

ISLAND INDUSTRIES BOARD



ANNUAL REPORT

FINANCIAL YEAR ENDED 31 JANUARY 2016

11 APRIL 2016





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This Annual Report can be accessed at www.ibis.org.au.

Alternatively it can be accessed by calling phone: (07) 4050 4300 or emailing: info@ibis.org.au for a copy. Hard copies are available to review at Reception at:

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11 April 2016

The Honourable Curtis Pitt
Treasurer, Minister for Aboriginal and Torres Strait Islander Partnerships and Minister
for Sport
Level 9, Executive Building,
100 George Street
BRISBANE QLD 4000

Dear Minister Pitt

Island Industries Board Annual Report 2016

I am pleased to present the Annual Report 2015-2016 and financial statements for the
Island Industries Board (IIB).

I certify that this Annual Report complies with:

- the prescribed requirements of the Financial Accountability Act 2009 and the
Financial and Performance Management Standard 2009, and
- the detailed requirements set out in the Annual report requirements for
Queensland Government agencies.

Yours sincerely



Mr Nigel Tillett
Chairperson
Island Industries Board

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CHAIRPERSON FOREWARD

On behalf of the Island Industries Board (IIB) I wish to present the Annual Report for the year ended 31st January 2016.

The Board is the largest single employer in the Torres Strait, operating eighteen (18) retail stores throughout the outer islands, Waiben Island, Nurapai Island, and Northern Peninsula Area (NPA), plus a hardware store and a service station on Waiben Island. To do so successfully and sustainably in such a remote area provides significant challenges to the Board and the management team.

For the Board to be sustainable in its operations, it means striking a fine balance between the providing of quality goods at affordable prices, and dealing with high logistical costs, funding a range of community service obligations, and the costs of ongoing capital works.

This fact makes this year's trading results more than satisfying, with a significant increase in sales, greater employment opportunity in the Torres Strait, and a healthy surplus, whilst at the same time continuing to provide quality goods at best possible prices.

This success is a direct result of the efforts of a skilled management team, the efforts of all of our highly dedicated staff, and a unique collaboration with key suppliers. The outcome is that IIB is now as strong as it has ever been in its long history.

But the Board is also well aware of external threats to its operations, particularly from online shopping from the major supermarkets in the south. Whilst this form of shopping remains an individual choice for residents of the area, online shopping is developing into a significant and negative game changer in many remote areas. It has potential to drain the local economy, and consequently impact on local employment and local businesses, providing no employment in those areas and having no commitment to any community obligations.

This threat has forced the Board to review many of its operational and supply practices so as to continue to remain a retailer of choice. As a consequence, the Board is accelerating strategies to:

- Strengthen its links and communication with its customer base and the communities it serves.
- Invest heavily in the training, mentoring and development of its Torres Strait Island staff, as part of its overall strategy of succession planning and integration of staff into senior management.
- Continue to drive down prices on essential foods by developing more efficient operations and by continuing to work closely with our suppliers.
- Continue to improve the quality and pricing on fresh produce, milk, bread and meat and other essentials.
- Continue with its capital works programme of replacing and modernising its stores and equipment.

- Investigate possible involvement in opportunities other than retail that will supplement income, provide other employment and training opportunities, and cross-subsidise the costs to our customers of essential groceries.
- Continue to invest in systems and technology to ensure IBIS stays at the forefront of retail practices and reporting.

The Board also considers that there is potential risk to its future sustainability because of the current jurisdictional restrictions that limit the Board to operating only in the Torres Strait and the Northern Peninsula Area (NPA). Accordingly, the Board has asked that consideration be given to legislative amendment that will remove these restrictions and allow the Board to consider opportunities outside the Torres Strait and Northern Peninsula Area (NPA), and to expand its training and employment programmes.

On behalf of the Board, I want to thank CEO, Ian Copeland, the Executive Management Team, Regional and Store Managers and all of our staff for their outstanding effort over the year, and congratulate them on their support and service to customers and communities. I also thank all of them for their support of the Board's initiatives.

I also acknowledge and thank Board members, Mayor Fred Gela (Deputy Chairman), Mayor Pedro Stephen, Vonda Moar-Malone, David Stout, Tom Hannaford, Jan Pool and Colin Kane in recognition of the support, strategic input and guidance they have provided throughout the past year.

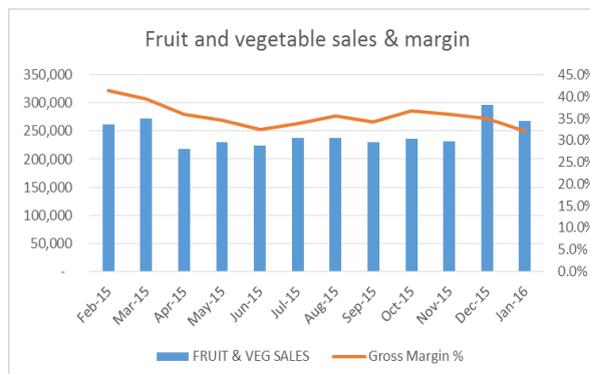


Nigel Tillet
Chairperson
Island Industries Board
11 April 2016

CEO FOREWARD

The continued growth and development of IBIS is directly linked to the engagement of all of our stakeholders from the Board to the Communities we serve. The past year is testimony to the commitment of our staff, the support of our trade partners and the confidence of our customers that our service delivery continues to improve. This is supported by another year of almost double digit growth in sales revenue and above plan in operating surplus.

Our key driver of remaining sustainable whilst providing affordable goods and services to the community is under constant pressure with escalating prices and the continued issues around operating and maintaining a retail system in one of the most remote environments in Australia. It is pleasing to be able to report due to the sterling efforts of the Executive Team and support from the entire IBIS family that we have again exceeded the operational plan for the ninth consecutive year.



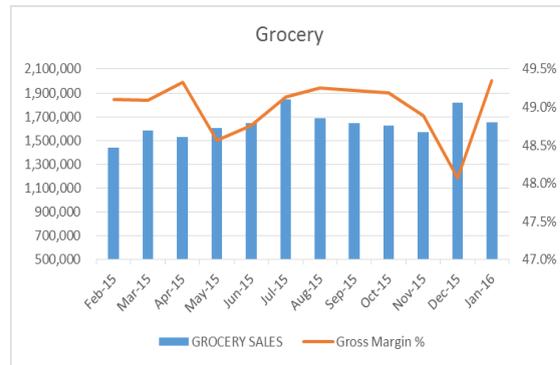
IBIS plays a pivotal role in the social, environmental and economic development for the Communities of the Northern Peninsula Area (NPA) and Torres Strait and over the past financial year we have increased our local employment by 40% to 162 employees with 115 FTE's and the retention rate improving by 25%. The jump in employment percentages comes off the back of the acquisition of the T I Hardware recruiting 10 people and converting 25 casuals to permanent trainees.

IBIS has partnered with other agencies and Councils to further reduce landfill through improved recycling of PET, aluminium cans and cardboard, we have also joined forces to develop a market garden on Thursday Island by providing both wet and dry recycled product for compost.

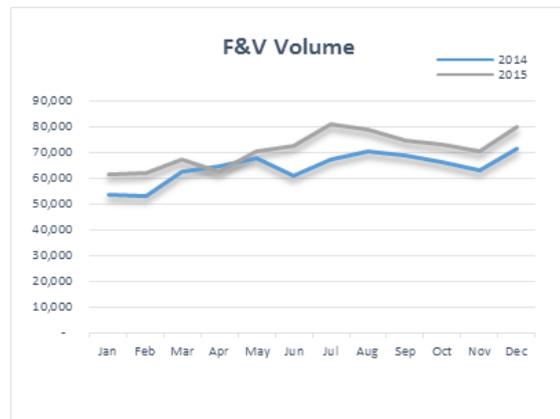
After launching a new promotional program in 2015/16, IBIS Best Buys replacing the successful Family Value Basket, IBIS has significantly increased the savings to our customers through improved pricing in procurement, leveraging our stronger working relationships with our trade partners alongside securing a more competitive freight contract.

- The savings equate to a reduction in freight costs of 27.4%
- TSIRC port fees charged to IBIS via Toll are in excess of \$186,000 per year.
- IBIS shipped approximately 5.5 million kilograms of freight in 2015
- IBIS shipped approximately 1.3 million litres of fuel in 2015.
- Cost to deliver goods to the Outer Islands is approximately 40% more expensive than to the inner islands – however sell prices at the Outer Island stores are generally only 5% more.

