



Victorian Regional Channels
Authority

2013/14

ANNUAL REPORT



Victorian Regional Channels Authority

Annual Report 2013 – 2014

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Our vision

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

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

Our mission

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

Scope of operations

The Victorian Regional Channels Authority (VRCA) is established under the *Transport Integration Act 2010* to manage channels in the port waters of Geelong, and oversee channel operations in the Port of Portland and Hastings. It began operations on 1 April 2004.

The principal functions of the VRCA, as provided in Part 6 of Division 3B of the *Transport Integration Act 2010*, are to:

- establish, manage, dredge and maintain the channels in port waters and provide and maintain navigation aids in port waters in accordance with standards of the Director of Marine Safety;
- provide general direction and control of the movement of vessels within port waters in accordance with the *Marine Safety Act 2010*;
- provide technical advice and support to port managers about the management and operation of port waters and channels in port waters; and
- assist port managers, at their request, and with the approval of the Minister, with integrated planning, development, management and promotion activities for the port.

The VRCA is directly responsible for shipping control in the port waters of Geelong and contracts the shipping control and navigation channel services for the Port of Portland and the Port of Hastings to the operators of these ports.

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

Additional responsibilities of the VRCA in relation to preparation of the Port Development Strategy are contained in Part 6B of the *Port Management Act 1995*. This responsibility came into effect in 2012.

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

Chairman's report

It is with pleasure that I report on another successful 12 months of operations for the Victorian Regional Channels Authority (VRCA).

I would like to begin by thanking my fellow VRCA Board members, Mr Peter Dorling and Ms Merran Kelsall, for their outstanding service to the authority. They bring a wealth of knowledge and experience to the boardroom table, which is greatly appreciated. The Authority is also very well served by a committed staff group who are acknowledged as leaders in their various fields and who are led by a talented and committed CEO in Capt. Peter McGovern.

Over the past year the Port of Geelong recorded a total of 661 ship visits, up 200 from a decade ago.

At 16.5 million gross tons, the total gross tonnage of ships entering the port was the highest since we commenced operations. It's a trend we want to see continue. This is especially important given other industrial contraction in the Geelong area where Port related activities remain a very significant and growing part of Geelong's industrial base.

The most significant cargo types remained crude oil, petroleum products, woodchips, fertiliser and grain and further cemented the Port of Geelong as Victoria's most important bulk port.

I am also pleased to note that, despite the extra shipping movements, the VRCA's shipping control functions and channel infrastructure continue to meet the same standards of efficiency and safety as previous years. Our shipping channels remained free of marine operation incidents for 2013/14.

The port of Geelong remains Victoria's most important bulk cargo port, providing a major transport hub for southwest Victoria and a gateway to the world. Given this significance, the efficiency and reliability of the port, including its marine infrastructure, is a key factor in the economic performance of not just the region, but the state.

Over the past few years I have watched the VRCA take an increasingly important role in supporting the port of Geelong and helping shape strategic plans for its future development and growth. The VRCA has become the recognised lead agency in Geelong for the port-related co-ordination of safety, security and environmental issues as well as for providing a focal point for planning, stakeholder and community involvement issues. With its status as an independent body, it is well positioned and trusted to bring stakeholders together for a co-ordinated approach to keeping the port safe, efficient and competitive.

The VRCA's role as facilitator for the Port-City Co-ordinator role, in the wake of the Geelong Port-City 2050 plan, is a natural fit for the authority. The VRCA will play a key part in prioritising infrastructure projects and preparing preliminary business cases to support long-term growth of the port.

The last 12 months has seen the release of the Port of Geelong Development Strategy and the granting of approval for a \$9 million channel safety adjustment project, called the Geelong Dredging Program 2014. The program's driving forces are safe navigation, productivity and efficiency.

The VRCA has continued to work closely with local community groups. These include the Geelong Chamber of Commerce, G21, the City of Greater Geelong, the Geelong Manufacturing Council and the Committee for Geelong as well as community service organisations and local residents.

Our Port Education Program continued throughout the year as part of our commitment to improving understanding and appreciation of the port. More than 7000 secondary school students have taken part in the program since it began in 2006.

Throughout 2013/14, the VRCA has built on its strengths, with a commitment to continuously improve both its day-to-day shipping control and channel management functions and its contribution to the planning, development and operation of the port in the wider context.

I would like to congratulate my fellow directors and the VRCA staff on a successful year of operations, knowing we can look forward to further achievements and productive collaboration in 2014/15.

Kenneth E Jarvis
Chair

Chief Executive Officer's report

The VRCA's financial results for 2013/14 exceeded budget expectations, with the authority posting a before tax profit of \$1.8 million based on a total turnover of \$9.1 million. Operating expenses for the year amounted to \$7.4 million and were in line with budget expectations.

The 2013/14 operating profit was the highest achieved by the VRCA since its establishment in April 2004. While grain shipments were down 20 per cent – after strong harvests over the previous two seasons – fertiliser throughput increased by 17 per cent, and liquid bulk imports and exports increased by about 3 per cent.

It was also pleasing to see the port handled 661 ships for the year with a record gross tonnage of 16.5 million, up 0.2 million gross tons on the previous year. The VRCA's commitment to safety, efficiency and reliability in its channel network is paramount and it is a pleasure to report that marine operations in the channels remained incident free in 2013/14.

Throughout the year we also maintained our public awareness campaign targeting recreational port users who operate small craft in the port of Geelong. This campaign, which promotes safe boating practices, uses the catch cry of *Keep Clear of Big Ships*. It was delivered through print and electronic media and through VRCA staff visits to community groups and boating organisations.

The Port of Geelong is Victoria's biggest bulk cargo port and a key economic driver for the city, the region and the state. Released in August 2013, *Geelong Port-City 2050* is a strategic plan that aims to unlock trade growth through targeted infrastructure improvements to keep the port competitive and productive in future decades.

The VRCA is a leading contributor to forward planning in the port and is facilitating and chairing the Geelong Port-City 2050 Co-ordinator role, bringing together port stakeholders from the Port of Geelong Users Group. The Port-City Co-ordinator role aims to prioritise infrastructure projects, prepare preliminary project business cases and liaise with governments to work towards long-term growth of the port.

The VRCA also released its latest Port of Geelong Development Strategy in 2013/14. This strategy, which must be completed every four years under the Port Management Act 1995, was developed in consultation with port users and the broader community. The strategy addresses specific issues faced by the port and focuses on the need for better links between parcels of port-related land.

The Port Development Strategy, with its detailed analysis of the economic impacts of projected future trade and port-related activity over the next 20 years, is a valuable asset for port users and decision makers in their future planning.

As the world shipping industry looks to achieve economies of scale through larger ships, the VRCA and the port are facing the challenges these bigger vessels and greater ship numbers present to channel capacity and infrastructure.

With safe navigation in the channels at the forefront of all our endeavours, the VRCA has spent the past year fine-tuning plans to widen the inside of City Bend's right-angle turn and deepen Corio Quay North No 4 Berth, bringing it into line with the channel network's declared depth of 12.3 metres. After receiving project approval under the Coastal Management Act 1995, we awarded the major contract to NZ-based Heron Construction Company. It will be great to see this \$9 million channel improvement project -- Geelong Dredging Program 2014 -- get underway in 2014/15.

The VRCA has also carried out the most comprehensive seabed investigation of Corio Bay's shipping channels to prepare for future improvements of the channel network. Contractor URS Australia used local crews for much of the field work, collecting sedimentary samples and drilling boreholes for a geotechnical survey. It is all part of planning for the future.

The VRCA has also continued to meet its responsibilities regarding the oversight of channel operations at Portland and Hastings throughout the year.

The authority, the port owners and its users have worked closely together over the past year to keep Geelong's shipping hub safe and productive. I would like to thank our customers and stakeholders and acknowledge that their ongoing support is critical for the successful operations of the port as a whole.

I would also like to extend my gratitude to the VRCA Board members - Chairman Kenneth Jarvis and fellow Directors Merran Kelsall and Peter Dorling -- for their contribution and support over the past 12 months.

Finally, I thank my fellow staff members for their unstinting commitment and achievements throughout the year. I look forward to working with them to achieve a safe and successful year ahead.

Captain Peter McGovern
Chief Executive Officer

Executive summary

Highlights of the year:

- Facilitating the new role of City-Port Co-ordinator to help unlock trade growth through targeted infrastructure improvements identified in the *Geelong Port-City 2050* plan.
- Continuing leadership and coordination of the Geelong Port Development Strategy, a major collaborative strategic planning process involving representatives from all of the major operators in the port.
- Continuing implementation of a formal industry consultation and meeting program for the above Port Development Strategy
- Further development of the VRCA's Port Capacity Simulation modelling as a key tool in our long-term strategic planning.
- Implementation of a cargo movement study and detailed economic impact analysis associated with the Port Development Strategy.
- Ongoing collaboration with the Port Phillip Sea Pilots using a full-mission bridge simulator to test vessel transits in the Geelong channels under a variety of sea conditions and vessel operating parameters as part of the VRCA's risk-mitigation program.
- Completion of the biggest seabed investigation of Corio Bay's shipping channels to prepare for future improvements of the channel network. The investigation included comprehensive sedimentary analysis and a geotechnical survey.
- Receiving approval under the Coastal Management Act 1995 for the VRCA's \$9 million Geelong Dredging Program 2014, which involves widening City Bend and dredging Corio Quay North No 4 Berth to a depth of 12.3 metres.
- Detailed simulation and capacity modelling for potential berth extensions at Corio Quay South and Lascelles Wharf.
- Completion of the annual hydrographic survey to determine the maintenance of channel depths and to assess the extent of works required to improve access to the port.
- Review of risks and risk controls in the VRCA Risk Management Register
- Continuation of the awareness campaign warning small craft of risks associated with channel usage.
- Continuation of the Port Educational Program for Year 9 to 11 students from Geelong and surrounding regions.
- Continuing the VRCA education program's involvement with the 'Northern Futures' education and training program for disadvantaged adults in the region.

Ongoing provision of key services and facilities:

- 24-hour commercial shipping management service.
- Liaison with pilot services, tugs, lines boats, lines men, quarantine services and customs.
- Planning and supervision of tasks for the provision and maintenance of all navigation aids for commercial shipping.
- Oversight of channel operations at the Port of Portland and at the Port of Hastings.
- Provision of professional maritime advice about ships, cargoes and operations in port waters.
- Undertaking research and the collection of information on shipping industry trends.
- Strategic planning for future needs of commercial shipping in regional commercial channels.
- Provision of regular industry briefings.
- Provision of support for port consultative groups.

