
8 Rail

Key points

- The performances of six rail government trading enterprises (GTEs) are presented in this report. Together they controlled assets valued at \$34.4 billion and generated \$8.4 billion of total income in 2006-07.
- Overall, the profit before tax of rail GTEs decreased by 52.4 per cent, in real terms, to \$292 million in 2006-07, most of which was attributable to the Australian Rail Track Corporation. Three GTEs recorded a loss before tax.
- Return on assets decreased from 3.1 per cent to 2.1 per cent in 2006-07. Of the six monitored GTEs, five earned less than the risk-free rate of return.
- Debt to assets for the sector decreased from 18.5 per cent to 17.5 per cent in 2006-07. Three rail GTEs operated without debt.
- One rail GTE made a dividend payment to its owner-government in 2006-07 — Queensland Rail (\$151 million). The sector recorded an income tax-equivalent expense of \$47.1 million in 2006-07.
- Three rail GTEs received community service obligation (CSO) funding totalling \$2.6 billion. CSO payments amounted to 30.5 per cent of sector income.

The financial performances of six rail government trading enterprises (GTEs) are reported in this chapter. Together they controlled \$34.4 billion in assets and generated around \$8.4 billion in total income in 2006-07.

Financial performance summaries, including performance indicators for each rail GTE monitored over the period 2004-05 to 2006-07 are presented after this introduction. Their financial performances are examined using the financial indicators defined in chapter 1.

There are some differences between measured performance for 2004-05 and 2005-06 in this and earlier reports because of changes in accounting standards, data sources and indicators (chapter 1). Further, the set of monitored GTEs can change over time because of restructuring and privatisation. Consequently, care should be exercised in making performance comparisons over longer time periods than that covered in this report.

In making comparisons between GTEs, consideration should be given to: differences in the nature and scale of the businesses; their individual market environments; a number of issues relating to the valuation of their assets; and the level of payments for community service obligations (CSOs).

8.1 Monitored GTEs

The activities of the six monitored rail GTEs are shown in table 8.1. Queensland Rail (QR) is vertically integrated, providing all the activities involved in managing a rail network and operating rail freight and passenger services. The other five engage in fewer activities.

A restructure of the NSW rail network began in 2003. On 1 January 2004, the metropolitan functions of the Rail Infrastructure Corporation (RIC) were transferred to Rail Corporation New South Wales (RailCorp). RailCorp now operates urban and regional rail passenger transport services and is responsible for managing rail infrastructure.

The NSW Interstate and Hunter Valley Networks were leased to the Australian Rail Track Corporation (ARTC) for 60 years, effective from 4 September 2004. In addition, ARTC entered into a management agreement with RIC to operate NSW's Country Regional Network (CRN). RIC's main function is now to manage these agreements, as well as others relating to funding and labour services.

V/Line Passenger Corporation (VLPC) is Victoria's regional public transport provider. VLPC also assumed responsibility for the regional rail network on 4 May 2007, after the Victorian Government bought it back from Pacific National.

Table 8.1 **Activities — rail GTEs, 2006-07**

Rail GTE	Jurisdiction	Activities			
		Track	Freight transport	Urban passenger transport	Regional passenger transport
Rail Infrastructure Corporation	NSW	x ^a	x	x	x
Rail Corporation	NSW	✓	x	✓	✓
V/Line Passenger Corporation	Victoria	x	x	x	✓
VicTrack	Victoria	✓	x	x	x
Queensland Rail	Queensland	✓	✓	✓	✓
Australian Rail Track Corporation	Aust Gov	✓	x	x	x

^a Rail Infrastructure Corporation owns track assets in New South Wales but does not operate or maintain them.

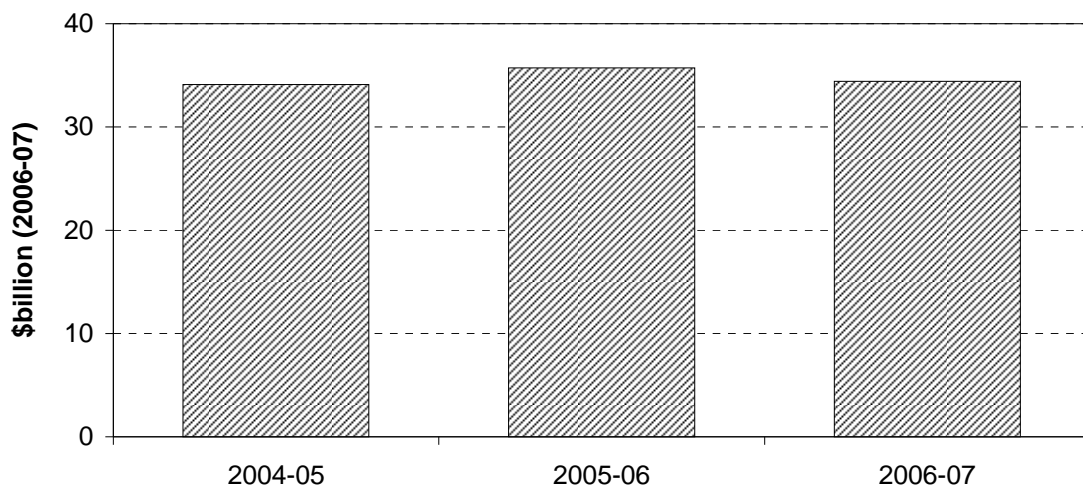
VLPC created a business unit in 2006-07 — Regional Network and Access (RNA) — to manage access arrangements with freight operators. VicTrack owns the majority of Victoria’s rail land and infrastructure, including track. It leases most of these assets to the Director of Public Transport who then sub-leases them to other transport operators and track access providers, including VLPC.