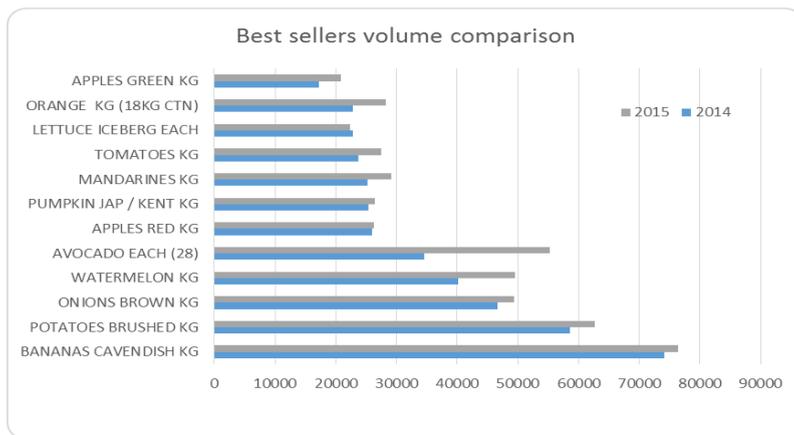
Grocery & Variety departments showing significant Gross Margin percentage and price reductions with resultant sales boost.



Our commitment to improving the health and well-being of our communities was again the focus by the Supply Chain Team in the Fresh food category for both quality and pricing. The results delivered were very pleasing with considerable price reductions on Fruit and vegetables (GP% down by 10%) whilst maintaining sales revenue.



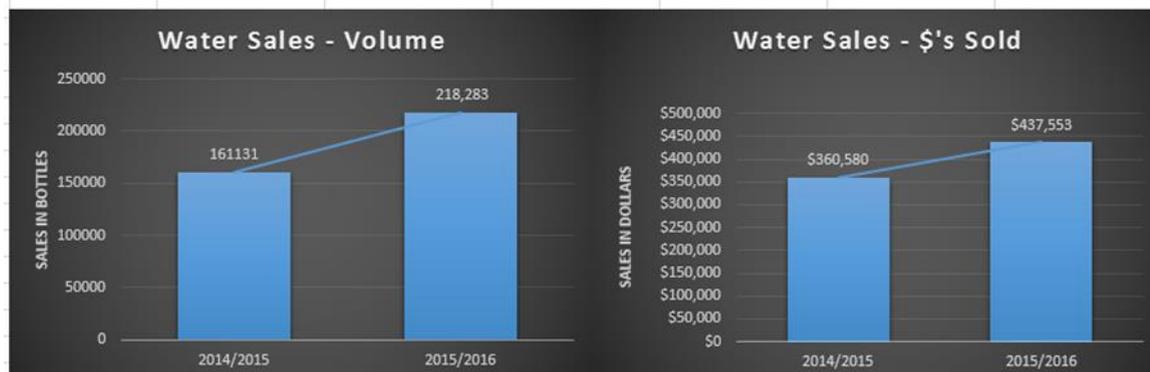
A comparison of sales between 2014 and 2015 shows that while sales value has held steady over the course of the year, volume has increasing by almost 11%.



These 12 lines account for 55% of all sales and an increase of 13.5% on 2014

IBIS's partnership with CCA continues to deliver outstanding results with the consumption of water growing at over 35% in volume and 21.3% in sales revenue. Our pricing policy clearly demonstrates the change in buyer behaviour in refreshment consumption, IBIS sells 600ml bottled water for \$1 and charges a small premium of full sugar soft drink over lower sugar lines.

BOTTLED SPRING WATER - SALES COMPARISON 2014/5 VS 2015/6						
STORE	VOLUME SOLD BOTTLES			SALES \$		
	2014/2015	2015/2016	% CHANGE	2014/2015	2015/2016	% CHANGE
IBIS Total	161131	218,283	35.5%	\$360,580	\$437,553	21.3%



Meat & chicken also received pricing reductions during the year across the range in 2015. The top selling meat products contributed to a 13% growth. The top selling meat packs have also shown a 31% increase with reduced margin.

IBIS also reduced the selling price of Fuel on Thursday Island to \$1.59 per litre for both Unleaded and Diesel fuel and \$1.79 for unleaded petrol on the outer islands whilst the council sells unleaded for \$3 per litre on the Islands IBIS does not sell fuel on.

Other key success factors over the past year were based around staff and customer Safety with positive outcomes in the following areas:

- Implementation and improvement of traffic management systems at stores.
- Expansion of the data logging program for monitoring entire cold chain.
- Weekly meetings with delivery contractor to ensure safe delivery practices.
- Relocation of freight staff in Cairns away from freight contractor loading floor.
- Increased use of local food suppliers to reduce risk of food spoilage and short coded stock.
- Implementation of a date coding checking procedure and a product date marking procedure in stores to ensure food safety.
- Redesign of the store audit device with a stronger emphasis on legal compliance and safety.

The acquisition of the True Value Hardware on Thursday Island in November is going to add immense value to the IBIS model. A strategic alliance has been formed with Mitre 10 to develop a hub and spoke distribution channel for both retail and trade hardware products throughout the NPA and Torres Strait. This alliance has facilitated the opportunity to develop a new channel to market specifically in the building services category targeting social housing and local government infrastructure.

In 2016/17 Community Trade Services a division of TI Mitre10 will be launched in partnership with Mitre10 to service the trade channel increasing employment

opportunities and more competitive pricing throughout the remote regions of Queensland capitalising on the Mitre 10 purchasing power and IBIS freight rate.

I would again like to acknowledge the support and assistance from the Board and the Executive Team in delivering another positive result to our stakeholders and I am confident that we are well positioned to meet and address the exciting challenges and opportunities that will be presented to IBIS in the coming year.



Ian Copeland
Chief Executive Officer.

IBIS ROLE AND FUNCTIONS

Statutory Obligations

The Islanders Board of Industry and Service (IBIS) is the registered trading name of the Island Industries Board (IIB), a statutory body included within the Aboriginal and Torres Strait Islander Communities (Justice, Land and Other Matters) Act 1984 ('the Act'). For the purpose of reporting simplicity, the IIB and its trading name IBIS will be used interchangeably. However, in the marketplace, the IIB is more commonly known by its trading name 'IBIS'.

The functions of the IBIS are:

- (a) *to act as a commercial enterprise for the general convenience or benefit of the residents of—*
 - (i) *the local government area of TSIRC; and*
 - (ii) *the relevant Bamaga area and the relevant Seisia area; and*
 - (iii) *the local government area of TSC;*
- (b) *to apply its profits or assets to promote, support and improve its services and the general welfare, including the knowledge and skills, of the Aboriginal and Torres Strait Islander residents of the areas mentioned in paragraph (a);*
- (c) *from time to time, to investigate, and to report and make recommendations to the chief executive about—*
 - (i) *any trade, commerce or business carried on by the residents mentioned in paragraph (b); and*
 - (ii) *markets for the produce of the residents, trade in the produce, and ways of marketing the produce; and*
 - (iii) *the encouragement, development and protection of the trade, commerce and businesses of the residents.*

Source: Aboriginal and Torres Strait Islander Communities (Justice, Land and Other Matters) Act 1984

OPERATING ENVIRONMENT

Where IBIS Operates

The Torres Strait is a body of water that lies between Australia and Papua New Guinea. It is approximately 150 kilometres wide at its narrowest extent. To the south is Cape York Peninsula (the northernmost continental extremity of the Australian state of Queensland) whilst to the north is Papua New Guinea. The Torres Strait links the Coral Sea to the east with the Arafura Sea in the west.

Several clusters of islands lie in the Strait, collectively called the Torres Strait Islands. There are at least 274 islands which are grouped into five distinct clusters, 17 of which have present-day permanent settlements. Of these 17 islands, 14 have stores and incorporate a treaty that enables trade practices with Papua New Guinea Nationals. IBIS has a store on 13 of the 14 islands.

These clusters exhibit differences in geology and formation, as well as having individual cultural characteristics and language.

