



Our Vision

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

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

Our Mission

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

Scope of Operations

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

The principal functions of the VRCA as provided in Section 21 of the PSA 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 set by the Director of Marine Safety;
- provide general direction and control of the movement of vessels within port waters in accordance with the Marine Act 1988;

- provide technical advice and support to port managers about the management and operation of port waters and channels in port waters; and
- assist a port manager, at their request, and with the approval of the Minister, with integrated planning, development, management and promotion activities for the port.

The VRCA's pricing for the use of channels and related services is regulated under a price monitoring framework administered by the Essential Services Commission in accordance with Section 49 of the PSA.

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

The VRCA has approximately 20 customers, being 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.

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

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CHANNELS



SHIPPING

CHAIRPERSON'S REPORT

This is the second annual report on the operations of the VRCA since its creation on 1 April 2004, and the first relating to a full year of operations.

Like all fledgling organisations the VRCA has faced challenges from the outset. It had to recruit staff, establish a suitable office, implement operating procedures and acquire the resources it needed to function. It needed to do this while ensuring that shipping operations continued without disruption and while organising to serve its customers effectively within the shortest possible time frame.

It gives me great pleasure to report that within one year of operation, the Authority has not only overcome the initial establishment hurdles but has gone on to record many important successes.

Perhaps its foremost achievement, which has yielded immediate financial benefits, is the progressive transfer during the year of direct management for key services such as hydrographic survey, management of navigation aids, and maintenance dredging. These services were initially supplied to the VRCA under a *Channel Services Agreement* with the PoMC after the establishment of the Authority.

Diligent work by the VRCA in the second half of 2004 to establish alternative service providers has enabled both parties to agree to a termination of that contract, with the resultant saving to VRCA. The VRCA has been able to realise this saving while still satisfying the requirements of all major customers in the region, including Shell, Alcoa, GrainCorp, and Toll GeelongPort.

A primary rationale for establishing the VRCA as a port authority for the Geelong channels, Western Port and for the approaches to Portland was to address the specific needs of the maritime industry in those ports. As an organisation with a uniquely regional focus the VRCA has already demonstrated its responsiveness to local needs. The appointment in 2004 of a Harbour Master, Captain Dilip Abraham, (exclusively for the Port of Geelong) has resulted in a higher level of coordination between channel users and port authorities. In addition, a regime of regular visits by the Harbour Master to Hastings and Portland has increased the VRCA's capacity to oversee operations in those ports and to address issues that arise.

As well as furthering corporate self-reliance, the Authority's management and staff have commenced implementation of a new Shipping Management Information

System, completion of essential safety and environmental management and security plans for the State and Federal governments, and have begun the task of upgrading the navigation aids for the Port of Geelong.

Despite its small size the Authority has been able to play a constructive role in port promotion. It could not, of course, have achieved so much without close effective working relationships with service providers such as Toll GeelongPort.

Next year the VRCA hopes to bring to fruition many of the projects it has begun; in particular the upgrade of the navigation aids in Geelong, which represents a significant capital project. This and other projects will no doubt ensure that the regional ports remain economically viable and significant assets to the State of Victoria for years to come. I would like to thank my fellow Directors, management and staff for their dedication to the work of the Authority.



Michael J Dowling
Chairperson

A large industrial ship, possibly a tugboat or barge, is docked at a pier. The ship has a white upper hull and a red lower hull. It is positioned in the center-right of the frame. To the left, a large, dark metal crane structure is visible, extending from the top left towards the center. The background shows a clear blue sky and a body of water. The word "REGIONAL" is overlaid in large, white, sans-serif capital letters across the lower half of the image. The text is partially obscured by a white rectangular area at the bottom. There are also some faint, dashed green lines and a solid green line forming a shape that resembles a stylized 'V' or a funnel at the bottom of the page.

REGIONAL

CEO'S REPORT

The 2004-05 financial results for the VRCA can reflect, for the first time, a full year of operation. Overall these results are satisfactory, with the VRCA posting a before tax profit of \$0.8 million, based on a total turnover of \$5.9 million and channel fees set at 24.42 cents per gross ton.

Total expenditure was affected by the urgent need to commence the upgrade of navigation aids in the Port of Geelong channels. The early termination of the *Channel Services Agreement* with the PoMC has produced some operational economies and facilitated savings within a half year of operations post contract. The benefits of a full year of operations under the new regime will be reflected in the financial results for 2005-06.

The existing channel fees will remain in effect for the following year and thereafter could be subject to change by the VRCA based on the new Price Monitoring Framework introduced by the Essential Services Commission (ESC) in 2005. The VRCA is confident it can keep fees at competitive levels by keeping its own cost structure to the minimum needed to assure efficient and effective services.

Security of shipping and port facilities has been a major focus in 2004-05. The VRCA has seized the initiative in implementing the international Shipborne Automatic Identification System (AIS) via shore-based facilities. This ship and shore-based broadcast system requires ships world-wide to carry an onboard transponder that transmits information

about their identity, and movements automatically and continuously. All shipping entering Geelong waters will now be monitored via the AIS as well as with existing shipping controls. In association with other port operators the Authority has submitted Safety and Environment Management Plans to the State and Federal Government.

Another important milestone was the renewal of the shipping management contract with Toll GeelongPort for a period of five years. The contract was negotiated at a higher fee in order to cover the additional costs to Toll of maintaining an after hours security presence in the Port of Geelong. This is a legislated requirement by the Federal government with the aim of achieving uniform security standards in Australian ports. The VRCA is working to implement a Shipping Management Information System that will provide a comprehensive record of shipping movements in the Geelong channels. This database will be available to all stakeholders within the port community, including shipping agents and tug operators, via the internet.

In this first full year of operations the VRCA has moved quickly from a situation of transition to consolidation of its assets and operations. The development of a strategy to provide quality services to channel users at minimal cost is already yielding major benefits to customers, with the VRCA being able to contain current tariff rates for a further 12 months. Building regional ties and closer association with local port users has been a natural

consequence of locating the Authority in Geelong. VRCA staff are now accustomed to regular face-to-face contact with our customers, and take pride in the knowledge that they are making a tangible contribution to the safety, environment and economy of the local community.

I look forward, in the coming year, to reporting on further successes in our drive to create shipping access and port facilities that are equal to or better than those provided by any other regional authority in Australia or the world.



Ian Scott
Chief Executive Officer

EXECUTIVE SUMMARY

Highlights of the Year

- First full year of operation of the VRCA.
- Introduction of a new price monitoring framework.
- Achievement of self-reliance in management of all key services.
- Renewal of Toll GeelongPort shipping management contract.
- Major hydrographic survey of port waters.
- Declaration of 10 centimetres additional draught in Geelong channels.
- Commencement of program to upgrade navigation aids.
- Preparation of a Safety and Environmental Management Plan.

Ongoing Provision of Key Services and Facilities

- Hydrographic survey of port waters.
- Planning and supervision of contracts for maintenance dredging of commercial shipping channels and berths.
- 24-hour commercial shipping control service.
- Coordination of pilot services, tugs, lines boats, lines men, quarantine services and customs.
- Implementation of a Shipping Management Information System.
- Planning and supervision of contracts for provision and maintenance of navigation aids for commercial shipping.
- Strategic planning for future needs of commercial shipping in regional commercial channels.





DREDGING

ESTABLISHMENT AND FUNCTIONS

The VRCA was proclaimed as a Government Business Entity on 1 April 2004 and commenced operations on that date. The VRCA was established pursuant to Section 18 of the PSA with the responsibility of managing the shipping channels in the Port of Geelong and overseeing the channels in the ports of Hastings and Portland.

