Polytechnic, Tasmanian Academy (the Academy) and Tasmanian Skills Institute and is housed within the Polytechnic. During our audit we raised with management of Shared Services a number of matters related to accounting controls including bank reconciliations containing numerous unreconciled items. This had also been raised in 2009 and we did note some improvement this

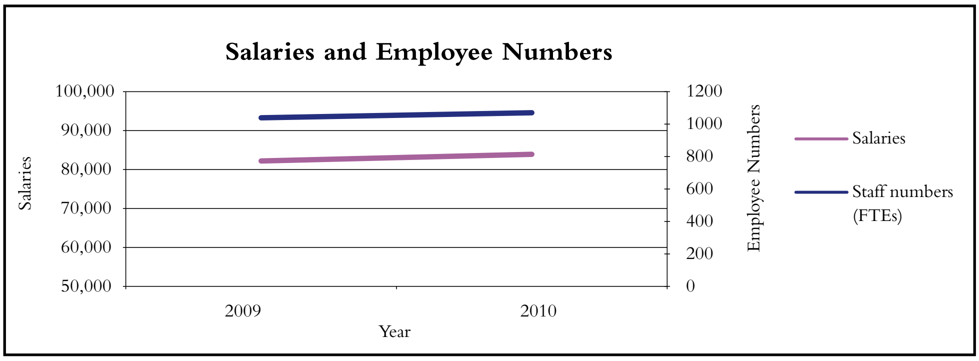
The 2009-10 audit was completed satisfactorily with no other issues outstanding.

FINANCIAL RESULTS

The two graphs below summarise important aspects of the Polytechnic's financial performance.



The Operating margin decreased slightly and was below the benchmark in both 2009 and 2010, indicating that the Polytechnic was not generating sufficient revenue to fulfil its operating requirements.



Employee numbers (FTE's) at 30 June 2010 increased mainly due to the transfer of employees from DoE for Elizabeth College. Employee expenses increased at a similar rate.

COMPREHENSIVE INCOME STATEMENT

	2009-10	**6 Months to 30 June 2009**
	$'000s	$'000s
Memorandum of Understanding recurrent funding	71 913	33 451
Other government revenue	9 718	2 927
User charges, fees and fines	8 428	3 754
Shared Services contribution	11 740	4 699
Commercial services	3 952	1 737
Other revenue	4 446	2 038
Total Revenue	**110 197**	**48 606**
Employee expenses	83 913	41 101
Depreciation	11 942	5 813
Other expenses	35 239	10 333
Total Expenses	**131 094**	**57 247**
Net Surplus (Deficit) before:	**(20 897)**	**(8 641)**
Capital funding	21 068	4 210
Assets identified	0	234
Net Surplus (Deficit)	**171**	**(4 197)**
Other Comprehensive income	0	0
Comprehensive Surplus (Deficit)	**171**	**(4 197)**

Comment

The Polytechnic recorded a Net Operating Deficit of $20.897m for 2009-10 which indicated that it failed to generate sufficient revenue to fulfil its operating requirements, including coverage of depreciation charges.

The Memorandum of Understanding (MoU) with DOE and Skills Tasmania under which the Polytechnic operates does not include funding for depreciation and the level of capital funding was not linked to the depreciation charge.

Key revenue items were:

- MoU recurrent funding, $71.913m (2009, $33.451m). The Polytechnic is funded via the MoU which is provided on a calendar year basis and accounted for approximately 65% (69%) of total revenue
- Other government revenue, $9.718m, included both State and Commonwealth grants for the provision of specific training services. The increase in 2009-10 was due primarily to $2.260m received for supplementary and gap funding under the MoU
- Shared Services contribution revenue was $11.470m ($4.699m), and represented the recovery of costs from the Academy and the Tasmanian Skills Institute for the delivery of services. Recovery of Shared Service contributions are tied to MoU funding received by those entities. All costs associated with Shared Services are included in the total expenses of $131.094m.