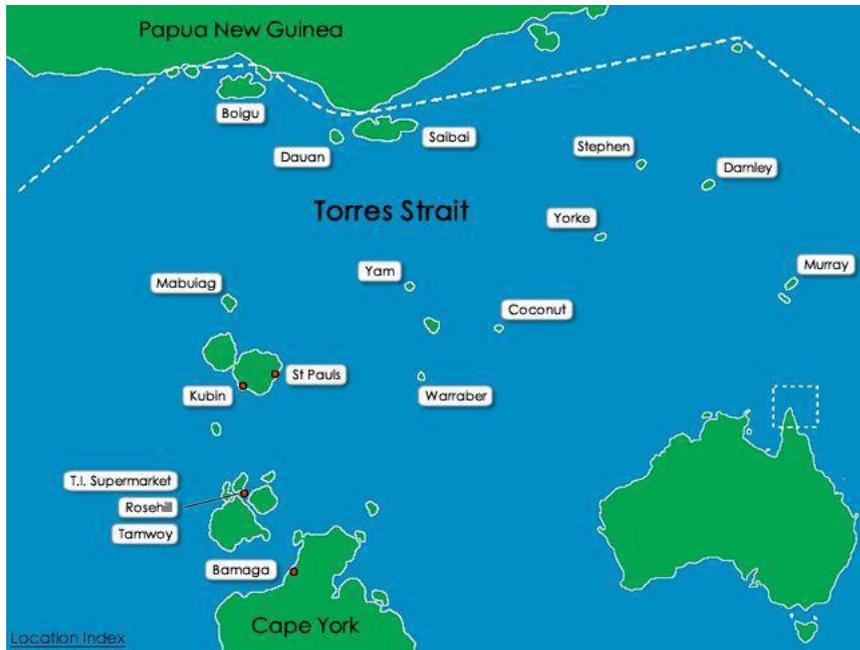


Thirteen of the inhabited islands are located within the protected zone, as outlined in the Torres Strait Treaty. The Treaty allows for a cooperative approach to managing the traditional movements of traditional inhabitants across the Torres Strait protected area.

IBIS Deliverables

In total, IBIS operates 16 retail convenience stores, two supermarkets and a service station as well as five small fuel outlets associated with five of the Outer Island stores. The convenience stores provide groceries, fresh fruit and vegetables, meat, variety products and other items commonly found in general stores or small supermarkets.

The IBIS stores are located at:



Waiben (Thursday) Island

Main Store - Supermarket

Tamwoy Store

Rosehill Store

Nurapai (Horn) Island

Horn Store

Northern Peninsula Area (NPA)

Bamaga – Supermarket

Torres Strait Outer Islands - Stores

Boigu

Poruma (Coconut)

Erub (Darnley)

Dauan

Kubin (on Moa Island)

Mabuiag

Mer (Murray)

Saibai

St Pauls (on Moa Island)

Warraber (Sue)

Iama (Yam)

Masig (Yorke)

Ugar (Stephen).

The service station is operated on Thursday Island under a Caltex franchise. The IBIS retail outlets provide a general range of consumer goods including:

- dry grocery
- chilled grocery
- frozen grocery
- fresh fruit and vegetables
- large and small electrical appliances
- variety and seasonal goods
- fuel
- western union style banking facilities
- special orders to meet individual needs.

Supply Chain

As the supply of these goods and services incorporates a supply chain in excess of 3,050 kilometres, this in itself presents significant challenges which are compounded considerably when those services include the supply of fresh, chilled and frozen food.

This supply chain involves multiple freight handlers and is quite involved with goods generally travelling first from Brisbane to Cairns by rail (approximately 1,750 kilometres). Goods are then re-palleted or containerised in Cairns. They are then shipped to Thursday Island (in excess of 1,000 kilometres), where they are reloaded and shipped to landing barges that finally transport the goods to the Island Stores (up to 300 kilometres).



Many significant issues further compound the cost of supplying this service, and ensuring that:

- all food products are safe;
- the cold chain for all temperature sensitive products is unbroken;
- the goods arrive in good condition - undamaged by mishandling and uncontaminated by other products that are co-shipped with them and/or by seawater;
- all food products are reasonably date coded to allow for the extended shipping period; and
- the fresh food products are reasonably date coded to ensure a supply of fresh product to the communities for the duration between deliveries.

Associated freight costs incurred in the transportation are subsequently reflected in product pricing.

In many cases, the IBIS store is the only provider of food on an Island. Failure in the supply chain can be catastrophic for an Island Store and can be caused by such issues as natural disasters, telecommunication breakdowns or king tides preventing supply barges from docking at the islands. Poor port access to some communities further compounds the supply of goods to some communities. The result of a supply chain failure is catastrophic as food cannot be delivered to Communities.

Cost of Living

IBIS recognises that the biggest issue facing the people of the Torres Strait and NPA is the rising cost of living. The IBIS Family Value Basket Program (FVBP) that was in existence for over three years and provided a selection of essential foods at the lowest possible price was replaced by IBIS 'Best Buys' during 2014. IBIS subsidised pricing of the items in the FVBP to the cost of \$955,000 in order to reduce costs to customers. Given the cost incurred to the business through the FVBP, the introduction of 'Best Buys' is an alternate way to continue to offer savings to customers through the provision of 300 to 400 specialised items at any given time and at the same time to remain financially sustainable.



Healthy Food Choices Program

IBIS has now been committed to its Healthy Food Choices Program for more than five years. IBIS, Best Buys is now the conduit in this program, allowing families to save and reduce the cost of living in remote areas. IBIS Best Buys are continually cross referenced with three major mainland grocery retailers for price and value.

IBIS Pricing Policy

Due to the high operational costs associated with service provision in the Torres Strait and NPA, there is the expectation that items will be more expensive in these remote areas.



In order to curb these costs to the community, IBIS has committed (through policy development) to provide healthy food choices at the lowest possible price, whilst operating the business on a sustainable basis. Items that are not in the 'Healthy Food Choices' category are still priced at a level where IBIS pricing remains competitive against other local competitors. In all instances IBIS strives

to offer the best value in the Torres Strait and NPA.

IBIS is very aware of its charter in providing goods and services to Community in a sustainable manner. A key component of this Charter (as a not-for-profit) is to ensure that goods and services are delivered in meaningful ways that provide the customer with value. IBIS has averaged a return on investment in its operations of 4% over the last two years with its profits being reinvested back into the Community via Capital Expenditure and increased employment.

IBIS is committed to working with other agencies in the Torres Strait and with State and Commonwealth Governments to assist in raising the living standards in the Torres Straits and NPA region.

KEY MANAGEMENT THEMES

IBIS Key Factors to Success

IBIS is required to closely monitor several key factors to ensure success in its operations. These key factors are:

- Sustainability;
- Native Title,
- People Retention, and
- Adoption of Mainstream Retail Practices

Sustainability

By far IBIS's most challenging issue is in ensuring sustainability while continuing to grow the business and provide value to customers. Significant factors impacting on sustainability are:

- Freight – freight constitutes 8% of the turnover and consequential of the supply chain length and associated costs in delivery goods and services to the Torres Strait and NPA. Unlike the majority of retail practice, suppliers do not deliver free into store. With a kilogram of chilled product costing in excess of \$1.14 to freight, this has a significant impact on the in-store pricing of groceries. In this regard, the IBIS freight cost last financial year was \$3.8 million. Due to negotiations with freight competitors in 2015 freight has reduced by 14% with this benefit being passed on to Consumers.
- Power – The cost of electricity has increased significantly over the past few years. IBIS is the second largest consumer of electrical power in the Torres Strait and NPA following the hospitals consumption. In order to curb electrical expenses, IBIS in partnership with Ergon (Energy Retailer) embarked upon a Power Savvy program which entailed solar panels being installed on IBIS shops;
- Insurance – IBIS has experienced increased premiums in the past which were absorbed into our operating costs. In late 2015 a competitive tender was let for insurance and brokerage services which has resulted in a plateau of insurance premiums for 2016;

- Remote cost of living pressure – The financial pressures on families leave less disposable income for food consumption – fuel, transport, rent and power. IBIS is acutely aware of the environment and demographic that it supplies it goods and services in and strives to ensure that customers have choice as per its Healthy Food Choices and Pricing Policy.

- Maintenance – the ongoing cost of maintenance is a major impost to the business because of the extreme environment and tyranny of distance. Store maintenance is a critical issue for grocery retailing, impacting on a range of issues, from customer and staff comfort to food safety and public health risks. Maintaining plant and equipment in remote maritime locations is expensive and a challenge, because of corrosion, and the lack of local tradespeople and flexible and cost effective transport options. IBIS has worked extensively on preventative maintenance programs in 2015 and it is expected to see the benefits of reduced re-active maintenance over the next capital cycle; and



customer and staff comfort to food safety and public health risks. Maintaining plant and equipment in remote maritime locations is expensive and a challenge, because of corrosion, and the lack of local tradespeople and flexible and cost effective transport options. IBIS has worked extensively on preventative maintenance programs in 2015 and it is expected to see the benefits of reduced re-active maintenance over the next capital cycle; and

- Size of Catchment – The cost of doing business on a small scale on in the Torres Strait and NPA is significantly higher than in areas with substantially larger populations and this is reflected in the price of goods and services being provided. Despite a static to declining population, IBIS has experienced positive real growth in its grocery business. This is based upon the dedicated pricing policy of IBIS coupled with providing quality goods at value.

Native Title

Acknowledgement is given to Torres Strait Island Regional Council for their cooperation in, and assistance in progressing the acquisition of native title for the majority of IBIS stores. Their support in the Trustee Lease approval process which has supported and enabled the relevant Indigenous Land Use Agreements (ILUA) that have been approved during the past five years has played an integral role in the continued growth of the business.

Subsequently, IBIS is in a stronger position for the securing of the remaining Native Title Leases since the relevant parties, including Traditional Owners, the Prescribed Body Corporate and the Native Title Office have agreed on a template.

Native Title under Negotiation

Location	Action
Boigu	Lease negotiations to be completed
Iama	Lease negotiations to be completed

Location	Action
Masig	Lease negotiations to be completed
Moa Is – Kubin	30 year ILUA agreed and awaiting execution
Moa Is – St Pauls	30 year ILUA agreed and awaiting execution

People Retention

Attracting and retaining staff in the Torres Strait and NPA is an ongoing challenge. Causes to this issue are threefold, with the most significant cause not being dissimilar to mainstream retail where high turnover is seen. In this regard however the IBIS has significantly reduced the turnover rate by 50% during the past five years which in itself is a significant achievement. One of the causes of retail turnover is the desire to work in administration roles as opposed to retail, and this explanation has been provided when staff resign.

The operational vision regarding staff is for local Indigenous people to assume senior management roles; achievable through investing in staff through training and development, and an associated mentoring program. Training and education form part of the most significant strategic imperatives of the organisation. This investment is however a substantial financial impost given the tyranny of distance of the islands and the availability of certified trainers prepared to work in remote locations.

One of the imperatives of IBIS is for Store Managers to be able to assume a manager's role if they choose to move from the Torres Strait and NPA. The practices that have therefore been adopted at a store level are those that will be accepted in mainstream retail outlets. This also forms the basis of the Mentoring Program that has continued to be enacted during the year as part of the succession plan for IBIS.



Recognising and rewarding staff is an integral component of the Annual Conference where Store Managers travel to a single location and are acknowledged for their contribution to the business. The Conference includes keynote presentations and employment service awards. IBIS recognises high achievers, including best performing store, store manager and outstanding customer service, encouraging all employees to strive for excellence within their local communities. The Conference is also an

avenue where staff attend workshops and other training and development opportunities to better equip them in their roles and in an endeavour to develop them into senior managers of the future.

IBIS trade partners sponsor the Conference through financial and product support presented at a suppliers trade show. This trade show demonstrates new brands and product innovation offered to retail stores on the mainland.



90% or more of Store Managers have attained nationally recognised certification in Certificate III in Retail. IBIS has shifted its focus onto Workplace Health and Safety (WH&S) and the continued development of its Mentoring Program that is incorporated into the succession plan. WH&S certification was also offered to Assistant Store Managers in an endeavour to ensure all staff accept responsibility for workplace and personal safety.

Cultural Diversity

IBIS supports cultural diversity and 'Ailan Kastom'. The IBIS business model operates in a culturally diverse environment and one which offers a unique and enriching experience. It is however not without challenges given cultural beliefs and practices of one culture can conflict with the beliefs and practices of another culture.

IBIS has largely addressed cultural awareness issues through its induction program and ongoing human resource practices. Awareness of cultural diversity is heightened at IBIS and 'differences' are respected. IBIS carries its own slogan of "IBIS Time / Island Time" to further re-inforce itself as a preferred employer in the Community.

Community Service Obligation

The collective consolidated IBIS financial model enables IBIS to provide all communities with a sustainable retail offering of quality goods and services at competitive pricing regardless of the individual stores ability to generate a trading surplus. There are a number of IBIS Stores which operate below the break-even line. Despite this, these Stores still have the same price and range as other Stores in the Torres Strait and NPA.

Within the IBIS self-sustainability model, IBIS generates sufficient funds to invest in a sinking fund for future capital infrastructure investment. This has been clearly demonstrated over the past five years with new stores being built on Mabuig, Ugar, Bamaga, Nurapai, Dauan and Saibai and a storage extension on Warraber, Bamaga and Murray. This commitment to continuing to reinvest in preserving and growing our asset base, distinguishes us against all other retail operations in remote communities.

Plans are also in progress for a new store at Erub (Darnley) this coming year and strong community demand for an IBIS store on Badu has resulted in negotiations taking place with Traditional Owners.

It is envisaged that extensions will also come to fruition at Iama (Yam), Poruma (Coconut) and Masig (Yorke) in the next 12 to 18 months. Significant investment in preventative maintenance on refrigeration upgrades is also to be undertaken.

IBIS works closely with Torres Strait Island Regional Council, Torres Shire Council, Torres Strait Regional Authority and Northern Peninsula Area Regional Council to be part of the social fabric in terms of delivering consistent outcomes under the health and wellbeing pillar of the current Council of Australian Governments (COAG) agreement.

IBIS continues to demonstrate its commitment to improving the health and wellbeing of local residents through innovative merchandising processes to motivate consumers into healthier purchasing choices – turning buyer hot spots into nutritional placement. The continued leveraging of trade partner relationships to develop product display units encouraging change in consumer behaviour is beginning to prove beneficial to the community. This includes the IBIS commitment of shifting purchases from full sugared soft drinks to bottled water.



The annual freight savings that has been negotiated will be generated back to the communities by way of reduced pricing of goods and therefore result in better buying power for community members.

IBIS has provided \$16K in sponsorship by providing communities with access to fruit, vegetables, water and variety products by way of donation in support of local activities, such as sporting carnivals, church groups, community meetings and healthy lifestyle activities. IBIS plays an important role in the healthier lifestyle programs run by the individual island communities.

IBIS continues to work with Queensland Maritime Safety (MSQ) to provide Safety Grab bags that have an EPIRB, six Safety jackets, marine flares, v sheets, reflector mirror and torch for community travel safety. IBIS have a shipping/travel log for people who wish to travel between Islands in the Torres Strait. MSQ will service the kits to ensure that they are operable and IBIS manages the logistics.

IBIS is extremely conscious of the environmental impact of its operations and has developed strategies in minimising its footprint in this pristine location. IBIS in 2014 received partial funding from Queensland Waste Management to install the eleven cardboard compactors. These compactors are currently in operation in Stores.

IBIS continues to work with Ergon's Power Savvy team to reduce the high demand of energy consumed and improve power efficiencies within the group. This is further ensured through sustainable architecture with new buildings and extensions and the ongoing placement of energy efficient equipment in stores. The works undertaken with Ergon will result in further reductions of carbon emissions.

IBIS continues to work with leading educational institutions and Job Service Networks, with a view to build capacity from primary school through to tertiary, encouraging Islanders to choose retail as a career path.

MANAGEMENT AND STRUCTURE

Summary of Key Activities

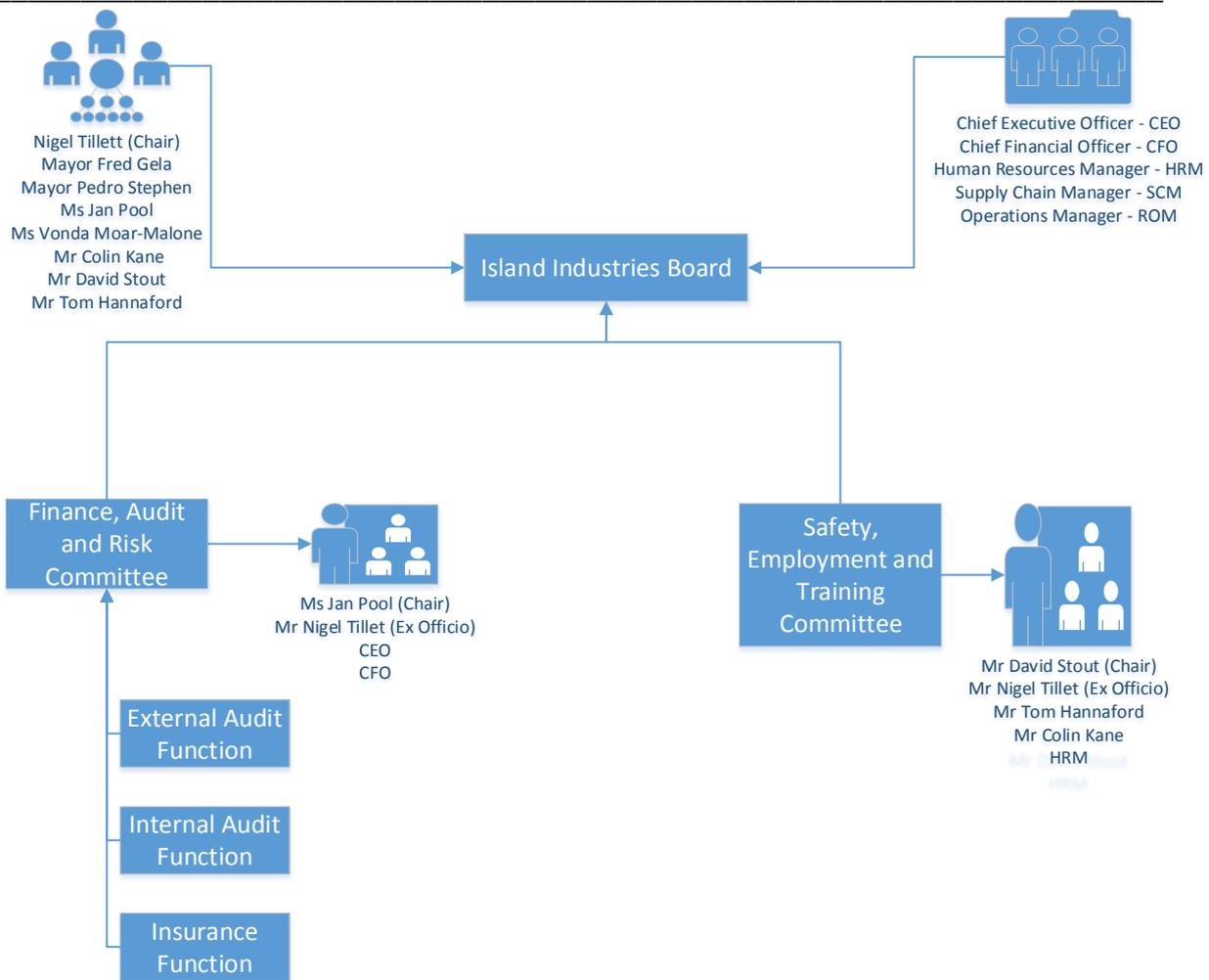
The model developed by IBIS strives to represent best practice in retail service delivery in remote indigenous communities, through:

- Its diverse economic development capabilities;
- Delivery of compliant, safe, high quality food at the lowest possible prices;
- Operating at no cost to Government (i.e. consumes no Government financial resource);
- Providing a source of major employment for indigenous Australians (IBIS is one of the largest employers in the Torres Strait with 67% of staff being indigenous Australians);
- Presenting a low cost, fit for purpose model delivering an effective and efficient essential service in an extremely remote environment;
- Operating with minimum bureaucracy;
- Arms - length government reporting standards;
- Complying with best practice consumer retailing and meeting all legislative and regulatory requirements; and operating commercially on a 'not for loss' basis;
- Managing risk to all stakeholders via a system of Risk Management – integrated across the organisation through a comprehensive Risk Management Program and accredited Food Safety Program; and
- Sound governance in that IBIS:
 - acts legitimately by complying with all required legislation;
 - observe due process in all business activities (i.e. with documented policies and procedures) and respecting the rights of all stakeholders; and
 - meets and exceeds its publicly declared standards of performance in the economic use of resources, supply of outputs and achievement of desired economic, social and environmental outcomes.

Board Governance and Sub-Committees

In accordance with section 60 of the *Aboriginal and Torres Strait Islander Communities (Justice, Land and Other Matters) Act 1984*, IBIS is comprised of at least five, but not more than eight members appointed by the Governor in Council.

The current composition of the Island Industries Board includes an appropriate mix of skills including members who have a deep understanding of the community and local cultures. At a minimum the Board physically meets bi-monthly. The structure of the Board and Sub-Committees is shown below:



Chairperson

Mr Nigel Tillett was appointed Chairperson on 17 December 2015. Fred Gela was appointed Deputy Chairperson on 7 February 2014. Mr Ross Rolfe resigned as Chair of the Board in May 2015. Fred Gela acted as Chair until the appointment of Mr Tillett.

The current Board comprises:

Member	Role
Nigel Tillett	Chairperson
Fred Gela	Deputy Chairperson
Jan Pool	Chair of Finance, Audit and Risk Committee
David Stout	Chair of Employment and Training Committee
Napau Pedro Stephen	Member

Member	Role
Vonda Moar-Malone	Member
Tom Hannaford	Member
Colin Kane	Member

Members of the Board have skills and experience in:

- Operating and managing retail operations and in particular supermarkets;
- Operating and managing businesses;
- Economic and regional development;
- Strategic and business planning;
- Governance and risk management;
- Community engagement;
- Local custom and developing indigenous communities;
- Multicultural communities;
- Grocery retailing;
- Government/stakeholder relations and partnering; and
- Business and corporate accounting.

The Board has the following sub-committees that report to it on a regular basis. A strategy report for the past year is delivered to the Board for each Committee.

Finance, Audit and Risk Committee – FARC

The FARC is responsible for ensuring the internal control and risk management framework is appropriate for the organisation. It monitors the ongoing financial performance of IBIS and is also responsible for ensuring Audit Recommendations are addressed. The Committee is also responsible for reviewing the financial accounts prior to their release. The FARC has the added task of reviewing the financial section of the IBIS Annual Strategy Action Plan.

Safety, Employment and Training Committee – SETC

The SETC considers matters with respect to safety, the management and remuneration of IBIS employees and human resources and industrial relations issues. Its focus is the appropriateness of any new or amended human resource policy, remuneration of IBIS staff, the performance and appropriate recognition of IBIS staff, and the training programs for staff and the termination and recruitment of staff. The SETC is also tasked with the review of the Employment and Training section of the IBIS Annual Strategy Action Plan.

Board Member Terms

Family Name	Given Name	Position Title	Appointment Start Date	Appointment End Date	Member Since
Gela	Fred	Deputy Chairperson	28-11-2013	27-11-2016	2009
Hannaford	Tom	Member	28-11-2013	27-11-2016	2013
Kane	Colin	Member	28-11-2013	27-11-2016	2013
Moar-Malone	Vonda	Member	28-11-2013	27-11-2016	2012
Pool	Jan	Member	28-11-2013	27-11-2016	2013
Rolfe	Ross	Chairperson	28-11-2013	21-05-2015	2013
Stephen	Napau	Member	28-11-2013	27-11-2016	2012
Stout	David	Member	28-11-2013	27-11-2016	2012
Tillett	Nigel	Chairperson	17-12-2015	16-12-2018	2015

Attendance at Meetings 2015-2016

Family Name	Given Name	Position Title	Board Meetings
			11
Gela	Fred	Deputy Chairperson	9
Hannaford	Tom	Member	9
Kane	Colin	Member	11
Moar-Malone	Vonda	Member	10
Pool	Jan	Member	11
Rolfe	Ross	Chairperson	4
Stephen	Napau	Member	11
Stout	David	Member	9
Tillett	Nigel	Chairperson	1

Note: Sub-Committees met informally with no resolutions or minutes requiring ratification by the full Board.

