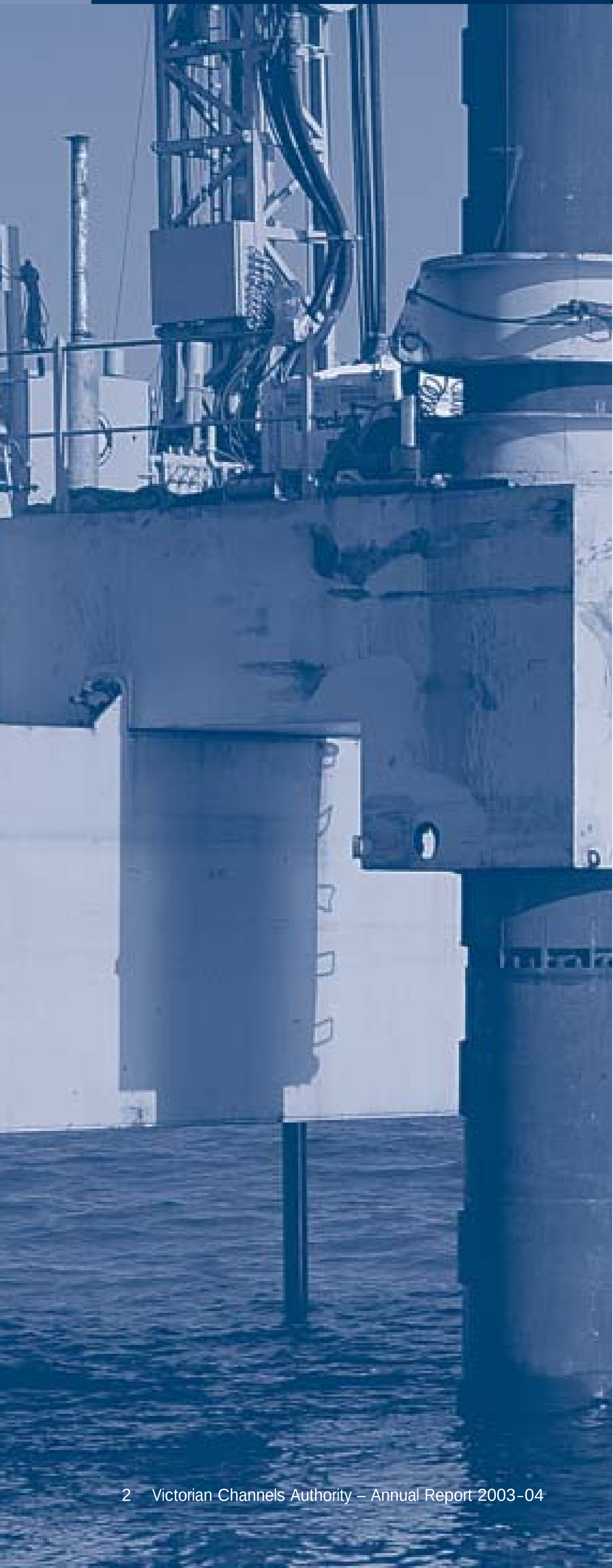
Annual Report 2003-04

VICTORIAN CHANNELS AUTHORITY

Contents



Our Vision

To be the provider of a world-class level of service in channel management for Victoria.

Our Mission

To provide safe marine services, for the betterment of Victoria, by meeting our customers' and stakeholders' current and future needs in harmony with the environment.

Scope of Operations

The Victorian Channels Authority (VCA) was established under the Port Services Act 1995 (PSA) to manage channels in port waters. It was incorporated on 1st January 1996 and commenced operations on 1st March 1996. The VCA was abolished pursuant to Section 181 of the PSA 1995 on 31st March 2004.

The VCA was responsible for the commercial navigation channels in Victorian port waters. It owned associated navigation aids and other plant and equipment relevant to its operations.

The VCA's pricing for the use of channels and related services were regulated under a pricing order administered by the Regulator General in accordance with Section 50 of the PSA. The current pricing order will operate until 30th June 2005.

The VCA had approximately 70 customers, being agents and owners of vessels who used its services. These owners and agents were charged according to the gross tonnage (GT) of their vessels for the use of channels, navigation aids, shipping control and other associated services. Income was derived almost entirely from this charge.

The VCA reported to the Treasurer in respect of shareholder matters and to the Minister for Transport with respect to industry policy and regulation. VCA had a five-member Board of Directors and an establishment of 52 employees.

Chairperson's Report

This is the last annual report of the operations of the Victorian Channels Authority (VCA) following its abolition on 31 March 2004 pursuant to Section 181 of the Port Services Act.

Legislation to create the new combined port authority for Melbourne, the Port of Melbourne Corporation (PoMC) incorporating the land and water elements of port operations, came into effect on 1 July 2003 with the result that the VCA and the Melbourne Port Corporation have become one corporate entity with responsibility for management of the Port of Melbourne and shipping within Port Phillip and its approaches.

Responsibility for the Geelong channels, and the approaches to ports of Portland and Hastings has been assigned to a new entity, the Victorian Regional Channels Authority (VRCA), which was established on 1 April 2004. This new entity is now operating from Geelong with an establishment of six staff and a board consisting of three members.

Three of the five VCA Directors as at 31 March 2004, continue as directors of the PoMC whilst the remaining directors have been appointed as directors of the VRCA. All VCA staff were transferred to the PoMC on 3 November 2003. A number of staff were seconded back to VCA pending its abolition and the creation of the VRCA.

All assets of the VCA with the exception of those assets required for the ongoing management of the ports of Geelong, Hastings and Portland, were transferred to the PoMC on 3 November 2003.

All of the functions previously performed by VCA are being met by PoMC and the VRCA.

All organisational transitions result in some level of disruption. I am confident in saying that VCA staff managed their part of the reorganisation with utmost efficiency, while remaining fully focussed on delivering first class shipping services to our customers. In addition to the reorganisation and performance of normal duties they continued to drive forward the channel deepening project, one of the largest infrastructure projects to be contemplated in Victoria in recent years.