Key expenditure items were:

- Employee expenses, $83.913m ($41.101m), the largest portion of the Polytechnic's costs at 64% (72%). Major components comprised teaching staff, $39.340m ($16.980m), non-teaching staff, $29.082m ($13.380m), and superannuation, $7.368m ($3.786m). Increased employee expenses were mainly due to the initial transfer of 57 employees from Elizabeth College and annual salary rises and increments
- Other operating expenses, $35.239m, ($10.333m), the most significant components of which were:
    - minor equipment purchases, $3.294m ($0.393m)
    - power and heating $3.870m, ($1.007m)
    - property services, $3.261m ($1.290m)
    - repairs and maintenance, $3.553m, ($1.337m)
    - Government Education and Training International (GETI) payments, $3.114m ($0.033m).

On an annualised basis, the increase was approximately $14.000m which was primarily due to the Elizabeth College transfer, the project to replace and upgrade personal computers, which were beneath Polytechnic's capitalisation threshold and GETI which was established from 1 July 2009.

Capital funding in 2009-10, $21.068m ($4.210m), of which $12.983m had still to be spent at 30 June 2010. The following major capital projects, reported as work in progress (WIP) at year end, were initiated with these funds:

- Bridgewater Trade Training Centre, $1.622m
- Dorset Trade Training Centre, $1.750m
- Georgetown Trade Training Centre, $1.228m
- Sustainable Tourism and Hospitality Training Centre, $0.909m.

STATEMENT OF FINANCIAL POSITION

	2010	2009	Net Assets on Formation 1 January 2009
	$'000s	$'000s	$'000s
Cash	18 332	7 032	5 849
Receivables	2 183	4 280	719
Inventories	183	225	212
Other	6 760	388	1 652
Total Current Assets	**27 458**	**11 925**	**8 432**
Property, plant and equipment	266 981	264 973	267 701
Total Non-Current Assets	**266 981**	**264 973**	**267 701**
Payables	4 734	2 920	1 860
Employee provisions	14 310	13 719	11 395
Other	3 170	2 392	795
Total Current Liabilities	**22 214**	**19 031**	**14 050**
Employee provisions	2 583	2 338	1 942
Other	216	200	615
Total Non-Current Liabilities	**2 799**	**2 538**	**2 557**
Net Assets	**269 426**	**255 329**	**259 526**
Contributed equity	273 452	259 526	259 526
Accumulated deficits	(4 026)	(4 197)	0
Total Equity	**269 426**	**255 329**	**259 526**

Comment

Polytechnic's Total Equity increased $14.097m due to the equity contributed by way of the Elizabeth College transfer of $13.926m and the Comprehensive Result of $0.171m.

The main movements in Net Assets from 30 June 2009 to 30 June 2010 were:

- Cash increased, $11.300m, due mainly to unspent capital funding in 2009-10. Refer to Statement of Cash Flows section of this Chapter for further details
- higher Other current assets, $6.372m, due primarily to assets held for sale of $5.210m related to the Charles Street building in Launceston
- increased Property, plant and equipment, $2.008m, due mainly to the contribution of Elizabeth College, $14.842m and additions, $8.986m. These were offset by Depreciation, $11.942m, disposals, $4.865m, and assets reclassified as held for sale, $5.210m.

The above factors were partially offset by:

- higher Payables, $1.814m, due mainly to increased capital expenditure in 2009-10
- lower Receivables, $2.097m, mainly due to a one-off outstanding balance from Skills Tasmania of $2.690m at 30 June 2009 which related to the April to June 2009 MoU instalment.

STATEMENT OF CASH FLOWS

	2009-10	6 Months to 30 June 2009
	$'000s	$'000s
Government grants	81 977	33 688
Receipts from customers	39 914	18 440
Interest received	810	116
Payments to suppliers and employees	(126 557)	(52 185)
Cash from (used in) operations	**(3 856)**	**59**
Receipts from government - capital	21 068	4 210
Payments for property, plant and equipment	(8 085)	(3 086)
Proceeds from sale of assets	2 104	0
Proceeds from sale of property, plant and equipment		0
Cash from investing activities	**15 087**	**1 124**
Net increase (decrease) in cash	**11 231**	**1 183**
Cash equity contribution	69	0
Cash at the beginning of the period	7 032	5 849
Cash at end of the year	**18 332**	**7 032**

Comment

Overall, the Polytechnic's Cash increased by $11.300m in 2009-10. The Polytechnic received substantial capital funding, $21.068m, of which only $8.085m, or 38%, was spent during the year. Without the unspent capital funds the Polytechnic's cash would have decreased by $1.683m. This is consistent with the comments made in the Comprehensive Income Statement section earlier in this Chapter, in that the Polytechnic failed to generate sufficient revenue to fulfil its operating requirements.

