2006 (No. 9)

2006

PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL

COMPLETION OF JUNE 2004-05 AND DECEMBER 2005 AUDITS AND UPDATE ON INFRASTRUCTURE FUNDS

No. 1 of 2006

June 2006

Presented to both Houses of Parliament in accordance with the requirements of Section 57 of the Financial Management and Audit Act 1990

By Authority:

Government Printer, Tasmania

Auditor-General's reports are available from the Tasmanian Audit Office, HOBART. This report and other recent reports published by the Office can be accessed via the Office's home page. For further information please contact:

Tasmanian Audit Office
GPO Box 851
Hobart
TASMANIA 7001

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

This report is printed on recycled paper.

ISSN 1327 2608

22 June 2006

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Sirs

In accordance with the requirements of Section 57 of the *Financial Management and Audit Act 1990*, I have pleasure in presenting my Report on the audit of those public bodies and Local Government Authorities for the year ended 30 June 2005 that were incomplete at the time of presenting my report in November 2005 and of the two public bodies that report on the calendar year basis to 31 December 2005.

Also included are the outcomes from my audits of the special purpose financial reports prepared by the four Port companies for the six months ended 31 December 2005, a brief analysis of the Consolidated Financial Statements for the State of Tasmania for the year ended 30 June 2005 and an update to my Special Report No. 54 on the State's Infrastructure Funds.

I have also included as an appendix an "Engagement letter" in which I set out my approach to the conduct of audits.

Yours sincerely

H M Blake
AUDITOR-GENERAL

TABLE OF CONTENTS

Guide to Using this Report

This Report is prepared under Section 57 (1) of the *Financial Management and Audit Act 1990*, which requires the Auditor-General, on or before 31 December in each year to report to Parliament in writing on the financial audits of Government departments and public bodies in respect of the preceding financial year. The issue of more than one report satisfies this requirement each year. During the 2005 calendar year two reports were tabled:

- Report No. 1 of 2005 tabled on 14 June 2005 – this report dealt with June 2004 financial statement audits incomplete at the time of tabling the November 2004 report, financial statement audits with 31 December 2004 balance dates and the Forestry Tasmania Land Swap; and
- Report No. 2 of 2005 tabled on 22 November 2005 – this report dealt with the majority of June 2005 financial statement audits.

This is my first report for 2006 dealing with the outcomes from financial audits. It reports outcomes of 30 June 2005 financial audits incomplete at the time of my 22 November 2005 report and audits of two entities having a 31 December 2005 balance date.

Also included are:

- Commentary of the consolidated financial statements for the State of Tasmania;
- An update to a previous compliance audit of infrastructure funds;
- An update on a previous audit of the disposal of land at 1 Collins Street, Hobart;
- Commentary on the outcomes of the audits of public sector entities with a 31 December balance date;
- Outcomes from my audits of special purpose financial reports of the four port companies, which ceased operating on 31 December 2005;
- An update on the status and impacts of new accounting and auditing standards;
- A section dealing specifically with dispensed audits; and
- An Appendix, which has been termed "Engagement letter".

In addition, an Executive Summary, which should be read with the section headed "Matters of Significance and Follow Up of Matters Previously Reported", has been included.

Where relevant, agencies and other entities are provided with the opportunity to comment on any of the matters reported. Where they choose to do so, responses are included within that particular section or chapter.

Executive Summary

THIS REPORT

This Report deals with the outcomes from my audit of the Consolidated Financial Statements of the State of Tasmania at 30 June 2005 and of 21 public sector entities with 30 June 2005 balance dates the audits of which were incomplete at the time of compiling my November 2005 report to the Parliament. Also included are:

- Commentary of the consolidated financial statements for the State of Tasmania;
- An update to a previous compliance audit of infrastructure funds;
- An update on a previous audit of the disposal of land at 1 Collins Street, Hobart;
- Commentary on the outcomes of the audits of public sector entities with a 31 December balance date;
- Outcomes from my audits of special purpose financial reports of the four port companies, which ceased operating on 31 December 2005;
- An update on the status and impacts of new accounting and auditing standards;
- A section dealing specifically with dispensed audits; and
- An Appendix, which has been termed "Engagement letter".

This Executive Summary should be read in conjunction with the chapter entitled "Matters of Significance and Follow-up of Matters Previously Reported".

CONSOLIDATED FINANCIAL STATEMENTS FOR THE STATE OF TASMANIA - Summary

The Consolidated Financial Statements (the Statements) are prepared based on Australian Accounting Standard AAS 31 "Financial Reporting by Governments" and consolidate all entities controlled by the State with segmented financial information provided at General Government, Public Non-Financial Corporation, Public Financial Corporation and Whole of Government Consolidated levels.

There is no statutory requirement to prepare the Statements. It is however good practice and is consistent with practice in other Australian jurisdictions.

The financial analysis in this Report covers the period 2000-2001 to 2004-05. Note that the GST was introduced on 1 July 2000.

In overview my analysis of the financial position of the State is that:

- The State's financial position is sound with the State's net asset position improving by 13% in the past year and by 40% since 2000-01;
- Between 2000-01 and 2004-05, revenue increased by 27%, while expenses increased by 16%;
- Proportions of the total revenue provided by the Commonwealth (42%), sale of goods and services (31%) and taxation (13%) have remained unchanged from 2004 to 2005. Prior to the introduction of the GST in 2000 the proportion of revenue provided by the Commonwealth was only 37%;
- Employee benefits increased by 24% over the five years under review and represent 40% of State expenditure. These costs include net movements in the provision for unfunded superannuation liabilities;
- The State's net asset position improved by $2 590m or 40% over the five year period primarily due to asset revaluations, investments in infrastructure and the generation of profits in all years other than in 2000-01;
- In gross terms, State borrowings increased from $4 305m at 30 June 2001 to $5 613m at 30 June 2005 although, on a net debt basis, total State net debt decreased by $432m (on a Government Finance Statistics basis) in 2004-05;
- Over the five years under review, the State's investment in fixed assets increased by 21%. This increase is due to asset revaluations and investments in capital infrastructure, including the purchase of Spirits of Tasmania I, II and III; and
- The State's exposure to unfunded superannuation was $2 636m at 30 June 2005 ($2 594m at 30 June 2004 and $1 986m at 30 June 2001).

THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (DHHS)

At the time of preparing my November 2005 Report to Parliament I was unable to provide detailed financial analysis due to the timing of the receipt of signed financial statements.

I have now included separate analyses on the audits of DHHS, Housing Tasmania and the Tasmanian Ambulance Service.

This is the first time that I have provided a separate analysis of the financial results of Housing Tasmania or of the Tasmanian Ambulance Service (the Service). In the past, these financial results were reported as part of my report on DHHS. Detailed reasons for including commentary on the financial analysis of the Service are noted under the matter headed "What prompted this analysis?" of the Service's chapter. The chapter includes commentary on work conducted following the detection of a fraud, analysis of outputs and financial analysis.

The 30 June 2005 audit reports for the DHHS and Housing Tasmania's financial statements each included an "emphasis of matter" paragraph. Both were concerned with the valuation of dwelling stock not being sufficiently up to date. Quality and management control issues were also noted. These issues are discussed in greater detail in the relevant chapters with comments from DHHS also included.

HOBART PORTS CORPORATION PTY LTD

A separate chapter has been provided of the analysis of the 2004-05 financial statements of the Hobart Ports Corporation Pty Ltd, which was incomplete at the time of preparing my November 2005 Report to Parliament. The 2004-05 financial report of the Corporation was signed on 27 October 2005 and my unqualified audit report was issued on 3 November 2005.

The Corporation recorded a consolidated profit (after taxation) of $6.276m for the 2004-05 financial year.

The 2004-05 audit was completed with satisfactory results.

CESSATION OF OPERATIONS OF THE STATE'S FOUR PORT CORPORATIONS

In August 2004, the Government appointed a Committee to review the current Tasmanian ports system and report on any alternate port company structures to improve the system. On 1 March 2005, the Minister for Infrastructure, Energy and Resources announced that the Government had agreed in principle to the amalgamation of the four State-owned port corporations into a single port company.

The Tasmanian Ports Corporation Pty Ltd was registered on 1 July 2005 and the four port corporations ceased trading on 31 December 2005 when their assets and liabilities transferred to the new Corporation or to the Department of Treasury and Finance. In the latter case, a number of buildings (including related plant) totalling $19.316m were transferred from the Hobart Ports Corporation to the Crown.

Separate chapters have been provided for the four port corporations, covering the period 1 July to 31 December 2005.

THE NATIONAL TRUST OF AUSTRALIA (TASMANIA)

The National Trust of Australia (Tasmania) is an independent statutory body, which is a member organisation of the National Trust of Australia and owns and/or manages a number of properties throughout the State.

In my June 2005 Report, I noted that the Trust continues to operate in difficult financial circumstances and remains very much reliant upon support from the State Government. I also noted that in late 2004 an Administrator had been appointed to manage the Trust for up to two years, with one major objective being to resolve its financial difficulties.

In May 2005, the Minister for Parks and Heritage announced the appointment of an Advisory Council to draft a blueprint for the future of the Trust. The Advisory Council's December 2005 report recommended that the future governance of the Trust be placed into the hands of a "Statutory Company" with a Board of Directors.

During 2004-05 financial support from the State Government substantially increased. Despite this, the Trust again operated at a deficit, although this was due to a change in accounting policy to record the balance of the restoration appeal funds totalling $0.298m as a liability. The operating result before this change was a surplus before capital grants of $0.121m (2004 deficit of $0.607m). This is a significant improvement and was due to:

- Additional recurrent funding from the State government;
- Proceeds from the sale to the State Government of an antique desk; and
- Lower expenditures.

Bringing the restoration appeal funds to account as a liability caused the Trust's net working capital and equity positions to deteriorate during 2004-05.

OTHER 30 JUNE 2005 AUDITS

Other than the audit of the National Trust of Australia (Tasmania), the audits of the financial statements of a further 20 public sector entities have now been completed, consisting of:

- 10 Councils;
- 2 local Government Business Units
- 1 port corporation; and
- 7 other entities.

There are now no 2004-05 audits outstanding.

THEATRE ROYAL MANAGEMENT BOARD

While the Board returned positive results for the years 2001, 2002 and 2005 after grants and subsidies, it remains dependent upon continued financial support of its financiers by way of loans and through the assistance of administration and programme grants from the State

Government so that it can continue as a going concern and pay its debts as and when they fall due.

UNIVERSITY OF TASMANIA

The 2005 audit of the University's consolidated financial statements was completed with satisfactory results.

The University produced a very strong consolidated operating result for the year, totalling $33.816m. The result is built upon an increase in revenue of $39.968m, with expenditure increasing by $27.131m. However, it also includes:

- Commonwealth capital grants $12.890m; and
- A net increase in unspent grant monies and other restricted funds $8.539m.

The University records all grant revenue as income at the time of receipt, irrespective of whether the grant is for an operating or capital purpose.

INFRASTRUCTURE FUNDS

On 12 April 2005 I tabled Special Report No. 54 which included a section dealing with the State's Infrastructure Funds. Included in this Report is an update on transactions made from, and balances in, these funds.

In Report No 54 I observed that there was a lack of consistency in reporting infrastructure funding in Departmental annual financial statements and I recommended that annual financial statements should include details of infrastructure funds received and expended in a clear and consistent manner to improve reporting and accountability.

Responses to this recommendation were followed up during completion of audits of the financial statements of Departments at 30 June 2005, with what I consider to be best practice disclosed by the Department of Tourism, Parks Heritage and the Arts in its Financial Statement for 2004–2005. It is recommended that all agencies consider adopting the disclosures used by this Department.

AUDITS DISPENSED WITH

Section 41 of the FMAA provides the Auditor-General with the discretion to dispense with certain audits. In order to comply with this requirement, I have included details of specific audits or categories of audits that I have dispensed with.

Steps are being taken by my Office to make contact with the entities in order to ascertain the adequateness of their existing financial reporting and auditing arrangements.

IMPACT OF NEW ACCOUNTING AND AUDITING STANDARDS

International financial reporting standards are now in place and all public sector entities, including councils, are required to comply with them effective 1 July 2005. This includes revising balances and transactions reported at 30 June 2005 onto the new basis. From I July 2005, all financial records and reports are to be on the new basis. Effectively this means that all financial reports for the years ending 31 December 2005 and 30 June 2006 will be prepared in accordance with the new standards.

To assist in identifying, at an early stage, any difficulties that public sector entities may be experiencing, interim audits for 2005-06 are assessing progress with implementation of the new standards.

The Australian Auditing and Assurance Standards Board has issued new auditing standards based on international auditing standards. The new auditing standards will be operative for financial reporting periods commencing on or after 1 July 2006. This means that my Office will apply the new standards in audits for the financial year ending 30 June 2007 and for the calendar year ending 31 December 2007.

The new standards broaden the scope of audits, particularly as this relates to the risk of fraud and the levels of audit testing required and this will increase the time that must be devoted to audits and hence the costs thereof.

ENGAGEMENT LETTER

Included in my Report at Appendix 1 is an engagement letter addressed to the Speaker of the House of Assembly and to the President of the Legislative Council.

The purpose of this letter is to detail the approach that I will follow in the conduct of audits required to be performed by me pursuant to the provisions of the *Financial Management and Audit Act 1990* (FMAA). It is not a requirement that I detail this information but I regard it as good practice to do so and it should provide the President, the Speaker and Members of the Legislative Council and the House of Assembly with an understanding on how audit work is conducted by my Office. This letter also details my interpretation of Section 41 "Power of Auditor-General to dispense with audits of certain public bodies".

Consolidated Financial Statements for the State of Tasmania

INTRODUCTION

The Consolidated Financial Statements (the Statements) are prepared in accordance with Australian Accounting Standard AAS 31 "Financial Reporting by Governments" (AAS 31) and consolidates all entities controlled by the State with segmented financial information provided at General Government Sector (GGS), Public Non-Financial Corporation (PNFC), Public Financial Corporation (PFC) and Whole of Government Consolidated levels. The Consolidated level is after eliminating inter-sector transactions.

There is no statutory requirement to prepare the Statements. It is, however, good practice and is consistent with practice in other Australian jurisdictions. The Department of Treasury and Finance (Treasury) prepares the Statements and has done so since 1998-99.

The Statements provide information about the financial performance, financial position and cash flows of the State of Tasmania with the principal objectives of providing to the Parliament informative, comprehensive and clear information on the State's overall financial position. The Statements should be read in conjunction with the Treasurer's Annual Financial Report (the Treasurer's Report), which was tabled prior to 31 October 2005.

However, when comparing the two reports it must be borne in mind that the Treasurer's Report is prepared on a Government Finance Statistics (GFS) basis. Page 7 of the published Statements provides an unaudited reconciliation between the operating results, at a GGS level, between AAS 31 (where an operating deficit of $211m is reported) and the GFS (where an operating surplus of $211m is reported) bases of accounting. A significant contributor to this $422m difference is the net write down in the GGS sector of investments in the PNFCs and PFCs, which is recorded as an expense under AAS 31 but as an equity transaction under GFS.

The Australian Accounting Standards Board (AASB) is still developing an accounting standard aimed at harmonising the Government Finance Statistics and Generally Accepted Accounting Principles frameworks. This is an essential project in assisting readers of budgets and financial reports, as it will ensure that financial information is prepared based on a single framework. It is anticipated that a relevant accounting standard will be issued for application for the 2006-07 financial year.

It is important to note that the Treasurer's Report fulfils a separate but specific accountability obligation, being prepared in compliance with Section 26A of the *Financial Management and Audit Act 1990* (FMAA).

Consistent with the State's budget papers, the Treasurer's Report is prepared on the GFS basis. The analysis below does not include commentary on the Treasurer's Report.

AUDIT OF THE 2004-05 CONSOLIDATED FINANCIAL STATEMENTS

Initial draft statements were received for audit on 24 November 2005. Signed financial statements were received on 15 December 2005 and an unqualified audit report was issued on 16 December 2005. The Statements were signed by the Treasurer and by the Secretary, Department of Treasury and Finance.

In my June 2005 Report to Parliament I reported that the signed 2003-04 Statements were received on 21 April 2005 and I noted that Treasury should give consideration to completing the Statements in a timelier manner. Treasury responded positively to this initiative resulting in audit completion of the 2004-05 Statements prior to the 2005 Christmas break.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

The consolidated financial performance of the State over the past five years is summarised in Table 1.

Table 1 Summarised Statements of Financial Performance

	Percentage change – 5 years	2004-05	2003-04	2002-03	2001-02	2000-01
		$m	$m	$m	$m	$m
Total revenue	27.08%	5 026	4 678	4 328	4 120	3 955
Total expenditure	16.31%	4 672	4 489	4 306	4 044	4 017
Operating Surplus/(deficit)		**354**	**189**	**22**	**76**	**(62)**

Comment

- The State's operating results continue to improve as total revenues grow faster than total expenditures. This has predominantly been due to positive operating performance in the PNFC and PFC sectors as illustrated by Table 2 Operating Results on a Sector basis prior to eliminating inter-sector transactions.

- Inter-sector eliminations are detailed in Note 2 on page 29 of the Statements. In the main the eliminations include inter-sector taxation and dividend transactions, inter-sector interest payments, inter-sector grants and net write-downs in the carrying amounts of the GGS' investment in the PNFCs and PFCs.

Table 2 Operating results on a Sector basis

Sector	Increase (decrease) 2000-01 to 2004-05 $m	Increase(decrease) 2000-01 to 2004-05 %
GGS		
- Revenues	802	29.25
- Expenditures	1 054	39.02
- Operating result	(252)	(614.63)
PNFCs		
- Revenues	162	13.97
- Expenditures	130	12.06
- Operating result before tax and dividends	32	39.02
PFCs		
- Revenues	82	14.36
- Expenditures	1	0.18
- Operating result before tax and dividends	81	426.32
Consolidated (after eliminations)		
- Revenues	1 071	27.08
- Expenditures	655	16.31
- Operating result	415	669.35

Comment

- GGS expenditures were high in 2004-05 due to the write down in the carrying value of the State's investments in PNFCs, particularly in Hydro Tasmania where the write down exceeded $500m. The total net write down in 2004-05 was $424m, the impact on the above table being:

  - Increase in expenditures changes to $630m
  - Increase in expenditures as a % changes to 23.32%
  - Adjusted operating result – surplus $172m
  - Adjusted operating result as a % – surplus 419.51%

  The write down of the State's investment in PNFCs and PFCs is eliminated on consolidation.

- The growth in before tax profitability of the PNFCs and PFCs over the past five years has been strong.

Tables 3 and 4 below provide a more detailed breakdown of revenues and expenditures at a Consolidated level.

Table 3 Revenue

Revenue	% increase over 5 yrs	2005 $m	2005 %	2004 $m	2004 %	2003 $m	2003 %	2002 $m	2002 %	2001 $m	2001 %
Taxation	28.35	661	13	610	13	543	13	497	12	515	13
Investment income	31.01	376	7	274	6	249	6	254	6	287	7
Grants and subsidies	28.49	2 115	42	1 996	43	1 856	43	1 788	43	1 646	42
Sales of goods and services	10.25	1 549	31	1 415	30	1 327	31	1 269	31	1 405	36
Other*	218.63	325	7	384	8	353	8	312	8	102	3
Total	**27.08**	**5 026**	**100**	**4 678**	**100**	**4 328**	**100**	**4 120**	**100**	**3 955**	**100**

* Movements in other revenues have not been separately analysed. This primarily comprises revenues from the disposal of non-financial assets, fees and fines and the value of assets received for no or nominal consideration.

Comment

- As a source of revenue, State taxation has remained constant at around 13% and revenues from the Commonwealth (grants and subsidies) have also remained constant at around 43%. Both of these revenue sources have increased by 28% over the period under review;
- Sales of goods and services, predominantly in Government Business Enterprises and State Owned Companies, continue to contribute around 31% (36% in 2000-01) of State revenue although growth over the period has only been 10%. Growth since 2001-02 has been 22%; and
- Investment income, while remaining at around 7% of State revenue, has grown by 31% due to additional funds available for investment.

Table 4 Expenditure

Expenditure types	% increase over 5 yrs	2005 $m	2005 %	2004 $m	2004 %	2003 $m	2003 %	2002 $m	2002 %	2001 $m	2001 %
Employee benefits	23.66	1 871	40	1 897	42	1 729	40	1 559	39	1 513	38
Depreciation	28.39	398	8	367	8	349	8	329	8	310	8
Borrowing costs	-16.14	374	9	386	9	382	9	379	9	446	11
Grants and transfer payments	33.42	531	11	387	9	441	10	479	12	398	10
Supplies & costs of goods sold	6.39	1 083	23	1 145	26	964	22	910	23	1 018	25
Other*	24.40	413	9	307	7	441	10	388	10	332	8
Total	16.31	**4 672**	**100**	**4 489**	**100**	**4 306**	**100**	**4 044**	**100**	**4 017**	**100**

* Includes writes downs in the carrying values of assets and losses on disposals of assets.

Comment

- Employee benefits increased by 24% over the five years under review and represent 40% of State expenditure. These costs include net movements in the provision for unfunded superannuation liabilities;
- Depreciation charges increased by 28% and continues to represent 8% of total State expenditures. The 28% increase primarily results from ongoing investments in infrastructure and asset revaluations;
- Interest and other financing costs have decreased by $72m over the period of this analysis despite gross debt increasing from $4 305m to $5 613m. The decrease is primarily due to lower interest rates and debt restructuring; and
- Grants and transfer payments have remained in a range of 9% to 12% of total State expenditure.

FINANCIAL POSITION

Table 5 below summarises movements in the State's consolidated assets and liabilities since 2001.

Table 5 Financial Position as at 30 June

	2005 $m	2004 $m	2003 $m	2002 $m	2001 $m
Current Assets					
Cash and investments	2 958	1 291	469	889	898
Receivables	340	240	251	205	199
Other	148	76	163	150	142
Total Current Assets	**3 446**	**1 607**	**883**	**1 244**	**1 239**
Current liabilities					
Payables	377	312	112	110	104
Borrowings	2 759	1 706	1 761	1 669	1 649
Employee entitlements	181	170	214	192	183
Superannuation	200	189	181	163	142
Other	327	276	386	323	278
Total Current Liabilities	**3 844**	**2 653**	**2 654**	**2 457**	**2 356**
Net Working Capital	**(398)**	**(1 046)**	**(1 771)**	**(1 213)**	**(1 117)**
Non-Current Assets					
Investments	1 900	2 202	2 428	1 663	1 505
Land, buildings and Forest estate	4 633	3 559	3 778	3 677	3 808
Plant and equipment	344	684	714	691	484
Infrastructure	8 508	8 360	7 567	7 364	6 817
Other	192	242	53	84	96
Total Non-Current Assets	**15 579**	**15 047**	**14 540**	**13 479**	**12 710**
Non-Current Liabilities					
Borrowings	2 854	2 954	2 692	2 748	2 656
Employee entitlements	219	200	219	201	200
Superannuation	2 436	2 405	2 141	1 946	1 844
Other	645	481	488	447	456
Total Non-Current Liabilities	**6 154**	**6 040**	**5 540**	**5 342**	**5 156**
Net Assets or Equity	**9 027**	**7 961**	**7 229**	**6 924**	**6 437**

Comment

- The State's net asset position improved by $2 590m or 40% over the five year period primarily due to asset revaluations, investments in infrastructure and the generation of profits in all years other than in 2000-01;
- The State's improved net working capital position is mainly due to the stronger cash position at 30 June 2005;
- In gross terms, State borrowings increased from $4 305m at 30 June 2001 to $5 613m at 30 June 2005 although, on a net debt basis, total State net debt decreased by $432m (on a GFS basis) in 2004-05;
- Over the five years under review, the State's investment in fixed assets (land, buildings, forest estate, infrastructure and plant and equipment) increased by $2 376m to $13 485m, which is an increase of 21%. This increase is due to investments in capital infrastructure and asset revaluations. The balance of plant and equipment at 30 June 2005 dropped by $340m mainly due to a

reclassification of plant and equipment assets to infrastructure assets. Table 6 below details the State's investments in assets in each of 2004-05 and 2003-04.

Table 6 Summary of the State's capital expenditure during the two years ended 30 June 2005 (based on cash flow statements, not accrual) ($million)

	Actual 2004-05 $m	Actual 2003-04 $m
Capital Expenditure		
General government sector	241	169
PNFCs and PFCs	324	446

- Asset acquisitions were high in 2003-04 due to the purchase of Spirit of Tasmania III and investments in assets in the three energy utilities of $277m; and
- Non-current investments primarily comprise investments held by the State's two PFCs (MAIB and Tascorp). This balance decreased due to a higher value of short term investments held at 30 June 2005.

CASH POSITION

Table 7 below summarises movements in the State's consolidated cash flows since 2001.

Table 7 Summarised Statements of Cash Flows

	2004-05	2003-04	2002-03	2001-02	2000-01
	$m	$m	$m	$m	$m
Cash inflows from operations	4 829	4 507	4 343	4 105	3 843
Cash outflows from operations	(3 980)	(3 645)	(3 509)	(3 263)	(3 219)
Net Cash Inflows from Operations	**848**	**862**	**834**	**812**	**624**
Net acquisition of non-current assets	(515)	(532)	(302)	(571)	(212)
Net (increase)/decrease in investments	0	47	(15)	(59)	17
Net (increase)/decrease in customer loans	13	59	11	15	2
Other payments	0	0	0	0	(69)
Net cash used in Investing Activities	**(502)**	**(426)**	**(306)**	**(615)**	**(262)**
(Repayments)/receipts from borrowings/deposits	91	(189)	(11)	(30)	(116)
Finance lease principal repayments	0	0	(2)	(3)	(2)
Net cash Generated from/(Used in) Financing Activities	**91**	**(189)**	**(13)**	**(33)**	**(118)**
Net Cash flows from/(to) Financial Institutions	**335**	**(262)**	**(469)**	**(157)**	**(681)**
Net Increase/(Decrease) in cash	**772**	**(15)**	**46**	**6**	**(437)**
Cash at beginning of year	58	73	27	21	763
Cash held at year end	**830**	**58**	**73**	**27**	**326***

* Between 2000-01 and 2001-02 there was a change in classification of cash for purposes of the cash flow statement. Prior to 2001-02 cash included Deposits at Call held in financial institutions. At 30 June 2001 Deposits at Call totalled $299m.

Comment

- The State has generated positive cash flows from operating activities in each of the five years under review. This facilitated investment in non-current assets which was high in 2001-02, when TT-Line acquired Spirits of Tasmania I and II, and also in 2003-04 when Spirit III was paid for and investment by the three energy utilities was high;
- In net terms the State has been repaying debt – as indicated by net outflows of cash to financial institutions in four of the five years under review. This was not the case in 2004-05 when there were net inflows of funds from Financial Institutions of $335m contributing the growth in Gross Debt and to the high cash balance at 30 June 2005; and
- At the same time, the State has been increasing its investments in Non-Current Investments predominantly in Tascorp contributing to the decrease in net debt.

OVERALL COMMENT

The State's financial position is sound.

Matters of Significance and Follow-Up of Matters Previously Reported

This Report contains analysis of financial information of Government departments, government businesses (including state-owned companies), local government authorities, statutory authorities and other public bodies with 30 June 2005 balance dates that were not included in my November 2005 Report. Comparative information is also provided for groups of similar entities such as councils.

The accompanying text summarises significant matters identified from my analysis of the financial statements. A cross reference to the relevant detailed report is provided.

The Report includes details of matters raised with entity management during the course of audits but only where the matter(s) raised was significant. The rationale for inclusion or otherwise rests on my perception of the public interest in each point and the need to confine comments to those matters that have more than a managerial dimension. A section is again included here following up matters reported in previous General Reports to Parliament.

MATTERS IDENTIFIED IN PREVIOUS REPORTS

This section summarises actions arising from matters highlighted in audits completed prior to 30 June 2005 and, where relevant, audits for the current period.

National Trust of Australia (Tasmania) – Qualified audit opinion and emphasis of matter (30 June 2003 and 30 June 2004 Financial Statements)

- **June 2005 Report No. 1 Chapter 4 and**
- **June 2006 Report (this Report)**

My audit report on the financial report of the National Trust of Australia (Tasmania) (the Trust), continues to include a qualified opinion relating to:

- Its inclusion in revenue of amounts relating to proceeds from functions, fundraising activities, donations and admittance fees, totalling $0.184m (2004, $0.222m) over which it is not practicable to establish accounting controls prior to receipt of such funds due to the cash nature of that revenue. Accordingly, it was not practicable for my examination to extend beyond amounts recorded as having been received and as shown in the accounting records; and

- Failure by the Trust to comply with Australian Accounting Standards as they relate to depreciation of freehold buildings and leasehold improvements, the non-recognition of certain heritage collections and to determine and disclose current valuations for land and buildings measured on a cost basis.

In addition, my audit report draws attention to an inherent uncertainty as to whether the Trust is able to continue as a going concern.

Sale of former Department of Transport site (also referred to as 1 Collins Street)

- **November 2004 Report Part A, Executive Summary (see also original comment in Report No 2 of 2003)**

This matter has been taken up with the Department of Economic Development and I have decided that no further action is necessary.

MATTERS IDENTIFIED DURING 2004-05 AUDITS

This section summarises significant matters highlighted in separate chapters in this Report.

Audit reports containing qualified audit opinions

- **June 2006 Report (this Report) – Sorell Council**

A qualified audit report was issued on 29 November 2005. The qualification related to Council's asset valuation. Council values Water Reticulation Assets, Drainage System Assets and Sewerage System Assets at fair value. The most recent revaluation for the Water Reticulation System and Drainage System Assets was dated 1994 and the Sewerage System asset revaluation was dated 1995. These valuations are out of date and there is uncertainty that recorded valuations fairly represent current fair values. Accordingly, a qualified audit report was issued.

Without qualification of the audit opinion, this matter was brought to the Council's attention following completion of the 30 June 2004 audit.

- **June 2006 Report (this Report) – Aboriginal Land Council**

The qualification was the result of the Council failing to adopt the requirements of two Australian Accounting Standards in that:

- The additional lands vested in the Council during 2004-05 were not brought to account in its financial statements at 30 June 2005; and
- Council's asset revaluations for land and building assets were not kept up to date to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at the reporting date. The most recent revaluation of Council's land and buildings was undertaken by the Valuer-General at 30 June 1998.

It is noted that the Council contacted the Valuer-General's Office during the preparation of the 2004-05 statements with a view to having the valuation completed for inclusion in the 30 June 2005 statements, but the matter did not progress any further.

Council has taken steps to obtain a valuation, by 30 June 2006, for all controlled land and buildings, which should enable it to satisfy the requirements of Australian Accounting Standards.

Use of "emphasis of matter" paragraphs in audit reports

- **June 2006 Report (this Report) - Department of Health and Human Services and Housing Tasmania**

The 30 June 2005 audit report included an "emphasis of matter" paragraph in each of the Department's financial statements and Housing Tasmania's financial statements. Both related to the valuation of dwelling stock and specifically that valuations were not up to date.

I acknowledge that dwelling stock are indexed by factors provided by the Valuer-General. However, the use of indices should be regarded as a short term interim measure. Properties with an estimated value of $279.140m, which equates to approximately 16% of total properties, had not been re-valued since 1995-1996. Furthermore, approximately $695.589m of rental dwellings, or 41% of the total, had not been re-valued for over 5 years.

The audit of Housing's revaluation was further hampered by the poor quality and inadequate preparation of suitable working papers. For example, the original financial report provided for audit included duplication of Vacant Land and Dwellings on asset registers in an amount of $9.347m.

- **June 2006 Report (this Report) Glamorgan Spring Bay Council**

An emphasis of matter was included drawing attention to the last valuation carried out by Council in relation to Buildings, Roads and Bridges, Other assets and Infrastructure being 1 July 2000. Council has elected to carry these assets at fair value and adopted a policy that these assets be revalued every five years to comply with the requirements of accounting standards. The values of these assets as set out in the 30 June 2005 financial report are not up-to-date, and may not represent fair value. I have recommended to the Council that they obtain up-to-date valuations before 30 June 2006.

Matters arising from audits brought to the attention of management

- **June 2006 Report (this Report) - Department of Health and Human Services and Housing Tasmania**

It has been reported previously that the Department is slow to collect outstanding debts. Whilst the position has improved, I note that at 30 June 2005 there were over 14 000 accounts dating prior to 30 June 2003 with a value of $2.120m. The majority of these relate to the Tasmanian Ambulance Service where there were in excess of 3 650 accounts, with a value of $1.710m. A significant portion of these debtors may eventually result in their being written off.

Concerns were raised over the methodology and processes surrounding the reconciliation of the Department's payroll advance account. The approach adopted is being reviewed with the objective of improving controls and to ensure compliance with Treasurer's Instruction 401 relating to bank reconciliations.

Procedural problems continue to be observed in the operation of credit cards. In particular audit testing noted missing documentation, lack of authorisation and bill splitting below the cardholder's transaction limit. Management should remind users of their obligations including the need for them to adhere to Departmental and Treasury guidelines.

- **June 2006 Report (this Report) – West Coast Council**

A recommendation has been made to Council to adopt a fair value valuation basis for measuring the carrying value of its long-lived infrastructure assets. Council currently records its infrastructure asset on a cost basis.

- **June 2006 Report (this Report) – Flinders Council**

Flinders Council is considerably reliant on grant funding to maintain its current levels of activity and as a result will need to carefully monitor its financial position. It will also need to significantly increase reinvestment in its network of roads and streets if these assets are to be maintained at their present condition in the long term.

- **June 2006 Report (this Report) – King Island Council**

A recommendation has been made to Council to adopt a fair value valuation basis for measuring the carrying value of its long-lived infrastructure assets. Council currently records its infrastructure asset on a cost basis.

- **June 2006 Report (this Report) – Dulverton Regional Waste Management Authority**

I concluded that Dulverton's financial position is declining due to revenue from operations not meeting its operating and capital requirements. As the four participating councils are its major customers, action is needed by them to address the current deficit and poor cash position.

For 2003-04 and 2004-05 signed financial statements were not received until well after the end of the respective financial years with the result that my audit reports were not issued until 3 June 2005 and 19 April 2006, respectively. I have advised the Board of the need to comply with the legislative timeframe in future.

- **June 2006 Report (this Report) – Aboriginal Land Council**

Under the provisions of the Council's enabling legislation, it must submit financial statements to the Auditor-General for audit by 31 August each year. This timeframe has not been met in recent years and Council has been requested to provide financial statements by the legislative deadline in future.

- **June 2006 Report (this Report) - Clyde Water Trust**

The Clyde Water Trust (the Trust) prepares special purpose financial reports (SPFR). During the 2004-05 audit cycle I completed two audits:

- Of the 2003-04 SPFR which was completed on a cash basis; and
- Of the 2004-05 SPFR which was completed on a modified accrual basis.

During 2003-04 the Trust experienced financial difficulty due to large expenditures on infrastructure development and the need to borrow funds. This led to the Rivers and Waters Commission being appointed as administrator of the irrigation scheme. The financial situation did not significantly change in 2004-05 and the Trust still did not have the cash to pay its outstanding creditors at 30 June 2005.

As noted in its financial statements, the Trust is dependent upon the Commission for its ongoing viability. My 2003-04 and 2004-05 audit reports drew attention to this reliance on the Commission.

In preparation for the 2005-06 audit, a number of recommendations were made to the Trust in order to improve its financial reporting disclosures and corporate governance practices including:

- Preparation of full accrual general purpose financial statements;
- Clear documentation of all liabilities;
- Disclosure of interest owing on advances;
- Depreciation to be included as an expense;
- Disclosure of income and expenditures earned/made on behalf of the Trust which are not recorded in the Trust's accounts; and
- Good corporate governance principles including a record of all decisions made.

Some progress has been made in respect to a business plan, which will eventually see the Trust's assets, liabilities and operations being passed to a new entity. It is understood that this new entity will assume responsibility for the River Clyde Irrigation district and that it will be set up in order to meet contemporary business standards and governance principles.

Timeliness of Financial Reporting by Councils

June 2006 Report (this Report)

The *Local Government Act 1993* requires Councils to provide financial statements to the Auditor-General by 30 September each year. Satisfaction of this requirement facilitates the completion of annual reports and their tabling at annual general meetings to be held by 15 December each year.

I have interpreted the 30 September requirement as one where the financial statements submitted to me for audit must be complete in all respects, including certification by the General Manager. A number of Councils failed to meet this requirement in the 2004-05 financial reporting cycle. They were:

Council	Final Signed Financial Statements Received
Brighton Council	28 October 2005
Flinders Council	22 November 2005
Glamorgan-Spring Bay Council	23 November 2005
Kentish Council	11 November 2005
Sorell Council	25 November 2005
West Coast Council	5 December 2005

I have written to these and all other councils reminding them of these obligations and advising that we are seeking to address this as part of planning 2005-06 audits.

MATTERS IDENTIFIED DURING AUDITS OF ENTITIES WITH 31 DECEMBER 2005 BALANCE DATES

- **June 2006 Report (this Report) University of Tasmania – UTAS Innovations Pty Ltd**

In undertaking the audit of UTAS Innovation Ltd, which is wholly owned by the University, for the year ended 31 December 2005, I issued an unqualified audit report on the financial statements with an emphasis of matter paragraph relating to inherent uncertainty – going concern.

I note the Company reported operating losses for the years ending 31 December 2004 and 2005, totalling $0.250m and $0.126m respectively. In addition, the retained earnings deficit at 31 December 2005 totalled $0.116m. As noted in its financial statements, the Company's ability to continue as a going concern is dependent upon on-going support from the University of Tasmania, which has indicated that it will underwrite the position of this company to a maximum amount of $0.200m.

- **June 2006 Report (this Report) Special Purpose Financial Reports of the Four Port Corporations at 31 December 2005**

The state's four existing port corporations ceased operating on 31 December 2005. Although not legally required to prepare and report final financial results to this date it was agreed with respect of managements that to do so was in the interests of the outgoing boards and of the incoming board of Tasmanian Ports Corporation Pty Ltd (TasPorts). As a result, special purpose financial reports were prepared and our audits thereof were completed which were satisfactory. Significant matters were:

Burnie Port Corporation Pty Ltd

The audit of the special purpose financial report for the six months was completed with satisfactory results. However, without qualification of the audit opinion, the audit report included an emphasis of matter paragraph relating to the Corporation's carried forward tax losses.

As indicated in the special purpose financial report, the future availability of carried forward tax losses was uncertain due to a differing third party tax opinion in respect of the tax implications arising from the receipts in 2000-01 and 2001-02 from a shipping company. The Corporation's position, and the basis upon which the special purpose report was prepared, was based on a Treasurer's Ruling provided by the then Tasmanian Treasurer, which ruled that the shipping company receipts were not assessable for income tax equivalence purposes. The alternative tax opinion questioned the validity of the carried forward tax losses on the basis that the receipts are exempt for taxation purposes and should therefore be applied against any carried forward tax losses. The emphasis of matter paragraph highlighted the uncertainty regarding the tax treatment.

Hobart Port Corporation Pty Ltd

This Port's Property, plant and equipment decreased by $18.773m during the six months to 31 December 2005. The movement is primarily the result of the Corporation returning a number of buildings (including related plant) to the Crown. The return of the assets totalled $19.316m and was made directly against the Corporation's equity balance.

Port of Devonport Pty Ltd

Non-operating expenses for the Port of Devonport for the six months comprised predominantly a $1.613m impairment write-down relating to the Devonport Airport. The profitability of the airport operations has been significantly affected by a downward trend in passenger numbers, which has become increasingly evident in recent periods. This led the Directors to reassess the recoverable amount of the airport assets, with an independent valuation being obtained from the Office of the Valuer-General. This valuation put the fair value of the asset below its carrying amount in the Corporation's balance sheet, meaning that the airport assets were required to be written down to the valuation amount.

The Corporation recorded a profit after tax of $0.328m for the six months to 31 December 2005, compared to a 2004-05 full year profit of $2.278m. The most significant item in this result was the impairment referred to above.

Theatre Royal Management Board

The Board operated at a profit of $0.076m for the 2005 year but continues to remain financially dependent on the State Government.

Anticipated Impact of New Accounting and Auditing Standards

Accounting standards

Previous reports have advised Parliament that Australia was due to adopt international financial reporting standards, and details of preliminary impacts were provided in the Report on 22 November 2005. These accounting standards are now in place and all public sector entities, including councils, are required to comply with them effective 1 July 2005. This includes revising balances and transactions reported at 30 June 2005 onto the new basis.

I expect that, from 1 July 2005, all financial records and reports will be on the new basis. My 2005-06 interim audits are assessing progress with the objective of auditing financial reports at 1 July 2005 prepared on the new basis. This will assist in identifying, at an early stage, any difficulties that public sector entities may be experiencing.

Auditing standards

The Australian Auditing and Assurance Standards Board, which is established under the *Corporations Act 2001* and standards issued by it have the force of law for companies, has issued auditing standards based on international auditing standards. The new auditing standards will be operative for financial reporting periods commencing on or after 1 July 2006. This means that my Office will apply the new standards in audits for the financial year ending 30 June 2007 and for the calendar year ending 31 December 2007.

These changes have affected, and will continue to affect, the way by which my Office, and my contractors, approach audits of public sector entities given that the *Financial Management and Audit Act 1990 (*FMAA) requires me to have regard to recognised professional auditing standards and practices. The new standards broaden the scope of audits, particularly as this relates to the risk of fraud and the levels of audit testing required and this will increase the time that must be devoted to audits and hence the costs thereof.

Audit methodologies applied

Financial audits

The financial audit methodology currently applied by my Office was developed some years ago. It is based on the methodology applied by an international auditing firm and has suited our needs. However, the move to adopting internationally based auditing standards provided the opportunity to review this methodology the outcome of which will be to adopt a public sector specific methodology developed jointly by the Audit Offices of Victoria and Queensland, which is designed to address the requirements of the new auditing standards.

My Office is trialing the new methodology on four audits in the 2005-06 cycle with the objective that it be applied to all audits from 1 November 2006 (2006-07 cycle). Funding to assist with this implementation has been built into my Office's 2006-07 budget submission.

Performance and compliance audits

The methodology applied in conducting these audits complies with Australian Auditing Standards and is to be reviewed as part of the changes referred to above. It is likely that my Performance Audit Business Unit will adopt those aspects of the new methodology relevant to its activities although this has still to be fully assessed.

Audits Dispensed With

Section 41 of the FMAA provides the Auditor-General with the discretion to dispense with certain audits. The section reads as follows:

41. Power of Auditor-General to dispense with audits of certain public bodies

(1) The Auditor-General may dispense with the audit of a particular public body or the audits of public bodies included in a class or category of public bodies if, in the opinion of the Auditor-General, there is sufficient cause to do so.

(2) The Auditor-General may exercise any of the powers and perform any of the duties of the Auditor-General under this Act in respect of the audit of a public body notwithstanding that the audit of that public body has been dispensed with pursuant to subsection (1).

I have interpreted this discretion as requiring that I exercise it annually and prior to 30 June each year. The reason for including this legislative requirement in this Report is to satisfy this requirement. In order to exercise this discretion, I need to ascertain which are the public bodies to which section 41 is referring. Public body is defined in the FMAA as follows:

"**public body**" means –

(a) A State authority; or

(b) A local authority; or

(c) The council, board, trust, trustees or other governing body (however designated) of, or for, a corporation, body of persons, institution, district or place, whose accounts are by law made subject to Part 3, to the repealed Act or to examination by the Auditor-General; or

(d) Any such council, board, trust, trustees or other governing body in receipt of a subsidy or grant-in-aid made by the Crown or a State authority –

And includes the corporation, if any, of which the public body is the governing body.

This is an extremely broad definition and captures, for example, the many entities that receive grant funding from the State Government.

Effective on the date of this Report, I have dispensed with the following specific audits or categories of audits:

Specific audits

Board of Architects
Brittons Swamp Drainage Trust
Cheshunt Drainage Trust
Chiropractors and Osteopaths Registration Board
Davy Point Drainage Trust
Dental Board of Tasmania
Dental Prosthetists Registration Board of Tasmania
Don River Irrigation Water Trust
Egg Lagoon Drainage Trust
Elizabeth Macquarie Irrigation Trust
Forthside Irrigation Water Trust
Lake Nowhere-Else Dam/Whitehawk Creek Irrigation Trust
Lawrenny Irrigation Trust
Lobster Rivulet Drainage Trust
Medical Council of Tasmania
Mowbray Swamp Drainage Trust
Northern Tasmanian Natural Resource Management Association Inc.
Nursing Board of Tasmania
Optometrists Registration Board
Pharmacy Board of Tasmania
Physiotherapists Registration Board
Plumbers and Gasfitters Registration Board
Podiatrists Registration Board
Psychologists Registration Board of Tasmania
Radiographers Registration Board
Richmond Irrigation Trust
Schools Registration Board
Tasmanian Arts Advisory Board
The Southern Natural Resource Management Regional Committee Inc.
Togari Drainage Trust
Tasmanian Land Conservancy Inc.

Steps are being taken by my Office to make contact with these entities in order to ascertain the adequateness of existing financial reporting and auditing arrangements and to confirm whether or not they still operate.

Categories of audits

Those public bodies that receive grant funding from the State Government via its various Departments.

Annual audits of these departments include audit work of their grant programs one objective of which is to ensure that appropriate internal control arrangements are in place for making grant payments and for the acquittal thereof by the public bodies concerned. As a result, separate audits of these entities were not conducted by my Office and I have not specifically dispensed with these audits.

Infrastructure Funds

On 12 April 2005 I tabled Special Report No. 54 which included a section dealing with the State’s Infrastructure Funds. Set out below is an update on transactions made from, and balances in, these funds.

Background

Since the 1995-96 financial year the government has allocated funds under different programs but for the common purpose of improving the State’s infrastructure. This encompassed expenditure targeted at both economic and social areas. The first such initiative in that year was the Structural and Performance Initiatives Program (SPIP).

This was followed in 2001-02 by the establishment of the Infrastructure Fund and in 2002–03 by the establishment of the Social Infrastructure Fund (SIF) that placed emphasis on technical and further education and community renewal projects to improve rural infrastructure.

The establishment of the Economic and Social Infrastructure Fund (ESIF) was a key initiative in the 2003-04 Budget when a total of $107.000m was provided to ensure funding for important economic and social expenditure into the future. The strategy was established to enable the Government to ensure the opportunities around gas, wind, optic fibre, Basslink, the Bass Strait ferries, water developments and other major projects were realised and maximised. Other goals were to facilitate tourism and other development opportunities in Tasmania.

A new fund, the $20.400m Community Health and Well Being Fund (CHWBF), was established in October 2004 (2005-06 Budget Paper No 1 page 156). This fund is administered by the Department of Education (Education) and provides funding for the establishment of additional gymnasium facilities and the redevelopment of multi-purpose rooms to facilitate community use and recreational access.

Collectively these funds are referred to in this Report as Infrastructure Funds with monies from these funds normally provided to Departments by the Department of Treasury and Finance (Treasury) upon receipt of funding applications supported by the relevant Minister. These applications must be approved by the Treasurer. The CHWBF, which is managed and administered by Education is not required to conform to this process.

Budget information

Budget information about these funds is included in annual budget papers as follows:

- 2004-05 budget - Chapter 6 "State Capital Program" in Budget Paper No 1, "Budget Overview 2004-05" - see pages 118 to 145;
- 2004-05 budget – Chapter 4 "Finance General" in Volume 1 of Budget Paper No 2, "Operations of Government Departments 2004-05" – see pages 111 to 118;
- 2005-06 budget - Chapter 7 "Infrastructure Investment" in Budget Paper No 1, "Budget Overview 2005-06" – see pages 149 to 189; and
- 2005-06 budget – Chapter 4 "Finance General" in Volume 1 of Budget Paper No 2, "Operations of Government Departments 2005-06" – see pages 117 to 123. Details of funding using infrastructure monies are also included in individual Departmental chapters of the Budget document.

Findings in Special Report No. 54 relating to reporting

I observed that there was a lack of consistency in reporting infrastructure funding in Departmental annual financial statements and I recommended that these annual financial statements should include details of infrastructure funds received and expended in a clear and consistent manner to improve reporting and accountability.

Responses to this recommendation were followed up during completion of audits of the financial statements of Departments at 30 June 2005, with what I consider to be best practice disclosed by the Department of Tourism, Parks Heritage and the Arts in its Financial Statement for 2004–2005. The Department of Economic Development also achieved a high standard of disclosure. Details are included in Appendix 1. It is recommended that all agencies consider adopting the disclosures as illustrated in Appendix 1.

In making this recommendation, I acknowledge that Departments are complying with the financial disclosure requirements of Australian Accounting Standards and the Treasury model statements.

The Treasury model statements for 2005-06 require an enhanced level of reporting of Infrastructure Funds which satisfies this recommendation.

Transactions and comparison with budget papers – 2004-05

Set out below are tables showing actual movements in these Infrastructure Funds and comparing them with the Budget Papers.

Table 1 Infrastructure fund transactions 2004-05

Fund	Balance at June 04 per Report 54	Actual Payments into Fund	Actual Payments from Fund #	Balance 30-Jun-05 (a)
	$000	$000	$000	$000
Structural and Performance Initiatives Program *	43,169	8,000	- 3,788	47,381
Infrastructure Fund *	6,982	-	-	6,982
Social Infrastructure Fund *	11,520	-	- 6,303	5,217
Economic and Social Infrastructure Fund *	240,866	12,000	- 123,324	129,542
Community Health and Well Being Fund **	-	20,400	- 6,279	14,121
Total	**302,537**	**40,400**	**- 139,694**	**203,243**

* Managed by Treasury via Finance General – see audited Public Account Statements at 30 June 2005 – page 66 and 67.
** Managed by Education – see audited Public Account Statements at 30 June 2005 – page 66.
# As reported in 30 June 2005 audited financial statements (see table 4 below).

