



Tasmanian
Audit Office



**Report of the Auditor-General
No. 2 of 2012-13**

Tasports: benefits of amalgamation

October 2012

The Role of the Auditor-General

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

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

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

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

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

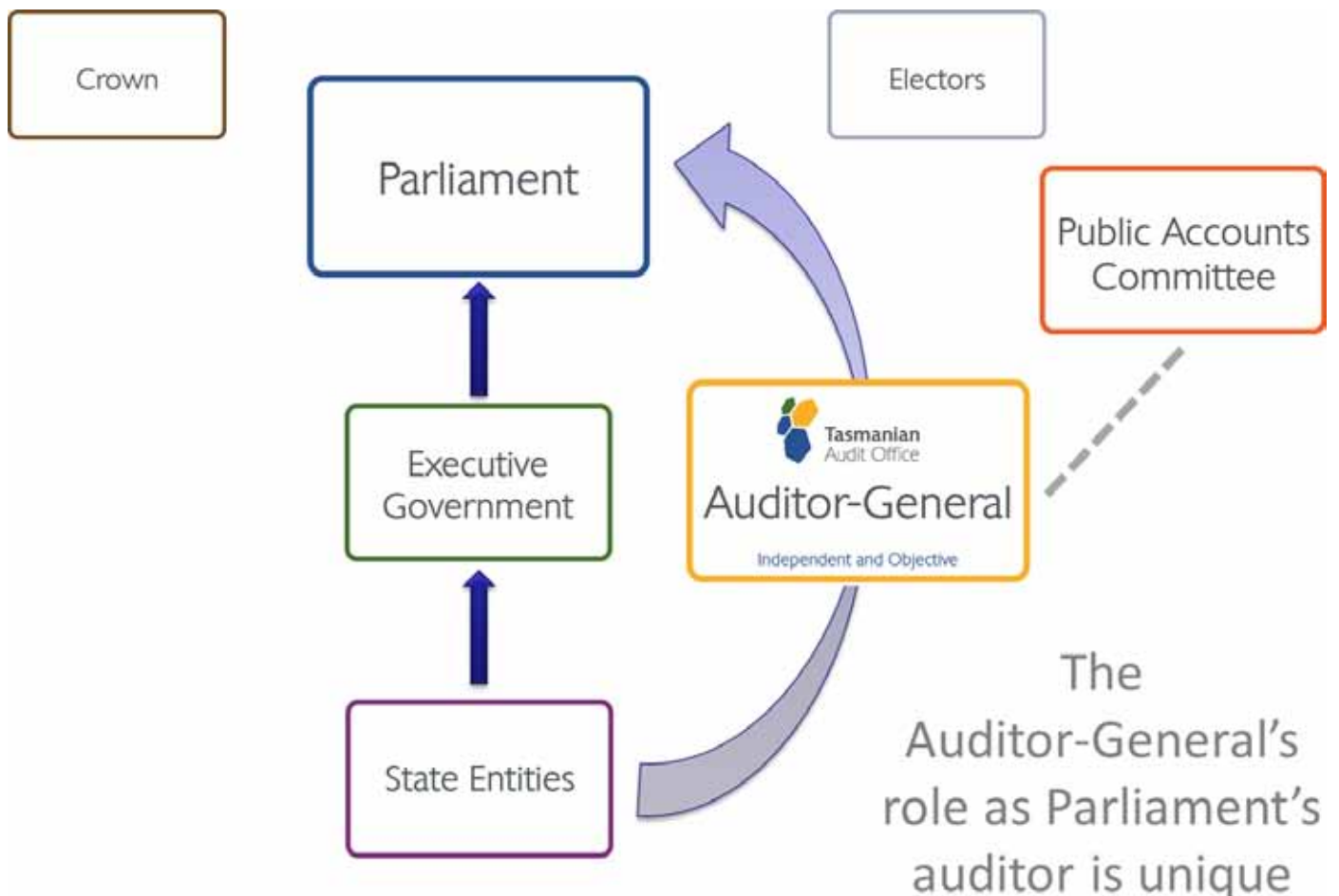
Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

We can also carry out investigations but only relating to public money or to public property.

Performance and compliance audits are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year.

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

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



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18 October 2012

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Madam President
Dear Mr Speaker

REPORT OF THE AUDITOR-GENERAL
No. 2 of 2012–13
TasPorts: benefits of amalgamation

This report has been prepared consequent to examinations conducted under section 23 of the *Audit Act 2008*. The objective of the audit was to assess whether the proposed benefits of amalgamation have occurred. The audit also assessed whether TasPorts had appropriately maintained its assets to maximise service delivery.

Yours sincerely

H M Blake
AUDITOR-GENERAL

Foreword

In 2005 Government made a policy decision to amalgamate four existing port corporations into a single corporation.

To a large extent that decision was based on advice from an independent consultant. My audit used the consultant's report, along with other information available, to assess whether the envisaged benefits of port amalgamation had occurred. Four difficulties were encountered:

- No such assessment had been carried out by any other party.
- The consultant's report, while a most useful starting point, did not provide a clear expectation of what should be achieved by the new corporation. The global financial crisis did not help.
- Benchmarking against other Australian ports proved problematic.
- Establishing a counter factual also proved problematic. That is, what might have been the outcome had there been no amalgamation?

Establishment of a single ports corporation was a major policy decision. Not dissimilar decisions have been, or are soon to be, made regarding the future of Forestry Tasmania and the electricity supply sector in Tasmania. Preceding those decisions also involved the appointment of a consultant or, in the case of the electricity supply reforms, the appointment of an Energy Expert Panel. Essential accountability, in my view, includes a process whereby Government assesses, within a reasonable timeframe, the benefits, or otherwise, of the decisions taken.

Bearing in mind the counter factual difficulty, how should this be done? There are at least two possibilities:

- Establish well-defined reasons and objectives for the decision being taken and make it clear from the outset that an evaluation will be carried out, say within five years. Doing this will facilitate assessment of what has been achieved against those objectives
- Summarise now what had been expected to be achieved as detailed in most recently approved five-year corporate plans and benchmark this against actual achievements.

Application of the Department of Premier and Cabinet's best practice project guidelines would assist such an exercise.

H M Blake
Auditor-General
18 October 2012

Acronyms and abbreviations

DIER	Department of Infrastructure, Energy and Resources
DPAC	Department of Premier and Cabinet
EBITDA	Earnings before interest, tax, depreciation and amortisation
Footloose cargo	Cargo not subject to fixed pricing
GFC	Global Financial Crisis
TasPorts	Tasmanian Ports Corporation Pty Ltd
TEU	Twenty-foot equivalent unit, a measure used for capacity in container transportation
Treasury	Department of Treasury and Finance

Executive summary

Background

Historically, Tasmania has been serviced by a number of independently operated port corporations or marine boards. Whilst publicly owned, these port corporations operated autonomously with their own boards and focussed on their own interests.

Several inquiries over the past two decades identified benefits from only having one statewide port entity controlling the four existing ports based in Hobart, Launceston, Devonport and Burnie.

In 2004, the Meyrick Report, commissioned by a Committee of Review, indicated that an amalgamated port corporation would be better placed to:

- take advantage of expected business and revenue growth
- maintain port infrastructure
- generate savings and efficiencies
- manage finances.

Based on that report, the Committee of Review recommended the formation of a single port entity. The government accepted this recommendation and passed enabling legislation. On 1 January 2006, all assets, liabilities, and employees of the former port corporations, passed to the new entity, Tasmanian Ports Corporation Pty Ltd (TasPorts)¹.

Detailed audit conclusions

Have statewide planning benefits been realised?

The strategic benefits envisaged by the Meyrick Report have been largely achieved, with planning and reporting at a TasPorts level and input to statewide planning and policy.

¹ Net of earlier assets transferred to State Government on 31 December 2005: 1 Franklin Wharf (Marine Board Building), 7–9 Franklin Wharf (formerly housed Minerals Tasmania, Sullivans Cove etc.) and Elizabeth Street Pier. TasPorts estimates the value of these assets at \$38.5m.

Have operational benefits been realised?

The Meyrick Report's predictions of sales revenue growth have not occurred, partly because the forecasts were overly optimistic and partly because economic conditions have changed since they were made.

Infrastructure benefits and operating efficiencies have been largely achieved and TasPorts has increased visitor numbers in the cruise ship market.

There was no strong evidence to suggest that the financial benefits envisaged by the Meyrick Report had been achieved. However, TasPorts' performance has been reasonable in the context of the economic decline and other structural changes to the Tasmanian economy and would probably have been worse if no amalgamation had occurred.

Are the ports working ports?

The four major ports continue to be working ports, but their nature has changed. They are now useful individual components of a statewide organisation, rather than standalone facilities. As such, there has been considerable specialisation since the amalgamation with container cargo largely based in Burnie.

We were satisfied that maintenance was being performed at the individual ports consistent with the TasPorts' specialisation strategy.

List of recommendations

The following Table reproduces the recommendations contained in the body of this report.

Rec.	Sec.	We recommend that ...
1	2.2.2	... Government and public sector decision makers rigorously and sceptically examine the data and assumptions underlying consultant's recommendations prior to undertaking major structural change.
2	2.7	... all major projects in the public sector be reviewed in accordance with the Department of Premier and Cabinet's best practice project guidelines.

Submissions received

Introduction

In accordance with section 30(2) of the *Audit Act 2008*, a copy of this Report was provided to TasPorts. A summary of findings was also provided to the Treasurer and the Minister for Infrastructure with a request for comment or submissions.

The comments and submissions provided are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Tasmanian Ports Corporation Pty Ltd

The Tasports' Board acknowledges receipt of the draft report which was tabled at the Board's September 2012 meeting. The Board has the following comments:

Comments in the report in regard to employment costs do not, in Tasports' view, provide readers with an adequate understanding of structural changes in the Tasports' business since amalgamation. Factors including the acquisition of the towage business and the sale of the stevedoring business have changed the employment cost profile.

