Tasmanian Audit Office

Making a Difference

Local Government Authorities,
Including Business Units and
Other State Entities 2007-2008

REPORT OF THE AUDITOR-GENERAL
No. 1 of 2009

VOLUME ONE

May 2009

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and therefore the Tasmanian Audit Office, are set out in the *Audit Act 2008*.

Our major responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. As defined by the Act, State entity includes all public sector entities including those established under the *Local Government Act 1993*. It includes an agency, council, Government Business Enterprise, State-owned Company, State Authority, Corporations established by the *Water and Sewerage Corporations Act 2008* and the governing body of any corporation, body of persons or institution that are appointed by a Minister or by the Governor. We also audit those elements of the Treasurer's Annual Financial Report which report on financial transactions in the Public Account, the General Government financial report and the Whole of Government financial report.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing financial reports, enhancing their value to end users. Also, the existence of such audits provides a constant stimulus to State entities to ensure sound financial management.

In the main accountable authorities prepare financial reports consistent with Accounting Standards and other mandatory financial reporting requirements in Australia. On occasion reports are "special purpose financial reports" such as the Public Account Statements. In all cases our audits are conducted in accordance with Australian Auditing Standards.

Following a financial audit, we issue a variety of reports to State entities and report periodically to the Parliament. In combination these reports give opinions on the truth and fairness of financial reports, and comment on compliance with certain laws, regulations and Government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits and compliance audits. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

Compliance audits are aimed at ensuring compliance with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

Performance and compliance audits are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year. In doing so the Auditor-General is providing information to the Parliament to assist both the House of Assembly and the Legislative Council in their review of the performance of Executive Government.

Accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses are detailed within the reports.

TASMANIA

2009
PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL
No. 1 of 2009

Volume One

Local Government Authorities, Including Business Units and Other State Entities 2007-2008

May 2009

Presented to both Houses of Parliament in accordance with the requirements of Section 29 of the Audit Act 2008

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19 May 2009

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Sirs

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the audit of the financial statements of Local Government Authorities and other State entities for the year ended 30 June 2008, as well as three State entities that reported at 31 December 2008.

Yours sincerely

H M Blake
Auditor-General

FOREWORD

Local government councils in Tasmania are responsible for the delivery of a range of services to the community. To enable them to do so, in the financial year ended 30 June 2008, councils generated total revenues of $770m, including rates of $434m, incurred expenditure of $714m and managed infrastructure and other non-current assets recorded at $7 026m. To enable the community to assess the financial stewardship of councils, two essential accountability arrangements exist; the budget process and timely and accurate financial reporting.

This Report summarises the results of external audit work conducted on all 29 Tasmanian councils, two local government business units and the three bulk water authorities. Specifically we note many councils continue to budget for deficits. To ensure long term financial sustainability, we would expect a council to, as a minimum, budget for a break-even operating result and then to meet its budget expectation. This Report also notes that improvements are needed in the timeliness and quality of financial reporting.

Included again this year are summaries comparing the financial performance of all councils. This highlights that 17 councils incurred operating deficits which is essentially unchanged from the position reported in 2007 when operating deficits were incurred by 18 councils. This Report will be tabled at a time when councils are preparing budgets for 2009-10. The financial information, ratios and comparative performance provided will be useful to all councils as they determine levels of expenditure and rating for that period.

Also included in this Report are summaries of the financial results of six other State entities including the University of Tasmania and of the final six months financial activities of TAFE Tasmania. The University is a significant business in the Tasmanian context more so now following its integration with the Australian Maritime College. Its operating surplus of $7.310m was reasonable in the context of expected unrealised declines in its investment portfolio.

HM Blake
Auditor-General
19 May 2009

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INTRODUCTION

This Report deals with the outcomes from financial statement audits of Local Government Authorities, other public bodies and three public bodies with 31 December 2008 balance dates. In addition a comparative analysis covering all councils and water authorities is again included.

FORMAT OF THE REPORT

Unless specifically indicated, comments in this Report are current as at 16 April 2009.

The Report is based on the administrative arrangements set out under the provisions of the *Administrative Arrangements Act 1990* as at 30 June 2008 and has been prepared in accordance with the following classifications:

- Introduction
- Matters of Significance and Follow-Up of Matters Previously Reported
- Timeliness and Quality of Financial Statements
- Basis for Setting Audit Fees
- Audits Dispensed With
- Local Government Rating
- Local Government Comparative Analysis
- Local Government Business Units
- Local Government Water Authorities
- Other State Entities reporting at 30 June 2008
- Other State Entities reporting at 31 December 2008.

This classification does not attempt to recognise any lines of responsibility that some Authorities have through Ministerial Departments to the appropriate Minister, however the Portfolio or Responsible Minister is stated in each case, except in the case of Local Government Authorities, including Water Authorities, where the Responsible Minister is the Minister for Local Government.

Local Government Authorities have been grouped in the body of this report in line with categories used in the annual Measuring Council Performance in Tasmania Report published by the Local Government Office. Individual chapters for each of Tasmania's 29 Councils appear in Volume 2 of this report. The responsible minister for Local Government Authorities is the Minister for Local Government.

ENGAGEMENT LETTER

Included in our Report is an engagement letter addressed to the Speaker of the House of Assembly and to the President of the Legislative Council, see Appendix 2.

The purpose of this letter is to detail the approach that we will follow in the conduct of audits required to be performed by us pursuant to the provisions of the *Audit Act 2008* (The Audit Act) which updates a previous letter included in our Report No 1 in June 2006. It is not a requirement that we detail this information but we 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 of how audit work is conducted by our Office.

MATTERS OF SIGNIFICANCE AND FOLLOW-UP OF MATTERS PREVIOUSLY REPORTED

This Report contains analysis of financial information of local government authorities and other State entities.

The accompanying text summarises significant matters identified from our analysis of the financial statements. A cross reference to the relevant detailed report is provided. Not included are financial and reporting matters that are common across State entities, such as timeliness of reporting, because these are dealt with separately in this volume.

Our 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 our perception of the public interest in each point and the need to confine comments to those matters that have more than a managerial dimension. Also included are a comparison of water entities and a brief report following legal advice obtained regarding local government rating. A section is again included here following up matters reported in previous Reports to Parliament.

MATTERS IDENTIFIED IN PREVIOUS REPORTS

This section summarises actions arising from matters highlighted in audits completed prior to 30 June 2008 and, where relevant, audits for the current period.

Valuation of Long-lived Property, Plant and Equipment (30 June 2007 Financial Statements)

- June 2008 Report No. 1, Page 10

In our previous report on financial statements in 2006-07, for a number of reporting entities, we raised concerns with management over the valuation basis adopted. This was chiefly in relation to the carrying of long-lived assets at cost, or where the previous valuation was some years old. The concern here was that financial reports may not show a true and fair view, or present fairly, in all material respects, the true financial position.

Concerns were raised formally with the following entities:

- Circular Head Council – June 2008 Report No. 1, Page 90,
- Dorset Council – June 2008 Report No. 1, Page 103,
- Huon Valley Council – June 2008 Report No. 1, Page 130,
- Meander Valley Council – June 2008 Report No. 1, Page 156.

These entitles were encouraged to review their individual valuation basis for long-lived Property, plant and equipment, to ensure they continue to present fairly their financial position.

Circular Head Council

The revaluation of transport infrastructure, water and sewerage as at 30 June 2008 resulted in an increase of $25.810m in the asset values recorded by Council. This represented an increase of 35.19% in the value of Property, plant and equipment. Revaluations were effective 30 June 2008 and did not, therefore, impact the depreciation charges in the Income Statement.

Dorset Council

In 2007-08 Council undertook revaluations of its land and building assets, sewerage infrastructure and stormwater infrastructure, resulting in a revaluation increment of $1.724m.

Huon Valley Council

Council undertook a full revaluation of its major asset classes of roads, water, bridges, sewerage and stormwater in 2007-08 which contributed $41.277m to the increase in Property, plant and equipment and Reserves. Of the remaining assets reported at fair value, Land and buildings are scheduled for revaluation in 2008–09.

Meander Valley Council

Council continued its revaluation program and undertook a review of land, buildings, bridges and stormwater in 2007-08. These contributed $11.803m to the increase in Property, plant and equipment and Reserves.

MATTERS ARISING FROM CURRENT AUDITS

Local Government Comparative Analysis (30 June 2008 Financial Statements)

In addition to the matters raised below, a number of other items are commented on in the Local Government Comparative Analysis section of this Report.

Recurring Deficits in Local Government Authorities (30 June 2008 Financial Statements)

A number of councils continue to incur deficits before capital grants, contributions and revaluation increments. This position cannot be sustained over the medium to long term and action is needed to increase revenues or reduce costs to the point where all costs are covered from normal operating revenues. In the relevant sections of this Report we have noted deficits at the following entities:

- Central Coast Council *
- Central Highlands Council **
- Derwent Valley Council
- Devonport City Council *
- Flinders Council **
- Glamorgan Spring Bay Council
- Glenorchy City Council **
- Hobart City Council *
- Kentish Council *
- Northern Midlands Council *
- Sorell Council **
- Southern Midlands Council **

All of these councils recorded a deficit for a minimum of three successive financial years. Those noted above with a "*" budgeted for an operating deficit before capital grants and contributions. Those with "**" budgeted for an overall deficit, irrespective of additional capital grants and contributions. To ensure long-term financial sustainability, we would expect a council, as a minimum, to budget for a break-even operating result before capital grants, contributions and revaluation increments.

Maintenance of Infrastructure Assets in Local Government Authorities (30 June 2008 Financial Statements)

As in previous reports we raised concerns for a number of reporting entities over their level of reinvestment in infrastructure assets. We expected to find asset replacement programs consistent with depreciation charges being incurred. For a council, for example, a low level of reinvestment in existing infrastructure assets indicates that council may not be sufficiently rating to maintain the current level of infrastructure and services. The Capital expenditure to depreciation and Capital expenditure on existing assets to depreciation ratios in the Financial Analysis section of each reporting entity within this Report provides detailed comments where relevant.

The following entities all recorded a Capital expenditure on existing assets to depreciation ratios below the benchmark of 100%:

- Brighton Council *
- Burnie City Council *
- Central Coast Council *
- Central Highlands Council *
- Clarence City Council *p
- Derwent Valley Council
- Devonport City Council *
- Dorset Council *
- Esk Water Authority *p
- Flinders Council *
- George Town Council *p
- Glenorchy City Council *p
- Hobart City Council
- Kentish Council
- Kingborough Council *
- Latrobe Council *
- Launceston City Council *
- Meander Valley Council *
- Sorell Council *
- Southern Midlands Council *
- Waratah-Wynyard Council
- West Coast Council p

A low ratio in a single year may not be a cause for concern, especially where there is a strategic capital works program or positive history of sufficient investment. However, those noted above with a "*" recorded, for a minimum of three successive financial years, a ratio below the benchmark for the existing capital expenditure to depreciation ratio. Such a trend may indicate insufficient investment to maintain the entities' asset base. Those noted with "p" have a strategic capital works program.

Ensuring fair values remain current (30 June 2008 Financial Statements)

For a number of years we have been concerned about accounting and asset management practices by councils associated with long-lived infrastructure assets such as roads, bridges, water, sewerage, drainage, land and buildings. AASB 116 *Property, Plant and Equipment* requires entities measuring Property, plant and equipment at fair value to carry out revaluations with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at reporting date.

While we accept that it is not practical or cost effective for all entities to revalue assets annually, the use of appropriate indexes, applied as an interim measure, can ensure compliance with the requirements of AASB 116. In the absence of annual revaluations or indexing, the carrying amount of assets at fair value has the potential to become materially understated. Ideally assets should be revalued every three to five years.

In the relevant sections of this Report we raised concerns in respect of 2007-08 for the following entities:

Councils

- Brighton Council
- Sorell Council
- West Coast Council

Those charged with governance of state sector entities are responsible for ensuring that application of Australian Accounting Standards results in financial reports fairly presenting in all material respects or giving a true and fair view. They must take steps to ensure that the model they apply for recognising long-lived assets results in a true and fair view at each balance date.

US Sub-prime Market Downturn (30 June 2008 Financial Statements)

In Report No.2 of 2008 tabled in November 2008, we highlighted concerns regarding investments in Collateralised Debt Obligations (CDOs) for three audits still underway at that time. These audits have since been completed and we are now in a position to provide updated information as follows:

Council	Valuation Date	Face Value $'000s	Write Down $'000s	Fair Value $'000s
Circular Head	28 February 2009	4 500	4 382	117
Huon Valley	30 September 2008	4 000	3 218	782
Sorell	30 September 2008	500	296	204

Australian Accounting Standard AASB 110 *Events after the Balance Date* required the unfavourable unrealised decline in value of these investments to be recognised in the respective council's financial report. At the respective reporting dates, although the fair value of the investments had fallen and the market was illiquid, all councils were still receiving interest instalments.

While the above councils were negatively impacted by investing in CDOs, we note they did not contravene the broad investment guidelines in the *Local Government Act 1993*. In addition, councils must comply with the *Trustee Act 1898*, which also provides broad guidelines and criteria that a trustee should take into account when investing. As part of a compliance audit we plan to assess whether council investment policies have due regard for these factors.

Bushfire Funding, Break O'Day Council (30 June 2008 Financial Statements)

During 2006-07 Council received $0.419m in trust to administer Community Recovery Initiatives in relation to the December 2006 East Coast bushfires. These funds formed part of the total financial assistance distribution administered by the Red Cross, Department of Economic Development and Tourism and Council.

The trust funds did not form part of Council operations and were to be distributed in accordance with the Community Recovery Fund Deed of Agreement. The majority of the funds were received from the State government, $0.416m, with the balance comprising donations from various sources.

The following table shows the Income Statement relating to the Community Recovery Grant funds for the period ended 30 June 2008. The total income of $0.419m was recorded in Council's cash balance and as a liability (trust funds held) at 30 June 2007. A total of $0.233m was expended during 2007-08 on projects and activities related to the recovery of the community from the bushfires, leaving available funds of $0.186m at 30 June 2008. These funds were recorded in Council's cash balance and as a liability at this date.

Community Recovery Grant for the December 2006 East Coast Bushfires
Income Statement for the Period Ended 30 June 2008

Income		**$'000s**
	Grants	416
	Donations	3
Total Income		**419**
Expenditure		
	Community Recovery Funding Tier 2 - F Bradley	10
	Community Recovery Funding Tier 2 - Blue Seas	7
	Community Recovery Funding Tier 2 - White Sands	10
	Recovery Engagement Strategy	1
	Local Engagement in Recovery Activities	8
	St Marys Emergency Services Centre	49
	Beaumaris hinterland fuel risk reduction	3
	Fire Defence Preparation and Recovery Info Sheets	1
	Fire Fighter Recognition	1
	Fire Control Property Management Planning	7
	Scamander Mouth Public Amenities Part A	29
	Cornwall Park Amenities - Shelter and BBQ	22
	Resident's fire stories publication	10
	Disaster Recovery Co-Ordinator Expenses	75
Total Expenditure		**233**
Available Funds		**186**

The trust funds received by Council were utilised, as approved by the Affected Area Recovery Committee (AARC), for the benefit of the Break O'Day community affected by the bushfires.

AARC was established to develop and co-ordinate a recovery plan and to assist Local Government in the long-term recovery of communities impacted by the East Coast Bushfires of December 2006 and to facilitate the effective co-ordination of recovery through information sharing and collective decision making.

AARC adopted a Recovery Plan and part of the plan was to form a Community Recovery Reference Group (CRRG) and appoint a Disaster Recovery Co-ordinator. The Recovery Plan was developed following community planning forums and outlined a number of broad strategies which targeted issues raised by the community. The CRRG was formed to assist in the recovery process and was made up of community members.

In consultation with the Disaster Recovery Co-ordinator, the CRRG determined what projects should be put forward to AARC for funding approval. Once AARC had approved the project, either the Disaster Recovery Co ordinator or Council were responsible for the project until completion.

The remaining trust funds, $0.186m, are due to be expended on the committed projects listed in the table below. All projects are due to be completed in 2008–09, except for the Beaumaris to Scamander Multi Use Path. The acquisition of land required for construction of the path is yet to be finalised.

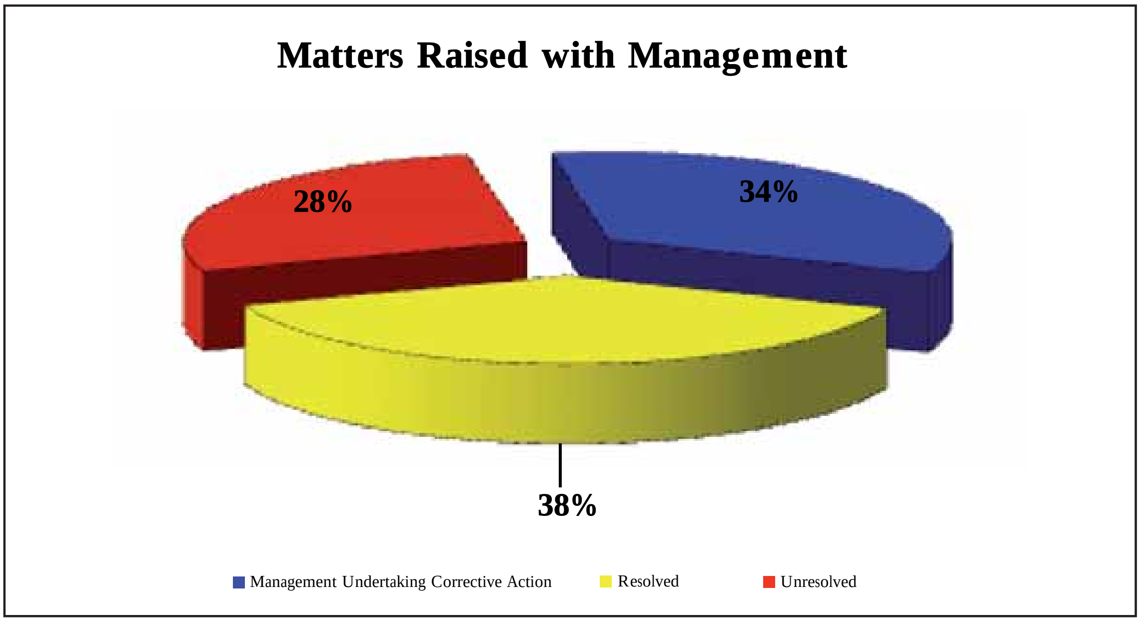
Committed Project Balances	**$'000s**
Community Recovery Funding Tier 2 - Murfet	10
Local Engagement in Recovery Activities	9
Fire Recovery Event	4
Economic Recovery - Event support	2
St Marys Emergency Services Centre - GST Component - TFS	5
Community Training and Skill Development	5
2 x Sat Phones	2
Cornwall Park Amenities - DA fees	1
Four Mile Creek Management Plan	5
Four Mile Creek Playground Fence	10
Four Mile Creek Outdoor Noticeboard	1
Four Mile Creek Gravel Pathway	3
St Marys Pergola	13
Fire Defence Preparation and Recovery Info Sheets	1
Beaumaris to Scamander Multi Use Path Planning (in Wages)	14
Beaumaris to Scamander Multi Use Path Construction	85
Total Committed Balances	**169**
Balance of Funds to be Expended	**17**

AUDIT FINDINGS 2007-08 INCLUDING STATE ENTITIES REPORTING AT 31 DECEMBER 2008

The comments in this section apply to our audits of all State entities, not just the entities covered by this Report.

As part of the overall audit process, management letters noting any significant, moderate, or minor audit finding are sent to the relevant accountable authority. Where appropriate, management letters are also forwarded at the conclusion of interim audits. In many instances, shortcomings were reviewed by management and policies, procedures or practices improved prior to finalisation of the audit. However, where they remain outstanding, responses or further action being undertaken was noted. Matters raised are considered in forming our audit opinions and noted for review in the next audit cycle.

During completion of the 2007-08 financial audit cycle 340 audit issues were formally raised with management. The figure below details how these matters were responded to by management.

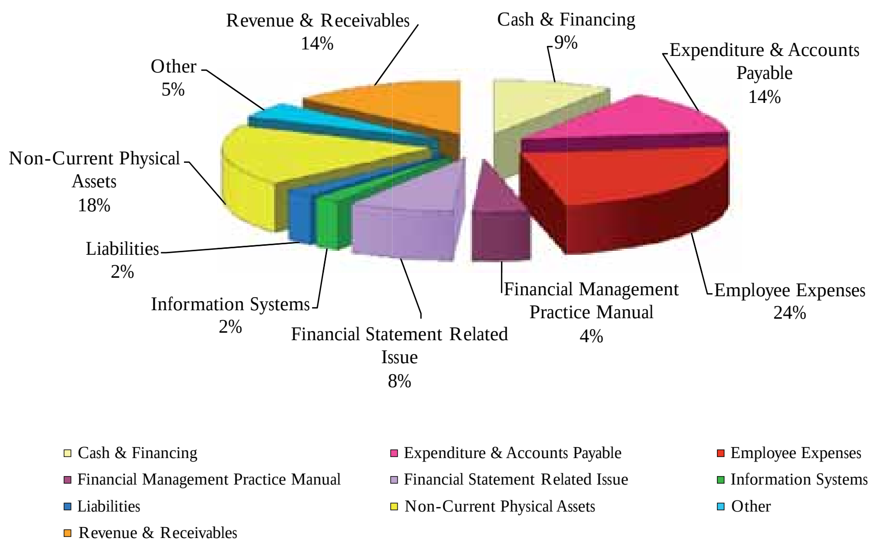


Corrective actions to rectify issues raised had been taken in 34% (51% in 2006 07) of cases. These issues included such items as the identification of internal control weaknesses that would not be so readily rectified. Such items may require further management review, procedural modifications or policy changes. A further 38% (21%) were considered to be resolved and accepted, not requiring further action. These issues included such items as readily rectifiable control weaknesses, account miss-classification, presentation and general financial statement items. It is pleasing to see an increase in the resolution of issues. The residual 28% (28%) remained unresolved pending further review by management and will be carried forward and followed-up in the next audit cycle.

All matters raised with management are considered in risk assessments the following year as part of planning appropriate audit procedures. Where issues had been corrected, this was noted and not raised again in the subsequent year.

To assist us in the identification of trends and management of audit risk, we categorised audit issues raised with management as follows:

Issue By Category



The area with the greatest proportion of audit issues at 24% was employee expenses. In most cases this related to the management of excessive leave balances and the preparation and disclosure of annual and long service leave. Issues in this area doubled in proportion to 2006-07 (12%).

Non-current physical assets rated second at 18%. The most common matter raised within this category was in relation to appropriate and timely valuation of non-current physical assets. This area ranked first in 2006-07 (18%) and remains a key area of concern.

Equal third were audit issues relating to revenue and receivables and expenditure and accounts payable at 14%. Revenue and receivable matters related to internal control weaknesses, revenue recognition and procedures relating to debtors and provisions for impairment. Revenue and receivable matters increased marginally from the 2006-07 proportion of 12%. Expenditure and accounts payable matters related to internal control weaknesses, including adequateness of supporting documentation, and procedures relating to capturing year end creditors. There has been an increase in expenditure and accounts payable issues from the 2006-07 comparison of 9%.

TIMELINESS AND QUALITY OF FINANCIAL STATEMENTS

STATUTORY FINANCIAL REPORTING REQUIREMENTS

Local Government Councils

Pursuant to the *Local Government Act 1993* council General Managers are required to prepare financial statements within 90 days after the end of the financial year, being no later than 30 September, and submit them to us as soon as practicable. There was no legislated requirement for the audit to be completed within a specified timeframe but in all cases we endeavoured to complete the audits in time for papers to be distributed in advance of Council annual general meetings, which must be held by no later than 15 December.

Local Government Joint Authorities

The financial reporting requirements for Joint Authorities are the same as those for local government councils.

Other State entities

Financial reporting requirements vary depending on the nature of the entity and their establishing legislation. Details are provided for each entity later in this Chapter.

STATE ENTITIES REPORTING AT 30 JUNE 2008

This Report contains the results of three State entities whose audits were not completed in time for inclusion in our Report No 2 tabled in November 2008. These entities, and their performance in meeting their statutory financial reporting requirements, were:

Local Government Association of Tasmania (LGAT)

The *Local Government Act 1993* requires LGAT to prepare an annual financial statement by 31 August and submit this to the Auditor-General. Draft financial statements were received on 31 August 2008 with signed financial statements received on 22 January 2009 and the audit report issued on the same day.

LGAT did not meet its statutory financial reporting requirements.

Rivers and Water Supply Commission (RWSC)

RWSC was required to complete its annual financial statements and submit them for audit by 15 August 2008. This requirement was satisfied with signed statements received on 15 August 2008. However, adjustments were identified by the audit process resulting in final signed financial statements being received on 29 October 2008 and an unqualified audit report was issued on 30 October 2008.

The Nominal Insurer

The *Workers Rehabilitation and Compensation Act 1988* (1988 Act) requires the Nominal Insurer to provide to the Auditor-General financial statements within 45 days after the end of the financial year. Signed financial statements were received on 18 December 2008 and an unqualified audit report was issued on the same day.

The Nominal Insurer did not meet its statutory financial reporting deadline.

STATE ENTITIES REPORTING AT 31 DECEMBER 2008

This Report contains the results of three State entities which reported at 31 December 2008. These entities, and their performance in meeting their statutory financial reporting requirements, were:

TAFE Tasmania

TAFE Tasmania's statutory balance date is 30 June. As an entity reporting under the *Financial Management and Audit Act 1999*, it was required to prepare financial statements for audit within 45 days. However, TAFE ceased operations on 31 December 2008 and there was no statutory requirement for the TAFE Board to prepare financial statements at this date or to have them audited. However, consistent with good practice statements were prepared. Signed financial statements were received on 27 March 2009 and an unqualified audit report was issued on the same day.

Theatre Royal Management Board

The *Theatre Royal Management Act 1986* requires the Board to complete financial statements by no later than 31 March. Financial statements for the year ended 31 December 2008 were signed on 4 March 2008 and an unqualified audit report was issued on 5 March 2008. The Board met its statutory financial reporting deadline.

University of Tasmania

The *University of Tasmania Act 1992* requires the University Council to complete its annual report, including its financial statements, by 30 June each year. Signed financial statements were received on 13 February 2009 and an unqualified audit report was issued on 20 February 2009.

Completion of the financial report by the University's finance staff for approval by the University Council by 13 February was significantly earlier than prior years.

LOCAL GOVERNMENT JOINT AUTHORITIES

The table below summarises the performance by five Joint Authorities included in this Report in satisfying their legislated financial reporting requirement.

Submission of financial statements for audit by Local Government Joint Authorities for the 2007-08 financial year

Joint Authority	Date initial signed statements received by Audit	Date amended or re-signed statements received by Audit	Date of audit report	Comment
Copping Refuse Disposal	4 November	n/a*	18 December	1
Dulverton Regional Waste Management	19 January 2009	n/a	19 January 2009	2
Cradle Coast Water	18 August	n/a	7 October	3
Esk Water	27 August	n/a	11 September	3
Hobart Regional Water	26 September	n/a	26 September	3

n/a – not applicable

Comments

1. Copping did not meet its statutory financial reporting deadline.
2. Dulverton did not meet its statutory financial reporting deadline and changes were required to the statements initially submitted for audit.
3. All three bulk water authorities satisfied their statutory financial reporting deadlines.

LOCAL GOVERNMENT COUNCILS

The table below summarises the performance by Tasmania's 29 councils in satisfying their legislated financial reporting requirement.

Submission of financial statements for audit by Local Government Councils for the 2007-08 financial year

Council	Date initial signed statements received by Audit	Date amended or re-signed statements received by Audit	Date of audit report	Comment
Cities				
Burnie	29 September	6 November	20 November	1
Clarence	26 September	25 October	4 November	1
Devonport	30 October	n/a	13 November	2
Glenorchy	24 September	n/a	24 September	3
Hobart	10 September	n/a	16 October	3
Launceston	30 September	n/a	13 October	3
Large Urban/Rural				
Central Coast	15 August	28 August	9 September	3
Circular Head	15 October	27 March 09	27 March 09	2
Huon Valley	30 September	30 October	30 October	1
Kingborough	25 August	29 September	20 October	3
Meander Valley	25 September	12 November	17 November	1
Waratah-Wynyard	2 September	5 September	17 September	3
West Tamar	19 August	28 August	9 September	3
Medium Rural				
Brighton	30 October	n/a	26 November	2
Derwent Valley	30 September	21 November	21 November	1
Dorset	8 September	2 December	3 December	1
George Town	20 October	5 December	15 December	2
Latrobe	26 November	n/a	11 December	2
Northern Midlands Council	21 November	18 December	19 January	2
Sorell	1 October	22 December	23 December	4
West Coast	30 September	23 October	31 October	1
Smaller Rural				
Break O'Day	26 September	23 October	31 October	1
Central Highlands	23 September	25 November	26 November	1
Flinders	3 December	n/a	8 December	2
Glamorgan S/Bay	29 September	20 November	21 November	1
Kentish	31 August	12 November	13 November	1
King Island	24 September	2 November	14 November	1
Southern Midlands	29 September	3 November	6 November	1
Tasman	28 September	28 November	29 November	1

Comments

1. These Councils all satisfied their legislated responsibilities but the financial statements submitted required amendment prior to final completion and audit.
2. These Councils submitted their financial statements late therefore failing to comply with the *Local Government Act 1993*.
3. These Councils satisfied their legislated financial reporting requirements.
4. This Council was marginally late in meeting the 30 September deadline for submitting its financial statements. However, the financial statements submitted required amendment prior to final completion and audit.

In summary:

Eight councils, two Joint Authorities and two other State entities failed to meet their statutory financial reporting deadlines.

The financial statements of 22 councils, one Joint Authority and two other State entities required amendment prior to audit completion. The amendments were initiated either by management or by the audit process.

This high level of failure to comply with statutory reporting requirements and the still higher number of occasions where financial statements required amendment is disappointing. This is particularly so bearing in mind that the new *Audit Act 2008* (the Audit Act) will require all State entities (including councils and Joint Authorities) to submit financial statements for audit within 45 days.

Fortunately the Audit Act provides for transitional arrangements for those State entities not currently required to submit statements within 45 days. These State entities will not be bound by this requirement until the financial year commencing after 30 June 2010. Therefore,

- State entities with a 30 June balance date – must submit their June 2011 financial statements within 45 days, and
- State entities with a December balance date, must submit their December 2011 financial statements within 45 days.

Steps taken by Audit to facilitate earlier financial reporting

We continue to assist State entities to achieve early financial reporting. This is done in a number of ways including:

- Where possible early planning of audits. As part of planning audits discussions are held with management and where relevant those charged with governance and agreements reached on financial reporting and auditing timeframes. These are always aimed at completion within statutory reporting deadlines.
- In the case of entities to which the transitional arrangements will apply (primarily councils), audit plans are proposing gradual tightening of completion timeframes so that by 2011 the revised deadlines can be achieved.
- Preparation of detailed completion timeframes for components of the financial statements.
- Where financial systems allow, conducting audit testing of selected balances prior to balance date thus minimising work post balance date.

The success of these measures was evident at the University of Tasmania where completion of the financial statements was brought forward from 14 April in 2008 to 13 February in 2009

Another initiative, now in its 11th year, is awards for the best working papers supporting financial statements. Separate awards are made for the different types of public sector entities. The purposes of effective financial statement working papers include:

- A framework for the compilation of financial statements by current and future preparers
- A central reference to the evidence required to support transactions, balances and estimates disclosed in the financial statements
- A trail between the entity's financial records for the year and the financial statements for the year, which can be followed by persons having a quality assurance function
- A record of the quality control processes employed in the preparation of the financial statements.

This process assists our staff in the conduct of audits and, more importantly, assists entity accounting staff in the timely completion of accurate and quality assured statements. At recently held client seminars awards were presented to the following for 2007-08 financial year:

Annual Working Paper Awards

Category	Overall Winner	Highly Commended
Agencies	Department of Primary Industries and Water	Department of Premier and Cabinet
Local Government	Central Coast Council	West Tamar Council and Hobart City Council
Government Business Enterprises and State-owned companies	Metro Tasmania	Motor Accident Insurance Board
Statutory Authorities and other State entities	TAFE Tasmania	n/a

BASIS FOR SETTING AUDIT FEES

BACKGROUND

In my November 2008 report I advised that I would provide information regarding proposed 2008-09 fees together with a more detailed analysis of the methodology used to determine them. Audit fees are not charged for performance audits, compliance audits or investigations.

LEGISLATIVE REQUIREMENTS – *Part 4 Division 1 - Functions as to the State, State entities, subsidiaries and related entities*

Section 27 of the *Audit Act 2008* (Audit Act) provides that:

"(1) *The Auditor-General is to determine whether a fee is to be charged for an audit carried out by the Auditor-General under this Division and, if so –*

(a) *the amount of that fee; and*

(b) *the accountable authority liable to pay that fee.*"

In relation to the tabling of Auditor-General's reports on financial statements of State entities the Audit Act also requires the following at section 29(3):

"(3) *A report under subsection (1) is to describe the basis on which audit fees are calculated.*"

DETERMINATION

We have determined that an audit fee will be charged for the audits of the financial statements of all State entities other than the University of Tasmanian Foundation Inc.

PRINCIPLE FOR AUDIT FEE DETERMINATION

Fees are set for each commensurate with the size, complexity and risks of the engagement. These factors affect the mix of staff we assign to each audit and therefore the overall fee. Staff are assigned charge rates for use in determining the allocation of work on the audit and in computing the fee.

There is an expectation that audits of similar complexity and risks will have a similar mix of staff.

PRINCIPLE FOR DETERMINING CHARGE RATES

Charge rates are based on the principle of the office being able to recover its costs of operation. Charge rates comprise two parts, direct salary cost and overhead recovery. To this base fee we add direct travel costs attributable to each audit. Other incidentals are covered by the overhead rate. Fees advised to the clients are all inclusive before GST.

BASIS OF FEES

Fees are calculated on the basis that:

- current accounting systems will be operating throughout the year with a satisfactory appraisal of internal control
- no errors or issues requiring significant additional audit work will be encountered
- the standard period-end general ledger reconciliations will be available at the commencement of our year-end audit
- assistance for our staff will be provided with respect to reasonable requests for additional schedules and analysis throughout the audit
- agreed timetables will be met within reason, particularly with regards to the preparation of the financial statements
- the financial statements presented for audit are complete and do not require ongoing changes/adjustments
- additional work (including new accounting standards or issues associated with key risks and other matters arising) will be billed separately if it cannot be absorbed into the existing fee
- the nature of the Entity's business and scale of operations will be similar to that of the previous financial year
- fees incorporate financial disclosure and other specific audit related advice not resulting in material additional audit work.

Additional audit work, including the audit of grant acquittals and similar compliance or regulatory statements, will be discussed and negotiated with client financial management staff as required. Work performed will be in accordance with applicable auditing standards.

ADDITIONAL AUDIT FEES

If the circumstances outlined under the section headed "Basis of Fees" change in a year, we would seek additional fees from the client. Any future impact of agreed additional fees would be assessed in terms of the ongoing audit fee.

ADJUSTMENT TO FEES

In recognition that the major component of our costs are salary or salary related, fees will generally be adjusted annually in accordance with increases in Average Weekly Ordinary Time Earnings (AWOTE) as published by the Australian Bureau of Statistics each May.

Fees may be adjusted beyond the above in the following circumstances:

- Changes to the size and nature of the entity and its operations.
- Changes to the risks associated with a particular engagement.
- Changes to accounting and auditing standards requiring greater effort on our part.
- Unavoidable increases in costs of maintaining our Office.