Payments to Board Members are as follows:

Family Name	Given Name	Position Title	Payments \$
Gela	Fred	Deputy Chairperson	0
Hannaford	Tom	Member	0
Kane	Colin	Member	0
Moar-Malone	Vonda	Member	3,739
Pool	Jan	Member	4,876
Rolfe	Ross	Chairperson	1,455
Stephen	Napau	Member	0
Stout	David	Member	2,865
Tillett	Nigel	Chairperson	291

Executive Management

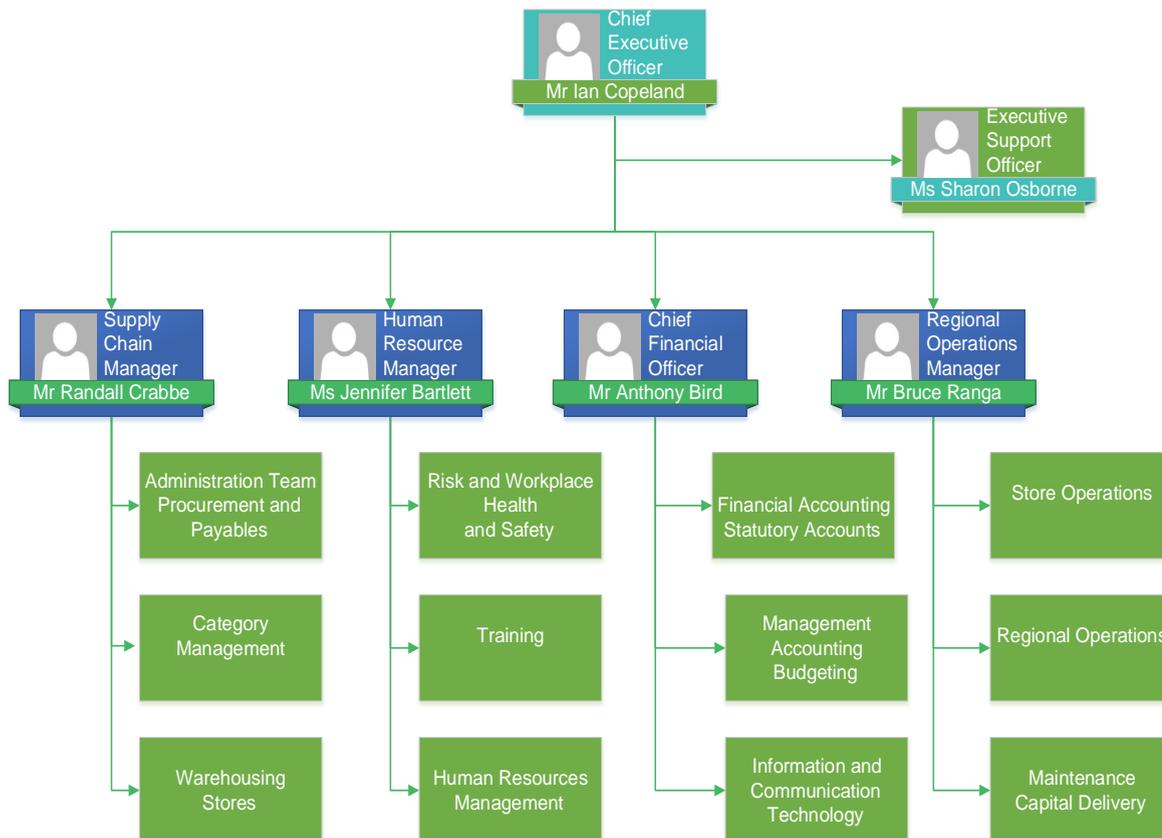
Ian Copeland is the Chief Executive Officer (CEO) and, has 35 years' experience in business development, strategic planning, sales and marketing including over 25 years' experience at senior executive level.

Other members of the Executive team are:

Executive Member	Experience
Mr Randal Crabbe	Supply Chain Manager with over 15 years of experience in retail stores
Ms Jennifer Bartlett	Human Resources Manager with over 20 years of experience in business management, staff development in an adult training area, and extensive experience working and living with Indigenous Australians.
Mr Bruce Ranga	Retail Operations Manager – over 20 years of experience in automotive, property, finance and shipping.
Mr Anthony Bird	Chief Financial Officer – experience in alternate financing arrangements, performance based reform of public sector agencies, pricing, rate of return and costing methodologies

Organisational Structure

The organisational structure of IBIS is shown below:



Compliance and Audit

During the year there has been an increased emphasis on compliance across the whole IBIS organisation. This started with the updating of the IBIS Financial Management Practice Manual. This document details changes to all of the complex Policies and Procedures that IBIS performs. It includes:

- IBIS Financial Management Practice Manual Control Document
- IBIS Human Resources Induction Manual
- IBIS Human Resources Corporate Manual
- IBIS Cultural Awareness Manual
- IBIS Business Plan 2011-2016
- IBIS Operations Manual (Retail Computer System Manual)
- IBIS Administration Manual (Computerised Administration Manual)
- IBIS Corporate Governance Manual

IBIS Food Safety Program was developed in 2008 to ensure that IBIS complies with the requirements of the *Safe Food Act 2006* and the Food Safety Standards of the Australia New Zealand Food Standards Code.

These updated documents have not only formalised and updated a large number of functions carried out by the organisation they have also improved the tools available for the staff in the stores.

IBIS for the 2015/16 Financial Year did not have a formalised Internal Audit Committee or Charter. Rather IBIS relies upon a system of internal control that is built upon continuous review of processes and reports to the Board. IBIS maintains an Internal Control system, incorporated into its Risk Management Framework to promote a proactive risk management culture. Internal controls are applied to risks identified in the framework to minimise the inherent risks of the activities to acceptable levels. Internal Control processes are reviewed by the Queensland Audit Office as part of its Interim and Final Audits of Statements.

In accordance with the provisions of the Auditor-General Act 2009 and the Financial Accountability Act 2009, the Queensland Audit Office is the external auditor for the IBIS. The Queensland Audit Office has the responsibility for providing Queensland's Parliament with assurances as to the adequacy of IBIS's discharge of its financial and administrative obligations.

ETHICAL BEHAVIOUR

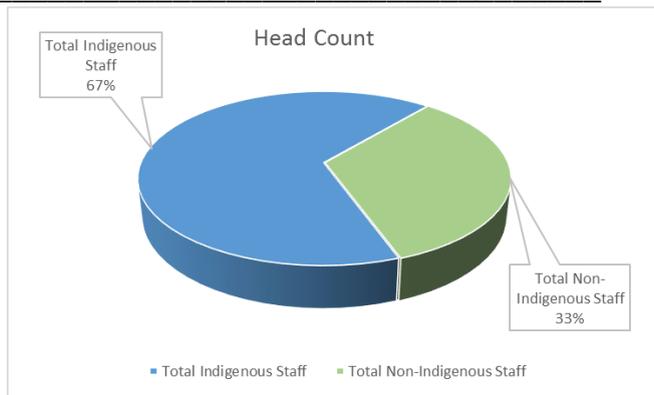
As a public sector entity, IBIS is required to have its code of conduct endorsed by the responsible authority described by the Act. Approval was sought on 14 July 2011 and endorsement was granted on 24 October 2011.

Existing staff are provided with training to understand the Public Sector Ethics Act and the IBIS code of conduct. New staff are provided with the IBIS Code of Conduct as part of the induction process and the Code of Conduct is made available to all staff on the IBIS intranet.

