



Performance of Government Trading Enterprises, 1991-92 to 1996-97

Performance
Monitoring



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FOREWORD

This report is the last in a series initiated by the Steering Committee on National Performance Monitoring of Government Trading Enterprises.

Heads of Governments agreed that the Steering Committee, having achieved its objective of acting as a catalyst for reform, be disbanded and that the Productivity Commission assume responsibility for future performance monitoring.

In this volume, the Commission has marked the completion of the work of the Steering Committee by analysing the outcomes of GTE reform over the period 1991–92 to 1996–97, for the main stakeholders — consumers, shareholder governments, employees and the community generally.

What seems clear, on the basis of the data collected by the Steering Committee, is that outcomes have generally improved significantly over the period. Nevertheless, performance has varied among jurisdictions, industry sectors and GTEs. There are a number of areas where performance could be improved further.

The data and the indicators used in this report, constitute a valuable resource for policy makers and administrators. The Commission plans to continue data collection and monitoring as one stream within its research program. Accordingly, we welcome feedback on this report, including our preliminary views on future directions for performance reporting and related research.

I would like to thank those officials who participated so effectively as Steering Committee members over the life of the project. I would particularly like to acknowledge the contribution of all those in the participating GTEs, without whose help and co-operation this and the preceding reports would not have been possible.

Gary Banks
Chairman

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ABBREVIATIONS

ACA	Australian Communications Authority
ACCC	Australian Competition and Consumer Commission
ACSC	Australian Coastal Shipping Commission
ACTEW	Australian Capital Territory Electricity and Water
AMSA	Australian Maritime Safety Authority
ANL	Australian National Line
AOTC	Australian and Overseas Telecommunications Corporation
ATM	Air Traffic Management
AWT	Australian Water Technologies
CAA	Civil Aviation Authority
CAPELEC	Capricornia Electricity Board
CAPM	Capital Asset Pricing Model
CASA	Civil Aviation Safety Authority
COAG	Council of Australian Governments
CPA	Competition Principles Agreement
CPI	Consumer Price Index
CSG	Customer Service Guarantee
CSO	Community service obligation
DASR	Directorate of Air Safety Regulation
DPA	Darwin Port Authority
EBA	Enterprise Bargaining Agreement
EIP	Environmental Improvement Plans
ETSA	Electricity Trust of South Australia
EWSD	Engineering and Water Supply Department
FAC	Federal Airports Corporation
FreightCorp	Freight Rail Corporation

GBD	Government Business Division
GBE	Government Business Enterprise
GDP	Gross Domestic Product
GenVic	Generation Victoria
GFCV	Gas and Fuel Corporation of Victoria
GPOC	Government Prices Oversight Commission
GPT	Government Pricing Tribunal
GRIG	Gas Reform Implementation Group
GTC	Gas and Transmission Corporation
GTE	Government Trading Enterprise
HEC	Hydro-Electric Corporation
HWC	Hunter Water Corporation
IPART	Independent Pricing and Regulatory Tribunal
ISDN	Integrated Service Data Network
LTIFR	Lost time injury frequency rate
MNC	Multiple Network Corporation
MPC	Melbourne Port Corporation
MPS	Melbourne Port Services Pty Ltd
MSB	Maritime Services Board
NCC	National Competition Council
NCP	National Competition Policy
NECA	National Electricity Code Administrator
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
NGMC	National Grid Management Council
NRTC	National Road Transport Commission
OH&S	Occupational health and safety
ORG	Office of Regulator-General (Victoria)

OTC	Overseas Telecommunications Corporation
PAWA	Power and Water Authority
PMA	Port of Melbourne Authority
PRRT	Petroleum Resource Rent Tax
PTB	Passenger Transport Board
PWCS	Port Waratah Coal Services
QTSC	Queensland Transmission and Supply Corporation
RAC	Rail Access Corporation
ROE	Return on equity
RSA	Railway Services Authority
SACL	Sydney Airports Corporation Limited
SCI	Statement of Corporate Intent
SCNPMGTE	Steering Committee on National Performance Monitoring of Government Trading Enterprises
SECV	State Electricity Commission of Victoria
SECWA	State Energy Commission of Western Australia
SEDA	Sustainable Energy Development Authority
SEQEB	South East Queensland Electricity Board
SWB	Sydney Water Board
SWC	Sydney Water Corporation
TAAATS	The Australian Advanced Air Traffic System
TEU	Twenty-foot equivalent unit
USO	Universal Service Obligations
WACC	Weighted average cost of capital
VCA	Victorian Channels Authority
VPX	Victorian Power Exchange

OVERVIEW

The process of reforming GTEs is now well established.

When national performance monitoring commenced in 1992, many government trading enterprises (GTEs) were still under direct Ministerial control and some operated as government departments. Their objectives — commercial, social and regulatory — were frequently in conflict, making it difficult to assess performance.

Governments have imposed commercial disciplines ...

The first step in the reform process was for governments to give their GTEs unambiguous commercial objectives (see Chapter 1).

Since then, governments have increasingly adopted the perspective of a shareholder to impose disciplines on financial management and investment decisions. They have encouraged their GTEs to earn a market rate of return on debt and equity capital. In many cases they have also required their GTEs to make dividend payments.

... introduced changes to organisational structures and responsibilities ...

Most GTEs have been corporatised. Their policy functions have been removed to separate the policy-making function from their core service delivery function. Responsibility for performance in the service delivery function has been devolved to independent Boards, which have been charged with managing the enterprises at arm's length from their owner governments.

... and exposed GTEs to competitive pressures.

At the same time, other reforms — the removal of statutory monopolies and the introduction of access arrangements — have increased the competitive pressures faced by GTEs.

Restructuring is continuing under the National Competition Policy reforms.

GTEs have been extensively restructured. Some have been divided into separate businesses, according to their activities, or along regional lines — to increase the scope for competition.

To ensure competitive neutrality between GTEs and competing private sector businesses, owner governments have required their GTEs to make income tax-equivalent and debt-guarantee payments.

In general, National Competition Policy reforms are continuing in accordance with the timetable outlined by the Council of Australian Governments (COAG). The reforms are being monitored and assessed by the National Competition Council (NCC) to determine eligibility for competition payments under the Agreement to implement the National Competition Policy.

Some governments have or are in the process of privatising their GTEs.

Substantial privatisation has occurred within the Victorian electricity and ports sectors. The Commonwealth Government has also partially privatised Telstra, Australia's largest GTE.

This report

This report marks the completion of the work of the COAG Steering Committee on National Performance Monitoring of Government Trading Enterprises. The Steering Committee has produced a series of reports since 1993, aimed at promoting competition by making comparisons of GTE performance more transparent.

Performance outcomes are examined ... Performance outcomes and their distribution between stakeholder groups are examined. Outcomes are measured for consumers, the government as shareholder, the community more generally, and employees.

... along with reform progress. Differences in the extent and nature of reforms are highlighted.

This report is the sole responsibility of the Productivity Commission. Unlike previous reports, the Productivity Commission is responsible for the content, although it obtained assistance and comment from State and Territory officials.

Consumer outcomes

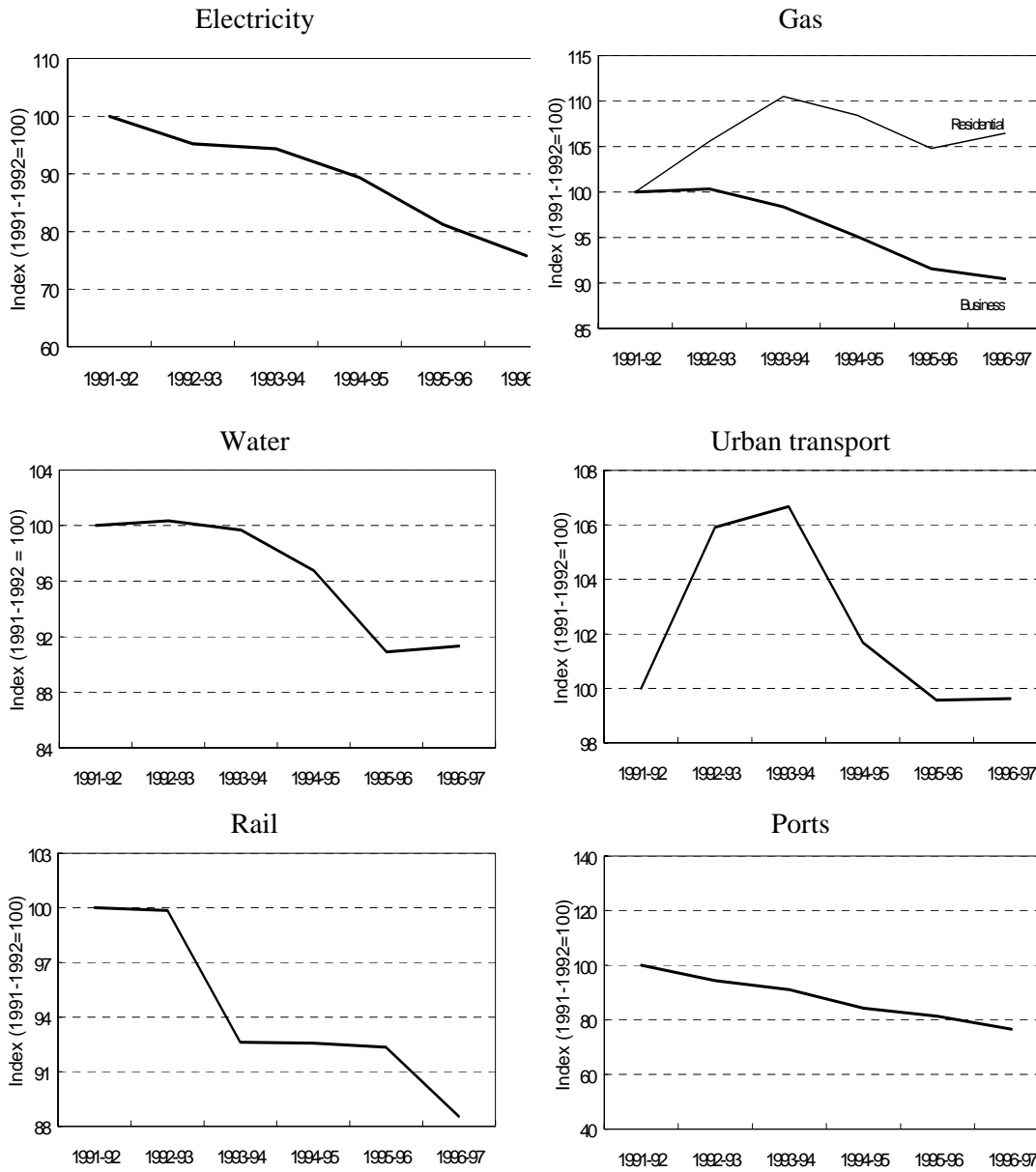
Real prices have fallen. Average real prices over the period 1991–92 to 1996–97 have fallen for all GTE services except residential gas supplies (see Figure 1).

Reductions in real prices have been largest for gas (business users), electricity, port services, communications (Telstra) and air traffic control (Airservices).

