Tasmanian Audit Office

Report of the Auditor-General
No. 4 of 2021-22

Auditor-General's Report on the Financial Statements of State entities

Volume 1

Audit of State entities and audited subsidiaries of State entities
31 December 2020 and 30 June 2021

25 November 2021

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The Role of the Auditor-General

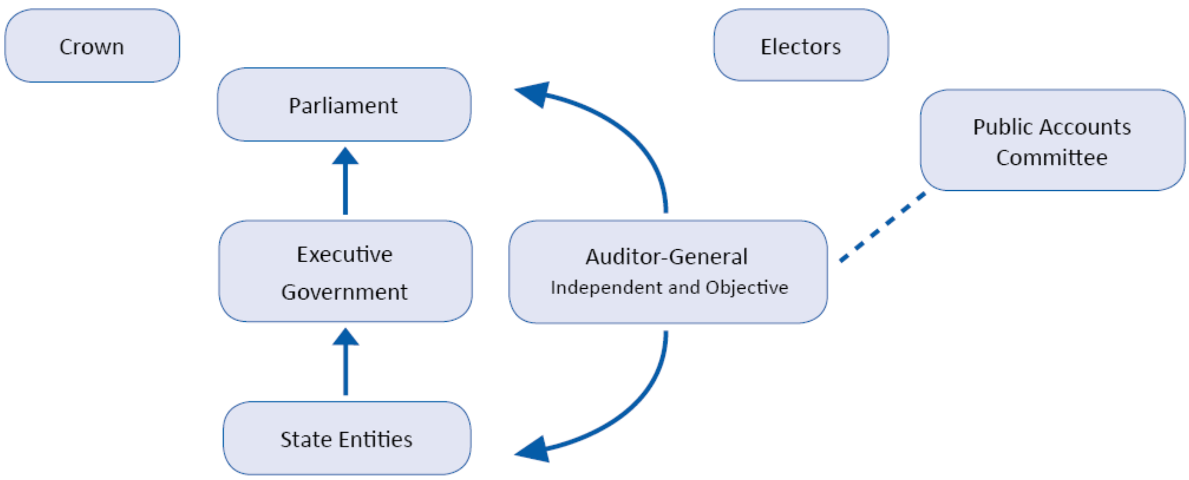
The Auditor-General's roles and responsibilities are set out in the *Audit Act 2008* (Audit Act). The Tasmanian Audit Office is the agency that provides support and services to the Auditor-General.

The primary responsibility of the Auditor-General and Tasmanian Audit Office is to conduct financial or 'attest' audits of the annual financial reports of State entities, audited subsidiaries of State entities and the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector. The aim of a financial audit is to enhance the degree of confidence in the financial statements by expressing an opinion on whether they present fairly, or give a true and fair view in the case of entities reporting under the *Corporations Act 2001*, in all material respects, the financial performance and position of State entities and were prepared in accordance with the relevant financial reporting framework. The outcomes of the audits of State entities and audited subsidiaries of State entities are reported to Parliament each year.

The Auditor-General and Tasmanian Audit Office also conduct examinations and investigations, which include performance and compliance audits. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently. 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 by State entities with directives, regulations and appropriate internal control procedures.

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 included within the reports.

The Auditor-General's Relationship with the Parliament and State Entities



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2021
PARLIAMENT OF TASMANIA

Auditor-General's Report on the Financial Statements of State entities

Volume 1

Audit of State entities and audited subsidiaries of State entities 31 December 2020 and 30 June 2021

25 November 2021

Presented to both Houses of Parliament pursuant to
Section 29 of the *Audit Act 2008*

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25 November 2021

President, Legislative Council
Speaker, House of Assembly
Parliament House
HOBART TAS 7000

Dear President, Speaker

Report of the Auditor-General No. 4 of 2021-22: Auditor-General's Report on the Financial Statements of State entities, Volume 1 - Audit of State entities and audited subsidiaries of State entities 31 December 2020 and 30 June 2021

In accordance with the requirements of section 29 of the *Audit Act 2008*, I have the pleasure in presenting the first volume of my Report on the audit of the financial statements of State entities and audited subsidiaries of State entities for the years ended 31 December 2020 and 30 June 2021.

Yours sincerely

[redacted]

Rod Whitehead
Auditor-General

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Introduction

The Auditor-General has the mandate under sections 16, 18 and 21 of the *Audit Act 2008* (Audit Act) to carry out the audit of the financial statements of the Treasurer, all State entities and audited subsidiaries of State entities. The aim of a financial audit is to enhance the degree of confidence in the financial statements by expressing an opinion on whether they present fairly[1], in all material respects, the financial performance and position of State entities and were prepared in accordance with the relevant financial reporting framework.

This report fulfils the Auditor-General's obligation to, on or before 31 December in each year, report to Parliament in writing on the audit of State entities and audited subsidiaries of State entities in respect of the preceding financial year. Audits undertaken by arrangement under section 28 of the Audit Act are not included in this report.

This report is the first volume of two volumes reporting on our audits for the years ended 31 December 2020 and 30 June 2021. This volume reports on the status of audits of financial statements and provides analysis and commentary on:

- State entities and audited subsidiaries of State entities in the General Government Sector (GGS) and Total State Sector (TSS)
- Government[2] businesses comprising Government Business Enterprises (GBEs), State-owned Companies (SOCs) and Tasmanian Water & Sewerage Corporation Pty Ltd (TasWater), which is predominantly owned by Tasmanian Local Government Councils.
- other uncategorised State entities.

Commentary focuses on the consolidated results of State entities. In some chapters, financial information on controlled or equity accounted State entities is disclosed.

Unless otherwise stated, analysis undertaken on financial results at the sector level uses the consolidated results of State entities. Sector financial information is reported and analysed at different aggregation levels. Further information is provided in the relevant chapter.

The second volume will contain findings from all audits completed for the years ended 31 December 2020 and 30 June 2021 together with analysis and commentary on the local government sector.

Guide to using this report

Guidance relating to the use and interpretation of financial information included in this report can be found at the Tasmanian Audit Office (Office) website: www.audit.tas.gov.au

The guidance includes information on the calculation and explanation of financial ratios and performance indicators and the definition of audit finding risk ratings.

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[1] Give a true and fair view in the case of entities reporting under the *Corporations Act 2001*.

[2] In this report, Government is a reference to the Tasmanian Government unless otherwise stated.

Submissions and comments received

A draft of this report was provided to the Premier and Treasurer and other persons who, in our opinion had a special interest in the report, with a request for submissions or comments. Submissions or comments received, or a fair summary of them, are included below.

Response from the Premier and Treasurer

Thank you for your letter dated 11 November 2021, inviting comments on your draft report to Parliament on the Financial Statements of State entities.

The report provides an informative overview of the financial results of State entities and the issues that have had a financial impact in 2020-21.

I note TasWater is included within the section on State Government Businesses. Whilst the State Government has a limited shareholding in TasWater, it is considered to be a Local Government entity. The current presentation may be misleading to users, giving the impression it is a State Sector Entity. The report may need an explanation to clearly identify the ownership structure of TasWater, or alternatively, consideration could be given to where this entity sits within your report and whether it is better placed in Volume Two.

Once again, thank you for the opportunity to comment on the draft report.

The Honourable Peter Gutwein MP

Rejoinder by the Auditor-General

The comments of the Premier and Treasurer are duly noted. As stated in the Introduction to this report, TasWater is predominantly owned by Tasmanian Local Government Councils. Consideration will be given to where TasWater is best placed in our Report for 2021-22.

Completion of audits of financial statements

Introduction

The information provided in this chapter summarises the financial audits undertaken under section 16 (audit of the financial statements of the Treasurer), section 18 (audit of the financial statements of State entities) and section 21 (audit of the financial statements of audited subsidiaries of State entities) of the Audit Act. Audits undertaken by arrangement under section 28 of the Audit Act are not included in the chapter.

Status of audits of financial statements

The audit of the Treasurer's Annual Financial Report (TAFR), comprising the Treasurer's Annual Financial Statements and the Public Account Statements for the year ended 30 June 2021 was completed on 27 October 2021, in line with the legislative timeframe.

The status of audits of State entities and audited subsidiaries of State entities as at 9 November 2021 is shown is Table 1 below.

Table 1: Status of audits of State entities and audited subsidiaries of State entities as at 9 November 2021

Audits of financial statements	December 2020 and June 2021	December 2019 and June 2020[1]
State entity financial statements submitted, complete in all material respects:		
• within 45 days of the end of the financial year [Audit Act, s 17(1)]	141	134
• after 45 days of the end of the financial year	15	22
	156	**156**
Audits of financial statements of State entities:		
• completed within 45 days of receiving the financial statements [Audit Act, s 19(3)]	67	64
• completed after 45 days of receiving the financial statements	37	56
• in progress or awaiting audit dispensation[2]	22	0
• audits dispensed with[2]	30	36
	156	**156**

Note 1: prior year numbers for completed financial statement audits for all State entities and audited subsidiaries of State entities are shown for comparative purposes

Note 2: audits dispensed at the Auditor-General's discretion pursuant to s 18(2) of the Audit Act.

General Government Sector

Introduction

This chapter provides an overview of the GGS and details developments within GGS entities that impacted upon their financial year result. This chapter also includes financial analysis on TAFR, including the GGS, TSS and Public Account Statements.

Overview of the General Government Sector and Total State Sector

General Government Sector

The GGS consisted of all departments and legislative agencies, statutory offices and some State authorities controlled and mainly financed by the Government.

The principal function of GGS entities is to provide non-market goods and services (such as roads and hospitals) to the community. These outputs are primarily financed by taxes. Other functions of GGS entities are to regulate and influence economic activity, to maintain law and order, and to redistribute income by means of transfer payments.

All agencies, with the exception of some State authorities, receive an appropriation from the Public Account to provide outputs (goods and services) on behalf of the Government, to achieve outcomes in areas such as health, education, law, public safety, the environment and community infrastructure.

State authorities are established under specific legislation, which defines the purpose of the authority and the general functions for which it is responsible. Some State authorities are not directly funded through appropriations, but may receive funding from a department or raise revenue through their own activities.

Total State Sector

The TSS comprises all GGS, Public Non-Financial Corporations (PNFC) and Public Financial Corporations (PFC) entities.

PNFC are Government owned and include the majority of Tasmania's GBEs and SOCs. PNFC range in size and operate in a variety of commercial markets including the energy sector, port operations, transport and forestry. TasWater is not a PNFC entity as it is predominantly owned by local government councils.

GBEs are established under their own Portfolio Act and operate within the framework of the *Government Business Enterprises Act 1995*. The Governor, based on a joint recommendation of the Treasurer and Portfolio Minister, appoints directors of the Board of GBEs.

SOCs are established under their own Portfolio Act and are incorporated under the *Corporations Act 2001* (Cth). The Treasurer and the Portfolio Minister collectively hold the shares of the companies in trust for the Crown. As shareholder members, they appoint the directors of the Board of SOCs. GBEs and SOCs operate outside of the Public Account, but may provide returns to the Public Account in the form of dividends, taxation equivalents and guarantee fees. Further, Government businesses may deliver services for the Government through Community Service Obligations (CSOs) or under contract with the Government.

PFC are Government owned and are mainly engaged in financial intermediation or the provision of ancillary financial services to other State entities.

The structure of the GGS and TSS is illustrated in Figure 1.

Figure 1: Structure of the General Government Sector and Total State Sector

General Government Sector
Government Departments:

- Communities Tasmania
- Education
- Health
- Justice
- Police, Fire and Emergency Management
- Premier and Cabinet
- Primary Industries, Parks, Water and Environment
- State Growth
- Treasury and Finance

Other entities that principally provide public services:

- Brand Tasmania
- House of Assembly
- Inland Fisheries Service
- Integrity Commission
- Legislative Council
- Legislature-General
- Marine and Safety Tasmania
- Office of Director of Public Prosecutions
- Office of the Governor
- Office of the Ombudsman
- Royal Tasmanian Botanical Gardens
- State Fire Commission
- Tasmanian Audit Office
- TasTAFE
- Tourism Tasmania

Public Non-Financial Corporations

- Aurora Energy Pty Ltd
- Hydro-Electric Corporation
- Macquarie Point Development Corporation
- Metro Tasmania Pty Ltd
- Port Arthur Historic Site Management Authority
- Public Trustee
- Forestry Tasmania, trading as Sustainable Timber Tasmania
- Tasmanian Irrigation Pty Ltd
- Tasmanian Networks Pty Ltd
- Tasmanian Ports Corporation Pty Ltd
- Tasmanian Railway Pty Ltd
- Tasracing Pty Ltd
- TT-Line Company Pty Ltd

Public Financial Corporations

- Motor Accidents Insurance Board
- Tasmanian Public Finance Corporation

General Government Sector developments

This section summarises significant developments that affected the operations of GGS entities, identified during the course of the audit of GGS entity financial statements.

COVID-19

GGS entities were impacted by the COVID-19 pandemic to varying degrees. Broadly, common impacts of COVID-19 across GGS entities included:

- decreased employee leave taken during 2020-21, linked to factors such as travel restrictions, which resulted in higher leave liability balances at 30 June 2021
- continued changes to internal control environments and processes as a consequence of employees working remotely
- changes to service delivery arrangements to customers and other arrangements with suppliers and contractors.

In the 2020-21 State Budget, $145.00 million was allocated to a central COVID-19 provision in Finance-General with the Department of Treasury and Finance (Treasury) to assist the State through the uncertainty of the impact of COVID-19. From this provision, $54.40 million was allocated to specific initiatives with the remainder held to fund health, economic and social response measures as needed throughout the year.

In June 2020, the Government announced the *Rebuilding Tasmania Infrastructure Investment* program, providing $1,267.10 million in total funding for projects to stimulate the Tasmanian economy following the impact of COVID-19. The level of capital investment by the State is discussed in the GGS and TSS financial analysis commentary further in this chapter.

National Redress Scheme for Institutional Child Sexual Abuse

The National Redress Scheme for Institutional Child Sexual Abuse (Scheme) was established by the Australian Government on 1 July 2018 to provide support to people who experienced institutional child sexual abuse. The Government officially joined the Scheme on 1 November 2018.

The Scheme allows for redress to be provided to a person who suffered abuse (sexual abuse and related non-sexual abuse). The Scheme can provide a monetary payment of between $5,000 and $150,000 as a tangible means of recognising the wrong survivors have suffered, access to counselling and psychological care and a direct personal response which provides a meaningful apology and acknowledgment from the responsible institution.

In the 2018-19 State Budget, the Government made a commitment to fund the Department of Justice (Justice) $70.00 million over 10 years to pay compensation and administration costs over the life of the Scheme.

In addition to applications for redress under the Scheme from individuals who suffered abuse, a number of civil claims have been made against various Government agencies relating to child abuse in State care. The Tasmanian Risk Management Fund does not cover the Crown’s legal liability for civil claims brought by survivors of historical childhood institutional sexual abuse. Consequently, Justice is responsible for funding these claims where the circumstances giving rise to the claim would have provided the claimant with an entitlement to redress under the Scheme. Whilst the Government is unable to determine the full amount and timing of any potential payouts in these civil cases, the value is expected to exceed the $70.00 million fund allocated to payment of claims under the National Redress Scheme. Details of payments under the Scheme and contingent liabilities are provided in the commentary on significant developments at Justice later in this chapter.

Management of, and responses to, redress claims in this Scheme are managed directly by the Child Abuse Royal Commission Response Unit within Justice with support from individual departments.

Management of, and responses to, civil claims are undertaken by each individual department, with oversight through the Office of the Solicitor-General. This is a change from the previous approach of having these cases supported by the Child Abuse Royal Commission Response Unit within Justice.

Department of Communities Tasmania

Financial result

The Department of Communities Tasmania (Communities Tasmania) recorded a net deficit of $0.82 million in 2020-21, compared to a surplus of $107.47 million in 2019-20. The 2020-21 result was an improvement of $49.55 million on the prior year after removing the impact of the waiver of the Commonwealth State Housing Agreement debt by the Australian Government of $157.84 million recognised in 2019-20. The improvement is mainly attributable to increased appropriation revenue of $85.70 million received in 2020-21.

COVID-19 funding

Communities Tasmania continued to play a crucial role in supporting the Government's response to the COVID-19 pandemic during 2020-21. Communities Tasmania received $72.02 million in COVID-19 response and recovery funding, with the majority of funds used to:

- provide emergency accommodation support, $22.08 million
- provide state-wide safe spaces, $5.30 million
- facilitate the public building maintenance program, $3.38 million
- facilitate the "improving the playing field" initiative, $4.61 million.

Tasmania's Affordable Housing Strategy Action Plan

The *Tasmania's Affordable Housing Strategy Action Plan 2019-23* started in 2019-20. In the context of this plan, Communities Tasmania delivered the following in 2020-21:

- 298 new social houses and long-term supported accommodation (2019-20, 316)
- 31 new affordable lots of land (2019-20, 31)
- nil new units of short term homeless accommodation (2019-20, 43).

This contributed to the recognition of $29.88 million of housing assets during 2020-21. Communities Tasmania's portfolio of vacant land, buildings, rental dwellings and community housing stock was recorded at $1.84 billion at 30 June 2021.

Additionally, Communities Tasmania assisted 67 (2019-20, 69) low and middle income households into home ownership during the year through the *HomeShare* program. During 2020-21, 44 participants in the program purchased the Government's equity share in their homes. The value of the *HomeShare* program increased by $1.53 million during 2020-21 to $27.28 million at 30 June 2021.

Housing Tasmania's Rental dwellings and Community housing stock

Communities Tasmania's activities included the management of Housing Tasmania's Rental dwellings and Community housing stock. These asset classes are revalued every 2 years using a mix of full valuations or updated suburb based indices. The revaluation cycle aligns with the Valuer-General's practice of updating capital values every 2 years. Rental dwellings and Community housing stock were revalued on 1 July 2018, but were not revalued in 2020-21 as planned due to the COVID-19 pandemic. The next revaluation is expected to occur during 2021-22.

Publicly available market evidence indicated a significant increase may have occurred in the value of Rental dwellings and Community housing stock since the last revaluation on 1 July 2018. Due to uncertainty over the rate of increase for these assets, Communities Tasmania could not reliably measure the increase in value and consequently determined the current carrying value to be indicative of fair value.

Additional disclosure was included in the financial statements to reflect the situation.

Adoption of AASB 1059 *Service Concession Arrangements: Grantors*

Communities Tasmania applied Australian Accounting Standard AASB 1059 *Service Concession Arrangements: Grantors* (AASB 1059) for the first time in 2020-21. AASB 1059 required Communities Tasmania to identify service concession arrangements and recognise and measure service concession assets and related liabilities. Qualitative and quantitative information disclosures about service concession arrangements was also required to be included in the financial statements.

In accordance with the transitional requirements of AASB 1059, Communities Tasmania recognised service concession assets of $681.55 million as at 1 July 2019.

Department of Education

Financial result

The Department of Education (DoE) recorded a net deficit of $3.21 million in 2020-21 compared to a deficit of $36.22 million in 2019-20. The improved result reflects the collection of student levies of $13.11 million in 2020-21 that were refunded or waived in 2019-20 and capital funding of $12.64 million carried forward from the previous financial year recognised as revenue in 2020-21.

Valuation of property and infrastructure assets

At 30 June 2021, DoE held $1.79 billion in land, building and infrastructure assets, which were recognised at fair value. During the year the Valuer-General completed the 31 December 2019 revaluation of land and buildings which was delayed due to COVID-19, with the revaluation adjustments recognised in the financial statements as at 1 July 2020. These assets were then indexed to 30 June 2021 using indices provided by the Valuer-General. The combined valuation adjustments led to an increase in the value of land and buildings of $231.44 million in 2020-21.

During 2020-21, a new asset category of Infrastructure, was disclosed for the first time. It consisted of assets carried at $146.36 million that were transferred from the building category at 1 July 2020.

Capital expenditure

Capital Investment Program (CIP) expenditure in 2020-21, primarily representing expenditure for new schools and school redevelopment projects, was $43.83 million (2019-20, $38.77 million), with larger projects being:

- Penguin District School redevelopment for students from birth to year 12, $6.62 million
- Devonport High School, $5.30 million
- Lansdowne Crescent Primary School, $4.23 million.

Department of Health

Financial result

The Department of Health (DoH) recorded a net surplus of $40.38 million in 2020-21, compared to a surplus of $105.87 million in 2019-20. Notwithstanding increases in operating appropriation ($97.44 million), sales of good and services ($46.00 million) and other revenue from Government ($42.09 million) significant increases in the following expenditures contributed to the lower surplus for 2020-21:

- Supplies and consumables, which increased by $145.06 million, due principally to increases in medical, surgical and pharmacy supplies, general medical consumables, purchase of special services and a general increase in activity after a lower level recorded in the 2019-20 financial year due to the impact of COVID-19
- Employee benefits, which increased by $124.74 million, due to an increase of 655 FTE employees, in addition to a 2.3 percent increase in salaries in December 2020.