The Australian Rail Track Corporation manages track from Perth to Brisbane and provides rail access across the interstate network. ARTC is also the infrastructure manager for CRN, although the network remains under RIC ownership.

This report includes VicTrack for the first time. All of the other rail GTEs monitored in this chapter were included in the rail sector of previous reports in the series. Sector comparisons include all monitored rail GTEs as they all operated for the whole of each financial year in the period 2004-05 to 2006-07.

In real terms, total sector assets decreased by 3.7 per cent to \$34.4 billion in 2006-07 (figure 8.1). Increased investment in infrastructure caused total assets to increase in nominal terms for three rail GTEs in 2006-07 — RailCorp (by \$766 million), VicTrack (by \$336 million) and QR (by \$697 million). In the case of QR, capital investment was focused on passenger infrastructure and rolling stock for South East Queensland. In contrast, the total assets of the other three rail GTEs decreased in nominal terms — RIC (by \$38.4 million), VLPC (by \$2.2 million) and ARTC (by \$175 million).

Figure 8.1 **Sector assets — rail GTEs^a**



^a The value of sector assets is reported in 2006-07 dollars using the ABS implicit price deflator — gross fixed capital formation of public corporations (chapter 1).

Source: Productivity Commission estimates.

The size of monitored rail GTEs varies substantially in terms of the value of their assets and total income (figure 8.2). RailCorp and QR, the largest rail GTEs, together account for 67.7 per cent of sector assets and 72.9 per cent of sector income.

8.2 Market environment

The financial performances of rail GTEs are affected by the market environment in which they operate.

Service demand

Rail GTEs provide freight services (or network access for freight) as well as passenger services. The demand for freight services is determined by the output of commodities such as coal and grain, as well as the level of competition from road transport. Passenger service demand is determined by prices and the level of service.

Freight

Queensland Rail is the only rail GTE to operate a freight business.¹ However, all rail GTEs (except VicTrack) receive access revenue related to freight services provided by other businesses.²

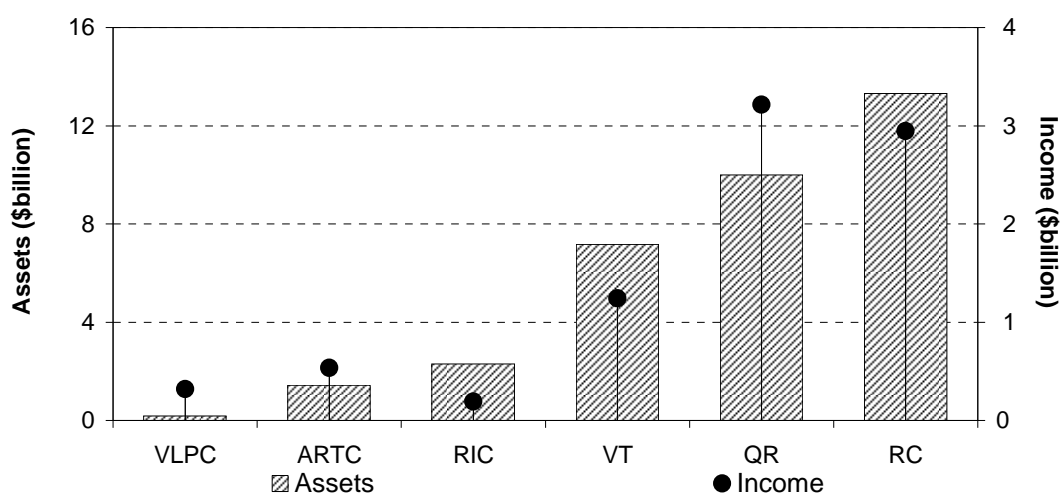
Rail freight transport has been partly displaced in many of its traditional markets by road transport. For example, rail's share of the non-bulk freight market on short- and medium-distance routes decreased between 1971-72 and 2005-06 (BITRE 2008). The largest decline was on the Victoria–South Australia route where rail's share fell from 55 per cent to 18 per cent, mostly lost to road.

Over the same period, rail increased its share of medium- to long-distance markets such as New South Wales–Western Australia (from 34 per cent to 53 per cent), Victoria–Western Australia (from 42 per cent to 68 per cent) and Queensland–Western Australia (from 12 per cent to 47 per cent). Further, rail maintained a dominant role in the transport of bulk commodities, such as coal, grain and iron ore over long distances, for which it is well suited.