In general, price reductions have been achieved without loss of service quality ... In general, the measured service quality outcomes do not appear to have been adversely affected by the reform process. Improved financial performance has been largely achieved without compromising service levels.

... although there have been exceptions. That said, there is evidence of some deterioration in service quality within urban transport (with some rise in delays and in the number of services cancelled) and port services (with a rise in turnaround times in bulk ports).

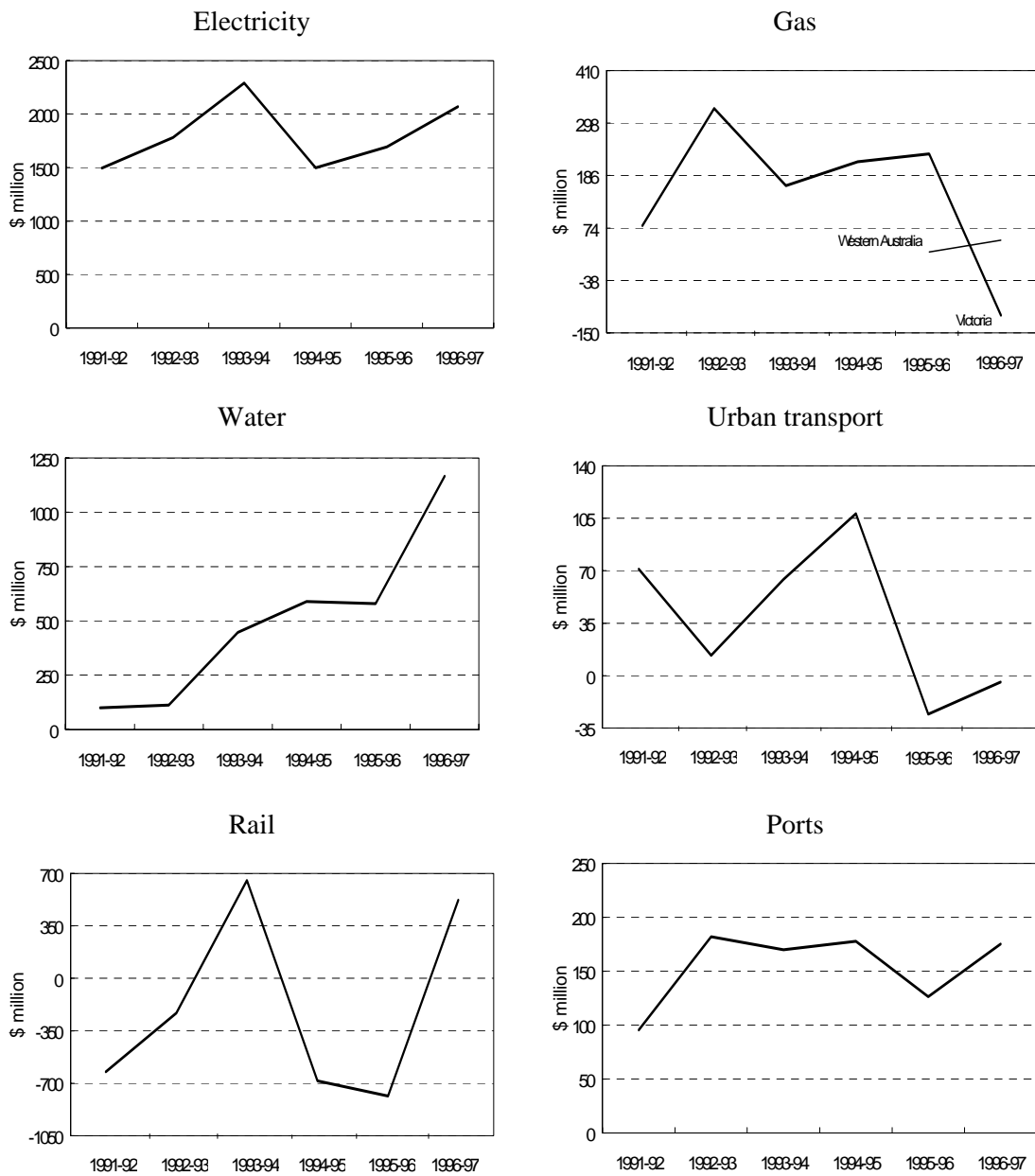
Figure 1 Average real price indices, 1991-92 to 1996-97



Outcomes for the community as shareholders

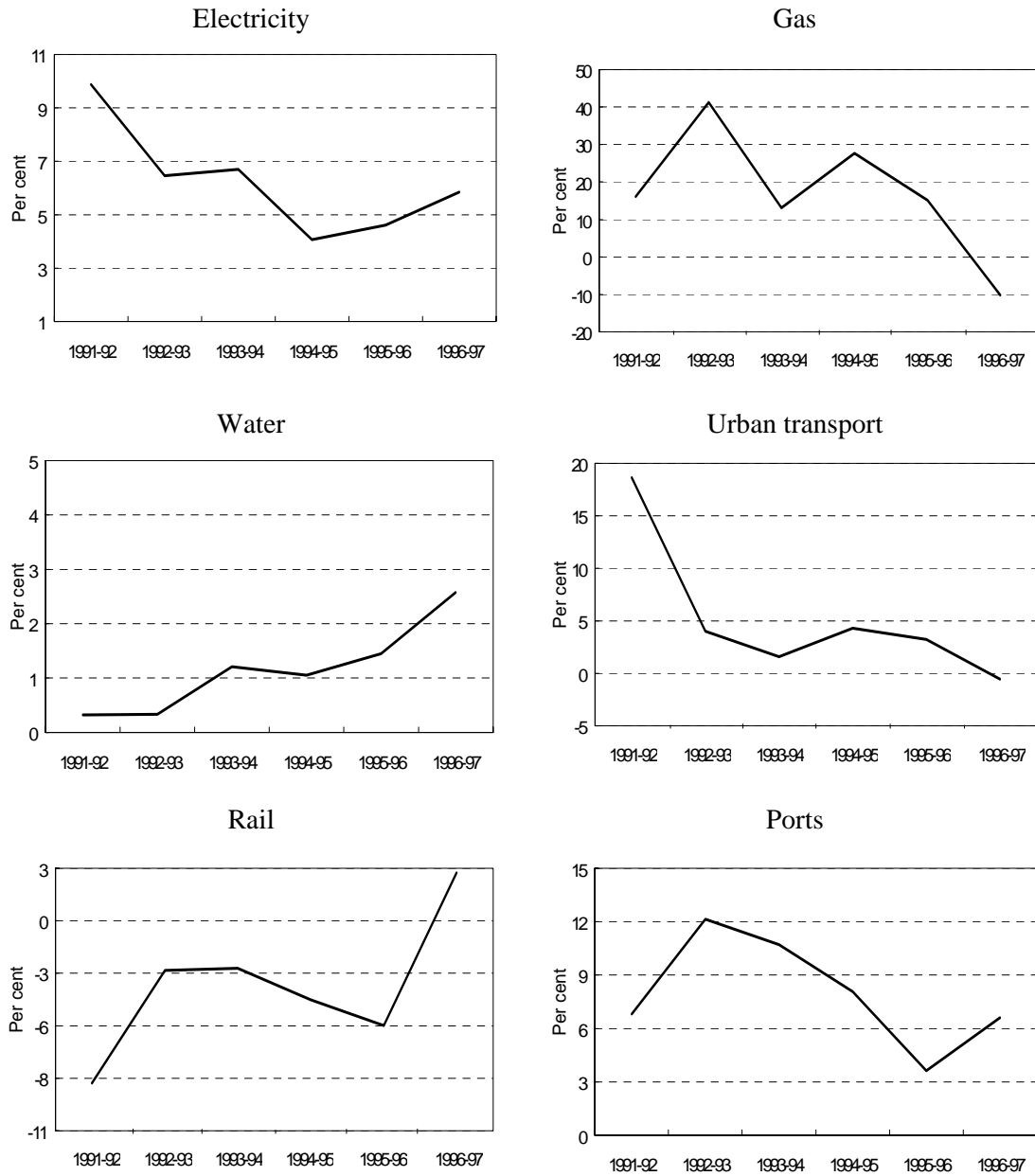
<i>Generally, pre-tax profits have increased.</i>	Generally, pre-tax profits improved for GTEs (see Figure 2). However, this was not the case for the urban transport industry (and the gas industry in Victoria, when an abnormal expense of \$279 million in 1996–97 is included).
<i>Increased profits have been underpinned by cost reductions ...</i>	Increased profits have been driven by cost reductions through improved labour productivity, the shedding of non-core activities and by contracting out.
<i>... and revenue growth.</i>	However, revenue growth — achieved through business expansion rather than price increases — also contributed.
<i>Price caps also appear to have been successful.</i>	Setting price caps appears to provide a powerful incentive for performance improvement. Some of the largest price reductions have occurred in New South Wales, where the Independent Pricing and Regulatory Tribunal (IPART) has overseen major reductions in water and electricity prices, particularly for business users.
<i>Return on equity has been mixed ...</i>	Overall, both the level and the trends in return on equity (ROE), have been mixed (see Figure 3). Marked increases were recorded by the two main Commonwealth GTEs, Telstra and Australia Post.
<i>... ROE remains below commercial benchmarks for many GTEs.</i>	For many GTEs, returns to equity capital have been below rates obtainable from other investments. This either suggests that financial performance was inadequate, or that the value of assets has not been written down sufficiently to reflect their true economic value.

Figure 2 Average pre-tax profit for monitored GTEs, 1991-92 to 1996-97



<i>Inconsistent asset valuation procedures complicates assessment.</i>	Some GTEs (particularly railways) still value their assets on a historical cost basis, whereas others use current valuation methods, thereby making comparisons difficult.
<i>Liabilities have increased to fund new investment.</i>	Some GTEs are borrowing for capital expansion — notably within the electricity generation industry.
<i>In other cases, liabilities have been reduced by debt repayment ...</i>	Some GTEs have repaid debt from their own resources. This has been achieved at the discretion of governments, because a GTE's ability to repay debt is affected by the prevailing dividend policy.
<i>... and debt assumption.</i>	In some cases, governments have assumed responsibility for the debt of selected GTEs. This has reduced the drain of interest payments on the financial performance of these GTEs.
<i>It is unclear how well GTE assets are being managed and maintained.</i>	<p>A concern is sometimes voiced that GTE reforms have focused on short-term outcomes and that a long-term run down in the GTE asset base may be occurring.</p> <p>There was no evidence to support this view in the period reviewed. In particular, the service quality measures contained in the report do not reveal any widespread decline in service quality. However, GTE assets generally have long lives and if under-maintained, problems need not become apparent for many years.</p>

Figure 3 Average return on equity for monitored GTEs, 1991-92 to 1996-97^a



a The above charts could not be prepared on a strictly comparable basis because of revaluations and abnormal items during the monitored period.

... but scrutiny of asset condition and asset renewal policies is warranted.

From a longer-term strategic perspective, governments should nevertheless monitor asset management and renewal to protect against a run down of the asset base. Some have made a start. For example, the Victorian Government is trying to develop better indicators of asset condition for its water GTEs.

Other community outcomes

CSOs are now more explicitly identified.

Community service obligations (CSOs) have increasingly been identified and explicit payments have been made to compensate GTEs for undertaking CSOs at the request of governments.