TRANSPARENCY OF INDIVIDUAL AUDIT FEES

We have chosen to make the fee setting process for individual State entities more transparent. As a consequence, our staff are now required to explain:

- the specific factors taken into account in proposing the fee (particularly the risk assessment)
- the assumptions upon which the fee is based in terms of, for example, the standard of the client's control environment, coverage of internal audit, quality of working papers and so on
- what is included in the fee and what is not included
- what specific actions the client could take to reduce the level of its audit fee in the future
- the processes for agreeing additional fees if circumstances change or the assumptions upon which the fee is based are not met.

AUDIT FEE SCALES

A matrix (audit fee scale) has been developed to provide a guide for determining the expected time to be taken on an audit. The scales are based on the following key variables:

- The size of the body in terms of its expected gross turnover was used to determine base amount of time required to conduct the audit. Turnover was based on the client's actual income and expenditure for the preceding financial year, adjusted for any known factors (Fixed element).
- The risk and complexity profiles for each individual client determined by our staff. These include the corporate structure, complexity of systems, operations and financial statement reporting requirements. The time bands range from 40 per cent below to 40 per cent above the base time (Variable element).

The fee scales take account of:

- changes to Australian Auditing or Accounting Standards
- in some cases, particularly audits returning from contract, a change in scope of work being performed in line with our audit approach whereby certain probity matters will be considered during the course of all audits.

Fee scales are as follow:

Turnover	Base hours	Variable component
<$100 000	15	+/-40%
$101 000 to $1.5m	30	+/-40%
$1.5m to $10m	100	+/-40%
$10m to $55m	155	+/-40%
$55m to $121m	270	+/-40%
$121m to $200m	460	+/-40%
$200m to $410m	610	+/-40%
$410m to $1bn	830	+/-40%
>$1bn	1 350	+/-40%

Bandings are based on current cost experience in conducting audits.

After applying the above model, the hours to undertake the audit are allocated according to the staff mix necessary to conduct the audit. The respective charge rates of staff are then applied to the allocated hours so as to determine a dollar amount (the audit fee). Where applicable, travel and other direct costs (out of pocket expenses) are added to the audit fee on a full cost recovery basis.

FEE SETTING

It is important to emphasise that the fee scales only provide a framework within which we set the actual fees charged to individual clients.

The level of fee, and any increase, experienced by individual clients will therefore vary according to local circumstances and the risks each body faces.

In certain circumstances, for example where a client faces a particular challenge to manage high risks or there are particular local circumstances, a fee may fall outside the appropriate bands. In these cases, the audit fee will be determined in discussion between our staff and client management, to reflect our assessment of risk and the extent and complexity of the audit work required.

SKILL-RELATED FEE SCALES

In certain circumstances, we may need to use staff with specialist skills in order to review specific local issues. The Office encourages the appropriate use of senior and specialist staff on the more complex parts of audits and recognises that additional costs may be incurred.

To facilitate the use of appropriately skilled staff, the actual fee charged will be determined in discussion between our staff and the client management to reflect the size, complexity or any particular difficulties in respect of the audit work required.

ADDITIONAL AUDIT WORK

In carrying out additional audit work, including government grant acquittals and other similar returns, the Office will recover, in respect of such work, an amount that covers the full cost of the relevant work undertaken.

The actual fees to be charged will be determined in discussion between our staff and client management to reflect the size, complexity or any particular difficulties in respect of the audit in question. Fees will have regard to the time taken, the audit staff assigned and their respective charge rates.

Higher rates may be appropriate for certain pieces of work in order to allocate individuals with specialist knowledge. In such circumstances the client would be consulted in advance.

AUDITS DISPENSED WITH

Sections 18 (2) & (3) of the *Audit Act 2008* (Audit Act) provide the Auditor-General with the discretion to dispense with certain audits. The sections read as follows:

(2) *Despite subsection (1), the Auditor-General may, in respect of a particular financial year, dispense, subject to any conditions that the Auditor-General may determine, with all or any part of the audit of a particular State entity or the audits of State entities included in a category or class of State entity specified by the Auditor-General, if the Auditor-General considers that it is appropriate in the circumstances.*

The definition in this Act of a "State entity" is an extremely broad definition and captures, for example, the many entities that receive grant funding from the State Government.

(3) *The Auditor-General must consult with the Treasurer before exercising the power conferred by subsection (2).*

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

Specific audits

Drainage Trusts

- Brittons Swamp Drainage Trust
- Cheshunt Drainage Trust
- Egg Lagoon Drainage Trust
- Elizabeth Macquarie Irrigation Trust
- Forthside Irrigation Water Trust
- Lake Nowhere-Else Dam/Whitehawk Creek Irrigation Trust
- Lawrenny Irrigation Trust
- Lower Georges River Works Trust
- Mowbray Swamp Drainage Trust
- Richmond Irrigation Trust
- Togari Drainage Trust

Registration Boards

- Board of Architects
- Chiropractors and Osteopaths Registration Board
- Dental Board of Tasmania
- Dental Prosthetists Registration Board
- Medical Council of Tasmania
- Medical Radiation Science Professionals Registration Board
- 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

In the previous financial year, we dispensed with the audit of Davy Point Drainage Trust, Don River Irrigation Water Trust, Lobster Rivulet Drainage Trust and the Western Creek Drainage Trust. These are not now included in the above list because we are experiencing difficulties establishing their ongoing existence. Until this has been established, the audits revert to our office. We note that the Minister has exempted the Lower Georges River Works Trust from submitting financial statements until September 2009 for the financial period November 2007 to June 2009 as the Trust was only formed in November 2007.

Categories of audits and Non-Government Organisations

The Definition of State entities encompasses public bodies and Non Government Organisations that traditionally are in receipt of Government grants. Agencies managing these grants are subject to the provisions of *Treasurer's Instruction 709 – "Grant Management Framework"*.

The requirements of *Treasurer's Instruction 709* are such that reporting and auditing requirements are appropriate and we consider them satisfactory. It is our intention to keep the status quo, that is, those agencies dispensing the funds will be responsible for implementing and monitoring the requirements of the above Treasurer's Instruction.

As a result, separate audits of these entities were not conducted by our Office and we have not specifically dispensed with these audits.

We consulted with the Treasurer in determining the audits dispensed with in this report.

LOCAL GOVERNMENT RATING

INTRODUCTION

In our previous report (June 2008 Report No.1, page 52) we noted that some councils may have made more than one general rate, thereby breaching Section 90 of the *Local Government Act 1993* (the Act). We recommended at the time that, where a council wishes to vary its general rate using the provisions of section 107(1), it seeks appropriate legal advice to ensure the wording of its rate resolutions comply with the requirements of the Act.

COUNCIL AUDITS FOR 2007-08

In instances where we considered that a council's rate resolution might be in contravention of the requirements of the Act, we sought a specific legal opinion for each of those councils.

Based upon the legal advice received, three councils were in contravention of the Act. The issues concerned incorrectly setting a maximum amount payable in respect of a general rate under Section 107 of the Act, not setting a general rate on all rateable land in accordance with Section 90(1) of the Act and no evidence of a general rate having been struck also in accordance with Section 90(1) of the Act. Our recommendation to those councils was that they seek legal advice on setting of their rates, in particular general rates, to ensure compliance with the provisions of the Act.

In addition, a more recent review of all rate resolutions, and subject to further audit work, we noted the following possible errors for all councils to consider when setting 2009-10 rates:

- Setting of rates under incorrect sections of the Act
- Setting of rates under repealed sections of the Act

SECTOR REVIEW

Because of the three contraventions noted, we have decided to conduct an audit of all councils' rating resolutions for 2008 – 2009 to ascertain compliance of those resolutions with the rating provisions (Part 9) of the Act. As part of this audit, we will consider reservations noted by some councils to what they apparently regard as restrictions currently inherent in the rating provisions in the Act that have, in their view, contributed to some rating resolutions being made.

LOCAL GOVERNMENT COMPARATIVE ANALYSIS

INTRODUCTION

Comparative analysis covering financial and other information and ratios for all Tasmanian Councils has been compiled with results provided in four appendices to this Chapter. The information provided is for the financial year ended 30 June 2008. The appendices have been presented with councils grouped as either major cities; other urban and large rural; and other rural.

This is the third year that this analysis has been included in this Report. While only one year's data is provided, comparison with prior years is showing a high degree of consistency in the various ratios between years.

The Appendices are:

1. Demographics
2. Income Statements
3. Employee Costs
4. Balance Sheets.

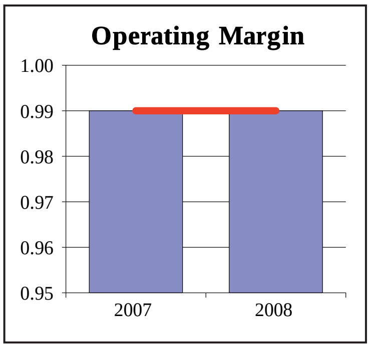
Our analysis of the appendices is of a general nature and should be read in conjunction with the individual Chapters on each council that are contained in this Report.

When considering the various ratios and observations reported in this Chapter, it needs to be borne in mind that they are only indicators of performance or of financial position. The various ratios should not be considered in isolation. However, taken together various ratios can indicate good or poor financial condition or performance. It is also important to consider these ratios over time. The analysis below only considers performance for the single 2007-08 financial year.

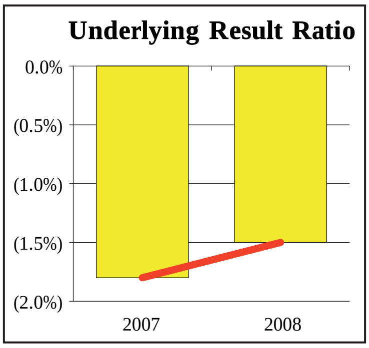
An example of why a single indicator should not be considered in isolation is the ratio of expenditure in a financial year on non current assets compared to depreciation charged in that year. Our target for this ratio is 100% because we would anticipate infrastructure investment to approximate the annual depreciation charge. A council or councils could be less than 100% for a variety of reasons and still be adequately managing their asset replacement plans due to other factors such as their maintenance programs or the timing of asset replacement based on long term asset management plans. Also, a ratio well above 100% may not necessarily indicate be a good result because expenditure in a particular year may be due to one-off expenditure for a new asset funded, for example, by government grants. In addition, this ratio should probably be assessed over more than one financial period which is done in individual council chapters.

Operating sustainability

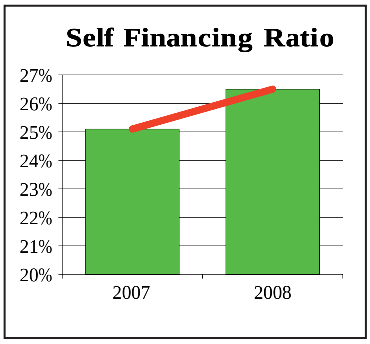
The following five graphs summarise key ratios highlighting important aspects of the consolidated financial performance over the past two years. In general, the ratios indicate:



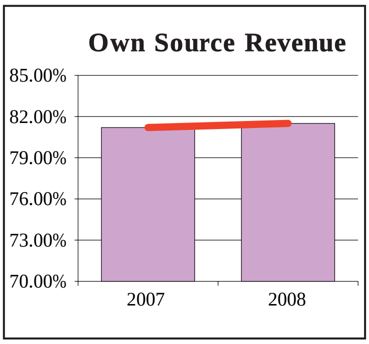
The Operating margin was marginally below one in each of the past two years. At a detailed level, the income statement noted on Appendix 2 reveals 17 (2006-07; 18) of the 29 Tasmanian councils failed to achieve at least a break even benchmark with breakeven or better being indicated by an operating margin of one or greater than one. In my view, councils should, at a minimum, budget, and operate, to break even and to avoid operating deficits. Doing so would enable councils to generate sufficient revenue to fulfil their operating requirements. This should include rating to cover annual depreciation charges.



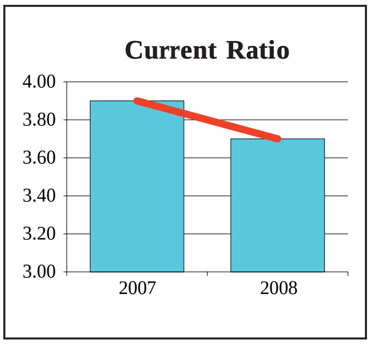
Another measure of a council's operating capability is the "Underlying result" ratio. This ratio provides a measure of the strength of the operating result. The higher the ratio, the stronger the result. On a consolidated basis, the ratio was negative in both years indicating an operating deficit that cannot be sustained in the longer term. The ratio is calculated by dividing the net operating surplus by operating revenue.



The "Self financing" ratio is a measure of councils' ability to fund the replacement of assets from cash generated from operations. The ratio is calculated by dividing cash flows from operating activities (taken from the Cash Flow Statement) by operating revenue. The high ratio in both years indicates a greater capacity for councils collectively to generate cash from their operating revenue and, therefore, to fund asset replacement or repay debt.



Councils' Own source revenues represent operating revenue other than recurrent grants. Expressing Own source revenues as a percentage of total operating revenues indicates a council's ability to generate its own funding, without relying on recurrent government grants. On a consolidated basis, Tasmania's council generated approximately 80% of their revenues from their own sources although, in general terms, the Own source revenue ratios on Appendix 2 highlight that smaller councils generate lower amounts of Own source revenues in percentage terms.



Normal convention suggests that the current ratio, being total current assets divided by total current liabilities, should be greater than one. Collectively, the ratio in both years was well above this benchmark with, individually no council having a ratio of less than one at 30 June 2008. Individually the ratios varied between 1.0, Glamorgan Spring Bay, and Flinders, 21.5.

Overall, we note that councils exhibiting an operating margin of less than one, a negative underlying result and a low self financing ratio may be experiencing, or could in the future experience, financial difficulty. Appendix 2 indicates that every council in Tasmania has a positive Self financing ratio, but 16 councils have a negative Underlying result and 17 had negative Operating margins.

Demographics

The Tasmanian population, as recorded by the Australian Bureau of Statistic – Regional Population Growth, increased by 3 419 (or 0.7%) from 2005-06 year to 2006-07. Across the State, populations of each municipal area varies considerably, ranging from 877 (2005-06, 881) at Flinders to 64 931 (2005-06, 64 620) at Launceston. The major cities' populations represent 42.58% (210 074) (2007; 42.7% and 209 163) of the total population, but only cover 2.9% of the State area in square kilometres (1 986). Conversely, the 13 rural councils combined population represents 13.4% (66 168) (2007; 13.4% and 65 818) of the total population, but cover 59.7% of the State's area in square kilometres (40 474).

As noted in previous years, Rural councils can face difficulties in providing and maintaining services because they do not have access to the higher ratepayer base of larger councils. This is highlighted in the number of rateable valuations per square kilometre ratio which reflects the population and area disparity between the councils already referred to.

Income Statements

Income statement information was extracted from audited Financial Statements for the financial year 2007-08.

The combined net Surplus totalled $55 937m, an increase of 35.3% from 2006-07 ($41.328m) and included:

- $29.426m (2006-07, $28.911m) in capital grant funding
- $46.565m (2006-07, $35.363m) in contributed assets, mainly through subdivisions
- $2.416m insurance recovery relating to a significant fire claim
- $1.519m (2006-07; $7.420m) in non-current asset adjustments, comprising asset write-offs, $4.727m, less recognition adjustments, $2.706m, and revaluation increment reversals, $3.540m
- offset by a further $7.897m in unrealised losses from three councils investing in Collateralised Debt Obligations (CDOs).

Excluding these items, it could be argued that, on an "operating" basis, for the year ended 30 June 2008 councils recorded a combined deficit of $16.092m (2006-07; $15.526m).

Revenue raising capacities

Councils in Tasmania generated $434.289m (2006-07; $407.362m) in rates for the 2007-08 year. Major cities and other urban and larger rural councils, in general, obtain a greater percentage of their operating revenue from rates. This is reflected in the rate revenue to operating revenue ratio. In contrast, councils that have a lower rate to operating revenue ratio, receive a higher percentage of recurrent grant revenue. It is noted that there are six councils (2006-07, six) with rate revenue to operating revenue ratios of less than 50% meaning that they are heavily reliant on recurrent grant funding. Five of these councils also have the lowest average rates per rateable valuation although they have generated relatively high rate revenues per head of population.

Councils' own source revenues represent operating revenue other than recurrent grants. Expressing own source revenues as a percentage of total operating revenues indicates a council's ability to generate its own funding, without relying on recurrent government grants. In general terms, the resulting ratios on Appendix 2 highlight that, consistent with ratios discussed previously, smaller councils generate lower amounts of own source revenues in percentage terms.

Also reported on Appendix 2 are the ratios of operating (or recurrent) grants per head of population and operating grants compared to operating revenues. These ratios confirm previous observations that smaller councils are more reliant on recurrent operating grants. To illustrate this point, rural councils' grants per head of population are considerably greater than other councils, for example Flinders, $1 696 and Tasman, $1 359 compared to Hobart, $24 or West Tamar, $116.

Depreciation coverage

The depreciation to operating revenue ratio provides an indication of the extent to which a council is funding, from current revenues, its future asset replacement through depreciation. There is no benchmark for this ratio except that, as previously noted, we anticipate that councils should at least budget to breakeven on an operating basis therefore fully covering annual depreciations charges.

In general the ratio of depreciation to current revenues for major cities and other urban councils was around the average of 25.7% (2006-07; 26.5%) with the total average for all councils being 26.5%. However, there are considerable fluctuations in the other rural council percentages, these varying between 11.5% at Tasman, which has a comparatively low infrastructure assets base with non-current infrastructure assets per head of population of $6 923, to 52.1% at Central Highlands where the non current infrastructure assets per head of population was $50 196. This highlights the importance of having long term asset management plans and budgeting to ensure that operating revenues are sufficient to cover all operating costs, including depreciation. It is acknowledged that the latter will be more difficult in regional communities with significant infrastructure.

However, it is inappropriate to consider this ratio in isolation with further discussion about this when reviewing the depreciation to capital expenditure ratios later in this Chapter.

Employee Costs

Appendix 3 summarises Employee costs, Employee entitlements and Full Time Equivalents (FTE's) for each council.

Councils in Tasmania employed 3 661 (2006-07; 3 664) FTE's at 30 June 2008 and incurred employee costs of $226.820m (2006-07; $217.246m) for the 2007-08 financial year. Average employee costs per FTE vary from a high of $69 000 per FTE to a low of $43 000 per FTE with the average being $59 000.

Councils' FTEs per 1 000 head of population also varies with smaller rural councils having lower population bases and higher ratios. Both Flinders and Tasman Councils have ratios well above twenty FTEs per 1 000 head of population due to their small populations. The average for all councils was 9.2 FTE per 1000 head of population.

At 30 June 2008, the amount of annual, long service and some sick leave accrued by councils for their employees totalled $48.933m (2006-07; $47.908m). On a per FTE basis this equated to $12 793 with variations between councils ranging from $6 522 per FTE at Flinders to $21 967 at Derwent Valley. While the average balance of $12 793 appears reasonable, many councils hold balances for some employees well above two year's entitlements. This has been acknowledged by those councils who are working to reduce their balances.

Balance Sheet

Comments here are made by reference to Appendix 4.

Management of working capital

On the basis that a working capital ratio of one or better is effective, all but one councils manage their working capital (total current assets less total current liabilities expressed as a ratio greater or less than 1) effectively with most exhibiting a ratio of well above one at 30 June 2008. This ratio provides an indication as to whether or not an entity can meet its short term commitments from existing current assets.

Glamorgan Spring Bay is the only council below the benchmark. At 30 June 2008, it had negative working capital of $45 000 (current liabilities exceeded current assets by this amount) resulting in a ratio of 0.97.

It is noted however, that all councils have large or reasonably large bank and investment balances some of which may be committed to future capital projects. Details are provided in individual chapters.

Management of infrastructure and other non-current assets

Included in Total non-current assets, which amounted to $7.026bn (2006-07; $6.225bn), are Infrastructure assets controlled by councils at 30 June 2008 totalling $6.579bn (2006-07; $5.812bn). This included $2.564bn of Roads and bridges infrastructure, $667.403m of Water infrastructure and $803.456m in Sewerage infrastructure. These balances indicate the significant responsibility local government have in managing infrastructure assets in the provision of services to all Tasmanians.

In 2007-08 payments made by councils for property, plant and equipment totalled $178.938m (2006-07; $169.440m) and depreciation charged on these assets totalled $172.758m (2006-07; $163.159m). A useful measure to assess the extent to which a council is adequately investing in its non-current asset base is expenditure on these assets expressed as a percentage of depreciation with an ideal target of 100%. However, a better measure for this ratio is to express expenditure on existing assets as a percentage of depreciation.

For all councils, the average of total capital expenditure to depreciation ratio was 125.2% (2006-07; 103.86%) indicating that most councils are re-investing in their non-current assets at an appropriate rate. However, some councils stand out as being below the target of 100% particularly major cities. In each case, further details are provided in individual council chapters of this Report.

Another indicator which can be used to assess whether or not a council is adequately re-investing in its non current asset base is to compare rate revenue to non current infrastructure assets. This ratio indicates the level of rating undertaken in relation to the infrastructure bases being managed by each council. The higher the ratio the better. Lower ratios are noted in the rural councils possibly indicating that these councils are under-rating. As noted previously under the Income Statement discussion of this Chapter, the smaller rural councils have a greater dependence on grant funding and have lower rate revenue per rateable valuation.

The analysis of non-current infrastructure assets per square kilometre and per head of population confirms the concentration of infrastructure and people in the major cities and larger urban areas. Rural councils manage a lower level of infrastructure assets, but across a larger geographical area.

The ratio of non-current infrastructure assets per rateable valuation indicates that each rateable valuation supports a fairly consistent level of infrastructure. We have not analysed why it is that some councils, for example Tasman, $4 636, Glamorgan Spring Bay, $10 437, Burnie, $31 764, and King Island, $32 004, vary significantly from the average of $20 626.

Management of debt

We have included in our analysis relevant ratios around debt management because how councils manage debt and associated interest costs can have short and long term impacts on rating strategies and asset replacement programs. Inter-generational equity also needs to be considered as does the impact of asset replacement programs and any effect of proposed new initiatives.

A review of the debt service ratio and the cost of debt for each council indicated that, based on established benchmarks, the majority of councils are managing their debt appropriately. Kingborough has the highest cost of debt, 10.8%, due to several interest only loans with interest rates well above current market rates. This Council has investigated early settlement of these loans, but would incur costs equal to interest charges over the remaining loan terms. The final interest only loan will be settled in 2011 12.

It is noted that Meander Valley, Northern Midlands, Central Highlands and Flinders Councils did not hold any loan debt at 30 June 2008.

The indebtedness ratio compliments the current ratio and illustrates a council's ability to meet longer term commitments. The ratio compares non-current liabilities to a council's own source revenue, the lower the percentage the stronger a council's position to meet longer term liabilities. Those councils with ratios well above the average of 22.6% were holding higher levels of non-current borrowings at 30 June 2008. However, the ratios indicate all councils can meet future longer term debt commitments.

Rate debts owing to councils at 30 June 2008 totalled $13.237m (2006-07; $11.824m) with an average per council of $456 000. Expressing rate debtors as a percentage of rates raised indicates that, in general, councils are recovering outstanding rate debts in a reasonable timeframe. Flinders Council at 14.6% had the highest ratio. It is noted, however, that all councils have significant power under the *Local Government Act 1993* to recover rate debts against a property.

DEMOGRAPHICS – 2007-08

Council	Population	Area in Square Kilometres	Population Per Square Kilometre	Number of Rateable Valuations	Number of Rateable Valuations Per Square Kilometre	Average Rateable Valuations Per Head of Population
Clarence	51 173	377	135.7	24 061	64.9	0.5
Glenorchy	44 250	120	368.8	22 604	190.4	0.5
Hobart	49 720	78	639.1	29 137	377.2	0.6
Launceston	64 931	1 411	46.0	35 003	25.1	0.5
Brighton	14 791	171	86.5	6 465	38.9	0.4
Burnie	19 692	610	32.3	10 381	17.1	0.5
Central Coast	21 253	931	22.8	11 050	12.0	0.5
Derwent Valley	9 770	4 104	2.4	5 211	1.3	0.5
Devonport	24 961	111	224.9	13 128	119.0	0.5
Huon Valley	14 628	5 498	2.7	9 872	1.8	0.7
Kingborough	32 228	719	44.8	16 267	23.2	0.5
Meander Valley	19 124	3 320	5.8	9 851	3.0	0.5
Northern Midlands	12 482	5 126	2.4	6 795	1.3	0.6
Sorell	12 428	583	21.3	8 199	14.2	0.7
Waratah-Wynyard	13 889	3 526	3.9	7 977	2.3	0.6
West Tamar	21 833	690	31.6	11 279	16.6	0.5
Break O'Day	6 234	3 521	1.8	6 555	1.9	1.1
Central Highlands	2 315	7 976	0.3	3 877	0.5	1.7
Circular Head	8 228	4 891	1.7	5 190	1.1	0.6
Dorset	7 245	3 223	2.2	5 363	1.7	0.7
Flinders	877	1 994	0.4	1 368	0.7	1.6
George Town	6 740	653	10.3	4 587	7.1	0.7
Glamorgan Spring Bay	4 383	2 522	1.7	5 513	2.2	1.3
Kentish	6 052	1 155	5.2	3 589	3.3	0.6
King Island	1 723	1 094	1.6	1 702	1.6	1.0
Latrobe	9 071	600	15.1	5 628	9.6	0.6
Southern Midlands	5 871	2 611	2.2	3 667	1.4	0.6
Tasman	2 301	659	3.5	3 308	5.2	1.5
West Coast	5 148	9 575	0.5	4 814	0.5	0.9
Total	**493 341**	**67 849**	**7.3**	**282 441**		
Average per Council	**17 012**	**2 340**	**59**	**9,739**	**32.6**	**0.8**

Average Population per square kilometre for Tasmania	7.27
Average Rateable properties per square kilometere	4.16
Average Rateable properties per Head of Population	0.57

Source

Population figures derived from Australian Bureau of Statistics - Regional Population Growth, Australia 2006-07.

Local Government areas taken from ABS website "2001 Census Community Profile Series" Statistics estimated at 30 June 2005.

Rateable properties obtained from Valuer-General's office as at 1 July 2007

INCOME STATEMENT – 2007-08

Council	Operating Revenue	Non-Operating Revenue	Total Revenue	Operating Expenditure	Non-Operating Expenditure	Total Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit) to Total Revenue	Operating Surplus/ (Deficit)	Operating Margin
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	%		No.
Clarence	58 147	11 445	69 592	58 884	-	58 884	10 708	15.4	(737)	0.99
Glenorchy	62 697	2 062	64 759	68 599	-	68 599	(3 840)	(5.9)	(5 902)	0.91
Hobart	95 474	8 028	103 502	102 913	-	102 913	589	0.6	(7 439)	0.93
Launceston	93 173	8 322	101 495	91 878	-	91 878	9 617	9.5	1 295	1.01
Brighton	13 737	1 182	14 919	11 903	-	11 903	3 016	20.2	1 834	1.15
Burnie	35 984	3 981	39 965	35 705	2,464	38 169	1 796	4.5	279	1.01
Central Coast	23 731	2 838	26 569	26 517	-	26 517	52	0.2	(2 786)	0.89
Derwent Valley	10 713	316	11 029	10 897	-	10 897	132	1.2	(184)	0.98
Devonport	37 321	4 700	42 021	39 999	-	39 999	2 022	4.8	(2 678)	0.93
Huon Valley	19 916	2 254	22 170	17 773	3,218	20 991	1 179	5.3	2 143	1.12
Kingborough	35 033	13 547	48 580	36 580	-	36 580	12 000	24.7	(1 547)	0.96
Meander Valley	17 988	2 479	20 467	18 223	-	18 223	2 244	11.0	(235)	0.99
Northern Midlands	14 575	1 662	16 237	15 698	-	15 698	539	3.3	(1 123)	0.93
Sorell	13 934	1 209	15 143	14 135	296	14 431	712	4.7	(201)	0.99
Waratah-Wynyard	15 300	2 655	17 955	16 637	-	16 637	1 318	7.3	(1 337)	0.92
West Tamar	20 467	4 786	25 253	18 911	2,263	21 174	4 079	16.2	1 556	1.08
Break O'Day	11 920	575	12 495	10 735	-	10 735	1 760	14.1	1 185	1.11
Central Highlands	5 762	424	6 186	6 801	-	6 801	(615)	(9.9)	(1 039)	0.85
Circular Head	14 184	144	14 328	12 679	4,383	17 062	(2 734)	(19.1)	1 505	1.12
Dorset	12 012	584	12 596	12 352	-	12 352	244	1.9	(340)	0.97
Flinders	3 614	0	3 614	4 223	-	4 223	(609)	(16.9)	(609)	0.86
George Town	10 643	1 957	12 600	9 415	-	9 415	3 185	25.3	1 228	1.13
Glamorgan Spring Bay	10 184	1 139	11 323	10 902	-	10 902	421	3.7	(718)	0.93
Kentish	7 451	1 297	8 748	8 444	-	8 444	304	3.5	(993)	0.88
King Island	5 373	1 095	6 468	5 245	-	5 245	1 223	18.9	128	1.02
Latrobe	11 241	1 678	12 919	10 608	-	10 608	2 311	17.9	633	1.06
Southern Midlands	7 789	1 284	9 073	8 515	-	8 515	558	6.2	(726)	0.91
Tasman	7 343	2 128	9 471	6 894	-	6 894	2 577	27.2	449	1.07
West Coast	9 625	882	10 507	9 358	-	9 358	1 149	10.9	267	1.03
Total	**685 331**	**84 653**	**769 984**	**701 423**	**12 624**	**714 047**	**55 937**		**(16 092)**	
Average per Council	**23 632**	**2 919**	**26 551**	**24 187**	**435**	**24 622**	**1 929**	**7.1**	**(555)**	**0.99**

Non operating revenue and expenditure include capital grants, contributed assets and revaluation and impairment adjustments.

Underlying Result	Self Financing Ratio	Rate Revenue	Rate Revenue to Operating Revenue	Average Rate Per Rateable Valuation	Rate Revenue Per Head of Population	Councils' Own Source Revenue	Councils' Own Source Revenue to Operating Revenue	Operating Government Grants	Operating Grants per Head of population	Operating Government Grants to Operating Revenue	Depreciation to Operating Revenue
%	%	$'000s	%	$	$	$'000s	%	$'000s	$	%	%
(1.3)	29.2	43 951	75.6	1 795	859	55 948	96.2	2 199	43	3.8	24.0
(9.4)	20.5	39 194	62.5	1 716	886	54 987	87.7	7 710	174	12.3	27.3
(7.8)	16.6	64 951	68.0	2 213	1 306	94 272	98.7	1 202	24	1.3	21.4
1.4	28.0	62 144	66.7	1 754	957	87 621	94.0	5 552	86	6.0	23.1
13.4	33.1	8 202	59.7	1 232	555	11 785	85.8	1 952	132	14.2	19.5
0.8	28.3	22 884	63.6	2 190	1 162	33 078	91.9	2 906	148	8.1	28.1
(11.7)	20.2	14 179	59.7	1 269	667	20 459	86.2	3 272	154	13.8	29.9
(1.7)	24.4	6 649	62.1	1 245	681	8 633	80.6	2 080	213	19.4	23.4
(7.2)	15.9	25 205	67.5	1 908	1 010	34 807	93.3	2 514	101	6.7	25.0
10.8	31.5	9 896	49.7	978	677	15 567	78.2	4 349	297	21.8	17.6
(4.4)	22.9	24 206	69.1	1 452	751	32 010	91.4	3 023	94	8.6	31.1
(1.3)	32.7	10 560	60.2	1 057	552	14 487	80.5	3 501	183	19.5	29.2
(7.7)	38.4	7 899	54.2	1 145	633	11 213	76.9	3 362	269	23.1	33.9
1.4	34.5	9 087	65.2	1 096	731	11 707	84.0	2 227	179	16.0	32.2
(8.7)	20.1	9 589	62.7	1 196	690	12 777	83.5	2 523	182	16.5	21.3
7.6	30.9	13 097	64.0	1 141	600	17 935	87.6	2 532	116	12.4	23.8
9.9	36.2	6 666	55.9	1 010	1 069	8 969	75.2	2 951	473	24.8	23.1
(18.0)	34.3	2 685	46.6	689	1 160	3 724	64.6	2 038	880	35.4	52.1
10.6	31.2	7 313	51.6	1 404	889	11 652	82.1	2 532	308	17.9	19.1
(2.8)	25.1	6 251	52.0	1 159	863	8 879	73.9	3 133	432	26.1	36.6
(16.9)	24.6	973	26.9	703	1 109	2 127	58.9	1 487	1 696	41.1	39.2
11.5	26.2	6 175	58.0	1 329	916	8 943	84.0	1 700	252	16.0	21.3
(7.1)	17.7	6 720	66.0	1 199	1 533	8 983	88.2	1 201	274	11.8	18.8
(13.3)	24.6	4 244	57.0	1 098	701	5 535	74.3	1 916	317	25.7	34.4
2.4	20.2	1 952	36.3	1 146	1 133	3 832	71.3	1 541	894	28.7	23.6
5.6	15.9	7 148	63.6	1 239	788	10 095	89.8	1 146	126	10.2	21.8
(9.3)	29.1	3 543	45.5	951	603	5 014	64.4	2 775	473	35.6	39.6
6.1	28.6	2 838	38.6	826	1 233	4 217	57.4	3 126	1 359	42.6	11.5
2.8	27.9	6 088	63.4	1 260	1 183	7 895	82.2	1 730	336	18.0	21.7
		434 289						**78 180**			
(1.5)	**26.5**	**14 975**	**57.7**	**1 290**	**893**	**20 936**	**81.5**	**2 696**	**352**	**18.5**	**26.7**

BALANCE SHEET – 2007-08

Council	Current Assets	Current Liabilities	Working Capital	Current Ratio	Non-Current Assets	Non Current Liabilities	Debt Service Ratio
	$000	$000	$'000s	No.	$'000s	$'000s	%
Clarence	55 230	20 763	34 467	2.7	546 042	13 224	5.2
Glenorchy	15 898	12 945	2 953	1.2	669 473	19 705	9.1
Hobart	49 688	19 608	30 080	2.5	983 496	26 900	2.0
Launceston	71 948	47 901	24 047	1.5	1 138 776	21 092	3.9
Brighton	4 597	2 840	1 757	1.6	129 359	2 297	6.1
Burnie	20 577	6 707	13 870	3.1	331 046	20 141	6.9
Central Coast	9 466	4 359	5 107	2.2	306 054	2 164	0.6
Derwent Valley	3 596	2 917	679	1.2	82 801	1 662	7.0
Devonport	11 265	6 204	5 061	1.8	385 078	9 270	6.2
Huon Valley	8 556	1 916	6 640	4.5	142 422	1 495	1.1
Kingborough	23 248	5 672	17 576	4.1	432 835	1 627	0.4
Meander Valley	15 193	2 019	13 174	7.5	224 911	2 409	-
Northern Midlands	6 725	1 936	4 789	3.5	204 321	108	-
Sorell	8 843	3 100	5 743	2.9	123 966	6 708	10.7
Waratah-Wynyard	7 334	3 192	4 142	2.3	125 270	2 804	5.1
West Tamar	13 793	2 913	10 880	4.7	206 909	1 552	2.4
Break O'Day	7 899	2 517	5 382	3.1	98 620	2 687	5.0
Central Highlands	5 606	820	4 786	6.8	116 271	31	-
Circular Head	5 386	1 735	3 651	3.1	107 850	648	1.2
Dorset	13 016	1 970	11 046	6.6	100 975	1 846	2.7
Flinders	7 529	351	7 178	21.5	34 940	174	-
George Town	4 430	1 743	2 687	2.5	99 872	3 151	7.7
Glamorgan Spring Bay	2 021	2 066	(45)	1.0	58 587	2 265	4.1
Kentish	3 540	1 378	2 162	2.6	67 445	2 257	3.0
King Island	4 391	1 117	3 274	3.9	54 503	906	3.9
Latrobe	2 296	1 856	440	1.2	96 428	1 936	3.2
Southern Midlands	6 858	1 162	5 696	5.9	82 174	1 178	2.9
Tasman	2 676	2 073	603	1.3	16 657	1 541	5.0
West Coast	4 774	2 829	1 945	1.7	58 969	1 633	5.1
Total	**396 379**	**166 609**	**229 770**		**7 026 050**	**153 411**	
Average per Council	**13 668**	**5 745**	**7 923**	**3.7**	**242 278**	**5 290**	**3.8**

