Victorian Regional Channels Authority

Annual Report 2009-10

Victorian Regional Channels Authority
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Victorian Regional Channels Authority - Annual Report 2009 – 2010

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Our vision

By employing the world's best practices, we aim to:

- Provide customer focussed navigation services.
- Enhance overall port performance.
- Provide safe and secure management of port waters.
- Ensure environmentally responsible marine operations.

Our mission

To provide safe, secure and environmentally responsible navigation services to the users and operators of Victoria's regional commercial ports.

Scope of operations

The Victorian Regional Channels Authority (VRCA) was established under the *Port Services Act 1995 (PSA)* to manage channels in the port waters of Geelong, and oversee channel operations in the ports of Hastings and Portland. It began operations on 1 April 2004.

The principal functions of the VRCA, as provided in Section 21 of the Act, are to:

- establish, manage, dredge and maintain the channels in port waters and provide and maintain navigation aids in port waters in accordance with standards of the Director of Marine Safety;
- provide general direction and control of the movement of vessels within port waters in accordance with the *Marine Act 1988*;
- provide technical advice and support to port managers about the management and operation of port waters and channels in port waters; and
- assist port managers, at their request, and with the approval of the Minister, with integrated planning, development, management and promotion activities for the port.

The VRCA charges for the use of channels and related services in accordance with a price monitoring framework established by the Essential Services Commission (ESC). The price framework allows the VRCA to set its own tariffs subject to oversight of the ESC for a period of 5 years from 1 July 2005.

The VRCA is directly responsible for shipping control in the port waters of Geelong and contracts the shipping control and navigation channel services for the ports of Portland and Hastings to their owner and manager respectively.

The VRCA has numerous stakeholders, including agents and owners of vessels who use its services. These owners and agents are charged according to the Gross Tonnage (GT) of their vessels for the use of channels, navigation aids, shipping control and other associated services. Income is derived almost entirely from this charge.

The VRCA reports to the Minister for Roads and Ports with respect to industry policy and regulation and to the Treasurer with respect to shareholder and governance matters. The VRCA has a three-member Board of Directors and an establishment of six employees.

Chairman's report

I am pleased to report another successful year of operations for the Victorian Regional Channels Authority (VRCA) in continuing to provide safe and efficient maritime access to Victoria's regional commercial ports.

It is well understood that the efficiency and reliability of Victoria's regional commercial ports is vital to the State and national economies and that port operations contribute directly to regional communities in terms of business activity and jobs.

As the responsible authority for providing maritime access to Victoria's regional commercial ports the VRCA plays a pivotal role not only in ensuring the safe and efficient day-to-day operations of the shipping channels but also in planning ahead to ensure that its maritime infrastructure can continue to meet the needs of a growing regional economy and an evolving transport industry well into the future.

For the financial year 2009/2010 the organisation posted a profit before tax and asset revaluation adjustment of $1.2 million, based on a total turnover of $5.9 million. Operating expenses for year amounted to $4.7 million and were in line with budget expectations. In accordance with Financial Reporting Direction FRD103D VRCA was required to conduct an independent external valuation of channels and navigation aids. This resulted in a $40.9 million net write down of fixed assets, with $15.0 million ($10.5 million after tax effect) taken from reserves and $25.9 million ($18.1 million after tax) recorded as an expense. Loss after tax was $17.3 million, which comprised a profit of $0.8 million less the revaluation adjustment of $18.1 million.

From an operational perspective this year has been one of solid performance providing efficient and incident-free commercial shipping management services in the Port of Geelong and maintaining oversight of the channels used by the ports of Portland and Hastings through the channel operating agreements with these ports.

Following the completion of the recent major upgrades to the navigation systems in the Port of Geelong the VRCA is now increasing its focus on the long term strategic planning for the maritime infrastructure in the port.

This year the authority has continued its program of research and analysis of port logistics issues and shipping industry trends. It has now built up a considerable database of information that will be used to inform its long term development plans. This information relates to the current and future characteristics of ships and shipping, forecasts of ship size and type as well as projected commodity growth and potential new commodities that may be transported through the port in the future.

The VRCA sees this area of activity as crucial to its role in supporting the development of the port and ensuring that potential bottle necks, capacity constraints or increased hazards resulting from the movement of larger or different types of ships are avoided.

The research data collected by the VRCA is also being used as inputs into two highly specialised, purpose-built computer modelling tools which are being used to evaluate both channel capacity issues and vessel behaviour characteristics under various scenarios.

Port capacity is currently an issue of national importance and the VRCA is committed to ensuring that the future economic viability of the Port of Geelong will not be constrained by a lack of forward planning of its maritime infrastructure.

Three relatively small but important areas in the port now require treatment to improve the manoeuvrability of larger vessels and reduce the potential for increased operational risk.

A scoping study has recently been completed for increasing the bend radius at the western end of the main channel, increasing the depth of the swinging basin at Point Henry and increasing the manoeuvring room at Refinery Pier. Approvals for this work are currently being sought from relevant State and Federal agencies.

The timely identification of these relatively minor works highlights the importance of effective forward planning.

It is important to recognise also that all of the forward planning work currently being undertaken by the VRCA is being carried out in collaboration with the major customers and stakeholders in the port and particularly with the Port Phillip Sea Pilots who have been working closely with the VRCA on the development and evaluation of the navigation simulation model.

My fellow directors and I would like to thank the management and staff of the VRCA for another excellent year of service to our customers and for continuing to provide a safe, efficient and reliable regional channel network.

Neil Edwards
Chairman

Chief Executive Officer's report

In 2009/2010 the VRCA's financial operating results were in line with budget expectations. The satisfactory financial performance was achieved with a moderate rise in channel fees from 26.0 to 28.0 cents per gross ton from 1 July, 2009.

Over the last few years the VRCA has delivered extensive upgrades to navigation aids, communication systems and other port infrastructure all of which have been targeted at improving the safety, reliability and efficiency of vessel movements in the port.

Whilst these major priority capital works are now complete, there are still three further areas of risk minimisation work which are required in the Geelong port waters.

Following the completion of an initial scoping study in 2008, the risk-minimisation project was referred to the Minister for Planning and Community Development for a decision regarding the requirement for an Environmental Effects Statement (EES). The Minister has subsequently confirmed that an EES is not required.

The project is now in the process of review and approval by the Victorian Department of Sustainability and Environment (DSE) and will be referred also to the Federal Government Department of the Environment, Water, Heritage and the Arts (DEWHA) for its review and approval.

During the year the VRCA continued to build on the long term planning and research activities that it has begun in recent years. This work is aimed at developing plans which will assist in future-proofing the port's channels given the industry trends relating to larger ship size and potential.

This work is important due to the long lead times associated with developing port infrastructure, including channel improvements.

This year further investigation was conducted using the Port Capacity Simulation Model on potential vessel traffic conditions in the channels resulting from different cargo movement scenarios. This information will form part of the input to future channel improvement plans.

Another active area of research this year involved the use of a Navigation Simulation Model. This is a 3D computer simulation which is used to understand and demonstrate the operational behaviour of vessels of various length, height and width as they navigate the channels in a variety of weather conditions and highlights any potential limitations. The simulations are performed in conjunction with the Port Phillip Sea Pilots.

Throughout the year the VRCA continued its campaign to raise awareness among operators of small craft in the port of Geelong about the requirements for keeping clear of commercial shipping and, as in previous years, VRCA promoted safe boating practices through a variety of means including the local newspaper and electronic media as well as personal visits to community groups and yacht clubs.

In November 2009, the VRCA completed its most recent customer satisfaction survey. This biennial survey provides valuable information about the views of the

VRCA's customers and key stakeholders in regard to a range of issues as well as how well the VRCA is delivering its services.

The results of this latest survey are encouraging, showing an 86% satisfaction level with VRCA services. This continues an upward trend in customer satisfaction from the already high levels measured in the previous surveys undertaken in 2005 and 2007.

Throughout the year the VRCA continued to promote cooperation and cohesion between port stakeholders via the Geelong Channel Users Group, and other committees involved with port security, safety and environmental issues.

The VRCA is also one of the key sponsors of a new Economic Impact Study for the Port of Geelong which updates the findings of the previous study undertaken in 2005 and provides valuable information on the significant contribution of the port to the state and regional economy.

VRCA remains committed to supporting its customers and stakeholders in the port and aims to maintain access to the Port of Geelong in a safe, efficient, environment sustainable and commercially sound manner.

I would like to thank my fellow staff members for their efforts during the year and the port customers and stakeholders whose continued cooperation is so vital for maintaining a safe and efficient port environment.

Captain Peter McGovern
Chief Executive Officer

Executive summary

Highlights of the year:

- Continuation of an awareness campaign warning small craft of risks associated with channel usage
- Further development and continued research utilising the Capacity Simulation Model to assess the effects of various cargo movement scenarios in the Port of Geelong on vessel traffic in the channels
- Provision of a preliminary 3D navigation simulation event for the Port Phillip Sea Pilots to test vessel transits in the Geelong channels under a variety of sea conditions and vessel operating parameters
- Continuation of the Port Educational Program for Year 9 and 10 students from Geelong and the surrounding region involving more than 900 students
- Completion of the annual hydrographic survey to determine the maintenance of channel depths and to assess the extent of works required to improve access to the port
- Review of risks and risk controls in the VRCA Risk Management Register
- Sponsorship of the second major Economic Impact Study for the Port of Geelong
- Completion of the third biennial Customer Satisfaction Survey
- Provision of a seminar on port logistics to the 'Leaders for Geelong' business group

Ongoing provision of key services and facilities:

- 24-hour commercial shipping management service
- Liaison with pilot services, tugs, lines boats, lines men, quarantine services and customs
- Planning and supervision of tasks for the provision and maintenance of all navigation aids for commercial shipping
- Planning of contracts for all potential capital and maintenance dredging of commercial shipping channels and berths
- Provision of professional maritime advice about ships, cargoes and operations in port waters
- Strategic planning for future needs of commercial shipping in regional commercial channels
- Provision of regular industry briefings
- Provision of support for port consultative groups

Establishment and functions

The Victorian Regional Channels Authority (VRCA) was proclaimed as a Government Business Entity on 1 April 2004 and commenced operations on that date. The VRCA was established pursuant to Section 18 of the *Port Services Act* 1995 with the responsibility of managing the shipping channels in the Port of Geelong and overseeing the channels in the ports of Hastings and Portland.