Although the report covers the period to June 2011, Tasports wishes to emphasise the significant savings in employment costs and reduction in employee numbers achieved during 2012 and underway in the 2013 financial year as part of Tasports' operational efficiency review. The review is in response to the reduction in freight and other changes to the shipping environment which had an adverse impact on Tasports' financial performance. Employment numbers will reduce from circa 250 at amalgamation to circa 190 upon implementation of the recommendations of the efficiency review.

In assessing staff requirements, Tasports is conscious of the technical skills and local experience of its team and the difficulty of replacing such skills when the market rebounds. Ensuring a safe level of operational staff in all locations is not solely a business-volume-related issue.

The report refers to the non-transfer of assets from the port authorities to Tasports together with the sale of assets post amalgamation. The non-transfer or sale of these assets has been of greater significance to Tasports than is spelt out in the report, both as a result of loss of stable earnings uncorrelated to port trade activities and in reduction of borrowing capacity through reduced cash flow.

Dr Dan Norton

Chairman

Introduction

Background

As an island state, Tasmania's economy is highly reliant on its seaports, as 99 per cent of goods entering and leaving the state do so by sea. Airfreight is normally only suited to high-value, low volume commodities. Historically, the state has been serviced by a number of independently operated port corporations or marine boards. By 2005, there were four port corporations operating all of Tasmania's ports. Whilst publicly owned, they operated autonomously with their own boards and focussed on their own interests.

Several inquiries over the past two decades identified benefits from only having one statewide port entity controlling the four existing ports based in Hobart, Launceston, Devonport and Burnie. In 2004, consultants (Meyrick and Associates) were commissioned by a Committee of Review² to identify the benefits of combining the existing four ports into a single entity³. Based on the consultant's findings (Meyrick Report), the Committee of Review recommended the formation of a single port entity. The government accepted this recommendation and passed enabling legislation.

The Tasmanian Ports Corporation Act 2005 created a new entity, the Tasmanian Ports Corporation Pty Ltd (TasPorts) and on 1 January 2006, all assets, liabilities, and employees of the former port corporations, passed to the new entity⁴.

2 The Committee of Review was comprised of the four principal port Chairmen, the Secretary of the Department of Infrastructure, Energy and Resources (Minister's representative), with Denis Rogers acting as an independent Chairman

3 Meyrick and Associates, *Final Report, Prepared for the Committee of Review – Tasmanian Ports System, December 2004*.

4 Net of earlier assets transferred to State Government on 31 December 2005: 1 Franklin Wharf (Marine Board Building), 7–9 Franklin Wharf (formerly housed Minerals Tasmania, Sullivans Cove etc.) and Elizabeth Street Pier. TasPorts estimates the value of these assets at \$38.5m

Perceived benefits

Prior to the amalgamation, the Commonwealth Bureau of Transport and Regional Economics predicted a doubling in the national freight task in the next 15 years. Therefore, work to shape the new TasPorts entity was critical in positioning the State for ongoing economic growth⁵. The amalgamation was intended to:

- provide better freight solutions for customers
- improve use of resources and deliver benefits to the Tasmanian community
- ensure Tasmania occupies a stronger position in the sea-trade market.

In 2005, the Minister for Infrastructure, Energy and Resources championed the amalgamation in Parliament stating that Tasmania's 'port system must operate with maximum efficiency and effectiveness to guarantee the State's future economic prosperity'⁶.

Meyrick recommended a new single port company structured along business lines. This approach would deliver enhanced capacity to:

- take advantage of expected business and revenue growth
- maintain port infrastructure
- generate savings and efficiencies
- manage finances.

Why the audit was selected

Establishing a single port corporation was a significant policy decision based to an extent on independent advice. We hold the view that outcomes from decisions of this nature should routinely be assessed by government with findings used to inform future actions.

Audit objective

The audit assessed whether the envisaged benefits of port amalgamation have occurred. We also assessed whether TasPorts had appropriately maintained its assets to maximise service delivery.

5 Chairman's Report, TasPorts 2005-06 Annual Report, p5.

6 Hansard, 25 August 2005, pp. 26-97.

Audit scope

The audit examined:

- TasPorts and the previous port corporations
- the period just prior to amalgamation (2004–05) to 2012.

Audit criteria

The audit criteria that we applied were:

- Have statewide planning benefits been realised?
- Have operational benefits been realised?
- Are the ports working ports and are they well maintained?

Audit approach

To conduct this audit, we:

- reviewed documentation
- interviewed relevant staff
- visited all four major ports.

Timing

Planning for this audit began in June 2011. Fieldwork was completed in July 2012 and the report was finalised in August 2012.

Resources

The audit plan recommended 1175 hours and a budget, excluding production costs, of \$173 000. This budget was later increased to 1500 hours or \$220 000. Total hours were 1706 and actual costs, excluding production, were \$255 425, which was in excess of our budget.

1 Have statewide planning benefits been realised?

1.1 Background

Prior to the 2006 port amalgamation, each of the port corporations focused on maximising trade in its own region. Government was forced to interact with four independent entities when developing and implementing sea-transport policies.

A major reason for amalgamating the port corporations was to allow planning at a state level instead of being limited to a regional focus. Amalgamation would also mean a more direct interface with government.

To see whether better planning benefits have been realised we looked at TasPorts’:

- organisational structure
- strategic planning
- overall role in state planning and policy processes.

1.2 Have organisational benefits been realised?

Meyrick stated that a single port corporation would better facilitate:

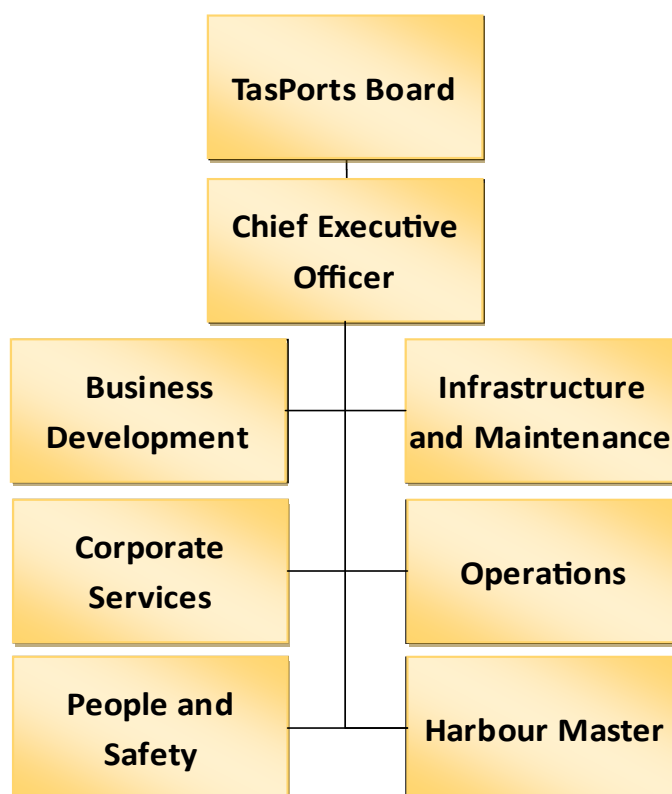
... the seamless movement of the State’s exports and imports through the State’s four ports, [in that] Tasmania’s ports can play more effectively their pivotal role in this freight transportation task.⁷

Meyrick identified several ways a combined ports organisation could be structured. It outlined a geographical model where each port operated as a separate profit centre that would in turn report to a corporate centre. However, Meyrick recommended that any new single port corporation should be structured along discrete business lines with each one responsible for achieving goals set by the board and executive. In addition, the government expected the corporation to maximise its resources by operating efficiently and effectively. This was expressly stated by the government in its shareholder’s statement of expectations, which was issued in October 2006 to the TasPorts Board.

⁷ Meyrick and Associates, *op.cit.*, p.iii.

We were satisfied that TasPorts uses the business lines model, as recommended by Meyrick. The government also, in its shareholder’s statement of expectations, expressed the need for TasPorts to operate in accordance with sound commercial practice. Our view was supported by an examination of TasPorts’ organisation chart, annual reports and corporate plans. Figure 1 illustrates the statewide nature of the business model being used by TasPorts.

Figure 1: Tasport’s corporate structure



Source: Tasmanian Audit Office

Each of the six operational functions shown in Figure 1 is overseen by a general manager who, in turn, reports to the Chief Executive Officer who is accountable to a government-appointed board. There is one Harbour Master for all the ports and the General Manager for Operations is responsible for the day-to-day running of the ports. All shares in TasPorts are held in trust by the government on behalf of the Tasmanian community.

In our view, the current structure is consistent with the Meyrick recommendations and represents an improvement on the pre-amalgamation structure with only one CEO and board controlling Tasmania’s ports.

1.3 Have strategic planning benefits been realised?

Meyrick pointed to a single port entity being better able to provide strengthened financial management and improved financial reporting. We looked at whether TasPorts had realised these benefits through better strategic planning by examining:

- short-term and long-term planning
- reporting and other interactions with government.

1.3.1 Is there adequate short-term and long-term planning?

Short term planning

We expected TasPorts to have detailed short-term planning budgets for the business, allocating resources and highlighting priorities for the next 12 months.

We found that TasPorts had prepared detailed annual business plans with a whole-of-state perspective. Its 2011–12 business plan was prepared on a business segment basis and took into consideration business opportunities and challenges for the coming year. For example, the 2011–12 budget discussed:

- the continuing pressure placed on revenue streams with the reduction of export volumes of woodchips across multiple ports
- maintenance costs across all ports
- the cost of statewide restructuring.

Long term planning

We were provided with long-term planning documents detailing profit and loss projections together with cash budgeting out to 2015 on a whole-of-entity basis. A number of measures have been developed with targets attached. The 2011–15 strategic plan contained the results of a formal risk assessment process. We also reviewed TasPorts' risk register and found that it met the Australian standard. The register was up-to-date, detailed and contained specific controls and mitigation strategies.

