TAS focus

February 2015

Edition two

Contents

Dear Director

Edition two and thank you for your feedback. We have changed the format to make it easier to view. We hope you enjoy this edition.

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 highlights from Deloitte Tasmania.

Foundations for prosperity

The prosperity equation

Carl Harris
Managing Partner

There are three factors that make up the prosperity equation. Global value placed on products and expertise, your share of the population that is working and the productivity of that working population. Nationally the switch in phases of the mining boom is seeing iron ore and coal prices falling and therefore the first factor is reducing in influence. The mining boom did not really do much for the Tasmanian economy other than contribute to a high AUD, so this part of the equation is of less relevance. So let's focus on the other two.

Tasmania has the lowest participation rate in the country. The good news is it is improving, but it is still a long way off national averages and with our high level of elderly Australian's living (and moving) here we are always going to struggle on this factor. This is further compounded by the retirement of the baby boomers. We also lag on the productivity front, as we work fewer hours and are less productive than mainland Australia. Combined these factors mean that as a state we need to embrace what we can control and influence, and work them to our advantage.

The Deloitte 'Building the Lucky Country' (BTLC) series has followed these themes through each of the four releases so far. Edition one 'Where is your next worker' provided insights and solutions into securing the future workforce, edition two focussed on digital disruption and in particular the industries that are facing a 'short fuse, big bang' due to rapid and massive digital innovation disrupting the norms of business.

Edition three of BTLC talked about the growth hot spots for the state – Tourism, Agribusiness and International Education (with wealth management and aged industries also being important). Released on 29 October 2014, edition four, 'Get out of your own way, Unleashing productivity' deals with reducing government and business red tape.

So can we get more people into the workforce and keep them there? Can we increase productivity through digital innovation, investing in industries within growth hot spots and unleashing the burden placed on business through reducing red tape? We have to and we can't rely on just one of these, we need a combination of all three.

The visit from the Chinese President Xi Jinping in November, being named as the top four regions to visit by Lonely planet and hosting the Restaurant Australia finale are three examples of global exposure for our State, and they align beautifully with the three key growth hot spots for our prosperity – tourism, agribusiness and international education.

The key now is that we have to seize and optimise these opportunities.

Foundations for prosperity (cont.)

So what can we do ? Some thoughts are:

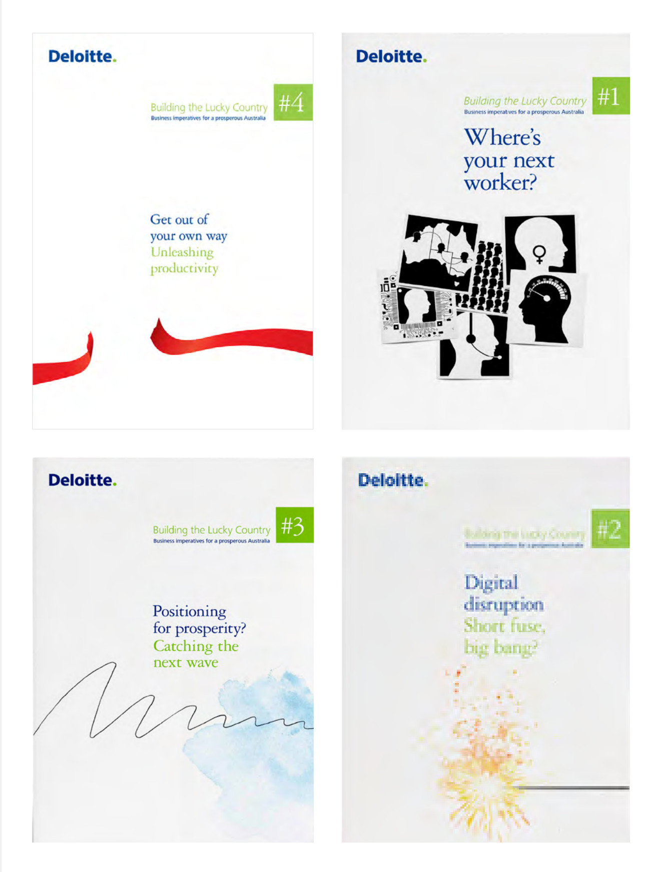
- Ensure high quality and consistent supply of our agricultural and aquaculture produce
- Be a world leader in the use technology and innovation
- Build scale to interest larger investors
- Ensure the workforce of the future is educated and skilled in the right areas
- Continue to transform our tourism industry to be 'China ready' and ensure that Asian tourists are appropriately catered for
- We need more hotel rooms and rooms of the right quality/ star rating
- Continue to invest in research and specialist courses
- Tailor our university courses for the growth markets
- Embrace change, disruption and innovation.