The level of CSOs appears to have been maintained.

In the rail and urban transport sectors, the aggregate level of identified CSO funding (which in this case includes both explicit CSO payments and budget payments to offset operating losses), has remained relatively unchanged.

However, more could be done to ensure explicit and comprehensive CSO payments.

There has been variation in the extent to which jurisdictions have defined and explicitly funded CSOs. Failure to do so can undermine accountability and confound the measurement of GTE performance.

Pricing reforms have brought community benefits.

Pricing reforms have been implemented so that charges more accurately reflect the volume of GTE services consumed. In the case of water, charges now reflect the volume of water used, rather than property values, and this has had the effect of reducing water consumption. Such reforms have delayed the need to build additional storage capacity.

Pricing reforms have also encouraged some authorities to recycle waste water, which reduces its impact on the environment.

Environmental outcomes have improved.

Australia relies primarily on fossil fuels — a major source of greenhouse gases — for electricity generation. However, the level of carbon dioxide emissions for example, has either declined or its growth has been stabilised in all jurisdictions.

This illustrates that improved financial performance can complement environmental objectives.

Occupational health and safety has improved.

There has been a general improvement in the occupational health and safety record of GTEs, yielding benefits for the whole community. The community bears a range of costs resulting from workplace injuries and diseases.

Employee outcomes

The benefits of reform must be weighed against the cost of job loss..

Many employees have lost their jobs through restructuring and efficiencies brought about by reform. However, the gross number of jobs lost can be misleading, because some employees have found alternative employment, often as a result of contracting out initiatives by GTEs.

The relationship between microeconomic reform and job loss is complex, because it involves more than just the first round employment effects in the GTEs concerned.

Second round effects include increased consumer incomes because of lower prices for GTE services and resulting job creation in the economy generally, through for example a lowering of business input costs as a result of GTE reform.

Governments have facilitated downsizing.

The workforce-related costs of downsizing have been shared by the owner governments and by the GTEs. These costs include redundancy payments, leave and unfunded superannuation entitlements.

Employment practices have changed ...

Enterprise bargaining agreements have facilitated restructuring, some of which necessitated redundancy — mostly voluntary. Enterprise bargaining agreements are being used to link wage increases to productivity improvements. They have also replaced a multiplicity of awards and reduced the potential for demarcation disputes.

The distribution of benefits from improved outcomes

Consumers and the community have shared the benefits.

In some cases, consumers have benefited most from reform through consumer price reductions. In other cases, governments have placed greater emphasis on returns to the community as a whole, and retained a larger share of the benefits of reform through increased dividend payments and thus a lower tax burden.

For example, port authority charges have declined significantly (by 23 per cent in real terms) for the monitored port authorities, whereas dividend payments have declined (by 17 per cent in real terms).

In contrast, real water prices have declined by a smaller amount (9 per cent), but dividend payments have increased substantially (by 93 per cent in real terms).

Benefits have appeared more rapidly where governments have implemented reform at a faster pace.

Business consumers have benefited most.

In electricity and water, business consumers have generally benefited even more than household consumers through the restructuring of tariffs.

Independent price regulators and governments have sought to redress previously existing cross-subsidies by reducing prices for business at a faster rate than those for household consumers.

However, all consumers ultimately benefit when the reduced costs to business are passed on in competitive markets, through lower prices for goods and services.

Future monitoring

Monitoring should continue ...

Individual GTEs, their industry associations and regulators should continue to monitor performance and make the results publicly available.

Transparency is particularly important for GTEs, because members of the community, unlike private investors, cannot individually withdraw their capital.

Performance monitoring is enhanced where indicators are nationally comparable.

A national system of performance indicators was established under the auspices of the Steering Committee for National Performance Monitoring of GTEs. However, standardised financial reporting methodologies — in relation to asset valuation for example — would further improve comparability.

The Productivity Commission intends to maintain a national database to support its future research activities in this area and to provide a continuing source of comparable information for Australian Governments.

1 INTRODUCTION

This report is the last in a series initiated by the now disbanded Steering Committee on National Performance Monitoring of Government Trading Enterprises. Unlike earlier Steering Committee reports, the Productivity Commission has had sole responsibility for this report.

Performance monitoring of GTEs will continue as part of the Commission's research program. An indicative program of research is outlined to facilitate consultation and comment.

Performance monitoring of government trading enterprises (GTEs) commenced after Australian Governments agreed that a national system of performance monitoring should be established. The prime objective of the monitoring was to assist governments in their efforts to achieve and sustain performance improvements.

The rationale was that performance monitoring would promote performance improvement through 'yardstick' competition.¹ Objective measures were developed to compare performance consistently across jurisdictions so as to encourage GTEs to minimise production costs, produce the 'right' mix of goods and services, respond to consumers' preferences and generate an appropriate rate of return on public assets.

A Steering Committee was established to oversee the monitoring process, chaired and serviced by the Industry Commission, a predecessor of the Productivity Commission. The Steering Committee first reported nationally consistent performance indicators in 1993.

With the achievement of substantial GTE reform progress, the Steering Committee recommended in 1997, that it should be disbanded. Governments accepted this and a further recommendation that ongoing monitoring should be conducted by the Productivity Commission as part of its general research program.

¹ 'Yardstick' competition is a device to encourage productive efficiency and responsiveness to customer needs, by providing a basis for performance comparisons. Sometimes used by regulators, industry participants are required to provide information for publication on service levels in industries, such as telecommunications, where overall service is not observable by individual consumers.

The original objective of the Steering Committee was for monitoring to act as a catalyst for reform by encouraging ‘yardstick’ competition, in which performance comparisons could be made using nationally comparable data. The intention was that publication of a national system of indicators would increase accountability for performance through greater transparency.

Now that substantial reform has already occurred, the interests of some governments have shifted somewhat, from transparency and reform, to the perspective of a shareholder representative. For these jurisdictions, the structural and governance reforms that have occurred over the last decade, are now having a greater effect on competitive pressures than national performance monitoring. However, other jurisdictions still rely on monitoring to review the relative progress of reform within their jurisdictions.

It is against this background, that the Productivity Commission has chosen to report the performance improvements which have occurred over the life of the Steering Committee to mark the conclusion to its work.

1.1 This study

The aim was to report change over the period 1991–92 to 1996–97. This was to include documenting the reforms introduced and the changes in outcomes for those affected by the reform process.

This information is presented on an industry basis — electricity, gas, water, sewerage, drainage and irrigation, urban transport, railways and ports — for those GTEs that have a counterpart in most jurisdictions (Chapters 2 to 7 respectively). The GTEs unique to the Commonwealth — Telstra Corporation, Australia Post, Federal Airports Corporation, Airservices Australia and Australian National Line — are reported separately in order of revenue (Chapter 8).

Approach

A general overview of the reform environment during the life of the Steering Committee is presented in the following section.

The reforms specific to each industry (and each entity in the case of unique Commonwealth GTEs) are documented and described in the following chapters. This discussion includes *structural*, *administrative* and *financial* changes that have taken place.

The report looks at a range of outcome measures because there is no single indicator by which to judge GTE performance.

Outcomes

In this report, the Commission has chosen to focus on outcome measures which are important to the main stakeholders — consumers, shareholders, the community generally and employees.

These outcomes are of a generally positive nature — they can be attributed to the reform measures described in the report and to other efficiency-enhancing changes by the monitored GTEs.

One complicating aspect of the reforms, is that structural change and reform inevitably create discontinuities in performance data. Therefore, strict comparability is not always possible. However, the impact of any ambiguities among individual performance measures is minimised, when stakeholder outcomes are viewed from an overall perspective.

Observed changes in performance from the shareholder government perspective, are mainly captured by financial measures contained in the Balance Sheet and the Profit and Loss Statement. These financial measures include income tax-equivalent expense and dividend payments, along with changes in the value of assets and liabilities.²

The Commission has based its performance assessment on achieved return on equity (ROE) and the ability to return a dividend, rather than changes in GTE business value.

In private capital markets, if the ROE of an enterprise does not reach a satisfactory level, this will be reflected in a fall in the business or stockmarket value of the organisation until the ROE reaches an equilibrium level that is comparable with similar investments. GTEs are not valued through the stockmarket. However, governments are now giving greater scrutiny to the commercial value of their businesses.

Prices and services are examined to report on consumer outcomes. Composite prices, indexed to reflect real movements are reported. Composite price series are weighted according to revenue shares where there is more than one service provider. Community service obligations (CSOs) are discussed, mainly in

² The tax figures used in this report are those for income tax expense or income tax-equivalent expense. Income tax expense is different from the amount of tax actually paid in any year because under tax effect accounting (AAS3), timing differences can arise, for example, because of different depreciation rates used by the business compared with the depreciation rates used for tax purposes.

sectors such as railways, urban transport, post and telecommunications, where they are an important feature of GTE operation.

The consumer and shareholder outcome sections contained in the report, draw heavily on the extensive database of financial indicators accumulated by the Steering Committee. In contrast, the sections on community and employee outcomes draw mainly on a limited amount of qualitative information. Therefore, these sections are less comprehensive and involve a selective discussion of particular aspects of community and employee outcomes.

The wider community outcomes are in addition to those obtained by governments on behalf of the community in their role as representative shareholders. The particular aspects reported on are drawn from the following:

- environmental effects;
- health and safety effects;
- some community service obligations (CSOs) (those not covered under the consumer perspective because they seek to redress community-wide externalities);
- the efficient allocation of resources (such as efficient pricing); and
- security of supply.

The employee outcomes reported include information on enterprise bargaining agreements (EBAs), restructuring processes, occupational health and safety (OH&S) outcomes, management approaches to workforce training and employee participation in enterprise improvement programs.

In some cases, wage outcomes under EBAs are reported. However, the trade-offs under agreements are often complex, making it difficult to evaluate employee outcomes. More generally, the widespread introduction of EBAs has made it almost impossible to evaluate employee outcomes on an aggregate or sector basis.

Labour productivity is also discussed in some sections of the report. However, the trend toward contracting out prevents measurement and hence comparison of the overall labour input and labour productivity performance.

Financial analysis

The financial analysis in the report is based almost entirely on data contained in two published reports by the Steering Committee on National Performance Monitoring of Government Trading Enterprises (SCNPMGTE 1998, 1997b). This data was collected from monitored GTEs within the various jurisdictions

and supplied to the former Industry Commission, acting as Secretariat to the Steering Committee.

The data were extracted from the financial reporting systems used by the monitored GTEs. Wherever doubts concerning the accuracy of data arose, they were checked with the supplying organisations.

The definitions of financial performance indicators used in this report are contained in Attachment B. These definitions were developed by the Steering Committee to overcome jurisdictional differences in accounting treatment.

The tax figures used in this report are those for income tax expense or income tax-equivalent expense. Income tax expense is different from the amount of tax actually paid in any year because under tax effect accounting (AAS3), timing differences can arise for example, because of different depreciation rates used by the business compared with the rates used for tax purposes.

Return on equity

The return on equity (ROE) figures provided in this report can provide a useful measure of financial performance, as long as they are interpreted carefully.