Table 2 Infrastructure fund budget comparison for 2004-05

Fund	Balance at June 04 per Report 54 (i)	Budgeted Payments into Fund (ii)	Budgeted Payments from Fund (iii)	Estimated Balance 30-Jun-05 (iv)*	Balance per 2004-05 BP No 1 (b)
	$000	$000	$000	$000	$000
Structural and Performance Initiatives Program	43,169	8,000	- 8,942	42,227	29,243
Infrastructure Fund	6,982	-	- 7,000	- 18	-
Social Infrastructure Fund	11,520	-	- 6,881	4,639	2,800
Economic and Social Infrastructure Fund	240,866	37,000	- 78,739	199,127	115,347
Community Health and Well Being Fund	-	-	-	-	-
Total	**302,537**	**45,000**	**- 101,562**	**245,975**	**147,390**

* Estimated balance – (iv) = (i) + (ii) – (iii)

Comment

In the 2004-05 Budget, the June 2004 budgeted balance was $203.952m. The variation of $98.585m to the actual balance of $302.537m was principally (but not entirely), due to the *Consolidated Fund Appropriation (Supplementary Appropriation for 2003-2004) Act 2004* under which an additional appropriation of $128.450m was made to the Economic and Social Infrastructure Fund (ESIF) late in the financial year, which was not fully expended. Of the budgeted amount of $37.000m to be paid into ESIF, only $12.000m was allocated during the year.

In addition, there is no mention of the Structural and Performance Initiative Program (SPIP) in the 2004-05 Budget Papers and the Community and Health and Well Being Fund (CHWBF) did not exist at the time of the publication of the 2004-05 Budget Papers.

Table 3 Differences between budget and actual for 2004-05

Fund	Balance at June 04 per Report 54	Payments into Fund	Payments from Fund	Balance 30-Jun-05	Differences between Actual and Budget (a) - (b)*
	$000	$000	$000	$000	$000
Structural and Performance Initiatives Program	-	-	5,154	5,154	18,138
Infrastructure Fund	-	-	7,000	7,000	6,982
Social Infrastructure Fund	-	-	578	578	2,417
Economic and Social Infrastructure Fund	-	- 25,000	- 44,585	- 69,585	14,195
Community Health and Well Being Fund	-	20,400	- 6,279	14,121	14,121
Total	**-**	**- 4,600**	**- 38,132**	**- 42,732**	**55,853**

* The numbers in this column represent the difference between column a in Table 1 and column b in Table 2.

Comment

This table represents the differences between tables 1 and 2. A Supplementary Appropriation of $20.400m to the CHWBF late in the financial year contributed to the variance to the budgeted balance. The unspent funds of $14.121m in CHWBF together with unspent funds of $18.138m in the SPIP and $14.195m in ESIF make up most of the unspent balance of $55.853m.

Receipts and Expenditures by Departments

Table 1 above details movements in infrastructure balances for the year ended 30 June 2005 including payments made to Departments totalling $139.694m. Set out in Table 4 are details of infrastructure funds received by individual Departments.

Due to the limited reporting by Agencies relating to expenditures for the year ended 30 June 2005, table 4 details reimbursements paid to Agencies by Treasury relating to Infrastructure Fund projects. The 2004-05 reimbursement figures may not represent actual expenditure incurred by Agencies in 2004-05, as there is a timing difference between project expenditure being incurred and the receipt of the reimbursements.

Table 4 Reimbursements by Treasury

Department	Fund	Amount claimed from fund $'000	Purpose
Economic Development	SIF	131	Premier's Physical Activity Council
Education		700	Managing and Retaining Secondary Students at school.
		300	TAFE Business Skills Development Program
Finance -General		220	Public Liability assistance Program
Health and Human Services		1 099	Dental Health Package
		1 601	Elective Surgery Package
		49	1800 Number 'Our Kids' Program
Infrastructure, Energy and Resources.		135	Road Safety
		300	Mowbray Lights (Equity)
		300	Devonport Lights (Equity)
Justice		10	Domestic Violence
		12	Victim Services Computer Costs
Police and Public Safety		14	Police in College
		44	Crime Prevention Council
Premier and Cabinet		44	North West Coast Resource Centre for Women
Primary Industries, Water and Environment		927	Water Infrastructure
		136	Sullivans Cove (Formerly Price Wharf Development)
Tourism, Parks, Heritage and the Arts		139	Bicentenary Celebrations
		152	George Town – Low Head Pilot Station
		(7)	St Helens Barway
	Total SIF	**6 306**	

Economic Development	ESIF	125	Industry Assistance Program.
		540	Partnership to Jobs Program
		200	Golf Links Tasmania
		500	Catamaran River Bridge
		72	Natural Gas – Facilitation and Marketing
		11 200	Gas Infrastructure (Stage 2A)
		36	New Town oval lighting
		2 000	TasCOLT
		252	Workforce Development Program
		8 000	Northern Tasmania Sports
		1 500	Trial Harbour Road
		60	Moonah and Clarence Sports Centres
		750	Domain Tennis Centre
		200	Circular Head Community Recreation Centre
Education		3 744	Information and Communications Technology (ICT) Strategy
		3599	Increasing Child Care provisions in Schools
		500	Library Resources
		1627	Students with Higher Needs
		230	Dru Point Play Equipment (for Disabled Children)
Health and Human Services		658	Hospital infrastructure
		19 800	Affordable Housing Strategy – Capital Allowance
		3 407	Affordable Housing Strategy – Recurrent Allowance
		2 185	Hospital Equipment
		1 780	Collaborative Centre for Health Infomatics
		295	Oakdale Services

Infrastructure, Energy and Resources		3 277	Roads and Bridge Maintenance
		200	Centre for Ore Deposits and Exploration Studies (CODES)
		450	Race Patrol Film
		375	Dismal Swamp
		600	Woodsdale Road
Police and Public Safety		500	Natural Disaster Mitigation program
		837	Regional Flood Mitigation Program
Premier and Cabinet		20	Bream Creek Show Society
		20	Huon Valley Auxiliary Transport
Primary Industries, Water and the Environment		92	Water Infrastructure
		690	Hobart Waterfront Strategy
Tourism, Parks, Heritage and the Arts		337	Tourism Icon of NW – Highfield House
		4 284	Parks and Heritage
		4 700	York Park
		40	Tourism
		2 210	TT-Line Marketing
		450	Tourism Infrastructure
		5 240	Symmons Plains
		658	TMAGS Archive Collection at Rosny
		329	Cradle Tourism Development Plan
		750	Willow Court
		1 000	Complete Paper Experience (Burnie City Council)
		1 500	Burnie Waterfront Development (Burnie City Council)
		4 916	York Park
		500	The Wonders of Wynyard Exhibition Centre
Treasury		633	Triabunna Call Centre

Finance General		150	Tasmanian Electronic Commerce Centre Broadband Facilitation Project
		915	Telecommunications Project
		1 500	St Mary's Cathedral
		16 000	Elwick Racecourse Development
		6 000	Mowbray Racecourse Redevelopment
		1 000	Maydena Hauler
	Total ESIF [1]	**123 433**	
	IF	**Nil**	
Infrastructure, Energy and Resources	SPIP	1 648	Motor Registry Project
Justice		1 692	Monetary Penalties Enforcement Unit
Treasury		338	Liquor and Gaming Information System
	Total SPIP [2]	**3 678**	
Total Infrastructure Funds		**133 417**	
Add CHWBF as per Table 1		**6 279**	
	Total	**139 696**	

Comment

Notes 1 & **2**: In June 2003-04, a claim for $0.110m with respect to the Motor Registry Project was inadvertently paid from the ESIF Trust Account rather than the SPIP Trust Account. This error was discovered and corrected in the 2004-05 financial year. This amount accounts for the difference between the above table and "Expenditure" figure provided for the ESIF and SPIP in the *Treasurer's Annual Financial Report 2004-05*, and in table 1.

Transactions and Comparison with Budget Papers – 2005-06

Set out below are tables detailing budget information for the Infrastructure Funds for the 2005-06 financial year and details of expenditure to 31 December 2005.

Table 5 2005-06 Budgets

	Budget Opening Balance	Budgeted Receipts	Budgeted Expenditure *	Budget Closing Balance
	$000	$000	$000	$000
SPIP	42,955	2,000	10,074	34,881
IF	7,000	-	4,000	3,000
SIF	4,581	-	4,581	-
ESIF	127,038	25,000	64,242	87,796
CHWBF	9,859		9,859	-
Totals	**191,433**	**27,000**	**92,756**	**125,677**

* Details of projects are recorded in Appendix 2.

Table 6 Transactions and Balances at 31 December 2005

		Closing Balance 30 June 2005 as per Public Account Statements	Payments into Fund Year to Date	Expenditure from Fund Year to Date	Balance
		$000	$000	$000	$000
T807	SPIP	47,381	-	2,081	45,300
T710	IF	6,982	-	-	6,982
T716	SIF	5,216	-	715	4,501
T717	ESIF	129,542	-	9,759	119,783
T720	CHWBF	14,121	-	8,755	5,366
Totals		**203,242**	-	**21,310**	**181,932**

Comment

The Budget is drafted well before the end of the financial year with balances for infrastructure funds established on forward estimates. The closing budgeted balance of $147.390m (see table 2) for the 2004-05 year does not equate to the Opening Budgeted balance of $191.433m for 2005-06 due to these balances being forecast.

Structural and Performance Initiatives Program

Budgeted expenditure of $10.074m includes budgeted capital expenditure of $9.780m. The remaining $0.294m represents budgeted recurrent expenditure. Details are noted in Appendix 2.

Infrastructure Fund

Whilst there is no budgeted capital expenditure from the IF in 2005-06, $4.000m will be provided from the IF as a Grants and Transfer payment for the Meander Dam project. Funding for the Meander Dam project was completed in 2005-06, rather than the 2006-07 date estimated in the 2005-06 Budget. As the Meander Dam is the last remaining project in the 2001-02 Infrastructure Fund, the Fund will be fully expended in 2005-06. Details are noted in Appendix 2.

Social Infrastructure Fund

The portion of SIF allocated for capital works was announced in the 2002-03 budget as $14.200m, but was increased by $2.000m through an additional allocation. There is no budgeted capital expenditure from this fund in 2005-06, the balance of the fund is to be utilised on recurrent expenditure. Details are noted in Appendix 2.

Economic and Social Infrastructure Fund

The ESIF will continue to be a significant mechanism for advancing the Government's key initiatives in 2005-06 and over the Forward Estimates period. The major thrust of the ESIF includes projects assisting economic development and social infrastructure. The capital projects funded from the ESIF are additional to projects funded from the Capital Investment Program (CIP). The 2005-06 budgeted appropriation for the ESIF was $25.000m. The estimated capital expenditure from the ESIF in 2005-06 is $19.380m and the estimated recurrent expenditure is $44.862m. Details are noted in Appendix 2.

Community Health and Well Being Fund

In 2005-06, $9.745m will be allocated from the Community Health and Well Being Fund for capital expenditure out of a total budgeted expenditure of $9.859m. Therefore, $0.014m represents budgeted recurrent expenditure. Details are noted in Appendix 2.

The Secretaries of the following Departments have commented:

Department of Economic Development

In regard to the recommendation that all Agencies consider adopting the disclosures made by the former Department of Tourism, Parks, Heritage and the Arts (DTPHA), this Department fully complies with the model statements issued by the Department of Treasury and Finance (Treasury) for financial reporting. The current disclosures of the Department's *transactions for Infrastructure Funds comply with these model statements and are reasonably similar to the disclosures by the former DTPHA.*

This Department would suggest that any changes to disclosure requirements be actioned through Treasury amending the model statements. The Department would then comply with any changes made to the model statements.

Department of Infrastructure, Energy and Resources

The Department will consider using the disclosures set out in Appendix 1 of the report taking into account the materiality of the transactions and consistency of the suggested disclosures with all other disclosures in the Department's financial statements.

Department of Education

With reference to your comments about a lack of consistency in reporting infrastructure funding in Departmental financial statements, I wish to advise that DOE follows the requirements outlined by Treasury each year in the Model Financial Statements. I understand that your Office is involved in the formulation of these Model Financial Statements which Agencies are required to utilise. Accordingly, I consider it important that your report reflects this agreed process.

Department of Police and Public Safety

Whilst not a concern, I feel that the prescriptiveness of reporting in proposed form (ie based on model Department) may be best addressed through appropriate inclusion within Treasury model financial statements (model Department could be used as basis for development).

Department of Treasury and Finance

The disclosures provided by the Departments in their 2004-05 Annual Reports were based on the requirements of the Model Departmental Financial Statements (Model Statements). At that time, 2004-05 Model Statements included a narrative outline of the information to be included with respect of Infrastructure Fund disclosures. The 2005-06 Model Statements, finalised in October 2005, have been updated to include an example of the specific disclosures required for Infrastructure Funds, thereby clarifying the expectations regarding disclosure. The Auditor-General was consulted as part of the development of the 2005-06 Model Statements. Compliance with the Model Statements is compulsory, allowing the Auditor-General to ensure, as part of the audit process, that agencies provide the required information.

Appendix 1 To Infrastructure Funds

Department of Tourism, Parks, Heritage and the Arts - Disclosure in Notes to its Financial Statements 2004-2005

4.2 Revenue from Special Capital Investment Funds

Funding for major infrastructure projects is provided through Special Capital Investment Funds managed by the Department of Treasury and Finance. The Department is allocated funding for specific projects from the Special Capital Investment Funds as part of the Budget process.

	2005 Actual $'000	**2005 Original Budget $'000**	**2004 Actual $'000**
Economic and Social Infrastructure Funding	27,198	**0**	12,937
Total	**27,198**	**0**	**12,937**

No Budget Figures are shown for ESIF for 2005 as they were not reported on in the Department's 2004-05 Budget Papers.

5.3 Grants and Subsidies

	$000	**$000**
Economic and Social Infrastructure Fund Grants	20,028	3,871
Major Events Grants and Assistance	3,328	2,724
Museum and Art Gallery Grants	1,334	1,303
Sundry Arts Grants and Loans	1,813	2,445
Tourism Development Assistance	1,676	1,560
Other Grants	920	400
	29,099	**12,303**

10.3 Acquittal of Capital Investment Program and Economic and Social Infrastructure Fund

The Works and Services Appropriation received during the year has been for the purpose of funding a number of specific projects. The Department also received funding for projects under the Economic and Social Infrastructure Fund.

Expenditure on these projects, on a cash basis, is listed below. Budget figures are not shown for the Economic and Social Infrastructure Fund, as they are not reported by Agency in the 2004-05 Budget Papers.

	2005 Original Budget	2005 Actual	2004 Actual
Project Expenditure			
Capital Investment Program			
Cradle Mountain Infrastructure	0	0	844
Building Service Maintenance	0	0	101
King Solomon Cave	0	0	142
Wellington Park Pinnacle Zone Development	0	0	30
			101
Building Services Maintenance	101	101	
Total	**101**	**101**	**1,218**
Economic and Social Infrastructure Fund Continuing Projects			
Cradle Tourism Development Plan	0	382	31
Highfield House	0	294	304
Bicentenary Celebrations	0	109	659
George Town-Low Head Pilot Station	0	182	838
TT Line Marketing	0	2,014	3,186
Parks and Heritage Infrastructure	0	4,310	3,732
York Park Stadium Roof	0	0	2,500
York Park Upgrade	0	4,916	1,100
Acquittal of Capital Investment Program and Economic and Social Infrastructure Fund New Projects			
Tourism Marketing*	0	39	961
Tourism Infrastructure	0	479	0
Symmonds Plains	0	5,240	0
York Park Redevelopment	0	4,700	0
TMAG Archive Relocation	0	664	0
Wonders of Wynyard	0	500	0
Willow Court	0	750	0
Burnie Waterfront	0	1,500	0
Complete Paper Experience	0	1,000	0
Total	**0**	**27,079**	**13,311**

* Comparative amended to correct incorrect allocation

Appendix 2 to Infrastructure Funds

Budgeted Expenditure For Infrastructure Funds 2005-2006*

* Budgeted Estimates are original Budget Estimates as per the 2005-06 Budget Paper

	Agency	Project	$'000s
CHWBF	**Education**	Various projects relating to developments of multi purpose rooms, redevelopment of general learning areas, new gymnasiums and grounds redevelopment and landscaping at various schools	9 859
		Total Budgeted Allocation CHWBF	**9 859**
IF	**Department of Primary Industries, Water and Environment**	There has been no allocation to this fund this year. An amount of $7m was provided in 2001-02 for the Meander Dam project. Funding for the Meander Dam project was completed in 2005-06, rather than the 2006-07 date estimated in the 2005-06 Budget. As the Meander Dam is the last remaining project in the 2001-02 Infrastructure Fund, the Fund will be fully expended in 2005-06.	4 000
		Total Budgeted Allocation IF	**4 000**
SIF	**Health and Human Services**	There has been no allocation to this fund for 2005-06. There is also no capital expenditure project anticipated during 2005-06. The balance of the fund is expected to be spent on the following recurrent projects:	
		Community Renewal Program	148
		Dental Health Package	2 350
		Elective Surgery Package	1 558
	Infrastructure, Energy and Resources	Road Safety	525
		Total Budgeted Allocation SIF	**4 581**
ESIF	**Finance-General**	Telecommunications Project - continued advancement of this project.	2 742
		Main Street Makeover Initiative	2 000
		Maydena Hauler	2 000
	Treasury	Tasmanian Electronic Commerce Centre Broadband Facilitation Program	150

	Tourism, Parks, Heritage and the Arts	Cradle Coast Tourism Development Plan	369
		Parks and Heritage	429
		Tourism Infrastructure	2 500
		Tourism Marketing	2 000
		Tasmanian Museum and Art Gallery	770
	Economic Development	Gas Infrastructure	10 712
		Industry Assistance Program	1 000
		Workplace Development Program	200
		Partnership to Jobs Program	1 361
	Education	Information and Communication Technology Strategy	7 870
		Students with Higher Needs	3 160
	Health and Human Services	Affordable Housing Strategy	14 700
		Hospital Infrastructure Projects	302
		Collaborative Centre in Health Informatics	2 991
	Infrastructure, Energy and Resources	Centre for Ore Deposits and Exploration Studies (CODES)	200
		Roads and Bridge Maintenance	6 900
		Swansea Streetscape	100
	Primary Industries, Water and Environment	Living Environment Initiative	886
		Coles Bay Water and Sewerage	400
		Water Infrastructure	500
		Total Budgeted Allocation ESIF	**64 242**
SPIP	**Infrastructure, Energy and Resources**	Motor Registry Project	7 500
	Justice	Monetary Penalties Enforcement Project	2 574
		Total Budgeted Allocation SPIP	**10 074**
	Total Budget Outflows		**92 756**

Ministerial Departments

INTRODUCTION

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

Government departments are those listed in Schedule 1 of the SSA.

This part of the Report provides information on Government departments.

The financial results discussed are derived from the accrual segments of the full audited financial statements that include cash and accrual components. The reporting framework for departments is prescribed by Treasurer's Instructions issued under the FMAA and the requirements of Australian Accounting Standard AAS 29, 'Financial Reporting by Government Departments.' Full (unabridged) financial statements are required to be published as part of Government departments' annual reports to Parliament by 31 October following the end of the financial year; at which time they become public documents.

At the time of publication of my November 2005 Report, the audits of all Departments had been completed. However, this Report includes analysis and commentary for:

- The Department of Health and Human Services (consolidated financial results);
- Housing Tasmania; and
- The Tasmanian Ambulance Service,

which were not complete at the time of my November 2005 Report.

Department of Health and Human Services

INTRODUCTION

The Department of Health and Human Services (DHHS) provides integrated services in the areas of health, housing, ambulance, and community services to people in Tasmania. These services are provided through the following output groups:

- Community, Population and Rural Health – the Department delivers individual services in community settings to people who require disability services, mental health services, palliative care services, aged care services, oral health services, alcohol and drug services, cancer screening and control, and rural and community health services. The Public and Environmental Health Service provides promotion, screening, and information to prevent illness. It also provides a monitoring and protection role for the Tasmanian community;
- Children and Families – services are directed towards improving the safety and well being of individuals, children, young people and families. This includes providing crisis support and accommodation, sexual assault and domestic violence support services, alternate care services for children who are unable to live with their families, adoption and information services, and supervision, support and custodial services for young offenders;
- Hospitals and Ambulance Service – a wide range of specialist hospital based treatment and care is provided through the State hospital system. The Tasmanian Ambulance Service provides emergency ambulance care, rescue and transport services; and
- Housing Services – the major focus is to ensure that low income Tasmanians have access to adequate, affordable, appropriate and secure housing options. In addition to the provision of public housing, low income Tasmanians may be provided with financial assistance to access or maintain housing in the private rental market or be assisted to purchase their own home through the Home Ownership Assistance Program (HOAP).

The Tasmanian Ambulance Service and Housing Tasmania also operate and report under their own legislation. Issues relating to these entities are briefly noted in this section of my report, with greater detail separately disclosed in the sections that follow. Commentary on the following pages as it relates to the Department is on the consolidated results.

The Portfolio Minister is the Minister for Health and Human Services.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Financial statements of the Department were received on 15 August 2005. Revised statements were received on 19 October 2005 and an unqualified opinion was issued on the same day. Without qualification to the opinion expressed, an ***emphasis of matter*** was included drawing attention to the valuation of Housing Tasmania dwelling stock. This also applied to the Housing Tasmania opinion. Further details are provided later in this summary.

The financial statements of the Tasmanian Ambulance Service were received on 19 October 2005. An unqualified opinion was issued on the same day.

Housing Tasmania and HOAP financial statements were received on 15 August 2005. Final revised statements for both entities were received on 19 October 2005 and an unqualified audit report was issued on the same day.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Recurrent Appropriation	842 051	756 335	707 180	675 833	631 495
Capital Appropriation	26 714	19 780	22 813	17 424	28 101
Commonwealth Grants	23 413	21 250	21 667	18 357	14 975
State Grants	28 910	10 806	1 581	0	0
Patient User Charges	73 188	62 024	48 411	48 762	37 642
Tenant and Dwelling User Charges	48 589	47 918	47 471	47 338	47 137
Other operating revenue	25 138	24 335	41 402	32 382	29 963
Non-operating revenue	4 692	24 222	31 640	29 181	17 622
Total Revenue	**1 072 695**	**966 670**	**922 165**	**869 277**	**806 935**
Employee expenses	577 649	495 734	463 418	442 497	424 816
Goods and Services	119 438	107 124	94 339	85 970	85 230
Grants and Subsidies	123 816	123 274	128 747	120 725	110 620
Depreciation	39 762	28 453	25 196	24 246	24 927
Borrowing costs	12 324	13 459	14 027	14 564	15 512
Administration	50 961	43 569	40 777	40 632	39 098
Other operating expenses	140 174	121 308	125 534	112 929	106 572
Non-operating expenses	5 620	19 097	50 952	47 637	21 705
Total Expenses	**1 069 744**	**952 018**	**942 990**	**889 200**	**828 480**
Result from Ordinary Activities	**2 951**	**14 652**	**(20 825)**	**(19 923)**	**(21 545)**

Comment

Over the period of review there have been significant increases in the Department's Recurrent Appropriation in line with the Government's commitment to maintaining the level of health services within the State.

The rise in recurrent revenue in 2004-05 represents an $85.716m increase over 2003-04, which is substantially more than that received in any other year. There has been a considerable increase in funding across a number of key areas, (eg. hospitals, mental health, disability services and children and families) to improve delivery of health services across the State. A significant portion of this increase is to fund the provision of improved staffing levels (eg. doctors, specialists and dentists) and to meet increments in awards including the frontline staff of medical practitioners, nurses and other community health workers.

Capital appropriations include funding for Hospital and Housing Infrastructure. Appropriations have remained reasonably consistent over the period. Hospital funding in 2004-05 continued the redevelopment of Multi-Purpose Services within rural areas and commencement of the redevelopment of the Department of Emergency Medicine at the Royal Hobart Hospital. Capital funding for Housing was the most significant increase in 2004-05 with funding from the State and the Commonwealth under the Commonwealth State Housing Agreement increasing by $3.576m over 2003-04.

In addition to the above funding the Department also received funding under the Economic and Social Infrastructure Fund (ESIF) and Social Infrastructure Fund (SIF) in 2004-05 ($28.910m) and in 2003-04 ($10.806m). The increase in 2004-05 was primarily due to additional funding under the Affordable Housing Strategy of $23.207m compared with $0.593m in 2003-04.

Patient User Charges include inpatient, outpatient, ambulance, private patients and nursing home fees. Increased fees from inpatients were a key driver in 2001-02 and 2003-04. A noticeable rise also occurred in private patient revenue in 2004-05. The strongest increases in 2004-05 over the prior years were in private patients (up $5.871m) and the sale of prostheses (up $1.230m).

Rentals from dwelling tenants and other associated charges remained reasonably consistent over the period. The modest increase in 2004-05 was due to a combination of a slightly higher occupancy rate, a small rise in stock levels and minor increases in rents payable.

Other operating revenue included interest from borrowers and cost recoveries for salaries and wages, food and other items. In 2002-03 this item also included the addition of $10.951m in assets identified during a partial stock-take review performed during that year.

Non-operating revenues comprised chiefly proceeds from asset disposals. In 2001-02 this item also included the recognition of Community Housing Stock of $12.185m not previously brought to account by Housing Tasmania. The increases in 2002-03 were due to higher than anticipated proceeds derived from greater activity in Housing Tasmania’s capital sales program. Housing Tasmania’s gross proceeds totalled $30.954m in 2002-03. This program was reduced in 2003-04 and effectively halted in 2004-05.

Increases in funding correlates with the acquisition of goods and services and other operating costs. Employee costs generally moved in line with employee numbers. Increases in the provision of services, wage rises and resultant increases in leave provisions occurred throughout the period under review. Employee costs are up $152.833m over the period or 36%. Employee numbers are up 858 FTE's or 13% and average salary costs increased by 21%.

Grants and subsidies comprise the provision of grants to non-government organisations, private rental assistance and the procurement of inpatient services under the Mersey Community Hospital agreement. Over the period of review grant payments have generally increased due to general indexing for inflationary purposes and a modest increase in grants paid. Significant grant increases occurred in 2001-02 ($8.882m), 2002-03 ($5.298m) and 2004-05 ($8.057m). The purchase of inpatient services at the Mersey Community Hospital was terminated during 2004-05.

The large increase in Depreciation expense in 2004-05 of $11.309m or 40% is primarily due to substantial revaluation of dwelling stock within Housing. The increase for the Department excluding Housing was $1.430m, which including revaluations and minor additions.

Administration costs have risen over the period due to a number of factors. One of the main drivers relates to the costs of leasing and operation of information technology equipment. These have grown by $5.786m over the period. Other notable components that also increased over this period include motor vehicle expenses ($2.458m), consultants ($2.090m), office requisitions ($2.047m) and communication expenses ($1.192m).

Non-operating expenses included the carrying amount of asset disposals for each year under review. In 2001-02 assets to the value of $47.637m were disposed of realising $16.996m. The loss on disposal of $30.641m for the year included a loss of $20.820m on the sale of the Royal Derwent Hospital. Housing Tasmania's loss on sale of assets was $7.539m. In 2002-03 assets to the value of $50.952m were disposed of realising $31.640m. This included $36.916m in Housing Tasmania assets and $13.918m in Health assets written off as part of a major stock take. The overall loss on disposal for the year was $19.312m with $9.400m relating to Housing Tasmania. In 2003-04 the majority of the balance relates to Housing with $17.712m of stock sold at a gain on disposal of $2.453m. 2004-05 saw a winding back of the Housing sales program.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	81 922	97 808	81 222	54 061	32 015
Receivables	17 218	14 724	13 191	10 046	8 318
Loan Advances	10 026	13 214	18 306	10 261	10 992
Inventories	7 618	6 171	5 894	5 680	5 553
Other	187	757	262	124	368
Total Current Assets	**116 971**	**132 674**	**118 875**	**80 172**	**57 246**
Property, plant and equipment	1 953 882	1 193 781	1 035 140	1 036 751	1 075 559
Loan Advances	18 115	26 753	37 138	53 976	60 025
Other	315	347	236	281	388
Total Non-Current Assets	**1 972 312**	**1 220 881**	**1 072 514**	**1 091 008**	**1 135 972**
Payables	16 127	20 298	18 898	17 252	20 256
Borrowings	14 282	24 085	35 384	43 895	49 759
Provisions	55 117	50 563	46 847	42 693	39 508
Other	42 214	28 002	41 361	35 489	25 883
Total Current Liabilities	**127 740**	**122 948**	**142 490**	**139 329**	**135 406**
Borrowings	247 833	258 344	263 629	268 694	273 549
Provisions	62 554	61 526	60 231	60 686	56 105
Total Non-Current Liabilities	**310 387**	**319 870**	**323 860**	**329 380**	**329 654**
Net Assets	**1 651 156**	**910 737**	**725 039**	**702 471**	**728 158**
Capital	6 094	6 094	6 094	6 094	6 094
Reserves	1 159 408	421 265	250 527	205 262	214 832
Retained surpluses	485 654	483 378	468 418	491 115	507 232
Total Equity	**1 651 156**	**910 737**	**725 039**	**702 471**	**728 158**

Comment

Departmental cash has increased over the period of the review. For accounts relating to DHHS the largest increases between 2000-01 and 2004-05 occurred in the general operating account, patient trust and hospital bequest and funding for the Royal Hobart Hospital (RHH) redevelopment. The operating account increased by $15.382m from $21.848m in 2000-01 to $37.230m in 2004-05. The patient trust and hospital bequest account increased by $5.221m from $4.326m in 2000-01 to $9.546m in 2004-05. In 2003-04 the Department received $5.079m for the RHH redevelopment and this amount remains in the 2004-05 total.

The cash balance in 2001-02 included $12.303m of income received in advance. The higher level of cash from 2002-03 to 2004-05 is also due to monies received from assets sales relating to Housing Tasmania's operations. These are committed funds held for future specific purchases and projects. 2004-05 saw the commencement of a number of Housing projects leading to the reduction in cash in that year.

Receivables have grown steadily over the period of review in line with an increased provision of services. Follow-up of outstanding debtors is an area about which I have raised concerns with management over recent years. Although management have taken initial steps to address this, examination of receivables ledgers indicate significant collection problems still need to be resolved. The increase in 2004-05 was primarily due to higher refunds due from the Department of Veteran Affairs $1.277m and GST receivable $1.226m.

Property, plant and equipment decreased in 2001-02 ($38.808m) predominantly due to the sale of the old Royal Derwent Hospital complex. Other than normal additions, depreciation and asset revaluations in that year, there was also the recognition of Community Housing properties comprising 456 properties with a total value of $20.218m. These properties are operated by community organisations throughout the State. Of these properties 199 remain in the title of the "Director of Housing" with a total value of $12.186m, which were brought to account as a revenue item. The remaining properties are held as a Contingent Asset and will be recognised as revenue should the properties be sold. Non-rental dwellings are currently valued at $39.986 with contingent assets valued at $27.676m (2004-05).

As a result of a revaluation of rental dwelling stock at 30 June 2004, Property plant and equipment increased by $170.738m. This is reflected in the Asset Revaluation Reserves within Equity.

During 2004-05 both the Department's housing stock and other Departmental property were re-valued. A valuer was engaged to value Departmental buildings and hospitals, whilst values from the Valuer-General were applied to housing stock. As no housing properties were re-valued by the Valuer-General during the year, this resulted in a material proportion of stock having not been re-valued since 1995-96. These delays in valuation were noted in an emphasis of matter included in the audit report. This is further discussed in the overall comments below. The revaluation increase to Property, plant and equipment in 2004-05 was $738.143m of which $649.952 related to dwelling stock. This increase is also reflected in the Asset Revaluation Reserve within Equity.

Borrowings declined over the period with reductions of $10.719m in 2001-02, $13.576m in 2002-03, $16.584m in 2003-04 and $20.314m in 2004-05. Borrowings relate solely to Housing Tasmania. The largest reduction occurred within the HOAP debt portfolio with the remaining 2004-05 balance predominately comprising long term State and Commonwealth loans at low interest rates.

Over the period of review provisions have steadily risen chiefly due to DHHS being a highly labour intensive Department, combined with general rises in wages and employee numbers.

The main increases in provisions for 2001-02 were in annual leave, up $2.701m to $33.486m and long service leave, up $3.191m to $52.922m. Leave provisions continued to rise in 2002-03, with annual leave increasing $4.098m to $37.584m, partly due to a change in the applicable Australian Accounting Standard (AASB 1028, Employee Benefits). Effective 2002-03 this standard required benefits to be disclosed at prospective rates with allowance for future wage increases. An amount of $1.470m was identified as the resulting increase.

At the end of 2003-04 leave provisions increased by a further $5.011m, with annual leave again the main contributor rising by $2.702m on the prior year. In 2004-05 increases in both annual leave, $2.442m, and long service leave, $2.474m, combined with a previously omitted $1.084m in development leave under the *Salaried Medical Practitioners Industrial Agreement 2003*, resulting in an overall increase of $5.528m.

The average annual leave per employee on a FTE basis has increased from $4 515 in 2000-01 to $5 284 in 2004-05, whilst the average long service leave per employee has remained reasonably stable, with a slight decline from $7 293 in 2000-01 to $7 195 in 2004-05.

CASH POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Revenue from Government	874 875	770 074	733 829	705 560	659 596
Commonwealth grants	52 323	21 250	21 667	18 356	14 975
Receipts from customers	178 822	174 946	157 414	156 785	137 790
Payments to suppliers and employees	(1 039 415)	(922 514)	(868 009)	(832 134)	(773 262)
Borrowing costs	(12 226)	(13 271)	(14 507)	(14 866)	(15 458)
Cash from operations	**54 379**	**30 485**	**30 394**	**33 701**	**23 641**
Net proceeds from loan advances	11 912	15 243	8 970	6 049	1 803
Payments for property, plant and equipment	(66 555)	(35 340)	(23 896)	(27 429)	(34 714)
Proceeds from sale of property, etc	4 692	22 398	27 098	16 250	17 622
Cash used in investing activities	**(49 951)**	**2 301**	**12 172**	**(5 130)**	**(15 289)**
Proceeds from borrowings	61 470	117 179	137 459	224 523	194 536
Repayment of borrowings	(81 784)	(133 379)	(152 865)	(231 048)	(200 251)
Cash from financing activities	**(20 314)**	**(16 200)**	**(15 406)**	**(6 525)**	**(5 715)**
Net increase in cash	**(15 886)**	**16 586**	**27 160**	**22 046**	**2 637**
Cash at the beginning of the period	97 808	81 221	54 061	32 015	29 378
Cash at end of the period	**81 922**	**97 808**	**81 221**	**54 061**	**32 015**

Comment

The Department continued to receive additional appropriations over the period to meet increasing payments to suppliers and employees. Receipts from customers also increased, reflecting higher user charges and the provision of a greater number of services over the period.

Borrowing costs continued to decline in-line with reductions in the total borrowings portfolio. A notable cause is the reduction in loans funding the HOAP. This declined from a portfolio of $50.105m in 2000-01 to $8.769m in 2004-05. This repayment of borrowings by DHHS is also evident in the net cash outflows from financing activities over the period.

Payments and proceeds related to Property, plant and equipment are primarily transactions initiated by Housing Tasmania. Payments for the acquisition of assets for Housing Tasmania declined in first three years from $26.020m in 2000-01, to $15.215m in 2001-02, to $14.772m in 2002-03. DHHS payments averaged $10.011m over the same period. In 2003-04 a reversal of the trend in Housing began with $18.392m and then $50.475m in 2004-05 spent on capital projects. During these years the Department's purchases were $16.080m and $16.948m respectively, the largest components being for medical equipment and buildings including multi purpose district hospitals. In 2004-05 this included Magnetic Resonance Imaging (MRI) equipment and 2003-04 included Computerised Topographical (CT) scanners.

Over the period shown cash holdings steadily increased. Positive returns from operations have aided this result. A major component and reason for fluctuations relates to proceeds received from the sale of properties within Housing. Year-end balances contain substantial Housing funds committed for specific purchase and development projects.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		3 879	9 527	(1 513)	(1 467)	(17 462)
Operating margin	>1.0	1.00	1.01	1.00	1.00	0.98
Financial Management						
Debt collection	30 days	43	40	35	29	26
Creditor turnover	45 days	23	32	42	45	52
Other Information						
Staff numbers FTEs		7 677	7 251	7 074	6 964	6 819
Average staff costs ($'000s)		75	68	66	64	62
***Hospital Statistics** (unaudited)						
Department of Emergency Medicine Presentations		103 540	84 314	83 007	85 296	80 808
Outpatient Department - Occasions of Service		734 203	694 637	670 812	648 939	n/a
Admitted Patients -Weighted Separations		89 929	83 029	82 666	83 035	79 504

*For the first time in this report I have included some operational statistics in the key area of hospital activity.

Comment

The Department's operating result fluctuates markedly from year to year due to the nature of its activities - health related services primarily funded by appropriation and housing related services primarily funded from rentals and housing sales. Despite this, the overall result is close to the benchmark of 1.0. Although this includes capital appropriations and state grants.

Increasing receivables over the period raised the debt collection ratio. Despite increasing goods and services costs and higher operating expenditure over the five years under review, the Department contained growth in creditors indicating more timely payments to suppliers.

As noted previously employee numbers increased over the last four years in line with increased funding for Government initiatives.

Hospital statistics indicate a rise in the provision of services across the period. All three statistics include activity from the Mersey Campus of the North-West Regional Hospital (NWRH) from 1 December 2004. Thus these indicators are not completely comparable with prior years. Department of Emergency Medicine and Outpatient Services are based on the number of people presented. Admitted Patients is an activity measure that highlights admissions at each hospital, weighted by the complexity of their treatment or medical condition. Hospital statistics provided by the Department are unaudited and only partly reflect Departmental activity.

ADDITIONAL FINANCIAL INFORMATION

Administered Transactions

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

Administered Revenues and Expenses

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Recurrent Appropriations	20 502	11 214	12 610	10 176	10 433
Commonwealth grants	85 602	81 356	80 677	78 911	75 999
User charges, fees and fines	0	0	0	0	4 917
Other operating revenue	0	0	0	0	270
Total Revenue	**106 104**	**92 570**	**93 287**	**89 087**	**91 619**
Grants and subsidies	0	0	0	0	203
Other operating expenses	20 414	11 381	12 847	10 167	16 720
Total Expenses	**20 414**	**11 381**	**12 847**	**10 167**	**16 923**
Result from operations	**85 690**	**81 189**	**80 440**	**78 920**	**74 696**
Transfer to Consolidated Fund	85 602	81 356	80 677	78 911	75 999
Net Result from Operations	**88**	**(167)**	**(237)**	**9**	**(1 303)**

Comment

Recurrent appropriations comprise a Community Service Agreement (CSA) with Aurora Energy Pty Ltd across the period and ex-gratia payments for 2004-05. These are also shown in the table as other operating expenses.

The CSA with Aurora Energy Pty Ltd is for the provision of pensioner concessions, to approximately 64 500 Tasmanian pensioners. In 2002-03 the Government announced the extension of this agreement by including eligible Health Care Card Holders for the two winter quarters from 1 July 2003.

Recurrent appropriations in 2004-05 include $8.628m in ex-gratia payments under the Listen to the Children program for adults who were abused as children whilst in state care.

Commonwealth grant funds are transferred to the Consolidated Fund for later appropriation. Over the last five years the largest increases have been in relation to Home and Community Care (HACC) from $14.673m in 2000-01 to $20.307m in 2004-05, and Disability Services from $15.563m in 2000-01 to $19.520m in 2004-05.

Other larger items for 2004-05 included funding under the Commonwealth State Housing Agreement (CSHA), $24.613m, Support Accommodation Assistance Program (SAAP), $7.324m, and the High Cost Drugs grants, $9.899m.

In 2001-02 the Department reviewed its classification of administered and controlled items in line with a Treasurer's Instruction. As a result a number of activities were transferred from administered to controlled. These included transactions in the Private Patient Scheme, research accounts, donation accounts and other special purpose accounts. Due to this change there are no items shown for User charges, fees and fines, Other operating revenue or Grants and subsidies expenditure from 2001-02 onwards.

Administered Assets and Liabilities

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	0	0	0	0	4 359
Total Current Assets	**0**	**0**	**0**	**0**	**4 359**
Payables	2 820	2 908	2 741	2 505	2 547
Borrowings	0	0	0	0	365
Other	0	0	0	0	4 359
Total Current Liabilities	**2 820**	**2 908**	**2 741**	**2 505**	**7 271**
Borrowings	0	0	0	0	0
Total Non-Current Liabilities	**0**	**0**	**0**	**0**	**0**
Net Assets	**(2 820)**	**(2 908)**	**(2 741)**	**(2 505)**	**(2 912)**
Accumulated deficits	(2 820)	(2 908)	(2 741)	(2 505)	(2 912)
Total Equity	**(2 820)**	**(2 908)**	**(2 741)**	**(2 505)**	**(2 912)**

Comment

Administered borrowings related to the employee rationalisation program, which were fully repaid. Cash represented the balance of various trust accounts, which were offset by Other liabilities. These items were reclassified to controlled transactions from 2001-02, as mentioned previously.

The payables balance represents the accrued CSA payable to Aurora Energy Pty Ltd for pensioner discounts due at year-end.

Administered Cash Flows

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Revenue from Government	20 502	11 214	12 610	10 176	10 433
Commonwealth grants	85 602	81 356	80 677	78 911	75 999
Receipts from customers	0	0	0	0	4 917
Other cash receipts	0	0	0	0	270
Grants and subsidies	0	0	0	0	(203)
Other Cash Payments	(20 502)	(11 214)	(12 610)	(10 176)	(13 990)
Transfers to Consolidated Fund	(85 602)	(81 356)	(80 677)	(78 911)	(75 998)
Cash from operations	**0**	**0**	**0**	**0**	**1 428**
Transfers to Consolidated Fund	0	0	0	(4 359)	(544)
Cash from financing activities	**0**	**0**	**0**	**(4 359)**	**(544)**
Net increase/(decrease) in cash	**0**	**0**	**0**	**(4 359)**	**183**
Cash at the beginning of the period	0	0	0	4 359	4 176
Cash at end of the period	**0**	**0**	**0**	**0**	**4 359**

Comment

The 2000-01 figures contain the various trust fund monies that are now treated as controlled transactions as mentioned earlier. Revenues from Government represented appropriation for payments to Aurora Energy Pty Ltd for pensioner discounts.

Commonwealth Grants increased slightly over the period shown. In 2001-02 the main increases were in HACC $1.187m, and Disability Services $2.037m. 2002-03 saw a further increase in HACC of $1.443m, an increase in the High Cost Drugs funding of $1.017m and a decline in the funding under the Commonwealth State Housing Agreement (CSHA) ($1.096m). In 2003-04 the main movements contained a continued increase in HACC of $1.440m, Disability Services $2.426m and High Cost of Drugs funding $0.559m. These were slightly offset by a reduction in funding under the CSHA ($1.908m) and the cessation of funding for Blood Transfusion Services ($2.001m), which is now handled by the National Blood Authority. The increase in 2004-05 was from a rise in High Cost of Drugs funding $3.150m and HACC $1.564m, offset by a slight decline in funding for Disability Services of $0.506m.

OVERALL COMMENT

The 30 June 2003 and 30 June 2005 audit reports both included an “emphasis of matter” paragraph in each of the Departmental financial statements and Housing Tasmania’s financial statements. Both were concerned with the valuation of dwelling stock. The 30 June 2003 paragraph was concerned with the inherent uncertainty at the continued sale of properties at losses below carrying value. The 30 June 2005 paragraph was concerned with valuations not being sufficiently up to date. Quality and management control issues were also noted. These issues are discussed in greater detail in the following chapter on Housing Tasmania.

As noted earlier receivables are an area of concern in that the Department is slow to collect outstanding debts. Whilst a slight decline was noted in corporate debtors, as at 30 June 2005 there were over 9 700 accounts dating back prior to 30 June 2003 with a value of $2.120m. The majority of these relate to the Tasmanian Ambulance Service where there were in excess of 3 650 accounts, with a value of $1.710m. A significant portion of these debtors may eventually be written off.

Concerns were raised over the methodology and processes surrounding the reconciliation of the payroll advance account. The approach employed by the Department is being reviewed by management to improve internal weaknesses and comply with Treasurer’s Instruction 401 concerning bank reconciliations.

During the review of payment processes, procedural problems were observed in the operation of credit cards within the Department. In particular audit testing noted missing documentation, lack of authorisation and bill splitting below the cardholder's transaction limit. It was recommended to management that users be reminded of their obligations and to ensure appropriate adherence to Departmental and Treasury guidelines.

The Department of Health and Human Services has commented:

The Department is strongly committed to improved accountability within the agency and the issues raised above are the focus of significant internal action. They will also be the subject of ongoing review between now and the end of the current financial year.

Improvement plans have been prepared that incorporate Audit comment on the issues raised and agreed implementation dates. Progress made with the implementation of Improvement Plans is being monitored by the Department's Risk Management and Audit Committee.

In relation to specific issues raised, the following comments apply.

Revaluation Process of Housing Stock

A meeting has subsequently been held between Housing Tasmania and the Valuer-General (VG) to discuss valuation methodology. The VG has advised of the development of a new methodology, which is intended to be introduced in 2006-07.

The planned approach of working with the VG will not resolve the issue for this current financial year. Therefore, DHHS and the VG intend to meet with TAO representatives prior to the commencement of planning for the 2005-06 audit to discuss the proposed new methodology with regard to its suitability for addressing issues raised and to determine an acceptable and achievable approach for the current financial year.

Debtor Management

The nature of services offered by the Department makes debt recovery far from straightforward. There will always be performance challenges in this area as the majority of the Department's clients are generally from low socio-economic backgrounds. New procedures have been implemented to ensure that outstanding debts are actively followed up on a more regular basis to facilitate more timely collection of monies owing. Extended electronic payment options have also been made available for easier payment of debts by clients. Professional collection agencies are used to follow up debts that are greater than 60 days.

The Department is making steady progress in working through the backlog of old debts. In doing so, every effort is made to maximise the amount recovered and maintain bad debts and operating costs at the lowest levels. Where, on the advice of the collection agency or as a result of investigation, an account is regarded as uncollectible, it is written-off.

Credit Cards

The Department has taken significant steps over the last 12 months to strengthen the control environment governing the use, monitoring and management of credit cards. Responsibilities are now more clearly defined and controls are more rigorously enforced.

Housing Tasmania

INTRODUCTION

Housing Tasmania (Housing) was established under the *Homes Act 1935*, for the provision of housing assistance and improving housing conditions for persons within Tasmania.

Its major focus is to ensure that low income Tasmanians have access to adequate, affordable, appropriate and secure housing options. In addition to the provision of public housing, low income Tasmanians may be provided with financial assistance to access or maintain housing in the private rental market or be assisted to purchase their own home through the Home Ownership Assistance Program (HOAP).

Housing Tasmania operates as a fully integrated division within The Department of Health and Human Services (the Department or DHHS).

This chapter provides commentary on the consolidated results of Housing and HOAP and is included in my report for the first time.

The Portfolio Minister is the Minister for Health and Human Services.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Separate financial statements for Housing and HOAP were received on 15 August 2005. Final revised statements for HOAP were received on 19 October 2005 and an unqualified audit report was issued on the same day. Revised statements for Housing were also received on 19 October 2005 and an unqualified opinion was also issued on the same day. Without qualification to the opinion expressed on Housing, an **emphasis of matter** was included drawing attention to the valuation of its dwelling stock. Further details are provided later in this chapter.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Recurrent Appropriation	28 575	28 699	23 980	26 091	23 833
Capital Appropriation	9 514	5 938	13 873	13 834	17 364
Special Capital Investment Funds	23 207	3 593	0	0	0
User Charges	1 663	1 683	1 874	1 964	2 878
Net Rents Payable by Tenants	46 358	43 644	43 140	43 691	42 523
Gross Proceeds from Disposals	4 356	21 990	30 954	15 689	16 467
Interest Revenue	2 028	2 845	3 499	3 825	4 836
Other revenue	6 021	3 937	3 028	13 312	1 843
Total Revenue	**121 722**	**112 329**	**120 348**	**118 406**	**109 744**
Employee expenses	12 523	12 546	11 760	12 317	12 313
Goods and Services	20 836	21 847	21 712	19 939	18 815
Grants and Subsidies	1 683	1 414	2 996	2 554	1 175
Depreciation	24 513	14 634	12 081	11 809	11 740
Recurrent Maintenance	20 131	17 849	16 849	18 272	15 532
Written Down Value of Disposals	4 077	17 712	36 916	21 220	19 265
Cost of sale of disposals	243	1 824	3 439	2 008	2 254
Administration	7 242	7 011	7 238	7 277	7 270
Borrowing costs	12 323	13 458	14 026	14 538	15 508
Other operating expenses	4 691	5 219	4 246	4 444	4 423
Total Expenses	**108 262**	**113 514**	**131 263**	**114 378**	**108 295**
Result from Ordinary Activities	**13 460**	**(1 185)**	**(10 915)**	**4 028**	**1 449**

Comment

Over the period of review Commonwealth and State funding has remained reasonably constant with average recurrent and capital appropriation totalling $38.340m. In the 2003-04 and 2004-05 additional funds were made available through Economic and Social Infrastructure Funds (ESIF) under the Affordable Housing Strategy for purchase and construction purposes. Had this funding not been available Housing would have returned operating losses of $9.747m and $4.778m respectively.

In the provision of rental dwellings, Housing makes an assessment of each eligible applicant's individual situation and personal needs. Net rents payable by tenants represent the marketable rent received after allowances for assessed rebates where applicable. The increase in net rent over the five-year period is $3.835m or 9.02%. The modest increase in 2004-05 was due to a combination of a slightly higher occupancy rate, a small rise in stock levels and minor increases in rents payable.

Other revenues in 2001-02 included the recognition of Community Housing Stock of $12.185m not previously brought to account, comprising 199 properties operated by community organisations, with Housing retaining a significant equity interest in these assets. The increase in 2004-05 includes a payment of $1.500m from DHHS for the provision of properties for mental health services.