Cost of Debt	Indebtedness Ratio	Rate Debtors	Rate Debtors to Rates Raised	Payments for Property, Plant & Equipment	Depreciation $000	Capital Expenditure to Depreciation Ratio	Rate Revenue to Non-Current Infrastructure Assets	Non-Current Infrastructure Assets per Square Kilometre	Non-Current Infrastructure Assets per Head of Population	Non-Current Infrastructure Assets per Rateable Valuation
%	%	$'000s	%	$'000s		%	%	$	$	$
6.2	23.6	2 670	6.1	10 038	13 968	71.9	8.9	1 315 109	9 689	20 250
6.7	35.8	955	2.4	9 945	17 094	58.2	6.6	4 963 825	13 461	26 076
6.4	28.5	1 003	1.5	13 778	20 475	67.3	7.2	11 654 177	18 236	30 893
5.7	24.1	1 669	2.7	29 895	21 512	139.0	5.9	752 028	16 342	29 951
6.9	19.5	116	1.4	4 730	2 673	177.0	6.9	692 441	8 005	17 792
6.0	56.9	915	4.0	8 948	10 099	88.6	6.9	542 656	16 810	31 674
3.9	10.6	326	2.3	9 089	7 095	128.1	5.0	307 329	13 463	25 615
6.6	19.3	396	6.0	2 881	2 508	114.9	9.0	17 942	7 537	13 792
6.5	26.6	686	2.7	8 171	9 338	87.5	7.1	3 179 432	14 139	26 720
7.4	9.6	362	3.7	8 188	3 510	233.3	6.9	25 904	9 736	14 079
10.8	5.1	529	2.2	6 893	10 901	63.2	5.9	571 690	12 754	24 656
-	17.2	287	2.7	4 774	5 249	91.0	4.9	64 697	11 232	21 497
-	1.0	348	4.4	5 348	4 938	108.3	3.9	39 857	16 368	29 610
5.1	57.3	296	3.3	4 829	4 491	107.5	7.7	202 139	9 482	14 217
5.2	21.9	69	0.7	3 790	3 257	116.4	8.4	32 509	8 253	14 293
6.6	8.7	556	4.2	5 683	4 879	116.5	7.0	272 712	8 619	16 387
5.8	29.9	280	4.2	4 718	2 759	171.0	6.8	27 988	15 808	14 929
-	0.8	157	5.8	3 296	3 002	109.8	2.3	14 568	50 196	29 803
6.7	5.6	134	1.8	5 167	2 711	190.6	7.4	20 272	12 050	19 031
6.1	20.8	93	1.5	5 184	4 400	117.8	6.2	31 158	13 861	18 621
-	8.2	142	14.6	664	1 416	46.9	2.8	17 523	39 841	25 246
6.4	35.2	76	1.2	5 155	2 268	227.3	6.6	143 195	13 873	20 126
6.2	25.2	236	3.5	2 325	1 911	121.7	11.5	23 205	13 352	10 437
5.9	40.8	35	0.8	3 515	2 565	137.0	6.5	56 329	10 750	16 837
6.2	23.6	130	6.7	2 111	1 266	166.7	3.6	49 819	31 632	32 004
6.5	19.2	151	2.1	3 751	2 455	152.8	8.1	147 833	9 778	15 378
6.6	23.5	292	8.2	2 369	3 085	76.8	4.4	30 518	13 572	21 397
7.5	36.5	167	5.9	2 356	846	278.5	17.8	24 173	6 923	4 636
6.1	20.7	161	2.6	1 347	2 087	64.5	10.3	6 159	11 455	12 209
		13 237		178 938	172 758					
5.5	**22.6**	**456**	**3.8**	6 170	5 957	125.2	7.0	869 903	15 076	20 626

EMPLOYEE COSTS – 2007-08

Council	Total Employee Costs	FTE's	Average Cost per FTE	FTE per 1000 Population	Total Labour Costs to Operating Revenue	Total Labour Costs to Operating Expenditure	Provisions for Employee Entitlements	Employee Entitlements per FTE
	$'000s	No.	$'000s	No.	%	%	$'000s	$
Clarence	14 446	243	59	4.7	24.8	24.5	2 711	11 156
Glenorchy	21 431	310	69	7.0	34.2	31.2	5 523	17 816
Hobart	39 446	581	68	11.7	41.3	38.3	9 204	15 842
Launceston	30 762	471	65	7.3	33.0	33.5	7 159	15 200
Brighton	3 326	60	55	4.1	24.2	27.9	673	11 217
Burnie	13 113	223	59	11.3	36.4	36.7	1 867	8 372
Central Coast	9 115	176	52	8.3	38.4	34.4	2 419	13 744
Derwent Valley	2 598	60	43	6.1	24.3	23.8	1 318	21 967
Devonport	14 052	205	69	8.2	37.7	35.1	2 636	12 859
Huon Valley	8 305	143	58	9.8	41.7	46.7	953	6 664
Kingborough	10 157	181	56	5.6	29.0	27.8	1 688	9 326
Meander Valley	4 830	73	66	3.8	26.9	26.5	1 001	13 712
Northern Midlands	4 691	74	63	5.9	32.2	29.9	1 027	13 878
Sorell	4 977	85	59	6.8	35.7	35.2	840	9 882
Waratah-Wynyard	4 374	82	53	5.9	28.6	26.3	996	12 146
West Tamar	5 891	97	61	4.4	28.8	31.2	1 418	14 619
Break O'Day	3 871	64	60	10.3	32.5	36.1	798	12 469
Central Highlands	1 857	33	56	14.3	32.2	27.3	570	17 273
Circular Head	3 244	57	57	6.9	22.9	25.6	639	11 211
Dorset	3 286	53	62	7.3	27.4	26.6	1 005	18 962
Flinders	1 227	23	53	26.2	34.0	29.1	150	6 522
George Town	2 870	46	62	6.8	27.0	30.5	556	12 087
Glamorgan Spring Bay	3 078	46	67	10.5	30.2	28.2	481	10 457
Kentish	1 531	29	53	4.8	20.5	18.1	231	7 966
King Island	1 622	32	51	18.6	30.2	30.9	565	17 656
Latrobe	3 256	54	60	6.0	29.0	30.7	613	11 352
Southern Midlands	2 765	46	60	7.8	35.5	32.5	796	17 304
Tasman	3 373	58	58	25.2	45.9	48.9	382	6 586
West Coast	3 326	56	59	10.9	34.6	35.6	714	12 750
Total	**226 820**	**3 661**					**48 933**	
Average per Council	**7 821**	**126**	**59**	**9.2**	**31.7**	**31.4**	**1 687**	**12 793**

LOCAL GOVERNMENT BUSINESS UNITS

COPPING REFUSE DISPOSAL SITE JOINT AUTHORITY

INTRODUCTION

The Copping Refuse Disposal Site Joint Authority was established as a joint authority under Section 30 of the *Local Government Act 1993* and gazetted on 1 March 2001. The Authority's principal objective is the management and operation of the landfill at Copping in accordance with the Development Proposal and Environmental Management Plan (DP&EMP) and associated permit conditions issued by the Environmental Management and Pollution Control Board.

The Authority is jointly owned by the Clarence City, Sorell and Tasman Councils.

The principal objectives of the Authority are to manage a putrescibles landfill disposal site which conforms to the DP&EMP and permit conditions, and to manage the Balance Area. It must successfully manage the landfill disposal site business and Balance Area by:

- operating efficiently in accordance with sound commercial practice
- maximising the net worth of the Authority's assets
- operating the site to maximise benefits to member Councils.

Rule 43(2) of the Authority's constitution obligates the three owner Councils to contribute equity injections until such time as the Authority becomes financially independent.

Key Activities

The Authority's key activities in 2007-08 were:

- the lease of the site with Clarence, Sorell and Tasman Councils was finalised
- the Lutana Waste Transfer Station development continued on schedule and on budget to support the 2008-09 Corporate Plan
- a total of 51 904 tonnes of waste was deposited at the landfill site, which was 3,000 tonnes down from the previous year. The landfill is licensed for 104000 tonnes per annum.

Local Government Board Review

The Local Government Board commenced a review of the Authority during the year. The outcome of the review is expected in 2008-09.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

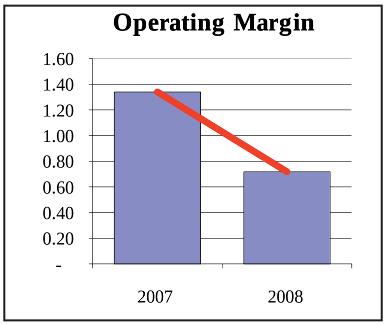
Signed financial statements were received on 4 November 2008 and an unqualified audit report was issued on 18 December 2008.

The audit was completed satisfactorily with no major outsatnding issues other than the late submission of financial statements.

The analysis in this Chapter covers 2006-07 and 2007-08, the period that the Authority was audited by the Auditor-General.

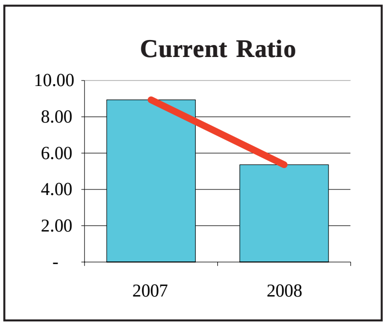
FINANCIAL RESULTS

The five graphs summarise key ratios highlighting important aspects of the Authority's financial performance over the past two years. In general, the ratios indicate:



The Operating margin fell below the expected benchmark of one in the current year and was well above one in the prior period. An Operating margin below the benchmark indicates an authority might not be generating sufficient revenue to fulfil its operating requirements. Without these costs the authority's loss would have been $0.046m.

The negative result in 2007-08 was largely due to back-payment of lease rent expenses totalling $0.760m due to the member Councils ($0.456m Clarence City Council, $0.228m Sorell Council and $0.076m Tasman Council) for the financial years 2001-2007. The Authority had not paid these lease amounts to the above Councils due to unresolved legal issues with the lease contract, which were resolved in 2007-08.



The Current ratio was above the benchmark in both 2007 and 2008 indicating that the Authority was able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08	**2006-07**
	$'000s	$'000s
Operating revenue	1 545	1 682
Interest revenue	188	151
Other revenue	317	214
Total Revenue	**2 050**	**2 047**
Employee Costs	257	279
Borrowing costs	259	189
Depreciation	185	144
Other operating expenses	2 155	916
Total Expenses	**2 856**	**1 528**
Net Profit (Loss)	**(806)**	**519**

Comment

The Net Loss of $0.806m was largely a result of the back-payment of lease rent expenses of $0.760m paid to the member Councils for the financial years 2001-2007 and recognition of $0.294m site operating lease payments for the current year. Increased borrowing costs also contributed to the loss due to higher interest costs on borrowings held by the Authority in 2007-08. In addition depreciation expenses increased by approximately $0.041m, transport costs increased by $0.037m and site maintenance costs also rose by $0.004m. A further contributing factor to the operating loss was a reduction in waste received by approximately 3000 tonnes leading to operating revenue falling $0.450m below budget. The Authority, in conjunction with member Councils, will further consider strategies to ensure the long term sustainability of its operations during the 2008-09 year.

Although the Authority made a loss in the current financial year, it still has an accumulated surplus and is expected will be able to continue to pay its debts as and when they fall due. The Authority, in conjunction with member Councils, will further consider strategies to ensure the long-term sustainability of its operations during the 2008-09 year.

BALANCE SHEET

	2007-08	**2006-07**
	$'000s	$'000s
Cash	998	3 112
Receivables	142	288
Prepayments & Accruals	168	76
Total Current Assets	**1 308**	**3 476**
Payables	24	182
Borrowings	220	207
Total Current Liabilities	**244**	**389**
Working Capital	**1 064**	**3 087**
Property, plant and equipment	3 245	2 278
Other	100	100
Total Non-Current Assets	**3 345**	**2 378**
Borrowings	3 702	3 921
Total Non-Current Liabilities	**3 702**	**3 921**
Net Assets	**707**	**1 544**
Contributed Capital	24	55
Reserves	627	627
Retained profits	56	862
Total Equity	**707**	**1 544**

Comment

In the two years to 2007-08 the Authority traded with positive net assets. The situation deteriorated significantly in the current financial year due to:

- lease payments to member Councils which occurred in 2007-08 but related to previous years
- higher interest charges
- increases in Other operating costs

- reduction in waste received by approximately 3,000 tonnes leading to operating revenue falling $0.450m below budget.

Cash consisted of cash at bank, cash on hand and short-term bank deposits at 30 June 2008 was $0.998m. Cash decreased from the previous year due to the lease payment to member Councils discussed previously.

A decrease in Total Current Assets of $2.169m occurred due to the reduction Cash as a result of lease payments made to Councils and asset purchases. This resulted in a corresponding increase in Property, plant and equipment of $0.967m.

CASH POSITION

	2007-08	2006-07
	$'000s	$'000s
Receipts from customers	2 244	1 916
Payments to suppliers and employees	(2 746)	(1 441)
Interest received	188	151
Borrowing costs	(259)	(189)
GST paid	(152)	(1)
Cash from (used in) operations	**(725)**	**436**
Payments for property, plant and equipment	(1 152)	(1 010)
Cash (used in) investing activities	**(1 152)**	**(1 010)**
Proceeds from borrowings	0	1 000
Repayment of borrowings	(206)	(162)
Contribution from (refunds to) owners	(31)	(19)
Cash from (used in) financing activities	**(237)**	**819**
Net increase (decrease) in cash	**(2 114)**	**245**
Cash at the beginning of the year	3 112	2 867
Cash at end of the year	**998**	**3 112**

Comment

Cash from operations was negative for 2007-08 due to the lease payments made to Councils as discussed in the Income Statement section of this Chapter. The lease payment, along with the GST payments, investments in property, plant and equipment and debt repayment led to a decrease in cash held from the prior year of $2.114m.

In 2006-07, the Authority received loan proceeds of $1.000m and paid $1.010m for plant and equipment for operational purposes.

Payments for property, plant and equipment totalled $2.162m for the two years under review. Additions to non-current assets include the ongoing development of the medical waste treatment plant, the purchase of two new trailers, waste compactors and other minor equipment purchases.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07
Financial Performance			
Result from operations ($'000s)		(806)	519
Operating margin	>1.0	0.72	1.34
Financial Management			
Current ratio	>1	5.36	8.94
Indebtedness ratio		181%	192%
Debt to equity		554.7%	267.4%
Debt to total assets		84.3%	70.5%
Interest cover	>2	(2.11)	3.75
Cost of debt	7.5%	6.6%	4.6%
Debt service ratio		22.7%	17.1%
Debt collection	30 days	34	62
Creditor turnover	30 days	3	34
Capital expenditure/depreciation	>100%	623%	701%
Other Information			
Staff numbers (FTEs)		2	2
Average staff costs ($'000s)		129	140
Average leave balance per FTE ($'000s)		0	0

Comment

Financial Performance ratios show that the Authority recorded an operating surplus in 2006-07, with a loss recorded in 2007-08 resulting in an Operating margin below the benchmark of one in the current year.

In 2007-08 there was a significant reduction in the Authority's current ratio. This was caused by a reduction in cash held as a result of the lease and other payments mentioned previously.

Debt to equity and total assets increased during 2007-08 primarily as a result of the reduction in cash held. Debt to equity ratio is a concern, a ratio of more than 500% indicates that the Authority's operations are significantly debt funded. This is a situation the Member Councils need to keep under review.

The Indebtedness ratio measures non current liabilities divided by own source revenue. A lower value for this ratio would indicate less concern for being highly levered. The ratio of 181% reduced by 5.73% compared to 192% in 2007. A high ratio would indicate more concern the Authority is likely to be less solvent. It was noted previously that Rule 43(2) of the Authority's constitution obligates the three owner Councils to contribute equity injections until such time as the Authority becomes financially independent.

The Cost of debt is still under the benchmark however it increased during 2007-08. This was due to the increase in average debt as at 30 June 2008.

Debt collection was above the 30 day benchmark for 2006-07 (51 days) but below benchmark for 2008-07 (25 days). The high ratio in the previous year was a reflection of more than one month's charges that were outstanding in relation to a number of the Authority's larger clients.

Creditor turnover ratio improved significantly during 2007-08. This is a reflection of improved administration. The Authority has a policy of paying outstanding creditors within a 30-day period.

Capital expenditure to depreciation ratio was significantly above 100% in both years, indicating that the Authority invested sufficiently in maintaining assets.

Average staff costs reduced during 2007-08 compared to the previous year. This was primarily due to one-off bonus payments made in 2006-07. Average staff costs were determined using two FTEs, however the Authority had three part-time employees on short-term contract and one casual employee. Consequently, the Average staff costs appears higher.

DULVERTON REGIONAL WASTE MANAGEMENT AUTHORITY

INTRODUCTION

The Dulverton Regional Waste Management Authority (DRWMA/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 initially made contributions by way of loans to the Authority in proportion to their populations.

During 2004-05, the Authority's governance structure was changed 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:

- review of the Board's performance
- appointment, suspension and dismissal of directors
- approval of the Authority's strategic plan, annual plan and budget.

During 2006-07 an agreement was reached between the Board and member councils that their loan debt would be converted into contributed capital.

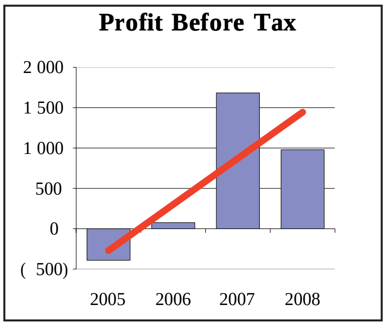
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Draft financial statements were received on 31 October 2008, signed financial statements were received on 19 January 2009 and an unqualified audit report was issued on the same day.

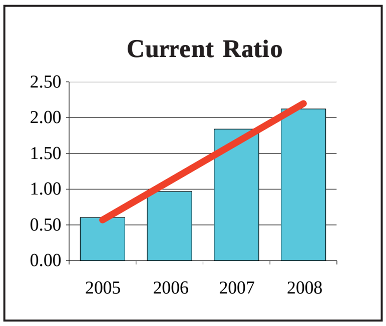
The audit was completed with satisfactory results with no major issues outstanding other than the late submission of financial statements.

FINANCIAL RESULTS

The following five graphs summarise key ratios highlighting important aspects of the Authority's financial performance over the past four years. In general, the ratios indicate:



The Authority is a for-profit entity and is expected to generate profits, pay tax and provide dividends to its owner councils. As the graph indicates, the entity restructure and review of waste disposal charges in 2005-06 resulted in improved profitability.



The Current ratio was more than adequate and indicated the Authority was able to meet all short-term liabilities.

FINANCIAL POSITION

In 2004-05, we raised concerns that the financial position of the Authority was declining due to revenue from operations not meeting operating and capital requirements. The Authority recorded negative working capital and negative equity in 2004-05 and 2005-06 due to the first-time recognition of a provision for tip rehabilitation under revised accounting standards. In response to these issues and to improved governance arrangements referred to earlier in this Chapter, the Authority appointed new independent directors to manage the operations of the waste management facility. The new directors increased waste disposal rates, appointed a new Chief Executive Officer and renegotiated key supplier contracts.

The Authority achieved positive working capital during 2006-07 and converted the member Council loan debt to contributed capital which resulted in a positive equity balance at 30 June 2007. These improvements appear to have established the foundation for greater financial stability and sustainability in future years. This is confirmed by the Authority's performance in 2007-08 with improved working capital and net asset position.

INCOME STATEMENT

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Operating revenue	2 707	2 175	1 980	1 508
Total Revenue	**2 707**	**2 175**	**1 980**	**1 508**
Employee costs	159	231	157	192
Borrowing costs	64	87	92	69
Depreciation	243	153	124	111
Other operating expenses	1 552	1 440	1 531	1 527
Total Expenses	**2 018**	**1 911**	**1 904**	**1 899**
Profit (Loss) before:	**689**	**264**	**76**	**(391)**
Rehabilitation provision reassessment	290	1 419	0	0
Profit (Loss) before taxation	**979**	**1 683**	**76**	**(391)**
Income tax expense	294	505	23	(114)
Net Profit (Loss)	**685**	**1 178**	**53**	**(277)**

Comment

The Authority's Profit (Loss) before Rehabilitation provision reassessment gradually improved over the period under review, from a loss of $0.391m in 2004-05 to a profit of $0.689m in 2007-08. A profit from operating activities indicates that the Authority is generating sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. The main movements in revenue and expense items are discussed below.

Operating revenue increased by $1.199m in the period under review. This increase was due to a combination of increases to the Council rate (59% increase) and Special waste rate (68% increase). The decision to increase rates was made by the Authority in response to significant losses in 2003-04 and 2004-05. The higher rates are designed to enable the Authority to meet its operating and capital requirements. The major item included in Operating revenue was Council waste charges of $1.403m, 52% of total operating revenue (2006-07, $1.245m, 57%). The balance of revenue consisted of industrial and controlled waste charges, interest and sundry revenue.

Employee costs decreased from $0.192m in 2004-05 to $0.159m in 2007-08. During 2004-05, the Authority commenced the employment of staff to undertake day-to-day operations. At the end of the financial year, one employee resigned and was not replaced in 2005-06. During 2006-07 the remaining operational staff were made redundant following a decision to outsource the operations of the waste facility to a contractor. The only staff directly employed by the Authority are the CEO and personal assistant.

Borrowing costs represent payments to external financial institutions and interest on Council loans. 2006-07 was the last year in which interest was paid Councils due to the conversion of the loan debt to equity. The Authority's obligation under a finance lease also ceased during 2006-07. The Authority continued to service loans from external financial institutions.

Depreciation charges increased by $0.132m (or 118.9%) in the period under review. This increase was largely due to an independent revaluation of land and buildings effective from 31 March 2007 however the full impact was not felt until 2007-08.

Other operating expenses increased by $0.025m (or 1.64%) in the period under review.
The increase reflected a general increase in costs across all of the Authority's activities.
The material items included in Other operating expenses were:

- daily cover , waste placement and contractor charges, (2007-08, $0.804m; 2006-07, $0.705m)
- administration and overheads, ($0.377m; $0.174m)
- consultancy services, ($0.100m; $0.094m)

The Authority provides for a provision for rehabilitation and aftercare of the waste disposal landfill site. The provision is based on costs to be incurred in future years under current legislative requirements. The provision at 30 June 2006 included costs associated with the ongoing rehabilitation of the landfill for its estimated 20 year life. During 2006-07 it was determined that the provision should only include costs associated with the rehabilitation of the currently utilised portion of the landfill which will be progressively rehabilitated as cells are completed. The environmental protection notice requires rehabilitation on a two yearly basis. Aftercare for the site, including monitoring, management, financing of contingent liabilities and maintenance, consistent with prior years, is also included in the provision.

The impact of the reassessments resulted in write-backs to the provision of $0.290m in 2007-08 and $1.419m in 2006-07. In determining the provision, future costs are discounted to present values at balance date. As the liability is based on discounted future costs, the unwinding of the provision, (2007-08, nil, 2006-07, $0.080m; 2005-06, $0.159m) is recognised as an Other operating expense each year.

The movement in Income tax expense correlates with the year-end Profit/(Loss) before taxation. The tax impact of the reassessment of the provision for rehabilitation and aftercare was to partially reverse the Authority's deferred tax asset, resulting in an assessable temporary difference for tax purposes for 2007-08 and 2006-07. Tax is payable to the participating Councils.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	535	171	57	87
Receivables	506	322	332	262
Prepayments	45	0	0	0
Total Current Assets	**1 086**	**493**	**389**	**349**
Payables	214	152	331	407
Current tax liabilities	144	75	(26)	(26)
Borrowings	140	34	89	193
Provisions - employee benefits	14	7	8	4
Total Current Liabilities	**512**	**268**	**402**	**578**
Working Capital	**574**	**225**	**(13)**	**(229)**
Property, plant and equipment	5 274	4 493	2 094	2 112
Other	423	509	982	1 020
Total Non-Current Assets	**5 697**	**5 002**	**3 076**	**3 132**
Borrowings	835	304	1 384	1 473
Provisions - employee benefits	1	4	6	3
Provisions - rehabilitation	1 380	1 670	3 009	2 850
Other	841	831	168	167
Total Non-Current Liabilities	**3 057**	**2 809**	**4 567**	**4 493**
Net Assets	**3 214**	**2 418**	**(1 504)**	**(1 590)**
Contributed Capital	1 747	1 747	701	768
Reserves	2 229	2 117	420	387
(Accumulated losses)	(762)	(1 446)	(2 625)	(2 745)
Total Equity	**3 214**	**2 418**	**(1 504)**	**(1 590)**

Comment

In the first two years under review the Authority traded with negative equity. The situation has since improved significantly, with the Authority reporting a Total equity balance of $3.214m at 30 June 2008. The increase in Total Equity of $4.804m over the period under review was due to:

- surpluses after tax of $1.916m (2007-08, $0.685m; 2006-07, $1.178m; 2005-06, $0.053m)
- asset revaluation increments of $1.842m ($0.112m; $1.696m; $0.034m)
- conversion of member Council loan to contributed capital of $1.046m.

Cash increased by $0.448m over the period under review, which reflected the Authority's improved financial position.

The Authority applies the revaluation model to its property, plant and equipment assets, which results in the assets being recorded at fair value. Property, plant and equipment increased by $3.162m in the period under review due primarily to the revaluation of assets. A significant revaluation was undertaken by an independent valuer during 2006-07 which resulted in an increase in asset values of $2.429m with the majority of the increase relating to the land, landfill and composting facility, $2.380m.

Total Borrowings decreased by $0.691m during the period under review which reflected new loan borrowings of $0.720m offset by principal loan repayments made of $0.365m and a decrease of $1.046m in non-current Borrowings during 2006-07 as a result of the conversion of member Council loan debt to contributed capital.

As discussed in the Income Statement section, every year the Authority must review future costs and discount the provision for rehabilitation and aftercare to present value. During the period under review, the provision decreased by $1.470m. This movement was a result of net decreases due to reassessments of $1.709m offset by an increase due to the unwinding of the discount of $0.239m.

The balance of Other non-current assets represents deferred tax assets. Of the years under review, the most significant movement was a decrease of $0.473m in 2006-07 which was due predominantly to the provision for rehabilitation and aftercare being reassessed.

The balance of Other non-current liabilities represents deferred tax liabilities. Of the years under review, the most significant movement was an increase of $0.663m in 2006-07 which was mainly due to the impact of the revaluation of property, plant and equipment assets, $0.733m.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	2 724	2 396	2 246	1 848
Payments to suppliers and employees	(1 940)	(1 994)	(1 938)	(1 771)
Interest received	35	11	4	3
Borrowing costs	(51)	(87)	(92)	(69)
Taxation paid	(178)	0	0	(26)
Cash from (used in) operations	**590**	**326**	**220**	**(15)**
Payments for property, plant and equipment	(864)	(123)	(57)	(210)
Cash (used in) investing activities	**(864)**	**(123)**	**(57)**	**(210)**
Proceeds from borrowings	720	0	0	400
Repayment of borrowings	(83)	(89)	(193)	(92)
Cash from (used in) financing activities	**637**	**(89)**	**(193)**	**308**
Net increase (decrease) in cash	**363**	**114**	**(30)**	**83**
Cash at the beginning of the year	171	57	87	4
Cash at end of the year	**534**	**171**	**57**	**87**

Comment

Cash generated from operations was positive for the last three years under review reflecting the increase in waste disposal rates, as discussed in the Income Statement section of this Chapter.

Payments for property, plant and equipment totalled $1.254m for the four years under review. Additions to non-current assets included works on leachate lagoons and cell development, security fencing, cover waste and minor plant and equipment purchases. The high payments in 2007-08, $0.864m, were mainly due to the Stage 4 cell development.

In December 2004, the Authority received loan proceeds of $0.400m to purchase land, and for other operational purposes. An additional loan of $0.720m was taken out in 2007-08 to enable the construction of a new waste cell.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		689	264	76	(391)
EBIT ($'000s)		753	351	168	(322)
Operating margin	>1.0	1.34	1.14	1.04	0.79
Return on assets		12.3%	7.8%	4.8%	(11.6%)
Return on equity	12%	24.3%	n/a	n/a	n/a
Financial Management					
Current ratio	>1	2.12	1.84	0.97	0.60
Indebtedness ratio		112.9%	129.1%	230.7%	297.9%
Debt to equity		30.3%	14.0%	n/a	n/a
Debt to total assets		14.4%	6.2%	42.5%	47.9%
Interest cover	>2	11.77	4.03	1.83	(4.67)
Cost of debt	7.5%	9.7%	9.6%	5.9%	5.1%
Debt service ratio		5.0%	8.1%	14.4%	10.7%
Debt collection	30 days	69	54	61	64
Creditor turnover	30 days	32	35	76	86
Capital expenditure/depreciation	100%	356%	80%	46%	189%
Other Information					
Staff numbers (FTEs)		2	2	3	4
Average staff costs ($'000s)		80	116	52	48
Average leave balance per FTE ($'000s)		8	6	5	2

n/a – some ratios are not applicable due to the negative equity situation existing prior to 30 June 2007

Comment

For the reasons noted previously, the financial performance ratios show that the Authority recorded operating surpluses in the last three years under review resulting in Operating margins above benchmark. An operating deficit of $0.391m was recorded in 2004-05 resulting in a negative Operating margin.

A significant improvement in the Authority's current ratio occurred in 2007-08. This was a combination of decreased Payables at year end and increased cash held as a result of the increments in waste service charges.

Debt to total assets decreased in 2006-07 primarily as a result of increased asset values following the revaluation of property, plant and equipment and the conversion of Council loans to equity. The percentage increased to 14.4% in 2007-08 due to a new loan for $0.720m. This loan also caused an increase in the Debt to equity ratio in 2007-08.

Interest cover improved significantly over the period under review, which reflected the Authority's improved financial result. The Cost of debt was relatively high in 2006-07, at 9.6%, due to the conversion of Council debt to equity, which resulted in a reduction in the average debt balance at 30 June 2007. The interest paid to Councils for 2006-07 of $0.065m was still included as a borrowing cost. The high cost of debt in 2007-08, 9.7%, was due to interest charged on insurance premiums paid by instalments and the impact of a part-year of interest charges on the new loan of $0.720m drawn down in October 2007. The Debt service decreased from 2005-06 due to the reduction in interest and principal repayments combined with increased operating revenue.

Debt collection ratio was significantly above benchmark for all years under review. There are no doubts over the collectability of debts, rather the high ratio was a reflection that more than one month's charges were outstanding for a number of the Authority's larger clients.

Creditor turnover improved significantly since 2005-06. This was a reflection of improved administration management following the restructure of the Authority. The Authority has a policy of paying outstanding creditors within a 30-day period.

Capital expenditure to depreciation ratio was below 100% in 2005-06 and 2006-07 which suggested that the Authority might not have invested sufficiently in maintaining assets. In response, the Board completed a five-year strategic plan to address future infrastructure requirements. The ratio in 2007-08 increased significantly above the benchmark as result of the expenditure on the Stage 4 cell development, as noted in the Cash Position section.

Average staff costs and Average staff entitlements vary throughout the period under review due to the numerous staff changes and restructuring of the Authority's operations. Average staff costs during 2006-07 were artificially inflated. There were only two staff employed at the end of the year, but the expense for the year included wage and redundancy payments to operational staff.

LOCAL GOVERNMENT WATER AUTHORITIES

INTRODUCTION

Section 30 of the *Local Government Act 1993* (the Local Government 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 relevant legislation.

Currently there are three joint water authorities operating in Tasmania:

- Cradle Coast Water (CCW)
- Esk Water Authority (Esk) and
- Hobart Regional Water Authority (Hobart).

These authorities are also referred to as bulk water authorities.

Water and Sewerage Reform

On 25 February 2008, the Treasurer announced that State Cabinet had approved implementation of the Ministerial Water and Sewerage Taskforce's recommendations to reform the water and sewerage sector in Tasmania. Under the reforms, three new local government owned and regionally based entities would be created together with a common service provider subsidiary company.

The *Water and Sewerage Corporations Act 2008* (the Water Act) was proclaimed on 13 June 2008. The purposes of the Water Act are to:

- provide for matters relating to the establishment and governance of three Regional Corporations, each having as its primary purpose the provision of water and sewerage services to its region, owned by the constituent councils of that region
- establish a Common Services Corporation owned by the three Regional Corporations
- vest the water and sewerage assets, rights and liabilities of councils and bulk water authorities in the Regional Corporations and the Common Services Corporation
- make provision for the transfer of water and sewerage employees of councils and employees of bulk water authorities to the Regional Corporations and the Common Services Corporation.

The Water Act provides for the establishment of an economic regulatory framework for the water and sewerage industry, including the establishment of a licensing regime and providing for the regulation of prices, customer service standards and performance monitoring of that industry and for related matters.

The new corporations commenced minimal operations on 1 January 2009 with a target date of 1 July 2009 for the full transfer of water and sewerage assets, liabilities and staff. Full transition to the new water pricing and servicing standards is not expected until January 2012.

An independent firm was appointed to conduct due diligence associated with the water and sewerage reform. The process commenced with three trial councils, prior to a broader process across all councils and bulk water authorities. The process was to be finalised in December 2008, but has been delayed to February 2009.

A common chair and three other common directors have been appointed to the three Regional Corporations. In addition, two regionally based directors have been appointed to each of the three Regional Corporations. The common chair and the three Chief Executive Officers of the Regional Corporations, who now been appointed, are the directors of the Common Services Corporation. The Chief Executive Officer of the Common Services Corporation has also been appointed.

With the full transfer of bulk water assets, other associated assets and liabilities and staff, by each water Authority on 1 July 2009 to the new Regional Corporations, I expect the financial statements prepared at 30 June 2009 will be each Authority's final statements and for the Authority's to be wound up.

Owner Councils

The owner councils of these three Authorities are noted in the table below.

CCW	**Esk**	**Hobart**
Central Coast	George Town	Brighton
Circular Head	Launceston City	Clarence City
Devonport City	Meander Valley	Glenorchy City
Kentish	West Tamar	Hobart City
Latrobe		Kingborough
Waratah-Wynyard		Sorell
		Southern Midlands
		Derwent Valley

Councils which do not currently participate in the three existing Authorities, operating arrangements on their own account, are:

- Break O'Day
- Burnie City
- Central Highlands
- Dorset
- Flinders Island
- Glamorgan Spring Bay, although in June 2007 it signed a long term operation and maintenance agreement with Hobart Water
- Huon Valley
- King Island
- Northern Midlands
- Tasman and
- West Coast.

This Chapter analyses comparative performance with separate Chapters for each Authority following this summary.

