



Tasmanian
Audit Office



**Report of the Auditor-General
No. 2 of 2023-24**

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 2022 and 30 June 2023

14 November 2023

Our role

The Auditor-General and Tasmanian Audit Office are established under the *Audit Act 2008* and *State Service Act 2000*, respectively. 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.



2023
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 2022 and
30 June 2023**

14 November 2023

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

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Tasmanian Audit Office

GPO Box 851

Hobart

TASMANIA 7001

Phone: (03) 6173 0900

Email: admin@audit.tas.gov.au

Website: www.audit.tas.gov.au

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14 November 2023

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

Dear President, Speaker

Report of the Auditor-General No. 2 of 2023-24: 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 2022 and 30 June 2023

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 2022 and 30 June 2023.

Yours sincerely

Rod Whitehead
Auditor-General

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Executive summary

This report is the first of 2 volumes reporting on our audits for the years ended 31 December 2022 and 30 June 2023. This volume reports on the status of audits of financial statements and provides analysis and commentary on State entities and audited subsidiaries in the Total State Sector and other uncategorised State entities and audited subsidiaries.

There were several administrative restructures that occurred throughout 2022-23 which affected the financial results of State entities. The most significant of which was the dissolution of the Department of Communities Tasmania and the creation of Homes Tasmania as a new Public Non-Financial Corporation (PNFC). This report provides some insight into the financial effects of the administrative restructures, which mainly affected government departments.

The General Government Sector Underlying Net Operating Balance for 2022-23 was a deficit of \$616 million, a deterioration of \$162 million from the deficit of \$455 million reported for the previous year. Positively, the deficit was \$324 million less than the budgeted deficit of \$940 million.

The significance of Australian Government grant funding (excluding one-off Australian Government capital funding) on the financial performance of the General Government Sector (GGS) continued in 2022-23, with this source of revenue representing 65.2% of total GGS revenue, compared to 63.4% in the period year. The current year is the 4th year in which Australian Government grant funding has grown at a greater rate than other GGS revenues.

Capital expenditure for Departments in the General Government Sector has consistently increased over the past 4 years. In 2022-23, actual capital expenditure of \$780 million was well short of the \$1.08 billion budgeted capital expenditure, with the Departments of State Growth, Health and Justice having the largest budgeted capital expenditure 'gap'. The dissolution of the Department of Communities Tasmania also led to a capital expenditure shortfall of \$36 million compared to budget.

GGS net debt grew by \$602 million to \$1.88 billion at the end of June 2023, mainly due to increased borrowings of \$541 million, drawn down by the Tasmanian Government to support the expenditure of the sector and to ensure Specific Purpose Accounts and Agency Trust Accounts were cash backed.

The Total State Sector Underlying Net Operating Balance, which incorporates the financial results for PNFC and Public Financial Corporations (PFC), was a deficit of \$408 million in 2022-23, an improvement of \$302 million from the prior year deficit of \$710 million. The improved result primarily reflects the \$221 million increase in the underlying profit of the Motor Accidents Insurance Board, largely due to the improvement in financial markets during 2022-23.

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 fairly¹, 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 of 2 volumes reporting on our audits for the years ended 31 December 2022 and 30 June 2023. 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 Government² 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 2022 and 30 June 2023 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 on 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.

¹ Give a true and fair view in the case of entities reporting under the *Corporations Act 2001* or the *Australian Charities and Not-for-profits Commission Act 2012*.

² All references to Government refer to the Tasmanian Government unless otherwise stated.

Completion of audits of financial statements

Introduction

The information provided in this chapter summarises the financial audits undertaken under sections 16, 18 and 21 of the Audit Act.

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 2023 was completed on 30 October 2023, in line with the legislative timeframe.

The status of audits of State entities and audited subsidiaries as at 31 October 2023 is shown in Table 1 below.

Table 1: Status of audits of State entities and audited subsidiaries as at 31 October 2023

Audits of financial statements	December 2022 and June 2023	December 2021 and June 2022 ³
State entity and audited subsidiaries of State entity financial statements submitted, complete in all material respects:		
<ul style="list-style-type: none"> within 45 days of the end of the financial year [Audit Act, section 17(1)] 	140	142
<ul style="list-style-type: none"> after 45 days of the end of the financial year 	19	16
	159	158
Audits of financial statements of State entities and audited subsidiaries of State entities:		
<ul style="list-style-type: none"> completed within 45 days of receiving the financial statements [Audit Act, section 19(3)] 	82	70
<ul style="list-style-type: none"> completed after 45 days of receiving the financial statements 	24	49
<ul style="list-style-type: none"> audits dispensed 	34	38
Total audits completed as at 31 October 2023	140	157
Audits not yet completed	18	0
Audits not yet dispensed	1	1
	159	158

³ Audit completion for December 2021 and June 2022 year ends as at 8 August 2023.

General Government and Total State Sectors

Introduction

This chapter provides an overview of the structure of the 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, PNFC entities and 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 SOC.

GBEs and SOC operate outside of the Public Account but may provide returns to the Public Account in the form of dividends, income tax equivalents and rate equivalents.

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 during 2023



Stadiums Tasmania was established as a new statutory entity, following the passage of the *Stadiums Tasmania Act 2022*, and it has been classified as a PNFC. As there were no financial transactions for Stadiums Tasmania in 2022-23, it is not included in Figure 1, nor is there any commentary on it in this report.

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 their 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
- 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 summarises changes to the administration and structure of the GGS during 2022-23.

Effective date	Administrative restructure
From 1 July 2022	<p><i>State Service (Restructuring) Order (No. 2) 2022</i></p> <ul style="list-style-type: none">• The part of the Department of Communities Tasmania (Communities Tasmania) known as Sport and Recreation was amalgamated with the Department of State Growth (State Growth).• The section known as Sport and Recreation Infrastructure within the part of Communities Tasmania known as Grants, Sport and Recreation Infrastructure, was amalgamated with State Growth.• The part of Communities Tasmania known as the Silverdome was amalgamated with State Growth.• The part of Communities Tasmania known as the Tasmanian Institute of Sport was amalgamated with State Growth.

Effective date	Administrative restructure
From 1 August 2022	<p><i>State Service (Restructuring) Order (No. 4) 2022</i></p> <ul style="list-style-type: none"> • The part of Communities Tasmania known as the Policy and Programs section of Communities, Sport and Recreation was amalgamated with the Department of Premier and Cabinet (DPAC). • The part of Communities Tasmania known as Wellbeing, Strategy and Engagement was amalgamated with DPAC.
From 12 September 2022	<p><i>State Service (Restructuring) Order (No. 5) 2022</i></p> <ul style="list-style-type: none"> • The part of the Department of Natural Resources and Environment Tasmania (NRE Tas) known as Aboriginal Heritage Tasmania was amalgamated with DPAC. • The part of Communities Tasmania known as Family Violence Counselling and Support Service was amalgamated with the Department of Health (Health).
From 1 October 2022	<p><i>State Service (Agencies) Order 2022</i></p> <ul style="list-style-type: none"> • Schedule 1 of the State Service Act was amended to change the name of the Department of Education (Education) to the Department for Education, Children and Young People (DECYP).
From 1 October 2022	<p><i>State Service (Restructuring) Order (No. 6) 2022</i></p> <ul style="list-style-type: none"> • The part of the Department of Treasury and Finance (Treasury) known as Renewables, Climate and Future Industries Tasmania was amalgamated with State Growth. • The following parts of Communities Tasmania were amalgamated with DECYP: <ul style="list-style-type: none"> - the Office of Commissioner for Children and Young People - Children, Youth and Families - the Tasmanian Autism Diagnostic Service - the Inquiry Support Unit - the Child Advocate. • The part of Communities Tasmania known as the Board of Exceptional Needs was amalgamated with Health. • The following parts of Communities Tasmania were amalgamated with DPAC: <ul style="list-style-type: none"> - the Tasmanian Community Fund - Community and Disability Services.

Effective date	Administrative restructure
From 1 December 2022	<p><i>State Service (Restructuring) Order (No. 7) 2022</i></p> <ul style="list-style-type: none"> The part of Communities Tasmania relating to housing was amalgamated with Homes Tasmania. The part of Communities Tasmania known as Community Services Grants within the part known as Grants Services was amalgamated with DECYP. The part of Communities Tasmania known as Grant Services Communities, Sport and Recreation within the part known as Grants Services was amalgamated with DPAC. Communities Tasmania was abolished.
From 1 December 2022	<p><i>Homes Tasmania Act 2022</i></p> <ul style="list-style-type: none"> Homes Tasmania was established under the <i>Homes Tasmania Act 2022</i> and commenced on 1 December 2022 by proclamation by the Governor.
From 1 December 2022	<p><i>State Service (Agencies) Order (No. 2) 2022</i></p> <ul style="list-style-type: none"> Schedule 1 of the State Service Act was amended to remove Communities Tasmania.

Department of Communities Tasmania

Financial result

Communities Tasmania recorded a surplus of \$38.65 million for the period ended 30 November 2023 (2021-22 entire year, \$1.66 million).

Machinery of Government changes

On 24 February 2022, the Premier announced an administrative restructure to deliver better services and outcomes for children, young people, individuals and families. The restructure was implemented through a series of restructuring orders, which eventually led to the abolition of Communities Tasmania on 1 December 2022.

By 30 November 2022, Communities Tasmania had distributed its entire net assets, totalling \$3.63 billion, to other State entities, in line with the administrative restructures outlined above. The distributions were recorded as equity distributions to owners, with corresponding equity contributions by owners recognised by the following entities:

- State Growth, \$31.70 million
- DPAC, (\$0.62 million)
- Health, (\$0.84 million)
- DECYP, \$8.76 million
- Homes Tasmania, via Finance-General, \$3.56 billion.

In addition to the above, \$29.56 million was returned to the Public Account.

Department for Education, Children and Young People

Financial result

The 2022-23 result for DECYP was a deficit of \$6.97 million (2021-22, surplus \$19.89 million). The movement in the net result is partly due to administrative restructures that occurred during 2022-23, as discussed previously.

Administrative restructures

The effect of the administrative restructures resulted in net assets of \$8.76 million being received on restructure, which included receivables of \$0.15 million, property, plant and equipment of \$20.28 million, right-of-use assets of \$0.21 million, less lease liabilities, employee entitlements and other liabilities of \$11.88 million.

The administrative restructure resulted in 2 additional output groups for DECYP, Output Group 4 - Children Services and Output Group 5 - Independent Children's and Young Persons' Review Service. These output groups contributed a deficit of \$4.95 million to DECYP's total deficit of \$6.97 million for the year.

Property, plant and equipment

Property, plant and equipment increased by \$241.33 million during 2022-23 to \$2.11 billion, primarily due to increases in the value of land and buildings. The increase represented revaluation increments of \$218.43 million, additions of \$65.77 million, additions acquired through administrative restructure of \$20.28 million, offset by depreciation of \$61.01 million and assets disposed of \$2.14 million.

The 2022-23 revaluation increment was based on indices for construction costs and land values as advised by the Valuer-General.

Significant capital expenditure on building projects during 2022-23 included:

- Sorell School – provision of contemporary learning areas, \$11.54 million
- New Brighton High School, \$9.92 million
- West Ulverstone Child and Family Learning Centre, \$3.02 million
- Penguin District School major redevelopment, \$2.91 million
- Waratah-Wynyard Child and Family Learning Centre Hub, \$2.85 million
- Legana Primary School construction, \$2.63 million.

Department of Health

Financial result

Health recorded a deficit of \$101.39 million in 2022-23, compared to a surplus of \$73.82 million in 2021-22. The decline was predominantly due to:

- an increase in employee benefit expenses of \$235.05 million as a result of the response to the Novel Coronavirus disease pandemic (COVID-19), including the unbudgeted Frontline COVID-19 allowance and increases in hospital activity

- a decrease in grant revenue of \$79.81 million, mostly due to reduced funding under the National Partnership on COVID-19 Response, arising from the cessation of Hospital Services Payments and State Public Health Payments from 31 December 2022.

The above items were offset by an increase of \$135.20 million in Revenue from Government from \$1.82 billion in 2021-22, to \$1.95 billion in 2022-23.

Capital works

In 2022-23, Health received \$135.60 million in capital funding, comprising appropriation revenue, other revenue from the Government and grants from the Australian Government.

Major capital works undertaken by Health in 2022-23 included:

- Royal Hobart Hospital Stage 2 Redevelopment, \$42.23 million
- Digital Health Transformation, \$24.15 million
- Human Resources Information System, \$14.45 million
- Launceston General Hospital Redevelopment Stage 1, \$13.03 million
- Mersey Community Hospital Capital Upgrades, \$11.96 million.

Department of Justice

Financial result

The Department of Justice (Justice) recorded a deficit of \$83.41 million for 2022-23 (2021-22, surplus \$37.50 million).

Revenue recognised by Justice was relatively stable compared to the previous year. Appropriation revenue decreased by \$12.58 million due to a reduction in Capital appropriation compared to the previous year. This decrease was offset by additional revenue from Grants (\$4.65 million), Interest (\$1.62 million) and Electoral Office revenue (\$3.90 million).

In the same period, expenses grew by \$116.07 million mainly attributable to an increase in:

- employee benefits, \$20.42 million
- recognition of claims expense related to the establishment of a provision for Claims related to Child Sexual Abuse in State Care, \$75.67 million
- supplies and consumables, \$12.18 million due to increased consultancy, maintenance and prison expenses.

Property, plant and equipment

Property, plant and equipment increased by \$17.90 million during 2022-23 to \$394.46 million, primarily due to increases in land and buildings, including prison buildings and structures. This was made up of asset additions of \$11.11 million and a revaluation increment of \$26.55 million, offset by depreciation and amortisation expense of \$13.28 million.

The 2022-23 revaluation increment was based on indices for construction costs and land values as advised by the Valuer-General.

Intangible assets

Intangible assets were restated as at 1 July 2021 due to a prior period error adjustment totalling \$19.76 million. The adjustment primarily related to the Justice '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.

Expenditure for this system was incorrectly capitalised, as the expenditure did not meet the recognition criteria under Australian Accounting Standards Board (AASB) accounting standard AASB 138 *Intangible Assets*; per the International Financial Reporting Interpretations Committees 2021 Agenda Decision on *Configuration or Customisation Costs in a Cloud Computing Arrangement*.

In accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Department adjusted the error in the respective previous reporting periods effective from 1 July 2021. There was no impact on the 2022-23 financial year.

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

During 2022-23, Justice expended \$28.12 million (2021-22, \$30.93 million) on payments to claimants under the National Redress Scheme for Institutional Child Sexual Abuse and for related civil claims against the Crown.

As at 30 June 2023, 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.

In 2022-23, Justice recognised a claims expense to establish a provision for Claims related to Child Sexual Abuse in State Care of \$75.67 million. In previous years a portion of this was recognised as a contingent liability. The previously disclosed contingent liability at 30 June 2022 was \$45.50 million. Justice also disclosed other non-quantifiable contingent liabilities related to these claims and the redress scheme as at 30 June 2023.

Payables at 30 June 2023 included \$9.03 million (30 June 2022, \$8.97 million) for Redress related settlements agreed but not paid at that date.

Department of Natural Resources and Environment Tasmania

Financial result

NRE Tas recorded a deficit of \$7.03 million in 2022-23 compared to a deficit of \$28.55 million in 2021-22. The improved financial performance is primarily due to the derecognition of a class of roads by Parks and Wildlife Services in 2021-22, which resulted in a \$48.05 million write down.

Property, plant and equipment

NRE Tas applied indexation to the fair values of infrastructure assets, including walking tracks, roads, fire trails, based on indices provided by the Valuer-General, which led to a revaluation increment of \$50.68 million.

Indexation was also applied to land and building assets, leading to an increase in the value of land by \$505.07 million and buildings by \$12.06 million.

Department of Police, Fire and Emergency Management

Financial result

The Department of Police, Fire and Emergency Management (DPFEM) recorded a surplus of \$21.38 million in 2022-23 (2021-22, surplus \$21.55 million). Total revenue was \$27.46 million higher than the previous year, mainly due to an increase in appropriation revenue of \$22.93 million. This was driven by additional revenue received for the Police Enterprise Bargaining Agreement, Historical Complaints Review into Child Sexual Abuse, Multidisciplinary Centres, Upgrades to Police stations and housing and Special Operations Group Infrastructure – South.

Expenses increased by \$27.63 million, with major increases attributed to:

- Employee benefits \$14.84 million, due to the new Police Enterprise Bargaining Agreement, payments associated with COVID-19 activities, and the timing of police recruitment training courses
- Supplies and consumables \$8.98 million relates mainly to increases in lease payments, \$3.55 million, and communications, \$2.54 million
- Other expenses \$8.14 million relates predominantly to interagency transfer payments from the State Fire Commission and an increase in the workers compensation premiums, \$5.42 million.

Property, plant and equipment

Property, plant and equipment increased by \$49.80 million during 2021-22 to \$297.46 million, primarily due to increases in land and buildings. The increase represented additions of \$28.08 million and a revaluation increment of \$29.94 million, less depreciation of \$7.45 million and disposals of \$0.70 million.

The 2022-23 revaluation increment was based on indices advised by the Office of the Valuer-General.

Major capital projects

During 2022-23 expended \$27.72 million on capital assets with works continuing the upgrade of police stations, housing, and vessel replacement. In February 2023, the Sorell Emergency Services Hub became operational, enabling the collective response of firefighters, police and other emergency services to the community, at a value of \$12.08 million. Significant work in progress includes expenditure towards the refurbishment of Launceston Police Headquarters, \$6.47 million, and vessel replacement of the PV Van Dieman, \$4.49 million.

Department of Premier and Cabinet

Financial result

DPAC recorded a deficit for 2022-23 of \$5.65 million compared to a surplus \$3.64 million in 2021-22. The turnaround in the net result is partly due to administrative restructures and the de-escalation of the Tasmanian Government's Response to the COVID-19 pandemic during 2022-23.

Administrative restructures

The effect of the administrative restructures resulted in net liabilities of \$0.77 million being received on restructure, which included cash and cash equivalents of \$0.22 million, receivables of \$1.61 million, intangibles of \$0.06 million, less employee entitlements of \$2.66 million.

The administrative restructures resulted in establishment of a new output group for DPAC, Output Group 07 – Community Partnerships and Priorities. This output group contributed a surplus of \$0.41 million to DPAC's net result for the year.

National Disability Insurance Agency transfers

Transfer payments to Australian Government agencies of \$157.64 million included 2 quarterly payments totalling \$126.51 million paid to the National Disability Insurance Agency, representing Tasmania's contribution to shared funding participants. The other 2 quarters were recorded in the financial statements of Communities Tasmania for the period ended 30 November 2022.

Funding to meet the payments to the National Disability Insurance Agency was provided by appropriation funding and a contribution from Health.