I thank management and staff of the VCA for contributing so effectively to a safe maritime environment and expect that they will continue to work with the same dedication within the new entities of the PoMC and the VRCA. I also thank my fellow directors for the wisdom, humour, and dedication they devoted to the performance of their duties.

Mary Anne Hartley
Chairperson

Report of the Acting Chief Executive Officer

For the nine months ended 31 March 2004, the VCA reported a before tax profit of $0.5 million. This result compares to the full year pre tax loss of $1.6 million recorded in 2002-03.

VCA's improved position for the nine months ended 31 March 2003 was substantially affected by the transfer of administration of the channel deepening project to the Port of Melbourne Corporation in July 2003. The cost of this project in 2002-03 amounted to $5.8 million and this was fully funded by the VCA.

Results for the nine months ended 31 March 2004 were adversely affected by transition costs of $0.9 million arising from the transfer for management of Melbourne channels to PoMC and the establishment of the VRCA.

The VCA came into existence on 1 March 1996 with responsibility for managing shipping channels in Victoria on a safe, equitable and efficient manner. The VCA believes it has discharged its role in accordance with its statutory responsibilities and has provided services in a cost effective manner. In addition, projects such as the Shipping Management Centre at South Wharf, deepening of the Channels into Geelong and the management of channel deepening studies for the Port of Melbourne, all represent part of VCA's legacy.

As advised in the Chairpersons report, responsibility for the ongoing management of the channels in the Port of Geelong and the overseeing of the management of channels in the ports of Hastings and Portland remained with the VCA until it abolition on 31st March 2004. VCA's revenue for that period included four months of income from the management of Melbourne channels and nine months from the Geelong channels.

All staff of the VCA transferred to the PoMC on the 3rd November 2003. A small number of PoMC staff were subsequently seconded to the VCA to maintain operations in Geelong and to oversee the establishment of the VRCA and the winding up of the VCA.

During this period, service standards within the port waters of Melbourne and Geelong were maintained at high levels.

I wish to thank the directors, management and staff of the VCA for their dedication and to the shipping industry in the ports of Melbourne, Geelong, Hastings and Portland for their support since commencing operations on 1st March 1996.

Ian Scott
Acting Chief Executive Officer

Financial Management

Total turnover for VCA for the nine months ended 31 March 2004, when the VCA ceased to be a reporting entity was $9.8 million.

The authority recorded a profit before tax of $0.5 million.

Operating expenses

Although costs of managing and funding the channel deepening project for Melbourne Channels was not incurred by the VCA in the current year, having being transferred to the PoMC effective, 1 July 2003, costs associated with the implementation of Government's port reform policy, were significant and 'one off' costs.

Transfer of assets

All assets and liabilities of the VCA, except those necessary for the ongoing management of the Geelong channels, were transferred to the PoMC on the 3 November 2003. Assets transferred to PoMC included the Ships Management Centre ($6.9 million) and the Melbourne channels and associated navigation aids ($72.1 million). A cash transfer of $9.0 million was also paid to PoMC in consideration of liabilities transferred including staff provisions. The net value of assets transferred was $95.5 million.

Operating Performance

Gross tonnage handled

Total gross tonnage of ships entering the Port of Melbourne for the four months July 2003 to October 2003 inclusive, was 24.2 million gross tons and 1,086 ship visits. This compared to 23.2 million gross tons and 1,052 ship visits for the same period in 2002.

Total gross tonnage of ships entering the Port of Geelong for the nine months ended 31st March 2003 was 5.4 million gross tons representing 198 ship visits. This compares to 4.8 million gross tons and 191 ship visits for the same period to 31st March 2002.

Channel Deepening

Responsibility for the administration of the Channel Deepening Project was formally transferred to the Port of Melbourne Corporation from the 1 July 2003. Costs incurred in 2002-03 by the VCA on studies associated with the project, amounted to $5.8 million.

UKC

During the year the VCA continued to investigate the feasibility of using a real time underkeel clearance system in order to reduce reliance on dredging. This method identifies periods when tide and swell conditions are favourable for ships to travel safely using deeper draught.

Work on the project continued to be managed by the VCA until 3 November 2003 and is now progressing under the auspices of the PoMC and the VRCA in respect of Geelong channels.

Maintenance dredging

Under the provisions of the PSA the VCA had an ongoing responsibility for the safety of commercial channels by ensuring that channel depths were maintained. This required regular maintenance dredging of channels under its control. During the period some minor maintenance dredging was undertaken in the ports of Melbourne and Geelong. Responsibility for maintenance dredging in Melbourne port waters transferred to the PoMC on 3rd November 2003 but continued to be administered by the VCA for Geelong port waters until 31 March 2003. The VRCA assumed responsibility for the dredging of Geelong port waters from 1 April 2004.

Shipping Management

With the transfer of responsibility for the management of shipping movements in the port waters of Melbourne from 3 November 2003, the Ships Management Centre at South Wharf and the Lonsdale Lighthouse facility were transferred to the PoMC. Ships management in the Port of Geelong continued to be managed by marine controllers employed by TOLL Geelong Port under contract to VCA until 31 March 2004.

Hydrographic Survey

Staff and assets of the Hydrographic Survey unit of the VCA were transferred to the PoMC on 3 November 2003. Hydrographic services for Geelong continued to be provided to VCA under contract from PoMC.

Safety and the Environment

Investigating oil spills

Until 3 November 2003, the VCA was the lead agency in the Port Phillip region for combating pollution of the sea by oil. It was responsible for investigating, coordinating response to and treating all spills occurring in the region and also for training personnel from all agencies involved in the treatment of oil spills. This responsibility ceased with the transfer of staff and assets to the PoMC.

Port security

In the last 9 months the VCA has focussed closely on port security in order to meet its obligation to achieve a Federal government approved security plan by 1 July 2004. Similar plans are being prepared by ports around the world in order to achieve international standards and uniform procedures for security at ports.