¹ Four sectors comprise QR's freight business — coal, bulk, intermodal and regional. QR expects the general freight market to double over the next 10–15 years (QR 2007).

² Access revenue accrues to the infrastructure manager from train operators that access the rail network.

Figure 8.2 Assets and total income — rail GTEs, 2006-07



Source: Productivity Commission estimates.

Rail Infrastructure Corporation attributes increased access revenues to coal haulage. ARTC also reported increased coal haulage in the Hunter Valley, with a monthly record set in January 2007 for export coal carried to the Port of Newcastle. QR's coal freight business increased tonnage hauled by almost 9 per cent in 2006-07 (QR 2007).

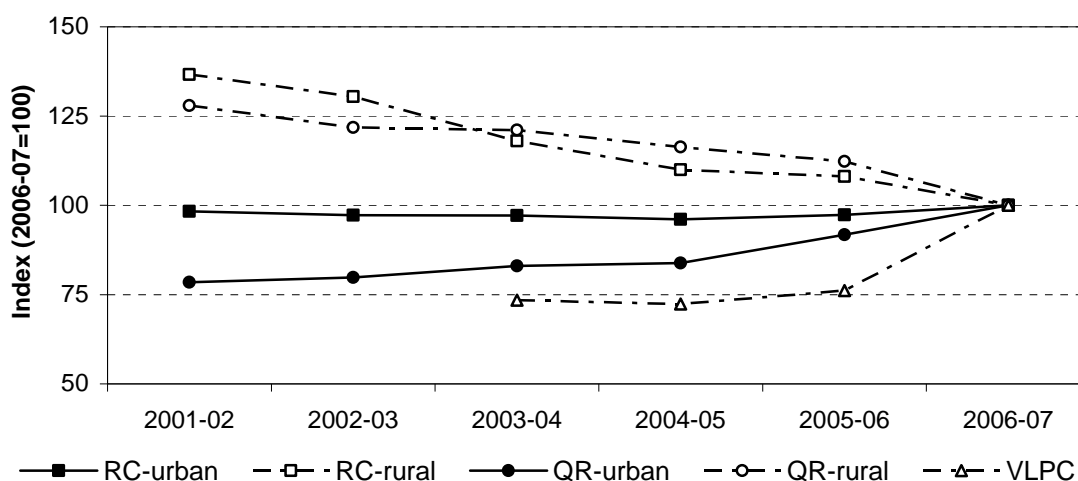
Reduced grain traffic was cited by ARTC as causing lower than expected freight haulage across its networks. Further, drought conditions across much of New South Wales reduced grain tonnage. In Victoria, a number of freight lines were unused for several weeks as the grain harvest had been reduced by the drought (VicTrack 2007).

Passenger services

Overall, the demand for urban passenger transport services has increased, whereas demand for rural passenger services has declined (figure 8.3). For example, demand for QR's urban services increased each year from 2001-02, while demand for its rural services has steadily declined. Although RailCorp experienced stable passenger numbers in urban services over the past six years, its rural passenger patronage fell by over 26.8 per cent.

The only rail GTE to report positive growth in rural passenger numbers was VLPC, with a 23.8 per cent increase in 2006-07. According to VLPC, this was largely attributable to the introduction of a new timetable and reduced fares. In September

Figure 8.3 Passenger trends — selected rail GTEs^{a,b,c}



^a RailCorp-urban data refers to passenger trips on CityRail and RailCorp-rural data refers to trips on CountryLink. CityRail and CountryLink were part of the State Rail Authority NSW (StateRail) until 2003-04 when StateRail was subsumed into RailCorp. Data for CityRail and CountryLink for 2001-02 to 2005-06 were obtained from Rail Corporation's 2005-06 annual report. ^b QR-urban data refers to passenger trips on Queensland Rail's (QR's) Citytrain services. QR-rural data refers to passenger trips on Traveltrain services. For 2004-05, QR-urban trips were conservatively estimated because of the introduction of a new ticketing system. ^c V/Line Passenger Corporation data refers to rural rail passenger trips only.

Sources: GTE annual reports.

and October 2006, the new timetable increased rail services into major regional centres by 40 per cent (VLPC 2007). The Victorian Government reduced fares by an average of 20 per cent from 4 March 2007.

Structural reform

Reforms within the rail sector have been aimed at improving performance by exposing operators to stronger financial disciplines and competitive pressures. Changes included the vertical and horizontal separation of rail GTEs.

A feature of structural reform in some jurisdictions has been the separation and sale to the private sector of rail freight operations. In New South Wales, the Freight Rail Corporation, together with the government-owned National Rail Corporation (NRC), was sold to the private sector in January 2002.³ In contrast, the Victorian rural passenger rail provider — V/Line Passenger Pty Ltd — was purchased from the private sector in 2003 and now operates as a GTE.⁴ Further, following a

³ The Australian, NSW and Victorian Governments were co-owners of NRC.

⁴ The National Express Group Australia (V/Line Passenger) Pty Ltd was acquired by VLPC from the National Rail Group on 1 October 2003 for the token payment of \$1 (VLPC 2005).

buyback from the private sector, VLPC assumed responsibility for Victoria's regional rail network in 2007.