Capital works

In 2020-21, DoH received $86.89 million in capital funding, comprising appropriation revenue, other revenue from the Government and grants from the Australian Government.

Major capital works completed by DoH in 2020-21 included:

- Ward 4K and additional car parking at the Launceston General Hospital

- Stage 2 of the King Island Hospital Redevelopment
- the new Campbell Town Ambulance Station.

Ongoing capital projects with significant expenditure in 2020-21 included further works at the Launceston General Hospital and the continuation of the Royal Hobart Hospital redevelopment, including works within K-Block and C-Block Refurbishment.

COVID-19 response

In 2020-21, the COVID-19 pandemic continued to affect the operations and activities of DoH, with significant activity in:

- performing a key role in Tasmania's emergency management response, such as increasing the State Emergency Medical Stockpile of personal protective equipment
- supporting COVID-19 testing
- co-ordinating and delivering the COVID-19 vaccines.

DoH recognised $55.62 million in COVID-19 funding from the National Health Funding Pool in 2020-21, compared with $75.41 million in 2019-20.

Funding received in 2019-20 included $32.89 million for Private Hospital Financial Viability Payments (PHFVP), provided for the purpose of supporting private health operators maintain capacity in the broader health system. The PHFVP funding was treated as Administered Revenue in DoH's financial statements as DoH provided payments to operators on behalf of the Australian Government and had no discretion to utilise the funding for any other purpose. During 2020-21, $23.05 million of unspent PHFVP funds were reclassified in lieu of Public Health payments by the National Health Funding Body and recognised as controlled revenue by DoH. This $23.05 million forms part of the total COVID-19 funding from the National Health Funding Pool of $55.62 million recognised in 2020-21.

The funding was used to support DoH's response to COVID-19, including COVID-19 testing clinics and the purchase of additional personal protective equipment to reduce supply risk. This resulted in 30 June 2021 inventory levels being $37.48 million higher than the previous year.

Department of Justice

Financial result

The 2020-21 result for Justice was a net surplus of $40.75 million (2019-20, deficit $6.10 million). Total income was $74.82 million higher than the previous year, with major variances being recurrent and capital appropriations, $51.15 million, and grants, $15.86 million. Expenses increased by $27.97 million, with major variances from the previous year being employee benefits, $8.43 million, and grants and subsidies, $12.92 million.

Revaluation of land and buildings, heritage and library assets

Justice engaged independent valuers in 2020-21 to revalue their land and buildings, including prison buildings and structures, and heritage and library assets. This resulted in a revaluation decrement of $0.26 million recognised for land, a revaluation increment of $111.70 million recognised for buildings and a $1.39 million revaluation increment for heritage and library assets.

Land and buildings had a combined carrying value of $292.44 million at 30 June 2021. Heritage and library assets had a carrying value of $4.59 million.

National Redress Scheme for Institutional Child Sexual Abuse

During 2020-21, Justice expended $15.11 million (2019-20, $14.04 million) in child sexual abuse compensation payments. As at 30 June 2021, Justice disclosed in its financial statements unquantifiable contingent liabilities related to both applications under the redress scheme and civil claims made against various Government agencies relating to child abuse that occurred whilst children were in State care.

Major capital projects in 2020-21

Justice commenced or progressed a number of major capital projects during 2020-21 with expenditure at 30 June 2021 totalling $38.86 million (2019-20, $11.10 million) for buildings and $12.30 million (2019-20, $5.15 million) for intangible (information technology system) assets.

Major building projects and capital expenditure incurred to 30 June 2021 included the Southern Remand Centre, $32.65 million, electronic security system upgrades, $3.60 million and Northern Prison, $1.34 million. Major information technology system projects and capital expenditure incurred to 30 June 2021 included Justice Connect, $8.78 million and the planning and building portal, $1.70 million.

Department of Police, Fire and Emergency Management

Financial result

The Department of Police, Fire and Emergency Management (DPFEM) recorded a net surplus of $1.52 million in 2020-21, an improvement of $6.50 million from the 2019-20 deficit.

Tasmanian Government Radio Network

In 2020-21, DPFEM signed a contract with Telstra Corporation Limited for the Tasmanian Government Radio Network (TasGRN) project at a cost of $624.00 million. The aim of the project is to transition 8 core user organisations from 5 separate networks onto one unified, digital and interoperable Government radio network. The build of TasGRN commenced during 2020-21 with a staged operational transition scheduled to begin in 2022-23. The new network will continue to provide service for at least twelve years after full implementation. TasGRN will be funded by both recurrent and non-recurrent funding from Treasury and contributions from user organisations.

Upgrade of Police Housing Project

The Upgrade of Police Housing Project commenced in the 2013-14 financial year. The Government announced additional funding of $8.70 million in June 2020, as part of the COVID-19 Infrastructure Stimulus Package. This additional funding assisted with the completed upgrades of 11 residences in 2020-21, with a further 8 properties in the process of being renovated or purchased at the end of 2020-21. A further 10 residences will be upgraded through this funding.

Project Unify

Project Unify continued during 2020-21, with its objective to upgrade several ageing ICT systems that support operational policing and external clients.

Phase 1 delivered the new system 'Atlas' in October 2019 which provided police with improved access to criminal intelligence, and a new approach to the management of warrants, missing persons and searches. Additional Government funding of $46.10 million enabled the re-establishment of a project team tasked with expanding the functionality of 'Atlas', as well as enhancing firearms management, and delivering new online services for the Tasmanian community. Work on developing this new technology will be progressed in 2021-22 and the following years.

Department of Premier and Cabinet

Financial result

The Department of Premier and Cabinet (DPAC) recorded a net surplus of $3.40 million in 2020-21 compared to a deficit of $0.46 million in 2019-20.

COVID-19 impacts

The COVID-19 pandemic resulted in DPAC assuming additional responsibilities, which included:

- policy, public information and recovery functions of the State Control Centre
- providing strategic policy advice to the State Controller, Premier, Director of Public Health and Ministerial Committee for Emergency Management
- managing the Government's coronavirus website and COVID-19 Response Unit call centre
- supporting and enabling community led recovery
- secretariat support to the Premier's Economic and Social Recovery Advisory Council (PESRAC).

Appropriation revenue of $6.25 million was received in 2020-21 to fund the COVID-19 Response Unit and approximately $4.80 million of expenditure was recovered from DoH, mainly relating to the operation of the COVID-19 Public Health Hotline.

Department of Primary Industries, Parks, Water and Environment

Financial result

The Department of Primary Industries, Parks, Water and Environment (DPIPWE) recorded a net surplus of $8.95 million in 2020-21 compared to a surplus of $30.93 million in 2019-20. The lower surplus was mainly due to delays and cash flow changes in capital expenditure programs leading to lower capital appropriation revenue and grant income.

Valuation of heritage assets

In 2020-21, DPIPWE recognised $13.13 million of heritage assets that had not previously been recorded. This represented Biosecurity Tasmania's Entomology Collection, which was brought to account as Contributions revenue.

Capital expenditure

DPIPWE incurred capital expenditure totalling $25.47 million in 2020-21. DPIPWE re-profiled cash outflows for a number of capital projects and transferred unspent funding into future years. This included significant projects such as the Cradle Mountain Experience, the Freycinet Tourism Icon Package, and National World Heritage Projects.

Department of State Growth

Financial result

The Department of State Growth (State Growth) recorded a net surplus of $146.11 million in 2020-21 compared to a surplus of $89.06 million in 2019-20. This was primarily due to increased grants of $59.37 million, with most of this being Australian Government grants, and expense recoveries related to the Derwent Entertainment Centre, $22.83 million and COVID-19 response and recovery activities, $16.73 million.

Government Support and Stimulus Package

Direct support to the small business sector in 2020-21 totalled $23.58 million as part of Tasmania's COVID-19 support package including more than 21,000 grants to over 14,000 businesses state-wide.

Total grants and subsidies expenditure in 2020-21 of $353.85 million was comparable to $362.87 million in 2019-20.

Valuation of infrastructure assets

State Growth undertook revaluations of its roads and bridges during 2020-21 by applying relevant indices. This resulted in a revaluation decrement to both roads of $194.48 million and bridges of $14.43 million, with the decrements mainly due to a reduction in the applicable construction index for 2021.

Capital expenditure

In 2020-21, the CIP funded capital improvements to roads of $230.21 million (2019-20, $199.63 million) and capital improvements to bridges of $25.82 million (2019-20, $12.67 million).

Loan advances

Loan advances issued in 2020-21, totalling $138.16 million, increased by $11.94 million on the previous year. Significant loan categories at 30 June 2021 relate to:

- Section 35 loans administered by the Tasmania Development and Resources, $13.78 million
- Agrigrowth Loan Program, $18.72 million
- Agrigrowth Loan Scheme – Young Farmers, $24.39 million

- COVID-19 Interest Free Business Support Loan Scheme, $31.94 million
- Farm Business Concessional Loan Scheme - Dairy Recovery & Drought Assistance, $17.19 million.

Department of Treasury and Finance

Financial result

Treasury recorded a net deficit of $0.88 million in 2020-21, compared to a surplus of $0.83 million in 2019-20.

Administered interest bearing liabilities and superannuation liability

The Finance-General Division is administered by Treasury. It is responsible for administering whole-of-government activities, including debt held on behalf of the Government. This debt takes the form of loan facilities provided by Tasmanian Public Finance Corporation (TASCORP) and the Government's pension responsibilities and other superannuation commitments.

Loans from TASCORP increased by $951.69 million during 2020-21, to a total of $1.69 billion at 30 June 2021. The higher level of borrowing was to increase the Government's cash holdings to support expenditure in the GGS and to ensure Specific Purpose Accounts and Agency Trust Accounts were cash backed.

The administered superannuation liability decreased by $1.20 billion from $10.27 billion at 30 June 2020 to $9.07 billion at 30 June 2021. The decrease is primarily due to an increase in the discount rate used in calculating the liability from 1.6 percent in 2019-20 to 2.2 percent in 2020-21. There is an inverse relationship between the discount rate and the superannuation liability.

The superannuation liability is discussed further below in this chapter.

State Fire Commission

Financial result

The State Fire Commission (SFC) recorded a net surplus of $6.06 million compared to a deficit of $8.03 million in 2019-20. The most significant contribution to the improved result was a $20.76 million reduction in bushfire fighting expenses.

Bushfire fighting contributions

Bushfire fighting revenue contributions and related expenditure have reduced significantly over the past few years, in line with a reduction in bushfire activity in Tasmania. Bushfire fighting contributions for 2020-21 were $8.72 million, significantly lower than those received in 2019-20 and 2018-19, which were $28.95 million and $57.21 million, respectively.

Review of the *Fire Service Act 1979*

On 24 April 2017, Cabinet approved the Terms of Reference for the Review of the *Fire Service Act 1979*. The review final report was provided to Government for consideration on 28 October 2020. The report included 45 recommendations for reform and builds on the recommendations from the House of Assembly Standing Committee on Community Development's *Inquiry into the State Fire Commission*.

The review report also made 16 financial management recommendations. In response, Treasury, as part of the consultation process, released *Options Paper: Fire Service Funding Arrangements* to facilitate consultation on potential funding models for the SFC and State Emergency Service.

TasTAFE

Financial result

TasTAFE recorded a net surplus of $0.25 million in 2020-21 compared to a deficit of $5.29 million in the previous year. The improved result was mainly due to an increase in sales of goods and services arising from Tasmanian and Australian Government contracts, including JobTrainer funding of $4.57 million received to assist in delivering free or low-fee courses to address areas of skills shortages in the community.

TasTAFE restructure

On 16 March 2021, the Premier announced TasTAFE would be transformed to provide it with:

- greater operational flexibility to ensure training meets the expectations of industry
- more autonomy and workforce flexibility to continuously align its training offering with evolving workforce needs
- financial capacity and flexibility to invest in and manage infrastructure best suited to deliver contemporary training.

TasTAFE transition for a better training future was released on 24 August 2021 and outlined the Government's commitment to reforming TasTAFE. Draft legislation was released on 30 September 2021, which outlined the proposed business model for TasTAFE, with a transition date of 1 July 2022.

Facilities staff

In July 2020, facilities staff previously employed by DoE were transferred to TasTAFE. TasTAFE were funding the cost of salaries of facilities staff under a service level agreement with DoE, although TasTAFE did not recognise the associated liabilities for employee entitlements. As at 30 June 2021, TasTAFE recognised annual and long service leave liabilities of $1.05 million in respect of these employees.

Tourism Tasmania

Financial result

In 2020-21, Tourism Tasmania recorded a deficit of $0.69 million compared to a deficit of $0.16 million in 2019-20. The decrease was primarily due an increase in advertising and promotion costs of $10.53 million offset by an increase in operating appropriation revenue of $8.48 million.

COVID-19 impacts

In 2020-21, Tourism Tasmania targeted both intrastate and interstate markets and entry into New Zealand, increasing its advertising and promotion expenditure to $24.77 million, compared to $14.24 million in 2019-20 (which was impacted by COVID-19).

Legislature-General

Internal control environment

Following the discovery of incorrect hourly rates paid to some Legislature-General casual employees, the Clerk of the House of Assembly and Clerk of the Legislative Council commissioned an internal review of financial system processes in Legislature-General. In parallel with this review, an internal audit review of the governance structure across the House of Assembly, Legislative Council and Legislature-General was also commissioned.

The internal review identified a number of accounting anomalies or shortcomings within Legislature-General, involving:

- payroll processing, and specifically overtime entitlements, salary progression and employee entitlements
- infrequent financial reconciliations and shortcomings in the retention of documentation
- superannuation payments and Pay As You Go withholding income tax payments not made by prescribed dates.

The internal audit review examined the governance, structures and processes that supported a number of business functions across the House of Assembly, Legislative Council and Legislature-General. The internal audit review identified significant internal control environment deficiencies, most notably in Legislature-General, in payroll, payments and revenue and receivables functions, and identified a number of recommendations to address the internal control deficiencies, including an overall improvement plan. All recommendations for improvement were agreed to, including the priority of implementation.

General Government Sector entity financial results

Details of GGS entity results for 2020-21 are set out in Table 2. The financial information represents consolidated financial information for those entities with controlled entities. The financial information below excludes GGS entities not subject to audit.

Table 2: GGS entity financial results for 2020-21

Audited State entities[1, 2]	Underlying surplus (deficit) $'000s	Net surplus (deficit) $'000s	Total comprehensive surplus (deficit) $'000s
House of Assembly*	142	142	174
Legislative Council*	5	5	5
Office of the Governor*	(368)	(229)	1,559
DoE*	(63,477)	(3,205)	232,257
DoH*	(28,251)	40,378	78,123
Communities Tasmania*	(45,797)	(821)	131,203
State Growth*	310	146,113	(42,057)
Justice*	10,570	40,751	153,583
DPFEM*	(10,395)	1,520	12,347
DPAC*	3,158	3,408	3,398
DPIPWE*	(23,522)	8,949	94,273
Treasury*	(879)	(879)	(879)
Abt Railway Ministerial Corporation (State Growth)	1,006	1,006	1,006
Ambulance Tasmania (DoH)	2,135	5,084	16,347
Council of Law Reporting (Justice)	(1)	(1)	(1)
Housing Tasmania (Communities Tasmania)	(52,050)	(9,457)	121,213
Office of Tasmanian Assessment, Standards and Certification (DoE)	(76)	(76)	(76)
Tasmanian Development and Resources (State Growth)	75	75	75
Tasmanian Museum and Art Gallery (State Growth)	1,505	2,134	22,443

Audited State entities[1, 2]	Underlying surplus (deficit) $'000s	Net surplus (deficit) $'000s	Total comprehensive surplus (deficit) $'000s
Tasmanian Health Service (DoH)	(56,245)	(28,049)	(1,663)
Asbestos Compensation Fund	0	0	0
Brand Tasmania*	432	432	432
Inland Fisheries Service*	241	241	241
Integrity Commission*	119	119	119
Marine and Safety Authority*	1,829	2,179	2,549
Office of the Director of Public Prosecutions*	657	657	657
Office of the Ombudsman*	167	167	167
Royal Tasmanian Botanical Gardens*	(75)	3,925	4,714
SFC*	6,055	6,055	12,366
Tasmanian Economic Regulator	(156)	(156)	(156)
TasTAFE*	(9,346)	255	68,286
Tourism Tasmania*	(693)	(693)	(693)
Workcover Tasmania Board	0	0	0

* Entity consolidated into the GGS financial statements

Note 1: Controlling entity identified in parentheses. Controlled entities are consolidated into the controlling department's financial statements. These entities are created through legislation and are State entities under the Audit Act. As a result, separate financial statements are submitted and subject to audit.

Note 2: The following entities were not included in this table as the audit of their financial statements had not been finalised as at 9 November 2021:

- Legislature-General
- Tasmanian Affordable Housing Limited
- Teachers Registration Board

Treasurer's Annual Financial Report

Legislative requirements

Section 40 of *Financial Management Act 2016* (FMA) requires the Treasurer to prepare an annual financial report containing:

- the original estimates disclosed in the Budget Papers in respect of the major GGS statements
- the results in respect of the major GGS statements
- the results in respect of the major Public Account Statements disclosed in the Budget Papers
- the balances of Specific Purpose Accounts at the end of that financial year
- an assessment of the Government's fiscal performance against its current fiscal strategy statement, within the meaning of the *Charter of Budget Responsibility Act 2007*
- the Auditor-General's report on the GGS financial statements, Public Account Statements and balances of Specific Purpose Accounts.

The Treasurer is required to table the annual financial report in both Houses of Parliament by no later than 31 October immediately following the financial year to which the report relates.

TSS financial statements are also prepared to ensure compliance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

Financial reporting framework

The GGS and TSS financial statements are prepared in accordance with AASB 1049. They incorporate the reporting requirements of the Australian Accounting Standards Board and the Uniform Presentation Framework, which is based on the reporting standards of the Australian Bureau of Statistics' Government Finance Statistics (GFS) framework. Explanations of the Uniform Presentation Framework Key Fiscal Aggregates are provided in notes to the GGS and TSS financial statements and are not reproduced in this report.

The Public Account Statements are a specific purpose financial report prepared on a cash accounting basis incorporating GGS receipts and expenditure that do not form part of a Specific Purpose Account or an Agency Trust Account and any Specific Purpose Accounts established under the FMA. Explanations for applying this basis for preparing the Public Account Statements are provided in the notes to the Public Account Statements and are not reproduced here.

The Public Account includes various Specific Purpose Accounts established by the Treasurer. The majority of these accounts are represented in Agency Financial Management Accounts, into which funds appropriated from the Public Account by the annual Appropriation Act are deposited. In addition, operating accounts can retain funds that are approved by the Treasurer.

Other accounts in the Public Account included whole-of-government, business unit accounts and accounts established under legislation. Accounts of a true trust nature do not form part of the Public Account.

General Government Sector and Total State Sector financial analysis

The following sections contain analysis and commentary on the GGS and TSS financial statements and the Public Account Statements. Comments should be read alongside TAFR. The major focus of this section is to compare 2020-21 results with the outcomes of 2019-20, and analyse trends over the past 4 years or a longer period, where relevant.

To be consistent with TAFR, figures in this section are shown as whole dollars for millions, with billions reflected with 2 decimal places. Dollar amounts presented in tables, commentary and figures have been rounded. This report uses terms which may differ from the terminology adopted by TAFR.

Underlying Net Operating Balance

As discussed in TAFR, the receipt of Australian Government funding for capital programs, particularly one-off major projects, has the effect of improving the Net Operating Balance outcome. Given the nature of the Net Operating Balance measure, it reflects the receipt of revenue from the Australian Government for infrastructure purposes, but does not factor in the expenditure of these funds on infrastructure projects.

The Underlying Net Operating Balance removes the impact of one-off Australian Government funding for specific capital projects by excluding this funding from the Net Operating Balance.