WORKFORCE PLANNING AND PROFILE

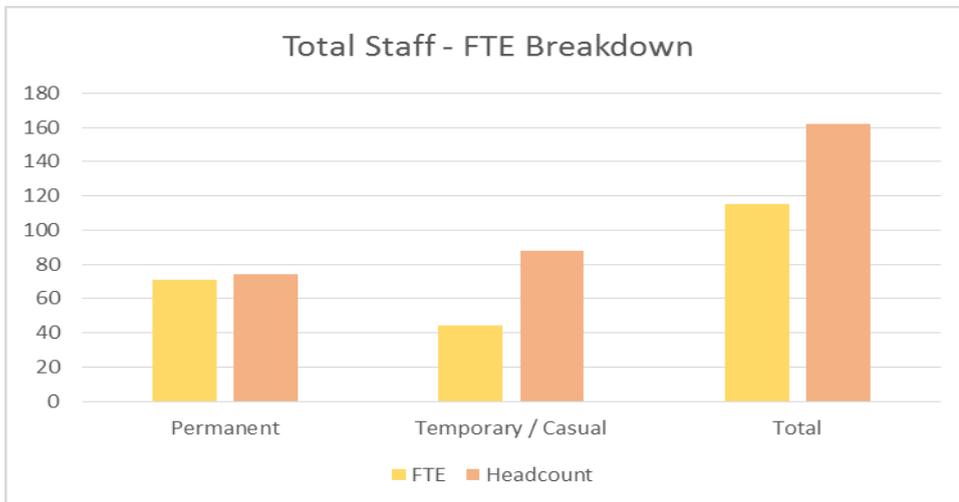
The Islanders Board of Industry and Service (IBIS) is a not for profit statutory body employing 162 staff that, from its inception in 1905 has grown to produce a footprint of 20 retail outlets including fuel and hardware, all of which are located in the northern most part of Australia.

The unique management model implemented in its retail operations at its stores has been in existence for more than 10 years. The uniqueness of this model lies not only in local community members managing the grocery outlets but also ensures 100% Indigenous staff comprise the staffing mix in 15 of its outlets.

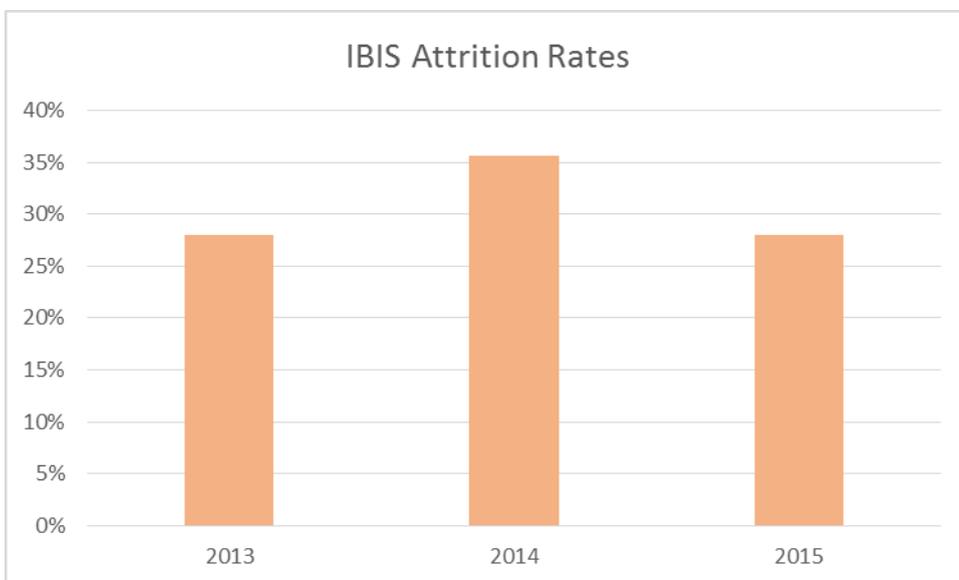


The IBIS model not only guarantees employment opportunities and a subsequent clearly defined career, it also provides a voice for Indigenous people regarding the operations of the business. IBIS provides clearly defined career paths for Indigenous people living in the remote northern part of this country through the acquisition of business acumen and the ability to role model standards and practices for future aspiring store managers.

IBIS has the following breakdown of full time equivalents (FTE) in its operations.



IBIS had a total 162 staff (Headcount) at the end of the financial year. Permanent FTE's totalled seventy-one (71) staff and casual and temporary employment was a combined FTE of forty-four (44) staff.



IBIS over a three year period has experienced an average attrition rate of 31%.

SUMMARY OF FINANCIAL PERFORMANCE

In accordance with the Financial Accountability Act 2009 and Financial and Performance Management Standard 2009, the following applies:

- The financial records of the statutory body has been properly maintained throughout the year ended 31 January 2015 in compliance with prescribed requirements; and
- The risk management and internal compliance and control systems of the statutory body relating to financial management have been operating efficiently, effectively and economically throughout the financial year.

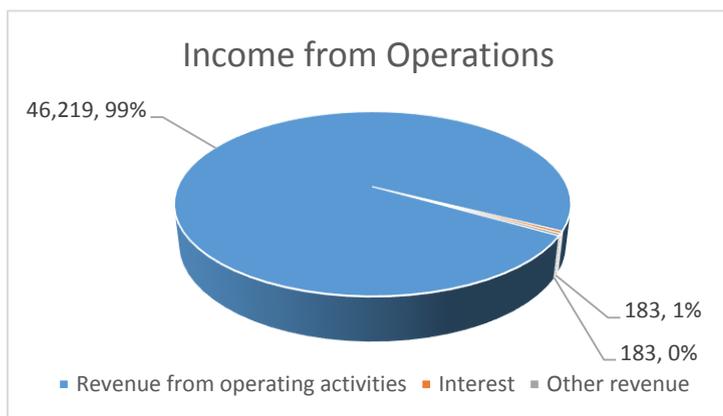
IBIS achieved a record year in terms of sales – this was \$46M. There were several key highlights for the business over the 2015/16 Financial Year. These highlights included:

- The acquisition of T.I. Hardware in October 2015;
- The introduction of a warehousing facility in Cairns;
- The purchase of a retail specific inventory management system (Worldsmart);
- Purchase of Point of Sale Hardware.

IBIS continued to supply goods and services at reduced margins. The gross profit margin achieved by IBIS for 2015/16 was 35%.

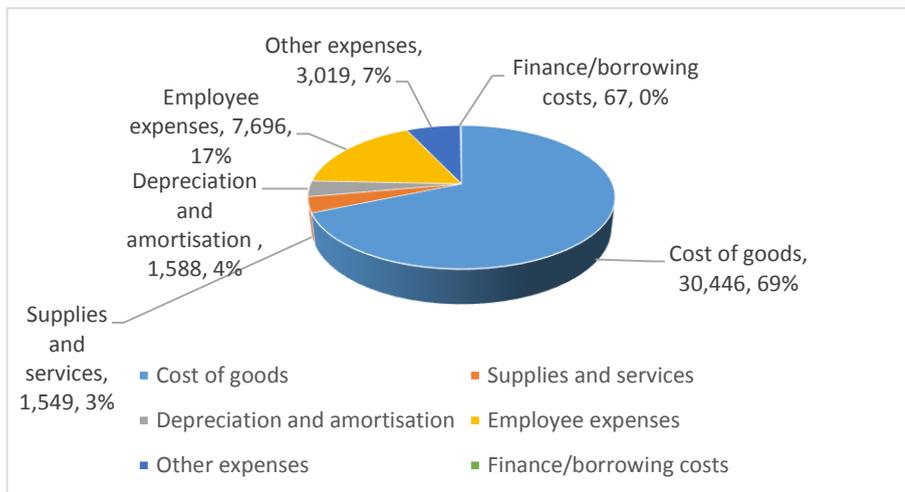
Key income, expense and balance sheet items are shown below:

Income



IBIS income was derived primarily from sales. Other revenue is Property Income and Interest is Interest received from investments with Queensland Treasury Corporation.

Expense

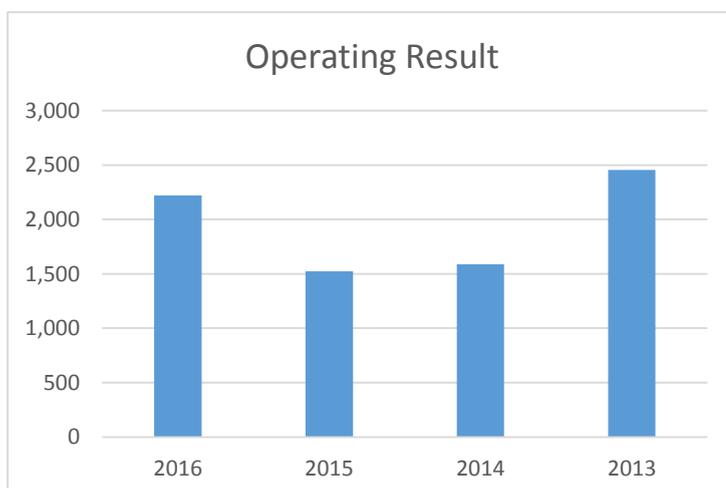


From the Statements, the bulk of IBIS costs are associated with Cost of Goods Sold. This is \$30.4M which includes freight associated with merchandise sales. The Gross Profit margin for 2015/16 was 35%.