Establishment and functions

The VRCA is defined as a Transport Corporation under the *Transport Integration Act 2010* with the responsibility of managing the shipping channels in the Port of Geelong and overseeing the channels in the Port of Portland and the Port of Hastings.

Objectives of the VRCA

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

In pursuit of this objective, the VRCA aims to:

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

Profiles of Geelong piers and wharves

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

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

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

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

Point Henry Pier

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

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

Bulk Grain Pier

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

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

Corio Quay

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

Berth	Max LOA	Max Draft	Remarks
Corio Quay 1 & 2 North	375m	10.4m	Woodchip (priority)/dry bulk/general cargo
Corio Quay 3 North	166m	10.4m	General cargo
Corio Quay 4 North	230m	10.4m	Woodchip
Corio Quay 1 South	180m	10.4m	General cargo

Lascelles Wharf

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

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

Refinery Pier

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

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

Point Wilson Explosives Pier

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

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

Cunningham Pier

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

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

Rippleside

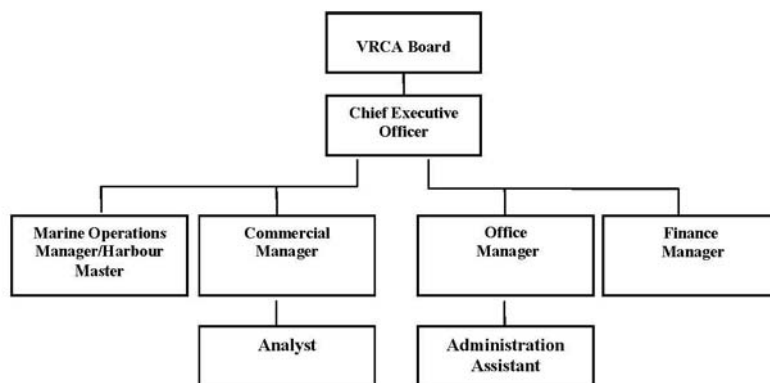
Currently not in operation pending development of the area.

Staff establishment

The VRCA has a Board of Directors of three and an establishment of seven staff. Six staff members are permanent, while the Finance Manager is on contract.

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

Organisational structure



Income and pricing

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

The VRCA does not gain any revenue from:

- Passenger cruise liners and naval vessels using channels or services under the VRCA's control; or
- Commercial shipping using the Ports of Hastings or Portland.

Primary revenue

The basis for shipping charges

The VRCA sets prices for its tonnage charges on shipping based on a gross tonnage measure which is related to the internal volume of the vessel accessing the port.

The VRCA reviews its pricing annually and fixes prices for a year in advance. The 2013/2014 Channel Usage Charge was 33 cents per gross ton.

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

Additional revenue

Geelong Channel Improvement Program

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

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

The agreements with Shell and Alcoa are for terms of 30 and 50 years respectively from the date of commencement. Under the terms of the agreement with Alcoa the closure of the smelter operations during 2014 will mean that the payments will cease at that time, resulting in a loss of \$246,000 per annum.

Itinerant use

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

Vessel type	Vessel size (Gross Ton)	Rate
Handy	Up to 21,999	\$176.35
Handymax	22,000 – 29,999	\$188.22
Panamax	> 29,999	\$222.77

Financial performance

Total turnover for VRCA for the 12 months ended 30 June 2014, incorporating revenue from non-operating activities, was \$9.2 million. This was in line with expectations, and resulted in a before tax profit of \$1.8 million. The reported profit after tax was \$1.2 million which included a tax expense of \$0.5 million. Operating expenses for year amounted to \$7.4 million and were below budget expectations.

Dividend Distribution Targets

Dividend is as determined by the Treasurer in accordance with Section 41 of the PSA after discussion with the VRCA Board. During 2013/2014 the VRCA paid \$1,596,000.

Operating expenses

Operating expenses for 2013/2014 amounted to \$7.4 million. This was in line with budget expectations.

Special projects costs

Additional expenditure of \$2.4 million was incurred to fund one-off items categorised as *special projects*. These are VRCA initiatives aimed at identifying and mitigating risks associated with the present port operations and at strategic planning for the Port of Geelong.

Operating performance

Gross tonnage handled

In 2013/2014 total gross tonnage of ships entering Geelong ports was 16.5 million gross tons; an overall increase of 0.2 million tons on the previous year.

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

Grain exports decreased by 20 per cent compared with last year while fertiliser throughput has increased by 17 per cent compared to the previous year.

Bulk liquid imports and exports, including petroleum products, crude oil, sulphuric acid and bitumen, are up in terms of volumes of products by about 3 per cent on last year.

Gross tonnage and number of ships

Gross tonnage and number of ships visiting Geelong ports for the last 10 years has risen as per table below.

Year	Gross tonnage handled	Ship visits
2003-2004	11.9 million	443
2004-2005	11.9 million	470
2005-2006	12.3 million	545
2006-2007	12.9 million	478
2007/2008	13.6 million	540
2008/2009	12.1 million	522
2009/2010	10.6 million	435
2010/2011	14.2 million	508
2011/2012	16.0 million	630
2012/2013	16.3 million	770
2013/2014	16.5 million	661

Key functions

Hydrographic survey and dredging

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

Surveys conducted on behalf of the VRCA over the past five years by an independent team confirm this fact, and show that no significant shoaling or other hazards are evident in Geelong berths and channels. Accordingly, maintenance dredging will not be required before the next annual survey in 2014/2015.

Port development and capacity studies

The VRCA has been requested by the Victorian State Government to take the lead role in the preparation of the Geelong Port Development Strategy. This is a statutory requirement under the *Port Management Act 1995* and a significant ongoing commitment for the VRCA with the Strategy to be updated every four years.

The VRCA's role in preparing the Port Development Strategy involves the co-ordination of multiple inputs including industry research and economic studies as well as considering advice gained directly from port operators, cargo owners and stakeholders.

Studies undertaken as part of the Port Development Strategy include those related to current and projected land use, cargo movements, ship size, channel capacity and land-side access as well as general port infrastructure. These studies include computer modelling and navigation simulation using a full-mission bridge simulator. The studies are undertaken in collaboration with port users including the Port Phillip Sea Pilots.

The VRCA is also facilitating a new role of Port-City Co-ordinator, which flows from the release of the *Geelong Port-City 2050* strategic plan. The plan focuses on unlocking trade growth through targeted infrastructure improvements to keep the port productive and competitive in the long-term. As facilitator, the VRCA will co-ordinate activities including prioritising infrastructure projects, preparing preliminary project business cases and liaising with governments to work towards long-term growth of the port.

Risk management

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

Safety and the environment

The provision of safe and secure port waters and assurance of environmentally responsible marine operations is a key indicator of performance for the VRCA. In 2013/2013 the Authority reported zero marine incidents of significance and undertook a number of initiatives to maintain the standards of navigation aids and facilities in port waters.

Marine pollution

Under the *Marine Safety Act 2010*, the Director (Marine Safety) Transport Safety Victoria is responsible for ensuring that there are adequate resources to respond effectively to marine pollution events in Victorian waters. The Director has designated the Port of Melbourne Corporation (PoMC) as the responsible regional control agency within the Port Phillip region, including Corio Bay.

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

During 2013/2014 no major marine pollution incidents occurred in port waters.

Study of port environment and sediments

Department of Sustainability and Environment (DSE) protocols require that the VRCA conduct a survey of sea bed sediments in Geelong port waters every two years, and provide it with the results. Surveys have been conducted in 2005, 2007, 2009, 2011, 2012, 2013 and 14 as part of the Channel Safety Adjustment Program.

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

Port education program for local schools

In 2013/2014 the VRCA continued its Port Educational Program targeting Year 9 and 10 students in the Geelong region with the aim of raising public awareness of the importance of the port to the local community. Students were drawn from local, Geelong-based schools as well as schools in other regional areas near Geelong.

The VRCA also continued its education program's involvement with the 'Northern Futures' education and training program for disadvantaged adults in the region.

Continuation of the safety awareness campaign

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

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

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

Stakeholder engagement

The VRCA maintains a program of regular contact with key customers and stakeholders. It actively participates in a wide variety of forums involving major stakeholders, including G21, the Geelong Chamber of Commerce, the Committee for Geelong, the City of Greater Geelong and the Geelong Manufacturing Council, the Channel User Group (whose members include Shell, GeelongPort Pty. Ltd. and GrainCorp), Department of Transport Planning and Local Infrastructure, Department of Treasury and Finance and the Department of Environment and Primary Industries.

The VRCA is also involved in various committees focused on port security, safety and environmental issues.

Additional information

TRADING RESULTS

The Authority's profit / (loss) for the year was \$1.2 million (2012/2013 \$3.1 million) after allowing for an income tax expense / (benefit) of \$0.5 million (2012/2013 \$1.3 million).

REPORTING

The Authority reports to the Minister for Ports, The Hon David Hodgett MP.

EVENTS SUBSEQUENT TO BALANCE DATE

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

DIRECTORS' BENEFITS

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

INFORMATION ON DIRECTORS

Kenneth Jarvis OAM KSJ MAICD (Chairman) was appointed Chairman of the VRCA in April 2011. He was appointed a director of GMHBA Ltd in September 2004 and appointed chairman in June 2010. He is also a director of Gordon TAFE Ltd and ADAL Ltd (the company that runs the Avalon Air Show). He has had past extensive involvement with a range of community organisations, including being a director of Geelong College Ltd, President of the Geelong College Foundation Ltd, director of the Geelong Community Foundation Ltd, Chairman of the Linton Appeal, Vice President and life member of the Geelong Hospital, Patron of Geelong Red Cross, and Patron of the Deakin Great Hall Appeal. He was also a former Mayor of the City of Greater Geelong from 1990 to 2001 and lead the revitalisation of Geelong through projects such as the upgrade of the Geelong to Melbourne Road and the upgrade of the Geelong waterfront. He has also sat on many other community boards in the Geelong area. He is currently managing Director of Aerolite Quarries Pty Ltd and has a number of other personal company interests. He has been CEO of a number of large private companies and has held senior executive roles in Alcoa Ltd and other public companies. He has qualifications in metallurgy, mathematics and engineering and has worked extensively in the mining industry across Australia. He is also a qualified commercial helicopter and fixed wing pilot.