Also consistent with comments made in the Comprehensive Income Statement section is that the Polytechnic generated negative operating cash flows which is a matter requiring the Board's attention.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	6 Months to 30 June 2009
Financial Performance			
Result from operations ($'000s)		(20 897)	(8 641)
Own source revenue ($'000s)		28 566	12 228
Financial Management			
Debt collection	30 days	47	39
Creditor turnover	30 days	51	41
Capital Management			
Investment gap %	100%	68%	53%
Capital replacement %	100%	8%	4%
Other Information			
Staff numbers (FTEs)* - total		1 070	1 039
Average staff costs ($'000s)		78	79
Average recreational leave balance (days) *	20	20	17
Average long service leave balance (days) *	100	48	46

* *Recreational leave and long service leave is based on number of employees entitled to leave not FTE's. Not all employees are entitled to recreational and long service leave. Recreational leave excludes teaching staff who are required to use up all flexible leave in a calendar year.*

Comment

The increased Own source revenue in 2009-10, $16.338m, resulted from the prior period only including six months of revenue.

Debt collection days were above benchmark for both years. This was due to increased student activity and delays in collecting amounts due, in particular debtors within the 60 to 90 days category.

Creditor turnover, was above the benchmark for both years due to high creditors balances at year end.

Investment gap percentage and Capital replacement percentage were below the benchmark, indicating that spending on existing assets was not sufficient to maintain assets at their current operating levels.

TASMANIAN SKILLS INSTITUTE

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

The Tasmanian Skills Institute (the TSI) was established on 1 January 2009. The 2009 audit covered the six-month period ended 30 June 2009.

Signed financial statements were received on 12 August 2010 and an unqualified audit report was issued on 20 September 2010. However, the audit report drew attention to the TSI's economic dependency on Government by inclusion of the following comment:

> … 'The Acting Secretary of the Department of Education, on behalf of the Minister, has provided the Board of the TSI with a letter of assurance that the Department will take those steps that are necessary to enable the TSI to continue to operate on a going concern basis.'

This comment was included because, as indicated on the TSI's Comprehensive Income Statement, it is significantly reliant on Government for its funding.

This confirmation of Government support enabled the Board to prepare its financial statements on the basis that the TSI is a going concern.

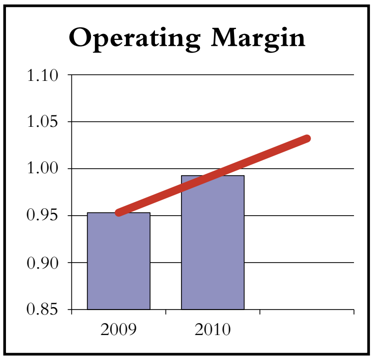
KEY FINDINGS AND DEVELOPMENTS

Shared Services are utilised by the TSI, Tasmanian Polytechnic (the Polytechnic) and Tasmanian Academy (the Academy) and is housed within the Polytechnic. During the audit we raised with management of Shared Services a number of matters related to accounting controls including bank reconciliations containing numerous unreconciled items. While this had also been raised in 2009, we did note some improvement this year.

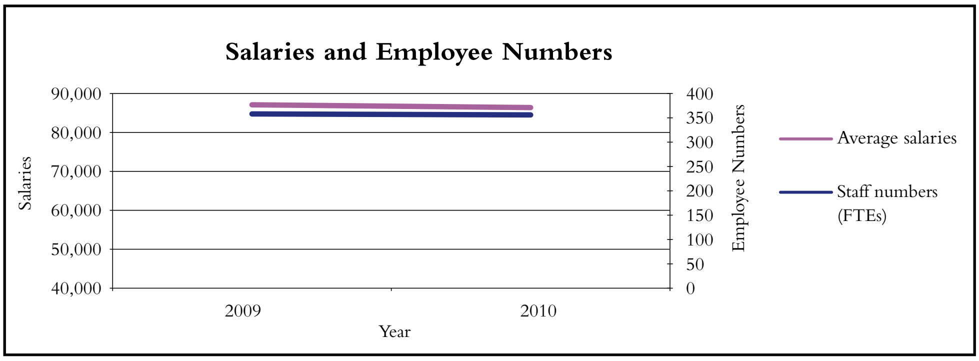
The 2009-10 audit was completed with no major issues outstanding.

