

DEPARTMENT OF INFRASTRUCTURE, ENERGY AND RESOURCES

INTRODUCTION

The Department of Infrastructure, Energy and Resources (the Department) brings together the significant infrastructure activities of the State Government.

Its focus is on achieving the following major outcomes:

- Facilitation of a safe, accessible and equitable transport system that enhances economic development;
- Promotion of reliable, efficient and safe energy systems;
- Facilitation of mineral exploration and land management for Tasmanian land and offshore waters; and
- Maintenance of probity and integrity in the racing industry.

The Department is predominantly funded by Parliamentary appropriations. Other funding sources include direct Commonwealth grants, industry grants and miscellaneous recoveries. The Forest Practices Authority is funded by industry contributions.

The Department's financial report encompasses all funds through which it controls resources to carry on its functions and includes the activities of the Forest Practices Authority and the WorkCover Tasmania Board (until 1 April 2006) as administered entities.

The Responsible Ministers are the Minister for Infrastructure, the Minister for Economic Development and Resources, the Minister for Energy and the Minister for Racing.

AUDIT OF THE 2006-07 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2007, with final amended statements received on 10 October 2007. An unqualified audit report was issued on 15 October 2007.

FINANCIAL RESULTS

INCOME STATEMENT

	2006-07	2006-07	2005-06	2004-05
	Budget	Actual	Actual	Actual
	\$'000	\$'000	\$'000	\$'000
Revenue from government - recurrent	97 208	97 929	94 125	91 277
Revenue from government - capital	104 472	42 935	39 420	28 990
Revenue from Special Capital Investment Funds	23 600	6 219	4 349	2 329
Grants	999	3 079	2 134	974
Sales of goods and services	425	1 222	616	1 536
Fines and regulatory fees	224	441	1 000	262
Other revenue	208	5 180	3 094	1 573
Total Operating Income	' 227 136	' 157 005	' 144 738	' 126 941
Employee entitlements	30 751	31 320	35 382	33 011
Depreciation and amortisation	79 228	78 949	75 713	79 560
Grants and subsidies	48 452	52 473	49 181	46 163
Supplies and consumables	58 052	68 171	55 417	42 722
Loss (profit) on sale of assets	(4)	392	603	60
Written down of assets	0	371	14 842	155
Other expenses	2 363	1 982	2 223	2 173
Total Operating Expenses	' 218 842	' 233 658	' 233 361	' 203 844
Net Operating Surplus (Deficit) before;	' 8 294	' (76 653)	' (88 623)	' (76 903)
Revenue from government - capital	0	51 590	44 218	56 700
Revenue from Special Capital Investments Funds - c	0	11 036	16 935	5 064
Commonwealth Grant - East Tamar Highway	0	0	60 000	0
Non-operating revenue	0	0	637	34 212
Net Surplus (Deficit) Attributable to the State	' 8 294	' (14 027)	' 33 167	' 19 073

Comment

The Department has consistently reported operating deficits in the three years under review. The primary reason for the deficits is that the Department is funded on a cash basis, which excludes depreciation or increases in employment provisions. The operating deficits are funded to a certain extent by significant capital grant and Special Capital Investment Funds (SCIF) funding. The capital funding is used to facilitate both asset replacement and asset maintenance. The above analysis has separated capital funding expended on asset replacement and recorded it below operating activities.

Revenue from government – capital and SCIF used in asset maintenance are recorded as operating income. This enables an assessment of the Department's management of operating revenues and expenditures.

Revenues from government – recurrent were in line with budget and increased by \$6.652m (or 7.29%) from 2004-05. Over the same period, total Revenues from government – capital increased by \$8.835m (10.31%). However, over the same period total operating expenses increased by \$29.814m (14.63%).