Additional Information

Trading Results

The net profit of the Authority for the nine months was $232,408 (2002-03: loss of $1,389,164) after deducting income tax expense of $278,781 (2002-03: benefit of $241,699).

Reporting

The Authority reported to the Minister for Transport, The Hon. Peter Batchelor MLA.

Events Subsequent to Balance Date

Recent amendments to the Port Services Act provided for the cessation of the Victorian Channels Authority with effect from 31 March 2004. The responsibility for the management of Channels other than Melbourne Channels transferred to the newly constituted Victorian Regional Channels Authority on the 1 April 2004.

Directors' Benefits

No Director of the VCA has, since the end of the previous financial period, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by directors shown in the financial statements) by reason of a contract made by the VCA, a controlled entity or a related body corporate with the Director or with a firm of which the Director has a substantial financial interest.

Other than the Directors fees paid to Midlothian Enterprises Pty Ltd on behalf of Dr Meredith Doig, there were no other transactions between the VCA, responsible persons and related entities.

Information on Directors

Mary Anne Hartley (Chairperson) is a Company Director and barrister-at-law with previous experience as a maritime lawyer in a large national law firm. She is also a Director of the Port of Melbourne Corporation and Melbourne Water. Before joining the Victorian Bar, she had professional experience advising major public and private hospitals on risk management issues, and commercial and employment problems. She has a background as a registered psychologist with experience in human resources and conflict resolution.

Michael Dowling (Deputy Chairperson) is a Geelong based Chartered Accountant with more than 30 years professional and commercial experience including being the managing partner of a firm of chartered accountants. His commercial experience has included being a Director and Company Secretary of companies which operate in the Australian and international shipping industries. He currently operates a corporate consulting business and is a Director of companies in the health insurance and mortgage lending fields. Michael is a member of Deakin University Council. In addition to his commercial experience, he has been an office holder in several community based organisations covering such diverse fields as chamber of commerce, disability services, education, health, youth services and the visual arts.

Alan Taylor OAM is a Chartered Engineer with 47 years experience in the marine transport industry, nationally and internationally. He sailed as the chief engineer officer on ships and has spent the last 36 years in shore management positions involving ship operations, repair and maintenance, technical design and construction and salvage of ships. He has extensive experience in marine environment issues such as ballast water as well as corporate risk and crisis management. His contribution to the maritime industry has been recognised by the award of the Medal of the Order of Australia for service to maritime engineering and the protection of the marine environment.

Dr Meredith Doig is Managing Director of a consulting firm specialising in organisation effectiveness and the realisation of human and organisational potential. With more than 26 years senior executive experience in the automotive, resources, financial services and consulting industries, she is now a professional Company Director and management consultant. She has been an active contributor to a range of non-government organisations and educational institutions. She is a member of the Council of the University of Melbourne and chairs the Human Resources Committee.

Neil Edwards is the Executive Chairman of the Port of Melbourne Corporation. Previous to this appointment, Neil was Secretary of the Department of Innovation, Industry and Regional Development, the lead Victorian Government economic development agency. He has extensive experience in economic development, social and cultural policy and corporate management. Neil has held senior executive positions within the Commonwealth Public Service, most recently as First Assistant Secretary in the then Department of Industry, Science and Tourism. Neil has also held a number of senior positions within the Department of Prime Minister and Cabinet and with the Government of Canada.

Directors' Meetings

The number of Directors' meetings held in the period each Director held office during the financial year and the number of meetings attended by each Director is:

Director	Number Held	Number Attended
Ms M A Hartley	9	9
Mr M Dowling	9	8
Mr A Taylor	9	8
Dr M Doig	9	9
Mr N Edwards	9	8

Audit Committee Membership and Role

The Audit Committee consisted of all the members of the Board of the VCA, with Michael Dowling as Chairperson.

The main responsibilities of the Audit Committee were to:

- determine the scope of the internal audit function and ensure that its resources are adequate and used effectively including coordination with the external auditors;
- oversee the effective operation of the risk management framework; and
- review the Authority's internal control environment covering:
  - effectiveness and efficiency of operations;
  - reliability of financial reporting; and
  - compliance with applicable laws and regulations.

Executive Officer Remuneration

The number of executive officers whose income is $100,000 or more is shown below in their relevant income bands:

	2004 Number	2003 Number
$120,000 to $129,999	–	2
$140,000 to $149,999	–	1
	–	3

	2004 $'000	2003 $'000
Income received or due and receivable by executive officers included above	–	351
Bonuses paid to executive officers included above	–	42

None of the Directors had shareholdings in the VCA.

Pecuniary Interests

The Directors, Chief Executive and senior managers have completed a statement of pecuniary interests.

Overseas Visits

There were no overseas visits during the financial year.

Indemnification of Officers

During the financial year, the VCA renewed an agreement to indemnify directors and executive officers against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the VCA) incurred in their position as Director or executive officer unless the conduct involved a wilful breach of duty or an improper use of inside information or position to gain advantage.

Consultancies

Total consultancies expenses amounted to $32,621 for the year.

Statutory Requirements

Freedom of Information Act

There were no requests under the Freedom of Information Act 1982 received during the year. The VCA has complied with the Act and responded to the request.

Multicultural Awareness

The VCA was committed to promoting culturally appropriate policies, programs and strategies. With employees representing several nationalities, cultural integration within the work environment is strongly encouraged.

Building Act

The VCA complied with the provision of the Building Act 1993.

Competitive neutrality

The VCA complied with Victorian Government policy on competitive neutrality.

Whistleblowers Protection Act

The VCA was committed to the aims and objectives of the Whistleblowers Protection Act 2001.

Since the commencement of the Act in January 2002, no disclosures have been received or investigations made by the VCA, and it has not referred any disclosures to the Ombudsman for any reasons. Neither has the Ombudsman referred any disclosures or made any recommendations to the VCA.