The ROE is defined in the report as after-tax profit before the payment of a dividend, expressed as a percentage of the calculated equity figure. However, after-tax profit can be affected by abnormal items as discussed in the report, and the calculated equity figure can be affected by differing approaches to asset valuation. Either or both of these effects can operate to influence the calculated ROE figure.

Asset valuation and funding

The choice of asset valuation procedures — historical cost versus current valuation methods — can result in different calculated values for ROE. A change in asset valuation methodology from one period to the next can also confound interpretation of financial outcomes.

In the private sector, asset refurbishment and new investment must be funded from internally generated funds or from borrowings. For GTEs however, governments sometimes make capital grants available for asset refurbishment or new investment. These capital grants are generally treated as revenue in the Profit and Loss Statement in the year in which they are received. This addition to revenue raises the apparent ROE of GTEs *vis a vis* private sector entities.³

³ Although capital grants also increase the capital stock, and hence the asset and equity base, they have the effect of increasing the rate of return on equity, because the percentage

Thus, in certain circumstances, comparisons of ROE between the private and public sectors may be invalid.

Maintaining the asset base

An ongoing program of asset refurbishment and replacement is normally required to preserve the size and service potential of a GTE's asset base and to ensure its ongoing financial sustainability.

Net annual investment in fixed assets is defined as new fixed investment minus depreciation and asset sales. However, only rarely are these three items all reported separately in Annual Reports. Further, they are discretionary calculations in any event, with depreciation for example depending on assumed asset life and numerous other assumptions concerning asset maintenance versus enhancement. Accordingly, no attempt has been made in the report to systematically address the issue of long-term sustainability of asset condition.

As GTEs are given greater autonomy, governments are beginning to institute asset audit procedures to ensure that asset condition is not being run down. However, these procedures are still in their infancy.

What is an acceptable ROE?

To determine if a particular GTE is delivering a satisfactory ROE, it is necessary to develop a benchmark or target.

Benchmark ROE figures are frequently set in relation to the ROE obtainable from alternative investments and are usually determined using the analytical framework of the Capital Asset Pricing Model (CAPM). The CAPM formalises the relationship between risk and return by calculating the required ROE as the sum of the risk-free interest rate, plus an additional percentage return that is sufficient to compensate the owners of equity capital for the non-diversifiable risk factors involved.⁴

increase in profit, resulting from their treatment as revenue, is normally greater than the percentage increase in equity reflected in the Balance Sheet.

⁴ The CAPM distinguishes between diversifiable and non-diversifiable risk. Diversifiable risk is that which is unique to the investment and can be reduced or eliminated by having a diversified investment portfolio or by measures such as insurance. It is therefore a risk for which investors cannot expect to be compensated. Non-diversifiable or so-called market risk on the other hand cannot be avoided, because it reflects the variance in returns which results from the behaviour of the investment market as a whole. It is this risk which investors expect to be compensated for over and above the risk-free rate, with the risk-free rate usually set in the CAPM model by the rate of return on government bonds.

Any benchmark ROE that is chosen is somewhat subjective, because the trade-off between the preparedness to accept risk and the desired rate of return to compensate for such risk, varies between individuals. In a draft determination, the Office of the Regulator-General (ORG) in Victoria and the Australian Competition and Consumer Commission (ACCC) recently argued in favour of a real pre-tax weighted average cost of capital (WACC) for pricing purposes of 7 per cent for private investment in gas transmission assets. The ORG and the ACCC assumed a 60:40 debt to equity capital ratio in this WACC calculation.⁵ According to the ORG and the ACCC, a real pre-tax WACC of 7 per cent equates to a nominal after-tax return on the equity component of capital equal to about 11 per cent in the gas example.

Many of the monitored authorities generated a nominal after-tax rate of return on equity of 2 per cent or less — well below the 11 per cent proposed by the ORG and the ACCC. These low ROE values reported in the chapters have implications for the size of dividend payments.

The after-tax profit is the amount potentially available for distribution as a dividend, after all expenses, including interest charges on debt capital, have been paid. Although dividend payments have been made by many GTEs, where once there was no requirement, their size tends to be small when it is constrained by low after-tax profits.

Dividend payments represent a return on the equity provided, where government-sourced equity capital has an opportunity cost — the rate of return that could be achieved in alternative uses. The requirement to pay dividends imposes a discipline to practice sound financial management. It also imposes a test on whether new investments are capable of generating sufficient financial return to pay a dividend.

GTEs have on occasion distributed as a dividend, an amount in excess of the ROE or after-tax profit.⁶ However, the more common practice is for the dividend to be less than 100 per cent of the after-tax profit, with the remainder comprising retained earnings.

The predominance of low ROE values suggests that notwithstanding the reforms to date, the reform program needs to continue to further improve the financial performance of most GTEs.

⁵ Equity capital is more expensive than debt capital, so the assumed debt to equity ratio has a bearing on the calculated weighted average cost of capital (WACC).

⁶ If the amount of dividend distributed is greater than the after-tax profit, GTEs may have to increase borrowings to fund their dividend distribution — such borrowings will reduce the equity level of these GTEs.

1.2 Overview of the reform environment

Attention was focused on GTE performance in the late 1980s. With tariff reductions and greater exposure of the traded goods sector of the Australian economy to international competition, there was a growing realisation that poor productivity and performance in the GTE sector imposed a ‘tax’ on the traded goods sector of the economy.

Also, poor financial performance by GTEs was an unnecessary drain on public sector finances. It deprived governments of a return on the funds they had invested in GTEs and it imposed an opportunity cost on governments by preventing them from directing financial resources to more productive uses elsewhere.

The reforms which have been applied to GTEs during the 1990s, have been both generic and specific to particular industries. This section is confined to generic aspects of the reforms.

Three distinct, if overlapping, phases can be distinguished in the historical evolution of GTE reform in Australia — commercialisation, corporatisation and implementation of the National Competition Policy (NCP).

Commercialisation

For both State and Commonwealth GTEs, commercialisation involved among other things, clarifying objectives by directing GTEs to operate on a more commercial basis. Emphasis was placed on rationalising services by shedding non-core activities and achieving greater cost recovery.

Attempts were made to identify CSOs and devise mechanisms to explicitly deal with the problem faced by many GTEs of a conflict between commercial and non-commercial objectives. It was felt that such conflicts diminish accountability for performance. By clarifying objectives and giving managers autonomy to pursue commercial goals, it was hoped that GTE outcomes would be more transparent and managers could be held accountable, with rewards and sanctions based on their management performance.

Around the same time, certain financial targets were imposed upon GTEs in the form of tax-equivalent and dividend regimes and the introduction of debt-guarantee fees. These measures were designed to force GTEs to act in a more commercial manner and as a result, payments to government started to increase. The Chief Economist at the New South Wales Treasury reported to a GTE Reform Conference held in 1991, that payments to the State had for example increased over the preceding five years from \$100 million per annum to over \$900 million per annum.

Performance monitoring has been promoted during the 1990s through the work of the Steering Committee on National Performance Monitoring of Government Trading Enterprises (SCNPMGTE). Underlying national performance monitoring, was the concept of ‘yardstick’ competition as an efficiency-promoting device. The concept of ‘yardstick’ competition is still referred to — for example, by the Victorian Government, when disaggregating the Melbourne Water Corporation’s retail business into three separate retail businesses whose performance can be compared.

As part of the approach to commercialisation, greater autonomy and freedom from Public Service operational constraints was balanced by a reciprocal obligation to report back to government on agreed targets. This was to be facilitated by a Statement of Corporate Intent (SCI), which set out a form of contractual performance agreement between the GTE and the responsible Minister(s) as the community or shareholder representative(s). SCIs, agreed corporate plans or similar documents, remain a feature of the relationship between GTEs and their responsible Minister(s).

Corporatisation

Generic reforms have also included changing the corporate structure and governance of GTEs, by establishing them as fully corporatised entities with new legislation and responsibilities. In the early 1990s, a number of State Governments passed omnibus corporatisation legislation containing the umbrella provisions under which individual GTEs could be corporatised.

Some of the characteristics of a corporatised agency are summarised in Box 1.1. A number of the characteristics identified therein overlap with the reforms previously referred to under the term ‘commercialisation’. However, one distinguishing feature of ‘corporatisation’ is the emphasis not only on more commercial practice, but on the structural and institutional nature of many of the reforms.

Box 1.1 Characteristics of a corporatised agency

- A corporatised agency is established as a separate legal entity usually with its own legislation.
- It is given clear commercial objectives in its establishing legislation, to remove ambiguities associated with the pursuit of multiple and sometimes conflicting commercial and non-commercial objectives.

- Government explicitly specifies the community service obligations (CSOs) it expects the GTE to meet and ideally, for purposes of transparency, provides the GTE with separate budget funding to satisfy the specified CSOs.
- A Board is established with Board members appointed because of their expertise and ability to contribute to the GTE's overall corporate goals, rather than being representatives of particular constituent interest groups.
- The Board is accountable to Parliament through its responsible Minister(s).
- The Board normally prepares corporate plans for approval by the Minister(s) — these specify financial and non-financial performance targets, by which the performance of the Board in managing the GTE can be judged.
- The corporatised agency is not part of a government department as with some GTEs prior to corporatisation — the responsible Minister(s) exercises broad strategic control over the GTE, but it is presumed to be autonomous and accountable for its day-to-day operations.
- The establishing legislation normally provides for all government or Ministerial directions to the GTE to be in writing and tabled in the Parliament.
- The corporatised GTE has no regulatory functions — these are moved to a separate agency or government department. Most policy functions are similarly moved, so that the GTE can remain commercially focused.
- The corporatised GTE is expected to pay the same taxes and meet the same regulatory obligations as would a similar private sector entity.

The thrust of institutional reforms has been to expose organisations and their internal processes to competition and to initiate structural changes which remove the possibility of conflicting objectives. For example, conflicting objectives have been avoided by separating the roles of service delivery, standard setting, regulation and policy-making.

Reforms directed at competition include competitive tendering and contracting out, where internal providers are forced to compete against external providers, or else the decision is made to eliminate in-house capability entirely and contract out all work to external providers.

GTEs have also been broken up into separate and competing business units, each with their own management, resourcing and financial management and reporting systems. This has been done in an effort to enhance efficiency by focusing more clearly on the performance of particular activity units within a larger corporate structure. Also, such management approaches allow more accurate cost of service comparisons and can help to identify activities which could be cost-effectively outsourced.

Corporatisation has also involved changes to the governance and accountability arrangements for GTEs. Traditionally, some GTEs have operated as part of government departments and in these circumstances it was difficult to segment and measure their performance. Under the corporatisation model however, they have been established as separate entities, with clear objectives, an expert Board and clear accountabilities.

As part of the corporatisation process, independent regulatory regimes were sometimes established where GTEs were operating within a non-contestable market structure. In other cases, governments have retained responsibility for price regulation. However, this creates potential tensions for governments between revenue raising and consumer protection objectives.

National Competition Policy

The structural reforms under the corporatisation model received added impetus in 1995, when the Council of Australian Governments (COAG) agreed to implement the National Competition Policy (NCP).