FINANCIAL RESULTS

INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

	CCW	Esk	Hobart
	$'000s	$'000s	$'000s
Sales revenue	9 579	9 845	25 225
Other operating revenue	1 125	954	5 684
Total Revenue	**10 704**	**10 799**	**30 909**
Borrowing costs	1 349	0	2 359
Depreciation	2 338	3 077	6 369
Other operating expenses	5 524	4 588	17 474
Total Expenses	**9 211**	**7 665**	**26 202**
Profit before:	**1 493**	**3 134**	**4 707**
Change in fair value of financial instruments	0	0	35
Defined benefit superannuation actuarial gains	0	0	0
Asset revaluation increments to offset previously recognised decrements	0	487	0
Profit before taxation	**1 493**	**3 621**	**4 742**
Income tax expense	448	1 087	1 463
Net profit after taxation	**1 045**	**2 534**	**3 279**

Comment

The majority of Operating revenue (85.2%) is received from bulk water sales, with constituent councils being the major customers. I note that all the three Authorities continue to charge water at prices below the maximum recommended by the Government Prices Oversight Commission (GPOC) in a review competed in June 2007. However, as the owner councils are also the major customers, increased prices resulting in greater profits, would be returned in a corresponding increase in dividends.

Esk repaid the balance of its debt in 2005-06 resulting in no Borrowing costs this financial year. Hobart and CCW have adopted a different strategy on borrowings and both maintain specific levels of debt

The Authorities manage significant infrastructure assets with all three recognising these assets at fair value. Depreciation charges comprise a significant expense for each Authority, reflecting the significant carrying value of their infrastructure.

On average, Other operating expenses represented 53% (Hobart 57%, CCW 52% and Esk 42%) of Operating revenue, the major items being cost of sales and employee expenses.

As expected, being monopoly suppliers, all three Authorities recorded net profits before taxation and non-operating adjustments which averaged 18% of Operating revenue with Esk receiving the best return, 29%, followed by Hobart, 15%, and CCW, 14%. To a large extent this reflects Esk's lower operating costs, because it incurs no Borrowing costs and because it earns higher interest revenue relative to the other two.

To a large extent the tax expenses reported represent tax effect amounts arising from temporary differences between the tax and accounting values of specified assets and liabilities and carried forward tax losses. Only Hobart pays tax which it has elected to do despite it having tax losses available to it.

BALANCE SHEETS AS AT 30 JUNE 2008

	CCW	Esk	Hobart
	$'000s	$'000s	$'000s
Cash and investments	1 761	12 260	6 228
Receivables and prepayments	639	607	7 728
Inventories	241	256	1 158
Other	175	970	98
Total Current Assets	**2 816**	**14 093**	**15 212**
Payables	391	316	3 613
Borrowings	0	0	13 798
Provision for dividend	0	0	1 600
Provisions superannuation	510	65	839
Provisions - employee benefits	527	354	1 175
Current tax liability and other	1 030	566	329
Total Current Liabilities	**2 458**	**1 301**	**21 354**
Working Capital	**358**	**12 792**	**(6 142)**
Property, plant and equipment	110 881	119 973	309 986
Deferred tax assets, intangibles and other	3 998	4 834	1 254
Total Non-Current Assets	**114 879**	**124 807**	**311 240**
Borrowings	21 900	0	19 400
Provisions - superannuation	532	1 986	3 522
Provisions - employee benefits	79	23	214
Deferred tax liabilities	13 160	23 502	48 639
Total Non-Current Liabilities	**35 671**	**25 511**	**71 775**
Net Assets	**79 566**	**112 088**	**233 323**
Capital	0	81 548	0
Reserves	64 297	28 724	217 874
Retained earnings	15 269	1 816	15 449
Total Equity	**79 566**	**112 088**	**233 323**

Comment

The Receivables and prepayments balance for Hobart Water was considerably greater than the other two Authorities, with the balance of $7.728m primarily comprising amounts owing by Joint Authority members who pay on 90 day terms.

As noted previously in the Income Statement section of this Chapter, all three Authorities manage significant assets, the majority of which are water infrastructure assets related to the treatment and supply of bulk water. All three record infrastructure assets at fair value.

The three Authorities manage their capital differently as evidenced by:

- CCW relies on a mix of retained earnings, revaluation reserves and debt of $21.900m
- Hobart relying on a mix of retained earnings, revaluation reserves, and debt of $33.198m and
- Esk now relying only on equity in the form of retained earnings including Capital of $81.548m (contributed by the Rivers and Water Supply Commission $72.377m, Launceston City Council $8.682m and Meander Valley Council $0.489m on formation of Esk) and revaluation reserves.

It is understood that CCW and Hobart use debt to an extent in recognition of the need to recognise inter-generational equity, in that future users of their water and other services should be expected to pay for those services in the form of interest charges. To some extent this is also caused by differing approaches to long-term asset management and replacement. The consequences of these differing approaches result in varying financial performance, as demonstrated by the Financial Analysis detailed later in this Chapter.

CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

	CCW	Esk	Hobart
	$'000s	$'000s	$'000s
Receipts from customers	11 254	10 217	31 728
Payments to suppliers and employees	(6 150)	(4 585)	(19 156)
Interest received	42	709	1 126
Borrowing costs	(1 296)	0	(2 937)
Income tax paid	0	0	(1 438)
Cash from operations	**3 850**	**6 341**	**9 323**
Payments for PP&E	(3 984)	(1 200)	(9 887)
Proceeds from sale of PP&E	147	59	262
Payments to terminate derivatives	0	0	66
Cash (used in) investing activities	**(3 837)**	**(1 141)**	**(9 559)**
Proceeds from borrowings	14 808	0	11 400
Repayment of borrowings	(14 531)	0	(11 400)
Dividends paid	(650)	(1 807)	(3 400)
Cash (used in) financing activities	**(373)**	**(1 807)**	**(3 400)**
Net increase in cash	**(360)**	**3 393**	**(3 636)**
Cash at the beginning of the year	2 121	8 867	9 864
Cash at end of the year	**1 761**	**12 260**	**6 228**

Comment

All three Authorities had positive cash flows from operations primarily due to their monopoly status, which allows the determination of water prices to cover all operating expenses including depreciation and a profit margin on operations.

The cash generated from operations is used primarily to fund capital works and purchases and provide dividends to the constituent councils. In relation to borrowings, as noted previously, both Hobart and CCW holding debt at specific levels, with proceeds and repayments offsetting.

Both Hobart and CCW recorded decreases in their cash position, but both undertook significant capital works during the period. Esk increased it cash balance significantly, but the cash surpluses it is generating will be used to undertake future capital projects, including the construction of a replacement treatment plant at Distillery Creek with an estimated cost of $10.200m.

FINANCIAL ANALYSIS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

	Bench Mark	CCW	Esk	Hobart
Financial Performance				
Result from operations ($'000s)		1 493	3 134	4 707
EBIT ($'000s)		2 842	3 621	7 101
Operating margin	>1.0	1.16	1.41	1.18
Return on assets*	4.5-7%	2.6%	2.7%	2.2%
Return on equity		1.4%	2.4%	1.4%
Underlying result ratio		13.9%	33.5%	15.3%
Self financing ratio		36.0%	58.7%	30.2%
Financial Management				
Debt to equity		27.5%	n/a	14.8%
Debt to total assets		18.6%	n/a	10.2%
Interest cover	>3	2.1	n/a	3.0
Current ratio	>1	1.1	10.8	0.7
Indebtness ratio		333.2%	236.2%	232.2
Cost of debt	7.5%	6.2%	n/a	7.1%
Debt service ratio		148%	n/a	12%
Debt collection**	30 days	22	23	102
Creditor turnover	30 days	20	28	34
Capital expenditure/depreciation	100%	170%	39%	155%
Returns to Owners				
Dividends paid or payable ($'000s)		745	1 835	3 200
Dividend payout ratio	50%	71.3%	72.4%	97.6%
Dividend to equity ratio		1.0%	1.7%	1.4%
Income tax paid or payable ($'000s)		0	0	1 269
Effective tax rate	30%	0.0%	0.0%	26.8%
Total return ($'000s)		745	1 835	4 469
Total return on equity ratio		1.0%	1.7%	2.0%
Other Information				
Staff numbers (FTE)		31	25	102
Average staff costs ($'000s)		76	64	77
Average leave balance per FTE ($'000s)		20	14	13

* Target based on GPOC assessment
** Hobart's debt collection policy is to collect bulk water invoices on 30 to 90 days

Comment

As noted in the Income Statement section of this Chapter, all three Authorities as monopoly suppliers generate solid profits. The profitability of these Authorities is further illustrated by the strong Underlying result ratio. However, as the Authorities are not setting prices in line with the maximum recommended by GPOC, the Return on assets and Return on equity ratios are below benchmark. However, as the owner councils are also the major customers, the lower returns are offset by lower costs for bulk water.

The Self financing ratios indicate the Authorities' ability to generate strong cash flows from their operations in comparison to operating revenues. The cash generated is required to meet future capital funding requirements due to the Authorities managing significant long-life infrastructure assets. Operating cash flows are also utilises to pay dividends and build up cash reserves.

The Debt to equity and Debt to total assets ratios reflect the capital management approaches of each Authority, as noted previously. Both Hobart and CCW maintain a specific level of debt as part of their financing strategies. Both Hobart and CCW Cost of debt and interest cover ratios are within benchmark. CCW's Debt servicing ratio is distorted by its cash flows showing loan repayments during 2007-08 of $14.531m, offset by new borrowings of $14.808m.

Esk has strong working capital, as reflected by the current ratio, due to a high cash balance and no current borrowing obligations. CCW's current ratio is also above the benchmark, but does not include any current borrowings, as it has moved to interest only debt. Hobart has a current ratio below the benchmark, however the ratio is distorted by current-liabilities including $13.798m in borrowings that will be refinanced in 2008-09. In general, each entity is confident it has the ability to meet short-term liabilities as they arise.

The Indebtedness ratio indicates each Authorities' non current-liabilities are manageable compared to the revenue being generated.

The nature of the long life infrastructure assets managed by each Authority is driven by strategic asset management plans that included asset replacement schedules based on the age profile of their assets. Consequently, capital expenditure in any particular year may fluctuate, as illustrated by each Authority's capital expenditure/depreciation ratio.

Each entity is making a positive return to owners based on profits after tax being generated. Hobart is distributing nearly all its after tax profit as indicated by its Dividend payout ratio of 97.6%, with both Esk and CCW above 70%. In relation to tax, only Hobart is making a tax payment, although it has carried forward tax losses.

CRADLE COAST WATER

INTRODUCTION

The North West Water Authority (the Authority) was established by the Minister for Local Government on 10 August 1999 as a Joint Authority of the Circular Head, Waratah-Wynyard, Central Coast, Devonport City, Latrobe and Kentish Councils under Section 38 of the *Local Government Act 1993.*

In accordance with the *North West Water (Arrangements) Act 1997* the then Minister for Primary Industries, Water and Environment published a notice in the Gazette on 9 August 1999 transferring to the Authority all the prescribed property, obligations and liabilities of the North West Regional Water Authority.

In December 2001, the Authority changed its name from the North West Water Authority to Cradle Coast Water.

A five-person Board of Management administers the Authority, and is responsible under its Rules to a Governance Board made up of representatives from the six owner councils.

While the directors of the Authority have determined that Cradle Coast Water is a not-for-profit entity for financial reporting purposes, a view that is contrary to my opinion that the Authority meets the criteria for classification as a for-profit entity, the financial statements comply with the requirements for reporting as a for-profit entity.

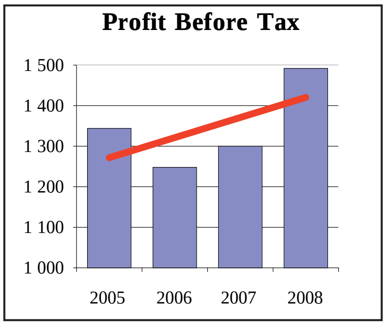
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 18 August 2008, and an unqualified audit report was issued on 7 October 2008.

The audit was completed satisfactorily with no major issues outstanding.

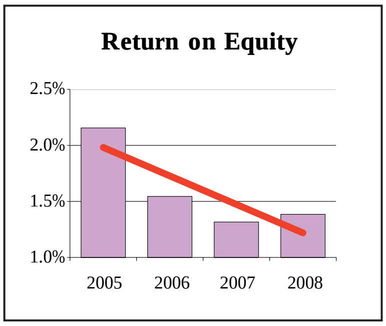
FINANCIAL RESULTS

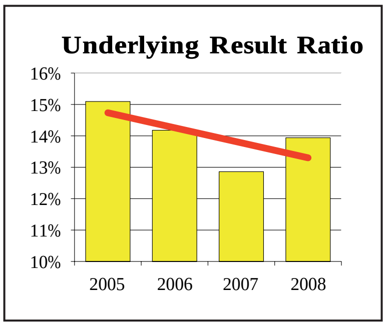
The following five graphs summarise key ratios highlighting important aspects of the Authority's financial performance over the past four years. In general, the ratios indicate:



The Authority is expected to generate profits, pay tax and provide dividends to its owner councils. As the graph indicates, over the past four years, it has consistently generated profits before tax.

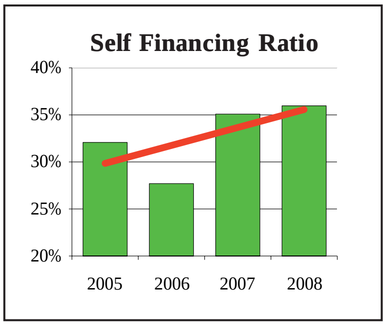
The Return on equity was below expectation and was the result of the Authority not setting a commercial rate of return (7%) as recommended by Government Prices Oversight Commission. However, as the member councils are both the owner and major customer, reduced return on equity arising from lower profits is offset by lower prices for the purchase of water.

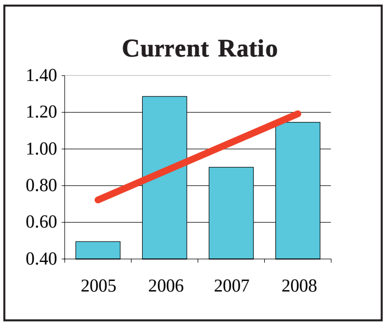




The Underlying result ratio indicates the Authority's profit remained fairly consistent with increases in revenue over the four year period. As a monopoly supplier of bulk water, the Authority is able to price water sales to ensure a specific return.

The Authority is generating strong operating cash flows when compared to its total operating revenue. This result is expected as the Authority has a significant infrastructure base valued at fair value and is ensuring its pricing is meeting all operating expenses including depreciation. The Authority is generating sufficient cash to contribute to future infrastructure requirements.





The Current ratio fluctuated around the benchmark of one. At 30 June 2008, the positive ratio was enhanced by the Authority adopting interest only borrowings, resulting in no current liability for borrowings. The Authority is confident it is able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Sales revenue	9 579	9 168	8 278	8 284
Interest revenue	42	49	63	29
Other operating revenue	1 082	892	461	591
Total Revenue	**10 703**	**10 109**	**8 802**	**8 904**
Borrowing costs	1 349	1 328	1 366	1 321
Depreciation	2 338	2 125	1 353	1 339
Cost of sales (less depreciation)	2 226	2 118	1 961	2 084
Other operating expenses	3 298	3 238	2 874	2 816
Total Expenses	**9 211**	**8 809**	**7 554**	**7 560**
Profit before taxation	**1 492**	**1 300**	**1 248**	**1 344**
Income tax expense	448	390	374	403
Net Profit	**1 044**	**910**	**874**	**941**

Comment

Relative to turnover, the Authority recorded solid operating profits before tax in all four years under review. In each of the four years, the profit before tax exceeded 13% of Total Revenue.

The majority of the Authority's revenue was derived from bulk water sales to municipal consumers. Sales revenue increased by $1.295m (or 15.6%) over the period under review, primarily due to an increase in water charges. The price per megalitre (ml) increased from $0.204 per ml for 2004-05 year to $0.222 ml for 2006-07, an increase of 9.02% with a further increase in 2007-08 in line with the Corporate Plan, bringing the price per ml to $0.229. Water consumption over the 2004-05 to 2006-07 period increased by 316 mls (or 2.09%), however, during the 2007-08 year there was a 2 213 ml decrease in water usage to 13 212 mls.

The major component of Other operating revenue was external contract works, which increased by $0.458m over the period under review. This was primarily due to demand for irrigation water by farmers for extra crops and fluoridation upgrades increasing with dryer weather conditions.

Depreciation expense increased by $0.999m or 75% during the period under review, as a result of the substantial hike in infrastructure assets arising from the revaluation completed in 2005-06. It was noted that the abnormally high revaluation increment in that year was a reflection on the nature of prior years' valuations, which consisted of updating for new assets capitalised, without factoring in increases in costs for existing assets. Depreciation expense during the 2007-08 year totalled $2.338m, equating to a 10% increase on the preceding period with a significant increase in depreciation expense expected for the 2008-09 year due to the 30 June 2008 revaluation and additions made during the current year.

The table below illustrates the depreciation charge increased in line with movements in property, plant and equipment balances. The percentage for 2005-06 was lower due to the revaluation at 30 June 2006, which did not impact the depreciation expense until the 2006-07.

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Depreciation	2 338	2 125	1 353	1 339
Property, plant and equipment - average*	104 382	95 140	77 327	62 258
Depreciation as percentage of average PPE	2.24%	2.23%	1.75%	2.15%

**average based on opening and closing written down value*

Cost of sales represents the production costs associated with collecting, conserving and treating water to a saleable point. Historically, cost of sales varied between 23% and 29% of sales revenue, and the percentages for the period under review were within that range. Depreciation is recorded as a separate item in the Income Statement, but the Authority included a portion of depreciation as a 'cost of sales' within its financial statements.

Other operating expenses include administration, occupancy and distribution expenses, as well as the external contract work costs noted previously. Distribution expenses for the 2006-07 were impacted by the increased volumes and the need to supplement some water supplies from alternative systems, with electricity for pumping up $0.161m. The 2005-06 total included some expenditure relating to projects and investigations undertaken during that year, largely focusing on future developments and opportunities for the Authority, which contributed to the higher overall expense in that period. The 2007-08 year only saw a minor increase in operating expenses of $0.061m (or 2%) on the prior year as a result of the decreased demand for water.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	1 761	2 121	1 390	1 088
Receivables	639	576	502	516
Inventories	241	179	162	128
Other	175	236	240	218
Total Current Assets	**2 816**	**3 112**	**2 294**	**1 950**
Payables	391	363	283	361
Interest bearing liabilities	0	1 417	60	2 207
Provisions – superannuation	510	464	227	206
Provisions – employee entitlements	527	474	440	392
Deferred income	208	0	0	0
Other	822	738	773	774
Total Current Liabilities	**2 458**	**3 456**	**1 783**	**3 940**
Working Capital	**358**	**(344)**	**511**	**(1 990)**
Property, plant and equipment	110 881	97 882	92 397	62 257
Deferred tax asset	3 998	4 104	4 061	5 685
Total Non-Current Assets	**114 879**	**101 986**	**96 458**	**67 942**
Interest bearing liabilities	21 900	20 414	21 831	19 091
Provisions – superannuation	532	532	613	685
Provisions – employee entitlements	79	92	78	82
Deferred tax equivalent liability	13 160	9 402	7 338	41
Total Non-Current Liabilities	**35 671**	**30 440**	**29 860**	**19 899**
Net Assets	**79 566**	**71 202**	**67 109**	**46 053**
Reserves	64 297	56 327	52 520	31 583
Retained earnings	15 269	14 875	14 589	14 470
Total Equity	**79 566**	**71 202**	**67 109**	**46 053**

Comment

Total Equity increased during the period under review by $33.513m. Retained profits increased by $0.799m whilst Reserves increased by $32.714m. The increase in Reserves was attributed to revaluation increments during 2005-06 of $20.937m, 2006-07 of $3.807m and 2007-08 $11.385m. These revaluations were offset by an associated adjustment in the Deferred tax liability arising on revaluations of 2005-06 $6.281m, 2006-07 $1.142m and 2007-08 of $3.415m.

The Authority's Cash balance at 30 June 2008 comprised cash at bank and on hand of $0.096m and short term investments of $1.664m.

As noted previously, the Authority manages significant long life infrastructure assets. Property, plant and equipment represent approximately 94% of all the Authority's assets. It applies a fair value basis of valuation, based on an optimised deprival valuation methodology (current replacement cost). A full revaluation of infrastructure assets was performed on 30 June 2008 by the Australian Valuation Office (AVO).

Property, plant and equipment increased by $12.999m in 2007-08, due primarily to new assets acquired, $4.050m, and asset revaluation increments, $11.385m, offset by depreciation of $2.338m.

The 2005-06 revaluation increment of $29.484m represented an increase of 50% on the 2004-05 carrying value of infrastructure assets, which was a reflection on the nature of prior years' valuations, as noted in previous comments on depreciation. The 2006-07 revaluation included a 7% indexation factor to approximate increases in construction costs. The 2007-08 revaluation was performed on 30 June 2008 by the AVO and related to the treatment plants and pipelines. The revaluation also resulted in a $3.293m increase in accumulated depreciation in addition to the annual depreciation charge of $2.093m.

Total Interest bearing liabilities at 30 June 2008 were $21.900m. This was an increase of $0.602m (or 2.8%) over the period under review. In November 2007, three of the four pre-existing Tascorp loans were consolidated into a new loan. During 2007-08 all of the Tascorp loans were on an interest only basis (repayable on maturity) and thus not included in current liabilities for that year.

The net deferred tax balance changed from a net tax asset of $5.644m in 2004-05 to a net tax liability of $3.277m in 2005-06, with further increases to a net tax liability position of $5.298m at 30 June 2007 and $9.162m at 30 June 2008. The primary cause of this was recognition of deferred tax liabilities relating to the asset revaluation increment previously referred to, which were offset against the revaluation increment in the asset revaluation reserve.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	11 254	10 674	9 200	9 458
Payments to suppliers and employees	(6 150)	(5 824)	(5 459)	(5 312)
Interest received	42	44	63	29
Borrowing costs	(1 296)	(1 347)	(1 366)	(1 319)
Cash from operations	**3 850**	**3 547**	**2 438**	**2 856**
Payments for property, plant and equipment	(3 984)	(2 219)	(2 087)	(2 677)
Proceeds from sale of property, plant and equipment	147	87	102	93
Cash (used in) investing activities	**(3 837)**	**(2 132)**	**(1 985)**	**(2 584)**
Proceeds from borrowings	14 808	800	2 800	5 300
Repayment of borrowings	(14 531)	(860)	(2 207)	(5 327)
Dividends paid	(650)	(624)	(744)	(629)
Cash (used in) financing activities	**(373)**	**(684)**	**(151)**	**(656)**
Net increase (decrease) in cash	**(360)**	**731**	**302**	**(384)**
Cash at the beginning of the year	2 121	1 390	1 088	1 472
Cash at end of the year	**1 761**	**2 121**	**1 390**	**1 088**

Comment

The Authority generated strong Cash from operations, totalling $12.691m, due to it being a monopoly supplier that sets pricing to cover all operating expenses including deprecation and a profit margin on its operations.

The Authority reinvested Cash from operations into Property, plant and equipment ($10.967m over the period) and paid dividends of $2.647m. Its cash position improved from the beginning of 2004-05 and 2007-08 by $0.289m (or 19.6%). However, this improvement included $0.783m net inflow of borrowings over the period.

Payments for property, plant and equipment in 2007-08, $3.984m, included the refurbishment of five reservoirs, additions to treatment plants and pipelines, including the Victoria Bridge work platform. In 2006-07, the Authority constructed a new pump station at Turners Beach linking the Forth water system to Ulverstone, and substantially refurbished the Barrington treatment plant and reservoir. Capital expenditure projects for 2005-06 included a major upgrade of the Forth pump station, relining of several reservoirs and acquisition of telemetry infrastructure from Burnie City Council.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		1 492	1 300	1 248	1 344
EBIT ($'000s)		2 841	2 628	2 614	2 665
Operating margin	>1.0	1.16	1.15	1.17	1.18
Return on assets		2.6%	2.6%	3.1%	3.9%
Return on equity		1.4%	1.3%	1.5%	2.2%
Underlying result ratio		13.9%	12.9%	14.2%	15.1%
Self financing ratio		36.0%	35.1%	27.7%	32.1%
Financial Management					
Current ratio	>1	1.1	0.9	1.3	0.5
Indebtedness ratio		333.3%	301.1%	339.2%	223.5%
Debt to equity		27.5%	30.7%	32.6%	46.2%
Debt to total assets		18.6%	20.8%	22.2%	30.5%
Interest cover	>2	2.1	2.0	1.9	2.0
Cost of debt	7.5%	6.2%	6.1%	6.3%	6.2%
Debt service ratio		148%	22%	41%	75%
Debt collection	30 days	22	21	21	21
Creditor turnover	30 days	20	25	20	23
Capital expenditure/depreciation	>100%	170%	104%	154%	200%
Returns to Owners					
Dividends payable ($'000s)		745	650	624	744
Dividend payout ratio	50%	71.4%	71.4%	71.4%	79.1%
Dividend to equity ratio		1.0%	0.9%	1.1%	1.7%
Income tax paid or payable ($'000s)		0	0	0	0
Total return ($'000s)		745	650	624	744
Total return to equity ratio		1.0%	0.9%	1.1%	1.7%
Other Information					
Staff numbers (FTEs)		31	29	28	27
Average staff costs ($'000s)		76	80	62	64
Average leave balance per FTE ($'000s)		20	20	19	17

Comment

The Financial Performance ratios show that the Authority recorded operating profits in the four years under review resulting in Operating margins above benchmark.

Return on assets ratio was low, with the Authority operating in a capital intensive industry. As noted in reviews by the Government Prices Oversight Commission, the return on equity remains below that expected for a commercial rate of return (7%). Prices are set by the Joint Authority. The result is that water users, including member Councils, effectively receive subsidies from the owners of the Authority.

Working Capital, as reflected by the current ratio, was significantly influenced by the current portion of borrowings, which fluctuated significantly over the four years and this was reflected in the ratio. The underlying trend, however, was positive with current assets compared to current liabilities excluding borrowings showing significant improvement over the four years. It is noted that $13.791m of the Authority's loan portfolio were due to mature in February 2008, with these borrowings renewed into a consolidated loan in November 2007. The Authority's intention in managing loan debt was to achieve a better cost of funds outcome.

Indebtedness ratio indicates CCW's non-current liabilities were, on average, three times greater than Total Revenue generated in a financial period. The high ratio was impacted by CCW holding loan principal $21.900m and making interest payments only. As CCW is a monopoly supplier and has confidence in its ability to generate operating revenue, the higher than usual Indebtness ratio is considered manageable. The Authority consider the higher Indebtness ratio allows it to self-fund its capital works.

Debt to equity and Debt to total assets ratios decreased over the period, again primarily as a result of revaluations impacting on the carrying amount of assets and the corresponding increase in reserves.

The change in Debt service ratio from 41% in 2005-06 to 22% in 2006-07 reflected the debt rollover of $2.207m in 2005-06 and $0.860m in 2006-07. The ratio in 2007-08 dramatically increased to 148% as a result of $13.791m in Tascorp loans being re-financed during November 2007. The increase reflected the Authority's increased capital works program and the Board's philosophy in funding asset renewal.

Capital expenditure to depreciation ratio was above the benchmark of 100% for each of the four years under review indicating that the Authority continues to invest sufficiently in infrastructure assets to maintain them at least at their current standard. The downward trend over the three years between 2004-05 and 2006-07 reflected increased replacement cost of assets which impacts on depreciation expense.

Dividends paid were in accordance with Part 3A of the *Local Government Act 1993*, and in line with the Authority's policy of maintaining a payout ratio of 50% of after tax profits.

With substantial prior year tax losses to absorb current profits, no tax payments were made in the years under review.

Average employee costs fluctuated over the four year period under review and included a:

- decrease in 2005-06 due to it being an exceptionally wet year resulting in lower overtime by plant operators and the Authority took the best part of the financial year to replace an employee
- significant increase in 2006-07 due to a wage review and employees being offered individual contracts, overtime increased by 16% due to 2006-07 being one of the driest years on record and an unusually high movement in the superannuation liability balance at 30 June
- 10% pay increase in 2007-08 for the majority of employees under a new employment agreement.

ESK WATER AUTHORITY

INTRODUCTION

Esk Water Authority (Esk Water/the Authority) was declared a Joint Authority by the Minister for Local Government on 25 June 1997. The Authority commenced operations on 1 July 1997 and had transferred to it all bulk water assets, property, rights, obligations and liabilities of North Esk Regional Water Supply Scheme, West Tamar Water Supply Scheme, Launceston City Council and the Meander Valley Council following enactment of the *Northern Regional Water (Arrangements) Act 1997.*

The Authority is a bulk water business servicing the Launceston/Tamar Valley region in Northern Tasmania and is owned and controlled by Launceston City, West Tamar, Meander Valley and George Town Councils. Representatives from each of the four owner councils serve on the Joint Authority. The Authority appointed an independent management board comprised of four directors, to manage the resources of the Authority and be responsible for the collection, treatment, conservation and supply of water in bulk. The Chief Executive Officer is appointed by the directors and is not a member of the management board

The Authority is subject to periodic reviews by the Government Prices Oversight Commission (GPOC) which recommends maximum prices and pricing principles for each of the three Tasmanian bulk water supply authorities.

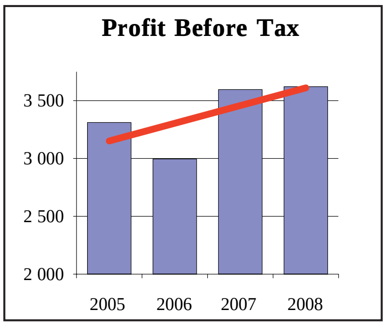
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 27 August 2008 and an unqualified audit report was issued on 11 September 2008.

The audit was completed satisfactorily with no major issues outstanding.

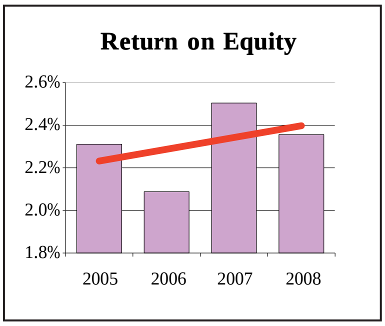
FINANCIAL RESULTS

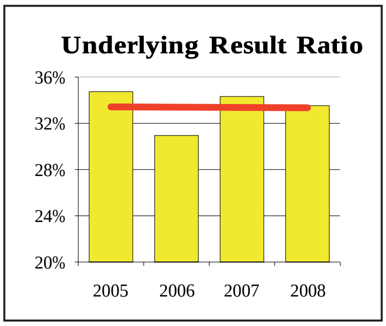
The following five graphs summarise key ratios highlighting important aspects of the Authority's financial performance over the past four years. In general, the ratios indicate:



The Authority is a "for profit" entity and is expected to generate profits, pay tax and provide dividends to its owner councils. As the graph indicates, over the past four years, the Authority consistently generated profits before tax.

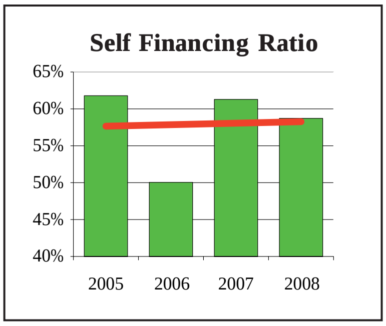
The Return on equity was below expectation and was the result of the Authority not setting a commercial rate of return (7%) as recommended by GPOC. However, as the member councils are both the owner and major customer, reduced return on equity arising from lower profits were offset by lower prices for the purchase of water.

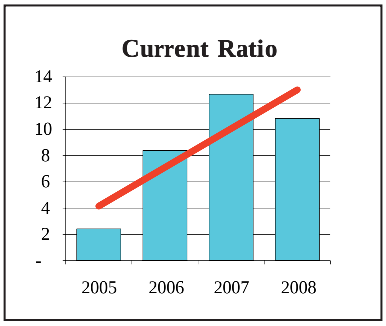




The Underlying result ratio indicated the Authority's profit remained consistent with increases in revenue over the four year period. As a monopoly supplier of bulk water, the Authority is able to price water sales to ensure a specific return.

The Authority generated strong operating cash flows compared to its Total Revenue. This result was expected as the Authority has a significant infrastructure base valued at fair value and ensures its pricing meets all operating expenses including depreciation. The Authority generated sufficient cash to contribute to future infrastructure requirements. The cash flow was assisted by the Authority being debt free and not having to pay interest on borrowings.





The Current ratio was more than adequate and indicated the Authority was able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Sales revenue	9 845	9 804	9 039	9 008
Interest revenue	753	459	377	258
Other operating revenue	201	214	264	265
Total Revenue	**10 799**	**10 477**	**9 680**	**9 531**
Borrowing costs	0	0	118	120
Depreciation	3 077	2 665	2 788	2 485
Cost of sales (less depreciation)	2 732	2 502	2 264	2 368
Other operating expenses	1 834	1 890	1 598	1 876
(Loss) on disposal of assets	22	135	686	39
Total Expenses	**7 665**	**7 192**	**7 454**	**6 888**
Profit before:	**3 134**	**3 285**	**2 226**	**2 643**
Asset revaluation increments to offset previously recognised decrements	487	311	1	668
Asset contributions	0	0	769	0
Profit before taxation	**3 621**	**3 596**	**2 996**	**3 311**
Income tax expense	1 087	1 082	900	995
Net Profit	**2 534**	**2 514**	**2 096**	**2 316**

Comment

Relative to turnover, Esk Water recorded a significant Profit before taxation in each of the four years under review, with the profit representing 31% to 35% of Total Revenue.

The majority of the Authority's revenue is obtained from the sale of bulk water to municipal, industrial and wayside consumers. Sales revenue increased by $0.837m (or 9.29%) over the period under review, primarily due to an increase in water charges. The Authority levies a fixed charge for each customer as well as a variable price per kilolitre. The price per kilolitre increased from $0.3000 for the 2004-05 year to $0.3270 for 2007-08, an increase of 9.00%. Water consumption over the same period remained stable with 15 516 megalitres in 2004-05 to 15 540 megalitres during 2007-08.

Interest revenue increased by $0.495m (or 191.80%) over the four year period due to a corresponding increase in cash balances held. A review of the cash position analysis below provides further information on the $9.167m increase in cash over the period under review.

Borrowing costs were eliminated following the repayment of Authority loans in June 2006.

The Authority manages significant physical asset infrastructure. The utilisation of various treatment plants, reservoirs and pipeline systems has resulted in a significant annual depreciation expense. Depreciation is approximately 40% of the Authority's Total Expenses. The table below illustrates the depreciation charge has increased in line with movements in Property, plant and equipment balances, with the Depreciation percentage remaining fairly constant.

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Depreciation	3 077	2 665	2 788	2 485
Property, plant and equipment - average*	119 973	109 354	103 854	112 987
Depreciation as percentage of average PPE	2.56%	2.44%	2.68%	2.20%

* *average based on opening and closing written down value*

Cost of sales represents the production costs associated with collecting, conserving and treating the water to a saleable point. Over the first three years under review the Authority maintained cost of sales at approximately 26% of Sales revenue. In 2007-08 the percentage increased to 28% due to additional treatment costs associated with a blue/green algae outbreak in the South Esk River and additional pump maintenance at the Trevallyn Pump Station.