Additional Information continued

The VCA's procedures for reporting disclosures in accordance with the Act were included on the VCA's website.

Occupational Health and Safety

The VCA had an Occupational Health and Safety (OH&S) committee in place that met on a regular basis to deal with any issues raised. The committee was made up of representatives from a cross section of the VCA.

The VCA reported no significant incidents or lost time injuries for the year.

Annual report

The VCA has complied with its statutory obligations in relation to the annual report. Information in relation to the VCA's following activities has been complied and is available upon request:

- declarations of pecuniary interests;
- publications produced by the authority;
- changes in prices, fees, charges, rates and levies;
- major external reviews carried out in the VCA;
- overseas visits;
- occupational health and safety; and
- industrial accidents and disputes.

For and on behalf of the Board

Michael Dowling
Director

Alan Taylor
Director

Geelong
9 September 2004

Financial Statements Contents

Statement of Financial Performance

For the nine months ended 31 March 2004

	Notes	Nine months to 31 March 2004 $'000	Year ended 30 June 2003 $'000
Revenue from ordinary activities			
Revenue from operating activities			
Sales		9,506	20,507
Sundry		267	1,093
		9,773	21,600
Revenue from non-operating activities			
Interest		479	620
Proceeds from the sale of assets		104	102
		583	722
		10,356	22,322
Less expenses from ordinary activities			
Employee benefits		1,818	4,191
Depreciation	4(a)	2,579	5,651
Amortisation of major maintenance dredging		829	965
Maintenance dredging		194	1,667
Other maintenance		624	1,243
Lease		243	489
Insurance		230	530
Marine services		638	414
Consultancies and contractors		595	1,227
Written down value of assets sold		372	139
Geelong channels improvement program		–	41
Port Phillip channel deepening study		–	5,801
Transition costs		912	–
Other expenses from ordinary activities		811	1,595
		9,845	23,953
Net result before income tax expense		511	(1,631)
Income tax expense/(credit) relating to ordinary activities	3	279	(242)
Net result after income tax expense		232	(1,389)
Increase in asset revaluation reserve	10(b)	4,680	–
Increase/(decrease) in equity other than those resulting from transactions with the Victorian State Government in its capacity as owners		4,912	(1,389)

The accompanying notes form an integral part of these financial statements.

Statement of Financial Position

As at 31 March 2004

	Notes	31 March 2004 $'000	30 June 2003 $'000
Current assets			
Cash assets	5	5,511	11,069
Receivables	6	758	2,686
Prepayments		32	337
Total current assets		6,301	14,092
Non-current assets			
Major maintenance dredging	7(a)	330	8,302
Infrastructure, property, plant and equipment	7(b)	52,187	131,414
Deferred tax assets	3(a)	33	4,144
Total non-current assets		52,550	143,860
Total assets		58,851	157,952
Current liabilities			
Payables	8	371	2,886
Provisions	9	116	1,758
Total current liabilities		487	4,644
Non-current liabilities			
Deferred income tax liabilities	3(b)	482	4,765
Provisions	9	–	122
Total non-current liabilities		482	4,887
Total liabilities		969	9,531
Net assets		57,882	148,421
Equity			
Contributed equity	10(a)	24,491	119,942
Reserves	10(b)	7,015	10,827
Retained profits	10(c)	26,376	17,652
Total equity		57,882	148,421

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

For the nine months ended 31 March 2004

	Notes	Nine months to 31 March 2004 Inflows/(Outflows) $'000	Year ended 30 June 2003 Inflows/(Outflows) $'000
Cash flows from operating activities			
Receipts from trade and other debtors (inclusive of GST)		12,839	21,804
Payments to trade creditors, other creditors and employees (inclusive of GST)		(9,504)	(16,267)
Government grants		–	500
Interest received		479	620
Tax (paid)/refunded		(6)	1,299
Net cash inflow from operating activities	12(a)	3,808	7,956
Cash flows from investing activities			
Payments for property, plant and equipment		(424)	(1,962)
Payments for major maintenance dredging		(46)	(9,267)
Proceeds from sale of property, plant and equipment		104	102
Net cash outflow from investing activities		(366)	(11,127)
Cash flows from financing activities			
Transfer of funds to Port of Melbourne Corporation		(9,000)	–
Net cash outflow from financing activities		(9,000)	–
Net increase/(decrease) in cash held		(5,558)	(3,171)
Cash at the beginning of the financial year		11,069	14,240
Cash at the end of the financial year	12(b)	5,511	11,069

The accompanying notes form an integral part of these financial statements.

1. Summary of significant accounting policies

This general purpose report has been prepared in accordance with Australian Accounting Standards, Financial Management Act 1994, Statement of Accounting Concepts, other authoritative pronouncements of the Australian Standards Board and Urgent Issues Group Consensus Views.

The Financial Statements comprise the accounts of the Victorian Channels Authority (VCA). The accounting policies adopted in preparing the financial statements have been consistently applied except as otherwise indicated.

(a) Port reform

As a result of amendments to the Port Services Act 1995, the VCA was abolished on 31 March 2004 with a new entity, the Victorian Regional Channels Authority, being established with channel management responsibilities including those previously undertaken by the VCA (refer note 16). As the VCA's business functions are continuing after balance date, the financial statements have been prepared on a going concern basis.

(b) Income tax

The VCA is subject to the National Tax Equivalent Regime. In accordance with this legislation, the VCA is required to pay equivalent tax to the Consolidated Fund.

Tax effect accounting has been applied using the liability method whereby income tax is regarded as an expense and calculated on the operating profit before income tax adjusted for any permanent differences between taxable and accounting income.

The tax effect of timing differences which occur when items of revenue and expenses are brought to account in different accounting periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account as an asset unless the realisation of the benefit is considered to be virtually certain. The amount of benefit brought to account which may be realised in the future is based on the assumption that no adverse changes will occur in income tax legislation and the anticipation that the VRCA will derive sufficient assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by tax legislation.