The NCP is the umbrella under which a range of pro-competitive economic reforms have been implemented. It includes specific reform programs in the areas of electricity, gas, water and road transport. The reform elements include pricing policies, access to infrastructure networks, vertical and horizontal disaggregation of GTEs, the review of all legislation which restricts competition, and the introduction of competitive neutrality principles to prevent government businesses from enjoying an unfair advantage when competing with private businesses.

At the April 1995 meeting of COAG, Commonwealth, State and Territory Governments signed three inter-governmental agreements to broaden the scope of competition policy and extend the application of the *Trade Practices Act 1974* to previously exempt sectors of the economy (see Box 1.2).

A feature of these inter-governmental agreements, is that the Commonwealth has undertaken to provide a series of competition payments to States and Territories that meet specific reform commitments embodied in the Agreement to Implement the National Competition Policy and Related Reforms.⁷ Competition payments are conditional upon jurisdictions being able to demonstrate that they have implemented the agreed reforms according to a specified timetable.

⁷ Related reforms refer to specific reform programs in the areas of electricity, gas, water and road transport.

Box 1.2 Inter-governmental agreements and the NCP

Governments' NCP commitments are contained in three inter-governmental agreements:

- the Conduct Code Agreement;
- the Competition Principles Agreement (CPA); and
- the Agreement to Implement the NCP and Related Reforms (the Implementation Agreement).

The Conduct Code Agreement sets out the basis for extending the coverage of the *Trade Practices Act 1974*.

The CPA establishes principles for reform of public monopolies, prices oversight, competitive neutrality between the public and private sectors. It also provides a framework for access to infrastructure networks having essential facilities characteristics and it establishes a program for reviewing legislation which restricts competition.

The Implementation Agreement provides for competition payments — it makes these payments conditional upon governments meeting a program of reform commitments agreed to by COAG, that relate specifically to the electricity, gas, water and road transport industries.

The National Competition Council (NCC) is responsible for assessing the reform progress of the jurisdictions and hence their eligibility to receive competition payments.

Structural reforms

The NCP emphasised competition through the structural separation of contestable and non-contestable elements of GTE businesses. Its provision for access regimes for infrastructure networks was intended to facilitate competition in businesses both upstream and downstream of the networks.

Industry-specific GTE reforms have generally been designed to take account of the market structure prevailing within a particular industry. In electricity for example, COAG agreed to separate monopoly elements (transmission) from contestable elements (generation and distribution) within jurisdictions. It was envisaged that the contestable elements would be exposed to competition and that the network businesses would be corporatised.

The principles underlying structural separation were that:

- generators should compete for the right to supply electricity;
- there should be open access to the grid for new generation; and
- customers should be free to choose who supplies their electricity.

Where market structure was inherently competitive or contestable, or could be made so by means of structural separation and disaggregation, there has been a tendency to privatise.⁸ In Victoria for example, parts of the previously integrated electricity supplier were split into a number of smaller entities prior to privatisation, to encourage competition in the contestable segments of the market. Reforms to the corporate environment via more commercial operation or full corporatisation also preceded privatisation.

Where market structure limits contestability and competition is weak or non-existent, or where a natural monopoly is considered to exist, governments have still sought to obtain the benefits of corporatisation, but have relied on supervision through price regulation rather than competition, to prevent the abuse of monopoly power.

Independent pricing and oversight authorities have been established in New South Wales (Independent Price and Regulatory Tribunal (IPART)), Victoria (Office of Regulator-General (ORG)), Tasmania (Government Prices Oversight Commission (GPOC)), Queensland (Queensland Competition Authority). The Northern Territory Government does not propose to establish an independent prices oversight body because the number, size and scope of Territory Government business activities is not large enough to warrant the cost of such a body. Instead, independent prices oversight will be performed by the Treasury.

1.3 Future monitoring and research

The Productivity Commission proposes to continue monitoring the performance of GTEs and to conduct related research.

The Commission will be consulting with governments, regulators, industry associations and others with an interest in GTEs, to help shape its research priorities. Consultation will address the GTEs to be covered, the proposed indicators, the reporting format and any other issues that governments or others feel are most relevant. The Commission will also be encouraging wherever possible, the use of nationally consistent financial reporting methods to facilitate direct performance comparisons.

⁸ The extent of privatisation has varied substantially between jurisdictions.

At this stage, the Commission is planning to develop three streams of activity:

- annual reporting of financial indicators;
- selective reporting of performance through international benchmarking and other industry studies; and
- research into issues relevant to the further reform of GTEs.

Annual reporting of financial indicators

The aim of this stream of work is to support the need for accountability through transparency. The changes that have taken place since the Steering Committee commenced have not diminished the need for accountability. Indeed, with greater autonomy and light-handed supervision, satisfying the need for accountability and transparency is a greater challenge than under previous arrangements.

The Productivity Commission plans to present nationally consistent financial information and performance indicators for monitored GTEs. The Commission also plans to include in its monitoring the performance of former GTEs which have subsequently been privatised. This will be done using publicly available information and should allow some comparisons between privatised former GTEs and those remaining in government ownership.

The information will be maintained in a database, principally in support of the other two streams of activity. The indicators and underlying data will be published and made available as a public good resource for stakeholders with an interest in GTE performance and research.

The financial indicators reported are intended to be the same as those developed by the SCNPMGTE. Continuity will be ensured by building on the existing database.

The Productivity Commission is exploring the option of using the Government Financial Statistics (GFS), produced for Australia's National Accounts, as a data source for future GTE performance monitoring. A preliminary examination of the concordance between GFS data and the data sources used by the Steering Committee, suggests that this is feasible.

The Commission has sought in-principle agreement from State and Territory governments to access the GFS data from the agency responsible for its collection. This proposed approach will reduce the collection burden on GTEs.

Performance reporting

Under this stream of work, the performance of selected GTEs will be studied and reported at intervals. The particular industries chosen will be determined by the extent of reform and opportunities presented by the Commission's research program. If comparable data are available, the coverage could include privatised former GTEs and overseas businesses in international benchmarking studies.

The emphasis will be on reporting performance outcomes. Productivity will be analysed where it is possible to use comprehensive measures or to interpret partial productivity indicators. Also, the effects on GTE performance of the different endowments enjoyed by the various jurisdictions and enterprises will be considered where possible.

The Commission would endeavour to provide a context for performance outcomes so that they can be appropriately evaluated. This involves analysis of the external and internal factors affecting performance that are outside the control of management.

Research into reform issues

Finally, the Commission plans to undertake research into issues relevant to the further reform of GTEs. The financial performance of GTEs as reported in this report suggests that there is still considerable scope for improvement.

The aim in this stream of work would be to undertake research that would benefit all governments in their oversight of GTE performance, as well as managers and Boards responsible for their governance.

Once again the Commission will be consulting relevant stakeholders to help shape its activities. Areas of possible future work include:

- governance arrangements for GTEs;
 - valuation of long-lived and indivisible assets;
 - principles for efficient and equitable cost recovery;
 - output-based management of CSOs;
 - performance oversight with value-based management and related approaches;
 - performance monitoring for asset management;
 - public interest in effective independent oversight; and
- divestment strategies.

2 ELECTRICITY

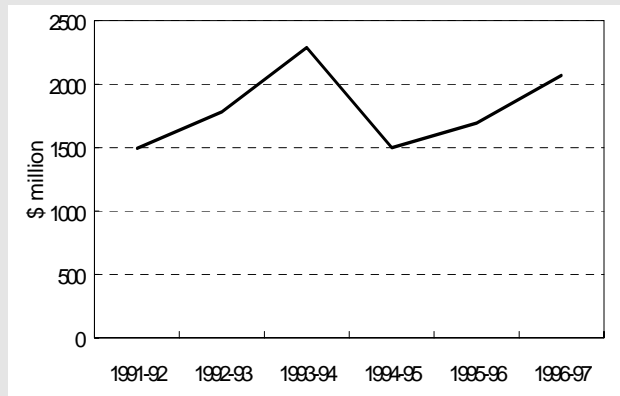
Key outcomes

- Electricity GTE reform has produced substantial benefits for electricity users — lower real prices — and for shareholder governments — an increase in dividend payments.

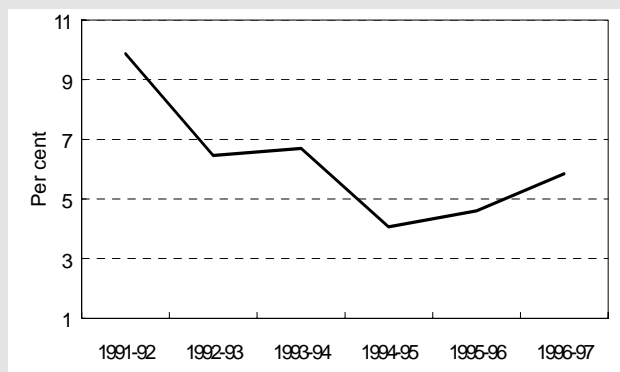
- **The real price index** fell on average, by 24 per cent for all customers from 1991–92 to 1996–97.



- **Operating profit before income tax** increased from \$1.53 billion in 1991–92 to \$2.01 billion in 1996–97.



- **Return on equity** fell from 1991–92 to 1994–95 and then returned to a satisfactory level in 1996–97.



2.1 Industry structure

Electricity GTEs undertake three main activities: generation of electricity at power stations; transmission of power over long distances through a high voltage grid; and distribution of power to users along local poles and wires.

The Australian electricity supply industry has undergone unprecedented structural reform over the past six years (see Table 2.1). Historically, the industry developed on a state-by-state basis with a government owned vertically integrated utility dominating in each jurisdiction. There was little trade between jurisdictions.

The industry is characterised by competition, both within and between jurisdictions, although the extent of reform and activities undertaken in each jurisdiction vary widely (see Table 2.2). In the larger states, generation and distribution activities have been separated from transmission activities, operating as corporatised GTEs in competition with each other. Victoria is the only jurisdiction which has privatised nearly all of its electricity assets over the monitored period.

With the emergence of the National Electricity Market (NEM), interstate trade is now possible between New South Wales and Victoria (currently the main traders), the Australian Capital Territory, South Australia and Queensland (moving towards full participation in the NEM).

The electricity GTEs monitored in this report generated revenue of nearly \$15 billion, administered assets valued at over \$42 billion and employed the equivalent of 28 059 full-time staff in 1996–97 (see Table 2A.1). They were responsible for generating, transmitting and distributing electricity to over five million residential customers and almost one million businesses. Although declining in size, the GTE sector still dominates the Australian electricity supply industry (see Box 2.1).