Objectives of the VRCA

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

In pursuit of this objective, the VRCA aims to:

- operate a safe and secure channel operations business;

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

Profiles of Geelong piers and wharves

The largest regional port in Victoria, the port of Geelong handles 25 per cent of Victoria's overseas exports, most of which are raw materials like petroleum products, bulk and bagged 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
- Ripplside

Aside from the Point Wilson Explosives Pier and Bulk Grain Pier, Geelong Port is managed by Toll Holdings, 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 Toll GeelongPort 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 Toll GeelongPort but is rarely used. 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	Lay up berth
Bulk Grain Pier 2	192m	11.7m	Lay up berth
Bulk Grain Pier 3	225m	11.7m	GrainCorp – dedicated grain/woodchip

Corio Quay

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

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

Lascelles Wharf

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

Berth	Max LOA	Max Draft	Remarks
Lascelles Wharf 1, 2 & 3	621m	11.7m	Dry bulk cargo

Refinery Pier

This facility is owned by Toll GeelongPort 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	11.7m	Petroleum and chemical products
Refinery Pier 3	230m	11.7m	Petroleum products and VCM
Refinery Pier 4	265m	11.7m	Crude oil and VCM

Point Wilson Explosives Pier

Point Wilson is located north east of Corio Bay. The channels leading to the pier are serviced by VRCA. The site is used by the Australian Defence Industries as an explosives depot. Vessels visit the site on an irregular basis, perhaps once per month, which is used exclusively for the transport of explosives to and from Point Wilson.

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

Cunningham Pier

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

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

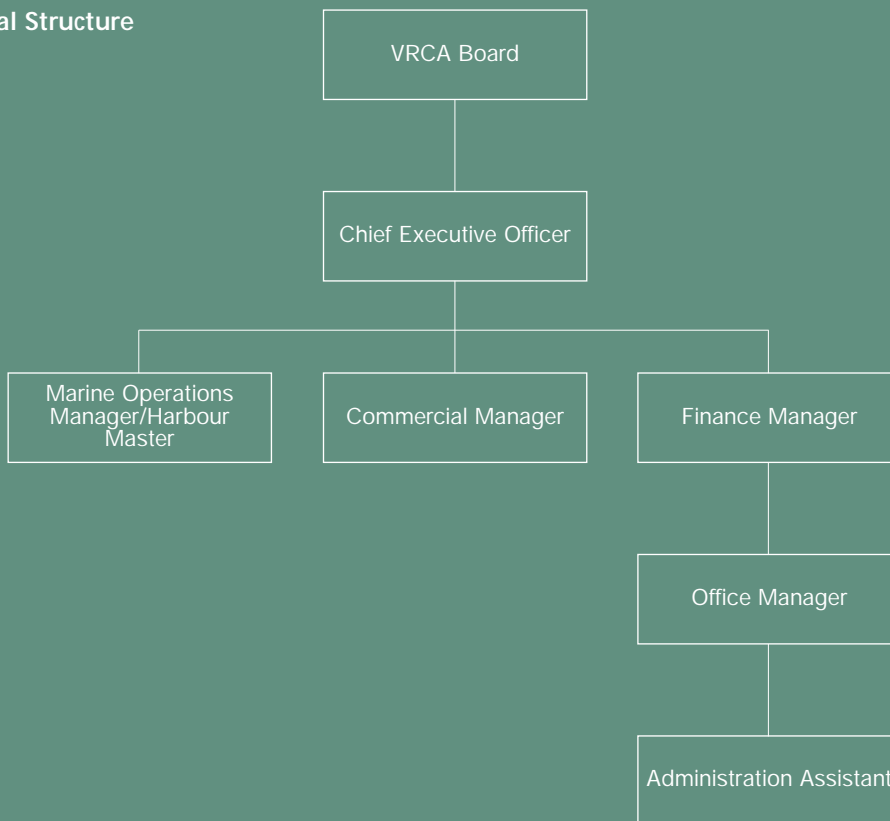
Rippleside

The facilities are used by Adsteam for their towage operations.

STAFF ESTABLISHMENT

The VRCA has a Board of Directors of three and an establishment of six staff. Given the small establishment size the role of the VRCA is essentially one of oversight and management, whereby key functions such as shipping control, hydrographic survey, dredging and maintenance of navigation aids are contracted to third parties.

Organisational Structure



INCOME AND PRICING

The VRCA obtains most of its 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 entered into initially with the government and subsequently the Victorian Channels Authority (VCA) and from a surcharge levied on 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; and
- commercial shipping using the Ports of Hasting or Portland.

Primary Revenue

Throughout 2004-05 the price levied by the VRCA per gross ton on commercial shipping was subject to a price regulation regime administered by the Essential Services Commission (ESC). A pricing order was originally imposed on the VCA in June 2000 and continued to apply to the VRCA for prescribed services under its control until its expiry on 30 June 2005.

The pricing order required prices to be reduced in real terms by 2.1 per cent per annum. In 2004-05 the tariff was 27.53 cents per gross ton which includes a charge of 3.11 cents per gross ton payable to the PoMC for traversing the Phillip Heads and south channel.

Introduction of a new price monitoring framework

Before the expiry of the pricing order the ESC was required, under Section 53 of the PSA, to complete an enquiry as to whether prices for prescribed services will be regulated for a further five years. This enquiry, titled Regulation of the Victorian Ports, was completed by the ESC and released on 30 June 2004. One of its principal recommendations to the Minister was that a price monitoring framework apply to prescribed services in Victoria's ports.

Prescribed services listed under the PSA include:

- the provision of channels for use by shipping;
- the making available of berths, buoys or dolphins in connection with the berthing of vessels in the ports of Melbourne, Geelong, Portland and Hastings; and
- the provision of short term storage or cargo marshalling facilities in connection with the loading or unloading of vessels at adjacent berths, buoys or dolphins in the ports of Melbourne, Geelong, Portland and Hastings.

The ESC has released a Channel Access Guideline to operators and users of the channels outlining their rights and obligations under the Access Regime and the approach to be taken by the ESC to resolve access disputes that may arise.

Price monitoring recommendations and determination

The VRCA is not considered to have substantial market power although services provided for use of the shipping channels should continue to be regulated but with a lighter handed approach.

The Commission recommended a price monitoring framework supported by appropriate information disclosure requirements. There remains a clearly enunciated threat of re-regulation in the event that a significant misuse of market power becomes evident.

On 30 March 2005, the ESC issued a determination that the price monitoring framework operate for a period of five years, beginning 1 July 2005, unless amended or revoked in the interim.

VRCA pricing arrangements

Under the new pricing framework the VRCA is free to set its own tariffs but is subject to monitoring by the ESC. Unlike the PoMC, the VRCA is not required to develop and publish a Pricing Policy Statement (PPS); however the Authorities will provide key performance indicators and any other information requested by the ESC to enable its performance and costs to be monitored.

The VRCA will review its pricing annually and fix prices for a year in advance. Customers will be advised of the current tariffs by means of the VRCA Prices Tariff, which is issued to them by letter annually and can be downloaded from the VRCA website (www.regionalchannels.vic.gov.au).



Quality of service monitoring

The ESC will monitor the quality of port services to assess whether the new price monitoring framework is meeting its objectives and providing sufficient incentive to port operators to maintain and improve services.

The ESC has prepared a Consultation Paper to assist in developing an appropriate set of performance indicators for quality of service measurement at the regulated Victorian ports.

Shared Channels

From 1 July 2005 new arrangements will be adopted in relation to the shared channels, namely the Port Phillip Heads and the South Channel. These channels are owned by the PoMC but are traversed by all Geelong-bound vessels that enter Port Phillip.