Structural reforms that change the scope of a GTE's activities complicate the assessment of performance over time. Changes to the asset base, liability structure and revenue stream, together with redundancy payments that accompany such reforms, affect the financial indicators presented.

Access regimes

Access regimes were established to encourage competition in the market for rail service provision by stipulating the methods by which a third party can gain access to rail track (box 8.1).

The interstate rail network in New South Wales, Victoria, South Australia and Western Australia is managed by ARTC. ARTC has a registered undertaking with the Australian Competition and Consumer Commission (ACCC) with respect to the terms and conditions by which it provides access to the network. ARTC submitted a

Box 8.1 Access regimes

Access regimes are covered by Part IIIA of the *Trade Practices Act 1974*. The Act provides for access by:

- using an existing, certified state-based access regime
- seeking access under the terms and conditions specified in a voluntary undertaking approved by the Australian Competition and Consumer Commission (ACCC) or
- having a service declared, which establishes the right of a party to negotiate access with the service provider.

Declaration also provides access seekers with the right to binding arbitration by the ACCC (NCC 2002). Amendments contained in the *Trade Practices (National Access Regime) Act 2006* came into force on 1 October 2006. It enacted most of the recommendations made in the Productivity Commission's 2001 inquiry report, *Review of the National Access Regime*.

An application for a declaration is made to the National Competition Council (NCC). This initiates a process of negotiation and, if required, compulsory arbitration in order to settle disputes between operators and track managers. However, if the state-based access regime has been certified by the NCC, or if a private undertaking has been accepted by the ACCC, access seekers are unable to use the declaration process.

Sources: NCC (2002); PC (2001).

new access undertaking for ACCC approval on 8 June 2007, which for the first time includes arrangements for the interstate network in New South Wales.⁵

The NSW Rail Access Undertaking (established under Schedule 6AA of the *Transport Administration Act 1988*) controls access negotiations in New South Wales, excluding the interstate network. The undertaking sets a floor and ceiling test for revenue from access seekers. Revenue must at least exceed the direct costs of usage, including a 'levellised charge for variable major periodic maintenance'.⁶

Access arrangements for VLPC and VicTrack must be approved by the Essential Services Commission.

The QR Network Access Unit is responsible for negotiating access with third-party operators and the development of network access provisions in Queensland. QR has an Access Undertaking which provides a framework for managing negotiations with access seekers. The Queensland Competition Authority (QCA) approved the *Access Undertaking 2005* on 30 June 2006. The Access Undertaking allows for negotiations with individual operators in some circumstances. However, for sections of the network that attract more competition there is a 'reference tariff', which is a set price for a nominated haul (QR 2008).

Pricing

Passenger charges are either set, or subject to oversight, by external bodies. Maximum charges for RailCorp's CityRail services are regulated by the NSW Independent Pricing and Regulatory Tribunal (IPART). Charges for CountryLink services are determined by the Minister for Transport after a recommendation from RailCorp's Board.

Charges for QR's urban transport services are determined by Translink, a business unit within Queensland Transport. QR determines its own rural passenger charges but these are subject to ministerial oversight.

In Victoria, the Minister for Public Transport determines charges for VLPC's transport services based on recommendations from the relevant Government

⁵ The new access undertaking was subsequently withdrawn and a revised access undertaking was submitted on 20 December 2007. The ACCC released a draft decision on the revised access undertaking on 29 April 2008 and a final decision is expected in July 2008.

⁶ A levellised major periodic maintenance charge is an annual smoothed amount based on the anticipated long-term average of major periodic maintenance expenditure.

department. These charges are subject to contractual obligations with the service provider.⁷

Rail access charges are typically set by negotiation between the track owners and rail operators, or under the relevant access regime. Arrangements are in place to settle disputes through arbitration.⁸

8.3 Profitability

Profitability indicators provide information on how GTEs are using the assets vested in them by shareholder governments to generate earnings.

The GTEs included in the rail sector recorded an aggregated profit before tax of \$292 million in 2006-07, a 52.4 per cent decrease in real terms from 2005-06. The decrease was largely due to losses before tax recorded by ARTC and RIC of \$262 million and \$105 million respectively. Both had recorded a profit before tax in 2005-06. However, three of the six rail GTEs recorded a profit in 2006-07 — RailCorp, VicTrack and QR.