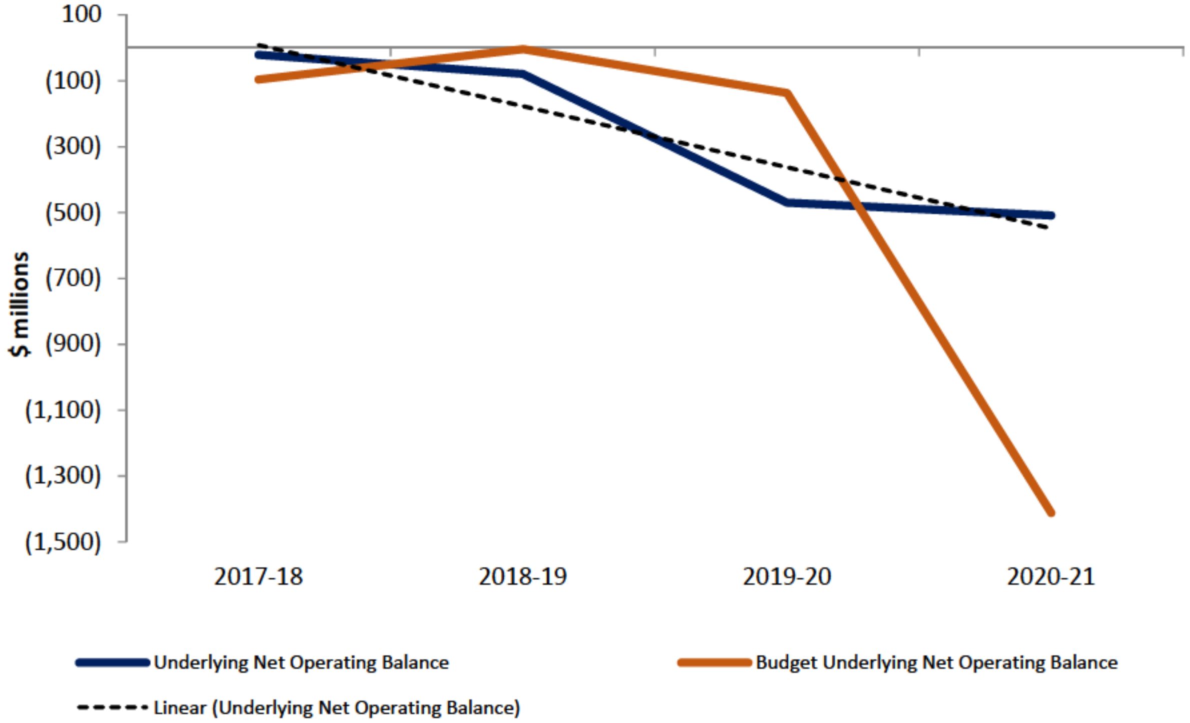
General Government Sector

($21m)	($79m)	($470m)	($509m)
2017-18	2018-19	2019-20	2020-21
▲ 68%	▼ 276%	▼ 495%	▼ 8%

▲ Improvement from prior year ▼ Deterioration from prior year ● No material change from prior year.

Figure 2 provides an overview of results for the 4 years. It shows a deficit GGS Underlying Net Operating Balance in each of the 4 years, with movements fluctuating between years.

Figure 2: GGS Underlying Net Operating Balance (4-year trend)



The GGS Underlying Net Operating Balance was a deficit of $509 million for 2020-21, a small deterioration of $39 million from the deficit of $470 million reported last year.

This year's actual Underlying Net Operating deficit was lower than the budgeted Underlying Net Operating deficit of $1.41 billion, principally because the State was not impacted by the COVID-19 pandemic as much as expected in 2020-21.

Actual revenue (including capital grants) was $471 million higher than budgeted revenue due to a $233 million increase in funding from the Australian Government in both General purpose and National partnership payments, as well as $162 million in higher taxation revenue derived from conveyance duty, land tax and payroll tax. Additionally, actual expenses were $303 million lower than budgeted due to less supplies and consumables being required for the COVID-19 response than were anticipated.

Total State Sector

\$94m	**(\$91m)**	**(\$704m)**	**(\$302m)**
2017-18	**2018-19**	**2019-20**	**2020-21**
▲ **168%**	▼ **197%**	▼ **(674%)**	▲ **57%**

The basis of calculation for TSS Underlying Net Operating Balance incorporates the underlying results for Government businesses. The TSS Underlying Net Operating Balance was a deficit of \$302 million in 2020-21, an improvement of \$402 million from the deficit of \$704 million reported last year. The result reflects and improvement in the underlying result of Government businesses, partly offset by an increase in the GGS underlying deficit. Details of underlying results generated by each Government business can be found in the Government businesses chapter of this report.

Figure 3 provides an overview of underlying results for the past 4 years. It shows that although the TSS Underlying Net Operating Balance improved in 2020-21, the trend over the past 4 years is in a negative direction, consistent with the GGS trend.

Figure 3: TSS Underlying Net Operating Balance (4-year trend)

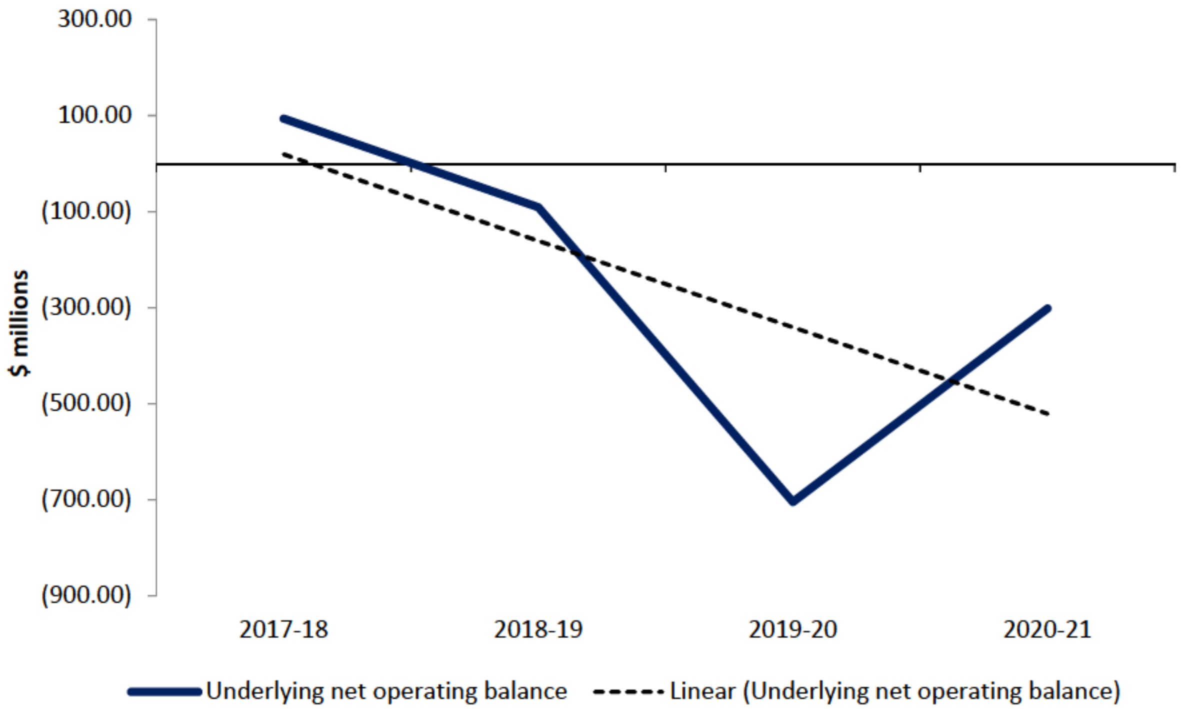
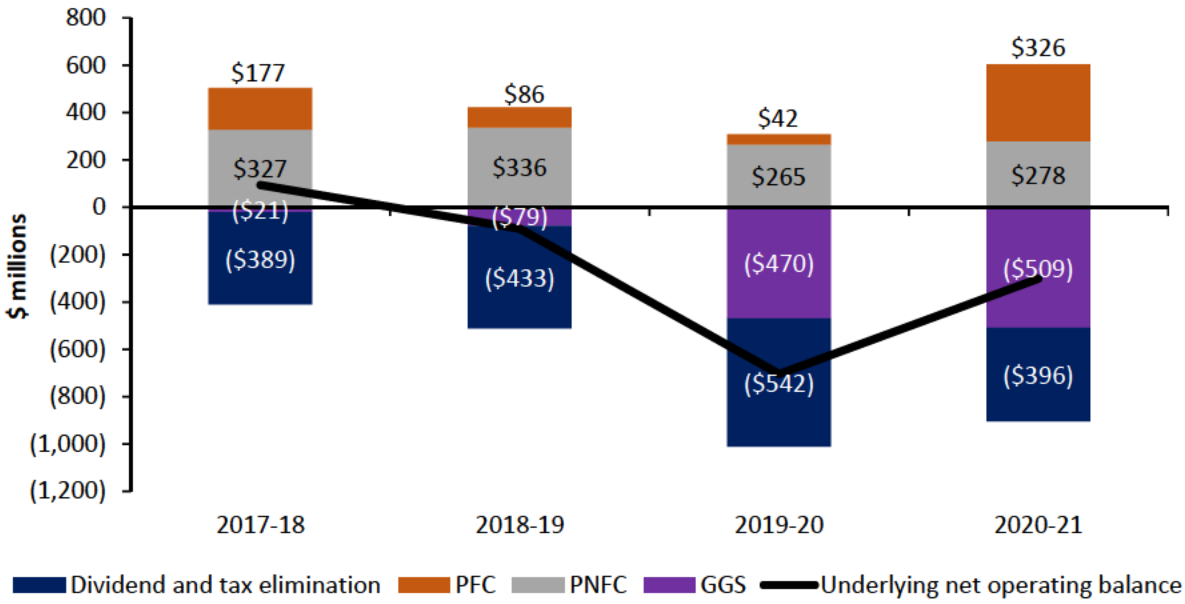


Figure 4 shows the TSS Underlying Net Operating Balance, disaggregated into GGS, PFC and PNFC sectors and inter-sector eliminations.

Figure 4: Disaggregated TSS Underlying Net Operating Balance



The 4 year comparison of Underlying Net Operating Balance shows:

- GGS recorded deficits in every year, increasing from $21 million to $509 million
- the PNFC sector surplus was fairly consistent over the past 4 years
- the PFC sector surplus of $326 million for 2020-21 halted the declining outcome over the prior 3 years.

The dividend and tax elimination adjustment is to remove the effect of dividends and income tax paid by PFC and PNFC to Treasury from the TSS underlying net operating balance.

Revenue

General Government Sector

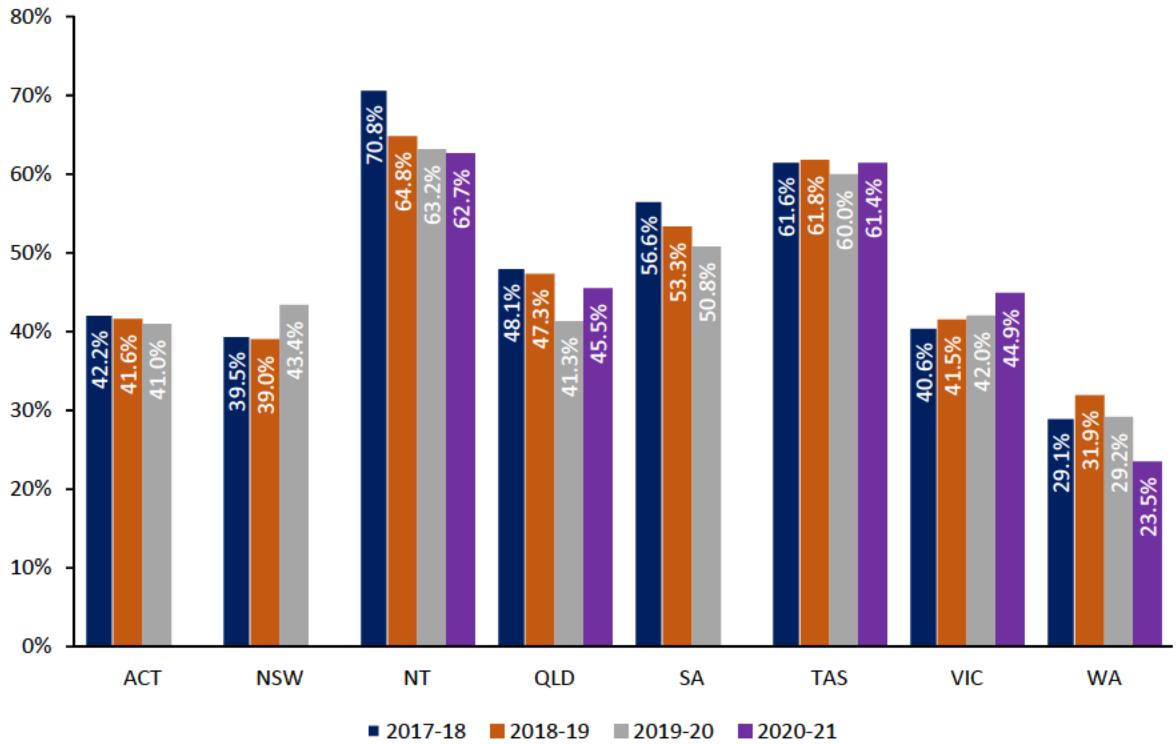
$4.13bn	**$1.38bn**	**$0.55bn**	**$0.40bn**
Australian Government grants (exc. Capital grants)	State Taxation	Sales of Goods & Service Fees and Fines	Dividends and Income Tax Equivalents

GGS revenue, excluding one-off Australian Government capital funding, totalled $6.73 billion in 2020-21, higher than the prior year's revenue of $6.28 billion. The increase was mainly due to additional grant funding received from the Australian Government to assist in responding to the effects of the COVID-19 pandemic.

Similar to previous years, grant funding from the Australian Government represented the majority of GGS revenue, totalling 61.5 percent of operating revenue in 2020-21 (2019-20, 60.0 percent).

Figure 5 is a comparison of the level of reliance on Australian Government grant funding as a percentage of total GGS revenue across states and territories.

Figure 5: State by State Comparison of Grants received as a proportion of total GGS revenue



Note: Information obtained from publically available equivalents of TAFR for other states. Some 2020-21 information was not available as at the time of preparing this report.

Compared to the other states, Tasmania recorded the second highest average proportion of Australian Government grants to total GGS revenue with an average of 61.2 percent over the last 4 years. Only the Northern Territory was higher with an average of 65.2 percent over the same period.

Total State Sector

$4.11bn	$1.34bn	$3.80bn	$0.46bn
Australian Government grants (exc. Capital grants)	State Taxation	Sales of Goods & Service Fees and Fines	Total Other Revenue

TSS revenue, excluding one-off Australian Government capital funding, totalled $9.71 billion in 2020-21. This was an increase of $265.00 million or 2.8 percent from the previous year.

An analysis of revenue within the PNFC and PFC sectors is included within the Government businesses chapter of this report.

Capital investment

General Government Sector

Ongoing investment in infrastructure and other capital projects is essential to the delivery of services to the community whether it be roads, hospitals, schools, housing, health centres or many other forms of essential public infrastructure. Over the 2020-21 Budget and Forward Estimates period, the Government allocated $3.90 billion to community infrastructure investment.

As detailed in 2020-21 Budget Paper 1, major infrastructure expenditure planned over this period included:

- roads and bridges, $2.40 billion
- hospitals and health, $369.60 million
- human services and housing, $296.80 million
- law and order, $275.40 million
- schools, education and skills, $218.10 million
- tourism, recreation and culture, $198.10 million.

Table 3 shows the budgeted spend by each department in 2020-21 and 2019-20 against their actual expenditure on non-financial assets.

Table 3: Budget and actual cash payments for capital expenditure[1]

	2020-21				4 year average
	2020-21 Budget	2020-21 Actual	Spending (shortfall)/ excess	Spending (shortfall)/ excess	Spending (shortfall) / excess
Audited State entities	$'000s	$'000s	$'000s	%	%
DoE	64,619	60,969	(3,650)	(5.7)	(11.6)
DoH	229,685	97,502	(132,183)	(57.6)	(35.2)
Communities Tasmania[2]	116,575	49,798	(66,777)	(57.3)	(43.1)
Justice	57,800	42,426	(15,374)	(26.6)	(9.0)
DPFEM	41,652	10,771	(30,881)	(74.1)	(22.3)
DPAC	449	1,110	661	147.2	237.1
DPIPWE	86,485	27,515	(58,970)	(68.2)	(44.6)
State Growth	410,019	282,782	(127,237)	(31.0)	(26.7)

	2020-21				4 year average
Audited State entities	2020-21 Budget $'000s	2020-21 Actual $'000s	Spending (shortfall)/ excess $'000s	Spending (shortfall)/ excess %	Spending (shortfall) / excess %
Treasury	1,347	828	(519)	(38.5)	(44.6)
Total	**1,008,631**	**573,701**	**(434,930)**	**(43.1)**	**(30.6)**

Note

1. Budget and actual figures represent payments for acquisition of non-financial assets as disclosed in Statement of Cash Flows in department financial statements.
2. The spending shortfall for Communities Tasmania is explained in the commentary below.

In 2020-21, departments spent 56.9 percent of their budgeted capital expenditure, with DoH, DPIPWE and State Growth all carrying significant planned expenditure into 2021-22.

Whilst each project will have specific reasons for not proceeding as planned in 2020-21, there are common reasons across the departments driving their 'gap':

- a shortage of materials and capacity in the building and construction sector to complete projects, arising from various building and construction programs happening across Australia to stimulate the post-pandemic recovery
- delays on projects arising from the 2019-20 pandemic lockdowns, with an impact on the timelines in 2020-21 and beyond
- projects with funds allocated in 2020-21 are still in the planning phase, with the main expenditure to be undertaken in future years.

In the case of Communities Tasmania, a significant proportion of the capital budget of $116.58 million was delivered under social housing programs in partnership with community organisations. This was recognised in the financial statements as grant payments of $34.05 million to Non-Government Organisations. In addition, Communities Tasmania classified $22.83 million expended on the upgrade of the Derwent Entertainment Centre as grant expenditure, as this asset is recognised by State Growth and not Communities Tasmania.

Notwithstanding the capital expenditure gap effect attributed to COVID-19, many departments have consistently under-delivered their capital budgets over the past 3 years, as shown in Figures 6 and 7.

