Report of the Auditor-General
No. 2 of 2022-23

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 2021 and 30 June 2022

24 November 2022

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Our role

The Auditor-General and Tasmanian Audit Office are established under the *Audit Act 2008*. Our role is to provide assurance to Parliament and the Tasmanian community about the performance of public sector entities. We achieve this by auditing financial statements of public sector entities and by conducting audits, examinations and investigations on:

- how effective, efficient, and economical public sector entity activities, programs and services are
- how public sector entities manage resources
- how public sector entities can improve their management practices and systems
- whether public sector entities comply with legislation and other requirements.

Through our audit work, we make recommendations that promote accountability and transparency in government and improve public sector entity performance.

We publish our audit findings in reports, which are tabled in Parliament and made publicly available online. To view our past audit reports, visit our reports page on our website.

Acknowledgement of Country

We acknowledge Tasmanian Aboriginal people as the traditional owners of this Land, and pay respects to Elders past and present. We respect Tasmanian Aboriginal people, their culture and their rights as the first peoples of this Land. We recognise and value Aboriginal histories, knowledge and lived experiences and commit to being culturally inclusive and respectful in our working relationships with all Aboriginal people.

2022 (No. 32)

2022
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 2021 and 30 June 2022

24 November 2022

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

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24 November 2022

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

Dear President, Speaker

Report of the Auditor-General No. 2 of 2022-23: 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 2021 and 30 June 2022

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 2021 and 30 June 2022.

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 (audited subsidiaries).

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 audited subsidiaries 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 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 2 volumes reporting on our audits for the years ended 31 December 2021 and 30 June 2022. This volume reports on the status of audits of financial statements and provides analysis and commentary on:

- State entities and audited subsidiaries in the General Government[2] and Total State Sectors
- other uncategorised State entities and audited subsidiaries.

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 2021 and 30 June 2022 together with analysis and commentary on the local government sector, as well as Tasmanian Water & Sewerage Corporation Pty Ltd (TasWater), which is predominantly owned by local government councils.

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, 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] All references to Government refer to the Tasmanian Government unless otherwise stated.

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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 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 2022 was completed on 25 October 2022, in line with the legislative timeframe.

The status of audits of State entities and audited subsidiaries as at 15 November 2022 is shown is Table 1 below.

Table 1: Status of audits of State entities and audited subsidiaries as at 15 November 2022

Audits of financial statements	December 2021 and June 2022	December 2020 and June 2021[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)]	142	141
• after 45 days of the end of the financial year	16	15
	158	**156**
Audits of financial statements of State entities:		
• completed within 45 days of receiving the financial statements [Audit Act, s 19(3)]	69	71
• completed after 45 days of receiving the financial statements	39	50
• in progress	11	0
• awaiting audit dispensation[2]	1	0
• audits dispensed with[2]	38	35
	158	**156**

Note 1: prior year numbers for completed financial statement audits for all State entities and audited subsidiaries following the completion of all audits 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 and Total State Sectors

Introduction

This chapter provides an overview of the structure of the General Government Sector (GGS) and Total State Sector (TSS).

General Government Sector

The GGS consists of 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 entities, Public Non-Financial Corporations (PNFC) entities and Public Financial Corporations (PFC) entities.

PNFC are Government owned and include the majority of Tasmania's Government Business Enterprises (GBEs) and State-Owned Companies (SOCs). PNFC range in size and operate in a variety of commercial markets including the energy sector, port operations, transport and forestry.

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

GBEs are established under their own Portfolio Act and operate within the framework of the *Government Businesses Enterprises Act 1995*. The Governor, based on a joint recommendation of the Treasurer and Portfolio Minister, appoints directors to the boards 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 to the boards 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, they may deliver services for the Government through Community Service Obligations or under contract with the Government.

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

Figure 1: Structure of the GSS and TSS as at 30 June 2022

General Government Sector

Government Departments

- Communities Tasmania
- Education
- Health
- Justice
- Natural Resources and Environment Tasmania
- Police, Fire and Emergency Management
- Premier and Cabinet
- State Growth
- Treasury and Finance (including Finance-General)

Other entities that principally provide public services

- Brand Tasmania
- Environment Protection Authority
- 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

State-Owned Companies

- Aurora Energy Pty Ltd
- Metro Tasmania Pty Ltd
- 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

Government Business Enterprises

- Hydro-Electric Corporation
- Port Arthur Historic Site Management Authority
- The Public Trustee
- Forestry Tasmania

Statutory Authorities

- Macquarie Point Development Corporation
- Private Forests Tasmania

Public Financial Corporations

Government Business Enterprises

- Motor Accidents Insurance Board
- Tasmanian Public Finance Corporation

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.

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.

Machinery of Government changes

Changes to the administration and structure of the GGS may result from:

- State Service (Agencies and Heads of Agencies) Orders, which the Governor makes to amend the list of Government agencies or State authorities in Schedule 1 of the *State Service Act 2000* (State Service Act), under section 12 of the State Service Act
- State Service (Restructuring) Orders, which the Governor makes to establish, abolish or change the name of a department or State authority, or to restructure departments and State authorities, under section 11 of the State Service Act
- new, or amendments to existing, Acts of Parliament.

Table 2 summaries changes to the administration and structure of the GGS during 2021-22.

Table 2: GGS Administrative Restructures 2021-22

Date applicable	Change
From 31 October 2021	• Renewables Tasmania within the Department of State Growth (State Growth) was transferred to the Department of Treasury and Finance (Treasury). • The Tasmanian Climate Change Office within the Department of Premier and Cabinet (DPAC) was transferred to Treasury. • The Planning Policy Unit within the Department of Justice was transferred to DPAC.
From 1 December 2021	• The name of the Department of Primary Industries, Parks, Water and Environment was changed to the Department of Natural Resources and Environment Tasmania (NRE Tas). • EPA Tasmania within the NRE Tas was transferred to a new entity, the Environment Protection Authority (EPA). The transfer did not include the Waste Initiatives section or Environmental Policy and Support Services section.

Date applicable	Change
From 31 March 2022	• The part of the State Growth responsible for forest policy was transferred to NRE Tas. • The Forest Practices Authority within State Growth was transferred to NRE Tas. • Private Forests Tasmania within State Growth was transferred to NRE Tas.

Department of Communities Tasmania

Financial result

The Department of Communities Tasmania (Communities Tasmania) recorded a surplus of $1.66 million for 2021-22 (2020-21, deficit of $0.82 million).

COVID-19 funding

Communities Tasmania continued to play a crucial role in supporting the Government's response to the COVID-19 pandemic during 2021-22. Communities Tasmania received $91.87 million in COVID-19 response and recovery funding (2020-21, $78.63 million), with the majority of funds used to:

- provide emergency accommodation support, $37.73 million
- provide statewide safe spaces, $8.34 million
- facilitate the 'improving the playing field' initiative, $5.39 million.

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. At 30 June 2022, Communities Tasmania disclosed $1.83 billion of rental dwellings (2020-21, $1.67 billion) and $78.38 million in community housing stock (2020-21, $69.59 million).

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 at 1 July 2021. Communities Tasmania recognised a $583.82 million increase in the fair value of these assets.

Following the revaluation, 1,452 dwellings, which were valued at $638.14 million, were reclassified as Service Concession Assets, meaning they are now managed by third parties on behalf of the Government.

Machinery of Government changes after 30 June 2022

On 24 February 2022, the Government announced Communities Tasmania would be abolished, and its functions transitioned to other Agencies. A staged approach to this transfer started on 1 July 2022, with an expected finalisation date of 30 November 2022.

The timing of Communities Tasmania's abolishment, and that of its subsidiary, the Director of Housing, was established through the *Homes Tasmania Act 2022*, which received Royal Assent on 17 October 2022.

Ashley Youth Detention Centre

On 12 August 2022, Communities Tasmania received notice of a group action against the Government alleging abuse at the Ashley Youth Detention Centre. At that date, the action comprised of 4 lead plaintiffs and 101 group members, totalling 105 claimants.

Department of Education

Financial result

The 2021-22 result for the Department of Education (DoE) was a surplus of $19.90 million (2020-21, deficit $3.20 million). Total revenue was $83.50 million higher than the previous year, mainly due to an increase in appropriation revenue of $59.64 million and the contribution of COVID-19 supplies, worth $21.12 million, provided by the Department of Health (DoH) at no cost to DoE. Expenses increased by $60.40 million, with major increases attributed to:

- employee benefits expense, $22.73 million
- workers compensation premiums, $3.80 million
- supplies and consumables, $32.13 million, which included COVID-19 supplies costs of $30.54 million.

Property, plant and equipment

Property, plant and equipment increased by $197.32 million during 2021-22 to $1.87 billion, primarily due to increases in land and buildings. The increase represented revaluation increments of $201.30 million, additions of $48.26 million, offset by depreciation of $50.50 million.

The 2021-22 revaluation increment was based on indices for construction costs and land values advised by the Valuer-General.

Major projects undertaken during 2021-22 included:

- 6 new child and family learning centres
- Devonport High School
- New K-12 Penguin school
- New K-12 Sorell school
- School farm redevelopment.

Heritage collection

The heritage collection, which includes the Allport Library and Museum of Fine Arts and the Crowther Library, was revalued by independent valuation experts during 2021-22, resulting in a valuation increment of $19.84 million. Assets received at no cost relating to Community

Archive collections were capitalised for the first time in 2021-22, resulting in $6.30 million recognised as contributions received in the Statement of Comprehensive Income.

Machinery of Government changes after 30 June 2022

The Government announced a departmental restructure on 24 February 2022 to support the delivery of better services and outcomes for children, young people, individuals and families.

A key part of the restructure involved transferring the major functions supporting children and young people from Communities Tasmania to DoE with the transfer completed on 30 September 2022. On 1 October 2022, DoE was renamed the Department for Education, Children and Young People.

Department of Health

Financial result

DoH recorded a surplus of $73.82 million in 2021-22, compared to a surplus of $40.38 million in 2020-21. Total revenue was $421.98 million higher than the previous year, mainly due to an increase in appropriation revenue of $282.84 million and grants revenue of $134.65 million, offset by a reduction in other revenue from Government of $45.61 million. Expenses increased by $385.03 million with major increases attributed to:

- employee benefits of $185.18 million due to increased staff numbers and award pay rate increases
- supplies and consumables of $145.53 million due principally to increases in medical, surgical and pharmacy supplies, general medical consumables due to increased costs relating to the impact of COVID-19.

Capital works

In 2021-22, DoH received $68.37 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 2021-22 included:

- Mersey Community Hospital Early Works program
- Royal Hobart Hospital Wards 3A and 6A
- Launceston General Hospital Ward 3D
- New Norfolk Hospital Nurse Call and Body Protection works.

Ongoing capital projects with significant expenditure in 2021-22 included further works at the Launceston General Hospital and the continuation of the Royal Hobart Hospital redevelopment and the upgrade of the Mersey Community Hospital.

COVID-19 Response

In 2021-22, the COVID-19 pandemic continued to affect the operations and activities of DoH, with the following noted:

- Rapid Antigen Tests with a total value of $30.76 million were purchased and transferred to DoE, $21.14 million, and to independent schools and childcare centres, $9.62 million.
- The National Partnership on COVID-19 Response expires at 31 December 2022, at which point DoH will have progressed towards closing testing clinics, quarantine hotels, community case management facilities and state run vaccination clinics, as well as scaling back all emergency coordination centres, emergency operations centres, and call centres created as part of the COVID-19 response.

Department of Justice

Financial result

The Department of Justice (Justice) generated a surplus of $45.54 million for 2021-22 (2020-21, surplus $40.75 million). Revenue recognised by Justice was $57.11 million higher than the previous year, mainly due to an increase in appropriation revenue of $60.40 million and a rental incentive of $2.00 million included in other revenue. This was offset by a reduction in grants revenue of $7.52 million as no grant funding was received from the Public Building Maintenance Fund in 2021-22 (2020-21, $5.84 million).

In the same period, expenses grew by $51.84 million attributable to an increase in:

- employee benefits, $14.24 million
- workers compensation premiums, $4.68 million
- fees paid to solicitors supporting the Commission of Inquiry into the Tasmanian Government's Responses to Child Sexual Abuse in Institutional Settings included in supplies and consumables, $4.46 million
- redress payments under the National Redress Scheme for Institutional Child Sexual Abuse and related civil claims against the Crown, $15.81 million
- grants and subsidies due to a new Primary Producer Safety Rebate Scheme, $3.13 million, and financial assistance package for consumers affected by construction company failures, $2.79 million.

Property, plant and equipment

Property, plant and equipment increased by $72.72 million during 2021-22 to $376.56 million, primarily due to increases in land and buildings, including prison buildings and structures. This was made up of asset additions valued at $51.65 million, and revaluation increment of $31.34 million, offset by depreciation and amortisation of $10.27 million.

The 2021-22 revaluation increment was based on indices for construction costs and land values advised by the Valuer-General.

Major assets commissioned during 2021-22 included the Southern Remand Centre, $75.51 million, and high voltage works at the Risdon Prison Complex, $1.21 million.

Intangible assets

Intangible assets increased by $7.91 million during 2021-22 to $24.91 million. The increase represented additions of $9.02 million less amortisation of $1.11 million.

Intangible assets included assets under construction totalling $16.83 million at 30 June 2022. The majority of this relates to the Justice Connect 'Astria' system, an IT solution designed to enhance efficiencies and improve policy outcomes through better information sharing, access to timely and trusted information and integration across Government with relevant critical systems.

National Redress Scheme for Institutional Child Sexual Abuse and related civil claims against the Crown

During 2021-22, Justice expended $30.92 million (2020-21, $15.11 million) on payments to claimants under the National Redress Scheme for Institutional Child Sexual Abuse and for related civil claims against the Crown.

Payables at 30 June 2022 included $8.97 million (30 June 2021, $4.60 million) for Redress related settlements agreed but not paid at that date.

As at 30 June 2022, Justice had received a number applications under the National Redress Scheme for Institutional Child Sexual Abuse from individuals who had suffered abuse, with these claims yet to be resolved. Additionally, a number of civil claims had been made against various Government agencies relating to child abuse in State care.

Where these claims had been assessed and quantified, Justice disclosed them as quantifiable contingent liabilities, which totalled $45.50 million at 30 June 2022 (30 June 2021, $23.56 million). Where claims had not been assessed as at 30 June 2022, and it was not possible at the reporting date to accurately estimate the amounts of any eventual payments that may be required in relation to these claims, they were disclosed as unquantifiable contingent liabilities in the financial statements.

Department of Police, Fire and Emergency Management

Financial result

The Department of Police, Fire and Emergency Management (DPFEM) recorded a surplus of $21.55 million in 2021-22, an improvement of $20.03 million from 2020-21. Total revenue was $57.65 million higher than the previous year, mainly due to an increase in appropriation revenue of $59.54 million. This was driven by additional revenue received for the Police Enterprise Bargaining Agreement, Historical Complaints Review into Child Sexual Abuse, COVID-19 Coordination Centre, Upgrade Police Housing and Special Operations Group Infrastructure – South.

Expenses increased by $37.62 million, with major increases attributed to:

- Employee benefits $18.94 million, due to the negotiation and backpay for the new Police Enterprise Bargaining Agreement, payments associated with COVID-19 activities, and the timing of police recruitment training courses
- Supplies and consumables $8.56 million relates mainly to increases in lease payments, $1.61 million, and IT costs, $3.25 million

- Other expenses $7.33 million relates predominantly to interagency transfer payments from the State Fire Commission and an increase in the workers compensation premium.

Property, plant and equipment

Property, plant and equipment increased by $62.91 million during 2021-22 to $247.66 million, primarily due to increases in land and buildings. The increase represented additions of $30.71 million and a revaluation increment of $39.27 million, less depreciation of $5.78 million and disposals and an impairment loss of $1.29 million.

The 2021-22 revaluation increment was based on values advised by the Valuer-General.

Major capital projects

During 2021-22 work continued on the upgrade of police stations and houses with further properties upgraded or purchased during the year to a value of $16.34 million. In February 2022, DPFEM welcomed the new police vessel Dauntless into the Tasmanian Police fleet at a value of $3.23 million.

Department of Premier and Cabinet

Financial result

The result for DPAC for 2021-22 was a surplus of $3.64 million (2020-21, surplus $3.40 million). The result was consistent with the previous year, however gross revenue and expenses were significantly impacted due to the bulk purchase of Rapid Antigen Tests costing
$75.57 million to support the Government's COVID-19 pandemic response. The Rapid Antigen Tests were purchased by DPAC and reimbursed by DoH.

Department of Natural Resources and Environment Tasmania

Financial result

NRE Tas recorded a deficit of $28.55 million in 2021-22 compared to a surplus of $8.95 million in 2020-21. The decrease in 2021-22 was largely due to a loss on change in estimate of non-financial assets of $48.05 million, compared to $7.30 million in 2020-21. The 2021-22 figure is primarily due to the adoption of a revised Parks and Wildlife Service road infrastructure network hierarchy, which led to the removal of a class of roads assessed as serving no purpose.

Revaluation of Land, Buildings and Infrastructure

NRE Tas revalued its infrastructure assets to fair value as at 30 June 2022. Infrastructure assets, including walking tracks, roads, fire trails and other structures above the valuation threshold of $50,000 were fully revalued by the Valuer-General. Other infrastructure was indexed to fair value as at 30 June 2022, based on indices provided by the Valuer-General. The resulting changes in asset values were recognised as other comprehensive income reflecting a total revaluation increment of $53.44 million.