Merran Kelsall (Deputy Chairman) began her career in Chartered Accountancy, becoming a partner in a major practice in 1987. She has worked as an independent director and consultant since 1996. Merran has considerable experience in highly regulated industries, especially financial services, health and utilities. Merran's current appointments include: Chairman Auditing and Assurance Standards Board and Australian Health Service Alliance Ltd., Director RACV Ltd, and Superpartners Pty. Ltd. Member of International Auditing and Assurance Standards Board and Commissioner of the Taxi Services Commission.

Peter Dorling (Director) was appointed a Director of the VRCA on 23 October 2012. Peter is the Business Manager for Avalon Airport Australia. Peter's role is to explore and harness local and International business development for the airport.

Peter's previous roles have been Executive Director for the Committee for Geelong and Manager, Strategic Development for Surf Coast Shire.

Peter holds a Masters Degree in Business Management from the Royal Melbourne Institute of Technology

Peter's affiliations include : Fellow of the Local Government Professionals, Member of the Institute of Water Administration of Victoria, Deputy Chair of Regional Development Australia Committee Barwon South West, Board Member of the Geelong Performing Arts Centre, Chairman Geelong Northern Futures Program and Member of Corio Advisory Committee.

DIRECTORS' MEETINGS

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

Director	Number held	Number attended
Kenneth E Jarvis	5	5
Merran Kelsall	5	5
Peter Dorling	5	5

PECUNIARY INTERESTS

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

AUDIT COMMITTEE MEMBERSHIP AND ROLE

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

The main responsibilities of the Audit Committee are to:

- Determine the scope of the internal audit function and ensure that its resources are adequate and used effectively including co-ordination with the external auditors;
- Oversee the effective operation of the risk management framework; and
- Review the Authority's internal control environment covering:
 - Effectiveness and efficiency of operations;
 - Reliability of financial reporting; and
 - Compliance with applicable laws and regulations.

FINANCE AND AUDIT COMMITTEE MEETINGS

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

Director	Number held	Number attended
Kenneth E Jarvis	5	5
Merran Kelsall	5	5
Peter Dorling	5	5

RISK COMMITTEE MEMBERSHIP AND ROLE

Board members of the Authority constitute membership of the Committee, with Peter Dorling as Chairman. The Risk Committee sits on a half yearly basis to review the risk register and progress in risk management procedures.

The main responsibilities of the risk committee are to:

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

RISK COMMITTEE MEETINGS

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

Director	Number held	Number attended
Kenneth E Jarvis	1	1
Merran Kelsall	1	1
Peter Dorling	1	1

EXECUTIVE OFFICER REMUNERATION

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

Income bands	2014 Number	2013 Number
\$170,000 to 179,999	1	2
\$180,000 to 189,999	1	-

INDEMNIFICATION OF OFFICERS

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

STATUTORY REQUIREMENTS

Freedom of Information Act

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

Building Act

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

Competitive Neutrality

The Authority complies with Victorian Government policy on competitive neutrality.

Occupational Health and Safety (OH&S)

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

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

Whistleblowers' Protection Act

The Authority is committed to the aims and objectives of the Whistleblowers' Protection Act 2001.

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

Disability Act

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

Multicultural Awareness

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

Risk Attestation Statement

I, Kenneth Jarvis, certify that the Victorian Regional Channels Authority (VRCA) has risk management processes in place consistent with the Australian/New Zealand Risk Management Standard AS/NZS 31000:2009.

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

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

Annual Report

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

- Declarations of pecuniary interests;
- Publications produced by the authority;
- Changes in prices, fees, charges, rates and levies;
- Major external reviews carried out;
- Overseas visits;
- Occupational health and safety; and
- Industrial accidents and disputes.

For and on behalf of the Board



Kenneth E Jarvis

Chair

Geelong



Merran Kelsall

Deputy Chair

Geelong



Victorian Regional Channels Authority

FINANCIAL STATEMENTS

For the year ended 30 June 2014

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VICTORIAN REGIONAL CHANNELS AUTHORITY
COMPREHENSIVE OPERATING STATEMENT
For the year ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
Continuing operations			
Income			
Channel income		8,679	8,552
Other income	3	504	556
Total income		9,183	9,108
Expenses			
Employee benefits	4(a)	965	937
Depreciation and amortisation	4(b)	833	935
Other maintenance		184	226
Lease	4(c)	218	188
Insurance		178	172
Marine services		839	940
Vessel expenses		47	50
Consultancies and contractors		114	165
Waterway Management		191	137
Special projects		2,417	443
Derecognition of capitalised costs	8	982	-
Loss on disposal of fixed assets		7	9
Other expenses		424	471
Total expenses		7,399	4,673
Profit for the year before income tax expense		1,784	4,435
Income tax expense	5	537	1,333
Profit for the year	13	1,247	3,102
Other comprehensive income			
Items that will not be reclassified to profit and loss		-	-
Items that may be reclassified subsequently to profit and loss		-	-
Total other comprehensive income		-	-
Total comprehensive income/(loss) for the year		1,247	3,102

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

VICTORIAN REGIONAL CHANNELS AUTHORITY
BALANCE SHEET
As at 30 June 2014

	Note	2014 \$'000	2013 \$'000
Current assets			
Cash and cash equivalents	6	18,147	17,732
Other non-financial assets		180	174
Trade and other receivables	7	894	776
Income tax refund		532	-
Total current assets		19,753	18,682
Non-current assets			
Infrastructure, property, plant and equipment	8	20,937	22,443
Deferred tax asset	5(c)	589	864
Total non-current assets		21,526	23,307
Total assets		41,279	41,989
Current liabilities			
Trade and other payables	9	369	406
Provisions	10(a)	383	731
Total current liabilities		752	1,137
Non-current liabilities			
Provisions	10(b)	52	43
Deferred tax liability	5(d)	28	13
Total non-current liabilities		80	56
Total liabilities		832	1,193
Net assets		40,447	40,796
Equity			
Contributed capital	11	57,883	57,883
Reserves	12	505	505
Retained profit/(accumulated losses)	13	(17,941)	(17,592)
Total equity		40,447	40,796

The above balance sheet should be read in conjunction with the accompanying notes.

VICTORIAN REGIONAL CHANNELS AUTHORITY
STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2014

	Contributed capital \$'000	Reserves \$'000	Retained profit/ (accumulated losses) \$'000	Total equity \$'000
Balance at 1 July 2012	57,883	505	(18,589)	39,799
Profit/(loss) for the year (refer note 13)	-	-	3,102	3,102
Total comprehensive income for the year	-	-	3,102	3,102
Transactions with owners in their capacity as owners:				
Dividends provided for or paid (refer note 13)	-	-	(2,105)	(2,105)
	-	-	(2,105)	(2,105)
Balance at 30 June 2013	57,883	505	(17,592)	40,796
Profit/(loss) for the year (refer note 13)	-	-	1,247	1,247
Total comprehensive income for the year	-	-	1,247	1,247
Transactions with owners in their capacity as owners:				
Dividends provided for or paid (refer note 13)	-	-	(1,596)	(1,596)
	-	-	(1,596)	(1,596)
Balance at 30 June 2014	57,883	505	(17,941)	40,447

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

VICTORIAN REGIONAL CHANNELS AUTHORITY
STATEMENT OF CASH FLOWS
For the year ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
Cash flows from operating activities			
Receipts from trade and other debtors		9,477	9,374
Payments to trade creditors, other creditors and employees		(5,957)	(3,819)
Goods and services tax paid to the Australian Taxation Office		(426)	(584)
Interest received		455	588
Income tax paid (refer note 1(f))		(1,180)	(1,182)
Net cash inflow from operating activities	22	2,369	4,377
Cash flows from investing activities			
Payments for infrastructure, property, plant and equipment		(459)	(407)
Proceeds from sale of infrastructure, property, plant and equipment		101	95
Net cash (outflow) from investing activities		(358)	(312)
Cash flows from financing activities			
Dividends paid	13	(1,596)	(2,105)
Net cash (outflow) from financing activities		(1,596)	(2,105)
Net increase in cash and cash equivalents		415	1,960
Cash and cash equivalents at the beginning of the financial year		17,732	15,772
Cash and cash equivalents at the end of the financial year	6	18,147	17,732

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

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

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VICTORIAN REGIONAL CHANNELS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

Note 1. Summary of significant accounting policies

(a) Corporate information

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

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

The financial statements incorporate all activities of VRCA.

(b) Statement of compliance

These general purpose financial statements have been prepared in accordance with the *Financial Management Act 1994 (FMA)* and applicable Australian Accounting Standards (AAS) which include Interpretations, issued by the Australian Accounting Standards Board (AASB).

The annual financial statements were authorised for issue by the VRCA Board on 15 August 2014.

(c) Basis of accounting preparation and measurement

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in the application of AAS that have significant effects on the financial statements and estimates relate to the fair value of the navigation aids, channel assets, plant and equipment (refer Note 8).

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

VRCA has been assessed as a for-profit entity under *Financial Reporting Direction (FRD) 108*.

These financial statements are presented in Australian dollars, and prepared in accordance with the historical cost convention except for non-financial physical assets which, subsequent to acquisition, are measured at a revalued amount being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amounts do not materially differ from their fair value.

Consistent with AASB 13 Fair Value Measurement, the Authority determines the policies and procedures for both recurring fair value measurements such as property, plant and equipment and financial instruments and for non-recurring fair value measurements such as non-financial physical assets held for sale, in accordance with the requirements of AASB 13 and the relevant Financial Reporting Directions.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 1. Summary of significant accounting policies
(continued)

(c) Basis of accounting preparation and measurement (continued)

For the purpose of fair value disclosures, the Authority has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. In addition, the Authority determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Valuer General Victoria (VGV) is the Authority's independent valuation agency.

The Authority, in conjunction with the VGV, monitors changes in the fair value of each asset and liability through relevant data sources to determine whether revaluation is required.

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

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2014 and the comparative information presented for the year ended 30 June 2013.

(d) Scope and presentation of financial statements

Comprehensive operating statement

The comprehensive operating statement represents the net result.

Balance sheet

Assets and liabilities are presented as current and non current assets and liabilities (non current being those assets or liabilities expected to be recovered or settled more than 12 months after the reporting period).

Cash flow statement

Cash flows are classified according to whether or not they arise from operating, investing, or financing activities. This classification is consistent with requirements under *AASB 107 Statement of Cash Flows*.

For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts, which are included as current borrowings on the balance sheet.

Statement of changes in equity

The statement of changes in equity presents reconciliations of non owner and owner changes in equity from opening balances at the beginning of the reporting period to the closing balances at the end of the reporting period. It also shows separately changes due to amounts recognised in the 'Comprehensive result' and amounts related to 'Transactions with owner in its capacity as owner'.