Objectives of the VRCA

The principal objective of the VRCA is to ensure that port waters and channels in port waters are managed on a fair and reasonable basis.

In pursuit of this objective, the VRCA aims to:

- operate a safe and secure channel operations business;
- exhibit a culture of sustainability including demonstrated social and environmental responsibility;
- provide the State with a reasonable return on investment;
- provide a quality service to its customers at a reasonable charge;
- manage all assets and liabilities on a prudent basis; and
- be a good employer by adopting and applying appropriate personnel policies.

Profiles of Geelong piers and wharves

Geelong is the largest regional port in Victoria, handling 25 per cent of Victoria's overseas exports, most of which are raw materials like petroleum products, fertiliser, grain and woodchips.

The port hosts a number of separate piers and wharves including:

- Point Henry Pier
- Bulk Grain Pier
- Corio Quay
- Lascelles Wharf
- Refinery Pier
- Point Wilson Explosives Pier
- Cunningham Pier
- Rippleside

Aside from the Point Wilson Explosives Pier, Cunningham Pier and the new Bulk Grain Pier, Geelong Port is managed by GeelongPort Pty. Ltd., which has owned most of the land-based infrastructure since the port was privatised in July 1996.

Point Henry Pier

The facility is owned by GeelongPort Pty. Ltd. but operated and managed by Alcoa Australia Limited.

Berth	Max LOA	Max Draft	Remarks
Point Henry Pier	209m	11.4m	Alcoa – alumina unloading

Bulk Grain Pier

The 'old' bulk grain pier is owned by GeelongPort Pty. Ltd. It is used as a tug berth and lay-up berth. The 'new' bulk grain pier is owned and operated by GrainCorp Ltd for export of bulk grain and woodchips.

Berth	Max LOA	Max Draft	Remarks
Bulk Grain Pier 1	210m	9.9m	Berth facilities used by Svitzer for their towage operations
Bulk Grain Pier 2	192m	11.6m	Lay up berth
Bulk Grain Pier 3	225m	11.6m	GrainCorp – dedicated grain/woodchip

Corio Quay

Corio Quay comprises Corio Quay North and Corio Quay South. The facility forms the nucleus of GeelongPort Pty Ltd's operations in Geelong.

Berth	Max LOA	Max Draft	Remarks
Corio Quay 1 & 2 North	375m	10.4m	Woodchip (priority)/dry bulk/general cargo
Corio Quay 3 North	166m	10.4m	General cargo
Corio Quay 1 South	180m	10.4m	General cargo

Lascelles Wharf

Lascelles Wharf is owned and managed by GeelongPort Pty. Ltd. for receipt and dispatch of general cargo.

Berth	Max LOA	Max Draft	Remarks
Lascelles Wharf 1, 2 & 3	621m	11.6m	Dry bulk cargo

Refinery Pier

This facility is owned by GeelongPort Pty. Ltd. but is operated by Shell Australia Ltd and Terminals Ltd for receipt and in some cases, the export of oil products and chemicals.

Berth	Max LOA	Max Draft	Remarks
Refinery Pier 1 & 2	185m	11.6m	Petroleum and chemical products
Refinery Pier 3	230m	11.6m	Petroleum products and VCM
Refinery Pier 4	265m	11.6m	Crude oil and VCM

Point Wilson Explosives Pier

Point Wilson is located north east of Corio Bay. The channels leading to the pier are serviced by VRCA. The site was used by the Australian Defence Industries as an explosives depot. It has been closed to shipping until further notice.

Berth	Max LOA	Max Draft	Remarks
Point Wilson Jetty North	168m	8.5m	Explosives
Point Wilson Jetty South	168m	8.5m	Explosives

Cunningham Pier

This privately owned facility is included under Victoria's declared port waters. The pier provides berthing for occasional visits by passenger liners and naval vessels.

Berth	Max LOA	Max Draft	Remarks
Cunningham Pier East	186m	7.9m	Cruise and naval vessels
Cunningham Pier West	186m	7.9m	Cruise and naval vessels

Rippleside

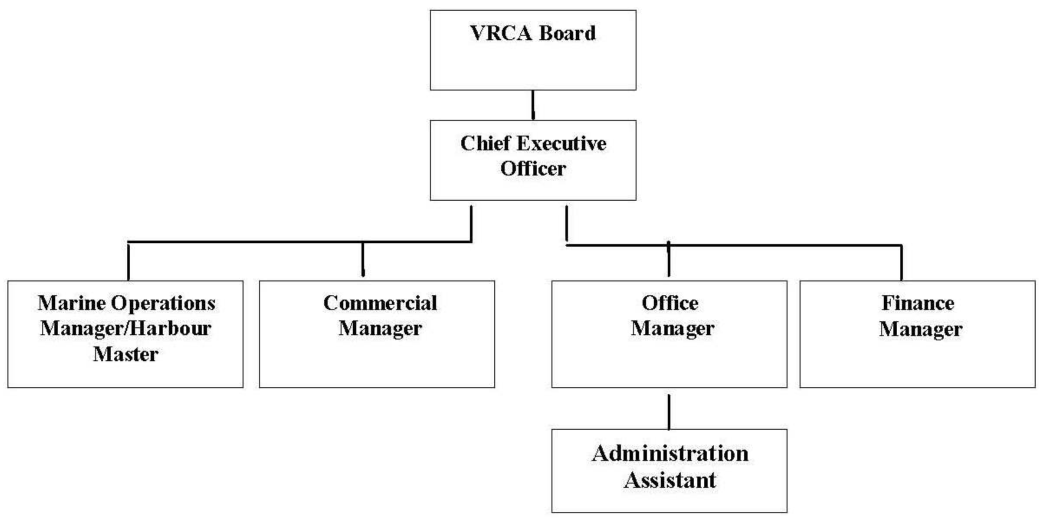
Currently not in operation pending development of the area.

Staff establishment

The VRCA has a Board of Directors of three and an establishment of six staff. Five staff members are permanent, while the Finance and Administration manager is on contract.

Given the small establishment size, the role of the VRCA is essentially one of oversight and management of contacts and projects. Key functions such as shipping control, hydrographic survey, dredging and maintenance of navigation aids are contracted to third parties.

Organisational structure



Income and pricing

The VRCA is a self-funded government agency, obtaining income from a tonnage charge levied on commercial shipping using the port waters of Geelong. Additional revenue is derived from contracts with Shell and Alcoa arising from the underwriting of a channel deepening project and from a surcharge levied upon itinerant users of the deeper draught waters within the Geelong Channel.

The VRCA does not gain any revenue from:

- passenger cruise liners and naval vessels using channels or services under the VRCA's control;
- commercial shipping using the Ports of Hasting or Portland.

Primary revenue

The basis for shipping charges

The VRCA sets prices for its tonnage charges on shipping under a price monitoring framework established by the Victorian Essential Services Commission (ESC).

These charges are based on a gross tonnage measure which is related to the internal volume of the vessel accessing the port.

The VRCA reviews its pricing annually and fixes prices for a year in advance. The 2009/2010 Channel Usage Charge was 28.0 cents per gross ton.

Details of tariffs are issued to customers annually by letter and can be downloaded from the VRCA website (www.regionalchannels.vic.gov.au).

Additional revenue

Geelong Channel Improvement Program

The deepening of the Geelong Channels in May 1998 was underwritten by the Shell Company of Australia Ltd and Alcoa Australia Ltd under agreements entered into in 1995 with the Victorian Channels Authority.

As a result, both companies are required by contract to make an annual payment to the VRCA. The contract provides for annual increases equivalent to 75 percent of the CPI movement over the previous twelve months.

The agreements with Shell and Alcoa will remain in effect for 30 and 50 years respectively from the date of commencement.

Itinerant use

A charge is levied on itinerant users of the deepened Geelong channels for vessels other than those of Shell and Alcoa, for using water deeper than 10.5 metres. The charge is based on a scale per centimetre of draught over 10.5 metres as follows:

Vessel type	Vessel size (Gross Ton)	Rate
Handy	Up to 21,999	$165.00
Handymax	22,000 – 29,999	$176.00
Panamax	> 29,999	$209.00

Financial performance

Total turnover for VRCA for the 12 months ended 30 June 2010, incorporating revenue from non-operating activities, was $5.9 million. This was in line with expectations, and resulted in a before tax and asset revaluation adjustment profit of $1.2 million. Government Accounting Standards required VRCA to independently revalue its channels and navigation aids. This resulted in additional expense of $25.9 million and a favourable tax benefit of $7.8 million. The reported loss after tax was $17.3 million which included an after tax loss of $18.1 million resulting from asset revaluation. Operating expenses for year amounted to $4.7 million and were in line with budget expectations.

Dividend Distribution Targets

Dividend is as determined by the Treasurer in accordance with Section 41 of the PSA after discussion with the VRCA Board. During 2009/2010 the VRCA paid $256,000.

Operating expenses

Operating expenses for 2009/2010 amounted to $4.7 million. This represents minimal variation on spending from the previous year and was in line with budget expectations.

Special projects costs

Additional expenditure of $0.2 million was incurred to fund one-off items categorised as *special projects*. These are VRCA initiatives aimed at identifying and mitigating risks associated with the present port operations and at strategic planning for the Port of Geelong.