Figure 6: Department budgeted and actual capital expenditure 2017-18 to 2020-21

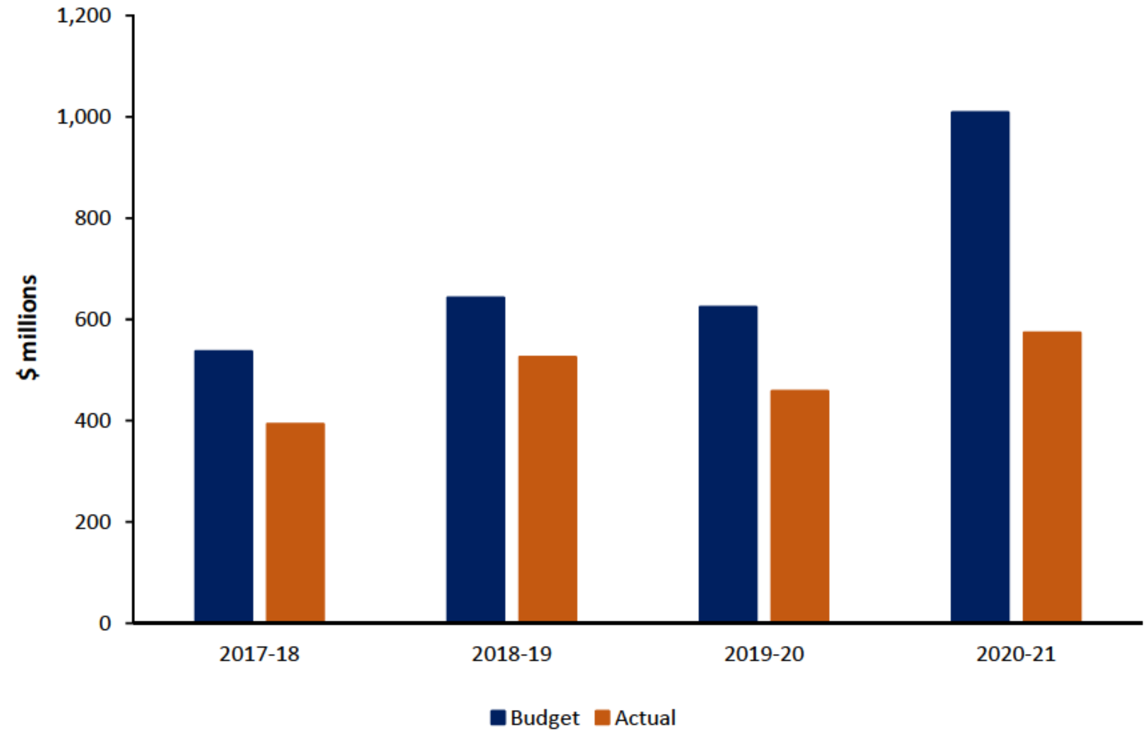
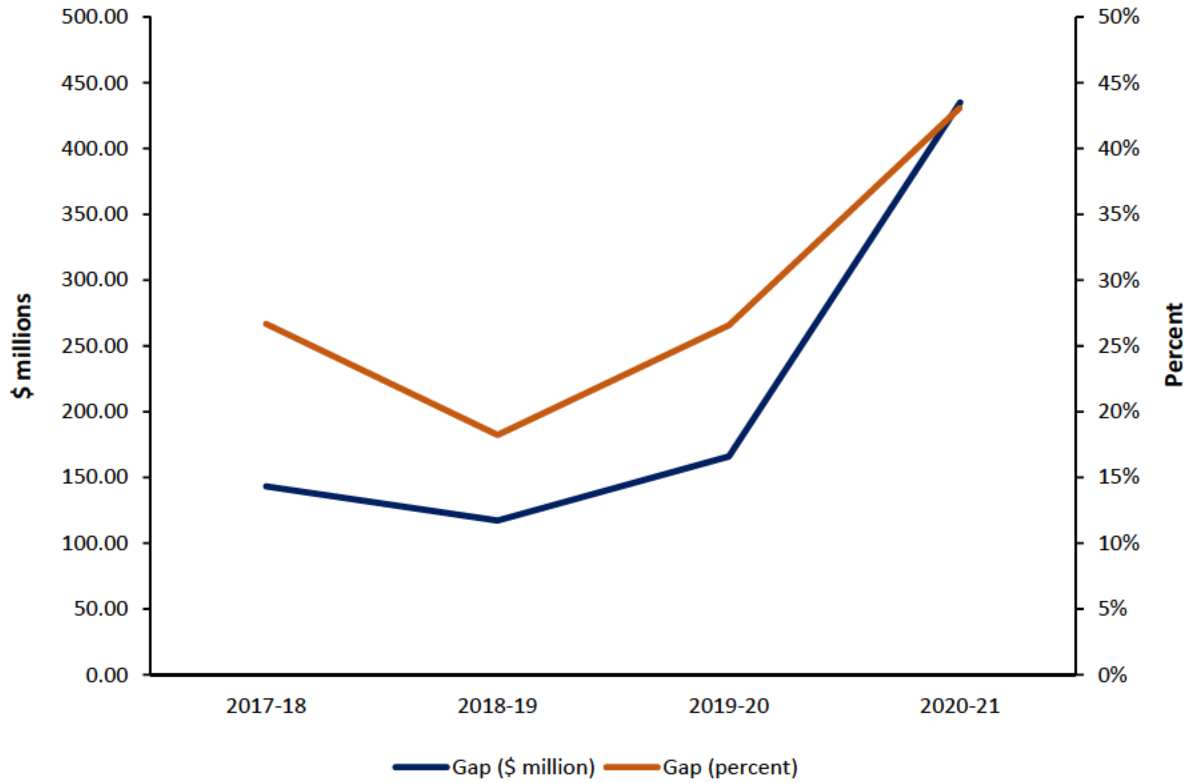


Figure 7: Capital expenditure gap 2017-18 to 2020-21



Equity contributions

In 2020-21, the Government invested $135 million in PNFC entities through equity contributions. These contributions enabled the State to provide additional funding to an entity to, either, increase their asset base through capital expenditure, or to reduce their debt. These payments included:

- $63.15 million to TasRail
- $13.70 million to Tasmanian Irrigation (TI)
- $10.02 million to Port Arthur Historic Site Management Authority (PAHSMA).

AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* requires any transfer of future economic benefits, such as cash or other assets, to a wholly-owned public sector entity to be treated as part of the entity's equity where the Government formally designates the transfer to be equity before the transfer occurs or at the time of transfer.

Whilst formal designation clarifies the intent of the Government in making equity contributions, it does not limit the type of contributions which may be designated as equity. For example, a contribution, the character of which represents a grant or operational support, is treated as an equity contribution upon formal designation as such.

Where such contributions, reflecting grants or operational support, are designated as equity contributions they are not included in GGS expenses from transactions, which leads to a potential overstatement of GGS Net Operating Balance.

To prevent this from occurring, the Treasurer has issued Treasurer's Instruction FC-16 *Contributions to Government Business* (FC-16). FC-16 requires that:

- a contribution can only be classified as equity if it gives rise to a financial interest in the net assets of the entity, which entitles the State to a future economic distribution of the benefits of the entity, or
- the contribution can be sold, transferred or redeemed.

If the transaction does not meet this criteria, then it should be recognised as grant funding.

Notwithstanding the requirements specified in FC-16, there may be instances where the transferee, such as a GBE, does not issue equity instruments or is not a party to a formal agreement establishing a financial interest in the net assets. In such cases, the designation as equity by the Government is the determining factor for classification of the transfer as an equity contribution.

The ultimate determination of whether a contribution is equity or grant funding rests with the Government.

Net worth and net debt

General Government Sector		Total State Sector	
$10.49bn	**$0.52bn**	**$10.49bn**	**$0.15bn**
Net worth	GFS Net debt	Net worth	GFS Net debt

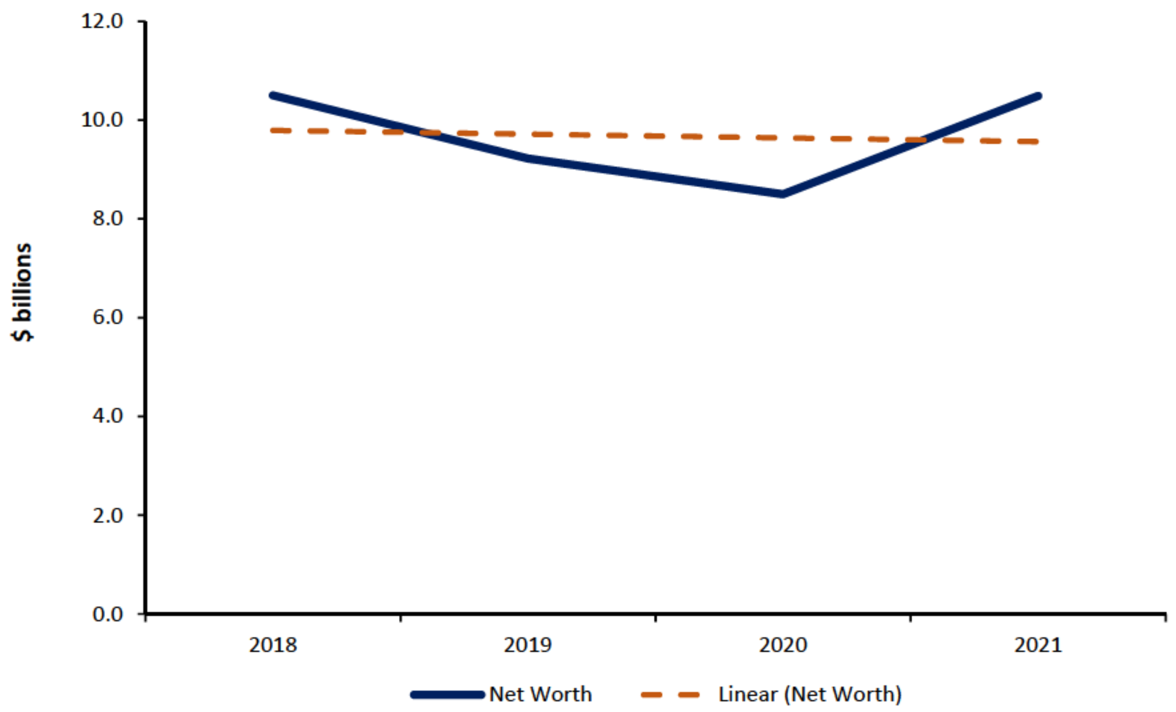
Net worth

GGS Net worth, also referred to as net assets, increased by $2.00 billion to $10.49 billion at 30 June 2021. Net worth includes certain financial assets and liabilities not captured by the Net debt measure, most notably, accrued employee superannuation liabilities, ownership of equities, debtors and creditors.

Figure 8 shows GGS Net worth maintained a slight downward trend over the 4 year period notwithstanding the increase in GGS Net worth in 2020-21. Major contributors to the increase in GGS Net worth in 2020-21 were:

- an increase of $531 million in the value of investments in PNFC and PFC sectors, partly due to equity contributions made by the Government during 2020-21
- a $537 million increase in the value of land and buildings, primarily due to capital improvements and revaluations within GGS entities
- a decrease in the superannuation liability of $1.22 billion, which is discussed in more detail later in this chapter.

Figure 8: Net worth (4-year trend)



Equity investments are included in GGS Net worth, however PNFC and PFC equity investments are removed and replaced with the assets and liabilities of the PNFC and PFC entities in arriving at TSS Net worth. As the PNFC and PFC entities are recognised at a fair value equivalent to their net asset value in GGS financial statements, Net worth is the same for GGS and TSS.

Net debt and Government Finance Statistics Net debt

Net debt is a measure used to help assess the overall strength of a government's fiscal position. For 2020-21, net debt comprised borrowings plus lease liabilities less cash, deposits and investments. The reference to negative net debt means cash, deposits and investments exceeded borrowings and lease liabilities.

GFS net debt is also a measure of net debt, calculated using the GFS reporting framework, which excludes the impact of leases liabilities. GFS net debt comprised borrowings less the sum of cash and deposits and investments. Prior to the introduction of AASB 16 *Leases* in 2019-20, there was no difference between net debt and GFS net debt.

Figure 9 shows GGS had a positive GFS net debt position for the first time in 4 years because borrowings exceeded cash, deposits and investments at 30 June 2021. In prior years, cash and investments held by the State at 30 June exceeded borrowings. This reflects the additional funding the Government sourced to support expenditure in the GGS and to ensure Specific Purpose Accounts and Agency Trust Accounts were cash backed.

GGS GFS net debt was positive $142 million at 30 June 2021, which was better than budgeted GGS GFS net debt of positive $1.43 billion. Although GGS GFS net debt at 30 June 2021 was better than budgeted, it represented a deterioration of $673 million from the prior year.

Figure 9: GGS net debt and GGS GFS net debt

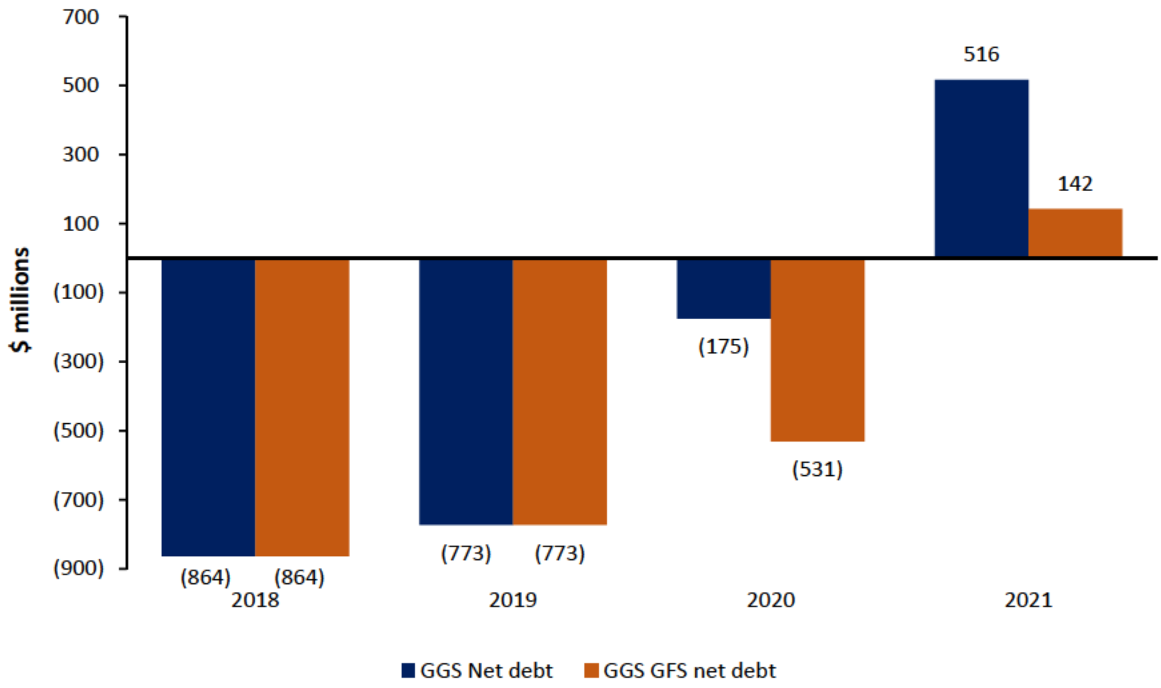
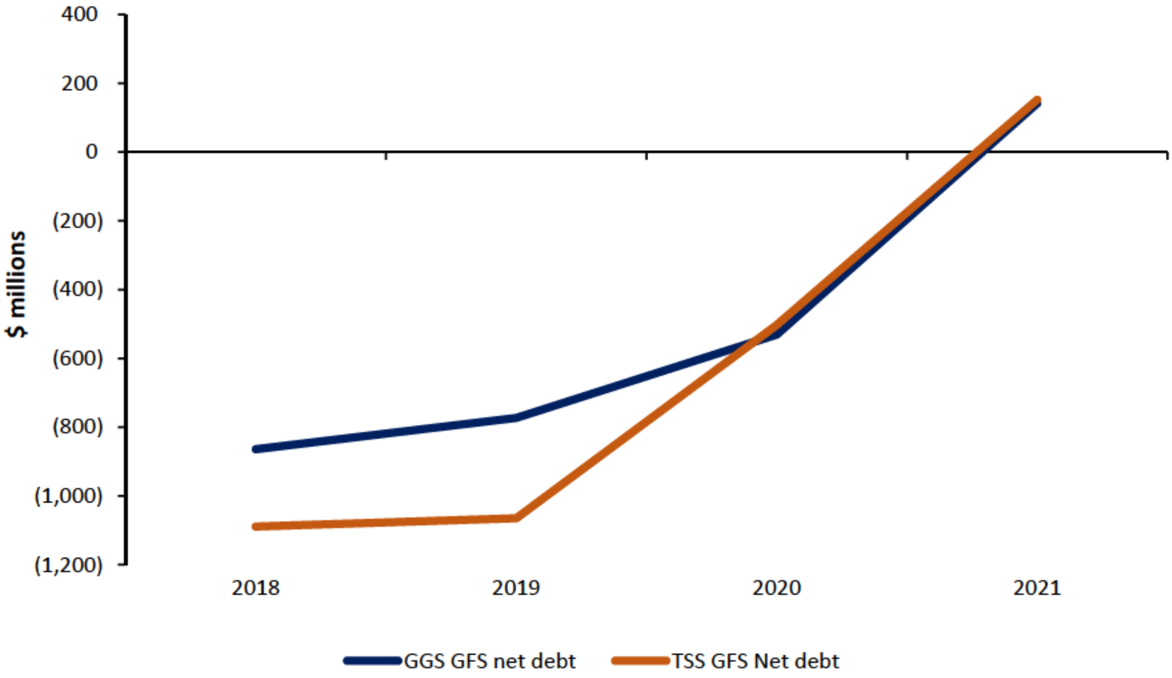


Figure 9 shows GGS net debt was a positive $516.00 million as at 30 June 2021, meaning the State held more borrowings and lease liabilities than cash and investments at that date. This represents a deterioration of $691.00 million from 30 June 2020, for the reasons outlined above.

Figure 10 provides a comparison of GGS GFS net debt to TSS GFS net debt for the past 4 years.

Figure 10: GFS net debt (4-year trend)



The TSS GFS net debt deteriorated by $655.00 million to a positive net debt of $152.00 million. This means the State held more borrowings at 30 June 2021 than cash, deposits and investments. This was due to borrowings increasing by $2.24 billion whilst cash and investments increased by $1.59 billion.

Defined benefit superannuation liability

Superannuation Commission

The Superannuation Commission (Commission) is responsible for the management of the funded assets of the Retirements Benefits Fund (RBF) Defined Benefit Contributory Scheme, the Tasmanian Ambulance Service Superannuation Scheme (TASSS), the State Fire Service Superannuation Scheme and the Parliamentary Superannuation Fund (PSF). All of the defined benefit funds are closed to new members. The Commission has no responsibility for the Judges Contributory Pensions or the Housing Tasmania superannuation liability.

The Commission is supported by the Office of the Superannuation Commission (OSC) which is a branch of Treasury. The operating costs of the OSC and the Commission in administering the 5 public sector defined benefits schemes are funded directly by appropriation, rather than through operating expenses charged directly against scheme assets. The OSC is disclosed as an output group of Treasury.

Defined benefit superannuation liability

The Government is ultimately responsible for meeting obligations of the schemes. Superannuation payments are met on an emerging cost basis from the Public Account, funded partly by agency contributions and by a Reserved-by-Law contribution, which comprises the balance of the Government's share of pension and lump sum benefit costs.

At 30 June 2021, the GGS unfunded defined benefit liability was $9.06 billion (30 June 2020, $10.28 billion). The unfunded superannuation liability comprised the following defined benefit schemes and arrangements:

- RBF Defined Benefit Contributory Scheme – $9.02 billion (30 June 2020, $10.21 billion)
- PSF Schemes – $14 million (30 June 2020, $18 million)
- Judges Contributory Pensions – $32 million (30 June 2020, $36 million)
- TASSS – $4 million asset (30 June 2020, liability $6 million), recognised in the financial statements of DoH
- Housing Tasmania – $7 million (30 June 2020, $8 million), recognised in the financial statements of Communities Tasmania.

The decreased net liability of $1.22 billion in 2020-21 reflects the most recent actuarial assessment of the liability, completed by an independent third party on behalf of Treasury. This assessment took into account changes in the assumptions used to value the defined benefit obligation, including the discount rate. There is a strong inverse relationship between the discount rate and the valuation of the superannuation liability, which means that the liability increases when the discount rate falls and vice versa. For the valuation at 30 June 2021, the discount rate for the RBF fund scheme was 2.25 percent (30 June 2020, 1.6 percent).

Figure 11 shows movements in the unfunded liability, being the difference between the present value of the defined benefit obligation and fair value of plan assets.

Figure 11: GGS Unfunded Superannuation Liability (7 year trend)

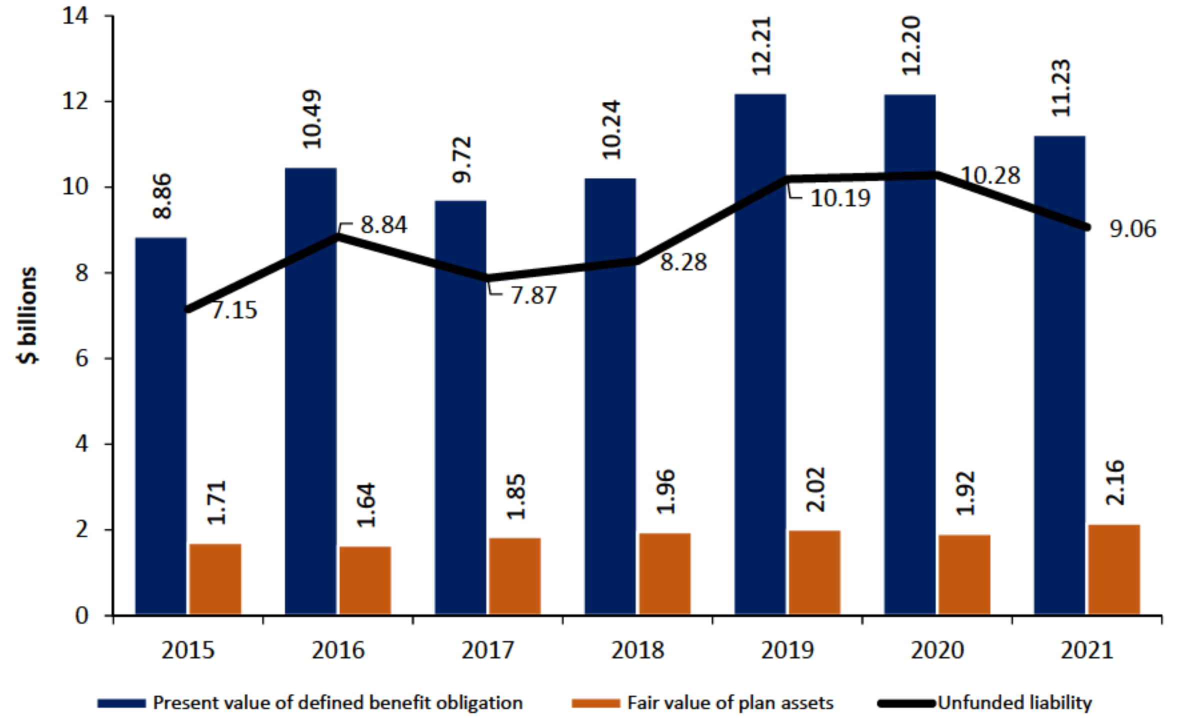


Figure 12 illustrates the expected nominal (un-discounted) cash outflows required to meet the emerging cost of superannuation benefits payable to members, as estimated at 30 June 2021. The estimated cash outflows represent the total cost of benefits payable and do not take into account the share of benefits funded from scheme assets.