Department of State Growth

Financial result

State Growth recorded a surplus of \$301.90 million in 2022-23 compared to a surplus of \$282.09 million in 2021-22. Total revenue was \$62.04 million higher than the prior year, mainly due to fluctuations across a number of areas, including:

- Increases in appropriation revenue – capital, \$55.15 million and Other revenues from Government, \$25.90 million
- Grants revenue increases of \$81.59 million
- Decreases in both appropriation revenue – operating of \$18.36 million and other revenue of \$82.50 million.

The increased revenue was partially offset by increases in expenditure of \$42.23 million, which included:

- Increases in expenditure for supplies and consumables, \$31.56 million, and other expenses, \$32.92 million
- Offset by lower expenditure on grants and subsidies, \$43.21 million.

Grants revenue included a significant increase in Australian Government grants, including additional construction on transport infrastructure, such as construction works on the new Bridgewater Bridge, which has cost \$232.01 million up to 30 June 2023.

The decline in other revenue was due to additional funding recorded in the prior year relating to additional expense recoveries received for the Derwent Entertainment Centre, \$27.46 million, and funds received for the Showgrounds Upgrade Project, \$25.00 million. Grants and subsidies expenditure was also higher in the prior year due to the inclusion of COVID-19 grants of \$65.47 million.

Valuation of infrastructure assets

State Growth undertook revaluations of its roads, bridges and land assets during 2022-23. This resulted in a revaluation increment for roads of \$275.68 million, bridges of \$77.91 million, and land assets of \$121.95 million. The increments for roads and bridges were due to the use of applicable construction indexes, with land values as advised by the Valuer-General.

Capital expenditure

In 2022-23, State Growth expended \$501.44 million for acquisition of non-financial assets (2020-21, \$362.22 million). This included capital improvements related to roads \$243.31 million (2020-21, \$285.95 million) and bridges of \$192.97 million (2020-21, \$21.71 million) and building additions of \$9.93 million (2020-21, \$42.80 million).

Department of Treasury and Finance

Financial result

Treasury recorded a surplus of \$2.96 million in 2022-23, compared to a surplus of \$0.31 million in 2021-22.

Renewables, Climate and Future Industries Tasmania

On 1 October 2022, Treasury relinquished responsibility for Renewables, Climate and Future Industries Tasmania (ReCFIT) to State Growth. This was only 11 months after the establishment of ReCFIT on 31 October 2021, which occurred 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 \$0.48 million were relinquished on restructure, which included cash and cash equivalents of \$1.48 million, plant and equipment of \$0.15 million, less employee entitlements and other liabilities of \$1.15 million.

ReCFIT incurred a net deficit of \$0.17 million whilst under Treasury's control in 2022-23. The transfer of ReCFIT reduced Treasury's revenue from appropriation, grants (from the Australian Government for Project Marinus) and recovery of expenses revenue from those received in the prior year. Similarly, the transfer resulted in lower expenses for employee benefits, supplies and consumables, and grants and subsidies compared to the previous year.

Finance-General

The Finance-General Division is administered by Treasury. The major activities transacted through Finance-General include the management of the Government's financial assets and liabilities, meeting the Government's pension and other superannuation commitments, administration of the Tasmanian Risk Management Fund, management of the Government's light vehicle fleet and property portfolio, and payments to government businesses.

Finance-General transactions are recorded in the Schedule of Administered Income and Expenses, Schedule of Administered Assets and Liabilities and Schedule of Administered Changes in Equity.

Significant developments impacting Finance-General are described below.

Administered contributed equity and investment in Homes Tasmania

Effective 1 December 2022, the *State Service (Restructuring) Order (No. 7) 2022* abolished Communities Tasmania and amalgamated the part of Communities Tasmania relating to housing with Homes Tasmania. Homes Tasmania was established under the *Homes Tasmania Act 2022*.

As a result of these administrative arrangements, on 1 December 2022, Finance-General:

- assumed responsibility for \$3.56 billion of net assets of Housing Tasmania, which was recognised as an equity contribution by owner
- recognised an initial equity investment of \$3.56 billion in Homes Tasmania, as a PNFC sector entity.

Grants to Homes Tasmania

Under the *Appropriation (Supplementary Appropriation for 2022-23) Act 2022*, appropriation funding of \$163.41 million to support Homes Tasmania in 2022-23 was allocated to Finance-General and was paid as a grant to Homes Tasmania. From 2023-24 onwards, appropriation funding will be allocated to DPAC as the administering agency.

Administered infrastructure assets

Expenditure totalling \$41.06 million for Project Unify and the Digital Transformation Priority Expenditure Program had historically been recognised as an infrastructure asset within Finance-General, consistent with the State Budget presentation. During 2022-23, the asset was derecognised as Finance-General did not control the asset, resulting in a loss of \$41.06 million included in Net gain (loss) on non-financial assets in the Schedule of Administered Income and Expenses.

Administered loans from Tasmanian Public Finance Corporation

Loans from Tasmanian Public Finance Corporation (TASCORP) increased by \$548.61 million during 2022-23 to a total of \$2.84 billion at 30 June 2023. 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.

Administered superannuation liability

The administered superannuation liability decreased by \$311.74 million to \$7.42 billion at 30 June 2023. The decrease is driven by:

- the effect of changes in actuarial assumptions, \$227.80 million, mainly arising from an increase in the discount rate used in calculating the liability from 3.8% in 2021-22 to 4.3% in 2022-23
- plus, employer contributions of \$366.55 million
- less, interest expense of \$362.06 million recognised on the liability.

Tasmanian Risk Management Fund

The Tasmanian Risk Management Fund's outstanding claims liability increased from \$374.34 million at 30 June 2022, to \$438.15 million at 30 June 2023. The increase is primarily due to continuing increases in outstanding liabilities for the personal injury and property risk categories.

The provision for personal injury risk category increased by \$49.36 million, due to:

- a continuation of very high numbers of psychological claims in 2022-23 resulting in higher overall costs
- increasing payment costs and continuance rates in weekly benefits, particularly for psychological claims
- higher assumed average non-weekly benefit costs for psychological claims
- increases in risk exposure, including higher aggregate salaries and legislative benefit changes in recent years
- general inflationary growth.

These factors were partly offset by an increase in the discount rate and favourable case estimates on long-tail claims.

The provision for property risk category increased by \$11.11 million, mainly due to a high number of claims reported for the 2022-23 year, arising from a number of large claims and a storm event, and receipt of recoveries since May 2022 increasing the net liabilities. In 2022-23, the actuary applied, for the first time, a discount to the property risk category.

State Fire Commission

Financial result

The State Fire Commission recorded a surplus of \$10.34 million compared to \$7.89 million in 2021-22. The marginal improvement of \$2.45 million was a result of a number of minor variations in different revenue streams and related expenses including:

- an increase of \$8.44 million in Insurance Fire Levy due to continuing growth of market forces with the insurance industry

- fire service contributions increased by \$2.79 million due to the 5.5% increase applied on contributions from local councils
- increases in expenditure for employee benefit costs of \$6.80 million as a result of wage increases during the year.

Also impacting the surplus was a reduction in bushfire fighting activity. Due to the unpredictable nature of bushfires, both bushfire fighting contributions and bushfire fighting expenses decreased by \$4.48 million and \$4.40 million respectively.

Property, plant and equipment

Property, plant and equipment increased by \$11.12 million during 2022-23 to \$159.81 million, primarily due to increases in land and buildings. The increase represented additions of \$4.46 million and revaluation increment of \$14.08 million, less depreciation of \$7.29 million and disposals of \$0.13 million.

The 2022.23 revaluation increment was based on indices advised by the Valuer-General.

TAFR General Government Sector entity financial results

Details of GGS entity financial results for 2022-23 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 2022-23

Audited State entities	Underlying surplus (deficit) \$'000	Net surplus (deficit) \$'000	Total comprehensive surplus (deficit) \$'000
Departments			
Communities Tasmania (to Nov 2022)	(19,073)	38,646	38,879
Education, Children and Young People	(77,807)	(6,973)	226,028
Health	(191,098)	(101,393)	622,551
Justice	(76,862)	(83,412)	(56,857)
Natural Resources and Environment Tasmania	(20,118)	(7,027)	560,278
Police, Fire and Emergency Management	(22,418)	21,381	51,316
Premier and Cabinet	(7,677)	(5,654)	(5,654)

Audited State entities	Underlying surplus (deficit) \$'000	Net surplus (deficit) \$'000	Total comprehensive surplus (deficit) \$'000
State Growth	(131,070)	301,903	810,792
Treasury and Finance	2,961	2,961	2,961
Other GGS entities			
Brand Tasmania	375	375	375
Environment Protection Authority	(1,171)	1,801	1,802
House of Assembly	(12)	(12)	(12)
Inland Fisheries Service	(115)	(115)	(115)
Integrity Commission	(82)	(82)	(82)
Legislative Council	(20)	(20)	(20)
Legislature-General	(162)	269	6,010
Marine and Safety Tasmania	(2,127)	(1,727)	(1,727)
Office of the Director of Public Prosecutions	21	21	21
Office of the Governor	(363)	(134)	4,309
Office of the Ombudsman	(425)	(425)	(425)
Royal Tasmanian Botanical Gardens	(680)	(680)	3,766
State Fire Commission	10,339	10,339	27,438
TasTAFE	2,887	15,137	43,550
Tourism Tasmania	819	819	819

Table 4 shows the 2022-23 financial results of State entities that were consolidated into the financial results of entities included in Table 3. The name of the parent entity is included in parentheses after the name of the controlled entity.

Table 4: TAFR GGS entities consolidated into other GGS entities for 2022-23

Audited State entities	Underlying surplus (deficit) \$'000	Net surplus (deficit) \$'000	Total comprehensive surplus (deficit) \$'000
Ambulance Tasmania (Health)	(9,295)	(4,524)	5,153
Abt Railway Ministerial Corporation (State Growth)	(5,739)	1,266	1,266
Housing Tasmania (to Nov 2022) (Communities Tasmania)	(17,522)	49,126	51,975
Office of Tasmanian Assessment, Standards and Certification (DECYP)	(501)	(501)	(501)
Tasmania Development and Resources (State Growth)	5,262	5,262	5,262
Tasmanian Health Service (Health)	(174,366)	(90,493)	631,138
Tasmanian Museum and Art Gallery (State Growth)	1,075	1,396	1,396
Teachers Registration Board of Tasmania (DECYP)	148	148	148

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 2022-23.

Aurora Energy Pty Ltd

Financial result

In 2022-23, Aurora Energy Pty Ltd (Aurora Energy) generated a profit before tax of \$11.75 million, compared to \$4.34 million for the previous year.

The 2022-23 result reflects less volatility in the National Electricity Market throughout the year, as compared to the previous year, although wholesale energy prices remaining at historically high levels. In 2022-23 sales revenue from customers increased by \$71.91 million, with a corresponding increase of \$57.74 million in energy and network purchases to service customers.

Electricity market volatility and impact on cash flow hedges and net assets

Aurora Energy's net asset position as at 30 June 2023 was \$38.45 million, a decrease of \$161.54 million from the previous year. The main driver of the reduced net asset position was the decline in value of electricity derivatives, which were impacted through National Electricity Market volatility at the end of 2022, with very high wholesale prices.

The lower valuation of electricity derivatives at 30 June 2023, resulted in a net cash flow hedge loss of \$169.76 million being included both in the cash flow hedge reserve in Equity and Total Comprehensive Income at 30 June 2023. A significant component of the loss related to electricity derivatives that expired in 2022-23 and for which a significant gain was recognised in 2021-22.

Market trade receivables and payables

Electricity prices were lower at 30 June 2023 than at 30 June 2022. This had an impact on the valuation of Aurora Energy's contracts with Hydro Tasmania, which are used to manage energy purchase costs. This movement meant:

- Market trade receivables, representing amounts receivable under a contract for difference for energy purchases with Hydro Tasmania were nil at 30 June 2023, compared to the balance of \$160.35 million at 30 June 2022.

- Market trade payables, representing amounts payable under a contract for difference for energy purchases with Hydro Tasmania were \$15.97 million at 30 June 2023, compared to nil at 30 June 2022.
- Trade and other payables of \$107.41 million at 30 June 2023, were \$188.89 million lower than the balance at the end of the previous financial year, representing a decrease in the amount due to the Australian Energy Market Operator at the end of the financial year.

Retail energy platform

Aurora Energy continued to implement its new Retail Energy Platform, HubCX, their cloud-based customer care and billing system, with all customers now expected to be transferred to the new system by the end of December 2023.

The existing Customer Care and Billing system, and its related legacy systems, will continue to run until they are decommissioned following completion of the transfer process.

Forestry Tasmania (trading as Sustainable Timber Tasmania)

Consolidated financial result

Sustainable Timber Tasmania (STT) achieved a profit before tax of \$5.80 million for 2022-23 (2021-22, profit \$15.16 million).

Total revenue for 2022-23 from the sale of forest products was \$103.04 million (2021-22, \$94.60 million). After eliminating revenue of \$8.64 million from co-mingled chip sales in 2022-23 (2021-22, \$3.48 million), revenue from forest sales was \$3.28 million higher than the previous year.

Revenue of \$19.17 million from the sale of forest products, lease agreements, licenses and other forest management services and the performance of community service obligations was marginally higher. The revenue of \$18.60 million derived from the same sources in the previous year.

The current year result also included an increase in the value of the forest (biological asset) component of the forest estate of \$8.03 million (2021-22, \$12.51 million).

Expenses for 2021-22 increased \$10.44 million from the prior year to \$127.28 million, mainly due to an increase of \$6.04 million in contractor and freight costs, which includes the increase in woodchips purchased for co-mingled sales as discussed above.

Sixth review of the sustainable yield of high-quality eucalypt sawlogs

The sixth review of the sustainable yield of high-quality eucalypt sawlogs from public production forests in Tasmania, required under Clause 98 of the 1997 *Tasmanian Regional Forest Agreement*, was publicly released in October 2022.

The review confirmed STT's ability to make available at least 137,000 cubic metres per year of high-quality eucalypt sawlogs from Permanent Timber Production Zone Land (PTPZL) for the next 90 years. The yield predictions were generated from biologically based forest estate modelling of productive capacity and did not imply supply based on economic criteria.

Inventory and yield assessments arising from the sixth sustainable yield review results were taken into account in the 2023 standing timber valuation.

Biological assets

Biological assets comprise the standing timber growing on PTPZL.

An independent valuation expert valued the standing timber at \$208.40 million as at 30 June 2023. The movement in the valuation from the prior year comprised expenditure on additions of \$0.87 million and the fair value movement of \$8.03 million.

For 2022-23, the value of biological assets reflects the value of standing timber. The road network, previously included in biological assets, was reallocated to property, plant and equipment, with prior year balances similarly reclassified. The reallocation gave rise to a prior period error correction to roads of \$10.62 million as at 1 July 2021.

Property, plant and equipment

The net value of property, plant and equipment increased by \$7.11 million in 2022-23, primarily as a result of revaluation increments to land and building of \$3.17 million.

During the year, STT recognised that the accounting treatment applied to recognise an impairment loss to freehold land in the financial year ended 30 June 2010 was applied in error. The correction of the error resulted in an increase of \$10.54 million in the carrying value of freehold land as at 1 July 2021 and a reduction of \$1.32 million on the profit on sale of surplus freehold land in 2021-22 (initially recognised as being \$7.19 million).

STT does not hold freehold title over Crown land declared to be PTPZL but is deemed to control the land pursuant to the *Forest Management Act (2013)*. No value is attributed to PTPZL.

Defined benefit superannuation liability

The defined benefit liability decreased marginally from \$22.85 million at 30 June 2022 to \$22.42 million at 30 June 2023. An actuarial gain of \$1.15 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 5.3% at 30 June 2022 to 5.7% at 30 June 2023. The discount rate was determined based on the estimated yield of a corporate bond with a duration of 12 years, which approximated the duration of the liabilities for the contributory scheme as a whole.

Homes Tasmania

Financial result

Homes Tasmania recorded a surplus of \$103.40 million for the 7 month period ended 30 June 2023.

Establishment of a new entity

Homes Tasmania was established under the *Homes Tasmania Act 2022* and commenced on 1 December 2022.

On commencement, Homes Tasmania received an equity contribution of \$3.56 billion from Finance-General, representing the net assets transferred from Communities Tasmania relating to Housing Tasmania. This included:

- \$2.07 billion in property, plant and equipment assets
- \$1.48 billion in service concession assets
- \$4.33 million in employee benefit provisions

Funding of Homes Tasmania's objectives

Homes Tasmania was established to support access to affordable and appropriate housing across the entire State. Part of this role is to deliver the Government's plan to provide 10,000 new homes by 2032, with an initial target of 1,500 homes by 30 June 2023.

In 2022-23, Homes Tasmania received the following funding to assist with this role:

- \$199.75 million in grant funding from the Government
- \$60.64 million in borrowings from TASCORP.

Additional revenue included rental income of \$26.25 million.

Homes Tasmania's rental dwellings and community housing stock

Homes Tasmania's activities included the management of Housing Tasmania's rental dwellings and community housing stock, held at fair value. At 30 June 2023, Homes Tasmania managed rental dwellings of \$1.85 billion and community housing stock of \$94.76 million.

During 2022-23, Homes Tasmania recognised \$93.92 million in capital works relating to property, plant and equipment. This included:

- \$57.79 million on rental dwellings
- \$11.43 million on community housing stock
- \$22.70 million related to land purchases.

Service Concession Assets

Homes Tasmania holds service concession assets recognised at fair value. These assets were valued at 30 June 2023 by the Valuer General, with a resultant revaluation increment of \$432.83 million increasing the fair value to \$1.94 billion.

These assets are operated and managed on behalf of the Government by Community Housing Organisations for a set period of time. Homes Tasmania recognises these assets at fair value, as they revert to Homes Tasmania at the end of the agreement.

Hydro-Electric Corporation (trading as Hydro Tasmania)

Consolidated financial result

Hydro Tasmania recorded a profit before tax of \$332.82 million for 2022-23. This result is \$787.24 million less than the profit before tax of \$1.12 billion in 2021-22 due to:

- a revaluation gain of \$482.68 million for generation assets in 2021-22 that reversed previous years revaluation losses
- net fair value gains in 2022-23 being \$347.19 million lower than the net fair value gains in 2021-22, because the 2021-22 result included a net gain of \$307.88 million on Basslink financial assets and liabilities arising from the termination of the Basslink Services Agreement.

New Basslink Network Services Agreement

On 20 October 2022, Hydro Tasmania signed a new Basslink Network Services Agreement (NSA) with Basslink Pty Ltd (BPL). The contract will conclude on the date the Basslink asset becomes regulated by the Australian Energy Regulator or 30 June 2025, whichever is the earlier, or unless the contract is extended by the parties.

Under the new network services agreement:

- BPL is obliged to make Basslink available to the market at its safe continuous capacity, at a price of \$0 per MWh, unless otherwise instructed by Hydro Tasmania
- Hydro Tasmania is entitled to receive the inter-regional revenues (IRRs) in respect of the safe continuous capacity.

