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Dear Director,

Our aim for TAS focus is simple – to provide Directors who live or work within Tasmania with some valuable insights that will assist you in your role, provide a snapshot of the market, and give you some highlights from Deloitte Tasmania.

If you have a topic of interest that you would like addressed contact us at tasdirectors@deloitte.com.au

We are now sending TAS focus to selected CEO’s who have either requested a copy or whom we believe may find its Director targeted content useful. Welcome and we hope you enjoy this edition.
Foundations for prosperity

The education imperative

Education is the second largest outflow in the state’s expenditure at 27% (or $1.349 billion in 2013/14)\(^6\). Yet we have all heard the statistics – Tasmania has the lowest year 12 completion rate in the country\(^2\). If Tasmania is to prosper, then we must address the education outcomes. We must ask – what is the best outcome for the student, what is the best outcome for the state, and how do we deliver these outcomes?

One way to potentially improve outcomes is to increase the number of students completing year 12. While this is not for everyone, it can work for many. Research has shown that those who complete year 12 will be more likely to secure full time employment and will earn higher incomes than those who did not\(^3\). Women are more likely to complete year 12, students who live in capital cities are more likely to complete year 12, and students who had both parents complete year 12 are more likely to themselves\(^4\).

In an increasingly competitive environment, where employers look for something to separate high quality candidates every little advantage helps. Why limit your ability to secure employment or to maximise your potential? As the above shows it is not as simple as that. Generational unemployment, a diverse population spread across remote locations and various other barriers all contribute to our state outcomes. Apprenticeships used to be an alternative but this too is changing, more apprentices are completing year 12\(^4\).

The Government has commenced their strategy on what is sure to be a long process of correcting this. A 30%\(^5\) increase in the six regional schools where years 11 and 12 have been extended is a great first step, as is the number of schools nominating to be included in round two of the extension. Will the Government get it 100% right and deliver the perfect solution? Unlikely, but they have recognised the need and are trying to do something, and that is important. Refining the response, further consultation and so on can happen over time. Immediate action is important as the time to address this will be considerable.

The joint announcement by the University of Tasmania and the government establishing the Peter Underwood Centre for Educational Attainment is another significant step forward. It will focus on factors that are impeding educational attainment within the state through considering the best ways to keep children in school longer, methods to improve the way children learn and teachers can be trained, and the reason for existing impediments to educational aspiration and attainment.

With our low level of Tasmanian Certificate of Education completion and high youth unemployment this could not have come at a better time, because we are at risk of failing the people who will be our future labour force and we are permanently reducing their productive potential. The current end result is levels of youth unemployment around 17%, with some areas as high as 28%, and projections forecasting 33% in the West/North West, 25.5%
in Launceston and 20.5% in Hobart by 2016(6). Unless we change these outcomes the state is set for a future that will continue on with two of our current challenges – low participation and low productivity from our workforce.

I read with interest that South Australia now has 96% of public students continuing studies into (not completing) year 12 (up from 69.5% in 2002)(7). Unfortunately I could not attend the ‘Our place, our future’ education forum and hear from Mark Oliphant College principal Lynne Symons directly, but the press coverage sparked my interest to conduct some further research. Mark Oliphant College was formed after the closure of several poorly equipped state schools in a low socioeconomic status area in South Australia. It was the first ‘super’ school built in the state that was designed to cater for children from birth to year 12. It is structured very similarly to a lot of private schools being split into ‘early years’ (birth to year 2), ‘primary’ (years 3 to 6), ‘middle’ (years 7 to 9) and ‘senior’ (years 10 to 12). It focusses on improving literacy, science and the use of ICT(8). The results have been impressive and the sense of entitlement of students to achieve higher educational outcomes has caused enrolment to surpass all expectations. The key learning here – we can turn this around.

Education reform including school closures and mergers remains an emotive and political hot potato here, so the chance of seeing education, individual student and ultimately state outcomes potentially improve through a ‘super school’ concept remains unlikely in the short term. This makes the Peter Underwood Centre and the extension of state schools to year 12 even more important. Additionally organisations such as the Smith family and the Beacon foundation also add a vital link by getting on with improving the education outcomes for some of our most disadvantaged students. The Smith family, who have been in Tasmania since 2007, offer wonderful initiatives such as ‘Let’s Read’, ‘Let’s Count’, learning clubs and ‘itrack’ (an online mentoring program for years 9-11 helping them make effective study and career choices) and have a huge impact on education outcomes. The Beacon foundation, who are currently supporting 20 schools in the state with assistance including their ‘Real Futures Generation Project’ and ‘Business blackboards’ (and have provided opportunities to over 7,500 students in their 25 years in Tasmania)(9), are equally a vital part of the solution for better education and employment outcomes.