Figure 12: GGS Undiscounted Defined Benefit Superannuation Cash Outflows (2020-2070)

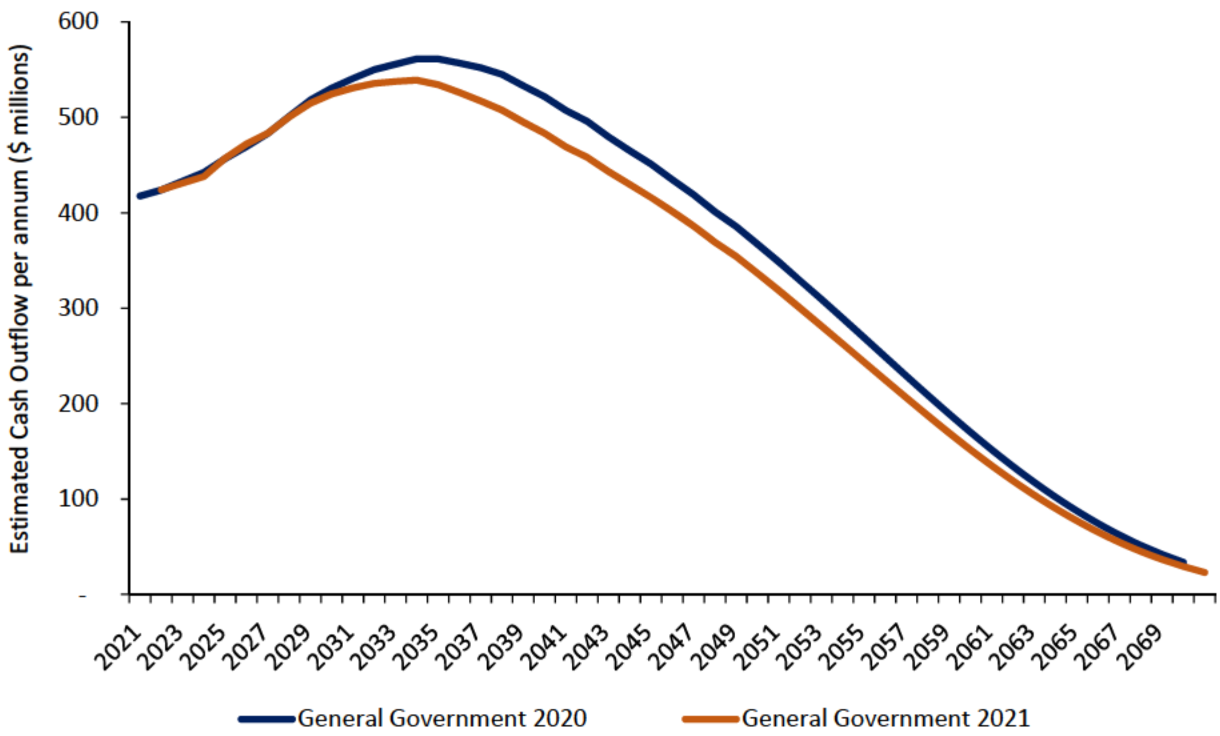


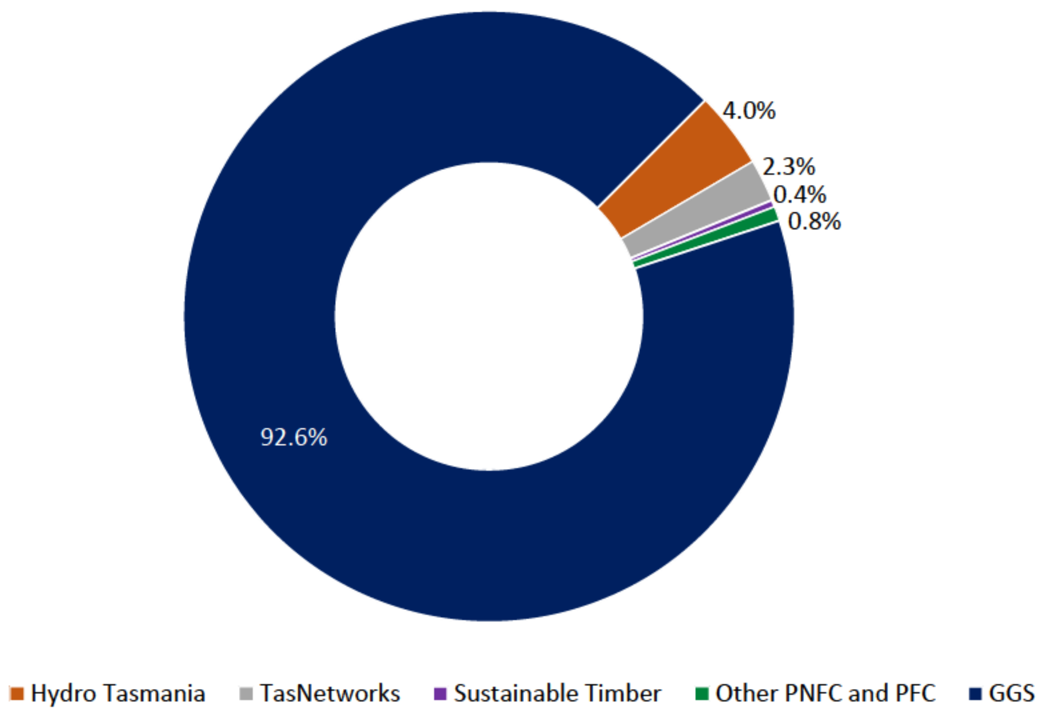
Figure 12 shows cash required to meet defined benefit pensions and lump sum payments will peak in approximately 13 years from now at around $539 million per annum. A key budget risk is the cost to the Budget will increase significantly in coming years, increasing by 27.0 percent over the next 13 years and peaking in 2031-35.

There was a reduction in the estimated cash outflows required to meet the superannuation liability from 2020 to 2021, primarily due to changes in:

- actuarial assumptions in regard to the pension benefit and lump sum payments
- financial assumptions (discount, pension, asset return and salary increase rates)
- demographic assumptions (mortality, turnover, disability and portion of dependants).

Discussion in this chapter focused on the GGS superannuation liability only, as this made up the vast majority of the superannuation liability as illustrated in Figure 13.

Figure 13: TTS Net Defined Benefit Superannuation Liabilities



Public Account Statements

When reviewing the commentary below, it should be noted that the Public Account Statements are reported on a cash basis meaning there is no distinction between receipts or payments of a capital or operating nature and borrowings received or paid.

The cash held in the Public Account totalled $1.44 billion at 30 June 2021, an increase of $0.25 billion, or 19.0 percent, on the balance at 30 June 2020.

The 30 June 2021 balance consisted of:

- the Australian Government Funding Management Account of $0.24 billion, which also included National Partnership Payments from the Australian Government
- other Specific Purpose Accounts of $1.20 billion, being agency financial management accounts.

Public Account receipts were $8.25 billion, $0.81 billion above budget. This was primarily due to $150 million in higher receipts from agency Specific Purpose Accounts, and $398 million higher receipts from other Australian Government Sources, predominately GST revenue.

Public Account expenditure was $9.10 billion, $0.75 billion lower than budget, reflecting a decrease in both operating and capital services expenditure against budget.

Trust accounts sit outside of the Public Account, and are agency cash accounts, such as the Rental Deposit Authority Account. The State held $156 million in trust accounts at 30 June 2021 (2019-20, $150 million).

Government businesses

Introduction

This Chapter summarises financial results for the 16 Government businesses subject to audit. Analysis in this chapter has been performed using the consolidated financial results of those Government businesses with subsidiary companies.

Government business developments

This section summarises significant developments that affected the operations of Government businesses, as identified during the course of the audits.

COVID-19

Throughout 2020-21, COVID-19 continued to impact on each Government businesses, to varying degrees. These are discussed in more detailed below, where they had a material impact.

PESRAC was set up in 2020 to provide advice to the Premier on strategies and initiatives to support the short to medium, and the longer term recovery from COVID-19. On 20 July 2020, PESRAC released its interim report with 64 recommendations for consideration, which the Government endorsed. One of these recommendations was for Government businesses to be subject to strong "buy local" requirements, similar to those applicable to other Government agencies. These requirements mean that businesses have to ensure that their procurement policies seek to maximise the opportunities for local businesses, thus supporting Tasmania's economic recovery.

PESRAC delivered its Final Report to the Premier on 16 March 2021. Two recommendations made that were specifically relevant to Government businesses included:

- Ministers must use their influence to transparently drive the focus of Government businesses towards pressing whole State priorities during recovery and hold boards accountable for doing so
- The Government business governance framework should be revisited to enable the Government of the day to set binding whole strategic priorities.

To provide Government businesses with timely access to funding to support cash flow and other funding needs related to COVID-19, including the need to implement Government policy responses to COVID-19, TASCORP was provided with approval to provide additional debt funding to Government businesses up to a determined maximum level. To support the TASCORP Board in responsibly executing its duties, the Government provided an unconditional and irrevocable guarantee to TASCORP for the loans provided to Government businesses up to determined maximum levels.

Aurora Energy Pty Ltd

Financial result

In 2020-21, Aurora Energy Pty Ltd (Aurora Energy) generated a profit before tax of $27.01 million, compared to a loss of $7.70 million for the previous year. The 2019-20 result included the impact of the small business bill waiver of $17.30 million, provided as a COVID-19 support measure at the direction of the Shareholder Ministers, and higher expected credit losses on trade receivables.

Cash flow hedges

Net cash flow hedge gains and transfers of $23.95 million (2019-20, net loss $67.89 million) included in the Cash flow hedge reserve in Equity, together with profit after tax of $18.91 million (2019-20, loss after tax $5.40 million) resulted in Aurora Energy recognising total comprehensive income of $43.31 million (2019-20, total comprehensive loss $73.07 million).

New retail energy platform

Aurora Energy implemented the cloud-based HubCX customer care and billing system during 2020-21, with new customer connections being loaded into the system. Following the successful implementation of HubCX, customers are being progressively migrated to the system with the decommissioning of the existing in-house customer care and billing system expected to occur by 31 January 2023.

New office lease

Aurora Energy's lease for its office at 21 Kirksway Place, Hobart ended on 30 September 2020. The business relocated to 50 Elizabeth Street, Hobart with a 10 year lease executed.

Forestry Tasmania

Consolidated financial result

Forestry Tasmania, trading as Sustainable Timber Tasmania (STT), achieved a profit before tax of $3.87 million (2019-20, profit $5.56 million).

Total revenue for 2020-21 from the sale of forest products, lease agreements, licenses and other forest management services and the performance of community service obligations was $124.84 million (2019-20, $175.45 million). The reduction in revenue from 2019-20 reflects the temporary cessation of co-mingled forest product sales during the year. Revenue from co-mingled sales totalled $7.84 million (2019-20, $48.78 million) which were offset by contractor and freight expenses of $7.84 million (2019-20, $48.78 million) pursuant to the same sales agreements.

The valuation increment in the forest (biological asset) component of the Forest estate for 2020-21 was $2.14 million (2019-20, $1.84 million).

Preparation of consolidated financial statements

During the year, the Board of Directors decided to present STT's financial statements on a consolidated basis to provide more useful information to the primary users of the financial statements. Comparative balances and disclosures for 2019-20 were amended to reflect the consolidated basis of preparation. The wholly controlled entities of STT were:

- Newood Holdings Pty Ltd (Newood)
- Newood Huon Pty Limited
- Newood Smithton Pty Limited
- Newood Energy Pty Limited.

This basis of preparation represented a departure from the previous basis of preparation, where STT's financial statements were prepared on a parent entity only basis, as the non-inclusion of STT's controlled entities did not have a material effect on the reported financial position or financial performance of STT.

Federal Court ruling on the regulation of native forest logging in Tasmania

The Bob Brown Foundation (Foundation) launched a legal case in the Federal Court challenging the regulation of native forest logging in Tasmania. The Foundation contended the Tasmanian Regional Forestry Agreement, entered into between the Tasmanian and Australian Governments in 1997 and subsequently varied in 2001, 2007 and 2017, was not a Regional Forest Agreement within the meaning of the *Regional Forest Agreements Act 2002* (Cth) (RFA Act) or section 38 of the E*nvironmental Protection and Biodiversity Conservation Act 1999* (Cth), and therefore, STT remained obliged to obtain the necessary approvals to conduct forestry operations.

On 3 February 2021, the Full Court of the Federal Court of Australia handed down a decision in STT's favour, confirming that the Tasmanian Regional Forest Agreement was an agreement as required by the RFA Act.

In Late February 2021, the Bob Brown Foundation applied to the High Court for special leave to appeal the Full Court of the Federal Court of Australia's decision. On 24 June 2021 the appeal to the High Court was dismissed.

Newood Timber Sale and Purchase Agreement

In November 2021, STT and Newood entered into a timber purchase and sale agreement with a third party operating in the Tasmanian forestry industry which included an option for the third party to repurchase milled timber sold to Newood within 15 months of sale. Australian Accounting Standards required the purchase and sale transaction between Newood and the third party to be recognised as financing transaction, as Newood did not have control over the economic benefits that flowed from the timber until the repurchase option expired. As at 30 June 2021, a financial asset of $5.58 million was recognised in the financial statements of Newood and the consolidated financial statements of STT in line with the required accounting treatment.

Newood has registered security over the timber and has enforceable rights to deal with the timber to manage credit risk in accordance with ordinary commercial practices.

Hydro-Electric Corporation

Consolidated financial result

Hydro-Electric Corporation (Hydro Tasmania) recorded a profit before tax of $357.87 million for 2020-21, a $1,135.93 million improvement from the loss before tax of $778.06 million in 2019-20. The improved result is primarily due to reduced fair value losses of $211.82 million, mainly due to lower losses on energy price derivatives (economic hedges) of $230.97 million, and the 2019-20 result including a revaluation decrement of $878.93 million for generation assets.

Restructure

There was a major restructure within Hydro Tasmania during 2020-21 in response to major transitional changes happening across the National Electricity Market. The restructure resulted in consolidation of key roles and responsibilities, changes to key management personnel within the Hydro Leadership Team and a number of redundancies.

Basslink arbitration

Basslink Pty Ltd owns 'Basslink', a 370 kilometre 500 megawatt high-voltage direct current cable linking the electricity grids of the states of Victoria and Tasmania. Hydro Tasmania pays Basslink Pty Ltd a facility fee for rights to inter-regional revenues generated by Basslink pursuant to a 25 year Basslink Services Agreement that commenced in 2006.

On 21 December 2015, Basslink was disconnected due to a faulty interconnector with the link not restored until 13 June 2016. A second outage occurred on 24 May 2018 with Basslink returning to service on 5 June 2018. Disputes relating to claims made between the Government, Hydro Tasmania and Basslink Pty Ltd arising from the cause of the outages were referred to arbitration for settlement.

On 2 December 2020, the arbitrator determined:

- the cable failure on 20 December 2015 was not a force majeure event within the meaning of the Basslink Services Agreement between Hydro Tasmania and Basslink Pty Ltd or Basslink Operations Agreement between Basslink Pty Ltd and the State and that under that Basslink Operations Agreement Basslink Pty Ltd had two months to repair the cable failure
- Basslink Pty Ltd was liable to indemnify the State and was required to pay an amount of $38.50 million to the State
- Basslink Pty Ltd was found to be in breach of the Basslink Services Agreement between Hydro Tasmania and Basslink Pty Ltd
- Basslink Pty Ltd was required to undertake certain mitigating actions in accordance with good electricity industry practice
- Basslink Pty Ltd's claim for unpaid fees of $30.30 million against Hydro Tasmania relating to the period of the outage under the Basslink Services Agreement was not recoverable.

The arbitrator subsequently made a further ruling on the awarding of costs and interest related to the dispute which was finalised in August 2021.   The Arbitrator ruled that Basslink Pty Ltd pay $8.24 million in costs and interest to the State and $25.25 million to Hydro Tasmania. The amount owing to Hydro Tasmania was recognised as a receivable in the financial statements at 30 June 2021.

Macquarie Point Development Corporation

Financial result

In 2020-21, Macquarie Point Development Corporation (MPDC) achieved a profit of $1.95 million compared to a loss in the previous year of $2.32 million. The improvement was primarily due to grant funding from the Government of $5.25 million to support additional development of the site.

Site development and remediation

The Master Development Plan for Macquarie Point establishes seven precincts within the 9.3-hectare site:

- The Escarpment
- The Promenade
- The Gateway
- The Precinct
- The Goods Shed
- The Underground
- The Park.

These precincts are specifically designed to underpin the planning scheme framework and included a range of mixed use and arts and institutional development including, the Hobart City Deal initiative for the Antarctic and Science Precinct to promote Hobart's position as the gateway to the Antarctic and Southern Ocean.

Due to the addition of The Underground, MPDC was able to reassess developable land at Macquarie Point to 56.0 percent of the site, while 44.0 percent will be maintained as public space. This was a slight change from previous years where it was estimated land for development and public space would be an equal proportion. This decision was reflected in the valuation of the site undertaken in 2020-21.

Remediation continued across most of the site during 2020-21 with 81.0 percent of the site physically remediated as at 30 June 2021. Final remediation is expected to commence in 2021-22.

The Request for Expression of Interest process for developers and/or consortia to bid in the The Escarpment land release attracted significant national interest, resulting in two proponents moving through to the Request for Proposal stage. The sale process for the successful proponent is expected to begin in 2021-22.

In March 2021, MPDC called for developer and/or consortia pre-registration of interest for the largest parcel of land, The District, which includes 3 consolidated land parcels: The Gateway, The Promenade, and The Underground. The pre-registration of interest closed on 16 April 2021.

Future Government grant

On 16 March 2021, the Premier announced the Government would provide funding of $78.05 million over 3 years from 1 July 2021 to continue to enable MPDC to fully realise Macquarie Point earlier than envisaged.

Metro Tasmania Pty Ltd

Consolidated financial result

For 2020-21, Metro Tasmania Pty Ltd (Metro) incurred a loss before income tax and other comprehensive income of $0.80 million (2019-20, loss $5.07 million). In 2020-21, patronage recovered to 80.0 percent of pre pandemic levels which resulted in an estimated $2.89 million loss in fare revenue compared to pre-pandemic levels.

Bus Replacement Program

The last of 100 buses under the accelerated bus replacement program was delivered in April 2021. A new contract has been agreed for delivery of the next 26 buses by Bustech, to be funded by Metro through borrowings. Production of the buses had commenced during 2020-21 with deliveries in 2021-22.

Service Contract with the Department of State Growth

Metro's service contract with State Growth expired on 31 December 2018 and contract extensions have been negotiated to 31 August 2022. As at 30 June 2021, Metro and State Growth were finalising a 10 year Service Contract for the delivery of urban passenger transport services.

Borrowing Facility

During 2019-20, TASCORP increased Metro's maximum borrowing limit to $18.00 million to ensure adequate funding was available for Metro to finalise the Accelerated Bus Replacement Program in 2020-21, provide a liquidity buffer against cash flow impairment resulting from COVID-19 impacts and deliver future capital requirements. As at 30 June 2021, Metro had drawn down $5.00 million of the borrowing facility.

Motor Accidents Insurance Board

Financial result

The Motor Accidents Insurance Board's (MAIB) profit before tax increased from $9.75 million in 2019-20 to $302.93 million in 2020-21, predominantly due to:

- higher gross investment income of $232.18 million, reflecting the improvement in global investment markets
- lower gross claims incurred of $57.42 million, resulting from the combined impact of revisions to actuarial assumptions relating to claims accident experience and

movements in discount and inflation rates used in calculating the present value of the outstanding claims liability.

Claims experience

MAIB received 2,163 new claims in 2020-21, representing a claim frequency of 3.8 claims per 1,000 registered vehicles, and a reduction of 5.7 percent compared with 2019-20. The decline in claim numbers follows a decrease of 12.5 percent in 2019-20 when compared to 2018-19, which was impacted by revised bulk billing arrangements with Tasmanian Ambulance and lower traffic volumes resulting from COVID-19 restrictions during March to June 2020.