FINANCIAL RESULTS

The two graphs below summarise important aspects of the TSI's financial performance.



TSI's Operating margin, although improving, was below the benchmark of one in 2009 and 2010, indicating that the TSI was not generating sufficient revenue to fulfil all of its operating requirements.



Staff numbers (FTE's) and Average salaries remained relatively constant over the two years under review.

COMPREHENSIVE INCOME STATEMENT

	2009-10	6 Months to 30 June 2009
	$'000s	$'000s
Memorandum of Understanding recurrent funding	26 799	12 679
Other government revenue	7 200	1 384
User charges, fees and fines	3 160	2 407
Commercial services	6 590	2 811
Other revenue	596	728
Total Revenue	**44 345**	**20 009**
Employee expenses	30 753	15 590
Depreciation	361	176
Share Services contribution	7 783	3 019
Other expenses	6 140	2 385
Total Expenses	**45 037**	**21 170**
Net operating surplus (deficit)	**(692)**	**(1 161)**
Capital funding	6 478	0
Net Surplus (Deficit)	**5 786**	**(1 161)**
Comprehensive Surplus (Deficit)	**5 786**	**(1 161)**

Comment

The TSI recorded a Net operating deficit of $0.692m for 2009-10. The deficit indicated the TSI failed to generate sufficient revenue to fulfil its operating requirements, including coverage of depreciation charges.

The Memorandum of Understanding (MoU) with DoE and Skills Tasmania, under which the TSI operates, does not include funding for depreciation and the level of capital funding was not linked to the depreciation charge.

Key revenue items were:

- MoU recurrent funding, $26.799m (2009, $12.679m). The TSI is funded via the MoU which is provided on a calendar year basis and accounted for approximately 60% (63%) of Total Revenue

- Revenue from commercial services, which increased by $3.779m, related to commercial training activities provided by the TSI on a fee for service basis or by the provision of retail trading operations, which were a by-product of training activities.

Key expenditure items were:

- Employee expenses, $30.753m ($15,590m), the largest portion of the TSI's costs at 68% (74%). The major components comprised teaching staff, $18.293m ($8.429m), non-teaching staff, $6.440m ($2.843m), and superannuation, $2.749m ($1.250m)
- Shared Services allocation was $7.783m ($3.019m), and represented the TSI's contribution towards the operation of the Shared Services function established to provide financial, human resources, facilities management, student information management, capital planning and information technology services
- Other expenses, $6.140m ($2.385m). The increase was primarily due to hire of consultants for internal financial reporting, website development, special teaching activities and student support. In addition, there were additional expenses for motor vehicle operating leases. The most significant components of Other expenses were:
    - materials and supplies, $1.758m ($0.918m)
    - contractors, $0.800m ($0.147m)
    - travel, $0.714m ($0.304m)
    - operating lease, $0.546m ($0.203m)
    - communications, $0.483m ($0.150m).

Capital funding, $6.478m in 2009-10, was primarily received under the Federal Government's Training Infrastructure for Tomorrow (TIIFT) project, $4.164m, and the Better TAFE Facilities (BTF) program, $2.213m. Despite this funding being provided to TSI, it was used to fund improvements to buildings owned by the Polytechnic. As these improvements are expected to result in future economic benefits to the TSI, a corresponding amount was recognised as an asset. As indicated in the Statement of cash flows section of this Chapter, $3.783m remained unspent at 30 June 2010 leading to an increase in TSI's bank balance.