The only rail GTE to record a loss in both 2005-06 and 2006-07 was VLPC. It recorded a loss of \$23.4 million in 2006-07, over five-fold the loss in real terms of the previous financial year. Under the Financial Reporting Directions of the Minister for Finance (FRD – 108) the VLPC was designated to report as a ‘not for profit’ entity:

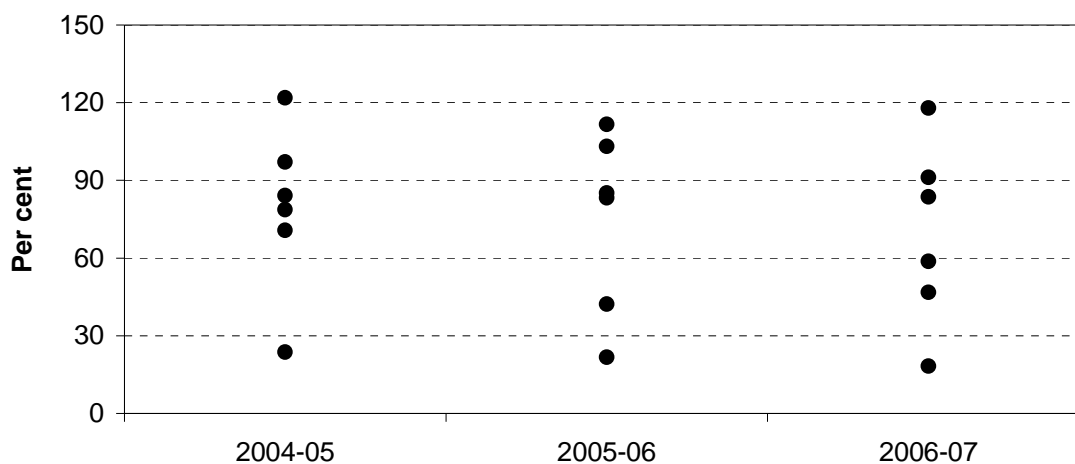
... since the primary obligation of the company is the delivery of subsidised public transportation services to regional Victoria. ... Neither the mission nor corporate strategy of the company reflects achieving profit. As such, the entity has been deemed to have a not-for-profit status. (VLPC 2007, p. 56)

Most rail GTEs did not fully recover their operating costs, with QR the only rail GTE to record a cost recovery ratio over 100 per cent in 2006-07 (figure 8.4). The sector’s cost recovery ratio remained relatively stable at 90.7 per cent in 2006-07, below the level necessary to fully meet operating expenses from self-generated operating revenue. However, there was considerable variation among individual rail GTEs. Four GTEs recorded increases in their cost recovery ratios, and two recorded

⁷ On 30 April 2008, the Department of Infrastructure became the Department of Transport.

⁸ In New South Wales, IPART may arbitrate access disputes. Access to the ARTC’s network could be arbitrated by a nominated party or by the ACCC. In Queensland, a nominated party may act as arbitrator or, if no agreement is reached between the track owners and rail operators, QCA is the default arbitrator.

Figure 8.4 Cost recovery — rail GTEs^a



^a Each data point represents the cost recovery ratio for a government trading enterprise in that financial year. Cost recovery is the ratio of revenue from operations to expenses from operations (chapter 1).

Source: Productivity Commission estimates.

decreases, including ARTC whose cost recovery ratio declined 44.4 percentage points to 58.7 per cent in 2006-07.

The rail sector's return on assets was 2.1 per cent in 2006-07, down from 3.1 per cent in 2005-06 and well below the risk-free benchmark rate.⁹ Across the sector the return on assets varied from -17.6 per cent to 6.2 per cent (figure 8.5). Overall, returns were well below those that would be required by private operators, indicating that most rail GTEs are not operating on a commercially sustainable basis.

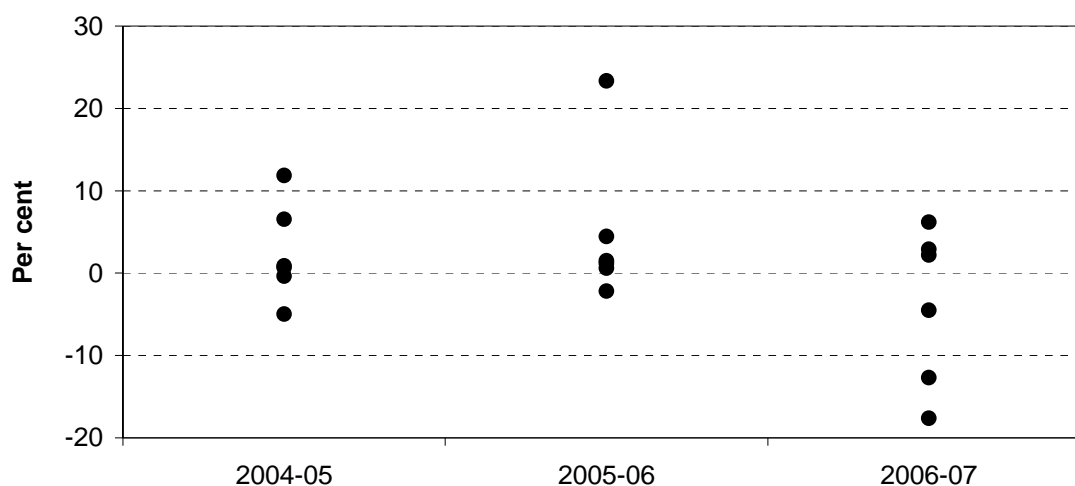
Queensland Rail was the only rail GTE to report a return on assets (6.2 per cent) above the risk-free rate. Three rail GTEs recorded negative returns on assets in 2006-07 — RIC (-4.5 per cent), VLPC (-12.7 per cent) and ARTC (-17.6 per cent).