Port Arthur Historic Site Management Authority

Financial result

In 2020-21, PAHSMA incurred a loss of $5.08 million (2019-20, loss $1.58 million), primarily attributable to a $5.70 million fall in income from fees, tours and merchandise. Efforts made to curtail the loss resulted in expenditure savings of $1.93 million, with total expenditure being $17.72 million.

The Government provided grant funding of $0.59 million during 2020-21 as reimbursement for casual and seasonal labour costs that were incurred as part of a COVID-19 staff retention strategy.

Equity injection

PAHSMA received an equity injection of $10.02 million from the Government during 2020-21, with $2.02 million of the equity contribution initially received by the Government from the Australian Government as a contribution towards the construction of the Cascades Female Factory History & Interpretation Centre. The remaining $8.00 million of equity contribution is part of the Government's commitment to provide $20.00 million in equity contributions to PAHSMA over the 4 year period to 2023-24.

Public Trustee

Financial result

The Public Trustee (PT) achieved a profit before tax of $0.53 million for 2020-21 (2019-20, profit $1.06 million). The lower profit was primarily due to lower dividend income of $0.50 million for 2020 21 compared to $1.16 million in 2019-20.

Review of Public Trustee

On 10 June 2021, the Attorney-General and Minister for Justice announced the Government would conduct an independent review into the administrative and operational practices of the Public Trustee. On 30 June 2021, the Terms of Reference for the Review were released and on 2 July 2021 it was announced Mr Damian Bugg AM QC was appointed to undertake the independent review. A final report is to be submitted to the Public Trustee's Shareholding Ministers by no later than 30 November 2021.

Funding of Community Service Obligations

The Public Trustee entered into a Community Service Obligation Agreement with the Government to provide financial management of affairs for clients appointed to the Public Trustee by order of the Guardianship and Administration Board for 3 years from 1 July 2017 to 30 June 2020. A deed of variation and extension has been agreed with the Treasurer for community support obligation funding to 30 June 2022.

Tasmanian Irrigation Pty Ltd

Financial result

Tasmanian Irrigation Pty Ltd (TI) incurred a loss before tax of $43.06 million for 2020-21 (2019-20, loss $14.95 million). The loss was mainly due to the impairment of capitalised costs for irrigation schemes of $47.04 million (2019-20, $11.93 million).

Impairment losses

In November 2020, the Scottsdale Irrigation Scheme commenced delivering irrigated water to the Scottsdale, Bridport, Springfield, Nabowla and Waterhouse areas in North-East Tasmania. The commissioning of the mini hydro power station included in the scheme had not been completed as at 20 October 2021 due to delays caused by the COVID-19 pandemic.

TI incurred an impairment loss of $39.21 million on the partial commissioning of the Scottsdale Irrigation Scheme, which was valued at $44.42 million.

Irrigation scheme development - Tranche Three Phase One program

TI is responsible for the development and operation of a suite of irrigation schemes across Tasmania. Development activities have been undertaken in 3 Tranches. Tranche Three consists of 10 irrigation projects across Tasmania, including eight new schemes and two scheme augmentations. Phase One of Tranche Three comprises 4 new schemes - Don, Fingal, Northern Midlands and Tamar, and one project to augment the existing Sassafras-Wesley Vale scheme.

During 2020-21, strong water sales were achieved on the Northern Midlands (20,350 ML water sold) and Don (3,535 ML water sold) Irrigation Schemes. TI also secured an additional $23.70 million of Government funding, which brought the total funding commitment from the Tasmanian and Australian Governments to $208.70 million for the Tranche Three Phase One program.

Tasmanian Networks Pty Ltd

Consolidated financial result

Tasmanian Networks Pty Ltd (TasNetworks) generated a profit before tax of $25.74 million in 2020-21 (2019-20, profit $52.12 million) with the lower profit principally due to a reduction in regulated revenue, $22.15 million. A large component of the reduction is attributed to the timing of regulated revenue recovery across the regulatory period 1 July 2019 to 30 June 2024. As TasNetworks over-recovered regulated revenue in 2019-20, TasNetworks reduced revenue recovery in 2020-21 to offset this.

Borrowings

TasNetworks' borrowings were subject to a Master Loan Facility Agreement with TASCORP, which included a number of borrowing covenants. A potential breach of the financial leverage ratio was identified by TasNetworks during 2020-21 arising from higher debt, driven by increased capital expenditure, and the impact of relatively low inflation rates on the revaluation of network assets.

To avoid the potential covenant breach, TasNetworks renegotiated the methodology for assessing borrowing covenants with TASCORP. A variation of the Master Loan Facility Agreement was finalised in June 2021 removing the financial leverage ratio covenant.

Marinus Link

Marinus Link is a proposed 1,500 megawatt capacity undersea and underground electricity connection to further link Tasmania and Victoria as part of Australia's future electricity grid. Marinus Link will be supported by transmission network developments on the North-West Tasmanian electricity network. Marinus Link has received grant funding of $47.88 million to 30 June 2021, of which $22.88 million was received during 2020-21.

To pass the Design and Approval Funding Framework decision gate in March 2021, TasNetworks required an indication of funding support in relation to ongoing expenditure commitments necessary to progress the Marinus Link project to a final decision point in 2023-24. The Government provided support for TasNetworks to borrow up to $39.00 million to meet costs of the project.

Discussions between the Tasmanian and Australian Governments regarding the ownership structure for Marinus link had not been concluded at the date of signing the financial statements on 11 August 2021.

Incorrect expense accruals

An internal audit conducted in 2019-20 identified unjustified expense accruals of $0.74 million were recorded at 30 June 2020 by a senior manager. In response to the findings identified in the internal audit report, TasNetworks improved guidance and internal controls for the recognition of accruals.

Tasmanian Ports Corporation Pty Ltd

Consolidated financial result

Tasmanian Ports Corporation Pty Ltd (TasPorts) recorded a loss before tax for 2020-21 of $2.78 million (2019-20, profit $7.67 million). The fall in profit was principally due to a fall in revenue from contracts with customers of $13.02 million across sale of goods, seaport, airport, logistics services and freight segments of the business.

COVID-19 impacts

TasPorts experienced no internationally flagged cruise ship visitations since mid-March 2020. The restriction, enforced under the *Biosecurity Act 2015*, was extended several times during 2020-21 and had not been lifted as at the end of the financial year. COVID-19 continued to impact airport operations during 2020-21. Whilst flights recommenced between Devonport and Melbourne from 27 November 2020, passenger numbers remained considerably lower than pre COVID-19.

Regulatory matters

In December 2019, the Australian Competition and Consumer Commission (ACCC) informed TasPorts of the commencement of proceedings in the Federal Court alleging breaches of competition laws in relation to pilotage, and towage services in Northern Tasmania and related matters. TasPorts denied the allegations and defended the matter until an agreed settlement was reached at mediation prior to trial.

In accordance with the settlement, on 4 May 2021, the Federal Court of Australia declared by consent that Tasports contravened section 46(1) of the *Competition and Consumer Act 2010 (Cth)* by engaging in conduct, between 6 November 2017 and 1 July 2019, in response to the entry or attempted entry of a competitor, that had the likely effect of substantially lessening competition in the markets for towage and pilotage services in Northern Tasmania. The conduct related to a proposed marine charge for vessels calling at Port Latta. The Court otherwise dismissed the proceedings following Tasports' agreement to provide an enforceable undertaking to the ACCC regarding certain tonnage charges, access to berth space and port communication systems. The Court did not impose any penalty on TasPorts. The Court ordered by consent that TasPorts contribute $200,000 to the ACCC's legal costs.

Tasmanian Public Finance Corporation

Financial result

In 2020-21, TASCORP generated a profit before tax of $22.70 million (2019-20, profit $32.60 million). The result comprised a profit of $12.50 million (2019-20, $16.40 million) from core treasury operations and a profit of $10.20 million (2019-20, $16.20 million) from the Mersey Community Hospital Fund (MCHF). The $3.90 million fall in profit from treasury operations was largely due the refinancing of assets and liabilities at lower than previous interest margins, together with a fall in market investment net margins. The deterioration in the MCHF result arose from unrealised losses in derivatives hedging MCHF investments, a fall in net interest revenue from the reduction in the fund balance as a consequence of the dividend distributions from the fund in June 2020, and a fall in floating interest rates.

Bond issuance

Total borrowings increased by $2.15 billion, representing a 31.2% increase, primarily due to the Treasury's funding requirements for COVID-19 responses and its ongoing investment in infrastructure, with their funding requirement forecast to increase from $1.70 billion to $4.80 billion by June 2025.

Other factors which contributed to higher borrowings included:

- holding higher liquidity coverage ratios due to market volatility caused by COVID-19
- pre-funding the maturity of the March 2022 Benchmark Bond.

Tasmanian Railway Pty Ltd

Financial result

Tasmanian Railway Pty Ltd (TasRail) incurred a loss before tax of $46.27 million for 2020-21 (2019-20, loss $39.13 million). The loss was mainly due to the immediate impairment of capitalised infrastructure costs for below rail assets of $42.14 million (2019-20, $31.70 million). The result for 2020-21 was supported by operational grant funding of $11.60 million (2019-20, $10.10 million) from the Government.

A record freight volume of 509 million Net Tonne Kilometres was transported for the year, including 57,567 containers, a 12.0 percent increase on 2019-20. Bulk mineral shiploading volumes through the Burnie port were also a record for TasRail at 637,828 tonnes. Reliability of the freight service continues to improve, with 'freight availability' exceeding 97.0 percent on the 6 daily container services.

Rail network upgrades

TasRail continued to manage upgrades to the Tasmanian Rail Network which were jointly funded by the Tasmanian and Australian Governments. TasRail successfully completed year two of the 4-year $119.60 million Tasmanian Freight Rail Revitalisation Program (Tranche Two) which delivered:

- installation of 16,599 sleepers and 53,670 metres of new rail
- 6 track turnouts (or points) on the network repaired or replaced
- renewal of 6 level crossings
- 8 individual formation renewal projects.

During 2020-21, the Australian Government provided funding of $37.95 million and the Government provided $22.25 million for these works. Both amounts were recorded as equity contributions. The Government also provided a further $8.00 million capital injection during 2020-21.

Tasmanian Water and Sewerage Corporation Pty Ltd

Financial result

TasWater recorded a profit for 2020-21 of $43.54 million (2019-20, loss $199.20 million). The improved result was principally due to the prior year result including a significant infrastructure asset revaluation decrement of $214.16 million. Excluding the effect of revaluation adjustments, the improved profit result resulted from:

- increased revenue of $16.08 million, primarily attributable to the impact of the small business rebate offered to qualifying businesses in response to the COVID-19 pandemic in 2019-20
- reduced expenditure of $14.67 million, with decreases in depreciation of $9.62 million and administration expenses of $4.73 million (arising from a net reduction in customer account provisions).

Macquarie Point Waste Water Treatment Plant

In 2020-21, TasWater continued to undertake preliminary planning, investigation and design activities related to the future relocation and decommissioning of the Macquarie Point Waste Water Treatment Plant. An interim grant of $3.50 million was received from the Government in March 2021 to assist TasWater to undertake further design, planning and other preliminary works for the decommissioning and relocation of the Macquarie Point Wastewater Treatment Plant.

Tamar Estuary River Health Action Plan

TasWater received an interim grant of $6.00 million in February 2021 for the Tamar Estuary River Health Action Plan. This project will deliver infrastructure upgrades to reduce untreated overflows from Launceston City's combined water and sewage system into the Tamar Estuary.

Capital Delivery Office operations

TasWater streamlined the management of its capital works program to ensure it continued to meet infrastructure development objectives, timelines and high value for money outcomes for customers. The change involved TasWater taking direct responsibility for simpler, lower costs works, including those considered urgent. The Capital Delivery Office continued to focus on delivering medium and large scale complex projects that demanded detailed planning and construction expertise, such as the significant plant upgrade project at Bryn Estyn.

Forward start loan

In 2020-21, a major customer agreed to contribute towards one of TasWater's Sewerage Treatment Plant upgrades. TasWater agreed to enter into a forward start loan arrangement for $3.10 million, borrowing the funds from TASCORP, with a draw down date of 1 September 2021. The forward start loan is for an initial 10 year period, with the expectation that at maturity a further 10 year loan will be entered into. The loan was entered into based on the terms and conditions outlined in a Customer Agreement, which requires reimbursements to be made in accordance with the loan schedule.

Tasracing Pty Ltd

Financial result

Tasracing Pty Ltd (Tasracing) recorded a profit before tax of $4.46 million for 2020-21 (2019-20, loss $3.79 million). The improved performance was driven by an $8.84 million increase in race field revenues with a full resumption of racing in 2020-21, following the lifting of the racing shut down due to COVID-19 restrictions in July 2020.

Point of Consumption Tax

From 1 January 2020, the Point of Consumption Tax was introduced with the first payment of $2.54 million received from Treasury in 2020-21. In line with the Share of Point of Consumption Tax Grant Deed with the Government these funds were used to support the racing industry in the areas of animal welfare, infrastructure and stakes. Stakes were increased 6.0 percent on 1 July 2020 with a further 6.0 percent increase from 1 February 2021.

Devonport Showgrounds site

In November 2020, Tasracing executed a Settlement and Release Deed to leave the site at Devonport Showgrounds by 28 February 2022. A reassessment of the right of use asset and lease liability recorded under AASB16 *Leases* was required to reflect the agreed terms and conditions of the Deed in the financial statements for 2020-21. This resulted in a decrease of approximately of $1.98 million in the right-of-use asset and associated lease liability.

TT-Line Company Pty Ltd

Financial result

TT-Line Company Pty Ltd (TT-Line) incurred a loss before tax of $9.61 million (2019-20, profit $51.78 million). Operating revenue was $19.83 million (8.4 percent) lower than that generated in 2019-20 largely due to the decline in passenger services because of COVID-19 travel restrictions. Investment revenue was $36.94 million less than in 2019-20 as the prior year included foreign currency gains of $34.45 million made on the finalisation of foreign currency hedges entered into in connection with the vessel construction contract with Flensburger Schiffbau-Gesellschaft.

Vessel replacement

In February 2020, TT-Line announced it had mutually agreed with Flensburger Schiffbau-Gesellschaft to cancel the contract for the two new vessels and that it had signed a memorandum of understanding with Finnish ship builder Rauma Marine Constructions to deliver the new vessels. In July 2020, the TT-Line Shareholder Ministers decided not to proceed with a contract with Rauma Marine Constructions due to COVID-19 and its economic implications for the State. At the same time, the Government announced the establishment of the Vessel Replacement Taskforce (Taskforce) to investigate options for greater involvement by Australian businesses in the replacement of the vessels. Following consideration of the Taskforce report, on 14 April 2021, the Shareholder Ministers provided approval for TT-Line to sign a contract with Rauma Marine Constructions for the construction of two new roll on/roll off vessels.

On 16 April 2021, TT-Line entered into a contract with Rauma Marine Constructions for two new Spirit of Tasmania vessels, with completion expected in November 2023 and October 2024, respectively. The contract includes a commitment for a target of $100.00 million to be spent on Tasmanian and Australian content.

Advances of $128.33 million were paid in June 2021 by TT-Line for these vessels, representing 20.0 percent of the cost of the first vessel and 10.0 percent of the second vessel. These payments were recognised as work in progress in TT-Line's financial statements.

TT-Line entered into forward exchange contracts to fix the exchange rate on future contract payments. At 30 June 2021, TT-Line recorded an outstanding capital commitment of $743.64 million for annual vessel dry docking and the purchase of the new vessels.

Vessel Replacement Fund

Following to the decision to establish the Taskforce, the Government requested the return of funding from the Vessel Replacement Fund provided to TT-Line in connection with the Flensburger Schiffbau-Gesellschaft contract. TT-Line repaid the amount of $81.00 million in October 2020. Subsequent to the signing of the Rauma Marine Constructions contract, on 22 April 2022, the Government provided an equity contribution of $128.33 million to TT-Line using funds from the Vessel Replacement Fund.

GeelongPort project

On 22 April 2020, TT-Line announced it would move its Victorian port from Station Pier in Port Melbourne, to Corio Quay, north of Geelong, following the signing of a 30 year lease with GeelongPort Pty Ltd (GeelongPort).

GeelongPort has responsibility for developing a dedicated 12 hectare terminal and freight facility which will include a passenger terminal building, a vehicle marshalling area for 600 cars, a parking area for 150 trucks, security facilities, public amenities, crew accommodation, a cafe, children's play area and a pet exercise area. The design of a new terminal building to be constructed at Corio Quay was released on 31 August 2021, with construction to begin later in 2021, and the facility to be operational in 2022.

The existing Station Pier lease agreement, which contains make good provisions, ends on 30 November 2022. Determination of the make good obligation has been delayed due to the establishment of Ports Victoria on 1 July 2021, following the amalgamation of Victorian Ports Corporation (Melbourne) and Victorian Regional Channels Authority.

Devonport berth lease

TT-Line's lease with TasPorts for the Devonport berth ceased on 30 June 2021. In June 2021, TT-Line entered into a memorandum of understanding with TasPorts for continued use for the berth until new lease agreements are finalised in 2021-22.

Government business financial performance

Government business financial results

Details of Government businesses' financial results are set out in Table 4. The financial information represents consolidated financial information for those entities with controlled entities.

Table 4: Government business financial results

Business	Underlying profit (loss)[1] $'000s	Profit (loss) before tax $'000s	Total comprehensive profit (loss) $'000s
Aurora Energy	26,890	27,014	43,305
Hydro Tasmania	212,699	357,872	337,178

Business	Underlying profit (loss)[1] $'000s	Profit (loss) before tax $'000s	Total comprehensive profit (loss) $'000s
MPDC	1,950	1,950	4,274
Metro	(802)	(802)	4,262
MAIB	302,928	302,928	215,655
PAHSMA	(5,078)	(5,078)	(4,801)
PT	533	533	2,177
STT	1,733	3,873	3,880
TASCORP	22,700	22,700	19,000
TI	(5,631)	(43,055)	(43,055)
TasNetworks	25,739	25,739	41,124
TasPorts	(2,218)	(2,784)	(2,189)
TasRail	(4,189)	(46,269)	(46,269)
TasWater	16,292	43,544	123,064
Tasracing	4,460	4,460	5,999
TT-Line	21,579	(9,614)	4,860
Total	**619,585**	**683,011**	**708,464**

Note 1: The Tasmanian Audit Office applies a consistent basis for calculating underlying profit/(loss) across all Government businesses. Consequently, there may be differences in the underlying profit/(loss) reported in the table compared to that reported in Government businesses' annual reports.

Underlying profit (loss)

Underlying profit (loss) is defined as operating revenue less operating expenditure. This is a more accurate measure of financial performance as it reflects the earning power of an entity and the capacity to pay operating costs by removing unusual and non-recurring transactions.

The aggregated underlying profit for GBEs in 2020-21 was $619.59 million, compared to a profit before tax of $683.01 million. This underlying result was an improvement on 2019-20.

$539m	$448m	$288m	$620m
2017-18	2018-19	2019-20	2020-21
▲ 30%	▼ (17%)	▼ (36%)	▲ 115%

A comparison of the Underlying profit (loss) for each Government business over the past 5 financial years is shown in Table 5.

Table 5: Underlying profit (loss)

Business	2016-17 $'000s	2017-18 $'000s	2018-19 $'000s	2019-20 $'000s	2020-21 $'000s
Aurora Energy	27,948	18,300	10,907	(7,202)	26,890
Hydro Tasmania	20,095	167,902	195,012	171,800	212,699
MPDC	(1,284)	(1,310)	(1,062)	(1,942)	1,950
Metro	(3,017)	(1,935)	(2,385)	(5,066)	(802)
MAIB	165,678	137,236	38,409	9,752	302,928
PAHSMA	1,322	622	(219)	(1,575)	(5,078)
PT	1,012	1,337	838	1,059	533
STT	(13,876)	5,948	11,767	3,718[1]	1,733
TASCORP	27,400	39,311	47,400	32,600	22,700
TI	1,738	(3,445)	(1,318)	(6,078)	(5,631)
TasNetworks	132,319	89,119	63,590	55,411	25,739
TasPorts	8,727	10,999	17,771	8,361	(2,218)
TasRail	(6,780)	(9,683)	(11,718)	(11,044)	(4,189)
TasWater	20,617	32,998	21,742	(15,830)	16,292
Tasracing	867	(190)	(1,782)	(3,790)	4,460
TT-Line	30,348	51,392	58,821	57,722	21,579
Total	**413,114**	**538,601**	**447,773**	**287,896**	**619,585**

Note 1: In their 2020-21 statements, STT amended their basis of preparation from a parent only to consolidation. The 2019-20 underlying result figure has been adjusted to reflect this change of preparation, changing from $3.94 million to $3.72 million.