Land and buildings were indexed to fair value as at 30 June 2022, based on indices provided by the Valuer-General. Intangible abalone quota units were independently revalued in

2021-22 to fair value. The resulting changes in land, building and abalone quota unit values were recognised as other comprehensive income reflecting a total revaluation increment of $267.52 million.

During 2021-22, the Parks and Wildlife Service implemented a project to reclassify their road infrastructure network hierarchy. The revised hierarchy resulted in the removal of road infrastructure values for roads assessed as serving no purpose to NRE Tas, mainly D-class/unformed and road alignments. This includes former Forestry Tasmania roads that have grown over and disappeared over time, and roads that are unconstructed and do not have a monetary value. The impact on the financial statements was a write-off of $45.03 million through the Statement of Comprehensive Income, as noted above, and a decrement to the asset revaluation reserve of $17.71 million.

Machinery of Government changes after 30 June 2022

On 1 September 2022, Aboriginal Heritage Tasmania moved from NRE Tas to a new division of Aboriginal Affairs in DPAC.

Department of State Growth

Financial result

State Growth recorded a surplus of $282.09 million in 2021-22 compared to a surplus of $146.11 million in 2020-21. Total revenue was $413.71 million higher than the prior year, mainly due to increases across a number of areas, including:

- Appropriation revenue - operating - $105.78 million
- Appropriation revenue - capital - $42.16 million
- Grants - $90.07 million
- Other revenue - $60.00 million.

These increases were partially offset by increases in expenditure, which included:

- Grants and subsidies - $138.58 million
- Supplies and consumables - $24.18 million.

Grants included a significant increase in Australian Government grants, including increases across both the Capital Investment Program and the Supercharged Business Support Package. Other revenue increases included additional expense recoveries related to the Derwent Entertainment Centre, $27.46 million, and funds received for the Showgrounds Upgrade Project, $25.00 million. The most significant increase to grants and subsidies expenditure was $65.47 million in the provision of COVID-19 grants.

Valuation of infrastructure assets

State Growth undertook revaluations of its roads and bridges during 2021-22 by applying relevant indices. This resulted in a revaluation increment for roads of $102.34 million and bridges of $117.63 million, with the increments mainly due to an increase in the applicable construction indexes applied in 2022.

Capital expenditure

In 2021-22, State Growth expended $362.22 million for acquisition of non-financial assets (2020-21, $282.73 million). This included capital improvements related to roads $285.95 million (2020-21, $230.21 million) and bridges of $21.71 million (2020-21, $25.82 million) and building additions of $42.80 million (2020-21, $21.77 million).

Department of Treasury and Finance

Financial result

Treasury recorded a surplus of $0.31 million in 2021-22, compared to a deficit of $0.88 million in 2020-21.

Renewables, Climate and Future Industries Tasmania

Effective 31 October 2021, Treasury was restructured in accordance with *State Service (Restructuring) Order 2021*, with Renewables, Climate and Future Industries Tasmania (ReCFIT) established through the amalgamation of Renewables Tasmania, previously a part of State Growth, and the Tasmanian Climate Change Office, previously a part of DPAC. Net assets of $0.12 million assumed on restructure included cash and cash equivalents of $1.02 million less employee entitlements of $0.90 million.

ReCFIT contributed $1.39 million to Treasury's result for the year. Revenues of $10.12 million included $8.25 million from appropriation revenue and $1.26 million other revenue representing contributions from Tasmanian Networks Pty Ltd (TasNetworks) and Hydro Corporation Pty Ltd (Hydro Tasmania) for the Renewables Communication and Education campaign. Expenses of $8.73 million primarily represented salaries and wages expenditure and grants paid relating to Charge Smart, No Interest Loan Scheme and Hydrogen grants, which were transferred to ReCFIT from Renewables Tasmania and the Tasmanian Climate Change Office.

Transfers to the Public Account

Transfers to the Public Account in the Statement of Comprehensive Income increased from $0.27 million in 2020-21 to $1.74 million in 2021-22. The increase arose from the withdrawal of exemptions for liquor licence fees, which was a COVID-19 stimulus measure that applied for the previous 2 financial years.

Administered interest bearing liabilities, superannuation liability and risk management fund

The Finance-General Division, administered by Treasury, is responsible for administering whole-of-government activities. This includes:

- administering debt on behalf of the Government, which takes the form of facilities taken out with the Tasmanian Public Finance Corporation (TASCORP)
- meeting the Government's pension and other superannuation commitments
- managing the Tasmanian Risk Management Fund, a whole-of-government self-insurance arrangement for specific identified insurable liabilities of inner-Budget agencies.

Loans from TASCORP increased by $601.35 million during 2021-22 to a total of $2.29 billion at 30 June 2022. The additional borrowings were to increase the Government's cash holdings to support the expenditure of the GGS and to ensure Specific Purpose Accounts and Agency Trust Accounts are cash backed.

The administered superannuation liability decreased by $1.34 billion from $9.07 billion at 30 June 2021 to $7.73 billion at 30 June 2022. The decrease is driven by an increase in the discount rate used in calculating the liability from 2.15% in 2020-21 to 3.85% in 2021-22. There is an inverse relationship between the discount rate and the superannuation liability.

During 2021-22, the Government provided appropriation funding of $105.00 million to the Tasmanian Risk Management Fund to offset material increases in the workers compensation liability. The appropriation is intended as a one-off measure, with future funding shortfalls in the workers compensation risk expected to be met through annual agency budget allocations.

Environment Protection Authority

Financial result

The 7 month result to 30 June 2022 for the EPA was a deficit of $1.32 million. This result was mainly due to the unexpected Mersey River marine incident, where costs of $1.30 million were incurred. These costs will form part of a cost recovery request from the insurers of the CSL Australia Pty Ltd vessel, for which EPA holds a financial security of $2.00 million.

Creation of EPA as a separate entity

EPA transferred from NRE Tas to become an independent State authority on 1 December 2021.

At 1 December 2021, EPA's main assets and liabilities transferred from NRE Tas were:

- cash, $16.06 million
- a debt agreement between the Government and Grange Resources, which transferred from NRE Tas, recorded as a receivable and a provision of $7.82 million
- employee leave entitlements, $2.96 million.

State Fire Commission

Financial result

The State Fire Commission recorded a surplus of $7.89 million compared to $6.06 million in 2020-21. The marginal improvement of $1.83 million was a result of a number of minor variations in different revenue streams and related expenses including:

- an increase of $4.17 million in Insurance Fire Levy due to continuing growth of market forces with the insurance industry
- fire service contributions increased $2.66 million due to higher contributions from local councils, with a $1 increase in the minimum contribution per rateable property

- increases in expenditure for employee benefit costs of $2.23 million impacted by wage increases during the year and an increase to workers compensation costs of $2.36 million due to additional premiums and burner adjustments for prior years.

Also impacting the surplus was the impact of bushfire fighting. While revenue contributions increased by $4.65 million, bushfire fighting expenses increased by $5.84 million, due to the unpredictability of bushfire fighting expenses.

Property, plant and equipment

Property, plant and equipment increased by $22.58 million during 2021-22 to $143.72 million, primarily due to increases in land and buildings. The increase represented additions of $3.17 million and revaluation increment of $26.91 million, less depreciation of $6.74 million and disposals of $0.76 million.

The 2021-22 revaluation increment was based on values advised by the Valuer-General.

TasTAFE

Financial result

TasTAFE recorded a surplus of $15.39 million in 2021-22. This result included capital grants of $24.55 million. This compares to a surplus of $0.25 million in the previous financial year, which included capital grants of $9.96 million. The improved result was largely due to this increase in capital grant funding. TasTAFE received an additional 3 capital grants in 2021-22 totalling $14.25 million; Regional TAFE Virtual Campus grant of $2.00 million, TasTAFE and Libraries Tasmanian grant of $2.00 million and Critical TasTAFE facilities upgrades grant of $10.25 million.

Tourism Tasmania

Financial result

For 2021-22, Tourism Tasmania recorded a surplus of $2.07 million compared to a deficit of $0.69 million in 2020-21. The increase was largely due to an increase in grant funding which was not fully expended at 30 June 2022.

Recovery for Regional Tourism Fund

In September 2020, the Australian Government announced a $50.00 million Recovery for Regional Tourism Fund to support tourism regions that are heavily reliant on international tourism. Tourism Tasmania received $13.50 million under this program to support the recovery of Tasmania’s tourism industry and the broader visitor economy.

TAFR General Government Sector entity financial results

Details of GGS entity results for 2021-22 are set out in Table 3. The financial information represents consolidated financial information for those entities with controlled entities.

Table 3: TAFR GGS entity financial results for 2021-22

Audited State entities	Underlying surplus (deficit) $'000s	Net surplus (deficit) $'000s	Total comprehensive surplus (deficit) $'000s
Departments			
Communities Tasmania	(58,318)	1,658	598,354
Education	(62,114)	19,895	254,719
Health	18,974	73,821	199,406
Justice	(10,059)	45,541	76,876
Natural Resources and Environment Tasmania	(8,469)	(28,547)	274,370
Police, Fire and Emergency Management	(11,385)	21,550	60,820
Premier and Cabinet	3,058	3,640	3,640
State Growth	21,007	282,089	531,854
Treasury and Finance (including Finance-General)	306	306	306
Other GGS entities			
Brand Tasmania	194	194	194
Environment Protection Authority	(1,321)	(1,321)	(1,320)
House of Assembly	(13)	(13)	(13)
Inland Fisheries Service	1,122	1,122	2,647
Integrity Commission	(46)	(46)	(46)
Legislative Council	125	125	125
Legislature-General	(199)	(130)	(130)

Audited State entities	Underlying surplus (deficit) $'000s	Net surplus (deficit) $'000s	Total comprehensive surplus (deficit) $'000s
Marine and Safety Tasmania	140	5,560	10,533
Office of the Director of Public Prosecutions	329	329	329
Office of the Governor	(217)	(217)	4,435
Office of the Ombudsman	(11)	(11)	(11)
Royal Tasmanian Botanical Gardens	(131)	(71)	1,424
State Fire Commission	7,888	7,888	6,785
TasTafe	(6,533)	15,394	39,793
Tourism Tasmania	2,071	2,071	2,071

Table 4 shows the 2021-22 financial results of State entities that were consolidated into the financial results of entities included in Table 3.

Table 4: TAFR GGS entities consolidated into other GGS entities

Audited State entities	Underlying surplus (deficit) $'000s	Net surplus (deficit) $'000s	Total comprehensive surplus (deficit) $'000s
Ambulance Tasmania	(1,441)	238	8,735
Abt Railway Ministerial Corporation	2,344	2,344	8,486
Housing Tasmania	(35,466)	28,782	619,856
Office of Tasmanian Assessment, Standards and Certification	(63)	(63)	(63)
Tasmania Development and Resources	3,253	3,253	10,768
Tasmanian Affordable Housing Limited	(18)	(18)	(18)
Tasmanian Health Service	(3,294)	(504)	113,441
Tasmanian Museum and Art Gallery	2,069	2,190	2,190
Teachers Registration Board	94	94	94

Public Non-Financial and Public Financial Corporations

Introduction

This Chapter summarises financial results for the PNFCs and PFCs subject to audit. Analysis in this chapter has been performed using the consolidated financial results of those PNFCs and PFCs with controlled entities.

PNFC and PFC developments

This section summarises significant developments that affected the operations of PNFCs and PFCs during 2021-22.

Aurora Energy Pty Ltd

Financial result

In 2021-22, Aurora Energy Pty Ltd (Aurora Energy) generated a profit before tax of $4.34 million, compared to $27.01 million for the previous year.

The 2021-22 result reflects a decrease of $30.44 million in sales revenue from customers, primarily as a result of a retail price reduction of 11.0% and 7.1% for residential and small business customers respectively. This was offset by a corresponding $10.21 million reduction in energy and network purchases to service customers. Significant increases in the wholesale market costs in the last quarter of 2021-22 and under recovery of renewable energy certificate costs impacted Aurora Energy's result for the financial year.

Cash flow hedges

Net cash flow hedge gains and transfers of $147.70 million (2020-21, net gains and transfers $23.95 million) included in the Cash flow hedge reserve in Equity, together with profit after tax of $3.03 million (2020-21, profit after tax $18.91 million) resulted in Aurora Energy recognising total comprehensive income of $150.92 million (2021-22, total comprehensive income of $43.31 million).

The net cash flow hedge gain and transfer of $147.70 million reflects the increase in forward wholesale energy prices at 30 June 2022, which significantly increased the valuation of Aurora Energy's derivatives at that date.

Market trade receivables and trade and other payables

Market trade receivables, representing amounts receivable under a contract for difference for energy purchases with Hydro Tasmania, were $165.35 million at 30 June 2022, $160.25 million higher than the balance at 30 June 2021. Trade and other payables of $296.30 million at 30 June 2022, were similarly $169.99 million higher than the balance at the end of the previous financial year. In both instances, the increase is attributable to the high electricity spot prices in June 2022 resulting in a higher receivable from Hydro

Tasmania and a higher amount payable to the Australian Energy Market Operator (AEMO) at the end of the financial year.

Retail energy platform

Aurora Energy continues to implement its new Retail Energy Platform, HubCX, their cloud-based customer care and billing system. Aurora Energy continue to transfer their customers onto HubCX, and anticipate all small, single-site customers to be on the new system by the end of December 2022. Other remaining multi-site customers are expected to be transferred by the end of June 2023.

The existing Customer Care and Billing system, and its related legacy systems, will continue to run until they are decommissioned, which is expected to be in September 2023.

Forestry Tasmania (trading as Sustainable Timber Tasmania)

Consolidated financial result

Sustainable Timber Tasmania (STT), achieved a profit before tax of $14.72 million for 2021-22 (2020-21, profit $3.87 million).

The current year result included:

- a $7.19 million profit on sale of land which was acquired in 1999 at a cost of $0.61 million and which had a carrying value of nil at the time of sale
- an increase in the value of the forest (biological asset) component of the forest estate of $11.53 million (2020-21, $2.14 million).

Total revenue for 2021-22 from the sale of forest products, lease agreements, licenses and other forest management services and the performance of community service obligations was $113.20 million (2020-21, $124.84 million).

Revenue from forest sales was $7.38 million less than the previous year, although after eliminating revenue from co-mingled chip sales, which are offset by contractor and freight expenses of the same amount, revenue from forest sales was only $3.02 million less than the prior year.

Expenses for 2021-22 decreased by $5.75 million from the prior year to $116.10 million, mainly due to a reduction of $10.01 million in contractor and freight costs, which reflects the reduction in timber volume produced and sold and the reduction in woodchips purchased for co-mingled sales as discussed above.

Defined benefit superannuation liability

The defined benefit liability decreased from $30.16 million at 30 June 2021 to $22.85 million at 30 June 2022. An actuarial gain of $8.34 million arising from changes in financial assumptions used in calculating the liability was recognised in other comprehensive income. The gain is largely attributed to the change in the discount rate, which increased from 3.20% at 30 June 2021 to 5.35% at 30 June 2022. The discount rate was determined based on the estimated yield of a corporate bond with a duration of 13 years, which approximated the duration of the liabilities for the contributory scheme as a whole.

Hydro-Electric Corporation (trading as Hydro Tasmania)

Consolidated financial result

Hydro Tasmania recorded a profit before tax of $1.12 billion for 2021-22, a $762.19 million improvement from the profit before tax of $357.87 million in 2020-21. The improved result is primarily due to:

- a revaluation gain of $482.68 million for generation assets
- other net fair value gains of $511.84 million, mainly reflecting the net gain of $307.88 million on Basslink financial assets and liabilities following termination of the Basslink Services Agreement (BSA) and related contracts with Basslink Pty Ltd (BPL), net gains on energy price derivatives (economic hedges) of $46.35 million and gains of $117.70 million arising from improvement in the positions with onerous contracts.

After accounting for these revaluation and fair value movements, Hydro Tasmania had an underlying profit before tax[3] of $148.85 million compared to a profit of $216.98 million in 2020-21. The decrease is primarily due to a decline in electricity sales, mainly in the wholesale market.

Unrealised losses before tax on the revaluation of derivatives taken to the Cash flow hedge reserve equated to $882.43 million, compared to gains of $108.77 million in the prior year. This has primarily been driven by the surge in energy prices and the cap imposed by the operator in June 2022, in addition to discounting assumptions used in valuation of contracts related to major industrial customers.

Termination of Basslink agreements

In November 2021, BPL and related entities entered into voluntary administration. In February 2022, Hydro Tasmania terminated the BSA and related contracts with BPL. As at 30 June 2022, Federal Court proceedings were underway between BPL's receivers and other parties regarding the validity of the terminations and other related matters.

Hydro Tasmania considered the Basslink security deposit of $50.00 million and other recognised debts owed by BPL totalling $35.48 million at 30 June 2022 to be fully recoverable.

In October 2022, the sale of the Basslink asset was agreed to by creditors with Hydro Tasmania and the Government expecting to recover all recognised outstanding debts and a significant portion of contingent debts with BPL.

Battery of the Nation

The redevelopment of the Tarraleah hydropower scheme is a cornerstone project under the Battery of the Nation initiative.