The strategic plan outlined the condition of each port's infrastructure and any maintenance required over the life of the plan. An important challenge for TasPorts is to effectively deal with its ageing infrastructure, most of which predates

the merger and may not be fully suited or needed post-amalgamation. We noted that TasPorts has developed a 10-year infrastructure plan outlining where its major ports will be focusing their efforts.

That plan demonstrated a greater capacity to deal with post-amalgamation trends towards specialisation, including:

- container movements currently focussed primarily through Burnie and Devonport
- bulk mineral exports through Burnie
- woodchip exports primarily through Bell Bay
- Devonport continuing as the home for the Spirit of Tasmania passenger ferries
- Hobart as the Antarctic gateway and the main cruise ship destination⁸.

1.3.2 Has reporting improved?

Meyrick believed that a single port corporation would streamline the interface between the ports and government by reducing duplicated reporting and administrative effort.

All state-owned companies are required to report to the government. TasPorts provides information on its performance and corporate planning to the Department of Treasury and Finance (Treasury) and the Department of Infrastructure, Energy and Resources (DIER). Treasury monitors the information on behalf of the Treasurer and meetings are held from time-to-time between TasPorts and Treasury.

We reviewed 'traffic-light' quarterly reports on TasPorts' performance that Treasury prepared for the Treasurer. Typically, these comment on:

- key performance indicators (such as profit, net debt, returns to government) and the overall company outlook
- actual financial performance against budget
- projected end-of-year results.

A benefit of having a single entity, rather than separate port authorities, is that Treasury can better assess overall performance without the need to collate separate sets of financial information.

A single port corporation also means reduced administrative costs with only one entity required to prepare financial statements for audit and other regulatory and compliance purposes. As well, representation on inter-government committees,

⁸ Whilst Hobart is the main destination for cruise ships, a number also call into Burnie and other ports around Tasmania.

such as the Tasmanian Infrastructure Advisory Council, is streamlined with only one representative instead of four.

Based on our analysis, the strategic planning benefits envisaged by Meyrick were achieved.

1.4 Has overall transport strategy improved?

In advocating a single amalgamated port entity, Meyrick pointed out such an entity would have a stronger voice and collaborate more effectively with industry and government in state planning and policy processes.

Transport infrastructure in Tasmania has received significant public attention over the last few years with the government regaining control of Tasrail, the construction of the Brighton transport hub and the amalgamation of the state's port corporations.

In February 2010, the government developed the *Tasmanian Infrastructure Strategy* that encompassed, transport, water, energy and digital strategies. An examination of the strategy shows that it incorporates a number of port infrastructure initiatives such as:

- developing Hobart as a gateway to Antarctica
- improving Burnie's port rail access
- expansion and realigning rail access to Bell Bay.

In 2011, the government formed the Tasmanian Infrastructure Advisory Council, which included representatives of TasPorts, government, infrastructure businesses, planning bodies and industry. Its role included implementation of the *Tasmanian Infrastructure Strategy*. The Council held its inaugural quarterly meeting in May 2011 and has met twice since then.

In summary, the Meyrick forecast benefit was being achieved; that is, a structure has been created, which allows TasPorts to collaborate more effectively with industry and government in state planning and policy processes.

1.5 Conclusion

The strategic benefits envisaged by the Meyrick Report have been largely achieved, with planning and reporting at a TasPorts level and input to statewide planning and policy.

2 Have operational benefits been realised?

2.1 Background

Prior to amalgamation, the government argued it was necessary for Tasmania's ports to operate efficiently and effectively. The Meyrick Report observed that:

... the financial performance of the Tasmanian ports, taken as a whole, is at present unsatisfactory, and will probably deteriorate as the market pressures ... intensify.⁹

It also argued that a single entity would play a more effective and pivotal role in moving freight in and out of Tasmania. To see whether this goal was achieved, we examined:

- revenue growth
- visits from cruise ships
- maintenance of infrastructure
- operating efficiencies
- financial performance.

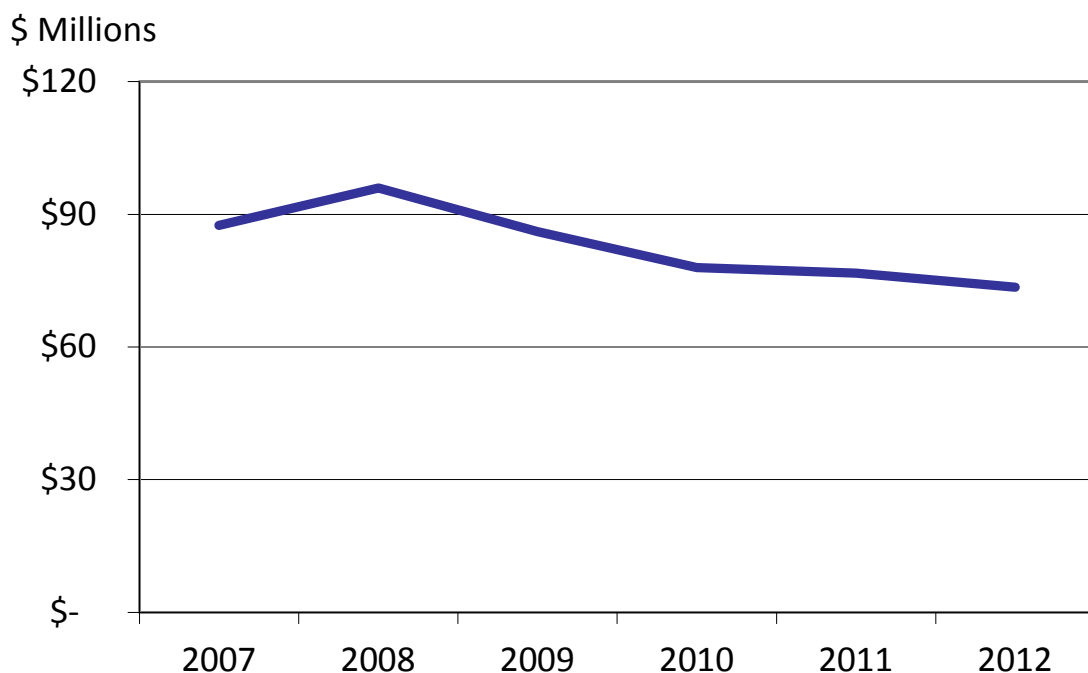
2.2 Have forecast growth benefits been realised?

Prior to the 2006 amalgamation, annual revenue growth for the four existing port corporations was between four and five per cent. In the lead up to amalgamation, the Meyrick Report predicted a 10-year average annual revenue growth rate of 6.1 per cent post amalgamation. It was not immediately clear to us what part of the predicted revenue growth Meyrick considered would follow from amalgamation of the ports and what part was expected to occur regardless of restructuring.

Figure 2 shows actual revenue for the period 2007–12.

CPI-adjusted revenues declined by 16 per cent between 2007 and 2012. In the following subsections, we separately consider price impacts, volume impacts and new business outside the traditional port sector.

Figure 2: TasPorts revenue, 2007-12

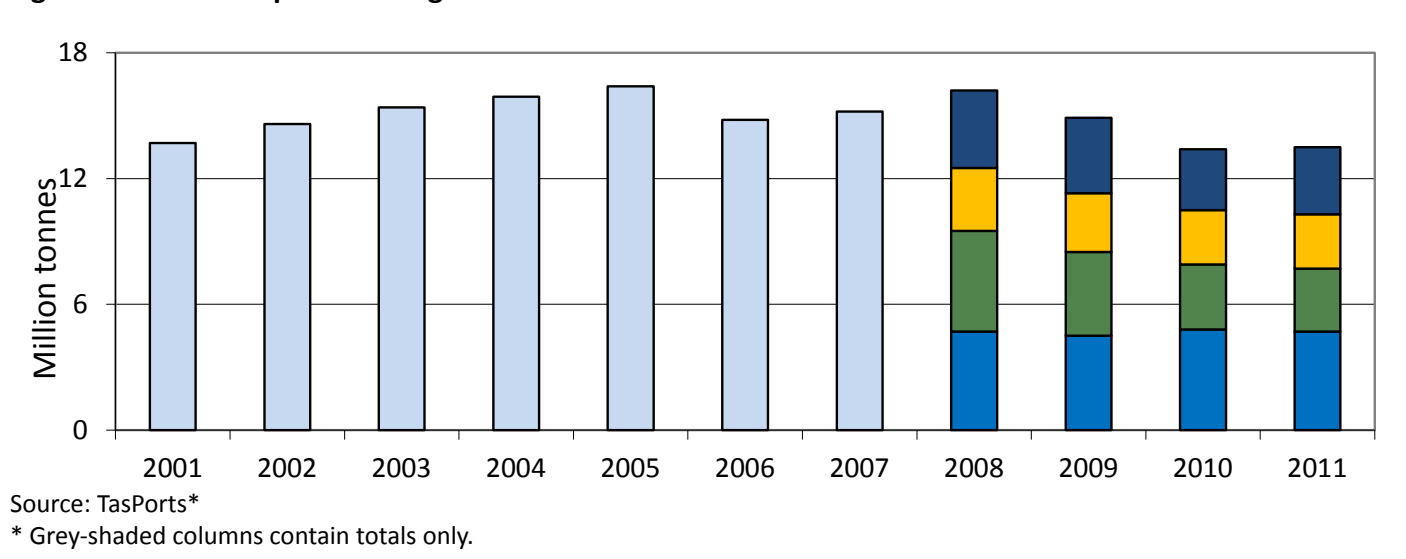


Source: TasPorts*

*All revenue adjusted by CPI to 2011 (using online Reserve Bank of Australia's CPI calculator) levels except for 2012. Revenue excludes income from Hobart International Airport including \$15m option fee paid in 2008.

9 Meyrick and Associates, *op.cit.*, p.32.

Figure 3: Combined ports tonnage 2001-11



2.2.1 Predicted volume impacts

The Meyrick Report contains a number of statements that we initially interpreted to mean that it expected increases in port volumes to flow from amalgamation. These included predictions that a single port corporation would:

- make a significant contribution to overall economic growth¹⁰
- enable strategic planning of business growth¹¹
- stimulate the development of innovative business ideas¹².