Previously, a separate channel fee was payable to the PoMC by Geelong bound vessels but, for convenience, was charged and collected by VRCA and paid monthly to the PoMC on behalf of Geelong Channel users. Henceforth the PoMC will collect these fees directly from customers.

Additional Revenue

Geelong Channel Improvement Program

The completion of 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 former Port of Geelong Authority.

As a result, both companies are required by contract to make payments commencing one month after 1 May 1998 to the VCA and subsequently the VRCA, the date of practical completion of the deepening of the Geelong channels.

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

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 draught 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
Handysize	15,000 – 21,000	\$130
Handymax	22,000 – 29,999	\$140
Panamax	> 30,000	\$162

FINANCIAL MANAGEMENT



Total turnover for VRCA for the year ended 30 June 2005, incorporating revenue from non-operating activities, was \$5.9 million.

The Authority's before tax profit was \$0.8 million; but the addition of an income tax benefit of \$0.1 million brings the total profit for the year to \$0.9 million

Dividend Distribution Targets

Dividend distribution targets are determined by the Treasurer in accordance with Section 42 of the PSA after discussion with the VRCA Board.

Operating Expenses

Operating expenses for 2004-05 amounted to \$5.1 million.

Spending overall was significantly reduced by increased self-reliance in major service areas and the early termination of the Channels Agreement with the PoMC.

Economic Impact Study into the Port of Geelong

The VRCA is already establishing close working relationships with regional authorities and ways to affirm the importance of a vibrant port to the local and wider economy.

In March 2005 a study was commissioned to investigate the direct and indirect economic impact of the Port of Geelong to the region and the State of Victoria. A project steering group was set up to undertake the study, which is expected to be completed by August 2005.

The VRCA is working closely with the steering group along with other participants, including Toll GeelongPort, the Committee for Geelong, the Geelong Manufacturing Council, GrainCorp, the Geelong Chamber of Commerce and the Department of Infrastructure.

Establishment of a Risk Management Register

During the latter part of 2004 the VRCA completed an assessment that led to the establishment of a comprehensive risk management system for the organisation. The Risk Management Register, incorporates input from the VRCA's Safety and Environmental Management Plan and is audited and reviewed quarterly by the VRCA board.

The register provides a sound framework for safeguarding future revenue flow and for securing and maintaining the organisation's assets on behalf of our customers and users of regional ports.

OPERATING PERFORMANCE



Gross Tonnage Handled

Total gross tonnage of ships entering Geelong port in 2004-05 was 11.9 million gross tons, the same as the previous financial year.

Ship Numbers Handled

The number of ships visiting VRCA ports during the year:

	Gross Tonnage at Geelong	Ship Visits to Geelong
1999-2000	11.8 million	513
2000-2001	12.4 million	498
2001-2002	12.6 million	490
2002-2003	11.6 million	461
2003-2004	11.9 million	443
2004-2005	11.9 million	470

KEY FUNCTIONS

The VRCA has approximately 20 customers and monitors a total of 900-1,100 ship movements per year in Geelong waters.

Under the PSA, the VRCA has primary responsibility for channels in the ports of Geelong, Hastings and Portland. Hastings and Portland ports administer their respective channels on behalf of the VRCA under channel operating agreements that set out management arrangements such as the responsibility to provide and maintain navigation aids and channel depths. The VRCA maintains an overseeing role to ensure these responsibilities are met.

Shipping Management

Key achievements in 2004-05 in relation to shipping management include:

- renewal of the Toll GeelongPort shipping management contract; and
- introduction of a Shipping Management Information System.

Renewal of the Toll GeelongPort shipping management contract

Following a review of contracted marine services in 2004, the VRCA renewed its contract with Toll GeelongPort to provide ongoing Shipping Management Services via the operations centre at Corio. The contract was renegotiated for a further five year term, commencing 1 July 2005.

The fee paid to Toll increased by 25 per cent to account for increased responsibilities of port operators arising from the DOTARS legislation affecting port security.

The impact of the legislation compels the VRCA to provide:

- security presence in the regional ports to manage and monitor port security on a 24 hours basis;
- install surveillance camera's in port access areas; and
- a focal point for contact in the event of any port disturbance.

Introduction of a Shipping Management Information System

The former Victorian Channels Authority (VCA) and now the PoMC employs a Ships System database to monitor and record details of shipping movements in Port Phillip. In 2004 it was initially proposed that the same system be adopted by the VRCA to record shipping movements in Geelong waters.

Following discussions with Toll GeelongPort, the VRCA decided that it would not utilise the existing database but instead acquire its own Shipping Management Information System in conjunction with Toll GeelongPort.

The system will permit storage and web-based retrieval of data relating to shipping movements in Geelong port waters. In addition to the VRCA, it is envisaged that it will be extended to other port users such as shipping agents, customs officers, towage operators and pilots.

Hydrographic Survey

In January 2005 comprehensive hydrographic surveys were undertaken of Port of Geelong channels, berths and anchorages over a period of three weeks. The survey, conducted on behalf of the VRCA by the PoMC Hydrographic Survey team, was the most comprehensive ever undertaken and employed multi-beam sonar. This new technology is able to make hundreds of soundings per unit of time over a much wide area than previous single beam systems. It is therefore better able to detect potential hazards and provide a more accurate map of the ocean floor.

Only insignificant levels of shoaling or high spots were detected in the areas surveyed. These were subsequently investigated by divers and found to be of no concern.

These findings indicate that there will be no requirement for maintenance dredging in the short to medium term.

Dredging

The hydrographic survey results obtained in January were provided to an independent consultancy for review. On studying the results the consultancy recommended that no maintenance dredging would need to be performed for the current or ensuing financial year.

A further review will be undertaken in 2006-07 financial year to reassess the state of the channels and establish whether maintenance dredging will be required.

Dynamic Underkeel Clearance System

Following several years of study of a Dynamic Underkeel Clearance System by the former VCA, the VRCA undertook an investigation in 2004-05 as to whether the system could be implemented in Geelong port waters. The study sought to identify optimal periods, based on tidal movements, for visits by vessels of deeper draught.

The study found that opportunities do exist to implement such a system in Geelong waters and was able to determine that a further 10 centimetres of draught was immediately available in Geelong channels.

The VRCA has now embarked on the next phase of the study, a cost/benefit analysis, which is to be completed in 2005-06.

Tidal Gauges and Monitoring

As part of the VRCA's drive to minimise the cost of its operations and achieve a higher level of service and self-reliance, an order has been placed for the purchase of tide gauging equipment used to measure and predict tidal movements, and anemometers, to measure wind speed and direction, which are to be installed in Corio Bay.

The equipment is expected to be installed early within the 2005-06 financial year and should function effectively for many years with minimal maintenance overheads.

SAFETY AND THE ENVIRONMENT

Introduction of the Automatic Identification System

In 2004-05 a major advance occurred with respect to shipping control and security worldwide with the introduction of the Shipborne Automatic Identification System (AIS). Implementation of this ship and shore-based broadcast system was brought forward by the International Maritime Organisation (IMO), and it is now mandatory for specified vessels to be fitted with an AIS transponder.

Specified vessels include those travelling overseas of a minimum size of 500 gross tons; and those engaged in coastal travel of a minimum of 300 gross tons.

The on-board transponder operates in the VHF band and automatically and continuously transmits to shore facilities and other vessels key information such as vessel identity (assigned internationally), position, course, speed, ship particulars and cargo information. In turn it receives similar information from other nearby vessels.

The system continues to operate in ship-to-ship and ship-to-shore mode everywhere and at all times, regardless of whether vessels are on the high seas, in coastal waters or on inland waterways. The VRCA has taken the initiative of installing shore facilities to operate the system in Corio Bay in early 2005-06.

Benefits of the Automatic Identification System

The AIS offers a number of benefits:

- Shipboard AIS will provide fast, automatic and accurate information regarding risk of collision by calculating closest point of approach and time to closest point of approach from the positional information transmitted by

target vessels. This should result in improved decision-making and reduce the possibility of human error in potential collision situations.

- Shipboard AIS will also supplement existing navigational systems. When positioned at navigational danger points, a specific type AIS station can provide a position and positive identification of the aid, as well as information and data such as real tidal height and local weather to surrounding ships.
- Shore facilities can obtain information about a ship and its cargo to assist a wide range of maritime regulatory, traffic monitoring, administrative and logistical management activities.

Oil Spills

Under a national plan for combating oil spills in Australian waters overseen by the Australian Maritime Safety Authority, Marine Safety Victoria (MSV) is the agency responsible for managing oil spill responses within the Port Phillip region, including Corio Bay.

MSV has in turn delegated to the PoMC its obligations for investigating all spills within the region and coordinating the appropriate response. The VRCA has a reporting role in this process only and participates with the PoMC and emergency services organisations as required and as directed by the MSV.

Upgrading navigation aids in Geelong waters

A condition audit was conducted in 2004 to assess the quality of navigation aids in Geelong waters. The assessment resulted in the VRCA deciding to upgrade the navigation aids through two separate undertakings:

- trialling of new LED based navigation lights; and

- replacement of existing beacon pylons and structures.

It is expected that capital costs for the upgrade will be in excess of five million dollars over a two-year period commencing 2006. Tenders are to be issued in early 2006 for this major capital program.

Upgrading of navigation lights

In October 2004, the VRCA conducted a trial introduction of ten new high technology solar-powered and GPS guided LED lights. These were installed at the start of the Point Richards Channel.

Being solar-powered, the lights are constantly active, and by means of GPS guidance are able to flash in sequence to provide clearer, brighter indications of channel directions. The VRCA plans to install these lights in all Geelong channels in the ensuing financial year.

Replacement of old beacon structures

Many of the structures which support the beacons were erected 50 to 60 years ago and are approaching a point where they will become unreliable and unsafe to maintain. In response the VRCA has embarked on a program to replace all beacons and approximately 50 of the old timber structures. Preliminary work on the replacement program commenced in June 2005 and will involve installing taller metal structures that are more suited to modern shipping needs and designed for ease of maintenance and safety.

Navigation reliability figures

During 2004-05 the VRCA met/exceeded Victorian Marine Board (VMB) and IALA standards for the reliability performance of the approximately 100 navigation aids, beacons and buoys it maintains.



Preparation of a Safety and Environmental Management Plan

Under Victoria's Port Services Act 1995 port managers including the VRCA are required to prepare Safety and Environmental Management Plans and actively participate with other stakeholders and port users to ensure that the plans are implemented. The aim of this activity is to provide a mechanism for managing safety and environmental issues within Victoria's ports.

To meet this obligation in regard to Geelong ports the VRCA, in conjunction with Toll GeelongPort and GrainCorp have prepared a joint Safety and Environmental Management Plan which will be submitted to the State government during July 2005.

The plan will form the basis for the VRCA's drive to ensure safe and environmentally acceptable practices within Geelong Channels.

Implementation of Port Security Measures

Federal port security legislation introduced in the previous financial year requires port operators such as the VRCA to implement various security arrangements with respect to port access, operations and facilities.

The VRCA in conjunction with Toll GeelongPort and GrainCorp was obliged to prepare and lodge a security plan for the Port of Geelong with the Department of Transport and Regional Services (DoTARS), the overseeing federal department. This is a separate plan

to that required by State legislation and aims to ensure uniform international standards for security at all Australian ports.

The Port of Geelong plan, which was lodged in March 2004, was reviewed by the department and certified as effective on 1 July 2004.

ADDITIONAL INFORMATION

Trading Results

The Authority's profit for the year was \$879,451 (three months for 2003-04 \$123,661) after allowing for an income tax credit of \$82,274 (three months for 2003-04 \$56,060).

Reporting

The Authority reports to the Minister for Transport, The Hon. Peter Batchelor MLA.

Events Subsequent to Balance Date

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

Directors' Benefits

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

Information on Directors'

Michael Dowling (Chairperson) is a Geelong based Chartered Accountant with more than 35 years professional and commercial experience including being the managing partner of a firm of chartered accountants. His commercial experience has included being a Director and company secretary of companies which operate in the Australian and international shipping industries. He currently operates a corporate consulting business and is a Director of companies in the health

insurance and mortgage lending fields.

Michael is a member of Deakin University Council. In addition to his commercial experience, he has been an office holder in several community based organisations covering such diverse fields as chamber of commerce, disability services, education, health, youth services and the visual arts.

Merran Kelsall (Deputy Chairperson)

began her career in Chartered Accountancy, becoming a partner in a major practice in 1987. She has worked as an independent director and consultant since 1996. Merran has considerable experience in highly regulated industries, especially financial services, health and utilities. She is also an experienced executive coach and chairs two syndicates for the CEO Institute. Merran's current appointments include: Chairman Auditing and Assurance Standards Board, Public Transport Industry Ombudsman (Victoria) Ltd, Professional Indemnity Insurance Company Australia Pty Limited, Director, Melbourne Water Corporation, Credit Union Services Corporation (Australia) Ltd (CUSCAL), and member of the Council of Trustees of the National Gallery of Victoria.

Alan Taylor OAM is a Chartered Engineer with 48 years experience in the marine transport industry, nationally and internationally. He sailed as the chief engineer officer on ships and has spent the last 37 years in shore management positions involving ship operations, repair and maintenance, technical design and construction and salvage of ships. He has extensive experience in marine environment issues such as ballast water as well as corporate risk and crisis management. His contribution to the maritime industry has been recognised by the award of the Medal of the Order of Australia for service to maritime engineering and the protection of the marine environment.

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
Michael Dowling	10	10
Merran Kelsall	10	10
Alan Taylor	10	9

Audit Committee Membership and Role

The Audit Committee consists of all the members of the Board of the Authority, with Merran Kelsall as Chairperson. 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 coordination with the external auditors;
- oversee the effective operation of the risk management framework;
- review the Authority's internal control environment covering:
 - effectiveness and efficiency of operations;
 - reliability of financial reporting; and
 - compliance with applicable laws and regulations.

Risk Committee Membership and Role

Board members of the Authority constitute membership of the Committee, with Alan Taylor as Chairperson.

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

Executive Officer Remuneration

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

Income Bands	2005 Number	2004 Number
\$140,000 to \$149,999	1	-

Pecuniary Interests

The Directors, Chief Executive Officer and senior managers have completed a statement of pecuniary interests.

Overseas Visits

There were no overseas visits for the financial year.

Indemnification of Officers

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

Consultancies

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

Statutory Requirements

Freedom of Information Act

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

Multicultural awareness

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

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.

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.

The Authority's procedures for reporting disclosures in accordance with the Act are included on the Authority's website.

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.