STATEMENT OF FINANCIAL POSITION

	2009-10	6 Months to 30 June 2009	On Formation 1 January 2009
	$'000s	$'000s	$'000s
Cash	3 493	(2 761)	253
Receivables	2 492	5 872	1 967
Inventories	159	180	202
Other	368	11	2
Total Current Assets	**6 512**	**3 302**	**2 424**
Property, plant and equipment	7 156	4 821	4 902
Total Non-Current Assets	**7 156**	**4 821**	**4 902**
Payables	481	765	0
Employee provisions	4 449	4 733	1 097
Other	601	289	39
Total Current Liabilities	**5 531**	**5 787**	**1 136**
Employee provisions	1 111	1 097	3 636
Other	68	67	221
Total Non-Current Liabilities	**1 179**	**1 164**	**3 857**
Net Assets	**6 958**	**1 172**	**2 333**
Accumulated surpluses (deficits)	4 625	(1 161)	0
Contributed equity	2 333	2 333	2 333
Total Equity	**6 958**	**1 172**	**2 333**

Comment

The TSI's Total Equity increased, $5.786m, due to the Comprehensive Surplus of the same amount.

The corresponding increase in Net Assets comprised:

- increased Cash of $6.254m, as explained in the Statement of Cash Flows section later in this Chapter
- increased Property, plant and equipment of $2.335m, mainly due to improvements made to buildings owned by the Polytechnic, $2.442m, offset by depreciation, $0.361m
- decreased Employee provisions of $0.270m due to TSI's effort in monitoring employee leave balances and requiring excessive leave to be taken in a timely manner.

These improvements in Net Assets were partially off set by decreased Receivables, $3.380m, due to timing differences. The 2009 balance was high because the June 2009 quarter MoU funding, $2.548m, was not received until 2009-10.

STATEMENT OF CASH FLOWS

	2009-10	6 Months to 30 June 2009
	$'000s	$'000s
Government grants	34 291	11 516
Receipts from customers	17 207	5 642
Interest received	222	21
Payments to suppliers and employees	(49 249)	(20 110)
Cash from (used in) operations	**2 471**	**(2 931)**
Capital receipts	6 478	0
Payments for property, plant and equipment	(2 695)	(83)
Cash from (used in) investing activities	**3 783**	**(83)**
Net increase (decrease) in cash	**6 254**	**(3 014)**
Cash at the beginning of the period	(2 761)	253
Cash at end of the period	**3 493**	**(2 761)**

Comment

The TSI's cash position improved by $6.254m at 30 June 2010, mainly due to:

- receipt in 2009-10 of the 2008-09 final quarter MOU payment of $2.548m
- one-off TIIFT and BTF funding, $6.478m, previously mentioned of which $3.783m remained unspent at 30 June 2010.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	6 Months to 30 June 2009
Financial Performance			
Result from operations ($'000s)		(692)	(1 161)
Own source revenue ($'000s)		10 346	5 946
Financial Management			
Debt collection	30 days	88	204
Creditor turnover	30 days	29	8
Capital Management			
Investment gap %	100%	71%	47%
Other Information			
Staff numbers (FTEs) - total		356	358
Average staff costs ($'000s)		86	44
Average Recreational Leave balance (days)*	20	21	19
Average Long Service Leave balance per (days)*	100	48	46

** Recreational leave and long service leave is based on number of employees entitled to leave not FTE's. Not all employees are entitled to recreational and long service leave.*

Recreational leave excludes teaching staff who are required to use up all flexible leave in a calendar year.

Comment

The deficit result from operations was commented on earlier in this Chapter.

Higher Own source revenue, $10.346m, was due primarily to the prior period being only six months.

Debt collection days was well above the benchmark in both years due to delays in payments by some larger debtors at year end. This was particularly high in 2008-09 due to the outstanding June 2009 quarter of MoU funding, previously mentioned.

Investment gap was below the benchmark in both years. Subject to TSI's capital maintenance program, it may be under-investing in its existing assets.

THE NOMINAL INSURER

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

The *Workers Rehabilitation and Compensation Act 1988* requires The Nominal Insurer to provide to the Auditor-General financial statements within 45 days after the end of the financial year. Signed financial statements were received on 23 August 2010 which was eight days late but an improvement on the prior year. An unqualified audit report was issued on 6 October 2010.

KEY FINDINGS AND DEVELOPMENTS

Other than non compliance with the statutory reporting deadline, the audit was completed satisfactorily with no other issues outstanding.