Based on our initial view that Meyrick predicted growth in port volumes, we reviewed movements in port activity as shown in Figure 3.

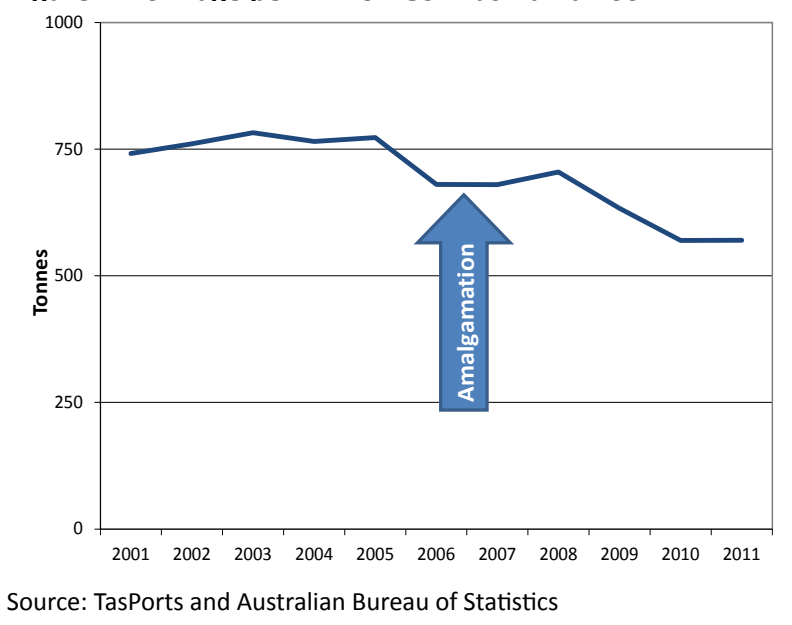
There was steady growth before amalgamation. After 2006, growth has been uneven but with a general downward trend.

Much of the reason that the projected outcomes were not achieved was undoubtedly the Global Financial Crisis (GFC), which was the largest world economic downturn since the depression of the 1930s. To overcome, or smooth out the effects of the GFC, we indexed TasPorts’ tonnage data against Tasmania’s Gross State Product (GSP) as shown in Figure 4.

Even when the effects of the GFC and other economic impacts on Tasmania are removed, a substantial decrease in tonnage volumes has

occurred¹³. Between 2008 and 2011, woodchip tonnage volumes reduced by almost 38 per cent due to structural changes experienced by the broader Tasmanian forestry industry and a downturn in demand. Similarly, bulk minerals declined by 13 per cent.

Figure 4: Tonnage per million GSP Tasmania 2001-11



10 Meyrick and Associates, *Final Report, Prepared for the Committee of Review – Tasmanian Ports System, December 2004*, p iv

11 *Ibid.*

12 *Ibid.* p.48.

13 We also compared movements in TasPorts volumes with those of other mainland ports. However, we formed the view that the comparison was meaningless due to individual circumstances.

However, on further analysis of the Meyrick Report, it is less clear that it envisaged volume increases arising from amalgamation. Instead, the report predicted:

- growth in sales revenue arising from price factors such as improved marketing position and a statewide approach to pricing
- that a unified TasPorts would be in a better position to benefit from Tasmania's economic growth, rather than improved TasPorts capacity driving growth in the State
- that the previous individual port structure could potentially have acted as a constraint on economic performance rather than the unified structure leading to volume increases through the ports.

In any event, it is our view that it is not reasonable to hold TasPorts to account for the reduction in tonnages through the ports.

On the other hand, it is possible for an inefficient port or one without a customer focus to impede trade. In this respect, we noted that TasPorts has implemented a number of customer-based improvements including:

- establishment of a business development unit and segment marketing managers
- capacity to assist customers with their integrated transport needs utilising its relationship with DIER and Tasrail.

2.2.2 Predicted price impacts

The Meyrick Report predicted revenue growth at the existing trend of four to five per cent per year, followed by faster revenue growth from 2008 to 2011 through price restructuring and combined marketing¹⁴. Meyrick also envisaged revenue improvement from firmer prices from more footloose cargos (that is, cargo not subject to fixed-rate contracts)¹⁵.

The majority of growth was expected to flow from economic growth, rather than from port amalgamation. Nonetheless, there was an expectation that the merger into a single port corporation would allow prices to be set on a statewide basis rather than in competition between separate ports.

We noted that the introduction of uniform

¹⁴ *Ibid.* p.48.

¹⁵ *Ibid.* p.45.

statewide pricing had occurred and led to increases in non-contracted rates. However, the total financial benefit of the pricing reform had been softened due to the following factors:

- Volumes had declined, e.g. reduced volumes of export woodchips.
- Meyrick had failed to take into account the extent to which prices were locked in by existing contracts and the length of time covered by them.
- Pre-existing contracts for individual ports included different levels of fixed and variable pricing. Since the merger, but unrelated to it, there had been a tendency for shipping companies to move more cargo through terminals with a larger fixed component, which reduced average prices per tonne or per container.
- Meyrick had overstated the 'footloose' component of trade which was exacerbated by the subsequent decline in the economy.

It should also be noted that the Meyrick Report qualified its prediction of growth in sales revenue with the statement that it had made no allowance for 'significant customer or operational changes'¹⁶. Clearly, the substantial decline in woodchip and bulk mineral tonnages fell into that category.

We also consider that pre-existing long-term contracts made the predicted benefits unlikely to occur for many years.

Recommendation 1

We recommend that Government and public sector decision makers rigorously and sceptically examine the data and assumptions underlying consultants' recommendations prior to undertaking major structural change.

¹⁶ *Ibid.* p.48.

2.2.3 Predicted growth outside the traditional port sector

Other areas where the Meyrick Report predicted revenue growth included expanded cool store husbandry, tracking, security and stevedoring services. The report also considered it ‘highly likely that new possibilities will emerge ... that could lead to a continuation of accelerated growth for an extended period’¹⁷.

At amalgamation, TasPorts inherited stevedoring operations from the Hobart Port Corporation but the expected growth in stevedoring revenue did not occur. Instead, to reduce its exposure to perceived inherent risks associated with stevedoring, TasPorts entered into a 50 per cent joint venture arrangement with a national company. In 2010, TasPorts sold its remaining 50 per cent equity to the same company.

In August 2007, TasPorts acquired the assets of another company, North Western Shipping and Towage. This business has allowed TasPorts to provide, statewide, a fleet of barges and tugs. TasPorts advised that this acquisition would most likely not have happened without the merger. In 2011, it contributed almost \$10m in revenue.

We also found that cold storage revenue had declined from 2007 levels¹⁸.

2.2.4 Summary — forecast growth

The Meyrick Report’s predictions of sales revenue growth have not been realised, partly because the predictions were overly optimistic and partly because of the impact on TasPorts of a declining economy.

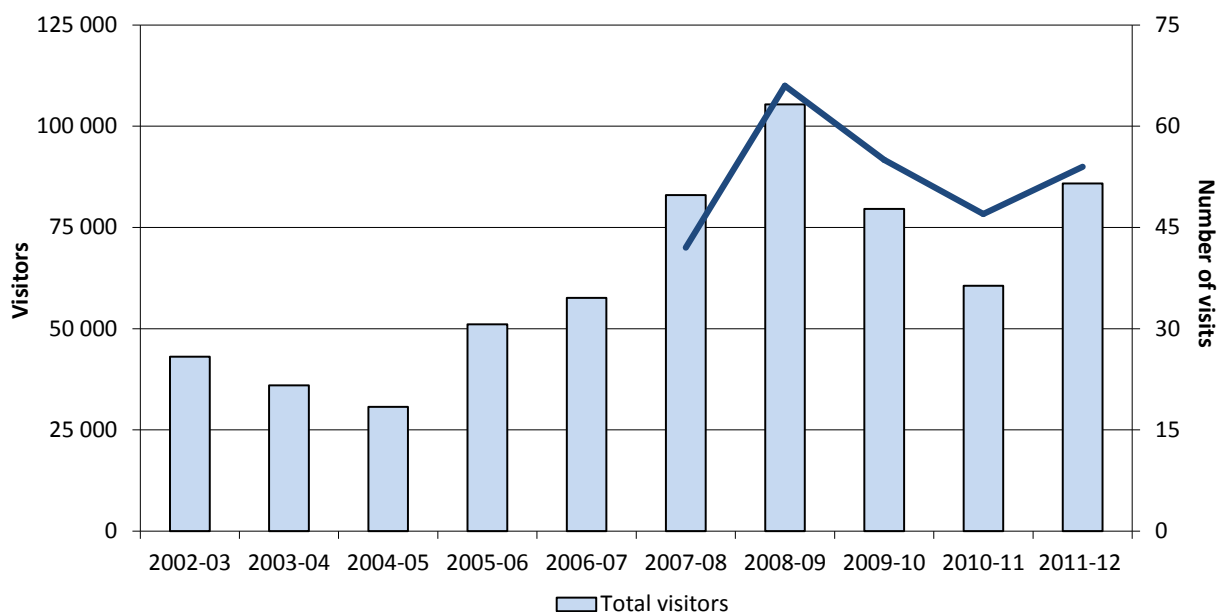
2.3 Have cruise ship numbers been maintained since amalgamation?

Prior to the formation of TasPorts, cruise ships increasingly visited Tasmanian ports. Whilst Hobart was the main beneficiary, ships also visited Burnie and other destinations such as Port Arthur. However, there have been suggestions in the media that TasPorts was not doing all it could to encourage or maintain this business.

Figure 5 shows the number of passengers and crew that have visited Tasmanian ports since 2002 as well as the number of ship visits.

Significant growth in cruise ship visitors is evident after 2005–06 until a decline from 2009–11. However, visitor numbers rose above 80 000 for 2011–12, the second highest number in the last ten years. In 2011–12, Hobart received 60 per cent of all cruise liner passengers visiting the state.

