



Tasmanian Audit Office

Report of the Auditor General, No. 5 of 2014-15
Volume 2

Government Businesses 2014-15

17 November 2015

Rob Luciani (Senior Group Leader)

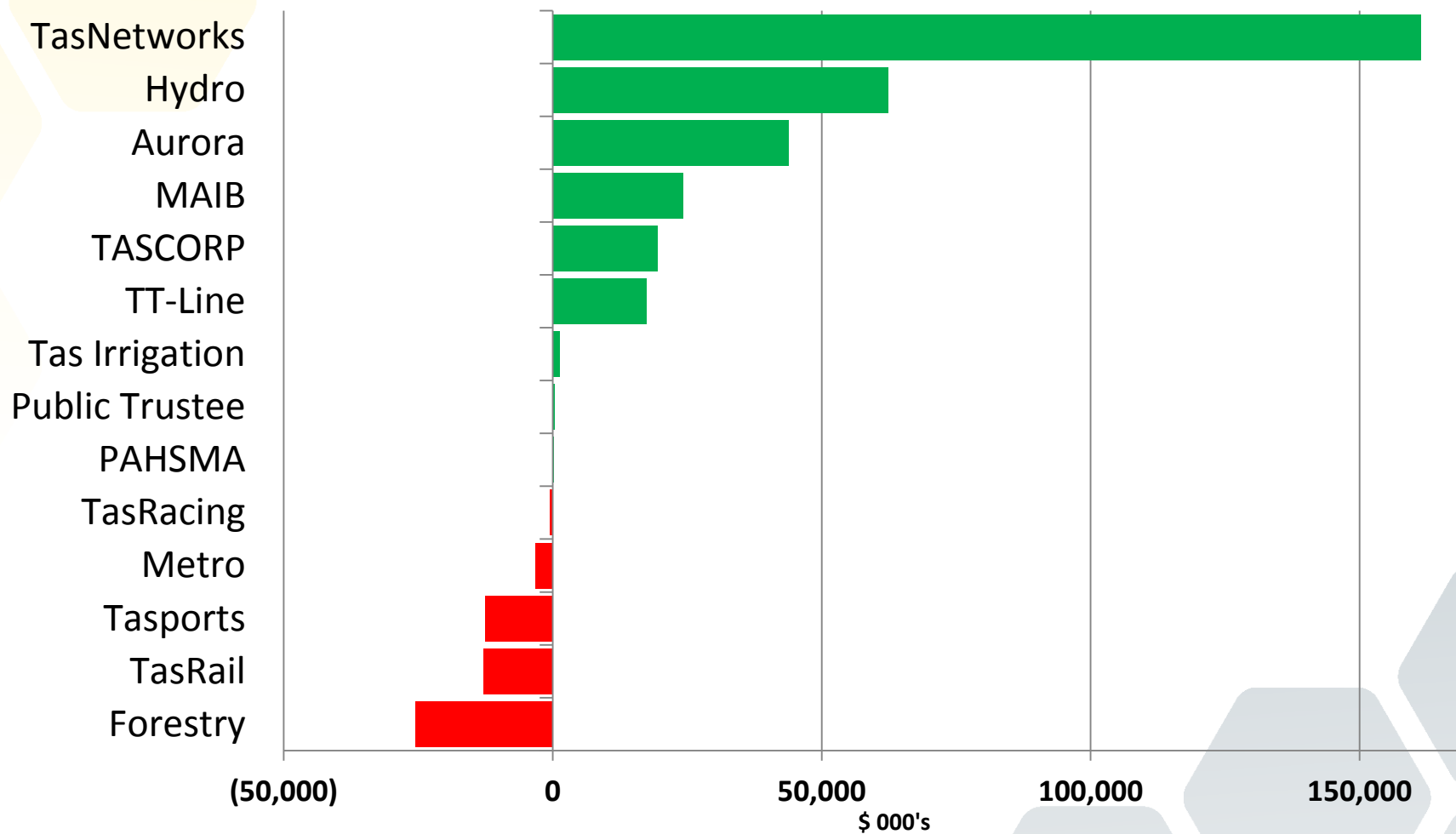
Report Contents

- Introduction
- Key points and recommendations
- Remuneration disclosures
- Change in calculation of defined benefits superannuation liability
- Valuation of primary assets
- GBEs chapter for each and summary
- SOC's chapter for each and summary
- Other PNFCs chapter for each and summary