Table 2.1 Monitored electricity GTEs, 1991–92 to 1996–97

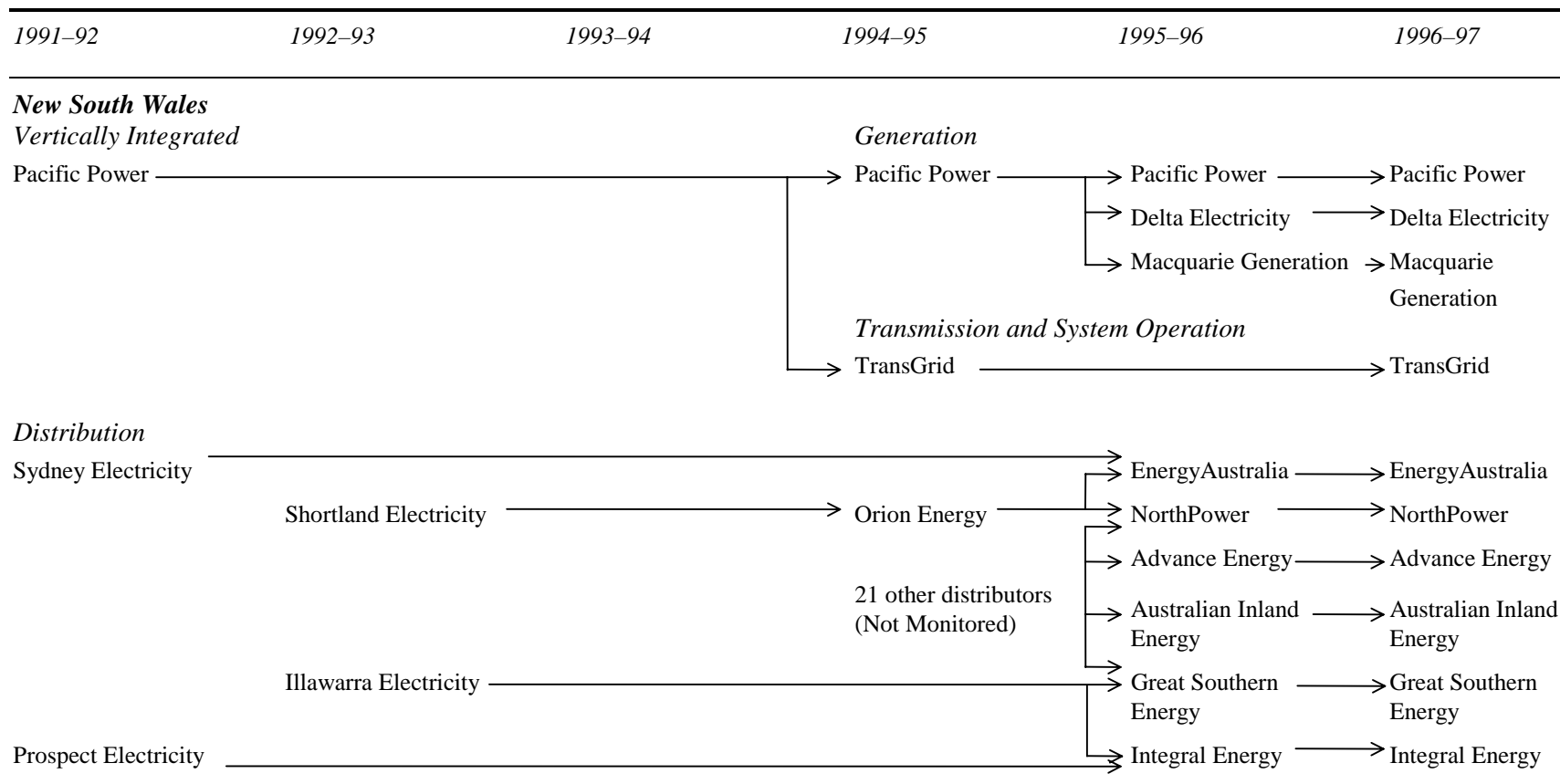


Table 2.1 Monitored electricity GTEs, 1991–92 to 1996–97 (continued)

1991–92	1992–93	1993–94	1994–95	1995–96	1996–97 ^a
Victoria					
<i>Vertically Integrated</i>					
State Electricity Commission		<i>Generation</i> Generation Victoria ^b		Five Generation Businesses (Not Monitored)	
		<i>Transmission and System Operation</i> National Electricity	<i>Transmission</i> PowerNet	PowerNet	
			<i>System Operation</i> Victorian Power Exchange	Victorian Power Exchange	
		<i>Distribution</i> Electricity Services Victoria ^c		Five Distribution Businesses (Not Monitored)	

a No Victorian electricity GTEs were monitored for 1996–97.

b Generation Victoria (GenVic) was established in October 1993 upon the initial disaggregation of the former State Electricity Commission of Victoria (SECV). GenVic itself was disaggregated into five separate generation companies in February 1995.

c Electricity Services Victoria was a successor body of the former SECV and the old municipal electricity undertakings. It was established in October 1993 (its accounts and reports commenced on 1 July 1993) and ceased operations in October 1994 when it was disaggregated into five separate distribution businesses.

Table 2.1 Monitored electricity GTEs, 1991–92 to 1996–97 (continued)

1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
<i>Queensland Vertically Integrated</i>			<i>Generation</i>		
Queensland Electricity Commission			Austa Electric		Austa Electric ^d
			<i>Transmission, System Operation and Distribution</i>		
			Queensland Transmission and Supply Corporation ^e		Queensland Transmission and Supply Corporation ^f
	<i>Distribution</i>				
	South East Queensland Electricity Board		SEQEB		ENERGEX
	Capricornia Electricity Board		CAPELEC		CAPELEC

d On 1 July 1997, AUSTA Electric was separated into three competing Government owned generation corporations.

e The Queensland Transmission and Supply Corporation (QTSC) commenced operation on 1 January 1995 as a holding company for eight subsidiary corporations — seven regional distribution corporations, two of which are SEQEB and CAPELEC, and Powerlink Queensland, which manages Queensland’s high voltage transmission system.

f On 1 July 1997, QTSC was split into seven distribution corporations, a transmission corporation and three retail corporations.

Table 2.1 Monitored electricity GTEs, 1991–92 to 1996–97 (continued)

1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
Western Australia					
State Electricity Commission			Western Power AlintaGas	Western Power AlintaGas	Western Power AlintaGas
South Australia					
Electricity Trust of South Australia (ETSA)				ETSA Corporation	ETSA Corporation Optima Energy
Tasmania					
Hydro-Electric Corporation				Hydro-Electric Corporation	Hydro-Electric Corporation
Australian Capital Territory					
Australian Capital Territory Electricity and Water (ACTEW)				ACTEW Corporation	ACTEW Corporation
Northern Territory					
Power and Water Authority					Power and Water Authority

Table 2.2 Activities of GTEs in the electricity industry, 1996–97

<i>GTE</i>	<i>Activity</i>			
	<i>Generation</i>	<i>Transmission</i>	<i>Distribution^a</i>	<i>System Operation^b</i>
New South Wales				
Delta Electricity	✓			
Macquarie Generation	✓			
Pacific Power	✓			
TransGrid		✓		✓
Advance Energy			✓	
Australian Inland Energy			✓	
EnergyAustralia			✓	
Great Southern Energy			✓	
Integral Energy			✓	
NorthPower			✓	
Queensland				
AUSTA Electric ^c	✓			
Queensland Transmission & Supply Corporation ^d		✓	✓	✓
ENERGEX ^e			✓	
CAPELEC ^e			✓	
South Australia				
ETSA Power ^f			✓	
ETSA Transmission ^f		✓		✓
Optima Energy	✓			
Western Australia				
Western Power	✓	✓	✓	✓
Tasmania				
Hydro-Electric Corporation	✓	✓	✓	✓
Northern Territory				
Power and Water Authority ^g	✓	✓	✓	✓
Australian Capital Territory				
ACTEW Corporation			✓	
Commonwealth				
Snowy Mountains Hydro-electric Authority	✓	✓		

Notes: Monitoring of Victorian electricity GTEs was discontinued after 1994–95 (except for transmission businesses). In 1996–97, the Victorian Government still owned Generation Victoria, Southern Hydro, Victorian Power Exchange and PowerNet Victoria.

a This includes retail activities in some jurisdictions. Retail activities refer to competition in the NEM, where electricity retailers can offer power to customers outside their distribution area, using the network of rival distributors.

b System operation refers to the day-to-day operations of the system such as the dispatch of generators as well as system planning functions.

c On 1 July 1997, AUSTA Electric was separated into three competing generation corporations.

d On 1 July 1997, the Queensland Transmission and Supply Corporation (QTSC) was split into seven distribution corporations, a transmission corporation and three retail corporations.

e Subsidiary of QTSC.

f Subsidiary of the ETSA Corporation.

g The Power and Water Authority is also responsible for water supply.

Box 2.1 Australian electricity supply market

- Electricity accounts for around 18 per cent of Australia's final energy consumption, dominating the commercial and residential segments of the energy market with shares of 66 per cent and 42 per cent respectively.^a
- Australians consumed 149 TWh of electricity during the 1996–97 financial year.
- Australia has the ninth highest electricity consumption per capita in the world, increasing by an average of 3.2 per cent per year, from 1991–92 to 1996–97.
- Total electricity consumption grew by an average of 3.2 per cent per year, from 1991–92 to 1996–97. All jurisdictions experienced growth over the period, ranging from an average of 1.4 per cent in the Australian Capital Territory to an average of 6.2 per cent in Queensland.
- Total output (electricity generation) grew by 2.7 per cent on average from 1991–92 to 1996–97.
- Australia has a total installed electricity capacity of over 40 000 MW per year, of which 80 per cent is coal-fired power and 19 per cent is hydro-power.
- Over 65 per cent of total capacity is located in New South Wales, Victoria and Queensland.
- Commonwealth, State and Territory Governments own 80 per cent of total capacity.
- The industry has combined assets of around \$60 billion, of which \$42 billion are government owned and \$18 billion are privately owned (mostly in Victoria).
- The Electricity Supply Association of Australia forecasts that some 10 000 MW of new electricity generation capacity will be developed in Australia between 1996 and 2010. At present around 2000 MW of this capacity is under development and another 3000 MW is in the planning stage.
- At current value, capital investment in total current capacity is estimated to have cost \$27 billion and the value of the predicted expansion is estimated to be \$12 billion.
- The average capacity factor (capacity utilisation) for all non-hydro electric generators in Australia, was 55 per cent in 1996–97.^b

a The dominant sources of final energy consumption in Australia are petroleum, natural gas and electricity.

b The capacity factor is a measure of average capacity utilisation in electricity generation, measured as total annual energy sent out divided by total installed plant capacity multiplied by 8760 hours.

Source: ESAA 1998.

2.2 Key reforms

Reform of Australia's electricity industry was driven initially by intergovernmental undertakings through the Council of Australian Governments (COAG) process, and more recently by government commitments under the National Competition Policy (NCP).

Broad policy parameters

In July 1991 COAG agreed to co-operatively improve competitiveness in the Australian electricity supply industry. They agreed to replace separate State markets with a competitive national electricity market and to separate monopoly elements from contestable elements in the industry.

The principles underlying these reforms were that:

- generators should compete for the right to supply electricity;
- there should be open access to the grid for new generation; and
- customers should be free to choose who supplies their electricity.

In April 1995, these reform agreements were maintained and extended under the NCP — with financial payments to States and Territories depending partly on adequate progress in implementing the agreed reforms (see Chapter 1).

Governments' commitments under the NCP have created a pathway for the electricity industry reform into the next millennium.

Specific reforms

The following areas of reform have played a critical role in transforming the electricity supply industry in Australia:

- industry restructuring;
- competitive neutrality;
- pricing reforms; and
- the NEM.

Major policy initiatives affecting the Australian electricity supply industry are summarised in Table 2.3.