The undeniable importance of fixing education outcomes is clearly evident. Youth unemployment, participation levels, productivity and higher earnings present a compelling case in favour of addressing year 12 completion rates. The benefit to the state will be profound and is an essential part of improving our future prosperity. Education has always been important. However, for Tasmania’s future prosperity improved education outcomes are an imperative.

**Source**
1. The Tasmanian state budget
2. ABS 2014 ‘Apparent retention rates’ data
3. Grattan Institute, ‘Mapping Australian higher education 2014-15’
4. ABS Australian Social trends research
5. Minister for Education, February 2015
6. Brotherhood of St Laurence executive director Tony Nicholson
7. The Mercury, 27 January 2015
8. Government of South Australia, ‘Developing a preferred HR profile – Case study: Mark Oliphant College’
Privately speaking

Establishing a family office for wealth preservation

We appreciate that many of you have your own private companies in addition to your directorships.

Recent research from Deloitte, 2014 Private Wealth Outlook Championing growth, highlights how balancing the diverse needs and desires of various family members can be very difficult when large amounts of wealth are involved.

We are finding that competition remains intense for the business of high net worth families and the family office model is an attractive option for such families. The structural advantages are direct oversight and the customisation of services and privacy.

Clients are telling us that as their family businesses’ interest grows in terms of new products and expansion into new geographies, this can lead to an increase in their reporting demands.

Family Offices are now taking a more structured and formal approach to risk, compliance, and reporting. Their purpose is to preserve and protect the family wealth for current and future generations.

Typically a family would establish a family office to invest and manage the cash generated from a liquidity event such as, the sale of a family business or other business interest, a significant inheritance and/or a build up over time from cash flows from a trading business and/or investments.

We are finding that family dynamics are the greatest risk to the success of the family office and it is the particular family values and rules which are the foundation on which the family office should be built and governed.

The most common issues that cause a breakdown in families include:
- Lack of communication
- Lack of transparency
- The preceding generation keeping control
- Lack of education
- Inequalities amongst family members.

When considering the composition of a family office, it should not be comprised purely of family members but thought needs to go into which individuals have the best skills to actually govern the business.

The diagram on the next page provides further detail with regards to the underlying components to be considered in the establishment and ongoing management of your family office.
Privately speaking (cont.)

1. Book keeping & back office support
   - Financial health check
   - General ledger
   - Payroll
   - Accounts payable.

2. Educate
   - Generational issues
   - Confidentiality
   - Mentoring.

3. Succession
   - Management and ownership
   - Leadership development
   - Leadership change.

4. Managing your advisors
   - Bankers
   - Lawyers
   - Third party relationship management.

5. Tax
   - Transactions
   - ATO audits
   - Compliance.

6. Governance
   - Constitution
   - Family board
   - Family remuneration
   - Family meetings
   - Family council
   - Family values.

7. Estate planning
   - Wills
   - Property
   - Rights to ownership
   - Rights to income
   - Trusts.

8. Wealth transfer
   - Wealth development
   - Asset protection
   - Superannuation.

9. Social responsibility
   - Philanthropy
   - Roles and responsibilities
   - Link to family values.

10. Structure
    - Tax structuring
    - Risk management
    - Remuneration policy
    - Dividend policy.

11. Transactions
    - Due diligence
    - Tax planning
    - Divesting business
    - Investments
    - Ventures.
Building the Lucky Country

In our last issue we talked about the huge cost of red tape and the negative impact this has on the state. Firstly there is some good news – we have the smallest national growth rate in the compliance workers share of the workforce. However the cost of following unnecessary rules and regulations across the public and private sector is still over $5 billion in Tasmania.

Our report outlines the way to get your business back on track by unlocking the profit potential tied up in red tape and removing the unnecessary burden of over regulation and rule making within your organisation. There are five steps to follow – the 5 C’s.

Cleanse – Start by slashing stupidity. Identify all the obviously pointless and destructive rules. They can go. Look out for high compliance cost and little business value. Ask your staff – ‘What are the dumbest things we do?’

Acting on answers provides quick wins, improves staff engagement and sends a message that you are serious.

Once that is done it is time for a more systematic analysis of what is going on in your organisation.

Challenge – Challenge your current rules. Stop asking ‘What could go wrong?’ and ask ‘What needs to go right?’. A focus on what can go wrong is often the first step towards excessive and pointless rule making as organisations seek to address every potential issue. Compounding this is that the list grows over time as new potential issues emerge and this leads to rule accumulation.

Ask the following: why do we need this rule?; does this rule overlap with others?; are there opportunities to standardise our processes and forms?; and is the rule still relevant; and is there a better way to get the same or better outcome?