Figure 5: Cruise ship visitors 2002-11



Source: TasPorts and Tourism Tasmania

¹⁷ *Ibid.* p. 47.

¹⁸ Burnie cold store closed in 2008.

Early scheduling indicates that over 65 cruise ships intend to visit Tasmanian ports during 2012–13, which would be the best result in the period that we reviewed.

TasPorts advised that cruise ships are not a profit contributor for its business. However, TasPorts recognises the importance of cruise ships to the local economy and supports visits as part of its role in facilitating trade. We noted that TasPorts has undertaken to further develop infrastructure to better facilitate cruise ship visits to Hobart by announcing in August 2011 that it was committing \$7m on the redevelopment of Macquarie Wharf No. 2 as a cruise ship terminal and base for Antarctic activities.

In our opinion, TasPorts has performed well over time in the cruise ship market with performance since amalgamation improving.

2.4 Have infrastructure benefits been achieved?

2.4.1 Has integrated planning of port infrastructure been achieved?

As independent port entities, each port corporation prior to 2006 was responsible for developing and maintaining port infrastructure. This resulted in each port duplicating and developing infrastructure in order to be competitive with the other ports. The Meyrick Report anticipated that amalgamation would allow the ports to develop a coherent statewide development plan and to develop, upgrade and maintain facilities required without wasteful duplication.

We noted recognition by the government that TasPorts had inherited degraded port assets in correspondence addressed to its Chairman from the Treasurer and Minister for Infrastructure in December 2010. The letter stated that:

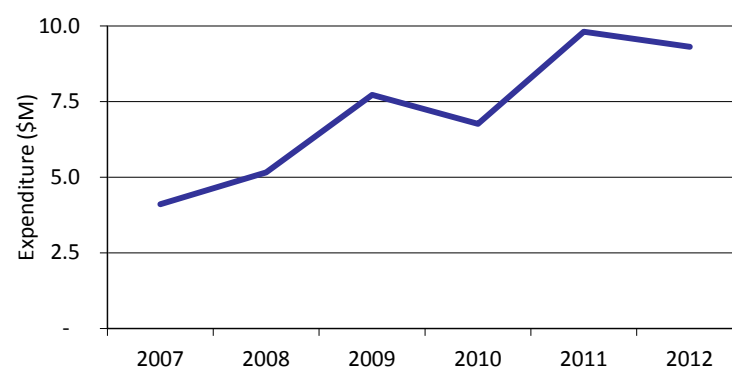
... we [the government] acknowledge the financial constraints arising from the proportion of ageing and duplicated infrastructure inherited by TasPorts, the associated disproportionately high maintenance costs, and limited income-producing capacity of much of that infrastructure.

Whilst TasPorts and the government were aware of the infrastructure challenges, we wanted to know whether these challenges were being addressed.

We found that the amalgamated port corporation had in 2010 developed a 10-year Infrastructure Plan, which reflected a specialist port model. The underlying concept was to maintain the separate terminals as fit-for-purpose and for anticipated requirements. Included in the plan were annual maintenance cost estimates for port infrastructure. TasPorts estimated \$300m was required for capital and maintenance. In addition, the plan identified a number of assets that were surplus to requirements and flagged them for divestment.

Figure 6 shows maintenance expenditure undertaken by the company between 2007 and 2011.

Figure 6: Maintenance expenditure 2007-12*



Source: TasPorts

* Expenditure adjusted for CPI and expressed at 2011 levels except for 2012

TasPorts substantially increased its expenditure on maintenance in real terms since its formation in 2006. TasPorts advised that it considers that all assets necessary for current operations are fit-for-purpose, although it has long-term concerns. We also reviewed maintenance separately at each port in the following sections.

2.4.2 Was the Bell Bay port being maintained?

Bell Bay was operating at reduced capacity since the withdrawal of a number of container services and with lower volumes of woodchips passing through its Long Reach terminal. We looked to see whether TasPorts was adequately maintaining its infrastructure at Bell Bay. We found:

- Three berths had sections assessed as in poor or below average condition, but only one is used commercially. However, a maintenance plan exists to undertake repairs to maintain their 'fit-for-purpose' status.
- The remaining three berths were assessed as average and are fit-for-purpose.
- Inspection Head facility was rated as being in poor condition. However, the facility has no commercial use other than vessel layup.

For the next ten years, TasPorts has estimated that it will cost approximately \$48m to maintain existing Bell Bay infrastructure assets as fit-for-purpose. In 2010, the state government was unsuccessful in obtaining Infrastructure Australia funding to increase Bell Bay's intermodal capacity at a cost of up to \$150m.

However, TasPorts has been keen to keep Bell Bay in a state of readiness for container traffic or alternative business (e.g. servicing the Bass Strait oil and gas industry) or as an alternative to future capacity constraints at Burnie or Devonport. Whilst some significant maintenance is required at Bell Bay, we were satisfied that TasPorts was maintaining its infrastructure at a level that allows for future expansion if and when needed.

2.4.3 Was the Burnie port being maintained?

Burnie is the most important port for containers and minerals. When looking at the condition of Burnie's infrastructure we found:

- All berths have been assessed as average and are fit-for-purpose.
- Some capital opportunities have been identified such as adding additional woodchip capacity and rail realignment to allow greater container capacity.

For the next ten years, TasPorts has estimated that it will cost \$16m to maintain existing infrastructure assets as fit-for-purpose.

TasPorts has properly maintained infrastructure at Burnie and considerable ongoing maintenance is scheduled for future years.

2.4.4 Was the Devonport port being maintained?

Devonport saw a significant increase in commercial traffic when the two new *Spirit of Tasmania* vessels were introduced in 2002. As with Bell Bay and Burnie, TasPorts has assessed the condition of the port's infrastructure, where it found:

- The tug boat berth was in poor condition. However, this facility is not used by customers and is fit for internal use by TasPorts.
- All other berths were either in average or above condition and are fit-for-purpose.
- If SeaRoad or TT-Line replace their existing vessels with larger ones, there will be a demand for additional or changed infrastructure.

TasPorts has estimated over the next ten years that it will cost approximately \$15m to maintain existing infrastructure assets as fit-for-purpose. Money earmarked for maintenance over the next decade should ensure Devonport continues to operate as a viable working port.

2.4.5 Was the Hobart port being maintained¹⁹?

Of all the ports, Hobart has the most complex maintenance issues. Because of its reduced role as a working port, it has a number of infrastructure assets that are not only under used, but also in a degraded condition. In particular, there are problems with regard to concrete cancer in the Macquarie No. 5 and 6 wharves and Sullivans Cove. TasPorts has invested significantly in the remediation of Macquarie No. 3 and 4 wharves, which are the main operational wharves in Hobart.

¹⁹ Includes Triabunna

In assessing Hobart's infrastructure, TasPorts found:

- Three of the Macquarie Point wharves are in poor condition. Since 2010, Macquarie No. 4 has been undergoing repairs to ensure it is fit-for-purpose. Macquarie No. 5 and No. 6 have load restrictions in place and are only used for vessel layup. The remaining three Macquarie Point wharves were rated as average.
- Princes' wharves No. 1 and 2 were rated as poor, but they are no longer used for significant freight movement²⁰.
- Sullivans Cove, Franklin Wharf and Murray Street Pier were rated as being in poor condition. These structures have since been restored to average condition.
- Brooke Street Pier and King Pier and marina were rated either average or good.
- Outside of the main port, facilities at the Domain slip were either rated between poor and average. These facilities will be maintained as fit-for-purpose. Selfs Point Oil Wharf was rated above average.
- The woodchip wharf at Triabunna is in poor condition with maintenance work only to be undertaken if an operator for the woodchip mill is appointed.

Over the next ten years, TasPorts has estimated that maintaining its Hobart infrastructure assets as fit-for-purpose will cost approximately \$45m.

2.4.6 Other minor ports

TasPorts is also responsible for a number of other minor or outports and these are included in its infrastructure analysis. In summary:

- Flinders Island: Main wharves at Lady Barron and Whitemark were considered to be in poor or below average condition. Whitemark is no longer in use and vehicle access to the main wharf is now not permitted.
- King Island: Apart from the Fisherman's Wharf at Grassy (below average), the port infrastructure on King Island is noted as being at least average.
- Stanley: Infrastructure is on the whole in poor condition, but current use is limited to fishing.
- Strahan: Apart from the main wharf (assessed as poor) and the Wilderness Air jetty, the infrastructure is either average or above average condition.

²⁰ In 2011, 40 per cent of Princes Wharf No. 2 was sold to the University of Tasmania for its new Institute for Marine and Antarctic Studies headquarters.

For outports, maintenance costs for the next ten years will be approximately \$11m to ensure assets are fit-for-purpose.

2.4.7 Summary — infrastructure benefits

A statewide infrastructure plan had been developed and maintenance and upgrade of individual ports had improved since amalgamation. We concluded that infrastructure benefits envisaged by the Meyrick Report had been largely achieved to date. This is notwithstanding TasPorts' concerns at the impact of declining freight volumes, profitability, the loss of Hobart Airport and other income-producing assets on TasPorts' capacity to fund its long-term infrastructure program.

2.5 Have operating efficiencies been achieved?

Meyrick indicated that a single port entity would allow for an integrated administrative system offering cost saving opportunities from economies of scale and removal of duplication.

We noted that there is now a single board and CEO and that centralisation of security, marketing, and vessel tracking had occurred. However, our focus was on movement in overall operating expenses and in labour costs.

For our analysis, we decided to exclude maintenance expenses from our comparison because of the post-amalgamation need to remedy pre-amalgamation neglect of degraded infrastructure. We also eliminated operating expenses associated with the Hobart International Airport²¹. The results are shown in Table 1.

Table 1: Operating expense comparison (CPI-adjusted)

	2006-07 \$ '000s	2011-12 \$ '000s	Change
Non-salary operating expense **	\$28 905	\$26 405	-9%
Employee expenses	\$21 004	\$23 022	10%

Source: TasPorts*

*Also excludes Hobart airport, stevedoring and NW towage to ensure comparability

**excludes maintenance and employee expenses.

²¹ Hobart International Airport was a wholly owned subsidiary of TasPorts until January 2008.