We already do some of the above very well such as the use of technology in the agribusiness sector and our world class research centres. There are good news stories elsewhere too. But competition in the hot spots is high and as a state we face many obstacles.

And of course there is China, arguably at the epicentre of our potential prosperity. I thoroughly enjoyed the TAS INVEST forum and from the gala dinner I would like to finish with a quote by Andrew 'Twiggy' Forrest in reference to President Xi Jinping.

'If there is one person who can change the prosperity of everyone in this room, or better still of your children and grandchildren, it is this humble man'.

At a recent business forum I attended one of the conclusions we reached was that as leaders we have an obligation to increase the Chinese cultural understanding and awareness of all Tasmanians. The above quote succinctly reiterates why this is so important.



Risk matters

Risk appetite

David Harradine
Risk Partner

Rod Whitehead
Audit & Risk Partner

Articulating the level of risk an organisation is willing to accept in the pursuit of its strategic objectives is not a new concept but the word 'appetite' itself does tend to create some confusion. 'Appetite' brings to mind epicurean thoughts such as how hungry for risk should my organisation be?

Continuing on this culinary theme, a prudently managed organisation should ensure that its eyes are not bigger than its stomach and similarly it should not be so famished it could eat a proverbial horse. Boards play a critical role in getting a 'balanced diet' right as there are many different diets out there and they do not give effect to the same results in those that take them.

In recent times, we have seen more and more organisations embarking on a process to document a formal risk appetite statement (RAS), each with varying degrees of success. This brief article aims to demystify the process of developing a RAS that will effectively guide the decisions of those who actively take on risk on behalf of an organisation.

What should your RAS aim to achieve?

Objectives of implementing a RAS:

Support conscious risk taking	Support conscious and profitable risk-taking (as opposed to risk avoidance at all cost or an inability to describe the level of risk your organisation is actually exposed to)
Drive strong performance	Enable performance management (if you can't measure your risk appetite and exposure, you cannot manage it)
Contemplate catastrophes	Enable discussion and consideration of potential catastrophic failures (even if they have a low likelihood of occurring)

What does a 'good' RAS look like?

A 'good' RAS informs people who take risks on an organisation's behalf about the:

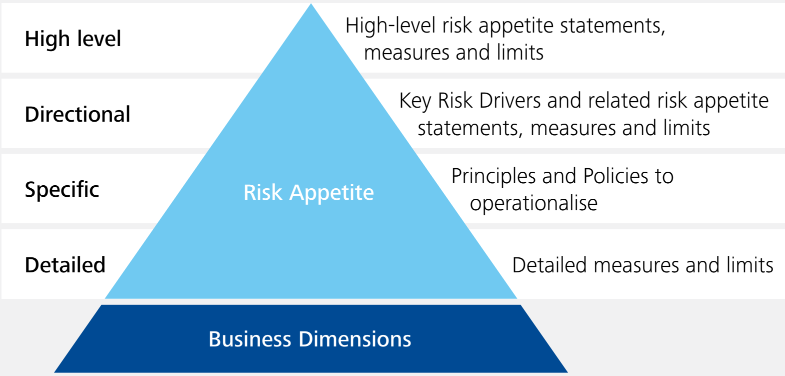
- Strategic objectives they must support in their risk taking
- Categories of material risk relevant to the objectives they are pursuing
- Drivers/causes of risk associated with their objectives
- Agreed limits (qualitative and quantitative) within which risk may be accepted.

What are the common pitfalls in implementing a good RAS?

We have observed the following common practices which limit the usefulness of a RAS:

- Consideration has not been adequately given to the key strategic decision points (scenarios and trade-offs) likely to confront the board and executive team in the future
- Rebadging existing risk exposure assessment criteria as a 'risk appetite framework', thereby managing risk appetite as an average of averages
- Trying to do too much and not focussing on the key issues at play. Ideally, the RAS should be cascaded across the organisation to only state what is relevant to each level
- Failing to make a RAS relevant to operations by not including appropriate risk measures and limits at each level noted in the following diagram.

Strategic plan & objectives risk strategy



Building the Lucky Country

Each year Deloitte releases an edition of the Building the Lucky Country series – a document that invariably starts a national conversation. We released the fourth edition on 29 October.

Deloitte calculates the national cost of rules and regulations at $250 billion annually across the private and public sectors.

This national cost comes in two parts:

- **$95 billion** – the cost of administering and complying with public sector regulations
- **$155 billion** – the cost of administering and complying with the rules that organisations choose to impose on themselves.

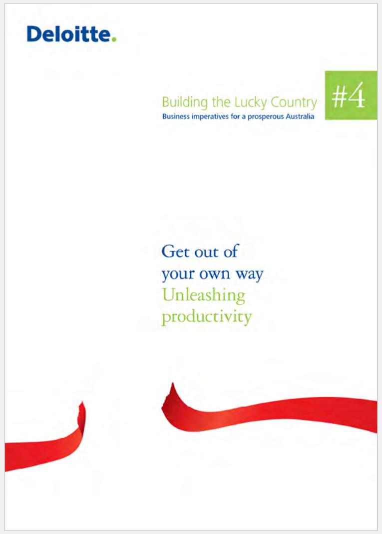
Many Tasmanians are caught up in the 'branch office syndrome', with a Deloitte survey of corporate Australia showing that organisations operating across states had compliance burdens more than half as time consuming again as those faced by organisations operating in just the one state.

With corporate headquarters in Sydney or Melbourne calling the shots or many local entities suffering from a steady build-up of rules on top of rules, local compliance costs are huge. In total, the costs of administering and complying with rules and regulations – both public sector rules and those that organisations choose to impose on themselves – weigh in at $5 billion in Tasmania.

Businesses usually impose rules on themselves for good reason – to increase controls, avoid risk, create compliance or make the organisation more effective. Yet often there are unintended or unforeseen consequences, with the new rules creating overlaps in regulation, or old rules becoming outdated due to changes in technology or business models.

Deloitte has taken a dose of its own medicine, asking its employees to identify 'dumb rules' that get in the way of innovation, collaboration and creativity, with a 'Dumbest Things' internal campaign. The Dumbest Things campaign is the beginning of a purposeful and programmatic unleashing of productivity across the organisation. It's about actively reminding all our people that innovation comes from building a culture that focuses on what must go right, not what could go wrong.

Australia's compliance culture is cluttering our cost base and choking our innovation. That is coming at a massive and rising cost to our state and nation. Understanding and taking advantage of our competitive strengths as a state is as important as ever, but we also need to deal with the potential efficiency gains of 'ruling ourselves' more effectively.



Email us at Tasdirectors@deloitte.com.au for the link to the full report.

From the Boardroom

Our latest Board effectiveness survey is out and we are sharing the views of 150 Audit Committee Chairs on increasing regulatory scrutiny with you.

A staggering 92% of Chairs agreed or strongly agreed that audit committees are now under more regulatory pressure. As a result audit committees are now spending more time and effort on addressing regulators' concerns, such as understanding audit processes and considering impairment models.

As regulators have stepped up their monitoring processes of companies and auditors audit committees are now challenged with balancing this with their traditional responsibilities.

Regulators are becoming much more organised internationally and coordinating activities with other corporate regulators.

The Australian Securities and Investments Commission (ASIC) has become much more interventionist and its monitoring activities have increased. ASIC recently announced in its recent review of 135 listed companies it contacted 23 with concerns, including inadequate impairment of assets and inappropriate accounting treatments. 17 of these companies had to change their treatment and some had to restate their financial results – something that was virtually unheard of a few years ago in Australia.

Not only are such announcements expected to become more common, but ASIC also plans to publicise and name entities via media releases.

In response some directors have expressed concern around potential for increased personal liability and loss of reputation, and the risk to company brands that negative publicity could create.

ASIC have also expanded reviews and resultant enquiries into proprietary companies.

Financial reporting

ASIC focus areas

ASIC announced its 31 December 2014 areas of focus and they are:

- Impairment testing and asset values
- Amortisation of intangible assets
- Off-balance sheet arrangements and new standards
- Revenue recognition
- Expense deferral
- Tax accounting
- Estimates and accounting policy judgement disclosures
- Disclosing the impact of the new revenue standard.

Many of these are consistent with previous periods and are part of an increased monitoring programme by the regulator (refer 'From the boardroom' above).

ASIC has also outlined a clear expectation that the impact of the issued but not yet effective revenue standard is included in the accounts. This will require many entities to conduct a thorough assessment of the standard, its impact on revenue recognition and disclosures.

Listed company reporting

The year end results for Ruralco Holdings Ltd (which has a 30 September year end) were lodged with the ASX on 18 November. Profit after tax increased by 86% from $5.738m in 2013 to $10.565m in 2014.

Public sector reporting

The 30 June 2014 year end for Tasmanian Government Business Enterprises, State Owned Corporations and Departments was reported to parliament in November 2014 by the Tasmania Audit Office. Results were mixed as shown below.

Financial reporting (cont.)

Government Business Enterprises

	Hydro	Forestry	MAIB	Port Arthur	Public Trustee	Tascorp
Profit/(Loss) after tax ($,000)	144,548	(43,733)	125,498	2,364	739	10,473
Returns to Government ($,000)	231,488	0	33,093	0	200	6,834

State Owned Corporations

	Aurora	Metro	Tas Irrigation	Tasports	Tasracing	Tas Rail	Transend	TT-Line
Profit/(Loss) after tax ($,000)	63,991	(268)	(3,563)	(169)	(75)	(48,882)	37,324	10,383
Returns to Government ($,000)	64,560	0	0	268	0	0	59,873	0

Tasmanian Networks Pty Ltd (TasNetworks) did not begin trading until 1 July 2014.

Major Departments

	Ec Dev, Tourism & Arts	Education	Health & Human Services	Justice	Police & Emergency man.	DIER	DPIPWE
Net Surplus/(Deficit) ($,000)	3,934	(22,730)	(451,915)	9,196	(3,534)	11,360	50,974
Employees	407	7,692	1,318	1,039	1,511	499	1,270

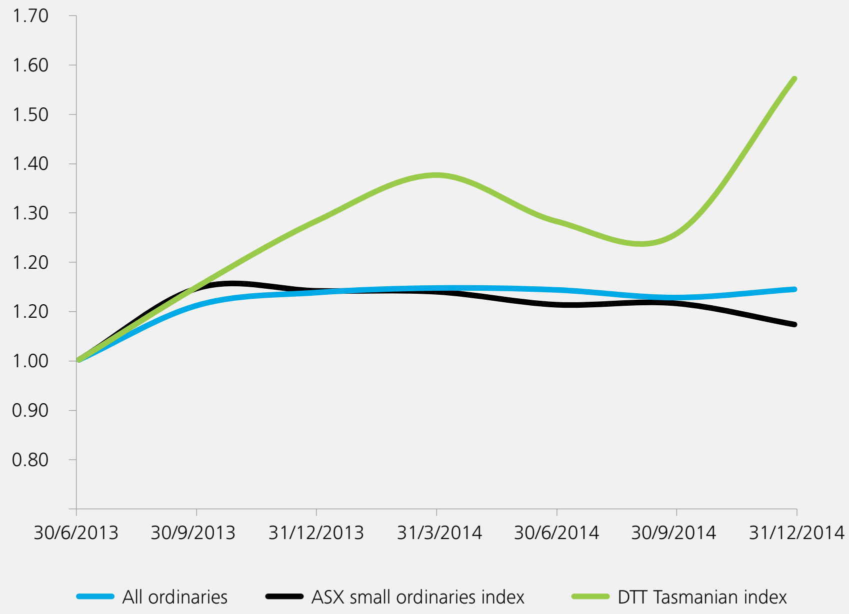
- The North, North West & South Tasmanian Health Organisations produced a combined surplus of $88,272,000 and employed 7,870 employees.
- The state unfunded superannuation liability was reported at 30 June 2014 as $4,369,326,000.
- In addition to the above, TasWater produced a net profit after tax of $27,236,000 for the year ended 30 June 2014.