Table 2.3 Policy initiatives affecting the electricity industry, 1991–92 to 1996–97

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
National ^a	July 1991	Heads of Government agree to create a competitive national electricity market and establish the National Grid Management Council (NGMC) to manage the formation of the new market.
	June-Aug 1993	The Commonwealth, New South Wales, Victorian, Queensland, South Australian, Tasmanian and Australian Capital Territory Governments agreed to a Multiple Network Corporation (MNC) structure to be in place by July 1 1995.
	April 1995	The COAG agrees to the Competition Principles Agreement (CPA). The CPA extends the competitive disciplines of Part IV of the <i>Trade Practices Act 1974</i> to GTEs and introduces a national access regime (Part IIIA of the <i>Trade Practices Act 1974</i>).
	June 1995	The <i>Competition Reform Policy Act 1995</i> (Commonwealth legislation supporting the CPA, is passed by Parliament.
	June 1995	The Australian Competition and Consumer Commission (ACCC) is formed as a national regulator, replacing the Trade Practices Commission and the Prices Surveillance Commission.
	Nov 1996	The Code is submitted to the ACCC for authorisation under Part IV of the <i>Trade Practices Act 1974</i> .
	April 1997	The Code is submitted to the ACCC for acceptance as an industry Code for electricity transmission and distribution facilities in the participating jurisdictions.
	May 1997	A limited interstate competitive market. Phase 1 of the NEM commenced, allowing interstate competition between New South Wales and Victoria, the Australian Capital Territory and South Australia.
New South Wales ^b	Aug 1991	Electricity Commission of New South Wales was renamed Pacific Power and internally restructured into six commercially oriented business units — three generating groups, a pool trading unit, a network business and a services unit. The 25 distribution businesses remain separate.
	July 1994	Pacific Power's network business unit established as a legally separate subsidiary, Pacific Grid.

Table 2.3 Policy initiatives affecting the electricity industry, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
New South Wales (continued)	Feb 1995	High voltage transmission and system control activities removed to become the responsibility of the Electricity Transmission Authority — trading as TransGrid. TransGrid given authority to develop and operate the State wholesale electricity market.
	Oct 1995	The 25 distribution businesses amalgamated to form six companies.
	Dec 1995	Legislation passed providing for the establishment and regulation of a State wholesale electricity market, competitive retail electricity supply, and transmission and distribution network service provision.
	March 1996	The six new distribution companies corporatised, with retail and distribution operations 'ring-fenced'. ^c Pacific Power restructured to create three separate generators.
	May 1996	Commencement of State wholesale electricity market.
	June 1996	Timetable for the introduction of retail competition announced.
	Oct 1996	Retail competition is introduced into New South Wales to be phased in over a period of years. From 1 October, customers with sites consuming more than 40 GWh per year can choose their own electricity supplier. New retail suppliers are granted licenses to operate in the New South Wales market.
	April 1997	Customers consuming more than 4 GWh per year can choose their own electricity supplier.
Victoria	Dec 1992	Majority interest in Loy Yang B power station sold.
	Oct 1993	The vertically integrated State Electricity Commission is separated into three businesses — Generation Victoria, National Electricity (transmission and pool) and Electricity Services Victoria (distribution).
	July 1994	The Office of Regulator-General (ORG) is established. With regard to electricity, the key tasks of the ORG are to oversee franchise customer tariffs, service standards, pool rules and operating procedures, transmission and distribution access and pricing, and market conduct.

Table 2.3 Policy initiatives affecting the electricity industry, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Victoria (continued)	Sep 1994	Government tariff policy announced: Residential customer tariffs frozen until June 1996, followed by a 2 per cent real price fall in July 1996, and a 1 per cent real price fall each year thereafter to 2000.
	Oct 1994	A framework for the electricity industry established. Eight State owned companies created: <ul style="list-style-type: none"> • Victorian Power Exchange (VPX) to administer the new wholesale electricity market and to oversee system control; • PowerNet Victoria as a separate commercial corporation responsible for the maintenance of high voltage transmission assets; • five regionally based distribution businesses formed from the eighteen business units of the former Electricity Services Victoria and the eleven Municipal Electricity Undertakings. Each distribution business also comprises a ‘ring fenced’ retail arm^c; and • Generation Victoria, an interim structure comprising five groups of power stations trading as independent producers.
	Jan 1995	Generation Victoria disaggregated into five corporatised, regionally based companies.
	Sep 1995	The first of the distribution businesses is sold. The remaining four distributors are sold between October 1995 and January 1996.
	March 1996	Sale of Yallourn Energy Ltd announced.
	July 1996	Sale of Hazelwood Power Corporation and Energy Brix.
	Dec 1996	The Treasurer announced that expressions of interest would be called for Victoria’s largest power generator, Loy Yang Power.
	May 1997	Sale of Loy Yang A power station and sale of the State’s remaining 49 per cent interest in Loy Yang B power station.
	Queensland ^d	March 1994
Jan 1995		The vertically integrated Queensland Electricity Commission was divided into two corporations — Queensland Generation (trading as AUSTA Electric) and Queensland Transmission and Supply Corporation (QTSC).

Table 2.3 Policy initiatives affecting the electricity industry, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Queensland (continued)	Jan 1995	QTSC is a holding company for eight subsidiary corporations — seven regional distribution corporations and the Queensland Electricity Transmission Corporation, trading as Powerlink Queensland. QTSC has responsibility for planning, co-ordinating and supplying electricity.
Western Australia ^e	1991–92	Introduction of ‘time of use’ tariffs for larger non-residential customers.
	Feb 1996	Schedule for open access to Western Power’s high voltage transmission and distribution systems announced.
South Australia ^f	July 1995	ETSA corporatised and set up as a holding company for four separate subsidiary companies providing generation, transmission, distribution and gas supply. Regulatory functions transferred to various government departments.
	June 1996	Enactment of the <i>National Electricity (South Australian) Act 1996</i> .
	Jan 1997	Prime generation functions separated from ETSA Corporation to form Optima Energy.
Tasmania	June 1995	Legislation passed to allow new entrants into the industry, non-discriminatory access to the Hydro-Electric Corporation’s grid, and the establishment of an independent regulator — the Government Prices Oversight Commission (GPOC).
	July 1995	The Hydro-Electric Corporation established a government business enterprise (GBE) under the <i>Government Business Enterprises Act 1995</i> . The Act provides for full competitive neutrality including the identification, costing, determination and funding of community service obligations (CSOs).
	August 1996	GPOC undertook its first review of the Hydro-Electric Corporation pricing policies.
Northern Territory	April 1995	Power and Water Authority (PAWA) classified as Government Business Division (GBD) under the <i>Financial Management Act 1995</i> .
	Nov 1995	A set of Principles and Guidelines for the operation of GBDs was established, an approved pricing methodology for user charges was developed, and direct funding of CSOs was negotiated. The changes included the introduction of a tax-equivalent regime and full cost attribution for GBDs.

Table 2.3 Policy initiatives affecting the electricity industry, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Northern Territory (continued)	July 1996	PAWA fully subject to commercialisation principles.
Australian Capital Territory	July 1995	ACTEW corporatised and regulatory functions transferred to relevant government agencies.
	1995–96	ACTEW's distribution and retail activities were 'ring-fenced' during 1995–96. ^c
a		In August 1997, the ACCC issues draft determinations on the applications for authorisation of the Code and the application for acceptance of the NEM Access Code. In July 1998, NEMMCO announced full implementation of the NEM by 15 November 1998.
b		In July 1997, customers consuming more than 750 MWh per year can choose their own electricity supplier. In July 1998, customers consuming more than 160 MWh per year can choose their own electricity supplier.
c		'Ring fencing' involves splitting business units within a single entity.
d		In July 1997, AUSTA Electric was disaggregated into three competing generation corporations and an engineering services corporation. The QTSC was disaggregated into seven distribution corporations, three new retail corporations and a separate transmission corporation. In October 1997, commencement of the Queensland wholesale market. In March 1988, customers consuming more than 4 GWh per year can choose their own electricity supplier. In April 1998, two of the three government owned electricity retailers merged to create one retailer.
e		In July 1997, customers with an average annual load of not less than 10 MWh at a single site have third party access to Western Power's distribution system. In July 1998, customers with an average annual load of not less than 5 MWh at a single site have third party access to Western Power's distribution system. In October 1997, residential customers were given the option of choosing 'time of use' tariffs.
f		In February 1998, the Government announced the decision to sell the State's electricity assets. In June 1998, the Government announced the disaggregation of ETSA into a separate transmission and distribution company (with a subsidiary retail company). Optima Energy will be divided into three generation companies. An Independent Regulator and Ombudsman will be appointed to control prices and service standards.

Industry restructuring

The intention of structural change within the electricity supply industry has been to introduce competition in the generation and retail sectors by separating these contestable elements from the natural monopoly activities — transmission and distribution. Regulation of the natural monopoly activities was also required so that non-discriminatory access to transmission and distribution network services is established and maintained. Appropriate regulation ensures that the benefits of greater efficiency arising from increased competition in electricity generation and retail are realised.

In June 1993, the electricity industry's reform agenda was advanced when the Commonwealth, New South Wales, Victorian, Queensland, South Australian, Tasmanian and Australian Capital Territory Governments agreed upon a Multiple Network Corporation (MNC) structure to be in place by 1 July 1995. The MNC model is consistent with recommendations arising from the Hilmer Review into NCP. It requires each jurisdiction to separate the network businesses from the other elements and subsequently to corporatise the network business. The contestable elements (generation and retail) were then to be exposed to competition, creating pressures for adjustment and continual improvement.

By June 1996, New South Wales, Victoria and Queensland had made the most progress towards restructuring in line with the MNC model. In Victoria and New South Wales, generation, transmission and distribution have been fully separated, with multiple generation and distribution businesses operating in each State.

The New South Wales distribution and generation sectors were restructured during 1995–96. In October 1995, the existing 25 distributors were amalgamated to form six new distribution businesses. Advance Energy, Australian Inland Energy, EnergyAustralia, Great Southern Energy, Integral Energy and NorthPower were subsequently corporatised on 1 March 1996. This has resulted in all distributors within that State being monitored for the first time. In the past, only the four largest of the 25 distributors were monitored.

Pacific Power was disaggregated into a transmission network and three competing generators. On 1 July 1994 its transmission activities were transferred to Pacific Grid and then on 1 February 1995 to Transgrid. Six of Pacific Power's power stations were detached to create two new generating entities — Delta Electricity and Macquarie Generation. The three separate generation businesses commenced operations on 1 March 1996.

In Victoria, the five regionally-based distributors were privatised between September 1995 and January 1996. This was followed by the sale of the Yallourn Energy power station in March 1996. A second generator, Hazelwood Power Corporation, was sold in July 1996. By mid 1997 there were four remaining Victorian electricity GTEs, Generation Victoria, Southern Hydro, Victorian Power Exchange and PowerNet Victoria. Nearly all Victorian electricity assets have since been privatised, with only a gas-fired generation business remaining unsold.

On 1 July 1997 Queensland's major power generator, AUSTA Electric, was disaggregated into three competing government owned generators — Stanwell Corporation, CS Energy and Tarong Energy. The Queensland Transmission and Supply Corporation (QTSC) was split into seven distribution corporations, three new retail corporations and a separate corporation to operate the State's transmission infrastructure.