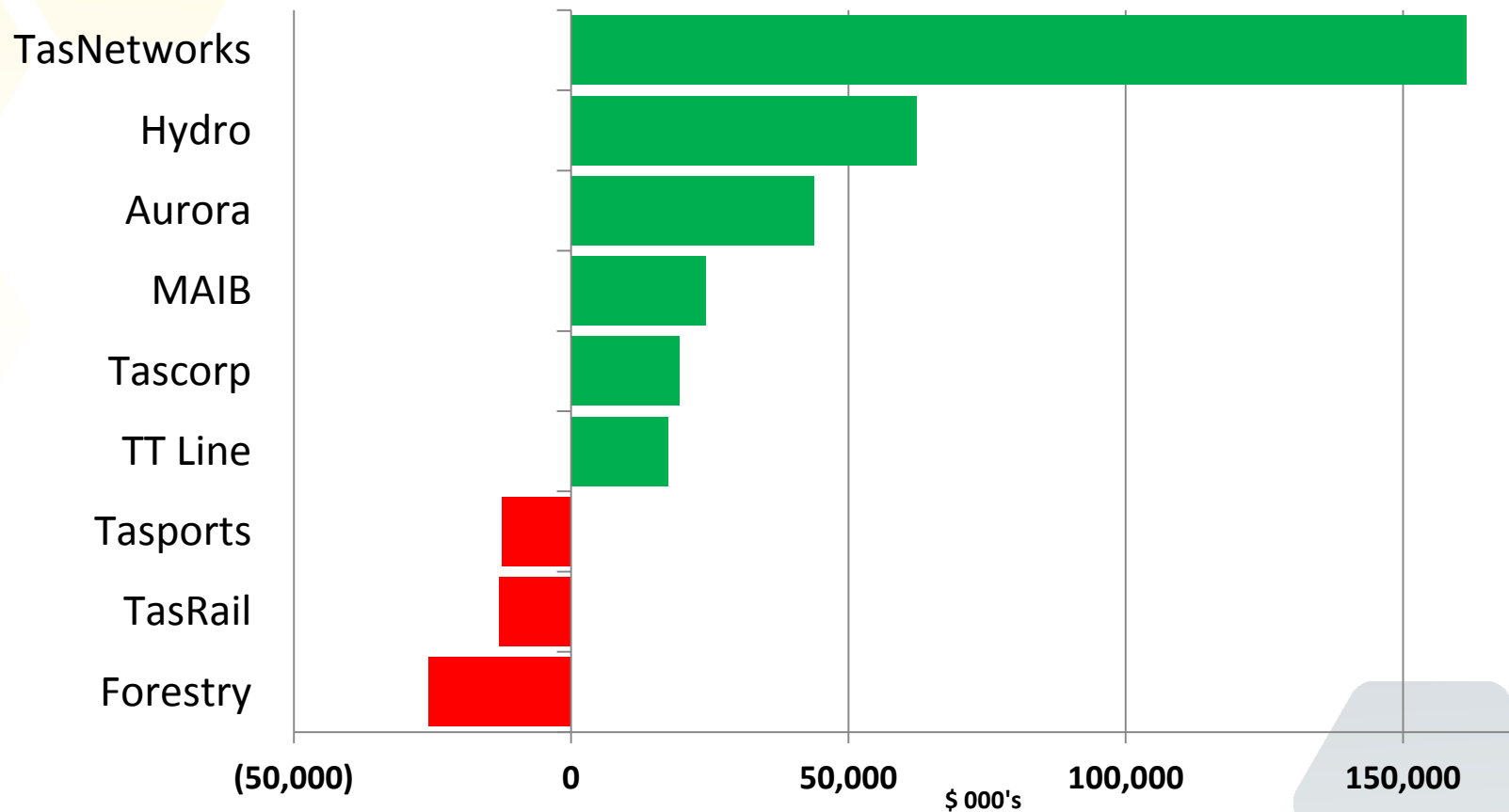
However, I will cover

- Summary of underlying results
- Review of government businesses that had profits/losses greater than \$10m
- Returns to Government
- Government business debt
- Deficit funding arrangements
- Other comments