Create – The next step is to create a culture and behaviours that are focussed on both performance and compliance – aligning your organisations rules with its business objectives. A great starting point is understanding your organisations risk appetite (see Risk Matters in issue two of TAS focus).

By understanding how much risk the organisation is willing to take and in what areas, it reduces the rules equation to strike a balance between rules and returns.

Recently the Australian trend has been for organisations to smother themselves with new rules and moving the equation way to the right which results in reduced productivity due to red tape. You must have rules as going too far to the left leaves an organisation exposed. But an understanding of risk appetite facilitates entities getting the balance right – and in the right areas.

Also consider your business environment. Businesses that operate in inherently riskier markets usually require more rules. Think of an airline versus a bus transport company. Further the quality of the rules is vitally important. The better the rules, the greater the returns an organisation can unleash for a given level of risk.

Finally, it is important that prior strategies and development activities have created a higher organisational capability and capacity to take risk, not leaving it frustrated by old rules. Understand what you have today.

The most successful organisations will be those that sharpen their rules so they can generate the largest return possible within the constraints of their risk appetites.

Change – To get out of your own way, you need to change the way you set new rules and review old ones, and to review how your strategy links to your risk appetite. Consider whether your attitude to risk has changed, and whether there are new or greater risks?

Capitalise – You are now ready to capitalise on all your work.
Our latest Board effectiveness survey is out and we are sharing the views of 150 Audit Committee Chairs with you.

In this issue we discuss Audit Committee membership.

One of the most important tasks for an audit committee chair is to assemble an audit committee with enough financial and business expertise to be able to review both technical accounting questions and increasingly broad risk issues.

49% of chairs believe audit committee membership should be rotated amongst members of the board. Chairs were of the view that the audit committee was good for new directors. As one chair put it ‘…as it gives a broad overview of the business and it is acceptable – and desirable – for them to ask probing questions and dig into details’

Interestingly only 31% say that increasing gender diversity is a priority of the committee. However, many noted that gender diversity is a priority at board level.

Tasmanian listed companies have 15.2% of company directorships filled by females. The Australian listed company average is only 8.3% (as at January 2015). A summary by state is included below.

Cultural diversity is also being seen as increasingly important, particularly with companies that are expanding into Asia. The appointment of overseas directors or directors with varied cultural backgrounds is trending upwards.

‘Diversity falls across everything’, said one audit committee chair. ‘It is far broader than gender. Gender is not the main game but it is very important’.

<table>
<thead>
<tr>
<th>Average</th>
<th>Tas</th>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>SA</th>
<th>WA</th>
<th>NT</th>
<th>ACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.3%</td>
<td>15.2%</td>
<td>11.3%</td>
<td>10.3%</td>
<td>7.8%</td>
<td>11.8%</td>
<td>3.7%</td>
<td>0%</td>
<td>19.4%</td>
</tr>
</tbody>
</table>
### Listed company reporting

The 31 December 2014 year end results for Grange Resources and Tasmania Mines were lodged with the ASX. Their results are shown below.

<table>
<thead>
<tr>
<th>Entity</th>
<th>Financial Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grange Resources Limited</td>
<td>Loss after tax of $110.2m, down 505% on prior year profit of $21.8m</td>
</tr>
<tr>
<td>Tasmania Mines Limited</td>
<td>A profit of $6.9m, up 11.8% from $6.2m in 2013</td>
</tr>
</tbody>
</table>

The entities with a 30 June year end lodged their 31 December 2014 half year reports, with results mixed.

<table>
<thead>
<tr>
<th>Entity</th>
<th>Financial Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCD Resources NL</td>
<td>Receivers and Managers remain in place and relief from lodging reports was filed with the ASX on 5 March 2015</td>
</tr>
<tr>
<td>Bellamy’s Australia Limited</td>
<td>Profit after tax increased by 137% to $3.2m (up from $1.4m)</td>
</tr>
<tr>
<td>Huon Aquaculture Group Limited</td>
<td>Profit after tax increased by 11.2% to $25.9m (up from $23.3m)</td>
</tr>
<tr>
<td>MyState Limited</td>
<td>Profit after tax increased by 0.1% to $14.9m (up from $14.8m)</td>
</tr>
<tr>
<td>Tassal Group Limited</td>
<td>Profit after tax increased by 35% to $30.3m (up from $22.5m)</td>
</tr>
<tr>
<td>Webster Limited</td>
<td>Loss after tax increased to $4.8m, up from $1.4m, an increase of 235%</td>
</tr>
</tbody>
</table>
The Deloitte Tasmania Index to 31 March 2015 shows that the Tasmanian registered ASX entities have maintained their above average performance compared to the All Ordinaries and the ASX Small Ordinaries.