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[3] References to underlying profit or loss in this PNFC and PFC developments section refer to the amounts reported in the entity's annual report. The Tasmanian Audit Office applies a consistent basis for calculating underlying profit or across all PNFCs and PFCs, consequently, there may be differences in the underlying profit or loss analysed later in this report.

In April 2022, the Australian Government provided a $65.00 million funding commitment to the Tasmanian Government to progress the redevelopment of the Tarraleah hydropower scheme which will increase the capacity and flexibility of the scheme. During 2021-22, Hydro Tasmania received the first instalment of $9.80 million.

Macquarie Point Development Corporation

Financial result

Macquarie Point Development Corporation (MPDC) incurred a loss of $19.69 million in 2021-22 (2020-21, loss $3.27 million). The result for 2021-22 was specifically impacted by:

- The recognition of remediation expenses of $13.79 million for the former Cold Store Site. Formerly a contingent liability of $18.00 million was recognised in the financial statements. With the confirmation of funding and commitment for the remediation of the Cold Store site during the year, a provision for future remediation expenses was recognised.
- An impairment loss of $6.35 million was recognised on inventory based on the valuation of the site at 30 June 2022, as adjusted for future remediation expenses.

Site development and remediation

Contributed equity of $27.35 million was received in 2022 from the Government to fund the future Capital costs, including the Cold Store remediation.

Remediation continued across most of the site during 2021-22 with 85.0% of the original site, which excludes the Cold Store site, physically remediated as at 30 June 2022. It is anticipated the remaining 15.0% will be completed by 30 June 2023.

Very little of the Cold Store site has been remediated to date. Investigations and planning for the physical remediation works will continue in 2022-23.

Procurement review

A review of procurement activities was conducted in 2021-22 by MPDC's internal auditors. The internal audit reviewed MPDC's procurement and contracting compliance with the Treasurer's Instructions, issued under the *Financial Management Act 2016*. Whilst the audit concluded that there was no evidence of deliberate actions to circumvent Treasurer's Instructions or other MPDC requirements, findings of significance arising from the internal audit were:

- 3 signed contracts could not be located
- variations to a number of contracts had little or no supporting documentation to substantiate the changes.

MPDC accepted all recommendations and undertook to put processes in place to prevent future non-compliance.

Metro Tasmania Pty Ltd

Consolidated financial result

For 2021-22, Metro Tasmania Pty Ltd (Metro) achieved a profit before income tax of $3.49 million (2020-21, loss $0.80 million).

Metro identified patronage recovered to 83.0% (2020-21, 80.0%) of pre-pandemic levels which resulted in an estimated $2.40 million loss (2020-21, $2.89 million loss) in fare revenue compared to pre-pandemic levels.

Bus replacement program

In 2021-22, Metro engaged BusTech to supply 26 new buses. Due to problems relating to the fulfilment of this contract, Metro terminated the agreement on 3 June 2022. Eight of the 26 buses were commissioned by 30 June 2022, and 4 partially complete buses were included in work in progress at this date. Options to source the remaining buses were being considered by Metro, along with options to finish the partially completed buses.

Service contract with State Growth

Metro's service contract with State Growth expired on 31 December 2018 and contract extensions were negotiated to 31 August 2022. At the date of signing the 2021-22 financial statements, Metro and State Growth were finalising negotiations regarding a new service contract. A contract with an initial term to December 2024 and an option to extend for a further 5 years was signed on 26 August 2022 with effect from 1 September 2022.

The Treasurer provided an undertaking to provide ongoing support for Metro to enable it to continue to operate as a going concern.

Borrowing Facility

In June 2020, Metro established an $18.00 million borrowing facility with TASCORP with a drawdown program to assist Metro in meeting short term commitments and to fund its capital replacement program. At 30 June 2022, Metro had drawn down $5.00 million of the facility.

Motor Accidents Insurance Board

Financial result

The 2021-22 financial result for the Motor Accidents Insurance Board (MAIB) was a loss before tax of $73.86 million declining from a profit before tax of $302.93 million in 2020-21, predominantly due to:

- lower gross investment returns of $341.81 million reflecting the decline in global investment markets
- gross claims incurred increased by $22.76 million, resulting from the combined impact of the cost of claims and the movement in economic assumptions (discount and inflation rates) underlying the valuation of the outstanding claims liability.

Despite the volatility in financial results over the past 2 years, the key cash flows from operations have remained relatively stable. Premium receipts in 2021-22 totalled

$154.63 million (2020-21, $156.21 million) with claim payments of $92.61 million (2020-21, $85.92 million).

Claims experience

MAIB received 1,923 new claims in 2021-22 a decline from 2,163 in 2020-21. The decline in claim numbers of 11.1% continues a downward trend, following similar decreases of 5.7% in 2020-21 and 12.5% in 2019-20. The reduction in the number of new claims was also reflected in the claim frequency rate per 1,000 registered vehicles, which reduced to 3.3 for 2021-22 from 3.8 in 2020-21.

Port Arthur Historic Site Management Authority

Financial result

Port Arthur Historic Site Management Authority (PAHSMA) incurred a loss of $4.30 million for 2021-22 compared to a loss of $5.08 million in 2020-21. The improvement was mainly due to a $3.24 million increase from fees, tours and merchandise income, predominately from day entry and ghost tour visitors at the Port Arthur historic site. Although visitation improved, PAHSMA continues to be impacted from the ongoing effects of COVID-19 on the tourism sector. Visitation was also impacted at the Cascades Female Factory which was closed for 9 months due to the construction of the History and Interpretation Centre.

During the year PAHSMA received a payroll tax grant of $0.35 million as part of a Government package provided to support tourism, hospitality and ancillary services.

Equity injection

The Government continued its assistance to PAHSMA providing an equity injection of $9.00 million (2020-21, $10.02 million). This was used to reduce TASCORP borrowings by $1.00 million with the balance retained in cash and deposits. Equity contributions are part of the Government's commitment to provide $20.00 million in equity contributions over the 4 year period to 2023-24.

Private Forests Tasmania

Financial result

Private Forests Tasmania (PFT) recorded a net surplus of $0.14 million for 2021-22 compared to a loss of $0.45 million in 2020-21. The improvement was mainly as a result of PFT being awarded $0.50 million in project funding from the Australian Government, which will assist in implementing PFT's objectives to grow the private forestry sector, through planned investment in marketing and communications, information tools and showcasing the best practice farm forestry.

Tasmanian Irrigation Pty Ltd

Financial result

Tasmanian Irrigation Pty Ltd (Tasmanian Irrigation) incurred a loss before tax of $18.14 million for 2021-22 (2020-21, loss $43.06 million). The improvement from the previous year was mainly due to the reduced amount of impairment of capitalised costs for irrigation schemes of $14.61 million (2020-21, $47.04 million).

Irrigation scheme development

During 2021-22, the $1.00 billion Tranche Three program of work was underway, with first project in the tranche, the 4,750 megalitre Don Irrigation Scheme, under construction.

The Northern Midlands Irrigation Scheme was also progressed. The project was originally planned as 8,000 megalitre scheme, however sufficient applications were received to underpin a 24,500 megalitre scheme.

During 2021-22, Tasmanian Irrigation secured additional funding for an upgrade of the Greater Meander Irrigation scheme with an estimated cost of $20.00 million. At 30 June 2022, $0.49 million had been spent. Associated funding of $1.25 million was received and treated as an equity contribution, in line with the Treasurer's designation.

During 2021-22, the Fingal Irrigation Scheme did not meet the viability threshold and will be reinvestigated by Tasmanian Irrigation at the end of Tranche Three program. Project costs of $0.60 million were subsequently written off.

Other developments

At 30 June 2022, planning was underway to advance the $5.50 million Government sponsored Energy on Farms program. This program will see the installation of solar panels at 14 pump stations to off-set power consumption, with any surplus power sold into the grid.

The Tasmanian and Australian Governments also contributed $1.50 million each toward essential work on the old Lake Leake Dam to extend the life of the dam and ensure it complies with contemporary design standards.

Tasmanian Networks Pty Ltd

Consolidated financial result

TasNetworks generated a profit before tax of $57.00 million in 2021-22 (2020-21, profit $25.74 million) with the higher profit principally due to an increase in regulated revenue, $34.48 million. The current year result includes $18.20 million of regulated revenue over recoveries, attributable to higher AEMO settlement residues received, and higher network use of system charges. As per the application of the regulated revenue cap rules, this amount is required to be adjusted and passed back to customers in future years, via annual pricing. This will lower revenue and profit in the years the adjustments occur.

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.

In 2021-22, Marinus Link received $12.12 million in grant funding from the Tasmanian Government. This grant represented the balance of the $50.00 million funding paid to the Tasmanian Government by the Australian Government under its March 2019 commitment to provide Tasmania with a grant of $50.00 million to progress the project together with $6.00 million for Hydro Tasmania's Battery of the Nation proposal.

From October 2021, development costs associated with Marinus Link were capitalised as an asset on the basis the project could be sold during the design and approvals phase prior to a financial investment decision being made. In December 2021, the capitalised costs were transferred from TasNetworks to Marinus Link Pty Ltd, which continued to progress the design and approvals phase of the project. The carrying amount of the intangible asset recognised at 30 June 2022 was $31.71 million.

In April 2022, the Commonwealth committed a further $75.00 million of grant funding under the Federal Funding Agreement to progress the project to a financial investment decision. Payments will be received over the next 3 financial years in line with completion of agreed milestones.

On 19 October 2022, the Premier and Minister for State Development, Construction and Housing announced the Tasmanian Government had reached agreement with the Australian Government under its Rewiring the Nation initiative to take the next steps in a Tasmanian energy package comprising of Marinus Link, the North West Transmission Development and Battery of the Nation. The agreement provided a clearer pathway for Marinus Link to Final Investment Decision in late 2024, by addressing critical matters relating to project's future including how the project will be funded. The agreement also addressed cost sharing arrangements between the Australian, Tasmania and Victoria Governments.

FortyTwo 24 Pty Ltd

In June 2022, FortyTwo24 Pty Ltd and Enzen Australia Pty Ltd established a joint venture to capture annual spatial data of Tasmania for a period of 10 years. Through a federated spatial data model (digital twin) the venture, called Virtual TAS, will provide data services to governments, utilities, councils, businesses and agriculture. TasNetworks will be the foundation customer for the new joint venture.

Due to the timing of the acquisition, an asset was recorded to reflect the value of the investment in the joint venture, however as at 30 June 2022, operations of the joint venture had not commenced.

Tasmanian Ports Corporation Pty Ltd

Consolidated financial result

Tasmanian Ports Corporation Pty Ltd (TasPorts) recorded a profit before tax of $16.19 million (2020-21, loss $2.78 million). The increase in profit was reflective of increased revenue generating activity during 2021-22. An increase in ship visits resulted in higher wharfage, towage, pilotage and freight related revenues, with TasPorts recording a 10.8% increase in ship visits in 2021-22 and a 2.8% increase in freight volumes handled across Tasmania, when compared with 2020-21. Income also increased over the prior year with successful renegotiation of uneconomic long term legacy lease agreements.

Whilst the impacts of COVID-19 were still felt by TasPorts in 2021-22, through the continued restrictions on cruise ships, there was a re-introduction of regularly scheduled flights to Devonport airport which contributed to increased revenues. Further recovery is anticipated in 2022-23 following the Government's announcement that large cruise ships would return to Tasmania from October 2022.

Goliath incident

On Friday 28 January 2022, an allision occurred at the Port of Devonport involving a commercial cement carrier Goliath that allided with 2 TasPorts berthed tugs, the Campbell Cove and the York Cove. Both tugs sunk, and the wrecks were removed in August 2022.

During 2021-22, TasPorts received insurance proceeds of $2.17 million in relation to the Campbell Cove and York Cove. In the same period, TasPorts incurred costs as a result of this incident, including environmental clean-up costs, incident response and salvage costs, and the hiring of a replacement tug. Whilst TasPorts can recover some of the environmental clean-up costs from the EPA, it is seeking to recover other costs from either its insurer or CSL Australia Pty Ltd (CSL), the owners of the Goliath ship. In May 2022, TasPorts commenced legal proceedings in the Federal Court of Australia against CSL.

TasPorts recognised all unreimbursed costs associated with the Goliath incident in the trade and other receivables balance in their Statement of Financial Position at 30 June 2022. This treatment is not in line with the Australian Accounting Standards which requires a higher degree of certainty before such amounts can be recognised as a receivable. At balance date the amounts recognised as a receivable were not material, although they are expected to increase.

TasPorts will recognise costs associated with the incident that were included in the receivable as an expense in their Statement of Profit or Loss and Other Comprehensive Income, along with any recoveries, in their entirety, when the claims are either finalised with TasPorts' insurers or the proceedings against CSL are resolved. While it is envisaged that there will be a resolution prior to 30 June 2023, TasPorts will need to monitor outcomes to ensure compliance with Australian Accounting Standards is maintained.

QuayLink project

During 2021-22, TasPorts commenced early works on the East Devonport Project, QuayLink, which will be Tasmanian’s largest port infrastructure project, budgeted at $241.00 million. The project will benefit trade and tourism by significantly increasing the freight, vehicle and general visitor capacity, whilst also providing for future growth. The project is scheduled for completion by 2027-28.

Tasmanian Public Finance Corporation

Financial result

TASCORP reported a profit before tax of $10.90 million in 2021-22, a reduction of $11.80 million from the prior year. The result comprised a profit of $13.00 million (2020-21, profit $12.50 million) from core treasury operations and a $2.10 million loss (2020-21, profit $10.20 million) from the Mersey Community Hospital Fund (MCHF).

The deterioration in the MCHF result arose from an increase in unrealised losses of $10.20 million, of which $9.20 million result from derivatives that are hedging MCHF investments, and a slight fall of $2.10 million in net interest revenue from the reduction in the fund balance as a consequence of the dividend distributions from the fund in June 2021. The derivative unrealised losses are expected to reverse over the next 4 years and are not expected to affect TASCORP’s dividend distribution capability.

Total assets reduced from $10.54 billion to $9.29 billion primarily due to the dividend payment of $89.60 million made from the MCHF in June 2022 and a $1.02 billion reduction in investments, largely due to the maturity of the 2022 benchmark bonds and the change in client advance funding mix.

Treasury Deposit Product

During 2021-22, TASCORP's Board approved a new deposit product for Treasury with a longer term investment horizon. The Treasury Deposit Product is expected to deliver improved return for the excess cash and deposits held by Treasury, used to cash back the special purpose accounts and trust accounts in the Public Account. The investment approach is to invest these funds into a portfolio of longer term high quality liquid assets aiming to achieve a higher rate of return over time compared to short term cash investment strategies. Treasury's initial investment was $600.00 million.

Tasmanian Railway Pty Ltd

Financial result

Tasmanian Railway Pty Ltd (TasRail) incurred a loss before tax of $50.38 million for 2021-22 (2020-21, loss $46.27 million). The loss was mainly due to the immediate impairment of capitalised infrastructure costs for below rail assets of $46.47 million (2020-21, $42.14 million). The result for 2021-22 was supported by operational grant funding of $13.10 million (2020-21, $11.60 million) and equity contributions of $67.60 million (2020-21, $68.20 million) from the Government.

Rail freight volumes of 498.86 million tonne kilometres were the second highest on record, down 1.9 per cent from the record high of the previous year. TasRail also provided 650 thousand tonnes of shiploading services, the second highest volume ever. Timber and paper saw strong demand, along with general containers, offsetting a weaker minerals export sector. Some disruptions in international shipping caused a dip in some sectors.

Infrastructure Investment Program

The Tasmanian Freight Rail Revitalisation Program continued during 2021-22, with Tranches 2 and 3 of the Infrastructure Investment Program (IIP) progressing in their second and third years respectively, contributing a combined total of $49.40 million in 2021-22 for track renewals and improvements.

Separate to the trackworks component, the Burnie shiploader replacement is also being funded under IIP Tranche 3. The project was also broadened to include expansion of the bulk minerals export facility, with approval granted to increase the budget for the total project to $64.00 million. Upon completion, the new expanded shiploader facility is expected to double the loading capacity and improve reliability, enabling quicker turnaround of vessels in port.

In the 2022-23 Federal Budget, the Australian Government announced IIP Tranche 4, which will provide a further $120.00 million of funding commencing in 2024-25. In a change from previous tranches, the Australian Government proportion will increase to 80.0% of the funding, $96.00 million, with the Tasmanian Government contributing 20.0%, $24.00 million.

Tasracing Pty Ltd

Financial result

Tasracing Pty Ltd (Tasracing) recorded a profit before tax of $4.87 million for 2021-22 (2020-21, profit $4.46 million). The improved performance was driven by a $3.89 million increase in racing revenues, principally from an increase in turnover offset by increased stakes awarded in 2021-22.

Due to increased turnover and profits in the first half of the year, Tasracing brought forward the 4.0% increase in stakes awarded to the racing clubs from 1 January 2022. The increase in stakes was previously expected to occur from 1 July 2022. The early increase in stakes awarded, offset the increased revenue generated in the first half of the year. This led to the small increase in overall profit for the year.

Development of new race tracks in the North-West

During 2021-22, Tasracing terminated its lease at the Devonport showgrounds site. A new site was selected and Tasracing commenced planning and development works.