During normal operations Housing disposes of properties annually. In the years prior to 2004-05, Housing had a very active sales program aimed at reorganising the desired dwelling mix and assistance to tenants in purchasing their own properties. The most active year within the review was in 2002-03 where proceeds of $30.954m were received from properties sold with a written down value of $36.916m. The cost of disposal in that year was $3.439m, which also included incentives given to eligible participants under the Streets Ahead program. The net result in that year and preceding years, were losses of $9.401m in 2002-03, $7.539m in 2001-02 and $5.052m in 2000-01. This program was reduced in 2003-04 and effectively halted in 2004-05, with modest profits of $2.454m and $0.036m recorded respectively.

Depreciation expense is effectively driven by the valuation of dwelling stock. Substantial revaluations in 2004-05 are responsible for the large increase in that year and are discussed in more detail below.

Recurrent maintenance includes the provision of general maintenance, exterior painting, landscape maintenance and vacation maintenance. Over the period of review maintenance averaged $17.727m with a general increasing overall trend.

Administration expenses include an administration fee for the provision and maintenance of systems and infrastructure to DHHS of $3.000m in 2004-05 ($3.400m in 2002-03 and in prior years).

Movements in Borrowing costs are discussed later in this chapter under the Financial Position section.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	30 800	48 651	35 354	16 227	9 645
Receivables	1 288	1 064	1 500	957	1 304
Loan Advances	10 026	13 214	18 306	10 261	10 992
Other	662	507	261	0	0
Total Current Assets	**42 776**	**63 436**	**55 421**	**27 445**	**21 941**
Vacant Land	24 114	13 677	14 587	15 824	15 858
Non-Rental Dwellings	39 986	15 279	12 453	12 759	1 045
Rental Dwellings	1 477 652	858 703	703 997	687 988	703 310
Capital Work in Progress	22 605	4 348	3 707	7 833	1 886
Other Plant and Equipment	552	1 025	1 380	1 690	2 024
Loan Advances	18 115	26 753	37 138	53 976	60 025
Other	288	348	236	281	388
Total Non-Current Assets	**1 583 312**	**920 133**	**773 498**	**780 351**	**784 536**
Payables	1 421	1 683	1 412	1 085	604
Borrowings	14 282	24 084	35 383	43 895	49 759
Provisions	4 231	3 477	3 393	3 271	3 265
Other	3 405	3 319	2 110	1 934	2 060
Total Current Liabilities	**23 339**	**32 563**	**42 298**	**50 185**	**55 688**
Borrowings	247 832	258 345	263 629	268 694	273 549
Provisions	11 284	12 440	12 324	12 598	12 415
Total Non-Current Liabilities	**259 116**	**270 785**	**275 953**	**281 292**	**285 964**
Net Assets	**1 343 633**	**680 221**	**510 668**	**476 319**	**464 825**
Capital	6 094	6 094	6 094	6 094	6 094
Reserves	1 029 972	380 020	209 282	164 018	156 551
Retained surpluses	307 567	294 107	295 292	306 207	302 180
Total Equity	**1 343 633**	**680 221**	**510 668**	**476 319**	**464 825**

Comment

The aforementioned sale of properties and recovery of loan advances has resulted in Housing holding substantial monies in cash. From 2000-01 to 2003-04 there was a steady growth in cash on hand, as properties were sold and stock numbers fell. In 2004-05 the current program of utilising part of these funds for specific projects, along with additional capital funding, resulted in the increase in capital work in progress and property additions of $31.133m during the year, thus decreasing cash holdings.

Current and non-current loan advances primarily relate to HOAP, with Housing's unmatured loan balance comprising a minor component. These loan advances have steadily declined by $42.876m over the period from a total of $71.017m in 2000-01 to $28.141m in 2004-05. The rise in housing prices over recent years by prospective purchases has seen a dramatic increase in the total loan necessary to be borrowed. The increased capital and servicing costs have inturn resulted in a fall in demand for HOAP assistance. Surplus funds have been utilised in the reduction of HOAP debt down from $50.105m in 2000-01 to $8.769m in 2004-05. This $41.366m reduction is a large contribution to the reduction in total borrowings over the period of $61.194m. Remaining borrowings comprise long term State and Commonwealth loans at favourable fixed rates. The decrease in borrowings led to lower interest costs.

In 2001-02, 456 Community Housing properties were held as dwelling stock with a total value of $20.218m. These properties are operated by community organisations throughout the State. Of these properties 199 remain in the title of the "Director of Housing" with a total value of $12.186m, which were brought to account as revenue as noted earlier. For the remaining 257 properties title has since been transferred into the name of a Community Organisation, with Housing still holding a significant equity interest. These 257 properties, with a value of $8.330m, were disclosed as a Contingent Asset and will be recognised as revenue should the properties be sold. Non-rental dwellings are currently valued at $39.986 with contingent assets valued at $27.676m (2004-05).

Housing have a policy of revaluing all dwelling stock each year based on valuations provided by the Valuer-General. As the Valuer-General works on a cyclical basis throughout the State revaluation indices are used in the intervening periods.

The main increase in dwellings and vacant land in 2003-04 was due to revaluations The total increase for these items of $171.866m is reflected in the asset revaluation reserve within Equity.

At the time of preparation of the 2004-05 financial statements, Valuer-General revaluations were not available, resulting in a substantial reliance on indices. This resulted in a material proportion of stock having not been re-valued since 1995-1996. These delays in valuation were noted in an emphasis of matter paragraph included in my audit report. This is further discussed in the overall comments below. The revaluation increase to dwellings and vacant land in 2004-05 was $649.952m, which is also reflected in the asset revaluation reserve within Equity. This significant increase primarily reflects increases in property values and building costs.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Revenue from Government	38 089	34 637	37 853	39 925	41 197
Receipts from Special Capital Investment Funds	23 207	3 592	0	0	0
Rent Received from Tenants	46 198	44 557	43 424	42 646	43 014
Receipts from Customers	9 470	8 183	8 574	7 928	8 906
Payments to suppliers and employees	(67 529)	(64 993)	(64 125)	(62 666)	(58 293)
Borrowing costs	(12 226)	(13 271)	(14 032)	(14 862)	(15 755)
Cash from operations	**37 209**	**12 705**	**11 694**	**12 971**	**19 069**
Recovery of loan advances	14 591	21 666	17 428	14 722	10 821
Loan advances	(2 711)	(5 900)	(8 899)	(8 557)	(9 094)
Payments for property, plant and equipment	(50 475)	(18 392)	(14 771)	(15 215)	(26 020)
Proceeds from sale of property, plant and equipment	4 356	21 942	30 954	15 689	16 877
Other Investment Payments	(507)	(2 036)	(3 701)	(2 100)	(2 509)
Cash (used) provided by in investing activities	**(34 746)**	**17 280**	**21 011**	**4 539**	**(9 925)**
Proceeds from borrowings	61 470	117 179	137 459	220 119	194 978
Repayment of borrowings	(81 784)	(133 867)	(151 036)	(231 048)	(200 251)
Cash from financing activities	**(20 314)**	**(16 688)**	**(13 577)**	**(10 929)**	**(5 273)**
Net increase (decrease) in cash	**(17 851)**	**13 297**	**19 128**	**6 581**	**3 871**
Cash at the beginning of the period	48 651	35 354	16 226	9 646	5 774
Cash at end of the period	**30 800**	**48 651**	**35 354**	**16 227**	**9 645**

Comment

As noted earlier total Government funding has remained constant with a general trend in the reduction of capital funding and an increase in recurrent funding. Commonwealth funding fell over the period from $30.301m in 2000-01 to $24.613m in 2004-05, whilst State funding increased from $10.896m to $13.476m. Additional ESIF funding directly contributed to the substantial level of cash holdings.

Recoveries from loan advances and new loan advances relates primarily to participants under HOAP. The higher level of recoveries correlates with a general reduction of loan advances to borrowers, which in turn is evident in the repayment of loans in financing activities and the reduction in total borrowings.

Payments for property, plant and equipment relates to expenditures on purchase and construction of dwelling stock. Housing was active in asset sales in 2002-03 resulting in proceeds considerably exceeding construction. In that year proceeds from sales peaked at $30.954m. This reversed in 2004-05 with only minor sales and increased expenditure from additional capital funding and committed cash from prior years with payments of $50.475m.

As noted earlier, surplus funds under HOAP were used in the retirement of debt. This is evident in the increase in cash outflows from financing activities and inversely the fall in borrowing costs over the period of review.

Cash levels generally increased over the period of review. Major increases of $19.127m in 2002-03 and $13.297m in 2003-04 were directly attributable to asset sales. This is reflected in the positive return from investing activities in each of these two years. Payments made in 2004-05, although partially offset by additional ESIF funding, resulted in a decline of $17.851m.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		10 102	(2 748)	(13 196)	(8 665)	(807)
Operating margin	>1.0	1.10	0.97	0.90	0.92	0.99
Financial Management						
Debt to equity		19.5%	41.5%	58.6%	65.6%	69.6%
Cost of Debt	7.5%	4.5%	4.5%	4.4%	4.4%	4.4%
Debt collection	30 days	9	8	11	6	10
Creditor turnover	45 days	10	12	10	8	5
Other information						
Potential Rental Income		66 796	67 166	71 310	73 224	74 662
Rental Rebate		(20 438)	(23 522)	(28 170)	(29 533)	(32 139)
Net Rents Payable by Tenants		46 358	43 644	43 140	43 691	42 523
Rental Dwellings (No. of Properties)		12 668	12 511	12 004	12 658	13 178
Occupancy Rate (%)		98.5	97.4	97.1	95.7	94.3
Staff numbers FTEs		197	215	210	216	217
Average staff costs ($'000s)		64	58	56	57	57

Comment

Over the past five years, the result from operations averaged $3.036m. Additional ESIF revenues in 2004-05 ensured the only positive result. The operating margin remains close to the benchmark with an average of 0.98.

The debt to equity ratio declined chiefly due to the reduction in HOAP borrowings and a significant increase in the asset revaluation reserve. Cost of debt remains low with the majority of debt being long term State and Commonwealth loans at favourable rates. Debt collection remains low as Housing benefits from prompt payment by its residential tenants. Creditor turnover also remains favourable.

Potential rental income represents the maximum rent that can be charged (full market rent), whilst the value of the rental rebates reflects the difference between the maximum rental and the rent payable by tenants based on their personal income assessment. Both have fallen in line with a reduction in the number of rental dwelling properties. Reduced stock numbers has seen an improvement in utilisation of available properties resulting in a steady increase in occupancy levels.

Employee numbers have decreased slightly over the period of review.

OVERALL COMMENT

Between 2000 and 2003 Housing disposed of a number of surplus rental dwellings at significant losses compared to the independent valuations provided by the Valuer-General. As part of the disposal process incentives were given in line with the policy of making affordable housing available to eligible applicants. It was recognised that the losses incurred were substantially influenced by incentives offered to purchasers under the "Streets Ahead" sales initiative, and the targeting of sales from the Housing portfolio to people on low incomes. During this period proceeds received from houses sold, before these allowances, were below the carrying value of these houses. With continuing losses being made the concern was that the recorded written down value of dwelling stock may have been overstated.

At 30 June 2003 the audit report on Housing's financial statements included an "emphasis of matter" paragraph. This related to inherent uncertainty regarding the valuation of rental dwellings.

At that date rental dwellings were recognised in the financial statements at a written down value of $703.997m.

During 2003-04 Housing disposed of 293 properties with a gain on disposal of $2.453m, a substantial turn-around from the 2002-03 loss of $9.400m. This result persuaded me to remove the "emphasis of matter" caution from my audit report

In 2004-05 the revaluation process of Housing stock was again of concern. While it is acknowledged that the properties were indexed by factors provided by the Valuer-General, the use of indices should be regarded as a short term interim measure. Properties with an estimated value of $279.140m, which equates to approximately 16% of total properties, have not been re-valued since 1995-1996. Furthermore, approximately $695.589m of rental dwellings, or 41% of the total, has not been re-valued for over 5 years. An "emphasis of matter" was included drawing attention to these delays in appropriate valuations. The valuation of dwelling stock disposals needs to be closely monitored by management.

The audit of Housing's revaluation was further hampered by the poor quality and inadequate preparation of suitable working papers. Issues raised with management included:

- Duplication of vacant land and dwellings on asset registers $9.347m;
- Disposed properties remaining on the asset register $0.849m;
- Properties held as contingent assets on the asset register $0.546m;
- Community Housing stock was not initially revalued nor were listings available; and

- Generally poor working papers relating to listings for work in progress, and the valuation of these properties contrary to policy, transfers between classes and level of quality control.

Concerns were also raised during the 2004-05 audit over the reconciliation procedures. Of these, the greatest concern was raised over the non-compliance with Treasurer's Instructions 401 concerning bank reconciliations. These were found to be well in arrears and contained inaccuracies.

The Department of Health and Human Services has commented in the previous departmental chapter.

Tasmanian Ambulance Service

This is the first time that I have provided a separate analysis of the financial results of the Tasmanian Ambulance Service (the Service). In the past, the financial results of the Service were reported as part of my report on the Department of Health and Human Services (DHHS). Reasons for this change are noted under the matter headed "What prompted this analysis?" below.

INTRODUCTION

The Service provides emergency ambulance care, rescue and transport services and a non-emergency patient transport service through a network of stations State-wide. It also coordinates a range of other providers and road ambulance services as well as fixed and rotary wing air services. Tasmania has a wide dispersal of highly qualified paramedics throughout urban and rural areas. Out of the 46 ambulance stations operating State-wide, 520 volunteer officers provide support and work alongside paramedics in 13 of these locations, as well as from 23 wholly volunteer stations.

The Service operates a fleet of approximately 105 ambulances and 25 support vehicles. It had fulltime salaried staffing of 222.9 people at 30 June 2005.

While the Service operates under its own legislation – the Ambulance Service Act 1982 – it operates as part of the Hospitals and Ambulance Services Division within DHHS.

Tasmania is the only State that provides a free ambulance service to the general public. In all other jurisdictions there are arrangements such as compulsory levies or voluntary subscription schemes, with user charges for non-subscribers. In Tasmania the charges raised for ambulance usage are effectively limited to those who can recover the fees under insurance arrangements for either motor vehicle or workplace accidents or payments made on behalf of Eligible veterans by the Department of Veterans Affairs.

In all other States, ambulance services also charge public hospitals for ambulance use (inter-hospital transfers) but as the public hospitals and the ambulance service are part of a single entity in Tasmania these ambulance charges were scrapped from 1 July 2002.

The portfolio Minister is the Minister for Health and Human Services.

WHAT PROMPTED THIS ANALYSIS?

Early in 2005 the Shadow Minister for Health and Human Services wrote to me in relation to a possible fraud that had allegedly occurred over a long period at the Service. The main concern raised was how it was that the alleged fraud could have gone on so long without detection. That letter and subsequent discussions indicated that the Shadow Minister wanted me to perform the following tasks[1]:

1. Determine why the alleged fraud was not detected sooner

I have included a detailed analysis of this issue in the sub-section, "Why Was The Alleged Fraud Not Detected Sooner?"

In my view the main factors that enabled the alleged perpetrator of the fraud to avoid detection for so long were:

- His capacity to approve his own transactions;
- The fact that questions about apparent discrepancies were almost invariably directed to him; and
- The non-availability of financial reports to management (this matter is further discussed in the sub-section, "Internal Management Reporting").

2. Audit the finances of the Service over the past 10 years

Financial reports covering the last 10 years were obtained and reviewed but not fully audited due to the lack of financial records now available. Also, during this period the Service moved from cash accounting to accrual accounting making comparative analysis difficult.

As an alternative, I conducted a desk-top analysis of the Service's financial statements for the five years ended 30 June 2005. Details of that analysis are covered in the subsection, "Financial Results".

I concluded that adequate explanations existed for material movements in revenues and expenditures, and that the financial statements covering that five-year period were materially correct.

3. Determine how wisely moneys have been spent

In response to this I examined the Service's operating performance over time. My examination included two elements:

[1] In my analyses, I have deliberately avoided any work associated with the Police investigation of the alleged fraud.

- An analysis of outputs to assess the effectiveness and efficiency of the Service's operations, and to assess this over time (refer Analysis Of Outputs - Comparison Over Time); and
- A five year comparative analysis of the Service's Statements of Financial Performance (refer Financial Results).

I found that key indicators such as patient satisfaction levels, emergency response times and average costs per ambulance response were at satisfactory levels and that increases in expenditures had reasonable explanations. Overall, I determined that moneys had been wisely spent.

4. Determine whether a fraud had been occurring

A former employee of the Service was charged with fraud and the associated court case was under way at the time of writing this report. An employee was convicted of the crimes of stealing and insertion of false information as data on 27 April 2006. He was sentenced to a term of imprisonment for a period of four years commencing from 12 April 2006. The non-parole period was fixed at two years and three months. He was ordered to pay compensation to the Tasmanian Ambulance Service, in the sum of $650,811.

5. Assess the adequacy of controls subsequently put in place to prevent or deter fraud

DHHS initiated an internal audit of the Service's accounting and internal systems. I approved the scope and monitored the progress of that audit, which has now been completed. Detailed discussion of that process is included in the sub-section, "DHHS Internal Audits".

I concur with the recommendations made and am satisfied that adequate steps have been taken to improve internal control practices to prevent fraud occurring in future. In particular, the incident reinforces that, regardless of the size of an organisation, appropriate segregation of duties is essential and too much reliance on a single individual must be avoided.

COMMENTARY PROVIDED IN THIS REPORT

This Report details the findings from work conducted following completion of the internal audit and financial and outputs analysis detailed above. It is noted that the financial analysis detailed below does not include a review of the Service's cash flows because it does not operate its own bank account – all banking is managed by DHHS which has a corporate finance section with whole of agency financial roles and responsibilities being which are detailed in DHHS's internal publication "Finance Roles and Responsibilities".

In addition, my Office has completed the audit of the annual financial statements of the Service for the year ended 30 June 2005. These statements are consolidated into the annual financial statements of DHHS.

FURTHER BACKGROUND ABOUT THE SERVICE

Despite the Service not operating as a separate entity, the *Ambulance Service* Act 1982, requires preparation of separate audited statements each year. This legislative provision dates back to a period when various components of the State's health system were managed as semi-autonomous entities, prior to being subsumed under DHHS.

The Ambulance Service Act largely reflects the current structure with, for example, the Secretary of DHHS appointed to the statutory position of Director of Ambulance Services. However, the legislative provision requiring the Service to separately report on its finances has not been removed, (although I note, separate financial statements were not prepared for the Service for several years).

One of the issues arising from the establishment of DHHS as a single entity was that, as part of the 2000-01 budget development process, internal charging by DHHS was abolished. Abolishing internal charging effectively meant that a budget adjustment was made which increased the budget of the Service and decreased the budgets of the public hospitals. Previously separate invoices were raised by the Service and paid by the public hospitals for inter-hospital transfers, but not for other patient movements.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements of the Tasmanian Ambulance Service were received on 19 October 2005. An unqualified opinion was issued on the same day.

FINANCIAL RESULTS

Overview of financial performance

The Service experienced significant growth in the demand for its services over the last five years. Growth in ambulance demand was 34%, which necessitated the recruitment of additional staff and higher operating and maintenance costs.

While the Service reports annually on an accruals basis, it is managed day-to-day on a cash basis, with the DHHS supplementing the appropriation to the Service to meet any cash shortfall. However, in the five year period reviewed, revenue consistently exceeded budget, and as a consequence, 2004-05 was the only year in which a supplement was required.

The increased expenditure in 2004-05 was mainly due to wage increases under Enterprise Bargaining Agreements, approved expansions of services such as the Mersey package of initiatives and increased costs associated with the new air ambulance contract.

FINANCIAL PERFORMANCE

	2005 $'000	2004 $'000	2003 $'000	2002 $'000	2001 $'000	1994** $'000
Operating Revenues*						
Recurrent appropriation	19 922	18 573	15 377	14 235	13 915	9 101
User charges	3 614	3 300	3 092	2 601	1 882	1 129
Grants and other	207	211	208	165	123	541
Total operating revenues	**23 743**	**22 084**	**18 677**	**17 001**	**15 920**	**10 771**
Operating Expenditure*						
Employee costs	18 018	14 448	14 699	14 293	11 972	8 681
Depreciation	2 028	1 967	1 989	1 620	991	0
Motor vehicle costs	1 072	926	923	818	***	***
Administration	1 841	922	662	513	2 785	379
Costs of goods and services	808	928	637	787	658	***
Client travel	3 100	1 968	1 652	1 148	0	0
Other	651	1 054	923	899	539	1,703
Total operating expenditure	**27 518**	**22 213**	**21 485**	**20 078**	**16 945**	**10 763**
Operating result	**(3 775)**	**(129)**	**(2 808)**	**(3 077)**	**(1 025)**	**8**
Budgeted expenditure ****	**22 464**	**19 500**	**17 755**	**17 392**	**15 987**	*******
Staff numbers - FTE	**222.9**	**193**	**188**	**182**	**179**	*******
Average employee costs - $	**80 834**	**74 860**	**78 186**	**78 533**	**66 883**	*******
Average leave liability - $	**26 580**	**25 995**	**21 412**	**16 559**	**15 849**	*******

* Excludes surpluses/deficits on the disposal or write down of non-current assets and Capital appropriations.
** Results were cash, not accrual, based.
*** Data not available or no longer relevant.
**** Budgeted expenditure equalled budgeted revenue.

Comments

The appropriation excludes monies appropriated on capital account of $0.889m, in 2003-04, $4.587m in 2001-02 and $1.913m in 2000-01 which were provided to the Service to fund the acquisition of new ambulances.

There are no accumulated losses for the Service as such. Surpluses or deficits within the Service are covered on an annual basis within the Division or the total DHHS entity.

It is normally expected that the Service will operate at a loss each year approximately equivalent to its depreciation charge, doubtful debt expense, increases in employee leave provisions and other accruals, which are not funded.

In cash budget terms, after allowing for revenue and expenditure variances, the net budget performance for each of the years under review was as follows:

- 2004-05 ($0.837m)
- 2003-04 $0.158m
- 2002-03 $0.363m
- 2001-02 $0.204m

As noted previously, the Service does not charge Tasmanian patients for its services with some exceptions. However, user charges are earned and represent charges for compensable patients (motor vehicle and workplace accidents) and for services to eligible veterans and some interstate users not covered by reciprocal arrangements. Revenue from these sources increased steadily over the period under review due to completion of a full cost attribution costing study (in association with an independent accounting firm) and setting of higher user charges based on full cost, including the cost of capital and infrastructure costs.

Reasons for increases in operating expenses include:

- Growth in ambulance demand of 34% over the last 5 years and 8% in 2004-05 with demand impacting on many areas of ambulance operations including salaries, fuel and maintenance;
- Unbudgeted expenditure on termination payments, wit; 12 terminations in 2005;
- Employee costs increased by $2.321m (19%) in 2001-02 due to the provisions of a new Enterprise Bargaining Agreement;
- The 2004 Enterprise Bargaining Agreement approved a 27% cumulative salary increase over a three-year period backdated to October 2003. This also resulted in increased payment of accrued employee entitlements and an unfunded back-pay adjustment in 2005;
- Addition of 47 extra staff progressively over the life of the current government, including $3.570m (25%) in 2004-05 due to the injection of 20 positions in the North-West of the State to improve ambulance coverage, an enterprise bargaining back pay adjustment, an increase for accrued leave entitlements, a salary increase of 7% and termination payments for 12 employees during 2005;
- The depreciation charge increased in 2001-02 due to the acquisition at that time of 44 additional ambulances. This occurred again in 2002-03 although to a lesser extent primarily due to the full year depreciation effect of the vehicles that had been purchased progressively during the previous year;
- Higher administration costs in 2004-05, due to the doubtful debt provision of $1.076m, which was an increase of $0.869m from the previous year; and
- Costs in 2004 also included major works associated with the establishment of the Sorell ambulance station, which opened in December 2003.

A substantial increase in 2004-05 costs incurred in transporting patients by aircraft both intrastate and interstate, because of price rises in the aviation industry.

FINANCIAL POSITION

	2005 $'000	2004 $'000	2003 $'000	2002 $'000	2001 $'000	2000 $'000
Current assets						
Receivables	1 007	1 638	1 482	1 563	847	618
Inventory and other	392	292	292	202	174	73
Current liabilities						
Creditors	418	481	257	234	1 006	472
Other current liabilities	792	476	489	463	246	174
Employee entitlements	3 593	3 370	2 777	2 075	1 451	1 440
Net working capital	**4 803**	**(2 397)**	**(1 749)**	**(1 007)**	**(1 682)**	**(1 395)**
Plant, equipment, vehicles	3 408	5 181	6 182	7 711	5 242	3 909
Land and buildings	9 193	4 385	4 474	6 977	7 236	7 323
Total fixed assets	**12 601**	**9 566**	**10 656**	**14 688**	**12 478**	**11 232**
Non-current employee entitlements	1 997	1 760	2 110	1 822	1 513	1 191
Net assets	**7 200**	**5 409**	**6 797**	**11 859**	**9 283**	**8 645**
Equity						
Retained surpluses	8 583	1 742	3 130	8 192	5 616	4 978
Asset revaluation reserve	-1 383	3 667	3 667	3 667	3 667	3 667
Total equity	**7 200**	**5 409**	**6 797**	**11 859**	**9 283**	**8 645**
Capital expenditure	385	901	135	4 038	3 753	*

* Data not available.

Comment

Receivables represent amounts owing by patients for travel. In the main patient charges are recovered from their worker's compensation insurers or the Motor Accident Insurance Board (MAIB). The amounts outstanding at each financial year end are high relative to total revenues generated from user charges because of:

- Pending bad debts,
- Patients being allowed 12 months in which to lodge a claim with MAIB, and
- User reluctance to pay or ineligibility for people to claim against MAIB for various reasons.

Notably, bad debts are a common problem with most Australian ambulance services with many patients refusing to pay for services they did not request (calls made by third parties).

Creditors were high at 30 June 2001 primarily due to monies owing for the purchase of new ambulances.

Plant, equipment and vehicles represent, in the main, ambulances and communications infrastructure. Movements in this balance reflect the acquisition of ambulances and depreciation charges.

The carrying amount of Land and buildings decreased in 2002-03 due to the removal from the Asset Register of a former ambulance building in the Clarence Community Health Centre at Bayfield Street in Bellerive (land was recorded at $1m and the building at $1.5m).

The average amount owing to the Service's employees for annual and long service leave is high because ambulance officers receive high leave entitlements due to the shift nature of their work, accumulations of days off under a 38 hour week agreement and the enterprise bargaining agreement. The average days outstanding is high at 89 days and arises due to operational difficulties in allowing staff time off, and staff reluctance because their rate of pay drops significantly during periods of long service leave.

It was previously noted that the Service makes operating losses each year on an accrual basis. This is reflected in the steadily decreasing Retained surpluses balance in all years except 2000-01 and 2001-02 when this balance increased due to the receipt in those years of capital appropriations to fund replacement ambulances.

The Asset revaluation reserve arose on the first time adoption of accrual accounting.

FINANCIAL ANALYSIS

Comment

A separate financial analysis has not been completed as it would not add to the commentary provided in analysing the Service's financial performance or position.

ANALYSIS OF OUTPUTS - COMPARISON OVER TIME

This section was included in order to assess the effectiveness and efficiency of the Service's operations, and to assess this over time.

Performance measure	Unit of measure	2005	2004	2003	2002	2001	Note ref.
Satisfaction with Ambulance Service(*)	%	97	97	97	0	0	1
Total ambulance sector activity (ambulance responses) (**)	Number	57 442	53 230	52 092	48 450	44 972	2
Ambulance emergency response times	Minutes	10.1	10.3	10.2	10.0	10.0	3
Average costs per ambulance response	$	479	457	417	414	377	4
Operational employee costs per capita	$	37.13	29.96	30.80	30.24	25.38	5
Expenditure per capita	$	56.86	46.07	45.03	42.48	35.92	5
Frequency of standby cases	Number	1 076	766	619	637	418	6

* Common format national ambulance patient satisfaction surveys were not undertaken prior to 2003. Prior to that time there was reliance on the ABS population survey monitor, which surveyed the general public, rather than users of services. All ambulance services then developed and implemented an agreed random survey of 1500 users in each jurisdiction.

** Case data includes Southern Patient Transport Services as this is managed by the Tasmanian Ambulance Service and its budget is included in the total TAS expenditure.

Comment

The Service uses a number of measures to assess its efficiency and effectiveness. The measures applied are aimed at assessing the relevance of its performance compared with its corporate objectives and the appropriateness of its performance benchmarked over time or with other jurisdictions.

The Service's objectives, as detailed in the 2004-05 Budget Papers, are to provide quality emergency ambulance care, rescue and transport services and a non-emergency patient transport service through a network of stations state-wide. It also coordinates a range of other providers of road ambulance services as well as fixed and rotary wing air services.

- **Satisfaction with Ambulance Service** – Patient satisfaction surveys are used by all Australian ambulance services to test satisfaction across a range of the services' components. The target for 2003-04 and 2004-05 was 98% satisfaction. The outcome for the 2004-05 survey is a 97% overall level of customer satisfaction in Tasmania, which is 1% below target but equal to the inter-jurisdiction average.

- **Total ambulance sector activity (ambulance responses)** – Total activity is a key indicator as activity which is directly related to variable costs, but inversely related to response times. The target activity for 2004-05 was 54 865 ambulance responses with actual being 57 442. Ambulance sector activity has increased over the period under review reflecting both the ageing population and a number of other health sector trends including more care of chronically ill people in the community and de-institutionalisation of people with mental health and intellectual disabilities.

- **Ambulance emergency response times –** Ambulance services are primarily measured by their emergency response times because of the logical link to patient outcomes. The Service measures its response time from the time of receipt of the initial telephone call until the time of arrival of the ambulance to the incident, although some jurisdictions use different parameters counting from either when they have a valid address or from when a crew is despatched.

  A number of factors can influence response times, such as:

  - Crewing levels,
  - Population density and dispersal,
  - Road terrain, systems and traffic density, and
  - Location of hospitals.

  In particular, the Service's response time is adversely affected by the relatively high percentage of Tasmanians who live outside major urban areas. Despite that, the current response time of 10 minutes and 6 seconds compares well with the target response time of 10 minutes.

- **Average costs per ambulance response –** Comparing cost of service delivery per response is a valid measure provided it is considered on a differentiated basis between urban and rural areas and care is taken to analyse the proportion of population in smaller centres as this can significantly distort cost comparisons between States and Territories.

  The Service's 2004-05 target for this measure is $457 per ambulance response with actual being $479, higher than target due to the additional costs previously discussed in this Report.

- **Operational employee costs per capita and total** expenditure **per capita –** Per capita comparisons on numbers of salaried operational staff is a valid measure because:

  - It is a substitute for quality (in the sense that salaried staff undergo far greater training than volunteers and consequently can administer a wider range of drugs and treatment protocols); and

- It shows the level of investment in staffing to provide clinical services.

The Service sets no target for this efficiency measure. Operational employee costs per capita increased significantly in 2004-05 due to higher depreciation charges associated with increased numbers of ambulances and due to higher administration costs in that year caused by increased doubtful debt provision. In 2004-05, 20 additional staff were added to the Service's establishment in a package of initiatives for the North West region as well as significant wage increases due to a back-pay component under a new enterprise bargaining agreement.

The increase in the actual expenditure per capita in 2004-05 was for reasons similar to those for the employee costs per capita measure.

- **Frequency of standby cases –** this is a good indicator of **utilisation** pressure on a city's ambulance service. A standby occurs when a strategic response is made to excessive caseload to ensure that emergency response times are minimised.

  Standby by movements have increased significantly over the period under review as follows:

1999/00	365
2000/01	418
2001/02	639
2002/03	619
2003/04	766
2004/05	1 076

  This significant growth reflects growing pressure on the ambulance service to maintain emergency response effectiveness in the context of growing caseload demand. It is understood that the government has committed an additional 24 hour/day ambulance crew in both Hobart and Launceston as a budget initiative for next financial year to address these issues.

DHHS INTERNAL AUDITS

This section summarises the findings in the DHHS initiated internal audit report titled "Internal audit of accounting and internal control systems". The internal audit was initiated following allegations from Ambulance management of fraudulent activity at the Service and the report was issued in late March 2005. In summary, the report contained the following key conclusions:

- The control practices in place at the Service, and more specifically its Directorate, are weak and the absence of a stronger control environment has been a significant contributor to allowing the alleged fraud to be perpetrated and go undetected.

- To the extent that control practices were in place to prevent fraudulent activity, these practices were systematically breached over an extended period of time. While management ultimately detected a level of fraudulent activity, the systematic non-compliance with designated controls was not detected by management or audit activities.

The report included recommendations for improved review controls and internal audit practices to provide greater assurance in respect to compliance with designated controls. Some of the recommendations applied equally to systems within DHHS. The DHHS Risk Management and Audit Committee, along with the Service's management, responded promptly to the recommendations made.

WHY WAS THE ALLEGED FRAUD NOT DETECTED SOONER?

Ambulance management originally detected the alleged fraud during a review of the size of staff reimbursements to assist in forward budget projection in early January 2005. The person who allegedly perpetrated the fraud was noted as having one of the highest staff reimbursements for which there were no identifiable reasons. The reimbursements had been occurring over a regular period since the start of the financial year. This activity had not been detected earlier as the person concerned ensured other senior ambulance personnel had limited access to the financial reports that contained this information. Following further prompt internal investigation, the matter was referred to DHHS internal audit and to the Police.

The internal audit report referred to previously confirmed that the alleged fraud was ultimately detected by the Services' Management. I enquired into why the alleged fraud was not identified sooner. Reasons are clear from the internal audit report noted above but in addition, management of the Service noted:

- The person charged with alleged fraud had worked in the ambulance service for over 30 years and had worked for several CEOs/ Directors of Ambulance Services over this period.

- The key alleged method of fraud related to forged manual cheques associated with false electronic records without supporting documentation and some $7,000 in overstated employee reimbursements. While electronic payments were the norm for the department, the perpetrator of the fraud had used his position to make a case (without the knowledge of the CEO) to retain some manual cheques for occasional creditors whose electronic payment details were not on the system. Ambulance management had not examined manual cheque documentation and central finance queries on cheque payments were all directed to the person who perpetrated the fraud and were limited to regular monthly email exchanges. All fraudulent cheques (averaging $3500 each) drawn on the central Agency expenditure account were well over the $200 threshold for independent verification by a Senior Finance Officer but none were referred for verification. The cheques had also not been audited for an extended period.

- Due to small staff numbers there were inadequate segregation of duties arrangements in place as it related to this individual and the many accounting and control functions performed by him, a matter which has now been resolved by creation of an additional position and other steps to separate functions within the small team. In addition, the individual admitted accessing the finance system under the login and password of a subordinate and entered some $7,000 in reimbursements to his own advantage where the system design prevented entries for one's own claims. The Service's control systems include some system checks prompts. However, when prompted, and due to the lack of segregation of duties, the questions were directed to the one individual. It appears that the basic principle of a different individual approving another's work was not being applied.

INTERNAL MANAGEMENT REPORTING

On a monthly basis, the Service prepares a monthly finance report for its own use and for use by DHHS. This is a detailed report that compares year to date expenditure to budget, with annual trends projected at the same time. Reasons for variances are provided.

For internal management, each cost centre is provided with a pay report on a fortnightly basis, which compares actual pay with budget on a line by line basis for each pay category and overtime group. Detailed payroll reports and employee by pay period reports are forwarded directly to each cost centre from Human Resource Information Systems. Cost centre administration examines these reports for anomalies and exceptions.

Each cost centre is also provided with a report on operational expenditure compared to budget on a monthly basis. Variances and year trends are identified with significant variances highlighted. Any areas of concern are addressed with the individual cost centre manager.

Cost centre managers have access to the financial systems including transaction reports, which help with identifying underlying reasons for variances. The person who perpetrated the fraud was responsible for the cost centre that was impacted by the fraud. This responsibility was transferred to the new position of Manager Strategic Business Development that was filled in August 2004. This position subsequently assisted in identifying the anomalies in employee reimbursements associated with the fraud.

Since the discovery of the fraud, processes and procedures have been changed to ensure that a recurrence of fraud is unlikely. This includes improved segregation of duties and functions. Any system that has key person dependencies has a level of vulnerability to fraud and strategies to mitigate the risk include even tighter system controls and regular internal audit checks of all procedures.

The timing of completion of this report has been influenced by the timing of the associated court case for the fraud so as not to prejudice the State's case against the employee concerned.

The Secretary of the Department of Health and Human Services has commented:

This fraud was originally detected by ambulance management. It was promptly reported to the DHHS internal audit section, following which there was an exhaustive investigation also involving police, leading to charges against an employee. As you know the employee pleaded guilty to stealing a large sum of money and was sentenced recently. He has undertaken to repay a significant proportion of the funds by transfer of his superannuation assets and he has also forfeited his accrued leave entitlements.

As you know as a result of this fraud being detected, the Department's accounting and internal control systems have been extensively reviewed internally as well as through the external involvement of an independent accounting firm.

The employee worked in the ambulance service for over 30 years and had worked for several CEOs/Directors of Ambulance Services over this extended period. Several years ago, concerns about his capability (not his honesty) were raised with particular concern about deficiencies in skills in budgeting and financial analysis. As a result a higher position was created for the Service's managerial team, which led to a systematic review and strengthening of internal systems and the initial detection of this fraud. During this period the employee opposed a number of changes presumably because they would limit scope for and potentially uncover his fraudulent activities which proved to be the case.

Since the discovery of the fraud, processes and procedures have been changed to ensure that a recurrence of fraud is highly unlikely. An additional clerical staff member is in the process of being appointed to improve internal controls such as the segregation of duties and functions. Tighter system controls and ongoing monitoring and review of all procedures are now in place.

The Department has implemented a number of improved review controls and audit practices to provide greater assurance in respect to compliance with designated controls.

Proper legal and judicial processes have now been followed with respect to this fraud, aided by the comprehensive information provided to police by the Department and I am confident that the Department's internal processes have been properly reviewed and strengthened further to minimise the possibility of similar issues arising in future.

Port Corporations

The *Port Companies Act 1997* which came into effect on 30 July 1997, replaced the *Marine Act 1976* and associated legislation from that date and provided a framework for the establishment of State-owned port corporations.

In August 2004, the Government appointed a Committee to review the current Tasmanian ports system and report on any alternate port company structures to improve the system. On 1 March 2005, the Minister for Infrastructure, Energy and Resources announced that the Government had agreed in principle to the amalgamation of the four State-owned port corporations into a single port company.

The Tasmanian Ports Corporation Pty Ltd (TasPorts) was registered on 1 July 2005 and the four port corporations ceased trading on 31 December 2005 when their assets and liabilities transferred to the new Corporation or to the Department of Treasury and Finance.

Up until 31 December 2005, Tasmanian port corporations comprised:

- Burnie Ports Corporation Pty Ltd;
- Hobart Ports Corporation Pty Ltd;
- Port of Devonport Corporation Pty Ltd; and
- Port of Launceston Pty Ltd.

These corporations had net assets of $142.644m, employed 265 people and generated $9.912m in net profit after tax. A key objective of the port corporations was the facilitation of trade in the interests of economic development, especially in a regional sense. This objective was to be balanced with the requirement to earn an economic rate of return.

Separate chapters have been provided for the four port corporations, covering the period 1 July to 31 December 2005. In addition a separate chapter has been provided of the analysis of the 2004-05 financial statements of the Hobart Port Corporation Pty Ltd, which was incomplete at the time of preparing my November 2005 Report.

For the six months to 31 December 2005 the Corporations prepared special purpose financial reports (SPFR). The reports were prepared to record final transactions and balances and to provide information regarding the assets and liabilities transferred to Tasmanian Ports Corporation Pty Ltd (TasPorts) effective 1 January 2006. There was no statutory requirement for the Corporations to prepare these reports. As a result the reports did not have to comply with all accounting standards, hence the inclusion in the title of the words “Special Purpose”.

Accounting Policy note 1 in each of the SPFR details which accounting standards were not complied with. In some cases this included non-compliance with the cash flow statements standard and resulted in no financial assessment in the respective Chapters of the Corporation's cash flows for the period under review.

In previous years, I have commented on the comparative performance of the four ports, but I see little value in doing so for the six-month period prior to their dissolution.

Results of subsidiaries of the Corporations have not been consolidated into this summary.

DIVIDENDS

In the six months to 31 December 2005, each Port Company paid to Treasury dividends based on their financial results to 30 June 2005 and a further dividend based on forecast results for the six months ended 31 December 2005.

Hobart Ports Corporation Pty Ltd – Year Ended 30 June 2005

INTRODUCTION

The Hobart Ports Corporation Pty Ltd (the Corporation) was a diversified company providing shipping and port services, including supply chain and transport logistics management, to Tasmanian businesses.

The principal activities of the Corporation and its subsidiary companies included:

- Port facilities and related properties at Hobart, Triabunna, Port Huon, Strahan, Stanley and King Island;
- Hobart Cold Storage Centre and Quarantine Fumigation Services;
- Services including stevedoring, plant hire, and maintenance;
- Fuel Distribution at Hobart and on King and Flinders Islands;
- Airport facilities (wholly-owned subsidiary, the Hobart International Airport Pty Ltd (HIA)); and
- Elizabeth Street Pier Apartments/Function Centre Complex in Hobart.

The joint shareholders of the Corporation are the Treasurer and the Minister for Infrastructure, who held these shares on behalf of the State of Tasmania. The shareholders were each issued with one ordinary share.

The Board comprised eight directors, whose appointment was approved by the shareholders of the Corporation.

AUDIT OF THE 2004-05 FINANCIAL REPORT

The 2004-05 financial report of the Corporation was signed on 27 October 2005 and my unqualified audit report was issued on 3 November 2005.

FINANCIAL RESULTS

The financial results commented on below relate to the Corporation's consolidated position. The analysis for the three-year period 2000-01 to 2002-03 includes financial information relating to the Hobart Port Corporation, its subsidiaries King Island Ports Corporation (KIPC) and Port Logistics and Services Pty Ltd (formerly Risdon Port Services Pty Ltd), and its associate, HIA, which was reported under an equity accounting basis. Equity accounting resulted in the Corporation recognising its share of net profits in HIA as revenue in the Statement of Financial Performance with a corresponding increase in its investments in associates in the Statement of Financial Position.

The financial information presented for 2003-04 reflects the Corporation taking a controlling interest in HIA on 29 June 2004. The Corporation recorded $1.851m as its share of net profits in HIA as revenue in the Statement of Financial Performance. Balances from HIA's Statement of Financial Position were consolidated at 30 June 2004.

The financial information presented for 2004-05 include the full consolidation of HIA's Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows.

FINANCIAL PERFORMANCE

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Services Revenue	44 184	29 046	28 820	24 892	15 060
Rental Income	9 306	6 735	6 961	6 644	6 602
Interest Revenue	656	197	220	181	135
Non-operating revenue	931	672	987	657	403
Total Revenue	**55 077**	**36 650**	**36 988**	**32 374**	**22 200**
Borrowing costs	2 750	580	617	634	668
Depreciation	3 394	2 121	1 903	1 519	1 480
Employee benefit expenses	15 052	13 083	12 409	10 117	8 921
Other operating expenses	24 274	14 140	14 978	13 791	9 524
Non-operating expenses	433	548	958	1 030	390
Total Expenses	**45 903**	**30 472**	**30 865**	**27 091**	**20 983**
Result from ordinary activities	**9 174**	**6 178**	**6 123**	**5 283**	**1 217**
Income tax expense	2 898	1 271	1 452	1 589	518
Result after taxation	**6 276**	**4 907**	**4 671**	**3 694**	**699**

Comment

The increase in Services revenue in 2001-02, $9.832m, was due almost entirely to increases in Sea Port operations (including stevedoring activities), $3.859m, and increased sales (including fuel sales by KIPC on King Island), $5.095m. Operating expenditure, which includes costs associated with the afore-mentioned increases in revenue, increased by $5.462m.

The increase in total operating revenue during 2002-03 came mainly from the port itself but revenues increased at King Island and the Risdon Port Services subsidiaries. Operating expenses in 2002-03 increased in the categories of salaries and employee benefits, $2.396m, depreciation and amortisation, $0.386m, cost of goods sold, $0.310m, property costs, $0.385m, and administration $0.303m.

As noted previously, revenue and expenditure increased in 2004-05 due to the consolidation of HIA. The increase in Services revenue of $15.138m in 2004-05 is attributable to the consolidation of $10.470m airport operations revenue and an increase in sales revenue from KIPC. Rental income increased by $2.571m and reflects the consolidated airport rental income.

Increases in expenditure in 2004-05 attributable to HIA include:

- Borrowing costs $2.170m;
- Depreciation $0.903m; and
- Employee benefit expenses $1.930m.

In addition, other operating expenses increased by $10.134m primarily as the result of an increase in the cost of goods sold by KIPC of $3.737m and consolidated HIA expenditure relating to property costs $1.180m, insurance $0.449m and administration $1.192m.

Non-operating income in each year generally represents the sales proceeds on disposal of non-current assets, while non-operating expenditure items generally reflect the carrying values of those assets.

Profit before tax has shown a sustained improvement over the period of this review and at $9.174m for 2004-05 (2004: $6.178m), the Corporation has achieved a commercial rate of return on net assets. However, the increased profit in 2004-05 is mainly attributable to HIA, which contributed $5.096m (2004: $1.851m) to the consolidated entity’s result.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	11 064	10 915	4 996	2 766	2 281
Receivables	5 570	5 467	5 641	5 049	4 948
Inventories	0	0	55	355	0
Investments	589	647	254	223	56
Other	280	101	90	560	57
Total Current Assets	**17 503**	**17 130**	**11 036**	**8 953**	**7 342**
Payables	6 329	5 451	3 196	3 087	3 374
Borrowings	0	439	409	380	2 202
Provisions	3 311	2 426	2 324	3 505	1 714
Total Current Liabilities	**9 640**	**8 316**	**5 929**	**6 972**	**7 290**
Working Capital	**7 863**	**8 814**	**5 107**	**1 981**	**52**
Property, plant and equipment	71 713	65 358	51 876	51 916	51 352
Investments	1 056	1 000	12 118	10 882	10 230
Other	27 429	27 651	920	898	866
Total Non-Current Assets	**100 198**	**94 009**	**64 914**	**63 696**	**62 448**
Borrowings	40 100	40 100	11 807	12 215	12 095
Provisions	3 194	3 185	2 912	2 787	2 481
Other	323	370	166	186	0
Total Non-Current Liabilities	**43 617**	**43 655**	**14 885**	**15 188**	**14 576**
Net Assets	**64 444**	**59 168**	**55 136**	**50 489**	**47 924**
Reserves	55 880	54 050	52 400	49 746	47 132
Retained profits	8 564	5 118	2 736	743	792
Total Equity	**64 444**	**59 168**	**55 136**	**50 489**	**47 924**

Comment

As noted previously, the Corporation's ownership, and the related accounting, of HIA increased over the period under review. At 30 June 2003, Non-current investments of $12.118m related to the Corporation's:

- Investment in HIA accounted for using equity accounting $2.477m; and
- Subordinated debt provided to HIA totalling $9.641m.

Following the Corporation taking 100% ownership of HIA on 29 June 2004, these balances were eliminated.

The majority of asset and liability balance increases in 2003-04 are due to the consolidation of HIA into the Corporation's statement of financial position for the first time. Particularly large movements in balances were:

- Cash included $6.267m relating to HIA;
- Property, plant and equipment included runways, taxiways and car parks totalling $5.925m and buildings of $3.382m;
- Non-current 'Other' assets comprise $26.163m, which is the carrying value of capitalised lease assets acquired; and

- Loans from other financial institutions increased as at 30 June 2004 because HIA had total borrowings from other institutions of $31.500m.

A review of the balances in 2004-05 indicates that the majority remained fairly static. However, Property, plant and equipment increased by $6.355m, which included $5.816m work in progress held by HIA relating primarily to the domestic terminal upgrade.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	57 017	42 124	37 444	32 595	23 224
Payments to suppliers and employees	(44 736)	(36 092)	(31 854)	(27 051)	(20 303)
Interest received	673	271	218	178	133
Borrowing costs	(2722)	(468)	(730)	(578)	(680)
Cash from operations	**10 232**	**5 835**	**5 078**	**5 144**	**2 374**
Proceeds from investments	165	286	325	224	806
Payments for investments	(71)	(1 199)	(17)	(414)	(3 425)
Payments for property, plant and equipment	(9 669)	(4 659)	(2 788)	(2 918)	(1 966)
Proceeds from sale of property, plant and equipment	931	672	987	690	403
Cash used in investing activities	**(8 644)**	**(4 900)**	**(1 493)**	**(2 418)**	**(4 182)**
Proceeds from borrowings	0	0	0	500	2 767
Repayment of borrowings	(439)	(408)	(380)	(2 201)	(329)
Dividends paid	(1000)	(875)	(975)	(540)	(540)
Cash from financing activities	**(1 439)**	**(1 283)**	**(1 355)**	**(2 241)**	**1 898**
Net increase in cash	**149**	**(348)**	**2 230**	**485**	**90**
Cash at the beginning of the period	10 915	4 996	2 766	2 281	2 191
Cash from Hobart Int'l Airports P/L acquisition	0	6 267	0	0	0
Cash at end of the period	**11 064**	**10 915**	**4 996**	**2 766**	**2 281**

Comment

Receipts from customers increased markedly between 2001-02 and 2003-04 due principally to the impact of stevedoring and fuel distribution operations, together with increased rental income. The increase in revenue was followed by a corresponding increase in payments to suppliers and employees with the expansion of the Corporation's activities.

Transactions for 2004-05 include the consolidated cash flows for HIA. In 2003-04, only the cash balance at year-end was incorporated into the analysis. Consequently, the increase in transactions in 2004-05 includes:

- Receipts from customers, $12.565m;
- Payments to suppliers and employees, $6.052m;
- Borrowing costs, $2.205m; and
- Payments for property, plant and equipment, $5.899m.

The Corporation maintained a strong cash position over the period under review, which further improved by the consolidation of HIA's cash balance of $4.401m at 30 June 2005.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		8 676	6 054	6 094	5 656	1 204
EBIT ($'000s)		11 924	6 758	6 740	5 917	1 885
Operating margin	>1.0	1.19	1.20	1.20	1.22	1.06
Return on assets		10.4%	7.2%	9.1%	8.3%	2.8%
Return on equity		10.2%	8.6%	8.8%	7.5%	1.5%
Financial Management						
Debt to equity		62.2%	68.5%	22.2%	24.9%	29.8%
Debt to total assets		34.1%	36.5%	16.1%	17.3%	20.5%
Interest cover	>3	4.3	11.7	10.9	9.3	2.8
Current ratio	>1	1.82	2.06	1.86	1.28	1.01
Cost of debt	7.5%	6.4%	6.4%	6.2%	6.3%	5.5%
Debt collection	30 days	36	55	60	59	95
Creditor turnover	30 days	20	35	17	24	39
Returns to Government						
Dividends paid or payable ($'000s)		1 420	1 000	875	975	540
Dividend payout ratio	50%	22.6%	20.4%	18.7%	26.4%	77.3%
Dividend to equity ratio		2.3%	1.7%	1.7%	2.0%	1.1%
Income tax paid or payable ($'000s)		2 411	2 106	1 906	179	0
Effective tax rate	30%	26.3%	34.1%	31.1%	3.4%	-
Total return to the State ($'000s)		3 831	3 106	2 781	1 154	540
Total return to equity ratio		6.2%	5.4%	5.3%	2.3%	1.1%
Other information						
Staff numbers FTEs		167	149	121	114	119
Average staff costs ($'000s)		90	88	103	89	75

Comment

Since 2001-02, the Corporation’s decision to diversify into stevedoring activities and fuel sales had a significant impact on its results from operations. This was further improved in 2004-05 by the Corporation’s decision to take a full ownership interest in HIA, with $5.096m in airport profits being recognised.

The Corporation maintained a strong operating margin and generated strong returns on assets and equity.

The debt-to-equity and debt-to-total assets ratios increased sharply during 2003-04 and 2004-05 due to the consolidation of HIA, which at 30 June 2005 held interest bearing liabilities of $31.500m.

The Corporation has consistently paid dividends and recommended a final dividend of $1.420m for the 2004-05 financial year. The dividend payout ratio is considered appropriate when reviewed in association with income tax paid or payable. In the period 2000-01 and 2001-02, the Corporation cleared taxation timing differences and carried forward tax losses, which resulted in a reduction in tax payable. Since 2002-03, the Corporation’s effective tax rate has been close to the benchmark.

Staff numbers do not include contract or casual labour used by the Corporation during any one year, which distorts average employee costs for the year. The increases during 2003-04 and 2004-05 reflect acquisitions of businesses referred to previously.

OVERALL COMMENT

The Corporation recorded a consolidated profit (after taxation) of $6.276m for the 2004-05 financial year.

The 2004-05 audit was completed with satisfactory results.

Burnie Port Corporation Pty Ltd – Period Ended 31 December 2005

INTRODUCTION

The Burnie Port Corporation Pty Ltd (the Corporation) is Australia's fifth largest container port handling cargoes from and for international and domestic markets. The Corporation manages a cold store and handles the following types of cargoes:

- Wood-pulp;
- Woodchips;
- Magnetite and other bulk mineral concentrates;
- Pine and hardwood logs; and
- Motor vehicles, newsprint, machinery, fruit, vegetables and cheese products.

The joint shareholders of the Corporation are the Treasurer and the then Minister for Infrastructure, Energy and Resources, who hold these shares on behalf of the State of Tasmania. The shareholders were issued with ordinary shares of $1 each upon incorporation.

The Board comprises six directors, whose appointment was approved by the shareholders.

AUDIT OF 31 DECEMBER 2005 SPECIAL PURPOSE FINANCIAL REPORT

The signed special purpose financial report was received on 6 April 2006 and an unqualified audit report issued on 11 April 2006.

However, without qualification of the audit opinion, the audit report included an "emphasis of matter" paragraph details of which are provided under the Overall Comment section of this Chapter.

FINANCIAL RESULTS

The following analysis is based on a comparison of the 2004-05 financial performance with those of the six months to 31 December 2005. This limited period of comparative assessment was adopted because of the application in both financial periods of Australian equivalents to International Financial Reporting Standards (AIFRS).

The financial results of the Corporation at 30 June 2005 (previously reported to the Parliament in my Report of 22 November 2005) were amended on 1 July 2005 for changes necessitated by the introduction of revised accounting standards. Assessment against of results prior to 30 June 2005 would have been difficult due to the preparation of the financial statements in those years under a different financial reporting framework.

INCOME STATEMENT

	6 months to 31/12/2005	12 months to 30/6/2005
	$'000s	$'000s
Services revenue	4 992	9 298
Rental income	294	588
Interest revenue	317	637
Non-operating revenue	0	11
Total Revenue	**5 603**	**10 534**
Borrowing costs	199	441
Depreciation	569	1 309
Employee benefit expenses	1 400	2 600
Other operating expenses	1 852	3 741
Non-operating expenses	0	0
Total Expenses	**4 020**	**8 091**
Result from ordinary activities	**1 583**	**2 443**
Income tax expense	0	0
Result after taxation	**1 583**	**2 443**

Comment

A comparison of the two periods shows that Services revenue for the six months to 31 December 2005 represents 53.7% of the 2004-05 revenue, Rental revenue represents 50% and Interest revenue represents 49.8%. In total, revenue for the six months to 31 December 2005 represents 53.2% of the 2004-05 revenue. The improvement in services revenue relates to increased wharfage charges relating to fuel and fertiliser shipments, and increased cold store revenue.

The increase in Service revenue was the primary reason for the improved net profit before tax, which at 31 December 2005 represented 28% of revenue (23% at 30 June 2005).

Borrowing costs amounted to $0.199m or 45.1% of the 2004-05 cost. The decrease reflects the reduction in the balance of borrowings outstanding as a result of scheduled principal repayments.

Depreciation expense for the six months, $0.569m represents 43.5% of the prior year amount. In 2004-05 preliminary costs of maintenance dredging totalling $0.113m were capitalised but then fully written off through depreciation at year-end.

Employee benefit expenses amounted to $1.400m or 53.8% of the 2004-05 expense. The increase in this six-month period was due to normal salary increases.

Other operating expenses totalled $1.852m or 49.5% of the prior year amount.

There was no provision for income tax due to the existence of unutilised prior year tax losses.

FINANCIAL POSITION

	31/12/2005	30/6/2005
	$'000s	$'000s
Cash	366	400
Receivables	1 244	868
Investments	10 281	10 787
Inventories	207	213
Other	517	59
Total Current Assets	**12 615**	**12 327**
Payables	116	200
Borrowings	870	843
Provisions	843	742
Other	783	562
Total Current Liabilities	**2 612**	**2 347**
Working Capital	**10 003**	**9 980**
Property, plant and equipment	17 602	18 122
Total Non-Current Assets	**17 602**	**18 122**
Borrowings	4 974	5 416
Provisions	96	81
Other	5 400	6 000
Total Non-Current Liabilities	**10 470**	**11 497**
Net Assets	**17 135**	**16 605**
Reserves	23 390	23 390
Accumulated losses	(6 255)	(6 785)
Total Equity	**17 135**	**16 605**

Comment

The Cash balance at 31 December 2005 is consistent with the 30 June balance, as the Corporation deposits excess cash funds into investments to improve its interest return. The balance of investments decreased by $0.506m in the six months to 31 December 2005 due mainly to loan repayments.

The increase in Receivables of $0.376m was mostly due to an increase in the balance owing by a major Port customer. The majority of the balance outstanding was repaid in January 2006.

The increase in Other current assets of $0.458m is mostly due to the recognition of prepaid rates, land tax and insurance of $0.457m. The prepayment is caused by the 31 December reporting date.

Property, plant and equipment decreased by $0.520m during the six months to 31 December 2005. The movement is due to depreciation and amortisation expense of $0.569m, disposals of $0.020m and capital additions of only $0.069m.

Total Borrowings decreased by $0.415m, which represents principal repayments made during the six months.

The Other non-current liability balance represents the balloon payments received from Brambles Shipping in 2000-01 and 2001-02 totalling $12.000m, less accumulated amortisation. The balloon payments were recognised as revenue in advance and amortised over the term of the agreement. At 31 December 2005, five and a half years of the agreement had been completed and $6.600m amortised as revenue.

FINANCIAL ANALYSIS

	Bench Mark	31/12/2005	30/6/2005
Financial Performance			
Result from operations ($'000s)		1 583	2 432
EBIT ($'000s)		1 782	2 884
Operating margin	>1.0	1.39	1.30
Return on assets		5.9%	8.3%
Return on equity		9.4%	13.6%
Financial Management			
Debt to equity		34.1%	37.7%
Debt to total assets		19.3%	20.6%
Interest cover	>3	8.95	6.54
Current ratio	>1	4.83	5.25
Cost of debt	7.5%	6.3%	6.3%
Debt collection	30 days	41	30
Creditor turnover	30 days	11	20
Returns to Government			
Dividends paid or payable ($'000s)		326	727
Dividend payout ratio	50%	20.6%	29.8%
Dividend to equity ratio		1.9%	4.0%
Total return to the State ($'000s)		326	727
Total return to equity ratio		1.9%	4.0%
Other information			
Staff numbers FTEs		42	42
Average staff costs ($'000s)		33	62

Comment

The Result from operations (i.e. operating revenue less operating expenses) for the six months to 31 December 2005 amounted to $1.583m. The profit from ordinary activities before income tax and after adjusting for interest expense totalled $1.782m. The operating margin of

1.39 was comparable to the margin achieved for the year ended 30 June 2005.

Both the Return on assets and equity ratios at 31 December 2005 have decreased from 30 June 2005. The decreases are expected as the ratios are comparing a 6 months profit against a 12-month profit.

The Debt to equity and Debt to total assets ratios are consistent for the two periods under review. The interest cover and current ratios are both above the benchmarks of 3 and 1 respectively. The cost of debt is consistent with the prior period.

The Debt collection ratio is higher than the benchmark in the six months to 31 December 2005. This reflected the high dollar value of invoices issued to customers at period end. The Corporation's actual experience with debt recovery indicates the majority of balances outstanding are recovered within a thirty-day period.

The Creditor turnover ratio indicates the Corporation is clearing its creditors in a suitable time frame.

During the six months ended 31 December 2005 the Board paid dividends of $0.727m in respect of the 2004-05 year and $0.326m relating to the final six months to 31 December 2005. The dividend payment of $0.326m was based on the Port's estimated profit for that period.

There were no income tax equivalent payments or provisions for income tax payable for the period under review due to operating losses and brought forward tax losses. At 31 December 2005, the Corporation had future income tax benefits relating to tax losses not brought to account of $1.950m and temporary differences of $4.228m.

Average staff costs for the six months are $0.033m and if extrapolated for the year total $0.066m. The increase from 2004-05 relates to salary increases included in the six-month period.

OVERALL COMMENT

The audit of the special purpose financial report for the six months was completed with satisfactory results. However, without qualification of the audit opinion, the audit report included an emphasis of matter paragraph relating to the Corporation's carried forward tax losses.

As indicated in the special purpose financial report, the future availability of carried forward tax losses was uncertain due to a differing third party tax opinion in respect of the tax implications arising from the receipts in 2000-01 and 2001-02 from a shipping company. The Corporation's position, and the basis upon which the special purpose report was prepared, was based on a Treasurer's Ruling provided by the then Tasmanian Treasurer, which ruled that the shipping company receipts were not assessable for income tax equivalence purposes. The alternative tax opinion questioned the validity of the carried forward tax losses on the basis that the receipts are exempt for taxation purposes and should therefore be applied against any carried forward tax losses. The emphasis of matter paragraph highlighted the uncertainty regarding the tax treatment.

Hobart Ports Corporation Pty Ltd - Period Ended 31 December 2005

INTRODUCTION

The Hobart Ports Corporation Pty Ltd (the Corporation) is a diversified company providing shipping and port services, including supply chain and transport logistics management, to Tasmanian businesses.

The principal activities of the Corporation and its subsidiary companies include:

- Port facilities and related properties at Hobart, Triabunna, Port Huon, Strahan, Stanley and King Island;
- Hobart Cold Storage Centre and Quarantine Fumigation Services;
- Services including stevedoring, plant hire, and maintenance;
- Fuel Distribution at Hobart and on King and Flinders Islands;
- Airport facilities (wholly-owned subsidiary, the Hobart International Airport Pty Ltd (HIA)); and
- Elizabeth Street Pier Apartments/Function Centre Complex in Hobart.

The joint shareholders of the Corporation are the Treasurer and the then Minister for Infrastructure, Energy and Resources, who hold these shares on behalf of the State of Tasmania. The shareholders were each issued with one ordinary share.

The Board comprises eight directors, whose appointment was approved by the shareholders.

AUDIT OF 31 DECEMBER 2005 SPECIAL PURPOSE FINANCIAL REPORT

The results of the Corporation's subsidiaries have not been consolidated into this analysis.

The signed special purpose financial report was received on 10 May 2006 and an unqualified audit report issued on 12 May 2006.

FINANCIAL RESULTS

The following analysis is based on a comparison of the 2004-05 financial performance with those of the six months to 31 December 2005. This limited period of comparative assessment was adopted because of the application in both financial periods of Australian equivalents to International Financial Reporting Standards (AIFRS).

The financial results of the Corporation at 30 June 2005 were amended on 1 July 2005 for changes necessitated by the introduction of revised accounting standards. Assessment against of results prior to 30 June 2005 would have been difficult due to the preparation of the financial statements in those years under a different financial reporting framework.

FINANCIAL PERFORMANCE

	6 months to 31/12/2005 $'000s	**12 months to 30/06/2005** $'000s
Services Revenue	11 303	21 363
Rental Income	3 431	6 670
Interest Revenue	186	350
Non-operating revenue	1 038	207
Total Revenue	**15 958**	**28 590**
Borrowing costs	264	521
Depreciation	1 157	1 988
Employee benefit expenses	6 897	12 250
Other operating expenses	5 213	10 160
Non-operating expenses	77	195
Total Expenses	**13 608**	**25 114**
Result from ordinary activities	**2 350**	**3 476**
Income tax expense	417	1 089
Result after taxation	**1 933**	**2 387**

Comment

A comparison of the two periods shows that Services revenue for the six months to 31 December 2005 represents 52.9% of the 2004-05 revenue, Rental revenue represents 51.4% and Interest revenue represents 53.1%. The major variance in revenue between the periods relates to Non-operating income for the six months to 31 December 2005, which includes dividend income from Hobart International Airport Pty Ltd and King Island Port Corporation Pty Ltd, totalling $0.958m.

Borrowing costs amounted to $0.264m or 50.7% of the 2004-05 cost. Depreciation expense for the six months, $1.157mm represents 58.2% of the prior year amount. The increase for the six-month period relates to asset acquisitions in late 2004-05 being depreciated for the first time.

Employee benefit expenses amounted to $6.897m or 56.3% of the 2004-05 expenses. The increase in this six-month period includes EBA increases, with a back-pay component relating to 2004-05. In addition, the Corporation uses a significant pool of casual labour.

Other operating expenses totalled $5.213m or 51.3% of the prior year amount. The expenditure includes property, equipment hire, insurance, maintenance and administration costs.

FINANCIAL POSITION

	31/12/2005	**30/06/2005**
	$'000s	$'000s
Cash	4 806	6 313
Receivables	5 984	4 176
Inventories	14	21
Other	750	74
Total Current Assets	**11 554**	**10 584**
Payables	4 274	4 435
Provisions	1 557	1 465
Other liabilities	280	185
Total Current Liabilities	**6 111**	**6 085**
Working Capital	**5 443**	**4 499**
Property, plant and equipment	33 839	52 612
Investments	7 225	7 225
Other	1 087	871
Total Non-Current Assets	**42 151**	**60 708**
Borrowings	8 100	8 100
Provisions	157	134
Other	1 431	3 429
Total Non-Current Liabilities	**9 688**	**11 663**
Net Assets	**37 906**	**53 544**
Reserves	35 019	51 920
Retained profits	2 887	1 624
Total Equity	**37 906**	**53 544**

Comment

The majority of the Cash balance comprises deposits at call, as the Corporation deposits excess cash funds to improve its interest return. This balance decreased by $1.508m in the six months to 31 December 2005 due mainly to the payment of dividends, totalling $1.670m.

The increase in Receivables of $1.808m includes:

- Trade debtors increasing by $1.186m, primarily due to an increase in the balance owing by major Port customers at 31 December. The majority of the balance outstanding was repaid after the period end; and
- Intercompany debts increasing by $0.660m, which relates to an advance by the Corporation to King Island Port Corporation Pty Ltd, a wholly owned subsidiary, for capital works.

The increase in Other current assets of $0.676m is mostly due to the recognition of prepaid rates, land tax and insurance. The prepayment is caused by the 31 December reporting date.

Property, plant and equipment decreased by $18.773m during the six months to 31 December 2005. The movement is primarily the result of the Corporation returning a number of buildings (including related plant) to the Crown. The return of the assets totalled $19.316m and was made directly against the Corporation's equity balance.

The Other non-current liability balance represents the Corporation's provision for deferred income tax. The balance decreased by $1.998m primarily as a result of the write off of buildings returned to the Crown in both the Corporation's accounting and taxation asset registers. The adjustment was made directly against equity.

Total equity decreased by $15.638m primarily due to the return of buildings to the crown and the restatement of the provision for deferred income tax, as noted above.

FINANCIAL ANALYSIS

	Bench Mark	31/12/2005	30/06/2005
Financial Performance			
Result from operations ($'000s)		1 389	3 464
EBIT ($'000s)		2 614	3 997
Operating margin	>1.0	1.10	1.14
Return on assets		4.2%	4.4%
Return on equity		4.2%	4.2%
Financial Management			
Debt to equity		21.4%	15.1%
Debt to total assets		15.1%	11.4%
Interest cover	>3	9.9	7.7
Current ratio	>1	1.89	1.74
Cost of debt	7.5%	6.4%	6.4%
Debt collection	30 days	63	48
Creditor turnover	30 days	70	71
Returns to Government			
Dividends paid or payable ($'000s)		1 670	1 000
Dividend payout ratio	50%	86.4%	41.9%
Dividend to equity ratio		3.7%	1.8%
Income tax paid or payable ($'000s)		592	2 411
Effective tax rate	30%	25.2%	69.4%
Total return to the State ($'000s)		2 262	3 411
Total return to equity ratio		4.9%	6.1%
Other information			
Staff numbers FTEs		130	130
Average staff costs ($'000s)		53	95

Comment

The Result from operations (i.e. operating revenue less operating expenses) for the six months to 31 December 2005 amounted to $1.389m. The profit from ordinary activities before income tax and after adjusting for interest expense totalled $2.614m. The operating margin of 1.10 was comparable to the margin achieved for the year ended 30 June 2005.

Both the Return on assets and equity ratios are consistent with 30 June 2005. However the profit figure for 31 December 2005 includes dividends from subsidiaries of $0.958m, which were not present in the 2004-05 result. In addition, the asset and equity bases used for 31 December 2005 have been reduced by the return of buildings to the Crown (as noted previously).

The Debt to equity and Debt to total assets ratios have increased because the asset and equity bases used for 31 December 2005 were reduced by the return of buildings to the Crown. The Corporation's debt remained static between the two periods under review.

The Debt collection ratio is significantly higher than the benchmark in the six months to 31 December 2005. This reflected the high dollar value of invoices issued to customers at period end. The Corporation's actual experience with debt recovery indicates the majority of balances outstanding are recovered within a thirty-day period.

The Creditor turnover ratio for the two periods under review appears excessive, but the Corporation is clearing its creditors in a suitable time frame.

During the six months ended 31 December 2005 the Board paid dividends of $1.420m in respect of the 2004-05 year and $0.250m relating to the final six months to 31 December 2005. The dividend payment of $0.250m was based on the Port's estimated profit for that period.

Income tax paid or payable for the six month period to 31 December 2005 totalled $0.592m and will result in a total return to the state of $2.262m.

Average staff costs for the six months are $0.053m and if extrapolated for the year total $0.106m. The increase from 2004-05 relates to EBA salary increases included in the six-month period. In addition, the staff numbers do not include the impact of casual labour used by the Corporation, which impacts average employee costs.

OVERALL COMMENT

The audit of the special purpose financial report for the six months was completed with satisfactory results.

Port of Devonport Corporation Pty Ltd – Period Ended 31 December 2005

INTRODUCTION

The Port of Devonport Corporation Pty Ltd (the Corporation or the Port) is one of the state's fastest growing ports. The Port is best known as the home of TT-Line Company Pty Ltd's (TT-Line) fleet of Spirit of Tasmania ferries that operate from the Port to both Melbourne and Sydney. It also services a number of key customers, including Patrick Shipping and Cement Australia.

The Port is the state's second largest cold store operator and it also generates income from the Devonport Airport, which is serviced principally by Eastern QantasLink and until September 2005, Regional Express.

The Corporation's combined seaport and airport operations facilitated the movement of just over 238 000 passengers in and out of Tasmania in the six months to December 2005.

The shareholders of the Corporation are the Treasurer and the then Minister for Infrastructure, Energy and Resources, who hold these shares on behalf of the State of Tasmania. The shareholders were each issued with one ordinary share.

The Board comprises six directors, whose appointment is approved by the shareholders.

AUDIT OF 31 DECEMBER 2005 SPECIAL PURPOSE FINANCIAL REPORT

The signed special purpose financial report was received on 6 June 2006 and an unqualified audit report was issued on 7 June 2006.

FINANCIAL RESULTS

The following analysis is based on a comparison of the 2004-05 financial performance with those of the six months to 31 December 2005. This limited period of comparative assessment was adopted because of the application in both financial periods of Australian equivalents to International Financial Reporting Standards (AIFRS).

The financial results of the Corporation at 30 June 2005 (previously reported to the Parliament in my Report of 22 November 2005) were amended on 1 July 2005 for changes necessitated by the introduction of revised accounting standards. Assessment against results prior to 30 June 2005 would have been difficult due to the preparation of the financial statements in those years under a different financial reporting framework.

FINANCIAL PERFORMANCE

	6 months to 31/12/2005 $'000s	12 months to 30/6/2005 $'000s
Service revenue	6 852	13 731
Rental income	218	343
Interest revenue	186	440
Non-operating revenue	7	25
Total Revenue	**7 263**	**14 539**
Borrowing costs	430	708
Depreciation	1 008	2 144
Employee benefit expenses	1 260	2 531
Other operating expenses	2 315	5 833
Non-operating expenses	1 780	63
Total Expenses	**6 793**	**11 279**
Result from ordinary activities	**470**	**3 260**
Income tax expense	135	982
Result after taxation	**335**	**2 278**

Comment

The Corporation traded profitably over the period under review.

A comparison of the two periods shows that Services revenue for the six months to 31 December 2005 represents 49.9% of the 2004-05 revenue. Within this were a number of offsetting variances, being:

- Lower wharfage revenue from TT-Line (40% of 2004-05) due to timing of contract payments;
- Increased wharfage from Cement Australia (68% of 2004-05) due to a volume threshold condition in the contract being triggered;
- Higher coldstore revenue (55% of 2004-05) as a result of commissioning of Saleyard Road coldstore in December 2004, which meant that 2004-05 results included only six months revenue; and
- Reduced airport revenue (42% of 2004-05) due to lower passenger numbers. More comment on airport results is included as part of non-operating revenue below.

Rental revenue represents 63% and Interest revenue 42.2% of the prior year result. Both of these reflect changes in the underlying revenue generating assets. In total, revenue for the six months to 31 December 2005 represents 50.0% of the 2004-05 revenue.

Borrowing costs amounted to 60.7% of the 2004-05 cost. The increase reflects the additional drawdown of funds in the second half of the 2004-05 financial year which were used to fund major capital works.

Depreciation expense for the six months represents 47.0% of the prior year amount, while employee benefit expenses amounted to 49.8% of the 2004-05 expense.

Other operating expenses for the six months to December came to 39.7% of 2004-05, which is low predominantly due to the triennial major port maintenance dredging program completed in May 2005, at a cost of $1.462m.

Non-operating expenses for the six months comprised predominantly a $1.613m impairment write-down relating to the Devonport Airport. As noted above, the profitability of the airport operations has been significantly affected by a downward trend in passenger numbers, which has become increasingly evident in recent periods. This led the Directors to reassess the recoverable amount of the airport assets, with an independent valuation being obtained from the Office of the Valuer-General. This valuation put the fair value of the asset below its carrying amount in the Corporation's balance sheet, meaning that the airport assets were required to be written down to the valuation amount.

FINANCIAL POSITION

	31/12/2005	30/06/2005
	$'000s	$'000s
Cash	4 407	4 120
Receivables	2 745	2 100
Inventories	6	5
Other	364	160
Total Current Assets	**7 522**	**6 385**
Payables	547	298
Borrowings	0	0
Provisions	847	861
Current tax liability	300	126
Other	1 059	535
Total Current Liabilities	**2 753**	**1 820**
Property, plant and equipment	43 164	45 323
Investments	1 514	1 530
Deferred tax assets	277	274
Total Non-Current Assets	**44 955**	**47 127**
Borrowings	12 032	12 032
Provisions	39	42
Deferred tax liabilities	2 256	2 705
Total Non-Current Liabilities	**14 327**	**14 779**
Net Assets	**35 397**	**36 913**
Capital	0	0
Reserves	31 689	31 689
Retained profits	3 708	5 224
Total Equity	**35 397**	**36 913**

Comment

The higher Receivables balance at December 2005 compared to June 2005 is largely due to payments of $0.498m on behalf of the new TasPorts entity which have been carried forward to be expensed following amalgamation.

Other assets increased by $0.204m due to prepayments for rates, land tax and insurance resulting from the timing of the December cut-off relative to renewal and/or payment dates for these items compared to the prior June balance date.

The Payables balance of $0.547m at December 2005 was significantly greater than the prior period due to the timing of creditor accounts received and accrued just prior to cut-off date, which were paid in the subsequent period. The most significant of these was an electricity account of $0.161m.

Current tax liability increased by $0.174m due to the timing of tax payments, deferred tax assets were virtually unchanged, and deferred tax liabilities came down by $0.449m, primarily due to the impairment write-down of airport assets leading to a reduction in the carrying amount of those assets relative to their tax base.

Other liabilities at December 2005 include a premium accrued for directors/officers insurance to cover future years, accrued land tax and an increased GST liability, compared to June 2005.

Property, plant and equipment decreased by $2.158m from June to December 2005. Additions of $0.732m, mainly relating to harbour improvements and land acquisitions, were offset by depreciation of $1.012m, disposals of $0.268m and the airport impairment write-down detailed previously.

FINANCIAL ANALYSIS

	Bench Mark	31/12/2005	30/06/2005
Financial Performance			
Result from operations ($'000s)		2 243	3 298
EBIT ($'000s)		900	3 968
Operating margin	>1.0	1.45	1.29
Return on assets		1.7%	7.3%
Return on equity		0.9%	6.1%
Financial Management			
Debt to equity		34.0%	32.6%
Debt to total assets		22.9%	22.5%
Interest cover	>3	2.1	5.6
Current ratio	>1	2.73	3.51
Cost of debt	7.5%	6.3%	6.3%
Debt collection	30 days	53	50
Creditor turnover	30 days	43	19
Returns to Government			
Dividends paid or payable ($'000s)		1 851	1 126
Dividend payout ratio	50%	552.5%	49.4%
Dividend to equity ratio		5.1%	3.0%
Income tax paid or payable ($'000s)		587	953
Effective tax rate	30%	124.9%	29.2%
Total return to the State ($'000s)		2 438	2 079
Total return to equity ratio		6.7%	5.6%
Other information			
Staff numbers FTEs		38	37
Average staff costs ($'000s)		34	68

Comment

The Result from operations (i.e. operating revenue less operating expenses) for the six months to 31 December 2005 amounted to $2.244m. The profit from ordinary activities before income tax and after adjusting for interest expense totalled $0.901m, which includes the impact of the airport impairment write-down. The operating margin of 1.45 increased from 2004-05 due primarily to the dredging expense incurred in the prior period. Return on assets and equity, which are based on EBIT were impacted by the airport impairment write-down.

The Debt to equity and Debt to total assets ratios are consistent for the two periods under review. The interest cover for December 2005 of 2.1 is below the benchmark of 3 due to the one-off effect of the airport impairment. Current ratios for both June and December are above the benchmark of 1. The cost of debt is consistent with the prior year.

The Debt collection ratio consistently remained greater than 30 days over the period of the review and reflects the high dollar value of invoices issued to customers at the end of each month and therefore outstanding at year-end. The company has several major customers who customarily pay toward the end of the company's 30 day trading terms. These funds are often not receipted by the company until early the following month, meaning that the company may have up to two months invoices outstanding from these customers at the end of any given month.

The Creditor turnover ratio at December 2005 reflects the higher than usual balance of creditors due to the timing of supplier accounts received and their subsequent payment. Notwithstanding this ratio, the Corporation is clearing its creditors in a suitable time frame.

In the six months to December 2005 the total dividends paid of $1.851m represented the final dividend for 2004-05 of $1.126m, as well as an interim dividend of $0.725m for 2005-06. The interim dividend was based on an estimate of profit prior to the airport impairment being identified and recorded, and this resulted in the dividend exceeding 50% of after tax profit, which is the normal payout policy.

Tax payable for the six months of $0.587m was based on the Corporation's taxable income. Tax expense in the income statement for the six months of $0.135m is based on the accounting profit. For tax purposes, the airport impairment write-down is not considered to be a deductible item, which resulted in taxable income being significantly higher than accounting profit. This difference is reflected in the $0.449m reduction in deferred tax liabilities.

The Corporation's returns to government were up by 1.1 percentage points relative to the State's ownership interest, over the period under review.

OVERALL COMMENT

The Corporation recorded a profit after tax of $0.328m for the six months to 31 December 2005, compared to a 2004-05 full year profit of $2.278m. The most significant item in this result was the impairment write-down of Devonport Airport, which resulted from the declining passenger numbers flowing through the facility.

The audit of the December 2005 special purpose financial report was completed with satisfactory results.

Port of Launceston Pty Ltd – Period Ended 31 December 2005

INTRODUCTION

The *Port Companies Act 1997,* which came into effect on 30 July 1997, replaced the *Marine Act 1976* and associated legislation from that date and provided a framework for the establishment of State owned port companies.

In accordance with this Act, the Port of Launceston Pty Ltd (the Port or the Company) replaced the former Port of Launceston Authority. In addition, the Flinders Island Marine Board was replaced by the Flinders Island Ports Company Pty Ltd (FIPC), which became a wholly owned subsidiary of the Company. Under the Act, the former entities ceased operations on 29 July 1997, with all assets, rights and liabilities vesting in the new Companies. The joint shareholders of the Companies are the Treasurer and the then Minister for Infrastructure, Energy and Resources. Upon incorporation, the shareholders were each issued with one ordinary share.

The Port facilitates the import and export of cargo on a statewide basis with a particular focus on major industries such Comalco, TEMCO, Gunns and Pinepanels, located on the Bell Bay industrial estate. Around half of the Port's business is derived from the timber industry and approximately 75% involves the handling of bulk cargos.

The Board comprises six directors, appointed by the shareholders. During the 2004-05 financial year, one of the Directors resigned and has not been replaced due to the impending amalgamation of the four state port companies.

AUDIT OF 31 DECEMBER 2005 SPECIAL PURPOSE FINANCIAL REPORT

The signed special purpose financial report was received on 18 May 2006 and an unqualified audit report issued on 23 May 2006.

The wholly owned subsidiary's results, FIPC, have not been consolidated into this analysis.

FINANCIAL RESULTS

The following analysis is based on a comparison of the 2004-05 financial performance with those of the six months to 31 December 2005. This limited period of comparative assessment was adopted because of the application in both financial periods of Australian equivalents to International Financial Reporting Standards (AIFRS).

The financial results of the Company at 30 June 2005 (previously reported to the Parliament in my Report of 22 November 2005) were amended on 1 July 2005 for changes necessitated by the introduction of revised accounting standards. Assessment against of results prior to 30 June 2005 would have been difficult due to the preparation of the financial statements in those years under a different financial reporting framework.

FINANCIAL PERFORMANCE

	6 months to 31/12/2005	**12 months to 30/6/2005**
	$'000s	$'000s
Services revenue	4 697	9 760
Rental income	218	516
Interest revenue	98	162
Non-operating revenue	72	493
Total Revenue	**5 085**	**10 931**
Borrowing costs	314	747
Depreciation	672	1 372
Employee benefit expenses	1 490	2 741
Other operating expenses	2 104	4 413
Total Expenses	**4 580**	**9 273**
Result from ordinary activities	**505**	**1 658**
Income tax expense	137	491
Result after taxation	**368**	**1 167**

Comment

A comparison of the two periods shows that Services revenue for the six months to 31 December 2005 represents 48.1% of the 2004-05 revenue which is below 50% due to a decline in income from import wharfage. Rental revenue represents 42% and Interest revenue represents 61%. In total, revenue for the six months to 31 December 2005 represents 46.5% of the 2004-05 revenue.

Non-operating revenues and expenses relate to profits and losses incurred from the sale of assets. The larger revenue in 2004-05 is mainly due to the sale of land and buildings, including the George Town ferry terminal.

Borrowing costs amounted to $0.314m or 42% of the 2004-05 cost. The decrease reflects the reduction in the balance of borrowings outstanding as a result of scheduled principal repayments.

Depreciation expense for the six months, $0.672m represents 49% of the prior year amount.

Employee benefit expenses amounted to $1.490m or 54.4% of the 2004-05 expense. The increase in this six-month period was due to normal salary increases.

Other operating expenses totalled $2.104m or 47.7% of the prior year amount.

FINANCIAL POSITION

	31/12/2005	30/06/2005
	$'000s	$'000s
Cash	2 900	4 171
Receivables	1 418	1 288
Inventories	458	457
Other	265	162
Total Current Assets	**5 041**	**6 078**
Payables	1 355	1 853
Borrowings	1 622	1 554
Provisions	774	675
Total Current Liabilities	**3 751**	**4 082**
Working Capital	**1 290**	**1 996**
Property, plant and equipment	31 719	32 120
Deferred tax assets	2 421	2 611
Total Non-Current Assets	**34 140**	**34 731**
Payables	25	28
Borrowings	6 633	7 465
Provisions	55	81
Deferred tax liabilities	5 185	5 237
Total Non-Current Liabilities	**11 898**	**12 811**
Net Assets	**23 532**	**23 916**
Reserves	21 551	21 551
Retained profits	1 981	2 365
Total Equity	**23 532**	**23 916**

Comment

The reduction in Cash is primarily due to the dividend payment of $0.752m, debt repayments of $0.764m, the increased debtor balance and the payment during this period of one-off annual costs resulting in prepaid expenses.

The Receivables balance at 31 December 2005 of $1.418m is $0.130m higher than at 30 June. This is due to the timing of shipping movements. The majority of the debtors balance outstanding was collected in early 2006.

The increase in Other current assets of $0.103m is mostly due to the recognition of prepaid land tax and insurance of $0.232m. The prepayment is caused by the 31 December reporting date. The increase in prepayments has been partially offset by a decrease in accrued income of $0.129m.

Property, plant and equipment decreased by $0.401m during the six months to 31 December 2005. The movement is due to depreciation and amortisation expense of $0.672m, disposals of $0.042m and capital additions of only $0.313m.

Total Borrowings decreased by $0.764m, which represents principal repayments made during the six months.

Total Provisions increased by $0.073m. This is due to general increases in pay rates and leave balances held at 31 December.

Deferred tax assets represent future income tax benefits available to the Company in future periods and include carried forward tax losses of $7.955m. Deferred tax liabilities represent taxes deferred for payment in the future and arises primarily from timing differences associated with the book value of non-current assets being greater than the tax value thereof.

FINANCIAL ANALYSIS

	Bench Mark	31/12/2005	30/06/2005
Financial Performance			
Result from operations ($'000s)		433	1 165
EBIT ($'000s)		819	2 405
Operating margin	>1.0	1.09	1.13
Return on assets		2.0%	5.7%
Return on equity		1.6%	4.6%
Financial Management			
Debt to equity		35.1%	37.7%
Debt to total assets		21.1%	22.1%
Interest cover	>3	2.6	3.2
Current ratio	>1	1.34	1.49
Cost of debt	7.5%	6.6%	7.1%
Debt collection	30 days	53	46
Creditor turnover	30 days	26	53
Returns to Government			
Dividends paid or payable ($'000s)		752	752
Dividend payout ratio	50%	204.3%	64.4%
Dividend to equity ratio	6%	3.2%	3.0%
Income tax paid or payable ($'000s)		0	0
Effective tax rate	30%	-	-
Total return to the State ($'000s)		752	752
Total return to equity ratio		3.2%	3.0%
Other information			
Staff numbers FTEs		35	36
Average staff costs ($'000s)		39	70

Comment

The Result from operations (i.e. operating revenue less operating expenses) for the six months to 31 December 2005 amounted to $0.433m. The profit from ordinary activities before income tax and after adjusting for interest expense totalled $0.819m. The operating margin of 1.09 was comparable to the margin achieved for the year ended 30 June 2005.

Both the Return on assets and Equity ratios at 31 December 2005 decreased significantly from 30 June 2005. The decreases are expected as the ratios are comparing a 6 months profit against a 12-month profit.

The Debt to equity and Debt to total assets ratios are consistent for the two periods under review. The interest cover and current ratios are both relatively consistent with the benchmarks of 3 and 1 respectively. The cost of debt is slightly less than the prior year as older debt balances reduce.

The Debt collection ratio is higher than the benchmark in the six months to 31 December 2005. This reflected the high dollar value of invoices issued to customers at period end. The Company's actual experience with debt recovery indicates the majority of balances outstanding are recovered within a thirty-day period.

During the six months ended 31 December 2005 the Company paid dividends of $0.577m in respect of the 2004-05 year and $0.175m relating to the final six months to 31 December 2005. The dividend payment of $0.175m was based on the Port's estimated profit for that period.

There were no income tax equivalent payments or provisions for income tax payable for the period under review due to carried forward tax losses.

Average staff costs for the six months are $0.039m and if extrapolated for the year total $0.078m. The increase from 2004-05 relates to salary increases included in the six-month period.

OVERALL COMMENT

The audit of the special purpose financial report for the six months was completed with satisfactory results.

Local Government Authorities

Local government authorities are governed principally by the *Local Government Act 1993* as amended. In addition, there are a number of other Acts that provide specific provisions in relation to rating, building and miscellaneous matters.

The authorities are administered by a council consisting of a number of elected members known as Councillors or Aldermen.

The major functions of the Councils are set out in Section 20 of the *Local Government Act 1993*.

RESPONSIBLE MINISTER

The Responsible Minister is the Minister for Local Government and Community Development.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

The following is a summary of the audit status of the financial statements for the 29 Councils and six local government business units for the 2004-05 year.

Results of audits completed by 31 October 2005 and included in my November 2005 report:

Council audits completed and unqualified audit reports issued	18
Council audit completed and qualified audit report issued	1
Local Government Business Units completed and unqualified audit reports issued	4

As at 31 October 2005 the audits of the following Councils, Business Units and other audits were still in progress:

Medium Rural Councils:
Derwent Valley
George Town
Northern Midlands
Sorell
West Coast

Smaller Rural Councils:
Flinders
Glamorgan Spring Bay
Kentish

King Island
Tasman

Local Government Business Units:
Dulverton Regional Waste Management Authority
Southern Waste Strategy Authority

Local *Government* - *Other*
West Coast Health and Community Services Pty Ltd

Audits have now been completed for all of the abovementioned Councils, Business Units and other audits.

FINANCIAL RESULTS

For purposes of comparison, I have grouped Local Government Authorities, as:

- City Councils;
- Larger Urban and Rural Councils;
- Medium Rural Councils;
- Smaller Rural Councils; and
- Local Government Business Units.

In my November 2005 Report, I provided comparisons and commentary about the groups for which all audits had been completed, namely:

- City Councils;
- Larger Urban and Rural Councils;
- Water Authorities.

In this Report I have provided comparisons for Medium Rural Councils and Smaller Rural Councils.

This report also includes five-year comparative analyses of financial information for each of the Councils not included in the November 2005 Report.

Where necessary amounts have been reclassified in order to maintain consistency.

Medium Rural Councils

INTRODUCTION

This section of the Report deals with the relative performance of the following councils:

	Approximate Population
• Brighton	13 700
• Derwent Valley	9 820
• George Town	6 700
• Latrobe	8 350
• Northern Midlands	12 000
• Sorell and	12 000
• West Coast.	5 515

These councils have been classified as medium based upon their annual revenue from Rates and User charges being greater than $6.000m and less than $9.000m.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Brighton	**Derwent Valley**	**George Town**	**Latrobe**	**Northern Midlands**	**Sorell**	**West Coast**
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Rates	7 626	5 790	5 088	5 952	6 373	6 960	5 355
User charges	1 117	1 019	1 707	886	1 443	1 459	2 217
Grants	2 364	2 051	1 440	1 053	4 852	2 328	2 106
Other operating revenue	916	3 326	239	667	1 342	453	341
Non-operating revenue	4 843	913	114	1 724	0	215	134
Total Revenue	**16 866**	**13 099**	**8 588**	**10 282**	**14 010**	**11 415**	**10 153**
Employee costs	2 443	2 912	2 194	2 535	3 409	3 896	3 159
Borrowing costs	353	154	184	136	0	183	200
Depreciation	1 738	2 107	2 185	2 066	3 750	4 027	1 634
Other operating expenses	6 550	4 828	3 704	4 213	4 484	4 999	3 818
Non-operating expenses	0	457	286	575	554	229	134
Total Expenses	**11 084**	**10 458**	**8 553**	**9 525**	**12 197**	**13 334**	**8 945**
Result from Ordinary Activities	**5 782**	**2 641**	**35**	**757**	**1 813**	**(1 919)**	**1 208**

Comment

Revenue from Rates and user charges ranged from $6.795m (George Town) to $8.743m (Brighton). The higher revenue recorded by Brighton was due to its larger population base, which approximated 13 700 people compared with George Town's population of 6 700. On average, revenue from Rates, fees and charges represented 69% of total operating revenue for the seven councils for 2004-05.

Government grants and subsidies represented 21% of total operating revenue recorded by the seven councils. The majority of the councils' grant revenue was consistent with the average, with the exception of Northern Midlands recording the highest proportion with 35%. However, the Northern Midlands percentage was distorted by the receipt of $1.137m for the Longford Flood Mitigation Project.

On average, for those councils with loan debt, Borrowing costs represented 2.0% of total operating expenditure for 2004-05. Northern Midlands had no Borrowing costs as the Council repaid its outstanding borrowings during 1999-00. Brighton recorded the highest proportion with 3.2%, however its Borrowing costs are considered low in relation to its total operating expenditure.

On average, depreciation accounted for 24% of total operating expenditure, with percentages for councils ranging from 15.7% (Brighton) to 32.2% (Northern Midlands). The variation in depreciation relates to the balances of Property, plant and equipment held by the councils. Depreciation as a percentage of Property, plant and equipment held at 30 June 2005 for Brighton and Northern Midlands was 1.97% and 2.26%, respectively.

With the exception of Sorell, all the councils recorded surpluses from Ordinary Activities, with the largest surplus being recorded by Brighton, totalling $5.782m. The Brighton surplus was unusually high due to the recognition of contributions towards the Brighton Training Facility, $2.432m and an increase in contributed infrastructure assets, $1.331m. Sorell recorded a significant deficit, $1.919m, attributable to it not budgeting to fully recover depreciation.

FINANCIAL POSITION

	Brighton	Derwent Valley	George Town	Latrobe	Northern Midlands	Sorell	West Coast
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	2 506	(77)	1 916	2 455	7 518	59	94
Receivables	1 138	820	300	261	517	338	987
Investments	0	2 400	0	0	0	4 387	2 564
Inventories	0	50	0	15	14	13	0
Other	204	38	162	179	0	180	141
Total Current Assets	**3 848**	**3 231**	**2 378**	**2 910**	**8 049**	**4 977**	**3 786**
Payables	246	499	620	615	368	1 255	724
Borrowings	526	516	559	367	0	349	453
Provisions	542	992	503	282	763	985	662
Other	1 884	122	17	868	322	147	1 927
Total Current Liabilities	**3 198**	**2 129**	**1 699**	**2 132**	**1 453**	**2 736**	**3 766**
Working Capital	**650**	**1 102**	**679**	**778**	**6 596**	**2 241**	**20**
Property, plant and equipment	88 329	56 173	77 333	63 284	166 228	76 835	50 519
Investments	6 229	6 281	11 368	3 930	0	2 776	0
Other	31	13	113	164	96	1 399	0
Total Non-Current Assets	**94 589**	**62 467**	**88 814**	**67 378**	**166 324**	**81 010**	**50 519**
Borrowings	4 090	1 802	1 925	1 658	0	3 175	2 187
Provisions	66	64	64	259	66	84	55
Other	0	0	37	471	0	0	136
Total Non-Current Liabilities	**4 156**	**1 866**	**2 026**	**2 388**	**66**	**3 259**	**2 378**
Net Assets	**91 083**	**61 703**	**87 467**	**65 768**	**172 854**	**79 992**	**48 161**
Reserves	31 185	39 036	49 755	24 963	57 733	45 770	3 701
Retained Surpluses	59 898	22 667	37 712	40 805	115 121	34 222	44 460
Total Equity	**91 083**	**61 703**	**87 467**	**65 768**	**172 854**	**79 992**	**48 161**

Comment

All the councils had positive working capital at 30 June 2005. This position was supported by the councils holding $23.822m in cash and investments. West Coast had the lowest working capital balance, $0.020m.

Of the councils with loan debt, the average debt to equity ratio is 4.06%. The proportion of debt to equity was highest for West Coast whose borrowings represented 5.48% of total equity, which is not considered excessive. Total loan debt for the councils was $17.607m in comparison to total equity of $434.174m.

The combined net assets held by the seven councils totalled $607.028m at 30 June 2005. The balances ranged from $48.161m (West Coast) to $172.854m (Northern Midlands). The larger asset balance recorded by Northern Midlands reflected the fact that Council is responsible for the longest lengths of roads in the State.

CASH POSITION

	Brighton	Derwent Valley	George Town	Latrobe	Northern Midlands	Sorell	West Coast
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	12 100	10 432	7 493	8 666	9 322	8 722	8 134
Payments to suppliers and employees	(8 748)	(8 162)	(5 913)	(7 434)	(9 012)	(8 359)	(7 150)
Interest received	180	172	104	167	448	311	154
Borrowing costs	(266)	(153)	(191)	(136)	0	(214)	(237)
Cash from operations	**3 266**	**2 289**	**1 493**	**1 263**	**758**	**460**	**901**
Proceeds from investments	175	(2 000)	0	90	0	0	0
Payments for investments	0	0	0	(15)	0	0	(835)
Payments for property, plant and equipm	(4 601)	(2 907)	(1 349)	(2 833)	(5 584)	(2 816)	(2 211)
Proceeds from sale of property, etc	343	498	96	779	205	215	117
Cash used in investing activities	**(4 083)**	**(4 409)**	**(1 253)**	**(1 979)**	**(5 379)**	**(2 601)**	**(2 929)**
Proceeds from borrowings	0	400	250	0	0	776	0
Repayment of borrowings	(638)	(468)	(706)	(321)	0	(280)	(268)
Cash from financing activities	**(638)**	**(68)**	**(456)**	**(321)**	**0**	**496**	**(268)**
Cash flows from Government	**2 364**	**2 051**	**1 440**	**1 166**	**5 148**	**2 328**	**2 125**
Net increase/(decrease) in cash	**909**	**(137)**	**1 224**	**129**	**527**	**683**	**(171)**
Cash at the beginning of the period	1 597	60	692	2 326	6 991	3 763	265
Cash at end of the period	**2 506**	**(77)**	**1 916**	**2 455**	**7 518**	**4 446**	**94**

Comment

All councils recorded surpluses from Cash from operations, totalling $10.430m, with Cash flows from Government providing a further $16.622m. These funds were expended primarily on property, plant and equipment, totalling $22.301m.

Only Derwent Valley and West Coast recorded net decreases in cash during 2004-05, however the decreases were not significant. Derwent Valley and West Coast do not include current investments of $2.400m and $2.564m, respectively, in the definition of cash. Had they done so, the respective balances for Cash at the end of the period would have been $2.323m and $2.658.

FINANCIAL ANALYSIS

	Bench Mark	Brighton	Derwent Valley	George Town	Latrobe	Northern Midlands	Sorell	West Coast
Financial Performance								
Result from operations ($'000s)		939	2 185	207	(392)	2 367	(1 905)	1 208
Operating margin	>1.0	1.08	1.22	1.03	0.96	1.20	0.85	1.14
Financial Management								
Current ratio	>1	1.20	1.52	1.40	1.36	5.54	1.82	1.01
Cost of debt	7.5%	7.6%	6.6%	6.3%	6.2%	0.0%	5.2%	6.3%
Debt service ratio		7.5%	5.1%	10.6%	5.3%	0.0%	4.4%	5.0%
Debt collection	30 days	42	30	16	10	22	17	48
Creditor turnover	30 days	9	38	24	22	13	92	44
Capital Exp/Depreciation	100%	265%	138%	62%	137%	149%	70%	135%
Other information								
Employee costs as a % of operating expenses		22%	29%	27%	28%	29%	30%	36%
Staff numbers		49	65	45	56	75	63	58
Average staff costs ($'000s)		50	41	59	49	48	52	55

Comment

The majority of the councils had positive Results from operations and Operating margins. Only Latrobe and Sorell produced negative Results from operations. Latrobe produced a positive Result from operations, however this included $0.867m for the recognition of subdivision assets treated as Non-operating revenue. The negative result for Latrobe in 2004-05 was unusual and in the previous four years, it has recorded positive operating results.

As noted previously, Sorell also recorded a significant deficit from operations, which is attributable to it not budgeting to fully recover the costs of depreciation.

All councils recorded current ratios above the benchmark.

All councils with loan debt recorded a cost of debt ratio within an acceptable level of the benchmark. On average, the council's cost of debt was 6.4%. The debt service ratio indicates that the councils can adequately finance their loan debt. George Town's ratio of 10.6% is higher than other councils, but it has been reducing over a number of years. The ratio will be further improved as debt was reduced by $0.456m during 2004-05.

The average Debt collection period was 26 days, while the average creditor turnover was 35 days. The debt collection period for West Coast (48 days) was high as it was experiencing difficulties in recovering rate debts, but it is taking action to recover outstanding debts. Sorell recorded a Creditor turnover ratio of 92 days, which was distorted by the payables balance at 30 June 2005, including a liability for additional costs for the Effluent Re-Use Irrigation Scheme totalling $0.419m.

The capital expenditure/depreciation ratio indicates that the majority of the councils are expending monies on capital in excess of their depreciation expenses. Five of the councils have ratios well above the benchmark of 100%. Of the two remaining councils:

- Sorell's low ratio indicates that capital expenditure is not keeping pace with the depreciation of infrastructure assets. This is the third consecutive year the ratio has been low and indicates council may not be maintaining its present infrastructure capacity; and
- George Towns ratio for 2004-05 was affected by a significant revaluation of infrastructure assets and a significant increase in depreciation expense. The ratio had been above the benchmark in the previous 4 years.

The average cost of staff for medium councils was $0.051m, which equated to an average of 29% of operating expenditure.

Derwent Valley Council

INTRODUCTION

The New Norfolk municipality was proclaimed in 1863. Under the *Local Government Act 1993* the former New Norfolk Council was proclaimed as the Derwent Valley Council. The population serviced by Derwent Valley Council is in the order of 9 820.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 14 December 2005 and an unqualified audit report was issued on 15 December 2005. The delay between 23 September 2005 and 28 November 2005 was caused by a lack of resources in my office.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates	5 790	5 443	5 351	5 198	5 082
User Charges	1 019	1 044	808	679	769
Grants	2 051	2 216	2 179	2 038	2 027
Other operating revenue	3 326	979	512	416	473
Non-operating revenue	913	362	266	739	215
Total Revenue	**13 099**	**10 044**	**9 116**	**9 070**	**8 566**
Employee Costs	2 912	2 653	2 662	2 592	2 658
Borrowing costs	154	178	206	234	263
Depreciation	2 107	2 087	1 746	1 703	1 646
Other operating expenses	4 828	4 701	4 455	3 521	3 353
Non-operating expenses	457	325	263	549	221
Total Expenses	**10 458**	**9 944**	**9 332**	**8 599**	**8 141**
Result from Ordinary Activities	**2 641**	**100**	**(216)**	**471**	**425**

Comment

Revenue from Rates increased by $0.347m in 2004-05. The increase was mainly due to the impact of the *State and Local Government Reform Act 2003* (the Reform Act), which resulted in the rating of previously exempt properties including Crown Land.

Revenue from User charges declined slightly in 2004-05 primarily due to a reduction in private works of $0.253m in 2003-04 to $0.056m. The 2003-

04 year included works at the supermarket car park and school. Overall User charges have steadily grown over the period of review for other key components such as water, refuse disposal and childcare.

Other operating revenue for 2004-05 included significant receipt of funds in relation to the Willow Court redevelopment. Had council not received this contribution, the result for the year would have been approximately one of break-even.

Non-operating revenue generally reflects the proceeds from the disposal of non-current assets in any given year, together with contribution of infrastructure assets by developers. The 2001-02 figure included proceeds from the sale of Lachlan River Investments. The 2004-05 year includes the first time recognition of $0.413m assets not previously recorded.

In 2003-04 Council revalued infrastructure assets including road assets. This was the principal reason for the increase in depreciation of $0.341m over the prior year. Depreciation in 2004-05 remains consistent with that of 2003-04.

Non-operating expenses generally reflected the written down value of assets disposed during each year. In 2001-02 Council disposed of more assets than in the other years under review. The 2004-05 year included $0.202m being the balance of the revaluation decrement for building assets.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	(77)	60	(218)	66	(83)
Receivables	820	858	710	470	529
Investments	2 400	400	650	1 000	850
Inventories	50	52	54	66	84
Other	38	53	37	84	68
Total Current Assets	**3 231**	**1 423**	**1 233**	**1 686**	**1 448**
Payables	499	658	325	209	244
Borrowings	516	468	438	410	385
Provisions	992	861	754	702	701
Other	122	98	269	310	392
Total Current Liabilities	**2 129**	**2 085**	**1 786**	**1 631**	**1 722**
Working Capital	**1 102**	**(662)**	**(553)**	**55**	**(274)**
Property, plant and equipment	56 173	53 024	36 646	37 571	37 716
Investments	6 281	5 616	5 269	5 308	5 412
Other	13	12	83	75	100
Total Non-Current Assets	**62 467**	**58 652**	**41 998**	**42 954**	**43 228**
Borrowings	1 802	1 918	2 386	2 824	3 234
Provisions	64	68	56	52	39
Other	0	0	0	0	31
Total Non-Current Liabilities	**1 866**	**1 986**	**2 442**	**2 876**	**3 304**
Net Assets	**61 703**	**56 004**	**39 003**	**40 133**	**39 650**
Reserves	39 036	33 803	16 681	20 395	19 480
Retained surpluses	22 667	22 201	22 322	19 738	20 170
Total Equity	**61 703**	**56 004**	**39 003**	**40 133**	**39 650**

Comment

Cash balances over the period of review reflected Council's policy for cash management, where increased funds were paid into investments. The overdrafts in 2000-01 and 2004-05 were a timing matter related to the transfer of investment funds. The overdraft in 2002-03 was also a timing matter relating to a large balance of un-presented cheques at year-end.

The significant increase noted in 2003-04 for Property, plant and equipment, was predominantly a result of the revaluations of road infrastructure assets that amounted to $16.378m. This also occurred to a lessor extent in 2004-05, $3.059m. These revaluations were also reflected in the balance of Reserves.

The Non-current investments represent Council's share of the net assets in the Hobart Regional Water Authority (Hobart Water).

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	10 432	7 278	6 296	6 210	6 268
Payments to suppliers and employees	(8 162)	(7 068)	(6 938)	(6 192)	(6 043)
Interest received	172	100	143	125	124
Borrowing costs	(153)	(181)	(211)	(240)	(268)
Cash from operations	**2 289**	**129**	**(710)**	**(97)**	**81**
Payments for investments	(2 000)	250	350	(150)	(250)
Payments for property, plant and equipment	(2 907)	(2 236)	(1 959)	(1 991)	(1 802)
Proceeds from sale of property, plant and equipment	498	357	266	734	213
Cash used in investing activities	**(4 409)**	**(1 629)**	**(1 343)**	**(1 407)**	**(1 839)**
Proceeds from borrowings	400	0	0	0	0
Repayment of borrowings	(468)	(438)	(410)	(385)	(360)
Cash from financing activities	**(68)**	**(438)**	**(410)**	**(385)**	**(360)**
Cash Flows from Government	**2 051**	**2 216**	**2 179**	**2 038**	**2 027**
Net increase/(decrease) in cash	**(137)**	**278**	**(284)**	**149**	**(91)**
Cash at the beginning of the period	60	(218)	66	(83)	8
Cash at end of the period	**(77)**	**60**	**(218)**	**66**	**(83)**

Comment

The improving trend in Receipts from customers was related to increases in revenue from Rates and User charges.

The steady increase in Payments to suppliers and employees resulted from wage increases for full time employees, demand for private works and increased maintenance works.

The increase of $0.521m in the Proceeds from the sale of property, plant and equipment for 2001-02 included the proceeds of $0.350m for general plant and equipment sales, with the remainder reflecting the sale of assets in Lachlan River Investments, which was sold in June 2002.

Over the period under review, Council invested surplus cash in investments. Payments for property, plant and equipment have grown slightly over the period with 2004-05 including $0.488m in heavy-duty vehicles.

Capital works are funded from internal funds thereby enabling Council to avoid the need for additional borrowings. The total level of borrowings has declined steadily over the five-year period.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		2 185	63	(219)	281	431
Operating margin	>1.0	1.22	1.01	0.98	1.03	1.05
Financial Management						
Current ratio	>1	1.52	0.68	0.69	1.03	0.84
Cost of debt	7.5%	6.6%	7.5%	7.3%	7.2%	7.3%
Debt service ratio		5.1%	6.4%	7.0%	7.5%	7.5%
Debt collection	30 days	30	42	39	27	31
Creditor turnover	30 days	38	51	27	22	27
Capital Exp/Depreciation	100%	138%	107%	112%	117%	109%
Other information						
Employee costs as a % of operating expenses		29%	28%	29%	32%	34%
Staff numbers FTEs		65	66	68	66	65
Average staff costs ($'000s)		41	39	39	39	41

Comment

The financial performance ratios show Council achieved an operating surplus of $2.741m for the five-year period to 30 June 2005. Annual results tended to fluctuate in line with movements in operating revenues and expenditure. The increase in grant funding and reduced depreciation expense in 2000-01 and 2001-02 aided the return to surpluses in those years. A rise in other expenditure, including materials, in 2002-03 resulted in a deficit. In 2003-04 increases in operating revenues covered the higher costs and the rise in depreciation expense. Other revenues noted earlier influenced the movement in 2004-05. Had it not been for these revenues Council's Results from operations would have been approximately breakeven and an Operating margin close to the benchmark level.

The increase in investments for 2004-05 resulted in the large increase in the Current ratio over previous years. Council's Cost of debt remained relatively stable over the period of review. The Debt service ratio has fallen over the period in line with the decline in total borrowings.

The Debt collection ratios for 2002-03 and 2003-04 were higher mainly due to large infrastructure developments in the municipality. Other years have been consistently close to the benchmark of 30 days.

Between 2000-01 and 2002-03 Council was consistently below the benchmark of 30 days for Creditor turnover. In 2003-04 and 2004-05 a number of large accounts remained outstanding at year-end caused the higher ratio.

OVERALL COMMENT

The 2004-05 audit was completed with satisfactory results.

George Town Council

INTRODUCTION

George Town Council was proclaimed in 1993 and was formerly the Municipality of George Town, which was established in 1907. The Council services a population of approximately 6 700 people and includes the townships of George Town, Low Head, Pipers River and Hillwood.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 29 September 2005, with amended statements received on 21 October 2005. An unqualified audit report was issued on 15 November 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates	5 088	4 651	4 488	4 255	4 351
User charges	1 707	1 377	1 541	1 428	1 254
Grants	1 440	2 074	1 510	1 618	1 434
Other operating revenue	239	247	232	210	167
Non-operating revenue	114	133	103	99	41
Total Revenue	**8 588**	**8 482**	**7 874**	**7 610**	**7 247**
Employee costs	2 194	1 900	1 739	1 640	1 569
Borrowing costs	184	265	369	467	546
Depreciation	2 185	1 375	1 510	1 419	1 226
Other operating expenses	3 704	3 857	3 666	3 677	2 951
Non-operating expenses	286	190	67	109	57
Total Expenses	**8 553**	**7 587**	**7 351**	**7 312**	**6 349**
Result from Ordinary Activities	**35**	**895**	**523**	**298**	**898**

Comment

Revenue from rates increased by $0.437m 2004-05. The increase was primarily due to the impact of the Reform Act, which resulted in the rating of previously exempt properties including Crown Land and Forestry properties.

User charges increased by $0.330m in 2004-05 due primarily to Council undertaking a major private work road construction project at Gees Marsh

Road totalling $0.203m for the State Government. Upon completion, the road became the responsibility of the Council.

Grant revenue in 2001-02 of $1.618m included $0.306m under the Roads to Recovery Programme. The increase in Grant revenue in 2003-04 of $0.564m was mainly due to the receipt of $0.355m for the Low Head Pilot Station Ship Village and $0.383m in Roads to Recovery funding.

Non-operating revenue and expenditure usually represents the proceeds for sale and carrying amount on the disposal of non-current assets. However, in 2003-04 there were prior year adjustments relating to revenues and expenses of $0.031m and $0.128m respectively. In 2004-05, Non-operating expenditure includes $0.188m relating to decrements on the revaluation of jetties and pontoons.

Employee costs have steadily increased over the period under review. In 2004-05, employee costs increased by $0.294m due to Council becoming liable to pay payroll tax, several redundancies paid during the year and Council taking over the operations of the swimming pool, which up to 2003-04 was operated by contractors.

Depreciation expenses increased by 0.810m in 2004-05 as a result of Council revaluing a number of infrastructure asset classes, including land, buildings, roads, bridges, sewerage, water and drainage. The majority of the revaluations were effective from 1 July 2004 and changed the asset values being depreciated in the financial period.

Council recorded a surplus from ordinary activities in each year under review, although the surplus in 2004-05 reduced significantly due to the impact of increased depreciation expenses following the revaluation of the majority of the infrastructure asset classes.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	1 916	692	436	1 085	801
Receivables	300	515	1 254	1 107	1 110
Other	162	349	234	57	217
Total Current Assets	**2 378**	**1 556**	**1 924**	**2 249**	**2 128**
Payables	620	599	468	1 003	615
Borrowings	559	705	1 431	1 137	1 009
Provisions	503	396	299	303	262
Other	17	28	76	14	17
Total Current Liabilities	**1 699**	**1 728**	**2 274**	**2 457**	**1 903**
Working Capital	**679**	**(172)**	**(350)**	**(208)**	**225**
Property, plant and equipment	77 333	33 167	32 964	32 979	32 738
Investments	11 368	8 485	8 485	8 485	8 485
Other	113	0	211	781	1 336
Total Non-Current Assets	**88 814**	**41 652**	**41 660**	**42 245**	**42 559**
Borrowings	1 925	2 234	2 940	4 163	5 211
Provisions	64	61	66	44	29
Other	37	37	51	65	77
Total Non-Current Liabilities	**2 026**	**2 332**	**3 057**	**4 272**	**5 317**
Net Assets	**87 467**	**39 148**	**38 253**	**37 765**	**37 467**
Reserves	49 755	1 766	1 706	1 683	1 279
Retained surpluses	37 712	37 382	36 547	36 082	36 188
Total Equity	**87 467**	**39 148**	**38 253**	**37 765**	**37 467**

Comment

The balance of Current Receivables decreased significantly in 2003-04 due mainly to a reduction in the amount due in relation to the TEMCO loan receivable of $0.437m. The loan was paid out during 2004-05.

The increase in Payables from 2000-01 to 2001-02, $0.388m, was due mainly to an invoice outstanding at 30 June 2002 for bridge works together with an increase in the amount payable to the organisation that managed Council's outside workforce.

The balance of Current Borrowings at 30 June 2003 of $1.431m included a bank overdraft of $0.308m. This balance decreased by $0.726m during 2003-04 by eliminating the bank overdraft and utilising funds recovered from TEMCO, $0.437m, to repay debt.

Property, plant and equipment increased in 2004-05 by $44.166m as a result of Council revaluing the majority of its infrastructure asset classes. Council recorded asset revaluation increments totalling $45.112m arising from the revaluation.

Other Non-current Investments represent Council's interest in Esk Water. During 2004-05, Council revalued its interest in Esk Water based upon its share of the net equity of the Authority. A revaluation increment of $2.883m increased Council's investment to $11.368m at 30 June 2005.

Other non-current assets mostly comprised the non-current portion of the TEMCO loan receivable, which reduced steadily from $1.336m at 30 June 2000 to a nil balance at 30 June 2004.

The revaluation of infrastructure asset classes and the investment in Esk Water, as noted previously, resulted in Council's Reserves balance increasing from $1.766m in 2003-04 to $49.755m at 30 June 2005.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	1999-00
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 493	7 352	6 869	6 766	6 002
Payments to suppliers and employees	(5 913)	(5 979)	(6 365)	(5 179)	(4 563)
Interest received	104	58	57	56	50
Borrowing costs	(191)	(280)	(379)	(467)	(606)
Cash from operations	**1 493**	**1 151**	**182**	**1 176**	**883**
Payments for property, plant and equipment	(1 349)	(1 639)	(1 547)	(1 656)	(1 380)
Proceeds from sale of property, plant and equipment	96	102	103	99	171
Cash used in investing activities	**(1 253)**	**(1 537)**	**(1 444)**	**(1 557)**	**(1 209)**
Proceeds from borrowings	250	0	0	0	0
Repayment of borrowings	(706)	(1 123)	(1 186)	(1 018)	(810)
Cash from financing activities	**(456)**	**(1 123)**	**(1 186)**	**(1 018)**	**(810)**
Cash Flows from Government	**1 440**	**2 074**	**1 541**	**1 632**	**1 063**
Net increase/(decrease) in cash	**1 224**	**565**	**(907)**	**233**	**(73)**
Cash at the beginning of the period	692	127	1 034	801	487
Cash at end of the period	**1 916**	**692**	**127**	**1 034**	**414**

Comment

Cash at the end of 2004-05 equalled $1.916m, an increase of $1.224m from 30 June 2004.

Council has in most years under review achieved sound inflows of cash from operations. However, the net Cash from operations decreased significantly in 2002-03 due to an increase in payments to suppliers and employees of $1.186m. The increase in payments was primarily due to the impact of payables outstanding at 30 June 2002 of $1.003m.

Council expended a significant amount of its cash on Payments for property, plant and equipment. During 2004-05, Council expended $0.538m on road infrastructure, $0.136m on bridges and $0.154m on plant purchases.

Repayments of borrowings for the period totalled $4.843m and resulted in reduced borrowing costs each year. Council did not borrow any funds in the first four years under review, but in 2004-05 borrowed $0.250m.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		207	952	487	308	914
Operating margin	>1.0	1.03	1.13	1.07	1.04	1.15
Financial Management						
Current ratio	>1	1.40	0.90	0.85	0.92	1.12
Cost of debt	7.5%	6.3%	7.1%	7.5%	8.3%	8.3%
Debt service ratio		10.59%	16.80%	20.14%	19.77%	20.90%
Debt collection	30 days	16	21	40	36	40
Creditor turnover	30 days	24	22	25	57	27
Capital Exp/Depreciation	100%	62%	119%	102%	117%	108%
Other information						
Employee costs as % of operating expenses		26.54%	25.69%	23.87%	22.77%	24.94%
Staff numbers FTEs		45	43	41	38	35
Average staff costs ($'000s)		59	51	47	48	50

Comment

The financial performance ratios show that Council recorded operating surpluses for all years under review. The total result from operations for the period was $2.868m. Council's operating margin remained above the benchmark with the highest level of 1.15 in 2000-01.

Council's Current ratio was close to the benchmark over the five years indicating it was able to meet all short-term liabilities.

The Council's Cost of debt and Debt service ratios have gradually reduced during the period with no new borrowings taken out during that time, with the exception of 2004-05 when it borrowed $0.250m.

The Debt collection period was below the benchmark of 30 days in 2003-04, the first time in the five years under review. The improvement in the Debt collection period was due to a significant reduction in the Receivables balance at 30 June 2004.

The Creditor turnover ratio was less than 30 days for all years except 2001-02. As noted under the Financial Position section, there were a number of significant invoices outstanding at 30 June 2002 that resulted in a turnover figure of 57 days.

The Capital Exp/Depreciation ratio indicates that Council funded a reasonable level of capital expenditure on asset replacement in the first four years under review. However, the revaluation of infrastructure asset classes and the corresponding increase in depreciation expense resulted in a significant decrease in the ratio for 2004-05. Council will need to review the current level of capital expenditure in future periods to ensure adequate renewal of infrastructure assets.

Average staff costs remained fairly stable over the period of review. However, in 2004-05, the average cost has increased by $8 000 per employee. The increase is attributable to:

- The impact of payroll tax;
- Two redundancy payments made during the year totalling $72 000; and
- Employee costs including payroll for casual swimming pool employees, who are not included in the staff numbers at year-end.

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from ordinary activities of $2.649m.

The 2004-05 audit was completed with satisfactory results.

Northern Midlands Council

INTRODUCTION

Northern Midlands Council was created in 1993 when the former municipalities of Evandale, Campbell Town, Longford, Ross and part of Fingal were merged. The municipality covers an area of approximately 5 130 square kilometres, extending from Liffey Bluff in the west to Mt St John in the east, and from Relbia in the north to Tooms Lake in the south. The Council services a population of approximately 12 000 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 5 October 2005, with amended statements received on 17 October 2005. An unqualified audit report was issued on 4 November 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates	6 373	6 017	5 638	5 441	5 221
User charges	1 443	1 152	992	871	962
Grants	4 852	5 487	4 513	4 202	5 344
Other operating revenue	1 342	1 476	1 318	1 209	1 061
Non-operating revenue	0	0	0	0	0
Total Revenue	**14 010**	**14 132**	**12 461**	**11 723**	**12 588**
Employee costs	3 409	3 010	2 804	2 580	2 448
Depreciation	3 750	3 592	3 215	3 205	3 731
Other operating expenses	4 484	4 407	4 456	4 415	4 237
Non-operating expenses	554	358	482	1 258	472
Total Expenses	**12 197**	**11 367**	**10 957**	**11 458**	**10 888**
Result from Ordinary Activities	**1 813**	**2 765**	**1 504**	**265**	**1 700**

Comment

Revenue from Rates increased by $0.356m in 2004-05 due to a combination of factors including:

- The impact of the Reform Act, which resulted in the rating of previously exempt properties including Crown Land;
- An increase in the general rate set by Council; and
- The introduction of a Longford Flood Protection rate.

The increase in revenue from User charges in 2004-05 ($0.291m) was primarily due to:

- An increase in water by measure charges;
- Increased fees and subsidies received in relation to child care centres;
- Increased revenue from rentals and leases; and
- An increase in water inspection and connection fees.

The increased grant revenue in 2000-01, $5.344m, was mainly due to the receipt of $1.077m under the Clean Quality Water Program. Grant revenue in 2003-04, $5.487m, included $1.049m in Roads to Recovery funding, $0.400m for water treatment, $0.222m for the Longford Flood Mitigation Project and $0.160m in Networking the Nation funding. A further $1.137m was received in 2004-05 for the Longford Flood Mitigation Project.

Employee costs increased by $0.399m in 2004-05 due mainly to:

- An increase in total wages paid due to the employment of additional staff during the year; and
- The imposition of payroll tax as a result of changes under the Reform Act.

The decrease in Depreciation expense from 2000-01 to 2001-02, $0.526m, was due mainly to a reassessment of useful lives for road assets, which was undertaken as part of a revaluation of road assets effective 1 July 2001. In 2003-04, Depreciation increased by $0.377m due mainly to an increase of $0.292m relating to Sewerage infrastructure assets. The useful lives of sewerage infrastructure assets were reviewed as part of a revaluation effective 1 July 2003. The expected life of some classes of sewer pipe was reduced from 70 years to 45 years, resulting in an increase in depreciation expense. Depreciation expense increased by $0.158m in 2004-05 due primarily to a revaluation of infrastructure assets effective 1 July 2004, which resulted in an increase in the gross asset values.

Other operating expenses include government levies and charges, which decreased from $0.551m in 2003-04 to $0.401m in 2004-05. The decrease was primarily due to the impact of the Reform Act, which resulted in the removal of the library and planning levies and the imposition of land tax.

In 2001-02, Non-operating expenses included a loss on disposal of assets of $0.551m, an initial recognition adjustment to asset values of $0.512m and a revaluation decrement of $0.195m.

Council recorded surpluses from ordinary activities in all five years under review. The total Result from Ordinary Activities for the five years was a surplus of $8.047m.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	7 518	656	290	264	327
Receivables	517	677	974	647	888
Investments	0	6 335	9 854	12 127	10 513
Inventories	14	11	21	32	28
Other	0	32	70	32	32
Total Current Assets	**8 049**	**7 711**	**11 209**	**13 102**	**11 788**
Payables	368	691	438	585	307
Provisions	763	620	560	520	481
Other	322	326	139	147	119
Total Current Liabilities	**1 453**	**1 637**	**1 137**	**1 252**	**907**
Working Capital	**6 596**	**6 074**	**10 072**	**11 850**	**10 881**
Property, plant and equipment	166 228	156 409	140 786	137 392	98 251
Receivables	96	126	0	0	0
Other	0	0	32	64	446
Total Non-Current Assets	**166 324**	**156 535**	**140 818**	**137 456**	**98 697**
Provisions	66	170	134	92	83
Total Non-Current Liabilities	**66**	**170**	**134**	**92**	**83**
Net Assets	**172 854**	**162 439**	**150 756**	**149 214**	**109 495**
Reserves	57 733	49 130	40 213	40 174	721
Retained surpluses	115 121	113 309	110 543	109 040	108 774
Total Equity	**172 854**	**162 439**	**150 756**	**149 214**	**109 495**

Comment

At 30 June 2005 Council recorded total Cash and Investments of $7.518m. In prior years, cash held in term deposits was recognised as a separate balance in the financial statements called Investments. In total, Council's cash and investments increased by $0.527m in 2004-05. It is noted that Council has significant cash reserves, which are expected to be spent on future capital projects, including the Longford flood levee.

The increase in Receivables in 2002-03 of $0.327m was due to an amount outstanding at 30 June 2003 of $0.321m relating to the receipt of grant funds for the Longford Flood Mitigation Project.

The decrease in Investments during 2002-03 and 2003-04 was attributable to significant capital works, including the Longford water treatment project, upgrades of wastewater treatment plants and the reconstruction of Barton Road Bridge.

The increase in Property, plant and equipment from 2000-01 to 2001-02, $39.141m, was due mainly to the revaluation of road assets effective from 1 July 2001. The revaluation also resulted in a similar increase in the Asset Revaluation Reserve, $39.453m.

Property, plant and equipment increased by $15.623m in 2003-04. The increase was mainly due to revaluation increments relating to Sewerage, Water, Stormwater and Bridge assets totalling $8.918m and an increase in work-in-progress balances of $7.485m. The increase in work-in-progress was principally due to the construction of the Longford water treatment plant.

The increased Payables balance at 30 June 2004 was due to two large invoices outstanding relating to the Networking the Nation project and the Longford water treatment plant.

The increase in Current Provisions in 2004-05 of $0.143m was mainly due a number of staff reaching ten years of service. As a result, the liability for long service leave relating to these employees was transferred from the non-current provision balance.

CASH POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	9 322	9 207	8 057	7 813	7 041
Payments to suppliers and employees	(9 012)	(8 026)	(8 280)	(7 215)	(6 952)
Interest received	448	479	670	627	722
Borrowing costs	0	0	0	0	0
Cash from operations	**758**	**1 660**	**447**	**1 225**	**811**
Proceeds from investments	0	3 518	2 273	0	0
Payments for investments	0	0	0	(1 614)	(4 005)
Payments for property, plant and equipment	(5 584)	(10 713)	(7 022)	(4 090)	(3 405)
Proceeds from sale of property, plant and equipment	205	280	103	194	290
Cash used in investing activities	**(5 379)**	**(6 915)**	**(4 646)**	**(5 510)**	**(7 120)**
Proceeds from borrowings	0	0	0	0	0
Repayment of borrowings	0	0	0	0	0
Cash from financing activities	**0**	**0**	**0**	**0**	**0**
Cash Flows from Government	**5 148**	**5 621**	**4 225**	**4 222**	**5 360**
Net increase/(decrease) in cash	**527**	**366**	**26**	**(63)**	**(949)**
Cash at the beginning of the period	6 991	290	264	327	1 276
Cash at the end of the period	**7 518**	**656**	**290**	**264**	**327**

Comment

Cash at the end of 2004-05 totalled $7.518m. It is noted that for 2004-05, Council amended its definition of cash to include cash and investment balances. In the prior periods under review, cash excluded the investments balance.

Council made significant investments in capital works in 2002-03 and 2003-04 totalling $17.735m, predominantly for the construction of the Longford water treatment plant, $8.890m, clean quality water upgrades of $1.660m at Campbell Town, Cressy, Perth and Evandale, and completion of the Barton Road Bridge, $0.566m.

During these two years investments totalling $5.791m were used to help fund this capital expenditure.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		2 367	3 123	1 986	1 523	2 172
Operating margin	>1.0	1.20	1.28	1.19	1.15	1.21
Financial Management						
Current ratio	>1	5.54	4.71	9.86	10.46	13.00
Cost of debt	7.5%	-	-	-	-	-
Debt Service Ratio		-	-	-	-	-
Debt collection	30 days	22	20	33	34	32
Creditor turnover	30 days	13	17	14	25	15
Capital Exp/Depreciation	100%	148.91%	298.25%	218.41%	127.61%	91.26%
Other information						
Employee costs as % of operating expenses		29.28%	27.34%	26.77%	25.29%	23.50%
Staff numbers FTEs		75	69	65	64	65
Average staff costs ($'000s)		48	46	46	42	40

Comment

The financial performance ratios show that Council recorded operating surpluses in the last five years. The total result from operations for the period is $11.171m.

Council's Current ratio increased significantly in 2000-01. At 30 June 2001, current assets were 13 times the balance of current liabilities. The increase was due mainly to the higher investment balance combined with a reduction in creditor balances. The expenditure on capital works in 2002-03 and 2003-04 lead to a decrease in the current ratio to 4.71 at 30 June 2004.

The Debt collection ratio was above the benchmark of 30 days for the first three years under review due to the impact of water by measure charges being raised in June. The water by measure charges were raised in May in 2004 and 2005 resulting in lower debt collection ratios of 20 and 22 days respectively.

The Creditor turnover figure was below the benchmark of 30 days for all years under review.

The Capital expenditure to depreciation ratios of 218.41% and 298.25% in 2002-03 and 2003-04, respectively, reflected the significant capital payments in those years. The larger capital projects are referred to in the Cash Position section of this Report.

OVERALL COMMENT

Council recorded a total surplus from operations in the five years under review of $11.171m.

The 2004-05 audit was completed with satisfactory results.

Sorell Council

INTRODUCTION

The Sorell area was first proclaimed as a Municipality in 1862. In 1993 it acquired a portion of the former Richmond Council when it was absorbed by Clarence City Council, but had to surrender from South of Dunalley to Eagle Hawk Neck to the Tasman Council. The population serviced by Sorell Council is of the order of 12 000 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements of Sorell Council were received on 25 November 2005. A **qualified audit report** was issued on 29 November 2005.

The qualification related to Council's non-current asset valuation. Council values water reticulation assets, drainage system assets and sewerage system assets at fair value. The most recent revaluation for the water reticulation system and drainage system assets was in 1994 and the sewerage system asset revaluation was in 1995. As I did not consider that assets had been valued with sufficient regularity to ensure that their carrying value did not differ materially from their fair value, a qualified audit report was issued.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates	6 960	6 537	6 167	5 847	5 530
User Charges	1 459	1 389	1 170	889	1 516
Grants	2 328	2 471	2 487	2 308	1 948
Other operating revenue	453	475	424	398	313
Non-operating revenue	215	285	203	410	324
Total Revenue	**11 415**	**11 157**	**10 451**	**9 852**	**9 631**
Employee Costs	3 896	3 617	3 215	2 790	2 486
Borrowing costs	183	217	236	269	231
Depreciation	4 027	3 989	3 854	2 062	2 032
Other operating expenses	4 999	4 466	4 007	4 199	4 567
Non-operating expenses	229	264	698	291	291
Total Expenses	**13 334**	**12 553**	**12 010**	**9 611**	**9 607**
Result from Ordinary Activities	**(1 919)**	**(1 396)**	**(1 559)**	**241**	**24**

Comment

Revenue from Rates has increased steadily since 2000-01 due to growth in the municipality.

User charges declined in 2001-02 due to a number of factors including reduced water consumption, a fall in activity for parents' fees, building fees, inspection fees and a number of other items. From 2002-03 onwards these items recorded growth along with other user charges, such as subdivision fees and reservoir contributions.

The increase in Grants for 2001-02 included the Lewisham Sewerage Capital Grant, $0.125m, in addition to a general increase across other grant categories. Grants have remained at this higher level.

A high level of Other operating expenses in 2000-01 was related to expenditure on the Copping Waste Management Site and the Orielton Lagoon project. The increase of $0.533m in 2004-05 was mainly due to the expenditure incurred as a result of year-end settlement following arbitration of the Effluent Re-Use Irrigation Scheme.

Depreciation expense increased significantly in 2002-03 due to the revaluation of roads and was, along with large increases in employee costs, particularly 2003-04, the main reason why Council incurred deficits in the last three years. Reasons for increases in employee costs are set out under the Cash Position section of this chapter.

Non-operating expenses generally reflected the carrying value of plant and equipment disposals and in 2002-03 included a revaluation decrement related to Council's investment in the Hobart Regional Water Authority (Hobart Water) of $0.539m.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	59	40	206	16	336
Receivables	338	608	676	739	973
Investments	4 387	3 724	2 873	3 052	3 230
Inventories	13	26	32	22	6
Other	180	222	203	128	63
Total Current Assets	**4 977**	**4 620**	**3 990**	**3 957**	**4 608**
Payables	1 255	680	400	465	1 267
Borrowings	349	380	652	518	512
Provisions	985	937	768	672	444
Other	147	87	347	442	174
Total Current Liabilities	**2 736**	**2 084**	**2 167**	**2 097**	**2 397**
Working Capital	**2 241**	**2 536**	**1 823**	**1 860**	**2 211**
Property, plant and equipment	76 835	78 455	80 482	45 035	45 159
Investments	2 776	2 594	2 439	2 978	2 978
Other	1 399	932	710	433	328
Total Non-Current Assets	**81 010**	**81 981**	**83 631**	**48 446**	**48 465**
Borrowings	3 175	2 706	2 419	2 556	2 970
Provisions	84	92	67	67	97
Other	0	0	0	0	36
Total Non-Current Liabilities	**3 259**	**2 798**	**2 486**	**2 623**	**3 103**
Net Assets	**79 992**	**81 719**	**82 968**	**47 683**	**47 573**
Reserves	45 770	45 386	45 411	8 885	8 957
Retained surpluses	34 222	36 333	37 557	38 798	38 616
Total Equity	**79 992**	**81 719**	**82 968**	**47 683**	**47 573**

Comment

Receivables have declined over the five-year period of review. The continued reduction demonstrates Council's active management of outstanding accounts. 2004-05 saw a single rate debtor of $0.237m, which has gone into liquidation, re-classified as a deferred rate debtor with a covenant held over the property.

Payables increased by $0.575m in 2004-05. This was due to a $0.419m year-end settlement following arbitration of the Effluent Re-Use Irrigation Scheme. In addition, there was a creditor of $0.064m for the Copping Refuse Disposal Site Joint Authority.

A revaluation of roads and bridges in 2002-03 amounting to $36.666m resulted in a significant increase in the value of Property, plant and equipment, and was also reflected in the increase in the Revaluation reserve to $43.210m.

Non-current investments represented Council's interest in Hobart Water. During 2002-03 Council's interest in Hobart Water declined by $0.539m due to market valuations, as referred to earlier in this chapter of the Report.

The increase in the Provisions over the last three years was principally due to increases in the value of accrued employee annual and long service leave benefits.

Council Reserves consist primarily of the Revaluation reserve.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	8 722	8 240	7 410	7 277	8 022
Payments to suppliers and employees	(8 359)	(8 338)	(7 317)	(7 093)	(6 469)
Interest received	311	193	186	151	298
Borrowing costs	(214)	(217)	(236)	(269)	(210)
Cash from operations	**460**	**(122)**	**43**	**66**	**1 641**
Payments for property, plant and equipment	(2 816)	(2 018)	(2 623)	(3 152)	(2 698)
Proceeds from sale of property, plant and equipment	215	285	203	410	324
Cash used in investing activities	**(2 601)**	**(1 733)**	**(2 420)**	**(2 742)**	**(2 374)**
Proceeds from borrowings	776	723	529	538	511
Repayment of borrowings	(280)	(655)	(502)	(908)	(594)
Cash from financing activities	**496**	**68**	**27**	**(370)**	**(83)**
Cash Flows from Government	**2 328**	**2 471**	**2 361**	**2 547**	**1 949**
Net increase/(decrease) in cash	**683**	**684**	**11**	**(499)**	**1 133**
Cash at the beginning of the period	3 763	3 079	3 068	3 567	2 434
Cash at end of the period	**4 446**	**3 763**	**3 079**	**3 068**	**3 567**

Comment

Council maintained cash balances at an average of $3.585m over the five-year period.

In 2001-02, the reduced cash from operations was partially offset by an increase in grant funding of $0.598m. However, a resultant drop in Receipts from customers caused a decrease in cash in that year.

During 2002-03, there was an increase in Payments to suppliers and employees. This was a result of staff resigning, retiring or having Council terminate their employment. Employee costs continued to rise in 2003-04 reflecting a full year impact of increased salaries and wages, contributing to the further rise in Payments to suppliers and employees. Increases in 2004-05 are the result of higher employee numbers, pay rises and payroll tax which became effective from 1 July 2004.

Increased cash holdings in the last two years are largely a reflection of increased Receipts from customers.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		(1 905)	(1 417)	(1 064)	122	(9)
Operating margin	>1.0	0.85	0.88	0.91	1.01	1.00
Financial Management						
Current ratio	>1	1.82	2.22	1.84	1.89	1.92
Cost of debt	7.5%	5.2%	7.0%	7.7%	8.8%	6.6%
Debt service ratio		4.4%	8.0%	7.2%	12.5%	8.6%
Debt collection	30 days	17	32	37	43	61
Creditor turnover	30 days	92	56	36	40	101
Capital Exp/Depreciation	100%	70%	51%	68%	153%	133%
Other information						
Employee costs as a % of operating expenses		30%	29%	28%	30%	27%
Staff numbers FTEs		63	61	58	62	61
Average staff costs ($'000s)		52	48	44	45	41

Comment

The negative Result from operations in the last three years resulted from Council not budgeting to cover the full costs of increased depreciation following a revaluation of roads and bridges and contributed towards Council falling further below the Operating margin benchmark.

During 2001-02, Council restructured some of its borrowings portfolio resulting in the higher Cost of debt and Debt service ratios. However, debt costs have reduced since 2002-03 and are now well below the benchmark.

The Debt collection ratio has in the past consistently exceeded the benchmark of 30 days, however it is showing a downward trend. During 2000-01, it was noted that there had been a change in policy over the management of debtors as Council endeavoured to lower outstanding debts. The apparent improvement in 2004-05 is due to one large debtor being re-classified as a non-current receivable.

The high level of Creditor turnover in 2000-01 was caused by the late receipt of significant invoices. Creditor turnover has continued to remain above the benchmark since that period. The apparent deterioration in the ratio in 2004-05 is due to the $0.419m year-end Effluent Re-Use Irrigation Scheme settlement, as previously noted.

The high ratio of Capital expenditure to depreciation in the first two years under review, was a result of significant expenditure associated with the Copping Waste Disposal Site and the Orielton Lagoon project. However, in the last three years capital expenditure did not keep pace with depreciation following revaluation of roads in 2002-03.

OVERALL COMMENT

As previously stated, a qualified audit report was issued on 29 November 2005. As noted previously, the qualification related to Council's valuation of water reticulation, drainage system and sewerage system assets which I did not consider to have been carried out with sufficient regularity to ensure that the carrying values did not differ materially from fair values.

West Coast Council

INTRODUCTION

The West Coast Council was created during the amalgamation of council boundaries in 1993. The Council includes the former municipalities of Lyell, Queenstown, and Strahan.

The municipal area covers approximately 9 200 square kilometres and encompasses the towns of Queenstown, Rosebery, Strahan, Tullah and Zeehan. The Council services a population of approximately 5 515 people.

The financial statement information includes the transactions of the West Coast Health and Community Service Ltd (WCH&CS), which was a fully owned subsidiary of Council.

As a result of a review conducted by the Tasmanian Government of all state funded medical and health related organisations in the North-West and Western areas of the State the majority of the operations of WCH&CS were transferred back to the State Government during 2004-05. The subsequent closure and winding up of WCH&CS will occur in 2005-06.

A number of non-profit services, which were unable to be transferred to State control due to funding restrictions, were transferred to the community services department of Council on 1 July 2004. These include West Coast Crisis Accommodation, Family Support and Lil Possums Childcare Centre.

The Company continued to operate Rural Health Services until December 2004.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 5 December 2005 and an unqualified audit report was issued on 12 December 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates	5 355	4 961	4 641	4 434	4 003
User Charges	2 217	760	853	857	655
Grants	2 106	4 018	6 119	3 933	3 136
Other operating revenue	341	375	225	252	408
Non-operating revenue	134	111	167	137	133
Total Revenue	**10 153**	**10 225**	**12 005**	**9 613**	**8 335**
Employee Costs	3 159	4 262	4 062	3 682	3 212
Borrowing costs	200	216	212	175	152
Depreciation	1 634	1 600	1 526	1 439	1 476
Other operating expenses	3 818	4 351	3 682	3 384	3 427
Non-operating expenses	134	118	132	154	45
Total Expenses	**8 945**	**10 547**	**9 614**	**8 834**	**8 312**
Result from Ordinary Activities	**1 208**	**(322)**	**2 391**	**779**	**23**

Comment

Revenue from Rates increased by $1.352m over the five-year period under review. This represented an average annual increase of approximately 7.5%. The Reform Act, implemented on 1 July 2004, resulted in Council being able to rate a number of government properties previously exempt. This contributed to the $0.394m (7.94%) increase during 2004-05.

The increase in User charges during 2004-05 was attributable mainly to:

- Contributions from industry towards road infrastructure, $0.975m;
- Council undertaking fluoride maintenance on behalf of Cradle Coast Water resulting in increased charges of $0.155m; and
- The recognition as revenue of unclaimed surplus funds from the sale of properties with long term outstanding rates, under the provisions of the *Local Government Act 1993*.

In 2001-02, Grants increased by $0.797m due to funding from the Clean Quality Water and Riverwork Programs of $0.900m for a Strahan Wastewater treatment upgrade. Grant income in 2002-03 increased by $2.186m as a result of a State Government grant of $2.500m to assist in the completion of the Strahan Wastewater treatment upgrade. The reduction of $1.912m during 2004-05 was attributable to a decrease of $1.913m in funding received by WCH&CS due to the transfer of health services to the State Government.

Employee costs increased by $1.050m from 2000-01 to 2003-04 primarily due to additional staff engaged by WCH&CS particularly in 2001-02 to 2003-04. Employee costs returned to a level comparable with 2000-01 during 2004-05 as a result of the minimal operations of WCH&CS during the year.

Non-operating revenue and expenses included the gross proceeds from sale and carrying values of assets sold, respectively.

The operating result in 2001-02 increased by $0.756m as a result of $0.900m received to assist in funding the upgrade of the Strahan sewerage scheme. The surplus for 2002-03 of $2.391m was again attributable to funding for the upgrade of the Strahan sewerage scheme, totalling $2.500m. Expenditure of the funding, being of a capital nature, did not affect the operating result for either 2001-02 or 2002-03.

A loss from ordinary activities was incurred during 2003-04. This was caused by a combination of a loss incurred by Council of $0.173m and a loss incurred by WCH&CS totalling $0.149m. Greater operational costs in sewerage schemes, bridge maintenance, community amenities and community services along with decreased grant funding contributed to Council's loss.

The main item contributing to the improved result from ordinary activities of $1.208m during 2004-05 was the additional contribution towards infrastructure, totalling $0.975m. The expenditure of these funds has not affected the operating result as it is capital in nature and was recorded as Work-in-progress at 30 June 2005.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	94	699	185	983	1 554
Receivables	987	903	1 403	1 365	1 044
Investments	2 564	62	604	1 304	564
Inventories	0	15	15	16	16
Other	141	107	16	37	39
Total Current Assets	**3 786**	**1 786**	**2 223**	**3 705**	**3 217**
Payables	724	489	630	369	493
Borrowings	453	389	402	390	480
Provisions	662	715	559	471	400
Other	1 927	595	262	222	282
Total Current Liabilities	**3 766**	**2 188**	**1 853**	**1 452**	**1 655**
Working Capital	**20**	**(402)**	**370**	**2 253**	**1 562**
Property, plant and equipment	50 519	50 003	49 942	45 617	44 929
Investments	0	0	0	0	0
Total Non-Current Assets	**50 519**	**50 003**	**49 942**	**45 617**	**44 929**
Borrowings	2 187	2 519	2 908	2 813	2 204
Provisions	55	128	128	72	81
Other	136	0	0	0	0
Total Non-Current Liabilities	**2 378**	**2 647**	**3 036**	**2 885**	**2 285**
Net Assets	**48 161**	**46 954**	**47 276**	**44 985**	**44 206**
Reserves	3 701	3 701	3 701	3 701	3 701
Retained surpluses	44 460	43 253	43 575	41 284	40 505
Total Equity	**48 161**	**46 954**	**47 276**	**44 985**	**44 206**

Comment

A significant reduction in rate debtors was noted during 2003-04. This was partially due to the write-off of bad debts totalling $0.256m and property sales action taken under the *Local Government Act 1993* by the Council during that year to recover unpaid rates. Council continued to undertake appropriate action in an attempt to reduce the balance outstanding in subsequent years.

The balance of Property, plant and equipment increased by $4.325m in 2002-03 primarily due to capital additions of $5.869m less the annual depreciation expense of $1.526m. The major item of capital expenditure related to the Strahan sewerage scheme, $5.441m. The upgrade was commissioned in December 2002 and was funded through grant funds and loan borrowings.

Payables in 2000-01 included an amount of $0.134m due to the Civil Construction Services Corporation for capital works for the Braddon Street Bridge. In addition, a further $0.053m was outstanding for engineering services and pipe purchases relating to the Rosebery sewerage scheme capital works. Similarly, the increase of $0.261m in the payables balance for 2002-03 included $0.249m in capital creditors. In particular, $0.096m related to works on the Wilsdon Street Bridge and $0.049m in road works. Payables in 2004-05 included $0.225m relating to capital works on the Trial Harbour Road upgrade.

Other current liabilities included the payroll accrual, which varied depending upon the date of the final payroll up to 30 June, the loan interest accrual and Council's GST liability at balance date. Other liabilities at 30 June 2004 included funds held in trust totalling $0.431m from the sale of properties for unpaid rate debts. An amount of $1.500m of grant funds relating to road works to be undertaken following the satisfaction of relevant conditions was held in a trust account at 30 June 2005. The proceeds of the grant funds are included in Investments at 30 June 2005.

Borrowings of $1.000m taken out during 2001-02 were used on the Strahan wastewater treatment upgrade. In 2002-03, Council borrowed a further $0.500m to complete the Strahan wastewater treatment upgrade. No new borrowings were taken out during 2003-04 or 2004-05.

CASH POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	8 134	6 942	5 618	5 563	5 068
Payments to suppliers and employees	(7 150)	(9 365)	(8 245)	(7 675)	(6 621)
Interest received	154	47	84	94	76
Borrowing costs	(237)	(229)	(181)	(162)	(140)
Cash from operations	**901**	**(2 605)**	**(2 724)**	**(2 180)**	**(1 617)**
Proceeds from investments	0	543	699	0	0
Payments for investments	(835)	0	0	(740)	(340)
Payments for property, plant and equipment	(2 211)	(1 869)	(5 741)	(2 281)	(1 469)
Proceeds from sale of property, plant and equipment	117	108	165	119	49
Cash used in investing activities	**(2 929)**	**(1 218)**	**(4 877)**	**(2 902)**	**(1 760)**
Proceeds from borrowings	0	0	500	1 000	1 058
Repayment of borrowings	(268)	(364)	(392)	(422)	(351)
Cash from financing activities	**(268)**	**(364)**	**108**	**578**	**707**
Cash Flows from Government	**2 125**	**4 269**	**6 693**	**3 933**	**3 260**
Net increase/(decrease) in cash	**(171)**	**82**	**(800)**	**(571)**	**590**
Cash at the beginning of the period	265	183	983	1 554	964
Cash at the end of the period	**94**	**265**	**183**	**983**	**1 554**

Comment

Receipts from customers during 2003-04 included an increase in rate receipts of $0.924m over the prior year. This is primarily due to Council's continued efforts at collecting outstanding rate debts. Receipts during 2004-05 increased again due to a contribution from industry towards roadworks totalling $0.975m and a general increase in rates.

The increase in Payments to suppliers and employees in 2002-03 of $0.570m was attributable to increased payroll costs of $0.381m. The WCH&CS employed five new staff during the year to conduct primary care functions, which included social work, mental health care and youth work. The additional expenditure was funded by increased grants.

The 2003-04 Payments to suppliers and employees increased primarily due to increases in Council operating costs in areas such as sewerage and water treatment plants and road maintenance.

Payments to suppliers decreased during 2004-05 by $2.215m due to the minimal operations of the WCH&CS during the year, which contributed to a decrease of $2.172m when compared with outflows in the prior year.

The outflows in Payments for property, plant and equipment during 2000-01 represented costs to complete the Strahan water treatment plant $0.747m, roads work $0.257m, and water and sewerage work-in-progress expenditure, $0.294m. The 2001-02 balance included $0.723m relating to works in progress for the Strahan wastewater treatment upgrade and the upgrade of the Rosebery sewerage treatment plant totalling $0.777m.

In 2002-03, the $5.741m paid for property, plant and equipment was primarily attributable to the costs of completing the Strahan sewerage scheme upgrade of $4.607m and general road pavement and bridge capital works totalling $0.505m.

Outflows during 2004-05 of $2.211m included $0.976m for work on the Trial Harbour Road, other road pavement and bridge works of $0.400m and plant and equipment purchases totalling $0.638m, including a refuse disposal compactor, mowers and trucks.

Significant new borrowings were received over the first three years under review. The new borrowings are detailed in the Financial Position section earlier in this chapter of the Report.

Council's cash position decreased significantly in the financial years 2001-02 and 2002-03, primarily as a result of the abovementioned outflows on property, plant and equipment. In the subsequent years, the cash position has remained fairly stable.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		1 208	(315)	2 356	796	(65)
Operating margin	>1.0	1.14	0.97	1.25	1.09	0.99
Financial Management						
Current ratio	>1	1.01	0.82	1.20	2.55	1.94
Cost of debt	7.5%	6.3%	6.3%	6.3%	6.9%	7.1%
Debt service ratio		5.0%	5.9%	4.8%	6.2%	6.0%
Debt collection	30 days	48	58	93	94	82
Creditor turnover	30 days	44	29	24	24	37
Capital Exp/Depreciation	100%	135%	117%	376%	159%	100%
Other information						
Employee costs as a % of operating expenses		36%	41%	43%	42%	39%
Staff numbers FTEs		58	95	86	78	75
Average staff costs ($'000s)		55	46	49	48	44

Comment

Council was below the Operating margin benchmark for the first year under review due to recording a deficit from operations in that period. The loss could not be attributed to any particular events, but reflected Council's failure to fully fund its depreciation expense. The results of the 2001-02 and 2002-03 financial periods indicate surpluses, however, in both 2001-02 and 2002-03, Council's results were assisted by capital grant funding recorded as revenue. The corresponding expenditure, which was of a capital nature, did not affect the operating results. A further loss from operations during 2003-04 was due to the combined losses incurred by both Council and WCH&CS, discussed in the Financial Performance section earlier in this chapter of the Report. The 2004-05 result was once again assisted by capital funding.

The Cost of debt ratio improved over the last three years. This was the result of older loans being repaid during the period, whilst new loans drawn were able to take advantage of the lower interest rates.

The Debt collection ratio was consistently above the benchmark of 30 days. As noted previously, Council have attempted to address problems in the recovery of longer-term rate debtors, which reflected in the improved debt collection ratio for 2003-04 and continued decrease in 2004-05.

The Creditor turnover ratio was lower than 30 days for three of the five years under review. The 2000-01 and 2004-05 ratios reflected material capital creditors outstanding at each balance date.

Council's Capital expenditure to depreciation ratio was at least at benchmark for all years under review. The 2002-03 ratio was significantly higher due to payments for the completion of the Strahan sewerage scheme upgrade.

Average staff costs were relatively stable for the five years under review. There has been an increase in the average during 2004-05, which is partially due to the effects of the WCH&CS employing five people until December 2004, which is not reflected in the staff numbers above. If these people were included in the average cost would reduce to approximately $0.053m. A further increase is due to the imposition of payroll tax from 1 July 2004 that totalled $0.118m.

OVERALL COMMENT

In the five years under review, Council recorded a total surplus from operations of $3.980m and its net assets increased by 8.95% over the period to $48.161m.

The 2004-05 audit was completed with satisfactory results. However, a recommendation has been made to Council to adopt a fair value valuation basis for measuring the carrying value of it’s long lived infrastructure assets. Council currently records infrastructure assets on a cost basis.

Smaller Rural Councils

BACKGROUND

Local government authorities are governed principally by the *Local Government Act 1993* as amended. In addition, there are a number of other Acts that provide specific provisions in relation to rating, building and miscellaneous matters.

This section of the Report deals with the relative performance of the following councils:

	Approximate Population
• Break O'Day	6 000
• Central Highlands	2 600
• Dorset	7 450
• Flinders	950
• Glamorgan-Spring Bay	4 200
• Kentish	5 500
• King Island	1 800
• Southern Midlands and	5 500
• Tasman	2 400

These councils have been classified as small based upon their annual revenue from Rates and User charges being less than $6.000m.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Break O'Day	Central Highlands	Dorset	Flinders	Glamorgan-Spring Bay	Kentish	King Island	Southern Midlands	Tasman
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Rates	4 851	2 067	4 739	714	5 390	3 289	1 806	2 882	1 743
User charges	1 139	3 758	1 109	216	586	480	849	650	467
Grants	2 387	1 901	3 226	1 247	2 388	2 159	1 467	3 169	2 864
Other operating revenue	626	542	384	815	897	343	321	217	619
Non-operating revenue	235	207	473	85	27	143	85	511	125
Total Revenue	**9 238**	**8 475**	**9 931**	**3 077**	**9 288**	**6 414**	**4 528**	**7 429**	**5 818**
Employee costs	2 348	1 665	2 419	989	2 544	1 272	1 201	1 738	2 909
Borrowing costs	106	0	72	0	191	28	23	99	80
Depreciation	2 244	2 482	3 911	1 367	1 528	1 445	1 117	2 446	731
Other operating expenses	3 264	2 488	3 731	1 460	3 571	2 537	1 886	2 618	2 068
Non-operating expenses	0	231	465	0	625	284	5	526	120
Total Expenses	**7 962**	**6 866**	**10 598**	**3 816**	**8 459**	**5 566**	**4 232**	**7 427**	**5 908**
Result from Ordinary Activities	**1 276**	**1 609**	**(667)**	**(739)**	**829**	**848**	**296**	**2**	**(90)**

Comment

Revenue from Rates ranged from $0.714m (Flinders) to $5.390m (Glamorgan-Spring Bay). The higher revenues recorded by Glamorgan-Spring Bay, Dorset and Break O'Day were due to their larger population bases. On average, revenue from Rates represented 44% of total operating revenue for the nine councils for 2004-05.

Government grants and subsidies represented 33% of total operating revenue recorded by the nine councils. All of the councils derived a significant component of their operating revenue for 2004-05 from government sources, with Tasman and Southern Midlands recording the highest percentages of 50% and 46% respectively. Central Highlands recorded the lowest proportion, with 23% of revenue being derived from government sources. However, this percentage was distorted by material private work revenue on shack site roads being recorded in user charges.

On average, employee costs represent 29%, borrowing costs 1.02% and depreciation 29% of total operating expenditure. Central Highlands and Flinders had no borrowing costs during 2004-05.

Six of the nine councils returned a positive Result from Ordinary Activities. Only Dorset and Flinders recorded material operating deficits. Dorset and Flinders' deficits relate to a failure to fully fund depreciation expenses.

FINANCIAL POSITION

	Break O'Day	Central Highlands	Dorset	Flinders	Glamorgan-Spring Bay	Kentish	King Island	Southern Midlands	Tasman
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	6 704	4 357	6 163	442	447	3 759	436	3 131	128
Receivables	271	362	491	193	789	80	295	513	327
Investments	654	0	0	3 980	0	0	2 816	0	86
Inventories	139	23	115	487	0	0	271	220	0
Other	240	97	132	70	0	88	167	0	0
Total Current Assets	**8 008**	**4 839**	**6 901**	**5 172**	**1 236**	**3 927**	**3 985**	**3 864**	**541**
Payables	926	260	368	29	708	552	162	214	304
Borrowings	144	14	177	0	132	147	74	145	161
Provisions	657	479	696	118	402	122	636	445	239
Other	0	55	361	34	0	196	478	191	146
Total Current Liabilities	**1 727**	**808**	**1 602**	**181**	**1 242**	**1 017**	**1 350**	**995**	**850**
Working Capital	**6 281**	**4 031**	**5 299**	**4 991**	**(6)**	**2 910**	**2 635**	**2 869**	**(309)**
Property, plant and equipment	56 396	93 687	113 113	35 381	43 928	33 108	47 133	65 859	14 928
Investments	0	0	0	0	0	1 086	0	0	0
Other	0	24	44	0	0	73	0	146	
Total Non-Current Assets	**56 396**	**93 711**	**113 157**	**35 381**	**43 928**	**34 267**	**47 133**	**66 005**	**14 928**
Borrowings	1 902	14	1 005	0	3 086	150	731	1 290	1 290
Provisions	28	42	132	147	24	46	29	39	69
Other	0	0	0	0	0	0	0	33	0
Total Non-Current Liabilities	**1 930**	**56**	**1 137**	**147**	**3 110**	**196**	**760**	**1 362**	**1 359**
Net Assets	**60 747**	**97 686**	**117 319**	**40 225**	**40 812**	**36 981**	**49 008**	**67 512**	**13 260**
Reserves	64 185	69 235	45 029	4 111	12 537	37 222	30 760	33 783	1 903
Retained Surpluses	(3 438)	28 451	72 290	36 114	28 275	(241)	18 248	33 729	11 357
Total Equity	**60 747**	**97 686**	**117 319**	**40 225**	**40 812**	**36 981**	**49 008**	**67 512**	**13 260**

Comment

Cash and investments held by the nine councils totalled $33.103m. Seven of the nine councils held strong cash balances, with only Glamorgan-Spring Bay ($0.447m) and Tasman ($0.214m) holding balances below $3.000m. Consequently, with the exception of Glamorgan-Spring Bay and Tasman, the councils had positive working capital positions. The negative working capital position for Glamorgan-Spring Bay and Tasman is the result of significant capital works in recent years, which led to a reduction in the balance of cash held.

The level of Borrowings was low for all councils, with the proportion of debt to equity at 30 June 2005 being less than 5% for all councils except Glamorgan-Spring-Bay and Tasman whose debts represent 7.9% and 10.9% of total equity, respectively. Total debt for the nine councils totalled $10.462m in comparison to total equity of $524.550m.

Kentish had a non-current Investment balance of $1.086m, which related to its ownership interest in Cradle Coast Water, which provides bulk water services to the municipality.

The balance of net assets ranged from $13.260m (Tasman) to $117.319m (Dorset). The variation in values is attributable to the infrastructure asset classes managed by each Council and the valuation bases adopted.

CASH POSITION

	Break O'Day	**Central Highlands**	**Dorset**	**Flinders**	**Glamorgan-Spring Bay**	**Kentish**	**King Island**	**Southern Midlands**
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	6 799	6 816	6 881	1 574	6 456	4 260	3 178	3 792
Payments to suppliers and emloyees	(5 791)	(4 921)	(6 474)	(3 081)	(5 990)	(3 915)	(3 161)	(4 645)
Interest received	362	231	339	287	60	199	147	163
Borrowing costs	(107)	0	(65)	0	(191)	(28)	(23)	(100)
Cash from operations	**1 263**	**2 126**	**681**	**(1 220)**	**335**	**516**	**141**	**(790)**
Proceeds from investments	0	7	0	175	0	2	0	570
Payments for investments	(88)	0	0	0	0	0	(761)	0
Payments for property, plant and equipment	(2 491)	(3 029)	(2 941)	(462)	(2 430)	(1 955)	(1 264)	(2 801)
Proceeds from sale of property, plant and equipment	649	207	370	85	587	148	235	511
Cash used in investing activities	**(1 930)**	**(2 815)**	**(2 571)**	**(202)**	**(1 843)**	**(1 805)**	**(1 790)**	**(1 720)**
Proceeds from borrowings	616	0	460	0	620	0	420	0
Repayment of borrowings	(162)	(15)	(176)	0	(1 153)	(103)	(54)	(152)
Cash from financing activities	**454**	**(15)**	**284**	**0**	**(533)**	**(103)**	**366**	**(152)**
Cash flows from Government	**2 387**	**1 769**	**3 226**	**1 359**	**2 287**	**2 159**	**1 467**	**3 169**
Net increase/(decrease) in cash	**2 174**	**1 065**	**1 620**	**(63)**	**246**	**767**	**184**	**507**
Cash at the beginning of the period	4 530	3 292	4 543	505	201	2 992	252	370
Cash at end of the period	**6 704**	**4 357**	**6 163**	**442**	**447**	**3 759**	**436**	**877**

Comment

A review of the cash balances indicates that five of the councils had significant cash balances at 30 June 2005. In addition, Flinders and King Island's balances do not include investments of $3.980m and $2.816m, respectively. The remaining two councils, Glamorgan-Spring Bay and Tasman had balances below $0.500m.

In total the councils produced a surplus of $0.666m in Cash from operations, expended $18.386m on Payments for property plant and equipment and received $20.687m in grant funding.

FINANCIAL ANALYSIS

	Bench Mark	Break O'Day	Central Highlands	Dorset	Flinders	Glamorgan-Spring Bay	Kentish	King Island	Southern Midlands	Tasman
Financial Performance										
Result from operations ($'000s)		1 041	1 633	(675)	(824)	1 427	989	216	17	(95)
Operating margin	>1.0	1.13	1.25	0.93	0.78	1.18	1.19	1.05	1.00	0.98
Financial Management										
Current ratio	>1	4.64	5.99	4.31	28.57	1.00	3.86	2.95	3.88	0.64
Cost of debt	7.5%	6.3%	0.0%	6.1%	0.0%	6.3%	7.4%	5.4%	6.5%	5.5%
Debt service ratio		3.0%	0.2%	2.5%	0.0%	14.5%	2.1%	1.7%	3.6%	4.0%
Debt collection	30 days	17	23	31	76	48	8	41	47	43
Creditor turnover	30 days	20	25	20	7	43	45	19	15	32
Capital Exp/Depreciation		111%	122%	75%	34%	159%	135%	113%	115%	139%
Other information										
Employee costs as % of operating expenses		29%	25%	24%	26%	32%	24%	28%	25%	50%
Staff numbers		51	36	48	23	47	25	26	44	55
Average staff costs ($'000s)		52	48	54	44	54	51	46	47	45

Comment

The majority of the councils recorded positive Results from operations and Operating margins. Dorset, Flinders and Tasman recorded operating deficits, which primarily related to the total depreciation expenses not being fully covered in the rating process. This resulted in low operating margins, which were below the benchmark.

The majority of the councils recorded a positive current ratio. Tasman recorded a current ratio below the benchmark, which has been previously explained under the Financial Position section of this narrative.

For the councils which have loan debt, it is noted that all the Cost of debt ratios were within the benchmark rate of 7.5% and for the majority of the councils, no unusual issues were noted from the debt service ratio. Glamorgan-Spring Bay's debt service ratio for 2004-05 is high due to the lump sum repayment of a loan for the construction of a call centre in Triabunna.

The average debt collection period was 37 days. However, a number of the councils were significantly above the average, primarily due to the high level of outstanding rate debtors held by these councils. The average creditor turnover was 25 days.

The Capital Exp/Depreciation ratio for Flinders is considered very low and indicates that it may not be maintaining its present infrastructure capability by reinvesting in, or renewing, infrastructure assets. In comparison, both Glamorgan-Spring Bay and Tasman undertook significant capital works during the period, which was reflected in their high ratios.

The average staff cost for councils was $0.049m, which equated to an average of 29% of operating expenditure. The employee costs as a percentage of operating expenses for Tasman is above the average due to the impact of employing staff at the Nubeena Nursing Home, which is operated by Council.

Flinders Council

INTRODUCTION

The Flinders Council originates from the Flinders Municipality, which was established in 1907. Flinders Island is the largest of the Furneaux group of islands and is about 29 kilometres wide at its widest point and 64 kilometres long. The Council services a population of approximately 950 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 22 November 2005 and an unqualified audit report was issued on 23 November.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates	714	619	588	561	519
User charges	216	168	183	194	184
Grants	1 247	1 694	2 685	1 177	957
Other operating revenue	815	687	646	513	429
Non-operating revenue	85	5	12	47	0
Total Revenue	**3 077**	**3 173**	**4 114**	**2 492**	**2 089**
Employee costs	989	757	758	740	648
Borrowing costs	0	0	0	0	0
Depreciation	1 367	1 381	1 386	1 433	1 039
Other operating expenses	1 460	1 221	2 835	1 037	899
Non-operating expenses	0	0	0	0	13
Total Expenses	**3 816**	**3 359**	**4 979**	**3 210**	**2 599**
Result from Ordinary Activities	**(739)**	**(186)**	**(865)**	**(718)**	**(510)**

Comment

Revenue from Rates increased by $0.095m from 2003-04 to 2004-05 due mainly to an increase in the general rate and a higher minimum charge applied to rateable properties.

The increase in grant revenue in 2002-03 was due mainly to the receipt of a Networking the Nation grant of $1.590m. Grant revenue for 2003-04 included $0.334m of Roads to Recovery funding and $0.250m from the State Government for bridge reconstruction works.

Non-operating revenue in 2001-02, $0.047m, and 2004-05, $0.085m, related to the gain on sale of property, plant and equipment.

The increase in Employee costs in 2004-05 of $0.232m was mainly due to the employment of additional staff, as reflected in the increase in employee numbers in the Financial Analysis section of this chapter. At 30 June 2004, a total of eighteen staff were employed by Council, of which fourteen were full-time and four were permanent part-time. At 30 June 2005, the total number of employees had increased to twenty-six persons. Of this number, fifteen were full time employees, one was permanent part time and ten were casual.

The increase in Depreciation expense in 2001-02, $0.394m, was due mainly to the change in useful lives for unsealed roads. Council adopted an average useful life of 57 years for its unsealed roads from 1 July 2001.

Other operating expenses increased by $1.816m during 2002-03 predominantly due to a payment to Telstra for the construction of four mobile base facilities under the Networking the Nation program totalling $1.600m.

Council incurred losses from ordinary activities in all of the past five years. The total loss from ordinary activities for the period under review amounted to $3.018m, which equated to an average loss of $0.604m per annum.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	442	505	138	151	145
Receivables	193	128	166	101	147
Investments	3 980	4 154	5 533	3 663	2 958
Inventories	487	146	159	190	232
Other	70	138	40	71	52
Total Current Assets	**5 172**	**5 071**	**6 036**	**4 176**	**3 534**
Payables	29	121	164	206	84
Borrowings	0	0	82	0	0
Provisions	118	117	134	109	97
Other	34	44	1 635	39	59
Total Current Liabilities	**181**	**282**	**2 015**	**354**	**240**
Working Capital	**4 991**	**4 789**	**4 021**	**3 822**	**3 294**
Property, plant and equipment	35 381	36 052	37 181	38 258	39 485
Other	0	234	54	21	30
Total Non-Current Assets	**35 381**	**36 286**	**37 235**	**38 279**	**39 515**
Provisions	147	111	106	72	62
Total Non-Current Liabilities	**147**	**111**	**106**	**72**	**62**
Net Assets	**40 225**	**40 964**	**41 150**	**42 029**	**42 747**
Reserves	4 111	4 562	4 657	4 679	4 467
Retained surpluses	36 114	36 402	36 493	37 350	38 280
Total Equity	**40 225**	**40 964**	**41 150**	**42 029**	**42 747**

Comment

The significant investment balance of $5.533m held at 30 June 2003 was primarily due to the receipt of Networking the Nation funds. The corresponding payment to Telstra was not paid until after the end of the financial year. As a result, an accrued expense liability of $1.600m was included in other current liabilities as at 30 June 2003.

The increase in Inventories in 2004-05 of $0.341m was primarily due to payments made for the stockpiling and crushing of blue metal.

The increase in Payables in 2001-02, $0.122m, was mainly attributable to an outstanding invoice for the purchase of an item of major plant.

The balance of current Borrowings at 30 June 2003 represented the Council's trading account being in overdraft. The corresponding cash balance in that year, represented deposits on call held by Council.

Other non-current assets represented Council work-in-progress, which included $0.219m in bridge works not capitalised at 30 June 2004.

The balance of Property, plant and equipment decreased by $4.104m from 30 June 2001 to 30 June 2005. The decrease was primarily due to depreciation expense totalling $5.567m offset by capital expenditure of $1.417m.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 574	1 721	1 373	1 256	1 032
Payments to suppliers and employees	(3 081)	(4 013)	(2 071)	(1 847)	(1 557)
Interest received	287	208	190	143	169
Cash from operations	**(1 220)**	**(2 084)**	**(508)**	**(448)**	**(356)**
Proceeds from investments	175	1 379	0	0	0
Payments for investments	0	0	(1 870)	(705)	(135)
Payments for property, plant and equipment	(462)	(464)	(422)	(69)	(271)
Proceeds from sale of property, plant and equipment	85	36	20	50	77
Cash used in investing activities	**(202)**	**951**	**(2 272)**	**(724)**	**(329)**
Cash Flows from Government	**1 359**	**1 582**	**2 685**	**1 178**	**1 067**
Net increase/(decrease) in cash	**(63)**	**449**	**(95)**	**6**	**382**
Cash at the beginning of the period	505	56	151	145	(237)
Cash at the end of the period	**442**	**505**	**56**	**151**	**145**

Comment

The net cash outflows from Cash from operations remained fairly constant over the initial three-year period under review. The significant increase in 2003-04 was due to the payment of $1.600m to Telstra for the construction of four mobile base facilities under the Networking the Nation program. In 2004-05, payments to suppliers included $0.379m relating to the crushing and stockpiling of blue metal.

Payments for investments increased during 2002-03 due to the higher investment balance held at 30 June 2003 as a result of the receipt of Networking the Nation funds. The Proceeds from investments cash flow in 2003-04 was the corresponding reduction in the investment balance as the funds were expended.

Payments for Property, plant and equipment have been relatively consistent for the past three-year period.

Networking the Nation grants of $1.590m increased cash flows from government for 2002-03.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		(824)	(191)	(877)	(765)	(497)
Operating margin	>1.0	0.78	0.94	0.82	0.76	0.81
Financial Management						
Current ratio	>1	28.57	17.98	3.00	11.80	14.73
Debt collection	30 days	76	59	53	49	76
Creditor turnover	30 days	7	36	20	71	24
Capital Exp/Depreciation		34%	34%	30%	5%	26%
Other information						
Employee costs as % of operating expenses		26%	23%	15%	23%	25%
Staff numbers FTEs		23	18	18	18	17
Average staff costs ($'000s)		44	42	42	41	38

Comment

The financial performance ratios show that Council incurred operating losses for the five years to 30 June 2005. The total losses for this period amount to $3.154m. As a result, the Operating margin was below the benchmark for each of the years in the analysis.

Council's Current ratio was well above the benchmark in all five years indicating that it was able to meet all short-term liabilities.

The Debt collection ratio was consistently above the benchmark of 30 days. However, it decreased significantly in 2001-02 due to the sale of the Flinders Island Lodge, which resulted in settlement of significant rate arrears. However, long term rate debtors continued to keep the ratio above the benchmark.

The Creditor turnover figure was significantly greater than the 30-day benchmark in 2001-02 (71 days) as a result of the creditors balance including an outstanding invoice at year-end relating to the purchase of a major plant item.

The Capital Exp/Depreciation ratio was very low in all years under review indicating that Council was not maintaining its present infrastructure capability by reinvesting in, or renewing long-lived infrastructure assets. The majority (77%) of Council's non-current assets are the roads and streets network on Flinders and Cape Barren Islands with a written down value of $27.379m. It is noted that, as part of the transfer of land on Cape Barren and Clarke Islands to the Aboriginal Land Council of Tasmania, the State Government has declared that twenty-six kilometres of roads and three bridges on Cape Barren Island will be transferred to the Department of Primary Industries, Water and Environment. Once the transfer is complete, Council will no longer be responsible for maintenance of these assets.

The increase in Average staff costs from $0.038m in 2000-01 to $0.041m in 2001-02 was due mainly to the Area Marketing and Development Officer being operational for the full year (compared with five months in 2001) and increased use of casual staff. In general, average staff costs were relatively stable over the period under review.

OVERALL COMMENT

In the five years under review, Council recorded total operating deficits (excluding non-operating items) of $3.154m. Council will need to monitor its financial position, as it is apparent that there is a considerable reliance on grant funding to maintain current levels of activity.

Council will also need to significantly increase reinvestment in its network of roads and streets if these assets are to be maintained at present condition levels in the long term.

The 2004-05 audit was completed with satisfactory results.

Glamorgan Spring Bay Council

INTRODUCTION

The Glamorgan Spring Bay area was proclaimed a municipality under the Local Government Act 1993 and combined the former Municipalities of Glamorgan and Spring Bay. The population serviced by Glamorgan Spring Bay Council is approximately 4 200. However, during the summer months the population increases threefold especially upon the return of owners of holiday homes and caravans.

Up until 2003-04 the transactions and balances provided in the tables below include the May Shaw Nursing Centre Authority (the Nursing Centre), which was established as a single authority on 3 October 2001. Separate financial statements were prepared by the Nursing Centre and consolidated into the Council's financial statements. The Council discontinued the Nursing Centre as a single authority on 30 June 2004 and it became an incorporated body known as the May Shaw Health Centre Incorporated totally independent of Council. From 2004-05 the tables include transactions and balances for the Council only. In most instances, the main reason for the variances between current and prior year values for transaction and balances is due to the non-inclusion of the Nursing Centre.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 23 November 2005. An unqualified audit report, which included an ***emphasis of matter*** in regard to out-of-date valuations of buildings, roads, bridges and infrastructure assets, was issued on 24 November 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates	5 390	4 417	3 865	3 476	3 358
User charges	586	1 172	778	753	650
Grants	2 388	4 018	4 724	3 006	3 009
Other operating revenue	897	1 051	1 351	749	700
Non-operating revenue	27	0	0	76	45
Total Revenue	**9 288**	**10 658**	**10 718**	**8 060**	**7 762**
Employee costs	2 544	3 385	3 229	3 161	2 654
Borrowing costs	191	205	194	158	112
Depreciation	1 528	1 525	1 474	1 446	1 409
Other operating expenses	3 571	4 478	3 892	3 829	3 328
Non-operating expenses	625	197	5	100	13 778
Total Expenses	**8 459**	**9 790**	**8 794**	**8 694**	**21 281**
Result from Ordinary Activities	**829**	**868**	**1 924**	**(634)**	**(13 519)**

Comment

Revenue from Rates increased by $0.973m in 2004-05 due to an increase in the general rate of 4% and a new waste collection service that now includes Orford and Triabunna.

The decrease in User charges in 2004-05 of $0.586m is a result of the separation of the Nursing Centre from 1 July 2004.

The increase for Grant revenue in 2002-03 of $1.718m was mainly attributable to the receipt of $1.302m by the Nursing Centre for capital works and $0.450m received under the Clean Quality Water Program. The Nursing Centre also received a further $1.025m in capital grants during 2003-04.

Grant revenue decreased in 2004-05 by $1.646m due to the non-inclusion of grants for the Nursing Centre. Grants relating to the Council were $1.019m higher than in 2003-04. Reasons included the receipt of a Treasury grant of $0.631m to repay the loan for the Triabunna call centre, which was sold during the year, and a grant of $0.406m under the Roads to Recovery program.

In 2004-05 Employee costs and Other operating expenses decreased by $0.841m and $0.907m respectively due to the non-inclusion of the Nursing Centre. Non-operating revenue and Non-operating expenses generally reflected the proceeds from disposals and the carrying values of non-current assets disposed of in any given year. The high level of other Non-operating expenses in the 2000-01 year was due to the downward revaluation in some classes of non-current assets, particularly roads. The total decrease amounted to $13.774m. The amount of $0.625m in 2004-05 was due to loss on sale of the Triabunna call centre referred to below.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	447	239	1 250	2 902	67
Receivables	789	298	303	346	446
Investments	0	0	0	0	2 336
Inventories	0	86	0	0	0
Other	0	6	0	0	0
Total Current Assets	**1 236**	**629**	**1 553**	**3 248**	**2 849**
Payables	708	681	519	519	438
Borrowings	132	285	252	277	228
Provisions	402	462	385	388	307
Other	0	85	20	20	131
Total Current Liabilities	**1 242**	**1 513**	**1 176**	**1 204**	**1 104**
Working Capital	**(6)**	**(884)**	**377**	**2 044**	**1 745**
Property, plant and equipment	43 928	49 524	46 067	42 716	41 676
Other	0	0	22	42	60
Total Non-Current Assets	**43 928**	**49 524**	**46 089**	**42 758**	**41 736**
Borrowings	3 086	3 597	2 696	2 951	1 528
Provisions	24	95	133	127	94
Other	0	881	353	296	162
Total Non-Current Liabilities	**3 110**	**4 573**	**3 182**	**3 374**	**1 784**
Net Assets	**40 812**	**44 067**	**43 284**	**41 428**	**41 697**
Reserves	12 537	12 508	12 979	12 979	12 849
Retained surpluses	28 275	31 559	30 305	28 449	28 848
Total Equity	**40 812**	**44 067**	**43 284**	**41 428**	**41 697**

Comment

Property, plant and equipment increased by $3.351m in 2002-03 due mainly to the capital works undertaken at the Nursing Centre. Stage 1A construction works amounted to $1.778m and the Nursing Centre received land and buildings from the State Government valued at $0.230m. In addition, Council had work-in-progress balances relating to the Bicheno, Orford, Swansea and Triabunna sewage re-use schemes of $1.878m at 30 June 2003. The increase in Property, plant and equipment in 2003-04, $3.457m, was principally due to capital works relating to the Bicheno Water Treatment Plant, $1.067m, the Stage 2A redevelopment at the Nursing Centre, $0.978m, and the construction of three independent living units by the Nursing Centre, $0.484m. The decrease of $5.596m in 2004-05 was mainly due to the non-inclusion Nursing Centre, with $0.978m due to the sale of the Triabunna call centre.

Council Borrowings increased by $1.472m from 2000-01 to 2001-02, as a result of new borrowings, $1.699m, offset by principal repayments of $0.227m. The new borrowings were comprised of a $1.000m loan for the

Triabunna call centre and a $0.699m loan for sewage re-use projects. Borrowings increased again in 2003-04 by $0.934m due to new borrowings of $1.200m, offset by principal repayments of $0.266m. The new borrowings were for capital projects, principally the sewage re-use schemes. In 2004-05 borrowings decreased by $0.664m due to the repayment of the loan to the Triabunna call centre referred to previously, offset by a new loan of $0.607m for capital projects, including sewage re-use schemes.

The decrease in retained surplus in 2004-05 is principally the result of the non-inclusion of the Nursing Centre.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	6 456	7 041	6 232	5 480	4 590
Payments to suppliers and employees	(5 990)	(8 191)	(7 890)	(7 312)	(6 023)
Interest received	60	60	159	139	144
Borrowing costs	(191)	(205)	(194)	(158)	(112)
Cash from operations	**335**	**(1 295)**	**(1 693)**	**(1 851)**	**(1 401)**
Proceeds from accommodation bonds	0	664	140	0	0
Payments for accommodation bonds	0	(99)	(41)	0	0
Payments for property, plant and equipment	(2 430)	(5 251)	(4 612)	(2 202)	(1 925)
Proceeds from sale of property, plant and equipment	587	96	32	76	91
Cash used in investing activities	**(1 843)**	**(4 590)**	**(4 481)**	**(2 126)**	**(1 834)**
Proceeds from borrowings	620	1 200	0	1 699	400
Repayment of borrowings	(1 153)	(266)	(280)	(228)	(227)
Cash from financing activities	**(533)**	**934**	**(280)**	**1 471**	**173**
Cash Flows from Government	**2 287**	**3 940**	**4 802**	**3 005**	**3 009**
Net increase/(decrease) in cash	**246**	**(1 011)**	**(1 652)**	**499**	**(53)**
Cash at the beginning of the period	201	1 250	2 902	2 403	2 456
Cash at the end of the period	**447**	**239**	**1 250**	**2 902**	**2 403**

Comment

Payments for property, plant and equipment totalling $2.202m in 2001-02 included almost $1.000m relating to the Triabunna call centre. Payments in 2002-03 of $4.612m included the Nursing Centre Stage 1A construction works of $1.778m and $1.400m relating to the sewage re-use schemes. The 2003-04 capital payments of $5.251m included $1.067m for the Bicheno Water Treatment Plant, $0.978m for the Stage 2A redevelopment at the Nursing Centre and $0.484m relating to the construction of three independent living units. Property, plant and equipment payments in 2004-05 included $0.534m for plant and motor vehicles.

As previously noted, Council drew down $1.699m in new loans in 2001-02, of which $1.000m related to the Triabunna call centre. A further $1.200m was drawn down in 2003-04 for capital works. The building, which was substantially complete at 30 June 2002, was included in Council's work-in-progress balance at that date and was capitalised and depreciated in 2002-03. The call centre had been unoccupied since its construction. Council sold the building on 3 December 2004 for $0.430m. As part of the sale arrangements, Council received a Treasury grant of $0.631m for the purpose of discharging the associated loan during 2004-05.

Proceeds from sale property, plant and equipment of $0.587m in 2004-05 include $0.430m from the sale of the call centre.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		1 427	1 065	1 929	(610)	214
Operating margin	>1.0	1.18	1.11	1.22	0.93	1.03
Financial Management						
Current ratio	>1	1.00	0.42	1.32	2.70	2.58
Cost of debt	7.5%	6.3%	6.3%	6.8%	7.1%	8.7%
Debt service ratio		14.5%	4.4%	4.4%	4.8%	4.4%
Debt collection	30 days	48	19	24	30	41
Creditor turnover	30 days	43	26	20	24	30
Capital Exp/Depreciation	100%	159%	344%	313%	152%	137%
Other information						
Employee costs as % of operating expenses		32%	35%	37%	37%	35%
Staff numbers FTEs		47	60	61	62	56
Average staff costs ($'000s)		54	56	53	51	47

Comment

Council recorded operating surpluses in all but one of the five years under review, the exception being an operating deficit of $0.610m in 2001-02. The increased operating surplus in 2002-03, $1.929m, was due mainly to the receipt of $1.302m in capital funding by the Nursing Centre, whereas the improved result in 2004-05 was the result of the non-inclusion of the Nursing Centre.

Council’s Current ratio was above the benchmark in all years prior to 2003-04 when the ratio decreased to 0.42. It was noted that both the Council and the Nursing Centre undertook significant capital works in that and the following year. This also led to a reduction in the balance of cash held and negative net working capital.

Council’s Debt collection and Creditor ratios were equal to or below the benchmarks of 30 days for four of the five years under review. The ratio increases in 2004-05 are partially due to staff shortages.

OVERALL COMMENT

The 2004-05 audit was completed with satisfactory results. Without qualification to the opinion expressed in 2004-05, an emphasis of matter was included drawing attention to the last valuation carried out by Council in relation to Buildings, Roads and Bridges, Other and Infrastructure being 1 July 2000. Council has elected to carry these assets at fair value and has adopted a policy that these assets will be revalued every five years to comply with the requirements of Australian Accounting Standard AASB 1041 "Revaluation of Non-Current Assets". I consider that the values of these assets as set out in the current year's Financial Report are not up-to-date, and may not represent fair value. I have recommended to the Council that they obtain up-to-date valuations before 30 June 2006.

Kentish Council

INTRODUCTION

The Kentish Council originated from the Kentish Municipality, which was established in 1907. The Council boundary was not affected by the amalgamations undertaken across local government in 1993.

The municipal area covers approximately 1 187 square kilometres and encompasses the towns of Sheffield and Railton. The Council services a population of approximately 5 500 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 4 November 2005 and an unqualified audit report was issued on 14 November 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates	3 289	2 688	2 402	2 211	1 946
User charges	480	419	319	175	172
Grants	2 159	1 791	1 923	1 974	2 239
Other operating revenue	343	237	141	162	161
Non-operating revenue	143	183	23	37	19
Total Revenue	**6 414**	**5 318**	**4 808**	**4 559**	**4 537**
Employee costs	1 272	1 104	882	691	492
Borrowing costs	28	37	44	60	61
Depreciation	1 445	1 220	1 316	1 277	1 115
Other operating expenses	2 537	2 522	2 270	2 544	2 368
Non-operating expenses	284	297	21	72	24
Total Expenses	**5 566**	**5 180**	**4 533**	**4 644**	**4 060**
Result from Ordinary Activities	**848**	**138**	**275**	**(85)**	**477**

Comment

Revenue from Rates increased by 22% from $2.688m in 2003-04 to $3.289m in 2004-05. The increase was due to a combination of a municipal revaluation undertaken by the Valuer-General with effect from 1 July 2004 and the impact of the Reform Act, which resulted in the rating of previously exempt properties.

In 2000-01 Grants included Commonwealth Roads to Recovery funding totalling $0.789m, with a further amount of $0.313m received for this purpose in 2001-02. Grant revenue during 2002-03 included $0.360m in National Heritage Trust funding for the Railton Sewerage upgrade. In 2004-05, Council received $0.364m in funding for the Cradle Mountain centralised sewerage scheme.

Other operating revenue increased by $0.106m in 2004-05 due to a combination of factors including:

- The inclusion of two years of excess water revenue as a result of water meters being read earlier and invoices being issued in June 2005, compared with July in prior years;
- The recognition of special committee bank balances totalling $0.035m; and
- The recognition of Visitor Information Centre revenue of $0.052m following the closure and transfer of the Centre's bank account to Council's trading account.

Non-operating revenue represents the proceeds on the sale of property, plant and equipment. The increased sale proceeds in the last two financial years is due to the impact of the wind-up of the Kentish-Latrobe Joint Authority (the Authority) in April 2002. The majority of plant and equipment was controlled by the Authority and was transferred back to the member councils in October 2001.

The increase in employee costs in 2003-04 ($0.222m) and 2004-05 ($0.168m) was predominately due to an increase in staff numbers. The employee expense figure for 2004-05 also includes $0.020m in payroll tax, which was introduced as a result of the Reform Act.

Borrowing costs have decreased from $0.061m in 2000-01 to $0.028m in 2004-05, which reflects the reduction in borrowings outstanding.

During 2001-02, Council revalued and reviewed the useful lives for roads, water and sewerage assets, the effect of which was to increase the annual depreciation expense by $0.118m. A further review of useful lives was conducted during 2003-04 resulting in a decrease in depreciation expense during that year.

The increase in depreciation expense in 2004-05 of $0.225m was primarily due to the impact of asset revaluations undertaken during the year. Council undertook revaluations of land, buildings, bridges, water, sewerage, stormwater and road assets with effect from 1 July 2004.

The increase in Other operating expenses of $0.176m in 2001-02 was due primarily to the impact of the wind-up of the Authority. Contractors initially occupied a number of Council positions and the cost was therefore included as materials and contracts expenditure within the financial statements.

Non-operating expenses normally comprise the written down value of assets at the time of disposal. However, in 2001-02, the balance also included a loss on investment of $0.036m as a result of the wind-up of the Authority. The 2004-05 amount included the disposal of road assets totalling $0.161m (2003-04, $0.164m).

A surplus from ordinary activities totalling $1.653m was recorded in the five years under review. A deficit of $0.085m was recorded in 2001-02 due to the increased Other operating expenses, as detailed above.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	3 759	2 992	3 220	2 033	1 264
Receivables	80	82	149	229	235
Other	88	98	25	39	70
Total Current Assets	**3 927**	**3 172**	**3 394**	**2 301**	**1 569**
Payables	552	388	288	181	281
Borrowings	147	105	52	88	81
Provisions	122	137	88	49	16
Other	196	131	13	11	1
Total Current Liabilities	**1 017**	**761**	**441**	**329**	**379**
Working Capital	**2 910**	**2 411**	**2 953**	**1 972**	**1 190**
Property, plant and equipment	33 108	27 751	27 240	27 987	22 575
Investments	1 086	1 057	900	900	1 737
Other	73	76	81	81	83
Total Non-Current Assets	**34 267**	**28 884**	**28 221**	**28 968**	**24 395**
Borrowings	150	296	447	501	589
Provisions	46	31	54	31	33
Total Non-Current Liabilities	**196**	**327**	**501**	**532**	**622**
Net Assets	**36 981**	**30 968**	**30 673**	**30 408**	**24 963**
Reserves	37 222	32 057	31 900	31 900	26 291
Retained surpluses	(241)	(1 089)	(1 227)	(1 492)	(1 328)
Total Equity	**36 981**	**30 968**	**30 673**	**30 408**	**24 963**

Comment

The increase in the cash balances in 2001-02 of $0.769m principally reflected Council holding unexpended grant funds totalling $0.095m, and the receipt of $0.386m from the winding up of the Authority. At 30 June 2003 and 2005 Council still held significant unspent grant funding.

The balance of Other current assets was comprised of amounts owing to Council in relation to GST and prepaid expenses.

The increase in Property, plant and equipment in 2001-02 resulted from a revaluation of the roads, water and sewerage infrastructure assets undertaken by Council's consulting engineers. The net revaluation increment, $5.530m, was also recorded against the asset revaluation reserve. Likewise, the increase in Property, plant and equipment in 2004-05 was primarily the result of revaluations of land, buildings, bridges, water, sewerage, stormwater and road assets. The revaluations resulted in an increment to Council's asset revaluation reserve of $5.165m.

The balance of non-current Investments at 30 June 2001 comprised Council's share in the equity of both the Authority and Cradle Coast Water. The Authority officially ceased in April 2002 and the investment balance of $0.837m carried forward from 2000-01 was eliminated from the financial statements. The investment in Cradle Coast Water was revalued in both 2003-04 and 2004-05 to reflect changes in its equity balance.

The majority of the Other non-current assets reflected a loan in lieu of an equity contribution to the Dulverton Regional Waste Management Authority, $0.068m. This Authority provides a waste disposal site to a number of member councils on the North West coast.

The increase in Payables in 2004-05 is due to a number of significant creditors at 30 June relating to plant hire, road materials and capital works. The balance of Other current liabilities includes $0.146m of accrued expenditure, the majority of which relates to capital works.

Council's Borrowings decreased from $0.670m at 30 June 2001 to $0.297m. This reflects no new borrowings during this period and principal repayments of $0.373m.

Leave balances increased by $0.031m during 2001-02 to recognise Council's liability for this entitlement following the transfer of employees back to the Council after the winding-up of the Authority.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	4 260	3 347	3 015	2 791	2 175
Payments to suppliers and employees	(3 915)	(3 617)	(3 176)	(3 404)	(3 105)
Interest received	199	185	127	78	63
Borrowing costs	(28)	(37)	(44)	(55)	(61)
Cash from operations	**516**	**(122)**	**(78)**	**(590)**	**(928)**
Proceeds from investments	2	5	0	389	0
Payments for property, plant and equipment	(1 955)	(1 987)	(590)	(960)	(669)
Proceeds from sale of property, plant and equipment	148	183	23	37	19
Cash used in investing activities	**(1 805)**	**(1 799)**	**(567)**	**(534)**	**(650)**
Proceeds from borrowings	0	0	0	0	0
Repayment of borrowings	(103)	(98)	(91)	(81)	(143)
Cash from financing activities	**(103)**	**(98)**	**(91)**	**(81)**	**(143)**
Cash Flows from Government	**2 159**	**1 791**	**1 923**	**1 974**	**2 239**
Net increase in cash	**767**	**(228)**	**1 187**	**769**	**518**
Cash at the beginning of the period	2 992	3 220	2 033	1 264	746
Cash at the end of the period	**3 759**	**2 992**	**3 220**	**2 033**	**1 264**

Comment

Council incurred deficits of Cash from operations in the first four years under review. In 2004-05, a surplus of $0.516m was recorded due primarily to increased revenue from rates (refer comments made under the Financial Performance section of this chapter).

Significant Payments for property, plant and equipment were made in 2003-04 and 2004-05. Expenditure on capital works in 2003-04 ($1.987m) included payments relating to the Sheffield Waste Water Treatment Plant and Railton Re-use Scheme as well as a large amount of road capital works. Payments made in 2004-05 ($1.955m) included road infrastructure works of $0.647m, plant additions of $0.369m and building additions of $368m.

In 2001-02, $0.389m was included in Proceeds from investments, representing the return of Council’s share of the cash balances arising from the wind up of the Authority.

After taking into account cash flows from government, Council recorded net increases in cash in four of the five years under review. A net decrease of $0.228m was recorded in 2003-04 due to the increased Payments for property, plant and equipment.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		989	252	273	(50)	482
Operating margin	>1.0	1.19	1.05	1.06	0.99	1.12
Financial Management						
Current ratio	>1	3.86	4.17	7.70	6.99	4.14
Cost of debt	7.5%	7.4%	7.5%	7.9%	8.2%	8.6%
Debt service ratio		2.1%	2.6%	2.8%	3.0%	4.5%
Debt collection	30 days	8	10	20	35	40
Creditor turnover	30 days	45	31	37	20	34
Capital Exp/Depreciation	100%	135%	163%	45%	75%	60%
Other information						
Employee costs as a % of operating expenses		24%	23%	20%	15%	12%
Staff numbers FTEs		25	23	19	16	8
Average staff costs ($'000s)		51	48	45	43	55

Comment

The financial performance ratios show that Council returned positive results from operations during four of the five years under review. Council's operating margin was around the benchmark in all years.

Council was above the benchmark Current ratio in all five years under review and indicated that Council was able to meet all short-term liabilities. The increase in cash balances significantly improved Council's liquidity position.

Due to increased rate debtors at 30 June 2001 and 2002, the Debt collection ratio for these periods was above the benchmark. However, Council took action to recover the outstanding debtors, which is reflected by the improved ratio in the last three years.

Council's Creditor turnover has been above the benchmark of 30 days in four of the five years under review. A turnover figure of 45 days was recorded in 2004-05 due to a number of significant creditors at 30 June relating to plant hire, road materials and capital works.

The Capital expenditure to depreciation ratio was above the benchmark in 2003-04 and 2004-05. This reflects the significant capital works undertaken in these years, as detailed in the Cash Position section of this chapter.

The average staff costs for 2000-01 and 2001-02 are distorted by the activities of the Authority. The average staff cost for 2001-02 was based on sixteen FTEs, however, six employees were transferred from the Authority in October 2001. Therefore, these employees were not employed for the full financial period. In more recent years average staff costs have stabilised.

OVERALL COMMENT

In the five years under review, Council recorded a total operating surplus (excluding non-operating items) of $1.946m.

The 2004-05 audit was completed with satisfactory results.

King Island Council

INTRODUCTION

King Island Council (proclaimed 1993) originates from the King Island Municipality, which was established in 1907. The municipality covers an area of approximately 1 100 square kilometres with Council services provided to a population of approximately 1 800 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 29 August 2005, with amended financial statements being signed on 21 October 2005. An unqualified audit report was issued on 15 November 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05 $'000s	2003-04 $'000s	2002-03 $'000s	2001-02 $'000s	2000-01 $'000s
Rates	1 806	1 631	1 534	1 452	1 373
User charges	849	845	910	880	809
Grants	1 467	1 452	1 620	1 924	1 915
Other operating revenue	321	248	423	362	360
Non-operating revenue	85	41	58	8	1
Total Revenue	**4 528**	**4 217**	**4 545**	**4 626**	**4 458**
Employee costs	1 201	1 407	1 396	1 277	1 180
Borrowing costs	23	26	6	6	11
Depreciation	1 117	1 221	1 191	1 169	1 138
Other operating expenses	1 886	1 482	2 982	2 163	3 681
Non-operating expenses	5	19	25	41	47
Total Expenses	**4 232**	**4 155**	**5 600**	**4 656**	**6 057**
Result from Ordinary Activities	**296**	**62**	**(1 055)**	**(30)**	**(1 599)**

Comment

Revenue from rates increased by $0.175m in 2004-05. The increase was primarily due to the impact of the Reform Act, which resulted in the rating of previously exempt properties including Crown Land and Forestry properties. However, in general, Council's revenue has been fairly stable over the five-year period under review.

Employee costs decreased by $0.206m in 2004-05, primarily due to a change in the recording of costs associated with the external hire of labour. In prior periods, the costs were recorded as employees costs, however in 2004-05 the contract costs of $0.267m have been recorded in other operating expenses.

Other operating expenses in 2000-01, $3.681m includes a one-off expense of $1.660m for costs associated with the Networking the Nation project. Corresponding grant funding was received during the previous year.

Other operating expenses in 2002-03, $2.982m, increased by $0.819m from 2001-02 due to Council expending $0.289m on repainting the Currie Lighthouse and expenditure relating to the King Island Natural Resource Management Group taking full control of its own operations from Council. The Resource Group's grant funds totalling $0.725m were partially expended during 2002-03, with the balance of $0.488m paid to the Group.

A deficit from ordinary activities totalling $2.326m was recorded in the five years under review. The deficit was primarily the result of the:

- Distribution of a Networking the Nation grant, totalling $1.660m, in 2000-01; and

- Distribution of funds held on behalf of the King Island Natural Resource Management Group and the expenditure on repainting the Currie Lighthouse in 2000-01 (as mentioned above).

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	436	252	248	318	754
Receivables	295	307	427	425	318
Investments	2 816	1 829	1 954	2 490	3 150
Inventories	271	365	312	367	399
Other	167	245	77	35	32
Total Current Assets	**3 985**	**2 998**	**3 018**	**3 635**	**4 653**
Payables	162	110	124	109	1 767
Borrowings	74	54	75	39	36
Provisions	636	572	497	369	314
Other	478	264	269	253	147
Total Current Liabilities	**1 350**	**1 000**	**965**	**770**	**2 264**
Working Capital	**2 635**	**1 998**	**2 053**	**2 865**	**2 389**
Property, plant and equipment	47 133	19 594	19 354	19 440	19 510
Investments	0	0	0	0	486
Other	0	0	0	0	14
Total Non-Current Assets	**47 133**	**19 594**	**19 354**	**19 440**	**20 010**
Borrowings	731	386	269	45	92
Provisions	29	33	27	31	34
Other	0	0	0	0	14
Total Non-Current Liabilities	**760**	**419**	**296**	**76**	**140**
Net Assets	**49 008**	**21 173**	**21 111**	**22 229**	**22 259**
Reserves	30 760	2 310	1 679	1 803	1 700
Retained surpluses	18 248	18 863	19 432	20 426	20 559
Total Equity	**49 008**	**21 173**	**21 111**	**22 229**	**22 259**

Comment

The balance of Cash assets decreased from $0.754m at 30 June 2001 to $0.318m at 30 June 2002. However, this reduction also included $1.146m from the current and non-current investment balances, which decreased from $3.636m to $2.490m. The decrease was due to the expenditure of Networking the Nation funding received in the prior year. The balance of cash and investments at 30 June 2003 reduced by a further $0.606m due to the distribution and transfer of funds, totalling $0.725m relating to the King Island Natural Resource Management Group.

At 30 June 2005, Council improved its cash and investment position by $1.171m to $3.252m. However, Council has restricted $0.790m of the cash balances for specific purposes.

Other current assets increased by $0.168m in 2003-04 to $0.245m. The increase was attributable to the accrual of $0.043m relating to a material private works project and $0.037m accrued for a diesel fuel rebate.

Borrowings have increased over the last three years. Council borrowed $0.300m during 2002-03 to assist in the purchase of a major plant item.

An additional $0.160m was borrowed in 2003-04 to fund capital works on the Currie Sewerage Treatment Wetlands. In 2004-05, Council borrowed $0.420m to assist in funding capital works related to waste management.

The balance of current Provisions increased by $0.128m in 2003-04 primarily as a result of Council applying full on-costs in calculating employee entitlements, as required by the revised AASB 1028 "Employee Benefits." In addition, the employee entitlement balances increased due to a number of employees accruing significant employee entitlements.

Other current liabilities include monies held in trust. At 30 June 2005, Council held $0.380m (2004, $0.175m) to be expended for a number of specific purposes.

During 2004-05, Council undertook a revaluation of its roads and bridges infrastructure assets. The result of the revaluation was an increase in the written down replacement cost of the assets totalling $27.540m. This is the primary reason for Property, plant and equipment increasing from $19.594m in 2004, to $47.133m in 2005. In addition, the asset revaluation resulted in the significant movement in the Reserves balance from $2.310m in 2004 to $30.760m in 2005.

CASH POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	3 178	2 759	2 937	2 808	2 593
Payments to suppliers and employees	(3 161)	(3 051)	(4 509)	(5 436)	(3 481)
Interest received	147	100	173	124	227
Borrowing costs	(23)	(22)	(7)	(6)	(11)
Cash from operations	**141**	**(214)**	**(1 406)**	**(2 510)**	**(672)**
Proceeds from investments	0	109	497	1 256	148
Payments for investments	(761)	0	0	0	0
Payments for property, plant and equipment	(1 264)	(1 657)	(1 322)	(1 337)	(849)
Proceeds from sale of property, plant and equipment	235	219	264	239	163
Cash used in investing activities	**(1 790)**	**(1 329)**	**(561)**	**158**	**(538)**
Proceeds from borrowings	420	160	300	0	0
Repayment of borrowings	(54)	(65)	(39)	(28)	(35)
Cash from financing activities	**366**	**95**	**261**	**(28)**	**(35)**
Cash Flows from Government	**1 467**	**1 452**	**1 636**	**1 944**	**1 919**
Net increase/(decrease) in cash	**184**	**4**	**(70)**	**(436)**	**674**
Cash at the beginning of the period	252	248	318	754	80
Cash at the end of the period	**436**	**252**	**248**	**318**	**754**

Comment

Cash at the end of 2004-05 equalled $0.436m, however Council also held current investments of $2.816m.

In 2001-02, net cash outflows from operations increased by $1.838m, due to a deficit of $2.510m, resulting from an increase of $1.955m in Payments to suppliers and employees predominantly due to the expenditure of Networking the Nation project funds. The grant funds were received from Government in 1999-00 and held in an investment account.

The deficit of $1.406m in the net cash outflow from operations in 2002-03 related to Council distributing the balance of restricted funds held for the King Island Natural Resource Management Group, $0.725m, expenditure totalling $0.289m on repainting the Currie Lighthouse and a final payment of $0.400m for the Networking the Nation project.

The above transactions are responsible for the pattern of investment movements disclosed in Proceeds from investments and Payments for investments in the first four years under review. However, in 2004-05 Council recorded a net inflow of Cash from operations and increased its investment balance by $0.761m.

Payments for property, plant and equipment remained fairly constant over the period under review. In 2001-02 the expenditure increased by $0.488m to $1.337m and included payments for a grader, $0.204m; Currie stormwater works, $0.259m; and road works (including bridges), $0.396m.

The payments in 2002-03 for property, plant and equipment included the purchase of a new track loader for $0.462m, capital expenditure on the Currie Sewerage Wetlands project of $0.195m and various road works (including bridges) of $0.327m. During 2003-04 Council expended $0.542m on plant, including the purchase of a new grader for $0.328m and undertook works on the Currie Sewerage Treatment Wetlands, totalling $0.396m. In addition, Council undertook various road works, totalling $0.624m. In 2004-05, Payments for property, plant and equipment included $0.384m in plant purchases and $0.478m in capital road works.

Council borrowed $0.300m during 2002-03 to assist in the purchase of a major plant item. An additional $0.160m was borrowed in 2003-04 to fund capital works on the Currie Sewerage Treatment Wetlands. In 2004-05, Council borrowed $0.420m for capital works related to waste management.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		216	40	(1 088)	3	(1 553)
Operating margin	>1.0	1.05	1.01	0.80	1.00	0.74
Financial Management						
Current ratio	>1	2.95	3.00	3.13	4.72	2.06
Cost of debt	7.5%	5.4%	5.5%	5.3%	6.5%	6.5%
Debt service ratio		1.7%	2.1%	1.0%	0.7%	1.0%
Debt collection	30 days	41	45	64	67	53
Creditor turnover	30 days	19	13	10	11	142
Capital Exp/Depreciation		113%	136%	111%	114%	75%
Other information						
Employee costs as % of operating expenses		28.41%	34.02%	25.04%	27.67%	19.63%
Staff numbers FTEs		26	28	29	28	26
Average staff costs ($'000s)		46	50	48	46	45

Comment

Council’s results from operations varied across the five years under analysis. This is reflected by the movement in the Operating margin ratio. An operating deficit of $1.553m was recorded for 2000-01 due largely to the expenditure of $1.660m for the Networking the Nation project, for which the grant funding was received in 1999-00.

Another significant deficit was recorded for 2002-03 as a result of Council distributing grants held for the King Island Natural Resource Management Group, being restricted funds held at 30 June 2002, which totalled $0.725m.

In addition, Council expended $0.289m on repainting the Currie Lighthouse and $0.400m to finalise the upgrading of the initial work undertaken on the Networking the Nation project. These costs were partially offset by a grant of $0.122m, interest revenue earned by the Council when holding the initial Regional Telecommunications Infrastructure Fund grant, a further grant of $0.191m and a contribution from CDMA Telstra of $0.055m.

Council’s Current ratio was above benchmark for all years and indicated that it was able to meet all short-term liabilities.

The Cost of debt ratio was in line with the benchmark, and the average interest rate on borrowings reflected current market rates.

The Debt collection ratio was consistently above the benchmark of 30 days. However, Council had policies in place to pursue outstanding debts and was pursuing all longer-term debtors.

The Creditor turnover figure for 2000-01 was distorted by the $1.660m outstanding payment for Networking the Nation spending. Generally the Council paid its creditors within the benchmark of 30 days.

In analysing capital expenditure to the depreciation expense, it was pleasing to see that Council continued to fund a sufficient level of capital expenditure, to ensure that asset replacement was consistent with the depreciation charges being incurred.

The review of employee costs as a percentage of operating expenses reveals considerable fluctuations in the five-year period. The ratio for 2000-01 was low due to the expenditure on the Networking the Nation project, as previously mentioned. Again, in 2002-03, the ratio was affected by additional expenditure to distribute grants held for the King Island Natural Resource Management Group, repaint the Currie Lighthouse and finalise the upgrading of the initial work undertaken on the Networking the Nation project.

Staff costs were fairly stable over the five-year period under review, increasing in line with Enterprise Bargaining Agreements previously implemented by the Council. However, the decrease in average staff costs for 2004-05 is primarily due to a change in the recording of costs associated with the external hire of labour. In prior periods, the costs were recorded as employees costs, however in 2004-05 the contract costs have been recorded in other operating expenses. The decrease in the employee costs by the reallocation of contract costs was partially offset by Council being required to pay payroll tax, for the first time, in 2004-05.

OVERALL COMMENT

In the five years under review, Council recorded a total operating deficit from ordinary activities of $2.326m. However, at 30 June 2005 Council had a sound cash balance and net working capital position.

Council’s property, plant and infrastructure assets are recorded at cost with the exception of roads and bridge infrastructure assets, which were revalued during 2004-05. Although, the decision to adopt a specific valuation basis is that of Council, and application of the cost basis complies with accounting standards, I have recommended the adoption of the fair valuation basis for all of Council’s material long-lived infrastructure asset classes.

The use of fair value valuation basis will ensure Council makes decisions in relation to asset management based upon relevant and up-to-date financial information.

The 2004-05 audit was completed with satisfactory results.

Tasman Council

INTRODUCTION

The Tasman area was first proclaimed a Municipality in 1907 and the first council meeting was held on 6 January 1908. In 1993 with amalgamation it took over a part of the municipal area of Sorell Council. The municipal area now includes both the Tasman and Forestier Peninsulas and starts just south of the Dunalley canal. The population serviced by the Tasman Council is in the order of 2 400 people.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 23 September 2005, with amended statements received on 28 November 2005 and an unqualified audit report was issued on the same day.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Rates	1 743	1 534	1 274	1 148	1 115
User charges	467	481	420	528	512
Grants	2 864	3 102	3 442	2 647	2 011
Other operating revenue	619	373	349	297	182
Non-operating revenue	125	183	133	145	142
Total Revenue	**5 818**	**5 673**	**5 618**	**4 765**	**3 962**
Employee costs	2 909	2 563	2 134	1 910	1 610
Borrowing costs	80	57	52	39	30
Depreciation	731	633	588	571	1 231
Other operating expenses	2 068	1 901	1 556	1 511	1 596
Non-operating expenses	120	129	140	7 173	113
Total Expenses	**5 908**	**5 283**	**4 470**	**11 204**	**4 580**
Result from Ordinary Activities	**(90)**	**390**	**1 148**	**(6 439)**	**(618)**

Comment

During the five-year period Council returned a total deficit from Ordinary Activities of $5.609m. In 2001-02, due to a write-down of road and bridge assets of $7.047m, Council recorded a deficit of $6.439m. Had it not been for the write-down, recommended by its valuation consultants, Council would have returned a surplus of $0.608m for the year. This would have resulted in an average result over the five year period of a $0.288m surplus.

The increase in rates revenue in 2003-04 was mainly due to Council including a waste management charge for the first time, and a slight increase in the general rate. The bulk of the increase in 2004-05 is due to Crown properties being rated for the first time.

The increase in Government grants for 2001-02, $0.636m was due principally to funding received for reconstruction of the Nursing Home at Nubeena, $0.300m, and increased funding for roads and bridges projects, $0.250m. Additional grant revenues received in 2002-03 was due to capital works for the Nubeena Sewerage Treatment Plant, $0.376m, and the Nubeena Nursing Home (Multi purpose service) (Nubeena MPS), $0.419m. Grants in 2003-04 were higher than in 2004-05 because grants in the former year included $0.285m for a mobile phone tower.

The decrease in depreciation expense in 2001-02 resulted directly from the downward revaluation of Council's roads and bridges, referred to earlier in this chapter of the Report, together with a reassessment of useful lives. The increased charge in 2004-05 is mainly due to a revaluation of roads and bridges.

The increase in employee costs for 2003-04 and 2004-05 resulted from the Council employing additional nursing staff at the Nubeena MPS.

The increase in other operating expenses of $0.345m in 2003-04 included the cost of the new waste management collection service introduced in that year.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	128	116	284	235	725
Receivables	327	255	284	390	296
Investments	86	257	529	501	412
Other	0	0	0	5	0
Total Current Assets	**541**	**628**	**1 097**	**1 131**	**1 433**
Payables	304	469	568	657	295
Borrowings	161	137	102	74	52
Provisions	239	222	222	261	259
Other	146	121	118	55	55
Total Current Liabilities	**850**	**949**	**1 010**	**1 047**	**661**
Working Capital	(309)	(321)	87	84	772
Property, plant and equipment	14 928	12 874	11 843	10 589	16 239
Other	0	0	10	21	31
Total Non-Current Assets	**14 928**	**12 874**	**11 853**	**10 610**	**16 270**
Borrowings	1 290	1 063	849	722	546
Provisions	69	32	23	42	48
Other	0	0	0	10	83
Total Non-Current Liabilities	**1 359**	**1 095**	**872**	**774**	**677**
Net Assets	**13 260**	**11 458**	**11 068**	**9 920**	**16 365**
Reserves	1 903	1	1	1	1
Retained surpluses	11 357	11 457	11 067	9 919	16 364
Total Equity	**13 260**	**11 458**	**11 068**	**9 920**	**16 365**

Comment

The large decrease in the value of Property, plant and equipment for 2001-02, $5.560m, resulted from the revaluation of Council's road network, referred to earlier in this chapter of the Report, $7.047m, partially offset by asset additions. The increase in Property, plant and equipment of $1.031 in 2003-04 includes a CDMA Mobile Phone Tower, $0.295m, the purchase of 10 vehicles, $0.272m and expenditure of $0.285m on a sewerage treatment plant. The bulk of the increase in 2004-05 was due to a revaluation of roads and bridges.

The increased balance in payables noted in 2001-02 was due to the timing of creditor invoices and included capital creditors relating to progress payments for the re-development of the Nubeena MPS. Creditors have reduced during each of the following three years due to a deliberate policy on the part of Council to better manage creditors.

The increase in borrowings in 2000-01 was due to $0.200m being taken up to fund Council's share of the Copping Waste Management Project, while new borrowings of $0.250m were taken up in 2001-02 to assist funding for the re-development of the Nubeena MPS. In response to a tightening cash position in 2003-04, $0.350m was borrowed to fund expenditure on the sewerage treatment plant. A further $0.387m was borrowed in 2004-05 for Nubeena Sewerage, Copping Tip, roads and plant.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	2 970	2 788	2 383	2 096	1 919
Payments to suppliers and employees	(5 302)	(4 969)	(3 985)	(3 449)	(3 323)
Interest received	26	39	36	31	45
Borrowing costs	(80)	(57)	(52)	(39)	(31)
Cash from operations	**(2 386)**	**(2 199)**	**(1 618)**	**(1 361)**	**(1 390)**
Payments for property, plant and equipment	(1 013)	(1 778)	(2 036)	(2 021)	(818)
Proceeds from sale of property, plant and equipment	125	183	133	145	142
Cash used in investing activities	**(888)**	**(1 595)**	**(1 903)**	**(1 876)**	**(676)**
Proceeds from borrowings	400	350	230	250	200
Repayment of borrowings	(149)	(102)	(74)	(52)	(35)
Cash from financing activities	**251**	**248**	**156**	**198**	**165**
Cash Flows from Government	**2 864**	**3 106**	**3 442**	**2 647**	**2 011**
Net increase/(decrease) in cash	**(159)**	**(440)**	**77**	**(392)**	**110**
Cash at the beginning of the period	373	813	736	1 128	1 018
Cash at end of the period	**214**	**373**	**813**	**736**	**1 128**

Comment

During 2002-03, there was a significant increase in payments to suppliers and employees, due to a number of staff resigning, retiring or Council terminating their employment. The further increase in 2003-04 and 2004-05 was the result of the employment of additional nursing staff at the Nubeena MPS, and the new waste collection service.

The significant level of payments for Property, plant and equipment in the years from 2001-02 until 2003-04 was attributable to additional capital expenditure as noted previously, including the Nubeena MPS, the sewerage treatment works and numerous other items. Some of these works have been partly funded by grants, which is reflected in the higher cash inflows from Government.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		(95)	336	1 155	589	(647)
Operating margin	>1.0	0.98	1.07	1.27	1.15	0.86
Financial Management						
Current ratio	>1	0.64	0.66	1.09	1.08	2.17
Cost of debt	7.5%	5.5%	4.8%	5.5%	4.9%	5.0%
Debt service ratio		4.0%	2.9%	2.3%	2.0%	1.7%
Debt collection	30 days	43	40	52	74	36
Creditor turnover	30 days	32	72	117	129	29
Capital Exp/Depreciation	100%	139%	281%	346%	354%	66%
Other information						
Employee costs as a % of operating expenses		50%	50%	49%	47%	36%
Staff numbers FTEs		55	50	41	31	34
Average staff costs ($'000s)		45	47	47	52	45

Comment

A surplus was achieved in 2001-02 due to increased revenue; particularly grant receipts, and a decrease in depreciation, as a result of a revaluation. This improvement continued until 2002-03 with the result of $1.155m in 2002-03 being due to further increases in government grants. After that year reduced grants and increased operating expenses caused poorer results with a small deficit returned in 2004-05.

The current ratio of 1.08 for 2001-02, although still above the benchmark, decreased noticeably compared to the previous year, due to an increase in payables relating to the construction of the Nubeena MPS. In 2003-04 and 2004-05 there was a further decline, primarily driven by Council's diminished holdings of cash and investments.

These capital creditors also had a negative effect on creditor turnover, where the 2001-02 result was more than four times the result from the preceding year under review. Creditor turnover has improved since 2001-02 and is now only just above the benchmark.

The debt collection ratio was consistently high in the early part of the five year period of review, as Council took a lenient approach to local ratepayers in those years. This was due to the impact of the Port Arthur tragedy on the level of local economic activity. The ratio has now improved as the level of economic activity within the Municipality has improved.

Increased capital expenditure in the years from 2001-02 until 2003-04, as mentioned earlier in this summary, is reflected in the high capital expenditure to depreciation ratios, with the ratio trebling in 2001-02 and 2002-03.

OVERALL COMMENT

The audit of the financial report for 2004-05 was completed with satisfactory results.

Local Government Business Units

INTRODUCTION

Section 30 of the *Local Government Act 1993* (the Act) enables councils to establish a single authority or a joint authority with one or more councils. A single or joint authority may be established to:

- Carry out any scheme, work or undertaking;
- Provide facilities or services; and
- Perform any functions or exercise any powers of a council under the Act or any other legislation.

Currently there are six joint authorities operating in Tasmania:

- Dulverton Regional Waste Management Authority;
- Cradle Coast Authority;
- Southern Waste Strategy Authority:
- Esk Water Authority (Esk Water);
- Cradle Coast Water; and
- Hobart Regional Water Authority (Hobart Water).

In addition, the West Coast Council has created a separate company, known as West Coast Health and Community Services Pty Ltd and similarly Brighton Council with Microwise Australia Pty Ltd

The individual sections in this Report provide details of the nature, functions and financial performance of each entity.

In my November 2005 Report, I provided a comparison of the three business units that perform similar functions; Cradle Coast Water, Esk Water and Hobart Water. I also provided separate chapters for those business units in that report.

A similar comparison is not considered appropriate for the remaining business units because of differences in the activities undertaken by them. Separate chapters are provided in this report for:

- Dulverton Regional Waste Management Authority; and
- West Coast Health and Community Services Pty Ltd.

Dulverton Regional Waste Management Authority

INTRODUCTION

The Dulverton Regional Waste Management Authority was established as a joint authority under Section 38 of the *Local Government Act 1993* effective from 1 January 1995. The Authority was established for the purpose of conducting a licensed waste disposal landfill.

The Devonport City, Central Coast, Latrobe and Kentish Councils are the four participants in the Authority. Each of the four councils has made contributions by way of loans to the Authority in proportion to their populations.

During 2004-05, the Authority changed its governance structure to provide for the separation of the roles and functions of the Board and Council representatives. Previously, representatives from each of the participating councils governed the Authority. In December 2005, the Council representatives appointed three directors. In accordance with the Authority's revised rules, the Board may perform all the functions and exercise all of the powers of the Authority except those which are to be performed by the representatives or participating councils.

Each participating council is now represented by two persons who are appointed to vote on its behalf as a participating council at representatives' meetings. The powers and duties of the representatives are outlined in the rules of the Authority and include the:

- Review of the Board's performance;
- Appointment, suspension and dismissal of directors; and
- Approval of the Authority's strategic plan, annual plan and budget.

The responsible Minister is the Minister for Local Government and Community Development.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Subsequent to the Auditor-General's Report No. 2 for 2003-04, Volume 3, page 201 the final signed financial statements for 2003-04 were received on 31 May 2005. An unqualified audit report was issued on 3 June 2005.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed, but incomplete, financial statements were received on 15 October 2005, with final revised financial statements received on 6 April 2006. An unqualified audit report was issued on 19 April 2006.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	1 508	1 578	1 457	1 296	1 315
Non-operating revenue	0	0	0	0	0
Total Revenue	**1 508**	**1 578**	**1 457**	**1 296**	**1 315**
Employee Costs	192	0	0	0	0
Borrowing costs	69	71	52	66	65
Depreciation	111	76	75	87	128
Other operating expenses	1 378	1 606	1 232	1 145	984
Non-operating expenses	0	0	0	0	0
Total Expenses	**1 750**	**1 753**	**1 359**	**1 298**	**1 177**
Result from ordinary activities	**(242)**	**(175)**	**98**	**(2)**	**138**
Income tax expense	(56)	(41)	40	0	25
Result after taxation	**(186)**	**(134)**	**58**	**(2)**	**113**

Comment

Operating revenue increased steadily over the past five years, which was due mainly to increased revenue from user charges at the waste disposal facility. Operating revenue for 2000-01, $1.315m and 2003-04, $1.578m included contributions by member councils of $0.103m and $0.028m respectively. The contributions resulted from the member councils agreeing to waive income tax payable by the Authority in order for the Authority to utilise these funds for capital purposes.

Operating expenses increased steadily over the initial three-year period, in line with increased activity by the disposal facility. In 2003-04, expenses increased by $0.374m primarily due to increased site works expenditure. In particular, costs increased for waste cells by $0.141m, controlled cells by $0.065m, roads by $0.053m and compost facilities by $0.029m. The abnormally high level of rainfall during the winter period contributed to the additional site works expenditure.

During 2004-05, the Authority commenced the employment of staff to undertake the day-to-day operations at the landfill site. Previously, contractors undertook these duties. As a result employee costs of $0.192m were incurred which comprised wages and salaries, $0.167m, superannuation, $0.016m and other employee related expenses,

$0.008m. A corresponding decrease in other operating expenses was recorded. Overall, Total expenses remain consistent with the 2003-04 level.

The increased expenses in the last two years have not been matched by corresponding increases in operating revenue resulting in significant losses for both years. This impacted negatively on the Authority's liquidity position and further comment on this is made under the Financial Analysis section of this Chapter.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	87	4	0	211	127
Receivables	262	308	395	284	345
Total Current Assets	**349**	**312**	**395**	**495**	**472**
Bank Overdraft	0	0	1	0	0
Payables	407	318	31	169	23
Borrowings	193	0	0	0	0
Provisions	4	0	0	0	0
Other	0	0	37	9	7
Total Current Liabilities	**604**	**318**	**69**	**178**	**30**
Working Capital	**(255)**	**(6)**	**326**	**317**	**442**
Property, plant and equipment	2 113	1 701	1 515	1 418	1 308
Other	126	42	0	0	1
Total Non-Current Assets	**2 239**	**1 743**	**1 515**	**1 418**	**1 309**
Borrowings	1 473	1 046	1 046	1 046	1 046
Provisions	3	0	0	0	0
Other	47	45	45	32	35
Total Non-Current Liabilities	**1 523**	**1 091**	**1 091**	**1 078**	**1 081**
Net Assets	**461**	**646**	**750**	**657**	**670**
Reserves	1 155	1 055	778	682	572
Retained profits/(Accumulated losses)	(694)	(409)	(28)	(25)	98
Total Equity	**461**	**646**	**750**	**657**	**670**

Comment

The Authority's cash balance decreased from $0.127m at 30 June 2001 to $0.087m at 30 June 2005. Details of cash movements are provided in the Cash Position section of this chapter.

The significant Payables balances at 30 June 2002, 2004 and 2005 included large invoices for landfill operations and management services. Audit testing of the June 2004 and 2005 bank reconciliations found a number of material cheques drawn prior to the end of the financial year, which had not been presented at 30 June. On enquiry, it was found that the cheques had been drawn but not issued. As a result, the financial statements were amended to transfer the supplier invoices back to creditors. This practice further highlights the difficult liquidity position facing the Authority at that time.

Property, plant and equipment was fairly stable over the period under review, however the balance increased by $0.412m in 2004-05 to $2.113m. Major capital additions included a landfill compactor, $0.312m (funded by a finance lease) and leachate lagoon, $0.153m, funded from operations.

The balance of Other Non-Current Assets at 30 June 2005 comprised a future income tax benefit (FITB) of $0.100m and prepaid tax instalments totalling $0.026m. The Authority incurred a tax loss in 2004-05, however tax instalments had been paid during the year, which were recognised as a prepayment at year-end.

The balance of borrowings for the first four years under review remained unchanged at $1.046m. This balance comprised loan funds provided to the Authority by the member councils and at 30 June 2005, the balances on these borrowings remained unchanged. The Authority intends to repay these loans when funds become available in future years. Interest was paid to the four councils based on the outstanding balances.

Total borrowings increased by $0.620m in 2004-05. The Authority took out a new loan for $0.400m at 30 June 2005, which is to be utilised for the acquisition of non-current assets. Borrowings include the purchase of the landfill compactor by means of a finance lease totalling $0.312m. Principal repayments of $0.092m were made during 2004-05, leaving a balance outstanding of $0.220m at 30 June 2005.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 698	1 646	1 343	1 351	1 220
Payments to suppliers and employees	(1 620)	(1 342)	(1 371)	(998)	(1 171)
Interest received	2	6	3	5	6
Borrowing costs	(69)	(71)	(52)	(66)	(65)
Taxation paid	(26)	0	0	0	0
Cash (expended on) generated from operations	**(15)**	**239**	**(77)**	**292**	**(10)**
Payments for property, plant and equipment	(210)	(234)	(135)	(208)	(1)
Cash used in investing activities	**(210)**	**(234)**	**(135)**	**(208)**	**(1)**
Proceeds from borrowings	400	0	0	0	0
Repayment of borrowings	(92)	0	0	0	0
Cash from financing activities	**308**	**0**	**0**	**0**	**0**
Net increase/(decrease) in cash	**83**	**5**	**(212)**	**84**	**(11)**
Cash at the beginning of the period	4	(1)	211	127	138
Cash at end of the period	**87**	**4**	**(1)**	**211**	**127**

Comment

As noted previously, the Authority's cash position decreased by $0.040m during the financial period under review. The decrease was the result of low Cash from operations including a deficit cash flow of $0.077m in 2002-03. This combined with cash used for investing activities led to minimal cash reserves at 30 June 2004. The increase in cash held in

2004-05 of $0.083m is primarily due to the proceeds from borrowings of $0.400m. Excluding Cash from financing activities, the Authority recorded a decrease in cash of $0.225m.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		(242)	(175)	98	(2)	138
EBIT ($'000s)		(173)	(104)	150	64	203
Operating margin	>1.0	0.97	0.90	1.07	1.00	1.12
Return on assets		-7.5%	-5.2%	7.8%	3.5%	11.3%
Return on equity	12%	-33.6%	-19.2%	8.2%	-0.3%	17.1%
Financial Management						
Debt to equity		361.4%	161.9%	139.5%	159.2%	156.1%
Debt to total assets		64.4%	50.9%	54.8%	54.7%	58.7%
Interest cover	>3	(2.51)	(1.46)	2.88	0.97	3.12
Current ratio	>1	0.58	0.98	5.72	2.78	15.73
Cost of debt	7.5%		6.3%	6.2%	6.3%	6.2%
Debt collection	30 days	63	71	99	80	104
Creditor turnover	30 days	94	63	8	46	9
Capital Exp/Depreciation		189%	308%	180%	239%	1%
Returns to Shareholders						
Dividends paid or payable ($'000s)			0	0	0	0
Dividend payout ratio	50%	-	-	-	-	-
Dividend to equity ratio	6%	-	-	-	-	-
Income tax paid or payable ($'000s)		26	0	0	0	0
Effective tax rate	30%	-10.7%	-	-	-	-
Total return to the State ($'000s)		26	0	0	0	0
Total return to equity ratio	7.5%	4.7%	-	-	-	-
Other information						
Staff numbers FTEs		4	n/a	n/a	n/a	n/a
Average staff costs ($'000s)		48	n/a	n/a	n/a	n/a

Comment

The Authority produced positive or near positive operating results and margins in the initial three years under review. However, the fees and charges for the use of the waste management site are not geared to generate significant profits because the member councils are major customers. The increase in expenditure in 2003-04 and 2004-05, as noted previously and the subsequent operating deficits had a significant effect on the results from operations. This is highlighted in the negative return on assets and equity ratios.

The Authority’ working capital ratio decreased from 1.0 in 2003-04 to 0.6 in 2004-05. This worsening liquidity position is due to the operating losses and capital expenditure. Audit has sought advice from the Authority on any action it proposes taking to improve the Authority’s liquidity position.

The Debt to equity and asset ratios are high as the Authority was established on the basis that the member councils provided loan funds rather than equity funds. As noted previously, the balance of these loan funds did not change over the period, as the Authority did not make principal repayments to the participating councils.

The debt ratios increased in 2004-05 due to the new loan for $0.400m and the finance lease outstanding at 30 June 2005 of $0.220m. The additional debt was incurred in order for the Authority to fund capital works and purchases.

The Current ratio was above the benchmark in the first three years under review, however the effect of the operating deficits and negative cash flows in 2003-04 and 2004-05 resulted in current assets being below current liabilities.

The Debt collection ratio was consistently above the benchmark of 30 days. The calculation of the ratio is affected by the timing of issuing invoices, resulting in delays in collection.

The Creditor turnover ratio was greater than the benchmark of 30 days in three of the five years under review. As previously noted, the Payables balances at 30 June 2002, 2004 and 2005 included large invoices outstanding for landfill operations and reimbursement of management services. As noted under the Financial Position section of this chapter, the Authority was withholding payment on a number of material invoices due to its deteriorating liquidity situation.

Capital expenditure was significantly greater than the depreciation expense in four of the five years under review. The impact of expenditure on capital works had a significant impact on the Authority's cash flows and it would appear the pricing structure does not fully incorporate the need to generate sufficient funds to meet both operating and capital requirements.

As mentioned previously, the councils have waived the need for tax and dividend payments, however, tax instalments of $0.026m were paid during 2004-05.

As previously noted, the Authority commenced the employment of staff during 2004-05. A total of four staff were employed during the year, however, one of these employees left the Authority in June 2005.

OVERALL COMMENT

For the five years under review, the Authority recorded a total deficit from operations before income tax of $0.183m. The financial position of the Authority is declining due to revenue from operations not meeting its operating and capital requirements. As the four participating councils are the major customers, action is needed to address the current deficit and poor liquidity position. As previously noted, the Authority has been requested to provide details of actions it propose taking to address this situation.

The 2004-05 audit was completed with satisfactory results.

West Coast Health and Community Services Pty Ltd

INTRODUCTION

On 6 August 1997, the West Coast Council created a company, limited by guarantee, known as West Coast Health and Community Services Pty Ltd, (the Company), to take over the operations of the Rosebery Hospital. In addition, the Council transferred control of its community services activities to the Company. Six Directors manage the Company.

A review by the Tasmanian Government during 2003 determined that the needs of the community would best be served if the State Government were to manage health services. As a result, progressively from 1 July 2004 the State Government has provided health services in the region.

The majority of the personnel employed by the Company transferred to State Government employment on 1 July 2004.

A number of non-profit services, which were unable to be transferred to State control due to funding restrictions, were transferred to form part of the community services department of Council on 1 July 2004. These include West Coast Crisis Accommodation, Family Support and Lil Possums Childcare Centre.

The company continued to operate Rural Health Services until December 2004 when it ceased operations. The closure and subsequent winding up of the company will occur during the 2005-06 financial year.

The Responsible Minister is the Minister for Local Government and Community Development.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Financial statements of the Company, signed by two Directors, were received on 5 December 2005. An unqualified audit report was issued on 6 December 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Fees and charges	0	200	211	239	169
Grants	187	2 099	1 936	1 749	1 565
Other operating revenue	11	135	146	182	255
Non-operating revenue	29	0	16	0	0
Total Revenue	**227**	**2 434**	**2 309**	**2 170**	**1 989**
Employee costs	104	1 596	1 525	1 158	1 007
Depreciation	0	41	74	24	23
Other operating expenses	153	929	765	833	924
Non-operating expenses	9	17	0	12	4
Total Expenses	**266**	**2 583**	**2 364**	**2 027**	**1 958**
Result from Ordinary Activities	**(39)**	**(149)**	**(55)**	**143**	**31**

Comment

Due to the transfer of the majority of the operations to the Tasmanian Government and the West Coast Council at 1 July 2004, there were limited revenue and expenses incurred during the 2004-05 year. Rural Health Services continued operating through the company until the cessation of operations during December 2004.

The net result of the transfer of assets and liabilities to the Government at 1 July 2004 is reflected in Non-operating revenue.

The majority of the Company's revenue was received through government grants. In 2002-03 a loss of $0.055m was recorded which was attributable to expenditure in the financial period relating to grant revenue received late in the 2001-02 year. The unexpended grant revenue at 30 June 2002, was recorded as revenue and resulted in the significant profit of $0.143m in that year. Grants received during 2004-05 related to Rural Health Services.

An increase in employee costs of $0.367m was noted in 2002-03. This increase included the employment of five employees to conduct Primary Care functions, which included social work, mental health care and youth work. The additional expenditure was funded by increased grant revenue. The company employed five employees during the period July to December 2004.

The increase in depreciation in 2002-03 related to the Company changing its accounting policies and depreciating motor vehicles. In previous financial years, the consideration received on the sale of motor vehicles was not materially different from the vehicle cost. No depreciation expense was recorded during 2004-05 as the majority of the assets were transferred at 1 July 2004.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	37	239	19	155	318
Receivables	12	41	47	27	70
Investments	0	42	343	271	16
Inventories	0	15	15	16	16
Other	10	0	0	1	23
Total Current Assets	**59**	**337**	**424**	**470**	**443**
Payables	3	73	32	35	58
Provisions	0	144	132	92	84
Other	48	170	155	189	303
Total Current Liabilities	**51**	**387**	**319**	**316**	**445**
Working Capital	**8**	**(50)**	**105**	**154**	**(2)**
Property, plant and equipment	0	151	141	144	152
Total Non-Current Assets	**0**	**151**	**141**	**144**	**152**
Provisions	0	54	50	25	20
Total Non-Current Liabilities	**0**	**54**	**50**	**25**	**20**
Net Assets	**8**	**47**	**196**	**273**	**130**
Capital	72	72	72	72	72
Retained profits	(64)	(25)	124	201	58
Total Equity	**8**	**47**	**196**	**273**	**130**

Comment

The cash balance in 2000-01 included cash payable to the Council for payments made on behalf of the Company. A balance of $0.152m was recorded as owing to Council in Other current liabilities. The cash balance at 30 June 2003 significantly reduced from the prior year due to a corresponding increase in investments. This position reversed at 30 June 2004 with the majority of funds held in cash rather than investments.

Other current assets represented GST recoverable at balance date.

Other current liabilities included the payroll accrual, trust fund monies and amounts payable to Council to reimburse expenditure incurred on behalf of the Company at the end of each year. In 2000-01, the liability totalled $0.303m and was significantly greater than any of the other periods under review.

The majority of property plant and equipment was transferred from the Company at 1 July 2004. The remaining assets were liquidated during the year and no non-current assets were held by the company at 30 June 2005.

All employee provisions were either transferred from the company or paid out on termination during the financial year. At 30 June 2005 the company had no employees and therefore no employee provision liabilities.

The loss of $0.149m during 2003-04 resulted in the Company moving from a retained profits position of $0.124m in 2002-03 to an accumulated loss of $0.025m at 30 June 2004. At 30 June 2005 accumulated losses totalled $0.064m, with an overall net equity position of $0.008m.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	24	342	337	509	378
Payments to suppliers and employees	(500)	(2 673)	(2 512)	(2 301)	(1 814)
Interest received	0	8	22	6	1
Cash from operations	**(476)**	**(2 323)**	**(2 153)**	**(1 786)**	**(1 435)**
Proceeds from investments	42	302	0	0	0
Payments for investments	0	0	(72)	(256)	(10)
Payments for property, plant and equipment	0	(142)	(99)	(58)	(63)
Proceeds from sale of property, plant and equipment	29	74	59	30	33
Cash used in investing activities	**71**	**234**	**(112)**	**(284)**	**(40)**
Cash Flows from Government	**205**	**2 309**	**2 129**	**1 907**	**1 661**
Net increase/(decrease) in cash	**(200)**	**220**	**(136)**	**(163)**	**186**
Cash at the beginning of the period	237	17	153	316	130
Cash at end of the period	**37**	**237**	**17**	**153**	**316**

Comment

Outflows from Cash from operations increased by $0.888m from 2000-01 to 2003-04. These increases were offset by corresponding increases in cash flows from Government grants of $0.648m over the same period. Outflows from Cash from operations during 2004-05 were comprised of operating cost payments from 2004-05 and the payment of creditors from the prior year totalling $0.242m.

The Payments for property, plant and equipment were mainly attributable to the purchase of motor vehicles by the Company. Proceeds from the sale of property plant and equipment generally reflected the trade-in consideration for vehicles disposed of in purchasing the new vehicles. The proceeds for 2004-05 are from the sale of plant and equipment that was not transferred to either the Government or the Council.

Funds held in investments by the Company increased during 2001-02 due to surplus funds on hand from increased grant funding. This was reflected in the payments for investments outflow of $0.256m. The majority of funds under investment were transferred back to cash at bank during 2003-04 as noted by the $0.302m proceeds from investments. The remainder of investments have been liquidated during 2004-05.

Cash at the end of the period varies from cash in the Statement of Financial Position each year by the amount of trust funds held by the Company. These funds were not included in the statement of cash flows. No trust funds were held at 30 June 2005.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		(59)	(132)	(71)	155	35
Operating margin	>1.0	0.77	0.95	0.97	1.08	1.02
Financial Management						
Current ratio	>1	1.16	0.87	1.33	1.49	1.00
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	398	45	48	23	60
Creditor turnover	30 days	7	25	14	14	21
Capital Exp/ Depreciation	100%	0%	346%	134%	242%	274%
Other information						
Staff numbers FTEs		5	30	27	23	20
Average staff costs ($'000s)		19	48	50	51	50

Comment

Additional grant funds and concessions from DHHS assisted in the general profitability of the Company during the first two years under review.

The Company's Operating margin was fairly consistent with the benchmark over the first four years under review, although it is noted that losses from operations were made in the 2002-03 and 2003-04 years.

The Company maintained a current ratio level above the benchmark for the 2000-01, 2001-02 and 2002-03 years. There was a decrease in the current ratio during 2003-04 due to lower cash balances held at 30 June and an increase in payables, primarily the inter-company loan payable to Council.

The Company has no debt.

The Debt collection ratio was consistently above the benchmark balance of 30 days, except for 2001-02. In particular, the 60 days calculated for 2000-01 indicated delays in debt recovery. The Company experienced some problems in debt recovery in the past and wrote-off $0.018m in bad debts during 2000-01. In general, the Company undertook regular reviews of debtors and has taken appropriate action where necessary. The large ratio at 30 June 2005 is due to prior year debt still outstanding and minimal operating activities undertaken by the company during 2004-

05. The company expects to recover the existing debt prior to winding up during 2005-06.

The Company's capital expense to depreciation ratio exceeded benchmark in all years under review, except 2004-05. The majority of the Company's asset purchases are motor vehicles that are changed over on a regular basis. No depreciation was recorded during the 2004-05 year and no assets were held at 30 June 2005.

Average staff costs remained consistent over the first four years under review. Whilst the company had no employees at 30 June 2005, five employees were employed until December 2004. These have been included in the staff numbers in the above table and calculation of average staff costs. The costs reflect the average each employee received until December and have not been annualised.

OVERALL COMMENT

In the five years under review, the Company recorded a total deficit from operations (excluding non-operating items) of $0.072m. It is not subject to income tax provisions and the Council is not seeking to obtain any dividend payments.

The 2004-05 audit was completed satisfactorily with no major issues outstanding.

Miscellaneous Public Bodies

Audits Completed

Audits of the following public bodies were still in progress when my November 2005 Report was tabled:

- Aboriginal Land Council;
- Local Government Association of Tasmania;
- National Trust of Australia (Tasmania);
- Legal Aid Commission of Tasmania; and
- Tasmanian Beef Industry (Research and Development) Trust.

The following entities had not submitted signed financial statements for 2004-05 as at 31 October 2005:

- Clyde Water Trust; and
- Council of Law Reporting.

All of the abovementioned audits have now been completed with the following resulting in ***unqualified audit reports:***

- Aboriginal Land Council;
- Local Government Association of Tasmania;
- Legal Aid Commission of Tasmania;
- Tasmanian Beef Industry (Research and Development) Trust;
- Clyde Water Trust; and
- Council of Law Reporting.

The following public body received a ***qualified audit report*** on its financial statements for 2004-05:

- The National Trust of Australia (Tasmania).

Details of this qualification can be found in the relevant chapter.

I have included analysis and comment on the audits of:

- Aboriginal Land Council;
- Clyde Water Trust;
- Legal Aid Commission of Tasmania; and
- National Trust of Australia (Tasmania).

Due to their small size, no analysis or commentary is provided for the other audits.

Aboriginal Land Council

INTRODUCTION

The Aboriginal Land Council of Tasmania (the Council) was established as a statutory authority on 14 November 1995 under the *Aboriginal Lands Act 1995* (the Act).

Its primary functions are to use and sustainably manage Aboriginal land and its natural resources for the benefit of all Aboriginal persons; exercise, for the benefit of all Aboriginal persons, the Council's powers as owner of Aboriginal land; prepare management plans in respect of Aboriginal land; and use and sustainably manage any other land in which the Council acquires an interest.

Schedule 3 of Section 27 of the Act vests Land managed by the Council in it.

At a land handover ceremony at Risdon Cove on 10 December 1995, twelve parcels of land were handed over to the Tasmanian Aboriginal Community. Since this date three more parcels of land have been handed over, including Cape Barren Island and Clarke Island on 10 May 2005.

The Council consists of eight councillors elected by eligible voters to represent five regions across the state.

The Responsible Minister is the Minister for Local Government and Community Development.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 6 December 2005, with amended financial statements received on 21 December 2005. A ***qualified audit report*** was issued on 22 December 2005.

The qualification was the result of the Council failing to adopt the requirements of two Australian Accounting Standards.

The additional lands vested in the Council during 2004-05 were not brought to account in its financial statements at 30 June 2005. This is in contravention of the requirements of Australian Accounting Standard AAS15 'Revenue'.

Further, the Council did not comply with the requirements of Australian Accounting Standard AASB 1041 'Revaluation of Non-Current Assets', which requires that revaluations are kept up to date to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at the reporting date for land and building assets. The most recent revaluation of the remainder of the Council's land and buildings was undertaken by the Valuer-General at 30 June 1998.

It is noted that the Council contacted the Valuer-General's Office during the preparation of the 2004-05 statements with a view to having the valuation completed for inclusion in the 30 June 2005 statements, but the matter did not progress any further at that stage.

Due to the nature of the assets, it was not possible to quantify the financial effects of the Council's failure to comply with these two accounting standards.

It is noted that the Council has taken steps to obtain a valuation by 30 June 2006 for all controlled land and buildings. Achievement of this objective should enable the Council to satisfy the requirements of the Australian Accounting Standards.

Under the provisions of the Act the Council is required to submit financial statements to the Auditor General by 31 August each year. This timeframe has not been met in recent years and the Council has been requested to provide financial statements by the legislative deadline in future.

FINANCIAL RESULTS

The analysis detailed on the following pages has been limited to financial results in 2003-04 and 2004-05.

FINANCIAL PERFORMANCE

	2004-05	**2003-04**
	$'000s	$'000s
Consolidated Fund Appropriation	153	153
Other Grants	25	61
Lease and Licence Fees	2	4
Reimbursements	12	0
Other	6	3
Total Revenue	**198**	**221**
Salary, wages and employee entitlements	37	39
Depreciation	92	93
Other expenses	176	97
Non-operating Expenses	3	(2)
Total Expenses	**308**	**227**
Result from ordinary activities	**(110)**	**(6)**

Comment

The majority of the Council's income is Appropriation. The Council receives a State appropriation each year and also secures project funding from both State and Commonwealth sources.

Additional revenue is received from leases and licences issued under the Act in respect of any Aboriginal land.

Reimbursements of $0.009m were received from the State Government during 2004-05 for costs incurred by the Council associated with the land handover ceremony.

The Council employs one full time Office Manager with casual staff engaged as required to perform land management functions on land controlled by the Council.

Depreciation expense relates to buildings, plant and equipment and motor vehicles owned by the Council.

The large increase of $0.079m in other expenses from 2003-04 to 2004-05 was due to increases in:

- Management of the Preminghana Indigenous protected area of $0.028m;
- Jetty repairs on both Clarke Island and Badger Island of $0.008m;
- Costs associated with the land handover ceremony of $0.008; and
- Additional repairs to agricultural equipment of $0.014m.

These additional expenses along with a decrease in project funding of $0.036m are the primary cause of the $0.110m deficit for the year.

FINANCIAL POSITION

	2004-05 $'000s	2003-04 $'000s
Cash	111	150
Receivables	8	0
Other	1	1
Total Current Assets	**120**	**151**
Property, plant and equipment	2 738	2 827
Total Non-Current Assets	**2 738**	**2 827**
Payables	16	24
Provisions	5	7
Total Current Liabilities	**21**	**31**
Provisions	3	3
Total Non-Current Liabilities	**3**	**3**
Net Assets	**2 834**	**2 944**
Retained profits	2 409	2 519
Revaluation Reserve	425	425
Total Equity	**2 834**	**2 944**

Comment

The majority of Council's property, plant and equipment assets are land assets of $1.275m and buildings of $1.444m.

Retained profits remain high and are primarily as a result of the land transfers in prior years.

CASH POSITION

	2004-05 $'000s	2003-04 $'000s
Grant receipts	196	235
Receipts from customers	21	12
Payments to suppliers and employees	(251)	(132)
Cash from operations	**(34)**	**115**
Payments for property, plant and equipment	(5)	(38)
Cash used in investing activities	**(5)**	**(38)**
Net increase/(decrease) in cash	**(39)**	**77**
Cash at the beginning of the period	150	73
Cash at end of the period	**111**	**150**

Comment

The net out flow of cash from operations was caused by the additional operating expenses noted in the financial performance section. The payables balance at 30 June 2004 was also at a larger than normal level and contributed to the funds outflow during 2004-05.

Due to the nature of the Council's activities, a financial analysis has not been prepared.

OVERALL COMMENT

As previously noted, the audit opinion on the Council's financial statements for the year ended 30 June 2005 was qualified due to non-compliance with certain Australian Accounting Standards. It is pleasing to report that the Council is taking action to address my concerns.

Clyde Water Trust

INTRODUCTION

The *Water Management Act 1999* (the Act), provided for the succession of the River Clyde Trust (the Trust) and its trustees that were originally established under the *Clyde Water Act 1898*.

In November 2003 the Trust made application to the Minister for Primary Industries, Water and Environment for a substitution of the water entity responsible for the administration of the River Clyde Irrigation District. In December 2003 the Minister approved the Rivers and Water Supply Commission (the Commission) as being the entity responsible for the administration of the River Clyde Irrigation District in accordance with the Act.

Whilst the Commission was appointed responsible water entity in December 2003 it could not administer the irrigation scheme until irrigation rights were granted by regulation tabled in Parliament in August 2005. Consequently, for the years 2003-04 and 2004-05 the Department of Primary Industries, Water and Environment (DPIWE) administered water supplies and collected fees for the Clyde District under the Act.

As well as having an administration role, the Minister requested the Commission to review the business affairs of the Trust, prepare a business plan to ensure the on-going viability of the Irrigation District and make recommendations to the Minister on the future administration of the District.

The Trust continues to exist under Part 10 of the Act and it retains ownership of its assets and liabilities.

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

AUDIT OF THE 2003-04 AND 2004-05 FINANCIAL STATEMENTS

Signed financial statements for 2004-05 were received on 2 November 2005 and an unqualified audit report was issued on 8 December 2005. Without qualification to the opinion expressed, an ***emphasis of matter*** was included drawing attention as to whether the Trust will be able to continue as a going concern. A similar emphasis of matter was included in the 2003-04 audit report which was signed on 22 September 2005.

Further details are provided under the overall comment below.

FINANCIAL RESULTS

The Trust prepares its financial statements on a cash basis of accounting and from June 2004 it included a statement of assets and liabilities in the financial statements. Since the substitution arrangements (as mentioned above) came into force, the Trust has not received any revenue for irrigation rights or water rates, these being paid to DPIWE. At the same time DPIWE has paid accounts on behalf of the Trust. These transactions are not recognised in the Trust's financial statements.

FINANCIAL PERFORMANCE – CASH BASIS

	2004-05 $	2003-04 $	2002-03 $	2001-02 $	2000-01 $
Irrigation rights	0	420	26 244	0	0
Water rates	0	0	11 293	30 436	16 288
GST receipts	322	6 452	27 953	15 047	615
Sale of equipment	0	8 712	0	0	0
Interest	0	135	1 276	14 461	17 527
Other	2 810	0	743	1 322	0
Total Receipts	**3 132**	**15 719**	**67 509**	**61 266**	**34 430**
Salaries	0	4 870	5 974	7 127	5 560
Administrative expenses	2 651	2 796	20 028	20 243	6 786
Other operating expenses	0	0	23 223	20 159	0
Total Payments	**2 651**	**7 666**	**49 225**	**47 529**	**12 346**
Result from ordinary activities	**481**	**8 053**	**18 284**	**13 737**	**22 084**
Advances received	0	25 000	84 128	0	0
Capital works paid	0	(9 000)	(191 448)	(285 626)	(7 571)
Result	**481**	**24 053**	**(89 036)**	**(271 889)**	**14 513**
Opening cash balance	(216)	(24 269)	64 767	336 656	322 143
Closing cash balance	**265**	**(216)**	**(24 269)**	**64 767**	**336 656**

Comment

Advances received include amounts paid by third parties to assist the Trust to meet its commitments and funds received for irrigation rights, which had not been formally approved by the Minister.

In recent years irrigation rights and water rates have not been collected by the Trust as a result of the substitution of the Commission as the responsible water entity. DPIWE collected these revenues which amounted to $27 178 in 2003-04 and $59 162 in 2004-05.

Since the substitution arrangements, the Trust does not have any paid staff or other operating costs.

Administrative and other operating expenses in 2001-02 and 2002-03 consisted mainly of consultant's expenses relating to the conversion and allocation of irrigation rights.

Capital works in 2001-02 and 2002-03 included payments for pumps, pipes and earthworks. Cash balances were high during this period which provided funding for the works.

FINANCIAL POSITION – STATEMENT OF ASSETS AND LIABILITIES (EXCLUDING CASH BALANCES)

	2004-05 $	2003-04 $	2002-03 $	2001-02 $	2000-01 $
Property, plant and equipment	1 241 750	1 241 750	0	0	0
Total Non-Current Assets	**1 241 750**	**1 241 750**	**0**	**0**	**0**
Payables	191 562	193 243	0	0	0
Total Current Liabilities	**191 562**	**193 243**	**0**	**0**	**0**
Net Assets	**1 050 188**	**1 048 507**	**0**	**0**	**0**

Comment

As mentioned previously, the Trust commenced preparation of a statement of assets and liabilities in June 2004.

The asset values as disclosed above were valued at fair value in April 2005 by an external consultant. The assets consist of pump stations, channels, gates and weirs.

The liabilities consist mainly of amounts owing to third parties for advances made to the Trust in recent years to assist it in meeting its on-going commitments.

OVERALL COMMENT

During 2003-04 the Trust experienced financial difficulty due to the large expenditures on infrastructure development and the need to borrow funds. This led to the Commission being appointed as administrator of the irrigation scheme. The financial situation did not significantly change in 2004-05 and the Trust still did not have the cash to pay its outstanding creditors as at 30 June 2005. As noted in the financial statements, the Trust is dependent upon the Commission for its ongoing viability. My 2003-04 and 2004-05 audit reports drew attention to this reliance on the Commission.

In preparation for the 2005-06 Audit, a number of recommendations were made to the Trust in order to improve its financial reporting disclosures and corporate governance practices including:

- Preparation of full accrual general purpose financial statements;
- Clear documentation on all liabilities;
- Disclosure of interest owing on advances;
- Depreciation to be included as an expense;
- Disclosure of income and expenditures earned/made on behalf of the Trust which are not recorded in the Trust's accounts; and
- Good corporate governance principles including a record of all decisions made.

Some progress has been made in respect to a business plan, which will eventually see the Trust's assets, liabilities and operations being passed to a new entity. This new entity will assume responsibility for the River Clyde Irrigation district and will be set up in order to meet contemporary business standards and governance principles.

Legal Aid Commission of Tasmania

INTRODUCTION

The Commission is an independent statutory body established by the *Legal Aid Commission Act 1990*. It is principally funded by the State and Commonwealth Governments, with other sources of income derived from the recovery of legal costs in successful cases, contributions from legally assisted clients and interest on invested moneys.

The Commission seeks to increase access to justice for all Tasmanians by the provision of legal representation, advice, information and referral services. The Commission ensures that within the limits of funds available, no person is denied access to the law by reason of financial or social disadvantage.

The Responsible Minister is the Minister for Justice and Workplace Relations.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 21 September 2005 and revised financial statements on 12 December 2005. An unqualified audit report was issued on 19 January 2006.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000	$'000	$'000	$'000	$'000
State Government grants	3 890	3 515	3 001	2 852	3 086
Commonwealth grants	5 755	5 188	4 109	6 297	4 727
Client contributions and cost recoveries	220	191	360	208	310
Interest	124	119	115	102	62
Non-operating revenue	0	0	0	0	1
Total Revenue	**9 989**	**9 013**	**7 585**	**9 459**	**8 186**
Employee costs	3 673	3 410	3 251	2 858	2 807
Depreciation	88	114	139	134	99
Payments to legal service providers	2 775	3 327	3 103	3 002	2 771
Payments to community legal centres	1 018	1 049	1 000	980	480
Other operating expenses	1 393	1 407	1 220	1 126	1 161
Total Expenses	**8 947**	**9 307**	**8 713**	**8 100**	**7 318**
Result from Ordinary Activities	**1 042**	**(294)**	**(1 128)**	**1 359**	**868**

Comment

State Government Grants remained reasonably constant over the period of review. The large increase in 2003-04 was due to CPI indexation in the State Government Base Grant, $0.264m, and an increase for the State Civil Law Disbursements Program, $0.250m. The increase in 2004-05 resulted from the State Legal Aid Program providing extra funding for Criminal Law cases.

Commonwealth Grants were high in 2001-02 due to the inclusion of a one off Commonwealth Expensive Case Provision amount of $0.200m and the receipt in advance of $0.970m base grant revenues for 2002-03. This advance receipt contributed significantly to the $1.339m surplus in 2001-02 and, equally, to the deficit in 2002-03 when the associated cost was met. The increase in 2004-05 was due to extra funding under the Commonwealth Legal Aid Program to pay higher fees to private legal service providers and the employment of a Duty Lawyer for the Family Court.

During 2002-03 the Commission reached settlement and recovered costs on a case previously finalised to the amount of $0.110m. This primarily accounted for the increased Client contributions and cost recoveries.

The Commission had depreciated the majority of its office equipment to a nil value during the 1999-00 year, with most items having a useful life of four years. Hence, depreciation from 2000-01 only includes depreciation on new office equipment purchased since then.

The significant reduction in payments to legal service practitioners in 2004-05 was due to lower demand for service, particularly in the area of family law.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$000s	$000s	$000s	$000s	$000s
Cash	2 622	1 446	1 732	2 697	1 230
Receivables	155	82	72	129	183
Other	17	28	14	5	11
Total Current Assets	**2 794**	**1 556**	**1 818**	**2 831**	**1 424**
Property, plant and equipment	482	404	416	453	477
Total Non-Current Assets	**482**	**404**	**416**	**453**	**477**
Payables	114	49	143	119	108
Provisions	247	335	373	335	315
Total Current Liabilities	**361**	**384**	**516**	**454**	**423**
Provisions	400	165	11	12	19
Total Non-Current Liabilities	**400**	**165**	**11**	**12**	**19**
Net Assets	**2 515**	**1 411**	**1 707**	**2 818**	**1 459**
Capital	325	325	325	325	325
Reserves	79	17	17	0	0
Retained surpluses	2 111	1 069	1 365	2 493	1 134
Total Equity	**2 515**	**1 411**	**1 707**	**2 818**	**1 459**

Comment

The significant increase in cash in 2001-02 was attributable to Commonwealth grant monies for 2002-03 being received in advance. Receipt of these funds in the 2001-02 year, to meet costs in 2002-03, accounted for the reduction in cash in 2002-03. Cash increased in 2004-05 due to the surplus generated in that year.

The decrease in receivables in 2002-03 was primarily due to the resolution of a disputed transaction through an offset in revenue of $0.054m.

The Non-current Provisions increased in 2004-05 because of a transfer of a portion of the annual leave from Current to Non-current.

A revaluation of $0.017m in the Commission’s buildings accounted for the reserves balance that existed for the first time in 2002-03.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000	$'000	$'000	$'000	$'000
State Government Grants	3 890	3 516	3 055	2 916	3 022
Commonwealth grants	5 755	5 188	4 109	6 298	4 727
Receipts from clients	179	159	332	183	309
Interest received	124	118	111	99	52
Payments to suppliers and employees	(8 668)	(9 136)	(8 486)	(7 921)	(7 155)
Cash from operations	**1 280**	**(155)**	**(879)**	**1 575**	**955**
Payments for property, plant and equipment	(104)	(131)	(85)	(110)	(78)
Cash used in investing activities	**(104)**	**(131)**	**(85)**	**(110)**	**(78)**
Net increase/(decrease) in cash	**1 176**	**(286)**	**(964)**	**1 465**	**877**
Cash at the beginning of the period	1 446	1 732	2 696	1 230	353
Cash at end of the period	**2 622**	**1 446**	**1 732**	**2 696**	**1 230**

Comment

The increase in payments to suppliers and employees for 2002-03 and 2003-04 were attributable to increases in staff at the Commission and an increased level of business activity, associated with the adoption of a performance management program. An increase in activity, and hence expenditure, did not produce a corresponding increase in revenue, as the Commission relies on grant funding for its operations. This situation caused the deficits in Cash from operations in the same years.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		1 042	(294)	(1 128)	1 359	867
Operating margin	>1.0	1.12	0.97	0.87	1.17	1.12
Financial Management						
Current ratio	>1	7.74	4.05	3.52	6.24	3.37
Debt collection	30 days	n/a	n/a	n/a	n/a	n/a
Creditor turnover	30 days	21	13	15	15	14
Other information						
Employee costs as a % of operating expenses		41%	37%	37%	35%	38%
Staff numbers FTEs		57	54	57	52	50
Average staff costs ($'000s)		64	63	57	55	57

Comment

The increase in the Result from operations in 2001-02 was due to the additional Commonwealth Grant funding received in advance. The negative result in 2002-03 was a result of prepayment of revenue in the prior year and higher levels of activity by the Commission that increased expenditure.

The Current ratio throughout the five-year analysis, and in particular for the 2001-02 and 2004-05 financial years, shows that the Commission can comfortably meet short-term financial commitments.

The Debt collection ratio is not applicable, as the vast majority of the Commission's revenue is derived from Commonwealth and State Government Grants, which are not invoiced. In light of this, receivables balances are traditionally low, with little impact on the operations of the Commission.

OVERALL COMMENT

The audit of the Commission's financial statements for the year ended 30 June 2005 was completed with satisfactory results.

National Trust of Australia (Tasmania)

INTRODUCTION

The National Trust of Australia (Tasmania) is an independent statutory body established under the *National Trust of Australia (Tasmania) Act 1975*. The Trust has regional committees in the North, Northwest and the South. The Trust owns and/or manages several properties throughout the State, including:

- Clarendon;
- Franklin House;
- Old Umbrella Shop;
- Ellis House;
- Penghana and other property in Queenstown;
- Oak Lodge;
- Hobart Penitentiary Chapel and Criminal Courts;
- Runnymede; and
- Home Hill.

The Trust's primary aim is to promote the awareness and appreciation of Tasmania's built heritage. It is a member organisation of the National Trust of Australia.

The Trust does not pay dividends or income tax equivalents.

In December 2004 an Administrator was appointed to manage the Trust for up to two years. A major objective is to resolve the financial difficulties that the Trust is experiencing. In May 2005, the Minister for Parks and Heritage announced the appointment of an Advisory Council to draft a blueprint for the future of the Trust. The Advisory Council was established to consider the future roles, legal entity options and governance arrangements needed by the Trust.

In December 2005, the Minister for Parks and Heritage received a final report from the Government Advisory Council on the future of the National Trust in Tasmania. Among the report's recommendations were:

- The future governance of the Trust be placed into the hands of a "Statutory Company" with a Board of Directors. It is envisaged the company would not be created under the Corporations Act 2001;

- A need to avoid duplication of heritage services or programs covered by the *Historic Cultural Heritage Act 1995;* and

- The future roles of the trust include:

    - The presentation and ownership of heritage places;

- Provision of educational and promotional activities;
- Support of local community heritage functions;
- Community advocacy and lobbying functions;
- Sponsoring non-incorporated body heritage projects;
- Co-ordinating heritage tax-deductible gift programs; and
- Nomination and lobbying in respect of future listing of all heritage.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 15 December 2005 and a **qualified audit opinion** issued on 16 December 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000	$'000	$'000	$'000	$'000
State Government grants - recurrent	164	80	80	80	103
Commonwealth grants - recurrent	70	70	70	69	67
Membership subscriptions	48	46	46	42	47
Property admission fees	143	149	148	147	157
Trading activities	109	128	122	116	111
Fundraising	30	30	37	29	30
Donations, bequests and sponsorships	145	132	62	44	45
Rentals	40	41	38	40	41
Other operating revenue	18	28	25	21	39
Non-operating revenue	153	0	224	20	0
Total Revenue before Capital Grants	**920**	**704**	**852**	**608**	**640**
Depreciation	17	17	19	16	18
Cost of goods sold	77	70	69	65	65
Employee expenses	286	346	350	354	380
Borrowing costs	26	19	35	18	15
Consultants and legal costs	9	113	44	10	11
Repairs and maintenance expenses	45	55	44	116	51
Other operating expenses	339	313	284	301	296
Non-operating expenses	298	378	261	18	1
Total Expenses	**1 097**	**1 311**	**1 106**	**898**	**837**
Result before Capital Grants	**(177)**	**(607)**	**(254)**	**(290)**	**(197)**
State Government grants - specific purpose	87	280	131	52	0
Commonwealth grants - capital	0	0	0	604	367
Result from Ordinary Activities	**(90)**	**(327)**	**(123)**	**366**	**170**

Comment

The Trust generates revenue from a number of sources including admissions, membership, rentals and donations, bequests and sponsorship. However, despite this revenue the Trust is reliant on government funding, which in 2004-05 increased significantly from the State Government.

The Trust administers appeal monies on behalf of individual restoration appeals. These monies are held by the Trust and the Trust must approve expenditure before any appeal monies are paid out. The Trust accounts for appeal monies on a cash basis and records the movements in and out of the funds as income and expenditure. The majority of the Donations, bequests and sponsorship revenue consist of restoration appeal funds.

Non-operating revenue consists primarily of the proceeds from the sale of property. In 2002-03, the Trust sold the Bennell's Townhouses for $0.233m and in 2004-05 the Trust disposed of an antique desk for $0.150m.

The Trust has a low level of paid employees as it relies heavily on volunteers. Employee expenses decreased in 2004-05 due to the Trust not operating Entally House and employee expenses not including any costs relating to the employment of a Chief Executive Officer (CEO). During 2003-04, the CEO retired and was replaced in the interim period by a voluntary appointment. With the appointment of an Administrator, the position has not been filled, with all costs relating to the Administrator being paid directly by the State Government.

Non-operating expenditure primarily represents the written down value of assets disposed of. In 2002-03, the majority of the balance represented the disposal of the Bennell's Townhouses and in 2003-04 the balance related to the write off of leasehold improvements at Entally House, as the control of the property was returned to the State Government.

The balance of Non-operating expenses in 2004-05, $0.298m, represents a change in accounting policy adjustment to record the balance of the restoration appeal funds as a liability. As noted previously, the Trust administers appeal monies on behalf of individual restoration appeals. In the past, it was considered the monies belong to the Trust. However, with the appointment of the Administrator and a review of the nature of the funds, it was determined:

- The funds could only be expended on for the specific purpose for which they were donated;
- That the benefit of the expenditure was not directly related to the Trust's properties; and
- The primary reason the Trust administered the funds related to the donation being given tax deductible status.

Consequently, it was considered prudent to record the funds as a liability at 30 June 2005. I noted that cash balances held for the funds has always been recorded as part of the Trust's investment balances.

In each of the five years under review, the Trust has failed to record a surplus before capital grants. This reflects the Trust's inability to generate sufficient revenue from its operations and indicates its future operations are dependant upon continued financial assistance from the State Government.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000	$'000	$'000	$'000	$'000
Cash	154	12	10	36	41
Receivables	17	11	252	16	6
Inventories	54	71	72	77	73
Investments	157	155	69	46	167
Total Current Assets	**382**	**249**	**403**	**175**	**287**
Payables	124	168	102	78	86
Bank Overdraft	187	196	141	49	94
Borrowings	107	107	331	330	0
Provisions	39	25	24	47	24
Other	301	19	21	21	1
Total Current Liabilities	**758**	**515**	**619**	**525**	**205**
Working Capital	**(376)**	**(266)**	**(216)**	**(350)**	**82**
Property, plant and equipment	3 549	3 541	3 824	4 083	3 289
Total Non-Current Assets	**3 549**	**3 541**	**3 824**	**4 083**	**3 289**
Borrowings	103	109	114	119	100
Provisions	9	15	16	13	36
Total Non-Current Liabilities	**112**	**124**	**130**	**132**	**136**
Net Assets	**3 061**	**3 151**	**3 478**	**3 601**	**3 235**
Reserves	0	0	0	0	252
Retained surpluses	3 061	3 151	3 478	3 601	2 983
Total Equity	**3 061**	**3 151**	**3 478**	**3 601**	**3 235**

Comment

The Trust’s cash balances, including the overdraft balance indicates a negative cash position and highlights the financial problems created from continual operating losses. Although, the Trust has Investment balances, the majority of these funds relate to restoration appeal funds being held for specific purposes and which are not available for general operating purposes.

The significant balance in receivables in 2002-03 includes $0.233m relating to the sale of Bennell’s Townhouses. These funds were applied to the Trust’s debt, in 2003-04, which reduced Borrowings by $0.224m.

The Other current liabilities balance at 30 June 2005 of $0.301m includes $0.298m representing the recognition of the restoration appeal funds liability. As noted above, the balance of Investments includes cash held for the restoration appeal, totalling $0.145m. Therefore, the Trust has a deficit of $0.152m. I consider this to be a significant issue, given nature of the funds, and have recommend the Trust take appropriate action to ensure the liability is fully funded by cash.

The majority of the Trusts Property, plant and equipment balance consists of freehold properties and leasehold property improvements recorded on a cost basis. In addition, a balance for antiques is included in the financial statements, the Trust own a considerable amount of furniture, within the properties, which has not been valued or recorded.

At 30 June 2005, the Trust had Borrowings totalling $0.210m. Except for a minor lease agreement, the majority of the loans are not being repaid as the Trust is making interest payments only.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000	$'000	$'000	$'000	$'000
State Government grants	251	360	211	132	103
Commonwealth grants	70	70	70	673	535
Receipts from customers	512	558	531	563	513
Interest received	0	3	4	5	12
Payments to suppliers and employees	(776)	(853)	(851)	(1 002)	(878)
Interest paid	(26)	(19)	(34)	(14)	(15)
Cash from operations	**31**	**119**	**(69)**	**357**	**270**
Proceeds from investments	0	0	0	121	300
Payments for investments	(2)	(85)	(23)	0	(404)
Payments for property, plant and equipment	(26)	(92)	(21)	(808)	(201)
Proceeds from sale of P, P & E	153	233	0	20	0
Cash used in investing activities	**125**	**56**	**(44)**	**(667)**	**(305)**
Repayment of borrowings	(5)	(228)	(5)	(1)	0
Proceeds from borrowings		0	0	351	0
Cash from financing activities	**(5)**	**(228)**	**(5)**	**350**	**0**
Net increase/(decrease) in cash	**151**	**(53)**	**(118)**	**40**	**(35)**
Cash at the beginning of the period	(184)	(131)	(13)	(53)	(18)
Cash at end of the period	**(33)**	**(184)**	**(131)**	**(13)**	**(53)**

Comment

In four of the five years under review, the Trust has recorded a positive cash flow from operations. However, without government grant funding, the Trust would not have sufficient cash to continue its operations. In addition, the sale of property, as mentioned above has provided $0.388m in cash in the past two years.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		(32)	(229)	(217)	(292)	(196)
EBIT ($'000s)		(116)	(346)	(158)	348	155
Operating margin	>1.0	0.96	0.75	0.74	0.67	0.77
Return on assets		-3.0%	-8.6%	-3.7%	8.9%	4.4%
Return on equity		-2.9%	-9.9%	-3.5%	10.7%	5.4%
Financial Management						
Debt to equity		6.86%	6.85%	12.79%	12.47%	3.09%
Debt to total assets		5.34%	5.70%	10.53%	10.54%	2.80%
Interest cover	>3	(4.46)	(18.21)	(4.51)	19.33	10.33
Current ratio	>1	0.50	0.48	0.65	0.33	1.40
Cost of debt	7.5%	6.4%	3.8%	6.5%	5.2%	8.7%
Debt collection	30 days	19	17	30	25	8
Creditor turnover	30 days	96	111	84	58	74
Other information						
Staff numbers FTEs		7	9	9	10	11
Average staff costs ($'000s)		41	38	39	35	35

Comment

A review of the financial analysis confirms the Trust has significant financial issues. Areas of concern include:

- Consistent deficits from operations;
- Operating margins below benchmark;
- Negative returns on assets and equity; and
- A poor current ratio, well below the benchmark.

There are specific concerns over the liquidity of the Trust and its abilities to meet short-term commitments. As detailed in the table below, the Trust has a significant shortfall in monetary assets to meet its commitments.

	2005 $’000	2004 $’000
Payables	124	168
Bank overdraft	187	196
Other interest bearing loans	210	216
Restoration fund liability	297	227
Less Financial assets	(328)	(178)
Net amount due to creditors, bank and other borrowings	**490**	**629**

The State Government has taken steps to address the financial issues facing the Trust and it is noted that Administrator is working on the implementation of policies to improve the financial position.

OVERALL COMMENT

The audit opinion on the financial statements of the Trust for the year ended 30 June 2005 contained the following audit qualification:

Qualification

Included in revenue are amounts relating to proceeds from functions, fundraising activities, donations and admittance fees, totalling $0.184m (2004, $0.222m) over which it is not practicable to establish accounting controls prior to receipt of such funds due to the cash nature of that revenue. Accordingly, it was not practicable for my examination to extend beyond amounts recorded as having been received and as shown in the accounting records of the National Trust of Australia (Tasmania).

The National Trust of Australia (Tasmania) has failed to adopt the requirements of the following Australian Accounting Standards:

- The Trust has not complied with Australian Accounting Standards *AAS 4* 'Depreciation' by not depreciating or amortising freehold buildings and leasehold improvements respectively. In addition, the Trust possesses certain heritage collections referred to in Note 1 of the financial statements, but neither these assets nor any applicable depreciation has been reflected in the financial statements.

- The Trust has failed to adopt the disclosure requirements of Australian Accounting Standard *AAS 36 'Statement of Financial Position'* as referred to in Note 1(i) of the financial statements. The standard requires the Trust to determine and disclose current valuations for land and buildings measured on a cost basis.

Due to the nature of the assets, it is not possible to quantify the financial effects of the Trust's failure to comply with the accounting standards.

Qualified Audit Opinion

In my opinion except for the effects of such adjustments, if any, as might have been determined necessary had the limitations and matters referred to in the qualification paragraphs not existed, the financial report of the National Trust of Australia (Tasmania):

a) Presents fairly the financial position of the National Trust of Australia (Tasmania) as at 30 June 2005, and the results of its operations and its cash flows for the year then ended; and
b) Is in accordance with the *National Trust of Australia (Tasmania) Act 1975* and applicable Accounting Standards and other mandatory professional reporting requirements in Australia.

In relation to the audit qualification concerning AAS 4 "Depreciation", the Trust's Administrator has commented as follows:

The Trust's asset are not valued for balance sheet purposes at market value as the Trust believes that these are held in trust for future generations of Tasmanians/Australians.

If so valued it is estimated that the Trust's net asset position would be much greater.

This also explains why these assets are not depreciated as the Trust believes to do so would further reduce an already understated balance sheet.

December 2005 Audits

This section of my report deals with audits that have a 31 December balance date comprising:

- Theatre Royal Management Board;
- University of Tasmania and its subsidiaries;
- Anzac Day Trust; and
- Four port companies.

All of the above audits have been completed with ***unqualified audit reports*** issued in each case.

I have included analysis and comment on the audits of:

- Theatre Royal Management Board; and
- University of Tasmania and its subsidiaries.

Details of the audits of the four port companies have been dealt with earlier in the Port Corporations section of this report.

Due to its small size, no analysis or commentary is provided for the Anzac Day Trust.

Theatre Royal Management Board

INTRODUCTION

The functions of the Board include the management of the Theatre Royal (TR) as a place of theatre and performing arts and to arrange for, organise and promote performing arts in the TR and other places in Tasmania.

The Responsible Minister is the Minister for Tourism, Arts and the Environment.

AUDIT OF THE YEAR ENDED 31 DECEMBER 2005 FINANCIAL STATEMENTS

Financial statements for the year ended 31 December 2005 were signed on 8 March 2006 and an unqualified audit report was issued on 22 March 2006.

Note 17 to the financial statements, Economic Dependency, includes the comment that 'the Theatre is economically dependent upon the continued financial support of the Theatre's financiers by way of loans and through the assistance of administration and programme grants through the State Government so that it can continue as a going concern and pay its debts as and when they fall due.' As a result, the financial statements were prepared on the basis that the TR is a going concern.

FINANCIAL RESULTS

INCOME STATEMENT

	2005	**2004**	**2003**	**2002**	**2001**
	$000s	$000s	$000s	$000s	$000s
Government grants	119	142	112	112	129
User charges and fees	566	468	580	542	465
Other operating revenue	633	495	587	793	829
Non-operating revenue	1	3	18	5	15
Total Revenue	**1 319**	**1 108**	**1 297**	**1 452**	**1 438**
Borrowing costs	2	2	2	2	2
Depreciation	19	21	19	16	22
Other operating expenses	1 222	1 179	1 308	1 351	1 412
Non-operating expenses	0	0	0	0	0
Total Expenses	**1 243**	**1 202**	**1 329**	**1 369**	**1 436**
Result from Ordinary Activities	**76**	**(94)**	**(32)**	**83**	**2**

Comment

While the Board returned positive results for the years 2001, 2002 and 2005 after grants and subsidies, it remains dependent upon Government support, at least in the foreseeable future, to enable it to meet its debts as and when they fall due.

For the 2005 year the Board recorded an operating surplus of $0.076m, which was significantly greater than the deficit for 2004, $0.094m. This was mainly due to a $0.138m increase in other operating revenue, primarily due to increased entrepreneurial activity (TR productions).

Income from user charges and fees was $0.098m higher in 2005 but this was offset by an increase in operating expenses of $0.043m mainly due to the TR's closure for 8 weeks during 2005 for the upgrade program.

The upgrade program represented the first significant refurbishment to the TR since 1984 and was funded by the State Government through DPIWE as building owner.

BALANCE SHEET

	2005	**2004**	**2003**	**2002**	**2001**
	$000s	$000s	$000s	$000s	$000s
Cash	189	133	191	333	121
Receivables	22	107	43	44	25
Inventories	3	7	7	6	5
Other	4	4	14	4	4
Total Current Assets	**218**	**251**	**255**	**387**	**155**
Property, plant and equipment	32	48	62	67	19
Total Non-Current Assets	**32**	**48**	**62**	**67**	**19**
Payables	85	169	90	218	51
Borrowings	6	6	6	8	2
Provisions	48	42	42	12	5
Other	3	56	53	53	56
Total Current Liabilities	**142**	**273**	**191**	**291**	**114**
Provisions	11	0	0	0	0
Borrowings	4	9	15	20	0
Total Non-Current Liabilities	**15**	**9**	**15**	**20**	**0**
Net Assets	**93**	**17**	**111**	**143**	**60**
Retained Surpluses	92	16	110	142	59
Reserves	1	1	1	1	1
Total Equity	**93**	**17**	**111**	**143**	**60**

Comment

Receivables and Payables in 2004 included offsetting amounts relating to upgrading works. These amounts dropped in 2005 due to timing issues and improved collections.

The Payables balance at 31 December 2005 included an amount for advance ticket sales of $0.108m (2004: $0.132m).

CASH POSITION

	2005	2004	2003	2002	2001
	$000s	$000s	$000s	$000s	$000s
Government grants	119	112	112	112	129
Receipts from customers	1 178	941	1 098	1 429	1 268
Payments to suppliers and employees	(1 242)	(1 106)	(1 342)	(1 293)	(1 463)
Interest received	8	7	13	4	0
Interest paid	(2)	(2)	(2)	(2)	(2)
Cash from operations	**61**	**(48)**	**(121)**	**250**	**(68)**
Payments for property, plant and equipment	(3)	(5)	(13)	(64)	(3)
Proceeds from sale of property, plant and equipment	4	1	0	0	15
Cash used in investing activities	**1**	**(4)**	**(13)**	**(64)**	**12**
Proceeds from borrowings	0	0	0	32	0
Repayment of borrowings	(6)	(6)	(8)	(6)	(20)
Cash from financing activities	**(6)**	**(6)**	**(8)**	**26**	**(20)**
Net increase/(decrease) in cash	**56**	**(58)**	**(142)**	**212**	**(76)**
Cash at the beginning of the period	133	191	333	121	197
Cash at end of the period	**189**	**133**	**191**	**333**	**121**

Comment

Payments to suppliers and employees was larger in 2001 due to a number of factors, including increases in salaries and related costs; general administration costs; repairs and maintenance; insurance, and entrepreneurial expenses resulting from operations for the year.

The increase in receipts in 2002 was partly due to the significant receipt of advanced ticket sales. The reduction in payments was partly due to decreased entrepreneurial costs and an increase in payables at year-end.

The increase in Payments to suppliers and employees in 2005 over that of the prior year was due to additional expenditure on entrepreneurial ventures embarked upon in 2005. The increase in receipts in 2005 was similarly due to the rise in receipts from entrepreneurial ventures and additional government assistance in relation to salary assistance whilst the TR was closed for 8 weeks.

The Board invested $0.003m for equipment in 2005 (2004: $0.005m).

The Board repaid a further $0.006m of its loan from Arts Tasmania during 2005.

FINANCIAL ANALYSIS

	Bench Mark	2005	2004	2003	2002	2001
Financial Performance						
Result from operations ($'000s)		75	(97)	(50)	78	(13)
Operating margin	>1.0	1.06	0.92	0.96	1.06	0.99
Financial Management						
Current ratio	>1	1.54	0.92	1.34	1.33	1.36

Comment

Apart from 2001, where a negative operating result was offset by asset disposals to return a positive result from operations, 2003 when other operating revenue decreased by more than $0.200m and 2004 when losses from entrepreneurial ventures increased, the Board made only small operating profits for the period under review. The nature of the Board's operations is that income is prone to unexpected fluctuations due to audience demand. A surplus of $0.076m was recorded in 2005.

OVERALL COMMENT

The Board remains dependent upon Government support to enable it to meet its debts as and when they fall due.

The 2005 audit was completed with satisfactory results.

University of Tasmania

INTRODUCTION

The University of Tasmania (the University) is administered under the provisions of the *University of Tasmania Act 1992*. The University relies predominantly on Commonwealth support for its recurring activities.

The Consolidated financial report comprises the financial statements of the University, being the primary entity, and the entities under its control during the financial year. The controlled entities are University of Tasmania Foundation Inc, UTAS Innovation Limited and Southern Ice Porcelain Pty Ltd.

The Department of Education, Science and Training (DEST) sets financial reporting guidelines that need to be adhered to by all Universities. The University reports on a calendar year basis, hence the financial results relate to the year ended 31 December.

The Responsible Minister is the Minister for Education.

AUDIT OF THE 2005 FINANCIAL STATEMENTS

Signed financial statements were received on 8 June 2006 and an unqualified audit report was issued on 9 June 2006.

FINANCIAL RESULTS

The results detailed below are for the consolidated performance of the University. The financial information presented by the University in its financial statements for the year ended 31 December 2005 have been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS).

Financial statements of the University, until 31 December 2004, were prepared in accordance with Australian Generally Accepted Accounting Principles (AGAAP). The requirements of AIFRS differ from AGAAP, which resulted in the adoption of amended accounting and valuation methods in preparing the financial statements for the year ended 31 December 2005. Comparative figures for 2004 have been restated to reflect the amended accounting requirements.

The major impacts of the adoption of AIFRS were:

- Restatement of investments to recognise them on a fair value basis rather than at cost resulting in an increase of $10.030m;

- Increase in the superannuation liability of $5.614m due to a change in assumptions in the valuation methodology, in particular an adjustment to the discount rates applied; and
- The transfer of revaluation increments, totalling $48.760m recorded in the asset revaluation reserve relating to investment properties and library assets, to retained earnings.

Our financial analysis normally covers a five-year period. However, the following analysis covers 2005 and 2004 because it is only these two financial periods to which reporting under AIFRS has been applied.

FINANCIAL PERFORMANCE

	2005	**2004**
	$000s	$000s
State Government Grants	9 437	7 599
Commonwealth grants	159 301	132 790
Higher Education Contributions scheme	41 744	39 784
Other user charges and fees	34 293	32 989
Other operating revenue	41 538	33 183
Non-operating revenue	0	0
Total Revenue	**286 313**	**246 345**
Academic salary costs	77 503	69 960
Non-academic salary costs	64 665	58 930
Depreciation	15 817	16 318
Building and grounds	12 685	8 485
Other operating expenses	81 817	71 663
Non-operating expenses	0	0
Total Expenses	**252 487**	**225 356**
Result from Ordinary Activities before taxation	**33 826**	**20 989**

Comment

Commonwealth grant funds represent the University's major source of funding. The increase in funding during 2005 is mainly attributable to additional Capital Development Pool funding $6.953m, DEST Research Systemic Infrastructure Initiative funding $4.888m and increased Australian Research Council Discovery and Linkage grants $1.726m.

Other operating revenue includes consultancy and contract research, donations and bequests, investment income, scholarships and prizes and miscellaneous income. The increase in Other operating revenue consists primarily of:

- Investment income increasing by $4.163m (this includes investment growth in the Foundation),
- Additional consultancy and contract research revenue totalling $3.333m.

Employee expense costs represent 56% of the University's total expenditure. The increase in Academic staff and Non-Academic salary costs primarily relates to:

- Higher direct salaries, through enterprise bargaining increases: and
- An increase in the number of full time equivalent employee (FTEs), as noted in the Financial Analysis section below.

The University also incurred additional employee costs related to contributions to superannuation and pension schemes.

Building and grounds expenditure increased by $4.200m. The increase is attributable to major works on buildings being expensed, as it was determined the works were not capital in nature. The determination was based upon whether the works extended the useful life of the building. The works included:

- Electrical upgrade to Christ & John Fisher Colleges $1.256m;
- Flexible Teaching Spaces $1.288m: and
- Minor Learning Hubs $1.324m.

Other operating expenses include scholarships and prizes, non-capitalised equipment, travel and staff development, consumables, consultancy services and other expenditure. The higher Other operating expenses are attributable to increases of $3.186m in scholarships and prizes, $3.661m in consultancy services and $2.140m in other expenditure.

The University has produced a very strong consolidated operating result for the year, totalling $33.816m. The result, as noted above, is built upon an increase in revenue of $39.968m, with expenditure increasing by $27.131m. However, it also includes:

- Commonwealth capital grants $12.890m; and
- A net increase in unspent grant monies and other restricted funds $8.539m.

The University records all grant revenue as income at the time of receipt, irrespective of whether the grant is for an operating or capital purpose.

FINANCIAL POSITION

	2005	2004
	$000s	$000s
Cash	11 008	8 453
Receivables	9 590	7 189
Investments	137 969	110 417
Inventories	161	109
Non current assets held for resale	11 265	0
Other	4 120	2 128
Total Current Assets	**174 113**	**128 296**
Payables	15 678	9 008
Provisions	7 609	8 155
Other	8 607	6 916
Total Current Liabilities	**31 894**	**24 079**
Working Capital	**142 219**	**104 217**
Investments	1 395	6 803
Property, plant and equipment	286 350	284 779
Other	9 973	8 012
Total Non-Current Assets	**297 718**	**299 594**
Provisions	36 098	33 809
Total Non-Current Liabilities	**36 098**	**33 809**
Net Assets	**403 839**	**370 002**
Statutory Funds	45 511	36 972
Reserves	194 221	194 200
Retained surpluses	164 107	138 830
Total Equity	**403 839**	**370 002**

Comment

The Receivables balance increased by $2.401m and includes an additional $1.122m GST recoverable at 31 December 2005.

The University has significant investments held with external fund managers. At 31 December 2005, the Investment balance totalled $137.969m, which increased by $27.552m from 2004. In the Cash Position analysis below, the University paid $27.158m into investments during 2005.

Non current assets held for resale represents properties owned by the University, which are used to provide accommodation to students. The University has decided to divest itself of the properties as it now provides on-campus accommodation. In 2004, the balance of these properties was recorded in both current and non-current investments.

Other current assets represent prepayments and increased by $1.992m, which includes an amount of $1.320m relating to the establishment of the Tasmanian Research and Education Network.

The Payables balance increased by $6.670m to $15.678m at the end of 2005. The increase in mainly attributable to the accrual of:

- $3.300m relating to the purchase of a property to be used in the Health Science Co-Location project, which is part of a budget of $43.300m established for this collocation project; and
- Costs, totalling $2.420m, associated with the establishment of the Tasmanian Research and Education Network relating to increased bandwidth internet access and obtaining the use of the Tasmanian Government's "on-island" fibre access cable.

Property, plant and equipment remained reasonably constant over the two-year period under review. Additions totalling $19.318m have been offset by disposals of $1.951m and depreciation charges of $15.817m.

The majority of Other non current assets represent a receivable for a Commonwealth reimbursement for superannuation supplementation costs payable, totalling $8.773m. The balance increases in line with the University's related superannuation liability. In addition, the University has recognised $1.000m as an intangible asset being a long-term licensing arrangement for access to the Tasmanian Government's "on-island" fibre access cable.

Current and non-current provisions consist of annual leave, long service leave and superannuation. At the end of 2005, the University's liability for provisions comprised annual leave $3.952m, long service leave $15.775m and superannuation $23.980m of which $9.652m was recoverable from the Commonwealth.

The University's equity includes Statutory Funds, which under granting conditions can only be utilised for specific purposes. These funds cannot be allocated to general purpose expenditure categories. The Reserves balance is comprised solely of an Asset Revaluation Reserve.

CASH POSITION

	2005	2004
	$000s	$000s
State government grants	10 380	8 358
Commonwealth grants and funding	199 807	161 665
Receipts from customers	68 063	59 600
Payments to suppliers and employees	(241 770)	(212 969)
Investment Income	9 772	2 422
Cash from operations	**46 252**	**19 076**
Proceeds from investments	0	0
Payments for investments	(27 158)	(8 663)
Payments for property, plant and equipment	(15 999)	(16 110)
Proceeds from sale of property, plant and equipment	923	3 696
Other investing cash flows	(1 463)	2 061
Cash used in investing activities	**(43 697)**	**(19 016)**
Net increase/(decrease) in cash	**2 555**	**60**
Cash at the beginning of the period	8 453	8 393
Cash at end of the period	**11 008**	**8 453**

Comment

The University recorded a strong surplus in Cash from operations. As noted under the Financial Performance comments, Commonwealth grant revenue, investment revenue and other operating revenue have increased significantly. The increase in revenue has been partially offset by increases in staff employment costs and other operating expenses.

The strong surplus in Cash from operations includes all grants, irrespective of purpose, recorded as revenue. Consequently, capital purpose grants are recorded as part of operating activities for cash flow purposes.

The University invests surplus cash from operations.

The majority of Payments for property, plant and equipment comprises plant and equipment, library acquisitions and building improvements and additions.

Although the University appears to have surplus funds, a significant balance of the investment funds held is committed to future capital projects or is tied to specific grants.

FINANCIAL ANALYSIS

	Bench Mark	2005	2004
Financial Performance			
Result from operations ($'000s)		33 826	20 989
Operating margin	>1.0	1.13	1.09
State grants as a % of operating income		3%	3%
Commonwealth Grants as a % of operating income		56%	54%
HECS as a % of operating income		15%	16%
Salaries and related Expenditure as a % of operating income	50 - 70%	50%	52%
Financial Management			
Current ratio	>1	5.46	5.33
Debt collection	30 days	36	31
Creditor turnover	30 days	25	27
Other information			
Academic Teaching Staff numbers (FTE's, including casuals)		795	765
Total Staff numbers FTEs (including casual staff)		1,865	1,787
Average staff costs ($'000s)		76	72
Student (FTE's)		12,618	12,426

Comment

The University recorded a surplus from operations in both years under review. The operating margin equalled or exceeded the benchmark rate in both years.

The viability of the University is dependant upon grant funding, with approximately three quarters of its revenue being obtained through Commonwealth and HECS grants. However, the University has made a concerted effort to increase revenue from fees and charges, in particular fee paying overseas students.

As previously noted, salaries and related expenditure is the University's major cost. Salaries and related expenditure increased by 10% in the current year, but remained consistent as a percentage of total expenditure. The higher costs are attributable to enterprise bargaining increases and higher staffing levels, which are linked to increases in student numbers, and research activity.

Average staff costs increased in line with enterprise bargaining increases applicable to both general and academic staff.

The current ratio was well above the benchmark. This was because the majority of the University's investments were current in nature.

The debt collection and creditor turnover ratios are within the benchmarks and indicate the University is managing its working capital effectively.

OVERALL COMMENT

The 2005 audit of the University's consolidated financial statements was completed with satisfactory results.

However, in undertaking the audit of UTAS Innovation Ltd for the year ended 31 December 2005, I issued an unqualified audit report on the financial statements with an emphasis of matter paragraph relating to inherent uncertainty – going concern.

I note the Company reported operating losses for the years ending 31 December 2004 and 2005, totalling $0.250m and $0.126m respectively. In addition, the retained earnings deficit at 31 December 2005 totalled $0.116m. As noted in its financial statements, the Company's ability to continue as a going concern is dependent upon on-going support from the University of Tasmania, which has indicated that it will underwrite the position of this company to a maximum amount of $0.200m.

Also relevant to UTAS Innovation Ltd is that, following a GST audit by the Australian Taxation Office, it received amended business activity statements claiming an additional $0.285m in GST and interest payments.

The company is objecting to these claims considering them to be wrong on numerous counts.

Appendix 1 – Engagement Letter

President
Legislative Council
Hobart

Speaker
House of Assembly
Hobart

Dear President
Dear Speaker

The purpose of this engagement letter is to detail the approach that I will follow in the conduct of audits required to be performed by me under Sections 39, 40 and 44 of the *Financial Management and Audit Act 1990* (FMAA). It is not a requirement that I detail this information but I regard it as good practice to do so and it should provide the President, the Speaker and Members of the Legislative Council and the House of Assembly with an understanding on how audit work is conducted by my Office. This letter also details my interpretation of Section 41 "Power of Auditor-General to dispense with audits of certain public bodies".

My Office has determined its 'purpose' as being:

> "To provide Parliament with independent opinion, advice and recommendations on the performance of the Tasmanian Public Sector (including local government and state-owned companies".

In so doing, this office aims to be recognised as an effective and efficient resource in identifying and encouraging improvements in public administration practices. It achieves these objectives under three categories of audit work: financial attest, performance and compliance or regularity audits.

Financial Attest Audits

My financial attest audits are conducted in accordance with the provisions of the FMAA and other relevant Tasmanian legislation with the objectives of auditing the Treasurer's Annual Financial Report, the Public Account and other accounts, and where applicable, expressing opinions on financial statements prepared by Tasmanian public sector agencies, statutory authorities, Government Business Enterprises, Government owned companies, Local Government Councils and other public bodies (collectively referred to in this letter as "entities"). Compliance with section 43 of the FMAA requires that I have regard to recognised professional auditing standards and practices which would require me, as a minimum, to audit in accordance with Australian Auditing Standards. Following completion of an audit of a financial report, my report will make clear, within the scope and opinion sections, the following:

1. The scope of my audit and of my opinion – which will specify:

   - The financial period covered;
   - The components of the report being audited;
   - The fact that it is management's responsibility to prepare the financial report being audited;
   - The fact that I have conducted an independent audit of the financial report with the purpose of expressing an opinion thereon to the Parliament, Shareholders, Council, Board or Public Body that may be nominated in relevant legislation;

   And is based on the facts that:

   - My audit was conducted in accordance with Australian Auditing Standards;
   - The audit procedures conducted were designed to:

     - Provide me with <u>reasonable</u> assurance that the financial report is free of <u>material</u> misstatement;
     - Examine, on a test basis, evidence supporting the amounts and other disclosures in the financial report;
     - Evaluate accounting policies and significant accounting estimates;
     - Enable me to form an opinion whether, in all material respects, the financial report is presented fairly, in all material respects, in accordance with Accounting Standards, other mandatory professional reporting requirements in Australia and the requirements of the relevant legislation (normally FMAA); and
     - Enable me to form an opinion whether the financial report presents a view which is consistent with my understanding of the entity's financial position, financial performance, changes in equity and its cash flows.

2. Opinion – I shall report in accordance with Australian Auditing Standard 702 (The Audit Report on a General Purpose Financial Report) whether or not the financial report presents fairly, in all material respects:

   - The entity's financial position at a point in time; and
   - Its financial performance, changes in equity and cash flows for the specified period for which the financial report has been prepared in accordance with Accounting Standards, other mandatory professional requirements in Australia and within the requirements of the relevant legislation.

It will be clear whether or not my opinion is qualified or unqualified. In addition, the following will also be clear:

- To whom my opinion is addressed;
- The particular financial report encompassed by my opinion; and
- The date of my opinion.

If during the course of the financial attest audit any of the following are detected:

- Material aspects of non-compliance with Accounting Standards and financial irregularity (including internal control weaknesses); or
- Any other specific matters required to be addressed by the audit mandate encompassed in the FMAA,

These matters will be reported, as appropriate, to the management or those charged with governance of the entity, the relevant Minister and to both houses of Parliament. However, my audit procedures are not specifically designed to identify matters such as these.

Inherent Limitations

Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any system of internal control, there is an unavoidable risk that even some material misstatements; fraud or irregularity may remain undiscovered.

However, in addition to any report on financial reports, I will also report concerning any material weaknesses in the systems of accounting and internal control which come to notice during the conduct of audits.

Compliance or Regularity Audits

In addition to those tests carried out in attest audits as outlined previously, I may perform Compliance or Regularity audits separately to further report on the assessment of how well public sector entities comply with a selection of legal requirements, government policies, internal controls or central agency directives. The process involves testing a representative sample of public sector entities and our recommendations often highlight solutions that can be applied across the public sector.

Performance Audits

A performance audit deals with any aspects of an entity's economy, efficiency and effectiveness or compliance with relevant legislation/laws or government instructions/directives.

Performance audits extend beyond the examination of the financial affairs and transactions of an entity to encompass issues considered of significance to the Parliament.

Performance audits are conducted in accordance with Australian Auditing Standards *AUS 806: Performance Auditing* and *AUS 808: Planning Performance Audits.*

Mandate

Performance and compliance or regulatory audits are conducted in accordance with section 44 of the FMAA. These audits may be separate audits or part of another audit. The objective is to provide independent assurance to the Parliament and the public that government funds are being spent efficiently and effectively, and in accordance with the law.

These audits also assist the accountability process by holding entities accountable for their performance.

In applying the audit framework referred to, my office continues to apply the following definitions, provided in Australian Auditing Standard 806:

Economy - the acquisition of the appropriate quality and quantity of financial, physical and information resources at the appropriate times and at the lowest cost.

Efficiency – the use of financial, human, physical and information resources such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.

Effectiveness – the achievement of the objectives or other intended effects of activities.

Conducting audits

Section 46 of the FMAA establishes authority for me to employ staff in the Tasmanian Audit Office and for me to engage other suitable persons to carry out the whole or a part of an audit or investigation. In most cases my Office conducts audits although contractors perform some audits, or parts of audits.

For each performance audit I establish an advisory committee to assist me and my staff in performing the particular project. Members of the advisory committee are drawn from my staff, entity representatives and independent experts in the matter being audited.

Reporting to the Parliament

In accordance with the requirements of the FMAA, matters identified and recommendations arising from my audits are reported to the entity, and where appropriate, to the responsible Minister and to the Parliament. The report to the Parliament is to include in its entirety, or in an agreed summary form, any comments provided by the Secretary, Mayor or Chief Executive Officer of an entity on the report when still in draft form.

In addition to commenting on matters identified and recommendations arising from audits, I plan to continue the practice of providing independent analysis of entity performance, primarily of financial performance, in my reports to the Parliament.

Commenting on Government Policy

It is a convention of my Office that I will not comment on Government policy in reports to Parliament nor in any other manner. However, circumstances may arise where an audit examines the application of Government policy or the outcomes of Government policy. Where this is the case, and if the need arises, I may make comment in a report to the Parliament.

Adding Value

I will also seek to maximise the value to the entity, the Government and the Parliament of all audit work including where appropriate the framing of recommendations to address:

- Improvements in the framework of accountability;
- Opportunities for cost savings and efficiency gains; and
- Recognition of good practice in use by entities and other units of administration.

Power to dispense with audits of certain public bodies

Section 41 of the FMAA allows me to dispense with the audit of a particular public body, or the audits of public bodies included in a class or category of public bodies, if I believe there to be sufficient cause to do so. A decision to dispense with an audit does not prevent me from performing performance or compliance audits at the public body.

I have interpreted the above power as requiring me to make a conscious decision each year to dispense with an audit. In other words, I cannot dispense with an audit and then forget about it, I need to revisit this decision each year.

My annual reports to Parliament in which I report on the outcomes of financial attest audits will continue to include details of audits dispensed with.

Independence

Professional independence is a concept fundamental to the conduct of an audit requiring me to approach my work with integrity and objectivity. I must both be, and be seen to be, free of any interest that is incompatible with objectivity. It is essential therefore that I be independent of the entities being audited and free of interest that could be incompatible with integrity and objectivity.

In addition, I must be able to complete my professional duties without fear or favour free of any real or implied interference from Government.

Relationship with the Public Accounts Committee

Section 6 of the *Public Accounts Committee Act 1970* details the functions of the PAC as being:

1. The Committee must inquire into, consider and report to the Parliament on any matter referred to the Committee by either House relating to –

   a) The management, administration or use of public sector finances; or
   b) The accounts of any public authority or other organisation controlled by the State or in which the State has an interest.

2. The Committee may inquire into, consider and report to the Parliament on –

   a) Any matter arising in connection with public sector finances that the Committee considers appropriate; and
   b) Any matter referred to the Committee by the Auditor-General.

The PAC has objectives similar to those of my Office as a result of which I meet with it from time to time to discuss its activities and projects, my reports, my planned projects, the operations of my Office and related matters. I regard this as a healthy relationship aimed at effective public sector management.

I look forward to full cooperation from the Executive, entity management and staff and expect them to make available any accounts, documents, reports and other information requested in connection with my audits.

Yours sincerely

H M Blake
Auditor-General