The largest items in other expenses are (\$000):

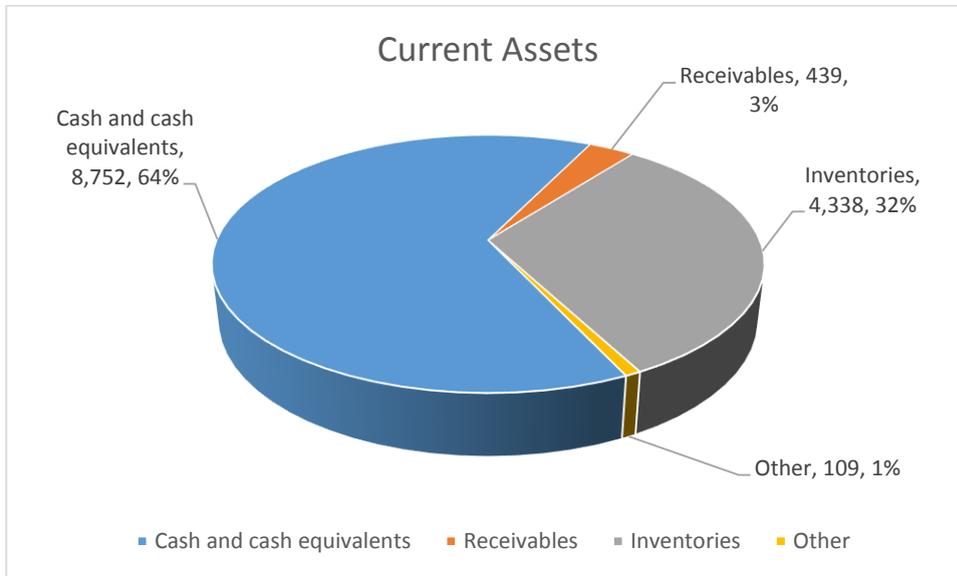
Electricity	884
Insurance	232
Rates	161
Rent	203
Repairs and maintenance	1,127

Operating Result

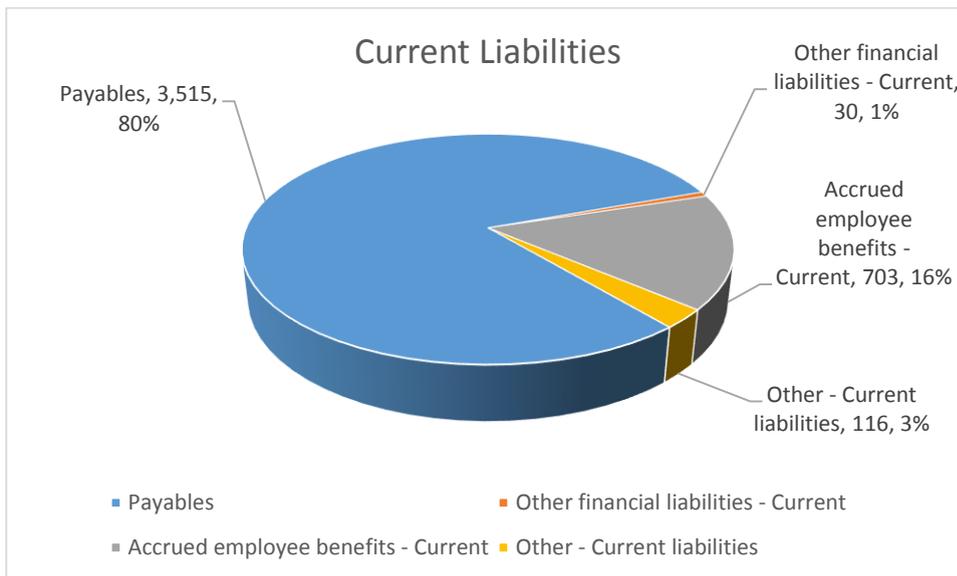


Over the last four years IBIS has had sustained small surpluses. For the 2016 Financial Year the surplus was \$2.2M.

From a Balance Sheet Perspective current assets are \$13.6M of which \$8.8M is cash.



IBIS at the end of financial year had current liabilities of \$4.4M of which \$3.5M was Accounts Payable.



Total non-current assets were \$30.9M of which \$30.2M was Property, Plant and Equipment. Total non-current liabilities were \$0.9M of which \$0.8M was a financial liability associated with Queensland Treasury Corporation.

Ratio Analysis

Ratio Analysis				
Ratio	Calculation	Information	Actual 2016	Actual 2015
Working Capital Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	This is an indicator of the management of working capital. Measures the extent to which IIB has liquid assets available to meet short term financial obligations. General rule is that this figure should be 2 or greater.	3.13	3.10
Operating Surplus Ratio	$\frac{\text{Net Operating Surplus}}{\text{Total Operating Revenue}}$	This is an indicator of the extent to which revenues raised cover operational expenses (including COGS) - Declining margins indicate a 'squeeze'.	5%	3%
Return on Asset	$\frac{\text{Net Income}}{\text{Average Total Assets}}$	This is an indicator of the extent to which IIB is using its assets to generate income. Commercial returns to reflect business risk would be higher - possibly in the order of 15-20%.	5%	4%
Interest Coverage Ratio	$\frac{\text{Net Interest Expense on Debt}}{\text{Total Operating Revenue}}$	This ratio indicates the extent to which IIB's operating revenues are committed to interest expense. Declining ratios indicate a lower reliance on debt finance.	0.14%	0.16%
Asset Sustainability Ratio	$\frac{\text{Capital Expenditure on Replacement Assets}}{\text{Depreciation Expense}}$	This is an approximation of the extent to which the infrastructure assets are being replaced as they reach the end of their useful lives. A ration of 100% would indicate that the capital stock is being replenished as it is being used e.g. depreciation.	55%	16%

IBIS continues to exhibit a strong balance sheet (low debt) coupled with stable returns. Commercial returns would be in the order of 15% to 20% - however, due to the community service obligation of IBIS, commercial returns are kept intentionally low due to targeted pricing of goods and services.

Capital Expenditure

Year	Capital Expenditure \$'000	Capital Maintenance \$'000
2004-05	378	228
2005-06	184	245
2006-07	147	514
2007-08	904	363
2008-09	604	387
2009-10	727	399
2010-11	4,719	555
2011-12	3,253	530
2012-13	3,750	522
2013-14	2,505	955
2014-15	264	777
2015-16	1,598	1,126

OTHER REPORTING REQUIREMENTS

Overseas Travel

There was no overseas travel undertaken by staff.

Consultants

During this financial year the following consultants were engaged to provide a range of services:

Provider	Nature of work	Amount
MacDonnells Solicitors	General legal advice	\$81,197
Herbert Smith Freehills	Employment issues	\$102,239
DLA Piper	Employment issues	\$17,852
HWL Ebsworth	Employment issues	\$49,423
Asset Advance	Property valuation	\$3,900
Williams Graham Carman	Property leases	\$2,983
Benchmarking.com.au Pty Ltd	Industry research	\$523
Peters Bosel	Employment issues	\$118

Information Systems and Record Keeping

As a Queensland Government agency, we meet the accountability requirements of the *Public Records Act 2002* including the General Retention and Disposal Schedule for Administrative Records (GRDS) and information standard 31: Retention and disposal of public records.

GLOSSARY

Frequently used Terms:

Short Form	Description
CEO	Chief Executive Officer
COAG	Council of Australian Governments
FARC	Finance, Audit and Risk Committee

Short Form	Description
IBIS	Trading name - Islanders Board of Industry and Service of the IIB
IIB	Island Industries Board
ILUA	Indigenous Land Use Agreement
F2015-16	Financial year ending 31 January 2016
FMPM	IBIS Financial Management Practice Manual
NPA	Northern Peninsula Area, Cape York
SETC	Safety, Employment and Training Committee

ANNEXURE 1 – ANNUAL FINANCIAL STATEMENTS