Operating performance

Gross tonnage handled

In 2009/2010 total gross tonnage of ships entering Geelong ports was 10.6 million gross tons; an overall decrease of 1.5 million tons on the previous year.

As in previous years the significant cargo types passing through Geelong Port were: crude oil and petroleum products, woodchips, fertiliser, and grain.

Overall, exports of bulk grain are in line with last year with the effects of the drought still evident on export volumes. Woodchip exports were down by 14% compared to the previous year.

Bulk liquid imports and exports, including petroleum, are down in terms of volumes of products by about 12% on last year.

Gross tonnage and number of ships

Gross tonnage and number of ships visiting Geelong ports for the last 10 years has remained at roughly the same levels.

Year	Gross tonnage handled	Ship visits
2000-2001	12.4 million	498
2001-2002	12.6 million	490
2002-2003	11.6 million	461
2003-2004	11.9 million	443
2004-2005	11.9 million	470
2005-2006	12.3 million	545
2006-2007	12.9 million	478
2007/2008	13.6 million	540
2008/2009	12.1 million	522
2009/10	10.6 million	435

Key functions

Hydrographic survey and dredging

A key VRCA responsibility is to maintain shipping channels to the Port of Geelong to a declared depth of 12.3 metres at all times. Knowledge about the state of the channels is obtained by conducting annual hydrographic surveys of Port of Geelong channels, berths and anchorages. Since 2005 it has been established that major maintenance dredging is unlikely to be needed for the foreseeable future.

Surveys conducted on behalf of the VRCA over the past five years by an independent team confirms this fact, and that no significant shoaling or other hazards are evident in Geelong berths and channels. Accordingly, maintenance dredging will not be required before the next annual survey in 2011.

Ships size and port capacity studies

The VRCA continued its long term forward planning program in relation to a number of key issues facing the Port of Geelong. These are:

- The steady increase in the size of bulk ships being built and operated that are likely to access the port in the near future, and;
- The potential changes to the type and volume of commodities being moved through the port
- The capacity of the channels and berths in the port to accommodate these changes

The work being undertaken by the VRCA includes extensive computer modelling and simulation studies in collaboration with other port users and stakeholders.

Risk Management

The Risk Management Register established by the VRCA in 2004 provides a framework within which the VRCA fulfils its responsibilities under the Port Services Act (1995) on behalf of customers and users of regional ports. The VRCA Risk Committee of the VRCA Board met twice throughout this financial year to review the register. No significant revisions were made, as all major controls have been implemented and active for a number of years.

Safety and the Environment

The provision of safe and secure port waters and assurance of environmentally responsible marine operations is a key indicator of performance for the VRCA. In 2009/2010 the Authority reported zero marine incidents of significance and undertook a number of initiatives to maintain the standards of navigation aids and facilities in port waters.

Marine pollution

Under the Marine Act 1988 the Director of Marine Safety is responsible for ensuring that there are adequate resources to respond effectively to marine pollution events in Victorian waters. The Director has designated the Port of Melbourne Corporation (PoMC) as the responsible regional control agency within the Port Phillip region, including Corio Bay.

Responsibility for investigating marine pollution incidents in Victorian waters belongs to the Victorian Environmental Protection Authority (EPA). The VRCA has a reporting and support role in relation to such incidents and cooperates with the PoMC, the EPA and emergency services organisations as required and as directed by the Director of Marine Safety.

During 2009/2010 no major marine pollution incidents occurred in port waters.

Study of port environment and sediments

Department of Sustainability and Environment (DSE) protocols require that the VRCA conduct a survey of sea bed sediments in Geelong port waters every two years, and provide it with the results. Surveys have been conducted in 2005, 2007 and 2009.

The information collected from the surveys is used to inform long-term port planning and environmental assessment. Most importantly, it is incorporated into the VRCA Channel Improvement database to establish baselines for future comparison.

Port education program for local schools

In 2009-2010 the VRCA continued its Port Educational Program targeting Year 9 and 10 students in the Geelong region with the aim of raising public awareness of the importance of the Port to the local community. Students were drawn from local schools based in Geelong and expanded to include representation from schools in other regional areas near Geelong.

Continuation of the safety awareness campaign

In order to minimise the level of incidents involving small leisure craft in port channels the Authority resumed the ‘Keep Clear of Big Ships!’ education and awareness program begun in 2007/2008.

A program of presentations by senior staff to community organisations was undertaken to spread the safety message as widely as possible. As in previous years this was supported by local radio advertisements, newspaper advertising, and distribution of promotional flyers and merchandise.

Once again the VRCA launch George Molland was used by the Harbour Master to patrol port waters during peak periods and major yachting and boating events.

Additional information

TRADING RESULTS

The Authority's profit / (loss) for the year was $(17.8 million) (2007-2008 $1.3 million) after allowing for an income tax expense / (benefit) of ($7.4 million) (2007-2008 $0.4 million). The results for 2009 – 2010 included costs associated with revaluation of infrastructure assets of $25.9 million with tax benefits of $7.8 million.

REPORTING

The Authority reports to the Minister for Roads and Ports, Tim Pallas MP.

EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year the directors are not aware of any matter or circumstance not otherwise dealt with in this report, which has the potential to significantly affect the operations of the Authority, the results of those operations or the state of affairs of the Authority in subsequent financial years.

DIRECTORS' BENEFITS

No Director of the Authority 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 Authority, a controlled entity or a related body corporate with the director or with a firm of which the director has a substantial financial interest.

INFORMATION ON DIRECTORS

Neil Edwards (Chairman) was appointed a Director of VRCA in January 2008 and Chairman in April 2008. He has been Chief Executive, Chifley Business School, since July 2005 and also Chief Executive, ETM Search and Selection since February 2007. He was previously a Director of the Port of Melbourne Corporation, serving as Executive Chairman in 2003, and Chairman in 2004-2005. From 1999 to March 2003, Neil was Secretary of the Victorian Department of Innovation, Industry and Regional Development and before Executive Director, State Development Policy. Between 1979 and 1996, Neil worked in the Australian Government, including in several senior executive positions in the Departments of Prime Minister and Cabinet and Industry, Science and Tourism, and serving as Private Secretary to successive Australian Ministers for Finance. During 1989-90, he was seconded to the Government of Canada. After qualifying in economics and politics, Neil taught at Monash University and then at the University of New England. Neil is a Fellow of the Australian Institute of Company Directors and a Fellow of the Institute of Public Administration Australia. Neil is also a Director of the Burnet Institute and has served as Commissioner, State Services Authority.

Merran Kelsall (Deputy Chairman) began her career in Chartered Accountancy, becoming a partner in a major practice in 1987. She has worked as an independent director and consultant since 1996. Merran has considerable experience in highly regulated industries, especially financial services, health and utilities. She is also an experienced executive coach and chairs a syndicate for the CEO Institute. Merran's current appointments include: Chairman Auditing and Assurance Standards Board, Public Transport Ombudsman Ltd, Director, Melbourne Water Corporation, RACV Ltd, and Cuscal Ltd.

John McQuilten (Director) was appointed a Director of VRCA in May 2008. He has a background in government and represented Ballarat Province in the Victorian Legislative Council from 1999 to 2006. During his time in the Parliament, John contributed to a number of government committees including the Economic Development Committee and Rural Regional and Services Committee. John began his career as a business consultant working with companies including KPMG and Electronic Data Systems (EDS). He is currently a Member of the Ballarat University Council and the Victorian Rail Freight Review Committee, and was a participant in the 2020 Summit in Canberra. John is also a vigneron in the Bendigo region of Central Victoria.

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
Neil Edwards	6	6
Merran Kelsall	6	6
John McQuilten	6	6

PECUNIARY INTERESTS

The directors, chief executive officer and senior managers have completed a statement of pecuniary interests.

AUDIT COMMITTEE MEMBERSHIP AND ROLE

The Audit Committee consists of all the members of the Board of the Authority, with Merran Kelsall as Chairman.

The main responsibilities of the Audit Committee are to:

- determine the scope of the internal audit function and ensure that its resources are adequate and used effectively including co-ordination 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.

FINANCE AND AUDIT COMMITTEE 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
Neil Edwards	6	6
Merran Kelsall	6	6
John McQuilten	6	6

RISK COMMITTEE MEMBERSHIP AND ROLE

Board members of the Authority constitute membership of the Committee, with John McQuilten as Chairman.

The Risk Committee sits on a half yearly basis to review the risk register and progress in risk management procedures.

The main responsibilities of the risk committee are to:

- ensure the continuing assessment of the risk environment;
- oversee the review and audit of the risk register; and
- ensure the reliable reporting of risks and operational controls.

RISK COMMITTEE 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
Neil Edwards	2	2
Merran Kelsall	2	2
John McQuilten	2	2

EXECUTIVE OFFICER REMUNERATION

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

Income bands	2010 Number	2009 Number
$140,000 to 149,999	-	1
$150,000 to 159,999	2	1

INDEMNIFICATION OF OFFICERS

During the financial year, the Authority took out 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 Authority) incurred in their position as director or executive officer unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage.

CONSULTANCIES

There were no consultancies for the financial year over $100,000.

STATUTORY REQUIREMENTS

Freedom of Information Act

There were no requests under the Freedom of Information Act 1982 received during the year. The Authority has complied with the Act.

Building Act

The Authority complies with the provision of the Building Act 1993.

Competitive Neutrality

The Authority complies with Victorian Government policy on competitive neutrality.

Occupational Health and Safety (OH&S)

The Authority 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 Authority.

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

Whistleblowers Protection Act

The Authority is 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 Authority, 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 Authority.

Disability Act

The Authority is committed to the aims and objectives of the Victorian Disability Act 2006 in regard to respecting the rights and needs of people with a disability.