Subsequent to the commencement of this work, a natural values assessment was undertaken which highlighted that the site contained a number of endangered flora and fauna species. The site was no longer considered suitable for development and the related capitalised costs were written off during the year at a value of $0.21 million. The Government provided funding of $0.50 million during 2021-22 for this development.

An alternative site was identified prior to the end of the financial year. To assist with the capital costs of the development, the Government has committed a further $7.50 million, to be provided once construction on the new site commences.

The Public Trustee

Financial result

The Public Trustee achieved a loss before tax of $0.22 million for 2021-22 (2020-21, profit $0.53 million). The lower outcome reflects a decrease in client numbers in 2021-22 compared to 2020-21, resulting in lower fees and commission revenue.

Review of The Public Trustee

In 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. The report was released in November 2021 and made 28 individual recommendations.

In May 2022, the Government announced it supported, in principle, all recommendations. The Government's 2022-23 State Budget allocated The Public Trustee $4.30 million over 4 years from 1 July 2022 to support the implementation of the recommendations for which it is responsible.

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 agreed with the Treasurer provided The Public Trustee with community service obligation funding until 30 June 2022.

Through its 2022-23 State Budget, the Government has allocated funding for The Public Trustee to undertake their community service obligations for the 4 year period from 1 July 2022. This allocation includes an increase in the level of funding provided on an annual basis to cover the cost of these obligations.

At the date of signing their financial statements, The Public Trustee were negotiating their new funding agreement with Treasury.

TT-Line Company Pty Ltd

Financial result

The result for TT-Line Company Pty Ltd (TT-Line) for 2021-22 was a loss before tax of $20.03 million, a deterioration from the loss before tax of $9.61 million incurred in 2020-21. Operating activities continued to be impacted by COVID-19 and government-imposed travel restrictions and border closures in response to the pandemic, which were in place for much of the first half of the financial year.

The number of sailings increased by 17 to 823 for the financial year, with passenger numbers increasing from 234,725 for 2020-21 to 284,323 for 2021-22. This contributed to operating revenue increasing by $26.09 million for 2021-22 to $238.27 million, with $19.96 million of this attributed to increased passenger service revenue.

The increase in operating revenue was offset by higher increases in operating costs, mainly due to increased:

- depreciation expense of $18.01 million arising from higher vessel depreciation of $6.07 million following completion of major cyclical maintenance during 2021-22 and higher right of use asset depreciation of $11.91 million following recognition of make good obligations on the berth leases at Station Pier in Melbourne and Berth No.1 East in Devonport
- employee benefit expense of $5.41 million as a result of increased wages, COVID-19 impacts and increased sailings
- marine, fuel and oil expense increased by $9.55 million.

Vessel replacement

In April 2021 contracts were signed with Finnish shipbuilder Rauma Marine Constructions (RMC) for 2 new ship builds, to be delivered in quarter 1 and quarter 4 of 2024, respectively. These contracts contain provisions to include up to $100.00 million of Tasmanian and Australian content in the new builds.

Under the contract for construction of the vessels, legal ownership remains with RMC until such time as TT-Line has verified the vessels as being fit for purpose. Notwithstanding RMC's retention of ownership, TT-Line has recognised payments made to date as construction works in progress on the basis that they intend to take ownership of the vessels upon completion of the construction. If RMC is unable to fulfil their obligations under the contracts, RMC is to refund the construction instalments paid by TT-Line. To mitigate any credit risk to TT-Line, RMC has provided refund guarantees issued by reputable financial institutions.

Construction work-in-progress was recognised on basis of instalments paid which may not reflect the actual percentage of construction as at the reporting date. A second instalment of $21.71 million, representing 4.9% of the contract price for the first of the ships to be constructed, was paid in March 2022. The total amount of construction works in progress recognised at 30 June 2022 was $155.10 million. At 30 June 2022, TT-Line recorded a commitment of $730.68 million towards its purchase commitment for the vessels.

TT-Line entered into forward exchange contracts to fix the exchange rate on future contract payments. At 30 June 2022, a liability of $16.94 million was recognised for the market value of the forward exchange contracts entered into at that date. Movements in market value of forward exchange contracts are recognised in the cash flow hedge reserve until the hedge contracts are closed out.

Vessel Replacement Fund

During 2021-22 year the Government provided an equity contribution of $21.68 million to TT-Line using funds from the Vessel Replacement Fund. Funds remaining in the Vessel Replacement Fund held by the Finance-General division of Treasury at 30 June 2022 were $41.04 million.

Spirit of Tasmania Quay at Geelong

In April 2020, TT-Line entered into an agreement with GeelongPort Pty Ltd to lease the Spirit of Tasmania Quay at Geelong for a term of 30 years. As at 30 June 2022, no right of use asset or lease liability had been recognised as practical completion of the new ferry terminal had not occurred. TT-Line commenced sailing from the Spirit of Tasmania Quay at Geelong from 23 October 2022.

The aggregate future cash outflows to which TT-Line is exposed under the lease agreement is $752.30 million over the next 30 years. There is an option for 2 further terms of 10 years under the lease agreement.

Devonport berth lease

In July 2022, TT-Line signed a 5 year lease with an effective date of July 2021 with TasPorts for Berth No. 1 East at Devonport, while redevelopment occurs at Berth No. 3 East and other areas of the precinct. The lease for Berth 1 will expire at the earlier of practical completion of the development of Berth No. 3 East or 1 July 2026. On expiration of the Berth No. 1 East lease, TT-Line will commence with a new lease for Berth No. 3 East. A right-of-use asset and lease liability for Berth No.1 East was recognised as at 1 July 2021, as TT-Line maintained occupancy of the berth from that date, for a period to 30 June 2026.

Provision for make good obligations

From 1 July 2021, TT-Line recognised a provision for restoration of the TasPorts Devonport site and Ports Victoria's Station Pier site, in accordance with their respective lease agreements. The provision, which totalled $8.89 million at 30 June 2022, was based on management's estimation of the expected outflow of economic benefits at the conclusion of each lease. The TasPorts lease expires in June 2026 and the Ports Victoria lease expires in November 2022.

For 2021-22, interest expense arising from the unwinding of the discount of the provision totalled $0.56 million.

PNFC and PFC financial results

Details of PNFCs and PFCs' financial results are set out in Table 5. The financial information represents consolidated financial information for those entities with controlled entities.

Table 5: PNFC and PFC financial results

Entity	Underlying profit (loss)[1] $'000s	Profit (loss) before tax $'000s
Aurora Energy Pty Ltd	4,280	4,341
Hydro Tasmania	125,550	1,120,064
Macquarie Point Development Corporation	(13,344)	(19,691)
Metro Tasmania Pty Ltd	3,489	3,489
Motor Accidents Insurance Board	(73,863)	(73,863)
Port Arthur Historic Site Management Authority	(4,303)	(4,303)
Private Forests Tasmania	143	143
Sustainable Timber Tasmania	3,197	14,723
Tasmanian Irrigation Pty Ltd	(7,768)	(18,142)
Tasmanian Networks Pty Ltd	56,996	56,996
Tasmanian Ports Corporation Pty Ltd	15,258	16,188
Tasmanian Public Finance Corporation	10,900	10,900
Tasmanian Railway Pty Ltd	(3,978)	(50,380)
Tasracing Pty Ltd	4,867	4,867
The Public Trustee	(223)	(223)
TT-Line Company Pty Ltd	4,225	(20,032)

Note 1: We apply a consistent basis for calculating underlying profit/(loss) across all PNFCs and PFCs. Consequently, there may be differences in the underlying profit/(loss) reported in the table compared to that reported in PNFCs and PFCs' annual reports

A summary of the financial results of audited subsidiaries of PNFCs and PFCs' is provided in Table 6. The financial results of these entities are incorporated into the consolidated financial results of the respective parent entity in Table 5.

Table 6: PNFC and PFC subsidiary financial results

Entity	Underlying profit (loss)[1] $'000s	Profit (loss) before tax $'000s
Bass Island Line Pty Ltd	(3,116)	(3,116)
FortyTwo24 Pty Ltd	4,896	4,896
Marinus Link Pty Ltd	(190)	(190)
Momentum Energy Pty Ltd	10,283	10,283

Note 1: We apply a consistent basis for calculating underlying profit/(loss) across all PNFCs and PFCs. Consequently, there may be differences in the underlying profit/(loss) reported in the table compared to that reported in PNFCs and PFCs' annual reports

Commentary on the Treasurer's Annual Financial Report

Introduction

This chapter provides an overview of the legislative and financial reporting frameworks for the preparation of TAFR together with financial analysis and commentary on:

- the GGS and TSS financial statements
- the PNFC and PFC sectors
- the Public Account Statements.

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.

Financial reporting framework

The GGS and TSS financial statements are prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. 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, and are reported on a cash basis. 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 hold funds that will be utilised to fund the cost of certain transactions over more than one year. 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 statements

The following sections contain analysis and commentary on the GGS and TSS financial statements. Comments should be read alongside TAFR. The major focus of this section is to compare 2021-22 results with the outcomes of 2020-21, and analyse trends over the past 4 years.

To be consistent with TAFR, unless otherwise stated 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, as 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.

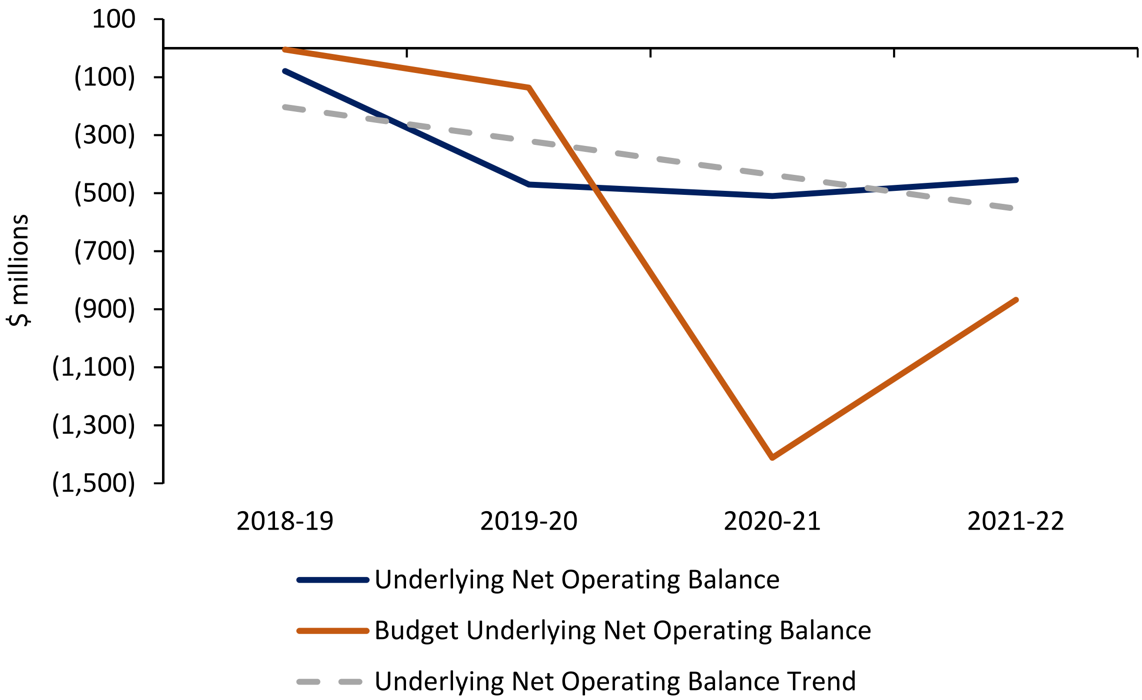
General Government Sector Underlying Net Operating Balance

($79m)	**($470m)**	**($510m)**	**($455m)**
2018-19	**2019-20**	**2020-21**	**2021-22**
▼ **(276%)**	▼ **(495%)**	▼ **(8%)**	▲ **11%**

▲ 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



The GGS Underlying Net Operating Balance was a deficit of $455 million for 2021-22, an improvement of $55 million from the underlying deficit of $510 million reported for the previous year.

This year's actual Underlying Net Operating deficit was lower than the budgeted Underlying Net Operating deficit of $867 million, as explained below:

- GGS actual revenue, including capital grants, for 2021-22 was $621 million higher than budgeted revenue. This was due to a $423 million increase in funding from the Australian Government across general purpose and national partnership payments, as well as an increase of $103 million in taxation revenue arising from higher than budgeted conveyance duties and payroll tax.
- Actual expenses were $162 million higher than budgeted, mainly due to GGS employee expenses being $113 million higher than budgeted, and a $62 million increase in nominal superannuation interest costs. These were offset by an $87 million decrease in grant and subsidy expenses against the budget, linked to Tasmania being impacted less by COVID-19 than anticipated.

Total State Sector Underlying Net Operating Balance

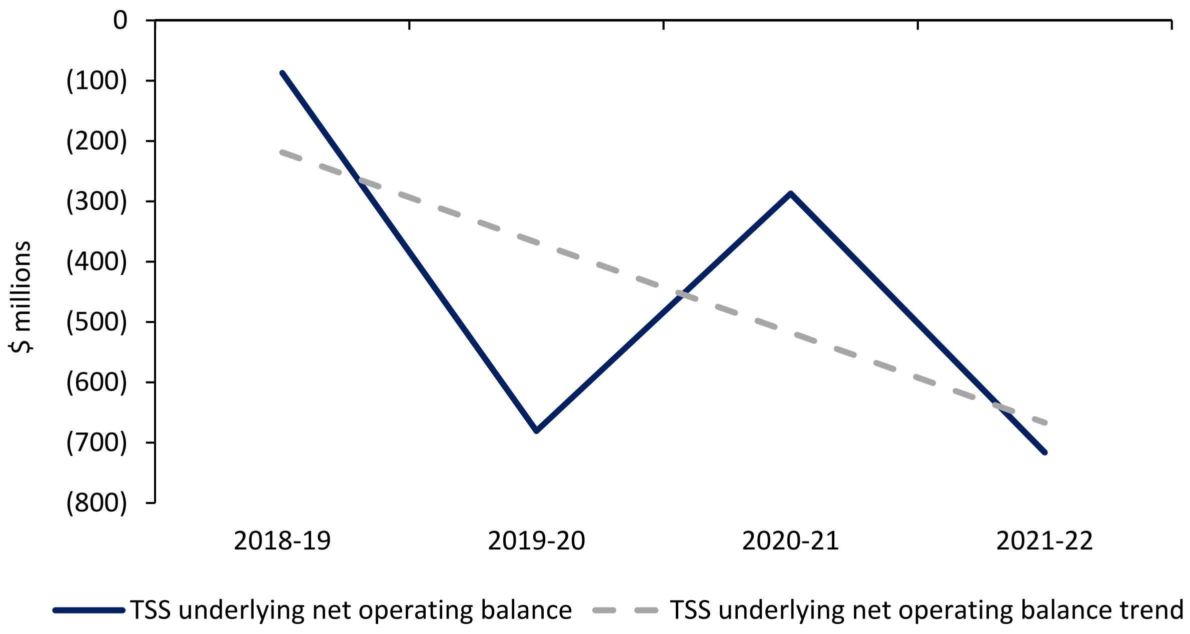
($87m)	($681m)	($287m)	($716m)
2018-19	2019-20	2020-21	2021-22
▼ (194%)	▼ (683%)	▲ 58%	▼ (149%)

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

The basis of calculation for TSS Underlying Net Operating Balance incorporates the underlying results for PNFCs and PFCs. The TSS Underlying Net Operating Balance was a deficit of $716 million in 2021-22, a decrease of $429 million from the deficit of $287 million for the prior year. The result reflects a decline in the underlying result of PNFCs and PFCs, partly offset by an improvement in the GGS underlying deficit. Details of underlying result generated by each PNFC and PFC are shown in Table 7 of the PNFC and PFC section of this chapter.