SUMMARY OF FINANCIAL RESULTS

	2009-10 Actual $'000s	2008-09 Actual $'000s
Total Revenue	1 997	7 367
Total Expenses	555	130
Net Surplus	**1 442**	**7 237**
Total Assets	6 334	4 775
Total Liabilities	755	638
Net Assets	**5 579**	**4 137**
Total Equity	**5 579**	**4 137**

Comment

In 2009-10 The Nominal Insurer recorded a Surplus of $1.442m, compared to $7.237m in the prior year. The decrease of $5.795m was predominately due to:

- lower Insurers' contributions, down $4.591, primarily as a result of Special Levy premiums paid by Licensed Insurers ceasing as at 30 June 2009
- lower dividends anticipated from the liquidator of the HIH Group, down $0.845m, based upon assessed amounts receivable from the liquidator
- increased Claims expense, up $0.566m, in 2009-10.

Equity increased $1.442m during 2009-10 in line with the Net Surplus. The corresponding increase in Net Assets comprised mainly:

- higher Cash, up by $4.542m, mainly as a result of collecting $2.475m in Receivables due at 30 June 2009 and other current year cash receipts exceeding payments by $1.526m, offset by
- lower Receivables, down $2.016m, due to the $2.475m Receivable collection referred to in the previous point and an upward adjustment to the anticipated dividend of $0.458m, as per liquidator's estimation.

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.

Two new indicators have been included this year, the capital expenditure to depreciation (Invetsment) and the sapital expenditure on existing assets to depreciation (Renewal) ratios.

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Financial Performance		
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
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

Financial Performance Indicator	Benchmark[1]	Method of Calculation
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
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 – AUDIT STATUS

Entity	Financial Statement deadline	Signed Financial Statements Received	Clear opinion issued	Audit opinion signed	Timeliness of audit opinion issue from balance date: < 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
Executive and Legislature, Government Departments and other General Government Sector State Entities										
Executive & Legislature										
House of Assembly	15 August 2010	13 August 2010	✓	28 September 2010				✓		
Legislative Council	15 August 2010	13 August 2010	✓	28 September 2010				✓		
Legislature-General	15 August 2010	13 August 2010	✓	28 September 2010				✓		
Office of the Governor	15 August 2010	11 August 2010	✓	30 September 2010				✓		
Ministerial Departments										
Department of Economic Development and Tourism	15 August 2010	17 August 2010	✓	29 September 2010				✓		
Tasmanian Development and Resources	15 August 2010	17 August 2010	✓	29 September 2010				✓		
Tourism Tasmania	15 August 2010	13 August 2010	✓	29 September 2010				✓		
Tasmanian Museum and Art Gallery	15 August 2010	18 August 2010	✓	29 September 2010				✓		
Department of Education	15 August 2010	13 August 2010	✓	6 October 2010				✓		
Department of Health and Human Services	15 August 2010	13 August 2010	✓	29 September 2010				✓		
Housing Tasmania	No date	13 August 2010	✓	27 September 2010				✓		
Ambulance Tasmania	No date	13 August 2010	✓	27 September 2010				✓		
Department of Infrastructure, Energy and Resources	15 August 2010	12 August 2010	✓	15 September 2010				✓		
Department of Justice	15 August 2010	11 August 2010	✓	11 August 2010	✓					
Department of Police and Emergency Management	15 August 2010	13 August 2010	✓	9 September 2010		✓				