Underlying Results



Underlying Profits/Losses > \$10m



TasNetworks

	2015 \$000s	2014 * \$000s
Total Revenue	583,613	
Total Expenditure	(330 268)	
UNDERLYING PROFIT before	253,345	
Finance costs	(91 949)	
UNDERLYING PROFIT	161,396	
Income tax expense	(48 465)	
NET PROFIT (LOSS) after taxation	112,931	
NET ASSETS	1 016 050	1 073 106 **
CASH FROM OPERATIONS	210 794	

* commenced operations 1 July 2014

** adjusted balances recognised at 1 July 2014

TasNetworks

- Took \$205m extra borrowings – transfer of debt from Hydro
- Returned capital to the State of \$20m – paid to Tasrail
- Equity transfer of \$30m to Forestry Tasmania on 1 July 2015
- Debt equity ratio of 161.8%
- Net working capital was (\$142m) although unused borrowing facility \$166m and cash from operations \$211m

TasNetworks – Working Capital

- Expressed reservations about the level of TasNetworks' negative working capital
- TasNetworks is taking steps to address this matter
- Full response in our Report

Hydro

	2015 \$000s	2014 \$000s
Total Revenue	1,484,223	1,993,137
Total Expenditure	(1349 944)	(1672 184)
UNDERLYING PROFIT before	134,279	320,953
Finance costs	(71 927)	(79 840)
UNDERLYING PROFIT before	62,352	241,113
Revaluation and impairment expense	232,066 -	220,492
Movements in fair value	(110 927)	162 110
NET PROFIT (LOSS) before taxation	183,491	182,731
Income tax expense	(54 816)	(39 182)
NET PROFIT (LOSS) after taxation	128,675	143,549
NET ASSETS	2 063 321	1 815 715
CASH	15,683	13,001
CASH FROM OPERATIONS	25 466	242 673

Hydro

- Financial performance in 2014-15 was reasonable
- In a sound financial position at 30 June 2015
- Cash generated from operations dropped from \$243m to \$26m
- Inadequate to fund capital investments and dividends resulting in borrowings

Hydro (un-consolidated)

- Revenues are reducing, but reduction in costs have not matched

		2014-15	2013-14	2012-13	2011-12
			<i>includes carbon</i>	<i>includes carbon</i>	
Total revenue	\$'000	585 197	877 706	732 201	607 380
Direct expenses	\$'000	227 535	259 439	206 331	217 954
as a % of revenue		38.9%	29.6%	28.2%	35.9%

Recommendation

- If it is to meet Government's dividend expectations and continue its capital expenditure programs, it will need to manage down its costs, dispose of assets or borrow more, or combination of these factors

Management Response

- Management notes the Auditor-General's recommendation. Hydro Tasmania's Corporate Plan forecasts improvements in cash generation which, combined with planned equity injections, will see debt reduce

Aurora

	2015 \$000s	2014 \$000s
Total Revenue	948,951	1,194,539
Total Expenditure	(904 887)	(1 082 213)
UNDERLYING PROFIT before	44,064	112,326
Finance costs	(217)	(54 533)
UNDERLYING PROFIT before	43,847	57,793
Customer contributions/derivative movements	796	5 102
NET PROFIT (LOSS) before taxation	44,643	62,895
Income tax (expense)/benefit	(13 156)	1 096
NET PROFIT (LOSS) after taxation	31,487	63,991
NET ASSETS	83 326	39 637
CASH FROM OPERATIONS	26 366	167 562

Aurora

- Transferred distribution and telecommunications businesses to TasNetworks on 1 July 2014
- Value of net assets transferred was \$523m
- Included transfer of all debt

Aurora

- Underlying Profit before Tax exceeded Board's expectations
- Higher than expected retention of commercial and residential customers
- And lower than expected operating costs

MAIB

	2015 \$000s	2014 \$000s
Premium revenue and recoveries	138 161	144 306
Claims expense	(113 892)	(134 170)
UNDERWRITING PROFIT before	24,269	10,136
Investment income	122 978	171 135
General and administration expenses	(10 054)	(9 329)
NET PROFIT (LOSS) before taxation	137,193	171,942
Income tax expense	(37 328)	(46 444)
NET PROFIT (LOSS) after taxation	99,865	125,498
 NET ASSETS	 440,121	 484,380
 OUTSTANDING CLAIMS LIABILITY	 (975 464)	 (952 683)

MAIB

- Positive underwriting result despite lower premium
- Claims expenses down by \$20m
- Net Investment income, \$123m, represents 8.4% return on investments
- Funding ratio of 127.8%, within the Board's target of 120% to 145%

TT Line

	2015 \$000s	2014 \$000s
Total Revenue	208,425	199,293
Total Expenditure	(190 933)	(187 651)
UNDERLYING PROFIT	17,492	11,642
Ship valuation/Edgewater adjustment	(15 820)	3 204
NET PROFIT (LOSS) before taxation	1,672	14,846
Income tax expense	(517)	(4 463)
NET PROFIT (LOSS) after taxation	1,155	10,383
NET ASSETS	276,577	280,864
CASH AND DEPOSITS	90,200	81,328
CASH FROM OPERATIONS	39,932	31,544

TT-Line

- Higher Underlying Profit primarily due to increased freight volumes and passenger numbers
- Highest Sales revenue on record \$205m
- Completed refurbishment of all passenger areas on both vessels
- Budgeted capital cost of \$31.1m with \$20.1m expensed this year

TASCORP

	2015 \$000s	2014 \$000s
Interest revenue	232 103	249 406
Interest expense	(197 947)	(218 772)
Other expenses	(14 599)	(15 673)
UNDERLYING PROFIT	19,557	14,961
Income tax expense	(5 867)	(4 488)
NET PROFIT (LOSS) after taxation	13,690	10,473
 TOTAL ASSETS	 6 235 868	 6 343 435
TOTAL LIABILITIES	(6 183 105)	(6 293 850)
NET ASSETS	52,763	49,585

TASCORP

- Profit essentially represents interest margin
- Client advances increased by \$265m to \$3.274bn
- Borrowings decreased by \$490m to \$5.131bn

Forestry

	2015 \$000s	2014 \$000s
Total Revenue	129,632	153,972
Total Expenditure	(148 294)	(154 654)
UNDERLYING PROFIT before	(18 662)	(682)
Finance costs	(6 964)	(6 595)
UNDERLYING LOSS	(25 626)	(7 277)
Biological asset valuation adjustment	37 845	(23 396)
Other movements	1 525	2 601
NET PROFIT (LOSS) before taxation	13 744	(28 072)
Income tax benefit/(expense)	5 398	(13 276)
NET PROFIT (LOSS) after taxation	19 142	(41 348)
NET ASSETS	62 998	31 259
CASH FROM (USED IN) OPERATIONS	(16 895)	13 827

Forestry

- Underlying loss increased \$18.3m
- Reflected higher negative operating cash flows of \$16.9m
- Removal of deficit funding (2013-14, \$23m)
- Sales revenue increased by \$7.4m due to higher woodchip sales

Forestry

- Value of the net biological and forest estate asset at 30 June 2015 was \$213.8m
- Emphasis of matter – going concern
- Forestry received an equity contribution from TasNetworks, of \$30m
- The liquidator of Gunns Plantations Limited is exercising their rights to make enquiries on remittances to Forestry

TasRail

	2015 \$000s	2014 \$000s
Total Revenue	50,632	54,422
Total Expenditure	(63 557)	(60 706)
UNDERLYING LOSS	(12 925)	(6 284)
Asset revaluation decrement/impairment	(23 704)	(41 666)
NET PROFIT (LOSS) before taxation	(36 629)	(47 950)
Income tax benefit/(expense)	3 098	(932)
NET PROFIT (LOSS) after taxation	(33 531)	(48 882)
NET ASSETS	121 459	118 167
CASH USED IN OPERATIONS	(2 795)	(3 257)

TasRail

- Continued to record Underlying losses
- Reliant on State and Commonwealth funding
- Unlikely to operate beyond the forward estimates period without on-going financial support.

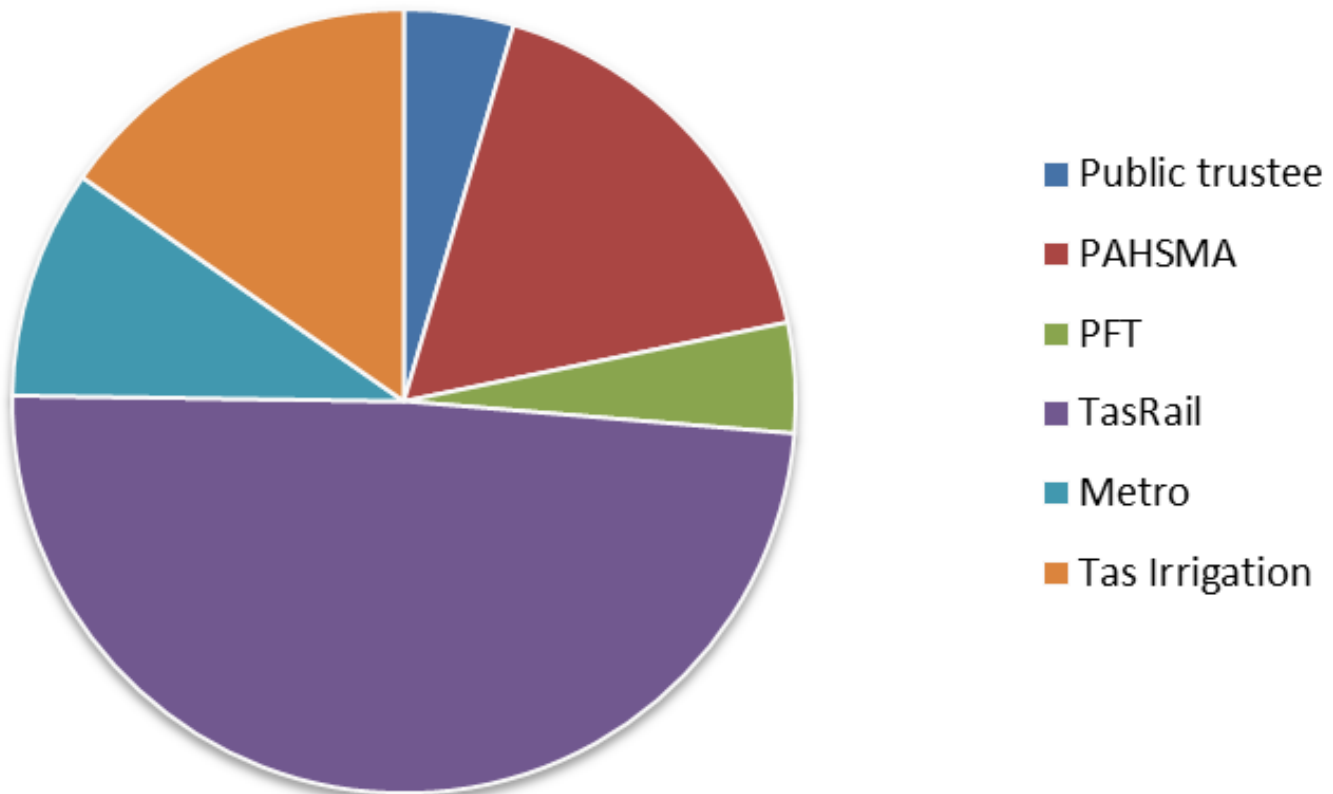
TasPorts

	2015 \$000s	2014 \$000s
Total Revenue	85,896	82,381
Total Expenditure	(98 477)	(83 715)
UNDERLYING LOSS before	(12 581)	(1 334)
Impairment/revaluation movements	(17)	1 214
Burnie Optimisation Project - Contribution	1 000	0
NET PROFIT (LOSS) before taxation	(11 598)	(120)
Income tax benefit/(expense)	3 050	(49)
NET PROFIT (LOSS) after taxation	(8 548)	(169)
NET ASSETS	188 644	193 785
CASH FROM (USED IN) OPERATIONS	4 100	6 388

TasPorts

- Underlying loss primarily due to:
 - dredging program that led to an \$8.7m increase in commercial asset maintenance
 - Non-commercial maintenance of \$8.4m
- Non-commercial maintenance funded by equity
- Equity injections of \$3.500m towards Tasports' Burnie Port Optimisation Project

Deficit/CSO/Conservation funding



Funding \$34.407m



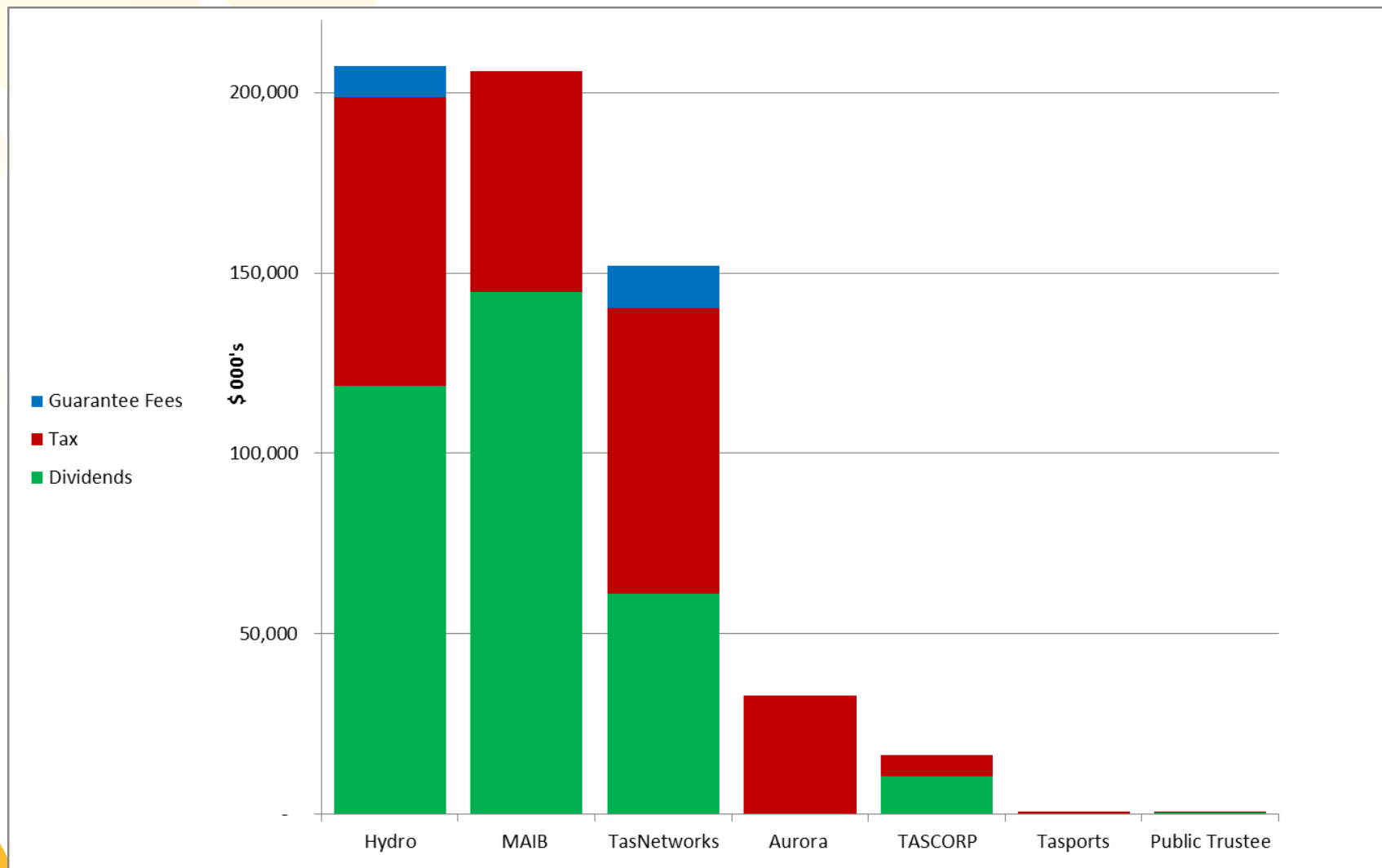
Funding Arrangements

- Tas Irrigation received \$18.7m during the year as an equity contribution
- Continues to be heavily dependent on Government funding.
- Funding was used to construct irrigation schemes
- Asset impairment losses in 2014-15 totalled \$135m
- Property, plant and equipment at 30 June 2015 was \$59.2m

Funding Arrangements

- TasRail received \$29.6m during the year as an equity contribution
- Asset impairment losses for 2014-15 totalled \$15.4m – related to below rail assets

Returns to Government



Returns to Government

MAIB

- Dividend paid, \$144.6m (special dividend, \$100m)
- Dividend recommended for 2014-15, \$47.7m
- Tax equivalent paid \$61m

Hydro

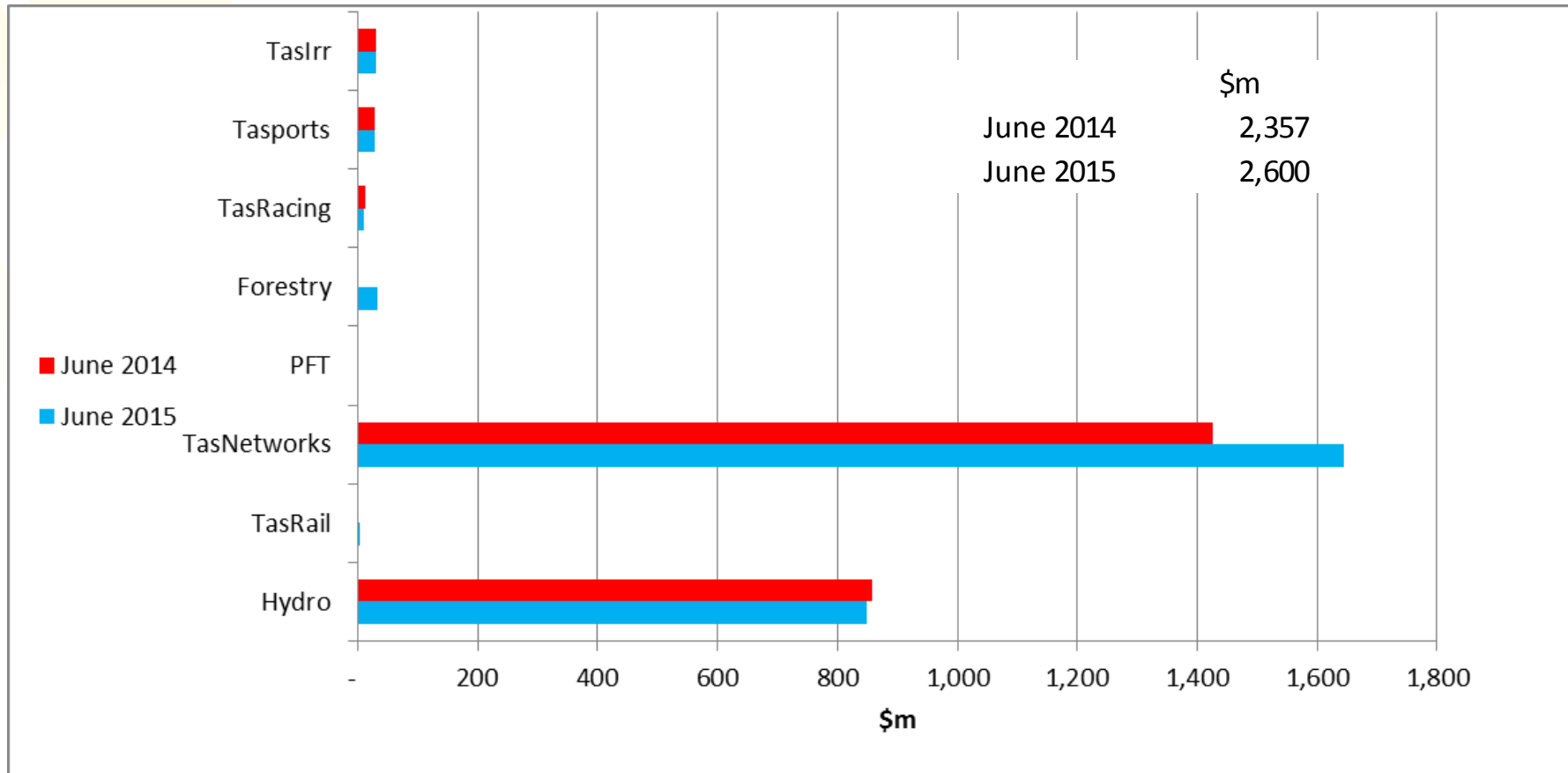
- Dividend paid \$118.6m
- Proposed \$25m - differed from the dividend policy, but,
“as far as the Board is concerned, strikes a balance between what is acceptable to the State and what it is appropriate for Hydro to pay, given its cash flows over 2014-15”
- Hydro paid tax and guarantee fees of \$88.7m

Returns to Government

TasNetworks

- Paid dividend of \$61m (Aurora, \$40m and Transend \$21m)
- Paid income tax equivalents of \$79.1m and loan guarantee fees of \$12m
- Declared a final dividend for 2014-15 of \$63.2m

Debt



Comment on Debt

- Total debt increased \$243m
- Hydro Tasmania debt \$850m (2014, \$859m), after transfer of \$205m to TasNetworks
- Hydro will be reliant on the proposed equity injections from the State, with transfers of debt totalling \$120 million expected to occur across 2015-16 and 2016-17
- \$217m related to TasNetworks (includes \$205m transferred from Hydro)
- Forestry debt increased \$32.8m

Other Clients

- **Tas Irrigation**

- three new schemes commissioned resulting in an Impairment expense of \$135m. Impairment losses reflect that schemes are operated on a cost recovery basis rather than to generate a profit
- Continues to be reliant on Government support at least for capital projects

- **Tasracing**

- remained heavily dependent on Government funding with \$30m in grants provided and
- further financial support by way of an equity injection of \$0.6m

Other Clients

- **Metro**

- On average over the past four years relied on Government for 75% of its Total Revenue
- Included annual funding of \$3m provided outside of the contract for service delivery
- Without this Metro would be unsustainable under its current financial model

Remuneration Disclosure Guideline

All GBEs and SOC's disclosed director and key management personnel remuneration on an individual basis in 2014-15

Changes in Calculation of Defined Benefit Superannuation Liabilities

All for profit GBEs and SOCs applied a corporate bond rate to discount long-term employee obligations

Defined benefit superannuation liabilities reduced by \$130m
(reversed in Total State financial statements)

Valuation of Primary Assets

- GBEs and SOC's (including TasWater) were responsible for assets totalling \$19.7bn
- Adopt various fair value methodologies such:
 - Market approach
 - Cost approach
 - Income approach
- Work done and conclusions reached by management and that valuations were within acceptable ranges

Future Financial Audit Reports

- **Volume 3** – Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15 (November 2015)
- **Volume 1** – Analysis of Treasurer's Annual Financial Report 2014-15 (December 2015)
- **Social Housing** (may be out of session)
- **Volume 4** - University and Other State Entities (April-May 2016)

Questions