Other operating expenses included administration, engineering and distribution expenses. Employee costs are allocated across a number of operations and are included in both Cost of sales and Other operating expenses.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	12 260	8 867	5 744	6 355
Receivables	607	542	695	153
Inventories	256	231	230	210
Other	970	857	917	870
Total Current Assets	**14 093**	**10 497**	**7 586**	**7 588**
Payables	316	96	185	329
Interest bearing liabilities	0	0	0	2 000
Provisions – superannuation	65	62	61	56
Provisions – employee entitlements	354	321	305	342
Other	566	349	353	409
Total Current Liabilities	**1 301**	**828**	**904**	**3 136**
Working Capital	**12 792**	**9 669**	**6 682**	**4 452**
Property, plant and equipment	119 973	109 354	103 854	112 987
Deferred tax asset	4 830	5 614	6 250	6 842
Other	4	4	5	5
Total Non-Current Assets	**124 807**	**114 972**	**110 109**	**119 834**
Deferred tax liabilities	23 502	19 632	17 276	19 415
Provisions – superannuation	1 986	1 977	1 734	1 292
Provisions – employee entitlements	23	18	11	582
Total Non-Current Liabilities	**25 511**	**21 627**	**19 021**	**21 289**
Net Assets	**112 088**	**103 014**	**97 770**	**102 997**
Capital	81 548	81 548	81 548	81 548
Reserves	28 724	20 401	15 931	21 865
Retained Earnings (Accumulated Losses)	1 816	1 065	291	(416)
Total Equity	**112 088**	**103 014**	**97 770**	**102 997**

Comment

Total Equity increased during the period under review by $9.091m (or 8.8%), comprising increases in Retained earnings of $2.232m and Reserves of $6.859m. The increase in retained earnings includes profits during the period less dividend paid to owners. The increase in reserves comprises asset revaluation increments during the period less a corresponding adjustment to the Deferred tax liability.

The Authority's Cash balance at 30 June 2008 comprised cash at bank and on hand of $0.139m and short term investments of $12.121m. The strong cash position resulted in the positive Working Capital position for each year under review. This position was strengthened by the Authority repaying all loan debt in 2005-06.

As noted previously, the Authority manages significant long-life infrastructure assets. Property, plant and equipment represent approximately 86% of the Authority's total assets. The Authority applies a fair value basis of valuation based on a deprival valuation methodology (depreciated replacement cost), with the last full revaluation of assets undertaken in 2005-06. To ensure the currency of the asset values, the Authority applied an index to its infrastructure assets based on advice received from the Australian Valuation Office (AVO) in 2007-08. The next full revaluation is schedule to occur effective 30 June 2009.

I concur with the current accounting policies applied by the Authority in relation to its infrastructure assets. Relevant and current asset information is vital in managing an operation with a strong reliance on long-life infrastructure assets.

Deferred tax is provided on all temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences caused primarily by accounting for asset revaluations. Deferred tax assets are recognised for all deductible temporary differences, such as bringing to account annual leave, long service leave and provisions for superannuation liabilities, plus the benefits of unused tax losses (2007-08, $4.014m).

Whilst the Authority does not currently make tax payments due to carry forward losses, it is considered probable that sufficient future taxable profits will be generated to enable the Deferred tax asset to be utilised.

CASH POSITION

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	10 217	10 560	9 082	9 904
Payments to suppliers and employees	(4 585)	(4 601)	(4 489)	(4 155)
Interest received	709	462	371	260
Borrowing costs	0	0	(120)	(120)
Cash from operations	**6 341**	**6 421**	**4 844**	**5 889**
Payments for property, plant and equipment	(1 200)	(1 594)	(1 926)	(1 013)
Proceeds from sale of property, plant and equipment	59	61	79	48
Cash (used in) investing activities	**(1 141)**	**(1 533)**	**(1 847)**	**(965)**
Repayment of borrowings	0	0	(2 000)	0
Dividends paid	(1 807)	(1 765)	(1 608)	(1 662)
Cash (used in) financing activities	**(1 807)**	**(1 765)**	**(3 608)**	**(1 662)**
Net increase (decrease) in cash	**3 393**	**3 123**	**(611)**	**3 262**
Cash at the beginning of the year	8 867	5 744	6 355	3 093
Cash at end of the year	**12 260**	**8 867**	**5 744**	**6 355**

Comment

The Authority generates strong Cash from operations due to it being a monopoly supplier that sets its pricing to cover all operating expenses including depreciation and a profit margin on its operations. Despite the Authority reinvesting Cash from operations into Property, plant and equipment of $5.733m over the period, repayment of debt, $2.000m, and paying dividends of $6.842m, its cash position increased over the four year period under review by $9.167m.

It is expected the current cash surplus generated from operations over the past four years will be used to undertake future capital projects, including the construction of a replacement treatment plant at Distillery Creek with an estimated cost of $10.200m.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		3 134	3 285	2 226	2 643
EBIT ($'000s)		3 621	3 596	3 114	3 431
Operating margin	>1.0	1.41	1.46	1.30	1.38
Return on assets		2.7%	3.0%	2.5%	2.9%
Return on equity		2.4%	2.5%	2.1%	2.3%
Underlying result ratio		33.5%	34.3%	31.0%	34.7%
Self financing ratio		58.7%	61.3%	50.0%	61.8%
Financial Management					
Current ratio	>1	10.83	12.68	8.39	2.42
Indebtedness ratio		236.2%	206.4%	196.5%	223.4%
Debt to equity		n/a	n/a	n/a	1.9%
Debt to total assets		n/a	n/a	n/a	1.6%
Interest cover	>2	n/a	n/a	26.4	28.6
Cost of debt	7.5%	n/a	n/a	n/a	6.0%
Debt service ratio		n/a	n/a	1.2%	1.3%
Debt collection	30 days	23	20	28	6
Creditor turnover	30 days	28	10	18	38
Capital expenditure/depreciation	>100%	39%	60%	69%	41%
Returns to Owners					
Dividends paid or payable ($'000s)		1 835	1 783	1 625	1 761
Dividend payout ratio	50%	72.4%	70.9%	77.5%	76.0%
Dividend to equity ratio		1.7%	1.8%	1.6%	1.8%
Total return ($'000s)		1 835	1 783	1 625	1 761
Total return to equity ratio		1.7%	1.8%	1.6%	1.8%
Other Information					
Staff numbers (FTEs)		25	25	25	25
Average staff costs ($'000s)		64	69	56	59
Average leave balance per FTE ($'000s)		14	12	12	13

Comment

The Financial Performance ratios show that the Authority recorded operating profits in each of the four years under review resulting in positive Operating margins. The profitability of the Authority was further illustrated by the strong Underlying result ratio.

Self financing ratio indicates the Authority's ability to generate strong cash flows from it operations in comparison to its Total Revenue. The cash generated is required to meet future capital funding requirements due to the Authority managing significant long-life infrastructure assets.

Return on assets ratio was low. As noted in reviews by GPOC, the Return on equity remains below that expected for a commercial rate of return, 7%. Prices are set by the Joint Authority. The result was that water users, specifically member Councils, effectively received subsidies.

Current ratio was above benchmark in all years under review. The repayment of the Authority's debt during 2005-06 substantially strengthened its working capital position. As there was no debt since 30 June 2006, the Debt ratios no longer apply.

Debt collection was below benchmark for all years under review which reflected the Authority's good debt recovery procedures.

Creditor turnover remained below the benchmark over the past three years due to prompt payments to suppliers.

Capital expenditure to depreciation ratio was below the benchmark in each of the years under review. This is not unexpected as the Authority completed a strategic asset management plan that included an asset replacement schedule based on the age profile of its assets. This plan highlighted that a major asset replacement is due near 2040, when two major pipelines will theoretically reach the end of their useful lives. It is expected that the Capital expenditure ratio will remain well below 100% as the Authority generates cash to fund major asset replacement.

The Return to equity ratio has been below expectation in each of the four years under review. This is attributable to the Authority:

- carrying forward tax losses and not making any tax payments
- setting pricing below expected commercial returns recommended by GPOC (as discussed previously). Profits are not maximised reducing the amount available for distribution as a dividend. However, as the members councils are both the owners and major customers of the Authority, reduced dividends are offset by lower prices for the purchase of water.

The Authority paid, or will pay, dividends totalling $7.004m for the four year period under review. It has a dividend payout policy of the lesser of the prior year dividend indexed for CPI or 100% of profit after tax for the year. The policy aims to retain equity within the Authority to finance future asset replacements. A further calculation is performed each year to ensure that this formula does not result in any Council being financially disadvantaged. See comment previously about adequateness of cash holdings.

Average staff costs fluctuated over the four year period under review. The Authority paid EBA increments in each year, but movements in the superannuation liability in each year skewed the average. The 2006-07 average of $0.064m included a superannuation liability increase of $0.245m, whilst the 2005-06 average of $0.056m included a liability decrease of $0.128m. Based upon salary and wages only the payroll average increased from $0.059m for 2004-05 to $0.061m for 2007-08.

HOBART REGIONAL WATER AUTHORITY

INTRODUCTION

The Hobart Regional Water Authority (the Authority or Hobart Water) was established under section 38 of the *Local Government Act 1993* following the enactment of the *Hobart Regional Water (Arrangement) Act 1996*. This Act transferred all the assets, property, rights and liabilities of the former Hobart Regional Water Board to the Authority effective 1 January 1997.

The Authority is a Joint Authority trading under the name of Hobart Water. It is a commercial business owned by the eight constituent councils in the Hobart Regional Water District, which comprises the cities of Hobart, Clarence and Glenorchy as well as the municipal areas of Kingborough, Sorell, Brighton, Derwent Valley and Southern Midlands. An independent board of management is responsible for the conduct of business and affairs of the Authority. Its core business is to provide bulk water supplies to its customers. The scope of activities includes:

- collection and treatment of raw water to the required standard
- bulk transport of treated water to reticulation storages or networks
- planning, development and management of headworks
- sale of bulk water on a commercial basis.

In addition to these core activities, the Authority also provides services under contract to Derwent Valley Council in respect to operations and maintenance of their water and waste water reticulation system. In June 2007, Hobart Water signed a long term operation and maintenance agreement with Glamorgan Spring Bay Council to provide water and waste water services.

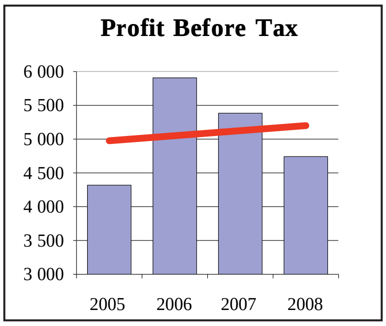
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 26 September 2008 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major issues outstanding.

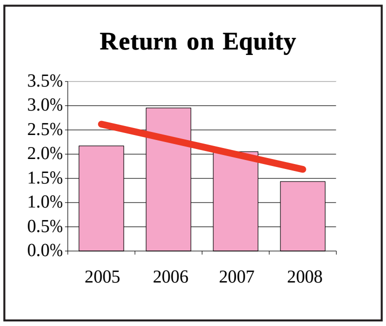
FINANCIAL RESULTS

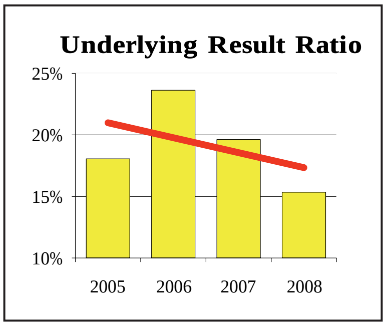
The following five graphs summarise key ratios highlighting important aspects of the Authority's financial performance over the past four years. In general, the ratios indicate:



The Authority is a "for profit" entity and is expected to generate profits, pay tax and provide dividends to its owner councils. As the graph indicates, over the past four years, the Authority has consistently generated profits before tax.

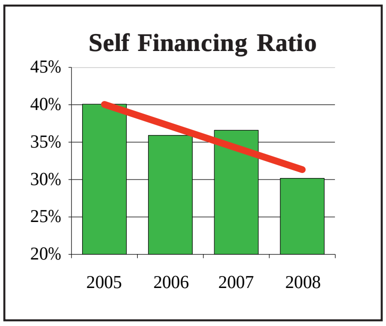
The Return on equity was below expectation and was the result of the Authority not setting a commercial rate of return (7%) as recommended by Government Prices Oversight Commission (GPOC). However, as the member councils are both the owner and major customer, reduced return on equity arising from lower profits was offset by lower prices for the purchase of water.

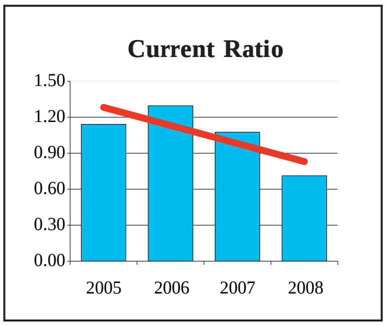




The Underlying result ratio indicated, over the last two years, the Authority's profit decreased, whilst operating revenue increased. As a monopoly supplier of bulk water, the Authority should price water sales to ensure a specific return. If the Underlying result ratio excluded the impact of actuarial gains or losses and financial instrument gains, the movement in the ratios would not have been as volatile (for example, the ratio for 2005-06 of 23.2% would have been 19.2%).

The Authority generated strong operating cash flows compared to its Total Revenue. This result was expected as the Authority has a significant infrastructure base valued at fair value and ensured its pricing was meeting all operating expenses including depreciation. The Authority generated sufficient cash to contribute to future infrastructure requirements.





The Current ratio in the first three year under review was adequate as current assets exceeded current liabilities. In 2007-08, the ratio deteriorated due to a reduction in cash (refer Cash Position analysis below), increased current Borrowings payable in 2008-09 and the recognition of a current liability for a dividend payment. However, the Authority was confident it is able to meet all short-term liabilities.

INCOME STATEMENT

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Sales revenue	25 225	24 320	22 810	22 793
Other operating revenue	5 684	3 114	2 190	1 126
Total Revenue	**30 909**	**27 434**	**25 000**	**23 919**
Borrowing costs	2 359	2 379	2 448	2 432
Depreciation	6 369	5 999	5 228	5 182
Other operating expenses	17 474	14 053	12 516	11 444
Total Expenses	**26 202**	**22 431**	**20 192**	**19 058**
Profit before:	**4 707**	**5 003**	**4 808**	**4 861**
Change in fair value of financial instruments	35	381	633	0
Defined benefit superannuation actuarial gain / (loss)	0	0	466	(542)
Profit before taxation	**4 742**	**5 384**	**5 907**	**4 319**
Income tax expense	1 463	1 652	1 773	1 324
Net Profit	**3 279**	**3 732**	**4 134**	**2 995**

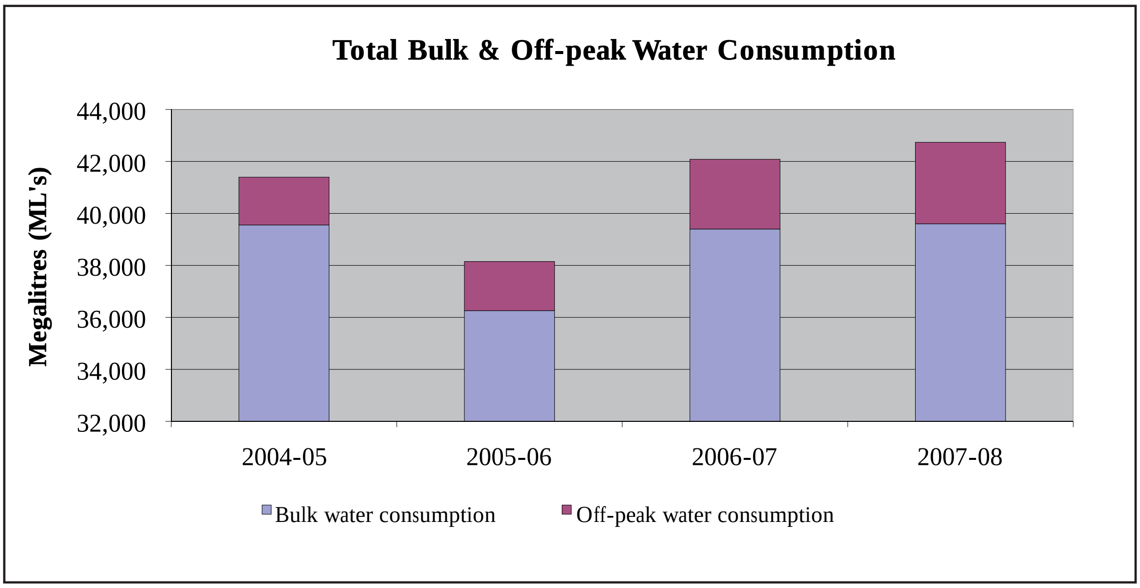
Comment

Relative to turnover, Hobart Water recorded a significant Profit before taxation in each of the four years under review, with the profit consistently representing 15% to 24% of Total revenue. The 2006-07 net profit includes the one-off effect of the addition of a new Cambridge pipeline, which had to be relocated by a third-party. The third-party contributed $0.735m, included in Other revenue, to the costs of the new pipeline.

The majority of the Authority's revenue is obtained from the sale of bulk water to municipalities in the greater Hobart area. Bulk water sales to constituent councils represented almost 83% of sales revenue for the current year, down from 91% in the prior year, 93% in 2005-06 and over 97% in the 2004-05 year. This percentage decrease is attributed to:

- revenue from a contract with Derwent Valley Council for Hobart Water to provide operations and maintenance services, which increased operating revenue from other sources
- revenue from Clarence City Council customer contributions during 2007-08 of $1.160m.

Water sales fluctuate in accordance with consumption and it is noted that recent years' figures reflect drier conditions, leading to increasing consumption. Sales revenue increased by $2.432m (or 10.67%) over the period under review. The following graph details water consumption expressed in mega litres over the period under review. Bulk water consumption in 2005-06 was low because there was above average rainfall from September 2005 to December 2005.



In the past, the Authority undertook derivative trading as part of managing its debt. From 2005-06, it moved to a less active approach to debt management which was aimed at reducing, and eventually eliminating, derivatives. However, from its existing portfolio of derivative instruments, the Authority generates interest income and incurs interest expense. In 2007-08 interest received from this activity amounted to $0.476m, down from $1.381m in 2006-07, $1.568m in 2005-06 and $1.721m in 2004-05. Similarly, interest expense in 2007-08 was $0.454m, down from $1.504m in 2006-07, $1.801m in 2005-06 and $1.977m in 2004-05. The downward trend is due to the gradual maturity and close out of the derivatives as the Authority implements its policy of eliminating all derivatives. Four swaps were closed out during the 2006-07 year, by payment of $0.176m. The overall decrease in Borrowing costs attributable to derivatives is offset to some degree by increased interest on the underlying debt portfolio.

Borrowing costs shown in the Income Statement are net of the interest expense on the underlying debt portfolio, swap interest expense, swap interest revenue and debt management costs.

The Authority manages significant physical asset infrastructure. The utilisation of various treatment plants, reservoirs and pipeline systems results in a significant annual depreciation expense. Depreciation is approximately 26% of the Authority's Total Expenses. The table below illustrates the depreciation charge as a percentage of Property Plant and Equipment has fallen from 3.03% to 2.11%. This fall is attributed to some asset lives being extended. Dam lives were extended from 140 years to 200 years and pipelines were extended from 80 years to 100 years.

	2007-08	**2006-07**	**2005-06**	**2004-05**
	$'000s	$'000s	$'000s	$'000s
Depreciation	6 369	5 999	5 228	5 182
Property, plant and equipment - average*	301 446	233 929	175 148	170 997
Depreciation as percentage of average PPE	2.11%	2.56%	2.98%	3.03%

** average based on opening and closing written down value*

Depreciation expense remained largely consistent from 2004-05 to 2005-06. On the basis of independent advice, Hobart Water revalued its major classes of Non-current assets as at 1 July 2006 on the basis of current replacement values and this resulted in an increase in asset values of $104.009m. This revaluation led to the increased depreciation expense for that year offset by the extension of depreciation lives noted above.

In addition, all Infrastructure, land and buildings were indexed at 30 June 2007 and 30 June 2008 to maintain current values. This also contributed to the increase in depreciation expense in the last two years.

Other operating expenses include employee costs, royalties and direct costs of power and chemicals used in treatment. These costs generally fluctuate in line with water sales averaging around 53% of operating revenue. Other operating expenses for 2007-08 are above this level due mainly to the impact of increasing power and consulting service costs as a result of Glamorgan Spring Bay Council's operation and maintenance contract and additional capital services to Derwent Valley Council during the year. The additional cost of services to Glamorgan Spring Bay Council and Derwent Valley Council were both offset by increased revenues.

AASB 119 *Employee Benefits* requires the defined benefit superannuation liability to be calculated using a discount rate equal to the government bond rate. This resulted in a defined benefit actuarial expense of $0.542m recognised in 2004-05. In 2005-06, there was a decrease in the net liability and a defined benefit actuarial gain of $0.466m was recognised due to an increase in the government bond rate.

Hobart Water has amended its accounting policy for recognition of actuarial gains and losses on the defined benefit superannuation plan. In accordance with accounting standard AASB 119 *Employee Benefits*, Hobart Water elected to recognise actuarial gains and losses on defined benefit plans directly through retained earnings. Adoption of this accounting treatment was intended to assist in managing reported earnings volatility caused by external factors such as long-term government bond rates and the share market. The actuarial loss in 2007-08 was $0.123m down from $0.359m loss in 2006-07.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	6 228	9 864	9 582	8 191
Receivables and prepayments	7 728	7 010	6 451	6 154
Inventories	1 158	1 143	1 126	1 053
Derivative financial instruments	98	129	0	0
Total Current Assets	**15 212**	**18 146**	**17 159**	**15 398**
Payables	3 613	3 312	2 313	2 232
Borrowings	13 798	11 400	7 000	9 900
Derivative financial instruments	0	0	428	0
Provision for dividend	1 600	0	1 600	0
Provisions – superannuation	839	636	377	615
Provisions – employee entitlements	1 175	986	790	748
Current tax liability	329	536	733	0
Total Current Liabilities	**21 354**	**16 870**	**13 241**	**13 495**
Working Capital	**(6 142)**	**1 276**	**3 918**	**1 903**
Property, plant and equipment	309 986	290 502	174 696	172 374
Intangibles	1 254	1 150	1 510	1 715
Total Non-Current Assets	**311 240**	**291 652**	**176 206**	**174 089**
Borrowings	19 400	21 798	26 198	23 298
Provisions – superannuation	3 522	3 514	3 574	4 188
Provisions – employee entitlements	214	174	177	160
Deferred tax liabilities	48 639	43 750	9 881	8 728
Total Non-Current Liabilities	**71 775**	**69 236**	**39 830**	**36 374**
Net Assets	**233 323**	**223 692**	**140 294**	**139 618**
Reserves	217 874	212 411	130 333	128 059
Retained earnings	15 449	11 281	9 961	11 559
Total Equity	**233 323**	**223 692**	**140 294**	**139 618**

Comment

Total Equity rose by $93.705m or 67% over the period under review due to increases in:

- Retained earnings of $3.890m. The increase in retained earnings includes profits during the period less dividends paid to owners
- Reserves of $89.815m. The increase in reserves comprises asset revaluation increments during the period less the corresponding adjustment to the Deferred tax liability.

Cash in all four years consisted of both the general cash bank accounts and the cash management account held with Tasmanian Public Finance Corporation (Tascorp). The majority of cash held is for future capital programs. An amount of cash is also held to cover operating, tax and dividend payments. Reasons for the decrease are outlined in the Cash Position section of this Chapter.

Receivables for 2007-08 comprised normal bulk water accounts to the Joint Authority members and other water customers, accrued interest and other receivables. The increase in Receivables in 2007-08 is mainly due to $0.534m outstanding from Clarence City Council for the Howrah Warrane Augmentation Project.

Prior to 30 June 2008, the Authority's Board of Management declared a final dividend, based on the 2007-08 operating results of $1.600m, which, based on the timing of the decision, was recorded as a liability at balance date. The decision on the final dividend plus the interim dividend of $1.600m resulted in a total dividend of $3.200m for the 2007-08 year. In the 2004-05, 2005-06 and 2006-07 years, the final dividends were declared after balance date and only disclosed as a note to the financial statements. The provision for dividend balance in 2005-06 relates to an interim dividend, which was not paid prior to balance date. Detailed information on dividend payments is included in the Financial Analysis section.

Total borrowings remained consistent over the four year period, totalling $33.198m. The allocation between current and non-current represents borrowing due to be repaid in a particular year. The Authority reborrowed the corresponding debt repaid, to maintain a specific capital debt amount.

The Authority's current Provisions – employee entitlements increased by $0.427m or 57% over the period under review due to wage and salary indexation and higher staff levels. The Financial Analysis section of this Chapter notes that full time equivalent employees (FTEs) increased over the period under review by 32 or 46%.

As noted previously, during 2006-07, Hobart Water re-valued its major classes of non-current assets on the basis of current replacement values as at 1 July 2006. This resulted in an increase in asset values of $104.009m. In addition to this, Property, plant and equipment was subject to indexation as at 30 June 2007, which increased net asset values by a further $11.766m. In 2007-08 all Infrastructure, Land and Buildings were indexed to maintain current values, this resulted in an increase in asset values of $16.133m. These transactions are reflected in the movement in the asset revaluation reserve but net of the impacts of these revaluations of the Authority's deferred taxation liability.

The Deferred tax liability varies from year to year according to the profit before taxation and timing differences, including the effect of asset revaluations and indexations. In line with the increase in non-current assets of $19.588m, the net deferred tax liability increased by $4.889m. Income tax paid during 2007-08 amounted to $1.438m (2006-07, $1.329m, 2005-06, $0.637m) and a Current tax liability of $0.329m ($0.536m, $0.733m) was recognised as at 30 June 2008.

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	31 728	27 648	25 172	23 748
Payments to suppliers and employees	(19 156)	(14 562)	(13 733)	(12 179)
Interest received	651	770	612	391
Borrowing costs	(2 462)	(2 418)	(2 437)	(2 374)
Income tax paid	(1 438)	(1 329)	(637)	0
Cash from operations	**9 323**	**10 109**	**8 977**	**9 586**
Payments for property, plant and equipment	(9 887)	(5 781)	(4 411)	(3 026)
Proceeds from sale of property, plant and equipment	262	130	225	313
Payments to terminate derivative financial instruments	66	(176)	0	0
Cash (used in) investing activities	**(9 559)**	**(5 827)**	**(4 186)**	**(2 713)**
Proceeds from borrowings	11 400	12 000	9 900	15 000
Repayment of borrowings	(11 400)	(12 000)	(9 900)	(15 000)
Dividends paid	(3 400)	(4 000)	(3 400)	(2 800)
Cash (used in) financing activities	**(3 400)**	**(4 000)**	**(3 400)**	**(2 800)**
Net increase (decrease) in cash	**(3 636)**	**282**	**1 391**	**4 073**
Cash at the beginning of the year	9 864	9 582	8 191	4 118
Cash at end of the year	**6 228**	**9 864**	**9 582**	**8 191**

Comment

The Authority generates strong Cash from operations due to it being a monopoly supplier that sets its pricing to cover all operating expenses including depreciation and a profit margin on its operations. Over the four year period, Cash from operations totalled $37.995m, and was used to fund payments for Property, plant and equipment of $23.105m and pay dividends of $13.600m.

In gross terms however, interest received has declined due to lower investments held which is the primary reason for the lower cash generated from operations in 2007-08 contributing to the overall decline in cash balance at 30 June 2008.

Payments for property, plant and equipment over the period include capital works undertaken in relation to the:

- Bryn Estyn, dams and pipelines
- Bryn Estyn treatment plant switchboard upgrade and the lime system upgrade
- Howrah-Warrane augmentation project which included new pump stations, reservoir and pipelines.

The high level of capital expenditure in 2007-08 was reason for the decline in cash holdings at 30 June 2008 leading to a lower working capital ratio.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		4 707	5 003	4 808	4 861
EBIT ($'000s)		7 101	7 763	8 355	6 751
Operating margin	>1.0	1.18	1.22	1.24	1.26
Return on assets		2.2%	3.1%	4.4%	3.7%
Return on equity		1.4%	2.1%	3.0%	2.2%
Underlying result ratio		15.3%	19.6%	23.6%	18.1%
Self financing ratio		30.2%	36.6%	35.9%	40.1%
Financial Management					
Indebtedness ratio		232.2%	252.4%	159.3%	152.1%
Debt to equity		14.2%	14.8%	23.7%	23.8%
Debt to total assets		10.2%	10.7%	17.2%	17.5%
Interest cover	>2	3.0	3.5	3.9	3.1
Current ratio	>1	0.7	1.1	1.3	1.1
Cost of debt	7.5%	7.1%	7.2%	7.4%	7.3%
Debt service ratio		10%	10%	11%	10%
Debt collection	30 days	102	93	92	86
Creditor turnover	30 days	34	46	21	16
Capital expenditure/depreciation	>100%	155%	96%	84%	58%
Returns to Owners					
Dividends paid or payable ($'000s)		3 200	3 400	4 000	3 400
Dividend payout ratio	50%	97.6%	91.1%	96.8%	113.5%
Dividend to equity ratio		1.4%	1.9%	2.9%	2.5%
Income tax paid or payable ($'000s)		1 269	1 241	1 370	0
Effective tax rate	30%	26.8%	23.0%	23.2%	0.0
Total return ($'000s)		4 469	4 641	5 370	3 400
Total return on equity ratio		2.0%	2.6%	3.8%	2.5%
Other Information					
Staff numbers (FTEs)		102	90	79	70
Average staff costs ($'000s)		77	72	76	73
Average leave balance per FTE ($'000s)		13	12	12	13

Comment

Hobart Water consistently recorded sound operating margins which were generally better than the benchmark. However, due to its large asset and equity base, and because Hobart Water continued to charge for water at prices below the maximum recommended by the Water Regulator, returns on assets and on equity were low.

Current ratio remained above the benchmark due primarily to the Authority's strong cash position for each of the years except for 2007-08 when the ratio deteriorated due to the reduction in cash (refer Cash Position analysis), increased current borrowings payable in 2008-09 and the recognition of a current liability for a dividend payment. However, the Authority is confident it is able to meet all short-liabilities, as its current policy of maintaining a specific debt level will result in no cash outflows relating loan borrowings in 2008-09.

Debt service ratio consistently declined over the past four years mainly due to decreasd Borrowing costs as a result of a decline in the Authority's derivatives. The Authority is expected to reduce and eventually eliminate derivatives. Cost of debt ratio remained steady.

Water sales to member councils are billed quarterly resulting in the high Debt collection ratio. The Authority experiences no difficulty collecting these debts.

Capital expenditure to depreciation ratio was low in 2004-05 due to the timing of capital projects. It moved close to the benchmark in 2005-06, and just below the benchmark of 100% in 2006-07, due to increased expenditure on capital projects. Capital expenditure exceeded benchmark in 2007-08 due to capital works undertaken in relation to Bryn Estyn treatment plant switchboard upgrade, the lime system upgrade and the Howrah-Warrane augmentation project which included new pump stations, reservoir and pipelines. This is consistent with the Authority's planned capital expenditure programs.

The Authority declared a dividend on its operating results in each of the four years under review.

Increased employee numbers reflected growth in new business opportunities, in particular the Derwent Valley Council and Glamorgan Spring Bay Council operations and maintenance contracts.

OTHER STATE ENTITIES
REPORTING AT 30 JUNE 2008

LOCAL GOVERNMENT ASSOCIATION OF TASMANIA

INTRODUCTION

Founded in 1911, the Local Government Association of Tasmania (LGAT) is an incorporated body under the *Local Government Act 1993*.

LGAT is the peak body for local government in Tasmania and is part of a national network of associations. It is funded by councils and by other income earned through projects sponsored on behalf of local government, and a range of services and sponsorships. A General Management Committee (GMC) of eight members provides oversight to LGAT operations.

The objectives of LGAT are to:

- promote the efficient administration and operation of local government in the State of Tasmania
- represent and protect the interests, rights and privileges of members of LGAT
- foster and promote relationships between local government in Tasmania and with the government of Tasmania and the Commonwealth of Australia
- provide support services to members of LGAT.

Since December 1999, LGAT has provided administrative support to LGAT Assist (formerly named LGAT Welfare Fund). The LGAT Assist board of directors is appointed by the LGAT GMC.

LGAT Assist provides local government employees with support and assistance during times of health, financial and general personal difficulty. Support and assistance include:

- low interest loans to council employees who are employed on a permanent basis and who are members of Quadrant Superannuation
- access to financial counselling to assist with household management
- three bursaries annually, to enable council employees or their dependents to attend the University of Tasmania (conditions apply)
- non-refundable grants in cases of extraordinary financial hardship.

Financial results of LGAT Assist are reported separately in the financial statements of LGAT. Two years comparative data has been included in this Report because this year is the first we have included LGAT.

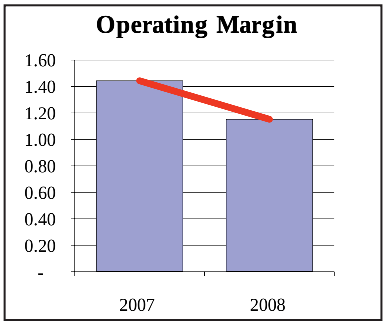
AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Draft financial statements were received on 31 August 2008. Signed financial statements were received on 22 January 2009. The *Local Government Act 1993* requires LGAT to prepare annual financial statements by 31 August and submit this to the Auditor General. An unqualified audit report was issued on 22 January 2009.

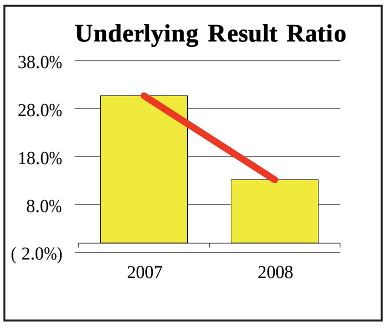
The audit was completed satisfactorily with no other major issues outstanding.

FINANCIAL RESULTS – LGAT

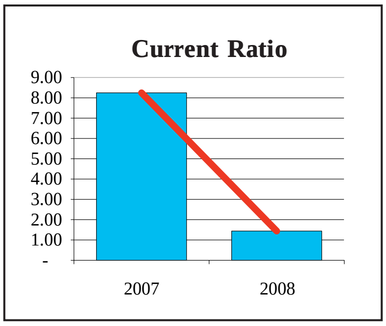
The following three graphs summarise key ratios highlighting important aspects of LGAT's financial performance over the past 2 years. In general, the ratios indicate:



The Operating margin was above the expected benchmark of one in both years, which indicates LGAT is generating sufficient revenue to fulfil its operating requirements.



The positive Underlying result ratio provides a measure of the strength of the operating result. In 2006-07, Council recorded an Underlying result ratio of 30.7% which represented a strong operating surplus in that year. The decline in 2007-08, while still positive, was due to a drop in grant funds received.



The Current ratio was above the benchmark of greater than one in both years indicating that LGAT was able to meet all short-term liabilities. The decrease in the Current ratio in 2007-08 was mainly due to the placement of $2.000m in a long-term investment. The decrease was also due to a government grant of $0.502m (includes GST) received in June 2008 being recognised as a current liability. The grant funding is to be distributed to regional authorities to fund the Household Hazardous Waste Pilot Collection Program starting in 2008-09.

INCOME STATEMENT – LGAT

	2007-08 General $'000s	2006-07 General $'000s
Grants	164	720
Subscriptions	881	835
Investment income	200	76
Other operating income	314	345
Total Revenue	**1 559**	**1 976**
Depreciation	28	27
Employee costs	635	650
Other operating expenses	690	692
Total Expenses	**1 353**	**1 369**
Surplus	**206**	**607**

Comment

In 2007-08 LGAT recorded a surplus of $0.206m, compared to a surplus of $0.607m in 2006-07. The decrease in operating surplus was mainly due to less grants received in 2007-008. Grant revenue fluctuates from year to year dependent on the projects funded by the Commonwealth and State governments and administered by LGAT.

Revenue from subscription represents annual subscription payments from member councils. The amount of subscription each council contributes is based on the assessed annual value of the land in council's municipal area as advised by the Valuer General. An increase of 5.5% in subscriptions for the 2007-08 year was approved at LGAT's Annual General Meeting in June 2007 to ensure the financial security of the Association.

Investment income increased significantly from the prior year due mainly to higher interest rates in 2007-08 and alternative investment arrangements being made to maximise interest.

Depreciation and Other operating expenses remained consistent with the prior year. The slight decrease in Employee expenses during the 2007-08 year was mainly due to the departure of a number of contractual employees upon completion of assigned projects. This was offset by annual wage and salary award increases for remaining employees.