The income tax expense for the year is calculated using an income tax rate of 30 per cent (2003 – 30 per cent).

(c) Accrual basis

Except as otherwise stated, the Financial Statements have been prepared on an accrual basis with revenues and expenses being recognised as they are earned or incurred, and brought to account in the period to which they relate.

(d) Historical cost

The Financial Statements have been prepared on a historical cost basis whereby assets are recorded at cost and do not take into account changing value of money nor the current cost of non-current assets, except for certain assets which are at valuation.

(e) Rounding of amounts

Amounts in the Financial Statements have been rounded to the nearest thousand dollars.

1. Summary of significant accounting policies *(continued)*

(f) Depreciation of property, plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost or 'deemed' net cost of each item of property (excluding land) over its expected useful life to the VCA. Estimates of the remaining useful lives for all assets are reviewed at least annually. The expected useful lives are as follows:

Navigation aids	3 – 33 years
Plant and equipment	2 – 10 years
Furniture and fittings	5 years
Motor vehicles	5 years
Channel assets	40 years
Shipping Management Centre (SMC)	9 – 50 years

(g) Receivables

Debtors are generally settled within thirty (30) days and are carried at amounts due. A review is made of all outstanding amounts at year end in order to determine whether a provision for doubtful debts is required. No provision for doubtful debts was deemed necessary at balance date.

(h) Payables

Creditors, including accruals not yet billed, are recognised when the VCA becomes obliged to make future payments as a result of a purchase of assets or services. Trade creditors are generally settled within thirty (30) days.

(i) Employee entitlements

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave are recognised and measured as the amounts expected to be paid when liabilities are settled in respect of employees' services up to the reporting date. Sick leave is non-vesting and a liability is recognised only when the amount of sick leave expected to be taken in future periods exceeds the entitlement expected to accrue in those periods.

(ii) Long service leave

A liability for long service leave is recognised and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to future wages and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates as determined by the government.

(iii) Superannuation

The amount charged to the Statement of Financial Performance in respect of superannuation represents contributions made by the Authority to the superannuation funds.

(j) Revenue

Amounts disclosed as revenue are, where applicable, net of trade allowances and duties and taxes paid or payable. Revenue is recognised for each of the Authorities major activities as follows:

(i) Sales revenue

Sales revenue accounts for approximately 92 per cent of total revenue and represents revenue earned from the sale of the VCA's services and has been recognised when those services have been provided. The current pricing for provision of services is 27.53 cents per gross ton. The last price increase was effective July 2003.

(ii) Grants from Government

Grants payable by State Government departments are recognised as revenue when the VCA gains control of the underlying assets.

(iii) Interest revenue

Interest revenue represents revenue received or receivable on at-call and short-term deposits invested by the VCA. At-call and short-term deposits are brought to account at face value and have an effective interest rate of between 4.78 per cent and 5.25 per cent. Short-term deposits have an average maturity of thirty (30) days.

(iv) Sundry revenue

Sundry revenue includes revenue arising from the sale of services of pollution management and professional services provided by the Hydrographic Survey Unit.

(k) Cash assets

For the purpose of the Statement of Cash Flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments.

(l) Channel maintenance dredging costs

The shipping channels in port waters are subject to continual deterioration through siltation, which reduces the depth of water available to commercial shipping. The channels are restored to declared depths by routine maintenance dredging, which is generally carried out at three to four yearly intervals.

Channel maintenance dredging can be broken up into two types of costs; (i) pre-tender costs and (ii) dredging and associated costs.

(i) Pre-tender costs

Pre-tender costs are all costs associated with planning, surveying and understanding what volumes/locations dredging works need to be carried out. Pre-tender costs are expensed in the Statement of Financial Performance in the period in which the costs are incurred.

(ii) Dredging and associated costs

Dredging and associated costs include all costs incurred under the dredging contract to restore the channels to proper depths and include other consultancies and costs associated with the dredging contract. These costs are capitalised to the Statement of Financial Position and amortised over a four-year period.

(m) Feasibility study into channel deepening

In the 2002-03 year, the VCA was undertaking investigations into the feasibility of deepening Port Phillip channels. This was a significant project requiring substantial levels of planning and infrastructure investment. There are three stages to the feasibility study as follows:

(i) Stage 1 – Project inception

Project inception including the preparation of a plan for the project, the awarding of tenders for technical and economic studies, and initial assessment of economic benefits of the project.

(ii) Stage 2 – Preliminary feasibility studies

Stage 2 involved a number of preliminary feasibility studies including studies of:

- Economic impact and economic cost/benefit
- Channel design
- Environmental issues
- Geotechnical issues
- Hydraulics and sedimentation issues and
- Operational issues

(iii) Stage 3 – Detailed feasibility and design

Stage 3 builds on the work conducted in Stage 2, conducting more detailed studies, which will consider a range of environmental, technical and economic issues associated with the project. These studies include an Environment Effects Statement (EES).

All costs associated with the above three stages are expensed in the Statement of Financial Performance in the period in which the costs are incurred. The responsibility of this project was transferred to the Port of Melbourne Corporation, effective 1 July 2003.

1. Summary of significant accounting policies *(continued)*

(n) Comparative figures

The accounting policies adopted, and the classification and presentation of items, are consistent with those of the previous year, except where a change is required to comply with an Australian Accounting Standard, or an alternative accounting policy or an alternative presentation or classification of an item, as permitted by an Australian Accounting Standard, is adopted to improve the relevance and reliability of the financial report. Where practicable, comparative amounts are presented and classified as a basis consistent with the current year.

(o) Dividends

An obligation to pay a dividend only arises after consultation between the Board, the Minister for Transport and the Treasurer. Following this consultation a formal determination is made by the Treasurer. Although this process has not yet been completed at the reporting date, the Board's preliminary dividend estimate in respect of 2003-04 is nil (2002-03 – nil).