Entity	Financial Statement deadline	Signed Financial Statements Received	Clear opinion issued	Audit opinion signed	Timeliness of audit opinion issue from balance date < 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
Department of Premier and Cabinet	15 August 2010	20 August 2010	✓	1 September 2010		✓				
Department of Primary Industries, Parks, Water and Environment	15 August 2010	13 August 2010	✓	31 August 2010		✓				
Department of Treasury and Finance	15 August 2010	12 August 2010	✓	30 September 2010				✓		
General Government Sector Financial Statements & Public Account Statements	30 September 2010	30 September 2010	✓	20 October 2010					✓	
Total State Sector Financial Statements	No date	30 September 2010	✓	20 October 2010					✓	
Other General Government Sector State Entities										
Inland Fisheries Service	15 August 2010	13 August 2010	✓	30 September 2010				✓		
Marine *and* Safety Authority	15 August 2010	30 July 2010	✓	10 August 2010						
Office of the Ombudsman	15 August 2010	16 August 2010	✓	16 August 2010						
Office of the Tasmanian Economic Regulator	15 August 2010	16 August 2010		30 September 2010				✓		
Royal Tasmanian Botanical Gardens	15 August 2010	13 August 2010	✓	30 September 2010				✓		
State Fire Commission	15 August 2010	13 August 2010	✓	14 September 2010			✓			
Tasmanian Academy	15 August 2010	13 August 2010	✓	21 September 2010			✓			
Tasmanian Polytechnic	15 August 2010	13 August 2010	✓	21 September 2010			✓			
Tasmanian Skills Institute	15 August 2010	13 August 2010	✓	21 September 2010			✓			
The Nominal Insurer	15 August 2010	23 August 2010	✓	6 September 2010		✓				

APPENDIX 3 – ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
Abt	The Abt Railway
BER	Building the Education Revolution
BTF	Better TAFE Facilities
CLAF	Crown Land Administration Fund
COMNAP	Council of Managers of National Antarctic Programs
CPI	Consumer Price Index
CSA	Community Service Agreement
CSL	Community Support Levy
CSO	Community Service Obligation
DEPHA	Department of Environment, Parks, Heritage and the Arts
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DoE	Department of Education
DPIW	Department of Primary Industries and Water
DPIPWE	Department of Primary Industries, Parks, Water and Environment
DVA	Department of Veterans Affairs
EBA	Enterprise Bargaining Agreement
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EG	Etech Group Pty Ltd
EGI	Etech Group International Pty Ltd
ET	Etech Tasmania Pty Ltd
FMAA	*Financial Management and Audit Act 1990*
FTE	Full-time equivalent
GBE	Government Business Enterprise
GST	Goods and Services Tax
HOAP	Home Ownership Assistance Program
ICT	Information Communications and Technology
MAIB	Motor Accidents Insurance Board
MoU	Memorandum of Understanding
MPEA	*Monetary Penalty Enforcement Act 2005*
MPES	Monetary Penalty Enforcement Service
NBESP	National Building Economic Stimulus Program
NBN	National Broadband Network
Onstream	Water and Sewerage Corporation – Common Services
PNT	Pacific National Tasmania
RTBG	Royal Tasmanian Botanical Gardens
SCIF	Special Capital Investment Funds
SOC	State Owned Company
SSA	*State Service Act 2000*
TAFE	TAFE Tasmania
Tascot	Tascot Templeton Carpets Pty Ltd
Tasracing	Tasmanian Racing Board

Tasrail	Tasmanian Railway Pty Ltd
TASSS	Tasmanian Ambulance Service Superannuation Scheme
TCFA	Tasmanian Community Forest Agreement
TDR	Tasmania Development and Resources
TIIFT	Training Infrastructure for Tomorrow
TISS	Tasmanian Industry Support Scheme
TMAG	Tasmanian Museum and Art Gallery
TMRN	Tasmanian Mobile Radio Network
TPP	Tourism Promotion Plan
TSI	Tasmanian Skills Institute
TT	Tourism Tasmania
TTH	Tasmania's Temptations Holidays
VACIS	Victorian Ambulance Clinical Information System
VTESA	Voluntary Targeted Employment Separation Arrangement
WIF	Water Infrastructure Fund

APPENDIX 4 – 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
June 2010	Special Report No. 88 - Public Trustee: management of deceased estates
June 2010	Special Report No. 87 - Employment of staff to support MPs

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To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector

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For further information please contact:

Tasmanian Audit Office
GPO Box 851
Hobart
TASMANIA 7001

Phone: (03) 6226 0100 **Fax:** (03) 6226 0199
Email: admin@audit.tas.gov.au
Home Page: http://www.audit.tas.gov.au

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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.

Phone (03) 6226 0100
Fax (03) 6226 0199
email admin@audit.tas.gov.au
Web www.audit.tas.gov.au

Address Level 4, Executive Building, 15 Murray Street, Hobart
Postal Address GPO Box 851, Hobart 7001
Office Hours 9am to 5pm Monday to Friday