A real increase in employee expenses has occurred but is offset by a greater decrease in other operating expenses. It should be noted that Meyrick did not expect a fall in employee numbers: 'Our general expectation is that there will be little effect in the short run and a positive impact in the medium term'.

On the other hand, the Meyrick prediction was based on the assumptions of volume and ancillary service growth that did not occur, and accordingly we think it reasonable to expect reductions in employee expenses. In any event, we understand that employee numbers have now fallen and a real decrease in employee expenses is expected in future years.

TasPorts also demonstrated substantial improvement in safety performance since amalgamation, which is likely to lead to long-term efficiencies. The sale of its stevedoring business would have contributed to the improvement, but we also note that amalgamation has enabled implementation of a statewide safety management system, certified to Australian Standard AS4801. Prior to amalgamation, the fixed costs required of each port to implement such a system would have made such a transition much more expensive.

In summary, there has been some evidence of operating efficiencies being achieved, but this is not yet so for efficiencies in the area of employee expenses.

2.6 Have financial benefits been realised?

Meyrick pointed to the likely realisation of financial benefits of amalgamation:

The greater resources available to a single port corporation is likely also to lead to enhanced Board expertise, strengthened financial management, improved financial reporting, and ultimately improved returns.

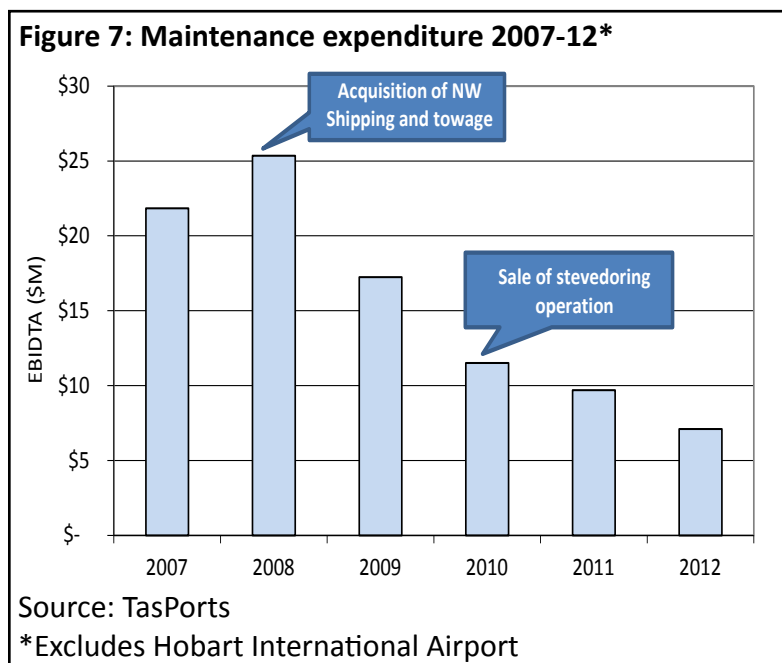
To look at the financial performance of TasPorts since amalgamation, we looked at its earnings before interest, tax, depreciation and amortisation (EBITDA) and this is shown in Figure 7.

We chose EBITDA as our measure of earnings, since we believe this provides a better figure to compare against across the years. In particular, recent revaluation of assets has led to higher depreciation charges and we wanted to exclude this distortion from our analysis.

While TasPorts has been profitable after amalgamation, profitability has steadily declined. The decline can be attributed to:

- a continuing reduction in freight volumes associated with the global financial crisis and structural changes in the forestry sector
- shift of container shipping services from Bell Bay to Burnie and Devonport, with a consequent decrease in average fee per tonne because of long-term pre-amalgamation contracts
- an increase in maintenance expenditure.

TasPorts argued that the business had remained profitable, that a considerable commitment had been made to infrastructure maintenance and that its forward budget indicated a return to profitability in future years.



It is unclear how much, if any, of the declining profitability relates to amalgamation, particularly at a time of substantial economic downturn. The most relevant comparison would be between financial performance since amalgamation and hypothetical performance over the same period if amalgamation had not occurred. Unfortunately, it is not possible to reliably quantify that hypothetical performance. However, we note that substantial downturns in freight volumes from 3.0m tonnes to 2.3m tonnes at Hobart and from 5.5m tonnes to 4.0m tonnes at Bell Bay would have posed considerable challenges for those ports as separate entities.

We also note that a number of income-producing assets at Hobart, including Elizabeth Street Pier and the Marine Board Building, were not transferred to TasPorts. The loss of those assets and their revenue streams, together with the subsequent loss of the Hobart International Airport and Prince's Wharves 1 and 2, would have significantly disadvantaged a stand-alone Hobart Port²².

On the one hand, there was no strong evidence to suggest that the financial benefits envisaged by the Meyrick Report had been achieved. However, there is an argument to suggest the performance of TasPorts has been reasonable in the context of the abovementioned factors and may have been worse if no amalgamation had occurred.

2.7 Has a review of the amalgamation benefits been undertaken?

DIER had the role of overseeing the port merger process. Whilst we were provided with documentation relating to the merger, including monitoring and budget reports, no post implementation review was undertaken by either DIER or TasPorts. We consider it best practice to undertake a post implementation review of such a large project.

Recommendation 2

We recommend that all major projects in the public sector be reviewed in accordance with DPAC's best practice project guidelines.

²² TasPorts has estimated that the total asset divestment resulted in it losing ownership of \$399m in assets and a reduction in revenue of approximately \$5.8m per annum.

2.8 Conclusion

The Meyrick Report's predictions of sales revenue growth have not occurred, partly because the forecasts were overly optimistic and partly because economic conditions have changed since they were made.

Infrastructure benefits and operating efficiencies have been largely achieved and TasPorts has increased visitor numbers in the cruise ship market.

There was no strong evidence to suggest that the financial benefits envisaged by the Meyrick Report had been achieved. However, TasPorts' performance has been reasonable in the context of the economic decline and other structural changes to the Tasmanian economy and would probably have been worse if no amalgamation had occurred.

3 Are the ports working ports?

3.1 Background

This Chapter examines whether each of the individual major Tasmanian ports meets Meyrick's definition of a working port²³.

3.2 Are the individual ports working ports?

As noted in the Introduction, the previous port structure tended to promote localised self-interest. This resulted in a lack of specialisation, despite the recognition that Tasmania was too small to viably sustain four separate port authorities. Meyrick recognised that:

Integrated planning [under a merged structure] will allow the ports to build on current infrastructure strengths and to develop the facilities required to cater for the anticipated increase in trade without the risk of wasteful duplication of expensive infrastructure²⁴.

With the creation of TasPorts, greater specialisation at each of the four ports has occurred. The three main northern ports are now considered as terminals of a single integrated port spread across Northern Tasmania. Hobart has shifted away from container cargo to concentrate on cruise ships and being a service centre for Antarctic-bound shipping. Many of the changes that have occurred since amalgamation have been market driven.

Whilst at the time of the merger, the benefits of a single port corporation were recognised, there was equally a concern that a single port corporation may result in one or more of the ports being

²³ A working port has been defined by Meyrick as '... an area that offers a land-sea exchange interface to facilitate economic activity.' Meyrick and Associates, *Review of the working port of Hobart*, December 2008, p.2.

²⁴ Meyrick and Associates, *op. cit.*, p. iv.

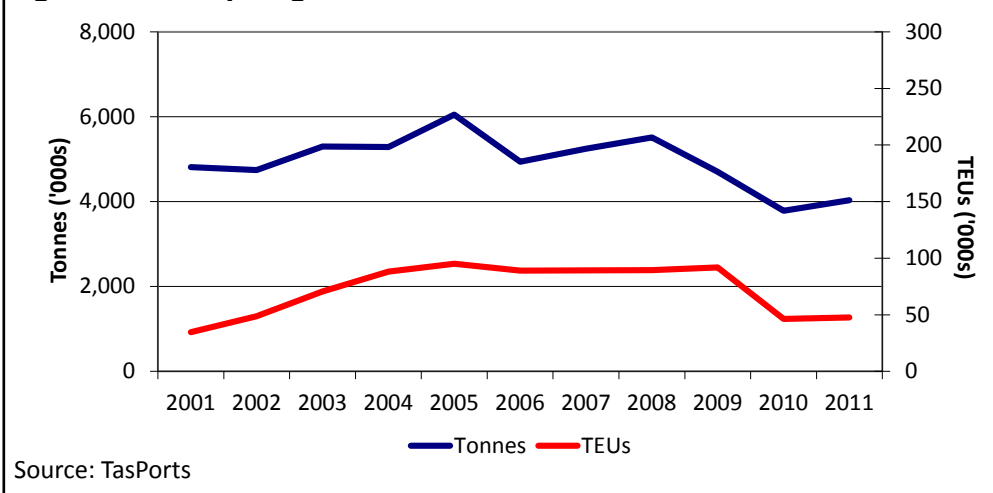
neglected or allowed to deteriorate. These fears were raised when the enabling amalgamation legislation was being debated in Parliament in August 2005. At that time the Opposition wanted the government to guarantee that all four ports would remain working ports²⁵.

3.2.1 Is Bell Bay a working port?

Bell Bay is located almost 50 kilometres north of Launceston. Situated within a heavy industrial estate with rail access, it has been a departure point for break-bulk cargo such as aluminium ingots, manganese, woodchips and logs. Bell Bay has also been a major entry and exit point for containers and a fuel depot for Northern Tasmania. Figure 8 shows total traffic through Bell Bay over the last decade.

Bell Bay experienced considerable growth prior to 2005, especially containers. However, after 2008 container traffic fell from 89 000 twenty-foot equivalent unit (TEUs) in 2008 to 48 000 by 2011. In August 2009, ANL announced that it was

Figure 8: Bell Bay freight volumes 2001-11



transferring its container service to Toll, which operates out of Burnie. This resulted in a loss of around 40 000 TEUs. Moreover, TasPorts also lost around \$1m in wharf fees because the extra volume through Burnie did not result in any extra income due to the nature of the fixed-price Toll contract.