Deloitte Tasmania index

The Deloitte Tasmania Index* to 31 December 2014 shows that the Tasmanian registered ASX entities have continued to outperform the all ordinaries and the ASX small ordinaries indexes.

Key movements since June 2014 are:

- The listing of Huon Aquaculture Group Limited on 23 October 2014, which saw the second Tasmanian based company list within a 12 month period
- Webster Limited acquiring the assets of AgReserves Australia Limited and an associated placement of 17,475,728 new ordinary Webster shares at $1.03 per share to Australian Food & Fibre (AFF) which represented approximately 11.2% of Webster's issued capital. Webster also divested its onion operations
- A reduction in the market capitalisation of Grange Resources Limited
- Bellany's announcement on 14 December 2014 that it expects to exceed sales and NPAT forecasts by 20%
- In a post 31 December announcement BCD resources appointed receivers and managers on 22 January 2015.



Entities within the Deloitte Tasmania Index are:

- BCD Resources NL
- Bellamy's Australia Limited
- Grange Resources Limited
- Huon Aquaculture Group Limited
- MyState Limited
- Ruralco Holdings Ltd
- Tasmania Mines Ltd
- Tassal Group Limited
- Webster Ltd.

Out and about

Impact day – On the 21st of November 2014, 61 of our staff headed out into the community to help charitable organisations. You may have seen us on the street corners of Hobart collecting donations for Hobart City Mission, or taking residents from Veranto to Dru Point, maybe door knocking with Centacare or working hard at Foodbank and Secondbite.

In Launceston you may have seen us cooking a BBQ at Harvey Norman raising money for the Oxfam Syrian Crisis appeal or helping St Vincent de Paul and Oxfam in their sorting for the shops.

These are just some of the charities we supported this year.

Around the country Deloitte had 2,650 impact day participants collectively providing over 20,000 hours to the community.

Last year Deloitte contributed $17m in community contributions around the country. In Tasmania we are proud to help local communities and charities in various ways including through work-place giving, micro volunteering, movember, emergency appeals, blood donations, and of course, impact day.

Deloitte Access Economics – The Tassie Report

David Rumbens
Partner
Deloitte Access Economics

The Tasmanian economy continues to show signs of improvement. Employment growth has remained robust over most of 2014. The State's unemployment rate has stepped down through 2014 (reaching 6.9% in November), while the national unemployment rate has pushed up over the same time.

Tasmania's retail sector has faced challenges in recent years, but 2014 was an improvement with strong sales growth of 7.1% (over the year to the September quarter), well above that seen nationally. Across several key indicators, Tasmania's economy has performed well in 2014 compared to its mainland peers.

The falling Australian dollar and continued low interest rates should provide a boost to the Tasmanian economy going forward. Additionally, the recent signing of free trade agreements with Japan and South Korea, as well as the establishment of a framework for a free trade agreement with China should provide increased opportunities for Tasmania's agriculture and tourism industry to take advantage of the world's fastest growing economic region.

However, there are some risks to continued economic growth in Tasmania. The continued demographic challenge will hamper future growth prospects. While the rate of population growth has lifted slightly in recent months, it remains the weakest of all States. Additionally, there is still the prospect that interest rates will increase towards the end of 2015, and if that were to occur it would dampen consumer spending, and potentially investment spending, in Tasmania.

Looking forward, the Tasmanian economy has a number of opportunities for growth. The growing Asian middle class will provide an expanding market for Tasmania's agricultural and tourism sectors. This will complement the State's other strengths in forestry and mining, and will provide additional opportunities for business to invest.

Final word

On 16 January 2015 Deloitte and MyState Limited (MyState) announced that Hobart-based Risk Services partner David Harradine will join MyState mid march as their chief financial officer. David has made a huge contribution to Deloitte Tasmania and we congratulate him on his appointment to such a prominent Tasmanian business.

We hope that you have enjoyed this edition of our Director only Deloitte Tasmania publication. We thank you for your time and continued support.

Regards, The Tasmanian Partners
Damien, David, Carl, Tim, Angela, Simon, James, Roger and Rod.

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