Multicultural Awareness

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

Risk Attestation Statement

I, Neil Raymond Edwards, certify that the Victorian Regional Channels Authority (VRCA) has a risk management processes in place consistent with the Australian/New Zealand Risk Management Standard AS/NZS 4360:2004.

The VRCA has in place an internal control system which enables the management of the VRCA to understand, manage and control risk exposures. In addition, the VRCA has a Risk Management Committee comprising all of the Board members of the Authority.

The Risk Committee sits on a half yearly basis to review the risk register and the progress of risk management procedures.

Annual Report

The Authority has complied with its statutory obligations in relation to the annual report. Information in relation to the Authority's following activities has been complied with 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;
- overseas visits;
- occupational health and safety; and
- industrial accidents and disputes.

For and on behalf of the Board

Neil Edwards

Neil Edwards

Chairman

Geelong

12 August 2010

Merran Kelsall

Deputy Chairman

Geelong

12 August 2010

Victorian Regional Channels Authority

FINANCIAL STATEMENTS

For the year ended 30 June 2010

CONTENTS

VICTORIAN REGIONAL CHANNELS AUTHORITY
COMPREHENSIVE OPERATING STATEMENT
For the year ended 30 June 2010

	Note	2010 $'000	2009 $'000
Continuing operations			
Income			
Channel income		5,534	5,639
Other income	3	404	391
Total income		**5,938**	**6,030**
Expenses			
Employee benefits	4(a)	823	801
Depreciation and amortisation	4(b)	1,847	1,616
Other maintenance		172	149
Lease	4(c)	72	70
Insurance		150	152
Marine services		745	782
Vessel expenses		51	46
Consultancies and contractors		116	163
Waterway Management		75	80
Special projects		166	439
Revaluation write down	8	25,909	-
Loss on disposal of fixed assets		14	17
Other expenses		487	456
Total expenses		**30,627**	**4,771**
Profit/(loss) for the year before income tax expense/(benefit)		**(24,689)**	**1,259**
Income tax expense/(benefit)	5	(7,411)	383
Profit/(loss) for the year	**14**	**(17,278)**	**876**
Other comprehensive income:			
Movement in property, plant and equipment reserve	13	(10,501)	11,006
Total other comprehensive income for the year		**(10,501)**	**11,006**
Total comprehensive income/(loss) for the year		**(27,779)**	**11,882**

The above comprehensive operating statement should be read in conjunction with the accompanying notes.

VICTORIAN REGIONAL CHANNELS AUTHORITY
STATEMENT OF FINANICAL POSITION
As at 30 June 2010

	Note	2010 $'000	2009 $'000	2008 $'000
Current assets				
Cash and cash equivalents	6	10,920	9,060	7,565
Trade and other receivables	7	913	775	780
Total current assets		**11,833**	**9,835**	**8,345**
Non-current assets				
Infrastructure, property, plant and equipment	8	24,644	66,805	52,362
Intangible assets	9	3	10	21
Deferred tax assets	5(c)	1,339	68	63
Total non-current assets		**25,986**	**66,883**	**52,446**
Total assets		**37,819**	**76,718**	**60,791**
Current liabilities				
Trade and other payables	10	285	167	140
Provisions	11(a)	179	162	127
Total current liabilities		**464**	**329**	**267**
Non-current liabilities				
Provisions	11(b)	18	1	2
Deferred tax liabilities	5(d)	31	11,047	6,260
Total non-current liabilities		**49**	**11,048**	**6,262**
Total liabilities		**513**	**11,377**	**6,529**
Net assets		**37,306**	**65,341**	**54,262**
Equity				
Contributed capital	12	57,883	57,883	57,883
Reserves	13	505	11,006	-
Retained profit/(accumulated losses)	14	(21,082)	(3,548)	(3,621)
Total equity		**37,306**	**65,341**	**54,262**

The above statement of financial position should be read in conjunction with the accompanying notes.

VICTORIAN REGIONAL CHANNELS AUTHORITY
STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2010

	Contributed capital $'000	Reserves $'000	Retained profit/ (accumulated losses) $'000	Total equity $'000
Balance previously reported at 1 July 2008	**57,883**	**-**	**1,277**	**59,160**
Correction of error (refer note 24)	-	-	(4,898)	(4,898)
Balance at 1 July 2008	**57,883**	**-**	**(3,621)**	**54,262**
Profit/(loss) for the year (refer note 14)	-	-	876	876
Other comprehensive income for the year (refer note 13)	-	11,006	-	11,006
Total comprehensive income for the year	**-**	**11,006**	**876**	**11,882**
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	-	-	-	-
Dividends provided for or paid (refer note 14)	-	-	(803)	(803)
	-	**-**	**(803)**	**(803)**
Balance at 30 June 2009	**57,883**	**11,006**	**(3,548)**	**65,341**
Balance at 1 July 2009	**57,883**	**11,006**	**(3,548)**	**65,341**
Profit/(loss) for the year (refer note 14)	-	-	(17,278)	(17,278)
Other comprehensive income for the year (refer note 13)	-	(10,501)	-	(10,501)
Total comprehensive income for the year	**-**	**(10,501)**	**(17,278)**	**(27,779)**
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	-	-	-	-
Dividends provided for or paid (refer note 14)	-	-	(256)	(256)
	-	**-**	**(256)**	**(256)**
Balance at 30 June 2010	**57,883**	**505**	**(21,082)**	**37,306**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

VICTORIAN REGIONAL CHANNELS AUTHORITY
STATEMENT OF CASH FLOWS
For the year ended 30 June 2010

	Note	2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from trade and other debtors		6,031	6,214
Payments to trade creditors, other creditors and employees		(2,886)	(3,294)
Goods and services tax paid to the Australian Taxation Office		(322)	(303)
Interest received		323	401
Income tax paid (refer note 1(f))		(366)	(344)
Net cash inflow/(outflow) from operating activities	**23**	**2,780**	**2,674**
Cash flows from investing activities			
Payments for infrastructure, property, plant and equipment		(762)	(476)
Proceeds from sale of infrastructure, property, plant and equipment		98	101
Net cash inflow/(outflow) from investing activities		**(664)**	**(375)**
Cash flows from financing activities			
Dividends paid		(256)	(803)
Net cash inflow/(outflow) from financing activities		**(256)**	**(803)**
Net increase in cash and cash equivalents		**1,860**	**1,496**
Cash and cash equivalents at the beginning of the financial year		9,060	7,564
Cash and cash equivalents at the end of the financial year	**6**	**10,920**	**9,060**

The above statement of cash flows should be read in conjunction with the accompanying notes.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

Contents

Note 1. Summary of significant accounting policies

(a) Corporate information

Victorian Regional Channels Authority (VRCA) is a Government Business Enterprise established by the Victorian Government under the *Port Services Act 1995 (Vic)*. The financial statements cover VRCA as an individual reporting entity. The board of VRCA is directly accountable to the Victorian Government through the Minister for Roads and Ports and Major Projects, and the Treasurer.

The principal activity of VRCA are outlined under Section 21 of the *Port Services Act 1995 (Vic)* and cover the management and maintenance of the Geelong shipping channels and direction and control of vessels within the Geelong port waters. The main objective of VRCA is to ensure that port waters and channels in port waters are managed for use on a fair and reasonable basis.

The financial statements incorporate all activities of VRCA.

(b) Statement of compliance

The financial statements of VRCA are a set of general purpose financial statements which have been prepared on an accrual basis in accordance with the *Financial Management Act 1994* and applicable Australian Accounting Standards and Interpretations (AAS).

The annual financial statements were authorised for issue by the VRCA Board on 12 August 2010.

(c) Basis of preparation

VRCA has been assessed as a for-profit entity under *Financial Reporting Direction (FRD) 108*. The financial statements have been prepared on a historical cost basis, except for the revaluation of channel assets and navigation aids. Cost is based on the fair values of the consideration given in exchange for assets. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Accounting policies are selected and applied in a manner, which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Compliance with IFRS
The financial statements of VRCA also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Adoption of new and revised accounting standards
Financial statement presentation
VRCA has applied the revised AASB 101 *Presentation of Financial Statements,* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. As a consequence VRCA has changed the presentation of its financial statements. Comparative information has been re-presented where appropriate so that it is also in conformity with the revised standard.

AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 January 2009
In May 2008 and April 2009 the AASB issued omnibus of amendments to its Standards as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of VRCA.

- ***AASB 101 Presentation of Financial Statements:*** assets and liabilities classified as held for trading in accordance with *AASB 139 Financial Instruments:* Recognition and Measurement are not automatically classified as current in the Statement of Financial Position. VRCA amended its accounting policies accordingly and analysed whether management's expectation of the period of realisation of financial assets and liabilities is in accordance with AASB 101. This did not result in any re-classification of financial instruments between current and non-current in the Statement of Financial Position.
- ***AASB 116 Property, Plant and Equipment:*** replace the term "net selling price" with "fair value less costs to sell". VRCA amended its accounting policy accordingly, which did not result in any change in the financial position.

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

- ***AASB 136 Impairment of Assets:*** when discounted cash flows are used to estimate "fair value less cost to sell" additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use".

AASB 2009-2 Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments
The amendments to AASB 7 expand the disclosures required in respect of fair value measurements and liquidity risk. VRCA has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

(d) Foreign currency translation

Functional and presentation currency
Both the functional and presentation currency of VRCA is Australian dollars ($).

(e) Revenue

Revenue is measured at fair value of the consideration received or receivable.

VRCA recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to VRCA and specific criteria have been met for each of VRCA's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the income have been resolved. VRCA bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for each of VRCA's major activities as follows:

(i) Channel fees
Channel fees represents revenue earned from the sale of VRCA's services (use of shipping channels). These fees are recognised as revenue in the period in which the service has been provided.

(ii) Interest revenue
Interest revenue represents revenue received or receivable on at-call and short-term deposits invested by VRCA. It is recognised as the interest accrues to the net carrying amount of the financial assets using the effective interest rate method. At-call and short-term deposits are brought to account at fair value.

(iii) Sundry revenue
Sundry revenue is all other revenue earned by VRCA not dealt with above. Sundry revenue is recognised as revenue in the period in which the service has been provided.

(f) Income tax

By direction of the Treasurer of Victoria under the *State Owned Enterprises Act 1992*, VRCA is subject to the National Tax Equivalent Regime (NTER).

The amount recognised for current tax is based on the profit or loss for the year as adjusted for non-assessable and non-deductible items. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of assets and liabilities as determined under income tax legislation.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities (other than as a result of the acquisition of an entity or operation) which affects neither taxable income nor net profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the carrying amount of the asset or liability is recovered or settled. Deferred tax is recognised as an expense or revenue in the profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

The NTER is administered by the Australian Taxation Office on behalf of the States and Territories. Income tax is paid or payable to the State.

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

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and VRCA intends to settle its current tax assets and liabilities on a net basis.

(g) Leases

Operating lease

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense in the year in which they are incurred. This reflects the pattern of benefits derived by VRCA.

Expense

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(h) Impairment of assets

All of VRCA's assets, except financial assets, are assessed annually for indications of impairment (i.e. as to whether their carrying value exceeds their recoverable amount).

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off by a charge to profit or loss except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that specific asset. The recoverable amount for an asset is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

(i) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that VRCA may not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 120 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

(k) Infrastructure, property, plant and equipment

Non-current physical assets are measured at fair value and/or revalued in accordance with FRD103D, which was issued by the Minister for Finance. This revaluation process normally occurs every five years, based upon the asset's classification under the Government Purpose Classification, but may occur more frequently if fair value assessments indicate material changes in values. Revaluation increments or decrements arise from differences between an assets carrying value and fair value.

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

An independent valuation of VRCA's channel assets and navigation aids was performed by the Victorian Valuer-General to determine their fair value. The valuation, which conforms to Australian Valuation Standards, was determined by reference to the amounts for which assets could be exchanged between knowledgeable willing parties in an arm's length transaction. The valuation was based on independent assessments. The effective date of the valuation is 30 June 2010. Refer to Note 2 for key assumptions utilised in the fair value determination.

There is no market-based evidence of fair value for channel assets due to their specialised nature. Channel assets are valued using a discounted cash flow (DCF) approach to determine their fair value. Navigation aids were determined using the depreciated replacement cost method to determine their fair value.

Revaluation increments are credited directly to equity in the asset revaluation reserve net of tax effect, except to the extent that an increment reverses a revaluation decrement (in respect of the same asset) previously recognised as an expense in profit or loss, the increment is first recognised as income.

Revaluation decrements are recognised immediately as expenses in the net result, except to the extent that a balance exists in the revaluation reserve (in respect of the same asset), they are offset to the asset revaluation reserve.

Gains and losses on disposals of assets are determined by comparing proceeds from sale with the carrying amount and selling costs. These are included in profit or loss.

Upon disposal or derecognition, any asset revaluation reserve relating to the particular asset being sold or written off is transferred to retained earnings/(accumulated losses).

The written down value of plant and equipment approximates fair value.

(i) *Depreciation*

Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives (or, in the case of leasehold improvements and certain leased plant and equipment, the lease term if shorter) as follows:

	2010	2009
Channels	40 years	40 years
Navigation aids	5-40 years	5-40 years
Office furniture, fittings and equipment	3-10 years	3-10 years
Motor vehicles	4 years	4 years

(ii) *Change in accounting estimates*

The estimated useful lives, residual values and depreciation method are reviewed at the end of each financial reporting period and, where changed, are accounted for as a change in accounting estimate. Where depreciation rates or methods are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method. The revaluation of fair value and reassessment of useful live will result in a decrease in depreciation on channel assets of $1,078,000 per year and an increase in depreciation on navigation aids of $89,000 per year.

(iii) *Acquisition*

The purchase method of accounting is used for all acquisitions of assets, being the fair value of the assets provided as consideration at the date of acquisition plus any incidental costs attributable to the acquisition.

Infrastructure, property, plant and equipment represent non-current assets comprising channels, navigation aids, motor vehicles and plant and equipment used by VRCA in its operations. Items with a cost or value in excess of $1,000 and a useful life of more than one year are recognised as assets. All other assets are expensed as acquired.

(iv) *Recoverable amount*

An asset's carrying amount is written down immediately to its recoverable amount if the assets' carrying amount is greater than its estimated recoverable amount (refer to note 1(h)).

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

(v) ***Repairs and maintenance***

Routine maintenance, repair costs and minor renewal costs are expensed as incurred. Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold, the cost is capitalised and depreciated.

(l) Intangible assets

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses are capitalised to software and systems. Costs capitalised include external direct costs of materials and services. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 5 years (or shorter if the useful life assessment indicates otherwise). The basis of amortisation is consistent with the prior year.

(m) Payables

Trade and other payables are carried at amortised cost. Due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to VRCA prior to the end of the financial year that are unpaid as at year end. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Provisions

Provisions are recognised when VRCA has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

(o) Employee benefits

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

Liabilities for wages and salaries, expected to be settled within 12 months of the reporting date, are measured at their nominal amounts (including on-costs) using the remuneration rates expected to apply at the time of the settlement and are recognised as current liabilities. No liability is recognised for non-vesting sick leave as the anticipated pattern of future sick leave taken indicates that accumulated non-vesting leave will not be used.

(ii) ***Annual leave***

Annual leave entitlements are accrued on a pro rata basis in respect of services provided by employees up to the reporting date, having regard to rates expected to apply when the liabilities are settled. The entire obligation has been recognised as a current liability as VRCA does not have an unconditional right to defer settlement.

(iii) ***Long service leave***

Long service leave entitlements are assessed at balance date having regard to expected employees' remuneration rates on settlement, employment related on-costs and other factors including expected accumulated years of employment on settlement and experience of employees' departure per year of service. Commonwealth bond rates are used for discounting future cash flows.

Unconditional long service leave is disclosed as a current liability even when the liability is not expected to settle within 12 months because there is not the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months. The component of leave expected to be settled within 12 months is measured at nominal value and the component expected to be settled beyond 12 months is measured at present value.

Conditional long service leave is disclosed as a non-current liability as there is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service. Conditional long service leave is disclosed as a non-current liability measured at present value.

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

(iv) *Superannuation*

One VRCA employee is a member of the State Superannuation Scheme, defined benefit superannuation scheme. This defined benefit fund is closed to new members.

VRCA does not recognise any defined benefit liability in respect of the State Superannuation Scheme. VRCA has no legal or constructive obligation to pay future benefits relating to its employees as its only obligation is to pay superannuation contributions as they fall due and payable. Amount paid or payable are charged as an expense.

The Department of Treasury and Finance recognises and discloses the defined benefit liabilities for the State Superannuation Scheme in its financial report.

The amount charged to profit or loss in respect of superannuation represents the contributions made by VRCA to the superannuation fund in respect to the current service of employees. Superannuation contributions are made to funds based on the relevant rules of each fund. Contributions to defined contribution funds are made in accordance with the *Superannuation Guarantee (Administration) Act 1992*. Contributions are charged as an expense as the contributions are paid or become payable.

(p) Contributed capital

Consistent with applicable Australian reporting requirements and the *Financial Management Act 1994*, transfers and appropriations for additions of net assets between VRCA and State government departments designated as contributed capital are recognised as capital transactions.

(q) Dividend policy

VRCA pays dividends in accordance with a determination of the Treasurer of Victoria under the *Port Services Act 1995 (Vic)*. The obligation to pay a dividend arises after consultation between VRCA's Board, the Minister for Roads and Ports and Major Projects and the Treasurer of Victoria. Following this consultation process, the Treasurer makes a formal determination. Dividends declared on or before the reporting date are rcognised as a liability.

(r) Goods and Services Tax (GST)

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 an asset or part of an item of expense. The net amount of GST recoverable from, or payable to, the Australian Taxation Office 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.

(s) Rounding of amounts

Unless otherwise stated, amounts in the financial report have been rounded to the nearest thousand dollars or in certain cases to the nearest dollar.

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

(t) New accounting standards and interpretations

At the date of this financial report the following standards and interpretations, which are applicable to VRCA, which have been issued but are not yet operative. A discussion of their future requirements and their impact on VRCA follows:

Reference	Summary	Application date (financial years beginning)	Impact on VRCA's financial statements
AASB 2009-5 Further amendments to Australian Accounting Standards arising from the annual improvements project [AASB 5, 8, 101, 107, 117,118, 136 and 139]	Some amendments will result in accounting changes for presentation, recognition or measurement purposes, while other amendments will relate to terminology and editorial changes.	Beginning 1 Jan 2010	Terminology and editorial changes.
Erratum *General Terminology changes*	Editorial amendments to a range of Australian Accounting Standards and Interpretations	Beginning 1 Jan 2010	Terminology and editorial changes.
AASB 124 Related party disclosures (Dec 2009)	Government related entities have been granted partial exemption with certain disclosure requirements.	Beginning 1 Jan 2011	Preliminary assessment suggests that impact is insignificant.
AASB 2009-14 Amendments to Australian Interpretation - Prepayments of a minimum funding requirement [AASB Interpretation 14]	Amendment to Interpretation 14 arising from the issuance of *Prepayments of a minimum funding requirement*	Beginning 1 Jan 2011	Expected to have no significant impact to VRCA financial statements.
AASB 9 Financial instruments	This standard simplifies requirements for the classification and measurement of financial assets resulting from Phase 1 of the IASB's project to replace IAS 39 *Financial instruments: recognition and measurement* (AASB 139) *financial Instruments: recognition and measurement).*	Beginning 1 Jan 2013	Detail of impact is still being assessed but expected to be minor.
AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 and 1038 and Interpretations 10 and 12]	This gives effect to consequential changes arising from the issuance of AASB 9.	Beginning 1 Jan 2013	Detail of impact is still being assessed.