²⁵ House of Assembly, 25 August 2006, Part 2 pp. 26–97.

In April 2011, Tasmania lost its only international shipping service with the withdrawal of the AAA consortium from Bell Bay. Another shipping firm, Agility, started operating a regular Bass Strait container service from Bell Bay. Agility’s failure to attract sufficient volumes and to gain access into Melbourne resulted in the service’s demise. Subsequently, Bell Bay had no regular container service (See Section 3.2.2).

We also noted that due to a change in Gunns’ operations, Bell Bay (Long Reach terminal) experienced a significant drop in the volume of export woodchips. Although there are other smaller entities exporting logs and woodchips from Bell Bay, none has been able to replace the volumes previously exported by Gunns.

Despite the recent drop in TEUs and woodchip traffic at Bell Bay, it had more than four million tonnes of freight entering and leaving Bell Bay during 2010–11. Bell Bay also remains part of TasPorts’ strategic plan as an alternative in case additional capacity is needed. It remains the preferred port for coal exports from the Fingal Valley.

Also, as noted in Section 2.4.2, \$48m had been programmed for infrastructure upgrade and maintenance. Whilst some significant work was required, we were satisfied that TasPorts was maintaining its infrastructure at a level that allowed for current and possible future requirements.

We concluded that Bell Bay continued to be a working port

3.2.2 Is Burnie a working port?

The port of Burnie is situated adjacent to the city’s central business district and is accessible by both road and rail. Burnie is currently Tasmania’s major container port having secured container trade previously carried by ANL, AAA and Agility through Bell Bay. In addition to containers, it is also a major exit point for bulk cargo such as logs, minerals and woodchips. Figure 9 shows total traffic through Burnie over the last decade.

The Port of Burnie showed strong growth over the last decade. Total tonnages shipped through Burnie, whilst a little down over the last few

years due to reduced volumes of woodchips, are still up on those achieved ten years ago. Container traffic through the port has increased significantly during the same period.

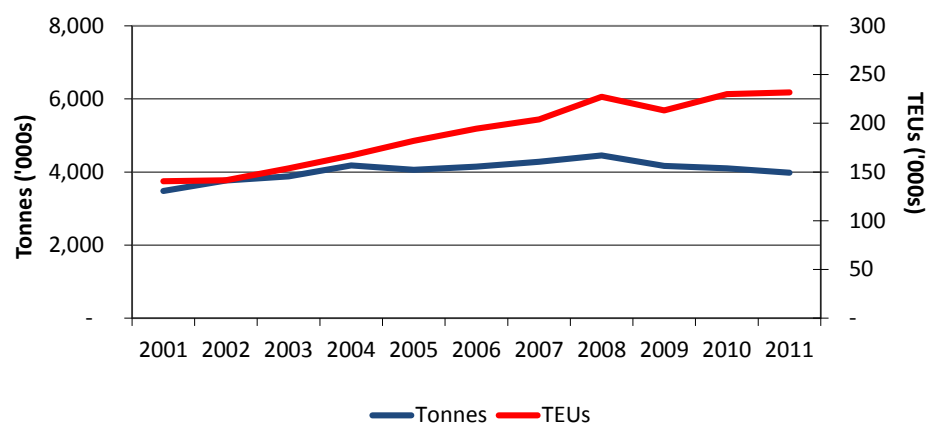
The urban encroachment of Burnie means that the port has limited capacity for landside expansion. However, there is still potential, through further reclamation, to further increase the port’s TEU handling capacity. TasPorts has recognised that there are currently space constraints at Burnie that cause congestion and inefficient road and rail operations. However, we were advised of plans to undertake capital works at Burnie that would allow TasPorts to increase Burnie’s capacity from 250 000 to 350 000 TEUs with future potential capacity growth beyond this amount.

The shift of containers from ANL, AAA and Agility to Toll at Burnie has further reinforced its standing as Tasmania’s largest container terminal. Burnie now handles around 260 000 TEUs per annum. Toll’s tenancy at Burnie is underpinned by a binding long-term agreement that precedes the formation of TasPorts. During the life of the agreement, Toll pays a set fee to TasPorts regardless of the volume of containers entering and leaving Burnie. Therefore, during the life of the agreement it is in Toll’s interest to maximise the level of commercial activity at Burnie. Overall, Burnie is showing positive growth despite a drop in overall tonnages for 2010–11.

Also, as noted in Section 2.4.3, \$16m had been programmed for maintenance over the next ten years. Whilst some significant work was required, we were satisfied that TasPorts has properly maintained infrastructure at Burnie.

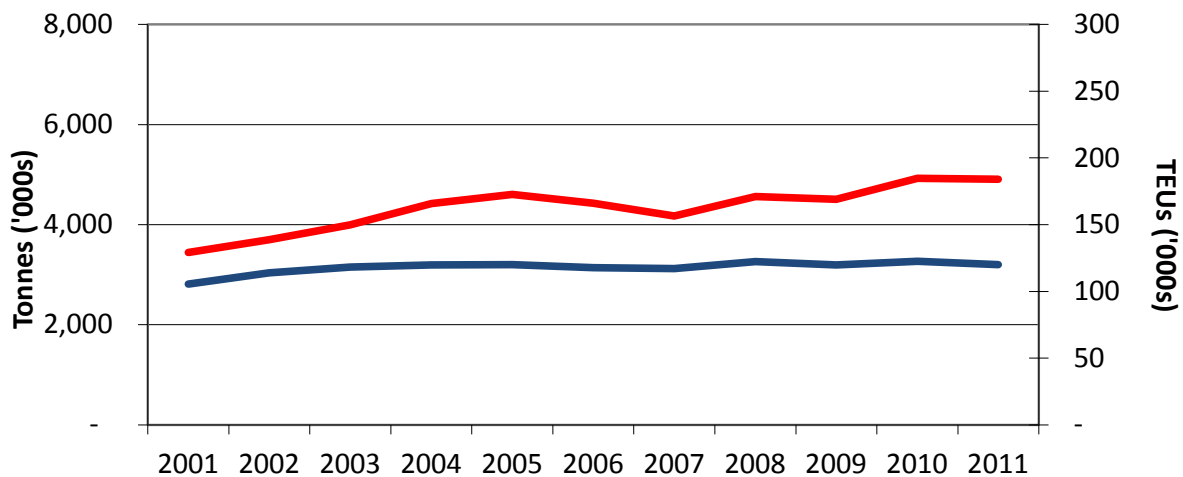
We concluded that Burnie continued to be a working port.

Figure 9: Burnie freight volumes 2001-11



Source: TasPorts

Figure 10: Devonport freight volumes 2001-11



Source: TasPorts

3.2.3 Is Devonport a working port?

The Port of Devonport is situated on either side of the Mersey River that bisects the city. The western side is directly adjacent to the city's central business district and has rail access. Devonport is the arrival and departure point for the two *Spirit of Tasmania* passenger and vehicular ferries, which run between Tasmania and Victoria.

Devonport, like Burnie, has significant container traffic. In addition large volumes of cement pass through Devonport. The port itself has limited landside expansion potential due to Devonport being surrounded on both sides by development. The Mersey River also imposes limitations on the size of vessels able to use the port due to the size of the Mersey's turning basin. Also, the river must be dredged every seven to ten years to remain operational. Figure 10 shows traffic through Devonport over the last ten years.

Devonport has experienced container growth that came primarily from the introduction of the two new *Spirit of Tasmania* ferries. Whilst volumes dipped somewhat with the onset of the GFC, steady growth is again evident. Devonport container volumes have also increased with the transfer of freight to Devonport and Burnie following the departure of AAA and Agility from Bell Bay. Overall growth for Devonport has tapered since the GFC, but freight volumes and TEU numbers are still in excess of those recorded a decade ago. Devonport is still a working port, but like Burnie, may in the future face capacity challenges.

Also, as noted in Section 2.4.4, TasPorts has programmed \$15m for maintenance and capital improvements, (over the next ten years).

We concluded that Devonport continued to be a working port.

3.2.4 Is Hobart a working port²⁶?

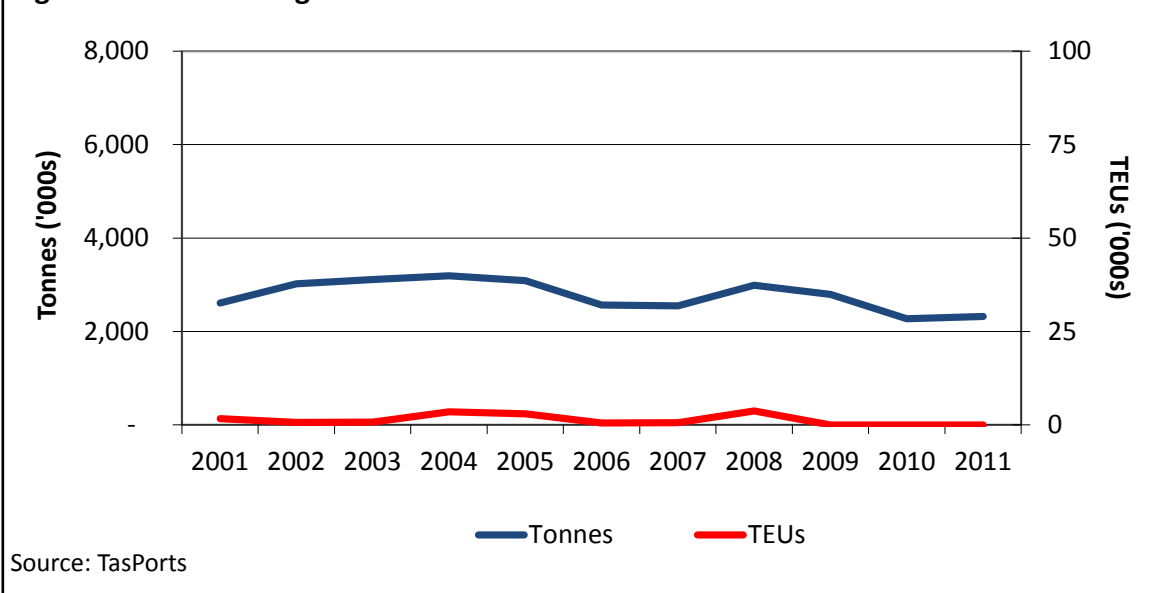
Hobart's port is situated on the Derwent estuary and is considered to be one of the finest natural harbours in the world. Whilst Hobart enjoys a rich maritime history, its southern location has become a disadvantage as freight companies, particularly container freight, can save sailing time by accessing northern ports. In recent years, market decisions have seen Hobart cease to be a container port with all container traffic now in the north. Although fishing boats, ferries and recreational craft use Victoria Dock and Sullivans Cove, this part of the port is no longer considered to be part of the working port.