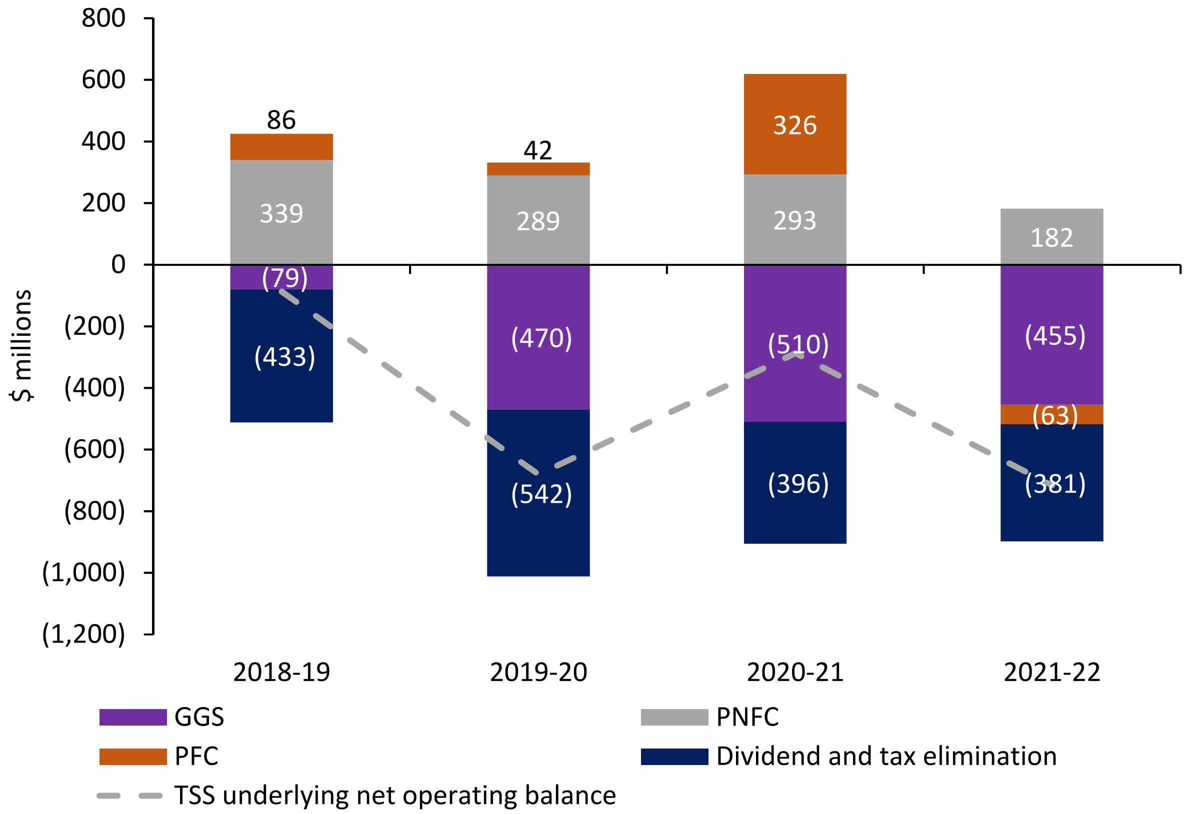
Figure 3 provides an overview of TSS Underlying Net Operating Balance for the past 4 years. It shows a deteriorating trend over this period.

Figure 3: TSS Underlying Net Operating Balance



The TSS Underlying Net Operating Balance, disaggregated into GGS, PFC and PNFC sectors and inter-sector eliminations is shown in Figure 4.

Figure 4: Disaggregated TSS Underlying Net Operating Balance



The 4 year comparison of Underlying Net Operating Balance shows:

- GGS recorded deficits in every year, although 2021-22 is an improvement on the previous 2 financial years
- the PNFC sector surplus was fairly consistent over the past 4 years
- the PFC sector recorded an underlying deficit for the first time in 4 years, due to MAIB recording an underlying loss of $74 million, primarily relating to realised and unrealised investment losses recorded during the year.

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 Revenue

$4.85bn	$1.55bn	$0.56bn	$0.70bn
Australian Government grants (excluding capital grants)	State Taxation	Sales of Goods & Service Fees and Fines	Dividends and Income Tax Equivalents

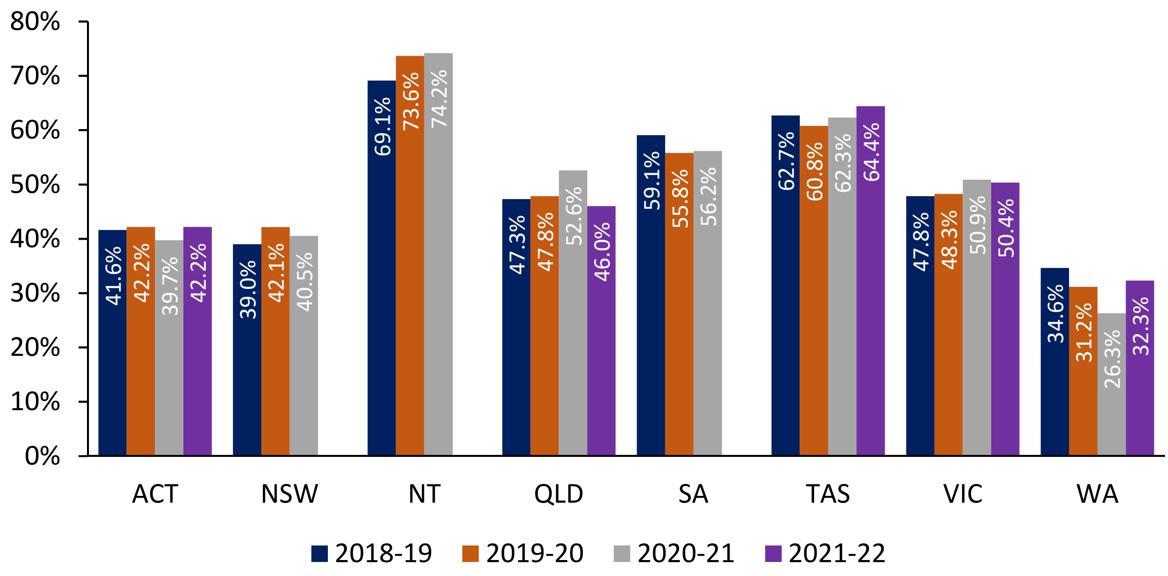
GGS revenue, excluding one-off Australian Government capital funding, totalled $7.66 billion in 2021-22, higher than the prior year's revenue of $6.73 billion. The increase was mainly due to additional grant funding received from the Australian Government in 2021-22 compared to 2020-21, with an additional:

- $554 million in general purpose grants received, attributed to an increase in Tasmania's share of the Commonwealth GST pool and an increase in the GST pool itself
- $148 million in national partnership payments reflecting increased health funding to assist with the COVID-19 pandemic, and increased funds for local government councils.

Similar to previous years, Australian Government grant funding, excluding Australian Government capital grants, represented the majority of GGS revenue, totalling 63.4% of operating revenue in 2021-22 (2020-21, 61.5%).

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

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 2021-22 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 62.6% over the last 4 years.

Total State Sector Revenue

$4.85bn	$1.51bn	$3.67bn	$0.50bn
Australian Government grants (excluding capital grants)	State Taxation	Sales of Goods & Service Fees and Fines	Total Other Revenue

TSS revenue, excluding one-off Australian Government capital funding, totalled $10.53 billion in 2021-22 (2020-21, $9.74 billion). The increase of $793 million reflects the revenue increases in the GGS outlined above.

An analysis of revenue within the PNFC and PFC sectors is included within the PNFCs and PFCs section of this chapter.

Capital investment

General Government Sector Capital Investment

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. In the 2021-22 State Budget, over the Budget and Forward Estimates period, the Government allocated $3.80 billion to community infrastructure investment.

As detailed in the 2021-22 Budget Paper 1, major infrastructure expenditure planned over this period included:

- roads and bridges, $2.00 billion (2020-21, $2.40 billion)
- hospitals and health, $504 million (2020-21, $369 million)
- human services and housing, $405 million (2020-21, $296 million)
- schools, education and skills, $336 million (2020-21, $218 million)
- law and order, $239 million (2020-21, $275 million)
- tourism, recreation and culture, $184 million (2020-21, $198 million).

The significant capital expenditure gap that existed over the 3 years to 30 June 2021 was significantly reduced this year, with the gap less than 2.0% of budgeted capital expenditure, as shown in Figure 6.

Figure 6: Department budgeted and actual capital expenditure 2018-19 to 2021-22

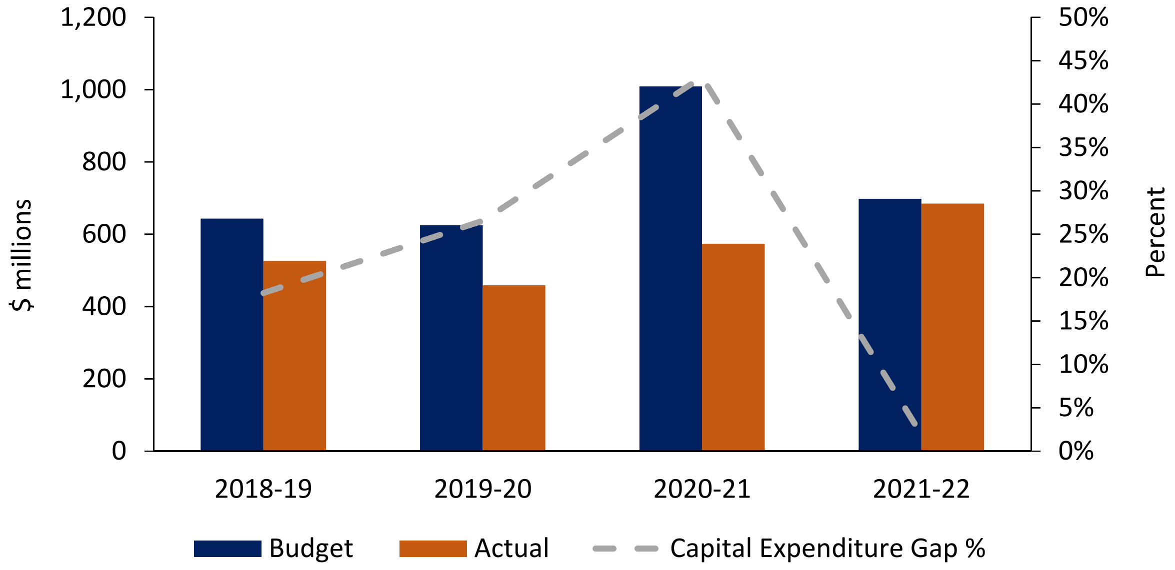


Table 7 shows the budgeted spend by each department in 2021-22 against their actual expenditure on non-financial assets.

Table 7: Budget and actual cash payments for capital expenditure[1]

Departments	2021-22 Budget $'000s	2021-22 Actual $'000s	2021-22 Spending (shortfall)/ excess $'000s	2021-22 Spending (shortfall)/ excess %	4 year average Spending (shortfall)/ excess %
Communities Tasmania	75,498	73,810	(1,688)	(2.2)	(36.9)
Education	48,342	58,630	10,288	21.3	(10.3)
Health	138,026	80,229	(57,797)	(41.9)	(35.0)
Justice	73,187	59,784	(13,403)	(18.3)	(24.1)
Natural Resources and Environment Tasmania	33,183	18,999	(14,184)	(42.7)	(52.2)
Police, Fire and Emergency Management	29,535	28,438	(1,097)	(3.7)	(38.4)
Premier and Cabinet	1,487	1,810	323	21.7	36.2
State Growth	297,358	362,223	64,865	21.8	(11.6)
Treasury and Finance	1,286	830	(456)	(35.5)	(27.5)
Total	**697,902**	**684,753**	**(13,149)**	**(1.9)**	**(24.6)**

Note: Budget and actual figures represent payments for acquisition of non-financial assets as disclosed in the Statement of Cash Flows in the audited financial statements of each Department.

In 2021-22, departments collectively spent 98.1% of their budgeted capital expenditure, although individually, DoH and NRE Tas spent only 58.1% and 57.3% of their 2021-22 capital budgets respectively. Explanations for significant variations from budget capital expenditure are provided below:

- Capital expenditure shortfalls in DoH of $58 million mainly associated with capital projects at; Royal Hobart Hospital $22 million, Mersey Community Hospital upgrades $7 million, ambulance facilities $4 million and the 27 Mental Health Beds project $4 million
- Capital expenditure shortfalls in NRE Tas of $14 million arising from a number of projects where cash flows were re-profiled into future financial years
- State Growth exceeded their capital budget by $65 million, mainly related to expenditure on the following 3 projects continuing from the previous financial year; the new Bridgewater Bridge ($7 million), roads of strategic importance ($34 million) and the Infrastructure Maintenance Project ($22 million).

Net worth and net debt

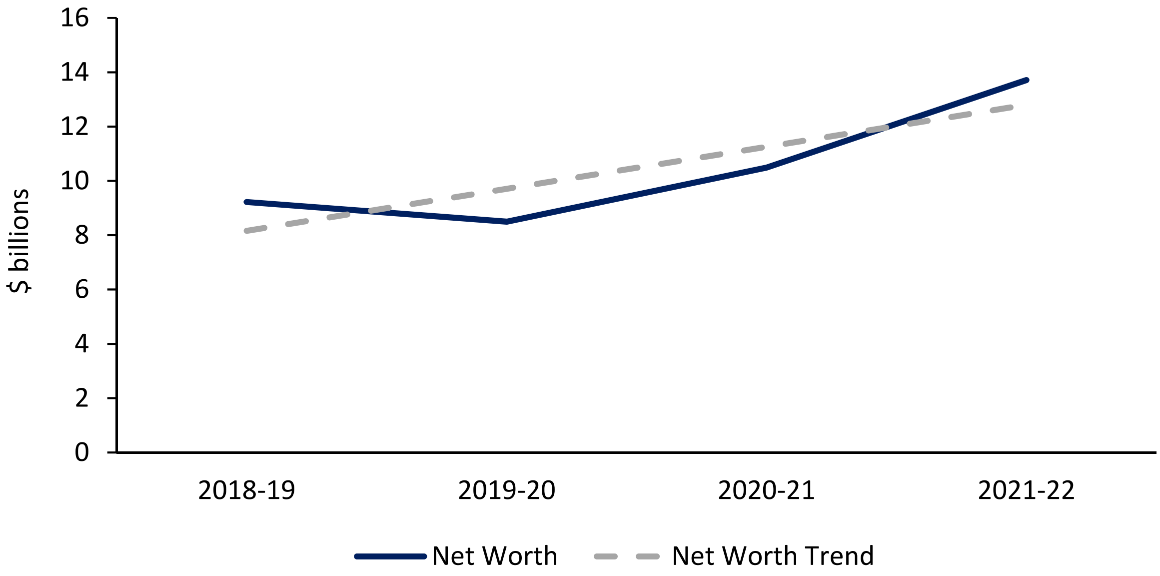
General Government Sector		Total State Sector	
$13.71bn	**$1.27bn**	**$13.71bn**	**$1.43bn**
Net worth	GFS Net debt	Net worth	GFS Net debt

Net worth

GGS Net worth, also referred to as net assets, increased by $3.23 billion to $13.71 billion at 30 June 2022. 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 7 shows GGS Net worth is trending upwards over the 4 financial years 2018-19 to 2021-22.

Figure 7: Net worth



Major contributors to the increase in GGS Net worth in 2021-22 were:

- a $1.53 billion increase in the value of land and buildings, primarily due to revaluations and capital improvements to assets held by GGS entities
- a $654 million increase in the value of service concession assets held by Communities Tasmania, representing a transfer of assets from departmentally managed rental housing to community service providers; and the resultant increase in valuation as the assets were re-valued to be in line with AASB 1059 *Service Concession Assets*
- an increase of $218 million in the value of investments in PNFC and PFC sectors, partly due to equity contributions made by the Government during 2021-22
- a decrease in the superannuation liability of $1.34 billion, which is discussed in more detail later in this chapter.

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.

GSS net debt and GFS net debt

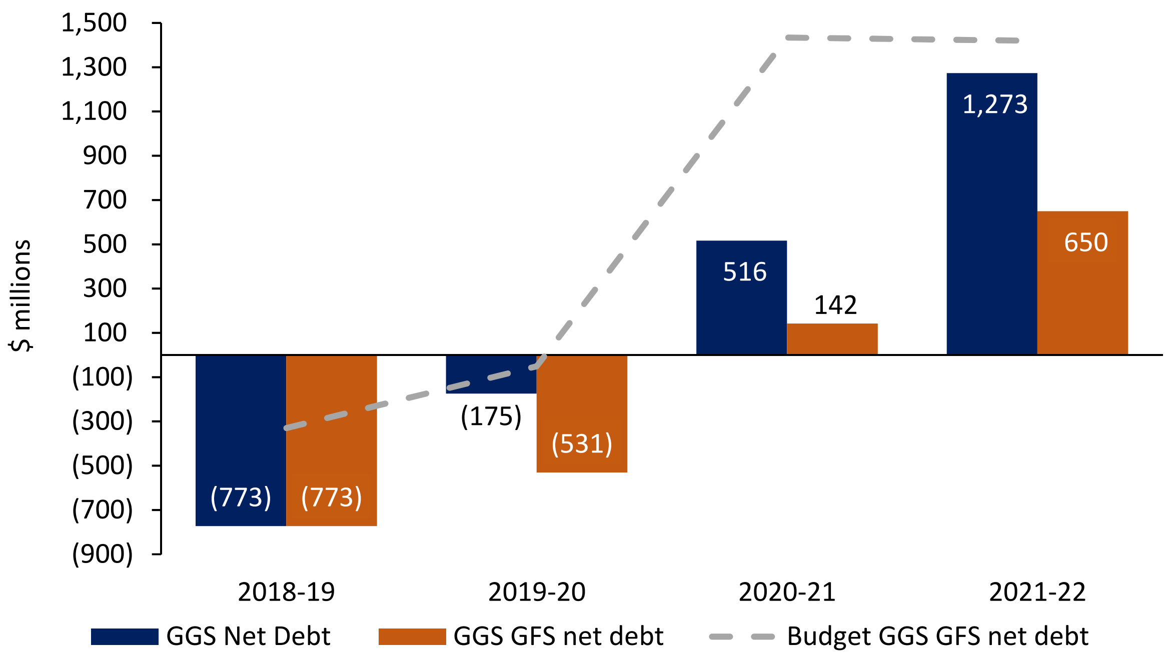
Net debt is a measure used to help assess the overall strength of a government's fiscal position. Net debt comprises of borrowings plus lease liabilities less cash, deposits and investments. The reference to negative net debt means cash, deposits and investments exceeded borrowings and lease liabilities.