Government businesses as a whole recorded an underlying profit of $619.59 million for 2020-21. This was a 115.1 percent increase on the 2019-20 result. This change was driven by:

- increased interest and investment revenue generated by the public finance corporations, being $202.68 million more than 2019-20
- a reduction in direct expenses of $337.28 million across the 16 entities, driven by Hydro Tasmania, STT, TasRail and TT-Line.

Eleven of the 16 Government businesses recorded an underlying profit in 2020-21 (2019-20, 8). The biggest contributors to the overall underlying result of $619.84 million were Hydro Tasmania ($212.70 million surplus) and MAIB ($302.93 million surplus).

Whilst some Government businesses generated an underlying loss in both 2019-20 and 2020-21, only PAHSMA's underlying loss declined over the two years, reflecting the continued impact of COVID-19 on their visitor numbers and their ability to generate revenue.

Figure 14 shows average operating margins for each Government business over the past 4 years.

Figure 14: Operating margin - 4 year average (2017-18 to 2020-21)

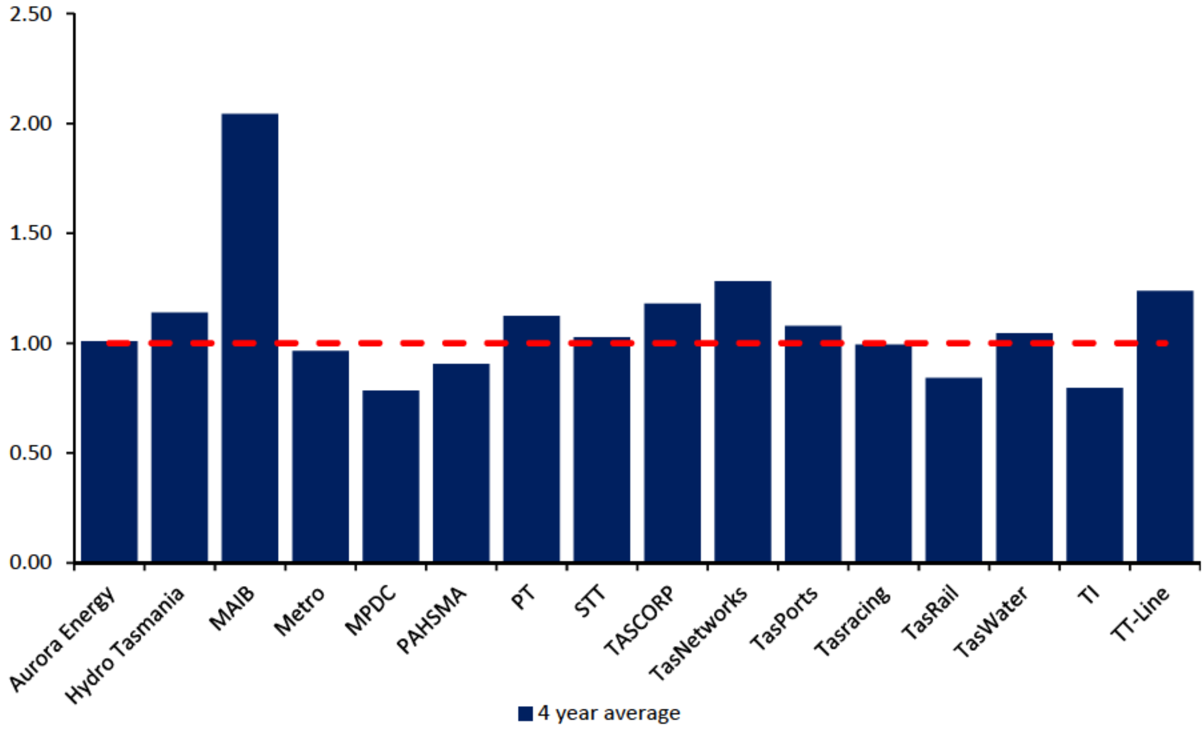


Figure 14 demonstrates that 10 of the 16 Government businesses achieved an operating margin at or exceeding the benchmark of 1.0 over the past 4 years, meaning that their operating revenue regularly covered their operating expenses over this period.

Consistent with prior year MPDC, TI and TasRail were below the benchmark. This reflects the nature of these businesses, which is strongly focused on land or infrastructure development.

Revenue received by Government businesses

$4.88bn	$5.13bn	$4.70bn	$4.66bn
2017-18	2018-19	2019-20	2020-21
▲ 10%	▲ 5%	▼ 6%	▼ 1%

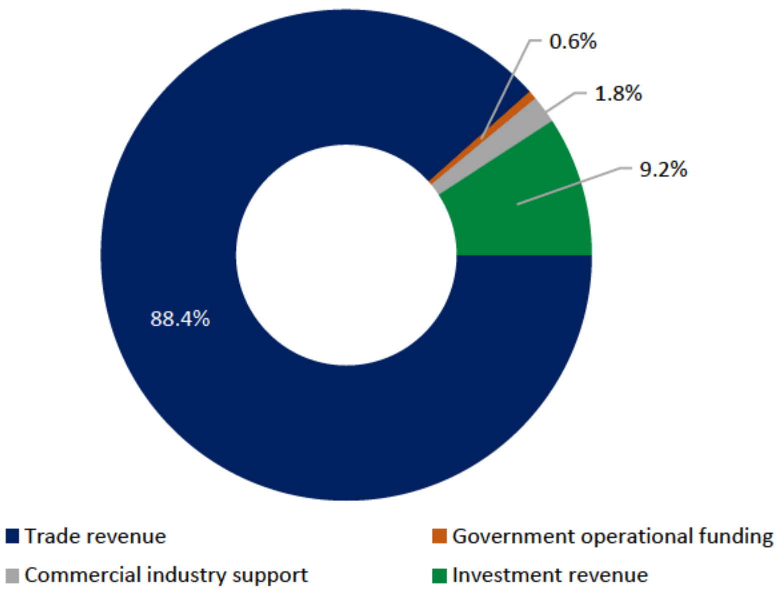
Note: Revenue items such as capital grants and fair value gains or losses have been excluded from this table.

Government businesses received $4.66 billion of operating revenue in 2020-21 (2019-20, $4.70 billion). The reduction in revenue from that generated in 2019-20 primarily reflects lower trade revenue generated by Aurora Energy, Hydro Tasmania and STT, who collectively had a decrease of $159.67 million. This was due to:

- Aurora Energy – increased market competition, tariff and fixed rate price reductions, and lower contracted load attributed to COVID-19 impacts
- Hydro Tasmania – lower wholesale energy sales arising from lower generation driven by a lack of hydrological inflow yield and price signals, and lower retail energy sales for wholly owned subsidiary Momentum Energy Pty Ltd arising from decreased small and medium enterprise consumption exacerbated by rolling COVID-19 snap-lockdowns in mainland states and lower customer sites
- STT – the temporary cessation of co-mingled forest product sales during the year, which fell from $48.78 million in 2019-20 to $7.84 million in 2020-21.

Figure 15 shows the sources of revenue for Government businesses in 2020-21.

Figure 15: Government business revenue



Note: Revenue items such as capital grants and fair value gains or losses have been excluded from this chart.

Consistent with 2019-20, Government businesses generated a majority of their operating revenue as trade revenue. This includes revenue streams generated from Government businesses' core activities. It represented 88.4 percent of Government businesses' total revenue, lower than the 2019-20 contribution of 92.5 percent, mainly due to the increase in revenue from investments and interest during 2020-21.

Government operational funding and commercial industry support accounted for 2.4 percent of revenue. Of this, $83.00 million was provided in commercial industry support to Metro and Tasracing as part of continuing agreements to support these industries.

Revenue from investments and interest was the main change in revenue composition between 2019-20 and 2020-21. Investment and interest revenue for government businesses increased from 5.5 percent of operating revenue in 2019-20 to 9.1 percent in 2020-21. This is predominately attributable to public finance corporations.

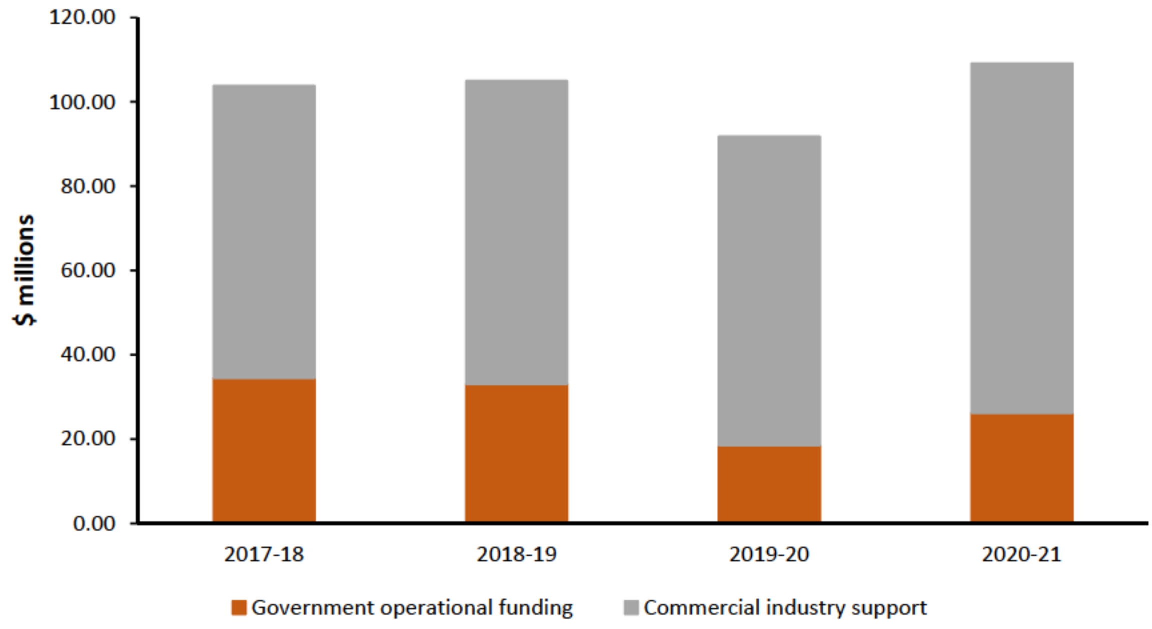
Operational funding and industry support

Government can provide financial support to government businesses through either:

- Government operational funding – being funding to support the entity to deliver their service)
- commercial industry support funding – being funding to assist the industry in maintaining their operations.

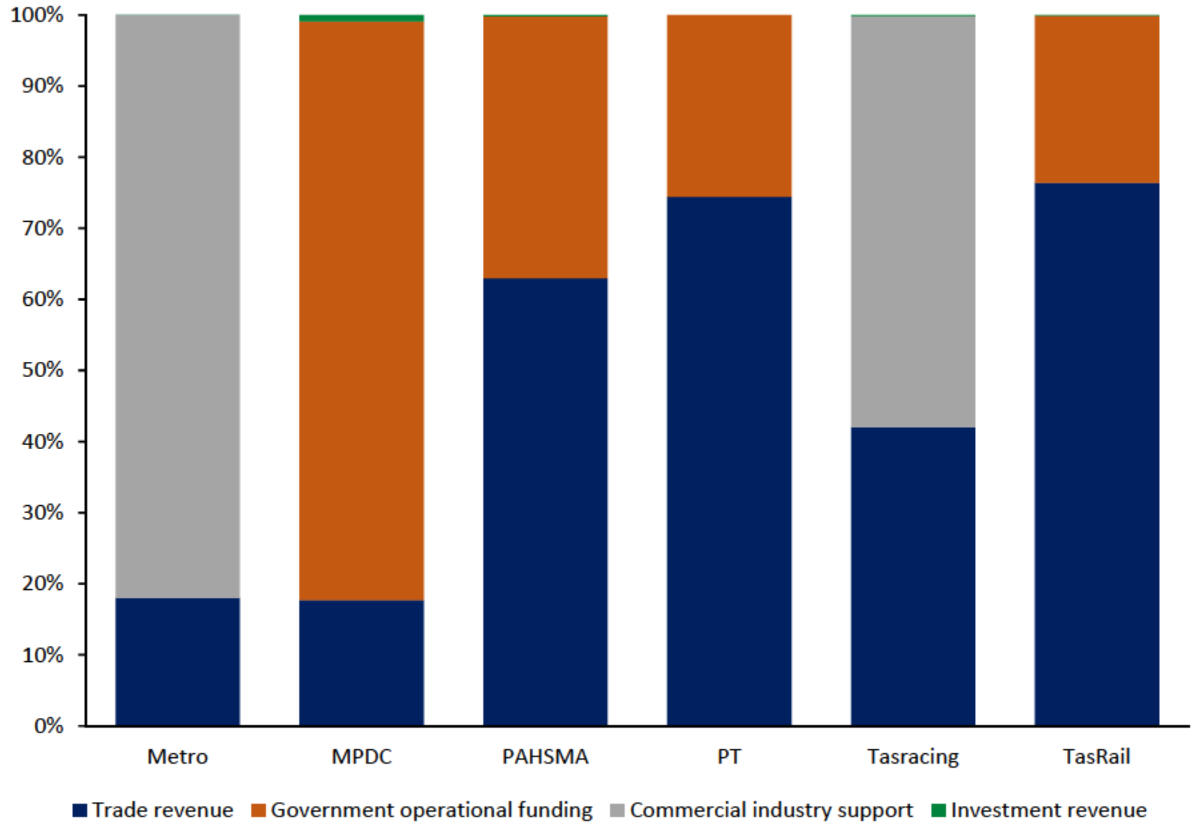
Figure 16 shows the level of government support provided to Government businesses over the 4 financial years 2017-18 to 2020-21 through operational funding and commercial industry support. Over this period, the support provided has increased by 5.1 percent from $103.84 million to $109.17 million.

Figure 16: Government operational funding and commercial support 2017-18 to 2020-21



Six entities received more than $1.00 million in government operational funding or commercial support. Figure 17 provides more these entities, and how much they received in 2020-21 as a percentage of their operational revenue.

Figure 17: Government operational funding and commercial support as a percentage of revenue



Note: One-off revenue items such as fair value gains or losses have been excluded from this chart

In aggregate, the 6 Government businesses in Figure 17 generated 45.3 percent of their total revenue from either Government operational funding or commercial industry support, significantly higher than the sector percentage overall.

Actual amounts of Government operational funding or commercial industry support received are shown in Table 5.

Table 5: Business revenue

Business	Trade revenue $'000s	Government operational funding $'000s	Commercial industry support $'000s	Investment revenue $'000s	Other $'000s
Metro	10,680	0	48,618	9	1,035
MPDC	1,142	5,245	0	59	0
PAHSMA	7,959	4,661	0	24	(5)
PT	6,296	2,163	0	0	504
Tasracing	24,918	0	34,349	86	0
TasRail	37,650	11,600	0	40	2,026

Metro and Tasracing received commercial industry support to facilitate operations. Similar to prior years, Metro was reliant on a service contract with State Growth with revenue of $48.62 million classified as commercial industry support. Tasracing received $34.35 million in Government funding to fund industry elements such as stakes and animal welfare. Tasracing was not required to pay dividends following a Government policy decision for any positive returns from operating activities to be invested back into the industry.

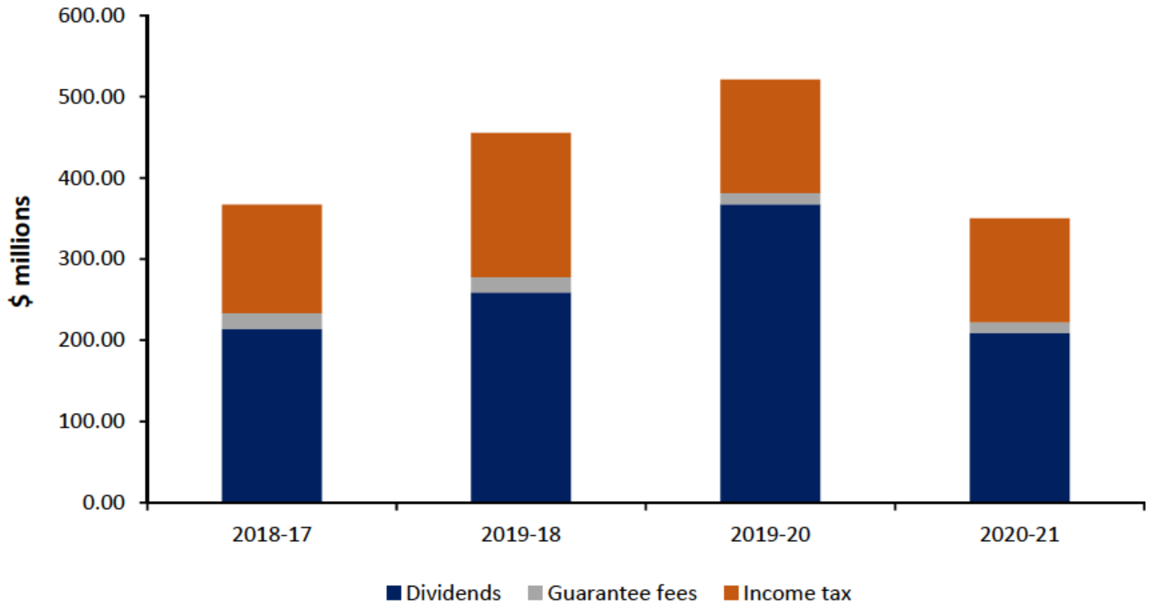
Similar to prior years, TasRail relied on Government funding to support their below-rail operation as it does not generate profits. In 2020-21, Government operational funding received by TasRail represented 22.6 percent of its total revenue. TasRail aims to increase its own source revenue from above-rail activities in order to fund above rail programs and to reduce Government operational funding. TasRail's support through government operational funding has fallen from $23.86 million in 2017-28 to $11.60 million in 2020-21, a decrease of 51.4 percent.

Returns to owners

Government businesses returned $350.06 million to the Government in 2020-21 through dividends, guaranteed fees and income tax equivalent payments. This was less than the $521.14 million returned in 2019-20. This amount excludes the MCHF dividend of $86.60 million paid by TASCORP and $10.00 million in dividends paid by TasWater to councils. The Government is not entitled to dividends from TasWater.

Figure 18 breaks down returns into dividends, income tax equivalents and guarantee fees paid during the year.

Figure 18: Returns to Government and owners



Note: Figure 18 excludes the MCHF dividend of $86.60 million paid by TASCORP and $10.00 million in dividends paid by TasWater to councils.

Table 6 provides a breakdown of the returns provided by entities in 2020-21.

Table 6: Returns to Government and owners in 2020-21

Business	Dividends $'000s	Guarantee fees $'000s	Income tax equivalent $'000s	Total returns $'000s	2020-21 Budgeted returns $'000s
Aurora Energy	0	0	5,057	5,057	0
Hydro Tasmania	115,000	6,282	56,961	178,243	177,200
MAIB	32,634	0	3,259	35,893	48,100
PT	108	0	260	368	0
STT	2,000	0	0	2,000	2,000
TASCORP[1]	11,500	0	4,900	16,400	14,000
TasNetworks	26,738	7,157	35,849	69,744	51,200
TasPorts	4,619	0	1,427	6,046	4,700
TT-Line	16,235	0	20,073	36,308	29,200
Total	**208,834**	**13,439**	**127,786**	**350,059**	**326,400**

Note: Table 6 excludes the MCHF dividend of $86.60 million paid by TASCORP and $10.00 million in dividends paid by TasWater to councils.

The Government received $23.66 million more in returns from businesses than budgeted in 2020-21. This was primarily due to a higher than budgeted income tax equivalent payment by TT-Line and TasNetworks.

Financing of Government businesses

$358.23m ▲ (1.1%)

Total cash, deposits and financial investments held at 30 June 2021

Excluding TASCORP and MAIB, cash, deposits and financial investments held by businesses, at 30 June 2021 decreased by $5.68 million, or 1.6 percent compared to 30 June 2020. Of the $358.23 million held in cash, deposits and financial investments, most was held as short-term cash deposits (deposits with less than 3 months maturity term) with only $104.70 million held as investments by Hydro Tasmania and TT-Line. No entity held non-current financial investments at 30 June 2021.

$3.48bn ▲ 6.4%

Total loan borrowings as at 30 June 2021

Excluding TASCORP, 9 businesses held $3.48 billion of loan borrowings at 30 June 2021. This was $0.21 billion higher than prior year representing $1.48 billion in new loans and repayment of $1.27 billion of existing loans. Details of loan borrowings and relevant ratios are set out in Table 7.