Major commodities passing through Hobart include zinc, fuel, veneer forestry products and woodchips (at Triabunna). However, in 2011, the Triabunna woodchip facility was sold by Gunns to private operators. Since the sale, there have been no further woodchip exports from Triabunna.

The working port areas of Hobart are primarily the Macquarie Point land areas together with Wharves 3 and 4 and the Selfs Point (fuel) and Nyrstar (zinc) facilities. Macquarie Wharves 5 and 6 are no longer actively used other than for vessel layup.

²⁶ Includes Triabunna.

Figure 11: Hobart freight volumes 2001-11



Despite its decline as a container port, Hobart has over the last decade become an increasingly popular stop-over point for passenger liners that operate during the warmer part of the year (See Section 2.3). Hobart has also become the base for the Australian and French Antarctic supply vessels. Figure 11 shows over the last decade the amount of trade that has passed through Hobart.

Container traffic through Hobart has now largely ceased. When viewed over the last decade, overall tonnage figures finished largely where they started with an increase in the first few years after 2001. However, with woodchips making up 25 per cent of total tonnages in 2011, we expect the total tonnage figure to reduce dramatically for 2011–12 because the Triabunna woodchip mill was not operating during much of this period.

In August 2011, TasPorts announced that it would spend \$7m to upgrade Hobart's Macquarie Wharf No.2. The development will include a new cruise ship terminal and Antarctic research facility.

Although Hobart no longer has any significant container traffic, it still remains a working port with overall tonnage levels (excluding woodchips) over 1.7 million tonnes. Also, as noted in Section 2.3, Hobart has become an important destination for cruise ship operators.

As noted in Section 2.4.5, Hobart Port had the most complex maintenance issues confronting it. Because of its reduced role as a working port, it had a number of infrastructure assets that were not only surplus to requirements, but also in a degraded condition. However, we noted that at least \$45m had been programmed for maintenance. Of that work, ongoing repairs to Macquarie wharf No.4 is necessary to ensure the Macquarie wharves are fit for purpose, whilst other scheduled work was less critical. We were satisfied that TasPorts was properly maintaining infrastructure at Hobart to a fit-for-purpose standard.

We concluded that Hobart continued to be a working port.

3.3 Conclusion

The four major ports continue to be working ports, but their nature has changed. They are now useful individual components of a statewide organisation, rather than standalone facilities. As such, there has been considerable specialisation since the amalgamation with container cargo largely based in Burnie.

We were satisfied that maintenance was being performed at the individual ports consistent with the TasPorts' specialisation strategy.

Independant auditor's conclusion

This independent conclusion is addressed to the President of the Legislative Council and to the Speaker of the House of Assembly.

Audit objective

This performance audit's objective was to assess whether the proposed benefits of amalgamation have occurred. The audit also assessed whether TasPorts had appropriately maintained its assets to maximise service delivery.

Audit Scope

The audit examined:

- TasPorts and the previous port corporations
- The period just prior to amalgamation (2004–05) to 2010–12.

In developing the scope of this audit and completing my work, TasPorts provided me with all of the information that I requested. There was no effort by any party to the audit to limit the scope of my work. This Report is a public document and its use is not restricted in any way by me or by any other person or party.

Responsibility of the Directors TasPorts

The Directors are responsible for ensuring that the amalgamation of Tasmania's four pre-existing port corporations achieved the envisaged benefits, whilst still adequately maintaining the ports and maximizing service delivery.

Auditor-General's responsibility

In the context of this performance audit, my responsibility was to express an opinion on whether the envisaged benefits of port amalgamation have occurred including whether TasPorts had appropriately maintained its assets to maximize service delivery.

I conducted my audit in accordance with Australian Auditing Standard ASAE 3500 *Performance engagements*, which required me to comply with relevant ethical requirements relating to audit engagements. I planned and performed the audit to

obtain reasonable assurance whether TasPorts had efficiently and effectively achieved the benefits of amalgamation.

The audit criteria that I applied targeted the following efficiency and effectiveness aspects of the above stated audit objective:

- Have statewide planning benefits been realised?
- Have operational benefits been realised?
- Are the ports working ports?

My work involved obtaining evidence based on examining documentation covering the period prior to amalgamation until 2012.

I believe that the evidence I have obtained was sufficient and appropriate to provide a basis for my conclusion.

Auditor-General's conclusion

Based on the audit objective, scope and criteria and for the reasons outlined in this Report, it is my overall conclusion that:

- TasPorts' performance has been reasonable in the context of the economic decline and other structural changes to the Tasmanian economy and would probably have been worse if no amalgamation had occurred.
- The four major ports continue to be working ports although their nature has changed in that they are now useful individual components of a statewide organisation, rather than standalone facilities.
- Maintenance was being performed at the individual ports consistent with the TasPorts' specialisation strategy.

This Report contains two recommendations; one aimed at introducing greater rigour and scepticism to recommendations made by consultants prior to undertaking major structural change, and the second at ensuring all major projects be reviewed in accordance with DPAC's best practice project guidelines.

H M Blake
Auditor-General
18 October 2012

Recent reports

Tabled	No.	Title
May 2011	97	Follow of special reports 69–73
May 2011		Volume 5: Other State Entities 30 June 2010 and 31 December 2010, including University of Tasmania
Jun 2011	98	Premier's Sundry Grants Program and Urban Renewal and Heritage Fund
Jun 2011	99	Bushfire management
Jun 2011		Volume 4 Part 1: Local Government Authorities and Business Units 2009–10
Jul 2011		Volume 4 Part 2: Local Government Authorities and Business Units 2009–10
Sep 2011	100	Financial and economic performance of Forestry Tasmania
Sep 2011	1 of 2011-12	Tourism Tasmania: is it effective?
Nov 2011	2 of 2011-12	Children in out of home care
Nov 2011	3 of 2011-12	Volume 1 — Analysis of the Treasurer's Annual Financial Report 2010–11
Nov 2011	4 of 2011-12	Volume 2 — Executive and Legislature, Government Departments and other General Government Sector entities 2010–11
Nov 2011	5 of 2011-12	Volume 3 — Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010–11
Dec 2011	6 of 2011-12	Volume 4 Part I — Local Government Authorities 2010–11
Mar 2012	7 of 2011-12	Volume 5 — Other State Entities 30 June 2011 and 31 December 2010
Jun 2012	8 of 2011-12	The assessment of land-use planning applications
Jun 2012	9 of 2011-12	Volume 6 — Other State Entities 30 June 2011 and 31 December 2011
Jun 2012	10 of 2011-12	Public Trustee: Management of minor trusts
Jun 2012	11 of 2011-12	Updating the Motor Registry System
Jun 2012	12 of 2011-12	Follow up of special Reports 75–81
Jul 2012	1 of 2012-13	Sale of TOTE Tasmania

Current projects

Performance and compliance audits that the Auditor-General is currently conducting:

Title	Subject
Managing hospital bed demand	Assesses the effectiveness of the Department of Health and Human Services' efforts to manage the demand for hospital beds through alternatives to hospital treatment.
National Partnership Agreement on Homelessness	Examines whether the state is effectively and efficiently meeting its obligations under the National Partnership Agreement on Homelessness. The audit will be done concurrently with other jurisdictions.
Fraud control in local government	Assesses whether local government Councils' fraud management strategies are effective to prevent, detect and respond to fraud.
Royal Derwent Hospital site sale audit	In relation to the sale of the former Royal Derwent Hospital site, the performance audit focuses on whether the: <ul data-bbox="475 842 1374 990" style="list-style-type: none">• objectives of the Expression of Interest were achieved• sale proceeds were reasonable• purchaser was held to account to deliver on the terms of the sale agreement.
Tasmanian Adult Literacy Action Plan 2010–2015	A compliance audit to ascertain whether the Department of Education has implemented the strategies identified in the Plan, including the establishment of meaningful performance indicators and reporting progress against them.

Audit Mandate and Standards Applied

MANDATE

Section 23 of the *Audit Act 2008* states that the Auditor-General may at any time carry out an examination or investigation for one or more of the following purposes:

- "(a) Examine the accounting and financial management information systems of the Treasurer, a statement or subsidiary of a State entity to determine their effectiveness in achieving or monitoring program results;
- (b) Investigating any matter to the account of the Treasurer, a State entity or a subsidiary of a State entity;
- (c) Investigating any matter relating to public money or other money, or to public property or other property;
- (d) Examining the compliance of a State entity or a subsidiary of a State entity with written laws or its own internal policies;"

The conduct of such audits is often referred to as compliance auditing.

- "(e) Examining the efficiency, effectiveness and economy with which a related entity of a State entity performs functions -
 - i) on behalf of the State entity;
 - ii) partnership or jointly with the State entity; or
 - iii) as the delegate or agent of the State entity."

The conduct of such audits is often referred to as performance auditing.

STANDARDS APPLIED

This audit was performed in accordance with Standard on Assurance Engagements ASAE 3500, 'Performance Engagements', which states that:

'The objective of a performance engagement is to enable the assurance practitioner to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party by reporting on assertions, or information obtained directly, concerning the economy, efficiency or effectiveness of an activity against identified criteria.'

The audit included such tests and other procedures considered necessary in the circumstances.



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