This suggests that the operations of rail GTEs might not be commercially sustainable under current levels of performance. This could lead to the sector's assets being run down over time or to a reduction in the quality of service provision (chapter 4).

Governments might not require a commercial rate of return from rail GTEs because passenger transport and an integrated freight network provide external benefits not captured on the balance sheet. These include reductions in road user cost,

⁹ The risk-free rate of return is defined as the 2006-07 interest rate on 10-year Australian Government bonds (5.8 per cent) (RBA 2008).

Figure 8.5 Return on assets — rail GTEs^a



^a Each data point represents return on assets for a government trading enterprise in that financial year. Return on assets is the ratio of earnings before interest and tax to average operating assets (Chapter 1). Average operating assets is the average of the value of operating assets at the beginning and end of each financial year. Where an average could not be calculated, the value of operating assets at the end of the financial year was used.

Source: Productivity Commission estimates.

environmental benefits and rural access to rail transport. Alternatively, governments could consider that there is scope for further efficiency gains within the GTEs and set prices to reflect the efficient cost of service provision. In which case, low returns would be indicative of inefficient operations.

Return on total equity for the sector was -3.2 per cent in 2006-07, down from -3.1 per cent in 2005-06. The change in return on equity for four of the rail GTEs mirrored the change in their return on assets. The exceptions were RIC and VicTrack.

Unlike return on equity, the return on assets indicator is calculated using a measure of earnings which includes grants. RIC received government grants totalling \$59.5 million in 2006-07, compared with \$271 million in 2005-06. Thus, the decline in grant revenue between 2005-06 and 2006-07 caused RIC's return on assets to fall (despite a rise in return on total equity). Grants increased for VicTrack in 2006-07, causing its return on assets to rise (despite a fall in return on total equity).

8.4 Financial management

Financial management indicators provide information about the capital structure of a GTE and whether the costs of servicing debt and other liabilities can be met in a

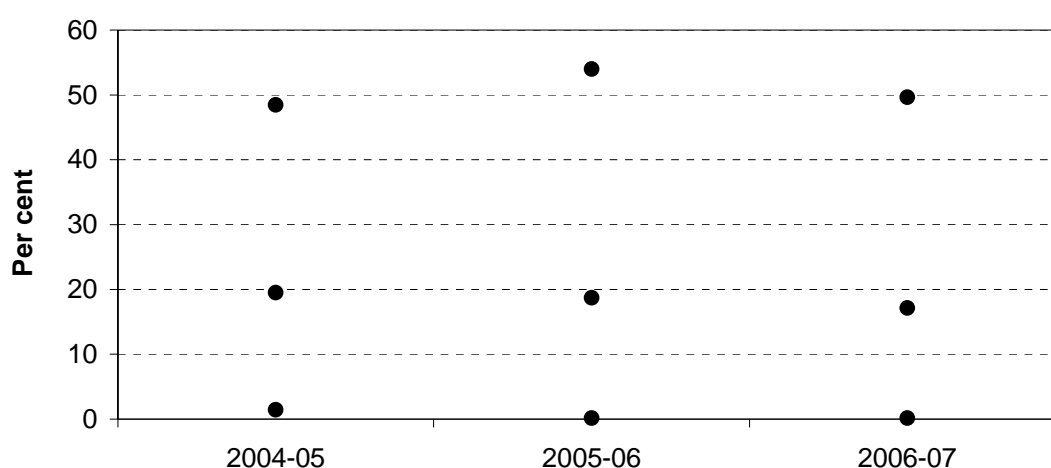
timely manner. Over the past three years, debt to assets for rail GTEs has been influenced by the acquisition and retirement of debt, and through changes in the total value of assets.

Three of the six rail GTEs operated with debt in 2006-07. However, they all reduced their debt from 2005-06 levels (figure 8.6). RailCorp carried debt for the first time in 2005-06. VLPC and ARTC have recorded no debt for the past three years, and RIC retired all debt by the end of 2005-06.

Sound financial management dictates that profits should be sufficient to ensure interest payments can be met. A high interest cover ratio indicates that a GTE can sustain a fall in profit or increased interest expense and still meet the cost of servicing debt. The level of interest cover for the three rail GTEs carrying debt differed considerably. RailCorp's earnings before interest and tax covered interest 103 times, VicTrack's covered interest 1.5 times and QR's covered interest 1.9 times in 2006-07.

A current ratio of less than 100 per cent indicates the short-term obligations of the GTE might have to be met using sources of funds other than current assets. ARTC recorded a current ratio of 475 per cent in 2006-07, and is the only GTE with a ratio above 100 per cent. VLPC has the lowest current ratio of the rail GTEs, at 21.8 per cent. This suggests their commitments might not be readily met if and when they fall due.

Figure 8.6 Debt to operating assets — rail GTEs^a



^a Each data point represents debt to operating assets for a government trading enterprise in that financial year. Debt is defined to include all interest bearing liabilities (chapter 1).