Rounding

Amounts in the financial statements have been rounded to the nearest \$1,000, unless otherwise stated. Figures in the financial statements may not equate due to rounding.

(e) Revenue

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

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

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 1. Summary of significant accounting policies
(continued)

(e) Revenue (continued)

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

(i) Channel fees

Channel fees represents revenue earned from the levying of channel fees (use of shipping channels). These fees are recognised as revenue in the period in which the service has been consumed by the users.

(ii) Interest revenue

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

(iii) Sundry revenue

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

(f) Income tax

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

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

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

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

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

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

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

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

(g) Leases

Operating lease

Operating lease payments, including any contingent rentals, are recognised as an expense in the comprehensive operating statement on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset is not recognised in the balance sheet.

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the nature of incentive or form or the timing of payments.

In the event that lease incentives are received to enter into operating leases, the aggregate cost of incentives are recognised as a reduction of rental expense over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 1. Summary of significant accounting policies
(continued)

(h) Impairment of assets

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

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off by a charge to profit or loss except to the extent that the write-down can be debited to an asset revaluation surplus amount applicable to that asset.

If there is an indication that there has been a change in the estimate of an asset's recoverable amount since the last impairment loss was recognised, the carrying amount shall be increased to its recoverable amount. This reversal of the impairment loss occurs only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

It is deemed that, in the event of the loss or destruction of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made. The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

(i) Cash and cash equivalents

Cash and deposits recognised on the balance sheet comprise cash on hand and cash at bank, deposits at call and those highly liquid investments (with an original maturity of three months or less), which are held for the purpose of meeting short term cash commitments rather than for investment purposes, and readily convertible to known amounts of cash with an insignificant risk of changes in value.

(j) Receivables

Receivables consist of:

- contractual receivables, such as debtors in relation to goods and services, loans to third parties and accrued investment income; and
- statutory receivables, such as amounts owing from the Victorian Government and Goods and Services Tax (GST) input tax credits recoverable.

Contractual receivables are classified as financial instruments and categorised as loans and receivables (refer to Note 1(x) Financial Instruments for recognition and measurement).

Statutory receivables, are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments because they do not arise from a contract.

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

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

(k) Other non-financial assets

Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 1. Summary of significant accounting policies
(continued)

(l) Infrastructure, property, plant and equipment

All non-financial physical assets, are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. For the 'plant, equipment and vehicles' class, depreciated replacement cost is used as a reasonable approximation of fair value. The level of the fair value hierarchy in which the fair value has been measured is Level 3.

(i) Revaluations of non-financial physical assets

Non-financial physical assets are measured at fair value, in accordance with the Financial Reporting Directions (FRDs) issued by the Minister for Finance. An independent revaluation occurs every five years, based upon the asset's government purpose classification but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are used to conduct these scheduled revaluations. Certain infrastructure assets are revalued using specialised advisors. Any interim revaluations are determined in accordance with the requirements of FRD 103E.

Revaluation increments or decrements arise from differences between an asset's carrying value and fair value.

Net revaluation increments (where the carrying amount is increased as a result of a revaluation) are recognised in the other comprehensive income as a credit in equity under the asset revaluation reserve net of tax effect. However, the net revaluation increase is recognised in the net result to the extent that it reverses a net revaluation decrease in respect of the same asset previously recognised as an expense in the net result.

Net revaluation decrements are recognised immediately in the net result. However the net revaluation decrement is debited directly to equity under the heading of the asset revaluation reserve to the extent that a credit balance exists in the asset revaluation reserve in respect of the same asset.

Revaluation increases and decreases relating to individual assets in a class of property, plant and equipment, are offset against one another in that class but are not offset in respect of assets in different classes. The asset revaluation surplus is not transferred to accumulated funds on derecognition of the relevant asset.

In 2010, a formal valuation of VRCA's non-current physical assets were performed to determine fair value as follows:

Class	Method	Valuer
Channel assets	Discounted cash flows	Valuer-General Victoria
Plant, Equipment and Vehicles	Depreciated replacement cost	Management's Assessment
Navigation aids	Depreciated replacement cost	Valuer-General Victoria

Refer to note 8 for details of the assumptions applied in undertaking a managerial valuation of the channel assets in 2013 and 2014.

(ii) Depreciation

All infrastructure assets, channels, plant and equipment and other non-financial physical assets (excluding items under operating leases) that have finite useful lives are depreciated. Depreciation is calculated on a straight-line basis, at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, and adjustments made where appropriate.

The following are typical estimated useful lives for the different asset classes for current and prior years.

Asset class	Useful life
Channels	40 years
Navigation aids	5-40 years
Office furniture, fittings and equipment	3-10 years
Vehicles	4 years

(iii) Changes in accounting estimates

The estimated useful lives, residual values and depreciation method are reviewed at the end of each financial reporting period and, where changed, are accounted for as a change in an accounting estimate. Where depreciation rates or methods are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 1. Summary of significant accounting policies
(continued)

(l) Infrastructure, property, plant and equipment (continued)

(iv) Recoverable amount

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

(v) Acquisition

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

Infrastructure, property, plant and equipment represent non-current assets comprising channels, navigation aids, vehicles and plant and equipment used by VRCA in its operations. Items with a cost or value in excess of \$1,000 (2013: \$1,000) and a useful life of more than one year are recognised as assets. All other assets are expensed as acquired.

(vi) Repairs and maintenance

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

(vii) Major maintenance dredging costs

The shipping channels in port waters are subject to deterioration through siltation, which reduces the depth of water available to commercial shipping. The channels are restored to proper depths by routine maintenance dredging. Dredging and associated costs (including all costs incurred under the dredging contract to restore the channels to proper depths) are capitalised and will be amortised once the asset is ready for use.

(viii) Channel Safely Improvements

Channel safely improvements that provide a future benefit to the channel asset through an increase in the fees charged to use the Channel are capitalised and form part of the Channel Asset. Work in progress, such as survey costs, environmental and engineering studies and dredging works that relate to channel safely improvements are capitalised in accordance with AASB116 and tested for impairment annually. Where work in progress has been capitalised and the safety improvement project is not probable to proceed, the work in progress is derecognised in accordance with AASB116. Derecognised work in progress is expensed to the comprehensive operating statement.

(m) Intangible assets

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

(n) Payables

Payables consist of:

- contractual payables, such as accounts payable, and unearned income. Accounts payable represent liabilities for goods and services provided to the Authority prior to the end of the financial year that are unpaid, and arise when the Authority becomes obliged to make future payments in respect of the purchase of those goods and services; and
- statutory payables, such as goods and services tax and fringe benefits tax payables.

Contractual payables are classified as financial instruments and categorised as financial liabilities at amortised cost. Statutory payables are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from a contract.

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

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 1. Summary of significant accounting policies
(continued)

(o) Provisions

Provisions are recognised when the Authority has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, using discount rate that reflects the time value of money and risks specific to the provision.

When some or all of the economic benefits required to settle a provision are expected to be received from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(p) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the reporting date.

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

Liabilities for wages and salaries, including non monetary benefits annual leave and accumulating sick leave, are all recognised in the provision for employee benefits as 'current liabilities', because the Authority does not have an unconditional right to defer settlements of these liabilities.

Depending on the expectation of the timing of settlement, liabilities for wages and salaries, annual leave and sick leave are measured at:

- undiscounted value - if the Authority expects to wholly settle within 12 months; or
- present value - if the Authority does not expect to wholly settle within 12 months.

(ii) Long service leave

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

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

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

(iii) Superannuation

One VRCA employee is a member of a defined benefit superannuation scheme. These defined benefit funds are closed to new members. All other employees are members of accumulation schemes.

The amount recognised in the comprehensive operating statement in relation to employer contributions for members of defined benefit superannuation plans is simply the employer contributions that are paid or payable to these plans during the reporting period. The level of these contributions will vary depending upon the relevant rules of each plan, and is based upon actuarial advice. (Refer to note 14 for contribution amounts).

The Department of Treasury and Finance (DTF) in its Annual Financial Statements, disclose on behalf of the State as the sponsoring employer, the net defined benefit cost related to the members of these plans as an administered liability. Refer to DTF's Annual Financial Statements for more detailed disclosures in relation to these plans.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 1. Summary of significant accounting policies
(continued)

(q) Contributed capital

Additions to net assets which have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions or distributions have also been designated as contributions by owners.

Transfers of net assets arising from administrative restructurings are treated as distributions to or contributions by owners.

(r) Dividend policy

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

(s) Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of associated GST, except where GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(t) Rounding of amounts

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

(u) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of a note (refer to Note 18) and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

(v) New accounting standards and interpretations that are not yet effective

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

Reference	Summary	Application date (financial years beginning)	Impact on VRCA's financial statements
AASB 9 Financial Instruments	This standard simplifies requirements for the classification and measurement of financial assets resulting from Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).	1 Jan 2017	No impact as the Authority does not hold such assets.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 1. Summary of significant accounting policies
(continued)

(u) New accounting standards and interpretations that are not yet effective (continued)

Reference	Summary	Application date (financial years beginning)	Impact on VRCA's financial statements
AASB 1055 <i>Budgetary Reporting</i>	AASB 1055 extends the scope of budgetary reporting that is currently applicable for the whole of government and general government sector (GGS) to NFP entities within the GGS, provided that these entities present separate budget to the parliament.	1 Jul 2014	This Standard is not applicable as no budget disclosure is required.
AASB 1056 <i>Superannuation Entities</i>	AASB 1056 replaces AAS 25 Financial Reporting by Superannuation Plans. The standard was developed in light of changes in recent years, developments in the superannuation industry and Australia's adoption of IFRS.	1 July 2016	The standard was issued in June 2014. While preliminary assessment has not identified any material impact arising from AASB 1056, further work to assess the impact of this standard will be undertaken.

In addition to the new standards above, the AASB has issued a list of amending standards that are not effective for the 2013-14 reporting period (as listed below). In general, these amending standards include editorial and references changes that are expected to have insignificant impacts on public sector reporting. The AASB Interpretation in the list below is also not effective for the 2013-14 reporting period and is considered to have insignificant impacts on public sector reporting.

- AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).
- 2013-1 Amendments to AASB 1049 – Relocation of Budgetary Reporting Requirements.
- 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets.
- 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting.
- 2013-6 Amendments to AASB 136 arising from Reduced Disclosure Requirements
- 2013-7 Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policy holders
- 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments
- AASB Interpretation 21 Levies.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 1. Summary of significant accounting policies
(continued)

(w) Changes in accounting policies

Subsequent to the 2012-13 reporting period, the following new and revised Standards have been adopted in the current period with their financial impact detailed as below.