Significant changes in operating expenses over the three years under review include:

- Employee entitlements decreased in 2006-07 by \$4.062m (11.48%) due to the transfer of employees, when the Workplace Standards Authority was moved to the Department of Justice;
- Grants and subsidies increased by \$6.310m (13.67%) due to an increase in the Community Service Obligation payment to Metro Tasmania Pty Ltd (Metro) and payments to school bus operators. The increases were driven by inflation and linked to the Regular Passenger Transport Index (RPTI). The RPTI is contained within the contracts for Metro, School Contract Bus Services and Bruny Island Ferry Service; and
- Supplies and consumables increased by \$25.190m (58.96%) and the expense for 2006-07, \$68.171m was \$10.119m above the Budget estimate. The increase was principally the result of increased spending on roads following the Government's election commitments and expenditure relating to maintenance of rail infrastructure assets taken up during the year. Further information on the rail asset take-up is provided under the Balance Sheet analysis.

The Write-down of assets in 2005-06, \$14.842m, was the written-down value of replaced roads resulting principally from the construction of the Ulverstone by-pass.

Capital funding from revenue from government – capital and SCIF funding expended on capital projects in the three years totals \$185.543m, with depreciation and amortisation totalling \$234.222m in the same period. This represents a deficit of \$48.649m and indicates the Department may not be investing sufficiently in maintaining its infrastructure base. However, this indicator does not take into account the impact of the Department's investment in maintenance which may counterbalance this shortfall. It is also noted that in June 2006 the Department received Commonwealth funding of \$60.000m for the redevelopment of the East Tamar Highway. No significant expenditure in relation to this grant had been incurred to 30 June 2007.

In 2004-05, Non-operating revenue totalled \$34.212m when the Department took over the activities of the ABT Railway Ministerial Corporation Pty Ltd resulting the consolidation of its activities into the Department's financial statements.

BALANCE SHEET

	2006-07 Budget \$'000	2006-07 Actual \$'000	2005-06 Actual \$'000	2004-05 Actual \$'000
<i>Financial Assets</i>				
Cash and deposits	56 625	71 207	66 495	3 477
Receivables	1 496	1 123	827	1 497
Other financial assets	4 010	5 866	4 660	4 036
<i>Non-financial Assets</i>				
Assets held for sale	0	10	121	0
Plant and equipment	11 659	12 862	11 780	12 527
Land and buildings	14 429	20 801	14 277	14 338
Road infrastructure	3 484 025	3 840 916	3 786 477	3 487 052
Other infrastructure	31 969	36 702	32 413	33 451
Intangibles	9 538	8 770	5 503	2 754
Total Assets	3 613 751	3 998 257	3 922 553	3 559 132
<i>Liabilities</i>				
Payables	1 232	7 277	2 501	1 807
Employee entitlements	8 536	8 563	8 179	9 504
Other liabilities	488	3 993	1 353	1 032
Total Liabilities	10 256	19 833	12 033	12 343
Comment				
Net Assets	3 603 495	3 978 424	3 910 520	3 546 789
Reserves	1 273 609	1 345 516	1 263 585	933 021
Accumulated funds	2 329 886	2 632 908	2 646 935	2 613 768
Total Equity	3 603 495	3 978 424	3 910 520	3 546 789

During the period under review the Department's equity increased by \$67.904m primarily due to \$81.931m in asset revaluation increments. The Department revalues road, land under roads and bridge infrastructure on an annual basis through full revaluations or by applying indices.

The movements in the cash and deposits balances are explained under the Cash Position analysis later in this Chapter.

As illustrated in the Balance Sheet, the Department's assets are dominated by road infrastructure assets, totalling \$3.840bn (or 96.6% of total assets).

In 2005-06, Road infrastructure increased by \$299.425m due to the revaluation of the asset, \$340.243m and capital improvements, \$57.246m, offset by assets written off during the year, \$14.811m, and depreciation expenses of \$83.253m. The increase in 2006-07 of \$54.439m was primarily the result of capital improvements, \$61.208m, and revaluation of roads, \$98.734m, offset by depreciation, \$76.497m, and devaluation of bridges, \$59.985m. The budget estimate was made in May 2005 and could not anticipate the increase.

The devaluation of bridges is primarily due to the valuation of the major Tasmanian bridges (ie. Tasman, Bowen, Bridgewater and Batman Bridges). In undertaking the valuation, it was found that modern construction costs of larger bridges have fallen relative to construction costs of bridges in general. The Department has been indexing all its bridge values since 1996, which overstated the value of major bridges, which was found in the 2006-07 revaluation.

During 2006-07, the Tasmanian Government acquired rail infrastructure assets from Pacific National for the nominal amount of \$1. The rail infrastructure and its management, assessment and oversight is presently the responsibility of the Department. However, due to the geographical nature of the assets acquired and uncertainty over their general condition and repair, the Department could not establish a fair value for the assets. Consequently, the assets were recorded at their nominal amount with the Department to review their fair value in 2007-08.

Intangibles represent the costs associated with the redevelopment of the Motor Registry System (MRS) project and from 2006-07 the Roads Information Management System (RIMS) project. The RIMS project is being funded from SCIF and the MRS project from Appropriation.

The increase in Payables in 2006-07, \$4.516m was primarily due to roads program invoices and payments to bus drivers held over to July 2007. These matters were not anticipated when the budget estimates were prepared.

The increase in Other liabilities in 2006-07 was principally due to the carry-forwards of unspent Appropriated Funds noted previously. The

carry-forwards were not anticipated when the budget estimates were prepared.

CASH POSITION

	2006-07	2006-07	2005-06	2004-05
	Budget	Actual	Actual	Actual
	\$'000	\$'000	\$'000	\$'000
Receipts from government - recurrent	96 208	97 929	94 125	91 160
Receipts from government - capital	0	45 122	39 719	29 608
Revenue from Special Capital Investment Funds	0	6 219	4 348	2 329
Grants	999	2 713	2 277	584
Sales of goods and services	649	1 127	765	1 598
Fines and regulatory fees	0	443	998	261
GST receipts	10 398	16 153	16 093	13 326
Other cash receipts	23 808	5 233	3 307	1 726
Payments to employees	(30 619)	(30 948)	(34 704)	(36 174)
Grants and subsidies	0	(50 456)	(49 350)	(46 280)
Payments to suppliers	(108 867)	(64 882)	(55 403)	(39 954)
GST payments	(10 399)	(17 331)	(15 734)	(13 662)
Other cash payments	0	(1 965)	(3 405)	(1 257)
Cash from (used in) operations	(17 823)	9 357	3 036	3 265
Receipts from government - capital	104 472	51 591	44 218	56 700
Commonwealth Grant - East Tamar Highway	0	0	60 000	0
Revenue from Special Capital Investment Funds	0	11 036	16 935	5 064
Proceeds from disposal of assets	4	3	5	1
Payments for acquisition of assets	(92 671)	(67 275)	(61 176)	(63 791)
Cash from (used in) investing activities	11 805	(4 645)	59 982	(2 026)
Comment				
Net increase/(decrease) in cash	(6 018)	4 712	63 018	1 239
Cash at the beginning of the year	62 643	66 495	3 477	2 238
Cash at end of the year	56 625	71 207	66 495	3 477

The Cash and deposits balance increased by \$68.969m over the three year period under review principally as a result of the \$60.000m grant funding relating to the redevelopment of the East Tamar Highway, as noted in the Income Statement section.

Excluding the \$60.000m grant reveals the cash position has increased by \$8.969m over the period, with Cash from operations totalling \$15.568m offset by net cash used in investing activities of \$6.689m. The Department has paid \$192.242m over the period for the acquisition on assets, which has been funded predominately by capital appropriations, SCIF and grant funding of \$185.553m (excludes \$60.000m grant).

The difference between the budget estimate and actual amount of Cash and deposits was due to lower than expected expenditure of East Tamar Highway funds and the carry-forward of unspent Appropriated Funds for election commitments in accordance with Section 8A(2) of the *Public Accounts Act 1986*.

FINANCIAL ANALYSIS

	Bench Mark	2006-07	2005-06	2004-05
Financial Performance				
Result from operations (\$'000s)		(76 653)	(88 623)	(76 903)
Operating margin	>1.0	0.67	0.62	0.62
Financial Management				
Debt collection	30 days	33	32	107
Creditor turnover	30 days	27	8	11
Other Information				
Self-sufficiency (%)		4	3	2
Government funding (%)		84	75	73
Staff numbers (FTE)		503	512	618
Average staff costs (\$'000s)		62	69	53
Average leave balance per FTE (\$'000s)		17	16	15

Comment

An operating margin well below one in all three years under review is consistent with observations made under the Income Statement section, relating to the Department not being funded for depreciation or increases in employee entitlements. Because depreciation is a significant expense, it is expected that a deficit operating result and poor operating margin will continue.

The unusually high Debt collection ratio for 2004-05 was due to invoices totalling \$0.802m being raised in June 2005, but not settled until August and September 2005.

The Self-sufficiency ratio shows the level of independent funding that the Department generated for use in achievement of its objectives. This

increased slightly over the three years under review. The improvement is partly attributable to an increase in interest revenue for the year, \$3.510m, (\$0.046m, 2005-06) due to the Department holding \$60.000m in grant funds.

The Government funding ratio is below 100%, which represents a break-even position that is common to most departments. The ratio has been impacted by the significant operating deficits incurred by the Department primarily due to depreciation not being funded.

Average staff costs rose over the three year period mainly due to a 3.5% increase in wages as a result of the SSWA. The average costs in 2005-06 have been impacted by the transfer of 124 employees from Workplace Standards Tasmania (WST). Of the total Employee entitlements expense in 2005-06, \$35.382m (see Income Statement), \$5.867m related to WST in the calculation of average staff costs. This left staff costs of \$29.515m which, if divided by 512 FTEs would have resulted in an average staff cost of \$0.058m per FTE.

ADDITIONAL FINANCIAL INFORMATION

Administered Transactions

Administered transactions are those that the Department manages on behalf of the Government. These transactions are not shown in the Department's Income Statement, Balance Sheet or Cash Flow Statement. Transactions administered by the Department include the Forest Practices Authority and the WorkCover Tasmania Board (until 1 April 2006).

Administered Income and Expenses

	2006-07	2006-07	2005-06	2004-05
	Budget	Actual	Actual	Actual
	\$'000	\$'000	\$'000	\$'000
Revenue from government - recurrent	19 389	17 922	16 586	15 036
Revenue from government - capital	0	600	850	0
Grants	39 721	32 569	34 446	37 488
Sales of goods and services	23 359	41 513	28 702	22 306
Fines and regulatory fees	31 599	36 388	32 191	31 516
Other revenue	2 009	618	102	240
Total Revenue	116 077	129 610	112 877	106 586
Employee entitlements	3 149	1 634	3 227	2 893
Depreciation and amortisation	1	4	9	12
Grants and subsidies	17 508	18 040	17 127	16 124
Supplies and consumables	639	575	1 956	2 872
Resources provided free of charge	0	0	2 776	0
Other expenses	206	106	330	0
Total Expenses	21 503	20 359	25 425	21 901
Net Surplus	94 574	109 251	87 452	84 685
Transfer to Consolidated Fund	(94 690)	(105 876)	(87 678)	(84 901)
Equity interests	0	0	0	(264)
Net Surplus (Deficit)	(116)	3 375	(226)	(480)

Comment

In comparing actual to budget for 2006-07, major variances relate to:

- Grants received were \$7.152m less than the budget estimate that included expected increased funding from the Australian Government for National Roads, which was subsequently revised downward by \$4.000m; and
- Other revenue included anticipated revenue from access to the Tasmanian Rail network which did not eventuate.

The increase in Sales of goods and services in 2006-07 was principally due to increased Mineral Royalties due to strong commodity prices, which also caused the difference compared to the budget estimate.

The increase in Fines and regulatory fees in 2006-07 was due to increases of \$1.905m in Public vehicle licensing; \$1.086m in Driver licensing; and \$1.231m in Vehicle registration, which exceeded the budget estimate.

Major Grants and subsidies expended in 2006-07 included:

- School bus operators route service, \$8.132m;

- Transport access scheme, \$2.687m;
- National Road Transport Commission, local government contribution, \$1.500m;
- Tasmanian racing assistance, \$1.060m; and
- Contribution to Marine and Safety Tasmania, \$0.800m.

The amount of Resources provided free of charge in 2005-06, \$2.776m, was the result of a restructuring of administrative arrangements in which the Department relinquished its responsibilities for the activities of Workplace Standards Tasmania and WorkCover Tasmania effective from 1 April 2006.

Transfer to Consolidated Fund was higher in 2006-07 and exceeded the budget estimate due to larger revenue collections, particularly Minerals Royalties, Public vehicle licensing, Vehicle registration and Driver licensing, noted previously.

Administered Assets and Liabilities

	2006-07	2006-07	2005-06	2004-05
	Budget	Actual	Actual	Actual
	\$'000	\$'000	\$'000	\$'000
<i>Financial Assets</i>				
Cash	1 817	3 258	1 935	3 543
Receivables	3 262	3 120	2 933	3 262
Other financial assets	67	2 747	82	67
<i>Non-financial Assets</i>				
Property, plant and equipment	11	2	6	19
Total Assets	' 5 157 '	' 9 127 '	' 4 956 '	' 6 891 '
<i>Liabilities</i>				
Payables	2 063	705	1 740	2 935
Employee entitlements	375	356	293	607
Other liabilities	321	1 889	121	321
Total Liabilities	' 2 759 '	' 2 950 '	' 2 154 '	' 3 863 '
Net Assets	' 2 398 '	' 6 177 '	' 2 802 '	' 3 028 '
Accumulated funds	2 398	6 177	2 802	3 028
Total Equity	' 2 398 '	' 6 177 '	' 2 802 '	' 3 028 '

Comment

The changes in Total Equity are attributable to the Net surpluses (deficits) recorded.

Decreases in Cash, Receivables, Payables, Employee entitlements and Other liabilities in 2005-06 were caused by to the transfer of WST and the WorkCover Tasmania Board, as noted previously.

Until 2005-06 Other financial assets consisted solely of the market value of shares held by the Minister in Murchison United Ltd. The amount in 2006-07 included accrued revenue, primarily \$2.166m, received from Australian Bulk Minerals.

Other liabilities increased by \$1.768m from 2006-07, which reflects a change in the Department's disclosure of monies held in trust. In prior years the balance was offset the cash balance. In 2006-07, the disclosure has been made on a gross basis.

Administered Cash Flows

	2006-07	2006-07	2005-06	2004-05
	Budget	Actual	Actual	Actual
	\$'000	\$'000	\$'000	\$'000
Receipts from government - recurrent	19 189	17 922	16 386	15 036
Receipts from government - capital	0	600	850	0
Grants	39 721	32 587	33 335	31 623
Sales of goods and services	23 359	39 033	28 875	22 291
Fines and regulatory fees	31 599	36 242	32 183	31 563
Other receipts	2 008	975	104	6 581
Payments to employees	(3 138)	(1 571)	(3 293)	(2 880)
Grants and subsidies	(17 508)	(17 344)	(17 110)	0
Other cash payments	(845)	(1 245)	(5 260)	(19 324)
Transfers to the Consolidated Fund	(94 690)	(105 876)	(87 678)	(84 901)
Cash (used in) operating activities	(305)	1 323	(1 608)	(11)
Cash (used in) investing activities	0	0	0	(13)
Net increase (decrease) in cash	(305)	1 323	(1 608)	(24)
Cash at the beginning of the year	2 122	1 935	3 543	3 567
Cash at end of the year	1 817	3 258	1 935	3 543

Comment

Reasons for changes in cash flow items have been discussed previously in the Administered Income and Expense section.

Reasons for variances between budget estimates and actual amounts in the Cash Flow Statement are the same as those noted in the Administered Income and Expenses section.

OVERALL COMMENT

The 2006-07 audit was completed with satisfactory results.