Source: Productivity Commission estimates.

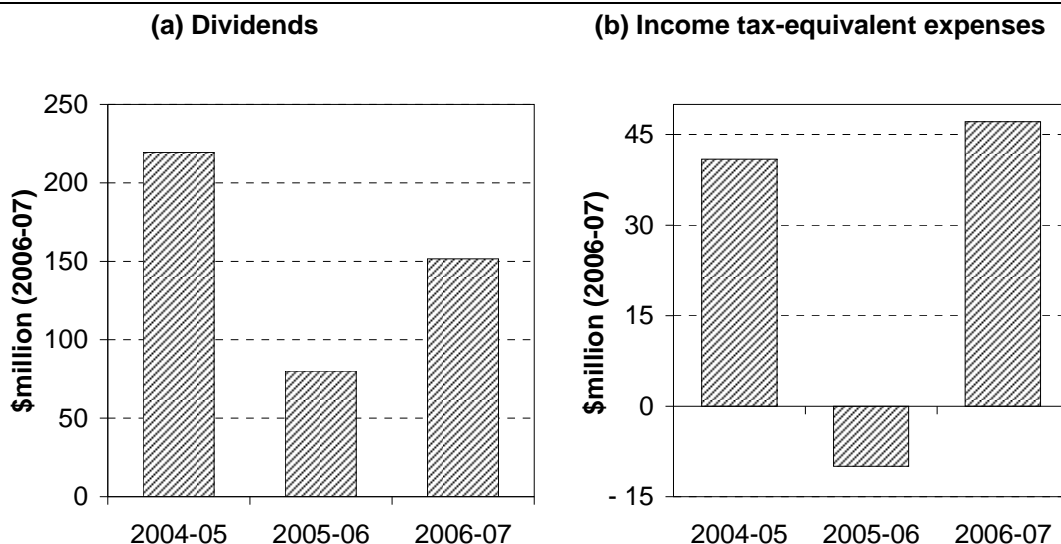
All rail GTEs (with the exception of RailCorp) experienced a decline in their current ratios to 2006-07. VicTrack recorded a current ratio of 230 per cent in 2004-05. It decreased to 83.5 per cent in 2005-06 and again to 63.6 per cent in 2006-07. However, RailCorp's current ratio was essentially stable at 66.4 per cent in 2006-07.

8.5 Transactions with government

As a part of the reform process, governments have sought to give GTEs a greater commercial focus, facilitate competitive neutrality and expose them to financial disciplines and regulations similar to those faced by privately-owned businesses. Dividends and income tax-equivalent expenses over the past three years are shown in figure 8.7.

Dividend payments from GTEs are a return on shareholder funds that impose capital disciplines and are consistent with competitive neutrality. VicTrack and QR were the only rail GTEs to declare dividends in the past three years. VicTrack paid dividends of \$5.5 million and \$5.4 million in real terms in 2004-05 and 2005-06 respectively, but no determination was received from the Victorian Treasury to pay or provide for dividends in 2006-07. QR provided for a dividend of \$151 million for 2006-07, an increase of 103 per cent in real terms from 2005-06 because of higher profit.

Figure 8.7 Dividends and income tax-equivalent expenses — rail GTEs^a



^a The value of dividends and income tax-equivalent expenses are reported in 2006-07 dollars using the ABS implicit price deflator — gross fixed capital formation of public corporations (chapter 1).

Source: Productivity Commission estimates.

Two rail GTEs recorded an income tax-equivalent expense in the past three years. VicTrack's and QR's income tax-equivalent expenses increased by 519 per cent and 861 per cent respectively in real terms in 2006-07, because of higher profits.

Total income tax-equivalent expense in the sector for 2005-06 was negative as ARTC recorded an income tax-equivalent benefit that outweighed the expenses incurred by VicTrack and QR. ARTC recorded income tax-equivalent benefits for the past three financial years — increasing by 138 per cent in real terms to \$50.3 million in 2006-07.¹⁰

RailCorp and RIC were given exemptions from making income tax-equivalent payments by the NSW Treasury. VLPC management considers it unlikely that future profits will offset its substantial past losses. Consequently, tax benefits are not brought to account in VLPC's financial statements.

Governments have moved towards identifying, costing and explicitly funding CSOs provided by rail GTEs. Three of the monitored rail GTEs — QR, RailCorp and RIC, received CSO funding in 2006-07. Overall, CSO funding to the rail sector was \$2.6 billion in 2006-07, accounting for 30.5 per cent of total income. This was an \$111 million (4.5 per cent) increase in real terms from 2005-06.

Community service obligation funding forms the main source of revenue for some rail GTEs. For example, CSO funding received by RIC to meet the cost of maintaining non-commercial rail lines accounted for 67.9 per cent of its income in 2006-07.¹¹ RailCorp received CSO payments of \$1.5 billion in 2006-07, for the provision of concessions and services not covered by passenger revenue. These payments represented 50.3 per cent of RailCorp's income in 2006-07 (figure 8.8).