There are various protocols, compliance and reporting requirements in place where Hydro Tasmania intend to instruct BPL to bid anything other than \$0 per MWh.

The NSA, unlike the previous Basslink agreement, provides a process that may allow BPL to make Southward IRRs available for purchase to Victorian generators, should they require them in order to contract with Tasmanian customers and Northward IRRs available to Tasmanian generators, should they require them in order to contract with Victorian customers.

Battery of the Nation

The redevelopment of the Tarraleah hydropower scheme is a cornerstone project under the Battery of the Nation initiative. During 2022-23, Hydro Tasmania recognised the second instalment of \$13.00 million. This was provided through Treasury as grant funding of \$3.20 million, which was deducted from the construction cost of the asset, and an equity injection of \$9.80 million.

Macquarie Point Development Corporation

Financial result

Macquarie Point Development Corporation (MPDC) incurred a deficit of \$10.87 million in 2022-23 (2021-22, deficit \$19.69 million). The result for 2022-23 was impacted by the revaluation of the Macquarie Point site by independent valuers, which resulted in:

- an impairment loss of \$8.95 million on inventory recognised at net realisable value
- a revaluation loss of \$1.50 million on the land component of the site.

Site valuation

The valuation of the site as at 30 June 2023 was based on the active master plan for the site at that time. This valuation did not consider any future use of the site for a multipurpose stadium. This will be considered further in the event of a new master plan being approved for the site.

In addition to the losses recognised in the loss result above, the site revaluation reduced the Asset Revaluation Reserve for land by \$3.33 million.

Metro Tasmania Pty Ltd

Consolidated financial result

For 2022-23, Metro Tasmania Pty Ltd (Metro) returned a loss before income tax of \$2.04 million (2021-22, profit \$3.49 million). Contributing factors included a \$2.40 million increase in fuel costs and \$1.58 million increase in employee related expenses.

Bus replacement program

In 2022-23, Metro received the last of the 117 buses as built by BusTech, concluding the 6 year construction program. Of the 117 buses constructed, 9 were received in 2022-23 at a cost of \$4.58 million.

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. A new service contract with State Growth was signed in August 2022 and is in place until December 2024.

Zero emission bus trial

During 2021-22, Metro embarked on a Zero Emissions project to trial electric battery and hydrogen buses. In 2022-23, Metro undertook a two-stage procurement process for the supply of 3 battery electric buses, 3 hydrogen fuel cell electric buses and a hydrogen refuelling station. The trials are due to commence in 2023-24.

Ticketing project

In 2020-21, Metro commenced an expression of interest process in respect to a Common Ticketing System project. Since that time, Metro has undertaken all pre-delivery activities for the Common Ticketing System Project and facilitated a transfer of responsibility for delivery to State Growth.

Borrowing Facility

At 30 June 2023, Metro had drawn down \$5.00 million of its \$18.00 million facility with TASCORP, which was established to fund short term commitments and to fund its capital replacement program.

Motor Accidents Insurance Board

Financial result

The 2022-23 financial result for the Motor Accidents Insurance Board (MAIB) was a profit before tax of \$146.68 million, an improvement from a loss before tax of \$73.86 million in 2021-22. The improvement reflects stronger investment returns, which increased by \$232.09 million from 2021-22. This was offset by a \$16.45 million increase in gross claims incurred, resulting from the combined impact of the higher cost of claims and movements in economic assumptions (discount and inflation rates) used in the valuation of the outstanding claims liability.

Premium revenue in 2022-23 totalled \$145.69 million (2021-22: \$141.87 million). The improvement was mainly due to the 2.3% growth in registered vehicles, as there was no general premium indexation applied to motor vehicle premiums during 2022-23 or 2021-22.

Claims experience

MAIB received 1,899 new claims in 2022-23, a decline from 1,923 in 2021-22. The decline of 1.2% continues a downward trend, following larger decreases of 11.1% in 2021-22 and 5.7% in 2020-21. The reduction in the number of new claims was also reflected in the claim frequency rate per 1,000 registered vehicles, which reduced to 3.2 for 2022-23 from 3.3 in 2021-22.

Port Arthur Historic Site Management Authority

Financial result

Port Arthur Historic Site Management Authority (PAHSMA) incurred a loss of \$0.93 million for 2022-23 compared to a loss of \$4.30 million in 2021-22. The improvement was mainly due to a \$8.68 million increase, (or 77.5%), from fees, tours and merchandise income, predominately from increased day entry and ghost tour visitors at the Port Arthur historic site. PAHSMA also benefited from the Cascades Female Factory being open for the full year following recent renovations including construction of the History and Interpretation Centre. PAHSMA's result was a direct result of improved visitation in the tourism sector post COVID-19.

Equity injection

The Government continued its assistance to PAHSMA providing an equity injection of \$4.00 million (2021-22, \$9.00 million). This was used to retire TASCORP borrowings. Equity contributions are part of the Government's commitment to provide \$18.00 million in equity contributions and \$2.00 million by way of non-recurring grant funding over the 4 year period to 2023-24 as part of the COVID-19 support and recovery initiative.

Private Forests Tasmania

Financial result

Private Forests Tasmania (PFT) recorded a deficit of \$0.47 million for 2022-23 compared to a surplus of \$0.14 million in 2021-22. The decline was mainly due to \$0.50 million in one-off project funding from the Australian Government received in 2021-22, but also reflects the Board decision to invest cash reserves into programs with private sector partners. This investment commenced in 2019-20 and is expected to continue through to 2025-26.

Tasmanian Irrigation Pty Ltd

Financial result

Tasmanian Irrigation Pty Ltd (Tasmanian Irrigation) incurred a loss before tax of \$44.94 million for 2022-23 (2021-22, loss \$18.14 million). The decline from the previous year was mainly due to an increase in the impairment of capitalised costs for irrigation schemes of \$33.41 million, offset by an increase in Government grants revenue of \$8.72 million.

Government grant revenue totalled \$10.60 million in 2022-23 (2021-22, \$1.88 million). The 2022-23 revenue included:

- \$6.10 million under a grant agreement with the Tasmanian Government for the undertaking of prefeasibility investigations, water sales process and development and delivery of business cases for 8 of the Tranche Three irrigation schemes
- \$4.00 million under a grant agreement with the Tasmanian Government for funding of project development and delivery costs.

Equity contributions of \$33.43 million from the Government comprised:

- \$14.73 million for Tranche Three program funding
- \$10.48 million for the repayment of borrowings for project development and delivery costs and pre-feasibility and feasibility costs incurred in prior years
- \$2.50 million for the Greater Meander Irrigation Augmentation project
- \$2.27 million for the Energy on Farms program
- \$2.25 million for the Lake Leake Dam Life Extension project
- \$1.20 million for the South East Interim Irrigation Scheme.

Irrigation scheme development

During 2022-23, construction work progressed on the first Tranche Three project, the 4,750 megalitre Don Irrigation Scheme. To 30 June 2023, capitalised costs totalled \$44.51 million. The project is on schedule to be commissioned and to deliver first water for the 2023-24 season.

The Northern Midlands Irrigation Scheme was also progressed, with tenders released for the 25,500 megalitre scheme. To 30 June 2023, capitalised costs totalled \$7.83 million.

Progress on other Tranche Three projects included:

- the business case for the Sassafras Wesley Vale Irrigation Scheme Augmentation was approved, with \$1.26 million of costs capitalised in 2022-23
- planning was advanced on the Greater South East Irrigation Scheme and the Tamar Irrigation Scheme
- a new preferred option design was completed for the Southern Midlands Irrigation Scheme.

Separate to the Tranche Three program, work on the Greater Meander Irrigation Augmentation also continued, with capitalised costs of \$3.88 million in 2022-23.

Other developments

The Energy on Farms solar projects continued, with sites prepared for installation. The \$5.50 million Government sponsored Energy on Farms 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.

Work on the old Lake Leake Dam was undertaken to extend the life of the dam and to ensure it complies with contemporary design standards. Capitalised costs totalled \$2.00 million in 2022-23.

Tasmanian Networks Pty Ltd

Consolidated financial result

Tasmanian Networks Pty Ltd (TasNetworks) generated a profit before tax of \$37.02 million in 2021-22 (2020-21, profit \$57.00 million).

Regulated revenues from distribution and transmission services of \$454.05 million were \$12.11 million higher than the previous year. The current year result included \$22.80 million (2021-22, \$18.20 million) of regulated revenue over recoveries, attributable to higher Australian Energy Market Operator settlement residues received, and higher network use of system charges. Under the regulated revenue cap rules, this amount will be passed back to customers in future years via annual pricing. This will lower revenue and profit in the years the pricing adjustments occur.

Revenue from non-regulated services of \$47.69 million and other revenue of \$15.07 million, fell by \$8.64 million compared to the prior year. The most significant decrease being lower grant revenue of \$4.82 million for Project Marinus (discussed further below).

Total expenses of \$479.79 million were \$23.45 million higher than the previous year, mainly due to increased depreciation and amortisation expenses of \$13.58 million, higher finance costs of \$5.55 million and higher employee benefit expense of \$8.86 million.

Fair value of networks assets

In 2022-23, TasNetworks used an income approach to assess the fair value of its regulatory asset classes, which are calculated using the Australian Energy Regulator (AER) Regulated Asset Base (RAB) methodology. The income approach discounted future expected cash

flows to arrive at a current fair value estimate for the assets. Key inputs and assumptions for the discounted cash flow included:

- revenue cash flows based on pricing determinations of the AER and management proposals for future pricing determinations
- operating and capital expenditure equal to the allowances set by the AER
- future cash flows beyond the explicit 5 year forecast period were determined using a terminal value derived with reference to the forecast RAB based on the current regulatory model and using a RAB multiple of 1.00
- a Weighted Average Cost of Capital discount rate as determined by the AER or as used in the AER revenue proposal, which was 5.71% for standard control (distribution) network assets and 5.68% for prescribed (transmission) network assets.

Project Marinus

During 2022-23, TasNetworks and its wholly owned subsidiary Marinus Link Pty Ltd continued to progress Project Marinus through the Design and Approvals phase. The project comprises:

- Marinus Link – a proposed electricity and telecommunications interconnector between Tasmania and Victoria. Marinus Link Pty Ltd is the proponent for the Marinus Link scope.
- North West Transmission Developments (NWTDD) – involving upgrades to Tasmania’s electricity transmission lines and other energy infrastructure to support Marinus Link and further renewable energy developments. TasNetworks is the proponent for the NWTDD scope.

A Final Investment Decision (FID) for Project Marinus is planned for December 2024.

Project funding

Project Marinus has been funded by grants from the Tasmanian and Australian governments and borrowings by TasNetworks from TASCORP, a portion of which are on-lent by TasNetworks to Marinus Link Pty Ltd.

In April 2022, the Australian Government committed \$75.00 million of funding under the Federal Funding Agreement (FFA) to progress the project to a FID. The funds will be paid over 3 years from April 2022, upon the achievement of agreed milestones, and will be apportioned between the Marinus Link and NWTDD components of the project on the basis of estimated project costs of 77.6% (\$58.20 million) and 22.7% (\$16.80 million), respectively.

During 2022-23 TasNetworks received \$5.00 million of this funding, with \$30.00 million recognised as a grant receivable at 30 June 2023, based on the milestones being achieved as per the FFA agreement. This funding was apportioned between grants related to assets and grants related to income, in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, based on the actual split of operating and capital

expenditure for the year. This resulted in funding of \$7.36 million being recognised as grant revenue and \$27.64 million being treated as a contribution towards the cost of the project assets (resulting in a reduction in the cost of the project assets by this amount). For the \$27.64 million recognised contribution towards the cost of the project assets, \$19.94 million was applied to Marinus Link (\$13.31 million towards the intangible asset and \$6.63 million towards property, plant and equipment), with \$7.70 million applied to NWTD.

Marinus Link

The Marinus Link asset comprised capitalised development costs incurred to 30 June 2023, and it was classified as an internally generated intangible asset. As the asset was not available for use at 30 June 2023, the carrying value of \$31.74 million at that date was required to be tested for impairment in accordance with AASB 136 *Impairment of Assets*. The recoverable amount of the Marinus Link Project asset was assessed using management's most recent discounted cash flow forecast for the Marinus Link cash generating unit over the expected life of the asset, as there were limited cash inflows expected to be generated from the use of the asset over the next 5 years. The assessment determined that no impairment was required at 30 June 2023.

Post-balance date event relating to the Marinus Link Project

On 4 August 2023, the Premier of Tasmania issued a media release raising concern over material and significant cost increases for the Marinus Link Project. The Premier advised the Tasmanian Government was seeking further engagement with the Australian Government regarding alternative pathways to deliver the Project.

As stated in note H7 to the financial statements, The Tasmanian Government's announcement regarding the exploration of alternative pathways and funding options to deliver the Project was a 'non-adjusting event' as it did not provide evidence of conditions that existed at 30 June 2023. Consequently, no change was made to the carrying amounts of assets or liabilities relating to the Marinus Link Project or the North West Transmission Developments Project in the financial statements. The announcement had no effect on existing funding or financing arrangements for the Marinus Link Project, the Group, or the directors' intent to progress the Project to Final Investment Decision stage.

Subsequent to the directors of TasNetworks signing the financial statements, on 3 September 2023, the Minister for Climate Change and Energy, Minister for Housing, Homelessness and Small Business, Premier of Tasmania and Tasmanian Minister for Energy and Renewables released a joint press release announcing the following amendments to the original Marinus Link agreement:

- a focus on 1 cable in the first instance, with negotiations to continue on a second cable, to be considered after FID on cable 1
- a delivery timeframe as close as possible to 2028, or earlier if possible
- an increase in the Australian Government's equity share to 49.0%, with Tasmania's equity share to be approximately 17.7% and Victoria's remaining at 33.3%

- an option for Tasmania to sell its stake to the Australian Government upon commissioning of the project
- increasing concessionality of Commonwealth debt financing via the Clean Energy Finance Corporation, subject to that entity's independent decision making and due diligence, delivering lower costs for consumers.

The 3 September 2023 announcement did not necessitate any amendment to the signed financial statements.

Working capital and finance facilities

At 30 June 2023, TasNetworks' working capital, other than short term debt maturities, was a \$5.54 million deficit (2022, \$22.31 million deficit). Short term debt maturities of \$260.55 million (2022, \$220.55 million) will be refinanced in line with TasNetworks' Treasury Risk Management Policy and within the TASCORP Master Loan Facility Agreement limits and covenants.

On 26 July 2023, TASCORP approved an increase to the Borrowing Facility Limit under the Master Facility Loan Agreement from \$2.20 billion to \$2.50 billion.

Transformation process

In 2021-22 TasNetworks commenced a 2 year transformation process to streamline its business, to drive efficiency, and to reduce management from 7 layers to 4. TasNetworks expected to reduce the overall number of roles from about 1,200 to about 950 via voluntary redundancies, natural attrition and managing vacancies.

During the year, a restructuring provision of \$15.03 million was recognised, resulting in an expense for employee termination benefit costs for the same amount. As at 30 June 2023, \$9.23 million had been paid to employees, leaving a remaining provision balance of \$5.80 million for identified estimated future payments.

Tasmanian Ports Corporation Pty Ltd

Consolidated financial result

Tasmanian Ports Corporation Pty Ltd (TasPorts) recorded a profit before tax of \$20.29 million (2021-22, profit \$16.19 million).

The increase in profit was reflective of continuing post-COVID-19 improvements in the generation of revenue over 2021-22 and 2022-23. Increased vessel visitation, including the return of cruise ships from October 2022, generated increases in wharfage, towage, pilotage and freight related revenues, with TasPorts recording a 3.0% increase in vessel visits in 2022-23 (2021-22, 10.8%). In addition, continued financial benefits from the successful renegotiation of uneconomic long-term legacy lease agreements as well as improved passenger numbers transiting the Devonport Airport contributed to the positive result.

Recognition of recoveries

The consolidated result also reflected the impact of 2 incidents that have resulted in the entity seeking recoveries.

In January 2022, the commercial cement carrier Goliath allided with 2 TasPorts berthed tugs at the Port of Devonport. Both vessels sunk, and TasPorts has since incurred costs as a result of the incident including salvage costs, environmental clean-up costs, hiring replacement tugs and repairing the wharf. TasPorts is seeking to recover costs from either its insurer or CSL Australia Pty Ltd. In 2022-23, TasPorts recognised a net impact of costs incurred to date of \$3.60 million.

Through their subsidiary Bass Island Line Pty Ltd, TasPorts recognised \$1.80 million in insurance recoveries relating to a 2020-21 claim regarding the *John Duigan* vessel.

QuayLink project

During 2022-23, TasPorts continued works on the East Devonport Project, QuayLink, which will be Tasmanian's largest port infrastructure project and will significantly benefit trade and tourism to the State. The project, budgeted at \$241.00 million, is scheduled for completion in 2026-27.

Tasmanian Public Finance Corporation

Financial result

TASCORP reported a profit before tax of \$35.10 million in 2022-23, an increase of \$24.20 million from the prior year. The result comprised a profit of \$22.00 million (2021-22, profit \$13.00 million) from core treasury operations and a \$13.10 million profit (2021-22, loss \$2.10 million) from the Mersey Community Hospital Fund (MCHF).

The improvement in the MCHF result arose from an increase in unrealised gains of \$3.90 million and a decrease in net interest revenue of \$1.50 million from the reduction in the fund balance as a consequence of the annual dividend distribution. The unrealised gains result from derivatives that are hedging MCHF investments and partly offset the unrealised losses in 2021-22 (\$12.80 million) The balance of the MCHF at 30 June 2023 was \$298.40 million.

Financial position

Total assets increased from \$9.29 billion to \$10.73 billion primarily due to a \$1.00 billion increase in advances to clients for various capital programs and \$0.83 billion in investments, including an issuance of \$0.39 billion in benchmark bonds for short-term liquidity. Total liabilities increased from \$8.85 billion to \$10.36 billion in line with the increase in advances and investments.

Tasmanian Railway Pty Ltd

Financial result

Tasmanian Railway Pty Ltd (TasRail) incurred a loss before tax of \$91.13 million for 2022-23 (2021-22, loss \$50.38 million). The loss was mainly due to the impairment of capitalised costs of \$82.05 million (2021-22, \$46.47 million). In prior years, the impairment wholly related to the immediate impairment of capitalised infrastructure costs for below rail assets. In 2022-23, the impairment expense included an amount of \$35.99 million for the

shiploader under construction at the Port of Burnie, with the balance relating to below rail assets.

The result for 2022-23 was supported by operational grant funding of \$13.90 million (2021-22, \$13.10 million). Additionally, TasRail received equity contributions of \$72.64 million (2021-22, \$67.60 million) from the Government.

Rail freight volumes of 485.62 million net tonne kilometres hauled, were slightly down on the 2021-22 volume of 498.86 million net tonne kilometres, which was the second highest on record.

Business operations were significantly impacted by the October 2022 flood event. Parts of the network sustained considerable damage, resulting in some lines being closed for a short period until repaired.

Infrastructure Investment Program

The Tasmanian Freight Rail Revitalisation Program continued during 2022-23, with the completion of Tranche Two. Tranche Three, which commenced in 2020-21 is due to be completed by 30 June 2024.

Separate to the trackworks component, the Burnie shiploader replacement is also funded under Infrastructure Investment Program (IIP) Tranche Three. The project, which includes the expansion of the bulk minerals export facility, has a total budget of \$64.00 million and is due to be completed in April 2024. 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 Four, 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 \$0.40 million for 2022-23 (2021-22, profit \$4.87 million), with the result impacted by:

- Racefield revenue falling by \$1.07 million to \$24.13 million, reflecting a settling of the market from the previous COVID-19 related highs
- Other racing income falling by \$1.28 million to \$1.12 million, primarily due to a one-off benefit received in 2021-22 from vacating the Devonport Showgrounds site in that year
- an increase of \$4.88 million in Code funding expense, which increased to \$35.92 million in 2022-23.

Capital improvements

Capital works in progress increased from \$1.84 million at 30 June 2022 to \$2.94 million at 30 June 2023. The increase reflects additional capital expenditure of \$5.71 million less completed works totalling \$4.61 million. The completed works represented \$3.72 million for racecourse leasehold improvements, \$0.77 million for plant and equipment, and \$0.12 million for website and software intangible assets.

The Public Trustee

Financial result

The Public Trustee (the Trustee) achieved a profit before tax of \$0.05 million for 2022-23 (2021-22, loss before tax \$0.22 million). The improved result reflects additional government funding received by the Trustee in 2022-23 to assist in funding the Trustee's:

- response to the 2021 independent review of the Trustee, which cost \$1.18 million (2021-22, \$nil)
- community service obligations of \$3.32 million (2021-22, \$2.21 million).

Managed fund investments

At the 30 June 2023, the Trustee held \$17.47 million (2021-22, \$16.18 million) of investments held through managed funds. Of these funds, \$8.11 million is to enable the Trustee to meet their long-term superannuation liabilities, whilst the remainder is to meet both the Trustee and client financial obligations as they fall due.

TT-Line Company Pty Ltd

Financial result

The TT-Line Company Pty Ltd (TT-Line) result for the year was a profit before tax of \$12.26 million, an improvement from the loss before tax of \$20.03 million incurred in 2021-22. The improvement was primarily due to this being the first full financial year without COVID-19 pandemic related government-imposed travel restrictions and border closures.

The number of sailings increased by 73 to 896 for the financial year, with passenger numbers increasing 58.3% from 284,323 for 2021-22 to 450,012 for 2022-23. This contributed to operating revenue increasing by \$63.93 million for 2022-23 to \$302.21 million, with \$66.26 million of this attributed to increased passenger service revenue.

The increase in operating revenue was offset by higher:

- employee benefit expense, \$8.62 million, as a result of increased wages correlating with the increased sailings and the finalisation of back pay from wage negotiations
- finance costs, \$12.87 million, mainly attributable to interest on leasing the port at Geelong.
- marine, fuel and oil expense, \$25.66 million, due to higher fuel prices and additional sailings.

Vessel replacement

Construction of the replacement vessels by Finnish shipbuilder Rauma Marine Constructions (RMC) continued in accordance with the contracts. The first ship is expected to be delivered in quarter one of 2024, with the second ship expected to be delivered in quarter 4 of 2024.

TT-Line continues to recognise 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. Construction has been recognised on basis of instalments paid, which may not reflect the actual percentage of construction as at the reporting date. The total amount of construction works in progress recognised at 30 June 2023 was \$442.71 million. At 30 June 2023, TT-Line recorded a capital commitment of \$473.32 million to RMC towards its purchase commitments for the vessels.

TT-Line entered into forward exchange contracts to fix the exchange rate on future contract payments. At 30 June 2023, an asset of \$10.82 million was recognised for the market value of the forward exchange contracts entered into at that date. Movements in the 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 2022-23, the Government provided an equity contribution of \$41.59 million to TT-Line using funds from the Vessel Replacement Fund. There are no funds remaining in the Vessel Replacement Fund held by Finance-General at 30 June 2023.

Geelong Port

As at 30 June 2023, TT-Line recognised a right of use asset of \$306.51 million and an associated lease liability of \$314.36 million for the Geelong port. The lease liability was based on the initial lease term of 30 years. Total future cash outflows at 30 June 2023 under the lease are \$689.58 million.

Provision for make good obligations

The Deed of Release for the Ports Victoria Station Pier lease was finalised during 2022-23 with the final payment to be made in early 2023-24.

PNFC and PFC financial results

Details of PNFCs and PFCs' financial results for 2022-23 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 for 2022-23

Entity	Underlying profit (loss) ¹ \$'000	Profit (loss) before tax \$'000
Aurora Energy Pty Ltd	11,795	11,746
Homes Tasmania	116,230	103,398
Hydro Tasmania	168,853	332,821
Macquarie Point Development Corporation	(392)	(10,872)
Metro Tasmania Pty Ltd	(1,513)	(2,040)
Motor Accidents Insurance Board	146,680	146,680
Port Arthur Historic Site Management Authority	(930)	(930)
Private Forests Tasmania	(466)	(466)
Sustainable Timber Tasmania	(2,229)	5,800
Tasmanian Irrigation Pty Ltd	1,926	(44,941)
Tasmanian Networks Pty Ltd	40,738	37,021
Tasmanian Ports Corporation Pty Ltd	29,583	20,285
Tasmanian Public Finance Corporation	35,100	35,100
Tasmanian Railway Pty Ltd	(9,139)	(91,127)
Tasracing Pty Ltd	399	399
The Public Trustee	46	46
TT-Line Company Pty Ltd	5,910	12,260

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 for 2022-23

Entity	Underlying profit (loss) ¹ \$'000	Profit (loss) before tax \$'000
Bass Island Line Pty Ltd	(216)	(216)
FortyTwo24 Pty Ltd	2,264	2,980
Marinus Link Pty Ltd	(5,347)	(5,347)
Momentum Energy Pty Ltd	12,012	12,012

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* 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.

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 2022-23 results with the outcomes of 2021-22 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.

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.

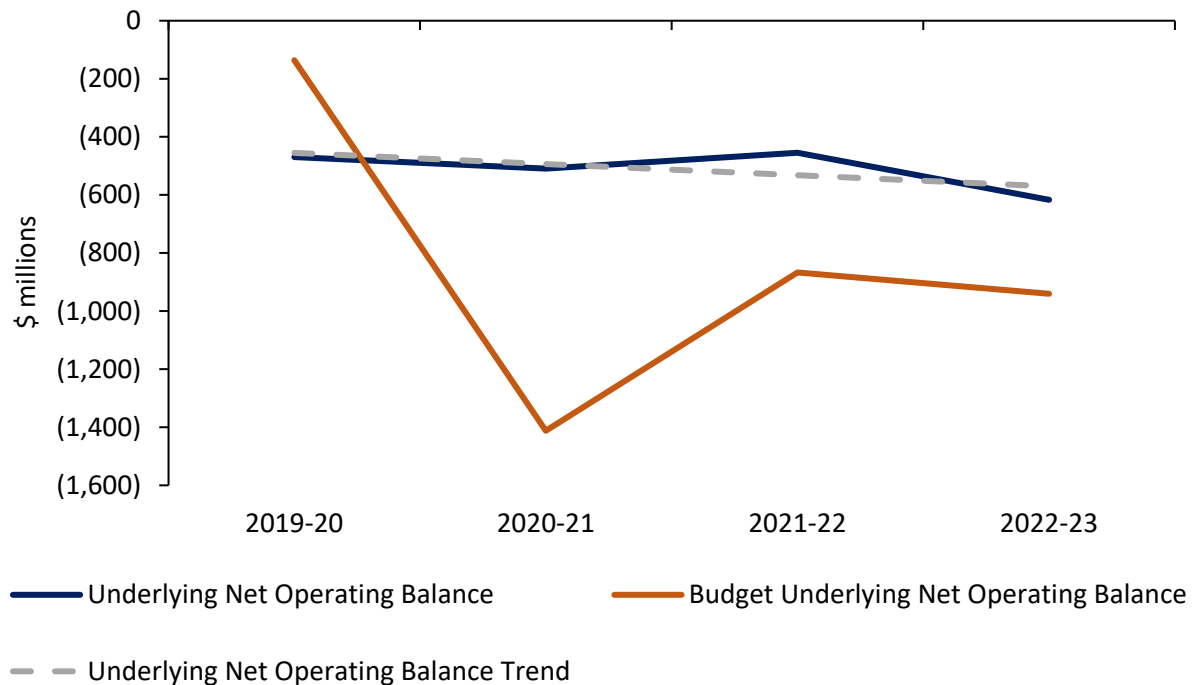
General Government Sector Underlying Net Operating Balance

(\$470m)	(\$509m)	(\$455m)	(\$616m)
2019-20	2020-21	2021-22	2022-23
▼ (495%)	▼ (8%)	▲ 11%	▼ (36%)

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

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

Figure 2: GGS Underlying Net Operating Balance



The GGS Underlying Net Operating Balance deficit of \$616 million for 2022-23 was a deterioration of \$162 million from the deficit of \$455 million reported the previous year.

This year's actual GGS Underlying Net Operating deficit was \$324 million less than the budgeted deficit of \$940 million because:

- actual revenue was \$802 million higher than budgeted revenue, primarily due to a \$699 million increase in grant funding
- actual expenses were \$478 million higher than budgeted, mainly due to employee expenses being \$253 million higher than budgeted, and a \$100 million increase in nominal superannuation interest costs.

Total State Sector Underlying Net Operating Balance

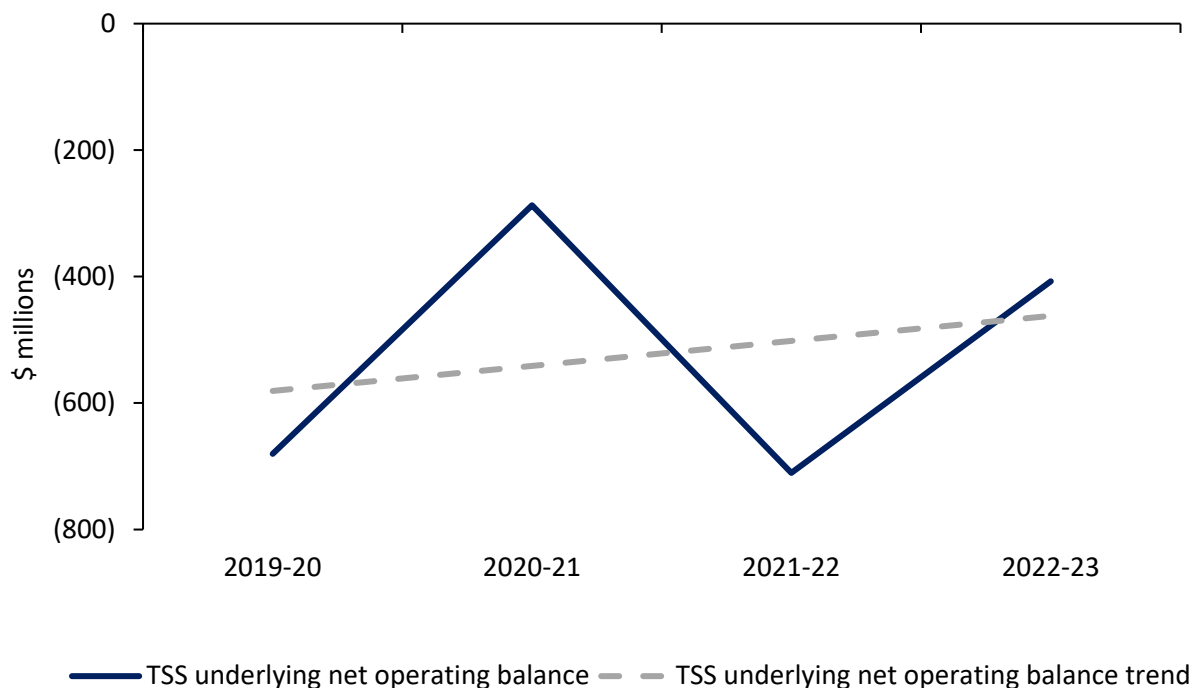
(\$681m)	(\$287m)	(\$710m)	(\$408m)
2019-20	2020-21	2021-22	2022-23
▼ (683%)	▲ 58%	▼ (147%)	▲ 43%

▲ 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 Underlying Net Operating Balance was a deficit of \$408 million in 2022-23, an improvement of \$302 million from the deficit of \$710 million for the prior year. The result reflects a significant improvement in the underlying results of PNFCs and PFCs. Details of the underlying result generated by each PNFC and PFC are shown in Table 7 of the PNFC and PFC section of this chapter.

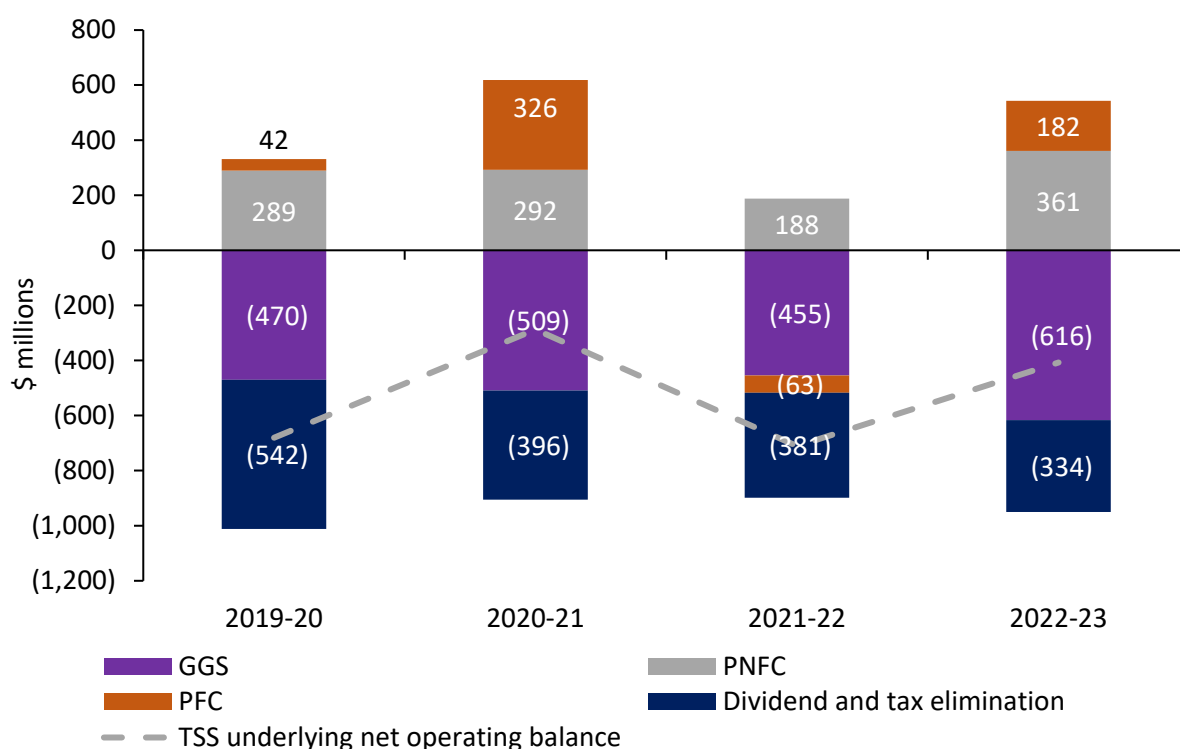
Figure 3 provides an overview of TSS Underlying Net Operating Balance for the past 4 years. It shows an improving trend over this period.

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. The dividend and tax eliminations are to remove the effect of dividends and income tax paid by PFC and PNFC to Treasury from the TSS Underlying Net Operating Balance.

Figure 4: Disaggregated TSS Underlying Net Operating Balance



The 4 year comparison illustrates the volatility of results for the PFC sector, which reflects the volatility in investment markets and their consequent impact on PFC entity financial results.

Revenue

General Government Sector Revenue

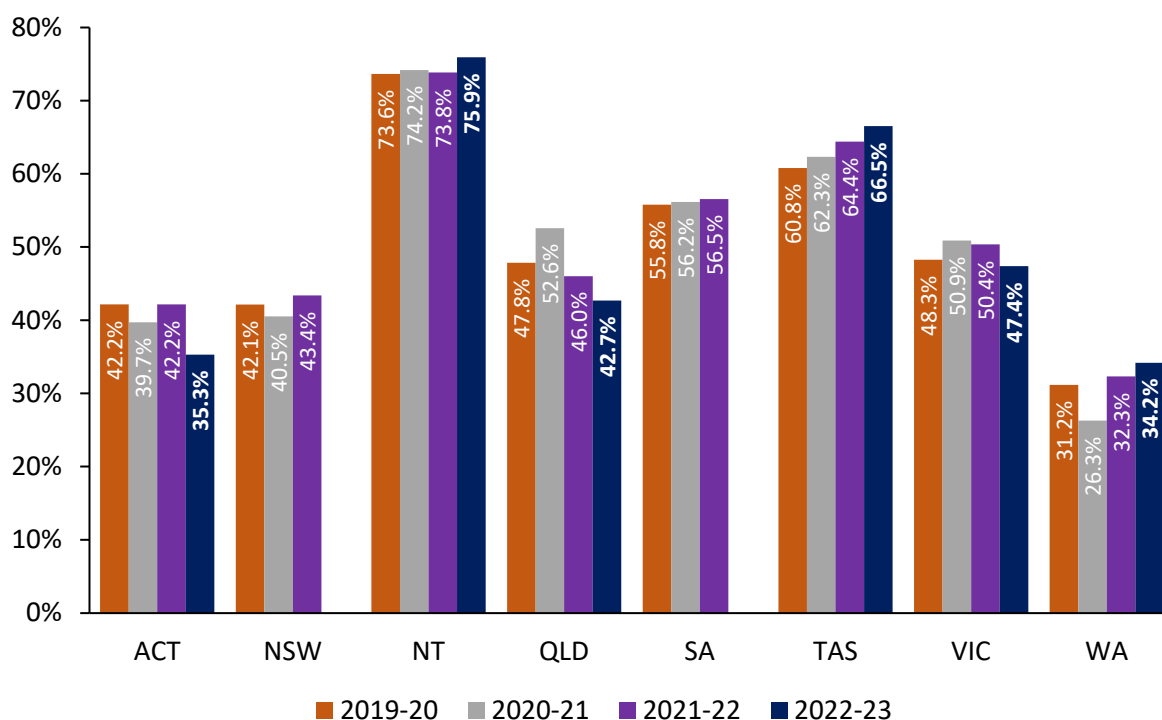
\$5.33bn	\$1.62bn	\$0.57bn	\$0.66bn
Australian Government grants (excluding capital grants)	State Taxation	Sales of Goods & Service Fees and Fines	Dividends and Income Tax Equivalents

GGS revenue, excluding one-off Australian Government capital funding, totalled \$8.18 billion in 2022-23, higher than the prior year's revenue of \$7.66 billion. The increase was mainly due to additional grants revenue of \$483 million in 2022-23.

Similar to previous years, Australian Government grant funding, excluding capital grants, represented the majority of GGS revenue, totalling 65.2% of operating revenue in 2022-23 (2021-22, 63.4%).

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 publicly available equivalents of TAFR for other states. 2022-23 information for some States 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 63.5% over the last 4 years.

Total State Sector Revenue

\$5.33bn	\$1.58bn	\$3.89bn	\$0.61bn
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 \$11.41 billion in 2022-23 (2021-22, \$10.53 billion). The increase of \$876 million increase was mainly due to additional grants revenue of \$488 million.

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 2022-23 State Budget, over the Budget and Forward Estimates period, the Government allocated \$4.80 billion to community infrastructure investment.

As detailed in the 2022-23 Budget Paper 1, major infrastructure expenditure planned over this period included:

- roads and bridges, \$2.70 billion (2021-22, \$2.00 billion)
- hospitals and health, \$490 million (2021-22, \$504 million)
- human services and housing, \$578 million (2021-22, \$405 million)
- schools, education and skills, \$314 million (2021-22, \$336 million)
- law and order, \$223 million (2021-22, \$239 million)
- tourism, recreation and culture, \$205 million (2021-22, \$184 million).

Whilst there was only a 2.0% gap between budget and actual capital expenditure in 2021-22, there was a gap of 27.4% in 2022-23 as shown in Figure 6.

Figure 6: Department budgeted and actual capital expenditure 2019-20 to 2022-23

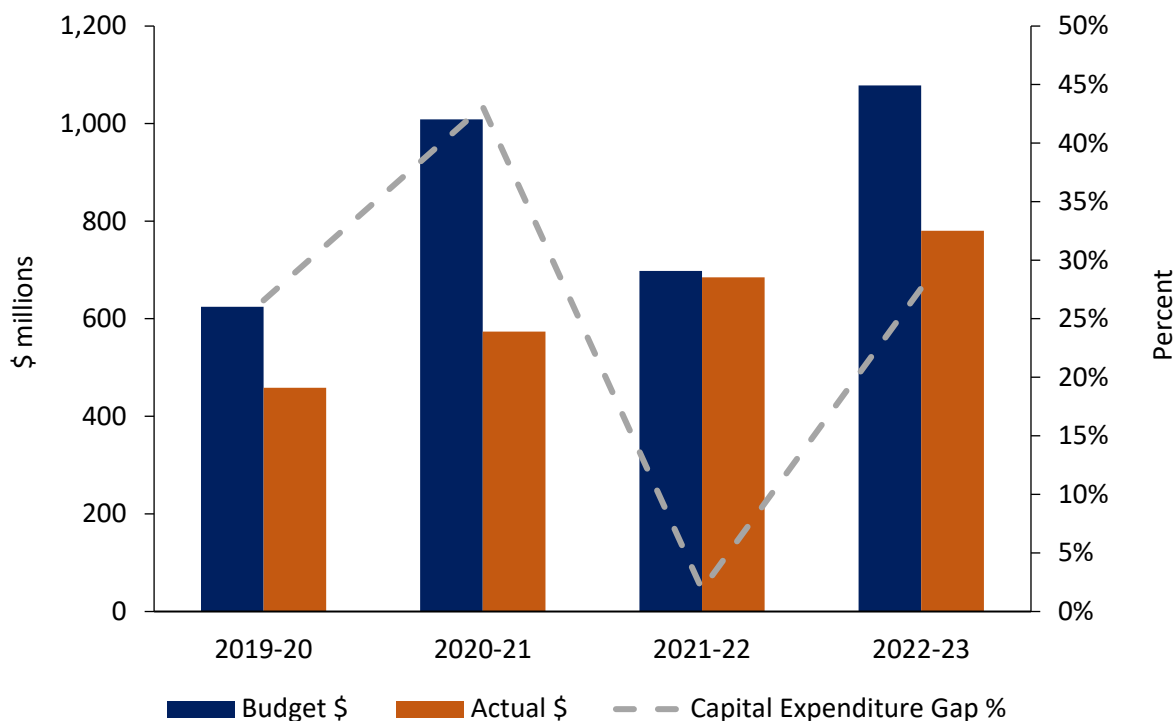


Table 7 shows the budgeted spend by each department in 2022-23 against their actual expenditure on non-financial assets.

Table 7: Budget and actual cash payments for capital expenditure¹

Departments	2022-23				4 year average
	2022-23 Budget \$'000	2022-23 Actual \$'000	Spending (shortfall)/ excess \$'000	Spending (shortfall)/ excess %	Spending (shortfall)/ excess %
Communities Tasmania	93,082	56,628	(36,454)	(39.2%)	(11.9%)
Education, Children and Young People	58,999	75,867	16,868	28.6%	(42.8%)
Health	174,067	97,003	(77,064)	(44.3%)	(41.1%)
Justice	47,570	7,857	(39,713)	(83.5%)	(37.5%)
Natural Resources and Environment Tasmania	23,199	10,290	(12,909)	(55.6%)	(52.8%)
Police, Fire and Emergency Management	34,118	27,718	(6,400)	(18.8%)	(35.4%)
Premier and Cabinet	1,704	1,736	32	1.9%	30.5%
State Growth	643,328	501,441	(141,887)	(22.1%)	(14.2%)
Treasury and Finance	1,797	1,635	(162)	(9.0%)	(22.6%)
Total	1,077,864	780,175	(297,689)	(27.6%)	(26.7%)

Note 1: 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 2022-23, departments collectively spent 72.6% of their budgeted capital expenditure. Explanations for significant variations from budget capital expenditure are provided below.

The International Financial Reporting Interpretations Committee Agenda Decision in March 2021 on *Configuration or Customisation Costs in a Cloud Computing Arrangement* clarified how entities should account for costs of configuring or customising a supplier's application in a Cloud Computing or Software as a Service (SaaS) arrangement. In many cases, entities are now required to expense such expenditure rather than capitalising it as an intangible asset. This clarification has led to some State entities expensing costs relating to SaaS rather than capitalising them as in past years. For example, in 2022-23, Health had budgeted to capitalise \$14 million on its the Human Resource Information System and \$30 million on its Digital Health Transformation program, and Justice had budgeted to capitalise \$12 million

for the Astria and PlanBuild Projects. Expenditure on these projects for 2022-23 has been expensed rather than capitalised, as they did not meet recognition requirements.

Other items contributing to the capital expenditure variance includes:

- Capital expenditure shortfalls in State Growth of \$142 million, reflecting lower than anticipated capital expenditure for the Capital Investment Program, including shortfalls in budgeted capital expenditure on:
 - New Bridgewater Bridge, \$37 million
 - Roads of Strategic Importance, \$59 million
 - Greater Hobart Traffic Solution, \$23 million
 - Urban Congestion Fund, \$9 million
 - New Park and Ride Facilities, \$8 million.
- Capital expenditure shortfalls in Communities Tasmania of \$36 million, mainly associated with project approval delays on activity under the Extended Social Housing Build program and the restructure and transfer of Housing Tasmania to the PNFC sector.
- Capital expenditure shortfalls in Justice of \$28 million mainly associated with project delays for the southern remand centre and the Burnie Court Complex.
- Capital expenditure shortfalls in Health of \$33 million, relate to projects which have been moved to future years, which included the following:
 - Mersey Community Hospital Capital Upgrades, \$7 million
 - 27 New Mental Health Beds in Southern Tasmania, \$5 million
 - Launceston General Hospital Redevelopment - Stage 1, \$5 million
 - Royal Hobart Hospital Pharmacy Redevelopment, \$5 million
 - New Glenorchy Ambulance Super Station, \$4 million
 - Royal Hobart Hospital Redevelopment, \$3 million.

Net worth and net debt

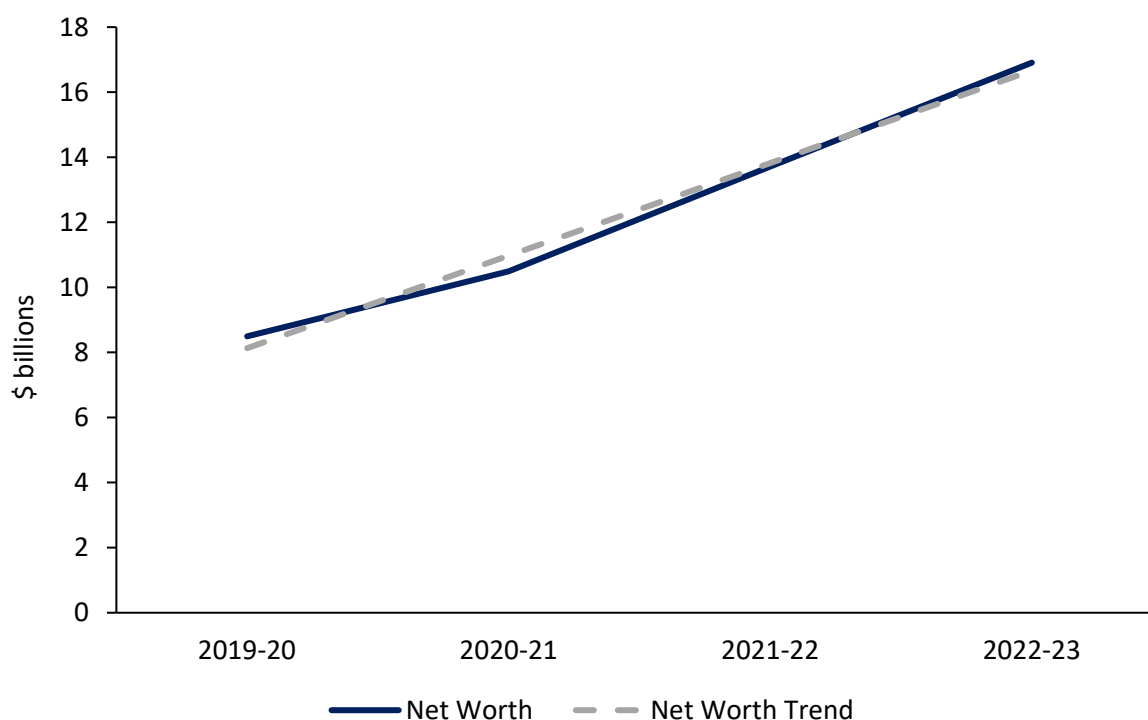
General Government Sector		Total State Sector	
\$16.91bn	\$1.87bn	\$16.91bn	\$2.56bn
Net worth	GFS Net debt	Net worth	GFS Net debt

GSS Net worth

GGS Net worth, also referred to as net assets, increased by \$3.19 billion to \$16.91 billion at 30 June 2023. Net worth includes certain financial assets and liabilities not captured by the Net debt measure, most notably, accrued employee superannuation liabilities, ownership of equity investments, debtors and creditors.

Figure 7 shows GGS Net worth is trending upwards over the 4 financial years 2019-20 to 2022-23.

Figure 7: Net worth



Major contributors to the \$3.19 billion increase in GGS Net worth in 2022-23 were:

- a \$2.14 billion revaluation increment in non-financial assets, which comprised land and buildings, infrastructure assets, plant and equipment and heritage and cultural assets
- a \$970 million revaluation increase in PNFC and PFC equity investments

- actuarial gains of \$333 million arising from the revaluation of the superannuation liability
- less, the operating result deficit for the year of \$187 million.

Although the GGS Statement of Financial Position appears to show the movement in GGS Net worth as being due to an increase of \$4.72 billion in equity investments in PNFC and PFC sectors, this movement largely reflects the creation of Homes Tasmania as a PNFC, which received an equity contribution of \$3.57 billion on establishment, with most of the balance being the revaluation increase in PNFC and PFC equity investments as mentioned above.

The effect the establishment of Homes Tasmania and cessation of Housing Tasmania on the GGS Statement of Financial Position, was an initial equity investment in Homes Tasmania of \$3.57 billion, which was largely offset by a reduction in property, plant and equipment of \$2.07 billion, the derecognition of the service concession assets of \$1.48 billion.

TSS Net worth

TSS Net worth is the same as GGS Net worth. This is because PNFC and PFC equity investments included in GGS Net worth 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.

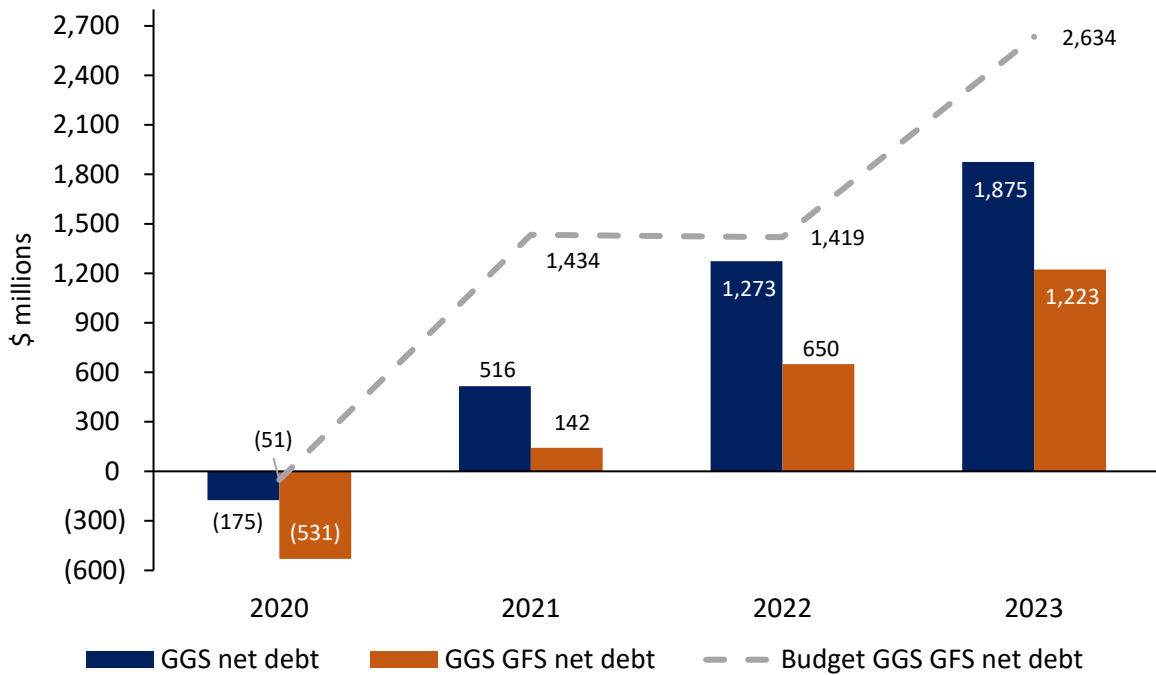
GSS net debt and GFS net debt

Net debt is a measure used to help assess the overall strength of a government's fiscal position. Net debt comprises 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.

GGS net debt continued to grow during 2022-23, as shown in Figure 8, largely due to the increase in borrowings of \$541 million, drawn down by the Government to support the expenditure of the GGS and to ensure Specific Purpose Accounts and Agency Trust Accounts were cash backed.

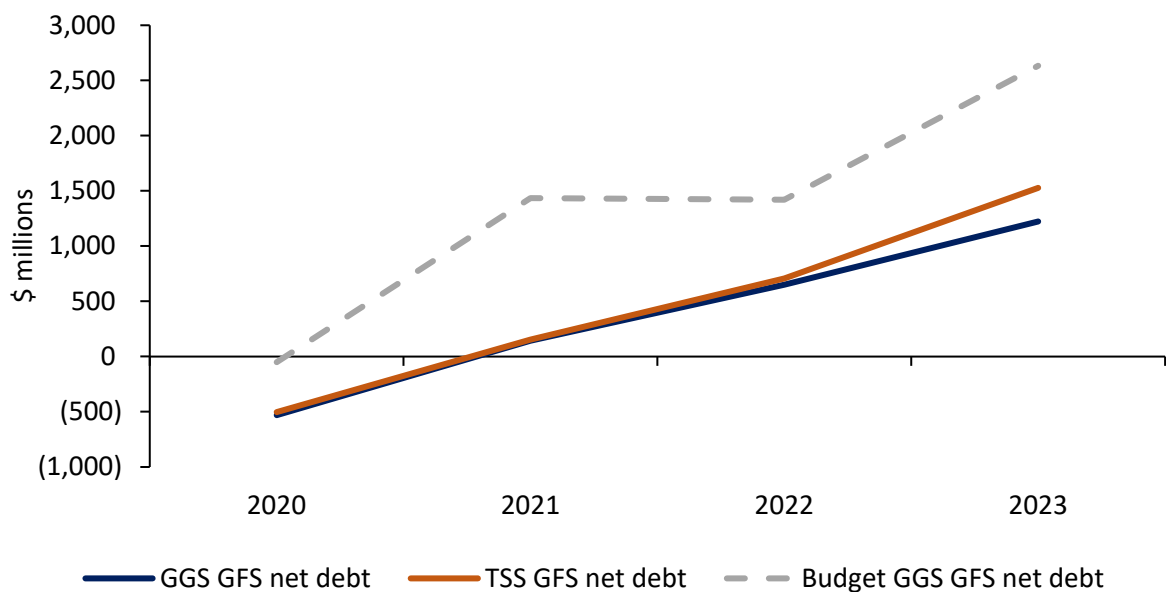
Figure 8: GGS net debt and GGS GFS net debt



GGS GFS net debt was \$1.22 billion at 30 June 2023 in comparison to budgeted GGS GFS net debt of \$2.63 billion.

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 increased by \$821 million to \$1.53 billion at 30 June 2023. The increase comprised additional borrowings of \$1.47 billion less additional cash and investments of \$649 million.

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 Scheme.

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 2023, the GGS unfunded defined benefit liability was \$7.40 billion (30 June 2022, \$7.73 billion). The unfunded superannuation liability comprised the following defined benefit schemes and arrangements:

- Retirement Benefits Fund Scheme – \$7.38 billion (30 June 2022, \$7.69 billion)
- Parliamentary Schemes – \$12 million (30 June 2022, \$12 million)
- Judges' Contributory Scheme – \$27 million (30 June 2022, \$28 million)
- Housing Tasmania scheme – nil⁴ (30 June 2022, \$6 million)
- Tasmanian Ambulance Service – \$13 million asset (30 June 2022, \$8 million asset)

The net liability decreased by \$325 million in 2022-23. This reflects the most recent actuarial assessment of the liability. The decrease in the value of the liability is primarily due to an increase in the discount rate to 4.3% as at 30 June 2023 (3.9% as at 30 June 2022). 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.

⁴ During 2022-23, this liability moved to the PNFC sector, following the establishment of Homes Tasmania.

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

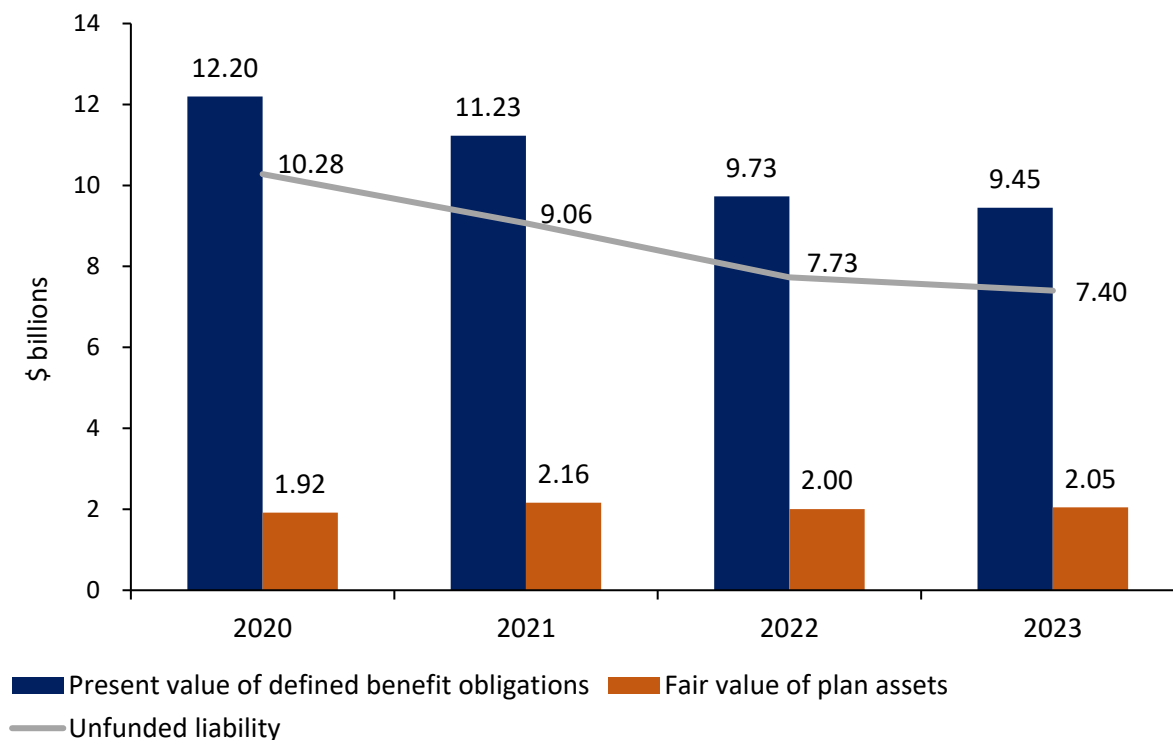
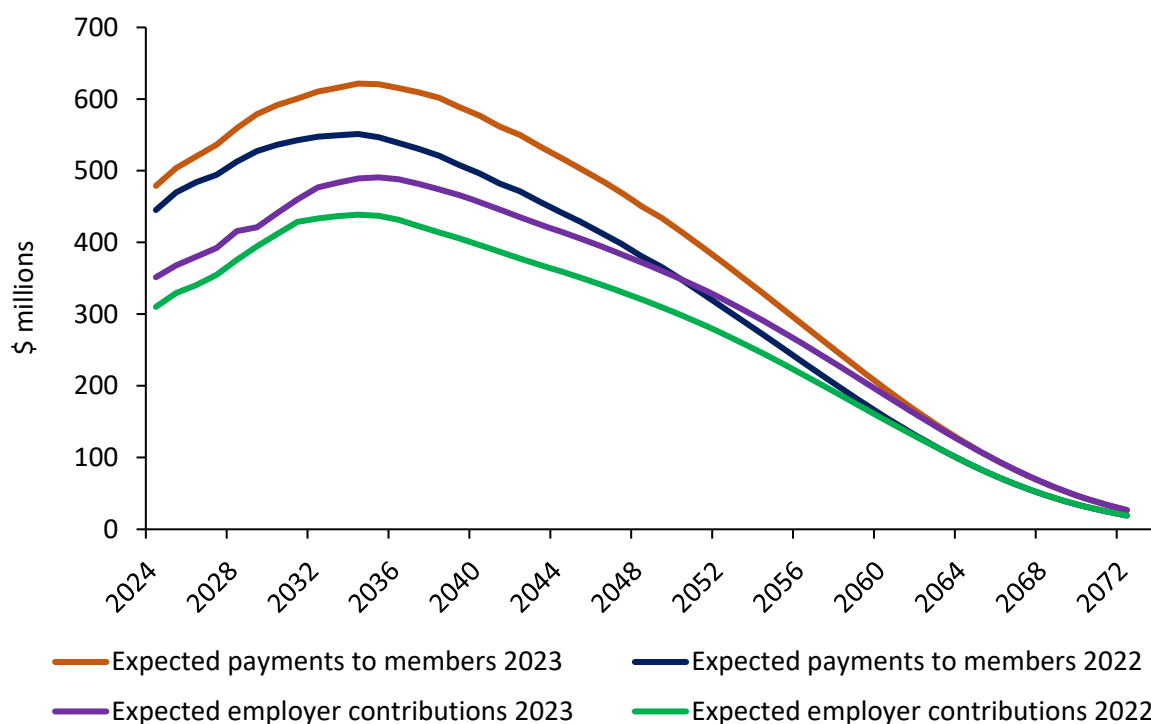


Figure 11 compares the expected nominal (un-discounted) cash outflows required to meet the emerging cost of superannuation benefits payable to members, before consideration of benefits funded from scheme assets, as estimated at 30 June 2023 and 30 June 2022. Also shown are the expected future employer contributions to be paid by the Government, as estimated at 30 June 2023 and 30 June 2022.

Figure 11: GGS Undiscounted Defined Benefit (2024-2072)



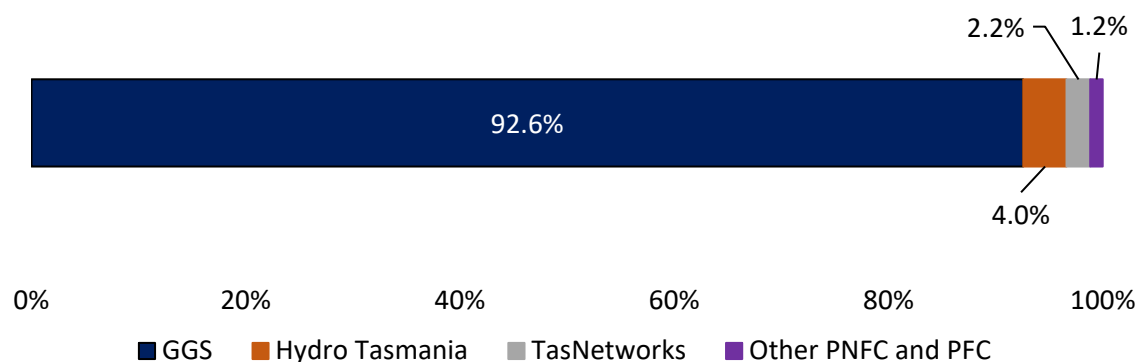
Payments required to meet defined benefit pensions and lump sum payments will peak in 2034 at around \$622 million. A key budget risk for the Government is the significant increase in the cost, with the defined benefit pensions and lump sum payments increasing by 29.8% over the next 12 years.

The information presented in Figure 11 is linked to assumptions built into annual actuarial models used to calculate the superannuation estimates. These assumptions show that there has been a substantial increase in short-term pension rates between 2022 and 2023, reflecting CPI increases across the general economy. As a result, the value of expected payments to members over the forward period has increased.

Similarly, the value of expected employer contributions to the fund has also increased between 2022 and 2023. In part, this reflects the higher rates of payments due to be made out of the fund, with more assets required to be available to fund the projected payments. Employee contributions also take into account the number of active members within the fund (i.e. people working and contributing to the fund rather than receiving payments). As the defined benefit fund was closed to new members from 15 May 1999, the number of active members continues to reduce over time. The assumptions built into the model allow for this changing balance between members contributing to and receiving payments from the funds and expected employer contributions have increased accordingly.

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: TSS Net Defined Benefit Superannuation Liabilities



PNFC and PFC sectors

Underlying profit (loss)

Year	Underlying Profit (Loss)	Change from Prior Year
2019-20	\$331m	(22%)
2020-21	\$618m	87%
2021-22	\$125m	(80%)
2022-23	\$543m	334%

▲ 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	2019-20 \$'000	2020-21 \$'000	2021-22 \$'000	2022-23 \$'000
Aurora Energy Pty Ltd	▲	(8,204)	26,890	4,280	11,795
Homes Tasmania	N/a	N/a	N/a	N/a	116,230
Hydro Tasmania	▼	197,709	227,850	125,550	168,853
Macquarie Point Development Corporation	●	(1,942)	2,021	(13,344)	(392)
Metro Tasmania Pty Ltd	▲	(5,066)	(802)	3,489	(1,513)
Motor Accidents Insurance Board	●	9,752	302,928	(73,863)	146,680
Port Arthur Historic Site Management Authority	●	(1,575)	(5,078)	(4,303)	(930)
Private Forests Tasmania	●	(69)	(448)	143	(466)
Sustainable Timber Tasmania	▼	3,718	1,733	2,657	(2,229)
Tasmanian Irrigation Pty Ltd	▲	(6,078)	(5,631)	(7,768)	1,926
Tasmanian Networks Pty Ltd	●	55,626	25,739	56,996	40,738
Tasmanian Ports Corporation Pty Ltd	▲	8,380	(2,218)	15,258	29,583
Tasmanian Public Finance Corporation	●	32,600	22,700	10,900	35,100
Tasmanian Railway Pty Ltd	●	(8,410)	(4,189)	(3,978)	(9,139)
Tasracing Pty Ltd	▼	(3,789)	4,460	4,867	399
The Public Trustee	▼	1,059	533	(223)	46
TT-Line Company Pty Ltd	▼	57,722	21,618	4,225	5,910
Total	●	331,433	618,106	124,886	542,591





▲ Improvement in trend ▼ Deterioration in trend ● No material change in trend

PNFCs and PFCs aggregated underlying profit of \$543 million was a \$418 million, or 334.5%, increase on the 2021-22 result. This change was driven by:

- The establishment of Homes Tasmania as a PNFC entity from 1 December 2023, which contributed \$116 million to the underlying profit of this sector.
- A \$221 million increase in MAIB underlying profit, from an underlying loss of \$74 million in 2021-22 to an underlying profit of \$147 million in 2022-23. This increase is predominantly due to strong investment performance during the year, with the portfolio achieving a net gain of \$145 million, which represents an annual return on investment of 7.8% compared to an investment loss of 4.5% in 2021-22.

Eleven of the 17 PNFCs and PFCs recorded an underlying profit in 2022-23 (2021-22, 10 of 16). TasRail generated the largest underlying loss of the 17 entities, \$9 million, largely due to the October 2022 flood event which had a financial impact of \$4 million, as well as lower freight volumes from major customers.

Revenue received by PNFCs and PFCs

\$4.38bn	\$4.29bn	\$3.81bn	\$4.64bn
2019-20	2020-21	2021-22	2022-23
 (6%)	 (2%)	 (11%)	 22%

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

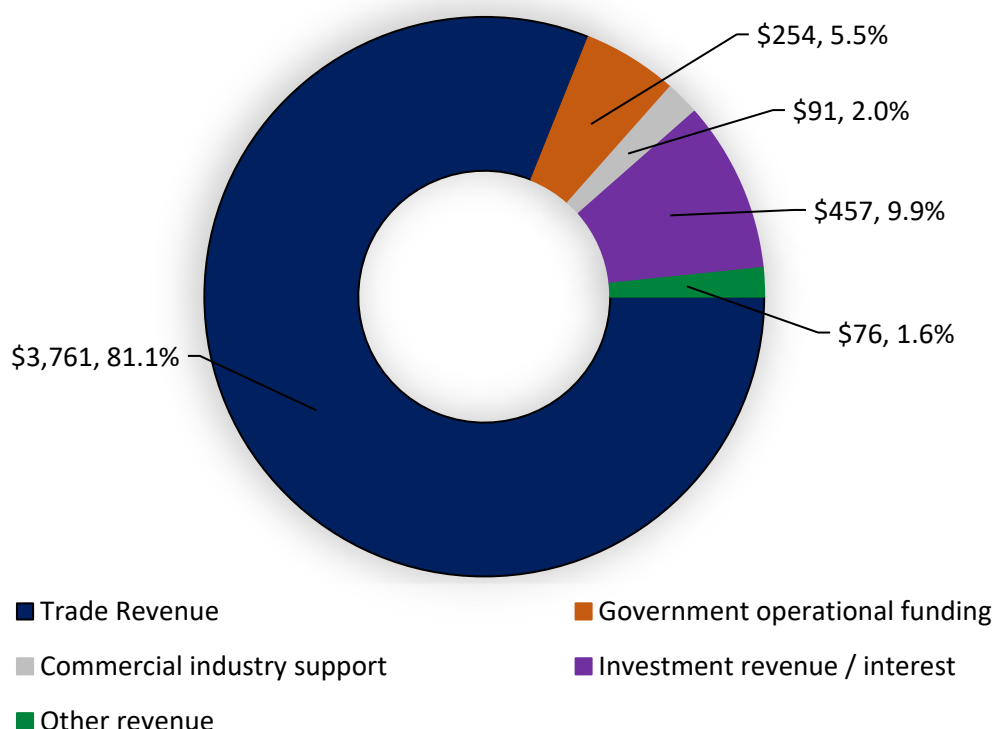
Note: Revenue items such as capital grants and fair value gains or losses have been excluded from this table.

PNFCs and PFCs received \$4.64 billion of operating revenue in 2022-23 (2021-22, \$3.81 billion). The increase in revenue reflects:

- the establishment of Homes Tasmania's in 2022-23, with total revenue of \$257 million in the PNFC sector
- a \$239 million increase in MAIB's revenue, primarily due to \$232 million in its investment revenue
- a \$151 million increase in TASCORP's revenue, primarily due to \$120 million in its investment revenue
- a \$73 million increase in Aurora Energy's operating revenue, of which \$72 million relates to trade revenue
- a \$66 million increase in TT-Lines operating revenue, of which \$64 million relates to trade revenue.

Figure 13 shows the sources of revenue for PNFCs and PFCs in 2022-23.

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 \$3.76 billion in 2022-23 (2021-22, \$3.57 billion).

The 17 PNFC and PFC entities generated \$457 million in investment revenue and interest in 2022-23 (2021-22, \$96 million). The majority of this was through the PFC entities, TASCORP and MAIB. Investment revenue and interest generated 9.9% of the PNFC and PFC operational revenue in 2022-23, an increase on the 2.5% generated in 2021-22. This reflects the increase in interest rates, as well as a strong rebound of financial markets in 2022-23, leading to significant unrealised profits on investments held at 30 June 2023.

Operational funding and industry support

PNFCs that received, in aggregate, Government operational funding and Government commercial industry support greater than 10.0% of their total revenue during 2022-23 are listed in Table 9 (10 out of 17 entities).

Table 9: PNFC operational revenue for entities receiving more than 10.0% of Government support in 2022-23

Entity	Trade revenue \$'000	Government operational funding ¹ \$'000	Commercial industry support \$'000	Investment revenue / Interest \$'000	Other \$'000	Total ² \$'000
Homes Tasmania	28,979	199,754	0	1,607	26,660	257,000
Macquarie Point Development Corporation	1,230	5,000	0	1,976	0	8,206
Metro Tasmania Pty Ltd	11,560	0	57,113	230	2,124	71,027
Port Arthur Historic Site Management Authority	19,876	4,493	0	180	697	25,246
Private Forests Tasmania	211	1,714	0	79	221	2,225
Sustainable Timber Tasmania	109,916	12,299	0	1,092	1,739	125,046
Tasmanian Irrigation Pty Ltd	12,605	10,600	0	218	531	23,954
Tasmanian Railway Pty Ltd	43,530	13,902	0	554	2,159	60,145
Tasracing Pty Ltd	26,470	0	33,920	1,139	7,097	68,626
The Public Trustee	5,765	4,501	0	412	8	10,686
Total	260,142	252,263	91,033	7,487	41,236	652,161

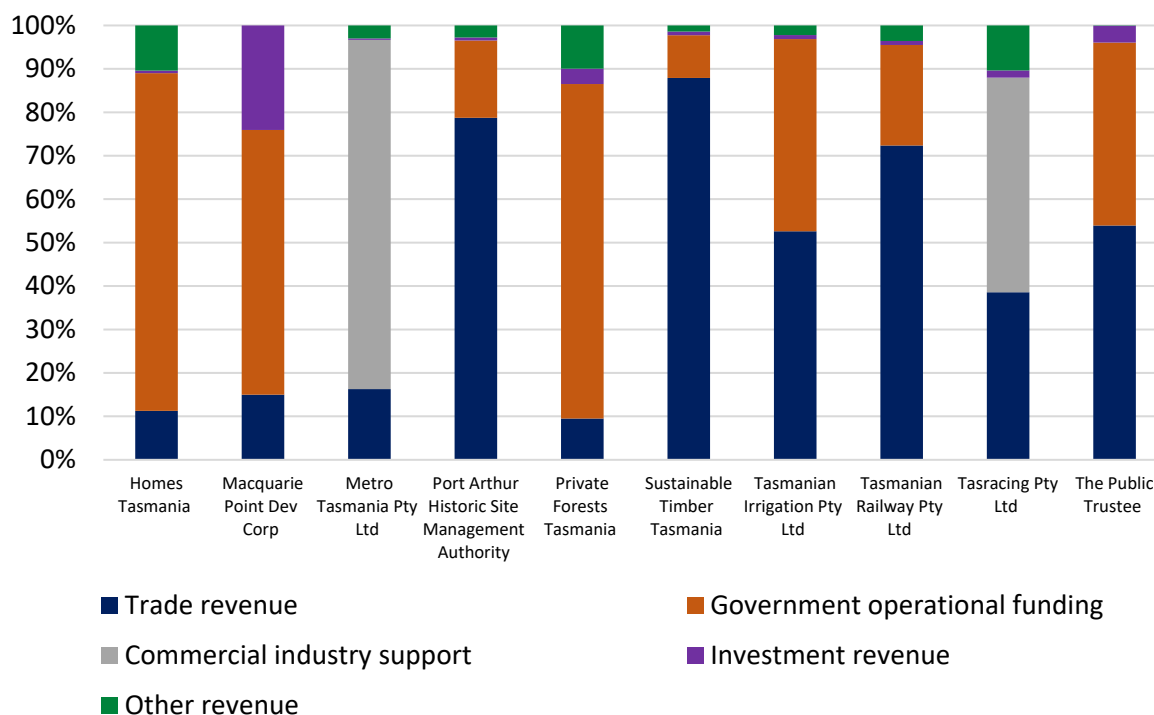
Note 1: Government operational funding of \$1 million received by TasNetworks was not included in the table above as the amount was less than 10.0% of its total revenue.

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 10 PNFCs 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



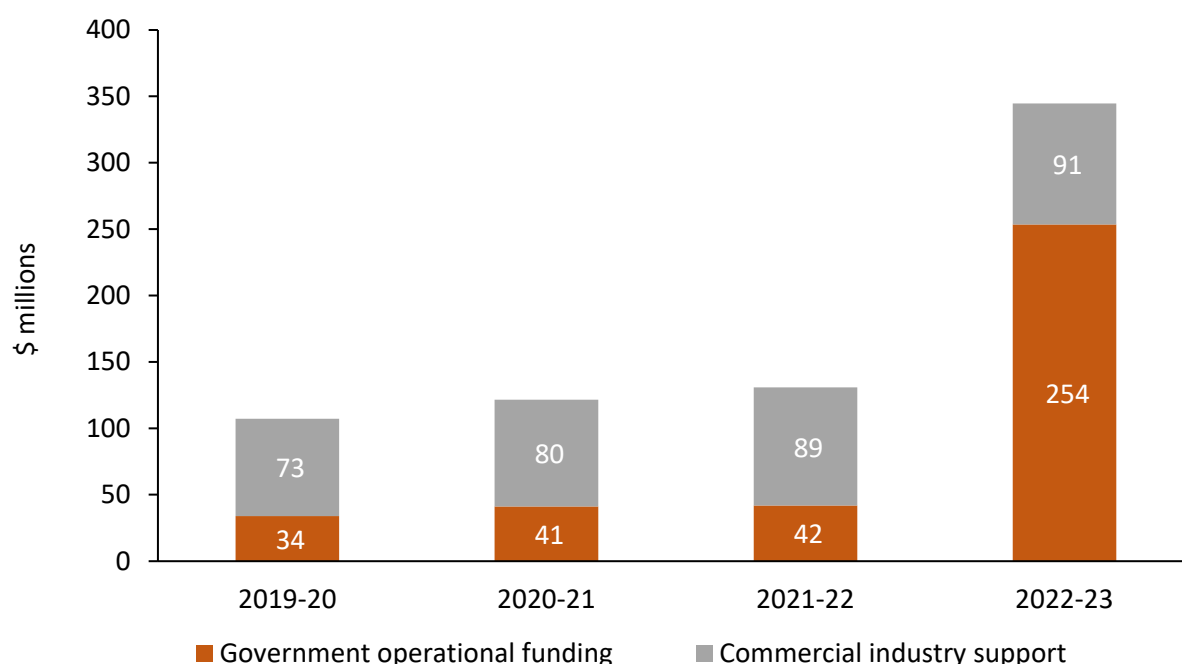
Note: One-off revenue items such as fair value gains or losses have been excluded from this chart.

Metro received \$57 million in commercial industry support, which made up 80.4% of its operational revenue in 2022-23. Similarly, Government support made up 49.4% of Tasracing’s operational revenue in 2022-23. Tasracing received \$34 million in commercial industry support, an increase of \$2 million from the prior year.

Government operational funding totalling \$254 million was provided to 9 of the 17 PNFC and PFC entities in 2022-23. The newly established Homes Tasmania received \$200 million of this funding. STT and TasRail received \$26 million, consistent with the prior year (2021-22, \$25 million). Tasmanian Irrigation received \$11 million, which was an increase of \$9 million from 2021-22. Government operational funding accounted for 60.9% and 77.0% of the operational revenue generated by MPDC and Private Forests Tasmania, respectively.

Figure 15 shows the level of Government support provided to PNFCs and PFCs over the 4 financial years 2019-20 to 2022-23 through government operational funding and commercial industry support. Over this period, the support provided has increased by 163.6%, from \$131 million to \$345 million.

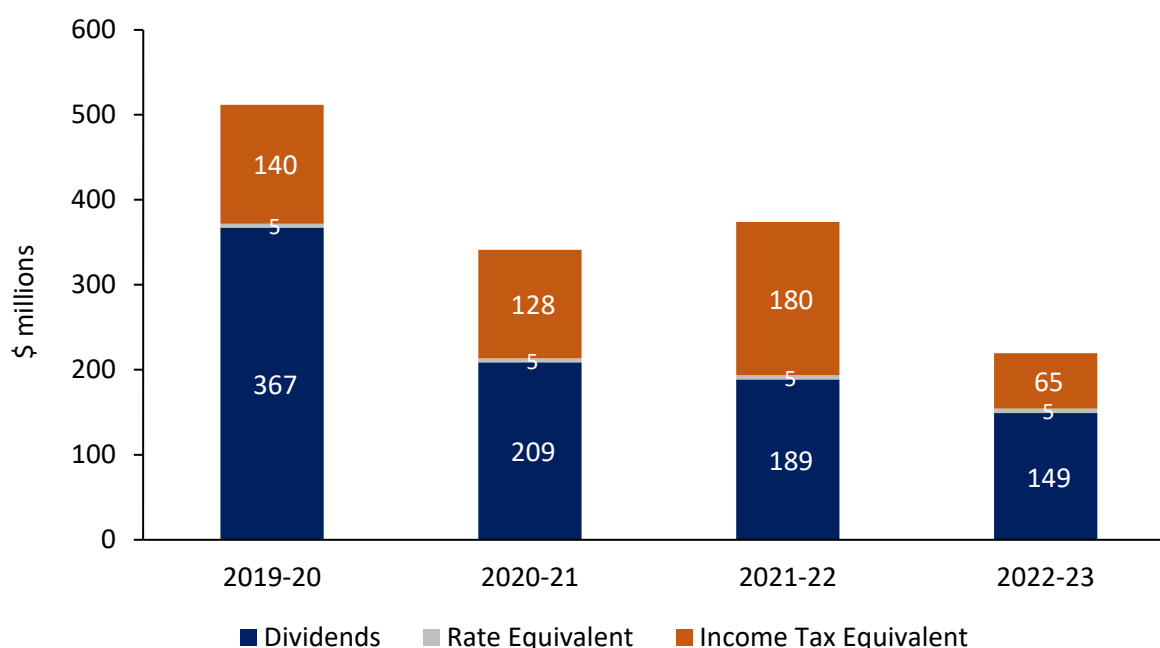
Figure 15: Government operational funding and commercial support



Dividends, rate equivalent and income tax equivalents

PNFCs and PFCs paid \$219 million (2021-22, \$374 million) to the Government in 2022-23 through dividends, rate equivalent and income tax equivalent payments. This amount excludes the MCHF dividend of \$93 million (2021-22, \$90 million) paid by TASCORP. Figure 16 shows the composition of these payments over the last 4 years.

Figure 16: Dividends, rate equivalent and income tax equivalents



Note 1: Amounts paid to the Government as per entities' Statement of Cash Flows

Note 2: Figure 16 excludes the MCHF dividends paid by TASCORP 2019-20 to 2022-23.

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 2022-23.

Table 10: Dividends, rate equivalent and income tax equivalents, 2022-23¹

Entity	Dividends \$'000	Rate equivalent \$'000	Income tax equivalent \$'000	2022-23 Total \$'000	2021-22 Total \$'000
Aurora Energy Pty Ltd	0	0	0	0	15,246
Hydro Tasmania	74,000	5,330	7,130	86,460	191,527
Motor Accidents Insurance Board	30,871	0	21,667	52,538	121,565
Sustainable Timber Tasmania	1,000	0	0	1,000	1,092
Tasmanian Networks Pty Ltd	22,583	0	31,472	54,055	31,672
Tasmanian Ports Corporation Pty Ltd	11,463	0	0	11,463	0
Tasmanian Public Finance Corporation ²	9,120	0	3,908	13,028	12,441
The Public Trustee	0	0	0	0	311
TT-Line Company Pty Ltd	0	0	954	954	0
Total	149,037	5,330	65,131	219,498	373,854

Note 1: Amounts paid to the Government as per entities' Statement of Cash Flows

Note 2: Table 10 excludes the MCHF dividend of \$93 million in 2022-23 and \$90 million in 2021-22.

The Government received \$154 million less in payments from PNFCs and PFCs than the prior year. This was primarily due to a decline of \$105 million and \$69 million in payments from Hydro Tasmania and MAIB, respectively. This decline was partly offset by an increase of \$22 million in payments from TasNetworks.

Financing of PNFCs

\$432m ▼ (20.1%)

Total cash, deposits and financial investments held at 30 June 2023⁵

Cash, deposits and financial investments held by PNFCs at 30 June 2023 decreased by \$108 million, or 20.1%, from 30 June 2022.

Of the \$432 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 \$75 million held as investments, principally by MPDC (\$47 million) and Hydro Tasmania (\$18 million).

\$3.30bn ▲ 14.9%

Total loan borrowings as at 30 June 2023

PNFCs held \$3.30 billion of loan borrowings at 30 June 2023 (30 June 2022, \$2.87 billion). Details of loan borrowings held at 30 June 2023, and relevant ratios, are set out in Table 11.

Table 11: Debt and relevant ratios

Entity	Borrowings \$'000	Current ratio	Cost of Debt	Interest coverage ratio	Debt to equity	Debt to debt plus equity
Homes Tasmania	60,641	N/a ¹	0.6%	269.97	1.5%	1.4%
Hydro Tasmania	709,987	0.77	7.3%	7.82	32.7%	24.7%
Metro Tasmania Pty Ltd	5,000	1.26	1.8%	N/a ³	7.9%	7.3%
Tasmanian Irrigation Pty Ltd	32,154	0.57	2.0%	N/a ³	N/a ²	125.4%
Tasmanian Networks Pty Ltd	2,195,350	0.39	3.2%	1.77	166.9%	62.5%
Tasmanian Ports Corporation Pty Ltd	88,300	1.98	0.5%	45.39	26.9%	21.2%
Tasracing Pty Ltd	5,393	2.40	8.3%	2.37	10.1%	9.2%
TT-Line Company Pty Ltd	203,575	0.99	0.8%	17.36	44.1%	30.6%
Total	3,300,400					

⁵ This excludes cash, deposits and financial investments held by PFCs, MAIB and TASCORP.

Note 1: Homes Tasmania presents its Statement of Financial Position based on financial and non-financial assets and liabilities, therefore unable to determine current ratio.

Note 2: Tasmanian Irrigation had negative equity as at 30 June 2023, therefore debt to equity ratio considered to not be applicable.

Note 3: Metro and Tasmanian Irrigation both incurred losses in 2022-23, therefore interest coverage ratio is negative, and therefore not applicable.

Hydro Tasmania and TasNetworks accounted for 88.0% of total debt held at 30 June 2023 (30 June 2022, 97.2%).

PNFCs with debt had a weighted average current ratio of 0.55, which is marginally more than the 2021-22 result of 0.46. This outcome is still below the benchmark of 1.00, which indicates a net working capital deficit. Of the 8 PNFC entities that held borrowings at 30 June 2023, 5 held current liability balances that exceeded their current assets. Maturing short term debt for these entities is expected to be refinanced during 2023-24 in line with their Treasury Risk Management Policy and Master Loan Facility Agreement with TASCORP.

Equity contributions

In 2022-23, the Government invested \$3,745 million in PNFC entities through equity contributions (2021-22: \$141 million). Table 12 provides a breakdown of the payments made.

Table 12: Equity contributions to PNFCs

Entity	Purpose of equity contribution	\$ million
Homes Tasmania	Equity contribution relates to the net assets of Housing Tasmania being transferred to Homes Tasmania	3,564.72
Macquarie Point Development Corporation	Equity contribution to support capital projects to progress the next stage of the Macquarie Point development	28.20
Metro Tasmania Pty Ltd	Battery Electric Bus Trial, section 23 rollover from 2021-22	0.40
Port Arthur Historic Site Management Authority	Equity contributions to repay borrowings incurred due to the downturn in visitation from COVID-19	4.00
Tasmanian Irrigation Pty Ltd	Borrowing Repayment and Feasibility Funding	10.48
	Tranche 3 Irrigation Projects	11.73
	Energy on Farms	2.27
	Lake Leake Dam Life Extension Project	1.13
	South East Interim Irrigation Scheme	1.20

Entity	Purpose of equity contribution	\$ million
	Tranche 3 Irrigation Projects (Australian Government contribution)	3.0
	Lake Leake Dam Life Extension Project (\$1.13 million) and Greater Meander Irrigation Scheme Augmentation (\$2.50 million) (Australian Government contribution)	3.63
Tasmanian Railway Pty Ltd	TasRail Tranche 2 Tasmanian Freight Rail Revitalisation Programme (State contribution)	10.57
	TasRail Tranche 2 Tasmanian Freight Rail Revitalisation Programme (Australian Government contribution)	10.57
	TasRail Tranche 3 Tasmanian Freight Rail Revitalisation Programme	15.00
	TasRail Tranche 3 Tasmanian Freight Rail Revitalisation Programme (Australian Government contribution)	30.5
	TasRail Legacy Locomotives Life Extension Project	6.00
Tasracing Pty Ltd	North West Racing Infrastructure section 23 rollover from 2021-22	0.25
TT-Line Company Pty Ltd	Final withdrawal from the TT-Line Vessel Replacement Fund for instalment payment to Rauma Marine Constructions, in accordance with the contracted payment profile for the purchase of the new vessels.	41.59
Total		3,745.24

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.

Equity contributions provided to PNFCs have continued to increase over the past 4 years, as shown in Figure 17. The current year equity contribution to Homes Tasmania has been excluded as it relates to the establishment of the entity following an administrative restructure.

Figure 17: Equity Contributions to PNFCs

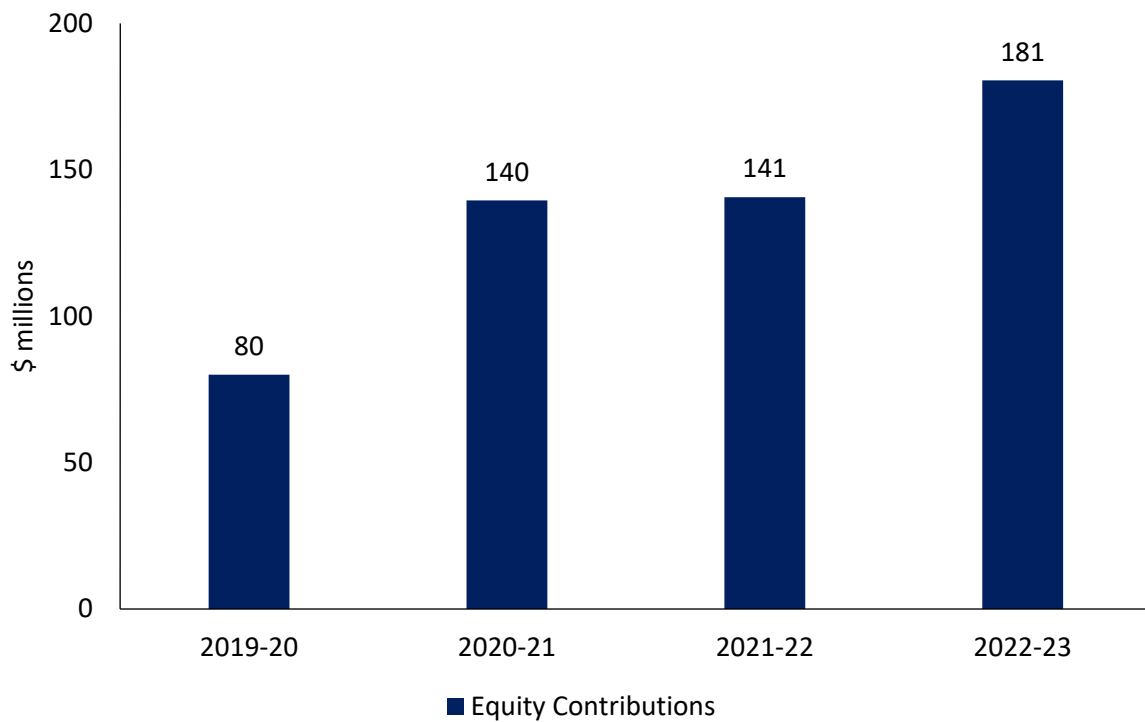


Figure 18 details which PNFCs have received equity contributions over the past 4 years. Majority of equity contributions are provided to entities on a one-off basis for a specific purpose.