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 8 shows Net debt continuing to grow, with the increase representing:

- an increase in borrowings of $608 million, primarily due to additional borrowings undertaken by the Government to support the expenditure of the GGS and to ensure Specific Purpose Accounts and Agency Trust Accounts are cash backed
- an increase in lease liabilities of $250 million, primarily due to additional major office accommodation leases executed during the reporting period and the recognition of options to extend lease contracts which resulted in an increase of $219 million for the Finance-General Division within Treasury
- an increase in cash and investment balances of $100 million.

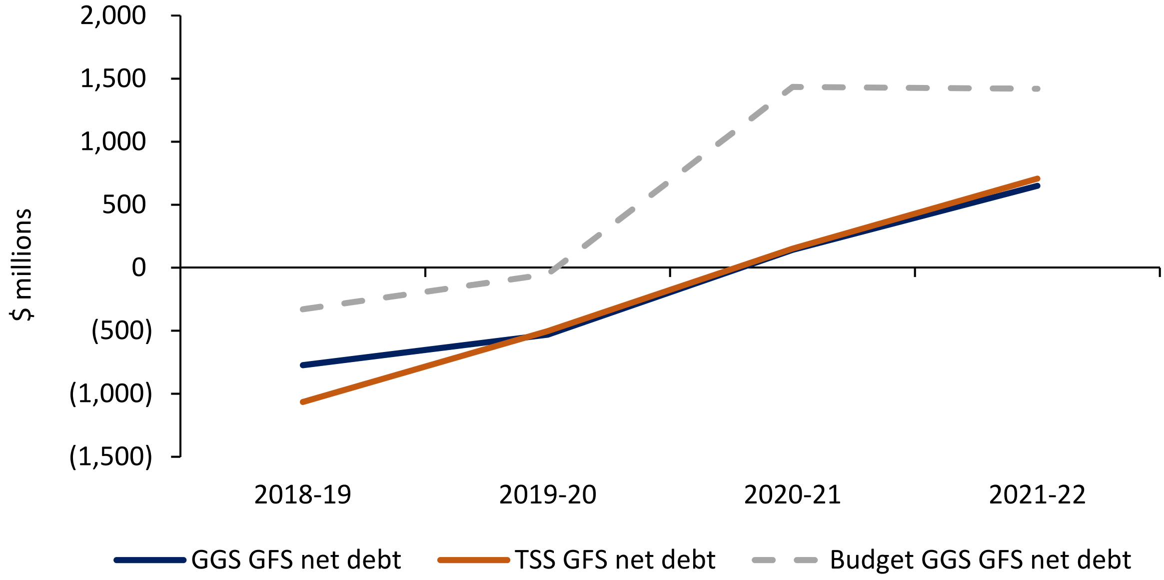
Figure 8: GGS net debt and GGS GFS net debt



GGS GFS net debt was $650 million at 30 June 2022 in comparison to budgeted GGS GFS net debt of $1.42 billion. Figure 8 also shows GGS net debt was a $1.27 billion as at 30 June 2022, meaning the GGS held more borrowings and lease liabilities than cash and investments at that date.

Figure 9 provides a comparison of GGS GFS net debt to TSS GFS net debt for the past 4 years.

Figure 9: GFS net debt



TSS GFS net debt deteriorated by $555 million to $707 million at 30 June 2022. This reflected a decrease of $1.84 billion in the value of cash and investments during 2021-22 offset by a reduction in borrowings of $1.29 billion during the same period.

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, the State Fire Service Superannuation Scheme and the Parliamentary Superannuation Fund. 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 2022, the GGS unfunded defined benefit liability was $7.73 billion (30 June 2021, $9.06 billion). The unfunded superannuation liability comprised the following defined benefit schemes and arrangements:

- Finance-General Retired Defined Benefit Contributory Scheme – $7.69 billion (30 June 2021, $9.02 billion)
- Parliamentary Superannuation Fund Schemes – $12 million (30 June 2021, $14 million)
- Judges Contributory Pensions – $28 million (30 June 2021, $32 million)
- Tasmanian Ambulance Service – $8 million asset (30 June 2021, $4 million asset), recognised in the financial statements of DoH
- Housing Tasmania – $6 million (30 June 2021, $7 million), recognised in the financial statements of Communities Tasmania.

The net liability decreased by $1.34 billion in 2021-22. This 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 30 June 2022, the discount rate for the RBF fund scheme was 3.85% (30 June 2021, 2.15%).

Movements over the past 4 years in the unfunded liability, being the difference between the present value of the defined benefit obligation and fair value of plan assets, are shown in Figure 10.

Figure 10: GGS Unfunded Superannuation Liability

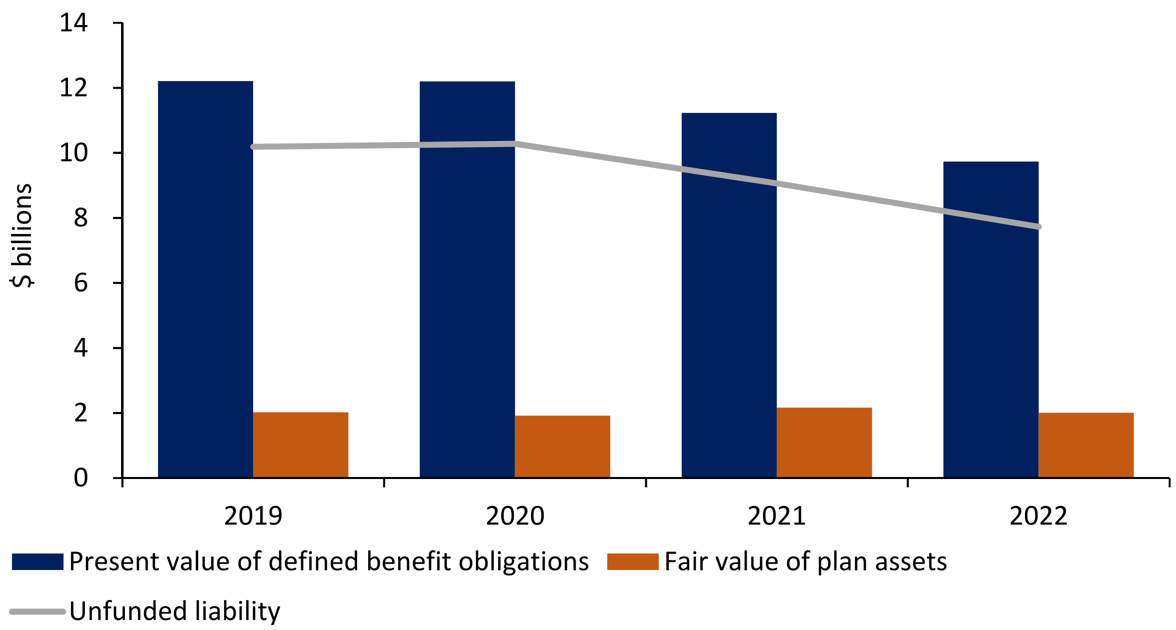
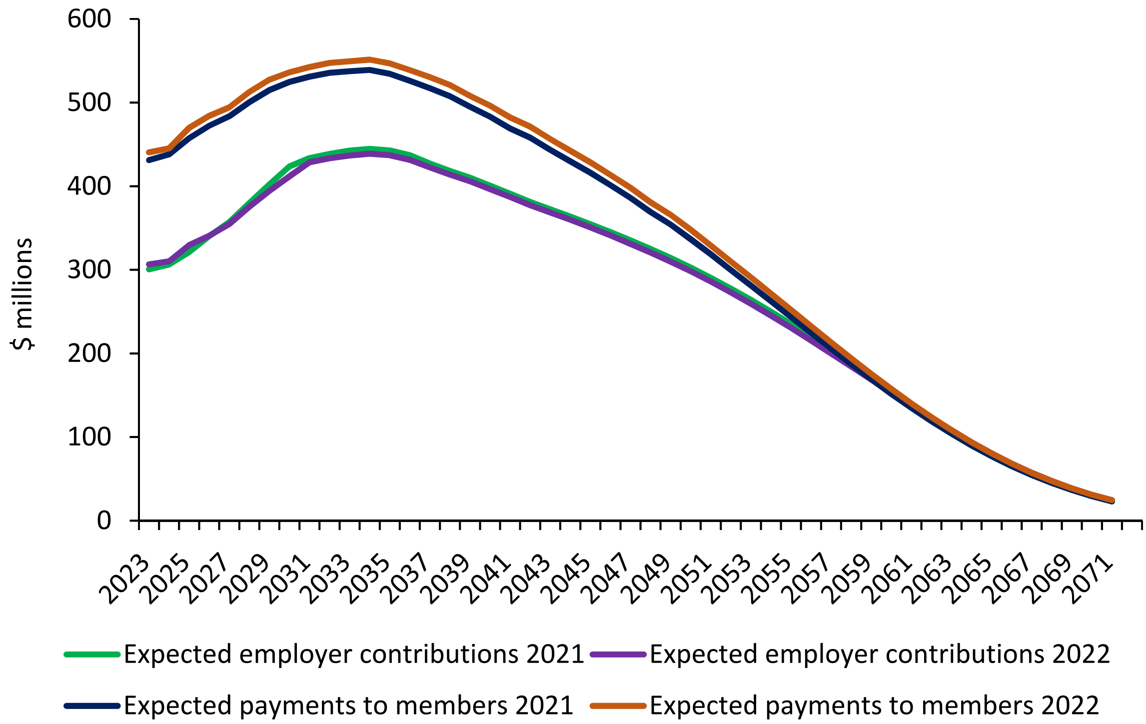


Figure 11 compares the expected nominal (un-discounted) cash outflows required to meet the emerging cost of superannuation benefits payable to members, before consideration of benefits funded from scheme assets, as estimated at 30 June 2022 and 30 June 2021. Also shown are the expected future employer contributions to be paid by the Government, as estimated at 30 June 2022 and 30 June 2021.

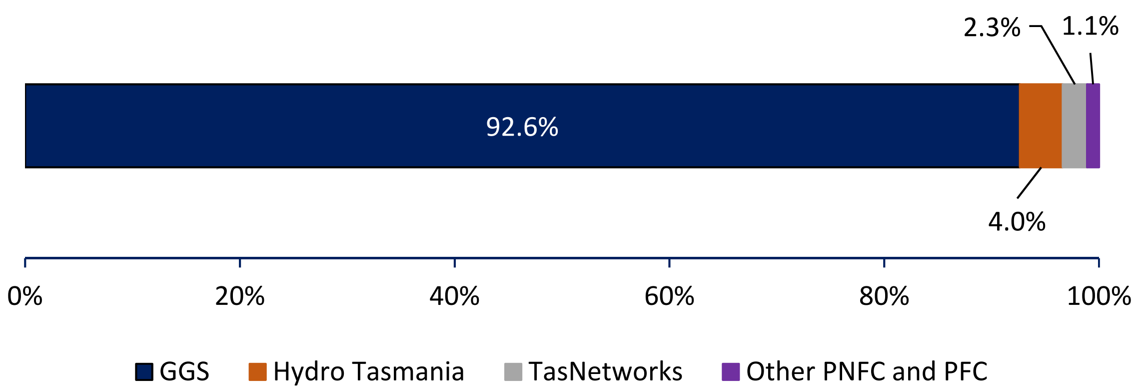
Figure 11: GGS Undiscounted Defined Benefit (2023-2071)



Payments required to meet defined benefit pensions and lump sum payments will peak in 2034 at around $551 million. A key budget risk is the cost to the Government will increase significantly in coming years, increasing by 17.0% over the next 12 years.

Discussion in this section focused on the GGS superannuation liability only, as this made up the vast majority of the superannuation liability as illustrated in Figure 12.

Figure 12: TTS Net Defined Benefit Superannuation Liabilities



PNFC and PFC sectors

Underlying profit (loss)

$424m	$331m	$618m	$125m
2018-19	2019-20	2020-21	2021-22
▼ (16%)	▼ (22%)	▲ 87%	▼ (80%)

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

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

A comparison of the Underlying profit (loss) for each PNFC and PFC over the past 4 financial years is shown in Table 8.

Table 8: Underlying profit (loss)

Entity	Trend	2018-19 $'000s	2019-20 $'000s	2020-21 $'000s	2021-22 $'000s
Aurora Energy Pty Ltd	●	11,260	(8,204)	26,890	4,280
Hydro Tasmania	▼	179,045	197,709	227,850	125,550
Macquarie Point Development Corporation	▼	(1,062)	(1,942)	2,021	(13,344)
Metro Tasmania Pty Ltd	▲	(2,385)	(5,066)	(802)	3,489
Motor Accidents Insurance Board	●	38,409	9,752	302,928	(73,863)
Port Arthur Historic Site Management Authority	▼	(219)	(1,575)	(5,078)	(4,303)
Private Forests Tasmania	▼	355	(69)	(448)	143
Sustainable Timber Tasmania	▼	11,767	3,718	1,733	3,197
Tasmanian Irrigation Pty Ltd	▼	(1,318)	(6,078)	(5,631)	(7,768)
Tasmanian Networks Pty Ltd	▼	63,590	55,626	25,739	56,996
Tasmanian Ports Corporation Pty Ltd	●	17,719	8,380	(2,218)	15,258

Entity	Trend	2018-19 $'000s	2019-20 $'000s	2020-21 $'000s	2021-22 $'000s
Tasmanian Public Finance Corporation	▼	47,400	32,600	22,700	10,900
Tasmanian Railway Pty Ltd	▼	1,778	(8,410)	(4,189)	(3,978)
Tasracing Pty Ltd	▲	(1,782)	(3,789)	4,460	4,867
The Public Trustee	▼	838	1,059	533	(223)
TT-Line Company Pty Ltd	▼	58,821	57,722	21,618	4,225
Total		**424,216**	**331,433**	**618,106**	**125,426**

▲ Positive trend over the 4 years ● Stable trend over the 4 years ▼ Negative trend over the 4 years

PNFCs and PFCs aggregated underlying profit of $125 million was a $493 million, or 79.7%, decrease on the 2020-21 result. This change was driven by:

- A $112 million decrease in trade revenue generated across the PNFC and PFC entities compared to the prior year. Hydro Tasmania and Aurora Energy experienced a $172 million and $30 million decrease in trade revenue respectively.

  The decrease in Hydro Tasmania revenue was attributed to:

  - a decrease in revenue from the sale of electricity of $190 million within the following business sectors; wholesale $131 million, business $40 million and retail $19 million
  - a reduction in revenue from the sale of gas $19 million, mainly representing the wholesale sector
  - offset by a reduction in other revenue, mainly related to $25 million recognised in 2020-21 relating to the 2015-16 Basslink outage dispute arbitration outcome.

  Aurora Energy experienced a decrease of $30 million in sales revenue from customers, primarily as a result of a retail price reduction of 11.0% and 7.1% for residential and small business customers respectively.

  The reduction in Hydro Tasmania and Aurora Energy trade revenue was partly offset by $55 million trade revenue increase by TasPorts and TT-Line, representing the post-COVID-19 recovery in shipping and tourism into the State.

- A $323 million decrease in interest and investment revenue generated by the PFCs, due to the low interest rate environment for the majority of 2021-22 and volatility in financial markets in June 2022, leading to significant unrealised losses on investments held at 30 June 2022.

Ten of the 16 PNFCs and PFCs recorded an underlying profit in 2021-22 (2020-21, 10). The biggest contributors to the overall underlying result were Hydro Tasmania and TasNetworks with underlying profits of $126 million and $57 million respectively. MAIB generated the largest underlying loss of the 16 entities, $74 million, largely due to realised and unrealised investment losses arising from volatility in financial markets, as discussed earlier in this report.

Revenue received by PNFCs and PFCs

$4.67bn	$4.38bn	$4.29bn	$3.81bn
2018-19	2019-20	2020-21	2021-22
▼ (4%)	▼ (6%)	▼ (2%)	▼ (11%)

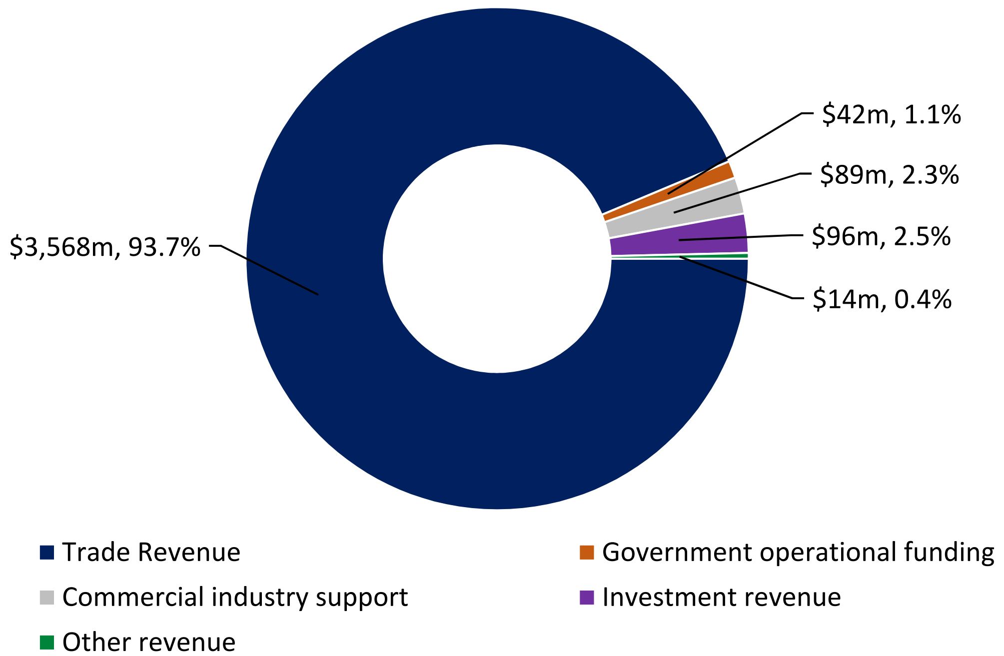
▲ Improvement from prior year ▼ Deterioration from prior year ● No material change from prior year.