Key matters potentially impacting the index since December 2014 are:
• A major impairment booked for Grange Resources Limited
• Webster Limited enter two new transactions
• BCD Resources NL remaining under control of receivers and managers
• Strong profit growth from many local entities for their half year results.

Announcement post 31 March 2015:
• BCD Resources appoint an administrator
• Huon Aquaculture revise profit forecast
• CFO of Ruralco resigns
• Tassal Group continues due diligence on De Costi Seafoods.

Entities within the Deloitte Tasmanian index are:
• BCD Resources NL
• Bellamy’s Australia Limited
• Grange Resources Limited
• Huon Aquaculture Group Limited
• MyState Limited
• Ruralco Holdings Limited
• Tasmania Mines Limited
• Tassal Group Limited
• Webster Limited.
Deloitte Tasmania index (cont.)

Contribution to the Deloitte Tasmania Index

- Tassal Group Limited – 22%
- Webster Limited – 10%
- BCD Resources NL – 0%
- Bellamy’s Australia Limited – 11%
- Grange Resources Limited – 6%
- MyState Limited – 20%
- Huon Aquaculture Group Limited – 18%
- Ruralco Holdings Limited – 12%
- Tasmania Mines Limited – 1%
Tasmania is benefiting from the favourable movements now being seen in interest rates (cheap finance), low energy costs (with the global oil price having plunged), and the exchange rate (where the fall in the $A has provided tourism and agriculture a notable reprieve).

The State is also benefiting from its own natural rebound from a rather extended period of stagnation from the beginning of 2010 which lasted all the way through until the end of 2012. During those three years, Tasmania’s overall output showed no growth at all – in fact, it shrunk by around 1% – while unemployment ended up hitting 8% by mid-2013 (in contrast, Australia’s economy as a whole expanded by 7% in that time).

However, Tasmania has come quietly back to better economic growth in the past two years, which can be seen across many of Tasmania’s economic indicators:

- The trend unemployment rate had fallen to 6.5% in March (just above the national rate)
- Retail sales increased by 4.7% over the year to February
- Car sales increased by 7.9% over the year to March
- Housing construction increased by 5.4% over the year to the December quarter of 2014.

A key concern is that business investment still remains well below its earlier peak, though it now looks to have passed its trough.

Falls in the $A have been a positive for the State’s tourism sector. There has been strong growth in visitor arrivals to the State, with Hobart increasingly tapping into the domestic tourism trend for a short escape from the mainland, resulting in hotel occupancies growing strongly over the past year.

More broadly, a recent expansion of the Tasmanian Freight Equalisation Scheme by the Federal Government means that Tasmania’s agricultural producers will receive subsidised shipping across Bass Strait for goods exported into international markets making them more competitive globally.

That said, there is still every chance Tasmania’s economic growth will underperform that seen nationally. Weak population growth continues to be an important albatross for the State, with the large wedge in population growth rates between Tasmania and the rest of Australia expected to be maintained over time despite some marginal improvement seen in recent months.
Partner movements

David Harradine

At the end of issue two we noted that David Harradine was leaving us to take up the CFO position at MyState Limited. David has now taken up that position and we wish him well for the future and look forward to continuing to work closely with him.

David made a huge contribution to Deloitte Tasmania and we have valued his passion, knowledge, insights and dedication for 16 years.
We hope that you have enjoyed this edition of TAS focus.
We thank you for your time and continued support.

Regards, The Tasmanian Partners
Damien, Carl, Tim, Angela, Simon, James, Roger and Rod
For copies of any reports referred to in this document, feedback or if you require any further information please contact us at tasdirectors@deloitte.com.au.
Contacts

Hobart office

Damien Bones
Business Advisory Services
Tel: +61 3 6237 7097
dbones@deloitte.com.au

Carl Harris
Assurance & Advisory
Tel: +61 3 6237 7630
carharris@deloitte.com.au

Tim Maddock
Corporate Tax
Tel: +61 3 6237 7065
tmaddock@deloitte.com.au

Angela Paynter
Assurance & Advisory
Tel: +61 3 6237 7072
apaynter@deloitte.com.au

Simon Tarte
Consulting
Tel: +61 3 6237 7030
starte@deloitte.com.au

Launceston office

James Down
Business Advisory Services
Tel: +61 3 6337 7065
jdown@deloitte.com.au

Roger McBain
Business Advisory Services
Tel: +61 3 6337 7032
rmcbain@deloitte.com.au

Rod Whitehead
Assurance & Advisory/Risk Services
Tel: +61 3 6337 7061
rwhitehead@deloitte.com.au