AASB 13 Fair Value Measurement

AASB 13 establishes a single source of guidance for all fair value measurements. AASB 13 does not change when the Authority is required to use fair value, but rather provides guidance on how to measure fair value under Australian Accounting Standards when fair value is required or permitted. The Authority has considered the specific requirements relating to highest and best use, valuation premise, and principal (or most advantageous) market. The methods, assumptions, processes and procedures for determining fair value were revisited and adjusted where applicable. In light of AASB 13, the Authority has reviewed the fair value principles as well as its current valuation methodologies in assessing the fair value, and the assessment has not materially changed the fair values recognised.

However, AASB 13 has predominantly impacted the disclosures of the Authority. It requires specific disclosures about fair value measurements and disclosures of fair values, some of which replace existing disclosure requirements in other standards, including AASB 7 *Financial Instruments: Disclosures*.

The disclosure requirements of AASB 13 apply prospectively and need not be applied in comparative information before first application. Consequently, the 2012-13 comparatives of these disclosures have not been provided, except for financial instruments, of which the fair value disclosures are required under AASB 7 *Financial Instruments: Disclosures*.

AASB 119 Employee Benefits

In 2013-14, the Authority has applied AASB 119 *Employee benefits* (September 2011, as amended) and the related consequential amendments for the first time.

The revised AASB 119 changes the definition of short-term employee benefits. These were previously benefits that were expected to be settled within twelve months after the end of the reporting period in which the employees render the related service, however, short-term employee benefits are now defined as benefits expected to be settled **wholly** within twelve months after the end of the reporting period in which the employees render the related service. As a result, accrued annual leave balances which were previously classified by the Authority as short-term employee benefits no longer meet this definition and are now classified as long-term employee benefits. This has resulted in a change of measurement for the annual leave provision from an undiscounted to discounted basis. The change in classification has not materially altered the measurement of the annual leave provision.

Other changes to accounting policies with no direct impact

The following standards have been adopted during the financial year. The adoption of these standards did not materially affect the Authority's financial report.

- AASB 10 Consolidated Financial Statements (not for profit)
- AASB 11 Joint Arrangements (not for profit)
- AASB 12 Disclosure of Interests in Other Entities (not for profit)
- AASB 127 Separate Financial Statements (not for profit)
- AASB 128 Investments in Associates and Joint Ventures (not for profit)
- AASB 2013-5 Amendments to AAS – Investment Entities
- AASB 2013-7 Amendments to AASB 1038 in relation to consolidation and interests of policy holders

(x) Financial instruments

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of VRCA's activities, certain financial assets and financial liabilities arise under statute rather than a contract. Such financial assets and financial liabilities do not meet the definition of financial instruments in AASB 132 *Financial Instruments: Presentation*.

Where relevant, for note disclosure purposes, a distinction is made between those financial assets and financial liabilities that meet the definition of financial instruments in accordance with AASB 132 and those that do not.

The following refers to financial instruments unless otherwise stated.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 1. Summary of significant accounting policies
(continued)

(w) Changes in accounting policies (continued)

Categories of non-derivative financial instruments

Loans and receivables

Loans and receivables are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Loans and receivables category includes cash and deposits (refer to Note 1(i)), term deposits with maturity greater than three months, trade receivables and other receivables, but not statutory receivables.

Financial assets and liabilities at fair value through profit and loss

Financial assets are categorised as fair value through profit or loss at trade date if they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through profit or loss on the basis that the financial assets form part of a group of financial assets that are managed by the entity concerned based on their fair values, and have their performance evaluated in accordance with documented risk management and investment strategies.

Financial instruments at fair value through profit or loss are initially measured at fair value and attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as other economic flows. Any dividend or interest on a financial asset is recognised in the net result from transactions.

Financial liabilities at amortised cost

Financial instrument liabilities are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest-bearing liability, using the effective interest rate method.

Financial instrument liabilities measured at amortised cost include all of VRCA's contractual payables, deposits held and advances received, and interest-bearing arrangements other than those designated at fair value through profit or loss.

Reclassification of financial instruments

Subsequent to initial recognition and under rare circumstances, non derivative financial instruments assets that have not been designated at fair value through profit or loss upon recognition, may be reclassified out of the fair value through profit or loss category, if they are no longer held for the purpose of selling or repurchasing in the near term.

Impairment of financial assets

At the end of each reporting period, the Authority assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial instrument assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

Receivables are assessed for bad and doubtful debts on a regular basis. Those bad debts considered as written off by mutual consent are classified as a transaction expense. Bad debts not written off by mutual consent and the allowance for doubtful receivables are classified as other economic flows in the net result.

The amount of the allowance is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with AASB 136 *Impairment of Assets*.

VICTORIAN REGIONAL CHANNELS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

Note 2. Critical accounting estimates and judgements

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

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

Critical accounting judgements

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

Impairment of non-financial assets

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

Fair value of property, plant and equipment

All non-current physical assets are measured initially at cost and subsequently revalued at fair value in accordance with FRD 103E.

In 2014, in accordance with FRD 103E, a fair value assessment was undertaken and determined that the carrying amount of all non-current physical assets, except for channel assets, reasonably approximated fair value.

The fair value of channel assets was assessed using the same principles as that used by the Valuer-General Victoria to value the channel assets in 2010, which was the discounted cash flow method (value in use). This method was used as there was no market based evidence of fair value (value through sale) of the channel assets given the specialised nature of the assets in question (the channel assets would rarely be sold (if ever), except as part of a continuing business). Managerial assessments undertaken for navigation aids indicate that the carrying amount approximates fair value as at 30 June 2014 and no fair value adjustment has been recorded at 30 June 2014. Refer to Note 8 for the assumptions applied in 2014.

In the absence of observed market inputs, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment. Determining the carrying amounts of the channel assets requires estimation of the effects of uncertain future events on the channel assets at the end of the reporting period. The major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of the channel asset within the next financial year are as follows:

Estimate	Assumption	2014	2013
Volumes (year 1)	Historical average	13.4M ton	13.2M ton
Annual volumes growth rate	Management expectations	1%	1%
CPI	RBA mid point target inflation	2.5%	2.5%
Discount rate	Refer Note 8	11.0% to 13.2%	12.3% to 15.2%

There is an inherent relationship between CPI, volumes and the discount rate. A significant increase in CPI, volumes (ie: the year 1 volume or the volume growth rate) would result in an adjustment to the discount rate. The adjustment to the discount rate would consider the additional risk in achieving the increased volumes or CPI. Conversely, a significant decrease in volumes or CPI would result in an adjustment to the discount rate.

Given the unique nature of the channel assets, it is impracticable to disclose the extent of the possible effects a change of an estimate would have on the other assumed estimate at the end of the reporting period. It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the channel assets.

As it is impracticable to disclose the extent of the possible effects a change of an estimate would have on the other assumed estimate, the below table details the percentage change of one specific estimate before resulting in a material adjustment to the carrying amount of the channel assets.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 2. Critical accounting estimates and judgements
(continued)

Estimate	Percent Change in Estimate	Adjustment to Carrying Value (% increase) *	Percent Change in Estimate	Adjustment to Carrying Value (% decrease) *
Volumes (year 1)	2%	10%	(4%)	(10%)
Annual volumes growth rate	20%	10%	(45%)	(10%)
CPI	(21%)	10%	39%	(10%)
Discount rate	(3%)	10%	7%	(10%)

* FRD 103E requires a change in carrying value of 10% to be adjusted.

Recovery of deferred tax asset

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise these temporary differences.

Note 3. Other revenue

	2014 \$'000	2013 \$'000
Other revenue		
Interest revenue	504	552
Sundry revenue	-	4
Total other revenue	504	556

Note 4. Expenses

	2014 \$'000	2013 \$'000
(a) Employee benefits		
Salary and wages	724	698
Superannuation	58	77
Annual and long service leave expense	51	33
Other employee expenses (fringe benefits tax, payroll tax, workcover levy, etc)	132	129
Total employee benefits	965	937
(b) Depreciation and amortisation		
Navigation aids	305	304
Plant and equipment	165	270
Channel assets	357	357
Software	6	4
Total depreciation and amortisation	833	935
(c) Operating Leases		
<i>Minimum lease payments</i>		
Building rentals	211	179
Storage rentals	3	3
Equipment rentals	4	6
Total rental expense	218	188

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 5. Income tax expense/(benefit)

	2014	2013
	\$'000	\$'000
(a) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable/(receivable)		
Profit/(loss) from continuing operations before income tax expense/(benefit)	1,784	4,435
Tax at the Australian tax rate of 30% (2013 - 30%)	535	1,330
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Under/(over) provided in prior year	-	-
Non deductible items	2	3
Income tax expense/(benefit)	537	1,333
(b) Income tax expense/(benefit)		
Current taxation	247	1,091
Under/(over) provided in prior year	-	-
Movement in deferred tax asset (refer 5(c))	275	253
Movement in deferred tax liability (refer 5(d))	15	(11)
Income tax expense/(benefit) recognised in the statement of comprehensive income	537	1,333
<i>Weighted average effective tax rate</i>	<i>30.10%</i>	<i>30.05%</i>
	2014	2013
	\$'000	\$'000
(c) Deferred tax asset		
Opening balance	864	1,093
Temporary differences	(275)	(229)
Closing balance	589	864
Represented by:		
<i>Amounts allocated to profit and loss</i>		
Fixed assets	373	690
Pooled assets	8	9
Accrued expenses	78	53
Annual and long service leave provisions	130	112
	589	864
(d) Deferred tax liabilities		
Opening balance	13	-
Temporary differences	15	13
Closing balance	28	13
Represented by:		
<i>Amounts allocated to profit and loss</i>		
Accrued revenue	28	13
	28	13

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 6. Cash and cash equivalents

	2014	2013
	\$'000	\$'000
Cash at bank and on hand	147	162
Short term deposits	18,000	17,570
	18,147	17,732

Cash at bank

Due to VRCA's investment policy, generally only small amounts of cash are held in the bank account. These amounts are kept at a level to sufficiently cover the current liabilities of VRCA.

Short term deposits

All deposits of VRCA are limited instruments directly accepted by an authorised bank or issued by a Government Treasury or Authority and guaranteed by a state or Commonwealth government. These deposits had a floating interest rate of 2.45% to 4.15% (2012/13 2.70% to 5.55%).