Table 7: Debt and relevant ratios

Business	Borrowings $'000s	Current ratio	Cost of Debt	Interest coverage ratio	Debt to equity	Debt to debt plus equity
Hydro Tasmania	740,000	0.67	3.0%	17.99	42.3%	29.7%
Metro	5,000	0.87	1.3%	0.69	9.0%	8.2%
PAHSMA	3,000	1.41	2.5%	(62.00)	7.2%	6.7%
TI	32,563	0.79	1.1%	(114.65)	290.6%	74.4%
TasNetworks	2,050,000	0.38	3.3%	1.60	199.6%	66.6%
TasPorts	22,519	0.60	5.1%	(1.29)	9.5%	8.7%
TasRail	4,200	2.90	0.3%	(4,191.82)	2.9%	2.8%

Business	Borrowings $'000s	Current ratio	Cost of Debt	Interest coverage ratio	Debt to equity	Debt to debt plus equity
TasWater	619,768	0.29	3.1%	3.24	39.3%	28.2%
Tasracing	7,127	1.76	1.2%	60.06	15.9%	13.7%

Note: Debt to Equity means: Total borrowings held by entity as a percentage of entity's equity

Debt to Debt plus equity means: Total borrowings held by entity as a percentage of entity's borrowings plus equity balance.

Businesses in industry sectors with significant infrastructure, such as Hydro Tasmania, TasNetworks and TasWater, accounted for 97.8 percent of total debt held at 30 June 2021 (30 June 2020, 97.7 percent).

Government businesses with debt had a weighted average current ratio of 0.44. Whilst slightly higher than the 2019-20 result of 0.36, this outcome is still below the benchmark of 1.0, which indicates a net working capital deficit.

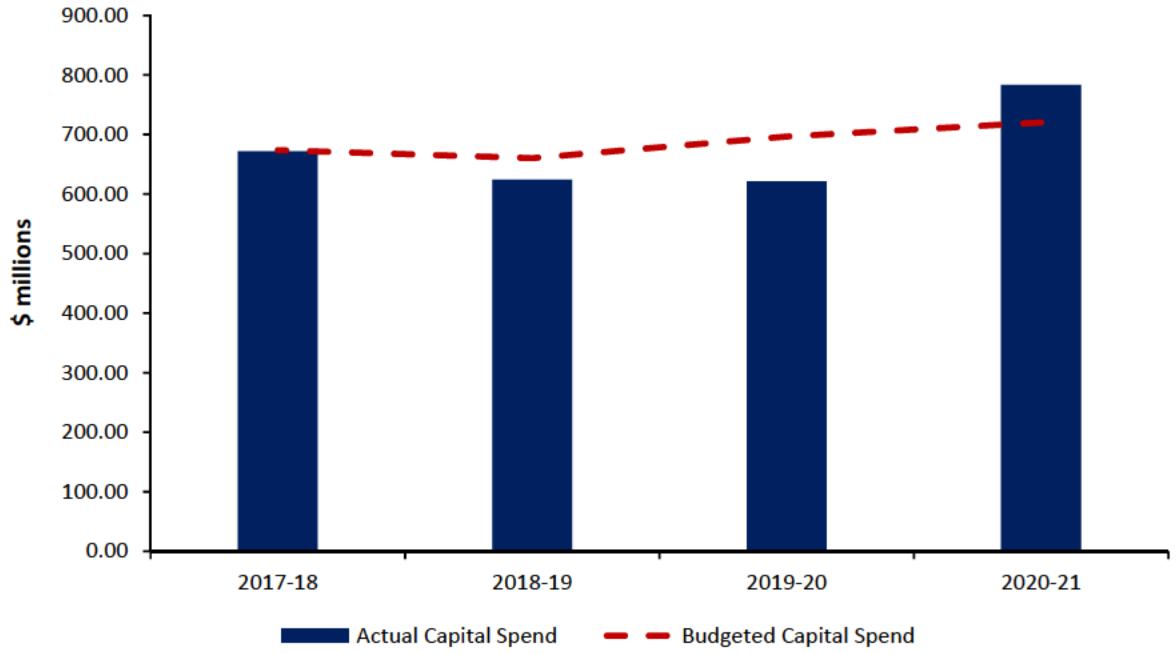
Of the 9 entities that held borrowings at 30 June 2021, 6 held current liability balances that exceeded their current assets. Both TasNetworks and TasWater had low current ratio balances. The 2020-21 financial statements of both entities disclosed the current asset deficiency was due to the existence of current borrowings with short-term maturities. In both cases, the maturing short term debt is expected to be refinanced in line with their respective treasury risk management policies and within TASCORP Master Loan Facility Agreement limits.

Capital investment by Government businesses

$2.70bn	$2.75bn	$12.60m
Total Capital Spend over last 4 years	Total Budgeted Capital Spend over last 4 years	Average Spend Gap over last 4 years

Excluding public financial corporations, Government businesses invested a total of $2.70 billion in capital projects over the past 4 years.

Figure 19: Capital spending



Note: Includes all Government business other than PFCs.

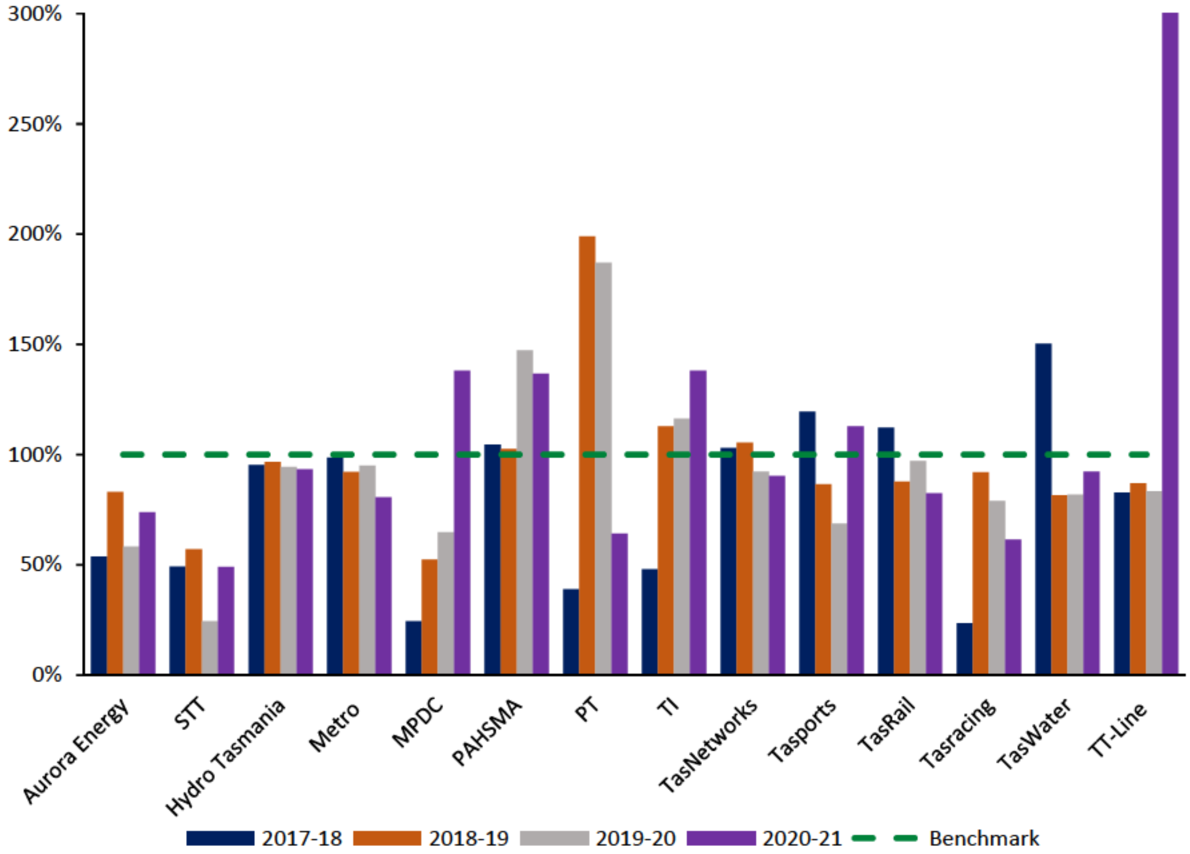
Purchases of Property, plant and equipment were the main cash outflows from investing activities, totalling $783.54 million, with Hydro Tasmania, TasNetworks, TasWater and TT-Line making up 94.1 percent of the total:

- $212.60 million by TasNetworks, including expenditure on the Marinus link, discussed earlier in this chapter
- $162.90 million by TasWater, partly on long-term projects such as the Longford sewage treatment plant upgrade, the Henderson and Mikany Dams, and the water plant upgrade at Bryn Estyn
- $155.98 million by Hydro Tasmania, with key projects including the refurbishment of generating units, and the replacement of aging systems at Gordon Power Station
- TT-Line spent $131.85 million, which included the first instalment for the two new steel vessels to replace the existing Spirit of Tasmania vessels, discussed earlier in the chapter.

Ideally, spending on Property, plant and equipment should match or exceed the depreciation expense incurred by an entity each year. The measure of asset sustainability showed that 3 entities did not achieve this spending rate in 2020-21, compared to 5 entities in 2019-20. However, spending on new assets does distort this ratio, and may mean that issues with existing property, plant and equipment are not being addressed.

Figure 20 shows the percentage actually spent on capital expenditure as a percentage of budget over the last 4 years.

Figure 20: Percentage spend of budgeted capital expenditure



Note: The 2020-21 result for TT-Line is 1,527.3%, which extends past the scale on the y-axis.

As shown in Figure 20, 4 entities spent more on capital projects than they planned to in 2020-21, including TT-Line's first instalment for the two new vessels (discussed above).

Aurora Energy and STT are both entities that have consistently spent less on capital projects than they planned to over the past 4 years. This relates to the nature of the projects that are undertaken. Aurora Energy's current main project – HubCX – is discussed in the significant development section of this chapter. STT's capital expenditure relates to maintaining the road network required to allow forest operations, rather than the creation of new assets, and a number of factors will impact actual capital expenditure over the course of the financial year.

Other State entities

Introduction

This chapter includes all State entities other than:

- GGS entities
- Government businesses, including parent and controlled or equity accounted entities
- Councils and council controlled or equity accounted entities and other local government entities
- State entities whose audits were dispensed with.

Other State entity developments

This section summarises significant developments which impacted other State entity operations, identified during the completion of the audit of other State entity financial statements.

University of Tasmania

Financial result

The University of Tasmania (University) recorded a consolidated surplus of $18.50 million in 2020 compared to a consolidated surplus of $73.47 million in 2019. The decrease is largely attributable to volatility in financial markets during 2020 with the market value movement of investments recording a loss of $8.36 million in 2020 compared to a gain of $64.38 million in 2019.

The University's core activities represent:

- learning and teaching
- research, knowledge transfer and research training
- community engagement
- activities incidental to undertaking the above.

The consolidated surplus from these core activities was $3.68 million for 2020 compared to a deficit of $1.91 million for 2019. The result from core activities in 2020 was affected by the impact of COVID-19 which contributed to a reduction in student fee income of $9.54 million from 2019, mainly comprising a reduction in overseas student fee income of $9.53 million. The reduction in student fee income was offset by increased Australian Government grants and Higher Education Loan Program income (excluding capital grants) totalling $17.55 million.

Impact of COVID-19

In responding to the impact of COVID-19, the University Council unanimously supported a plan based on the principles of staying focused on maintaining a great experience for students, addressing non-people costs first, sharing the financial burden over time, supporting staff flexibility, and aiming for long-term sustainability of staff numbers.

Throughout 2020, the University continued to model the impact of COVID-19 and various scenarios associated with opening of state and international borders covering the immediate, medium and longer term horizons. At the time of preparing the financial statements there was still a significant level of uncertainty relating Government policy settings in regard to border restrictions and therefore uncertainty around the full financial impact on domestic and international student fees. To assist in managing COVID-19 impacts and manage market volatility, the University liquidated selected investments totalling approximately $50.00 million during 2020.

Asset impairment

As part of an internal review of the University's asset base in 2020, there were several indicators of impairment identified driven by the reduction of international students studying and living on campus. Work in progress for minor building upgrades and initial work commenced on additional Purpose Built Student Accommodation project were written off at year end. Right of use assets for the University Village and Australian Maritime College Darling Harbour campus were also impaired. The financial statement impact was $7.66 million in assets written off and $3.13 million in assets impaired.

Other impairments included debts unlikely to be recovered, including sponsorships and Student Amenities fees. Approximately $0.43 million of student amenities fees and $1.51 million in sponsorships were impaired.

Coalition Government's new higher education package

In June 2020, the Australian Government Minister for Education announced reforms as part of the Coalition Government's new higher education package with the objective of delivering:

- greater capacity for universities to respond to increased demand
- a focus on better preparing students for jobs that reflect Australia's expected economic, industry and employment growth
- a stronger link between universities and industry
- flexibility for universities to manage their funding, and
- more transparent and accountable funding arrangements for universities.

University students who study in areas of expected employment growth would pay less for their degree. The Australian Government aims to incentivise students to make more job-relevant choices that lead to more job-ready graduates, by reducing the student contribution in areas of expected employment growth and demand.

Since November 2020, the University was beginning to assess the impact of the above scheme by testing the price elasticity of different courses offered.

Northern Transformation

Construction of the new Cradle Coast campus at West Park commenced in January 2020 and it was opened in September 2021. Capitalised work in progress at 31 December 2020 totalled $19.97 million.

At Inveresk, construction commenced in February 2020 for the Library and Student Experience building (expected opening early 2022) and the pedestrian and cycle bridge linking the precinct to the city (opened August 2021). In May 2020, a development application was submitted for redevelopment of the Northern car park, comprising 752 spaces to support the University and wider community, including at major events. This development application was approved in September 2020 with the car park opened in July 2021. Development applications for stage two, including the River's Edge and Willis Street buildings, were submitted in June 2020 and approved by Launceston City Council on 12 November 2020. Capitalised work in progress at 31 December 2020 totalled $21.41 million.

Southern Campus Strategy

In April 2019, the University Council made a decision to develop a city-centric model in Hobart over the next 10 to 15 years at an estimated cost of $600.00 million. As at July 2020, the University had acquired all required properties for the Southern Campus Strategy. Progress on the Southern Campus Strategy was paused during 2020 due to COVID-19. Consultations and master planning recommenced in late 2020.

Second Purpose Built Student Accommodation facility

Construction of the second purpose built student accommodation facility was completed during 2020 on land owned by the University with Spark Living Consortium funding the construction cost. The construction of the 442 bed accommodation was completed ahead of schedule. The final transfer occurred on 2 February 2021 and was reported in the financial statements as a subsequent event.

Repayment of borrowings

The University repaid $68.60 million off TASCORP overdraft facility during 2020, funded from the realisation of investments as discussed above.

Retirement Benefits Fund

Operating result

RBF incurred a net loss before tax of $66.12 million (2019-20, $166.99 million). Superannuation activities recorded a surplus $358.97 million, an improvement of $390.13 million compared to the prior year deficit of $31.16 million, with the change primarily due to a $233.59 million increase in the fair value of financial assets. The improved superannuation activities result was offset by a $425.09 million increase in defined benefit member liabilities arising from changes in expected future salary and pension levels and the application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions.

At 30 June 2021, RBF had a net liability position $5.58 billion, compared to $5.50 billion at 30 June 2020. The increase in the net liability was primarily due an increase in member defined benefit liability of $328.65 million, offset by an increase in net assets available for member benefits of $257.11 million.

Summarised financial results

Details of other State entity results for 31 December 2020 and 30 June 2021 are set out in Table 8. The financial information represents consolidated financial information for those entities with controlled entities. The table does not include controlled entities not subject to audit.

Table 8: Summarised financial results (31 December 2020 and 30 June 2021)

Audited State entities and Audited subsidiaries [1]	Underlying surplus (deficit) $'000s	Net surplus (deficit) $'000s	Total comprehensive surplus (deficit) $'000s
31 December 2020			
The University	3,680	18,499	18,245
AMC Search Ltd	510	510	510
Tasmanian University Union	(163)	(163)	(163)
Theatre Royal Management Board	161	161	161
Solicitors' Trust	1,318	1,318	1,318
Anzac Day Trust[1]	0	0	0
30 June 2021			
Legal Aid Commission of Tasmania	362	362	362
Legal Profession Board	(82)	(82)	(82)
Property Agents Board	(448)	(448)	(448)
Property Agents Trust	(255)	(255)	(255)
RBF[3]	(71,540)	(71,540)	(71,540)
Tasmanian Beef Industry (Research and Development) Trust	1	1	1

Audited State entities and Audited subsidiaries [1]	Underlying surplus (deficit) $'000s	Net surplus (deficit) $'000s	Total comprehensive surplus (deficit) $'000s
Tasmanian Building and Construction Industry Training Board	(93)	(93)	(93)
Tasmanian Community Fund	127	127	127
Tasmanian Heritage Council	(13)	(13)	(13)
Wellington Park Management Trust	(16)	(16)	(11)

Note 1: ANZAC Day Trust Fund is for the period 1 January to 17 November 2020

Note 2: The following entities are not included in this table as their audit had not yet been finalised as at 9 November 2021:

- Forest Practices Authority
- Tasmanian Dairy Industry Authority
- National Trust of Australia (Tasmania)
- The Nominal Insurer
- Aboriginal Land Council of Tasmania
- palawa Enterprise Unit Trust

Note 3: Amounts shown are after taxation for RBF

Acronyms and abbreviations

AASB	Australian Accounting Standards Board
AASB 1049	AASB 1049 *Whole of Government and General Government Sector Financial Reporting*
AASB 1059	AASB 1059 *Service Concession Arrangements: Grantors*
ACCC	Australian Competition and Consumer Commission
Audit Act	*Audit Act 2008*
Aurora Energy	Aurora Energy Pty Ltd
CIP	Capital Investment Program
Commission	Superannuation Commission
Communities Tasmania	Department of Communities Tasmania
COVID-19	Novel Coronavirus disease pandemic
CSOs	Community Service Obligations
Cth	Commonwealth of Australia
DoE	Department of Education
DoH	Department of Health
DPAC	Department of Premier and Cabinet
DPFEM	Department of Police, Fire and Emergency Management
DPIPWE	Department of Primary Industries, Parks, Water and Environment
FC-16	Treasurer's Instruction FC-16 *Contributions to Government Business*
FMA	*Financial Management Act 2016*
Foundation	Bob Brown Foundation
GBEs	Government Business Enterprises
GeelongPort	GeelongPort Pty Ltd
GFS	Government Finance Statistics
GGS	General Government Sector

Hydro Tasmania	Hydro-Electric Corporation
Justice	Department of Justice
MAIB	Motor Accidents Insurance Board
MCHF	Mersey Community Hospital Fund
Metro	Metro Tasmania Pty Ltd
ML	Megalitre
MPDC	Macquarie Point Development Corporation
Newood	Newood Holdings Pty Ltd
NHRA	National Health Reform Agreement
Office	Tasmanian Audit Office
OSC	Office of the Superannuation Commission
PAHSMA	Port Arthur Historic Site Management Authority
PESRAC	Premier's Economic and Social Recovery Advisory Council
PFC	Public Financial Corporations
PHFVP	Private Hospital Financial Viability Payments
PNFC	Public Non-Financial Corporations
PSF	Parliamentary Superannuation Fund
PT	The Public Trustee
RBF	Retirement Benefits Fund
RFA Act	*Regional Forest Agreements Act 2002* (Cth)
Scheme	National Redress Scheme for Institutional Child Sexual Abuse
SFC	State Fire Commission
State Growth	Department of State Growth
STT	Sustainable Timber Tasmania
SOCs	State-owned Companies
TAFR	Treasurer's Annual Financial Report

TASCORP	Tasmanian Public Finance Corporation
TasGRN	Tasmanian Government Radio Network
Taskforce	Vessel Replacement Taskforce
TasNetworks	Tasmanian Networks Pty Ltd
TasPorts	Tasmanian Ports Corporation Pty Ltd
Tasracing	Tasracing Pty Ltd
TasRail	Tasmanian Railway Pty Ltd
TASSS	Tasmanian Ambulance Service Superannuation Scheme
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd
TI	Tasmanian Irrigation Pty Ltd
Treasury	Department of Treasury and Finance
TSS	Total State Sector
TT-Line	TT-Line Company Pty Ltd
University	University of Tasmania

Audit Mandate and Standards Applied

Mandate

Section 17(1) of the *Audit Act 2008* states that:

> 'An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.'

Under the provisions of section 18, the Auditor-General:

> '(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1).'

Under the provisions of section 19, the Auditor-General:

> '(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards
>
> (2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity's appropriate Minister and provide a copy to the relevant accountable authority.'

Standards Applied

Section 31 specifies that:

> 'The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to -
>
> (a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and
>
> (b) the Australian Auditing and Assurance Standards.'

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.

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