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



Michael Dowling
Chairperson

Geelong
30 August 2005



Merran Kelsall
Deputy Chairperson

Geelong
30 August 2005



CHANNELS

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Twelve months to 30 June 2005 \$	Three months to 30 June 2004 \$
Revenue from ordinary activities			
Revenue from operating activities			
Sales		5,471,605	1,479,287
Sundry		7,478	21,232
		5,479,083	1,500,519
Revenue from non-operating activities			
Interest		379,098	75,727
Proceeds from sale of assets		71,255	-
		450,353	75,727
		5,929,436	1,576,246
Less Expenses from ordinary activities			
Employee benefits	2(a)	478,840	61,107
Depreciation	2(b)	1,687,528	456,746
Maintenance dredging		84,463	185,409
Other maintenance		408,401	13,391
Lease	2(c)	51,851	12,576
Insurance		179,658	18,880
Marine services		1,015,320	371,808
Consultancies and contractors		316,337	108,996
Special projects		378,294	156,800
Written down value of asset disposals		141,539	-
Other expenses from ordinary activities		390,028	122,932
		5,132,259	1,508,645
Profit before income tax credit		797,177	67,601
Income tax credit	3	(82,274)	(56,060)
Profit for the year		879,451	123,661
Total change in equity other than those resulting from transactions with the Victorian State Government in its capacity as owners on behalf of the Crown			
		879,451	123,661

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005

	Notes	2005 \$	2004 \$
Current assets			
Cash assets	4	8,038,857	6,334,307
Receivables	5	613,043	639,467
Prepayments		154,740	53,765
Total current assets		8,806,640	7,027,539
Non-current assets			
Infrastructure, property, plant and equipment	6	50,548,826	52,207,077
Deferred tax assets	3(a)	129,677	60,522
Total non-current assets		50,678,503	52,267,599
Total assets		59,485,143	59,295,138
Current liabilities			
Payables	7	183,136	635,596
Provisions	8	26,024	199,975
Total current liabilities		209,160	835,571
Non-current liabilities			
Provisions	8	79,007	-
Deferred income tax liabilities	3(b)	410,806	452,848
Total non-current liabilities		489,813	452,848
Total liabilities		698,973	1,288,419
Net assets		58,786,170	58,006,719
Equity			
Contributed equity	9(a)	57,883,058	57,883,058
Retained profits	9(b)	903,112	123,661
Total equity		58,786,170	58,006,719

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Twelve months to 30 June 2005 \$	Three months to 30 June 2004 \$
Cash flows from operating activities			
Receipts from trade and other debtors (inc. GST)		6,016,744	1,781,287
Payments to trade creditors, other creditors and employees (inc. GST)		(4,020,603)	(913,821)
Goods and services tax paid to the ATO		(276,907)	-
Interest received		314,794	103,212
Tax paid (National tax equivalents paid to the State)		(116,375)	-
Net cash inflow from operating activities	18	1,917,653	970,678
Cash flows from investing activities			
Payments for property, plant and equipment (inc. GST)		(191,484)	(147,027)
Proceeds from sale of property, plant and equipment (inc. GST)		78,381	-
Net cash (outflow) from investing activities		(113,103)	(147,027)
Cash flows from financing activities			
Transfer of funds from Victorian Channels Authority		-	5,510,656
Dividends paid		(100,000)	-
Net cash inflow/(outflow) from financing activities		(100,000)	5,510,656
Net increase in cash held		1,704,550	6,334,307
Cash at the beginning of the financial period		6,334,307	-
Cash at the end of the financial period	4	8,038,857	6,334,307

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

NOTES TO THE FINANCIAL STATEMENTS

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Note 1. Summary of significant accounting policies

This general-purpose financial report has been prepared on an accrual basis in accordance with the Financial Management Act 1994, Australian Accounting Standards, Statement of Accounting Concepts and other authoritative pronouncements of the Australian Standards Board and Urgent Issues Group Consensus Views.

It is prepared in accordance with the historical cost convention, except for certain assets and liabilities which, as noted, are at valuation. The accounting policies adopted, and classification and presentation of items, are consistent with those of the previous year, except where a change is required to comply with an Australian accounting standard or Urgent Issues Group Consensus View, or an alternative accounting policy permitted by an Australian accounting standard is adopted to improve the relevance and reliability of the financial report. Where practicable, comparative amounts are presented and classified on a basis consistent with the current year.

For interim and annual reporting periods ending on or after 30 June 2005, AASB 1047 Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards requires disclosure of any known or reliably estimable information about the impacts on the financial report had it been prepared using the A-IFRS or if the impacts are not known or reliably estimable, a statement to that effect. Refer to Note 19 for further information.

(a) Reporting entity

The Authority has responsibility for regional shipping channels in Geelong, Hastings and Portland. The main objective of the Authority is to ensure that port waters and channels in port waters are managed for use on a fair and reasonable basis. The Authority commenced operations on 1 April 2004 and is the successor to the Victorian Channels Authority. The comparative figures for last year represent three months trading only.

The net assets of the Victorian Channels Authority, as at 31 March 2004, were transferred at fair value to the Authority on 1 April 2004.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 1. Summary of significant accounting policies continued

(b) Acquisitions of assets

The cost method of accounting is used for all acquisitions of assets greater than \$1,000. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(c) Revenue

Amounts disclosed as revenue are, where applicable, net of trade allowances and duties and taxes paid or payable. Revenue is recognised for each of the Authority's major activities as follows:

(i) Sales revenue

Sales revenue accounts for approximately 95 per cent of total revenue and represents revenue earned from the sale of the Authority's services (use of shipping channels) and has been recognised when those services have been provided.

(ii) Interest revenue

Interest revenue represents revenue received or receivable on at-call and short term deposits invested by the Authority. At-call and short term deposits are brought to account at face value. Short term deposits have an average maturity of ninety (90) days.

(iii) Sundry revenue

Sundry revenue includes revenue arising from the sale of services of pollution management and other professional services provided by the Authority.

(d) Receivables

Debtors are generally settled within thirty (30) days and are carried at amounts due. A review is made of all outstanding amounts at year end in order to determine whether a provision for doubtful debts is required. No provision for doubtful debts was deemed necessary at balance date.

(e) Revaluations of non-current assets

Subsequent to initial recognition as assets, non-current physical assets, other than plant and equipment, are measured at fair value. Plant and equipment are measured at cost. Revaluations are made with sufficient regularity to ensure that the carrying amount of each asset does not differ materially from its fair value at the reporting date. Annual assessments will be made, supplemented by independent assessments, at least every three years. Revaluations are conducted in accordance with the Victorian Government's Policy – Valuation of Non-Current Physical Assets.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the statement of financial performance, the increment is recognised immediately as revenue in the statement of financial performance.

Revaluation decrements are recognised immediately as expenses in the statement of financial performance, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve.

Revaluation increments and decrements are offset against one another within a class of non-current assets.

(f) Depreciation of infrastructure, property, plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost or 'deemed' net cost of each item of infrastructure, property, plant and equipment over its expected useful life to the Authority. Estimates of the remaining useful lives for all assets are reviewed at least annually. With the exception of navigation aids the useful lives are unchanged from last year. The expected useful lives are as follows:

Navigation aids	3-20 years (2003/04 5 years)
Office furniture, fittings and equipment	3-5 years
Motor vehicles	5 years
Leasehold improvements	3 years
Major maintenance dredging of channel assets	4 years
Channel assets	40 years

(g) Payables

Creditors, including accruals not yet billed, are recognised when the Authority becomes obliged to make future payments as a result of assets or services provided to the Authority prior to the end of the financial year. Trade creditors are generally settled within thirty (30) days.

(h) Maintenance dredging costs

The shipping channels in port waters are subject to continual deterioration through siltation, which reduces the depth of water available to commercial shipping. The channels and berths are restored to declared depths by maintenance dredging. Maintenance dredging falls into two types, as follows:

(i) Minor (routine) maintenance dredging

Minor maintenance dredging is generally dredging of the berths. This dredging is carried out on an as needs basis and is expensed as incurred.