Note 2. Critical accounting estimates and judgements

In the application of AAS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that may have a financial or disclosure impact on VRCA and are believed to be reasonable under the circumstances.

Critical accounting judgements
Critical judgements that management has made in the process of applying the VRCA’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements are:

Valuation of infrastructure assets
As at 30 June 2009 channel assets were valued at fair value under a discounted cash flow model in accordance with FRD103D. The long-term bond rate (10 year at 5.5%) was used as the discount rate. Revenues and expenses were projected on the basis of the forecast cash flows after taking into account historical performance. Cash flows included direct revenues and expenses and an allocation of non-direct costs attributable to the channel assets.

As at 30 June 2010 an independent valuation of VRCA’s non-current physical assets was performed by the Victorian Valuer-General to determine their fair value. The valuation, which conforms to Australian Valuation Standards, was determined by reference to the amounts for which assets could be exchanged between knowledgeable willing parties in an arm's length transaction. The valuation was based on independent assessments. The effective date of the valuation is 30 June 2010. The independent valuers adopted the same discounted cash flow model used in 2009 with the following improvements;

- An allowance for risk in the discount rate - two discount rates were used (high - 9.7% and low - 9.1%)
- The impact of taxation
- All direct and non-direct costs (a whole of business approach)

The fair value for channel assets was taken as the mid point of the results determine using the high and low discount rates.

Impairment of non-financial assets
VRCA assesses impairment of all assets at each reporting date by evaluating conditions specific to VRCA and to the particular asset that may lead to impairment. These include obsolescence or physical damage, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined.

Note 3. Other revenue

	2010 $’000	2009 $’000
Other revenue		
Interest revenue	389	390
Sundry revenue	15	1
Total other revenue	**404**	**391**

Note 4. Expenses

		2010 $'000	2009 $'000
(a)	**Employee benefits**		
	Salary and wages	645	617
	Superannuation	61	56
	Annual and long service leave expense	33	34
	Other employee expenses (fringe benefits tax, payroll tax, workcover levy, etc)	84	94
	Total employee benefits	**823**	**801**
(b)	**Depreciation and amortisation**		
	Navigation aids	213	212
	Plant and equipment	147	145
	Channel assets	1,480	1,242
	Software	7	17
	Total depreciation and amortisation	**1,847**	**1,616**
(c)	**Operating Leases**		
	Minimum lease payments		
	Building rentals	64	61
	Storage rentals	2	3
	Equipment rentals	6	6
	Total rental expense	**72**	**70**

Note 5. Income tax expense/(benefit)

		2010 $'000	2009 $'000
(a)	**Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable/(receivable)**		
	Profit/(loss) from continuing operations before income tax expense/(benefit)	(24,689)	1,259
	Tax at the Australian tax rate of 30% (2009 - 30%)	**(7,406)**	**378**
	Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
	Under/(over) provided in prior year	(8)	-
	Non deductible items	3	5
	Income tax expense/(benefit)	**(7,411)**	**383**
(b)	**Income tax expense/(benefit)**		
	Current taxation	383	318
	Under/(over) provided in prior year	(8)	-
	Movement in deferred tax asset (refer 5(c))	(1,271)	(5)
	Movement in deferred tax liability (refer 5(d))	(6,515)	70
	Income tax expense/(benefit) recognised in the statement of comprehensive income	**(7,411)**	**383**
	Weighted average effective tax rate	*30.02%*	*30.42%*

Note 5. Income tax expense/(benefit) *(continued)*

		2010 $'000	2009 $'000
(c)	**Deferred tax asset**		
	Opening balance	68	63
	Temporary differences	1,271	5
	Closing balance	**1,339**	**68**
	Represented by;		
	Amounts allocated to profit and loss		
	Fixed assets	1,227	-
	Pooled assets	4	5
	Accrued expenses	49	14
	Annual and long service leave provisions	59	49
		1,339	**68**
(d)	**Deferred tax liabilities**		
	Opening balance	11,047	6,260
	Temporary differences recognised in comprehensive operating statement	(6,515)	70
	Temporary differences recognised directly in equity	(4,501)	4,717
	Closing balance	**31**	**11,047**
	Represented by;		
	Amounts allocated to profit and loss		
	Fixed assets	-	11,036
	Accrued revenue	31	11
		31	**11,047**
(e)	**Net deferred tax asset/(liabilities)**		
	Deferred tax asset (refer note 5(c))	1,339	68
	Deferred tax liabilities (refer note 5(d))	(31)	(11,047)
	Net deferred tax asset/(Liabilities)	**1,308**	**(10,979)**

Note 6. Cash and cash equivalents

	2010 $'000	2009 $'000
Cash at bank and on hand	270	210
Short term deposits	10,650	8,850
	10,920	**9,060**

Cash at bank
Due to VRCA's investment policy, generally only small amounts of cash are held in the bank account. These amounts are aimed at levels sufficient to cover current liabilities of VRCA.

Short term deposits
All deposits of VRCA are limited instruments directly accepted by an authorised bank or issued by a Government Treasury or Authority and guaranteed by a state or Commonwealth government. These deposits had a floating interest rate of 3.09% and 4.84% (2008/09 2.95% and 7.88%).

Note 7. Trade and other receivables

	2010 $'000	2009 $'000
Current		
Trade receivables	599	480
Prepayments	101	111
Interest receivable	102	37
GST receivable	34	21
Other	77	126
	913	**775**

Note 8. Infrastructure, property, plant and equipment

	Navigation aids $'000	Plant and equipment $'000	Channel assets $'000	Work in progress $'000	Total $'000
Carrying amount 1 July 2008	**6,957**	**686**	**44,719**	**-**	**52,362**
Revaluations recognised directly in equity	-	-	15,723	-	**15,723**
Revaluations recognised in profit/(loss)	-	-	-	-	**-**
Additions	240	187	-	-	**427**
Transfers	7	(7)	-	-	**-**
Disposals	-	(108)	-	-	**(108)**
Depreciation charge	(212)	(145)	(1,242)	-	**(1,599)**
Carrying amount 30 June 2009	**6,992**	**613**	**59,200**	**-**	**66,805**
Fair value (note 1(k))	-	-	59,200	-	**59,200**
Cost *	7,528	1,047	-	-	**8,575**
Accumulated depreciation	(536)	(434)	-	-	**(970)**
	6,992	**613**	**59,200**	**-**	**66,805**
Carrying amount 1 July 2009	**6,992**	**613**	**59,200**	**-**	**66,805**
Revaluations recognised directly in equity	721	-	(15,723)	-	**(15,002)**
Revaluations recognised in profit/(loss)	(7)		(25,902)	-	**(25,909)**
Additions	10	182	-	501	**693**
Transfers	-	-	-	-	**-**
Disposals	(10)	(93)	-	-	**(103)**
Depreciation charge	(213)	(147)	(1,480)	-	**(1,840)**
Carrying amount 30 June 2010	**7,493**	**555**	**16,095**	**501**	**24,644**
Fair value (note 1(k))	7,493	-	16,095	-	**23,588**
Cost *	-	978	-	501	**1,479**
Accumulated depreciation	-	(423)	-	-	**(423)**
	7,493	**555**	**16,095**	**501**	**24,644**

* Written down value approximates fair value.

Impairment of asset
VRCA performs annual impairment testing of its assets. There were no impairments losses.

Note 9. Intangible assets

	2010 $'000	2009 $'000
Software and systems		
At cost	113	113
Less: Accumulated amortisation	(110)	(103)
	3	**10**
Reconciliation:		
Carrying amount at start of year	**10**	**21**
Additions	-	6
Amortisation expense	(7)	(17)
Carrying amount at end of year	**3**	**10**

Note 10. Trade and other payables

	2010 $'000	2009 $'000
Current unsecured		
Trade Creditors	25	2
GST payable	52	47
Other creditors and accruals	208	118
	285	**167**

Note 11. Provisions

		2010 $'000	2009 $'000
(a)	**Current**		
	Employee benefits (note 11(c))	179	162
		179	**162**
(b)	**Non-current**		
	Employee benefits (note 11(c))	18	1
		18	**1**
(c)	**Employee benefits**		
	Current		
	All annual leave and LSL entitlements representing 7 plus years of continuous service		
	• Short-term employee benefits that fall due within 12 months after the end of the period measured at nominal value. This balance represents the annual leave provision for VRCA.	76	77
	• Other long-term employee benefits that do not fall due within 12 months after the end of the period measured at present value. This balance represents the LSL provision for VRCA.	103	85
		179	**162**
	Non-current		
	LSL representing less than 7 years of continuous service measured at present values	18	1

Note 12. Contributed capital

	2010 $'000	2009 $'000
Balance at the beginning of the year	57,883	57,883
Balance at the end of the year	**57,883**	**57,883**

Capital Management
Management controls the capital of VRCA in order to maintain a good debt to equity ratio and ensure that it can fund its operations and continue as a going concern. VRCA's debt and capital includes contributed capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages VRCA's capital by assessing its financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels.

Note 13. Reserves

	2010 $'000	2009 $'000
Asset Revaluation Reserve		
Balance at the beginning of the year	11,006	-
Revaluation increments/(decrements) in navigation aids	505	-
Revaluation increments/(decrements) in channel assets	(11,006)	11,006
Balance at the end of the year	**505**	**11,006**

The revaluation reserve records revaluations of non-current assets net of tax effect.