Figure 18: Equity contribution received by each PNFC

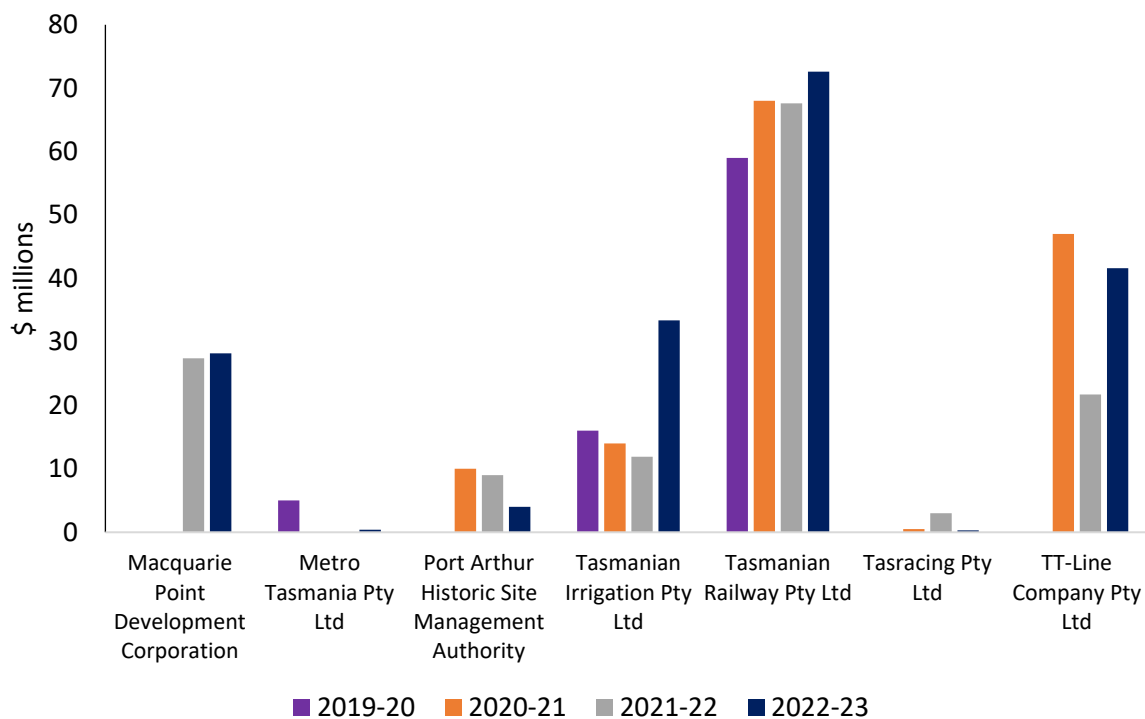
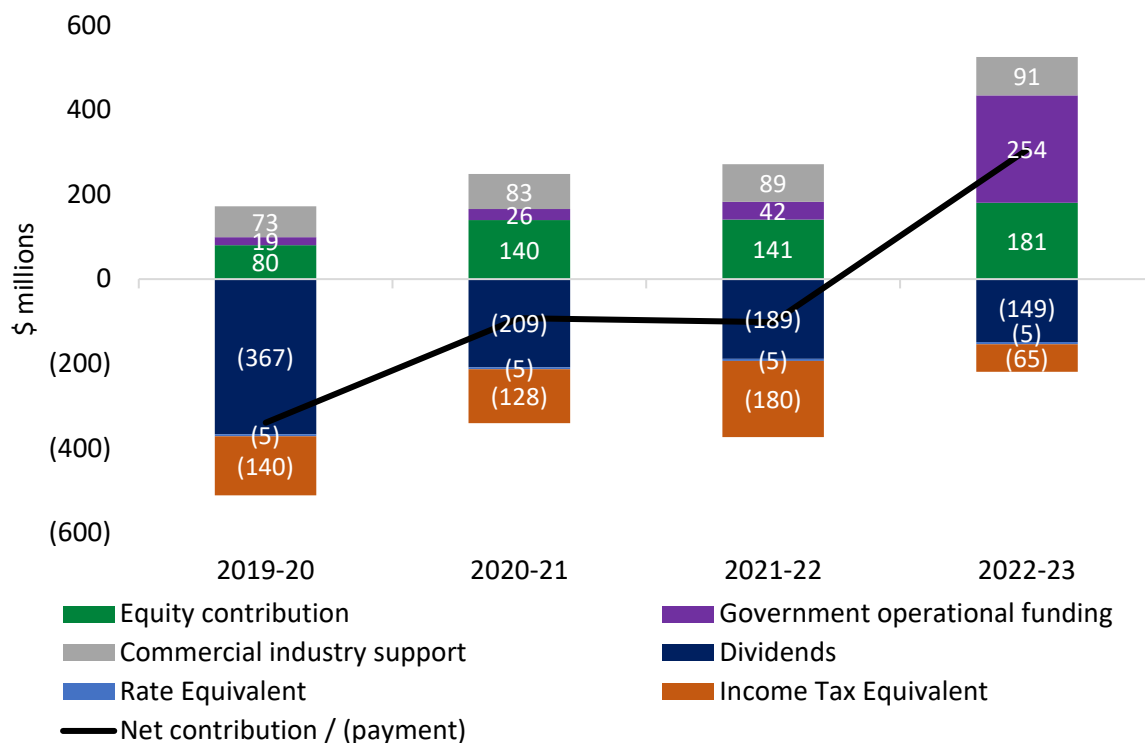


Figure 19 compares the contributions by Government to PNFCs, consisting of equity contributions, government operational funding and commercial industry support, to the payments by PNFCs to Government, consisting of dividends, rate equivalent and income tax equivalent, over the past 4 years.

Figure 19: Contributions by Government compared to payments to Government



Capital investment by PNFCs



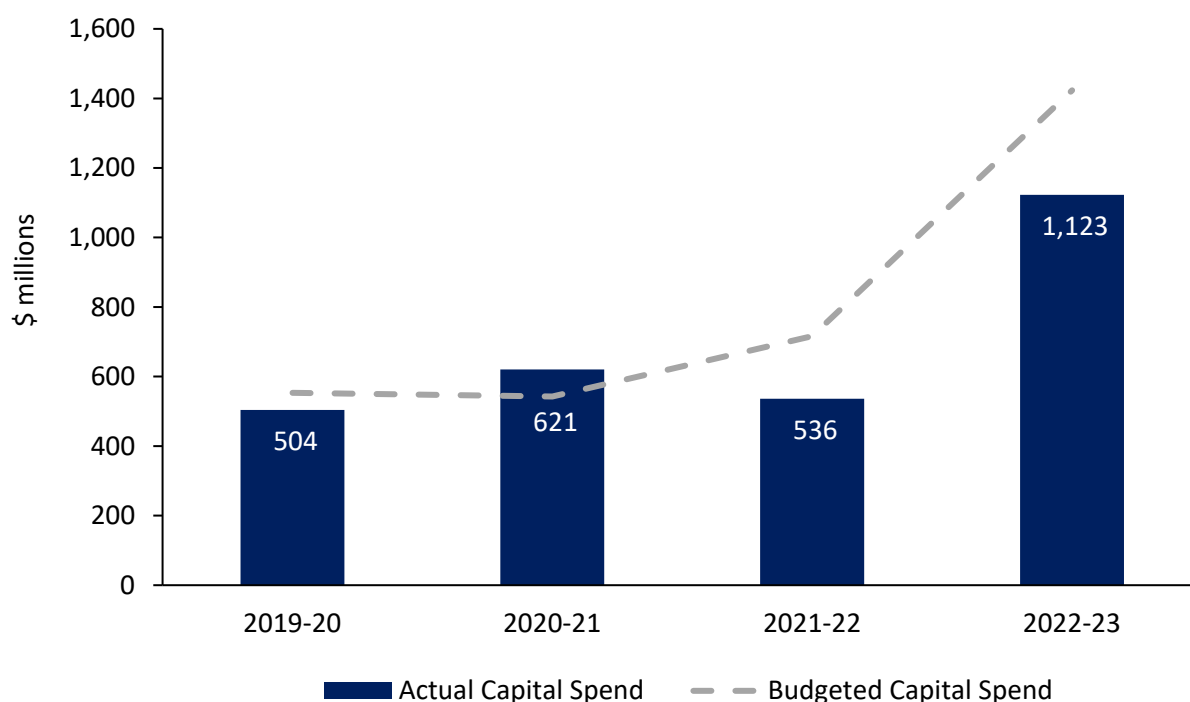
Note: Budget figures represent budgeted capital expenditure based on PNFC corporate plans for 2022-23 and actual capital spend represents payments for acquisition of non-financial assets as disclosed in the Statement of Cash Flows in the audited financial statements of each PNFC.

PNFC's invested a total of \$2.78 billion in capital projects over the past 4 years, including \$1.12 billion in 2022-23, which is nearly twice the 2021-22 expenditure of \$536 million. This increase is a result of:

- a \$307 million increase in TT-Line's capital expenditure, relating to the new replacement vessels
- a \$61 million increase in Hydro Tasmania's capital expenditure, as explained further below
- \$111 million capital expenditure by the newly established Homes Tasmania.

A comparison of actual capital expenditure against budget for the past 4 years is shown in Figure 20.

Figure 20: Capital spending by PNFCs



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.

The following entities accounted for 81.1% of the total capital expenditure for 2022-23:

- TT-Line, \$338 million, mainly attributable to payments made for the new vessels recognised as capital work-in-progress of \$273 million and leasehold improvement additions of \$41 million.
- Homes Tasmania, \$111 million on work in progress relating to community housing stock, rental dwellings, land, buildings, plant and equipment, and service concession assets.
- TasNetworks, \$281 million, which comprised transmission network, \$24 million; distribution network, \$136 million; communication network, \$14 million; land and buildings, \$1 million; plant and equipment, \$8 million; Marinus Link, \$40 million; intangible assets, \$14 million; and the movement in work in progress, \$44 million.
- Hydro Tasmania, \$181 million, which comprised generation assets, \$95 million; renewable developments, \$31 million; information systems, \$28 million; Bass Strait Islands, \$7 million; land and buildings, \$15 million; fleet assets, \$2 million; and other plant and equipment, \$3 million.

Table 13 shows the amount spent by PNFCs on capital expenditure in 2021-22 and 2022-23, together with a comparison of the actual amount spent on capital expenditure for 2022-23 against budgeted capital expenditure.

Table 13: Capital expenditure by PNFCs in 2021-22 and 2022-23

Entity	Actual 2021-22 \$'000	Actual 2022-23 \$'000	Budgeted 2022-23 \$'000	Actual to Budget Variance 2022-23 \$'000
Aurora Energy Pty Ltd	2,688	1,746	2,000	(254)
Homes Tasmania	N/a	111,163	280,390	(169,227)
Hydro Tasmania	119,125	180,782	187,900	(7,118)
Macquarie Point Development Corporation	4,974	3,991	26,963	(22,972)
Metro Tasmania Pty Ltd	5,850	5,611	17,396	(11,785)
Port Arthur Historic Site Management Authority	6,071	1,003	978	25
Private Forests Tasmania	0	0	0	0
Sustainable Timber Tasmania	7,210	10,968	9,400	1,568
Tasmanian Irrigation Pty Ltd	8,594	49,664	54,360	(4,696)
Tasmanian Networks Pty Ltd	258,268	280,617	286,200	(5,583)
Tasmanian Ports Corporation Pty Ltd	23,134	52,985	115,000	(62,015)
Tasmanian Railway Pty Ltd	65,753	80,384	99,466	(19,082)
Tasracing Pty Ltd	3,479	5,519	21,840	(16,321)
The Public Trustee	108	212	100	112
TT-Line Company Pty Ltd	30,954	338,226	321,450	16,776
Total	536,208	1,122,871	1,423,443	(300,572)

Note: 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 PNFC. Budget figures represent those from Corporate Plans for 2022-23.

Explanations for variations are provided below for those PNFCs where the variance is greater than \$25 million and less than 80.0% of their capital expenditure budget:

- Homes Tasmania’s capital expenditure shortfall of \$169 million is primarily due to project planning approval delays on activity under the Extended Social Housing Build program. Homes Tasmania still expects to deliver the full 2,000 units of stock under this program by June 2027 as planned.
- TasPorts capital expenditure shortfall of \$62 million was driven by 2 major projects:
 - QuayLink was under budget by \$59 million due to a realignment of works to accommodate customer requirements. TasPorts believe the overall project remains on track to be delivered in 2026-27.
 - Bell Bay Shiploader, under budget by \$8 million due to revision of project works and realignment of timing.

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	2019-20	2020-21	2021-22	2022-23
Aurora Energy Pty Ltd	●	58.3%	73.8%	32.4%	87.3%
Homes Tasmania	-	N/a	N/a	N/a	39.6%
Hydro Tasmania	▲	94.3%	93.4%	88.2%	96.2%
Macquarie Point Development Corporation	▼	64.7%	138.0%	71.4%	14.8%
Metro Tasmania Pty Ltd	▼	95.4%	71.1%	27.1%	32.3%
Port Arthur Historic Site Management Authority	▼	147.3%	136.7%	89.6%	102.6%
Private Forests Tasmania	-	N/a	N/a	N/a	N/a
Sustainable Timber Tasmania	▲	24.4%	56.9%	89.0%	116.7%
Tasmanian Irrigation Pty Ltd	▼	116.2%	138.0%	13.9%	91.4%
Tasmanian Networks Pty Ltd	▲	92.3%	90.3%	99.1%	98.0%
Tasmanian Ports Corporation Pty Ltd	▼	68.7%	121.8%	34.3%	46.1%
Tasmanian Railway Pty Ltd	▼	97.1%	82.4%	81.9%	80.8%

Entity	Trend	2019-20	2020-21	2021-22	2022-23
Tasracing Pty Ltd	▼	79.0%	61.5%	20.1%	25.3%
The Public Trustee	●	187.0%	64.1%	25.4%	212.0%
TT-Line Company Pty Ltd	●	83.3%	1,527.3%	74.7%	105.2%

▲ Improvement in trend ▼ Deterioration in trend ● No material change in trend

Note: 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 PNFC.

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 \$43.07 million in 2022, compared to a consolidated surplus of \$165.94 million in 2021. The decrease was largely attributable to:

- continued volatility in financial markets which saw the University recording investment income of \$25.29 million in 2022 compared to gains of \$115.28 million in 2021.
- one off investment gains on the sale of IDP Education shares that occurred in 2021.

The fall in investment income was partially offset increased revenue from Australian Government and Tasmanian Government grants, which increased by \$32.79 million.

In 2022, the University generated a consolidated deficit from core activities of \$18.89 million, compared to a deficit of \$1.21 million for 2021, a \$17.67 million deterioration in the consolidated result. This result reflects a continued decline in international student revenue, which declined by \$22.19 million in 2022.

Revaluation of land and buildings

In 2022, the University revalued its land and buildings. The revaluation component contributed to an increase of \$139.84 million in land and buildings, with these assets being held at a fair value of \$966.81 million at 31 December 2022.

Historic underpayment of University staff

In 2021, the University recognised a provision of \$11.00 million, arising from the potential underpayment of staff.

On 3 February 2022, the University notified staff that it had identified issues concerning possible payment shortfalls of staff. Throughout 2022, the University worked with third-party specialists on quantifying the payment shortfalls and the individuals involved. This work also extended the period of review for underpayments from March 2016 to March 2014. As at 31 December 2022, the provision increased by \$3.30 million to \$14.30 million. A portion of this increase reflects the accrual of further interest on the underpayments.

Northern Transformation

The Northern Transformation Project at Inveresk progressed during 2022, with the new Library opened to the community in February 2022, and part of the recreational and open spaces, known as Urban Realm, commissioned in July 2022. At 31 December 2022, the University had outstanding commitments to the Project of \$96.10 million.

Southern Campus Strategy

In April 2019, the University Council made a decision to develop a city-centric model in Hobart over the next 10 to 15 years. As at July 2020, the University had acquired all required properties for the Southern Campus Strategy.

During 2022, 2 projects were further progressed:

- the restoration and conservation of the Philip Smith Centre on the Domain
- the redevelopment of the Forestry building in the central business district received planning approval and was readied for construction, which commenced in January 2023.

In November 2022, the University withdrew its application for amendment to the planning scheme for the Sandy Bay campus to enable further consultation and collaboration with stakeholders.

Green Bonds

The University issued \$350.00 million in green bonds to the market during 2022. Part of these funds were used to repay the TASCORP debt facilities of \$70.00 million. The remaining funds were invested in cash or term deposits of varying maturities, to align with future funding requirements for the projects under the Southern Campus strategy.

National Trust of Australia (Tasmania)

Financial result

The National Trust of Australia (Tasmania) (the Trust) recorded a surplus of \$0.91 million in 2022-23, compared to a surplus of \$0.21 million in 2021-22. The increase was largely attributable to the recognition of grant funding from PAHSMA and NRE Tas totalling \$0.88 million for the development of the Convict Memorial Hub.

Misappropriation of assets

During 2022-23, Trust staff and volunteers identified the likely misappropriation of items from their heritage collection. The Trust investigated and concluded that misappropriation had occurred and referred the matter to Tasmania Police. The Trust was compiling a schedule of items misappropriated at the time of finalising their financial statements, the total value of which had not been determined. The Trust did not expect the total value of misappropriated items to be material to the total value of the heritage collection.

Summarised financial results

Details of other State entity results for 31 December 2022 and 30 June 2023 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) \$'000	Net surplus (deficit) \$'000
31 December 2022		
AMC Search Ltd	241	241
Tasmanian University Union	(1,985)	(1,985)
The University	(18,886)	43,071
Theatre Royal Management Board	13	13
Solicitors' Trust	4,048	4,048
UTAS Holdings Pty Ltd	(1,292)	(1,292)
UTAS Properties Pty Ltd	8,477	8,477
30 June 2023		
Asbestos Compensation Fund	0	0
Council of Law Reporting	0	0
Forest Practices Authority	85	85
Legal Profession Board	176	176
National Trust of Australia (Tasmania)	1,731	1,721

Audited State entities and Audited subsidiaries ¹	Underlying surplus (deficit) \$'000	Net surplus (deficit) \$'000
Property Agents Board	(119)	(119)
Property Agents Trust	3,332	3,332
Tasmania Legal Aid	1,180	1,180
Tasmania State Health Funding Pool	0	0
Tasmanian Affordable Housing Limited	(3)	(3)
Tasmanian Beef Industry (Research and Development) Trust	(1)	(1)
Tasmanian Building and Construction Industry Training Board	(1,623)	(1,623)
Tasmanian Community Fund	2,938	2,938
Tasmanian Dairy Industry Authority	(167)	(167)
Tasmanian Economic Regulator	(14)	(14)
Tasmanian Heritage Council	9	9
Tasmanian Pharmacy Authority	5	5
Tasmanian Timber Promotion Board	18	18
The Nominal Insurer	611	611
Waste Resource and Recovery Board	3,050	3,050
Wellington Park Management Trust	133	133
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 31 October 2023:

- Aboriginal Land Council of Tasmania
- palawa Enterprise Unit Trust
- Retirement Benefits Fund
- Southern Tasmania Regional Waste Authority.

Acronyms and abbreviations

AASB	Australian Accounting Standards Board
AER	Australian Energy Regulator
Audit Act	<i>Audit Act 2008</i>
Audited subsidiaries	Audited subsidiaries of State entities
Aurora Energy	Aurora Energy Pty Ltd
BPL	Basslink Pty Ltd
Commission	Superannuation Commission
Communities Tasmania	Department of Communities Tasmania
COVID-19	Novel Coronavirus disease pandemic
DECYP	Department for Education, Children and Young People
DPAC	Department of Premier and Cabinet
DPFEM	Department of Police, Fire and Emergency Management
FFA	Federal Funding Agreement
FID	Final Investment Decision
GBEs	Government Business Enterprises
GFS	Government Finance Statistics
GGS	General Government Sector
Health	Department of Health
Hydro Tasmania	Hydro-Electric Corporation
IIP	Infrastructure Investment Program
IRR	Inter-regional revenues
Justice	Department of Justice
MAIB	Motor Accidents Insurance Board
MCHF	Mersey Community Hospital Fund
Metro	Metro Tasmania Pty Ltd

MPDC	Macquarie Point Development Corporation
NSA	Network Services Agreement
NRE Tas	Department of Natural Resources and Environment Tasmania
NWTD	North West Transmission Developments
Office	Tasmanian Audit Office
OSC	Office of the Superannuation Commission
PAHSMA	Port Arthur Historic Site Management Authority
PTPZL	Permanent Timber Production Zone Land
PFC	Public Financial Corporations
PFT	Private Forests Tasmania
PNFC	Public Non-Financial Corporations
RAB	Regulated Asset Base
RBF	Retirement Benefits Fund
ReCFIT	Renewables, Climate and Future Industries Tasmania
RMC	Rauma Marine Constructions
SaaS	Software as a Service
State Growth	Department of State Growth
State Service Act	<i>State Service Act 2000</i>
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
The Trust	National Trust of Australia
The Trustee	The Public Trustee
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.



Tasmanian
Audit Office

Front cover image: The Nut

*Photography: Tourism Tasmania & Andrew McIntosh,
Ocean Photography*

Hobart Office

Phone (03) 6173 0900

Email admin@audit.tas.gov.au

Web www.audit.tas.gov.au

Address Level 2, 144 Macquarie Street
Hobart, 7000

Postal GPO Box 851, Hobart 7001

Launceston Office

Phone (03) 6173 0971

Address 4th Floor, Henty House
1 Civic Square, Launceston