Note 7. Trade and other receivables

	2014	2013
	\$'000	\$'000
Current		
Contractual		
Trade receivables* (note 17)	801	733
Interest receivable	93	43
	894	776

* The average credit period for trade receivables is 30 days. Interest may be charged on arrears in accordance with Section 79 of the Port Management Act 1995. Refer to note 17 for ageing and risk analysis.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 8. Infrastructure, property, plant and equipment

Table 8.1: Classification by ‘purpose groups’ – carrying amounts⁽ⁱ⁾

	(\$'000)			
	<i>Transportation and Communications</i>		<i>Total</i>	
<i>Table disclosure reference</i>	<i>Table 8.3</i>			
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
Nature based classification				
Plant, equipment and vehicles at fair value	352	440	352	440
Assets under construction at cost	699	1,454	699	1,454
Infrastructure at fair value ⁽ⁱⁱ⁾	19,886	20,549	19,886	20,549
Net carrying amount of PPE	20,937	22,443	20,937	22,443

Notes:

- (i) Property, plant and equipment are classified primarily by the ‘purpose’ for which the assets are used, according to one of six purpose groups based upon government purpose classifications. All assets in a purpose group are further sub categorised according to the asset’s ‘nature’ (i.e. buildings, plant and equipment, etc.), with each sub category being classified as a separate class of asset for financial reporting purposes.
- (ii) Of the balance in ‘infrastructure at fair value’, there is no amount attributable to assets contracted under PPP arrangements.

Table 8.2: Gross carrying amount and accumulated depreciation

	(\$'000)					
	<i>Gross carrying amount</i>		<i>Accumulated depreciation</i>		<i>Net carrying amount</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
Plant, equipment and vehicles at fair value	1,396	1,445	(1,044)	(1,006)	352	440
Assets under construction at cost	699	1,454	-	-	699	1,454
Infrastructure at fair value	21,815	22,260	(1,929)	(1,711)	19,886	20,549
Net carrying amount of PPE	23,910	25,159	(2,973)	(2,717)	20,937	22,443

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 8. Infrastructure, property, plant and equipment
(continued)

Table 8.3: Classification by ‘transportation and communications’ purpose group – movements in carrying amounts⁽ⁱ⁾⁽ⁱⁱ⁾

	(\$'000)			
	<i>Plant, equipment and vehicles at fair value</i>		<i>Assets under construction at cost</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
Opening balance	440	574	1,454	1,324
Additions	190	235	227	130
Disposals	(108)	(95)	-	-
De-recognition of assets	-	-	(982)	-
Depreciation	(170)	(274)	-	-
Closing balance	352	440	699	1,454

	<i>Infrastructure at fair value</i>		<i>Total</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
Opening balance	20,549	21,206	22,443	23,104
Additions	-	5	417	370
Disposals	-	-	(108)	(95)
De-recognition of assets	-	-	(982)	-
Depreciation	(663)	(662)	(833)	(935)
Closing balance	19,886	20,549	20,937	22,443

Notes:

- (i) Fair value assessments have been performed for all classes of assets in this purpose group and the decision was made that movements were not material (less than or equal to 10 per cent) for a full revaluation. The next scheduled full revaluation for this purpose group will be conducted in 2015.
- (ii) VRCA performs annual impairment testing of its assets. There were no impairment losses recognised in 2013/2014 (nil: 2012/2013)

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 8. Infrastructure, property, plant and equipment
(continued)

Table 8.4: Fair value measurement hierarchy for assets as at 30 June 2014

	(\$'000)	<i>Carrying amount as at 30 June 2014</i>	<i>Fair value measurement at end of reporting period using:</i>		
			<i>Level 1⁽ⁱ⁾</i>	<i>Level 2⁽ⁱ⁾</i>	<i>Level 3⁽ⁱ⁾</i>
Plant, equipment and vehicles at fair value					
Vehicles ⁽ⁱⁱ⁾	123	-	-	-	123
Plant and equipment	229	-	-	-	229
Total of plant, equipment and vehicles at fair value	352	-	-	-	352
Infrastructure at fair value					
Channel assets	13,567	-	-	-	13,567
Navigation aids	6,319	-	-	-	6,319
Total of infrastructure at fair value	19,886	-	-	-	19,886

Notes:

- (i) Classified in accordance with the fair value hierarchy, see Note 1(c).
- (ii) Depreciated replacement cost is used in estimating the fair value.

There have been no transfers between levels during the period.

Vehicles

Vehicles are valued using the depreciated replacement cost method. The Authority acquires new vehicles and at times disposes of them before the end of their economic life. The process of acquisition, use and disposal in the market is managed by management who set relevant depreciation rates during use to reflect the utilisation of the vehicles.

Plant and equipment

Plant and equipment is held at fair value. When plant and equipment is specialised in use, such that it is rarely sold other than as part of a going concern, fair value is determined using the depreciated replacement cost method.

Channel assets

The fair value of channel assets was assessed using the same principles as that used by the Valuer-General Victoria to value the channel assets in 2010, which was the discounted cash flow method (value in use). This method was used as there was no market based evidence of fair value (value through sale) of the channel assets given the specialised nature of the assets in question (the channel assets would rarely be sold (if ever), except as part of a continuing business).

As there is no active or secondary market for the Channel, the fair value measurements for the Channel (in its entirety) fall within level 3 of the fair value hierarchy.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 8. Infrastructure, property, plant and equipment
(continued)

The following inputs have been applied in the discounted cashflow used to assess the fair value of the channel asset:

Input	Input Used	2014	2013
Cashflows:			
Cashflow period	Management expectations	40 years	40 years
Volumes (year 1)	Historical average	13.4M ton	13.2M ton
Annual volumes increase	Management expectations	1%	1%
Itinerant income (year 1)	Management expectations	\$500,000	\$500,000
Contract Revenue (year 1)	Customer contract	\$2,569,000	\$2,719,000
Operating costs	Management expectations	\$5,020,000	\$4,872,000
Capital Expenditure	Management expectations	\$9,138,000	\$0
CPI	RBA mid point target inflation	2.5%	2.5%
Discount rate:		11.0% to 13.2%	12.3% to 15.2%
Risk Free Rate	10yr Commonwealth bond rate	4.02%	3.12%
Equity market risk premium	Industry valuations practices survey	6% to 7%	6% to 7%
Equity Beta	Average of 5 year Equity Beta for listed Australian companies who operate Infrastructure assets or operating in the marine transportation industry	0.8	0.7
Alpha Risk	Refer below	2.29% to 3.67%	4.82% to 7.02%

Alpha risk represents additional risks regarding the operations, nature and ownership of the channel in accordance with the revised strategic plan. These risks include the lack of an active market, single use asset, potential Geelong Port capacity limitations, channel capacity limitation and single (non-diversified) operation.

The adjustments to the inputs from 2013 to 2014 are explained below:

Input	Reason for Movement
Cashflows:	
Cashflow period	No movement
Channel fees (year 1)	Annual increase to channel revenue and a one off increase to recover safety improvements to the channel.
Volumes (year 1)	Increase in historical average due to increased actual volumes in 2013
Annual volumes increase	No movement
Itinerant income (year 1)	No movement
Contract Revenue (year 1)	Decrease due to the termination of a contract
Contract Revenue increase	No movement
Operating costs	Increase based on management's budgeted expenditure
CPI	No movement
Discount rate:	
Risk Free Rate	Increase in 10 year Commonwealth bond rate
Equity market risk premium	No movement
Equity Beta	Decrease in 5 year average equity beta movements of publicly listed companies operating within the transportation and infrastructure sectors.
Alpha Risk	Decrease due to range of factors specific to the channel asset, including the removal of provisions for uncertain customer contracts and improved local economic conditions.

Navigation aids

Managerial assessments undertaken for navigation aids indicate that the carrying amount approximates fair value as at 30 June 2014 and 30 June 2013. No fair value adjustment has been recorded at 30 June 2014 or 30 June 2013.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 8. Infrastructure, property, plant and equipment
(continued)

There were no changes in valuation techniques throughout the period to 30 June 2014.

For all assets measured at fair value, the current use is considered the highest and best use.

Table 8.5: Reconciliation of Level 3 fair value

	(\$'000)				
<i>2014</i>	<i>Vehicles</i>	<i>Plant and equipment</i>	<i>Channel assets</i>	<i>Navigation aids</i>	<i>Total</i>
Opening balance	118	322	13,924	6,625	20,989
Net purchases and disposals	53	37	-	-	90
Transfers in (out) of Level 3	-	-	-	-	-
Gains or losses recognised in profit/(loss)	(8)	-	-	-	(8)
Depreciation	(40)	(130)	(357)	(306)	(833)
Impairment loss	-	-	-	-	-
Subtotal	123	229	13,567	6,319	20,238
Gains or losses recognised in other comprehensive income					
Revaluation	-	-	-	-	-
Subtotal	-	-	-	-	-
Closing balance	123	229	13,567	6,319	20,238
Unrealised gains/(losses) on non-financial assets	-	-	-	-	-

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 8. Infrastructure, property, plant and equipment
(continued)

Table 8.6: Description of significant unobservable inputs to Level 3 valuations

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of fair value measurement to changes in significant unobservable inputs
Vehicles	Depreciated replacement cost	Cost per unit	\$13,000 per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
		Useful life of vehicles	4 years	A significant increase or decrease in useful life of the asset would result in a significantly higher or lower fair value.
Plant and equipment	Depreciated replacement cost	Cost per unit	\$3,000-\$4,500 per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
		Useful life of plant and equipment	3-10 years	A significant increase or decrease in useful life of the asset would result in a significantly higher or lower fair value.
Channel asset	Discounted cash flow	Discount rate	11%-13.2%	A significant increase or decrease in discount rate would result in a significantly higher or lower fair value.
		CPI Rate	2.5%	A significant increase or decrease in CPI rate would result in a significantly higher or lower fair value.
		Volume growth rate	1%	A significant increase or decrease in volume growth rate would result in a significantly higher or lower fair value.
Navigation aid	Depreciated replacement cost	Cost per unit	\$6,600 per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
		Useful life of navigation aids	5-40 years	A significant increase or decrease in useful life of the asset would result in a significantly higher or lower fair value.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 8. Infrastructure, property, plant and equipment
(continued)

In the absence of observed market inputs, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment. Determining the carrying amounts of the channel assets requires estimation of the effects of uncertain future events on the channel assets at the end of the reporting period. The major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of the channel asset within the next financial year are as follows:

Estimate	Assumption	2014	2013
Volumes (year 1)	Historical average	13.4M ton	13.2M ton
Annual volumes growth rate	Management expectations	1%	1%
CPI	RBA mid point target inflation	2.5%	2.5%
Discount rate	Refer Note 8	11.0% to 13.2%	12.3% to 15.2%

There is an inherent relationship between CPI, volumes and the discount rate. A significant increase in CPI, volumes (ie: the year 1 volume or the volume growth rate) would result in an adjustment to the discount rate. The adjustment to the discount rate would consider the additional risk in achieving the increased volumes or CPI. Conversely, a significant decrease in volumes or CPI would result in an adjustment to the discount rate.

Given the unique nature of the channel assets, it is impracticable to disclose the extent of the possible effects a change of an estimate would have on the other assumed estimate at the end of the reporting period. It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the channel assets.

As it is impracticable to disclose the extent of the possible effects a change of an estimate would have on the other assumed estimate, the below table details the percentage change of one specific estimate before resulting in a material adjustment to the carrying amount of the channel assets.

Estimate	Percent Change in Estimate	Adjustment to Carrying Value (% increase) *	Percent Change in Estimate	Adjustment to Carrying Value (% decrease) *
Volumes (year 1)	2%	10%	(4%)	(10%)
Annual volumes growth rate	20%	10%	(45%)	(10%)
CPI	(21%)	10%	39%	(10%)
Discount rate	(3%)	10%	7%	(10%)

* FRD 103E requires a change in carrying value of 10% to be adjusted.

Note 9. Trade and other payables

	2014 \$'000	2013 \$'000
Current unsecured		
Contractual *		
Trade creditors (note 17)	18	132
Other creditors and accruals	280	187
	298	319
Statutory		
GST payable	35	54
Fringe benefits tax	21	18
PAYG payable	15	15
	71	87
	369	406

* The average credit period is 30 days. No interest is charged on the payables. Refer to note 17 for the nature and extent of risks arising from contractual payables..

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 10. Provisions

	2014	2013
	\$'000	\$'000
(a) Current		
Employee benefits (note 10(c))	334	287
Employee on-costs (note 10(d))	49	42
Provision for income tax	-	402
	383	731
(b) Non-current		
Employee benefits (note 10(c))	45	38
Employee on-costs (note 10(d))	7	5
	52	43
(c) Employee benefits		
<i>Current</i>		
Annual Leave		
- Unconditional and expected to wholly settle within 12 months	50	50
- Unconditional and expected to wholly settle after 12 months	120	92
Long Service Leave		
- Unconditional and expected to wholly settle after 12 months	-	-
- Unconditional and expected to wholly settle after 12 months	164	145
	334	287
<i>Non-current</i>		
Long Service Leave		
- Conditional (representing less than 7 years of continuous service)	45	38
Note 9.	45	38
<i>Note:</i>		
▪ Employee benefits consist of annual leave and long service leave accrued by employees inclusive of leave loading. On costs such as payroll tax, superannuation and workers' compensation insurance are not employee benefits and are reflected as a separate provision.		
▪ Amounts are measured at present values.		
(d) Employee on-costs		
<i>Current</i>		
Provisions for on-costs		
- Unconditional and expected to settle within 12 months	8	8
- Unconditional and expected to settle after 12 months	41	34
	49	42
<i>Non-current</i>		
Provisions for on-costs		
- Conditional and expected to settle after 12 months	7	5
Note 10.	7	5

Note:

- Employee benefits consist of annual leave and long service leave accrued by employees inclusive of leave loading. On costs such as payroll tax, superannuation and workers' compensation insurance are not employee benefits and are reflected as a separate provision.
- Amounts are measured at present values.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 10. Provisions
(continued)

	2014	2013
	\$'000	\$'000
(e) Employee benefits and on costs		
Current employee benefits		
Annual Leave	170	142
Long Service Leave	164	145
Non-current employee benefits	334	287
Long service Leave	45	38
Total employment benefits	379	325
Current on-costs	49	42
Non-current on-costs	7	5
Total on costs	56	47
Total employment benefits and on-costs	435	372
(f) Reconciliation of on-costs		
Carrying amount at 1 July	47	37
Add: New provisions raised	25	23
Less: Reductions arising from payments	16	13
Carrying amount at 30 June	56	47

Note 11. Contributed capital

	2014	2013
	\$'000	\$'000
Balance at the beginning of the year	57,883	57,883
Balance at the end of the year	57,883	57,883

Capital Management

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

There are no externally imposed capital requirements.

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

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 12. Reserves

	2014	2013
	\$'000	\$'000
Asset Revaluation Reserve *		
Balance at the beginning of the year	505	505
Revaluation increments/(decrements) in navigation aids	-	-
Revaluation increments/(decrements) in channel assets	-	-
Balance at the end of the year	505	505

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

** The Asset Revaluation reserve relates to the Navigational Aids asset class.*

Note 13. Retained profit/(accumulated losses)

	2014	2013
	\$'000	\$'000
Movements in retained profits/(accumulated losses) were as follows:		
Retained profits/(accumulated losses) at the beginning of the year	(17,592)	(18,589)
Profit/(loss) for the year	1,247	3,102
Dividends paid	(1,596)	(2,105)
Retained profits/(accumulated losses) at the end of the year	(17,941)	(17,592)

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 14. Superannuation

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

Fund	Contributions made		Contributions outstanding	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
AMP Flexible Life (Accumulation)	10	9	-	-
Camilo Super Fund (Accumulation)	19	18	-	-
MLC Investments (Accumulation)	-	4	-	-
SERF (Accumulation)	15	14	-	-
State Superannuation Scheme (Defined Benefit)*	11	14	-	-
Vic Super (Accumulation)	15	15	-	-
Vision Super (Accumulation)	2	1	-	-
Various other funds	6	2	-	-
Total	78	77	-	-

**The Authority does not recognise any defined benefit liability in respect of the defined benefit plan because it has no legal or constructive obligation to pay future benefits relating to its employees. Its only obligation is to pay superannuation contributions as they fall due.*

Note 15. Key management personnel disclosures

(a) Responsible persons

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

(i) Responsible Ministers:

Hon David Hodgett	1 July 2013 to 30 June 2014	Minister for Ports, Major Projects and Manufacturing
Hon Michael O'Brien	1 July 2013 to 30 June 2014	Treasurer of Victoria

(ii) Directors:

Mr Kenneth Jarvis	1 July 2013 to 30 June 2014	Chair
Ms Merran Kelsall	1 July 2013 to 30 June 2014	Deputy Chair
Mr Peter Dorling	1 July 2013 to 30 June 2014	Director

(iii) Accountable Officer:

Capt. Peter McGovern	1 July 2013 to 30 June 2014
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	2014 \$'000	2013 \$'000
Responsible person's remuneration (*)		
Short-term employment benefits accountable officer	201	195
Short-term employment benefits other	92	92
Total base remuneration paid or payable during the year pursuant to employment contracts included in the above remuneration.	293	287
 Bonuses paid or payable during the year pursuant to employment contracts excluded in the above remuneration.	 28	 25
Total remuneration paid or payable (including bonuses and superannuation) during the year to all responsible persons by VRCA.	321	312

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

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 15. Key management personnel disclosures
(continued)

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

	Total Remuneration		Base Remuneration	
	2014	2013	2014	2013
\$10,000 to \$19,999	-	1	-	1
\$20,000 to \$29,999	2	1	2	1
\$30,000 to \$39,999	-	-	-	-
\$40,000 to \$49,999	1	1	1	1
\$50,000 to \$59,999	-	-	-	-
\$60,000 to \$69,999	-	-	-	-
\$180,000 to \$189,999	-	-	-	-
\$190,000 to \$199,999	-	-	-	1
\$200,000 to \$209,999	-	-	1	-
\$210,000 to \$219,999	-	-	-	-
\$220,000 to \$229,999	1	1	-	-
Total numbers	4	4	4	4
Remuneration \$'000	321	304	293	286

Remuneration received or receivable by the Accountable Officer in connection with the management of VRCA during the reporting period was in the range \$220,000 – \$229,999 (\$220,000 – \$229,999 in 2012/13).

(b) Executive Officers' remuneration

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

Total remuneration includes base remuneration, bonus paid or payable and termination and retirement type payments.

Base remuneration is exclusive of bonus paid or payable and termination and retirement type payments.

	Total Remuneration		Base Remuneration	
	2014	2013	2014	2013
\$150,000 to \$159,999	-	-	1	2
\$160,000 to \$169,999	-	-	1	-
\$170,000 to \$179,999	1	2	-	-
\$180,000 to \$189,999	1	-	-	-
Total number of executives	2	2	2	2
Total annualised employee equivalent (AEE)	2	2	2	2
Total Remuneration \$'000	363	351	316	308
Bonuses paid to executive officers included above during the financial year \$'000	47	43		

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 15. Key management personnel disclosures
(continued)

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

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

(d) Contractors with significant management responsibilities

There were no contractors with significant management responsibilities engaged during the period.

(e) Payments to other personnel

The following disclosures are made in relation to other personnel (including contractors) of the Victorian Regional Channels Authority charged with significant management responsibilities.

	Total expenses (exclusive of GST)	
	2014	2013
\$30,000 to \$39,999	-	1
\$40,000 to \$49,999	-	-
\$50,000 to \$59,999	-	-
\$60,000 to \$69,999	-	-
Total number of other personnel	-	1
Total Remuneration \$'000	-	30

Note 16. Remuneration of auditors

	2014 \$'000	2013 \$'000
During the year the following fees were paid or payable for services provided by the auditor of VRCA:		
Victorian Auditor-General's Office		
Audit of financial statements	30	29

Note 17. Financial instruments

Financial risk management objectives and policies

VRCA's principal financial instruments comprise of:

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

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

The main purpose in holding financial instruments is to prudentially manage VRCA's financial risks within the Government policy parameters. VRCA's main financial risks include credit risk, liquidity risk, market risk and interest rate risk. VRCA manages these financial risks in accordance with its financial risk management policy.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 17. Financial instruments
(continued)

Note 11.

(i) Categorisation of financial instruments and net holding gain/(loss) on financial instruments by category

	Notes	Contractual financial assets – loans and receivables \$'000	Contractual financial liabilities at amortised cost \$'000	Total \$'000
2014				
Contractual financial assets				
Current assets				
Cash and cash equivalents	6	18,147	-	18,147
Trade and other receivables	7	801	-	801
Total contractual financial assets		18,948	-	18,948
Contractual financial liabilities				
Current liabilities				
Trade and other payables	9	-	18	18
Total contractual financial liabilities		-	18	18
Net holding gain/(loss) on financial instruments by category				
Total interest income/(expense)	3	504	-	504
Total		504	-	504
2013				
Contractual financial assets				
Current assets				
Cash and cash equivalents	6	17,732	-	17,732
Trade and other receivables	7	733	-	733
Total contractual financial assets		18,465	-	18,465
Contractual financial liabilities				
Current liabilities				
Trade and other payables	9	-	132	132
Total contractual financial liabilities		-	132	132
Net holding gain/(loss) on financial instruments by category				
Total interest income/(expense)	3	552	-	552
Total		552	-	552

The net holding gains or losses disclosed above are determined as follows:

- for cash and cash equivalents, loans or receivables and available for sale financial assets, the net gain or loss is calculated by taking the movement in the fair value of the asset, the interest income, plus or minus foreign exchange gains or losses arising from revaluation of the financial assets, and minus any impairment recognised in the net result.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 17. Financial instruments
(continued)

Note 12.

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

	Notes	Financial institutions (AAA credit rating)	Other	Total
2014				
Contractual financial assets				
<i>Current assets</i>				
Cash and cash equivalents	6	18,147	-	18,147
Trade and other receivables	7	-	801	801
Total contractual financial assets		18,147	801	18,948
2013				
Contractual financial assets				
<i>Current assets</i>				
Cash and cash equivalents	6	17,732	-	17,732
Trade and other receivables	7	-	733	733
Total contractual financial assets		17,732	733	18,465

(iii) Financial Risk Management

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

(iv) Credit risk

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

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

There are no material financial assets which are individually determined to be impaired. VRCA does not hold any collateral as security or credit enhancement relating to any of its financial assets. VRCA does not engage in hedging for its contractual assets. VRCA only deals with banks with high credit ratings.

(v) Liquidity risk

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

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

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

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

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 17. Financial instruments
(continued)

The Treasury Corporation of Victoria ensures adequate access to financial markets for VRCA and hence, the liquidity risk faced by VRCA is not considered significant in view of VRCA's cash holding. Contractual obligations for payables is equal to the carrying amounts disclosed in note 9. Payables held at 30 June 2014 mature within 30 days (2013:30 days).

(vi) Market risk

Market risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

VRCA's exposure to market risk is primarily through interest rate movements in respect of cash and cash equivalents with a variable interest rate. An increase in interest rates by 1% will have a favourable impact of \$181,470 (2013: \$177,320). A decrease in interest rates will have an equal and opposite effect.

(vii) Interest rate risk analysis

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

	Floating Interest \$'000	Non-interest bearing \$'000	Total \$'000
2014			
Financial assets:			
Cash and cash equivalents	18,147	-	18,147
Trade and other receivables	-	801	801
	18,147	801	18,948
<i>Weighted average interest rate</i>	2.67%		
Financial liabilities:			
Trade and other payable	-	18	18
	-	18	18
Net financial assets/(liabilities)	18,147	783	18,930
2013			
Financial assets:			
Cash and cash equivalents	17,732	-	17,732
Trade and other receivables	-	733	733
	17,732	733	18,465
<i>Weighted average interest rate</i>	3.97%		
Financial liabilities:			
Trade and other payable	-	132	132
	-	132	132
Net financial assets/(liabilities)	17,732	601	18,333

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 17. Financial instruments
(continued)

(viii) Net fair value of financial assets and liabilities

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

Comparison between carrying amount and fair value

	Carrying amount 2014 \$'000	Fair value 2014 \$'000	Carrying amount 2013 \$'000	Fair value 2013 \$'000
Notes				
Contractual financial assets				
<i>Current assets</i>				
Cash and cash equivalents	18,147	18,147	17,732	17,732
Trade and other receivables	801	801	733	733
Total contractual financial assets	18,948	18,948	18,465	18,465
Contractual financial liabilities				
<i>Current liabilities</i>				
Trade and other payables	18	18	132	132
Total contractual financial liabilities	18	18	132	132

Fair value measurements in the balance sheet

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

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

At 30 June 2014 and 30 June 2013, no financial assets or liabilities held by VRCA required fair value measurement subsequent to initial recognition.

(ix) Ageing analysis of contractual financial assets

	Note s	Carrying amount \$'000	Not past due and not impaired \$'000	1 to 3 months \$'000	3 months to 1 year \$'000	Note 13. Note 14. to 5 years \$'000	1 years \$'000
2014							
Contractual financial assets							
Trade and other receivables		801	789	12	-	-	-
Total contractual financial assets		801	789	12	-	-	-
2013							
Contractual financial assets							
Trade and other receivables		733	732	1	-	-	-
Total contractual financial assets		733	732	1	-	-	-

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 17. Financial instruments
(continued)

(x) Nature and extent of risk arising from investments and other financial assets

There are no material financial assets which are individually determined to be impaired. Currently the Authority does not hold any collateral as security nor credit enhancements relating to any of its financial assets. There are no financial assets that have had their terms renegotiated so as to prevent them from being past due or impaired, and they are stated at the carrying amounts as indicated.

(xi) Maturity analysis of contractual financial liabilities

	Notes	Carrying amount \$'000	Nominal amount \$'000	Less than 1 month \$'000	1 to 3 months \$'000	3 months to 1 year \$'000
2014						
Contractual financial liabilities						
Trade and other payables		18	18	18	-	-
Total contractual financial assets		18	18	18	-	-
2013						
Contractual financial liabilities						
Trade and other payables		132	132	132	-	-
Total contractual financial assets		132	132	132	-	-

Maturity analysis is presented using the contractual undiscounted cash flows. The carrying amounts disclosed exclude statutory amounts (e.g. GST payables).

Note 18. Contingencies

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

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 19. Commitments

	2014 \$'000	2013 \$'000
(a) Operating lease commitments		
<i>Non cancellable operating leases contracted for but not capitalised in the financial statements</i>		
Commitments for minimum lease payments:		
Payable no later than 1 year	232	234
Payable 1-5 years	530	-
	762	234
GST claimable	69	21
Net commitment	693	213
VRCA extended its office lease which commenced on 1 July 2013. The term is 3 years with an option of 1 further term of 3 years.		
(b) Operating commitments		
Total expenditure contracted for operating expenditure at balance date but not incurred or recognised as liabilities:		
Payable no later than 1 year	909	895
Payable 1-5 years	24	33
	933	928
GST claimable	85	84
Net commitment	848	841
(c) Capital commitments		
During the current financial year the authority entered into contracts for Safety Improvements to the channel:		
Payable no later than 1 year	7,477	-
Payable 1-5 years	-	-
	7,477	-
GST claimable	679	-
Net commitment	6,798	-

Note 20. Related party transactions

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

As noted in 1(a), VRCA is a government business enterprise and is accountable to the Victorian government through the Minister for Ports, Major Projects and Manufacturing and the Treasurer. During the year VRCA transacted with the following Victorian Government entities.

- Treasury Corporation of Victoria – deposits of \$16,000,000 (2013: \$15,570,000) are held with them and VRCA earned interest revenue of \$424,400 (2013: \$458,613) during the year.
- Dividend of \$1,596,000 (2013: \$2,105,000) was paid to the Department of Treasury and Finance.

Note 21. Events occurring after reporting period

Subsequent to the end of the financial year, VRCA has contracted to extend the scope of the capital improvement works detailed in note 19 at an additional expense of \$2.3M, excluding GST, to occur during the 2014-15 financial year. There was not any other matter or circumstance not otherwise dealt with in these statements, which has the potential to significantly affect the operations of VRCA, the results of those operations or the state of affairs of VRCA in subsequent financial years.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

Note 22. Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	2014	2013
	\$'000	\$'000
Profit/(loss) for the year	1,247	3,102
Depreciation and amortisation	833	935
De-recognition of capital costs	982	-
Loss on sale of assets	7	9
GST included in investing activities	41	29
<i>Change in operating assets and liabilities:</i>		
(Increase) / decrease in trade & other receivables & prepayments	(75)	(59)
(Increase) / decrease in interest accrued	(50)	36
(Decrease) / increase in trade & other payables	(37)	132
(Decrease) / increase in provisions	(871)	(49)
(Increase) / decrease in deferred tax asset	291	242
Net cash flows from operating activities	2,369	4,377

VICTORIAN REGIONAL CHANNELS AUTHORITY
CERTIFICATION OF FINANCIAL STATEMENTS AND DECLARATION BY
ACCOUNTABLE OFFICER CHIEF FINANCIAL AND ACCOUNTING OFFICER
30 June 2014

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

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, statement of cash flows and notes to and forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2014 and financial position of the Victorian Regional Channels Authority as at 30 June 2014. The financial statements of VRCA also comply with IFRS as issued by the International Accounting Standards Board (IASB).

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

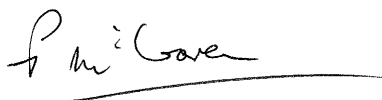
We authorise the attached financial statements for issue on 15 August 2014.



Kenneth Jarvis
Chair
Dated: 15 August 2014



Merran Kelsall
Deputy Chair
Dated: 15 August 2014



Peter McGovern
Chief Executive Officer
Dated: 15 August 2014



Kas Szakiel
Commercial Manager
Dated: 15 August 2014

INDEPENDENT AUDITOR'S REPORT

To the Board Members, Victorian Regional Channels Authority

The Financial Report

The accompanying financial report for the year ended 30 June 2014 of the Victorian Regional Channels Authority which comprises the comprehensive operating statement, balance sheet, statement of changes in equity, statement of cash flows, notes comprising a summary of significant accounting policies and other explanatory information, and the certification of the financial statements has been audited.

The Board Members' Responsibility for the Financial Report

The Board Members of the Victorian Regional Channels Authority are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Board Members determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1(c), the Board Members also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independent Auditor's Report (continued)

Independence

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

Opinion

In my opinion:

1. the financial report presents fairly, in all material respects, the financial position of the Victorian Regional Channels Authority as at 30 June 2014 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*
2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the Victorian Regional Channels Authority for the year ended 30 June 2014 included both in the Victorian Regional Channels Authority's annual report and on the website. The Board Members of the Victorian Regional Channels Authority are responsible for the integrity of the Victorian Regional Channels Authority's website. I have not been engaged to report on the integrity of the Victorian Regional Channels Authority's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

MELBOURNE
22 August 2014


for Dr Peter Frost
Acting Auditor-General



Victorian Regional Channels
Authority

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