Note 14. Retained profits/(accumulated losses)

	2010 $'000	2009 $'000
Movements in retained profits were as follows:		
Retained profits/(accumulated losses) at the beginning of the year	**(3,548)**	**(3,621)**
Profit/(loss) for the year	(17,278)	876
Dividends paid	(256)	(803)
Retained profits/(accumulated losses) at the end of the year	**(21,082)**	**(3,548)**

Note 15. Superannuation

One VRCA employee is a member of a defined benefit superannuation scheme. All other employees are members of accumulation schemes. Expenses recognised by VRCA in relation to contributions made during the year to defined contribution superannuation plans of which VRCA's employees are members are as follows:

Fund	Contributions made 2010 $'000	Contributions made 2009 $'000	Contributions outstanding 2010 $'000	Contributions outstanding 2009 $'000
AMP Flexible Life (Accumulation)	8	7	-	-
Camilo Super Fund (Accumulation)	16	13	-	-
Kelsall Superannuation Fund (Accumulation)	2	2	-	-
MLC Investments (Accumulation)	4	4	-	-
McQuilten Family Super (Accumulation)	2	2	-	-
SERF (Accumulation)	12	11	-	-
State Superannuation Scheme (Defined Benefit)	13	13	-	-
Vic Super (Accumulation)	4	4	-	-
Total	**61**	**56**	**-**	**-**

Note 16. Key management personnel disclosures

(a) Responsible persons

The names of persons who were responsible persons of VRCA at any time during the financial year were:

(i) Responsible Ministers:

Mr T Pallas MP — *Minister for Roads and Ports and Major Projects*
Mr J Lenders MP — *Treasurer*

(ii) Directors:

Mr N Edwards — *Chairperson*
Ms J Kelsall — *Deputy Chairperson*
Mr J McQuilten

(iii) Accountable Officer:

Captain P McGovern

	2010 $'000	2009 $'000
Responsible person's remuneration (*)		
Short-term employment benefits accountable officer	175	159
Short-term employment benefits other	92	99
Total base remuneration paid or payable during the year pursuant to employment contracts included in the above remuneration.	**267**	**258**
Bonuses paid or payable during the year pursuant to employment contracts included in the above remuneration.	16	12
Total remuneration paid or payable (including bonuses and superannuation) during the year to all responsible persons by VRCA.	**283**	**270**

(*) The responsible Ministers' remuneration is reported separately in the financial statements of the Department of Premier and Cabinet.

Note 16. Key management personnel disclosures *(continued)*

The number of responsible persons and their total and base remuneration during the reporting period are shown below in their relevant income bands. Base remuneration includes superannuation and other benefits but is exclusive of bonus payments, long service leave payments, redundancy payments and retirement benefits.

	Total Remuneration		Base Remuneration	
	2010	**2009**	**2010**	**2009**
$20,000 to $29,999	2	2	2	2
$40,000 to $49,999	1	1	1	1
$150,000 to $159,999	-	-	-	1
$170,000 to $179,999	-	1	1	-
$190,000 to $199,999	1	-	-	-
Total numbers	**4**	**4**	**4**	**4**
Remuneration $'000	**283**	**270**	**267**	**258**

Remuneration received or receivable by the Accountable Officer in connection with the management of VRCA during the reporting period was in the range $190,000 – $199,999 ($180,000 – $189,999 in 2008/09).

(b) Executive Officer's remuneration

The number of executive officers, other than responsible persons, and their base and total remuneration during the financial year are shown in the table below in their relevant income bands.

	Total Remuneration		Base Remuneration	
	2010	**2009**	**2010**	**2009**
$130,000 to $139,999	-	-	-	2
$140,000 to $149,999	-	1	1	-
$150,000 to $159,999	2	1	1	-
Total numbers	**2**	**2**	**2**	**2**
Remuneration $'000	312	296	286	275
Bonuses paid to executive officers included above during the financial year $'000	26	21		

(c) Loans and other transactions with responsible persons and their related entities

There were no related party transactions between VRCA and any of the executive officers or their related entities.

Note 17. Remuneration of auditors

	2010 $'000	2009 $'000
During the year the following fees were paid or payable for services provided by the auditor of VRCA:		
Victorian Auditor-General's Office		
Audit of financial statements	25	26

Note 18. Financial instruments

Financial risk management objectives and policies
VRCA's principal financial instruments comprise of:

- cash assets;
- receivables (excluding statutory receivables); and
- payables (excluding statutory payables).

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instrument above are disclosed in Note 1 to the financial statements.

The main purpose in holding financial instruments is to prudentially manage VRCA's financial risks within the Government policy parameters.

(i) Categorisation of financial instruments

	Notes	Contractual financial assets – loans and receivables $'000	Contractual financial liabilities at amortised cost $'000	Total $'000
2010				
Contractual financial assets				
Current assets				
Cash and cash equivalents	6	10,920	-	10,920
Trade and other receivables	7	599	-	599
Total contractual financial assets		**11,519**	**-**	**11,519**
Contractual financial liabilities				
Current liabilities				
Trade and other payables	10	-	25	25
Total contractual financial liabilities		**-**	**25**	**25**
Net holding gain/(loss) on financial instruments by category				
Net holding gain/(loss)		-	-	-
Total interest income/(expense)		389	-	389
Total		**389**	**-**	**389**
2009				
Contractual financial assets				
Current assets				
Cash and cash equivalents	6	9,060	-	9,060
Trade and other receivables	7	480	-	480
Total contractual financial assets		**9,540**	**-**	**9,540**
Contractual financial liabilities				
Current liabilities				
Trade and other payables	10	-	2	2
Total contractual financial liabilities		**-**	**2**	**2**
Net holding gain/(loss) on financial instruments by category				
Net holding gain/(loss)		-	-	-
Total interest income/(expense)		390	-	390
Total		**390**	**-**	**390**

Note 18. Financial instruments *(continued)*

(ii) Credit quality of contractual financial assets that are neither past due nor impaired

	Notes	Financial institutions (AAA credit rating)	Other	Total
2010				
Contractual financial assets				
Current assets				
Cash and cash equivalents	6	10,920	-	10,920
Trade and other receivables	7	-	599	599
Total contractual financial assets		**10,920**	**599**	**11,519**
2009				
Contractual financial assets				
Current assets				
Cash and cash equivalents	6	9,060	-	9,060
Trade and other receivables	7	-	480	480
Total contractual financial assets		**9,060**	**480**	**9,540**

(iii) Financial Risk Management
VRCA maintains a comprehensive Risk Management System, which is integrated with its business planning processes. There is a formally documented Risk Management Policy, guidelines and a framework, which is consistently applied across the business. Risk assessment reports are presented to the Audit Committee and the Board regularly, which outlines all corporate risks including financial risks. Each risk is assessed regularly against the risk matrix to ensure the level of risk is appropriate and the treatment and controls are adequate.

(iv) Credit risk
Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to VRCA. The credit risk relating to VRCA's financial assets, which are recognised in the statement of financial position is the carrying amount of such assets, net of any provisions for doubtful debts.

VRCA manages credit risk by obtaining credit checks for new counterparties prior to establishing credit facilities and by conducting checks for existing customers on a regular basis. Receivables are monitored on an ongoing basis, resulting in minimal exposure to bad debts. Receivables are 30 day accounts and paid within the trading terms. Credit risk is also minimised by investing surplus funds with financial institutions that maintain a high credit rating.

(v) Liquidity risk
Liquidity risk is the risk that VRCA would be unable to meet its financial obligations as and when they fall due. VRCA operates under the Government fair payment policy of settling financial obligation within 30 days and in the event of a dispute making payments within 30 days of resolution.

VRCA's maximum exposure to liquidity risk is the carrying amount of financial liabilities as disclosed on the face of the statement of financial position.

VRCA manages its liquidity risk to ensure that adequate cash funds are available at all times to meet its commitments as they arise. This objective is met through:

- an efficient and effective banking structure;
- sound cash management practices;
- regular identification and monitoring of the maturity profile of liquid assets and liabilities together with regular cash flow forecasting; and
- investments that are limited to highly liquid and secure assets.

Note 18. Financial instruments *(continued)*

The Treasury Corporation of Victoria ensures adequate access to financial markets for VRCA and hence, the liquidity risk faced by VRCA is not considered significant in view of VRCA's cash holding. Contractual obligations for payables is equal to the carrying amounts disclosed in note 10. Payables held at 30 June 2010 mature within 30 days (2009 30 days).

(vi) Market risk

VRCA's exposure to market risk is primarily through interest rate movements in respect of cash and cash equivalents. A movement in interest rates by 1% will impact on interest revenue by $109,200 (2009 $90,600).

(vii) Interest rate risk analysis

The exposure to interest rate risks and the effective weighted average interest rates for financial assets and financial liabilities at the reporting date are as follows:

	Floating Interest $'000	Non-interest bearing $'000	Total $'000
2010			
Financial assets:			
Cash and cash equivalents	10,920	-	10,920
Trade and other receivables	-	599	599
	10,920	**599**	**11,519**
Weighted average interest rate	*4.0%*		
Financial liabilities:			
Trade and other payable	-	25	25
	-	**25**	**25**
Net financial assets/(liabilities)	**10,920**	**574**	**11,494**
2009			
Financial assets:			
Cash and cash equivalents	9,060	-	9,060
Trade and other receivables	-	480	480
	9,060	**480**	**9,540**
Weighted average interest rate	*5.4%*		
Financial liabilities:			
Trade and other payable	-	2	2
	-	**2**	**2**
Net financial assets/(liabilities)	**9,060**	**478**	**9,538**

Note 18. Financial instruments *(continued)*

(viii) Net fair value of financial assets and liabilities

The net fair value of VRCA's cash and deposits and non-interest bearing financial assets and liabilities is equal to their carrying value.