(ii) Major (channel) maintenance dredging

Major maintenance dredging is dredging of the channels and is generally carried out on at least a four year cycle. These dredging costs are capitalised and amortised over four (4) years. Refer Note 1(f).

(i) Goods and Services Tax

Revenues, expenses, and assets are recognised net of GST except where the amount of GST incurred is not recoverable, in which case it is recognised as part of the cost of acquisition of the asset or part of an item of expense. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as part of receivables or payables in the statement of financial position. The GST component of a receipt or payment is recognised on a gross basis in the statement of cash flows in accordance with Accounting Standard AAS 28 Statement of Cash Flows.

(j) Employee entitlements

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

Liabilities for wages and salaries, including non-monetary benefits and annual leave (including oncosts) are recognised and measured as the amounts expected to be paid when liabilities are settled in respect of employees' services up to the reporting date. Sick leave is non-vesting and a liability is recognised only when the amount of sick leave expected to be taken in future periods exceeds the entitlement expected to accrue in those periods.

(ii) Long service leave

A liability for long service leave is recognised and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date and is inclusive of oncosts. Consideration is given to future wages and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates as determined by the government.

(iii) Superannuation

The amount charged to the statement of financial performance in respect of superannuation represents contributions made by the Authority to the superannuation funds. (Refer to notes 2(a) and 16)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 1. Summary of significant accounting policies continued

(k) Cash assets

For the purpose of the statement of cash flows, cash includes cash on hand and deposits held at call with banks net of outstanding cheques yet to be presented by the Authority's suppliers and creditors.

(l) Dividends

An obligation to pay a dividend only arises after consultation between the Board, the Minister for Transport and the Treasurer. Following this consultation a formal determination is made by the Treasurer.

(m) Income tax

The Authority is subject to the National Tax Equivalent Regime (NTER). In accordance with this legislation, the Authority is required to pay equivalent tax to the Consolidated Fund.

Tax effect accounting has been applied using the liability method whereby income tax is regarded as an expense and calculated on the operating profit before income tax adjusted for any permanent differences between taxable and accounting income.

The tax effect of timing differences which occur when items of revenue and expense are brought to account in different accounting periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account as an asset unless the realisation of the benefit is considered to be virtually certain. The amount of benefit brought to account which may be realised in the future is based on the assumption that no adverse changes will occur in income tax legislation and the anticipation that the Authority will derive sufficient assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by tax legislation.

The income tax expense for the year is calculated using an income tax rate of 30 per cent.

Note 2. Expenses from ordinary activities

	2005 \$	2004 \$
Expenses from ordinary activities includes the following specific items:		
(a) Employee benefits		
Salary and wages	415,602	38,438
Superannuation	34,650	3,575
Annual leave and long service leave expense	(7,492)	15,051
Other on-costs (fringe benefits tax, payroll tax and workcover levy)	36,080	4,043
Total employment benefits	478,840	61,107
(b) Depreciation		
Navigation aids	227,698	101,394
Office furniture, fittings and equipment	36,771	3,319
Motor vehicles	17,332	4,046
Leasehold improvements	39,216	7,215
Major maintenance dredging of channel assets	116,511	29,128
Channel assets	1,250,000	311,644
Total depreciation	1,687,528	456,746
(c) Rental expense relating to operating leases		
Building rentals	48,303	12,000
Equipment rentals	3,548	576
Total rental expense	51,851	12,576

Note 3. Income tax

By direction of the Treasurer of Victoria under the State Owned Enterprises Act 1992, the Authority is subject to the National Tax Equivalent Regime (NTER) from the date of commencement, but limited to the Income Tax component of the NTER.

The amount of income tax attributable to the financial year differs from the amount prima facie payable on the operating profit.

The differences are reconciled as follows:

	2005 \$	2004 \$
Operating profit before income tax	797,177	67,601
Prima facie income tax on the operating profit at 30 per cent	239,153	20,280
Adjustment in income tax expense due to:		
Permanent differences	(321,427)	(76,340)
Income tax credit	(82,274)	(56,060)
Income tax credit is made up of:		
Current taxation provision	(53,751)	(28,922)
Deferred income tax provision	(42,042)	(29,094)
Future income tax benefit	13,519	1,956
Income tax credit	(82,274)	(56,060)
(a) Deferred tax asset		
Opening balance	60,522	-
Transfer in from Victorian Channels Authority	-	33,236
Transfer in from Port of Melbourne Corporation	-	29,242
Tax losses	82,674	-
Timing differences	(13,519)	(1,956)
Closing balance	129,677	60,522
(b) Deferred tax liabilities		
Opening balance	452,848	-
Transfer in from Victorian Channels Authority	-	481,942
Timing differences	(42,042)	(29,094)
Closing balance	410,806	452,848

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 4. Cash assets

	2005 \$	2004 \$
Cash at bank and on hand	338,857	634,307
Short term deposits	7,700,000	5,700,000
	<u>8,038,857</u>	<u>6,334,307</u>
The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:		
Balance as above	8,038,857	6,334,307
Balance per statement of cash flows	<u>8,038,857</u>	<u>6,334,307</u>

Cash at bank

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

Short term deposits

All deposits of the Authority are limited to 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 between 5.20 per cent and 5.84 per cent (2004 – 5.20 per cent).

Note 5. Receivables

	2005 \$	2004 \$
Current		
Trade debtors	495,645	502,883
Interest receivable	90,513	26,207
GST receivable	26,885	110,377
	<u>613,043</u>	<u>639,467</u>

Note 6. Infrastructure, property, plant and equipment

Navigation aids

At cost	1,951,044	2,033,020
Less: Accumulated depreciation	(306,509)	(101,394)
Total navigation aids	<u>1,644,535</u>	<u>1,931,626</u>

Office furniture, fittings and equipment

At cost	166,987	89,072
Less: Accumulated depreciation	(40,090)	(3,319)
Total office furniture, fittings and equipment	<u>126,897</u>	<u>85,753</u>

Motor vehicles

At cost	76,980	85,508
Less: Accumulated depreciation	(8,921)	(4,046)
Total motor vehicles	<u>68,059</u>	<u>81,462</u>

	2005 \$	2004 \$
Leasehold improvements		
At cost	118,534	116,108
Less: Accumulated depreciation	(46,431)	(7,215)
Total leasehold improvements	72,103	108,893
Major maintenance dredging		
At cost	465,964	465,964
Less: Accumulated amortisation	(281,488)	(164,977)
Total major maintenance dredging	184,476	300,987
Channel assets		
At Directors' valuation (April 2004)	50,000,000	50,000,000
Less: Accumulated depreciation	(1,561,644)	(311,644)
Total channel assets	48,438,356	49,688,356
Work in progress at cost	14,400	10,000
Total infrastructure, property, plant and equipment	50,548,826	52,207,077

Basis of valuations

The basis of the April 2004 valuations of channel assets is fair value calculated at the net present value of future cash flows over the channel's effective economic life of 40 years. The net present value methodology reflects the future cash generation of the channel assets and is the most suitable methodology available for valuing channel assets.

Reconciliations

Reconciliations of the carrying amounts of each class of infrastructure, property, plant and equipment at the beginning and end of the year are set out below.

	Navigation Aids \$	Office Furniture Fittings and Equipment \$	Motor Vehicles \$	Leasehold Improvements \$	Major Maintenance Dredging \$	Channel Assets \$	Work in Progress \$	Total \$
2005								
Carrying amount at start of year	1,931,626	85,753	81,462	108,893	300,987	49,688,356	10,000	52,207,077
Revaluation	-	-	-	-	-	-	-	-
Additions	9,095	67,915	76,980	2,426	-	-	14,400	170,816
Transfers	-	10,000	-	-	-	-	(10,000)	-
Disposals	(68,488)	-	(73,051)	-	-	-	-	(141,539)
Depreciation expense (note 2(b))	(227,698)	(36,771)	(17,332)	(39,216)	(116,511)	(1,250,000)	-	(1,687,528)
Carrying amount at end of year	1,644,535	126,897	68,059	72,103	184,476	48,438,356	14,400	50,548,826

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 7. Payables

	2005 \$	2004 \$
Trade creditors	47,916	53,057
Other creditors and accruals	135,220	582,539
	<u>183,136</u>	<u>635,596</u>

Note 8. Provisions

Current

Provision for tax	-	87,452
Employee benefits	26,024	112,523
	<u>26,024</u>	<u>199,975</u>

Non-current

Employee benefits	79,007	-
	<u>79,007</u>	<u>-</u>

Aggregate carrying amount of provisions

Current	26,024	199,975
Non-current	79,007	-
	<u>105,031</u>	<u>199,975</u>
Provision for tax	-	87,452
Employee benefits (note 16)	105,031	112,523
	<u>105,031</u>	<u>199,975</u>

Note 9. Equity and movement in equity

(a) Contributed capital

Opening initial capital	57,883,058	57,883,058
Closing contributed capital	57,883,058	57,883,058

(b) Retained profits

Retained profits at the beginning of the reporting period	123,661	-
Profit for the year	879,451	123,661
Dividend paid – final for 2003-04	(62,000)	-
Dividend paid – interim for 2004-05	(38,000)	-
Retained profits at the reporting date	<u>903,112</u>	<u>123,661</u>

Note 10. Financial instruments

(a) Credit risk exposure

The credit risk on financial assets (excluding cash) of the Authority which have been recognised on the statement of financial position is the carrying amount net of any provision for doubtful debts.

The Authority's credit risk is concentrated within commercial shipping activities.

(b) Interest rate exposures

The Authority's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and the financial liabilities is set out in the table below.

	Notes	Floating Interest Rate		Fixed Interest Maturing In		Total	
		2005	2004	2005	2004	2005	2004
		\$	\$	\$	\$	\$	\$
Financial assets							
Cash assets	4	8,038,857	6,334,307	-	-	8,038,857	6,334,307
Receivables	5	-	-	613,043	639,467	613,043	639,467
		8,038,857	6,334,307	613,043	639,467	8,651,900	6,973,774
Weighted average interest rate		5.3%	3.6%				
Financial liabilities							
Payables	7	-	-	183,136	635,596	183,136	635,596
		-	-	183,136	635,596	183,136	635,596
Net financial assets		8,038,857	6,334,307	429,907	3,871	8,468,764	6,338,178

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 10. Financial instruments continued

(b) Interest rate exposures continued

Reconciliation of net financial assets to net assets

	Notes	2005 \$	2004 \$
Net financial assets (as above)		8,468,764	6,338,178
Non financial assets and liabilities			
Infrastructure, property, plant and equipment	6	50,548,826	52,207,077
Prepayments		154,740	53,765
Net tax liabilities		(281,129)	(392,326)
Provisions	8	(105,031)	(199,975)
Net assets per statement of financial position		58,786,170	58,006,719

(c) Net fair values

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Authority equals their carrying amount.

Note 11. Responsible persons

In accordance with the Ministerial Directions issued by the Minister for Finance under the Financial Management Act 1994, the following disclosures are made regarding responsible persons for the financial year.

Names

The persons who were responsible persons of the Authority during the financial year were:

The Hon Peter Batchelor MLA	Minister for Transport	1 July 2004 to 30 June 2005
Michael Dowling	Director (Chairperson)	1 July 2004 to 30 June 2005
Merran Kelsall	Director (Deputy Chairperson)	1 July 2004 to 30 June 2005
Alan Taylor	Director	1 July 2004 to 30 June 2005
Ian Scott	Chief Executive Officer (Accountable Officer)	1 July 2004 to 30 June 2005

Remuneration

Remuneration received or receivable by responsible persons in connection with the management of the Authority during the financial year was in the ranges of:

Income bands

	2005 No.	2004 No.
\$0 to \$9,999	-	3
\$20,000 to \$29,999	2	-
\$30,000 to \$39,999	1	1
\$130,000 to \$139,999	1	-
Total numbers	4	4
Total amount	\$213,951	\$51,534

The Minister's remuneration is reported in the financial statements of the Department of Premier and Cabinet.

Related party transactions

There were no related party transactions between the Authority and any of the responsible persons.

Note 12. Remuneration of executives

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

Income bands

	2005 No.	2004 No.
\$140,000 to \$149,999	1	-
Total numbers	1	-
Total amount	\$142,582	-
Bonuses paid to executive officers included above during the financial year	\$11,500	-

Related party transactions

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

Note 13. Remuneration of auditors

	2005 \$	2004 \$
Audit fees paid or payable to the Victorian Auditor General's Office for audit of the Authority's financial report:		
Paid as at the end of the reporting period	4,580	-
Payable as at the end of the reporting period	18,320	22,340
Total remuneration	22,900	22,340

The auditors received no other benefits.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 14. Contingent liabilities

Treasury Instruction (TI) No. 7 is a Victorian Government Treasury instruction, which was applied and accepted under the former Victorian Tax Equivalent Regime (VTER) by the Authority's predecessor Victorian Channels Authority (VCA). This treatment was grandfathered by VCA into the new National Tax Equivalent Regime (NTER) in July 2002. Following the restructure of the port authorities in 2003-04, the Authority sought confirmation from the Australian Taxation Office (ATO) that it can continue to apply TI No. 7.

The Authority considers it meets the requirements of TI No. 7 and has prepared its accounts on this basis. Should the ATO form the view that TI No. 7 does not apply, the Authority may have an additional tax liability of \$392,276 in respect of the 2004 and 2005 NTER tax returns. This tax liability is a timing issue only and represents tax that would have been payable in the future if TI No. 7 was not applied.

The Directors are not aware of any matter or circumstances, other than the above matter, 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.

Note 15. Commitments for expenditure

	2005 \$	2004 \$
(a) Lease commitments		
Commitments in relation to leases contracted for at balance date but not recognised as liabilities payable in the financial statements:		
Payable no later than 1 year	52,000	52,000
Payable 1-5 years	34,667	87,000
	<u>86,667</u>	<u>139,000</u>
(b) Contract commitments		
Total expenditure contracted for at balance date but not recognised as liabilities payable in the financial statements:	133,868	-

Note 16. Employee benefits

Provision for employee benefits

Current (note 8)

Annual leave	24,865	39,299
Long service leave	1,159	73,224
	<u>26,024</u>	<u>112,523</u>

Non-current (note 8)

Annual leave	-	-
Long service leave	79,007	-
	<u>79,007</u>	<u>-</u>

Aggregate employee benefit liability	<u>105,031</u>	<u>112,523</u>
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Employee numbers

	2005 No.	2004 No.
Average number of employees during the financial year	4	2

Aggregate employee entitlements include entitlements measured at present values of future amounts expected to be paid based on a 3.5 per cent per annum projected weighted average increase in wage and salary rates over an average period of five years. Present values are calculated based on a weighted average discount rate of 4.5 per cent per annum.

Employees' superannuation funds

No liability is recognised in the statement of financial position for the Authority's share of the State's unfunded superannuation liability. The State's unfunded superannuation liability has been reflected in the financial statements of the Department of Treasury and Finance.

The name and details of the superannuation funds and contributions made by the Authority are as follows:

Fund	Contributions for the Year 2005 \$	Contributions for the 3 Months 2004 \$	Contributions Outstanding at Year End 2005 \$	Contributions Outstanding at Year End 2004 \$
Vic Super (Accumulation)	5,875	1,102	50	-
State Superannuation Scheme (Defined Benefit)	8,769	1,133	132	-
Scott Family Super Fund (Accumulation)	4,286	896	6,158	-
Kawrotas Superannuation Fund (Accumulation)	1,777	444	-	-
AMP Flexible Life (Accumulation)	5,918	-	93	-
MLC Masterkey Super Fund (Accumulation)	1,592	-	-	-
Total	28,217	3,575	6,433	-

Note 17. Events occurring after reporting date

Since the end of the financial year the Directors are not aware of any matter or circumstances 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.

Note 18. Reconciliation of profit for the year to net cash flow from operating activities

	2005 \$	2004 \$
Profit for the year	879,451	123,661
Depreciation	1,687,528	456,746
Loss on sale of assets	73,544	-
Change in operating assets and liabilities:		
Decrease in trade and other debtors	90,728	152,619
(Increase)/decrease in interest accrued	(64,304)	27,485
Increase in prepayments	(100,975)	(21,903)
Increase/(decrease) in trade and other creditors	(537,122)	147,426
Increase/(decrease) in tax provisions	(111,197)	84,644
Net cash flows from operating activities	1,917,653	970,678

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 19. Impact of adopting Australian equivalents to International Financial Reporting Standards (A-IFRS)

The Authority will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards (A-IFRS) for annual reporting periods beginning on or after 1 January 2005. Accordingly, the Authority's first annual report under A-IFRS will be for the financial year ending 30 June 2006.

The Authority will be required to restate its 30 June 2005 figures reported in this annual report for inclusion as comparative figures in the 30 June 2006 annual report. The Authority has taken the following steps in managing the transition to A-IFRS and has achieved the following milestones:

- established an A-IFRS project team and developed an implementation plan;
- appointed an independent standards expert to assist with the project;
- conducted an A-IFRS diagnostic review identifying the impacts of the new accounting standards and Treasury Financial Reporting Directions on the Authority; and
- attendance by key staff to various A-IFRS training sessions.

A review of the accounting policy decisions of the Directors' current at the date of this financial report does not result in any material changes to the Authority's financial report under A-IFRS. Readers of the financial report should note that further developments in A-IFRS (for example, the release of further pronouncements by the Australian Accounting Standards Board and the Urgent Issues Group or financial reporting directions by Treasury), if any, may result in changes to the accounting policy decisions made by the Directors' and, consequently, the likely impacts outlined below.

Below are the main accounting policy decisions resulting from the adoption of A-IFRS:

Infrastructure, property, plant and equipment

On initial adoption of A-IFRS, the Directors' have elected to use deemed cost to value channel assets at 1 July 2004, as permitted by the first-time adoption provisions in AASB 1. Consequently, the adoption of A-IFRS will result in the carrying value of channel assets of \$49.688 million on 1 July 2004 to be the deemed cost for channel assets. The Authority will continue to hold channel assets at cost and no revaluation will be conducted in future years. This change in accounting for channel assets will result in an immaterial reduction of depreciation expense for the financial year ended 30 June 2005 and future years.

Other items

All other impacts from the adoption of A-IFRS are immaterial and include small changes in value for employee entitlements, tax assets and tax liabilities.

Equity

The changes to asset and liability values above will have an immaterial impact on retained profits.

Impairment of Assets

AASB 136 Impairment of Assets requires assets to be assessed for indicators of impairment each year. This standard applies to all assets of the Authority regardless of whether they are measured on a cost of fair value basis. If indicators of impairment exist, the carrying value of an asset will need to be tested to ensure that the carrying value does not exceed its recoverable amount, which is the higher of its value-in-use or fair value less costs to sell.

There were no impairment indicators present on the transition date, 1 July 2004, and 30 June 2005 requiring the Authority to conduct an impairment test.

Entity Status

Under Financial Reporting Direction (FRD) 108 the Authority has been designated as a 'for profit' entity.

DIRECTORS' STATEMENT

In accordance with a resolution of the Directors of Victorian Regional Channels Authority, in the opinion of the Directors:

- (a) the information set out in the statement of financial performance, statement of financial position, statement of cash flows and notes to and forming part of the financial statements, present fairly the financial transactions during the year ended 30 June 2005 and financial position as at 30 June 2005 of the Authority;
- (b) at the date of this statement, we are not aware of any circumstances, which would render any particulars in the financial statements to be misleading or inaccurate; and
- (c) the accounts of the Authority have been made out in accordance with the directions of the Minister for Finance under the Financial Management Act 1994.

The financial statements have been prepared in accordance with Standing Direction 4.2 of the Financial Management Act 1994, Australian Accounting Standards, other mandatory reporting requirements (Urgent Issues Group Consensus Views) and applicable directions issued thereunder.

For and on behalf of the board



Michael Dowling
Chairperson



Merran Kelsall
Deputy Chairperson



Ian Scott
Chief Executive Officer



Richard Keyte
Chief Financial Officer

Geelong
30 August 2005

AUDITOR GENERAL'S REPORT



AUDITOR GENERAL VICTORIA

INDEPENDENT AUDIT REPORT

Victorian Regional Channels Authority

To the Members of the Parliament of Victoria and Members of the Board of the Authority

Matters Relating to the Electronic Presentation of the Audited Financial Report

This audit report for the financial year ended 30 June 2005 relates to the financial report of the Victorian Regional Channels Authority included on its web site. The Members of the Board of the Victorian Regional Channels Authority are responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The audit report refers only to the statements named below. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Scope

The Financial Report

The accompanying financial report for the year ended 30 June 2005 of the Victorian Regional Channels Authority consists of the statement of financial performance, statement of financial position, statement of cash flows, notes to and forming part of the financial report, and the supporting declaration.

Members' Responsibility

The Members of the Board of the Victorian Regional Channels Authority are responsible for:

- the preparation and presentation of the financial report and the information it contains, including accounting policies and accounting estimates
- the maintenance of adequate accounting records and internal controls that are designed to record its transactions and affairs, and prevent and detect fraud and errors.

Audit Approach

As required by the *Audit Act 1994*, an independent audit has been carried out in order to express an opinion on the financial report. The audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement.

The audit procedures included:

- examining information on a test basis to provide evidence supporting the amounts and disclosures in the financial report
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the members
- obtaining written confirmation regarding the material representations made in conjunction with the audit
- reviewing the overall presentation of information in the financial report.

Victorian Auditor-General's Office Level 34, 140 William Street, Melbourne Victoria 3000
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Auditing in the Public Interest



AUDITOR GENERAL
VICTORIA

Independent Audit Report (continued)

These procedures have been undertaken to form an opinion as to whether the financial report is presented in all material respects fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the *Financial Management Act 1994*, so as to present a view which is consistent with my understanding of the Authority's financial position, and its financial performance and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

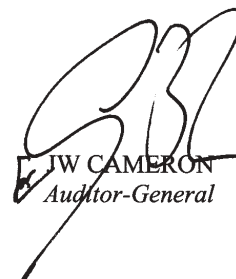
Independence

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 are to be exercised. The Auditor-General and his staff and delegates comply with all applicable independence requirements of the Australian accounting profession.

Audit Opinion

In my opinion, the financial report presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the *Financial Management Act 1994*, the financial position of the Victorian Regional Channels Authority as at 30 June 2005 and its financial performance and cash flows for the year then ended.

MELBOURNE
2 September 2005



J.W. CAMERON
Auditor-General

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Authority

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