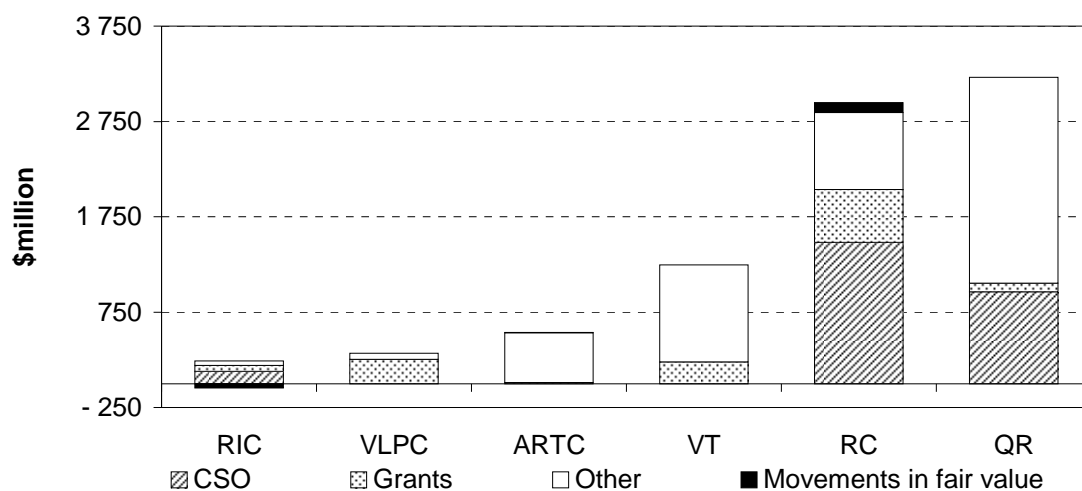
Government grants also form a significant portion of income in the rail sector. Three of the six monitored rail GTEs received over 65 per cent of their total income in 2006-07 from a combination of CSO payments and government grants. VLPC does not receive CSO funding. However, it received Victorian Government grants totalling \$256 million in 2006-07, accounting for 80.2 per cent of revenue. This included \$221 million for the provision of public transport services to rural and regional areas, and project reimbursement. It also included \$6.0 million in capital transfers and \$28.9 million in VLocity trains provided free of charge to VLPC.

¹⁰ The income tax-equivalent benefits received by ARTC represent increases in deferred tax assets.

¹¹ Community service obligation payments represented 55.0 per cent of RIC's income when revenue from movements in fair value and actuarial gains was excluded.

Although a fairly stable level of government grants was received over the three years between 2004-05 and 2006-07, the level of grants varied for some GTEs because of one-off funding agreements. For example, ARTC received special government grants to improve Australia's rail network of \$100 million and \$270 million in 2004-05 and 2005-06 respectively. RIC received a \$90.0 million grant for debt reduction and working capital in 2005-06. RIC also received a government contribution of \$59.5 million in 2006-07 (down from \$181 million in 2005-06) for redundancy and transition funding following the restructure of the NSW rail network.

Figure 8.8 **Income sources — rail GTEs, 2006-07**



Source: Productivity Commission estimates.

RAIL

Table 8.2 Whole of sector performance indicators 2004-05 to 2006-07^a

Indicators	Units	Pre-AIFRS ^{b,c}			AIFRS ^b
		2004-05	2004-05	2005-06	2006-07
<i>Size</i>					
Total assets	\$m	30 837	30 789	32 827	34 410
Total income	\$m	6 940	6 913	7 805	8 449
<i>Profitability</i>					
Profit before tax	\$'000	342 151	311 664	563 635	291 957
Operating profit margin	%	-9.9	-7.7	-11.7	-10.2
Cost recovery	%	91.0	92.8	89.5	90.7
Return on assets	%	2.2	2.2	3.1	2.1
Return on total equity	%	-2.7	-2.2	-3.1	-3.2
Return on operating equity ^d	%	-2.7	-2.1	-3.0	-3.1
<i>Financial management</i>					
Debt to equity	%	20.6	22.4	24.1	23.0
Debt to assets	%	15.9	16.9	18.5	17.5
Total liabilities to equity	%	34.1	38.1	39.9	40.2
Operating liabilities to equity ^e	%	30.0	32.4	34.6	34.7
Interest cover	times	2.0	1.9	2.4	1.7
Current ratio	%	124.4	114.9	110.2	90.2
Leverage ratio	%	130.0	132.4	134.6	134.7
<i>Payments to and from government</i>					
Dividends	\$'000	198 100	198 100	73 530	151 493
Dividend to equity ratio	%	0.8	0.9	0.3	0.6
Dividend payout ratio	%
Income tax expense	\$'000	60 238	36 950	-9 131	47 128
Grants revenue ratio	%	15.8	13.9	18.7	14.3
CSO funding	\$m	2 028	2 203	2 265	2 575

^a Figures are nominal values. ^b Rail GTEs commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for rail GTEs. ^c Victorian Rail Track (VicTrack) was included for the first time in this report. For all other monitored rail GTEs, data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. ^d Refers to 'return on equity based on operating assets and liabilities'. ^e Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable.