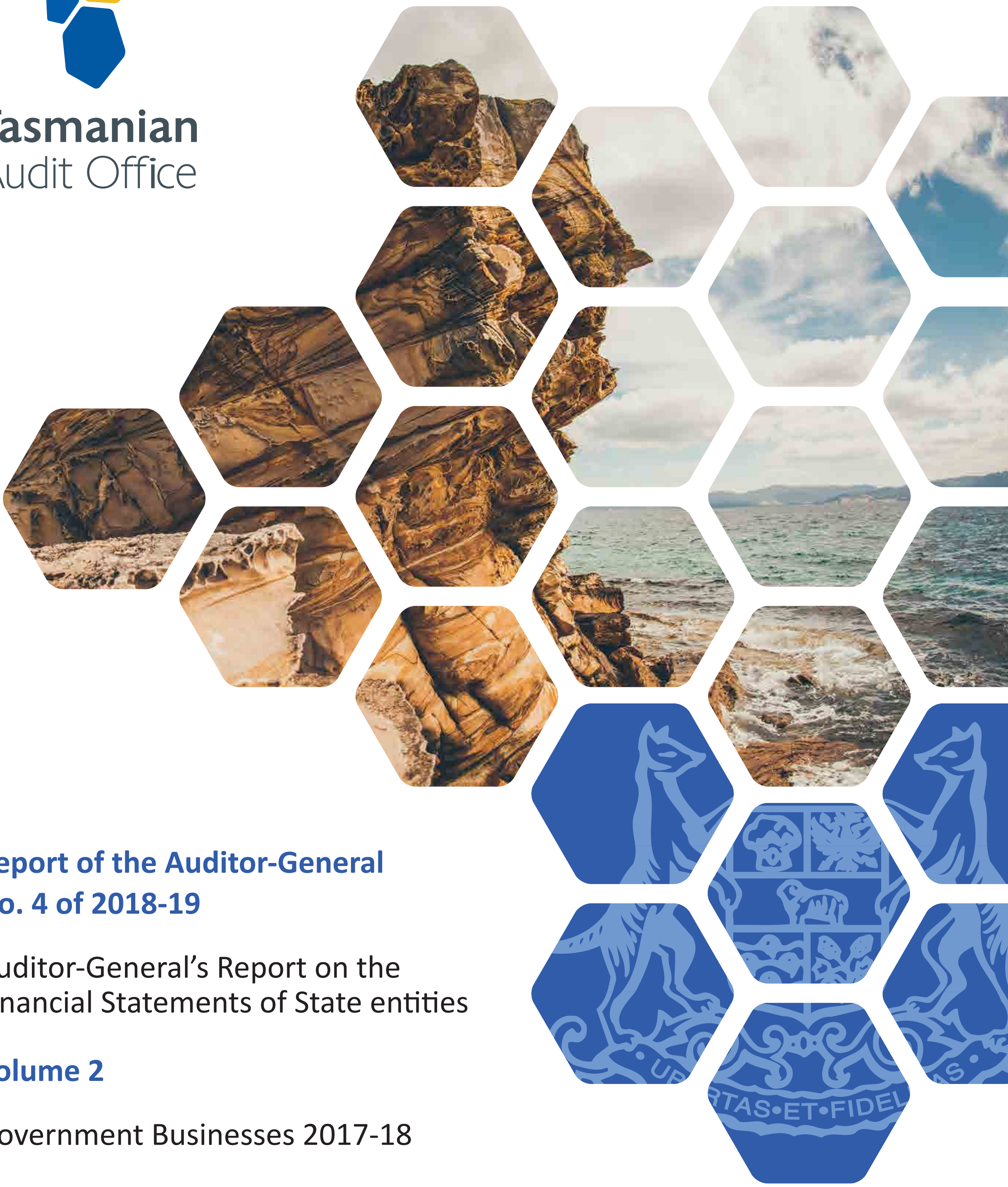
Tasmanian
Audit Office



# Report of the Auditor-General
# No. 4 of 2018-19

## Auditor-General's Report on the Financial Statements of State entities

## Volume 2

Government Businesses 2017-18

November 2018

**Strive • Lead • Excel** | To Make a Difference

## THE ROLE OF THE AUDITOR-GENERAL

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

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing their financial reports, enhancing their value to end users.

Following financial audits, we issue a variety of reports to State entities and we report periodically to the Parliament.

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. 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 by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

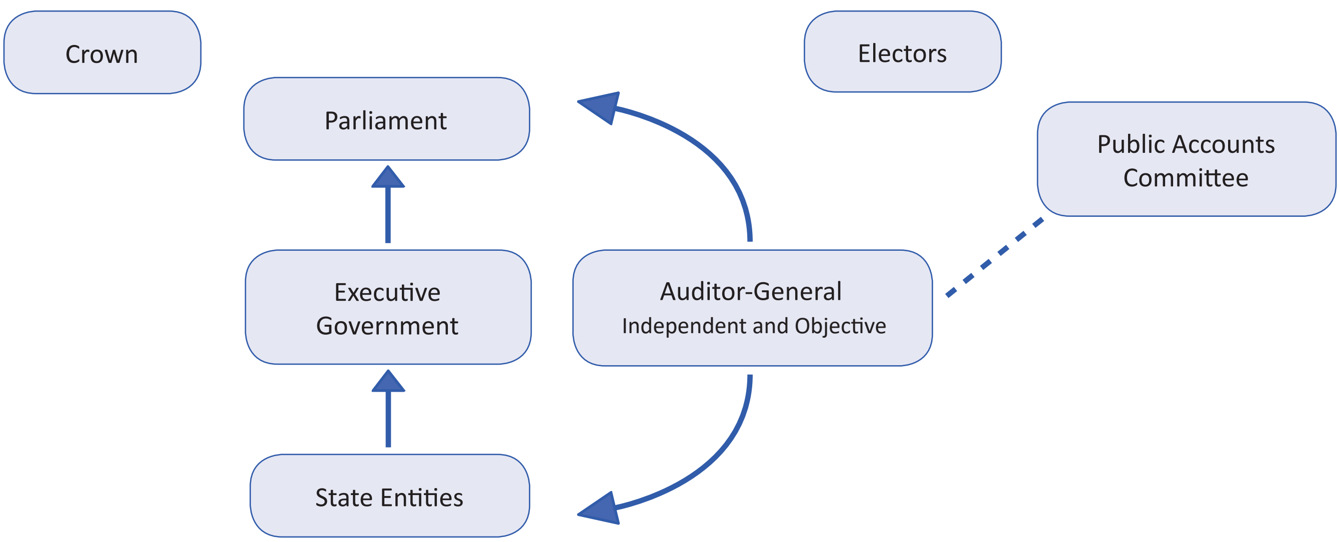
We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

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.

Where relevant, the Treasurer, a Minister or Ministers, other interested parties and accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses, or summaries thereof, are detailed within the reports.

### The Auditor-General's Relationship with the Parliament and State Entities

The Auditor-General's role as Parliament's auditor is unique.



2018 (No. 14)

TASMANIA

# 2018
# PARLIAMENT OF TASMANIA

## Report of the Auditor-General
## No. 4 of 2018-19

### Volume 2

Government Businesses 2017-18

### November 2018

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

Auditor-General's reports and other reports published by the Office can be accessed via the Office's website. For further information please contact:

Tasmanian Audit Office
GPO Box 851
Hobart
TASMANIA 7001
Phone: (03) 6173 0900, Fax (03) 6173 0999
Email: admin@audit.tas.gov.au
Website: www.audit.tas.gov.au

ISSN 1327 2608

This report is printed on FSC Mix Paper from responsible sources.

Tasmanian Audit Office

Level 8, 144 Macquarie Street, Hobart, Tasmania, 7000
Postal Address GPO Box 851, Hobart, Tasmania, 7001
Phone: 03 6173 0900 | Fax: 03 6173 0999
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

27 November 2018

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President
Dear Madam Speaker

**Report of the Auditor-General No. 4 of 2018-19, Auditor-General's Report on the Financial Statements of State entities, Volume 2 - Government Businesses 2017-18**

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 State entities, Volume 2 - Government Businesses 2017-18.

Yours sincerely

Rod Whitehead
**Auditor-General**

# TABLE OF CONTENTS

# EXECUTIVE SUMMARY

## INTRODUCTION

Tasmanian Government businesses offered a diverse range of services ranging from essential utilities such as transport and electricity, to irrigation and financial services. Government businesses were expected to deliver services at the lowest sustainable cost, while also providing an appropriate financial return to the government in the form of dividends, income tax equivalents and guarantee fees.[1]

Government businesses operated outside the Public Account, principally on the basis of funds derived through operations and generally had no direct impact on Budget expenditure except in circumstances where funding for Community Service Obligations (CSOs) was received, or payment was received for services provided to government agencies.

## GUIDE TO USING THIS REPORT

Guidance relating to the use and interpretation of financial information included in this Report can be found on our website: www.audit.tas.gov.au.

The guidance includes information on the calculation and explanation of financial ratios and performance indicators and the definition of audit finding risk ratings.

## STATE ENTITIES COVERED IN THIS REPORT

This Report contains the results from our financial audits of 17 entities and two subsidiaries in the government business sector shown in Figure 1.

Figure 1: Audits contained within this Report

| | | |
|---|---|---|
| 6 | Government Business Enterprises | • Sustainable Timber Tasmania (STT)<br>• Hydro-Electric Corporation (Hydro)<br>• Motor Accidents Insurance Board (MAIB)<br>• Port Arthur Historic Management Authority (PAHSMA)<br>• Public Trustee (PT)<br>• Tasmanian Public Finance Corporation (Tascorp) |
| 8 | State-Owned Companies | • Aurora Energy Pty Ltd (Aurora Energy)<br>• Metro Tasmania Pty Ltd (Metro)<br>• Tasmanian Irrigation Pty Ltd (Tasmanian Irrigation)<br>• Tasmanian Networks Pty Ltd (TasNetworks)<br>• Tasmanian Ports Corporation Pty Ltd (TasPorts)<br>• Tasmanian Railway Pty Ltd (TasRail)<br>• Tasracing Pty Ltd (Tasracing)<br>• TT-Line Company Pty Ltd (TT-Line) |
| 2 | Public Non-Financial Corporations | • Macquarie Point Development Corporation (MPDC)<br>• Private Forests Tasmania (PFT) |

1. Tasmanian Government Fiscal Strategy, 2018-19 Budget, Budget Paper No. 1, page 38.

## 2 Subsidiaries

- Momentum Energy Pty Ltd[1] (Momentum Energy)
- Bass Island Line Pty Ltd[2]

## 1 Council Owned Entity

- Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater)

*Notes:*

1. *Momentum Energy is a subsidiary of Hydro*
2. *Bass Island Line is a subsidiary of TasPorts*

For the purpose of this Report, entities covered in aggregate will be referred to as Government Businesses.

The Report contains individual Chapters on each of the 17 Government businesses. For 2017-18, each Chapter includes some infographics that provide a snapshot of key data or statistical information applicable to the entity.

## DEVELOPMENTS

The following table identifies significant developments affecting the operations of Government businesses identified during the course of the audits. Refer to the 2017-18 annual reports of each entity for details of any further developments.

### STT

STT commenced operations on 1 July 2017. It was known as Forestry Tasmania prior to this date.

On 14 September 2017, the Minister for Resources announced the sale of 29 000 hectares of hardwood forest plantations for $60.70m. The proceeds from the sale were used to retire STT's borrowings of $29.80m with Tascorp with the balance used to provide working capital for STT.

### Hydro

Hydro was subject to a major outage of the Basslink cable in 2015. An assessment of the potential legal costs and settlement outcomes with the operator of the Basslink cable, Basslink Pty Ltd, is progressing through discussion with Hydro's internal and third party legal representatives. In March 2018, Hydro experienced another outage in the cable, which may be subject to potential legal costs and settlement outcomes.

### PAHSMA

In December 2017, PAHSMA opened its new visitor centre. The total cost of the building was $13.10m, including demolition costs for the former visitor centre. Costs were capitalised to Building, $10.46m and Infrastructure, $1.67m.

## Tasmanian Irrigation

Tasmanian Irrigation commissioned the Southern Highlands Irrigation Scheme in 2017-18 adding an additional 7 215 megalitres (ML) to total deliverable water volume. Upon commissioning, Tasmanian Irrigation recognised $8.59m in water entitlement revenues and realised $29.33m in impairment losses.

Construction of the Swan Valley Irrigation scheme was completed in August 2017, although the commissioning of the scheme had been delayed as at 30 June 2018 due to a shortage of water.

Additional funding, to be provided over the next four years, was secured from the Australian and Tasmanian Governments for existing and potential irrigation projects.

## TasNetworks

In 2017-18, TasNetworks completed the Ajilis Project. The objectives of Ajilis were to transform business systems and processes by replacing dissimilar and disjointed information systems, removing duplication, simplifying operations, improving data quality and reporting and streamlining business processes.

Release One went live in February 2017 and included finance, procurement, inventory, payroll, governance risk and compliance and human capital management. Release Two went live in March 2018 and included assets and works management, environment health and safety, budgeting and forecasting. The project was budgeted to cost $58.18m, with $58.31m spent to 30 June 2018.

## TasPorts

During 2017-18, Bass Island Line Pty Ltd, a subsidiary of TasPorts, purchased and financed a freight vessel, the John Duigan, by way of a $11.12m equity contribution from TasPorts. This vessel operated a triangular freight service between Geelong in Victoria, Grassy on King Island and Devonport.

## TasRail

TasRail managed a $240.00m upgrade of the Tasmanian Rail Network, jointly funded by the Tasmanian and Australian Governments. The Tasmanian Freight Rail Revitalisation Program (TFRRP) commits two tranches of funding, each valued at $119.60m, to address a prioritised program of Below Rail renewals and critical works over eight years. Tranche One works commenced in 2015-16 and will conclude on 30 June 2019.

## TT-Line

Following a competitive tender process, TT-Line signed a contract in April 2018 with Flensburger Schiffbau-Gesellschaft GmbH & Co KG, a German ship-building company, for the construction of two custom-built vessels to replace the existing Spirit of Tasmania vessels. The new vessels are due for delivery in 2021.

The final design specifications provide for two 212-metre long vessels that will each accommodate 1 800 passengers and up to 600 passenger vehicles. The new purpose-built vessels will also be able to carry greater freight volumes than the current Spirit of Tasmania vessels.

## TasWater

On 8 August 2017, the Tasmanian Government introduced the *Water and Sewerage Tasmania Bill 2017* and *Water and Sewerage Tasmania (Consequential and Transitional Provisions) Bill 2017* in Parliament. The Legislative Council voting down the bills on 23 November 2017.

A Memorandum of Understanding was signed on 1 May 2018 by the Tasmanian Government, Local Government Owners Chief representative and TasWater to facilitate a package of reforms to be presented to, and voted on by, council owners.

On 21 August 2018, the Government introduced the *Water and Sewerage Corporation Amendment (Crown Involvement Facilitation) Bill 2018*. The purpose of this amendment was to enable councils to vote on resolutions later this year that, if supported, would see the Tasmanian Government become an equity partner in TasWater.  This Bill was passed by Parliament on 14 September 2018. On 27 September 2018, Council owners voted to support the Tasmanian Government becoming a shareholder of TasWater. It is expected that the new TasWater ownership structure will be in place by the start of 2019.

# SECTOR ANALYSIS

## OVERVIEW

This Chapter summarises financial results for the 17 Government businesses subject to audit. Audited subsidiaries have been excluded as they are included in the consolidated financial results of their respective parent entity. Detailed commentary on each entity is included in individual Chapters within this Report.

## SUMMARISED FINANCIAL REPORT

Details of Government businesses' results are set out in Table 1. The financial information below represents consolidated financial information for those entities that have controlled entities.

Table 1: Summarised financial results

| Business | Net profit (loss) before tax $'000s | Net profit (loss) after tax $'000s | Total comprehensive profit (loss) $'000s | Net assets 2018 $'000s | Net assets 2017 $'000s |
|---|---|---|---|---|---|
| Aurora Energy | 18 931 | 13 248 | 31 215 | 121 220 | 107 611 |
| Hydro | 168 786 | 120 922 | 30 682 | 1 995 556 | 1 964 539 |
| MPDC | (1 333) | (1 333) | (1 333) | 37 740 | 39 073 |
| Metro | (1 935) | (1 357) | 484 | 51 243 | 46 259 |
| MAIB | 137 236 | 100 111 | 99 852 | 575 237 | 531 643 |
| PAHSMA | 622 | 622 | 1 178 | 38 569 | 37 695 |
| PFT | 503 | 503 | 503 | 2 065 | 1 562 |
| PT | 1 337 | 772 | 821 | 8 612 | 7 887 |
| STT | 50 463 | 47 736 | 49 008 | 161 577 | 112 569 |
| Tasmanian Irrigation | (22 903) | (22 903) | (22 903) | 49 946 | 29 767 |
| TasNetworks | 84 614 | 59 230 | 89 763 | 953 401 | 941 198 |
| TasPorts | 8 839 | 5 794 | 6 102 | 243 705 | 240 418 |
| TasRail | (25 168) | (25 165) | (25 157) | 102 794 | 112 951 |
| Tascorp | 39 311 | 32 549 | 32 549 | 760 826 | 807 300 |
| Tasracing | (190) | (190) | (107) | 43 341 | 42 704 |
| TasWater | 60 986 | 42 685 | 43 681 | 1 605 615 | 1 580 434 |
| TT-Line | 63 390 | 44 370 | 37 108 | 362 578 | 284 470 |
| **Total** | **583 489** | **417 594** | **373 446** | **7 114 025** | **6 888 080** |

Government businesses generated an overall net profit before tax of $583.49m in 2017-18. This result was an improvement compared to the net profit before tax of $28.36m in the prior year, mainly due to the improved result from Hydro, which incurred a $308.71m loss before tax in the prior year.

## Underlying profit (loss)

| $540m | $425m | $267m | $424m |
|---|---|---|---|
| 2017-18 | 2016-17 | 2015-16 | 2014-15 |
| ▲ 27% | ▲ 59% | ▼ (37%) | ▼ (19%) |

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

The Underlying profit (loss) is defined as the operating revenue less operating expenditure for the business. This is a more accurate measure of financial performance as it reflects the earning power of the entity and the capacity to pay operating costs by removing unusual and non-recurring transactions. A comparison of the Underlying profit (loss) for Government businesses is shown in Table 2.

### Table 2: Underlying profit (loss)

| | Underlying profit (loss) | | | | |
|---|---|---|---|---|---|
| **Business** | **2017-18 $'000s** | **2016-17 $'000s** | **2015-16 $'000s** | **2014-15 $'000s** | **Operating margin 4-year average** |
| Aurora Energy | 18 300 | 27 948 | 43 006 | 43 847 | 1.0 |
| Hydro | 167 902 | 20 095 | (65 435) | 62 352 | 1.1 |
| MPDC | (1 310) | (1 284) | (1 384) | (570) | 0.5 |
| Metro | (1 935) | (3 017) | (2 791) | (3 200) | 1.0 |
| MAIB | 137 236 | 165 678 | 95 265 | 137 193 | 2.1 |
| PAHSMA | 622 | 1 322 | 1 406 | 211 | 1.0 |
| PFT | 503 | 413 | 309 | 142 | 1.2 |
| PT | 1 337 | 1 012 | 107 | 435 | 1.1 |
| STT | 5 948 | (13 876) | (17 228) | (30 680) | 0.9 |
| Tasmanian Irrigation | (3 445) | 1 738 | 2 006 | 1 299 | 1.0 |
| TasNetworks | 86 736 | 132 319 | 162 248 | 161 396 | 1.7 |
| TasPorts | 10 999 | 8 727 | 2 093 | (11 582) | 1.0 |
| TasRail | (9 683) | (6 780) | (12 216) | (12 925) | 0.8 |
| Tascorp | 39 311 | 33 100 | 28 547 | 34 156 | 1.2 |
| Tasracing | (190) | 867 | 1 156 | (1 211) | 1.0 |
| TasWater | 36 528 | 20 617 | 8 401 | 25 169 | 1.1 |
| TT-Line | 51 392 | 30 348 | 18 664 | 17 492 | 1.2 |
| **Total** | **540 251** | **419 227** | **264 154** | **423 524** | |

Government businesses as a whole recorded an Underlying profit of $540.25m for 2017-18. This was a 28.9% improvement on the 2016-17 result. The change was primary due to Hydro's $147.81m improvement, driven by the production of more large-scale generation certificates and the sale of more electricity contracts relating to small business customers than expected.

Twelve of the 17 Government businesses recorded an Underlying profit in 2017-18, totalling $556.81m. Hydro, MAIB and TasNetworks were the strongest performers, accounting for 72.5% of the sector's underlying profit.

MPDC, Metro, Tasmanian Irrigation, TasRail and Tasracing recorded Underlying losses, which totalled $16.56m. While the number of Government businesses recording losses increased from the prior year, the total value of the losses recorded decreased by $8.40m.

Figure 2 shows the average operating margins for each Government business over the past four years.

Figure 2: Operating margin - 4 year average

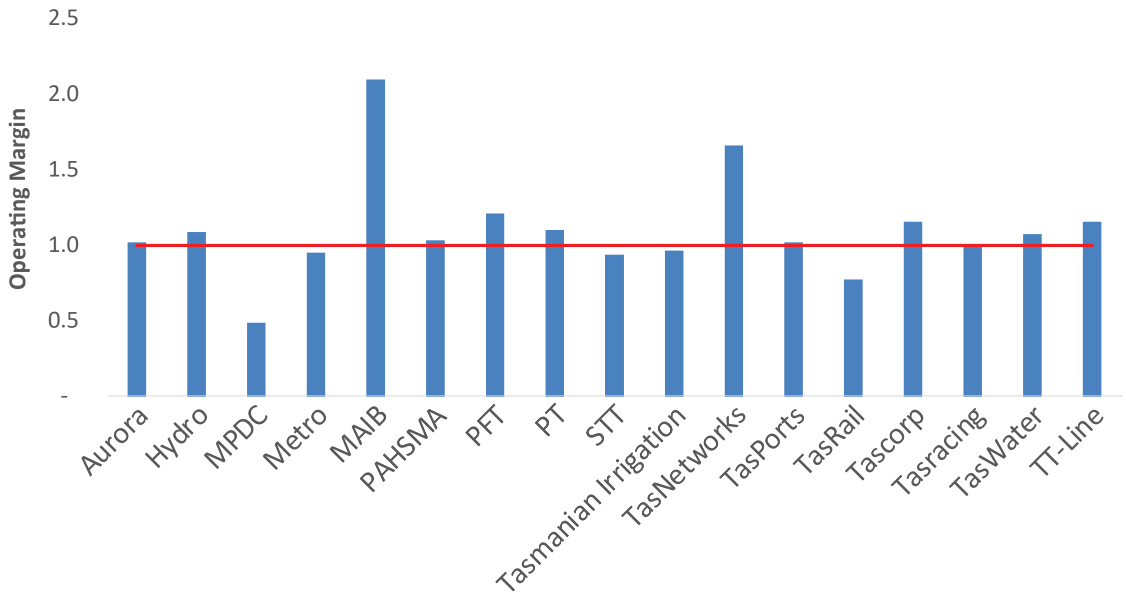



Figure 2 demonstrates that 12 of the 17 Government businesses achieved an Operating margin at or exceeding 1.0 over the past four years, meaning they covered all of their operating expenses.

The entities below break-even were MPDC, Metro, STT, Tasmanian Irrigation and TasRail. All five entities received Government operational funding[1] and commercial industry support[2]. Government operational funding and commercial industry support is detailed in a later section of this Chapter. These entities need to increase own source revenue, or reduce expenses, to become sustainable without support from Government.

## REVENUE RECEIVED BY GOVERNMENT BUSINESSES

| $4.88bn | $4.45bn | $4.22bn | $4.48bn |
|---|---|---|---|
| 2017-18 | 2016-17 | 2015-16 | 2014-15 |
| ▲ 10% | ▲ 5% | ▼ (6%) | ● (4%) |

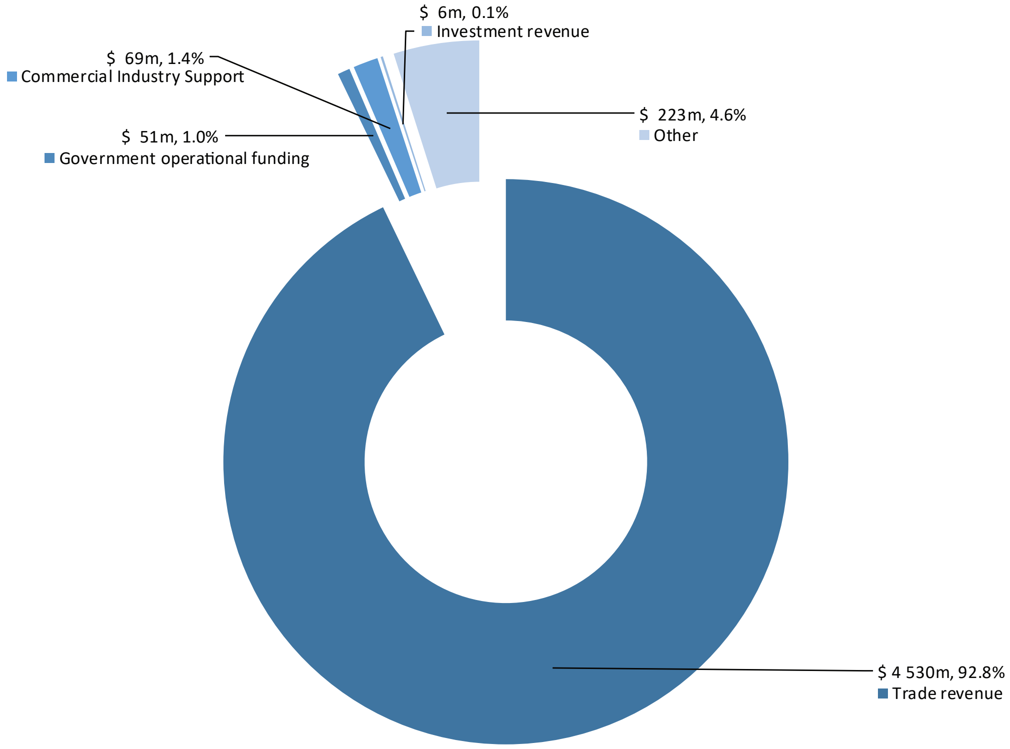
Government businesses recorded $4.88bn of total revenue in 2017-18, which was an increase of $0.43bn from 2016-17. The higher revenue was primarily a result of a:

- $329.29m increase in Hydro's sales revenue in 2017-18, with the production of more large-scale generation certificates and the sale of more electricity contracts relating to small business customers than expected
- $78.02m increase in Aurora Energy's electricity and gas sales
- $23.33m increase in STT's sales of forest-related products.

1. *Government operational funding includes monies for operational support or to meet community service obligations.*
2. *Commercial industry support is funding received as part of a service agreement to establish and operate an industry.*

Figure 3 show the source of Government business revenue.

Figure 3: Government business revenue




Trade revenue included revenue streams generated from Government businesses' core activities. It accounted for 92.8% (2016-17, 92.7%) of Government businesses' total revenue, consistent with the prior year, while Government operational funding accounted for just 1.0% and commercial industry support 1.4%. This indicated, as whole, the sector was primarily funded by own source revenue. However, the stronger performing businesses drove the result, as the three energy businesses generated 69.3% of total trade revenue. The majority of Government operational funding and commercial industry support was confined to entities that provided lower returns to the Government, which is detailed in the following Section of this Chapter.

## RETURNS TO OWNERS

Government businesses returned $336.48m to the Tasmanian Government in 2017-18 and TasWater returned $30.00m to owner councils. Figure 4 shows a breakdown of the returns into dividends, income tax equivalents and guarantee fees paid during the year.

Dividends were paid by Aurora Energy, MAIB, PT, TasNetworks, TasPorts, Tascorp, TasWater and TT-Line in 2017-18. These eight Government businesses accounted for 95.3% of total returns to Government and owners.

Returns from Government businesses increased 6.9% compared to 2016-17 due to a special dividend of $40.00m paid by TT-Line as a contribution to the Vessel Replacement Fund. Without this special dividend, returns to Government would have reduced, largely due to no dividend received from Hydro in 2017-18. Hydro is expected to pay a dividend in 2018-19.

Figure 4: Returns to Government and owners

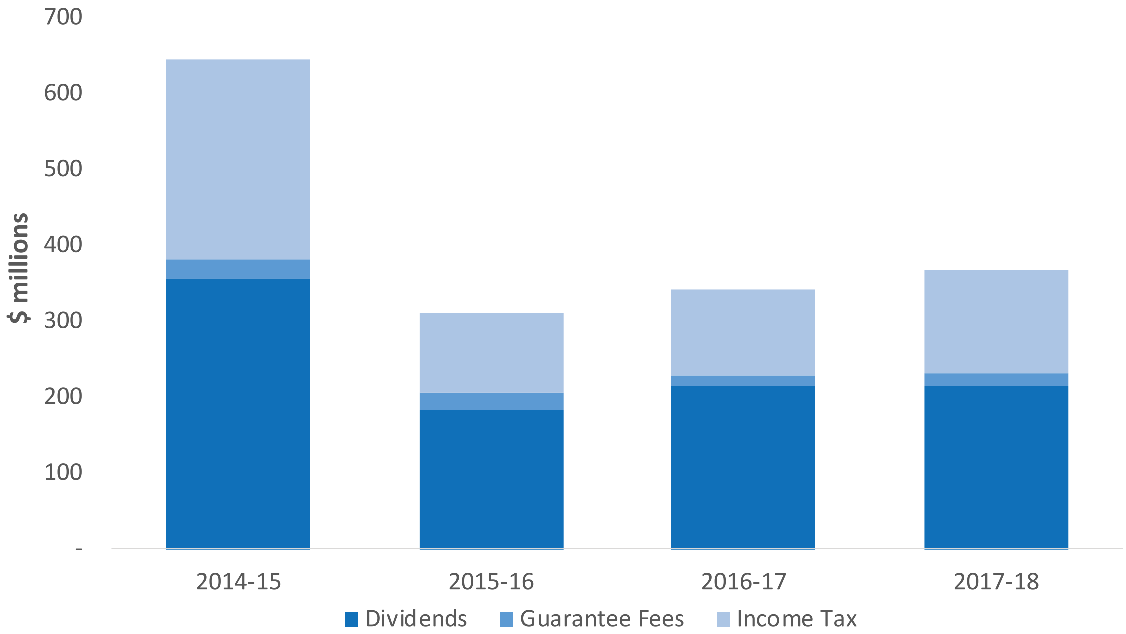
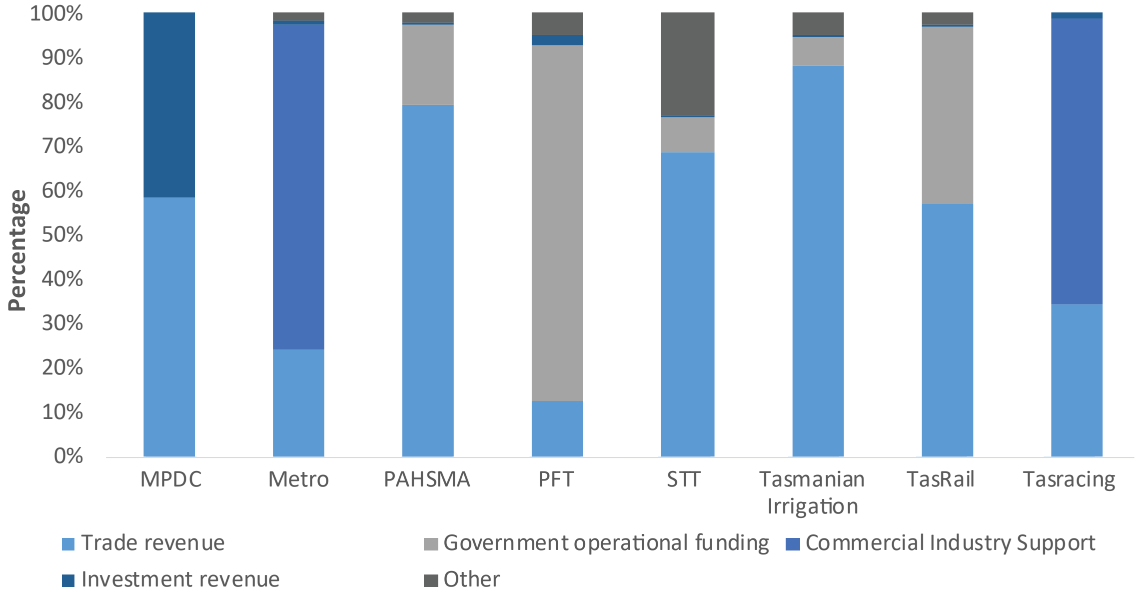



Figure 5 shows the Government businesses that did not make dividend payments in 2017-18, all of which received either Government operational funding or commercial industry support funding to maintain operations and meet their community service obligations.

Figure 5: Government operational funding and commercial support




In aggregate, the eight Government businesses in Figure 5 received 27.5% of total revenue (2016-17, 34.7% ) from either Government operational funding or commercial industry support.

Metro and Tasracing received commercial industry support to facilitate operations, with:

- Metro reliant on equity contributions and a service contract with the Department of State Growth to maintain its bus fleet, as it has generated losses in each of the past four years
- Tasracing not required to pay dividends as a Government policy decision resulted in any positive returns being invested back into the industry.

PAHSMA, PFT, STT, Tasmanian Irrigation and TasRail received Government operational funding during 2017-18. TasRail has been reliant on Government funding to support operations as it has generated underlying losses in each of the past four years. In 2017-18, Government operational funding received by TasRail represented 40.0% of total revenue received (2016-17, 46.8%). TasRail had a business focus to increase own source revenue in relation to above rail activities to reduce funding required to support operations in the future and is not expected to provide returns to the Government.

As some businesses continue to be reliant on Government funding or commercial industry support to maintain sustainability and are not expected, or are unlikely, to generate profit sufficient enough to provide future returns to the Government, the 'for-profit' corporate structures for these entities may not be appropriate unless a significant improvement in their financial performance is expected to occur.

## FINANCING OF GOVERNMENT BUSINESSES

**$424.39m**

Total cash and cash equivalents held at 30 June 2018

**▲ 21.9%**

Change in cash and cash equivalents from prior year

Excluding the operations and financial results of Tascorp, Cash held by Government businesses increased by 21.9% from the prior year to $424.39m.

This increase included:

- $90.01m for TT-Line representing $80.00m received from the Vessel Replacement Fund for the purchase of new vessels
- $41.65m for STT being an injection of working capital received as a result of the timber plantation sale.

**$3.27bn**

Total borrowings as at 30 June 2018

**▲ 1.2%**

Change in borrowings from prior year

There were nine Government businesses that had debt at 30 June 2018 (other than Tascorp whose borrowings were a key component of its core business). These nine businesses had total debt of $3.27bn at 30 June 2018 (30 June 2017, $3.23bn), which was consistent with the prior year. Details of borrowings and relevant ratios are set out in Table 3.

Consistent with the past four years under review, Government businesses (other than Tascorp) that had debt at 30 June 2018 were primarily in industry sectors with significant capital infrastructure. TasNetworks, Hydro and TasWater accounted for 97.7% (30 June 2017, 96.4%) of total debt held.

Government business with debt had a weighted average current ratio of 0.63. This was below the benchmark of 1.0, which indicated a net working capital deficit. The result was driven by Hydro, Tasmanian Irrigation, TasNetworks, TasRail and TasWater whose ratios were impacted by short-term loan facilities and fixed term debt maturing in 2018-19.

Table 3: Debt and relevant ratios

| Business | Borrowings $'000s | Current ratio | Cost of Debt | Interest coverage ratio | Debt to equity |
|---|---|---|---|---|---|
| Hydro | 769 204 | 0.69 | 4.9% | 5.55 | 38.5% |
| PAHSMA | 5 000 | 1.24 | 2.4% | 11.54 | 13.0% |
| PFT[1] | 584 | 12.22 | 0.0% | 0.00 | 28.3% |
| Tasmanian Irrigation | 27 169 | 0.46 | 2.8% | (2.25) | 54.4% |
| TasNetworks | 1 885 600 | 0.42 | 4.2% | 2.10 | 197.8% |
| TasPorts | 27 334 | 1.45 | 5.3% | 8.64 | 11.2% |
| TasRail | 6 000 | 0.72 | 2.2% | 0.00 | 5.8% |
| Tasracing | 9 447 | 3.37 | 6.5% | 0.70 | 21.8% |
| TasWater | 539 218 | 0.33 | 3.8% | 2.90 | 33.6% |
| **Total** | **3 269 556** | **0.63** | **4.3%** | **3.05** | **64.9%** |

*Notes:*

1. *PFT loans are interest free with the Department of Treasury and Finance.*

The average interest coverage ratio for the sector of 3.05 was above the benchmark of 2.0 due to the financial results of PAHSMA and TasPorts. The interest coverage ratio results for these entities significantly increased due to:

- PAHSMA incurring a low level of interest expense
- TasPorts recording higher earnings before interest and tax (EBIT) in 2017-18.

TasNetworks debt level resulted in a debt to equity ratio over 100%, which is normally considered high. TasNetworks debt increased following a decision by the Government in January 2015 to transfer debt from Hydro to TasNetworks to rebalance the finances of the two businesses.

During the year TasNetworks identified a breach in one of its borrower's promises (debt covenants) under its Master Loan Facility Agreement (MLFA) with Tascorp, in that the financial leverage ratio exceeded the benchmark of 67% during December 2017. The breach was rectified by 30 June 2018 following an undertaking by Tascorp not to take any action under the MLFA in respect of the breach, provided it was rectified by 30 June 2018.

## CAPITAL INVESTMENT BY GOVERNMENT BUSINESSES

**$2.25bn**
Total Capital Spend over the last 4 years

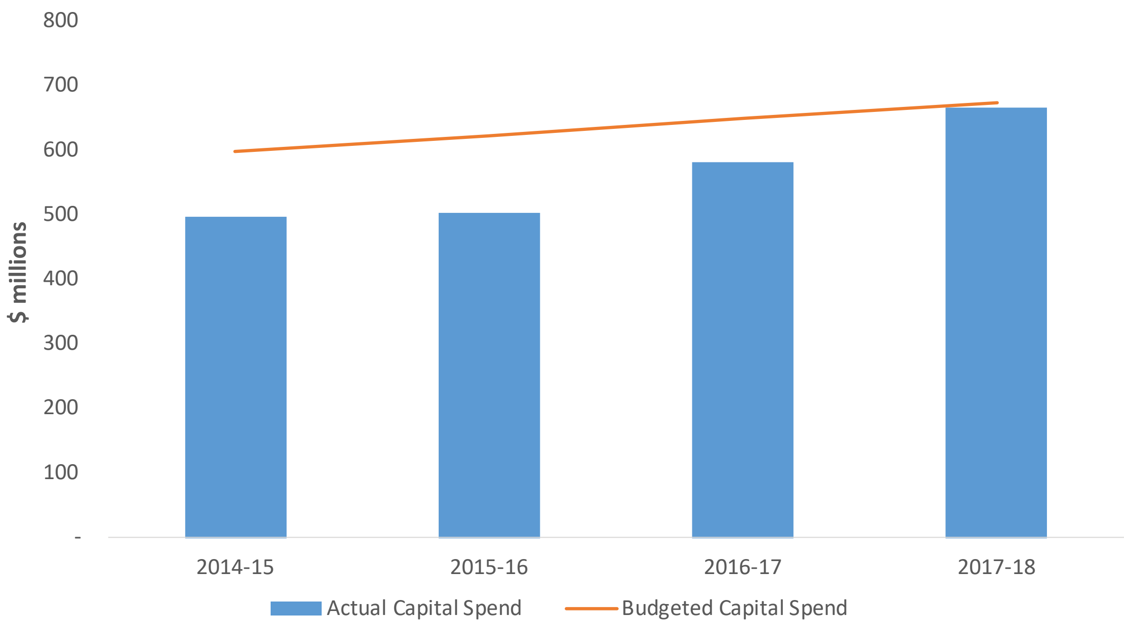
**$2.54bn**
Total Budgeted Capital Spend over the last 4 years

**$298.04m**
Total Spending Gap over the last 4 years

Government businesses (other than MAIB and Tascorp) invested a total of $2.25bn in capital projects over the past four years. This was $298.04m, or 11.7%, under combined capital budgets for that period, as shown in Figure 6.

Figure 6 shows there is still a consistent trend of capital spending being below capital budgets in each of the four years under review. The gap was significantly reduced in the 2017-18 financial year, due to TasWater's capital spend being significantly higher than their budgeted figure.

Figure 6: Capital spending




*Note: Includes all Government business other than PFCs.*

Overall, 14 out of the 15 Government businesses failed to meet budget across the four years. Excluding the results of TasWater, which was the only entity to invest above budget, Tasmanian Irrigation, TasRail and TasNetworks accounted for 72.9% of the remaining capital spending gap.

The explanations generally provided for the underspending were:

- delays in major projects moving into construction
- limited availability of contractors to undertake capital work
- capital works planned were no longer required due to changed circumstances
- capital work performed for a lower cost than originally planned
- ineffective or ambitious budgeting.

# AURORA ENERGY PTY LTD

## OVERVIEW

**$18.30m**
**Underlying profit**

**204**
**Workforce (FTEs)**

**$923.62m**
**Revenue from electricity and gas sales**

**1.0**
**Operating margin**

**8.7%***
**Wholesale energy and network charges increase**

**283 020***
**Total customers**

** These figures have not been audited.*

## INTRODUCTION

Aurora Energy was incorporated under the *Electricity Companies Act 1997* and its primary business activities were electricity and gas retailing.

All Tasmanian retail electricity customers, excluding residents of the Bass Strait Islands, were able to choose an electricity retailer, although Aurora Energy was the only authorised retailer who offered contracts to residential customers. Two other electricity retailers offered market contracts to Tasmanian business customers.

Aurora Energy was required to supply electricity under standing offer prices to all residential and small business customers. Standing offer prices were approved by the Office of the Tasmanian Economic Regulator (OTTER).

## KEY RESULTS AND DEVELOPMENTS

In 2017-18, Aurora Energy achieved an Underlying profit of $18.30m, which was 34.5% down on last year's result, primarily due to special energy bonus payments made to eligible customers which totalled $10.11m.

Aurora Energy's underlying profits declined over the past four years due to higher costs incurred in implementing major regulatory changes and funding Government initiatives, together with lower regulatory allowances from regulated residential and small business customers.

Revenue from sale of electricity and gas increased by 7.8% to $923.62m in 2017-18. At the same time, energy and network charges, of which the wholesale electricity costs were the main component, and cost of renewable energy certificates increased by 8.7% to $854.11m. This resulted in Aurora Energy's gross margin decreasing by $1.57m, to 7.5%.

Employee expenses increased by 3.2% to $19.56m during 2017-18, with other operating expenses declining in real terms on the previous year.

Cash on hand decreased by $14.19m to $32.12m at 30 June 2018. The decrease in the cash balance was primarily attributed to the special energy bonus payments and $7.88m expended on intangible assets during the year.

Aurora Energy's working capital improved during 2017-18 and at 30 June 2018 totalled $118.38m (2017, $86.69m).

Dividends and tax equivalents totalling $25.41m were paid to the Tasmanian Government during the year. Aurora Energy's directors proposed a dividend of $11.53m for 2017-18 for approval by shareholders.

## AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control, however we recommended Aurora Energy review their method of valuing financial derivatives to move to a more contemporary market approach.

## OTHER MATTERS OF INTEREST

### Customers

The majority of Aurora Energy's customers were residential and small business consumers on standard retail contracts.

**Residential customers** - choice of entering into a standard retail or market retail contract.

**Small business customers** - use less than 150 megawatt hours (MWh) of electricity per year per site. Choice of entering into a standard retail or market retail contract.

**98%**
of customer base

**Large customers** - business customers who use more than 150 MWh of electricity per year per site. Choice of entering into a market retail contract or purchase electricity directly from the wholesale market.

**1%**
of customer base

Aurora Energy was also one of two natural gas retailers in Tasmania, with gas customers accounting for 1.0% of all Aurora Energy's customers. Retail gas prices are unregulated.

### Concessions

Rebates, funded by the Tasmanian Government, were provided by Aurora Energy to eligible customers as a community service obligation. The cost of concession discounts was $40.13m in 2017-18 (2016-17, $40.90m). Aurora Energy was reimbursed for the cost of administering concessions.

## Special energy bonus to senior Tasmanians

In November 2017, Aurora Energy was directed by its Shareholding Ministers to fund and distribute a one-off 'special energy bonus' payment of $125 to eligible electricity customers, with the majority of the payments made by February 2018. The cost of the special energy bonus payments totalled $10.11m.

## Tasmanian Government energy rebate

The Tasmanian Government announced in the 2017-18 Budget an Energy Rebate Scheme for unregulated customers, with the objective of cushioning customers from wholesale energy price increases experienced in the first half of the 2017 calendar year. During 2017-18, Aurora Energy provided rebate payments of $12.55m to large Tasmanian electricity customers under this scheme, with the Tasmanian Government reimbursing Aurora Energy for the rebate costs.

## Hedging electricity prices

Aurora Energy entered into electricity price swaps in order to manage financial exposures faced in purchasing electricity. Swaps represented contracts to trade an amount of electricity for a certain price, and were recognised at fair value based on the market spot price. The swaps are recorded as derivative financial assets or liabilities in the financial statements depending on whether the contract price is above or below the market spot price.

As at 30 June 2018, derivative financial assets totalled $159.58m and derivative financial liabilities totalled $10.75m, with a $78.81m liability against fair value hedges.

Aurora Energy's net position in relation to its electricity price swaps remained positive at $70.02m at 30 June 2018 (30 June 2017, $49.70m). The improved net position was reflected primarily in the cash flow hedge reserve, which totalled $48.96m at 30 June 2018 (30 June 2017, $31.01m).

During 2017-18, Aurora Energy identified a customer sales contract and corresponding electricity derivative as a fair value hedge against the fair value sales commitment that in December 2014 had been varied by a change in the price and an extension in the contract termination date. The changes had not been amended in Aurora Energy's hedge accounting system, resulting in the fair value of both contracts being understated at 30 June 2015, 2016 and 2017. In 2017-18, Aurora Energy corrected the understatement by making a prior period error adjustment. This resulted in balances at 30 June 2017 and 1 July 2016 being restated. The net impact on retained earnings was $0.39m and $0.33m, respectively.

The adjustment had an immaterial impact on earnings and the customer sales and electricity derivative transactions were in accordance with the modified terms of the contracts.

## Power of Choice reforms/metering contestability

New metering competition rule changes came into effect from 1 December 2017. A high level of investment in both systems and capability was required, with systems enhanced to continue the interface with market systems and manage the increased volume of metering data generated by the installation of advanced meters. The roll-out of these meters will increase the volume of customer data that Aurora Energy will be required to manage and store.

As a result of the change, Aurora Energy assumed responsibility for the provision of metering services for small customers. TasNetworks retained its responsibility for the existing accumulation meters.

As required by the new rules, Aurora Energy appointed a Metering Coordinator.

## Intangible assets

Aurora Energy undertook a number of software development projects, including Market Integration and Metering Competition programs. Aurora Energy also continued to invest in the development of a new prepayment product, APAYG+, to replace the existing APAYG product. Costs related to the design of the proposed product were capitalised from August 2017.

During 2017-18, Aurora capitalised $3.02m related to software development, with $5.85m held in work-in-progress at 30 June 2018.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 4 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 4: Aurora Energy Pty Ltd financial snapshot

| | 2017-18 | | 2016-17[1] | | 2015-16 | | 2014-15 |
|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s |
| **Financial performance** | | | | | | | |
| ***Revenue*** | | | | | | | |
| Revenue from sale of electricity and gas | 923 623 | ▲ | 857 229 | ▲ | 821 314 | ▼ | 903 817 |
| ***Expense*** | | | | | | | |
| Energy and network charges and cost of renewable energy certificates | 854 109 | ▼ | 786 142 | ▼ | 736 578 | ▲ | 817 958 |
| Employee expenses | 19 559 | ● | 18 947 | ▼ | 17 823 | ▼ | 16 602 |
| Other operating expenses | 21 555 | ● | 21 685 | ● | 21 929 | ● | 22 344 |
| **Reconciliation from underlying profit (loss) to net profit (loss) before tax** | | | | | | | |
| Underlying profit | 18 300 | ▼ | 27 948 | ▼ | 43 006 | ● | 43 847 |
| Electricity derivative fair value movements unrealised | 632 | ▲ | (197) | ▼ | 120 | ▼ | 1 137 |
| Net profit before tax | 18 932 | ▼ | 27 751 | ▼ | 43 126 | ▼ | 44 984 |
| **Financial position** | | | | | | | |
| Cash on hand | 32 118 | ▼ | 46 309 | ▼ | 62 175 | ▲ | 37 345 |
| Working capital | 118 384 | ▲ | 86 686 | ▼ | 93 520 | ▲ | 57 502 |
| Net assets | 121 220 | ▲ | 107 611 | ● | 108 351 | ▲ | 83 326 |
| **Tasmanian government returns/contributions** | | | | | | | |
| Income tax equivalent paid | 7 806 | | 9 720 | | 14 481 | | 32 932 |
| Dividends paid | 17 606 | | 27 000 | | 27 600 | | 0 |
| Capital return (transfer to TasNetworks) | 0 | | 0 | | 0 | | 523 378 |
| **Key financial ratios** | | | | | | | |
| Gross margin | 7.5% | ▼ | 8.3% | ▼ | 10.3% | ▲ | 9.5% |
| Operating margin | 1.0 | ● | 1.0 | ▼ | 1.1 | ▲ | 1.0 |
| Current ratio | 1.6 | ▲ | 1.4 | ● | 1.5 | ▲ | 1.3 |
| Liquidity Ratio | 1.0 | ▲ | 0.9 | ● | 0.9 | ▲ | 0.7 |
| Net Financial Liabilities Ratio | 0.7% | ▲ | (1.9%) | ▼ | (1.2%) | ▲ | (4.2%) |
| Dividend Payout Ratio | 90.0% | | 90.0% | | 89.4% | | 87.7% |
| Dividend to Equity Ratio | 10.1% | | 16.3% | | 24.9% | | 8.5% |

*Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year*

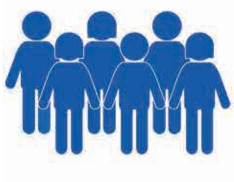
1. *Several balances have been restated due to a prior period error.*

# HYDRO-ELECTRIC CORPORATION

## OVERVIEW

**167.90m**

**Underlying Profit**



**1 105**

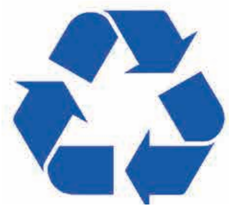
**Employees (FTEs)**


**1.2**

**Operating Margin**

**39.2%**

**Energy in Storage* (as a % of total storage)**



**9 178 GWh**

**Renewable Energy Produced***

**30**

**Hydropower Stations**

** These figures have not been audited.*

## INTRODUCTION

Hydro was established as a Commission under the *Hydro-Electric Commission Act 1944* and was corporatised as a Government Business Enterprise under the *Hydro-Electric Corporation Act 1995.*

Hydro operated through three brands: Hydro Tasmania (electricity generation and trading), Momentum Energy (retail) and Entura (professional services). Specific analysis and commentary related to Hydro's subsidiary Momentum Energy, has been included in a separate section at the end of this Chapter.

## KEY RESULTS AND DEVELOPMENTS

Unless otherwise stated, this Chapter reports Hydro's financial information on a consolidated basis.

Hydro produced an Underlying profit, being the result before fair value movements, impairment and tax, of $167.9m for 2017-18 (2016-17, $20.1m). The result was built partly on strong trading conditions and a continued focus on cost control.

Hydro generated $1.77bn in sales revenue during 2017-18, an increase of $329.29m, or 22.9%, from the prior year. Hydro produced more large-scale generation certificates and sold more electricity contracts relating to small business customers than expected.

Direct expenses increased from $1.05bn in 2016-17 to $1.20bn for 2017-18, an increase of 14.2%. This increase is in line with the increase in sale of products and services.

In 2017-18, Hydro incurred a net profit before tax of $168.79m (2016-17, $308.71m loss). The profit was in line with underlying profits adjusted for net fair value gains of $1.11m (2016-17, net fair value losses of $328.02m).

During 2017-18, there was a net revaluation decrement of $175.45m (2016-17, $0.60m). This decrement related to the generation assets.

| |
|---|
| Net cash inflows generated by operating activities totalled $357.15m for 2017-18 (2016-17, $117.60m). The operating cash inflows were predominantly used to fund Hydro's capital expenditure program, the acquisition of energy financial derivatives and the repayment of debt. |
| Payments for Property, plant and equipment were $124.94m in 2017-18 compared to $131.21m in 2016-17. |
| Net payments for energy financial derivatives were $202.50m in 2017-18 compared to net proceeds from financial derivatives of $47.30m in 2016-17. |
| Hydro's borrowings decreased by $85.63m during 2017-18, to $769.20m at 30 June 2018. |
| Based on the 2017-18 operating results, the Board of Hydro declared an $80.00m dividend payable. No dividend was declared from the 2016-17 result. |
| Agreements and instruments relating to Hydro's use of the Basslink interconnector gave rise to various financial assets and liabilities recognised at fair value in the statement of financial position. The Basslink net financial liability decreased from $587.92m at 30 June 2017 to $514.91m at 30 June 2018 as a result of the revaluation of the fair value of contract rights and obligations over the remaining contractual term. |
| The defined benefit superannuation liability decreased by 1.3% to $313.51m. An actuarial gain of $3.37m was recognised in other comprehensive income. |
| Hydro early adopted Australian Accounting Standard AASB 9 *Financial Instruments* with the date of initial application being 1 July 2017. There were no material adjustments required to the financial statements on initial application at 1 July 2017. |

## AUDIT FINDINGS

In performing our audit, we did not identify any high risk deficiencies in internal control. Five moderate risk findings were reported relating to improvements to enhance enterprise software access controls, operating system security configurations and financial instruments. Five low risk matters were also raised.

## OTHER MATTERS OF INTEREST

### Hydro's operations

Hydro's main business was the generation of electricity from 30 hydropower stations and one gas-powered station and the sale of this electricity in the National Energy Market (NEM). Hydro is Australia's largest water manager, responsible for significant lakes, rivers and smaller water bodies across six large catchments covering 35.0% of Tasmania's land area.

Hydro:

- owned the electricity distribution assets on the Bass Strait Islands
- owned and operated a gas-fired power station at Bell Bay
- developed and invested in renewable energy activities across Australia
- had a 25.0% ownership in the Woolnorth joint venture, which owned wind farms on the North-West and North-East coasts of Tasmania
- provided consulting services internationally, with international offices in India and South Africa.

Entities controlled by Hydro during 2017-18 and their principal business activities undertaken are described below:

- Bell Bay Power Pty Ltd had responsibility for demolition of the oil fired power station which ceased operating in March 2009.
- Bell Bay Three Pty Ltd had no assets and did not operate in 2017-18.

- Lofty Ranges Power Pty Ltd owned a 50.0% interest in an electricity generating joint venture in South Australia. It generated a net profit after tax of $0.66m in 2017-18 (2016-17, net loss after tax $0.14m).
- Hydro Tasmania Consulting (Holding) Pty Ltd was the holding company for Hydro's consulting activities in India, undertaken through its 99.9% owned Indian subsidiary company, Hydro Tasmania Consulting India Private Limited. The Indian subsidiary made a net profit after tax of $0.69m during 2017-18 (2016-17, net profit after tax of $0.12m).
- RE Storage Project Holding Pty Ltd was established for the purpose of participating in renewable energy development projects. The company did not operate in 2017-18.
- HT Wind Operations Pty Ltd (HT Wind Operations) owned a number of companies which were holding companies for potential future developments.
- Momentum Energy, the activities of which are described later in this Chapter.
- AETV Pty Ltd (AETV) operated gas-fired power generation units in Tasmania. AETV's revenues decreased marginally in 2017-18 to $202.75m from $203.13m in 2016-17. AETV recorded a net loss after tax of $17.32m for 2017-18 (2016-17, net profit after tax $17.10m).
- Hydro Tasmania South Africa Pty Ltd was established during 2012, and in 2012-13 became a joint venture partner in a mini-hydro scheme in Neusberg, South Africa. No value was recorded for the investment in the joint venture at 30 June 2018, down from $1.21m at 30 June 2017.

Excluding Momentum Energy, audit dispensation was provided to all wholly-owned subsidiary companies incorporated in Australia. For foreign controlled subsidiaries, the Auditor-General has determined he is not the auditor, however the financial results are subject to audit procedures as part of the Hydro financial statement audit.

## Basslink faults

Hydro was subject to a major outage of the Basslink cable in 2015. An assessment of the potential legal costs and settlement outcomes with the operator of the Basslink cable, Basslink Pty Ltd, is progressing through discussion with Hydro's internal and third party legal representatives. In March 2018, Hydro experienced another outage in the cable, which may be subject to potential legal costs and settlement outcomes.

Given the status of the examination of the faults, the uncertainty of the timeframe and result of any legal action which may be taken, no contingent assets or liabilities have been quantified in the 2017-18 financial statements in connection with the faults.

## Revenue

Hydro generated over 53.1% of its consolidated revenue through the sales made by Momentum Energy. Hydro as a power generator earned revenue through the sale of electricity into the NEM. Hydro sales increased by 46.3% from the prior year. The increase in sales was mainly due to increased hydro generation and large-scale generation certificate (LGC) creations as well as favourable price and gas supply outcomes.

## Income tax

Hydro had material tax balances, with deferred tax assets of $599.68m and deferred tax liabilities of $1.10bn at 30 June 2018. Tax balances by their nature are inherently prone to judgement and interpretation in a changing legislative environment. Tax specialists reviewed the tax equivalents calculation prepared by Hydro in accordance with applicable legislation.

## Borrowings

At 30 June 2018, Hydro had drawn down $765.00m of debt under a Tascorp facility with a limit of $1.31bn. The weighted average cost of debt for 2017-18 remained consistent with 2016-17 at 4.9% (2016-17, 4.9%).

## Onerous contracts

Hydro recognised a liability provision of $138.95m for onerous contracts at 30 June 2018 ($94.13m at 30 June 2017) relating to:

- AETV's gas transportation contracts
- the Bairnsdale Tolling Agreement
- Hydro's forward agreements for the purchase of renewable energy certificates.

These onerous contracts were valued based on the excess of costs to be incurred by Hydro over revenues to be generated in discharging the obligations under the agreements.

Onerous contracts in existence at the beginning of the financial year reduced due to the contracts moving one year closer to their end date. However, the total liability balance increased due to:

- contracts relating to forward agreements for the purchase of renewable energy certificates marked against a price curve for certificates becoming onerous due to high market certificate prices experienced during the year
- contracts related to the Tasmanian Gas Pipeline contract being renewed for a further period.

## Provisions for decommissioning and rehabilitation

A liability provision for decommissioning and rehabilitation expense existed at 30 June 2018 for:

- decommissioning, closure and site rehabilitation of the Tamar Valley power station, with a provision of $30.60m recognised. Work is not expected to be undertaken until 2039
- demolition of the Bell Bay Power Station assets and site remediation, and demolition of the wharf loading facility at the Bell Bay power station. A provision of $20.62m was recognised at 30 June 2018 and the associated work is expected to be carried out from 2019 through to 2027.

## Woolnorth Wind Farm group equity accounted investment

Hydro held a 25.0% equity accounted investment in the consolidated Woolnorth Wind Farm group recognised at $58.13m at 30 June 2018 (30 June 2017, $58.04m). Dividends of $4.78m were paid to Hydro during 2017-18 and $4.89m was recognised in profit or loss, being Hydro's share of profit for the year.

## Battery of the Nation

On 20 April 2017, the Prime Minister and Federal Energy Minister met in Tasmania to announce the plan for Tasmania to become the 'Battery of the Nation'. Over the next 3 years, the Australian Renewable Energy Agency (ARENA) agreed to fund $3.8m in relation to a number of projects, including pumped hydro electricity generation, the Tarraleah redevelopment and the future state NEM. During the year end 30 June 2018, ARENA paid $1.3m for Battery of the Nation project funding.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 5 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 5: Hydro-Electric Corporation financial snapshot

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Financial performance** | | | | | | | | |
| Revenue from sale of products and services | 1 769 696 | ▲ | 1 440 403 | ▲ | 1 335 863 | ▼ | 1 467 161 | ▼ |
| **Reconciliation from underlying profit (loss) to net profit (loss) before tax** | | | | | | | | |
| Underlying profit (loss) | 167 902 | ▲ | 20 095 | ▲ | (65 435) | ▼ | 62 352 | ▼ |
| Movements in fair value | 1 111 | ▲ | (328 022) | ▼ | (285 565) | ▼ | (102 927) | ▲ |
| Revaluation and impairment movement | (227) | ▲ | (781) | ▼ | 58 697 | ▼ | 232 066 | ▼ |
| Net profit (loss) before tax | 168 786 | ▲ | (308 708) | ▼ | (292 303) | ▼ | 191 491 | ● |
| Total comprehensive income (loss) | 30 682 | ▲ | (181 765) | ▼ | (3 648) | ▼ | 169 191 | ▼ |
| **Financial position** | | | | | | | | |
| Generation assets | 4 135 993 | ● | 4 284 747 | ● | 4 299 948 | ▲ | 3 887 006 | ▲ |
| Net financial liabilities | (861 660) | ▲ | (1 129 857) | ▼ | (788 341) | ▼ | (473 781) | ▼ |
| Borrowings | (769 204) | ▲ | (854 833) | ▲ | (910 100) | ▼ | (855 015) | ● |
| Net assets | 1 995 556 | ● | 1 964 539 | ▼ | 2 095 707 | ● | 2 054 355 | ▲ |
| **Tasmanian government returns/contributions** | | | | | | | | |
| Government guarantee fee | 8 419 | | 5 045 | | 8 483 | | 8 719 | |
| Income tax equivalent paid | 8 552 | | 0 | | 5 000 | | 80 069 | |
| Dividends paid | 0 | | 0 | | 25 000 | | 118 576 | |
| Equity contributions | 0 | | 50 000 | | 70 000 | | 205 000 | |
| **Key financial ratios** | | | | | | | | |
| Current ratio | 0.7 | ▼ | 0.8 | ● | 0.8 | ▼ | 0.9 | ▲ |
| Return on assets | 3.7% | ▲ | 1.3% | ▲ | (0.1%) | ▼ | 2.6% | ▼ |
| Return on equity | 6.1% | ▲ | (11.0%) | ▼ | (9.9%) | ▼ | 7.1% | ▼ |
| Weighted average cost of debt | 4.9% | ● | 4.9% | ▲ | 5.3% | ▲ | 6.7% | ▼ |
| Interest coverage ratio (EBIT) | 4.1 | ▲ | 1.4 | ▲ | (0.1) | ▼ | 1.9 | ▼ |
| Debt to equity | 38.5% | ▲ | 43.5% | ● | 43.4% | ● | 41.6% | ▲ |

*Indicator* ▲ *improvement from prior year* ▼ *deterioration from prior year* ● *no material change from prior year*

1. *Assets are positive, liabilities are negative.*

2. *Positive number indicates liquid assets in excess of total liabilities.*

## MOMENTUM ENERGY PTY LTD

### Key results and developments

| |
|---|
| Momentum Energy generated $939.12m in revenue from the sale of energy during 2017-18, an increase of $102.68m, or 12.3%, from the prior year. This was driven by an increase in the Momentum Energy customer base. |
| Momentum Energy generated a Net profit before tax of $12.10m for 2017-18 (2016-17, $29.87m) and a net profit after tax of $8.42m ($20.87m). |
| Net cash inflows generated by operating activities totalled $5.81m for 2017-18 ($42.99m). |

### Audit findings

In performing our audit we did not identify any significant deficiencies in internal control nor did we have any audit findings.

### Background

Momentum Energy operated as an energy retailer based in Melbourne, with licences in Victoria, South Australia, New South Wales, Queensland and the Australian Capital Territory. Momentum Energy sold electricity and energy services to business and residential customers in each jurisdiction it held a licence, and gas to customers in Victoria. In addition, Momentum Energy provided retail services to the Bass Strait Islands.

In 2017-18, the following factors influenced Momentum Energy's operations.

#### Revenue

Increased competition in retail electricity markets placed significant pressure on Momentum Energy's gross margin adversely impacting Momentum Energy's underlying profitability. Momentum Energy responded by focusing on improving churn performance and implementing tighter operating cost control.  Momentum Energy operated under a high sales volume, low profit margin model, consistent with other industry participants. All trades in energy financial derivatives were undertaken and underwritten by Momentum Energy's parent entity, Hydro.

#### Unbilled energy accrual

Momentum Energy recorded an unbilled energy accrual valuation of $97.25m at 30 June 2018 (2017, $86.93m). The unbilled energy is calculated utilising key inputs including customers, customer pricing and kilowatt hours supplied based on the underlying billing information.

#### Power purchases

High wholesale electricity prices for purchases made through the NEM were managed by Momentum Energy's parent entity, Hydro, through various derivative instruments in place in the electricity market.

## Financial snapshot 2017-18

Table 6 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 6: Momentum Energy financial snapshot

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Financial performance** | | | | | | | | |
| Revenue from sale of energy | 939 121 | ▲ | 836 436 | ▼ | 854 861 | ▼ | 899 451 | ▼ |
| **Reconciliation from underlying profit (loss) to net profit (loss) before tax** | | | | | | | | |
| Underlying Profit/(loss)[1] | 12 099 | ▼ | 29 866 | ▼ | 36 213 | ● | 37 082 | ▲ |
| Total comprehensive income | 8 420 | ▼ | 20 865 | ▼ | 25 260 | ▲ | 22 480 | ▲ |
| **Financial position** | | | | | | | | |
| Unbilled energy | 97 250 | ▲ | 86 298 | ● | 89 997 | ▲ | 82 620 | ▼ |
| Net assets | 88 467 | ▲ | 80 047 | ▼ | 88 230 | ▲ | 62 970 | ▲ |
| **Shareholder returns** | | | | | | | | |
| Dividends paid | 0 | | 29 048 | | 0 | | 0 | |
| **Key financial ratios** | | | | | | | | |
| Operating margin | 1.0 | ● | 1.0 | ● | 1.1 | ● | 1.0 | ▲ |
| Current ratio | 1.3 | ▼ | 1.8 | ● | 1.5 | ● | 1.0 | ● |
| Return on equity | 6.1% | ▼ | 24.8% | ▼ | 33.4% | ▼ | 43.5% | ▼ |

*Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year*

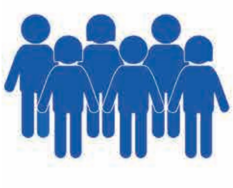
*1. Underlying profit was the same as net profit before tax.*

# MACQUARIE POINT DEVELOPMENT CORPORATION

## OVERVIEW

**$1.31m**

**Underlying Loss**



**9.4**

**Employees (FTEs)**


**0.6**

**Operating Margin**

## INTRODUCTION

MPDC was established by the *Macquarie Point Development Corporation Act 2012*. It was responsible for overseeing remediation and redevelopment works at the Macquarie Point site.

In 2012-13, $50.00m was provided to MPDC for remediation and redevelopment works of which $5.00m was to assist with the Brooke Street Pier redevelopment.

MPDC took responsibility for site operations (excluding an area associated with a concrete batching plant) in September 2014, when it entered into a lease with the Minister for Infrastructure. Title over Macquarie Point was held by the Crown and is expected to be transferred to MPDC in 2018-19.

## KEY RESULTS AND DEVELOPMENTS

In 2017-18, MPDC incurred an Underlying loss of $1.31m (2016-17, $1.28m).

Revenue from sales of goods and services increased by $0.45m to $1.07m in 2017-18, which was up from $0.62 in 2016-17, due mainly to increased:

- leasing revenue of $0.29m
- car parking revenue of $0.16m.

As at 30 June 2018, MPDC's net assets were $37.74m, which included cash of $28.42m available to invest in other site remediation and development activities.

## AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control nor did we have any audit findings.

## OTHER MATTERS OF INTEREST

### Macquarie Point Reset

In December 2016, the Government announced a new vision for the Macquarie Point site. Since that date, MPDC worked to address the planning and infrastructure requirements needed to support Stage One of the development. Stage One of the reset focused on the development of public open space, the Antarctic and Science Precinct, accommodation, exhibition space and supporting commercial space on the 9.3 hectare site under the responsibility of MPDC.

## Cash outflows

MPDC's revenue in 2017-18 was insufficient to meet all operating costs as MPDC incurred an underlying loss. MPDC's cash holdings reduced by $1.45m ($6.08m reduction in 2016-17) with cash reserves continuing to be drawn down to meet remediation and redevelopment outcomes that are capitalised into inventory.

Given the long-term nature of anticipated site development, site activation remained an important part of the overall strategy to stimulate and maintain community interest in, and support for, the redevelopment of Macquarie Point. Use of the site for a range of interim activities enabled additional revenue to be generated to help cover MPDC's operational expenses.

MPDC generated additional revenue from leasing including facilities hire and the operation of a commercial carpark at Macquarie Point.

# FINANCIAL ANALYSIS

## Financial snapshot 2017-18

Table 7 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 7: Macquarie Point Development Corporation financial snapshot

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Financial performance** | | | | | | | | |
| *Revenue* | | | | | | | | |
| Sale of goods and services | 1 072 | ▲ | 621 | ▲ | 211 | ▲ | 9 | ▲ |
| Interest | 767 | ▼ | 905 | ▼ | 1 146 | ▼ | 1 422 | ▼ |
| *Expenditure* | | | | | | | | |
| Macquarie Point project expenses | 689 | ▲ | 3 034 | ▼ | 2 209 | ▼ | 300 | ▼ |
| **Reconciliation from underlying profit (loss) to profit (loss) before tax** | | | | | | | | |
| Underlying profit (loss) | (1 310) | ● | (1 284) | ▲ | (1 384) | ▼ | (570) | ▲ |
| Reclassification of expenses previously capitalised | 0 | ▲ | (1 166) | ▼ | 0 | ● | 0 | ● |
| Waste water treatment plant project | (23) | ▲ | (1 073) | ▲ | (1 446) | ▼ | 0 | ● |
| Net profit (loss) before tax | (1 333) | ▲ | (3 523) | ▼ | (2 830) | ▼ | (570) | ▲ |
| **Financial position[1]** | | | | | | | | |
| Cash | 28 420 | ▼ | 29 871 | ▼ | 35 954 | ▼ | 41 825 | ▼ |
| Inventory | 8 135 | ▲ | 7 369 | ● | 7 284 | ▲ | 2 263 | ▲ |
| Payables | (501) | ▼ | (311) | ▲ | (2 478) | ▼ | (153) | ▲ |
| Net assets | 37 740 | ● | 39 073 | ▼ | 42 597 | ▼ | 45 426 | ● |
| **Key financial ratios** | | | | | | | | |
| Operating margin | 0.6 | ▲ | 0.3 | ● | 0.3 | ▼ | 0.7 | ▲ |

*Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year*

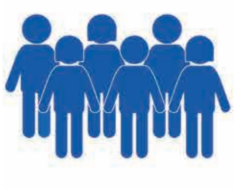
1. *Assets are positive, liabilities are negative*

# METRO TASMANIA PTY LTD

## OVERVIEW

**$1.94m**

**Underlying Loss**



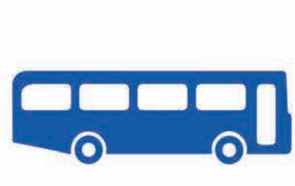
**431**

**Employees (FTEs)***

**Operating Locations**


**1.0**

**Operating Margin**



**220**

**Buses in Fleet**

**8.29m**

**First Boardings***

** This figure has not been audited.*

## INTRODUCTION

Metro was incorporated under the *Metro Tasmania Act 1997* with its principal purpose to provide road passenger transport services in urban areas of Hobart, Launceston and Burnie under service contracts with the Tasmanian Government through the Department of State Growth. It was expected to provide those services consistent with relevant standards and regulatory requirements, on a commercial basis, and maximise patronage and fare revenue while providing concession services to the disadvantaged and education providers.

Metro also provided:

- passenger services to a number of urban fringe areas in the regions of Wynyard, Ulverstone, the South Arm Peninsula and the D'Entrecasteaux Channel through a series of individual route contracts
- bus charters.

## KEY RESULTS AND DEVELOPMENTS

Unless otherwise stated, this Chapter reports financial information of Metro on a consolidated basis.

Metro's underlying result was a loss of $1.94m in 2017-18, an improvement of $1.08m from 2016-17. The continued underlying losses indicated that Metro was not generating sufficient revenue to cover its operating expenses, including depreciation.

Metro continued to be heavily reliant on support from the Tasmanian Government. In 2017-18 Metro received an equity contribution of $4.50m, which will continue each year until 2019-20.

Fare revenue represented 23.8% of total revenue which reflected the on-going subsidisation of public transport and passenger transport services by the Government. Patronage numbers (first boardings for passengers) were 8 287 963 in 2017-18, an increase of 1.7% from the prior year figure of 8 184 851.

| |
|---|
| During 2016-17, Metro entered into an agreement to purchase 100 low floor wheelchair accessible buses. The buses will be delivered between 2017 and 2020 at a budgeted cost of $46.54m. Metro commissioned five of these buses during 2017-18 for $2.30m. |
| Additions to work-in-progress (WIP) during 2017-18 totalled $2.22m and transfers to commissioned assets, primarily buses, was $2.79m. There were five low floor wheelchair accessible buses transferred from WIP during 2017-18 amounting to $2.30m, and a further eight buses remained in WIP at 30 June 2018 totalling $2.47m. |
| The revaluation of Metro's land and buildings resulted in a net revaluation increment of $1.90m. The valuation as at 30 June 2018 was performed on an "in use" basis and assumed the properties would continue to be used by Metro. The valuer determined the value based on a notional 10 year lease at market rates for similar accommodation in the area and considering the location and quality of accommodation situated at each site. |

## AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control nor did we have any audit findings.

## OTHER MATTERS OF INTEREST

### Financial dependency

A significant volume of Metro's operations were performed under contract with the Tasmanian Government. Metro's current service contract with Department of State Growth expires on 31 December 2018 and a new contract is currently under negotiation.

### Fleet replacement to comply with disability standards

Metro had responsibilities under both Australian and Tasmanian anti-discrimination legislation in relation to access for people with disabilities. One of the key initiatives in Metro's Disability Action Plan was for its entire fleet to meet the Disability Standards for Accessible Public Transport by 2022.

In 2016-17, Metro entered into an agreement to purchase 100 low floor wheelchair accessible buses. The buses will be delivered between 2017 and 2020 at a budgeted cost of $46.54m. Metro will continue to receive equity payments of $4.50m towards the purchase of these buses each year until 2019-20.

Metro commissioned five of these buses during 2017-18 for $2.30m and a further eight buses remained in WIP, $2.47m as at 30 June 2018.

### Metro Coaches (Tas) Pty Ltd

Metro Coaches (Tas) Pty Ltd (Metro Coaches) was a wholly owned subsidiary of Metro. It did not trade in 2017-18. We dispensed with the audit of Metro Coaches because it was controlled by Metro and the financial transactions and balances of the Metro Coaches were subject to audit procedures as part of the group audit of Metro.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 8 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 8: Metro Tasmania Pty Ltd financial snapshot

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Financial performance** | | | | | | | | |
| *Revenue* | | | | | | | | |
| Fare revenue | 12 639 | ● | 12 125 | ● | 11 699 | ● | 11 635 | ● |
| **Reconciliation from underlying profit (loss) to profit (loss) before tax** | | | | | | | | |
| Underlying profit (loss) before tax | (1 935) | ▲ | (3 017) | ▼ | (2 791) | ▲ | (3 200) | ▲ |
| Additional Government funding[1] | 0 | ● | 0 | ▼ | 3 250 | ● | 3 250 | ● |
| Net profit (loss) before tax | (1 935) | ▲ | (3 017) | ▼ | 459 | ▲ | 50 | ▲ |
| **Financial position[2]** | | | | | | | | |
| Cash | 25 994 | ● | 25 163 | ▲ | 22 664 | ▲ | 9 243 | ▲ |
| Buses | 27 232 | ▲ | 24 256 | ▼ | 26 823 | ▲ | 24 022 | ▼ |
| Land and buildings | 15 300 | ▲ | 13 549 | ● | 13 705 | ● | 13 825 | ● |
| Superannuation liability | (22 509) | ● | (23 027) | ▲ | (26 570) | ▼ | (21 948) | ▲ |
| Net assets | 51 243 | ▲ | 46 259 | ▲ | 41 271 | ▲ | 30 401 | ▲ |
| **Tasmanian government returns/contributions** | | | | | | | | |
| Equity contribution | 4 500 | | 4 500 | | 13 000 | | 0 | |
| **Key financial ratios** | | | | | | | | |
| Operating margin | 1.0 | ● | 0.9 | ● | 0.9 | ● | 0.9 | ● |
| Self financing ratio | 0.08 | ▲ | 0.05 | ● | 0.04 | ▲ | 0.01 | ▼ |
| Fares revenue/Total revenue | 24% | ● | 24% | ● | 23% | ● | 23% | ● |
| Current ratio | 2.6 | ● | 2.7 | ● | 2.6 | ▲ | 1.4 | ▲ |

*Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year*

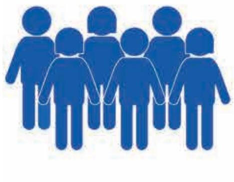
1. *Replaced by equity contribution of $4.50m from 1 July 2016.*
2. *Assets are positive, liabilities are negative.*

# MOTOR ACCIDENTS INSURANCE BOARD

## OVERVIEW

**$137.24m**

**Underlying Profit**



**38**

**Employees (FTEs)**

**Operating Location**


**136.2%**

**Funding Ratio**

**$78.90m**

**Total Benefits Paid**

**2 737**

**New Claims Received***

* *This figure has not been audited.*

## INTRODUCTION

MAIB was established under the *Motor Accidents (Liabilities and Compensation) Act 1973*.

MAIB's principal business was to manage the funding and payment of Tasmania's compulsory third party motor accidents insurance scheme. Compensation was awarded to persons suffering injury as a result of a motor accident as prescribed by the *Motor Accidents (Liabilities and Compensation) Act 1973.*

MAIB provided the following types of compensation:

- no fault benefit - paid on accepted claims irrespective of who caused the motor accident
- common law damages - where personal injury is caused by motorists' negligence, common law damages are payable to the full extent allowed in Tasmania.

MAIB aimed to maintain balance between premium and investment income, the cost of claims and the requirement to achieve a sustainable commercial rate of return that maximises value for the Tasmanian government.

## KEY RESULTS AND DEVELOPMENTS

In 2017-18, MAIB recorded a profitable Underwriting result of $22.48m, which is down from the Underwriting profit of $39.89m in 2016-17. This is mainly caused by an increase to the net claims incurred expense of $17.24m during 2017-18.

Net claims incurred expense for 2017-18 of $104.99m increased by $17.24m from 2016-17, reflecting the net impact of:

- changes in economic assumptions relating to the outstanding claims liability
- unfavourable experience in common law claims
- offset partly by a reduction in costs due to favourable claims experience in future care.

| |
|---|
| Gross investment income for 2017-18 of $127.76m, marginally decreased by $9.90m from $137.66m in 2016-17. This represented a 7.9% return on investment, above MAIB's target of 5.5%.<br>The higher investment income was caused by stronger market conditions experienced both locally and overseas.<br>In adopting an investment strategy that maximises long-term returns, the actual annual return may vary significantly from the target return due to the weighting of the investment portfolio towards growth assets. |
| The net profit before tax of $137.24m decreased by $28.44m, or 17.2%, from 2016-17 primarily due to the higher net claims incurred expense. |
| Outstanding claims liability increased by 3.4% from $1.03bn at 30 June 2017 to $1.07bn at 30 June 2018. The increase was attributed to:<br>• recognition of incurred claims of $150.53m for 2017-18<br>• offset by claims payments during the year of $73.83m and revisions relating to prior year claims costs primarily attributable to changes in actuarial and economic assumptions resulting in a net decrease of $41.75m. |
| At 30 June 2018, MAIB recognised a financial liability of $426.57m representing an investment re-purchase contract liability arising from the sale of bond holdings with a mandatory agreement to re-purchase them on a short-term basis. A corresponding asset for a similar amount was also recognised in investment assets. |
| Net assets increased by $43.59m to $575.24m. |
| Dividends and tax equivalents totalling $100.46m were paid to the Tasmanian Government during the year. MAIB recommended a $51.43m dividend to be paid in 2018-19. |

## AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control nor did we have any audit findings.

## OTHER MATTERS OF INTEREST

### Claims experience

The major component of the MAIB's total liabilities was its outstanding claims liability of $1.07bn (2017, $1.03bn). An independent actuary was engaged by MAIB to undertake the valuation of the year-end claims liability. Determination of the claims liability was impacted by a variety of factors including:

- the number of claims received as a result of motor accidents
- the nature, type and severity of claims received
- duration of liability
- statutory obligations to claimants
- movement in economic factors such as inflation and discount rates.

In 2017-18, the number of claims received was 2 737, with 287 being common law claims.

Information from the Actuarial Report indicated claim numbers were stable over the past five years. Claim frequency for the 2017-18 accident year remained at 0.52 general claims per 100 registrations. There were four new future care claims reported since June 2017.

### Investment

MAIB adopted an investment strategy which sought to maximise long-term growth returns within acceptable risk parameters to ensure sufficient funds were available to meet its claim liabilities at the long term rate of return of 5.5%.

To achieve this long-term outcome, MAIB invested in a mix of growth and defensive asset classes. As at 30 June 2018, actual investment holdings were 65.3% in the growth category (including Australian and international equities, property and infrastructure) and 34.7% defensive (including cash and fixed interest). MAIB adopted benchmark allocations for each asset class within the investment portfolio, which was expected to achieve a satisfactory level of return for an acceptable risk. Funds were transferred within asset classes to maintain target allocations or to implement strategic decisions to deviate from benchmark allocations where opportunities or material risks were identified. Actual annual returns may vary significantly from the target return due to the higher allocation of investments into the growth asset class.

During 2017-18, MAIB entered into re-purchase contracts whereby MAIB sold bond holdings with a mandatory agreement to re-purchase them on a short-term basis. Due to the recognition requirements under relevant Australian Accounting Standards, a financial liability of $426.57m was recognised. A similar amount was also recognised in the investment assets.

The actual asset allocation was maintained in close alignment with the strategic target through the application of the rebalancing policy.

## Premium pricing review

During 2017-18, the Tasmanian Economic Regulator undertook its scheduled four yearly review of premium rates. The Regulator recommended to Government the maximum premium rate per vehicle class to be set by MAIB from 1 December 2017. Considering the recommendation, the Government issued a Premiums Order which resulted in no premium increases to any vehicle class in 2017-18. A small number of classes received premium reductions, resulting in no material impact on premium revenue.

## Returns to government

In 2017-18, MAIB paid to the Tasmanian Government dividends of $56.26m and tax equivalents of $44.21m. MAIB recommended a $51.43m dividend to be paid in 2018-19. Dividends were based on average net profit over the current and four preceding years under a dividend averaging policy agreed between MAIB and the Tasmanian Government.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 9 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 9: Motor Accidents Insurance Board financial snapshot

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Financial performance** | | | | | | | | |
| Net claims incurred | 104 988 | ▼ | 87 745 | ● | 92 202 | ▲ | 100 323 | ▲ |
| Gross investment income | 127 760 | ▼ | 137 656 | ▲ | 67 700 | ▼ | 124 922 | ▼ |
| Underwriting result | 22 483 | ▼ | 39 892 | ● | 39 118 | ▲ | 24 592 | ▲ |
| Underlying profit[1] | 137 236 | ▼ | 165 678 | ▲ | 95 265 | ▼ | 137 193 | ▼ |
| Comprehensive income | 99 852 | ▼ | 120 367 | ▲ | 68 552 | ▼ | 100 311 | ▼ |
| **Financial position[2]** | | | | | | | | |
| Total Investments | 2 157 171 | ▲ | 1 678 196 | ▲ | 1 530 146 | ● | 1 472 890 | ● |
| Outstanding claims liability | (1 069 167) | ● | (1 034 212) | ● | (1 002 905) | ● | (975 464) | ● |
| Repurchase agreements payable | (426 571) | ▼ | 0 | ● | 0 | ● | 0 | ● |
| Net assets | 575 237 | ▲ | 531 643 | ▲ | 460 981 | ▲ | 440 121 | ▼ |
| **Tasmanian government returns/contributions** | | | | | | | | |
| Income tax equivalent paid | 44 206 | | 42 660 | | 16 146 | | 61 281 | |
| Dividends paid | 56 258 | | 49 705 | | 47 692 | | 144 570 | |
| **Key financial ratios** | | | | | | | | |
| Funding ratio | 136.2% | ● | 132.8% | ● | 130.3% | ● | 127.8% | ● |
| Return on investments | 7.9% | ▼ | 9.2% | ▲ | 4.6% | ▼ | 8.4% | ▼ |
| Return on equity | 18.1% | ▼ | 24.1% | ▲ | 15.5% | ▼ | 21.6% | ▼ |

*Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year*

1. *Underlying profit equals net profit before tax.*
2. *Assets are positive; liabilities are negative.*

# PUBLIC TRUSTEE

## OVERVIEW

**$1.34m**
Underlying Profit

**58**
Employees (FTEs)

Operating Locations

**1.2**
Operating Margin

**$147.00m**
Funds Under Management

**1 062**
New and Revised Wills*

** These figures have not been audited.*

## INTRODUCTION

PT was a Government Business Enterprise established by the *Public Trustee Act 1930* (the Act) to offer specialist and independent trustee services to the general community.

Trustee services were provided from offices in Hobart, Launceston, Devonport and Burnie and included:

- preparation of wills
- estate administration
- trust management and powers of attorney
- protection of the financial interests of individuals under a legal, physical or intellectual disability where PT was appointed to act on their behalf.

PT collected fees and commissions for providing its services. In addition, it received funding from the Government to enable it to satisfy its CSO obligations.

The Board of PT, which was responsible for managing and conducting the business and affairs of PT, comprised five independent Directors appointed by the Treasurer and Attorney-General.

## KEY RESULTS AND DEVELOPMENTS

| |
|---|
| In 2017-18, PT achieved an Underlying profit of $1.34m (2016-17, $1.01m). |
| Net assets as at 30 June 2018 were $8.60m. This represented an increase from 30 June 2017 of $0.70m. |
| Pursuant to an agreement with Government, a dividend only becomes payable if the amount of the dividend exceeds the gap between CSO funding and actual net avoidable cost incurred each year. In 2017-18, a dividend of $96 000 was paid in respect of the previous year's result. |

PT received CSO funding of $2.02m (2016-17, $1.98m) as reimbursement for the administration of low value trusts and estates.

## AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control nor did we have any high risk audit findings. One moderate risk item, relating to the delay in updating the business continuity plan, was identified, in addition to one low risk finding.

## OTHER MATTERS OF INTEREST

### Client assets under management and trusteeship

PT managed the assets of its clients pursuant to the Act. These assets were not recognised in the Statement of Financial Position as the funds were held in trust.

PT maintained a common fund and two investment funds to provide clients with a prudential investment depending on the particular circumstances of each client. Details of these funds are noted below:

- Common Fund - funds were held on term deposit. Under the provisions of the Act, capital and interest invested in The Public Trustee Common Fund was guaranteed by the Tasmanian Government. The Fund was a cash fund and used for short-term investments.
- No 1 Group Investment Fund - managed by Macquarie Investment Management Limited with the exception of international shares which were managed by BlackRock. This Fund invested in a portfolio of diversified investments covering the main investment asset classes. The fund held a major proportion of funds in defensive assets (cash and Australian fixed interest) with some exposure to growth assets (property, Australian shares and international shares). This Fund was used for medium-term investments.
- No 2 Group Investment Fund - managed on a similar basis to the No.1 Fund above. However, the Fund held a major proportion of funds in growth assets (property, Australian shares and International shares) with some defensive assets (cash and Australian fixed interest). This Fund focussed on long-term investments.

Unlisted funds held by PT were valued based on proprietary valuations prepared by fund managers under respective valuation methodologies.

### Community service obligations

PT dealt with many client matters that, because of their low value, were uneconomical for commercial entities to administer. The Tasmanian Government and PT acknowledged that these matters needed to be administered and that PT had an obligation to undertake these services for the community. As a result, Treasury funded PT to provide these services as a CSO.

These services included:

- administration of Absolute Estates with a gross asset value of less than $60 000
- administration of Continuing Trust and Life Tenancy Estates with a gross asset value of less than $100 000
- administration and management of Minor Trusts with a gross asset value of less than $20 000
- management of assets for Represented Persons with a gross asset value of less than $100 000.

The funding, provided on a quarterly basis, amounted to $2.02m in 2017-18 (2016-17, $1.98m).

In accordance with an agreement with Tasmanian Government, a dividend is paid where the amount of the dividend exceeds the gap between CSO funding and actual net avoidable costs incurred for that year. In 2017-18, a dividend of $96 000 was paid.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 10 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 10: Public Trustee financial snapshot

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Financial performance** | | | | | | | | |
| Underlying profit[1] | 1 337 | ▲ | 1 012 | ▲ | 107 | ▼ | 435 | ▼ |
| **Financial position[2]** | | | | | | | | |
| Financial assets | 17 970 | ▲ | 17 102 | ▲ | 15 407 | ▼ | 16 263 | ▲ |
| Provisions | (13 130) | ● | (13 394) | ▲ | (15 209) | ▼ | (12 276) | ▲ |
| Net assets | 8 611 | ▲ | 7 887 | ▲ | 5 370 | ▼ | 7 178 | ▲ |
| **Tasmanian government returns/contributions** | | | | | | | | |
| Income tax equivalent paid | 256 | | 54 | | 262 | | 237 | |
| Dividends paid | 96 | | 0 | | 0 | | 262 | |
| Funding of CSO contributions | 2 023 | | 1 978 | | 1 642 | | 1 556 | |
| **Key financial ratios** | | | | | | | | |
| Operating margin | 1.2 | ▲ | 1.1 | ▲ | 1.0 | ● | 1.1 | ● |
| Current ratio | 2.6 | ▲ | 1.9 | ▲ | 1.6 | ▲ | 1.5 | ▼ |
| Return on financial assets[3] | 3.1% | ● | 3.1% | ▼ | 4.1% | ▼ | 6.2% | ▼ |

*Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year*

1. *Underlying profit equals net profit before tax.*
2. *Assets are positive, liabilities are negative.*
3. *The 2016-17 return on financial assets indicator reported in Auditor-General No.5 of 2017-18 Auditor-General's Report on Financial Statements of State Entities was not calculated correctly. This indicator has been restated in Table 9.*

# PORT ARTHUR HISTORIC SITE MANAGEMENT AUTHORITY

## OVERVIEW

**$0.62m**
Underlying Profit

**116**
Employees (FTEs)


Operating Locations

**1.0**
Operating Margin

**437 086**
Visitors across all sites*

**2.92m**
Conservation Expenditure

** This figure has not been audited.*

## INTRODUCTION

PAHSMA provided for the preservation and management of the Port Arthur, Coal Mines and Cascade Female Factory historic sites. It operated under the *Government Business Enterprises Act 1995* and the *Port Arthur Historic Site Management Authority Act 1987*.

PAHSMA undertook two distinct activities:

- conservation of the historic sites under its control
- operation and promotion of the sites as tourist destinations.

## KEY RESULTS AND DEVELOPMENTS

| |
|---|
| In 2017-18, PAHSMA achieved an Underlying profit of $0.62m (2016-17, $1.32m). |
| The lower profit was impacted by the construction of a new Visitor Centre. |
| Tourism numbers increased by 9.6% in 2017-18 (8.7%), resulting in higher revenue from entrance fees and tour income, of $0.93m. However, food and merchandise sales were affected by the construction process, decreasing by $0.51m to $4.10m. |
| PAHSMA incurred higher salaries and wages as a result of meeting the demand of increased visitor numbers and the need to operate without a Visitors' Centre. |
| In December 2017, PAHSMA opened its new Visitor Centre. The total cost of the building was $13.10m, including demolition costs. The majority of the costs were capitalised to the new building, $10.46m, and Infrastructure, $1.67m. |
| The redevelopment was funded through internally generated cash flows totalling $8.10m and borrowings of $5.00m from Tascorp. |

## AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control. A moderate rated finding was raised over the approval process of creditor payments. One low rated finding was also raised.

## OTHER MATTERS OF INTEREST

### Funding

Despite sales revenue growth, PAHSMA was still reliant on Tasmanian Government funding to support its conservation role in the preservation of the three historic sites.

PAHSMA received $3.85m in 2017-18 (2016-17, $3.85m) in Tasmanian Government funding. PAHSMA expended $2.92m in 2017-18 ($3.37m) in conservation works across the three sites during the year.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 11 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 11: Port Arthur Historic Site Management Authority financial snapshot

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Financial performance** | | | | | | | | |
| *Revenue* | | | | | | | | |
| Tourism operations income | 16 904 | ▲ | 16 458 | ▲ | 15 240 | ▲ | 13 462 | ▲ |
| Conservation funding | 3 434 | ● | 3 477 | ▲ | 3 316 | ▼ | 5 934 | ▲ |
| *Expenditure* | | | | | | | | |
| Conservation expenses | 2 915 | ▲ | 3 367 | ▲ | 3 949 | ▲ | 7 810 | ▼ |
| **Reconciliation from underlying profit (loss) to profit (loss) before tax** | | | | | | | | |
| Underlying profit | 622 | ▼ | 1 322 | ▼ | 1 406 | ▲ | 211 | ▼ |
| Newly valued heritage assets | 0 | ▼ | 3 253 | ▲ | 312 | ▲ | 0 | ● |
| Assets derecognised | 0 | ▲ | (3 310) | ▼ | 0 | ● | 0 | ● |
| Net profit before tax | 622 | ▼ | 1 265 | ▼ | 1 718 | ▲ | 211 | ▼ |
| Net actuarial gain (loss) | (609) | ▼ | 441 | ▲ | (861) | ▼ | 675 | ▲ |
| Change in asset revaluation reserve | 1 165 | ▼ | 3 664 | ▲ | 1 066 | ▲ | 237 | ▲ |
| Total comprehensive income | 1 178 | ▼ | 5 370 | ▲ | 1 923 | ▲ | 1 123 | ▼ |
| **Financial position[1]** | | | | | | | | |
| Cash | 2 735 | ▼ | 6 105 | ▼ | 8 047 | ▲ | 6 353 | ▼ |
| Property, plant and equipment | 50 828 | ▲ | 40 527 | ▲ | 33 616 | ● | 32 248 | ● |
| Superannuation liability | (8 067) | ▼ | (7 441) | ▲ | (7 657) | ▼ | (6 546) | ▲ |
| Net assets | 38 569 | ▲ | 37 391 | ▲ | 32 021 | ▲ | 30 097 | ● |
| **Key financial ratios** | | | | | | | | |
| Operating margin | 1.0 | ▼ | 1.1 | ● | 1.1 | ▲ | 1.0 | ▼ |
| Current ratio | 1.2 | ▼ | 2.5 | ▼ | 3.3 | ▲ | 2.7 | ▲ |
| Tourism operations income to total revenue | 78.9% | ▲ | 67.9% | ▼ | 77.0% | ▲ | 66.1% | ▼ |
| Visitor numbers[2] | 437 086 | ▲ | 403 372 | ▲ | 374 905 | ▲ | 335 457 | ▲ |

*Indicator* ▲ *improvement from prior year* ▼ *deterioration from prior year* ● *no material change from prior year*

*1. Assets are positive, liabilities are negative.*

*2. Visitor numbers include the Port Arthur Historic Site and Cascades Female Factory and were not audited.*

# PRIVATE FORESTS TASMANIA

## OVERVIEW

**$0.50m**

**Underlying Profit**

**7**

**Employees (FTEs)**

**Operating Locations**


**1.3**

**Operating Margin**

**97 Hectares**

**Private Timber Reserves Gazetted***

**619**

**Enquiries Received from Private Forest Owners***

** These figures have not been audited.*

## INTRODUCTION

PFT was established as a statutory authority on 1 July 1994 under the *Private Forests Act 1994.* PFT was a not-for-profit entity and was not required to make returns to the Tasmanian Government.

Its primary functions were to:

- develop and advocate strategic and policy advice to the Minister and forestry partners
- work in partnership with growers, managers, investors and industry to sustainably develop and manage Tasmania's private forests
- initiate, extend or create new market opportunities.

The functions of PFT were partially supported through a levy paid by private forest growers based on the net area of a forest operation permitted pursuant to the certification of a forest practices plan by the Forest Practices Authority. PFT supported private forest owners by responding to their enquiries and advising and assisting in the management of native forests and the establishment and management of plantations on private land.

## KEY RESULTS AND DEVELOPMENTS

| |
|---|
| In 2017-18 PFT recorded an Underlying profit of $0.50m up from last year's $0.41m result. |
| PFT had borrowings of $0.58m at 30 June 2018 (2017, $0.59m), of which $0.57m was owed to the Tasmanian Government. |
| PFT's dependency on appropriation revenue (excluding agroforestry funding) represented 75.8% of total revenue this year (2016-17, 76.5%). |
| Increased industry activity has resulted in growth in Private forest service levy revenue, from $0.12m in 2014-15 to $0.24m in 2017-18. This year's revenue was consistent with the level in 2016-17, $0.25m. |

PFT led an agroforestry project that included the University of Tasmania and the Commonwealth Scientific and Industrial Research Organisation (CSIRO) as partners. The project was funded primarily by a Tasmanian Government grant of $0.35m paid in equal instalments over four years, with the final instalment in 2017-18. Expenditure incurred on the project totalled $0.39m.

## AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control nor did we have any audit findings.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 12 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 12: Private Forests Tasmania financial snapshot

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Financial performance** | | | | | | | | |
| Private Forest Service Levy | 242 | ● | 248 | ▲ | 237 | ▲ | 122 | ▼ |
| Agroforestry program grant revenue | 87 | ● | 87 | ● | 88 | ● | 87 | ▲ |
| Underlying profit[1] | 503 | ▲ | 413 | ▲ | 309 | ▲ | 142 | ▼ |
| **Financial position** | | | | | | | | |
| Cash | 2 681 | ▲ | 2 162 | ▲ | 1 883 | ▲ | 1 643 | ▲ |
| Borrowings | (584) | ● | (590) | ● | (603) | ● | (617) | ● |
| Net assets | 2 065 | ▲ | 1 562 | ▲ | 1 149 | ▲ | 840 | ▲ |
| **Key financial ratios** | | | | | | | | |
| Operating margin | 1.3 | ▲ | 1.3 | ▲ | 1.1 | ● | 1.1 | ▼ |
| Appropriation revenue / Total Revenue | 75.8% | ● | 76.5% | ● | 79.0% | ● | 82.1% | ● |
| Current ratio | 12.2 | ▲ | 9.7 | ▲ | 7.3 | ▲ | 6.4 | ● |

*Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year*

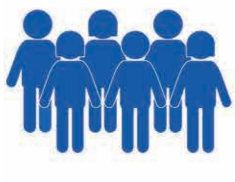
*1. Underlying profit was equal to Net profit (loss) before tax.*

# SUSTAINABLE TIMBER TASMANIA

## OVERVIEW

**$5.95m**

**Underlying Profit**



**143**

**Employees (FTEs)**

**$130.80m**

**Value of Forest Estate**


**1.0**

**Operating Margin**

**3 809km**

**Roads Maintained***

**800 000**

**Hectares of Public Forest***

** These figures have not been audited.*

## INTRODUCTION

Sustainable Timber Tasmania was responsible under State legislation for:

- sustainably managing approximately 800,000 hectares of public production forest (Permanent Timber Production Zone land)
- undertaking forest operations for the production and sale of forest products from these forests (including making available at least 137,000 cubic metres of high quality eucalypt sawlogs and veneer logs per annum).

In addition to the *Forest Management Act 2013*, Sustainable Timber Tasmania was required to operate in accordance with a number of other statutes including the *Government Business Enterprise Act 1995*, the *Forest Practices Act 1985* and the *Forestry (Rebuilding the Forest Industry) Act 2014*.

## KEY RESULTS AND DEVELOPMENTS

STT commenced on 1 July 2017 and was formally known as Forestry Tasmania prior to this date.

In 2017-18, STT incurred an Underlying profit of $5.95m (2016-17, $13.88m loss) and a net profit before tax of $50.46m (2016-17, $53.47m loss).

The net result before tax improved by $103.93m from the 2016-17 year, primarily due to the:

- recognition of a $26.62m fair value gain on the valuation of the biological assets
- increased revenue from forest sales of $23.32m
- derecognition of a $17.89m revenue received in advance liability and recognition of revenue relating to the Tasmanian Community Forest Agreement (TCFA) as all obligations under the TCFA had been performed.

Total comprehensive income for 2017-18 was $49.01m (2016-17, $24.07m loss).

On 14 September 2017, the Minister for Resources announced the sale of 29 000 hectares of hardwood forest plantations for $60.70m. The proceeds from the sale were used to retire STT's borrowings of $29.80m with Tascorp with the balance used to provide working capital for STT.

In a letter addressed to the Chairman of STT dated 6 July 2017, the Minister for Resources and Treasurer revoked all previous directions issued to Forestry Tasmania from 30 June 2017 and issued a new joint direction to STT. The direction makes non-commercial activities CSOs.

At 30 June 2017, $17.89m of $115.00m TCFA funding remained as revenue received in advance. STT derecognised the liability and recognised $17.89m as revenue in 2017-18 as no future expenditure was expected to occur to match the revenue in advance against.

## AUDIT FINDINGS

In performing our audit, we did not identify any significant deficiencies in internal control. We identified two moderate rated audit matters related to the:

- lack of processes in authorising rate variations in harvest and transport contract payments
- apportionment of CSO funding in roads impairment assessment.

One of the four previously reported findings was satisfactorily resolved. STT agreed to address the remaining matters in 2018-19.

## OTHER MATTERS OF INTEREST

### New operating model

STT's new operating model focused on managing Tasmania's Permanent Timber Production Zone Land and sustainably supplying high quality native forest and plantation sawlogs and other forest products to customers on financially viable and commercial terms.

In addition to its main undertakings, STT received:

- $12.18m for non-commercial activity CSOs
- $4.00m for fuel reduction and fire preparedness activities.

### Community service obligations

Under Section 65(1) of the *Government Business Enterprises Act 1995,* the Portfolio Minister and Treasurer may jointly give a direction to STT to perform, provide or allow a function, service of concession that they are satisfied would not be performed, provided or allowed if STT was a business in the private sector acting in accordance with sound commercial practice.

In a letter addressed to the Chairman of STT dated 6 July 2017, the Minister for Resources and Treasurer revoked all previous directions issued to Forestry Tasmania from 30 June 2017 and issued a new joint direction to STT. The direction makes non-commercial activities CSOs. Non-commercial activities include:

- hazard reduction burns
- preparation for and detection of wildfires
- wildfire suppression in non-production forest
- ensuring that the permanent timber production zone land continues to be managed, accessible and available for multiple uses.

The costing basis of the new CSOs from 1 July 2017 was proposed to be the cash contribution required, after contributions from production activities, to ensure that all efficient costs for STT are met. In accordance with the 2017-18 State Budget, State Growth had a funding provision of $12.00m that was used to fund STT's CSOs.

## Tasmanian Community Forest Agreement

The TCFA - Intensive Forest Management program was implemented in 2005 with the aim to mitigate the impact of new forest reserves and reduced clear-felling techniques by supporting existing plantation productivity improvements, development of new plantation and enhanced native forest thinning programs.

Funding of $115.00m was allocated by the Tasmanian and Australian Governments to establish 14 000 hectares of new plantation, prune and fertilise 10 000 hectares of existing plantation and thin viable area of native forest regrowth.

At 30 June 2017, $17.89m of $115.00m TCFA funding remained as revenue received in advance. STT derecognised the liability and recognised $17.89m as revenue in 2017-18 as no future expenditure was expected to occur to match the revenue in advance.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 13 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 13: Sustainable Timber Tasmania financial snapshot

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Reconciliation from underlying profit (loss) to net profit (loss) before tax** | | | | | | | | |
| Underlying profit (loss) | 5 948 | ▲ | (13 876) | ▲ | (17 228) | ▲ | (30 680) | ▼ |
| Biological asset valuation | 26 624 | ▲ | (47 597) | ▼ | (14 620) | ▼ | 37 384 | ▲ |
| Movement in obligations for non-commercial zones | 0 | ▼ | 8 000 | ▲ | (3 500) | ▼ | 3 400 | ▲ |
| TCFA capital grant income earned | 17 891 | ▲ | 0 | ● | 0 | ▼ | 1 525 | ▼ |
| Net profit (loss) before tax | 50 463 | ▲ | (53 473) | ▼ | (35 348) | ▼ | 11 629 | ▲ |
| Total comprehensive income (expense) | 49 008 | ▲ | (24 073) | ▲ | (65 428) | ▼ | 28 446 | ▲ |
| **Financial position[1]** | | | | | | | | |
| Biological assets[2] | 130 800 | ▼ | 156 631 | ▼ | 207 700 | ● | 218 325 | ▲ |
| Borrowings | 0 | ▲ | (29 800) | ▼ | (14 400) | ▲ | (33 223) | ▼ |
| Superannuation liability | (20 324) | ● | (20 407) | ▲ | (158 288) | ▼ | (132 587) | ▲ |
| Net assets | 161 577 | ▲ | 112 569 | ▲ | 26 380 | ▼ | 61 815 | ▲ |
| **Tasmanian government returns/contributions** | | | | | | | | |
| Government guarantee fee | 96 | | 433 | | 140 | | 292 | |
| **Key financial ratios** | | | | | | | | |
| Operating margin | 1.0 | ● | 1.0 | ● | 0.9 | ● | 0.9 | ● |
| Return on assets | 24.5% | ▲ | (21.8%) | ▼ | (11.0%) | ▼ | 6.5% | ▲ |
| Return on equity | 34.8% | ▲ | (61.4%) | ▲ | (100.8%) | ▼ | 34.1% | ▲ |
| Current ratio | 4.5 | ▲ | 0.6 | ▼ | 0.8 | ▲ | 0.6 | ● |
| Cost of debt[3] | 0 | ▲ | 2.2% | ▲ | 2.5% | ▲ | 2.8% | ▲ |
| Interest coverage ratio - EBIT | 12.5 | ▲ | (1.8) | ▼ | (1.6) | ▲ | (2.4) | ▼ |
| Debt to equity[3] | 0 | ▲ | 26.5% | ▲ | 54.6% | ▼ | 53.7% | ▼ |

*Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year*

1. *Assets are positive, liabilities are negative.*
2. *Biological assets included forest, roads, land and regeneration. Impacted by sale of hardwaood forest plantations (refer above).*
3. *STT had no borrowings as at 30 June 2018.*

# TASMANIAN IRRIGATION PTY LTD

## OVERVIEW

**$3.45m**

**Underlying Profit**

**46**

**Employees (FTEs)**

**0.8**

**Operating Margin**

**13**

**Owned and Managed Irrigation Schemes**

**979**

**Active Irrigator Rights***

**Water**

**111 438 ML Available***
**58 924 NL Delivered***

** These figures have not been audited.*

## INTRODUCTION

Tasmanian Irrigation was incorporated under the *Irrigation Company Act 2011.* Tasmanian Irrigation was responsible for the management of Tasmanian Government owned irrigation schemes and progressing new water and irrigation developments in the State.

The construction of new irrigation schemes was funded by both the Tasmanian and Australian Governments and from water entitlement sales. A significant investment has been made in water infrastructure since the establishment of the Water Infrastructure Fund in 2008-09.

## KEY RESULTS AND DEVELOPMENTS

Tasmanian Irrigation recorded an Underlying loss of $3.45m in 2017-18, down on last year's $1.74m Underlying profit. The decrease was mainly due to a reduction in operational grant funding of $4.81m.

Tasmania continued to experienced dry weather in 2018, and while the drier weather conditions resulted in increased demand for water, which saw revenue from irrigation charges grow by $1.49m, these gains were offset by additional expenditures incurred for water purchases and power charges, $3.38m, to ensure water supply for each scheme was met. In addition, Tasmanian Irrigation recorded increased income from generating electricity through mini-hydro power stations of $1.28m and increased revenue from renewable energy certificates of $0.91m as spot prices rose.

Tasmanian Irrigation's underlying result was also impacted by increased salary and wage costs, $1.15m, organisational restructuring and IT expenses, $0.52m, following the implementation of a new financial system. These increased costs were offset by additional other revenue of $1.15m.

Overall, Tasmanian Irrigation reported a net loss before tax of $22.90m in 2017-18, which included an impairment expense of $30.21m mostly attributable to the Southern Highlands Irrigation Scheme, $29.33m.

Tasmanian Irrigation had three reportable segments; water delivery, hydro power stations and build. Water delivery and hydro power stations generated Underlying profits before tax of $0.44m (2016-17, $1.14m) and $0.27m ($0.83m) respectively, while build reported an Underlying loss before tax of $4.16m ($0.23m). The increased Underlying loss for the build segment reflected the reduction in operational grant funding not received in 2017-18.

There were 15 fully operational irrigation schemes in 2017-18, compared with 14 in 2016-17.

The Southern Highlands Irrigation Scheme was commissioned during 2017-18. Upon commissioning, Tasmanian Irrigation recognised $8.59m in water entitlement revenues and $29.33m in impairment losses.

The Swan Valley Irrigation scheme had not been commissioned as at 30 June 2018 despite construction being completed in August 2017. The delay in commissioning was due to a lack of water, with water deliveries expected to commence in 2018-19.

Tasmanian Irrigation originally secured $90.00m of Australian and Tasmanian Government funding towards the Tranche 2 construction program. The Tasmanian Government committed a further $20.00m over two years, of which $10.00m was paid in 2017-18. The Australian Government committed further funding for the construction of the Tranche 2 Scottsdale Irrigation Scheme by budgeting to provide $10.00m in 2018-19 and $15.30m in 2019-20, taking overall funding committed for Tasmanian Irrigation's irrigation schemes to $135.30m.

During the year Tasmanian Irrigation received funding of $43.08m (2016-17, $22.48m) which was designated as equity by the Department of Treasury and Finance (Treasury). This included funding from the Tasmanian Government of $17.50m ($7.50m)

The Tasmanian Government committed an additional $70.00m over four years, from 2019-20, for the construction of new irrigation schemes across the State as part of a proposed Tranche 3 construction program.

While the Australian Government provided funding for Tranche 3 feasibility studies, it had yet to commit to funding for the Tranche 3 construction program.

At present, no return on investment is required by the Tasmanian Government.

## AUDIT FINDINGS

In performing our audit we identified one high risk rated finding relating to financial statement preparation and general ledger processing. We found a number of material misstatements within the financial statements and the underlying general ledger balances. We recommended that Tasmanian Irrigation implement a quality assurance process prior to financial statements being submitted for audit.

In addition, there were three moderate rated findings relating to risk management framework, reconciliation of asset register balances to the general ledger and review of tax accounting entries and disclosures.

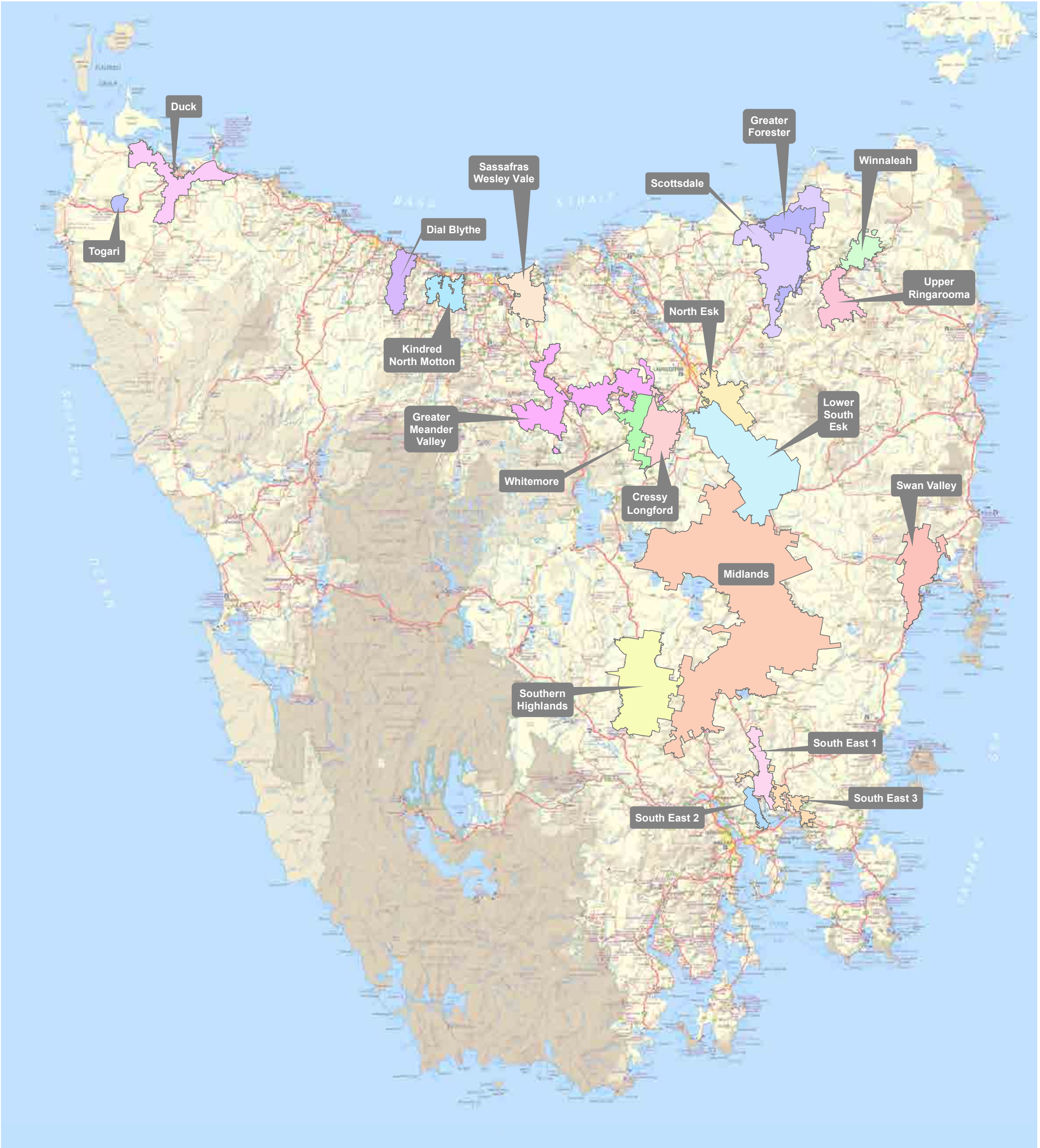
There was also one low rated finding raised.

## OTHER MATTERS OF INTEREST

### Irrigation Schemes

Figure 7 provides an overview of irrigation schemes currently operating or under construction.

Figure 7: Irrigation schemes in operation or under construction




*Source: Tasmanian Irrigation Pty Ltd Annual Report 2017-18*

## Segments

Tasmanian Irrigation had three reportable segments:

**$0.44m**
Underlying profit before tax

**Water Delivery** - management and operation of 13 irrigation schemes, two dams and other water infrastructure assets. Revenue was generated from annual fixed charges and water sales. The Tasmanian Government also provided operational funding.

**$4.16m**
Underlying loss before tax

**Build -** design and development of, irrigation schemes funded through a combination of public funding and sale of water entitlements. Underlying loss predominantly comprised costs that could not be capitalised.

**$0.27m**
Underlying profit before tax

**Hydro Power Stations** - operation of two mini-hydro systems at Meander Dam and the Midlands Water Scheme. Revenue was generated from the sale of electricity and creation of Renewable Energy Certificates.

## Impairment of water infrastructure assets

As irrigation schemes are operated on a cost recovery basis rather than to generate a profit, water infrastructure assets and dams were impaired to a carrying value equal to the value of unsold water entitlements. Where all water entitlements are sold, the carrying value of a scheme would be nil.

## Tranche 2 construction program

There were five irrigation schemes proposed in the Tranche 2 construction program: Duck, North Esk, Scottsdale, Southern Highlands and Swan Valley Irrigation Schemes.

Over the past three years, Tasmanian Irrigation received $63.06m of the original $90.00m committed for the Tranche 2 construction program, which included funding towards construction and project management costs. In its 2017-18 budget, the Tasmanian Government committed a further $20.00m over two years, of which $10.00m was paid in 2017-18. The Australian Government has committed further funding for the construction of the Tranche 2 Scottsdale Irrigation Scheme by budgeting to provide $10.00m in 2018-19 and $15.30m in 2019-20, taking overall funding committed for Tasmanian Irrigation's irrigation schemes to $135.30m. Australian Government funding was paid upon the attainment of agreed milestones to Treasury and then forwarded to Tasmanian Irrigation.

Treasury can formally designate the funding, or part thereof, as a contribution by owners. In 2017-18, $43.08m (2016-17, $22.48m) of development and construction funding was accounted for as an equity contribution, of this amount $25.58m ($14.98m) represented funding from the Australian Government and $17.50m ($7.50m) from the Tasmanian Government.

In 2017-18, Tasmanian Irrigation spent $42.31m on capital projects paid for from government contributions and the sale of water entitlements. The Southern Highlands Irrigation Scheme was commissioned during the year, adding an additional 7 215ML to total deliverable water volume. Upon commissioning, Tasmanian Irrigation recognised $8.59m in water entitlement revenues and $29.33m in impairment losses. The Swan Valley Irrigation Scheme was completed in August 2017 but had not been commissioned at 30 June 2018 as it was awaiting the delivery of water.

Tasmanian Irrigation committed a further $57.32m to be spent over the next five years to complete the remaining three schemes in Tranche 2.

### Financial dependency

Tasmanian Irrigation was dependent on ongoing government support to fund the development of new irrigation schemes. It had a working capital deficit of $21.60m at 30 June 2018 (2017, $31.26m). Included in the net working capital deficiency were current borrowings totalling $24.91m ($45.41m). The level of debt was high compared to equity and was impacted by the timing of government funding and the sale of water entitlements.

The remaining committed Tranche 2 government funding will be received over the next two years and will be used to repay Tasmanian Irrigation's short term debt, leaving forecast remaining debt of approximately $27.10m by June 2020.

While Tasmanian Irrigation held $11.22m in cash at 30 June 2018, it had unearned and deferred income totalling $12.06m. This included:

- deferred grant funding, $4.94m, which was largely the balance of government funding received in previous years to cover interest payments
- asset renewal levy contributions, $4.50m
- water entitlement deposits for irrigation schemes under construction, $2.46m.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 14 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 14: Tasmanian Irrigation Pty Ltd financial snapshot

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Reconciliation from underlying profit (loss) to net profit (loss) before tax** | | | | | | | | |
| Underlying profit (loss) | (3 445) | ▼ | 1 738 | ▼ | 2 006 | ▲ | 1 299 | ▲ |
| Grant revenue write-off | 0 | ▲ | (3 825) | ▼ | 0 | ● | 0 | ● |
| Impairment losses | (30 206) | ▼ | (11 040) | ▲ | (26 463) | ▲ | (135 252) | ▼ |
| Water entitlement revenue | 10 748 | ▲ | 745 | ▼ | 7 840 | ▼ | 34 919 | ▲ |
| Capital grants | 0 | ● | 0 | ● | 0 | ▼ | 9 060 | ▲ |
| Net profit (loss) before tax | (22 903) | ▼ | (12 382) | ▲ | (16 617) | ▲ | (89 974) | ▼ |
| **Financial Position[1]** | | | | | | | | |
| Cash | 11 222 | ▼ | 17 800 | ▲ | 11 502 | ▼ | 12 357 | ▲ |
| Property, plant and equipment | 81 145 | ▲ | 69 820 | ▲ | 43 138 | ▼ | 59 264 | ▼ |
| Unearned/deferred revenue | (12 064) | ● | (12 632) | ▼ | (9 756) | ▲ | (13 151) | ▲ |
| Borrowings | (27 169) | ▲ | (47 947) | ▼ | (25 466) | ▲ | (31 003) | ● |
| Net assets | 49 946 | ▲ | 29 767 | ▲ | 22 081 | ▼ | 31 198 | ▼ |
| **Tasmanian government returns/contributions** | | | | | | | | |
| Government guarantee fee | 170 | | 188 | | 192 | | 231 | |
| **Key Financial Ratios** | | | | | | | | |
| Operating margin | 0.8 | ● | 0.9 | ▼ | 1.1 | ● | 1.1 | ● |
| Current ratio | 0.5 | ● | 0.4 | ▼ | 0.5 | ▼ | 0.6 | ▲ |
| Working capital | (21 596) | ▲ | (31 262) | ▼ | (18 496) | ▼ | (14 700) | ▲ |
| Water charges/ Total revenue | 41.4% | ● | 42.5% | ▲ | 37.4% | ▲ | 30.6% | ▲ |

*Indicator* ▲ *improvement from prior year* ▼ *deterioration from prior year* ● *no material change from prior year*

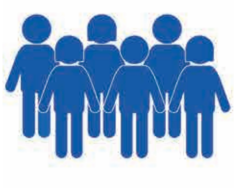
*1. Assets are positive, liabilities are negative.*

# TASMANIAN NETWORKS PTY LTD

## OVERVIEW

**$86.74m**

**Underlying Profit**



**989**

**Employees (FTEs)**

**$490.08m**

**Total Revenue**


**1.5**

**Operating Margin**

**26 100km**

**Transmission and distribution powerlines and cables***

**$2.80bn**

**Transmission and distribution network assets**

** This figure has not been audited.*

## INTRODUCTION

TasNetworks was incorporated on 4 February 2014 and commenced operations on 1 July 2014. Its principal activity was to supply power from the generation source to homes and businesses through a network of transmission towers, substations and power lines on mainland Tasmania and Bruny Island.

## KEY RESULTS AND DEVELOPMENTS

Unless otherwise stated, this Chapter reports financial information of TasNetworks on a consolidated basis.

TasNetworks reported an Underlying profit for 2017-18 of $86.74m which was less than last year's result of $132.32m.

In 2017-18 TasNetworks reported a Net profit before tax of $84.62m which was $47.71m lower than the previous year's profit of $132.32m.

Revenue of $443.95m from regulated distribution and transmission services for 2017-18 was 12.1% lower than the previous year mainly due to the impact of the determination made by the Australian Energy Regulator (AER) for the 2017-2019 regulatory period which resulted in a lower distribution revenue allowance. The lower allowance was due primarily to a lower regulated rate of return and lower expenditure forecasts. Regulated revenue represented 90.6% (2016-17, 91.4%) of total revenue.

Total operating expenses for 2017-18 were $164.24m, 8.4% lower than the previous year. The main reason for the decrease was higher capitalised indirect costs of $12.40m due primarily to TasNetworks' higher capital works program in 2017-18.

The value of network assets was escalated in 2017-18 in accordance with the Regulatory Asset Base (RAB) valuation methodology, which was determined by the AER and based on the consumer price index movement for the year. This escalation resulted in a net revaluation increment of $39.26m.

Payments for Property, plant and equipment in 2017-18 totalled $192.18m ($164.67m) compared to depreciation expense of $140.45m ($144.25m). Depreciation reduced by $3.80m primarily due to the value of certain distribution network assets and short-lived assets being fully depreciated during 2017-18 and 2016-17.

The value of intangible assets increased by $22.63m, primarily due to capital expenditure of $37.74m less depreciation of $15.12m. Ajilis release two went live on 5 March 2018 and $24.81m was commissioned on that date.

During the year two separate issues were identified resulting in prior period corrections:

- a finance lease which was previously treated as an operating lease
- street lighting assets disposed of in 2014-15 and 2016-17 not removed from the asset register.

At 30 June 2017, TasNetworks had negative working capital of $160.41m. The deficiency in working capital was mainly due to current borrowings of $152.30m with short-term maturities. These debt maturities are expected to be refinanced in line with TasNetworks' treasury policy using the Tascorp Master Loan Facility. The undrawn amount of this facility was $69.40m at 30 June 2018.

TasNetworks had borrowings of $1.89bn at 30 June 2018, an increase of $99.84m from the prior year. TasNetworks' treasury policy was to align the debt portfolio to the AER's benchmark used in determining the revenue allowance, which was to have one tenth of the portfolio repriced each year. The Interest coverage ratio - EBIT deteriorated from 2.5 to 2.0 primarily due to the underlying profit before finance cost and tax reducing by $49.70m to $168.16m in 2017-18.

The defined benefit superannuation liability, $161.79m, was consistent with prior year, due to the actuarial assumptions remaining steady.

TasNetworks returned $135.19m to the Tasmanian Government in the form of:

- dividends paid on its 2016-17 performance, $77.56m
- income tax equivalents, $49.97m
- Government guarantee fees, $7.67m.

## AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control.

Two of the four previously reported findings were satisfactorily resolved. TasNetworks agreed to address the remaining matters in 2018-19.

## OTHER MATTERS OF INTEREST

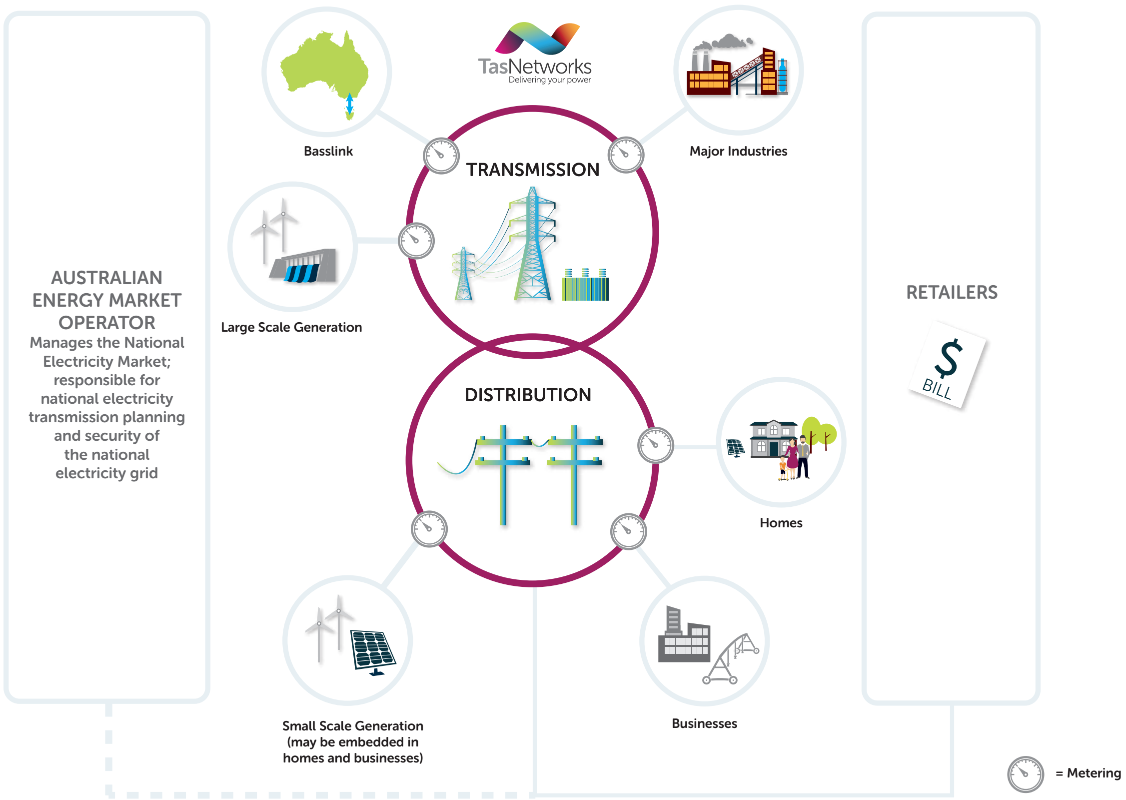
### TasNetworks operations

Electricity network services provided by TasNetworks to customers is illustrated in Figure 8.

The transmission system consisted of a 220 kilovolts (kV) and 110kV transmission network that connected generators to the distribution system, major industrial customers and the Basslink interconnector. The transmission system contained more than 3 500 circuit kilometres of transmission lines, 49 substations and six switching stations.

The distribution systems consisted of 22 600 km of distribution overhead lines and underground cables, approximately 230 000 power poles, 17 large distribution substations and approximately 32 500 small distribution substations. There were also 27 400 embedded generation and photovoltaic grid-connected installations connected to the distribution network.

Figure 8: Electricity network services




*Source: TasNetworks*

TasNetworks also owned and operated a telecommunications network. This network supported the operation of the electricity network, and also provided communications services to other customers.

TasNetworks had three 100% controlled subsidiaries which were consolidated into its financial report:

- TasNetworks Holdings Pty Ltd was incorporated on 24 May 2018 with the intent of holding equity interests in other subsidiary companies of TasNetworks. At 30 June 2018, TasNetworks Holdings Pty Ltd was the shareholder of the subsidiary FortyTwo24 Pty Ltd.
- FortyTwo24 Pty Ltd was formally known as AuroraCom Pty Ltd. This company did not trade during 2017-18.
- Ezikey Group Pty Ltd (Ezikey) was responsible for the commercialisation of broken neutral detection technology. During the year Ezikey was wound up and voluntarily deregistered. Ezikey had no activity during 2017-18.

## National Electricity Market

TasNetworks was the sole licensee registered with the Australian Energy Market Operator (AEMO) for regulated transmission and distribution network services in Tasmania. As a participant in the National Electricity Market (NEM), TasNetworks was required to develop, operate and maintain its network in accordance with the National Electricity Rules and meet the requirements of OTTER.

## Revenue determination and regulatory control

As a regulated business, TasNetworks operated under a maximum allowable revenue cap and was subject to regulatory pricing mechanisms. This means revenue can decrease or increase from year to year depending on the timing of recovering revenue against the revenue cap. Revenue is adjusted in future periods through the regulatory pricing process to ensure TasNetworks recovers against the maximum allowable revenue. In addition, revenue can change from regulatory periods due to changes in regulatory and external environments.

On 1 July 2017, TasNetworks commenced a new distribution regulatory period to 30 June 2019 for which the AER determined a lower distribution revenue allowance. The lower allowance was in part due to a lower regulated rate of return as well as lower expenditure forecasts achieved through cost reductions and efficiency improvements.

The current regulatory period for the transmission network commenced on 1 July 2014 and will end on 30 June 2019. From 1 July 2019, the revenue determination processes and regulatory control periods of the two network businesses will be aligned.

## Guaranteed Service Level Scheme

The Office of the Tasmanian Economic Regulator sets minimum reliability standards for TasNetworks' distribution network through the Guaranteed Service Level Scheme and monitored compliance with licence obligations.  During 2017-18, TasNetworks paid $3.17m (2016-17, $2.99m) in relation to guaranteed service level payments.

## Financing

During the year TasNetworks identified a breach in one of its borrower's promises (debt covenants) under its Master Loan Facility Agreement (MLFA) with Tascorp, in that the financial leverage ratio exceeded the benchmark of 67% during December 2017. The breach was rectified by 30 June 2018 following an undertaking by Tascorp not to take any action under the MLFA in respect of the breach provided it was rectified by 30 June 2018. The MLFA was amended on 27 August 2018 and Tascorp determined the financial leverage ratio is now an annual measure as at 30 June providing Tasnetworks monitors and advises Tascorp of monthly movements above 67%.

## New Enterprise Resource Planning System (Ajilis Project)

During 2015-16, TasNetworks commenced the Ajilis project to transform business systems and processes. The objectives of Ajilis were to replace dissimilar and disjointed information systems, remove duplication, simplify operations, improve data quality and reporting and streamline business processes.

Ajilis release one went live on 1 February 2017 the cost of which, $35.21m, was capitalised as an intangible asset on 28 February 2017. Release one included finance, procurement, inventory, payroll, governance risk and compliance and human capital management.

Release two went live on 5 March 2018 at a cost of $24.81m and included assets and works management, environment health and safety, budgeting and forecasting.

The project was budgeted to cost $58.18m, with $58.31m spent to 30 June 2018.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 15 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 15: TasNetworks financial snapshot

| | 2017-18 | | 2016-17[1] | | 2015-16[1] | | 2014-15[2] |
|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s |
| **Financial performance** | | | | | | | |
| *Revenue* | | | | | | | |
| Regulated distribution services[3] | 260 517 | ▼ | 325 816 | ● | 339 024 | ● | 328 200 |
| Regulated transmission services | 183 429 | ● | 178 742 | ▼ | 194 692 | ● | 192 780 |
| *Expenditure* | | | | | | | |
| Operating expenses | (164 235) | ▲ | (179 221) | ● | (172 501) | ● | (168 750) |
| **Reconciliation from underlying profit (loss) to profit (loss) before tax** | | | | | | | |
| Underlying profit | 86 736 | ▼ | 132 319 | ▼ | 162 248 | ● | 161 396 |
| Net loss recognised on debt restructure | 0 | ● | 0 | ▲ | (23 262) | ▼ | 0 |
| Impairment of assets | (2 122) | ▼ | 0 | ▲ | (6 652) | ▼ | 0 |
| Capital contribution from Forestry | 0 | ● | 0 | ▼ | 8 190 | ▲ | 0 |
| Net profit (loss) before tax | 84 614 | ▼ | 132 319 | ● | 140 524 | ▼ | 161 396 |
| Total comprehensive income | 89 763 | ▼ | 145 767 | ▲ | 97 063 | ▼ | 167 944 |
| **Financial position[4]** | | | | | | | |
| Property, plant and equipment | 3 141 248 | ● | 3 054 004 | ● | 2 996 745 | ● | 2 992 647 |
| Borrowings | (1 885 600) | ▼ | (1 785 762) | ● | (1 749 302) | ▼ | (1 643 718) |
| Superannuation liability | (161 788) | ● | (159 958) | ▲ | (188 370) | ▼ | (144 508) |
| Net assets | 953 401 | ● | 941 198 | ● | 918 055 | ▼ | 1 005 825 |
| **State government returns/contributions** | | | | | | | |
| Government guarantee fee | 7 666 | | 6 956 | | 11 862 | | 11 954 |
| Income tax paid | 49 967 | | 46 596 | | 55 612 | | 79 089 |
| Dividends paid | 77 560 | | 72 628 | | 63 200 | | 61 000 |
| Return of capital to owner | 0 | | 0 | | 50 000 | | 20 000 |
| Debt assumed from Hydro | 0 | | 50 000 | | 70 000 | | 205 000 |
| **Key financial ratios** | | | | | | | |
| Operating margin | 1.5 | ▼ | 1.7 | ▼ | 1.8 | ● | 1.8 |
| Return on assets | 5.1% | ▼ | 6.7% | ▼ | 7.9% | ● | 8.1% |
| Return on equity | 6.3% | ▼ | 10.0% | ● | 10.2% | ▼ | 10.9% |
| Current ratio | 0.4 | ▼ | 0.5 | ▼ | 0.6 | ▲ | 0.5 |
| Cost of debt | 4.6% | ● | 4.8% | ▲ | 6.5% | ▼ | 6.0% |
| Interest cover ratio - EBIT | 2.0 | ▼ | 2.5 | ▲ | 2.3 | ▼ | 2.8 |
| Debt to equity | 197.8% | ● | 189.7% | ● | 190.5% | ▼ | 163.4% |

*Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year*

1. *2015-16 and 2016-17 balances have been amended for a prior period error adjustment.*
2. *No indicator as first year of operation.*
3. *The lower distribution revenue and net profit before tax in 2017-18 was due to a new distribution regulatory period.*
4. *Assets are positive, liabilities are negative.*

# TASMANIAN PORTS CORPORATION PTY LTD

## OVERVIEW

**$11.00m**

**Underlying Profit**

**125**

**Cruise Ship Visits***

**Major Locations**


**1.1**

**Operating Margin**

**287**

**Employees (headcount)**

**15.2m Tonnes**

**Freight Imported and Exported***

** These figures have not been audited*

## INTRODUCTION

TasPorts' purpose was to facilitate trade for the benefit of Tasmania through the commercial provision of infrastructure and services. It was established under the *Tasmanian Ports Corporation Act 2005* and commenced operations in July 2005.

TasPorts had:

- three subsidiaries: King Island Ports Corporation Pty Ltd, Flinders Island Ports Company Pty Ltd and Bass Island Line Pty Ltd
- a joint venture with Qube Ports Pty Ltd, Southern Export Terminals Pty Ltd, to manage the export of forestry logs, with 50% of the equity owned by TasPorts.

TasPorts' operations involved managing and maintaining essential port and associated infrastructure and ensuring safe control and security of all major ports. This included the provision of pilotage services, towage, slipway and refuelling facilities, and the supply of floating plant and equipment for marine engineering projects. TasPorts also operated the Devonport Airport and a shipping service through Bass Island Line Pty Ltd.

Unless otherwise stated, the financial information of TasPorts is reported on a consolidated basis.

## KEY RESULTS AND DEVELOPMENTS

| |
|---|
| In 2017-18, TasPorts achieved an Underlying profit of $11.00m (2016-17, $8.73m) and net profit before tax of $8.84m (2016-17, $6.39m). |
| Trade revenue increased by $18.69m to $122.32m in 2017-18, which was up from $103.63m in 2016-17. This increase in trade revenue was due mainly to the impact of CPI indexation applied to charges and increased port usage by vessels, with Tasmanian freight increasing by 6.8% and cruise ship visits growing by 36.5%. |

Total expenses increased by $15.94m to $114.14m in 2017-18, with increases in the following expenses mainly related to the increase in freight activity and a full year of operation for Bass Island Line Pty Ltd (compared to three months of operation in 2016-17):

- $6.24m in operational expenditure
- $3.38m in administration costs
- $2.98m in employee expenses.

Depreciation and amortisation also increased by $3.29m, primarily due to the purchase of new vessels.

During 2017-18, Bass Island Line Pty Ltd purchased and financed a freight vessel, the John Duigan, by way of an $11.12m equity contribution from TasPorts. This vessel operated a triangular freight service between Geelong in Victoria, Grassy on King Island and Devonport.

TasPorts expended $32.90m on capital items. Major activities include the acquisition of a pilot boat, two tug boats and the John Duigan and the wharf and terminal rebuild at Strahan.

## AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control nor did we have any audit findings.

## OTHER MATTERS OF INTEREST

### Economic Conditions

The commercial operations of TasPorts were influenced by Tasmania's economic conditions and the impact that the commodities market had on freight volumes and wharfage demand. Major commodities exported from, or imported to, Tasmania by wharfage customers included woodchips, timber, minerals, cement, fuel, vehicles, food products, and general cargo.

### Compliance and safety regulations

TasPorts was required to comply with maritime and aviation compliance and safety regulations relating to the operation of ports, tug and pilot boat vessels and Devonport Airport.

For the ports and vessels, these requirements were regulated by the Australian Maritime Safety Authority, the national agency responsible for maritime safety and protection of the marine environment. Regulations included survey certification and International Safety Management Code certification. TasPorts was also subject to regular audits undertaken by the Office of Transport Security to test compliance with both maritime and transport security legislation.

The Civil Aviation Safety Authority regulated the operation of Devonport Airport.

TasPorts operations were subject to significant environmental regulations under both Commonwealth and State legislation. The primary legislation is the *Environmental Protection Act 1994*. Activities covered by this Act included:

- management of the Burnie woodchip facility, including monitoring air quality
- wildlife management at the Devonport Airport
- management of contaminated material for works requiring surface penetration or ground penetration on TasPorts land.

No breaches of the legislation were notified during the financial year.

### Community asset management

TasPorts was responsible for the management of several community sites used by the general public and tourism industry. The following community assets were under TasPorts' control:

- Sullivans Cove wharf
- Strahan - main waterfront
- Port of Stanley
- Inspection Head wharf.

A five year community asset maintenance program commenced in 2014 with a total budget of $27.30m with the balance of these funds fully expended in the 2017-18 financial year. The State government provided $17.50m towards the program to the end of the 2017-18 year, which was recognised as an equity contribution to TasPorts.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 16 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 16: Tasmanian Ports Corporation Pty Ltd financial snapshot

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Financial performance** | | | | | | | | |
| *Revenue* | | | | | | | | |
| Trade revenue | 122 322 | ▲ | 103 633 | ▲ | 94 288 | ▲ | 86 500 | ▲ |
| *Expenditure* | | | | | | | | |
| Maintenance cost | 15 116 | ▲ | 16 910 | ▲ | 23 002 | ▲ | 26 461 | ▼ |
| **Reconciliation of underlying profit (loss) to net profit (loss) before tax** | | | | | | | | |
| Underlying profit (loss) | 10 999 | ▲ | 8 727 | ▲ | 2 093 | ▲ | (11 582) | ▼ |
| Impairment losses related to community assets | (1 841) | ▲ | (3 436) | ▼ | 0 | ▲ | (17) | ▼ |
| Revaluation decrement on infrastructure assets | 0 | ▲ | (1 791) | ▼ | 0 | ● | 0 | ▲ |
| Reversal of revaluation decrement on infrastructure assets | 0 | ▼ | 2 891 | ▲ | 0 | ● | 0 | ● |
| Net profit (loss) before tax | 8 839 | ▲ | 6 391 | ▲ | 2 093 | ▲ | (11 599) | ▼ |
| **Financial position**[1] | | | | | | | | |
| Cash | 22 990 | ▼ | 39 303 | ▲ | 34 300 | ▲ | 26 220 | ● |
| Property, plant and equipment | 269 767 | ▲ | 254 416 | ▲ | 208 371 | ● | 208 765 | ● |
| Borrowings | (27 334) | ● | (27 334) | ● | (27 584) | ● | (27 884) | ● |
| Net assets | 243 705 | ● | 240 418 | ▲ | 199 362 | ▲ | 188 644 | ● |
| **Tasmanian government returns/contributions** | | | | | | | | |
| Government guarantee fee | 357 | | 357 | | 358 | | 358 | |
| Income tax equivalent paid | 5 648 | | 979 | | 50 | | 786 | |
| Dividends paid | 2 815 | | 1 370 | | 0 | | 0 | |
| Equity contribution | 0 | | 7 500 | | 9 500 | | 3 500 | |
| **Key financial ratios** | | | | | | | | |
| Operating margin | 1.1 | ● | 1.1 | ▲ | 1.0 | ▲ | 0.9 | ▼ |
| Current ratio | 1.4 | ▼ | 2.9 | ▲ | 2.5 | ▲ | 1.8 | ▼ |
| Debt to equity | 11.2% | ● | 11.4% | ▲ | 13.8% | ▲ | 14.8% | ▼ |

*Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year*

*1. Assets are positive, liabilities are negative.*

## TASPORTS CONTROLLED ENTITIES AND JOINT VENTURE

Entities included in this section are:

- Bass Island Line Pty Ltd
- King Islands Port Corporation Pty Ltd
- Flinders Island Port Corporation Pty Ltd
- Southern Export Terminals Pty Ltd (Joint Venture).

Bass Island Line Pty Ltd was established in February 2017 to provide shipping services to King Island at the request of the State Government. It is a wholly owned subsidiary and the two Directors were TasPorts Executives. TasPorts provided administrative and financial support to Bass Island Line Pty Ltd.

King Island Ports Corporation Pty Ltd owned port infrastructure and operational assets on King Island that were leased to TasPorts.

Flinders Island Ports Company Pty Ltd did not trade during the year.

Southern Export Terminals Pty Ltd was a joint venture in which TasPorts had a 50% interest. Qube Ports Pty Ltd held the other 50% interest. The Joint Venture operated a forestry logistics business within the Macquarie Point wharf precinct in Hobart.

## KEY RESULTS AND DEVELOPMENTS

| Bass Island Line Pty Ltd |
|---|
| Bass Island Line Pty Ltd recorded an underlying loss of $5.06m in the period ($1.70m loss in the period April to 30 June 2017). The underlying loss was equal to the net loss before tax. |
| In 2017-18, Bass Island Line Pty Ltd purchased and financed a freight vessel, the John Duigan, by way of an $11.12m equity contribution from TasPorts. This vessel ran a triangular service between Geelong in Victoria, Grassy on King Island and Devonport. |

| King Island Ports Pty Ltd |
|---|
| King Island Ports Pty Ltd generated an underlying loss of $0.02m (2016-17, $0.09 profit). |
| As at 30 June 2018, net assets were $7.09m ($7.11m). |

| Flinders Island Ports Pty Ltd |
|---|
| Flinders Island Ports Pty Ltd did not trade in 2017-18 or the prior year. |
| As at 30 June 2018, net assets were $1.56m ($1.56m). |

| Southern Export Terminals Pty Ltd |
|---|
| TasPorts' share in the net loss in 2017-18 was $0.12m ($0.05m). |
| As at 30 June 2018, TasPorts' share of the net liability was $0.17m ($0.05m). |

## AUDIT FINDINGS

In performing our audit of Bass Island Line Pty Ltd we did not identify any significant deficiencies in internal control.

The audits of King Island Ports Pty Ltd and Flinders Island Ports Pty Ltd were dispensed with. The audit of Southern Export Terminals Pty Ltd was conducted by another auditor.

# TASMANIAN PUBLIC FINANCE CORPORATION

## OVERVIEW

**$39.31m**

**Underlying Profit**

**17**

**Employees (FTEs)**

**$3.57bn**

**Loans to Government Entities**

**$32.55m**

**Comprehensive Result**

**37**

**Government Entities with Borrowings**

**$46.45**

**Decrease in Net Assets**

## INTRODUCTION

Tascorp was established in 1985 to develop and implement borrowing and investment programs for the benefit of Tasmanian State entities. It had the power to borrow and invest money and to enter into contracts for the purposes of managing borrowings and investments.

Tascorp was responsible for meeting the non-transactional banking needs of the Tasmanian Government which included Government Business Enterprises, State Owned Companies, inner budget agencies and local government. In this respect, its core function was the development and implementation of borrowing and investment programs for relevant State entities.

Tascorp maintained a strong risk management system and a clearly defined capital at risk strategy to manage the complex business and market risks associated with meeting client borrowing, investment and risk management needs.

The main business activities of Tascorp included:

- borrowing and lending to clients for long term capital projects and short term working capital funding
- management of client funds held in call and short-term deposit products and cash management funds
- provision of funding, investment and risk management advice to clients
- treasury management activities relating to the investment of surplus funds into approved fixed interest investments.

## KEY RESULTS AND DEVELOPMENTS

In 2017-18, Tascorp achieved an Underlying profit of $39.31m (2016-17, $27.41m) and Total comprehensive income of $32.55m ($19.20m). The 2017-18 result included net interest revenue and net gains (losses) of $16.80m ($0.10m) arising from financial instruments related to the Mersey Community Hospital Fund (MCH Fund).

Excluding the MCH Fund's net interest revenue and net gains (losses) arising from financial instruments, the Underlying profit related to Tascorp's Treasury operation was $22.51m, a $4.89m decrease from 2016-17 as a result of increased borrowings due to the forthcoming maturity of a benchmark bond.

There were no significant movements in Investments, $3.97bn ($4.05bn), and Client advances, $3.57bn ($3.57bn), at 30 June 2018 compared to the prior year.

Deposits and Borrowings increased by $24.60m to a total of $6.84bn at 30 June 2018.

Net assets decreased by $46.45m primarily due to dividend payments of $78.90m, offset by the comprehensive profit of $32.55m.

In 2017-18 Tascorp paid, in line with its lump sum dividend and tax equivalent regime requirements, $9.00m relating to the 2016-17 financial period. The amount consisted of an ordinary dividend of $0.82m and tax equivalent payments of $8.18m.

It is anticipated Tascorp will pay $6.76m in tax equivalent payments for 2017-18 based on 30.0% of its underlying result, excluding revenue related to the MCH Fund.

## AUDIT FINDINGS

Our audit report included an emphasis of matter paragraph, to draw attention to the users of the financial report, Tascorp's application of Treasurer's Instruction GBE-08-052-09P in respect of the MCH Fund.

In performing our audit we did not identify any significant deficiencies in internal control and no other audit findings were identified.

## OTHER MATTERS OF INTEREST

### Mersey Community Hospital Fund

On 29 June 2017, $730.40m was transferred to Tascorp from the Tasmanian Government to establish the MCH Fund. Tascorp was charged with developing an investment strategy for these monies, which will be returned over time to the Tasmanian Government, along with any returns and gains or losses, through non-discretionary annual distributions in accordance with the *Tasmanian Public Finance Corporation Amendment (Mersey Community Hospital) Act 2017*. The MCH Fund will ultimately be used to support the operations of the Mersey Hospital in North-West Tasmania.

At 30 June 2017, the MCH Fund totalled $730.50m. During 2017-18, Tascorp recorded a return of $16.80m related to the MCH Fund and paid a dividend of $78.10m, leaving a balance of $669.20m in the MCH Fund at 30 June 2018.

### TT-Line Vessel Replacement Fund

At 30 June 2017, Tascorp held $40.10m related to the TT-Line Vessel Replacement Fund (VR Fund). The arrangement was structured as a 'Bare Trust'. Tascorp was the Trustee under the agreement and the investment manager for the VR Fund under a separate Investment Management Agreement. While Tascorp was the investment manager of the VR Fund's assets, TT-Line had beneficial ownership of the VR Fund's assets, including exposure to all risks and rewards.

Tascorp did not recognised any assets, liabilities or equity with respect to the VR Fund in its statement of financial position and did not recognised any income or expenditure with respect to the arrangement in the statement of profit or loss and other comprehensive income, other than the investment fee earned in accordance with the Investment Management Agreement.

In December 2017, the ‘Bare Trust’ was unwound. Tascorp became the investment manager for the VR Fund under a separate Investment Management Agreement. Tascorp continued to have a fiduciary duty as the investment fund manager of the VR Fund’s assets under the Investment Management Agreement, while the Public Account had beneficial ownership of the VR Fund’s assets including exposure to all risks and rewards.

During 2017-18, TT-Line invested $40.00m into the VR Fund.

In May 2018, TT-Line entered into a construction contract for two new roll-on / roll-off ships to replace the existing Spirit of Tasmania vessels. Shortly thereafter, the Tasmanian Government made an equity contribution of $81.00m to TT-Line from the VR Fund to facilitate the payment of the deposit due under the vessel construction contract. Interest revenue of $0.60m was recorded in the VR Fund in 2017-18.

The terms of the vessel construction contract required payment in Euros. TT-Line provided Tascorp with $141.70m as a first instalment, which was deposited into a bank account in Euros to manage risk exposure relating to movements in foreign exchange rates. As the deposit due under the vessel construction contract had not been paid by 30 June 2018, Tascorp held cash totalling €81.30m with a corresponding liability to TT-Line recognised.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 17 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 17: Tasmanian Public Finance Corporation financial snapshot

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $’000s | Ind | $’000s | Ind | $’000s | Ind | $’000s | Ind |
| **Financial performance** | | | | | | | | |
| Net interest revenue[1] | 43 864 | ▲ | 33 127 | ▲ | 28 547 | ▼ | 34 156 | ▲ |
| Underlying profit[2] | 39 311 | ▲ | 27 405 | ▲ | 13 926 | ▼ | 19 557 | ▲ |
| Total comprehensive income | 32 549 | ▲ | 19 205 | ▲ | 9 748 | ▼ | 13 690 | ▲ |
| **Financial position[3]** | | | | | | | | |
| Investments | 3 967 496 | ● | 4 048 290 | ▲ | 3 684 465 | ▲ | 2 741 304 | ▼ |
| Client advances | 3 571 683 | ● | 3 569 721 | ● | 3 565 671 | ▲ | 3 274 039 | ▲ |
| Deposits | (1 152 809) | ● | (1 195 856) | ● | (1 180 016) | ▼ | (899 467) | ▼ |
| Borrowings | (5 684 583) | ● | (5 666 042) | ▲ | (6 109 168) | ▼ | (5 130 571) | ▲ |
| Net assets | 760 826 | ▼ | 807 280 | ▲ | 62 511 | ▲ | 52 763 | ▲ |
| **Tasmanian government returns/contributions** | | | | | | | | |
| Income tax paid | 8 183 | | 4 178 | | 5 867 | | 4 488 | |
| Dividends paid | 78 959[4] | | 4 822 | | 0 | | 10 512 | |
| Equity contribution - MCH Fund | 0 | | 730 400 | | 0 | | 0 | |
| **Key financial ratios** | | | | | | | | |
| Return on equity[5] | 18.7% | ▼ | 27.6% | ▲ | 16.9% | ▼ | 26.8% | ● |

*Indicator* ▲ *improvement from prior year* ▼ *deterioration from prior year* ● *no material change from prior year*

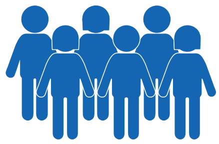
1. *Interest revenue arising from financial instruments includes $17.4m (2016-17: $0.10m) relating to the MCH Fund.*
2. *Underlying profit before tax was the same as Net Profit before tax.*
3. *Assets are positive, liabilities are negative.*
4. *2017-18 includes dividend paid in respect of the MCH Fund.*
5. *Return on Equity indicator for 2016-17 and 2017-18 have been adjusted to exclude the impact of the MCH Fund.*

## TASMANIAN RAILWAY PTY LTD

### OVERVIEW

**$9.68m**

**Underlying Loss**



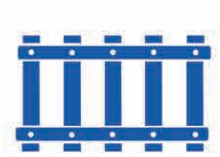
**228**

**Employees (FTEs)**

**Operating locations**


**0.8**

**Operating margin**



**612km**

**Track managed***

**$18 700**

**Below rail infrastructure cost per track kilometre**

* This figure has not been audited.

### INTRODUCTION

TasRail was established under the *Rail Company Act 2009* for the purpose of assuming responsibility for and operating the freight rail network in Tasmania. It commenced operations on 1 December 2009.

TasRail operated the rail network and associated infrastructure under a lease for the Rail Corridor with the Minister for Infrastructure. TasRail managed over 600 km of operational track across six main lines, five freight terminals and a fleet of rolling stock including locomotives and wagons. It transports bulk freight, such as cement, mineral ore and coal and containerised freight.

### KEY RESULTS AND DEVELOPMENTS

TasRail recorded an Underlying loss of $9.68m in 2017-18, which was higher than the prior year's loss of $6.78m, largely due to a reduction in the operational funding from the Tasmanian Government. TasRail's operational funding reduced by $3.87m, from $11.97m in 2016-17 to $8.10m in 2017-18.

Net loss before tax for 2017-18 was $25.17m, which included a full impairment of below rail infrastructure assets commissioned during the year of $32.02m. The impairment loss was partly offset by capital grants revenue totalling $15.76m.

TasRail had two reportable segments, above and below rail. Above rail reported a profit before tax of $0.44m, while below rail reported a loss before tax of $25.61m. The result of the below rail segment was significantly impacted by the impairment loss, partly offset by capital grants.

During the year, TasRail received government funding of $23.10m in the form of:

- operating grant from the Tasmanian Government, $8.10m, recognised as revenue
- capital funding from the Australian Government, $15.00m, recognised as equity.

The Tasmanian and Australian Governments committed in their most recent budget papers to evenly share a further investment of $119.60m in equal shares towards a second stage of the program (covering the four years 2019-20 to 2022-23).

No funds were received from the Tasmanian Government in 2017-18 in relation to the Rail Revitalisation Program as the final instalment of the current tranche of funding was paid in 2016-17.

The cost of capital works on below rail assets completed in 2017-18 was $32.02m.

## AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control nor did we have any high or moderate risk audit findings. Three low risk findings were identified.

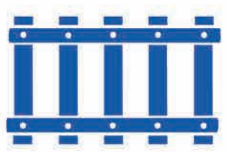
## OTHER MATTERS OF INTEREST

### Segments

TasRail had two reportable segments shown below:

**$0.44m**
Profit

**Above Rail** - provision of integrated rail freight services, including the operation of terminals, bulk handling and ship loading facilities.



**$25.61m**
Loss

**Below Rail** - management and operation of the entire rail network infrastructure, which includes tracks, bridges, level crossings, signals and communications.

### Economic environment

TasRail's performance was linked with the performance of multiple resource and commodity markets and the general economic climate.

Fluctuations in international and domestic demand for commodities transported by TasRail impacted on the demand for rail transportation. TasRail also competed with road transport providers. To mitigate the impact of these factors, TasRail entered into long-term contracts with major customers to secure baseload freight volumes.

### Financial dependency

TasRail generated underlying losses in each of the past four years and was unlikely to be able to operate without financial support. Its capacity to undertake track infrastructure improvements and maintenance was subject to ongoing government funding. Since 2009, the Australian and Tasmanian Governments provided equity contributions totalling $387.58m for investment in above and below rail assets and provided $115.11m in operational funding from the State Gioverment, which was primarily directed towards maintenance.

TasRail indicated that at the end of the current government-funded capital programs, for both above and below rail segments, critical infrastructure and equipment will be significantly improved. However, ongoing capital needs and investment into rail infrastructure and equipment will be required to allow for further improvements and future replacement of assets.

## Major customers

In 2017-18, TasRail had three major customers who accounted for 58.2% (50.2% in 2016-17) of revenue from freight services. The increase in the revenue share of the three major customers is mainly due to increased tonnage hauled for TasRail's major customer.

## Tasmanian Freight Rail Revitalisation Program

The Tasmanian Freight Rail Revitalisation Program commenced during 2015-16 and was jointly funded by the Tasmanian and Australian Governments under the Infrastructure Investment Program. It provided $119.60m of capital funding over four years to 30 June 2019 for asset renewals and projects designed to further improve safety and reliability. The Tasmanian Government contributed $59.80m since the project started. The funding was recorded as deferred income on receipt and recognised as revenue when the corresponding expense was incurred. The amount recognised as revenue in 2017-18 was $15.69m (2016-17, $21.46m).

Australian Government funding, $15.00m ($20.40m), was recognised directly in equity at time of receipt as instructed by Treasury.

The Tasmanian and Australian Governments committed in their most recent budget papers further investment of $119.60m towards a second stage of the program, covering the four years 2019-20 to 2022-23.

## Environmental regulations

TasRail's operations were subject to significant environmental regulations under both Australian and Tasmanian legislation. The primary legislation was the *Environmental Protection Act 1994*. No breaches of this Act were notified during the financial year.

Under the terms of the Rail Corridor Lease, TasRail was responsible for remediation of any environmental obligations that may become apparent as a result of its operations or past operation of the network. There were no new environmental liabilities identified at balance date that would have a material effect on the financial report at 30 June 2018. If significant environmental liabilities relating to past operations were identified in future, TasRail would require financial support from the Tasmanian Government to fund the remediation.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 19 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 19: Tasmanian Railways Pty Ltd financial snapshot

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Financial performance** | | | | | | | | |
| ***Revenue*** | | | | | | | | |
| Revenue from freight services | 33 735 | ● | 32 861 | ▲ | 30 456 | ● | 31 721 | ▼ |
| Grant income - operating activities | 8 100 | ▼ | 11 966 | ● | 11 992 | ▼ | 16 834 | ● |
| ***Expense*** | | | | | | | | |
| Depreciation and amortisation expense | 9 082 | ● | 8 938 | ▼ | 8 161 | ▲ | 12 864 | ▼ |
| Fuel and oil | 3 641 | ▼ | 3 110 | ▼ | 2 852 | ▲ | 3 862 | ▲ |
| **Reconciliation from underlying profit (loss) to net profit (loss) before tax** | | | | | | | | |
| Underlying profit (loss) | (9 683) | ▼ | (6 780) | ▲ | (12 216) | ● | (12 925) | ▼ |
| Flood damage (net of insurance recoveries) | 778 | ▲ | (3 541) | ▼ | (3 079) | ▼ | 0 | ● |
| Grant income - capital works | 15 757 | ▼ | 21 526 | ▲ | 9 260 | ▲ | 0 | ● |
| Impairment expense | (32 020) | ▲ | (42 923) | ▼ | (21 645) | ▼ | (15 427) | ▲ |
| Asset revaluation decrement | 0 | ● | 0 | ● | 0 | ▲ | ( 8 277) | ▼ |
| Net profit (loss) before tax | (25 168) | ▲ | (31 718) | ▼ | (27 680) | ▲ | (36 629) | ▲ |
| **Financial position[1]** | | | | | | | | |
| Cash | 6 422 | ▼ | 18 678 | ▼ | 21 647 | ▲ | 1 087 | ▼ |
| Intangibles | 2 404 | ▼ | 4 467 | ▼ | 6 132 | ▲ | 0 | ● |
| Property, plant and equipment | 109 863 | ▼ | 115 990 | ● | 113 924 | ● | 116 902 | ▲ |
| Deferred Grant Income | (14 168) | ▲ | (29 926) | ▼ | (21 551) | ▼ | 0 | ● |
| Net assets | 102 794 | ▼ | 112 951 | ▼ | 124 531 | ● | 121 459 | ● |
| **Tasmanian government returns/contributions** | | | | | | | | |
| Government guarantee fee | 0 | | 0 | | 17 | | 72 | |
| Equity contribution | 15 000 | | 20 400 | | 31 250 | | 29 596 | |
| **Key financial ratios** | | | | | | | | |
| Operating margin | 0.8 | ● | 0.8 | ▲ | 0.7 | ▲ | 0.8 | ▼ |
| Current ratio | 0.7 | ▼ | 0.9 | ▼ | 1.2 | ▼ | 1.4 | ▼ |

*Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year*

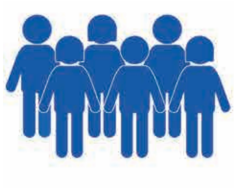
*1. 1. Assets are positive, liabilities are negative.*

# TASMANIAN WATER AND SEWERAGE CORPORATION PTY LTD

## OVERVIEW


**$36.53m**

**Underlying Profit**



**847**

**Employees (FTEs)**

**2.5%**

**Price Increase Water Usage Target Charges**


**1.1**

**Operating Margin**

**$157.76m**

**Payments for Capital Works**

**208 947**

**Connections***

** This figure has not been audited.*

## INTRODUCTION

The *Water and Sewerage Corporation Act 2012* provided for the establishment and incorporation of TasWater. Its principal activities were:

- sourcing, treatment and reliability delivery of quality drinking water to its customers
- collection, transportation, treatment and safe return of wastewater to the environment.

In undertaking these activities, TasWater aimed to:

- operate in accordance with good commercial practice
- deliver sustainable returns to its members
- deliver water and sewerage services to customers in the most cost-efficient manner.

## KEY RESULTS AND DEVELOPMENTS

| |
|---|
| TasWater recorded an Underlying profit of $36.53m for the year, a $15.91m increase from prior year, primarily due to higher charges and water usage. Higher sales revenue and customer and developer contributions resulted in a Net profit before tax of $60.99m, which increased by $24.11m. |
| Total comprehensive income increased by $16.68m mainly due to the higher Net profit before tax. |
| Property, plant and equipment increased by $121.94m primarily due to capital additions of $166.24m and contributed assets totalling $24.12m, less depreciation and amortisation of $67.09m. |

| |
|---|
| Borrowings from Tascorp increased by $64.32m to $539.22m. Ratios related to Debt to equity and Debt to total assets increased in line with the higher debt. The Cost of debt ratio decreased from 4.6% to 4.3% due to lower interest rates. Interest cover ratio improved due to strong cash flows from operations in 2017-18. |
| TasWater maintained its $30.00m return to owners in 2017-18, in line with its Corporate Plan. The returns consisted of loan guarantee fees, $2.65m, income tax equivalents, $8.86m, and dividends of $18.49m. |
| In accordance with the *Water and Sewerage Industry Act 2008*, TasWater submitted its proposed Price and Service Plan for the regulatory period 1 July 2018 to 30 June 2021 to OTTER. OTTER released its final determination during 2017-18 related to price increases over the next three years commencing 1 July 2018. |
| The Tasmanian Government, the Chief Representative of the Owners' Representatives Group and TasWater entered into a Memorandum of Understanding (MOU) to work together to further reform the water and sewerage sector (refer below for additional information). |

## AUDIT FINDINGS

In performing our audit we identified two moderate rated audit finding relating to the fair value assessment of infrastructure assets and improvements in design and implementation of internal controls over billing. One low risk item was raised over stocktake procedures.

A high risk matter raised in the previous year related to capitalisation of work-in-progress is currently being resolved, with TasWater implementing procedures to rectify the matter. Two moderate risk rated matters raised in 2016-17 were still outstanding related to the capping of long service leave and internal controls over bank reconciliations. One low risk matter was still to be rectified.

Three other audit findings from the prior year were satisfactorily resolved.

## OTHER MATTERS OF INTEREST

### Regulated water and sewerage services

OTTER was responsible for setting maximum prices for regulated water and sewerage services. Prices for regulated water and sewerage services in Tasmania were determined on the basis of a 'building block' approach. Under this approach the various costs that made up the total cost of providing water and sewerage services to customers were added together to arrive at annual revenue limits.

Pricing arrangements for the 2017-18 financial year, established under the second regulatory price and service plan, covering the period 1 July 2015 to 30 June 2018, were:

- customers whose current fixed charges were equivalent to the applicable water target tariff did not see any increases to those charges
- customers whose current fixed charges were equivalent to the applicable sewerage target tariff received an annual increase of 6% per annum
- most residential customers whose current fixed charges were below the target tariffs faced price increases capped at the greater of either 10% or $100. For larger customers, the $100 cap increased in proportion to the size of their water connection and the estimated demand those customers place on the sewerage system
- customers not on the respective target tariffs for water usage and trade waste charges were moving to target tariffs in three equal annual steps
- the target water usage charge increased by 2.5% per annum to reflect inflation.

## Environmental regulations

TasWater was subject to various environmental regulations under both Australian and Tasmanian Government legislation. A significant number of TasWater's Sewerage Treatment Plants (STPs) failed to fully comply with effluent discharge licenses set by the Environment Protection Authority. During the year, one minor fine was charged in relation to a spill arising from a pipeline failure in March 2018.

TasWater was implementing a Wastewater Management Plan agreed with the Environmental Regulator and monitored by TasWater, which outlines initiatives and implementation schedules to address the Environmental Regulator's priorities with respect to the non-compliances.

## Government control of Tasmania's water and sewerage industry

In March 2017, the Tasmanian Government announced its intention to introduce legislation to transfer all of TasWater's assets, rights, obligations and liabilities, including employees under their current terms and conditions, to a newly created Government business, which would commence operations by 1 July 2018.

Two Bills were introduced into the Tasmanian Parliament in August 2017 to implement the Government's plan, the *Water and Sewerage Tasmania Bill 2017* and the *Water and Sewerage Tasmania (Consequential and Transitional Provisions) Bill 2017.*

Both Bills failed to pass the Legislative Council and the proposed Government business was not established. Consequently, TasWater continued operations in its existing form.

## Water and sewerage reform

In May 2018, TasWater announced the signing of a MOU between the Tasmanian Government, the Chief Representative of the Owners' Representatives Group and TasWater, proposing to grant the Tasmanian Government a 10% maximum shareholding in the Corporation. The Tasmanian Government would provide an equity contribution to TasWater of $200.00m, over a ten-year period, commencing on 1 January 2019.

The equity contribution is expected to allow TasWater to reduce the rate of price increases to customers and accelerate infrastructure investment.

In the MOU, TasWater provided in-principle commitment to:

- freezing prices for regulated services for water and sewerage customers from 1 July 2019 to 30 June 2020
- develop a future price profile for regulated water and sewerage services with annual price increases for target tariffs to be no greater than 3.5% commencing from 1 July 2020
- applying any subsequent Determination by the Economic Regulator if it is below 3.5%.

The Tasmanian Government introduced legislation into the Parliament to allow the Tasmanian Government to become a shareholder of TasWater. At the time of finalising this Report, the legislation had unanimously passed both houses of Parliament. It is expected to be operational from 1 January 2019.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 20 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 20: Tasmanian Water and Sewerage Corporation Pty Ltd financial snapshot

| | 2017-18 | | 2016-17[1] | | 2015-16[1] | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Financial performance** | | | | | | | | |
| Sales revenue | 307 279 | ▲ | 288 533 | ▲ | 273 196 | ● | 274 727 | ▲ |
| **Reconciliation from underlying profit (loss) to net profit (loss) before tax** | | | | | | | | |
| Underlying profit | 36 528 | ▲ | 20 617 | ▲ | 8 401 | ▼ | 25 169 | ▼ |
| Customer and developer contributions | 24 458 | ▲ | 18 850 | ▼ | 26 923 | ▲ | 22 213 | ▲ |
| Initial recognition of assets | 0 | ● | 0 | ▼ | 4 866 | ▲ | 0 | ● |
| Asset revaluation decrement | 0 | ● | 0 | ▲ | (6 593) | ▼ | 0 | ● |
| Flood damage revenue | 0 | ▼ | 801 | ▲ | 0 | ● | 0 | ● |
| Launceston City Council settlement - prior periods | 0 | ▼ | 2 208 | ▲ | 0 | ● | 0 | ● |
| Redundancy provision on restructure | 0 | ▲ | (5 601) | ▼ | 0 | ● | 0 | ● |
| Net profit before tax | 60 986 | ▲ | 36 875 | ▲ | 33 597 | ▼ | 47 382 | ▲ |
| Asset Revaluation movement | 0 | ● | 0 | ▼ | 24 114 | ▲ | 0 | ● |
| Total comprehensive income | 43 681 | ▲ | 27 000 | ▼ | 44 867 | ▲ | 34 452 | ▲ |
| **Financial Position** | | | | | | | | |
| Property, plant and equipment | 2 148 122 | ▲ | 2 026 187 | ● | 1 982 811 | ▲ | 1 878 388 | ● |
| Borrowings | (539 218) | ▼ | (474 902) | ▼ | (430 283) | ▼ | (365 741) | ▼ |
| Net assets | 1 605 615 | ● | 1 580 434 | ● | 1 572 891 | ● | 1 548 356 | ● |
| **Returns to Council owners** | | | | | | | | |
| Guarantee fee paid | 2 646 | | 1 507 | | 2 426 | | 2 341 | |
| Income tax paid | 8 855 | | 9 036 | | 7 242 | | 5 539 | |
| Dividends paid | 18 499 | | 19 457 | | 20 332 | | 22 120 | |
| **Key financial ratios** | | | | | | | | |
| Operating margin | 1.1 | ● | 1.1 | ▲ | 1.0 | ▼ | 1.1 | ● |
| Current ratio | 0.3 | ▼ | 0.5 | ▲ | 0.4 | ● | 0.4 | ▼ |
| Return on assets | 2.6% | ▲ | 1.9% | ▲ | 1.3% | ▼ | 2.2% | ● |
| Return on equity | 2.7% | ▲ | 1.6% | ▲ | 1.5% | ▼ | 2.1% | ▲ |
| Debt to equity | 33.6% | ▼ | 30.0% | ▼ | 27.4% | ▼ | 23.6% | ▼ |
| Debt to total assets | 24.0% | ▼ | 22.1% | ▼ | 20.5% | ▼ | 18.2% | ▼ |
| Cost of debt | 4.3% | ▲ | 4.6% | ▲ | 5.1% | ▲ | 5.4% | ▲ |
| Interest cover - EBIT | 2.9 | ▲ | 2.1 | ▲ | 1.5 | ▼ | 2.4 | ▲ |

*Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year*

*1. 2015-16 and 2016-17 balances have been amended due to a prior period error adjustment.*

# TASRACING PTY LTD

## OVERVIEW

**$0.19m**

**Underlying Loss**

**67**

**Employees (FTEs)**

**Primary Racing Locations**

**1.0**

**Operating Margin**

**$24.9m**

**Prize Money and Industry Funding**

**2 851**

**Races Held***

** This figure has not been audited.*

## INTRODUCTION

Tasracing was established by the *Racing (Tasracing Pty Ltd) Act 2009* and was responsible for the regulation of racing in Tasmania under the *Racing Regulation Act 2004*.

Tasracing's objective was to provide the strategic direction, administration, oversight and commercial returns required to produce quality racing products that meet customer demands in a globally competitive industry.

## KEY RESULTS AND DEVELOPMENTS

In 2017-18, Tasracing recorded an Underlying loss of $0.19m (2016-17, $0.37m profit). Costs related to a serious workers compensation injury impacted the 2017-18 result. Tasracing's workers compensation premium was $1.84m ($0.47m).

Net assets at 30 June 2018 were $43.34m ($42.70m).

Tasracing remained dependent on government funding in 2017-18, with $30.40m in grants received and a further equity injection of $0.72m received.

No dividend was paid to the Tasmanian Government in 2017-18. An objective in the 2017-21 corporate plan is to protect and grow the racing industry and the forecast is for modest surpluses and no dividend payments to the Tasmanian Government are required.

## AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control nor did we have any high or moderate risk audit findings.

## OTHER MATTERS OF INTEREST

### TasRacing Operations

Tasracing's primary roles were:

- the ongoing development of racing and breeding industries in Tasmania under the thoroughbred, harness and greyhound racing codes
- the promotion of Tasmanian racing to local, national and international wagering markets
- race club funding
- provision of stakes
- management of racing venues and tracks
- management of race day operations.

Tasracing's responsibilities included:

- management of venues, including ensuring they were suitable for race meetings
- the provision of insurance for riders and harness drivers.

Tasracing leased race tracks at:

- Elwick and Mowbray for thoroughbred, harness and greyhound racing
- Devonport Showground for harness and greyhound racing
- Spreyton for thoroughbred racing.

There were a number of country tracks where race meetings were held which were controlled by local clubs. These included King Island, Longford, Carrick, Scottsdale, St Marys and Burnie. The clubs which operated at the major venues under each of the three codes were responsible, in consultation with Tasracing, for scheduling of races in accordance with the annual Race Day Calendar.

Stewards employed by the Office of Racing Integrity (ORI) oversaw each race meeting and were responsible for determining whether track conditions were suitable for races to proceed. ORI was part of the Department of Primary Industries, Parks, Water and Environment and was responsible for maintaining the probity and integrity of racing in the three codes.

### Financial sustainability

In 2017-18, Tasracing received $30.40m of funding from the Tasmanian Government to cover administration costs and funding for the three codes. The amount provided under the Funding Deed, which expires in 2029, is indexed annually by CPI minus 1.0%.

An amendment to the funding deed was one element of a package of measures announced by the Minister for Racing in the 2015-16 financial year to resolve Tasracing's structural funding gap issues. The amendment removed the requirement for Tasracing to maintain code funding in real terms each year. Code funding includes payments for stake money, riding and drivers' fees, breeding incentives, animal welfare and other code related payments.

In response to the Minister's 2015-16 announcement, Tasracing implemented a code funding strategy over the 2017-22 planning period to encourage participation in racing whilst remaining financially sustainable. This strategy involved a 2.0% to 4.0% increase in code funding each year. The initial impact of this was a $2.60m reduction in 2015-16. Since then prize money continued to increase, in line with the strategy, with $22.71m in prizemoney provided in 2016-17 and $24.87m in 2017-18.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 21 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 21: Tasracing Pty Ltd financial snapshot[1]

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Financial performance** | | | | | | | | |
| *Revenue* | | | | | | | | |
| Racing revenue | 16 031 | ▲ | 13 106 | ▲ | 11 879 | ▲ | 10 005 | ▲ |
| Government grant | 30 396 | ● | 30 206 | ● | 30 287 | ● | 30 238 | ● |
| *Expenditure* | | | | | | | | |
| General operating expenses | 42 625 | ▼ | 39 197 | ▼ | 37 185 | ▲ | 39 629 | ▼ |
| Depreciation and amortisation | 3 794 | ▼ | 3 470 | ▲ | 3 825 | ▼ | 3 619 | ● |
| **Reconciliation from underlying profit (loss) to net profit (loss) before tax** | | | | | | | | |
| Underlying profit (loss) | (190) | ▼ | 372 | ▼ | 640 | ▲ | (3 447) | ▲ |
| Impairment reversals (losses) | 0 | ● | 0 | ● | 0 | ▼ | 2 232 | ▲ |
| Net profit (loss) before tax | (190) | ▼ | 372 | ▼ | 640 | ▲ | (1 215) | ▼ |
| **Financial position[2]** | | | | | | | | |
| Cash | 16 275 | ● | 15 785 | ▲ | 12 372 | ▲ | 8 564 | ▲ |
| Property, plant and equipment | 40 544 | ● | 41 668 | ▼ | 44 739 | ▼ | 47 655 | ● |
| Borrowings | (9 447) | ▲ | (10 153) | ▲ | (10 827) | ▲ | (11 442) | ▼ |
| Net assets | 43 341 | ● | 42 704 | ● | 41 039 | ● | 39 993 | ● |
| **Key Financial Ratios** | | | | | | | | |
| Operating margin | 1.00 | ● | 1.01 | ● | 1.02 | ▲ | 0.92 | ▼ |
| Return on assets | 0.9% | ▼ | 2.0% | ▼ | 2.8% | ▲ | (0.3%) | ▼ |
| Return on equity | (0.4%) | ▼ | 0.9% | ▼ | 1.6% | ▲ | (3.0%) | ▼ |
| Current ratio | 3.37 | ▼ | 3.61 | ▲ | 2.86 | ▲ | 2.14 | ● |
| Interest cover ratio - EBIT | 0.74 | ▼ | 1.46 | ▼ | 1.64 | ▲ | (0.17) | ▼ |
| Debt to equity | 21.8% | ▲ | 23.8% | ▲ | 26.4% | ▲ | 28.6% | ● |

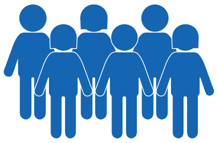
*Indicator* ▲ *improvement from prior year* ▼ *deterioration from prior year* ● *no material change from prior year*

1. *The information reported in Table 19 is not directly comparable to the equivalent table in* Auditor-General No.5 of 2017-18 Auditor-General's Report on Financial Statements of State Entities. *As a result of this change, adjustments were made to the operating margin, return on assets ratio, interest coverage ratio and debt to equity ratio previously reported.*
2. *Assets are positive, liabilities are negative.*

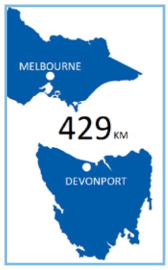
# TT-LINE COMPANY PTY LTD

## OVERVIEW

**$51.39m**
**Underlying Profit**



**435**
**Workforce employees (FTEs)**




**Operating locations**


**1.3**
**Operating margin**

**448 764**
**Passengers***

**105 208**
**Freight units transported***

** This figure has not been audited.*

## INTRODUCTION

TT-Line was established on 1 November 1993 under the *TT-Line Arrangements Act 1993* to provide a shipping and passenger service to and from Tasmania.

TT-Line's core business was the provision of passenger, vehicle and freight services between Devonport and Melbourne. Freight services comprised roll on/roll off freight in the 'speed to market' segment. These services were conducted using two ferries, Spirit of Tasmania I and Spirit of Tasmania II (Spirits I and II), which were acquired in 2002. TT-Line also operated the Edgewater Hotel in Devonport.

## KEY RESULTS AND DEVELOPMENTS

TT-Line produced a $51.39m Underlying profit in 2017-18, an increase of 69.3% on last year's result of $30.35m. Total sales were up $11.15m, or 5.5%, to $240.46m following record passenger and freight numbers.

Key impacts on the 2017-18 result were:

- decreased depreciation expense of $12.86m primarily due to revisions to the remaining useful life and estimated residual value of the vessels
- increased passenger numbers, 448 764 (2016-17, 433 925) and vehicles transported, 203 855 (197 150). Overall, passenger and vehicle revenue increased by $8.11m
- highest freight volumes on record, at 105 208 twenty-foot equivalent units (TEUs) (103 430) resulting in increased freight revenue of $3.06m
- decreased bunker fuel and oil costs of $2.66m largely due to an improvement in TT-Line's hedge position.

TT-Line's reported Net profit before tax, $63.39m, included an asset revaluation increment of $12.00m relating to the vessels, being a reversal of previous revaluation decrements charged to the Statement of Profit or Loss.

| |
|---|
| At 30 June 2018, Spirits I and II were each independently valued at €67.50m (2017, €65.00m) representing $106.33m (2017, $96.68m). The $12.00m vessel revaluation increment recognised in the Statement of Profit or Loss comprised the increased value of both vessels of $19.30m, plus the write-back of accumulated depreciation of $4.77m less the write-off of $12.07m improvements capitalised during the year. |
| In April 2018, TT-Line signed a contract with a German ship-building company for the construction of two custom-built vessels to replace the existing Spirits of Tasmania. The new vessels are due for delivery in 2021. |
| At 30 June 2018, TT-Line recorded a $19.97m hedge liability relating to foreign exchange forward contracts and a $10.58m hedge asset relating to bunker fuel hedge contracts. Changes in the fair values of effective cash flow hedges were recognised in the Statement of Other Comprehensive Income. |
| TT-Line paid a $40.00m dividend to the Tasmanian Government in December 2017. The dividend was paid into the TT-Line vessel replacement fund, an account established within the Public Account to accrue funds for the replacement of the TT-Line vessels. |
| TT-Line received an equity contribution from the Tasmanian Government of $81.00m, which represented repayment of the two $40.00m dividends previously paid together with part of the interest accrued. |

## AUDIT FINDINGS

In performing our audit we identified a high rated audit finding relating to the valuation of hedge agreements and the assessment of hedge effectiveness. One low risk finding was also raised.

## OTHER MATTERS OF INTEREST

### Passengers and Freight

| Passenger numbers | | Freight TEUs | |
|---|---|---|---|
| **448 764** | **433 925** | **105 208** | **103 430** |
| 2018 | 2017 | 2018 | 2017 |

Passenger numbers increased by 3.4%, with passenger numbers exceeding 400 000 for the third time since 2003-04. Whilst TT-Line recorded the highest freight numbers on record, significant freight volume improvement is difficult as the vessels operated at capacity for the majority of high demand periods.

### Vessel replacement

The *TT-Line Vessel Replacement Fund Act 2017*, which commenced on 8 May 2017, provided for the establishment of an account within the Public Account to accrue funds for the replacement of the TT-Line vessels.

TT-Line paid the first special dividend of $40.00m in June 2017. The second special dividend of $40.00m was paid in December 2017.

Following a competitive tender process, TT-Line signed a contract in April 2018 with Flensburger Schiffbau-Gesellschaft GmbH & Co KG, a German ship-building company, for the construction of two custom-built vessels to replace the existing Spirits of Tasmania. The new vessels are due for delivery in 2021.

The Tasmanian Government made an equity contribution of $81.00m to TT-Line to facilitate payment of the deposit due on the vessel build contract. The equity contribution represented repayment of the special dividends of $80.00m together with part of the interest accrued.

The terms of the vessel construction contract require payment in Euros. TT-Line entered into forward exchange agreements for the payments due under the vessel construction contract, in order to reduce its risk exposure relating to movements in foreign exchange rates. At 30 June 2018, TT-Line recorded a foreign exchange hedge liability of $19.97m relating to these forward exchange contracts.

## Bass Strait Passenger Vehicle Equalisation Scheme

Eligible passengers received a rebate under the Bass Strait Passenger Vehicle Equalisation Scheme. The scheme assisted the cost of sea travel across Bass Strait for passengers accompanying an eligible vehicle. The rebates were provided to drivers of an eligible passenger vehicles in the form of a reduced fare charged by TT-Line. Accordingly, TT-Line was not the recipient of the rebate, but was reimbursed on a monthly basis by the Australian Government for the total rebate provided to eligible passengers under the scheme. In 2017-18, TT-Line claimed rebates of $49.69m.

## Compliance and safety regulations

TT-Line was subject to numerous maritime compliance and safety regulations. These requirements were regulated by the Australian Maritime Safety Authority (AMSA), the national agency responsible for maritime safety and protection of the marine environment. The regulations included:

- Survey certification
- International Safety Management (ISM) Code certification.

Both vessels are subject to an annual survey. A Certificate of Survey shows that a vessel has been surveyed, and meets the standards for construction stability and safety equipment.

TT-Line was subject to annual audits by AMSA as part of the ISM Code certification process. TT-Line was issued with two certificates:

- Document of Compliance, issued to a company that has implemented a functional safety management system that complies with, and satisfies, the requirements of the ISM Code certification process
- Safety Management Certificate, issued to a Ship, operated by a company holding a valid Document of Compliance, that has implemented a shipboard safety management system that complies with, and satisfies, the requirements of the ISM Code certification process.

## Environmental regulations

TT-Line's operations were subject to various environmental regulations under both Australian and Tasmanian legislation. TT-Line's management committee was responsible for monitoring compliance with environmental regulations.

The regulations included reporting under the National Greenhouse and Energy Reporting scheme, established by the *National Greenhouse and Energy Reporting Act 2007 (Cth)*. Spirits I and II were powered by marine fuel and the consumption of fuel accounted for a significant proportion of TT-Line's total energy consumption.

## Port facilities

TT-Line's port facilities were leased from Tasports and Victorian Ports Corporation (Melbourne). The current leases are due to expire in 2021 and 2022, respectively. TT-Line also had agreements with both port corporations relating to port charges.

## Dry docking

Dry dock work is completed on each vessel biennially to maintain compliance certificates. The dry dock work served to meet survey requirements and included a major overhaul of machinery, structure and fittings. In 2017-18, dry dock works were undertaken on Spirit II and were carried out at Garden Island in Sydney. The facility is owned by the Australian Government and leased to a private operator. The current agreement expires in 2024.

In 2017-18, $9.55m of dry dock expenditure was capitalised to Spirit II and depreciated as a separate component of the vessel. Half of the dry dock expenditure is depreciated in the first year, with the remaining balance written off as part of the revaluation of the vessel at year-end.

## Cost drivers

TT-Line's primary cost drivers were employee benefit expenses and fuel.

In 2017-18, employee benefit expenses totalled $74.45m, which represented 38.5% of total expenses, excluding income tax. TT-Line was party to three enterprise agreements and subject to the *Hospitality Industry (General) Award 2010* covering the following staff:

- on-board retail and hospitality employees, medical attendants, integrated ratings, shipboard security, and shore based cleaners
- shipwrights and pursers
- selected shore based positions predominantly involved in terminal services and the telephone sales centre
- Edgewater Hotel staff.

Senior on-board officers were contracted through an external organisation that provides maritime management services.

In 2017-18, bunker fuel and oil totalled $31.30m, which represented 16.2% of total expenses, excluding income tax. TT-Line utilised bunker fuel hedge agreements to reduce its risk exposure relating to the volatility of fuel prices. At 30 June 2018, TT-Line recorded a hedge asset of $10.58m pertaining to bunker fuel agreements, which reflected the increase in fuel prices since the agreements were entered into.

## FINANCIAL ANALYSIS

### Financial snapshot 2017-18

Table 22 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 22: TT-Line Company Pty Ltd financial snapshot

| | 2017-18 | | 2016-17 | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|---|---|---|
| | $'000s | Ind | $'000s | Ind | $'000s | Ind | $'000s | Ind |
| **Financial performance** | | | | | | | | |
| ***Revenue*** | | | | | | | | |
| Revenue from provision of services and sale of goods | 240 457 | ▲ | 227 837 | ▲ | 217 324 | ▲ | 205 467 | ● |
| ***Expense*** | | | | | | | | |
| Bunker fuel and oil | 31 303 | ▲ | 33 964 | ▲ | 37 698 | ● | 37 064 | ▲ |
| Depreciation and amortisation | 7 457 | ▲ | 20 090 | ▼ | 17 535 | ▼ | 16 388 | ▼ |
| Employee benefit expenses | 74 448 | ▼ | 70 324 | ● | 68 977 | ▼ | 63 847 | ▼ |
| **Reconciliation from underlying profit (loss) to profit (loss) before tax** | | | | | | | | |
| Underlying profit | 51 392 | ▲ | 30 348 | ▲ | 18 664 | ▲ | 17 492 | ▲ |
| Ship valuation adjustment | 11 998 | ▲ | 5 222 | ▼ | 8 271 | ▲ | (15 709) | ▼ |
| Edgewater valuation adjustment | 0 | ▼ | 297 | ▲ | 0 | ▲ | (111) | ▼ |
| Net profit before tax | 63 390 | ▲ | 35 867 | ▲ | 26 935 | ▲ | 1 672 | ▼ |
| **Financial position**[1] | | | | | | | | |
| Cash and deposits | 197 901 | ▲ | 105 895 | ● | 110 425 | ▲ | 90 200 | ▲ |
| Ships at fair value | 212 665 | ▲ | 193 366 | ● | 193 836 | ▲ | 179 442 | ● |
| Deferred tax asset (net of deferred tax liability) | (3 805) | ▼ | 3 152 | ▼ | 15 866 | ▼ | 23 705 | ▲ |
| Provisions | (22 837) | ● | (22 309) | ▲ | (23 632) | ▼ | (20 610) | ● |
| Revenue received in advance | (20 180) | ▼ | (16 012) | ▲ | (16 956) | ▼ | (15 421) | ▼ |
| Net hedge assets (liabilities) | (9 369) | ▼ | 971 | ▲ | (3 876) | ▲ | (5 110) | ▼ |
| Net assets | 362 578 | ▲ | 284 470 | ● | 294 837 | ▲ | 276 577 | ● |
| **Tasmanian government returns/contributions** | | | | | | | | |
| Dividends paid | 40 000 | | 40 000 | | 0 | | 0 | |
| Equity contributions | 81 000 | | 0 | | 0 | | 0 | |
| **Key financial ratios** | | | | | | | | |
| Operating margin | 1.3 | ▲ | 1.2 | ▲ | 1.1 | ● | 1.1 | ● |
| Return on assets | 12.5% | ▲ | 8.0% | ▲ | 4.8% | ▲ | 4.6% | ▲ |
| Return on equity | 13.7% | ▲ | 8.7% | ▲ | 6.6% | ▲ | 0.4% | ▼ |
| Current ratio | 3.7 | ▲ | 2.9 | ▲ | 2.7 | ▲ | 2.5 | ▼ |

*Indicator* ▲ *improvement from prior year* ▼ *deterioration from prior year* ● *no material change from prior year*

1. *Assets are positive, liabilities are negative.*

# APPENDIX A – ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| **AEMO** | Australian Energy Market Operator |
| **AER** | Australian Energy Regulator |
| **AETV** | AETV Pty Ltd |
| **Ajilis Project** | New Enterprise Resource Planning System |
| **AMSA** | Australian Maritime Safety Authority |
| **ARENA** | Australian Renewable Energy Agency |
| **Aurora Energy** | Aurora Energy Pty Ltd |
| **CSIRO** | Commonwealth Scientific and Industrial Research Organisation |
| **CSO** | Community Service Obligations |
| **EBIT** | Earnings before interest and tax |
| **Ezikey** | Ezikey Group Pty Ltd |
| **HT Wind Operations** | HT Wind Operations Pty Ltd |
| **Hydro** | Hydro-Electric Corporation |
| **ISM** | International Safety Management |
| **kV** | kilovolts |
| **LGC** | Large-scale generation certificate |
| **MAIB** | Motor Accidents Insurance Board |
| **MCH Fund** | Mersey Community Hospital Fund |
| **Metro** | Metro Tasmania Pty Ltd |
| **Metro Coaches** | Metro Coaches (Tas) Pty Ltd |
| **ML** | Megalitre |
| **MLFA** | Master Loan Facility Agreement |
| **MOU** | Memorandum of Understanding |
| **MPDC** | Macquarie Point Development Corporation |
| **MWh** | Megawatt hours |
| **NEM** | National Energy Market |
| **ORI** | Office of Racing Integrity |
| **OTTER** | Office of the Tasmanian Economic Regulator |
| **PAHSMA** | Port Arthur Historic Site Management Authority |
| **PFT** | Private Forests Tasmania |
| **PT** | Public Trustee |
| **RAB** | Regulatory Asset Base |
| **Spirits I and II** | Spirit of Tasmania I and Spirit of Tasmania II |
| **STP** | Sewerage Treatment Plant |
| **STT** | Sustainable Timber Tasmania |

| | |
|---|---|
| **Tascorp** | Tasmanian Public Finance Corporation |
| **Tasmanian Irrigation** | Tasmanian Irrigation Pty Ltd |
| **TasNetworks** | Tasmanian Networks Pty Ltd |
| **TasPorts** | Tasmanian Ports Corporation Pty Ltd |
| **Tasracing** | Tasracing Pty Ltd |
| **TasRail** | Tasmanian Railway Pty Ltd |
| **TasWater** | Tasmanian Water and Sewerage Corporation Pty Ltd |
| **TCFA** | Tasmanian Community Forest Agreement |
| **TEU** | twenty-foot equivalent unit |
| **TFRRP** | Tasmanian Freight Rail Revitalisation Program |
| **the Act** | *Public Trustee Act 1930* |
| **Treasury** | Department of Treasury and Finance |
| **TT-Line** | TT-Line Company Pty Ltd |
| **VR Fund** | TT-Line Vessel Replacement Fund |
| **WIP** | Work-in-progress |

*Page left intentionally blank.*

# AUDIT MANDATE AND STANDARDS APPLIED

## Mandate

Section 17(1) of the *Audit Act 2008* states that:

> 'An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.'

Under the provisions of section 18, the Auditor-General:

'(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1).'

Under the provisions of section 19, the Auditor-General:

'(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards

(2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity's appropriate Minister and provide a copy to the relevant accountable authority.'

## Standards Applied

Section 31 specifies that:

'The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

(a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and

(b) the Australian Auditing and Assurance Standards.'

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.

Tasmanian
Audit Office

Cover photo: Flow Mountain Bike


| | | | |
|---|---|---|---|
| **Phone** | (03) 6173 0900 | **Address** | Level 8, 144 Macquarie Street, Hobart |
| **Fax** | (03) 6173 0999 | **Postal Address** | GPO Box 851, Hobart 7001 |
| **email** | admin@audit.tas.gov.au | **Office Hours** | 9am to 5pm Monday to Friday |
| **Web** | www.audit.tas.gov.au | | |

**Launceston Office**

| | | | |
|---|---|---|---|
| **Phone** | (03) 6173 0971 | **Address** | 2nd Floor, Henty House<br>1 Civic Square, Launceston |