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

PNFCs and PFCs received $3.81 billion of operating revenue in 2021-22 (2020-21, $4.29 billion). The reduction in revenue from that generated in 2021-22 is reflective of the trade, interest and investment revenue declines discussed in the previous section.

Figure 13 shows the sources of revenue for PNFCs and PFCs in 2021-22.

Figure 13: PNFC and PFC revenue ($ million and %)



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

Consistent with prior years, the main revenue stream for PNFCs and PFCs is trade revenue, generating $3.57 billion in 2021-22 (2020-21, $3.68 billion).

The 16 PNFC and PFC entities generated $96 million in interest and investment revenue in 2021-22 (2020-21, $418 million), predominantly through the PFC entities, TASCORP and MAIB. Interest and insurance revenue generated 2.5% of the PNFC and PFC operational revenue in 2021-22, a decline on the 9.9% generated in 2020-21. This reflects the low interest rate environment for the majority of 2021-22 and volatility in financial markets in June 2022, leading to significant unrealised losses on investments held at 30 June 2022.

Operational funding and industry support

Government support to PNFCs comprised Government operational funding of $42 million (2020-21, $41 million) and commercial industry support of $89 million (2020-21, $80 million). Table 9 summarises the composition of income received by those PNFCs that received Government support greater than 10.0% of their total revenue during 2021-22.

Table 9: PNFC operational revenue for entities receiving more than 10.0% of Government support

Entity	Trade revenue $'000s	Government operational funding[1] $'000s	Commercial industry support $'000s	Investment revenue / Interest $'000s	Other $'000s	Total[2] $'000s
Macquarie Point Development Corporation	1,614	3,500	0	110	0	5,224
Metro Tasmania Pty Ltd	11,199	0	56,660	9	1,245	69,113
Port Arthur Historic Site Management Authority	11,198	4,573	0	9	365	16,145
Private Forests Tasmania	190	2,184	0	9	106	2,489
Sustainable Timber Tasmania	101,151	12,050	0	388	7,220	120,809
Tasmanian Irrigation Pty Ltd	10,918	1,879	0	53	549	13,399
Tasmanian Railway Pty Ltd	39,547	13,100	0	84	2,874	55,605
Tasracing Pty Ltd	28,812	0	32,163	84	6,830	67,889
The Public Trustee	5,856	2,212	0	461	15	8,544
Total	**210,485**	**39,498**	**88,823**	**1,207**	**19,204**	**359,217**

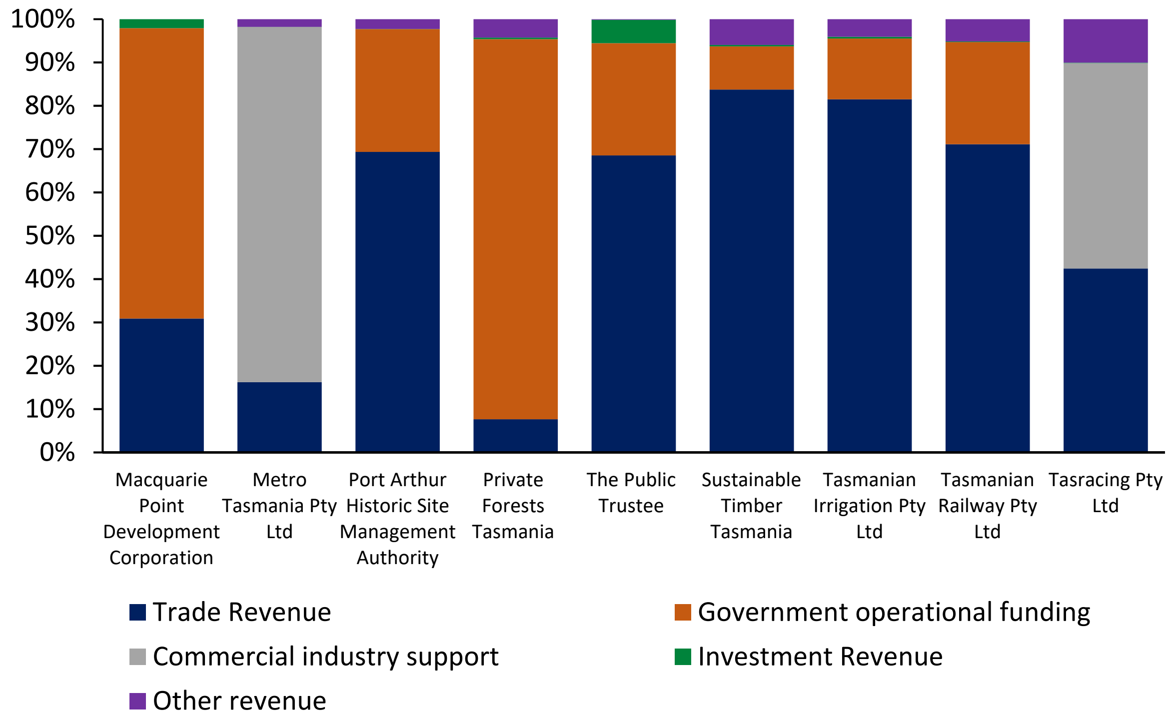
Note 1: Government operational funding of $2.41 million received by TasNetworks was not included in the table above as the amount was less than 10.0% of its total revenue.

Note 2: Total revenue excludes items such as capital grants and fair value gains or losses.

Government operational funding is provided to support PNFCs to deliver their services. Commercial industry support funding is provided to assist the industry maintaining their operations.

A breakdown of the sources of revenue received by the 9 PFNCs that received at least 10.0% of their revenue from Government operational funding or commercial industry support is shown in Figure 14.

Figure 14: Breakdown of the sources of revenue received for PNFCs receiving Government operational funding or commercial industry support



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

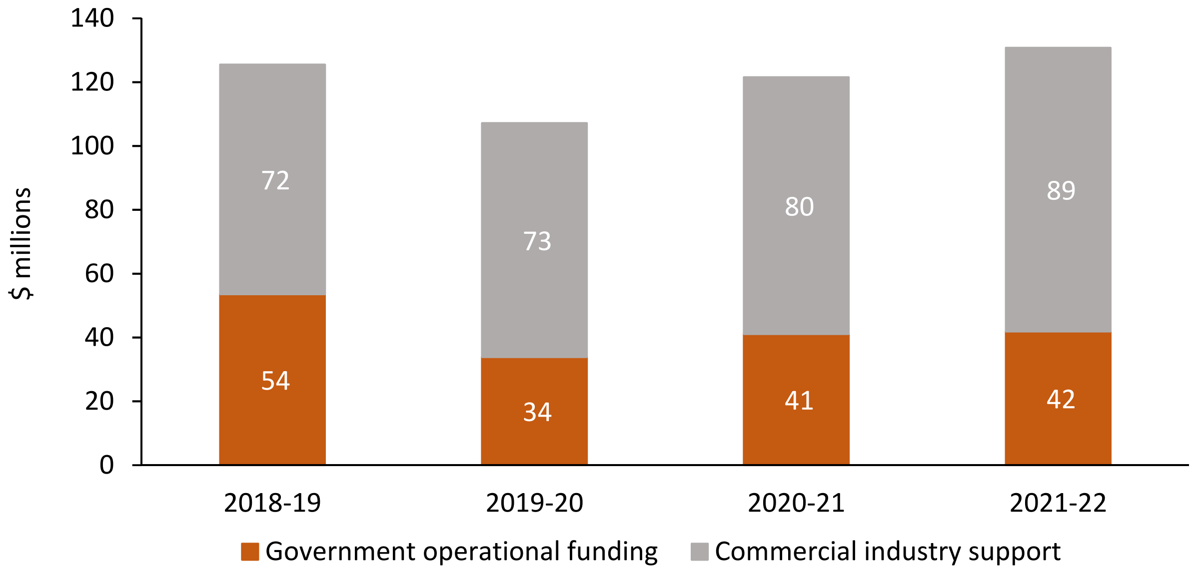
Metro received $57 million in commercial industry support, an increase of $8 million, representing 16.5%, on the prior year. This included the provision of $4 million of funding in June 2022 to assist Metro with the ongoing impact of COVID-19 on their revenue generation. This Government support made up 82.0% of Metro's operational revenue in 2021-22.

Similarly, Government support made up 47.4% of Tasracing's operational revenue in 2021-22. Tasracing received $32 million in commercial industry support, a decrease of 6.4% ($2 million) when compared to 2020-21.

Government operational funding totalling $42 million was provided to 8 of the 16 PNFC and PFC entities in 2021-22. STT and Tasracing received $25 million of this funding, consistent with the prior year (2020-21, $26 million). Government operational funding accounted for more than half of the 2021-22 operational revenue generated by MPDC ($3 million, 67.0%) and Private Forests Tasmania ($2 million, 87.7%).

Figure 15 shows the level of Government support provided to PNFCs and PFCs 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 4.2% from $125 million to $131 million.

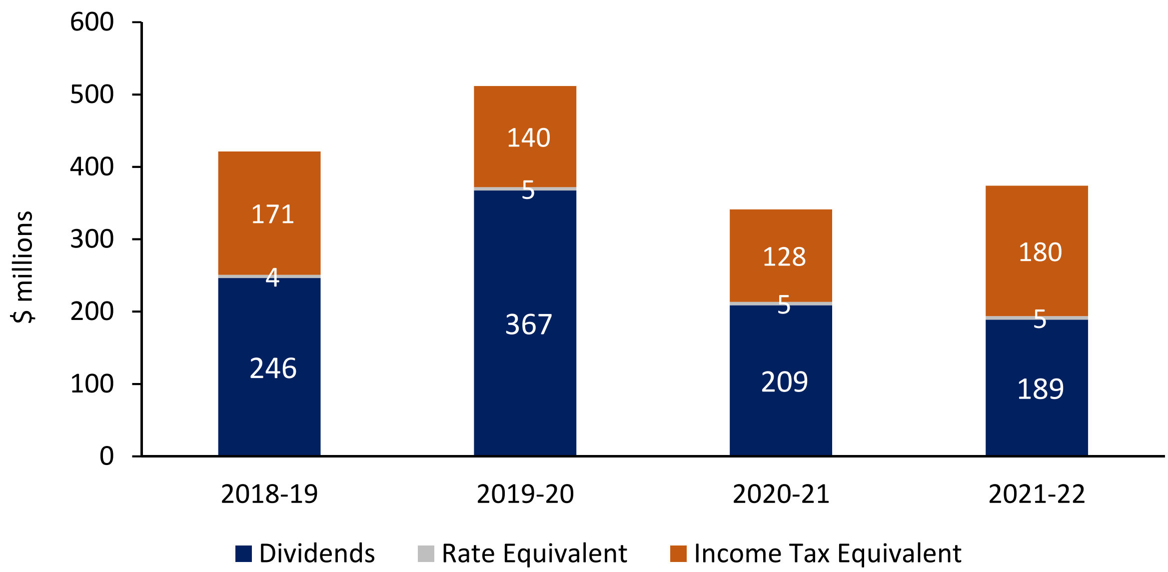
Figure 15: Government operational funding and commercial support 2018-19 to 2021-22



Dividends, rate and tax equivalents

PNFCs and PFCs paid $374 million to the Government in 2021-22 (2020-21, $341 million) through dividends, rate equivalent and income tax equivalent payments. This amount excludes the MCHF dividend of $90 million (2020-21, $87 million) paid by TASCORP. Figure 16 shows the composition of these payments over the last 4 years.

Figure 16: Dividends, rate and tax equivalents



Note: Figure 16 excludes the MCHF dividends paid by TASCORP 2018-19 to 2021-22.

Table 10 provides a breakdown of the dividends, rate equivalent and income tax equivalent payments made by PNFC and PFC entities to the Government in 2021-22.

Table 10: Dividends, rate and tax equivalents, 2021-22[1]

Entity	Dividends $'000s	Rate equivalent $'000s	Income tax equivalent $'000s	2021-22 Total $'000s	2020-21 Total $'000s
Aurora Energy Pty Ltd	13,147	0	2,099	15,246	5,507
Hydro Tasmania	112,300	4,944	74,283	191,527	176,546
Motor Accidents Insurance Board	48,292	0	73,273	121,565	35,893
Sustainable Timber Tasmania	1,092	0	0	1,092	2,000
Tasmanian Networks Pty Ltd	5,122	0	26,550	31,672	62,587
Tasmanian Ports Corporation Pty Ltd	0	0	0	0	6,046
Tasmanian Public Finance Corporation[2]	8,800	0	3,700	12,500	16,400
The Public Trustee	0	0	311	311	368
TT-Line Company Pty Ltd	0	0	0	0	36,308
Total	**188,753**	**4,944**	**180,216**	**373,913**	**341,205**

Note 1: Amounts paid to the Government as per entities' Statement of Cash Flows
Note 2: Table 10 excludes the budgeted ($89.70 million) and actual ($89.60 million) MCHF 2021-22 dividend

The Government received $33 million in payments from PNFCs and PFCs than the prior year. Hydro Tasmania and MAIB accounted for 83.7% of the payments to the Government, including $148 million paid in income tax equivalent payments.

Financing of PNFCs

$540m ▲ 43.8%

Total cash, deposits and financial investments held at 30 June 2022

Cash, deposits and financial investments held by PNFCs at 30 June 2022 increased by $164 million, or 43.8%, from 30 June 2021.

Of the $540 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 $189 million held as investments, principally by Hydro Tasmania.

$2.87bn ● 0.3%

Total loan borrowings as at 30 June 2022

PNFCs held $2.87 billion of loan borrowings at 30 June 2022 (30 June 2021, $2.86 billion). Details of loan borrowings held at 30 June 2022, and relevant ratios, are set out in Table 11.

Table 11: Debt and relevant ratios

Entity	Borrowings $'000s	Current ratio	Cost of Debt	Interest coverage ratio	Debt to equity	Debt to debt plus equity
Hydro Tasmania	699,996	0.71	2.6%	63.67	37.8%	27.4%
Metro Tasmania Pty Ltd	5,000	1.26	1.8%	48.93	8.1%	7.5%
Port Arthur Historic Site Management Authority	2,000	1.13	3.4%	n/a	3.2%	3.1%
Tasmanian Irrigation Pty Ltd	38,642	0.82	2.4%	n/a	771.3%	88.5%
Tasmanian Networks Pty Ltd	2,091,850	0.36	3.1%	2.08	182.4%	64.6%
Tasmanian Ports Corporation Pty Ltd	29,450	1.03	2.3%	25.63	9.6%	8.7%
Tasracing Pty Ltd	6,280	2.57	8.0%	11.03	12.0%	10.7%

PNFCs in industry sectors with significant infrastructure, such as Hydro Tasmania and TasNetworks, accounted for 97.2% of total debt held at 30 June 2022 (30 June 2021, 97.4%).

PNFCs with debt had a weighted average current ratio of 0.46 consistent with the 2020-21 result of 0.47. This outcome is still below the benchmark of 1.0, which indicates a net working capital deficit. Of the 7 PNFC entities that held borrowings at 30 June 2022, 5 held current liability balances that exceeded their current assets. Maturing short term debt for these 5 entities is expected to be refinanced during 2022-23 in line with the entity’s Treasury Risk Management Policy and Master Loan Facility Agreements with TASCORP.

Equity contributions

In 2021-22, the Government invested $141 million in PNFC entities through equity contributions. Table 12 provides a breakdown of the payments made.

Table 12: Equity contributions to PNFCs

Entity	Purpose of equity contribution	$ million
Macquarie Point Development Corporation	For capital projects, including remediation works and establishment of key enabling infrastructure	27.35
Port Arthur Historic Site Management Authority	Repayment of Borrowings	6.00
	Development of Historic and Interpretation Centre at the Cascades Female Factory	3.00
Tasmanian Irrigation Pty Ltd	Energy on Farms Initiative – repayment of borrowings on Meander mini-hydro generator	1.70
	Greater Meander Irrigation Scheme Augmentation	1.25
	Tranche 3 Irrigation Scheme	7.60
	Don Irrigation Scheme	1.40
Tasmanian Railway Pty Ltd	Repayment of borrowings	4.20
	Tasmanian Freight Rail Revitalisation Program – Tranche 3	19.00
	Tasmanian Freight Rail Revitalisation Program - Tranche 3 - Burnie Shiploader	14.50
	Tasmanian Freight Rail Revitalisation Program - Tranche 2	29.90
Tasracing Pty Ltd	Infrastructure upgrades in the Longford Racecourse, the Brighton Training Facility and the Devonport Racing Club	3.00
	Supplementary capital funding	0.25
TT-Line Company Pty Ltd	Funds released from the Vessel Replacement Fund for instalments payable for the construction of 2 new ferries	21.68
	Total	**140.83**

All equity contributions, other than $0.25 million supplementary capital funding paid by NRE Tas to Tasracing, were paid by the Finance-General Division of Treasury.