Comparison between carrying amount and fair value

	Notes	Carrying amount 2010 $'000	Fair value 2010 $'000	Carrying amount 2009 $'000	Fair value 2009 $'000
Contractual financial assets					
Current assets					
Cash and cash equivalents		10,920	10,920	9,060	9,060
Trade and other receivables		599	599	480	480
Total contractual financial assets		**11,519**	**11,519**	**9,540**	**9,540**
Contractual financial liabilities					
Current liabilities					
Trade and other payables		25	25	2	**2**
Total contractual financial liabilities		**25**	**25**	**2**	**2**

Fair value measurements in the statement of financial position

Certain financial statements that are measured subsequent to initial recognition at fair value are grouped into levels 1, 2 or 3 based on the degree to which fair value is observable.

- Level 1 fair value measurements are those derived from quoted priced (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included with level 1 that are observable for the asset or liability either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 30 June 2010 and 30 June 2009, no financial assets or liabilities held by VRCA required fair value measurement subsequent to initial recognition.

Note 19. Contingencies

As at the reporting date there were no events that would give rise to a contingency.

Note 20. Commitments

		2010 $'000	2009 $'000
(a)	**Operating lease commitments ***		
	Non cancellable operating leases contracted for but not capitalised in the financial statements		
	Commitments for minimum lease payments:		
	Payable no later than 1 year	-	62
	Payable 1-5 years	-	-
		-	**62**
	GST claimable	-	(5)
	Net commitment	**-**	**57**
(b)	**Operating commitments**		
	Total expenditure contracted for operating expenditure at balance date but not incurred or recognised as liabilities:		
	Payable no later than 1 year	45	44
	Payable 1-5 years	65	54
		110	**98**
	GST claimable	10	(9)
	Net commitment	**100**	**89**

* On the 15 June 2010 VRCA moved from its Brougham Street address to new premises. The lease for the new premises is still being negotiated.

Note 21. Related party transactions

The Victorian State Government prepares consolidated financial statements relating to its controlled entities. For the purpose of preparing the State government's financial statements, transactions which VRCA has undertaken with other State Government controlled entities, have been eliminated in the State Government's statements.

The aggregate amounts of VRCA's transactions conducted during the year and its assets and liabilities at the end of the year which relate to other controlled entities are as follows:

	2010 $'000	2009 $'000
Other transactions		
Interest revenue	370	377
Assets	10,650	8,850

Note 22. Events occurring after reporting period

Since the end of the financial year there was not any matter or circumstance not otherwise dealt with in these statements, which has the potential to significantly affect the operations of VRCA, the results of those operations or the state of affairs of VRCA in subsequent financial years.

Note 23. Reconciliation of profit to net cash inflow/(outflow) from operating activities

	2010 $'000	2009 $'000
Profit/(loss) for the year	(17,278)	876
Depreciation and amortisation	1,847	1,616
Revaluation of fixed assets	25,909	-
Loss on sale of assets	14	17
GST included in investing activities	60	34
Change in operating assets and liabilities;		
(Increase) / decrease in trade & other receivables	(73)	(6)
(Increase) / decrease in interest accrued	(65)	11
Decrease in trade & other payables	118	27
Increase in provisions	34	34
Increase / (decrease) in tax provisions	(7,786)	65
Net cash flows from operating activities	**2,780**	**2,674**

Note 24. Correction of error

(i) Deferred taxes

Temporary differences on pool assets acquired free of charge and non-deductable channel assets have been treated as a permanent tax difference since the introduction of Australian Equivalents to International Financial Reporting Standards. Accounting standard AASB112 *Income Taxes* requires the difference between the carrying amount of these assets and their tax base to be treated as a temporary difference and a deferred tax asset or liability recognised.

Recognising these temporary differences has impacted on the amounts previously reported as deferred tax asset, deferred tax liability and tax expense. The impact on the 2009 reported figures is as follows:

- **Increase deferred tax asset by $1,797** - being 30% of the tax base of pool assets, which have a zero carry value.
- **Increase deferred tax liability by $4,814,057** - being 30% of the carry value of channel assets previously treated as a permanent difference and having a zero tax base.
- **Decrease tax expense/(benefit) by $86,711** - being 30% of the movement in the tax base of pool assets (expense $1,078) and 30% of the movement in the carry value of channel assets previously treated as a permanent difference (benefit $87,789).
- **Decrease in retained profit / (accumulated losses) by $4,812,260** - made up of a decrease of $4,898,971 relating to prior years and a tax benefit of $86,711 relating to the 2009 year.

(ii) Deferred tax liability on revaluation increment

AASB112 *Income Taxes* requires the recognition of a deferred tax liability on revaluation increments. A deferred tax liability was not recognised on the revaluation increment recorded at 30 June 2009 for channel assets. Recognising the deferred tax liability has impacted on the 2009 reported figures as follows:

- **Increase deferred tax liability by $4,716,807** - being 30% of the revaluation increment of $15,722,689.
- **Reduce asset revaluation reserve by $4,716,807** - being 30 of the revaluation increment of $15,722,689.

The impact of (i) and (ii) as described above has been corrected by restating financial statement items for June 2009. Refer below.

Presentation of a third statement of financial position

As the above errors only affected deferred tax asset, deferred tax liabilities, retained earnings and asset revaluation reserve, VRCA has only presented a third column in the statement of financial position on page 3 as required by AASB 101. VRCA has not presented a third column in the notes to the financial statements on the basis that the effect of the errors have been fully explained on the face of the statement of financial position and in this note and no other balances have been altered as a result of the above errors.

Note 24. Correction of error *(continued)*

Restatement of 2009 Comprehensive Operating Statement	Reported $'000	Note 24 (i) $'000	Note 24 (ii) $'000	Restated $'000
Continuing operations				
Income				
Channel income	5,639			5,639
Other income	391			391
Total income	**6,030**			**6,030**
Expenses				
Employee benefits	801			801
Depreciation and amortisation	1,616			1,616
Maintenance dredging	-			-
Other maintenance	149			149
Lease	70			70
Insurance	152			152
Marine services	782			782
Vessel expenses	46			46
Consultancies and contractors	163			163
Waterway Management	80			80
Special projects	439			439
Loss on disposal of fixed assets	17			17
Other expenses	456			456
Total expenses	**4,771**			**4,771**
Profit/(loss) for the year before income tax expense	**1,259**			**1,259**
Income tax expense/(credit)	469	(86)		383
Profit/(loss) for the year	**790**	**86**		**876**
Other comprehensive income:				
Movement in property, plant and equipment reserve	15,723		(4,717)	11,006
Total other comprehensive income for the year	**15,723**		**(4,717)**	**11,006**
Total comprehensive income/(loss) for the year	**16,513**	**86**	**(4,717)**	**11,882**

Note 24. Correction of error *(continued)*

Restatement of 2009 Statement of Financial Position	Reported $'000	Note 24 (i) $'000	Note 24 (ii) $'000	Restated $'000
Current assets				
Cash and cash equivalents	9,060			9,060
Trade and other receivables	775			775
Total current assets	**9,835**			**9,835**
Non-current assets				
Infrastructure, property, plant and equipment	66,805			66,805
Intangible assets	10			10
Deferred tax assets	66	2		68
Total non-current assets	**66,881**	**2**		**66,883**
Total assets	**76,716**	**2**		**76,718**
Current liabilities				
Trade and other payables	167			167
Provisions	162			162
Total current liabilities	**329**			**329**
Non-current liabilities				
Provisions	1			1
Deferred tax liabilities	1,516	4,814	4,717	11,047
Total non-current liabilities	**1,517**	**4,814**	**4,717**	**11,048**
Total liabilities	**1,846**	**4,814**	**4,717**	**11,377**
Net assets	**74,870**	**(4,812)**	**(4,717)**	**65,341**
Equity				
Contributed capital	57,883			57,883
Reserves	15,723		(4,717)	11,006
Retained profit / (accumulated losses)	1,264	(4,812)		(3,548)
Total equity	**74,870**	**(4,812)**	**(4,717)**	**65,341**

VICTORIAN REGIONAL CHANNELS AUTHORITY
CERTIFICATION OF FINANCIAL STATEMENTS
30 June 2010

We certify that the attached financial statement for Victorian Regional Channels Authority has been prepared in accordance with the Standing Direction 4.2 of the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the comprehensive operating statement, statement of financial position, statement of changes in equity, statement of cash flows and notes to and forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2010 and financial position of the Victorian Regional Channels Authority as at 30 June 2010.

We are not aware of any circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on 12 August 2010.

Neil Edwards
Chairperson
Dated: 12 August 2010

Merran Kelsall
Deputy Chairperson
Dated: 12 August 2010

Peter McGovern
Chief Executive Officer
Dated: 12 August 2010

Richard Keyte
Chief Financial Officer
Dated: 12 August 2010

VAGO

Victorian Auditor-General's Office

INDEPENDENT AUDITOR'S REPORT

To the Board Members, Victorian Regional Channels Authority

The Financial Report

The accompanying financial report for the year ended 30 June 2010 of the Victorian Regional Channels Authority which comprises the comprehensive operating statement, statement of financial position, statement of changes in equity, statement of cash flows, a summary of significant accounting policies and other explanatory notes to and forming part of the financial report, and the certification of financial statements has been audited.

The Directors' Responsibility for the Financial Report

The Directors of the Victorian Regional Channels Authority are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the financial reporting requirements of the *Financial Management Act 1994*. This responsibility includes:

- establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. These Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used, and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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Auditing in the Public Interest

VAGO

Victorian Auditor-General's Office

Independent Auditor's Report (continued)

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report published in both the annual report and on the website of the Victorian Regional Channels Authority for the year ended 30 June 2010. The Directors of the Victorian Regional Channels Authority are responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The auditor's report refers only to the statements named above. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on the Victorian Regional Channels Authority web site.

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

Auditor's Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Victorian Regional Channels Authority as at 30 June 2010 and its financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations), and the financial reporting requirements of the *Financial Management Act 1994*.

MELBOURNE
13 August 2010

M Barnett
for D D R Pearson
Auditor-General

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Auditing in the Public Interest

Victorian Regional Channels Authority