BALANCE SHEET – LGAT

	2007-08 General $'000s	2006-07 General $'000s
Cash Assets	1 180	2 449
Receivables	125	83
Total Current Assets	**1 305**	**2 532**
Payables	265	135
Unexpended grants	531	108
Provisions	110	64
Total Current Liabilities	**906**	**307**
Working Capital	**399**	**2 225**
Financial assets	2 000	0
Property, plant and equipment	92	88
Intangibles	8	1
Total Non-Current Assets	**2 100**	**89**
Provisions	25	47
Total Non-Current Liabilities	**25**	**47**
Net Assets	**2 474**	**2 267**
Accumulated surplus - General	2 474	2 267
Total Equity	**2 474**	**2 267**

Comment

Total Equity increased over the period of review due to net surplus of $0.206m recorded in 2007-08.

Cash assets of $1.180m, together with non-current Financial assets of $2.000m, increased by $0.731m in 2007-08 due mainly to a Government grant of $0.456m obtained from the Department of Environment, Parks, Heritage and the Arts. This grant will fund the Household Hazardous Waste Pilot Collection Program starting in 2008-09, which is to deliver and promote long-term improved management outcomes for hazardous waste in Tasmania. LGAT, as the coordinator of the Program, will distribute 90% of the funding to regional authorities and retain the remaining to provide administration support. As at 30 June 2008, this grant had been recognised as a current liability of LGAT, ie. unexpended grants, to reflect the nature of funding for this program.

Non-current Financial cash assets of $2.000m were investments which included Principal Protected Yield accrual notes securities, $1.500m, and AUD Floating Rate Medium- term Notes, $0.500m. Those alternative investment arrangements were made in 2007-08 to maximise interest with funds being reinvested.

Receivables were higher in 2007-08 mainly due to higher registration fees and sponsorships outstanding at year end in relation to the Annual conference held in late June 2008.

Similarly, Payables increased in 2007-08 due mainly to invoices outstanding for the annual conference suppliers at year end. The increase was also due to a higher GST liability arising from grant funding (including GST) received in June 2008 with regard to the Household Hazardous Waste Pilot Collection.

The increase in current provisions for employee benefits in 2007-08 was consistent with wage and salary award increases and was also due to an employee becoming eligible for long service leave benefit during the next 12 months.

CASH POSITION – LGAT

	2007-08 General $'000s	2006-07 General $'000s
General receipts	1 300	1 284
Government funding	586	131
Interest received	204	133
Payments to suppliers	(709)	(923)
Payments to employees	(611)	(642)
Cash from (used in) operations	**770**	**(17)**
Payments for property, plant and equipment	(50)	(17)
Proceeds from sale of property, plant and equipment	11	1
Cash (used in) investing activities	**(39)**	**(16)**
Net increase (decrease) in cash	**731**	**(33)**
Cash at the beginning of the year	2 449	2 482
Cash at end of the year	**3 180**	**2 449**

Comment

Cash improved over the period due predominantly to the government grant of $0.502m (including GST) received in June 2008 from the Department of Environment, Parks, Heritage and the Arts discussed previously.

The decrease in Payments to suppliers in 2007-08 was due to timing differences as the annual conference was held in late June 2008 and expenses associated with the conference were invoiced at a later date.

Interest received increased from the prior year due mainly to higher interest rates in 2007-08 and alternative investment arrangements being made to maximise interest on funds invested.

FINANCIAL ANALYSIS – LGAT

	Bench Mark	2007-08 General	2006-07 General
Financial Performance			
Result from operations ($'000s)		206	607
Operating margin	>1.0	1.15	1.44
Underlying result ratio		13.2%	30.7%
Financial Management			
Current ratio	>1	1.4	8.2
Debt collection	30 days	30	20
Creditor turnover	30 days	104	56
Other Information			
Staff numbers (FTEs)		10	11
Average staff costs ($'000s)		64	59
Average leave balance per FTE ($'000s)		14	10

Comment

The financial performance ratios show that LGAT recorded operating surpluses in both years under review, resulting in Operating margins above benchmark and positive Underlying result ratios.

LGAT's Current ratio was above the benchmark in both years indicating it is able to meet all short-term liabilities when they fall due. The lower ratio in 2007-08 was due to the investment in non-current financial assets in that financial year.

LGAT Creditor turnover remained well above the benchmark for the period. This resulted from high number of invoices outstanding at year end due to the annual conference being held in late June. The increase in the Debt collection ratio was also a result of the annual conference with higher registrations fees and sponsorships outstanding as at 30 June 2008.

Average staff costs and Average leave per FTE increased over the period, consistent with wage and salary award increases.

INCOME STATEMENT – LGAT ASSIST

	2007-08 Assist $'000s	2006-07 Assist $'000s
Investment income	81	75
Other operating income	2	2
Total Revenue	**83**	**77**
Other operating expenses	73	52
Total Expenses	**73**	**52**
Surplus	**10**	**25**

Comment

In 2007-08 LGAT Assist recorded a surplus of $0.010m, compared to a surplus of $0.025m in 2006-07. The decrease in operating surplus was mainly due to an increase in non-refundable welfare grants payments to eligible local government employees.

BALANCE SHEET – LGAT ASSIST

	2007-08 Assit $'000s	2006-07 Assist $'000s
Cash Assets	698	677
Receivables	4	3
Financial assets	265	300
Total Current Assets	**967**	**980**
Payables	5	7
Total Current Liabilities	**5**	**7**
Working Capital	**962**	**973**
Financial assets	162	141
Total Non-Current Assets	**162**	**141**
Provisions	0	0
Total Non-Current Liabilities	**0**	**0**
Net Assets	**1 124**	**1 114**
Accumulated surplus	1 124	1 114
Total Equity	**1 124**	**1 114**

Comment

Total equity increased over the period of review due to net surplus of $0.010m recorded in 2007-08.

Assets and liabilities were fairly consistent over the two year. Cash assets represent monies of the Association identified as the former LGAT Welfare Fund (established in 1999) and carried forward to LGAT Assist. These monies are used for the purposes discussed in the Introduction section of this Chapter. The current and non-current financial assets are loans advanced to eligible council employees to provide financial support.

CASH POSITION – LGAT ASSIST

	2007-08 Assist $'000s	2006-07 Assist $'000s
General receipts	2	2
Government funding	0	0
Interest received	80	75
Payments to suppliers	(71)	(51)
Payments to employees	0	0
Cash from operations	**11**	**26**
Loans Advanced	(455)	(380)
Repayments of Loans Advanced	464	420
Cash from financing activities	**9**	**40**
Net increase in cash	**20**	**66**
Cash at the beginning of the year	678	612
Cash at end of the year	**698**	**678**

Comment

Cash remained consistent over the two years.

FINANCIAL ANALYSIS – LGAT ASSIST

	Bench Mark	2007-08 Assist	2006-07 Assist
Financial Performance			
Result from operations ($'000s)		10	25
Operating margin	>1.0	1.14	1.48
Underlying result ratio		12.0%	32.5%
Self financing ratio		13.3%	33.8%
Financial Management			
Current ratio	>1	193.4	140.0
Creditor turnover	30 days	35	39

Comment

The Financial Performance ratios show LGAT Assist recorded operating surpluses in each year of the review, resulting in Operating margins above benchmark and positive Underlying result ratios.

Current ratio was well above the benchmark in each year indicating it was able to meet all short-term liabilities when they fell due.

RIVERS AND WATER SUPPLY COMMISSION

INTRODUCTION

The Rivers and Water Supply Commission (the Commission or RWSC) operates under the *Rivers and Water Supply Commission Act 1999*. The Commission comprises four members appointed by the Governor. It operates solely within the water supply industry.

The Commission undertakes a number of activities and functions. These include:

- the administration of water districts in accordance with Section 5(2) of the *Rivers and Water Supply Commission Act 1999*
- the management of property of the Crown or the Commission and other property related to the administration of such districts
- the provision of project management and development services in the commercial water industry and related industries
- such other functions related to the commercial water industry as the Minister directs.

The Commission owns and operates the South-East Irrigation Scheme supplying irrigated water to farmers along the Coal River from Craigbourne Dam to Richmond and via pipeline supply through to Cambridge.

During 2003-04 the Minister appointed the Commission as the responsible water entity for the Clyde Irrigation Scheme. This scheme came into operation in the 2004-05 financial year. Whilst the Commission has taken over responsibility for the Clyde Irrigation Scheme, the Clyde Water Trust continues as a separate independent entity and remains the owner of the Clyde Irrigation Scheme assets.

The Commission owns the scheme infrastructure of the Cressy-Longford and Winnaleah Irrigation Schemes, which are now managed for the Commission by irrigators of these schemes via Cressy-Longford Irrigation Scheme Limited and Winnaleah Irrigation Scheme Limited respectively. These are two private companies owned by the Commission.

The Commission ceased to administer the Meander Valley Irrigation Scheme during the 2004-05 financial year. At 30 June 2005 the Commission sold its properties to the then Department of Primary Industries, Water and Environment (DPIWE) to facilitate the private consortium development of the proposed Meander Dam.

In February 2006 the then Minister for Primary Industries and Water issued a Ministerial Direction to the Commission under section 6(2) of the *Rivers and Water Supply Commission Act 1999* to undertake the function of construction and operation of a dam on the Meander River for the purposes of irrigation and a mini hydro electric station. The Meander Dam commenced operation during 2007-08 and the total cost of the project was $38.650m. This was funded by a combination of borrowings, equity contributions from government and internal funds. Impairment losses for this project amounted to $6.977m for the year ended 30 June 2008.

AASB 136 *Impairment of Assets* prescribes that the carrying value of assets be no more than their recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. RWSC engaged an external specialist to model the value of the future cash flows expected to be generated from the Meander Dam. This resulted in the impairment of $6.977m.

The Commission also owns the following water supply schemes:

- Prosser River Water Supply Scheme - operated and administered by the Glamorgan Spring Bay Council, supplying water in bulk to the Orford and Barton Avenue areas of Glamorgan Spring Bay and to the Triabunna Woodchip Mill and other smaller industries
- Togari Water Scheme - supplying water for stock and dairy sheds for 45 properties within the Togari District.

The Commission also operates three drainage and river improvement schemes throughout the State, including the Welcome and Montagu River Schemes and the Furneaux Drainage Scheme.

The Responsible Minister is the Minister for Primary Industries and Water.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

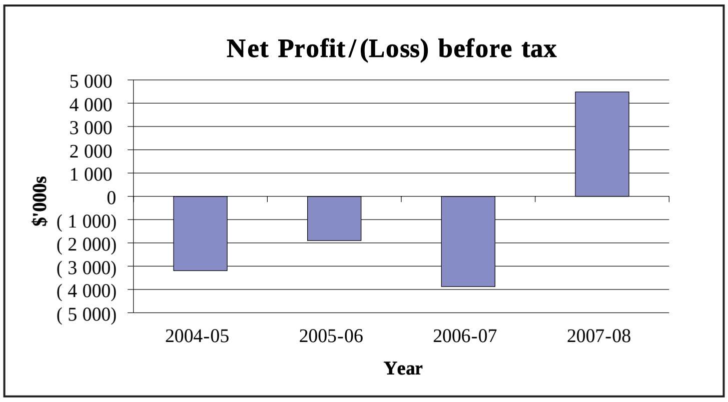
Initial signed financial statements were received on 15 august 2008, with final signed financial statements were received on 29 October 2008 and an unqualified audit report was issued on 30 October 2008.

The audit was completed satisfactorily with no major issues outstanding other than the late submission of financial statements.

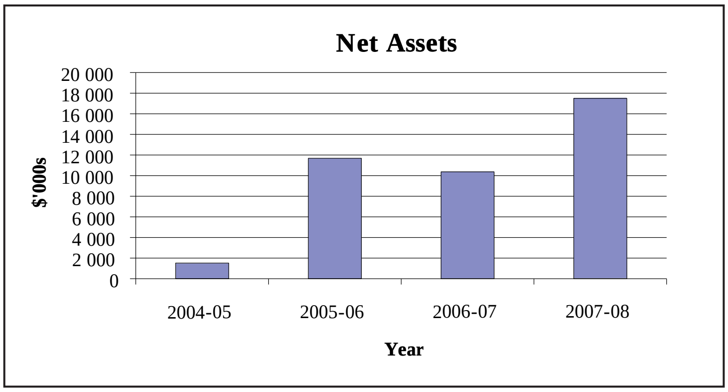
FINANCIAL RESULTS

The Commission made losses in three of the past four years with 2007-08 being an exception due to the money received from the sale of water rights following commissioning of the Meander Dam.

In previous financial years the Commission operated at net losses despite receipt of subsidies from the State Government. To a large extent these losses arose from asset impairments.



The main reason for the increase in net assets, as shown below, was the State and Commonwealth capital contributions towards the Meander Dam project and the profit generated in 2007-08.



INCOME STATEMENT

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Irrigation rights	10 126	441	0	0
Water rates and charges	1 503	1 371	1 199	922
State Government interest contribution	1 040	201	365	567
Other operating revenue	937	126	220	89
Gain on sale of assets	11	44	15	655
Total Revenue	**13 617**	**2 183**	**1 799**	**2 233**
Empoyee expenses	92	395	254	287
Borrowing costs*	52	251	423	648
Depreciation	544	683	758	684
Write-down of assets	194	149	27	855
Impairment losses	6 977	2 071	1 530	2 197
Other operating expenses	1 273	983	709	756
Total Expenses	**9 132**	**4 532**	**3 701**	**5 427**
Profit (Loss) before:	**4 485**	**(2 349)**	**(1 902)**	**(3 194)**
Derecognition of deferred tax asset	0	(1 529)	0	0
Profit (Loss) before Taxation:	**4 485**	**(3 878)**	**(1 902)**	**(3 194)**
Income tax (benefit)	0	0	(571)	(958)
Net Profit (Loss)	**4 485**	**(3 878)**	**(1 331)**	**(2 236)**

** Borrowing costs of $1.493m were capitalised (2006-07, $0.340m).*

Comment

The Commission's operations resulted in both before and after tax losses in three of the four years under review, due to insufficient revenue earned from water and irrigation schemes. Losses were generated even after excluding the significant impairment losses (discussed later). An exception to this was 2007-08, where additional water charges including the sale of irrigation rights were possible with the Meander Dam project coming on line during that year. The additional revenue from this source totalled $9.805m. This additional revenue however was significantly offset by an increase in the impairment of the Meander Dam and associated infrastructure based on projected forward water revenues.

There were 24 000 megalitres of irrigation rights available for allocation, 7 000 of which were sold during 2007-08 for $1 000 each. The ownership of the irrigation right license permanently passes to the purchaser upon full payment of the license.

Due to the low probability of future taxable profits, an income tax benefit was not recognised in 2007-08.

As designated by the Department of Treasury and Finance the annual contribution from Government is treated as part capital contribution to equity and part interest revenue, on the basis that such funding is made for the purpose of meeting capital costs of borrowing undertaken to fund the construction of the Commission's irrigation schemes. In 2007-08 the revenue contribution was $1.040m, considerably higher than in prior years and was aimed at funding higher interest costs incurred as a result of borrowings to pay for the Meander Dam. The equity contribution was $1.675m which is discussed further under the Balance Sheet section.

Other significant changes in line items in the Income Statement over the period included:

- Other operating revenue increased $0.811m from 2006-07 to 2007-08 due to first time recognition of water stock, $0.450m; interest on Meander River irrigation 10 year fixed plans, $0.121m; and electricity generation, $0.108m.

- Employee expenses increasing by $0.108m or 37% from 2004-05 to 2006-07 due to increased activity associated with the Meander Dam project, and subsequently decrease in 2007-08 once the project was completed.

- Borrowing costs reduced in line with the reduction in Commission loans. During the construction phase interest on borrowings needed for the Meander Dam project were capitalised, $1.493m in 2007-08 ($0.340m, 2006-07).

- Depreciation included an increase in dam depreciation from 2006-07 to 2007-08 of $0.153m, offset by a decrease in water infrastructure depreciation of $0.286m. The decrease in water infrastructure depreciation resulted from the infrastructure balance for 2007-08 being lower for the major part of 2007-08 than the balance for 2006-07.

- Impairment losses of $12.775m over the period. These impairments (asset write downs) arise from application of accounting standard AASB 136 *Impairment of Assets*. Under this accounting standard, where an indicator of impairment of a Commission asset or assets was identified, the Commission, which is a "for profit" entity for accounting purposes, is required to ensure that the carrying values of its assets do not exceed their recoverable amount determined on a discounted cash flow basis. Because of the low revenue from the Commission's schemes, the recoverable amount of the schemes' assets continues to be significantly less than their carrying amount. These write-downs increased significantly in 2007-08 to $6.977m as a result of forward projections in the sale of water rights from the Meander Dam.

BALANCE SHEET

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Cash	2 013	1 094	446	210
Receivables	3 887	2 127	669	181
Investments	1 081	607	2 592	454
Water stock	490	165	171	171
Total Current Assets	**7 471**	**3 993**	**3 878**	**1 016**
Payables	803	2 631	742	121
Unearned revenue	893	6 301	2 900	0
Borrowings	991	4 475	3 311	2 440
Employee Provisions	69	192	169	144
Total Current Liabilities	**2 756**	**13 599**	**7 122**	**2 705**
Working Capital	**4 715**	**(9 606)**	**(3 244)**	**(1 689)**
Property, plant and equipment	36 778	30 489	14 332	6 547
Other	426	426	1 955	1 385
Total Non-Current Assets	**37 204**	**30 915**	**16 287**	**7 932**
Borrowings	24 087	10 546	1 000	4 305
Employee Provisions	338	394	358	419
Total Non-Current Liabilities	**24 425**	**10 940**	**1 358**	**4 724**
Net Assets	**17 494**	**10 369**	**11 685**	**1 519**
Reserves	965	0	0	0
Accumulated losses	(23 187)	(27 672)	(23 794)	(22 462)
Government Contributions - State	37 116	35 941	33 379	23 981
Government contributions - Commonwealth	2 600	2 100	2 100	0
Total Equity	**17 494**	**10 369**	**11 685**	**1 519**

Comment

Total Equity increased from $1.519m at 30 June 2005 to $17.494m at 30 June 2008. While a number of balances varied compared to the position at 30 June 2005, the main reasons for this $15.975m improvement were:

- State capital contribution for irrigation loan repayments which enabled the Commission to repay debt of a similar amount
- State capital contribution towards the Meander Dam project, offset by
- Commonwealth capital contribution towards the Meander Dam project, offset by
- Net Losses over the period.

A number of other balances on the Balance Sheet varied over the period under review, for the following reasons:

- Receivables for 2007-08 comprised:
  - fixed repayment plan, $3.056m (2006-07, Nil)
  - accrued revenue, $0.459m (2006-07, $1.410m)
  - debtors, $0.327m (2006-07, $0.739).
- Fixed repayment plan is related to the water sales and irrigation rights for the Meander Dam. Purchasers of the Meander Dam irrigation rights can enter into 5 or 10 year fixed repayment plans.
- The sale of the Meander Dam water irrigation rights represents unearned revenues giving rise to the $0.893m current liability. These sales are in relation to the purchase of future rights to be supplied with water for irrigation purposes and are in the form of an agreement
- Property, plant and equipment increased $30.231m over the four year period due mainly to the Meander Dam project. The total cost of the project was $38.650m. Impairment losses for this project amounted to $6.977m for the year ended 30 June 2008.
- Borrowings and payables increased by $19.782m due mainly to the Meander Dam project
- Non-current employee provision primarily represented the Commission's superannuation liability.
- Reserves increased by $0.965m as a result of the revaluing of the following assets; Prosser River Water Supply Scheme assets ($0.538m), South East Irrigation Scheme assets ($0.170m), Togari Water Supply assets ($0.018m) and the Winnaleah Irrigation Scheme assets ($0.240m).

CASH POSITION

	2007-08	2006-07	2005-06	2004-05
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	4 792	3 401	3 612	1 037
Payments to suppliers and employees	(3 243)	(1 196)	(824)	(1 120)
Interest received	45	57	45	24
Borrowing costs	(55)	(260)	(423)	(648)
Contribution from State government	688	554	365	567
Other	407	46	607	151
Cash from operations	**2 634**	**2 602**	**3 382**	**11**
Payments for property, plant and equipment	(13 038)	(17 256)	(3 393)	(77)
Proceeds from sale of property, plant and equipment	66	44	15	655
Cash from (used in) investing activities	**(12 972)**	**(17 212)**	**(3 378)**	**578**
Capital contribution from Government	1 675	2 561	4 797	2 196
Proceeds from borrowings	26 195	31 295	1 135	206
Repayment of borrowings	(16 137)	(20 584)	(3 562)	(2 851)
Cash from (used in) financing activities	**11 733**	**13 272**	**2 370**	**(449)**
Net increase (decrease) in cash	**1 395**	**(1 338)**	**2 374**	**140**
Cash at the beginning of the year	1 700	3 038	664	524
Cash at end of the year	**3 095**	**1 700**	**3 038**	**664**

Comment

This Chapter noted previously that Borrowings of over $25.000m were made available for the construction of the Meander Dam and a further equity contribution was made to assist the Commission to service debt. Part of the amount made available was expended by the Department of Primary Industries and Water on behalf of the Commission, with the Commission recording the asset on its Balance Sheet and the funding as contributions recorded directly in Equity. This transaction did not therefore impact either the Income Statement or the Cash Flow Statement. For this reason, these funds do not appear as cash receipts in the table above.

Reasons for variations in receipts and payments, as well cash balances reflect comments made previously in the Income Statement and Balance Sheet sections of this Chapter.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06	2004-05
Financial Performance					
Result from operations ($'000s)		4 485	(2 349)	(1 902)	(3 194)
EBIT ($'000s)		4 537	(2 098)	(1 479)	(2 546)
Operating margin	>1.0	0.38	0.37	0.48	0.29
Return on assets		11.4%	(7.6%)	(10.2%)	(9.3%)
Return on equity		32.2%	(35.2%)	(20.2%)	(11.9%)
Financial Management					
Debt to equity		143.4%	144.9%	36.9%	444.0%
Debt to total assets		56.1%	43.0%	21.4%	75.4%
Interest cover	>2	87.3	(8.4)	(3.5)	(3.9)
Current ratio	>1	2.71	0.29	0.54	0.38
Cost of debt	7.5%	0.3%	2.6%	7.7%	9.5%
Debt collection	30 days	89	189	96	13
Returns to Government					
Dividends paid or payable ($'000s)		0	0	0	0
Income tax paid or payable ($'000s)		0	0	0	0
Total return to the State ($'000s)		0	0	0	0
Other Information					
Staff numbers (FTE)		8	12	7	4
Average staff costs ($'000s)		53	61	55	71
Average leave balance per FTE ($'000s)		50	49	75	139

Comment

Impairment losses in all four years substantially contributed to the negative Results from operations in three of those years. Excluding these write-downs the Results from operations would have been a gain of $11.462m in 2007-08 and losses of $0.278m for 2006-07, $0.372m for 2005-06 and $0.997m for 2004-05.

Debt collection days increased significantly due to the inclusion of large invoices for Meander Dam irrigation rights, due in June 2007. These reduced in 2008 as a result of the Meander Dam project being completed.

Current ratio was well above the benchmark in 2007-08, due mainly to revenues being earned from the Meander Dam project.

As the Commission previously made significant losses there were no payments of taxes or dividends.

THE NOMINAL INSURER

INTRODUCTION

The Nominal Insurer is an independent statutory body established under section 121 of the *Workers Rehabilitation and Compensation Act 1988* (the Act). Its main purpose is to ensure that injured workers are not disadvantaged in circumstances where employers or licensed insurers are unable to fulfil their legal obligations.

Membership of the Nominal Insurer's board comprises representatives of licensed insurers (3), self-insurers (1), the Responsible Minister (1) and the Treasurer (1). Its core activity is to manage claims lodged under the workers compensation legislation. Recently, its function was extended to address the collapse of the HIH Group, injuries arising from an act of terrorism and an increase in weekly compensation payments for injuries dating back to July 2001.

The Nominal Insurer operates four separate accounts set-up for specific purposes. Financial statements were prepared on an aggregate basis combining the four accounts into one report.

The Responsible Minister is the Minister for Justice.

AUDIT OF THE 2007-08 FINANCIAL STATEMENTS

Signed financial statements were received on 18 December 2008 and an unqualified audit report was issued on the same day.

The Act requires the Nominal Insurer to provide to the Auditor-General financial statements within 45 days after the end of the financial year. Furthermore, the Act requires the Responsible Minister to table the annual report, which incorporates financial statements, in each House of Parliament within 4 months after the end for the financial year.

Other than non-compliance with statutory reporting deadlines, the audit was completed with satisfactorily with no other major issues outstanding.

FINANCIAL RESULTS

The Nominal Insurer continues to collect sufficient amounts of contributions and levies to cover its legal responsibilities and repay funds borrowed to meet is obligations following the collapse of the HIH Group. Monies recovered from the liquidation of the HIH Group of insurance companies further contributed to the reduction of the Nominal Insurer's debt.

INCOME STATEMENT

	2007-08	2006-07	2005-06
	$'000s	$'000s	$'000s
Insurers' contributions	5 256	5 426	5 632
Adjustment to dividend from liquidator	736	1 402	1 794
Reimbursements and recoveries	31	158	2 079
Interest	6	11	19
GST refunds	0	20	43
Total Revenue	**6 029**	**7 017**	**9 567**
Claims	575	214	6 783
Redemptions	38	169	96
Administration expenses	95	88	97
Interest	601	962	1 322
Total Expenses	**1 309**	**1 433**	**8 353**
Net Surplus	**4 720**	**5 584**	**1 214**

Comment

The Nominal Insurer is not an insurance company, as it does not enter into insurance contracts with policyholder nor does it receive insurance premiums or provide reinsurance. Its operations are funded by:

- contributions from licensed insurers and self-insurers
- a levy on all policy holders, self-insurers and government agencies
- recoveries from failed insurers and employers.

Surpluses reported over the past three years totalled $11.518m and were used predominantly to repay money borrowed to cover liabilities of the collapsed HIH Group. It is important to understand that the Nominal Insurer does note have profit generation as its prime objective and any surpluses will ultimately be refunded to the licensed insurers and self-insurers in proportion to their contributions.

Insurers' contributions are the main source of income and comprise contributions from licensed insurers and self-insurers and levies collected from policy holders, self-insurers and government agencies. The amount collected remained relatively steady over the past three years.

The Nominal Insurer has claims as accreditation against companies within the former HIH Group (HIH Casualty and General Insurance Limited, FAI General Insurance Company Limited and CIC Insurance Company Limited). Estimated future recoveries are reassessed by the HIH Group liquidator annually. The amount expected to be recovered (recognised in Receivables on the Balance Sheet) is then adjusted based on the advice. This adjustment may result in either recognition of additional revenue or write-back of previously recognised income. Adjustment to dividend from liquidator over the past three years reflected the reassessment of future recoveries upwards by $3.932m in total. It is unlikely that the estimated dividend will increase much further in future years although the complexity of the liquidation process, involving numerous factors, makes this difficult to estimate.

Income from reimbursements and recoveries of $0.031m ($0.158m in 2006-07) was less than the 2005-06 total of $2.079m due in part to a one-off payment of $1.978m received that year from the HIH Group liquidator.

Claims expenses reduced significantly when compared with $6.783m in 2005-06. The reduction was due to the assignment of liability to CGU Insurance Limited (CGU) for all existing and future claims in respect of the HIH Group for a one-off payment of $6.287m made by the Nominal Insurer in July 2005.

BALANCE SHEET

	2007-08	**2006-07**	**2005-06**
	$'000s	$'000s	$'000s
Cash	180	886	455
Receivables	3 092	5 269	4 612
Other receivable	1	0	14
Total Current Assets	**3 273**	**6 155**	**5 081**
Total Assets	**3 273**	**6 155**	**5 081**
Outstanding claims	600	480	659
Borrowings	4 949	12 648	17 785
Provisions	40	40	40
Other payable	0	1	1
Total Current Liabilities	**5 589**	**13 169**	**18 485**
Outstanding claims	784	806	0
Total Non-Current Liabilities	**784**	**806**	**0**
Total Liabilities	**6 373**	**13 975**	**18 485**
Net Liabilities	**(3 100)**	**(7 820)**	**(13 404)**
Insurance funds (Deficit)	(3 100)	(7 820)	(13 404)
Equity(Deficit)	**(3 100)**	**(7 820)**	**(13 404)**

Comment

Surpluses in the last three years contributed to the reduction in Equity Deficit from $13.404m to $3.100m. The negative equity is expected to continue reducing through collections of special contributions and recoveries from the HIH Group liquidation.

The Nominal Insurer does not hold large amounts of cash as collections of contributions and dividends received are used to repay borrowings and settle claims. In the current year, the Cash balance dropped to $0.180m mainly due to repayments of borrowings.

The current year's Receivables balance reduced by $2.177m, reflecting payments received of $2.913m during the year and the increase in the estimated dividend from the liquidator of $0.736m.

Total Outstanding claims remained steady over the past three years.

Contingent Asset

Following the HIH collapse, The Nominal Insurer provided workers compensation payments to claimants of the former HIH Group as the insurer of last resort, resulting in around $37.600m being paid out. The Nominal Insurer has funded these payments through borrowings. In 2004 the State Government assigned liability for all existing and future claims in respect of the HIH Group to CGU. This effectively capped The Nominal Insurers liability to HIH Group claimants.

As mentioned previously, estimated future recoveries are reassessed by the HIH Group liquidator annually. The Nominal Insurer has the power under legislation to charge a levy on insurance premiums to recoup any shortfall between claims paid and the estimated recovery from the liquidator. Until a call to raise a levy is made, the amount is not recognised as a receivable on the balance sheet. Instead, a contingent asset is disclosed within the notes to the financial report. The amount cannot be reliably measured due to fluctuating loan balances, variable loan interest rates, fluctuating claims, fluctuating recoveries and fluctuating insurance levies raised on insurance premiums in any given year. The table below shows the estimated contingent asset:

	2007-08	**2006-07**	**2005-06**
	$'000s	$'000s	$'000s
Borrowings at 30 June	4 949	12 648	17 785
Less expected divided to be received			
from the liquidator of HIH Group	(3 092)	(5 269)	(4 612)
Contingent Asset	**1 857**	**7 379**	**13 173**

CASH POSITION

	2007-08	**2006-07**	**2005-06**
	$'000s	$'000s	$'000s
Insurers' contribution	5 256	5 427	5 632
Reimbursement from official liquidator	2 913	1 402	1 794
Claims recovery	31	142	97
Reinsurance recovery	0	15	1 979
Interest received	6	11	19
Claims expenses	(459)	(213)	(6 777)
Step-down provision payments	(39)	(169)	(96)
Payments to suppliers and employees	(89)	(89)	(90)
Other	(25)	5	
Cash from operations	**7 594**	**6 531**	**2 535**
Repayment of borrowings	(7 699)	(5 138)	(8 027)
Interest paid	(601)	(962)	(1 322)
Cash (used in) financing activities	**(8 300)**	**(6 100)**	**(3 349)**
Net increase (decrease) in cash	**(706)**	**431**	**(814)**
Cash at the beginning of the year	886	455	1 268
Cash at end of the year	**180**	**886**	**454**

Comment

As mentioned previously, the Nominal Insurer utilises cash collected from insurers and the HIH liquidator to pay claims, repay its borrowings and cover administration costs.

Cash from operations increased by $5.062m in the current year and was mainly due to higher proceeds from the liquidation of the HIH Group. The higher receipts allowed the Nominal Insurer to repay a further $7.699m of its debt. In total, the Nominal Insurer repaid $20.864m of borrowings over the last three years. Overall, cash held decreased by $0.707m to $0.180m.

FINANCIAL ANALYSIS

	Bench Mark	2007-08	2006-07	2005-06
Financial Performance				
Result from operations ($'000s)		4 720	5 584	1 214
Operating margin	>1.0	4.61	4.90	1.15
Financial Management				
Debt to equity		(159.6%)	(161.7%)	(132.7%)
Debt to total assets		(151.2%)	(205.5%)	(350.0%)
Interest cover	>2	8	6	1
Current ratio	>1	0.59	0.47	0.27
Cost of debt	7.5%	6.8%	6.3%	7.4%

Comment

The Financial Performance ratios showed the Nominal Insurer recorded operating surpluses in all three years under review. The Operating margin indicated strong surpluses each year, but as mentioned earlier, surpluses generated were used to reduce the negative equity and any remaining surpluses will ultimately be refunded to contributors.

Following the collapse of the HIH Group, the Nominal Insurer borrowed funds to meet its newly assumed obligations. This resulted in unusual levels of Debt to equity, Debt to total assets and Current ratios. Regardless, these ratios improved over the period under review as a result of repayments made during the past three years.

Both the Interest cover and Cost of debt ratios were above the benchmark. The Interest cover ratio indicated that the Nominal Insurer was more than capable of meeting its interest payments.

OTHER STATE ENTITIES
REPORTING AT 31 DECEMBER 2008

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.

During 2008 the Australian Maritime College (AMC) was established as an Institute within the University. AMC has a fully owned subsidiary, AMC Search Limited. The integration resulted through the passing of the *Maritime Legislation Amendment Act 2007*, with all AMC assets and liabilities transferred to the University, effective 1 January 2008.

The Consolidated financial report comprises the financial statements of the University, being the parent entity, and entities under its control during the financial year. The controlled entities are University of Tasmania Foundation Inc, UTAS Innovation Limited, AMC Search Limited and Southern Ice Porcelain Pty Ltd.

The Commonwealth Department of Education, Employment and Workplace Relations (DEEWR) set financial reporting guidelines that Universities must adhere to. These requirements are consistent with Australian Accounting Standards and the University complies with these guidelines and standards.

The University reports on a calendar year basis, hence the financial results relate to the year ended 31 December 2008. The results reported in this Chapter relate to the University's consolidated financial performance.

The Responsible Minister is the Minister for Education and skills.

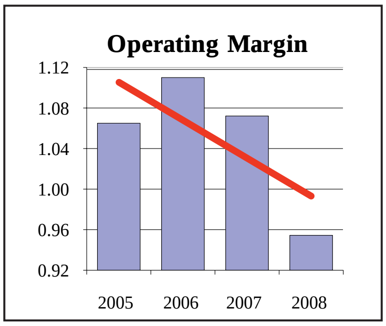
AUDIT OF THE 2008 FINANCIAL STATEMENTS

Signed financial statements were received on 13 February 2009 and an unqualified audit report was issued on 20 February 2009. Completion of the financial report by the University's finance staff for approval by the University Council by 13 February 2009 was significantly earlier than prior years.

The audits of the University's financial statements, and those of its various subsidiary entities, were completed successfully with no material matters outstanding.

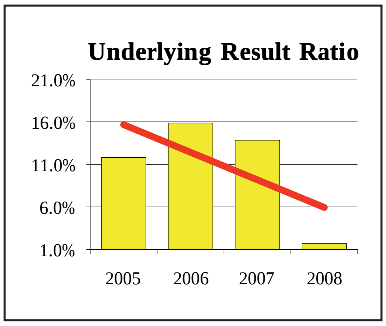
FINANCIAL RESULTS

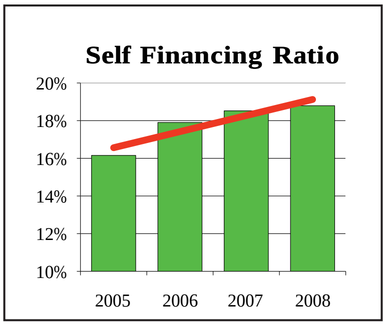
The following five graphs summarise key ratios highlighting important aspects of the University's financial performance over the past four years. In general, the ratios indicate:



The Operating margin was above or close to the expected benchmark of one in all four years. It was low in 2008 predominantly due to investment losses on the University's investment portfolio.