(p) Goods and services tax

Revenues, expenses, and assets are recognised net of GST except where the amount of GST incurred is not recoverable, in which case it is recognised as part of the cost of acquisition of the asset or part of an item of expense. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as part of receivables or payables in the statement of financial position. The GST component of a receipt or payment is recognised on a gross basis in the statement of cash flows in accordance with Accounting Standard AAS 28 *Statement of Cash Flows*.

Costs incurred in implementing new systems to deal with the GST are charged as expenses as incurred, except where they result in an enhancement of future economic benefits and are recognised as an asset.

(q) Acquisitions of assets

The cost method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(r) Revaluations of non-current assets

Subsequent to initial recognition as assets, non-current physical assets, other than plant and equipment, are measured at fair value. Plant and equipment are measured at cost. Revaluations are made with sufficient regularity to ensure that the carrying amount of each asset does not differ materially from its fair value at the reporting date. Annual assessments will be made, supplemented by independent assessments, at least every three years. Revaluations are conducted in accordance with the Department of Treasury and Finance's Policy – Valuation of Non-Current Physical Assets.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in net result, the increment is recognised immediately as revenue in the net result.

Revaluation decrements are recognised immediately as expenses in the net result, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve.

Revaluation increments and decrements are offset against one another within a class of non-current assets.

	2004 $'000	2003 $'000

2. (a) Remuneration of responsible persons

Responsible Minister

VCA reports to the Minister for Transport, The Hon. Peter Batchelor MLA.

Directors

The names of persons who were responsible persons during the financial year were:

Mary Anne Hartley, Michael Dowling, Alan Taylor, Meredith Doig and Neil Edwards.

	2004	2003
Income received or due and receivable by directors of the Authority from the Authority.	82	91

The number of responsible persons are shown below in their relevant income bands:

	Number	Number
Income of:		
$0 to $9,999	1	1
$10,000 to $19,999	3	3
$20,000 to $29,999	1	–
$30,000 to $39,999	–	1
	5	5

Retirement benefits of responsible persons:	$'000	$'000
Retirement benefits paid by the reporting entity in connection with the retirement of responsible persons of the Authority amounted to:	7	9

Other transactions of responsible persons and their related entities:

Director's fees were paid to Midlothian Enterprises Pty Ltd on behalf of Meredith Doig.

2. (b) Executive officer remuneration

The number of executive officers whose income is $100,000 or more are shown below in their relevant income bands:

	Number	Number
$120,000 to $129,999	–	2
$140,000 to $149,999	–	1
	–	3

	Number	Number
Income received or due and receivable by executive officers included above:	–	351
Bonuses paid to executive officers included above at balance date:	–	42
	–	393

None of the directors have shareholdings in the Authority

Other transactions of executive officers and their related entities:

Nil

	2004 $'000	2003 $'000

2. (c) Auditor's remuneration

	2004 $'000	2003 $'000
Amounts received, or due and receivable, by the auditors for:		
Auditing the financial statements	36	38

The auditors received no other benefits.

3. Income tax

By direction of the Treasurer of Victoria under the State Owned Enterprises Act 1992, the Authority is subject to the National Tax Equivalent Regime (NTER) in 2003-04, but limited to the Income Tax component of the NTER.

The amount of income tax attributable to the financial year differs from the amount prima facie payable on the operating profit and profit on extraordinary items.

The differences are reconciled as follows:

	2004 $'000	2003 $'000
Operating profit before income tax and abnormal items	511	(1,631)
Prima facie income tax on the operating profit at 30%	153	(489)
Adjustment in income tax expense due to:		
Permanent differences	126	247
Income tax expense/(refund)	279	(242)

	2004 $'000	2003 $'000
Income tax expense/(refund) is made up of:		
Current taxation provision	116	(3,263)
Deferred income tax provision	(121)	2,972
Future income tax benefit	284	49
Income tax expense/(refund)	279	(242)

(a) Deferred tax asset

	2004 $'000	2003 $'000
Opening balance	4,144	2,274
Movement in tax losses	–	3,208
Tax refund due/(paid)	(275)	(1,298)
Transfer to Port of Melbourne Corporation	(3,827)	–
Timing differences	(9)	(40)
Closing balance	33	4,144

(b) Deferred tax liabilities

	2004 $'000	2003 $'000
Opening balance	4,765	1,838
Transfer to Port of Melbourne Corporation	(4,162)	–
Timing differences – major maintenance dredging	–	2,491
Timing differences – other items	(121)	436
Closing balance	482	4,765

	2004 $'000	2003 $'000

4. Results for the reporting period

Results from ordinary activities includes the following specific expenses:

(a) Depreciation		
Navigation aids	375	849
Plant and equipment	346	991
Furniture and fittings	40	125
Motor vehicles	28	76
Channel assets	1,587	3,016
Shipping Management Centre (SMC)	203	594
Total	2,579	5,651
(b) Movements in provisions		
Employee entitlements	47	14
(c) Rental expense relating to operating leases		
Building rentals	166	354
Equipment rentals	77	135
	243	489

5. Cash assets

Cash at bank and on hand	311	569
Short term deposits	5,200	10,500
	5,511	11,069

6. Receivables

Current		
Trade debtors	641	2,545
Sundry debtors	15	1
GST receivable	50	116
Other	52	24
	758	2,686