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

Treasurer 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 PNFC and PFC* (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 Treasurer is the determining factor for classification of the transfer as an equity contribution.

In August 2022, the Treasurer released an updated version of FC-16, which provides additional guidance on the classification of contributions provided by the Government. Entities will need to apply the updated Treasurer's Instruction during 2022-23.

Capital investment by PNFCs and PFCs

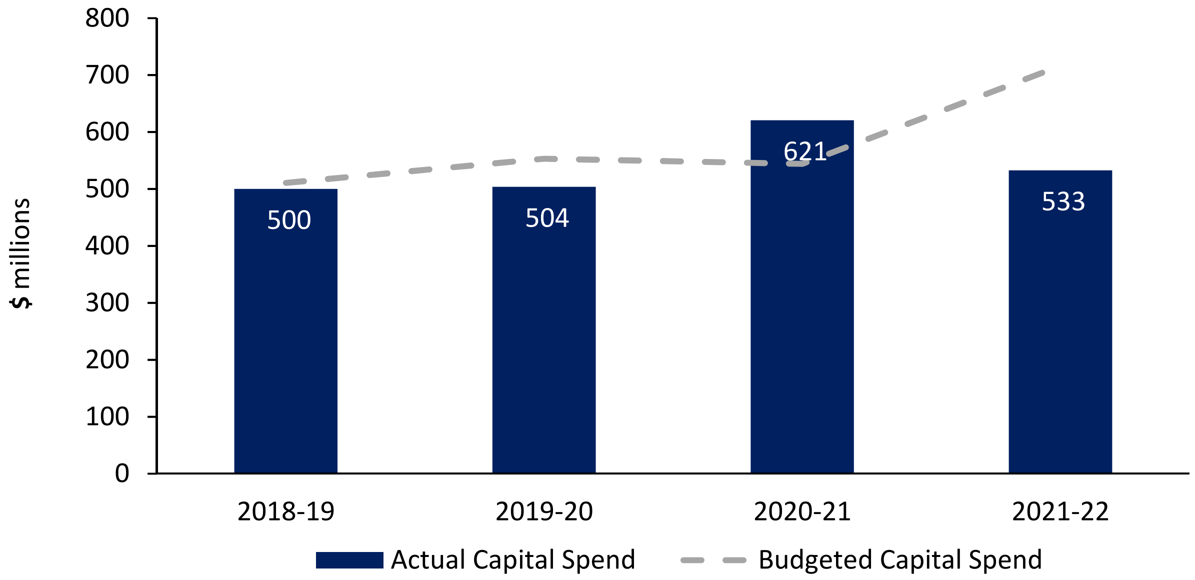
$2.16bn	$2.27bn	$27m
Total Capital Spend over last 4 years	Total Budgeted Capital Spend over last 4 years	Average Spend Gap over last 4 years

Note: Budget figures represent budgeted capital expenditure based on PNFC corporate plans for 2021-22 and actual capital spend represents payments for acquisition of non-financial assets as disclosed in the Statement of Cash Flows in the audited financial statements of each PNFC.

PNFC's have invested a total of $2.16 billion in capital projects over the past 4 years, including $615 million in 2021-22 (2020-21, $621 million).

A comparison of actual capital expenditure against budget for the past 4 years is shown in Figure 17.

Figure 17: Capital spending by PNFCs 2018-19 to 2021-22



Note: Budgeted capital spend consists of the capital budget set by each PNFC in each financial year, as disclosed in their annual budgets / corporate plans.

Expenditure by the following entities on the acquisition of property, plant and equipment accounted for 83.2% of the 2021-22 capital expenditure:

- TasNetworks, $258 million, which comprises capital expenditure associated with the transmission network $40 million, distribution network $120 million, communication network $5 million, land and buildings $9 million, plant and equipment $18 million, Marinus Link $32 million, intangible assets $21 million and the movement in work in progress $13 million.
- Hydro Tasmania, $119 million, which comprises capital expenditure associated with generation assets $80 million, Bass Strait Islands $3 million, land and buildings $4 million, information systems $24 million, fleet assets $3 million and other plant and equipment $5 million.
- Tasrail, $66 million, which includes capital expenditure on the shiploader and track upgrades and renewals under the IIP Tranches 2 and 3.

Table 13 shows the amount spent by PNFCs on capital expenditure in 2020-21 and 2021-22 and the trend of expenditure over the past 4 years, together with a comparison of the actual amount spent on capital expenditure for 2021-22 against budgeted capital expenditure.

Table 13: Capital expenditure by PNFCs

Entity	Trend	Actual 2020-21 $'000s	Actual 2021-22 $'000s	Budgeted 2021-22 $'000s	Actual to Budget Variance 2021-22 $'000s
Aurora Energy Pty Ltd	●	7,897	2,688	8,300	(5,612)
Hydro Tasmania	▼	155,978	119,125	135,000	(15,875)
Macquarie Point Development Corporation	●	9,371	4,974	6,966	(1,992)
Metro Tasmania Pty Ltd	▼	12,512	5,850	21,555	(15,705)
Port Arthur Historic Site Management Authority	▲	1,537	6,071	6,776	(705)
Private Forests Tasmania	●	0	0	0	0
Sustainable Timber Tasmania	▲	5,691	3,379	8,100	(4,721)
Tasmanian Irrigation Pty Ltd	▼	14,689	8,594	62,017	(53,423)
Tasmanian Networks Pty Ltd	▲	212,595	258,268	260,700	(2,432)
Tasmanian Ports Corporation Pty Ltd	▲	23,070	23,134	67,388	(44,254)
Tasmanian Railway Pty Ltd	▲	43,925	65,753	80,271	(14,518)
Tasracing Pty Ltd	▼	1,229	3,479	17,340	(13,861)
The Public Trustee	●	295	108	425	(317)
TT-Line Company Pty Ltd	▲	131,852	30,954	41,459	(10,505)
Total		**620,641**	**532,377**	**716,297**	**(183,720)**

▲ Positive trend over the 4 years ●Stable trend over the 4 years ▼ Negative trend over the 4 years

Note: Budget and actual figures represent payments for acquisition of non-financial assets as disclosed in the Statement of Cash Flows in the audited financial statements of each Department.

Explanations for variations are provided below for those PNFCs where the variance is greater than $10 million and less than 80.0% of their capital expenditure budget:

- Metro's capital expenditure shortfall is primarily due to problems relating to the fulfilment of a contract for the acquisition for 26 new buses, leading to the decision to end the contract.
- TasPorts capital expenditure shortfall is related to the realignment of the QuayLink program of works.

- Tas Irrigation experienced timing and other delays on major projects, including the Don and Northern Midlands Irrigation schemes, reducing their capital expenditure in 2021-22.
- Tasracing's capital expenditure was below their budgeted amount due to the cessation of work at the proposed new greyhound and harness track at Latrobe following the completion of an environmental impact assessment. Tasracing subsequent resolved to develop a dual code facility at a new 27 hectare site opposite the Devonport Airport.
- TT-Line's capital expenditure shortfall related to an underspend of $5 million on the Geelong Port berth relocation, $2 million on the vessel replacement project and $3 million on other capital projects which were deferred as a consequence of COVID-19 impacts.

Table 14 shows the percentage spent by PNFCs on capital expenditure compared to their budgets over the last 4 years.

Table 14: Percentage spend of budgeted capital expenditure

Entity	Trend	2018-19	2019-20	2020-21	2021-22
Aurora Energy Pty Ltd	▼	83.0%	58.3%	73.8%	32.4%
Hydro Tasmania	▼	96.7%	94.3%	93.4%	88.2%
Macquarie Point Development Corporation	▲	52.4%	64.7%	138.0%	71.4%
Metro Tasmania Pty Ltd	▼	92.1%	95.4%	71.1%	27.1%
Port Arthur Historic Site Management Authority	●	102.6%	147.3%	136.7%	89.6%
Private Forests Tasmania	N/a	N/a	N/a	N/a	N/a
Sustainable Timber Tasmania	▲	7.3%	24.4%	56.9%	41.7%
Tasmanian Irrigation Pty Ltd	▼	112.7%	116.2%	138.0%	13.9%
Tasmanian Networks Pty Ltd	▲	105.3%	92.3%	90.3%	99.1%
Tasmanian Ports Corporation Pty Ltd	▼	86.5%	68.7%	121.8%	34.3%
Tasmanian Railway Pty Ltd	▼	87.8%	97.1%	82.4%	81.9%
Tasracing Pty Ltd	▼	92.0%	79.0%	61.5%	20.1%
The Public Trustee	▼	199.0%	187.0%	64.1%	25.4%
TT-Line Company Pty Ltd	●	86.9%	83.3%	1,527.3%	74.7%

▲ Positive trend over the 4 years ●Stable trend over the 4 years ▼ Negative trend over the 4 years

Note: Budget and actual figures represent payments for acquisition of non-financial assets as disclosed in the Statement of Cash Flows in the audited financial statements of each Department.

Other State entities

Introduction

This chapter includes all State entities other than:

- GGS entities
- PNFCs and PFCs, including parent and controlled or equity accounted entities
- Councils and council controlled or equity accounted entities and other local government entities, as well as TasWater
- 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 $165.94 million in 2021, compared to a consolidated surplus of $18.50 million in 2020. The increase was largely attributable to continued volatility in financial markets which saw the University recording investment income, which included realised and unrealised gains in the value of investments, of $115.29 million in 2021, compared to $5.86 million in 2020. The other major factor contributing to this improved result was the recognition of capital grants from the Australian and Tasmanian Governments, largely related to the Northern Transformation Project.

The University's core activities represent:

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

In 2021, the University generated a consolidated deficit from these core activities of $1.21 million, compared to a surplus of $3.68 million for 2020, a decrease of $4.89 million in the consolidated result from core activities.

This result partly reflects the ongoing impact of COVID-19 on the University throughout 2021, with a $32.50 million decrease in onshore international student revenue as students continued to be restricted by ongoing international border closures throughout the year. Other types of fees and charges revenue, including offshore international student fees and accommodation charges, remained fairly stable between 2021 and 2020.

In 2021, the University received Australian Government financial assistance of $536.67 million, compared to $461.37 million in 2020. This included a $31.68 million increase in Commonwealth grant payments to the University, offsetting the decrease in international student revenue.

Impact of COVID-19

The ongoing impact of COVID-19 in 2021 included a continued reduction in commencing international student numbers, decreasing from 1,967 in 2020 to 912 in 2021. This decline had a direct impact on the revenue generated from international students by the University as previously indicated.

In 2020, 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. These principles remained in place in 2021.

Historic underpayment of University staff

On 3 February 2022, the University notified staff that it had identified issues concerning possible payment shortfalls of staff, which a number of Australian universities have experienced.

The University engaged third party specialists to undertake a review of payroll that covered the period back to March 2014.

As a result of a preliminary review covering an initial period of March 2016 to December 2021, the University identified issues largely relating to minimum engagement periods and the application of penalty rates. The University determined that these issues resulted in a possible estimate of $1.40 million in underpayments for each year, representing 0.4% of their annual payroll. When on-costs and interest were added, the total estimate of underpayments for the preliminary review period amounted to $11.00 million. This was an estimate only and the University was continuing work during 2022 to determine the extent of the payment shortfalls.

In 2021, the University made the decision to provide for the $11.00 million in order to ensure it had funds set aside for employees impacted by the underpayments. This was disclosed in note 16 of the University's financial statements.

Due to a change in the payroll system in 2016, as at 31 December 2021 the University did not have an estimate of the payment shortfalls prior to March 2016. Although the University has commenced work to identify any underpayments in this period, it was unable to quantify the additional amount of the provision required. This work is expected to be resolved in late 2022.

Northern Transformation

The new Cradle Coast campus at West Park commenced construction in January 2020 and was opened in September 2021.

At Inveresk, the new Library opened to the community in February 2022 and the new administration building is expected to open in early 2023. Two major academic buildings are planned to open in 2023 and 2024 respectively, and will enable the majority of students and staff to transition to the new campus.

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. 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.

During 2021, plans for consolidating the campus in the Hobart central business district progressed, with planning applications being made for the first properties to Hobart City Council in December 2021.

Second Purpose Built Student Accommodation facility

Construction of the second purpose built student accommodation facility in Hobart central business district 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 of accommodation occurred on 2 February 2021, with $81.42 million in new service concession assets being recognised by the University in their 2021 financial statements.

Repayment of borrowings

The University repaid long-term borrowings of $125.00 million during 2021. A new short-term loan of $70.00 million from TASCORP was in place as at 31 December 2021.

Retirement Benefits Fund

Financial result

RBF incurred a net loss before tax of $431.62 million (2020-21, loss $66.12 million). Superannuation activities recorded a loss of $60.73 million, a decrease of $419.70 million from the prior year surplus of $358.97 million, primarily due to a loss in the change in assets measured at fair value of $209.54 million for 2021-22 compared to a gain of $233.59 million for 2020-21.

A $370.89 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 increased the loss from superannuation activities from $60.73 million to produce a loss before tax of $431.62 million.

Net liability position

At 30 June 2022, RBF had a net liability position $6.00 billion, compared to $5.58 billion at 30 June 2021. The net liability represented defined benefit member liabilities of $8.13 billion less net assets available for member benefits of $2.13 billion.

Summarised financial results

Details of other State entity results for 31 December 2021 and 30 June 2022 are set out in Table 15. 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 15: Other State entity summarised financial results

Audited State entities and Audited subsidiaries [1]	Underlying surplus (deficit) $'000s	Net surplus (deficit) $'000s
31 December 2021		
AMC Search Ltd	32	32
Tasmanian University Union	369	369
The University	(1,214)	165,940
Theatre Royal Management Board	122	122
Solicitors' Trust	432	432
30 June 2022		
Asbestos Compensation Fund	0	0
Council of Law Reporting	0	0
Forest Practices Authority	(412)	(412)
Legal Profession Board	109	109
Property Agents Board	214	214
Property Agents Trust	6	6
Retirement Benefits Fund[2]	(422,915)	(422,915)
Tasmanian Beef Industry (Research and Development) Trust	(17)	(17)
Tasmanian Building and Construction Industry Training Board	(568)	(568)
Tasmanian Community Fund	1,881	1,881
Tasmanian Dairy Industry Authority	(33)	(33)
Tasmanian Economic Regulator	20	20

Audited State entities and Audited subsidiaries [1]	Underlying surplus (deficit) $'000s	Net surplus (deficit) $'000s
Tasmanian Heritage Council	0	0
Tasmania Legal Aid	778	910
Tasmanian Pharmacy Authority	(56)	(56)
Tasmanian State Health Funding Pool	0	0
Tasmanian Timber Promotion Board	(8)	(8)
The Nominal Insurer	594	594
Wellington Park Management Trust	(57)	(57)
WorkCover Tasmania Board	0	0

Note 1: The following entities are not included in this table as the audit of their financial statements had not yet been finalised as at 15 November 2022:

- Aboriginal Land Council of Tasmania
- National Trust of Australia (Tasmania)
- palawa Enterprise Unit Trust

Note 2: Amounts shown are after taxation for RBF

Acronyms and abbreviations

AASB	Australian Accounting Standards Board
AEMO	Australian Energy Market Operator
Audit Act	*Audit Act 2008*
Audited subsidiaries	Audited subsidiaries of State entities
Aurora Energy	Aurora Energy Pty Ltd
BPL	Basslink Pty Ltd
BSA	Basslink Services Agreement
Commission	Superannuation Commission
Communities Tasmania	Department of Communities Tasmania
COVID-19	Novel Coronavirus disease pandemic
CSL	CSL Australia Pty Ltd
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
EPA	Environment Protection Authority
FC-16	Treasurer’s Instruction FC-16 *Contributions to PNFC and PFC*
FMA	*Financial Management Act 2016*
GBEs	Government Business Enterprises
GFS	Government Finance Statistics
GGS	General Government Sector
Hydro Tasmania	Hydro-Electric Corporation
IIP	Infrastructure Investment Program
Justice	Department of Justice

MAIB	Motor Accidents Insurance Board
MCHF	Mersey Community Hospital Fund
Metro	Metro Tasmania Pty Ltd
MPDC	Macquarie Point Development Corporation
NRE Tas	Department of Natural Resources and Environment Tasmania
Office	Tasmanian Audit Office
OSC	Office of the Superannuation Commission
PAHSMA	Port Arthur Historic Site Management Authority
PFC	Public Financial Corporations
PFT	Private Forests Tasmania
PNFC	Public Non-Financial Corporations
RBF	Retirement Benefits Fund
ReCFIT	Renewables, Climate and Future Industries Tasmania
RMC	Rauma Marine Constructions
State Growth	Department of State Growth
State Service Act	*State Service Act 2000*
STT	Sustainable Timber Tasmania
SOCs	State-owned Companies
TAFR	Treasurer's Annual Financial Report
TASCORP	Tasmanian Public Finance Corporation
TasNetworks	Tasmanian Networks Pty Ltd
TasPorts	Tasmanian Ports Corporation Pty Ltd
Tasracing	Tasracing Pty Ltd
TasRail	Tasmanian Railway Pty Ltd
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd
Tasmanian Irrigation	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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