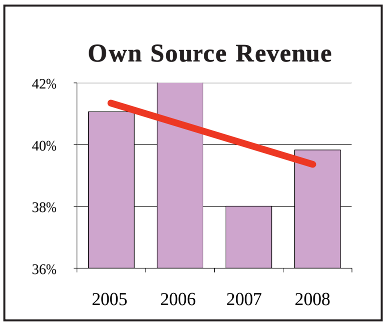
The Underlying results ratio moved in line with the Operating margin. The ratio is derived from the Net Surplus before taxation and AMC integration divided by operating revenue.

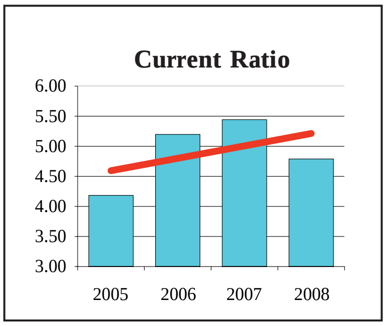




The Self financing ratio increased in each year of the review period. The ratio is derived from the net operating cash flow divided by operating revenues and assists to measure the University's ability to fund the replacement of assets from operational cash flows. The improvement was, to a large extent, due to the University's net operating cash flow increasing over the period.

The Own source revenue percentage shows that the University generated the majority of its operating revenue from Commonwealth funding with the percentage decreasing to 40% in 2008 (2005, 41%).





The Current ratio was above the benchmark of one in all four years indicating that the University was able to meet all short-term liabilities.

INCOME STATEMENT

	2008	2007	2006	2005
	$'000s	$'000s	$'000s	$'000s
State government grants	19 512	17 901	9 691	9 437
Commonwealth grants	241 123	210 295	174 430	159 301
Higher Education Contributions scheme	48 513	42 737	42 870	41 744
User charges and fees	49 513	38 743	36 732	34 293
Other operating revenue	48 043	30 348	33 804	24 122
Investment revenue	23 282	27 279	22 576	16 495
Non-operating revenue	3 170	802	(1 536)	921
Total Revenue	**433 156**	**368 105**	**318 567**	**286 313**
Academic salary costs	116 139	93 889	83 195	77 503
Non-academic salary costs	96 365	80 701	71 407	64 665
Depreciation	16 810	14 846	16 022	15 817
Repairs and maintenance	16 592	13 937	11 705	12 685
Investment losses	51 031	13 162	0	0
Other operating expenses	128 909	100 617	85 708	81 817
Total Expenses	**425 846**	**317 152**	**268 037**	**252 487**
Net surplus before taxation	**7 310**	**50 953**	**50 530**	**33 826**
Income Tax Expense	3	(2)	2	10
Net surplus after taxation and before AMC integration	**7 307**	**50 955**	**50 528**	**33 816**
Income recognised upon integration with AMC	62 775	0	0	0
Surplus for the year	**70 082**	**50 955**	**50 528**	**33 816**

Comment

When assessing the University's financial performance, it needs to be borne in mind that the operating result includes revenues for capital, infrastructure, reasearch and other restricted purposes. In accordance with Accounting Standards, the University records all grant revenue as income at the time it controls the receipt, irrespective of whether the grant is for an operating, capital or other purpose. In this regard, the University includes in the notes to its financial statements (note 14 Equity) details of funds earned that may not be "operational" in nature.

In 2008 the net surplus before tax decreased by $43.643m (or 86%) due primarily to revenue increasing by $54.931m or 15% and expenditure increasing by $98.574m or 32%. During the period 2005 to 2007, the University enjoyed considerable growth in revenues, increasing by $68.630m or 24%. At the same time, expenditure growth was controlled increasing by $51.503m or 20% over this period resulting in the net surplus before tax increasing by $17.127m or 51%. The explanations for these variances are detailed below.

Details include:

		2008	2007
		$'000s	$'000s
Capital grants	note (i)	23 449	2 000
Restricted funds	note (ii)	804	30 466
Balance of operating result	note (iii)	(16 943)	18 487
Net surplus before taxation		**7 310**	**50 953**

Note (i): Capital grants were $23.449m of Capital Development pool monies from the Commonwealth Government for specific capital projects (2007, $2.000m). In 2008 capital grants consisted of $5.993m Capital Development Pool funds (2007, $2.000m), $11.456m from Better Universities Renewal Fund and $6.000m from the State Government for the Health Sciences Co-location project.

Note (ii): In the main this represented cash flows generated from research grant funds, which have still to be expended for the purposes intended. The timing of receipt of such grants will impact the extent of operating surplus existing at a point in time, in this case 31 December. During the 2007 financial year the University generated approximately $8.583m more in research funds received than had been spent and $19.650m for non-research contracts, including the Integrated Marine Observing System (IMOS). However, the commitment to spend these monies for the appropriate purposes remains. Also included in the $30.466m was $2.565m being the net surplus in that year generated by the University Foundation Inc. These surpluses are also 'restricted'. The income generated from these sources dropped in 2008 due to the impact of the IMOS on the result, due to early receipt funding in 2007. The net result of IMOS on restricted funds in 2008 was a deficit of $3.605m (2007, $20.779m).

Note (iii): The balance of the operating result included investment income. In 2007 investment gain was $14.117m. The University enjoyed strong investment returns in 2007 due to the strength of the Australian equities markets. The 2008 operating result was significantly impacted by the performance of financial markets in 2008, with a net investment loss of $27.490m.

Further analysis of the Income Statement indicates that:

- State government grants remained relatively consistent in 2008 and included a State government grant of $6.000m toward the Health Sciences Co-location project. The increase of $8.210m between 2006 and 2007 was due primarily to increased funding of $3.309m from the Tasmanian Institute of Agricultural Research and $3.819m in relation to asset transfers from the State Government under the SmartFarms project
- Commonwealth grant funds represented the University's major source of funding comprising 59% of total revenue (2007, 59%; 2006, 54%; 2005, 56%)
- User charges and fees primarily included fee-paying overseas students and accommodation charges. The increase in User charges and fees of $10.770m between 2007 and 2008 related mainly to increased fee-paying overseas students of $6.761m (included AMC of $3.000m) and increased accommodation charges of $3.362m (included AMC of $2.000m)
- Other operating revenue included consultancy and contract research, donations and bequests, investment income, scholarships and prizes and miscellaneous income. The increase in other operating revenue of $17.436m in 2008, related primarily, to increased contract revenue of $2.931m, increased industry and other research of $2.238m, increased miscellaneous revenue of $4.269m and a refund which related to the GST treatment of accommodation services of $2.847m.
- Staff costs represented 57% of Total Expense before accounting for investment losses (2007, 57%; 2006, 58%; 2005, 56%). The increase in Academic staff and Non-Academic staff salary costs over the period 2005 to 2007 was $32.422m or 22.81%, which primarily related to:
    - higher direct costs, due to enterprise bargaining increases and adjustments to staff superannuation liabilities

- an increase in the number of full time equivalent employees (FTEs). FTEs increased by 88 in 2007 which, at an average salary cost of $85 000 (see Financial Analysis section of this Chapter) resulted in an increase of $7.480m or 4.84% in 2007

- the increase in Academic staff and Non-Academic staff salary between 2007 and 2008 was $37.914m or 21.72%, which primarily related to:
    - the integration of AMC, previously mentioned. FTEs increased by 209, which amounted to increased salaries of approximately $17.770m, based on 2007 salaries
    - employees received a 4.5% increase for 2008
    - the impact of a reduction in the discount rate at 31 December 2008, which increased the present value of the non-current portion of the long service leave and superannuation provisions by $6.213m

- Depreciation increased in 2008 primarily due to the addition of property, plant and equipment from the integration of AMC of $49.226m. Depreciation decreased by $1.176m in 2007 mainly due to the depreciation rate for buildings reducing from 2.0% to 1.33%, effective from 1 January 2007. The depreciation rate was changed after a review was performed on the depreciation rates of land and buildings, subsequent to a revaluation undertaken in 2006

- Repairs and maintenance expenses remained relatively consistent over the period of review. Repairs and maintenance expenses increased by $2.655m in 2008 due primarily to buildings of $32.512m and equipment of $8.977m acquired in relation to the integration with AMC, mentioned previously

- Other operating expenses included scholarships and prizes, non-capitalised equipment and maintenance, travel and staff development, consumables, consultancy services and other expenditure. The increase in Other operating expenses in 2008 was primarily due to increases of $13.849m in consultancy services and research sub-contractors (included IMOS of $10.000m and AMC of $1.000m)), $3.147m in consumables (AMC, $1.200m) and $2.430m in scholarships and prizes

- in addition, there were net investment losses in 2008 due to the down turn in the market of $27.749m.

BALANCE SHEET

	2008 $'000s	2007 $'000s	2006 $'000s	2005 $'000s
Cash	16 365	23 259	27 792	11 008
Receivables	16 388	18 688	8 937	9 590
Financial assets at fair value	213 079	198 081	166 089	137 969
Inventories	691	636	170	161
Non current assets held for sale	0	0	0	11 265
Other	6 229	5 062	3 447	4 120
Total Current Assets	**252 752**	**245 726**	**206 435**	**174 113**
Payables	16 813	13 358	10 171	15 678
Provisions	22 598	19 253	18 482	17 334
Other	13 368	12 536	11 067	8 607
Total Current Liabilities	**52 779**	**45 147**	**39 720**	**41 619**
Working Capital	**199 973**	**200 579**	**166 715**	**132 494**
Investments	2 059	2 764	2 764	1 395
Property, plant and equipment	438 132	358 589	355 531	286 350
Other	12 408	9 261	8 230	9 973
Total Non-Current Assets	**452 599**	**370 614**	**366 525**	**297 718**
Provisions	31 860	25 647	25 099	26 373
Total Non-Current Liabilities	**31 860**	**25 647**	**25 099**	**26 373**
Net Assets	**620 712**	**545 546**	**508 141**	**403 839**
Restricted Funds	93 047	92 243	61 778	45 511
Reserves	239 529	234 445	247 995	194 221
Retained surpluses	288 136	218 858	198 368	164 107
Total Equity	**620 712**	**545 546**	**508 141**	**403 839**

Comment

Over the period under review Total Equity improved strongly growing by $216.873m or 53.70%. This was primarily due to:

- Net surpluses after taxation but before AMC integration of $108.790m. As noted under the Income Statement section of this Chapter, much of this resulted from the receipt of special purpose or other restricted funds of $47.536m during the period under review
- Revaluations of Non-current assets over this period totalling $45.308m
- Net assets recognised upon the initial integration with AMC of $62.775m.

Movements in other Balance Sheet line items between 2005 and 2008 are summarised below:

- Cash and Financial assets at fair value increased by $8.104m in 2008 due to funding received not yet spent. The cash and financial assets on hand increased by $27.459m between 2006 and 2007 due to Commonwealth funding received not yet spent and strong investment returns. The University's strong investment and cash position results in a healthy net working capital of $199.973m. However, this is before taking into account commitments for capital works, research obligations and other restrictions on University resources referred to under the Income Statement section

- Receivables increased by $9.751m between 2006 and 2007 primarily due to a receivable due from DEEWR (IMOS) of $8.295m not present in 2006. Receivables remained relatively consistent in 2008

- Non-current assets held for sale, $11.265m in 2005, represented properties owned by the University, which were used to provide accommodation to students. These properties were disposed of during 2006

- Property, plant and equipment increased by $79.543m in 2008 and by $151.782m over the period. Land was revalued upward by $4.950m in 2008 and there were additions totalling $91.905m, which primarily comprised:

    - property, plant and equipment of $49.226m due to the integration of AMC, mentioned previously

    - work in progress totalling $33.544m, due mainly to the Health Sciences Co-Location project. At 31 December 2008 the University was committed to further expenditure of $23.011m in relation to this project

    - plant and equipment additions totalling $6.809m primarily consisted of scientific and administrative equipment and motor vehicles

    - additions to libraries amounted to $2.302m, partly offset by

- Depreciation charges of $16.807m and disposals of $0.505m.

- Payables increased by $3.455m in 2008 mainly attributable to increased trade creditors and accruals of $1.049m and increased accrued salaries and wages of $1.912m.

- Total Provisions, consisted of annual leave, long service leave and superannuation, remained reasonably constant over the period 2005 to 2007. The increase of $9.558m in 2008 was primarily due to higher staff numbers, increased salaries and a reduction in the discount rate at 31 December 2008, which increased the present value of the non-current portion of long service leave and superannuation provisions.

CASH POSITION

	2008 $'000s	2007 $'000s	2006 $'000s	2005 $'000s
State government grants	21 463	15 872	10 660	10 380
Commonwealth grants and funding	292 159	240 096	212 648	199 861
Receipts from customers	111 688	82 809	81 991	68 009
Payments to suppliers and employees	(368 756)	(297 923)	(267 607)	(241 770)
Investment Income	24 849	27 333	19 343	9 772
Cash from operations	**81 403**	**68 187**	**57 035**	**46 252**
Payments for financial assets	(64 145)	(45 208)	(26 266)	(27 158)
Payments for property, plant and equipment	(39 503)	(28 381)	(31 466)	(15 999)
Proceeds from sale of property, plant and equipment	1 140	545	13 989	923
Cash acquired on integration with AMC	15 061	0	0	0
Other investing cash flows	(850)	324	3 492	(1 463)
Cash (used in) investing activities	**(88 297)**	**(72 720)**	**(40 251)**	**(43 697)**
Net increase (decrease) in cash	**(6 894)**	**(4 533)**	**16 784**	**2 555**
Cash at the beginning of the year	23 259	27 792	11 008	8 453
Cash at end of the year	**16 365**	**23 259**	**27 792**	**11 008**

Comment

Cash from operations increased by $13.216m in 2008. Commonwealth grants and User charges and fees increased significantly for the reasons outlined in the Income Statement section of this Chapter. The increases in receipts was partially offset by increases in staff costs and Other operating expenses.

The University invests surplus Cash from operations in financial assets.

The majority of payments for Property, plant and equipment comprised plant and equipment, library acquisitions and work in progress in relation to buildings, mentioned previously in the Balance Sheet section.

Proceeds from sale of Property, plant and equipment decreased by $13.444m between 2006 and 2007 due to the sale of non-current investment properties which were held for sale in 2005 and disposed of in 2006.

The integration with AMC resulted in Cash acquired on integration with AMC of $15.061m being recognised in 2008.

As noted previously, while the University appears to have high cash holdings at year end, a significant portion of the cash and investment funds are committed to future projects, research or are held for restricted purposes.

FINANCIAL ANALYSIS

	Bench Mark	2008	2007	2006	2005
Financial Performance					
Result from operations before tax ($'000s)		4 140	50 151	52 066	32 905
Operating margin	>1.0	0.95	1.07	1.11	1.06
State grants as a % of operating income		5%	5%	3%	4%
Commonwealth grants as a % of operating income		59%	62%	59%	59%
HECS as a % of operating income		12%	13%	14%	16%
Underlying results ratio		2%	14%	16%	12%
Self financing ratio		19%	19%	18%	16%
Own source revenue ($'000)		172 521	139 909	134 446	117 575
Indebtness ratio		18%	18%	19%	29%
Salaries and related expenditure as a % of Operating income	50 - 70%	52%	51%	52%	53%
Financial Management					
Current ratio	>1.0	4.79	5.44	5.20	4.18
Debt collection	30 days	31	36	32	36
Creditor turnover	30 days	27	26	25	26
Other Information					
Academic teaching staff numbers		1 093	951	871	796
Total staff numbers (FTEs) (including casual staff)		2 269	2 060	1 972	1 865
Average staff costs ($'000s)		94	85	78	76
Average leave balance per FTE ('000s)		12	13	13	12
Student Load		14 426	13 463	13 300	12 712

Comment

The University recorded a surplus from operations in each of the four years under review. The Operating margin equalled or exceeded the benchmark rate, except in 2008.

The University is dependant upon grant funding, with approximately 71% of its revenue being obtained through Commonwealth grants and HECS payments in 2008. However, the University has made a concerted effort to increase revenue from other sources such as User fees and charges, particularly overseas fee-paying students. This source of revenue totalled $35.439m in 2008 (2007, $28.678; 2006, $26.502m).

As previously noted, salaries and related expenditure were the University's major cost. This increased by 21.7% in the current year, but remained consistent as a percentage of total expenditure over the four years. The higher costs were primarily attributable to higher staffing levels due to the integration with AMC and enterprise bargaining increases, which were linked to increases in student numbers and research activity. Academic staff numbers increased by 142, or 14.9%, over the period due to increased student numbers of 963.

Average staff costs increased in line with enterprise bargaining increases applicable to both general and academic staff and a reduction in the discount rate at 31 December 2008, which increased the present value of the non-current portion of the long service leave and superannuation provisions, previously mentioned.

Current ratio was well above benchmark. This was because the majority of investments were current in nature.

Debt collection and Creditor turnover were within the benchmarks and indicated, the University managed this component of its working capital effectively.

RESULTS OF SUBSIDIARY ENTITIES

University of Tasmania Foundation Inc (the Foundation)

The Foundation operated at a deficit of $3.068m (2007, surplus of $2.565m). This result was due to investment losses of $2.861m in 2008 compared to investments gains of $1.716m in 2007. Net Assets at 31 December 2008 totalled $23.054m (2007, $26.122m).

UTAS Innovation Ltd (UTIL)

UTIL reported an operating loss of $0.382m in 2008, (2007, profit $0.008m). Operating losses were also reported for the years ended 31 December 2005 and 2006, being $0.126m and $0.022m, respectively. In addition, its Balance Sheet at 31 December 2008 had negative Equity of $0.511m. As noted in its financial statements, UTIL's ability to continue as a going concern is dependent upon on-going support from the University, which indicated it will underwrite UTIL's operations.

Following a GST audit by the Australian Taxation Office (ATO) in 2005, UTIL received amended business activity statements (BAS) seeking additional GST in relation to penalties and interest. In 2008, the ATO partly agreed to UTIL's position regarding its GST liabilities and UTIL incurred additional GST payments totalling $150 880. On 27 November 2008, the ATO partly agreed to the company's position regarding its GST liabilities, and it is now incumbent on the company to provide further evidence and quantification of amounts. As at 31 December 2008, the amount claimed by the ATO was $127 693 (2007, $343 183).

Subsequent to 31 December 2008, the ATO accepted UTIL's assessment of GST payable as $20 193. In addition, the ATO will reconsider the issue related to the general interest charge.

It is the University's intention to wind back UTIL to a shelf company. The University has transferred its business activities back to the University to administer.

AMC Search Ltd (AMC Search)

AMC Search operated at a surplus of $1.001m (2007, $0.814m). Net assets at 31 December 2008 totalled $3.925m (2007, $3.534m).

Southern Ice Porcelain Pty Ltd

This company operated at a surplus of $6 000 on a turnover of $14 000 (2007, deficit of $4 000 on turnover of $2 000). Net assets at 31 December 2008 totalled $48 000 (2007, $42 000).

THEATRE ROYAL MANAGEMENT BOARD

INTRODUCTION

The functions of the Theatre Royal Management Board (the Board) include the management of the Theatre Royal (the Theatre) as a place of theatre and performing arts and to arrange for, organise and promote performing arts in the Theatre and other places in Tasmania.

The Responsible Minister is the Minister for Environment, Parks Heritage and the Arts.

AUDIT OF THE YEAR ENDED 31 DECEMBER 2008 FINANCIAL STATEMENTS

Financial statements for the year ended 31 December 2008 were signed on the 4 March 2008 and an unqualified audit report was issued on the 5 March 2008.

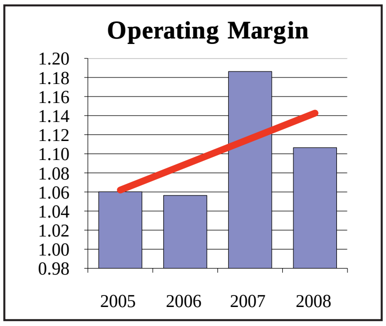
The financial statements include the comment that the Theatre is economically dependent on administration and programme grants from the State government so that it can continue as a going concern and pay its debts as and when they fall due. As a result, the financial statements were prepared on the basis that the Board is a going concern.

In the 31 December 2006 financial statements an error was found and corrected. The error related to the incorrect application of an accounting standard relating to accounting for capital grants. This was subsequently adjusted the capital grant shown after determining the normal operating result.

The audit was completed with satisfactorily with no major issues outstanding.

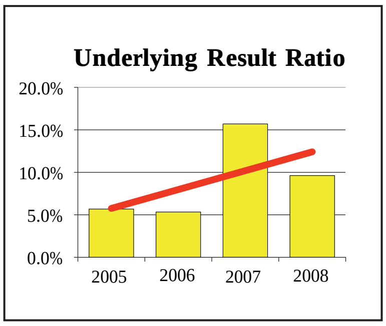
FINANCIAL RESULTS

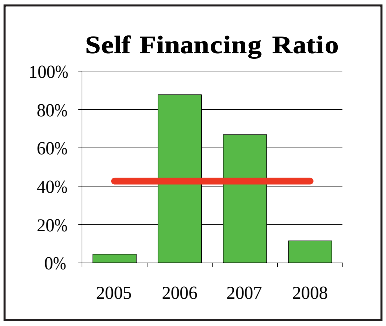
The following five graphs summarise key ratios highlighting important aspects of the Board's financial performance over the past four years. In general, the ratios indicate:



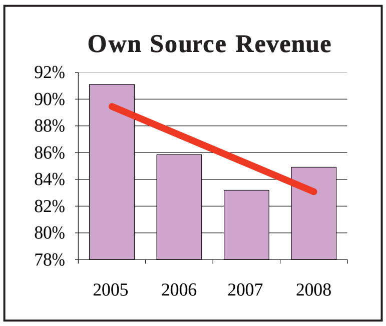
The Operating margin exceeded the benchmark of one in each of the four years under review. This implies that the Board maintained and improved its financial effectiveness over the review period.

The Underlying result ratio was positive for each year of the review period. This was a direct result of annual surpluses being generated. To ensure long-term financial sustainability, we would expect the Board to produce, at a minimum, a break-even operating result.

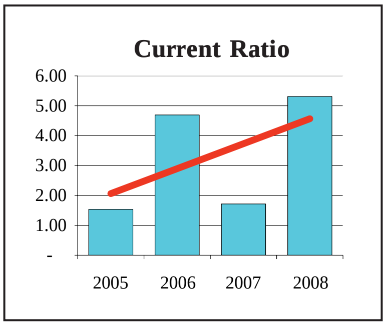




The Self financing ratio, whilst fluctuating over the period of review, was positive but showed a significant decrease in 2007-08. The ratio is derived from the net operating cash flow divided by operating revenue and assists measurement of the Board's ability to fund the replacement of assets from operational cash flows.



The Own source revenue percentage shows that, while declining, the Board continued to generate the majority of its operating revenue from its own sources. Funding from Grants was 15% in 2007-08 (2004-05, 9%).



The Current ratio was above the benchmark of one in all four years indicating that the Board was able to meet all short-term liabilities.

INCOME STATEMENT

	2008	2007	2006	2005
	$000s	$000s	$000s	$000s
Government grants	287	273	175	119
User charges and fees	760	585	442	562
Other operating revenue	853	765	619	652
Non-operating revenue	2	1	1	5
Total Revenue	**1 902**	**1 624**	**1 237**	**1 338**
Borrowing costs	0	1	2	2
Depreciation	75	30	16	19
Salaries and related expenses	786	591	540	531
Entrepreneurial ventures	492	437	370	456
Other operating expenses	366	310	243	254
Total Expenses	**1 719**	**1 369**	**1 171**	**1 262**
Surplus before:	**183**	**255**	**66**	**76**
Capital grant - building improvements	0	0	1 095	0
Capital grant - new seating	500	0	0	0
Surplus for the year	**683**	**255**	**1 161**	**76**

Comment

The Board recorded total Surpluses before capital items of $0.580m indicating that it generated sufficient revenue to fulfil its operating requirements, including coverage of its depreciation charges. A deficit for Entrepreneurial ventures of $0.119m in 2008 ($0.015m surplus, 2007) was predominately the reason for a lower Surplus in 2008. Surpluses totalled $2.175m for the period and included Capital grants of $1.595m

User charges and fees increased by $0.198m over the period of review and $0.175m in 2008. The movement in the year was primarily due to increased Salaries recovered, $0.139m, Hire of venues, $0.057m and Theatre hire income, $0.035m.

Other operating revenue increased by $0.201m over the period of review and $0.088m in 2008. The movement was due to increased sales in box office income, $0.083m, Interest, $0.047m, Income from catering, $0.028m which was offset by a decrease of $0.080m in Entrepreneurial Venture revenue. Although there were fewer shows in 2008, 44 (2007, 54) the attendance was higher by 10 593 people (2008, 66 192; 2007, 55 629). Interest income rose due to higher cash holdings relating to Government grants received but not immediately committed and higher interest rates.

Depreciation increased by $0.056m over the period of review and $0.045m in 2008. This was due to a full year of depreciation for the Loading dock, $0.223m, commissioned in September 2007. In general, operating expenses increased during the year in line with the utilisation of the Theatre for its ordinary program activities and its Entrepreneurial program.

Capital grants for the period of review $1.595m provided by the State government included an upgrade of the Theatre Royal building, $1.095m, and upgrade of seating, $0.500m.

While the Board returned positive results for the four years under review after grants it remains dependent upon Government support, at least in the foreseeable future.

BALANCE SHEET

	2008	2007	2006	2005
	$000s	$000s	$000s	$000s
Cash	1 291	1 449	906	189
Receivables	32	43	202	22
Inventories	3	3	3	3
Other	7	8	6	4
Total Current Assets	**1 333**	**1 503**	**1 117**	**218**
Property, plant and equipment	12	16	22	32
Work in progress	520	263	338	0
Leasehold improvements	658	609	19	0
Total Non-Current Assets	**1 190**	**888**	**379**	**32**
Payables	238	313	169	85
Borrowings	0	0	4	6
Provisions	13	62	56	48
Grants received in advance	0	500	0	0
Other- deferred income	0	1	9	3
Total Current Liabilities	**251**	**876**	**238**	**142**
Provisions	79	6	3	11
Borrowings	0	0	0	4
Total Non-Current Liabilities	**79**	**6**	**3**	**15**
Net Assets	**2 193**	**1 509**	**1 255**	**93**
Retained surpluses	2 192	1 508	1 254	92
Reserves	1	1	1	1
Total Equity	**2 193**	**1 509**	**1 255**	**93**

Comment

Total Equity increased by $1.092m or 45% in the current year and by $2.100m since 2005. The major contributors to the increase were the annual surpluses generated by the Board.

Cash increased by $1.102m over the period of review despite a $0.158m decrease in 2008. Cash comprised both cash at bank and short-term bank deposits. The large cash balance in 2007 was mainly due to a $0.500m Capital grant held and subsequently expended in 2008.

Receivables were fairly consistent over the period of review except for the increase in 2006 of $0.180m. This increase was due to the timing of an invoice to the then Department of Tourism, Arts and the Environment for $0.143m at year end.

Work in progress, $0.520m, and Leasehold improvements, $0.658m, were recognised in relation to the Board's leasehold upgrade works program. The total funding for the leasehold improvements was $1.600m of which $7 110 was the total leasehold improvements commitments outstanding as at 31 December 2008.

Payables increased over the period of review by $0.153m but decreased in 2008 by $0.075m. This was due to a large decrease in advance ticket sales and a fall in trade creditors due to timing issues.

Grants received in advance related to the seating upgrade project of $0.500m, of which $8 500 remained as a commitment at 31 December 2008.

CASH POSITION

	2008	2007	2006	2005
	$000s	$000s	$000s	$000s
Government grants	286	773	1 276	119
Receipts from customers	2 011	1 102	874	1 178
Payments to suppliers and employees	(2 155)	(852)	(1 101)	(1 242)
Interest received	77	64	38	8
Interest paid	0	(1)	(2)	(2)
Cash from (used in) operations	**219**	**1 086**	**1 085**	**61**
Payments for property, plant and equipment	(5)	(6)	(6)	(3)
Payments for leasehold improvements	(371)	(533)	(357)	0
Proceeds from sale of property, plant and equipment	0	0	0	4
Cash from (used in) investing activities	**(376)**	**(539)**	**(363)**	**1**
Repayment of borrowings	0	(4)	(6)	(6)
Cash (used in) financing activities	**0**	**(4)**	**(6)**	**(6)**
Net increase (decrease) in cash	**(157)**	**543**	**716**	**56**
Cash at the beginning of the year	1 448	905	189	133
Cash at end of the year	**1 291**	**1 448**	**905**	**189**

Comment

Over the four years under review cash increased from $0.189m in 2005 to $1.291m in 2008. This increase was primarily due to increased activity from Entrepreneurial ventures and from Government grants.

FINANCIAL ANALYSIS

	Bench Mark	2008	2007	2006	2005
Financial Performance					
Result from operations ($'000s) (before capital grant)		183	255	65	71
Operating margin	>1.0	1.11	1.19	1.06	1.06
Underlying result ratio		9.6%	15.7%	5.3%	5.7%
Self financing ratio		11.5%	66.9%	87.7%	4.6%
Own source revenue ($'000s)		1 615	1 351	1 062	1 219
Financial Management					
Current ratio	>1	5.31	1.72	4.69	1.54

Comment

Financial Performance ratios showed the Board recorded surpluses before Capital items in all four years under review. Operating margins were above benchmark level of one for each of the years under review reflecting positive results from operations. The Underlying result ratio fluctuated between years and reflected the movements in the Board's operating results.

The Self-financing ratio shows the level of the Board's ability to fund the replacement of assets from cash generated from operations. In other words, an entity is expected to generate enough cash from its operations to meet depreciation expense in order to provide for future capital investments. While in 2008 the ratio showed a decline in the Board's ability to generate Cash from operations, it remained positive, although in recent years significant capital works were funded by Grants.

In 2008, the Current ratio increased from 1.72 to 5.31 as a result of the seating upgrade funding of $0.500m, which was included in current liabilities in 2007. This was recorded as revenue in 2008.

TAFE TASMANIA

INTRODUCTION

TAFE Tasmania (TAFE) was established under the *TAFE Tasmania Act 1997* as a provider of vocational and further education. It was managed by a board of five directors appointed by the Government.

TAFE was the largest registered training organisation in Tasmania. It provided vocational education and training at 21 major training campuses throughout the State.

Under the *Education and Training (Repeals and Transitional Provisions) Bill 2008*, the *TAFE Tasmania Act 1997* was repealed effective 31 December 2008.

Under the Tasmania *Tomorrow* initiative, from 1 January 2009, three new statutory authorities were created from state secondary colleges and TAFE. Each of these organisations will be focused on a specific role. These statutory authorities are:

- The Tasmanian Academy which is focused on academic learning, with a curriculum and academic pathway for year 11 and 12 students seeking university entrance
- The Tasmanian Polytechnic which is focused on practical learning, with a vocational pathway, supported by academic courses as well, for both year 11/12 and mature – aged students seeking employment outcomes or university articulation
- The Tasmanian Skills Institute which is focused on skills development for employees in enterprises, in line with their enterprise's skills needs.

The financial statements which form the basis for this Chapter were those prepared for the six months ended 31 December 2008, the final statements prepared by TAFE. The assets, liabilities, contracts and staff of TAFE were transferred to the Tasmanian Polytechnic and the Tasmanian Skills Institute commencing 1 January 2009. It is not intended that the Tasmanian Academy receive a transfer of any assets, liabilities, contracts or staff from TAFE. The assets and liabilities were to be transferred at TAFE's net book values.

Despite the transfer of assets and liabilities from TAFE on 1 January 2009, the classification of assets and liabilities on the Balance Sheet remained relevant as if TAFE were to continue operating and consistent with how the new entities are likely to classify these assets and liabilities. In addition, the financial report at 31 December 2008 was prepared on a going concern basis.

At 31 December 2008, TAFE accessed 87% (30 June 2008, 83%) of its funds via a Purchase Agreement with the Minister for Education and relied on capital funds from Commonwealth and State Government sources to develop, maintain and refurbish its non-financial assets.

TAFE provided concessions and exemptions of service fees for students under various circumstances. These fees were not recorded in student fees revenue and no expense was recognised for revenue foregone. Concessions were 26% of the gross value of student fees as at 31 December 2008 (30 June 2008, 30%).

TAFE also provided commercial services on a fee for service basis. Delivery programs included commercial training and retail trading as a by product of certain training activities such as in the restaurant industry.

The level of training provided in a number of TAFE programs, including enrolled nursing, electro technology, plumbing, motor body, children's services and the mining sector, was increased to support industry-generated demand for training. In addition, there was growth in a range of pathways programs and support for students with literacy and numeracy needs.

As at 31 December 2008 the Responsible Minister was the Minister for Education and Skills.

AUDIT OF THE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2008

Signed financial statements were received on 27 March 2009 and an unqualified audit report was issued on the same day.

The final audit as at 31 December 2008 was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

In financial terms TAFE was classified as a not-for-profit entity and was likely to operate at a deficit before accounting for capital investment grants, which was primarily due to TAFE not being funded for depreciation. As noted previously, TAFE relied on capital funds from Commonwealth and State Government sources to develop, maintain and refurbish its non-financial assets with these funds primarily received via capital investment grants. Annual surpluses and deficits fluctuated depending on the timing of the Purchase agreement recurrent funding which was provided on a calendar year basis. For the 6 month period to 31 December 2008 TAFE operated at a Deficit before capital funding of $4.949m, a decrease of $2.726m compared to the 12 month period to 30 June 2008. This is due partly to the timing of cash flows from recurrent funding.

TAFE's balance sheet was reasonably healthy with equity increasing by $7.711m between 30 June 2008 and 31 December 2008, mainly due to revaluation increments in relation to land and buildings. Over this period TAFE's net working capital remained positive ranging from $5.252m to $3.752m meaning that it was in a good position to meet its current commitments.

Because 31 December was a shortened financial reporting period and due to it being the last financial report prepared by TAFE, the analysis of the following pages covers only the two most recent financial reporting periods.

INCOME STATEMENT

	6 Months **31-Dec-08** $'000s	12 months **30-Jun-08** $'000s
Purchase agreement recurrent funding	47 188	75 969
Other government revenue	4 032	6 621
User charges, fees and fines	2 158	7 071
Commercial services	5 035	9 677
Other operating revenue	720	1 540
Gain on sale of non-current assets	0	0
Total Revenue	**59 133**	**100 878**
Employee expenses	45 096	79 227
Depreciation	4 358	7 757
Other operating expenses	15 800	25 942
Loss on sale of non-current assets	1 348	357
Total Expenses	**66 602**	**113 283**
(Deficit) before:	**(7 469)**	**(12 405)**
Capital funding	2 520	4 730
(Deficit) for the year	**(4 949)**	**(7 675)**

Comment

TAFE's financial performance for the current financial period was analysed on a pro rata basis against 6/12th of the 30 June 2008 financial year.

TAFE recorded Deficits before capital funding in the two periods under review, these deficits indicate TAFE was not generating sufficient revenue to fulfil all of its operating requirements, primarily coverage of its depreciation charges.

The Deficit before capital funding of $7.469m appears high compared to the previous full financial year of $12.405m. There is a combination of reasons for this including:

- User charges, fees and fines revenue were well down on what might have been expected for a six month period. This was because Fees for enrolments, a major part of this revenue source, are predominantly collected in the first half of the calendar year, due to up front payment requirements
- Employee expenses appeared high when compared to the previous 12 month period. This was in the main due to:
  - higher levels of staff due to greater student activity and commercial courses. The Financial Analysis section of this Chapter notes that full time equivalent employees (FTEs) increased by 32 which at an average staff cost of $0.041m represents additional employee costs of $1.312m
  - wage increases of 4.0% for administration and clerical staff effective 27 November and 5.09% for teaching staff in October. These increases were relatively consistent from year to year
- Depreciation expenses were high primarily due to building revaluation increments of $15.321m at 30 June 2008
- Other operating expenses were high in the six month period due to increased expenditure for information technology (IT) infrastructure and equipment. In addition one-off transition costs were incurred in relation to the Tasmania *Tomorrow* Reforms previously mentioned.

Capital funding received totalled $2.520m which primarily related to the following major capital projects: Alanvale Campus redevelopment, $0.290m; Burnie Campus redevelopment, $0.565m; multi-site infrastructure upgrades, $0.380m and IT infrastructure development, $0.550m.

The loss on sale of non-current assets arose because land and buildings which comprised the Queenstown campus of TAFE were owned by the Crown. The written down value of the land and buildings was $1.641m, prior to being transferred back to the Crown. The Crown subsequently transferred these assets to the West Coast Council.

BALANCE SHEET

	31-Dec-08	30-Jun-08
	$000s	$000s
Cash	5 818	7 814
Receivables	2 613	3 653
Inventories	415	491
Asset held for sale	0	320
Other	1 654	285
Total Current Assets	**10 500**	**12 563**
Property, plant and equipment	220 630	210 171
Total Non-Current Assets	**220 630**	**210 171**
Payables	1 826	2 737
Provisions	4 118	3 747
Other	804	827
Total Current Liabilities	**6 748**	**7 311**
Provisions	10 942	9 765
Other	683	612
Total Non-Current Liabilities	**11 625**	**10 377**
Net Assets	**212 757**	**205 046**
Reserves	101 898	89 238
Accumulated deficits	(24 734)	(19 785)
Contributed equity	135 593	135 593
Total Equity	**212 757**	**205 046**

Comment

Total Equity increased by $7.711m or 4% due to:

- land and building revaluations of $13.162m
- land and buildings transferred to the Crown of $0.502m
- the deficit for the six months of $4.949m.

The main factors which contributed to movements in the balances of assets and liabilities were:

- Cash consisted of cash on hand and short term investments. Cash decreased by $1.996m due to negative cash from operations of $1.347m and net investing activities of $0.649m. See Cash Position section of this Chapter
- Receivables decreased by $1.040m or 28% due to the 31 December balance being representative of the end of a calendar or teaching year, which resulted in most student fees having been paid
- Assets held for sale decreased by $0.320m due to TAFE disposing of approximately 2.904 hectares of the 15.814 hectares of land on which its campus at Alanvale in Launceston was situated during the prior year

- Property, plant and equipment increased by $10.459m due to capital additions and transfers from work in progress (WIP) of $8.802m and revaluation increments of $13.162m, offset by capital disposals of $7.147m and depreciation expense of $4.358m
- Other assets increased by $1.369m or 480% due primarily to prepaid expenses having increased by $1.392m. This was due to the requirement to pay in advance for a number of annual expenses relating to the 2009 calendar year
- Provisions increased by $1.550m or 11% due primarily to wage and salary indexation, higher staff numbers and a reduction in the discount rates at 31 December 2008, which increased the present value of the non-current portion of the long service leave and superannuation provisions
- Payables decreased by $0.911m or 33% due primarily to the net GST payable to the ATO having reduced by $0.491m and timing differences in relation to payables.

CASH POSITION

	6 Months **31-Dec-08** $'000s	12 months **30-Jun-08** $'000s
Government grants	51 220	82 589
Receipts from customers	14 450	27 768
Interest received	595	686
Payments to suppliers and employees	(67 612)	(112 322)
Cash (used in) operations	**(1 347)**	**(1 279)**
Receipts from government - capital	2 520	4 730
Payments for property, plant and equipment	(3 286)	(4 222)
Income in advance from sale of assets	0	650
Proceeds from sale of property, plant and equipment	117	607
Cash from (used in) investing activities	**(649)**	**1 765**
Net increase (decrease) in cash	**(1 996)**	**486**
Cash at the beginning of the year	7 814	7 328
Cash at end of the year	**5 818**	**7 814**

Comment

Cash position decreased by $1.996m due to:

- operating cash payments exceeding operating cash receipts by $1.347m. This is consistent with the operating performance reported in the Income Statement section of this Chapter.
- net investments in Property, plant and equipment of $0.649m.

Reasons for other movements are consistent with explanations provided in the Income Statement and Balance Sheet section of this Chapter.

Payments for property, plant and equipment in the six month period to 31 December 2008 primarily represented spending on replacement of aging IT infrastructure.

Income in advance from sale of assets in the prior year related to funds received in advance for assets held for sale, previously mentioned.

FINANCIAL ANALYSIS

	Bench Mark	6 Months 31-Dec-08	12 months 30-Jun-08
Financial Performance			
Result from operations ($'000s)		(7 469)	(12 405)
Operating margin	>1.0	0.91	0.89
Self financing ratio		(0.02)	(0.01)
Current ratio	>1.0	1.56	1.72
Debt collection	30 days	60	76
Creditor turnover	30 days	17	30
Underlying result ratio %		(12.6%)	(12.3%)
Indebtness ratio		73.5%	56.7%
Own source revenue ($'000s)		7 913	18 288
Other Information			
Self-sufficiency %		12	16
Government funding %		92	92
Staff numbers (FTEs)* - total		1 109	1 077
Admin and teaching support (FTEs)*		512	575
Delivery (FTEs)* (teaching)		597	501
Average staff costs ($'000s)		81	74
Average leave balance per FTE ($'000s)		12	12
Student enrolments at 31 December		36 000	36 569

* *Excludes casual staff*

Comment

Results from operations shows a deficit for both periods for the reasons explained earlier in this Chapter.

TAFE's working capital remained above the benchmark of one in both years.

The calculation of the Debt collection days was adjusted to reflect a full year's operation.
Debt collection days were above the benchmark due to an increase in student activity, in particular debtors within the 60 to 90 days category. The decrease in the current period was due to a lower receivables balance as previously mentioned.

Creditor turnover decreased due to lower Payables at period end and increased expenditure during the period.

Indebtedness ratio is the ratio improved due to own source revenue decreasing from 18% to 13% in the current period.

The negative result in the Underlying result ratio reflects the deficits incurred by TAFE mainly due to the depreciation charge not being fully funded.

Staff numbers increased due to an increase in student activity and a greater demand for training courses, this also had an impact on the average staff costs.

APPENDIX 1 –
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 audit of Government departments and public bodies in respect of the preceding financial year. The issue of more than one report now satisfies this requirement each year.

During the 2008 calendar year two reports were tabled:

- Report No. 1 of 2008 tabled on 19 June 2008 – this Report dealt with June 2007 financial statement audits incomplete at the time of tabling the November 2007 report, and financial statement audits with 31 December 2007 balance dates
- Report No. 2 of 2008 tabled on 18 November 2008 – this Report dealt with those audits of financial statements of entities with a 30 June 2008 financial year-end completed on 31 October 2008.

This Report now covers the 30 June 2008 audits of the financial statements of Local

Government Authorities not completed at 31 October 2008 and Other Public Bodies incomplete at the time of the 18 November 2008 Report and the audits of entities with a 31 December 2008 balance date.

Where relevant, entities are provided with the opportunity to comment on any of the matters reported. Where they choose to do so, entity responses are detailed within that particular section.

FORMAT OF THE FINANCIAL ANALYSIS

Each entity's financial performance is analysed by discussing the Income Statement, Balance Sheet and Cash Flow Statement (noted as Cash Position), supplemented by financial analysis applying the indicators documented in the Financial Analysis section of this Report. The layout of some of these primary statements has been amended from the audited statements to, where appropriate:

- make the statements more relevant to the nature of the entity's business
- highlight the entity's net working capital, which is a useful measure of liquidity.

STATUS OF AUDITS

All audits for the year ended 30 June 2008 have been completed. All audits with a 31 December 2008 have been completed and are included in this Report.

Appendix 2 provides details of the status of all audits that remained out standing in my November 2008 Report.

FINANCIAL ANALYSIS

The following tables illustrate the methods of calculating:

- performance indicators used in the individual financial analysis sections of this Report, together with a number of benchmarks used to measure financial performance
- additional performance indicators used in the local government comparative analysis.

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Financial Performance		
Result from operations ($'000s)		Operating Revenue less Operating Expenses
Earnings Before Interest and Tax (EBIT) ($'000s)		Result from Operating Activities before Gross Interest Expense and before tax
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) ($'000s)		Result from Ordinary Activities before Tax, before Gross Interest Expense, Depreciation and Amortisation
Operating margin	>1.0	Operating Revenue divided by Operating Expenses
Return on assets		EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Return on investments	5.5%	Net Investment income divided by Average Investments
Financial Management		
Debt to equity		Debt divided by Total Equity
Debt to total assets		Debt divided by Total Assets
Interest cover – EBIT	>3	EBIT divided by Gross Interest Expense
Interest cover – Funds from Operations	>3	Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense
Current ratio	>1	Current Assets divided by Current Liabilities
Leverage ratio		Total Assets divide by Shareholders' Equity
Cost of debt	7.5%	Gross Interest Expense divided by Average Borrowings (include finance leases)
Debt service ratio		Borrowing costs plus Repaid borrowings divided by Operating revenue
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Capital expenditure/ depreciation	100%	Payments for Property, plant and equipment divided by Depreciation expenses
Capital expenditure on existing assets/depreciation *		Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Returns to Government		
Dividends paid or payable ($'000s)		Dividends paid or payable that relate to the year subject to analysis
Dividend payout ratio	50%	Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity
Income tax paid or payable ($'000s)		Income Tax paid or payable that relates to the year subject to analysis
Effective tax rate	30%	Income Tax paid or payable divided by Result form Ordinary Activities before Tax
Total return to the State ($'000s)		Dividends plus Income Tax and Loan Guarantee fees
Total return to equity ratio		Total Return divided by Average Equity

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Other Information		
Employee costs (2) as a % of operating system*		Total employee costs divided by Total Operating Expenses
Employee costs expensed ($'000s) *		Total employee costs per Income Statement
Employee costs capitalised ($'000s) *		Capitalised employee costs
Staff numbers FTEs		Effective full time equivalents
Average staff costs (2) ($'000s)		Total employee expenses (including capitalised employee costs) divided by Staff Numbers
Average leave per FTE ($'000s)		Total employee annual and long service leave entitlements divided by Staff Numbers

LOCAL GOVERNMENT ANALYSIS

Financial Performance Indicator	Benchmark[1]*	Method of Calculation
Self Financing Ratio		Net Operating Cash Flows divided by Operating Revenue
Council's Own Revenue		Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments
Indebtedness Ratio		Non Current Liabilities divided by Own Source Revenue

* *Relevant to local government authorities.*

1 *Benchmarks vary depending on the nature of the business being analysed. For the purposes of this Report, a single generic benchmark has been applied.*

2 *Employee costs include capitalised employee costs, where applicable, plus oncosts.*

An explanation of the performance indicators is provided below:

- Result from operations – summarises revenue transactions and expense transactions incurred in the same period of time and calculates the difference
- Earnings before income tax (EBIT) – measures how well an entity can earn a profit, regardless of how it is financed (debt or equity) and before it has to meet external obligations such as income tax. This is a measure of how well it goes about its core business
- Earnings before income tax, depreciation and amortisation (EBITDA) – measures how well an entity can generate funds without the effects of financing (debt or equity), depreciation and amortisation and before it has to meet external obligations such as income tax. This measure is of particular relevance in cases of entities with large amounts of non-current assets as the distortionary accounting and financing effects on the entity's earnings are removed, enabling comparisons to be made across different entities and sectors
- Operating margin – this ratio serves as an overall measure of operating effectiveness
- Return on assets – measures how efficiently management used assets to earn profit. If assets are used efficiently, they earn profit for the entity. The harder the assets work at generating revenues, and thus profit, the better the potential return for the owners

- Return on equity – measures the return the entity has made for the shareholders on their investment
- Return on investments – measures how effective management have been in earning interest income from available investment assets
- Debt to equity – an indicator of the risk of the entity’s capital structure in terms of the amount sourced from borrowings and the amount from Government
- Debt to total assets – an indicator of the proportion of assets that are financed through borrowings
- Interest cover – EBIT – an indicator of the ability to meet periodic interest payments from current profit (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced profitability
- Interest cover – Funds from operations – examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced funds from operations
- Current ratio – current assets should exceed current liabilities by a ‘considerable’ margin. It is a measure of liquidity that shows an entity’s ability to pay its short term debts
- Leverage ratio – measures the proportion of equity funding in the asset base
- Cost of debt – reflects the average interest rate applicable to debt
- Debt service ratio – indicates the capacity of the entity to service debt by repaying principal as well as interest on borrowings
- Debt collection – indicates how effectively the entity uses debt collection practices to ensure timely receipt of monies owed by its customers
- Creditors turnover – indicates how extensively the entity utilises credit extended by suppliers
- Capital expenditure/depreciation – indicates whether the entity is maintaining its physical capital by reinvesting in or renewing non-current assets (caution should be exercised when interpreting this ratio for entities with significant asset balances at cost as the level of depreciation may be insufficient)
- Dividends paid or payable – payment by the entity to its shareholders (whether paid or declared as a payable)
- Dividend payout ratio – the amount of dividends relative to the entity’s net income
- Dividend to equity – the relative size an entity’s dividend payments to shareholders’ equity. A low dividend to equity ratio may indicate that profits are being retained by the entity to fund capital expenditure
- Income tax paid or payable – tax payments (paid or payable) by the entity to the State
- Effective tax rate – is the actual rate of tax paid on profits
- Total return to the State – is the funds paid to the Owners consisting of income tax, dividends and guarantee fees
- Total return to equity ratio – measures the Government’s return on its investment in the entity

- Employee costs as a percentage of operating expenses indicates the relative significance of employee costs compared to other operating expenses
- Staff numbers FTEs – as at the end of the reporting period the number of staff employed expressed as full-time equivalents (FTEs)
- Average staff costs – measures the average cost of employing staff in the entity for the year
- Average leave balance per FTE ($'000s) – indicates the extent of unused leave at balance date
- Underlying results ratio - this ratio provides a measure of the strength of the operating result. The higher the ratio, the stronger the result. Negative results indicate an operating deficit , that can not be sustained in the longer term
- Self financing ratio – this is a measure of council's ability to fund the replacement of assets from cash generated from operations
- Council's own revenue – represents revenue generated by a council' through its own operations. It excludes any external government funding, contributed assets and revaluation adjustments
- Indebtedness ratio – compliments the liquidity ratio and illustrates a council's ability to meet longer term commitments.

** Michael Gibbins, Financial accounting; an integrated approach (Nelson College Indigenous, 2006, page 696).*

The above indicators are used because they are commonly applied to the evaluation of financial performance. Care should be taken in interpreting these measures, as by definition they are only indicators, and they should not be read in isolation.

The Capital expenditure on existing assets/depreciation ratio used for councils should be treated with some caution as the amount of capital expenditure on existing assets has largely been provided by the respective councils and not subject to audit.

APPENDIX 2 – ENGAGEMENT LETTER

President
Legislative Council
Hobart

Speaker
House of Assembly
Hobart

Dear President
Dear Speaker

In my June 2006 Report No 1 I included as an appendix an engagement letter between myself and the Parliament. The commencement of the Audit Act 2008 (the Audit Act) on 1 March 2009 requires me to update that engagement letter which is the purpose for this appendix.

This engagement letter details the approach that I will follow in the conduct of audits required to be performed by me under the Audit Act. As noted in my June 2006 Report, 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 responses to other provisions in the Audit Act. In addition to preparing this engagement letter, on 2 March 2009 I wrote to all State entities advising them of the implications of the Audit Act as it impacts them.

Our Purpose

My Office has determined its 'purpose' as being:

> *"To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public Sector."*

In so doing, we aim to Strive, Lead and Excel: To Make a Difference. We strive to achieve our purpose by conducting, in accordance with Australian Auditing Standards, four categories of audit work: financial attest, performance and compliance audits and investigations.

Financial Statement (or attest) Audits

An attest audit is one where an auditor reports on assertions prepared by an accountable authority on a set of financial statements. For example, an accountable authority would assert that financial statements were prepared in accordance with Australian Accounting standards and relevant legislation. The auditor attests to the assertion made.

My financial statement audits are conducted in accordance with the provisions of the Audit Act and other relevant Tasmanian legislation with the objective of auditing the Whole of Government Financial Report, the General Government Financial Report, the Public Account Statements, and the annual financial statements of all State entities. The Audit Act defines a "State entity" as being an agency, council, Government Business Enterprise, State-owned Company, State Authority, Corporations established by the Water and Sewerage Corporations Act 2008 and the governing body of any corporation, body of persons or institution that are appointed by a Minister or by the Governor.

Financial reporting arrangements

The Audit Act requires accountable authorities to submit financial statements for their State entity to me as soon as possible and within 45 days of the end of the financial year and that the financial statements be “complete in all material respects”. This section also provides for me to determine whether the financial statements submitted are complete in all material respects. I have determined that “complete in all material respects” means that the financial statements must:

1. Be signed by the accountable authority at the time they are submitted.
2. Comply with relevant legislative requirements governing the State entity being audited.
3. Comply with Australian Accounting Standards. In the case of government departments, compliance with the Department of Treasury and Finance’s model financial statements will satisfy this requirement.

Where a State entity, for example a subsidiary of a State-owned Company, wishes to prepare a special purpose financial report, this will be acceptable subject to appropriate disclosures in the report and the lack of users of the financial report who cannot demand information normally made available in a general purpose financial report.

However, I note the Audit Act provides for transitional arrangements for those State entities not currently required to submit statements within 45 days. These State entities will not be bound by the 45 day submission requirement until the financial year commencing after 30 June 2010. In the main these transitional arrangements apply to Local Government Councils and any joint authorities or companies established by them, State-owned companies, the University of Tasmania and some Statutory Authorities.

Financial auditing arrangements

Having carried out an audit of the financial statements of a State entity I am required to prepare and sign an opinion based on that audit and provide it to the State entity’s responsible Minister with a copy to the relevant accountable authority. Where the Australian Auditing and Assurance Standards also require the preparation of a formal communication of audit findings (such as a Management Letter), a copy of that communication is to accompany the opinion.

I am required to finalise my audit opinions within 45 days of receiving the financial statements from the accountable authority. This 45 day period commences if I am satisfied that the financial statements submitted are “complete in all material respects”.

There are two new requirements here:

- Firstly, I will now be forwarding my signed audit opinion to the responsible Minister as well as, which I do currently, to the accountable authority and I will also forward to this Minister my management letter. Where there is an interim management letter, this will also be forwarded to the Minister as well as to the accountable authority.
- Secondly, the timeframes for me to complete my audits of financial statements has been brought forward such that, for State entities with a 30 June balance date, from 30 June 2011, every financial statement audit of every State entity must be completed by 30 September. Due to the transitional arrangements already referred to, for 30 June 2009, this will only impact those State entities that are currently required to submit financial statements to my Office within 45 days of balance date (mainly government departments, Government Business Enterprises and some Statutory Authorities).

Compliance with auditing standards

The Audit Act requires that, that in the conduct of financial statement audits, I do so in accordance with Australian Auditing Standards. As a result, my audit opinion on every set of financial statements 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
    - components of the statements being audited
    - fact that it is management's, or if there is a board of directors, the directors', responsibility to prepare the financial statements being audited. I will also note that, for for-profit entities, it is the responsibility of the directors to confirm that the financial statements comply with International Financial Reporting Standards where such standards have in fact been complied with
    - fact that I have conducted an independent audit of the financial statements with the purpose of expressing an opinion thereon to the Parliament, Shareholders, Council, Board or Public Body that may be nominated in relevant legislation
    - fact that I am independent of the entity whose financial statements are being audited.

    I will also note that my independent opinion 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 statements are free of <u>material</u> misstatement
        - examine, on a test basis, evidence supporting the amounts and other disclosures in the financial statements
        - evaluate accounting policies and significant accounting estimates
        - enable me to form an opinion whether, in all material respects, the financial statements are presented fairly, in all material respects, in accordance with Australian Accounting Standards and the requirements of the relevant legislation (normally the *Financial Management Act 1990*) and
        - enable me to form an opinion whether the financial statements present 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 700 *The Auditor's Report on a General Purpose Financial Report* whether or not the financial statements present 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 statements were prepared in accordance with Australian Accounting Standards and in compliance with 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 statements encompassed by my opinion and
- the date of my opinion.

If during the course of financial statement audits any of the following are detected:

- material aspects of non-compliance with Australian Accounting Standards and financial irregularity (including internal control weaknesses); or
- any other specific matters required to be addressed by the Audit Act and other relevant legislation,

these matters will be reported, as appropriate, to the management or those charged with governance of the entity, the relevant Minister and, where significant, to both houses of Parliament. However, my audit procedures are not specifically designed to identify matters such as these.

In conducting audits of financial statements, my Office applies an integrated public sector audit methodology called IPSAM. This methodology complies with all Australian Auditing Standards. In addition, it includes audit procedures relating to the appropriateness of use of public resources that are not required by the standards but which I consider important in a public sector context. Where relevant, these procedures examine probity, propriety and compliance matters.

The Audit Act requires that my Reports to Parliament on the outcomes from financial statement audit work conducted include particulars of any major change of approach made by me in relation to the extent or character of the audit function which I will do when any change occurs.

Inherent Limitations of any financial statement audit

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.

Acquittances

The Audit Act authorises me to audit acquittance statements. These are normally prepared by State entities under agreements with the Commonwealth where they are required to prepare financial reports acquitting funding received and how it was spent. Another example is audits of acquittances prepared Australian Financial Services licenses. Such audits are completed in accordance with the appropriate Australian Auditing or Assurance Standards.

Performance audits, compliance audits and investigations

The Audit Act gives me the authority to conduct performance audits, compliance audits and investigations.

Such audits are normally "Direct Reporting Engagement". In the case of a performance audit, this means an engagement where the auditor directly undertakes the evaluation or measurement of an activity to report on the economy, efficiency or effectiveness of that activity.

In the case of a compliance audit, this means an engagement where the auditor directly evaluates an entity's compliance with requirements as measured by the suitable criteria and expresses a conclusion to the intended users in a compliance report.

In the case of an investigation, the nature of the engagement will determine whether or not it is an assertion based engagement or a direct reporting engagement.

Performance Audits

A performance audit examines the economy, efficiency or effectiveness of a State entity, a number of State entities, a part of a State entity or a subsidiary of a State entity. These audits extend beyond the examination of the financial affairs and transactions of an entity to encompass issues considered of significance to the Parliament.

Note also that my Office may carry out an examination or investigation examining the efficiency, effectiveness and economy within which a related entity of a State entity performs functions on behalf of the State entity in partnership, or jointly with the State entity; or as a delegate or agent of the State entity.

Performance audits are conducted in accordance with Australian Standard on Assurance Engagements ASAE 3500 *Performance Engagements*.

Compliance Audits

Compliance audits examine the compliance of a State entity, or a subsidiary of a State entity, with written laws or its own internal policies. The process normally involves testing a representative sample of compliance matters across public sector entities and our recommendations often highlight solutions that can be applied across the public sector.

Compliance audits are conducted in accordance with Australian Standard on Assurance Engagements ASAE 3100 *Compliance Engagements*.

Other investigations or audits

The Audit Act also provides the authority for me to:

- examine the accounting and financial management information systems of the Treasurer, a State entity or a subsidiary of a State entity to determine their effectiveness in achieving or monitoring program results
- investigate any matter relating to the accounts of the Treasurer, a State entity or a subsidiary of a State entity and
- investigate any matter relating to public money or other money, or to public property or other property.

This includes the ability of my Office to, what I refer to as, "follow the dollar", i.e., my Office is able to investigate State entities or private sector entities relating to the expenditure of public money, other money or to the management of public property or other property.

I may also carry out any audit that the Treasurer requests me to carry out and, where a grant or advance of money is made by the Government to a person for a specific purpose, the Treasurer may request me to audit the accounts of that person to ascertain whether the money granted or advanced was expended in accordance with the purposes of the grant or advance.

These audits or investigations will be conducted in accordance with which ever Australian auditing or assurance standard is relevant to the particular assignment.

Conducting audits

The Audit Act 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

Audits of financial statements

The Audit Act requires me to report annually to the Parliament on the outcomes of financial statement audits completed. It is my current practice to report twice per annum, in May/June and in November. These reports will also include, where I consider a matter of sufficient importance to have attention drawn to it, any case in which the functions of an accountable authority were not adequately and properly performed.

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 these reports to the Parliament.

I must, in writing, notify the Treasurer and any Minister responsible for the activity to which the report relates, of my intention to submit the report to Parliament, at least 5 days before the report is to be submitted.

It is my practice to include in its entirety, or in an agreed summary form, any comments provided by the Secretary, Mayor or Chief Executive Officer of a State entity on the report when still in draft form.

The Audit Act requires that I describe the basis on which audit fees charged for conducting audits of financial statements are calculated. This will be done annually.

The Audit Act permits me to table a report when Parliament is not sitting. It is my intention to try to always report when at least one of the two houses is sitting.

Performance and Compliance Audits and Investigations (examinations)

Under the Audit Act I may prepare and sign a report on an examination carried out. It will only be in exceptional circumstances where I conduct an examination and then not publicly report the outcome. Having completed an examination, I may submit the resulting report to both Houses of Parliament or to the Public Accounts Committee. It will normally be my practice to report to both Houses of Parliament.

Before signing a report proposed to be tabled, I must –

- give a summary of findings to the Treasurer, accountable authority or related entity of a State entity, as the case may require, and any other person who, in my opinion, has a special interest in the report and
- by written notice, invite the Treasurer, accountable authority or related entity of a State entity or that other person, as the case may require, to make submissions or comments on the content of the summary of findings before a specified day, being a day not less than 3 working days after the summary of findings is given to the Treasurer, accountable authority, related entity of a State entity or person.

In addition, I must include in the report any submissions or comments made before the specified day, or a fair summary of them.

The Audit Act permits me to table a report when Parliament is not sitting. It is my intention to try to always report when at least one of the two houses is sitting.

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 and comments on the application of, or the outcomes of, Government policy.

Adding Value

I will also seek to maximise the value to the State 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 including internal controls
- opportunities for cost savings and efficiency gains and
- recognition of good practice in use by State entities.

Power to dispense with audits of certain public bodies

In consultation with the Treasurer, I may dispense with all, or any part of, the audit of the financial statements of a particular State entity or of State entities included in a category or class specified by me. I can only do so if I consider that it is appropriate in the circumstances. Such dispensation of an audit may be in respect of a particular financial year and subject to any conditions determined by me. The decision to dispense with an audit is only made where I am satisfied that existing financial reporting arrangements are satisfactory and that the alternative auditing arrangements are appropriate.

I am required to detail in a report to Parliament those State entities or categories of State entities the audits of which I have 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 State entities being audited and free of interest that could be incompatible with integrity and objectivity.

The independence of the Auditor-General is directly addressed in the Audit Act which authorises and requires me to act independently in relation to the performance of my functions. The Audit Act also provides that I am not subject to direction from anyone in relation to my audit functions, including any decision as to whether or not an audit is to be conducted, how an audit is to conducted or in relation to the content of any report arising from an audit.

Confidentiality

The Audit Act places confidentiality requirements on a person who is, or who has been: the Auditor General, a person employed in the Tasmanian Audit Office, a person appointed to assist the Auditor General in a particular matter, an authorised person, the independent auditor of the Tasmanian Audit Office or an auditor engaged to conduct a review of efficiency and effectiveness of the Tasmanian Audit Office.

It requires that these persons are to maintain confidentiality with respect to all matters that come to their knowledge during the course of their employment or duties under the Audit Act or any other written law and that those persons must not communicate any of these matters to anyone except when required under the administration of the Audit Act or another written law or required under any proceedings of the Audit Act, other written Law or the Criminal Code.

However, this does not apply to the communication of information to the Public Accounts Committee, the House of Assembly or Legislative Council, or any other body established by the House of Assembly or Legislative Council to investigate the activities of one or more State entities or subsidiaries of State entities.

The Audit Act also provides that a person who receives a summary of audit findings on an audit of a State entity must maintain confidentiality regarding all matters within the summary and must not: communicate any of the information within the summary to anyone; copy or reproduce any of the information within the summary unless it is in connection with making submissions or comments to me or in connection with obtaining legal advice on those matters.

Annual work plan

The Audit Act requires me to consult with the Public Accounts Committee in relation to my annual work plan with the plan to ultimately be transmitted to the Speaker of the House of Assembly and to the President of the Legislative Council by no later than 30 June each financial year.

The plan will include details of the financial, performance and compliance audit work planned for the following 12 month period commencing 1 July. Once I know that the plan has been tabled, I will be placing the plan on my Office's website.

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. This as a healthy relationship aimed at effective public sector management. The requirement in the Audit Act for me to consult with the PAC regarding my work plan reinforces this relationship.

I trust this "engagement letter" provides each Member of Parliament with information to assist them to understand my role and how audits are conducted. Members are encouraged to contact me or my Office on 6226 0100 if further information is required.

Yours sincerely

H M Blake
Auditor-General
19 May 2009

APPENDIX 3 – AUDIT STATUS

Entity	Financial statements: Signed Financial Statements Received	Clear opinion issued	Audit opinion signed	Timeliness of audit opinion issue from balance date: < 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
ALL AUDITS INCLUDED IN REPORT NO. 1 OF 2009									
OTHER PUBLIC BODIES									
Other Public Bodies									
Nominal Insurer	18 December 2008	P	22 December 2008	•					
Rivers and Water Supply Commission	15 August 2008	P	30 October 2008			•			
LOCAL GOVERNMENT AUTHORITIES									
City Councils									
Clarence City Council	26 September 2008	P	4 November 2008	•					
Glenorchy City Council	26 September 2008	P	26 September 2008	•					
Hobart City Council	10 September 2008	P	16 October 2008	•					
Launceston City Council	30 September 2008	P	13 October 2008	•					
Devonport City Council	26 October 2008	P	13 November 2008	•					
Burnie City Council	29 September 2008	P	14 November 2008	•					
Urban and Large Rural Councils									
Central Coast Council	15 August 2008	P	9 September 2008	•					
Circular Head Council	15 October 2008	P	27 March 2009						•
Huon Valley Council	30 September 2008	P	31 October 2008	•					
Kingborough Council	25 August 2008	P	20 October 2008	•					
Meander Valley Council	28 September 2008	P	17 November 2008	•					
Waratah-Wynyard Council	2 September 2008	P	17 September 2008	•					
West Tamar Council	19 August 2008	P	9 September 2008	•					
Medium Rural Councils									
Brighton Council	21 October 2008	P	26 November 2008		•				
Derwent Valley Council	30 September 2008	P	21 November 2008	•					
Dorset Council	8 September 2008	P	3 December 2008		•				
George Town Council	20 October 2008	P	15 December 2008			•			
Latrobe Council		P	11 December 2008			•			
Northern Midlands Council	21 October 2008	P	19 January 2009					•	
Sorell Council	30 September 2008	P	23 December 2008			•			
West Coast Council	30 September 2008	P	26 November 2008		•				
Other Rural Councils									
Break O’Day Council	29 September 2008	P	31 October 2008	•					
Central Highlands Council	22 September 2008	P	26 November 2008		•				
Flinders Council	19 November 2008	P	5 December 2008		•				
Glamorgan-Spring Bay Council	29 September 2008	P	21 November 2008	•					
Kentish Council	30 September 2008	P	13 November 2008	•					
King Island Council	24 September 2008	P	14 November 2008	•					
Southern Midlands Council	29 September 2008	P	7 November 2008	•					
Tasman Council	29 September 2008	P	23 December 2008	•		•			
Local Government Business Units									
Copping Refuse Disposal Site Joint Authority	4 November 2008	P	22 December 2008			•			
Dulverton Regional Waste Management Authority	19 January 2009	P	19 January 2009					•	
Local Government Water Authorities									
Cradle Coast Water	8 September 2008	P	7 October 2008	•					
Esk Water Authority	27 August 2008	P	11 September 2008	•					
Hobart Regional Water Authority	18 September 2008	P	26 September 2008	•					
Local Government Other									
Local Government Association of Tasmania	1 September 2008	P	22 January 2009						•
ALL AUDITS - 31 DECEMBER 2008 BALANCE DATES									
OTHER PUBLIC BODIES									
Other Public Bodies									
Theatre Royal Management Board	4 March 2009	P	5 March 2009						•
UTAS	13 February 2009	P	20 February 2009						•

APPENDIX 4 – ACRONYMS & ABBREVIATIONS

AARC	Affected Area Recovery Committee
AASB	Australian Accounting Standards Board
AAV	Assessed Annual Valuation
AIFRS	Australian Equivlents to International Financial Reporting Standards
AMC	Australian Maritime College
ATO	Australian Tax Office
AUD	Australian Dollar
AVO	Australian Valuation Office
BAC	Burnie Airport Corporation
BSE	Burnie Sports and Events
CCW	Cradle Coast Water
CDO	Collateralised Debt Obligation
CGU	CGU Insurance Limited
CPI	Consumer Price Index
CRRG	Community Recovery Reference Group
DEEWR	Department of Education, Employment and Workplace Relations
DHHS	Department of Health and Human Services
DPAC	Department of Premier and Cabinet
DPIW	Department of Primary Industries and Water
DPIWE	Department of Primary Industries, Water and Environment
DP&EMP	Development Proposal and Environmental Management Plan
DRWMA	Dulverton Regional Waste Management Authority
EBA	Enterprise Bargaining Agreement
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EMPHC	Esperance Multi Purpose Health Centre
ESK	Esk Water Authority
FMAA	Financial Management and Audit Act 1990
FTE	Full Time Equivalents
GBE	Government Business Enterprise
GMC	General Management Committee
GPOC	Government Prices Oversight Commission
GST	Goods and Services Tax
HECS	Higher Education Contribution Scheme
HIH	HIH Insurance Ltd
ICN	Integrated Community Network
ISDN	Integrated Services Digital Network
IT	Information Technology
LGAT	Local Government Association of Tasmania
MPS	Tasman Multipurpose Service
PPE	Property, Plant and Equipment
SOC	State Owned Company
TFS	Tasmania Fire Service
TNI	The Nominal Insurer
UTIL	UTAS Innovation Ltd
WIP	Work in Progress

APPENDIX 5 – RECENT REPORTS

YEAR	REPORT TITLE
2009	Special Report No. 78 Management of threatened species
2008	Special Report No. 77 Food safety: safe as eggs?
2008	Report of the Auditor-General No. 2 of 2008 - Government Departments and Public Bodies 2007-2008
2008	Special Report No. 76 Complaint handling in local government
2008	Report of the Auditor-General Report No. 1 of 2008 - Local Government Authorities, Superannuation Funds and Other Public Bodies 2006-2007
2008	Special Report No. 75 Executive termination payments
2008	Special Report No. 74 Follow-up audits
2008	Special Report No. 73 Timeliness in the Magistrates Court
2008	Special Report No. 72 Public sector performance information

Auditor-General's reports are available from the Tasmanian Audit Office. These and other published reports can be accessed via the Office's homepage. http://www.audit.tas.gov.au

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Our Vision

STRIVE | LEAD | EXCEL | *TO MAKE A DIFFERENCE*

Our Purpose

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector

Availability of reports

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
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Hobart
TASMANIA 7001

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This report is printed on recycled paper.

Cover picture: Hobart City Council by Sean Reardon
Back cover picture: Glenorchy City Council by Sean Reardon

AUDIT MANDATE AND STANDARDS APPLIED

MANDATE

Section 17(1) of the *Audit Act 2008* states that "… An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects. …"

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

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

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

"...(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards.

(2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity's appropriate Minister and provide a copy to the relevant accountable authority.

STANDARDS APPLIED

Section 31 specifies that:

'… The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

(a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and

(b) the Australian Auditing and Assurance Standards. …'

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

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