	2004 $'000	2003 $'000
7(a) Major maintenance dredging		
At cost	466	9,267
Less: Accumulated amortisation	(136)	(965)
	330	8,302
7(b) Infrastructure, property, plant and equipment		
Navigation aids		
At cost	2,584	8,420
Less: Accumulated depreciation	(550)	(1,569)
Total navigation aids	2,034	6,851
Plant and equipment		
At cost	–	3,912
Less: Accumulated depreciation	–	(2,037)
Total plant and equipment	–	1,875
Furniture and fittings		
At cost	–	539
Less: Accumulated depreciation	–	(223)
Total furniture and fittings	–	316
Motor vehicles		
At cost	64	359
Less: Accumulated depreciation	(16)	(46)
Total motor vehicles	48	313
Channel assets		
At independent valuation June 2001	–	120,638
At independent valuation March 2004	50,000	–
Less: Accumulated depreciation	–	(6,032)
Total channel assets	50,000	114,606
Shipping Management Centre (SMC)		
At cost	–	8,245
Less: Accumulated depreciation	–	(1,185)
Total Shipping Management Centre (SMC)	–	7,060
Work in progress		
At cost	105	393
Total work in progress	105	393
Total infrastructure, property, plant and equipment	52,187	131,414

(i) Basis of valuation

The basis of the March 2004 valuation of channel assets is fair value calculated at the net present value of future cash flows over the channels effective economic life of 40 years. The net present value methodology reflects the future cash generation of the channel assets and is the most suitable methodology available for valuing channel assets.

(ii) Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous year are set out below.

	Navigation aids $'000	Plant & equipment $'000	Furniture & fittings $'000	Motor vehicles $'000	Channel assets $'000	SMC $'000	Work in progress $'000	Total $'000
2004								
Carrying amount at start of year	6,851	1,875	316	313	114,606	7,060	393	131,414
Revaluation	–	–	–	–	4,681	–	–	4,681
Additions	–	–	–	36	–	–	332	368
Disposals	(51)	(214)	(11)	(41)	–	–	–	(317)
Transfer to Port of Melbourne Corporation	(4,391)	(1,345)	(265)	(232)	(67,700)	(6,857)	(590)	(81,380)
Depreciation/amortisation expense (note 4(a))	(375)	(316)	(40)	(28)	(1,587)	(203)	(30)	(2,579)
Carrying amount at end of year	2,034	–	–	48	50,000	–	105	52,187
2003								
Carrying amount at start of year	6,905	1,989	419	275	117,622	7,654	378	135,242
Additions	853	877	22	195	–	–	15	1,962
Disposals	(58)	–	–	(81)	–	–	–	(139)
Depreciation/amortisation expense (note 4(a))	(849)	(991)	(125)	(76)	(3,016)	(594)	–	(5,651)
Carrying amount at end of year	6,851	1,875	316	313	114,606	7,060	393	131,414

	2004 $'000	2003 $'000
8. Payables		
Trade creditors	2	12
GST payable	56	193
Other creditors and accruals	313	2,681
	371	2,886

	2004 $'000	2003 $'000
9. Provisions		
Current		
Provision for tax	116	–
Employee entitlements	–	1,758
	116	1,758
Non-current		
Employee entitlements	–	122
	–	122
Aggregate employee entitlement liabilities		
Current		
Annual leave	–	634
Long service leave	–	1,124
	–	1,758
Non-current		
Long service leave	–	122
	–	1,880

Employee numbers	Number	Number
Average number of employees during the financial year	2	52

Aggregate employee entitlements include entitlements measured at present values of future amounts expected to be paid based on a 4.75 per cent per annum for 2003 projected weighted average increase in wage and salary rates over an average period of 19 years.

Present values are calculated using the discount rates specified by the Department of Treasury and Finance for this purpose. The weighted average discount rate for the 2003 was 4.75 per cent.

	2004 $'000	2003 $'000
10. Equity and movements in equity		
(a) Contributed capital		
Opening initial capital	119,942	119,942
Transfer to Port of Melbourne Corporation	(95,451)	–
Closing capital	24,491	119,942
(b) Asset revaluation reserve		
Opening balance	10,827	10,827
Transfer to retained profits	(8,492)	–
Increment/(decrement) on revaluation of channel assets	4,680	–
Closing asset revaluation reserve	7,015	10,827
(c) Retained profits		
Retained profits at the beginning of the reporting period	17,652	19,041
Transfer from asset revaluation reserve	8,492	–
Profit result from ordinary activities after related income tax expense	232	(1,389)
Retained profits at the reporting date	26,376	17,652

11. Superannuation

Details of superannuation schemes to which the Authority contributes are as follows:

Vic Super (Accumulation) Contributions are calculated at 9% of gross salary	48	73
Transport Superannuation Scheme (Defined Benefit) Contributions vary between 2.5% and 11.5% of gross salary	24	26
State Superannuation Scheme (Defined Benefit) Contributions vary between 9% and 15.5% of gross salary	40	65
IOOF Master Fund (Accumulation) Contributions are calculated at 9% of gross salary	4	7
AMP Retirement Saver Contributions are calculated at 9% of gross salary	2	5
AON Master Trust Contributions are calculated at 9% of gross salary	–	3
AXA Australia Contributions are calculated at 9% of gross salary	–	1
Stevedoring Employees Retirement Fund Contributions are calculated at 9% of gross salary	2	7
Care Superannuation Contributions are calculated at 9% of gross salary	–	1
PMA Superannuation Fund Contributions vary between 13% and 23% of gross salary	111	169
BT Lifetime Super Contributions are calculated at 9% of gross salary	–	1
Westpac Personal Super Contributions are calculated at 9% of gross salary	1	1
Your Prosperity Super Contributions are calculated at 9% of gross salary	2	6
Mercer Portfolio Contributions are calculated at 9% of gross salary	3	7

	2004 $'000	2003 $'000

12. Cash flow information

(a) Reconciliation of net cash inflows from operating activities to operating profit after income tax

	2004 $'000	2003 $'000
Operating profit after income tax	232	(1,389)
Depreciation	2,579	5,651
Amortisation of major maintenance dredging	829	965
Loss from assets sold	268	37
(Increase)/decrease in interest accrued	(38)	24
(Increase)/decrease in prepayments	305	(86)
(Increase)/decrease in trade and other debtors	(2,043)	651
Increase in trade and other creditors	1,848	1,046
Increase/(decrease) in tax provisions	(172)	1,057
Net cash flows from operating activities	3,808	7,956

(b) Reconciliation of cash

Cash at the end of the financial period as shown in the Statement of Cash Flows reconciled to the related items in the Statement of Financial Position as follows:

	2004 $'000	2003 $'000
Cash	311	569
Short term deposits	5,200	10,500
	5,511	11,069

13. Commitments

(a) Lease commitments

Total operating lease expenditure contracted for at balance date but not provided for in the financial statements:

	2004 $'000	2003 $'000
Payable no later than 1 year	–	378
Payable 1-5 years	–	898
Payable greater than 5 years	–	280
	–	1,556

(b) Contract commitments

	2004 $'000	2003 $'000
Total expenditure contracted for at balance date, not provided for in the financial statements:	–	277

14. Financial instruments

(a) Credit risk exposure

The credit risk on financial assets (excluding cash) of the economic entity, which have been recognised in the Statement of Financial Position, is the carrying amount net of any provision for doubtful debts. The VCA's credit risk is concentrated within commercial shipping activities.

(b) Interest rate exposures

The economic entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and the financial liabilities is set out in the table below.

(c) Net fair values

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the VCA approximates their carrying amount.

		Fixed Interest Maturing in:					
		Floating Interest Rate		Non-interest Bearing		Total	
	Notes	2004 $'000	2003 $'000	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Financial assets							
Cash assets	5	5,511	11,069	–	–	5,511	11,069
Receivables	6	–	–	758	2,686	758	2,686
	12	5,511	11,069	758	2,686	6,269	13,755
Weighted average interest rate		5.1%	4.6%				
Financial liabilities							
Payables	8	–	–	371	2,886	371	2,886
		–	–	371	2,886	371	2,886
Net financial assets		5,511	11,069	387	(200)	5,898	10,869
Reconciliation of net financial assets to net assets:							
Net financial assets						5,898	10,869
Non financial assets and liabilities:							
Major maintenance dredging	7(a)					330	8,302
Property, plant and equipment	7(b)					52,187	131,414
Prepayments						32	337
Net tax assets/(liabilities)						(449)	(621)
Provisions	9					(116)	(1,880)
Net assets per Statement of Financial Position						57,882	148,421

15. Contingent liabilities

The directors are not aware of any matter or circumstances not otherwise dealt with in this report, which has the potential to significantly affect the operations of the VCA, the results of those operations or the state of affairs of the VCA in subsequent financial years.

16. Events subsequent to balance date

As a result of amendments to the Port Services Act 1995, the VCA was abolished on 31 March 2004 with a new entity, the Victorian Regional Channels Authority, being established with channel management responsibilities including those previously undertaken by the VCA.

17. Port reform

Recent amendments to the Port Services Act, known as the Ports Service (Port of Melbourne Reform) Act 2003, provided that responsibility for the management of Melbourne Channels would pass from VCA to the newly constituted Port of Melbourne Corporation. This transfer of responsibilities occurred on 3 November 2004 and resulted in the following net asset transfers.

Net assets transferred to Port of Melbourne Corporation

	Notes	$'000
Cash assets		9,000
Major maintenance dredging		7,189
Property, plant and equipment	7(b)	81,380
Prepayments		144
Net tax assets/(liabilities)	3	(335)
Provisions		(1,927)
Net assets per Statement of Financial Position	10(a)	95,451

Directors' Statement

These financial statements are signed on behalf of the Victorian Channels Authority by Directors, Michael Dowling and Alan Taylor, pursuant to a resolution of the Board dated 20 January 2004. In the opinion of the Directors:

a) the accounts of the Authority are drawn up so as to present fairly the financial transactions of the Authority for the nine months ended 31 March 2004 and the financial position of the Authority as at 31 March 2004;

b) at the date of this statement, we are not aware of any circumstances, which would render any particulars in the financial statements to be misleading or inaccurate;

c) the accounts of the Authority have been made out in accordance with the directions of the Minister for Finance under the Financial Management Act 1994 and the Port Services Act 1995.

The financial statements have been prepared in accordance with Australian Accounting Standards, Financial Management Act 1994, other mandatory reporting requirements (Urgent Issues Group Consensus Views) and applicable directions issued thereunder.

For and on behalf of the board

Michael Dowling
Director

Alan Taylor
Director

Richard Keyte
Cheif Financial Officer

Ian Scott
Chief Executive Officer

Geelong
9 September 2004

AUDITOR GENERAL
VICTORIA

AUDITOR-GENERAL'S REPORT

To the Members of the Parliament of Victoria, responsible Ministers and Members of the Board of the Victorian Channels Authority

Audit Scope

The accompanying financial report of the Victorian Channels Authority for the period ended 31 March 2004, comprising statement of financial performance, statement of financial position, statement of cash flows and notes to the financial statements, has been audited. The Members of the Board are responsible for the preparation and presentation of the financial report and the information it contains. An independent audit of the financial report has been carried out in order to express an opinion on it to the Members of the Parliament of Victoria, responsible Ministers and Members of the Board as required by the *Audit Act* 1994.

The audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. The audit procedures included an examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the *Financial Management Act* 1994, so as to present a view which is consistent with my understanding of the Authority's financial position, and its financial performance and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the financial report presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the *Financial Management Act* 1994, the financial position of the Victorian Channels Authority as at 31 March 2004 and its financial performance and cash flows for the period then ended.

MELBOURNE
22 September 2004

J.W. CAMERON
Auditor-General

Victorian Auditor-General's Office Level 34, 140 William Street, Melbourne Victoria 3000
Telephone (03) 8601 7000 Facsimile (03) 8601 7010 Email comments@audit.vic.gov.au Website www.audit.vic.gov.au

Auditing in the Public Interest

Victorian Channels Authority
ABN 97 463 216 791

Level 6, 99 King Street
Melbourne, Victoria 3000
Telephone (03) 9612 3512
Facsimile (03) 9612 3599

www.vicchannels.vic.gov.au
info@vicchannels.vic.gov.au