On 1 January 1997 the generation subsidiary of ETSA Corporation in South Australia became a separate government owned corporation — the SA Generation Corporation (Optima Energy). Transmission and distribution functions are undertaken by subsidiaries of ETSA Corporation.

Tasmania and the Northern Territory have not separated their generation, distribution and transmission functions into separate businesses. However in April 1998, the Tasmanian State Parliament passed legislation to disaggregate the Hydro-Electric Corporation (HEC) into a separate transmission corporation and a distribution and retailing corporation, while the HEC retains the hydro-electricity generation assets. The Northern Territory Government announced a comprehensive review of the Power and Water Authority, to commence in 1998–99.

The New South Wales Government and the South Australian Government have announced their intention to privatise their electricity businesses.¹ The Australian Capital Territory has announced that it would review ownership of its power assets.

Competitive neutrality

One way governments have sought to improve the performance of GTEs is to reform their organisation structure and practices, through mechanisms such as commercialisation, corporatisation and cost-related pricing. These reforms aim

¹ The South Australian Government has announced a restructure of the electricity industry in South Australia in preparation for the privatisation of power assets (see Table 2.3).

to put GTEs on a competitively neutral footing with their private sector counterparts.

All electricity GTEs have been corporatised, are in the process of being corporatised (the Snowy Mountains Hydro-electric Authority), or have been commercialised (the Power and Water Authority). Corporatisation involves providing GTEs with clear commercial objectives, hiving off regulatory responsibilities which may conflict with these commercial objectives, and subjecting the GTEs to State and Federal corporations law. They have also been required to make dividend and tax-equivalent payments to ensure competitive neutrality. The Snowy Mountain Hydro-electric Authority is the only electricity GTE which is not currently required to pay income taxes or dividends.

Pricing reforms

Legislated monopolies and businesses which operate in markets where competition is weak, have the potential to influence prices. Despite reforms of the electricity industry to date, governments still perceive a need for the oversight of prices.

As at June 1996, independent pricing and oversight authorities had been established in New South Wales (Independent Pricing and Regulatory Tribunal, (IPART)), Victoria (Office of Regulator-General (ORG)) and Tasmania (Government Prices Oversight Commission (GPOC)).

In New South Wales, IPART has fixed the maximum residential, off-peak and rural electricity prices at mid-1992 levels, and required price reductions for other customers. During March 1996, IPART set maximum revenues for the network and retail supply businesses of the distributors for the three years to June 1999.² The extent of price reductions will vary between distributors as pre-existing price distortions continue to be unwound.

In Victoria, residential customer tariffs were frozen from July 1993 until June 1996, with further reductions in the real price of electricity through to the year 2000.

In Tasmania GPOC conducted its first review of the Hydro-Electric Corporation's pricing policies in 1996. The Commission found that retail prices charged to business customers were substantially higher than the cost of production and that maximum price regulation was required to eliminate cross-subsidies between retail customer classes. From 1 January 1997, real average

² Revenue regulation, rather than price regulation, has been used in order to encourage demand management and energy efficient initiatives.

business tariffs were required to fall by a minimum of 5 per cent per annum in each year to the end of 1999, with no increase in the real average residential tariff over the same period.³

In August 1996, South Australian legislation established the role of a Competition Commissioner. Amongst other things, the role of the Commissioner is to provide pricing oversight for proclaimed GTEs.

In September 1996, the Australian Capital Territory Government appointed an independent Prices Surveillance Commissioner to work with the New South Wales IPART to oversee ACTEW Corporation's electricity prices.

Electricity prices in Queensland and Western Australia remained subject to Ministerial review. For Queensland, prices for domestic customers were frozen and prices for commercial and industrial customers were reduced by 8 per cent in March 1995. In March 1998, prices for commercial and industrial customers were reduced again by 5 per cent.

In the Northern Territory, prices oversight is undertaken by the Treasury. In 1992, electricity tariffs were frozen for five years.

The role of independent price regulation will diminish as the NEM develops. The proportion of customers free to choose their electricity supplier has increased considerably since commencement of wholesale electricity markets in Victoria, New South Wales and the NEM which includes these and other jurisdictions. The proportion of 'contestable customers' is scheduled to increase over the coming years as retail franchises expire. The States and Territories each have their own timetable for participating in the NEM, thereby allowing customers the choice of electricity supplier. Larger power users already have the choice in most jurisdictions (see Table 2.4).

³ Restrictions on the maximum increase possible for any customer will also apply.

Table 2.4 Timetable for competitive retail trading

	<i>Date of eligibility</i>	<i>Site thresholds</i>	<i>Date for mandated contestability</i>	<i>Estimated number of customers</i>	<i>Percentage of total energy (per cent)</i>
New South Wales					
	01-Oct-96>=	40 GWh	01-Oct-97	47	14.0
	01-Apr-97>=	4 GWh	01-Oct-97	660	29.0
	01-Jul-97>=	750 MWh	01-Jul-98	3560	40.0
	01-Jul-98>=	160 MWh	01-Jul-99	10 860	47.0
	1-Jan-2001	All sites	To be decided	2 750 000	100.0
Victoria					
	30-Nov-94>=	5 MW	30-Nov-94	47	n.a.
	01-Jul-95>=	1 MW	01-Jul-95	380	n.a.
	01-Jul-96>=	750 MWh	01-Jul-96	1 900	n.a.
	01-Jul-98>=	160 MWh	01-Jul-98	6 900	n.a.
	01-Dec-2000	All sites	01-Dec-2000	2 100 000	n.a.
Queensland					
	29-Mar-98>=	40 GWh	29-Mar-98	37	n.a.
	01-Jan-99>=	4 GWh	01-Jan-99	390	n.a.
	01-Jan-2000>	200 MWh	01-Jan-2000	6 400	n.a.
	01-Jan-2001	All sites	01-Jan-2001	1 600 000	n.a.
Australian Capital Territory					
	01-Oct-97>=	20 GWh	21-Dec-97	5	7.4
	01-Mar-98>=	4 GWh	01-Mar-98	40	18.1
	01-May-98>=	750 MWh	03-May-98	247	32.2
	01-Jul-98>=	160 MWh	28-Jun-98	781	40.7
	1-Jan-2001	All sites	To be decided	126 730	100.0
South Australia ^a					
	NEM start	5MW or 40 GWh			
	NEM start	1 MW or 4 GWh			
	NEM start+6m	750 MWh			
	Jan 2000	160 MWh			
	Jan 2003	All sites			

^a Information provided by the South Australian Department of Treasury and Finance.

Source: ESAA 1998.

The National Electricity Market

In July 1991 COAG agreed to work co-operatively to create a competitive electricity market in Eastern and Southern Australia — the NEM. In June 1993, the Commonwealth, New South Wales, Victorian, Queensland, South Australian, Tasmanian and Australian Capital Territory Governments agreed to

implement the NEM by July 1995.⁴ The agreement is embodied in a Code of Conduct — the National Electricity Code (the Code).

The electricity spot market provides a wholesale trading mechanism linking generators, retail authorities and wholesale end-use customers. All wholesale energy is traded through the spot market. Generators bid to supply electricity and wholesale purchasers (distributors and large customers) buy electricity requirements at the spot price which is set every half hour.

The National Grid Management Council (NGMC) was established to manage the formation of the new market and to facilitate open access and free trade in wholesale electricity. The NGMC has since developed trading rules, network pricing principles, system controls and rules for network access (NCC 1997a).

The National Electricity Code Administrator (NECA) and the National Electricity Market Management Company (NEMMCO) were also established. NECA is responsible for managing and enforcing the Code. NEMMCO is responsible for managing the power system, including national dispatch of generation and controllable load, and operation of the spot and forward trading markets (NCC 1997a).

In parallel with the NGMC process, New South Wales and Victoria introduced their own wholesale electricity markets. The Victorian Power Exchange implemented the VicPool market in 1994 and TransGrid implemented the New South Wales market in 1996, allowing the phase introduction of contestability in these markets (see Table 2.4). The wholesale markets in Victoria and New South Wales were harmonised in May 1997 (phase one of the NEM) by aligning rules for pricing and generator dispatch in the two states.

There has been some slippage in implementing the full NEM. This reflects in part the inherent difficulties involved in developing and gaining agreement to the national reforms in a complex area. However, substantial progress has been made to date (see Table 2.5).

⁴ It is not currently feasible for Western Australia to join the NEM, due to its geographical isolation from Eastern and Southern Australia. However, the electricity distribution system in Western Australia was opened up to third party competitors from July 1997, allowing large customers to enter into contracts with either Western Power or private generators to purchase electricity which is supplied via Western Power's distribution system.

Table 2.5 National electricity market reforms

<i>Date</i>	<i>Reforms</i>
July 1994	The establishment of a wholesale electricity market in Victoria.
May 1996	The establishment of a wholesale electricity market in New South Wales.
November 1996	In November 1996, the National Electricity Code (the Code) is submitted to the ACCC for authorisation under Part IV of the <i>Trade Practices Act 1974</i> (and acceptance as an industry access code) and the ACCC commences formal public consultation on the National Code and invites submissions.
May 1997	Phase 1 of the NEM 1 commenced in May 1997 allowing wholesale electricity trade between New South Wales, Victoria, the Australian Capital Territory and South Australia.
October 1997	Phase 2 of NEM 1 commenced in October 1997 which has all provisions of the Code apply except those for market rules and system security.
March 1998	Queensland partially joined the NEM in March 1998 to operate as a separate market under NEMMCO control until it is connected to the National Grid in 2001.
July 1998	NEMMCO announced full implementation of the NEM by 15 November 1998.

2.3 Consumer outcomes

There are around eight million electricity customers in Australia, of which nearly six million are serviced by GTEs. Five million of these are residential customers and nearly one million are businesses.

Reform of the electricity industry directly affects customers through changes in the price of electricity and changes in service quality. Electricity prices and service quality also affect consumers indirectly to the extent that electricity costs to industry are reflected in the final prices of other goods and services.

Real prices

GTEs reported real price indices based on the average price of electricity sold to residential users, business users and all customers (residential and business combined).⁵ The business users price index incorporates both commercial and

⁵ Real price indices are constructed by deflating average selling prices of electricity distributors in each jurisdiction, by the appropriate capital city Consumer Price Index. In

industrial customers. There was insufficient data provided to include a price index for Victorian electricity GTEs from 1991–92 to 1994–95.

Australian electricity consumers have benefited from reductions in real electricity prices between 1991–92 and 1996–97. In most jurisdictions monitored, average real prices to ‘all customers’ were lower in 1996–97 than they were in 1991–92 (see Figure 2.1).

Prices fell by 38 per cent in Queensland, 23 per cent in New South Wales, 20 per cent in Western Australia, and by 17 per cent in South Australia. The exceptions were in Tasmania and the Australian Capital Territory where prices increased during the period and then returned to their previous level in 1996–97.

Declining operating costs have provided the scope for these price reductions. Reported operation and maintenance costs and labour costs, have declined for most electricity GTEs monitored since 1992–93 (SCNPMGTE 1998).⁶

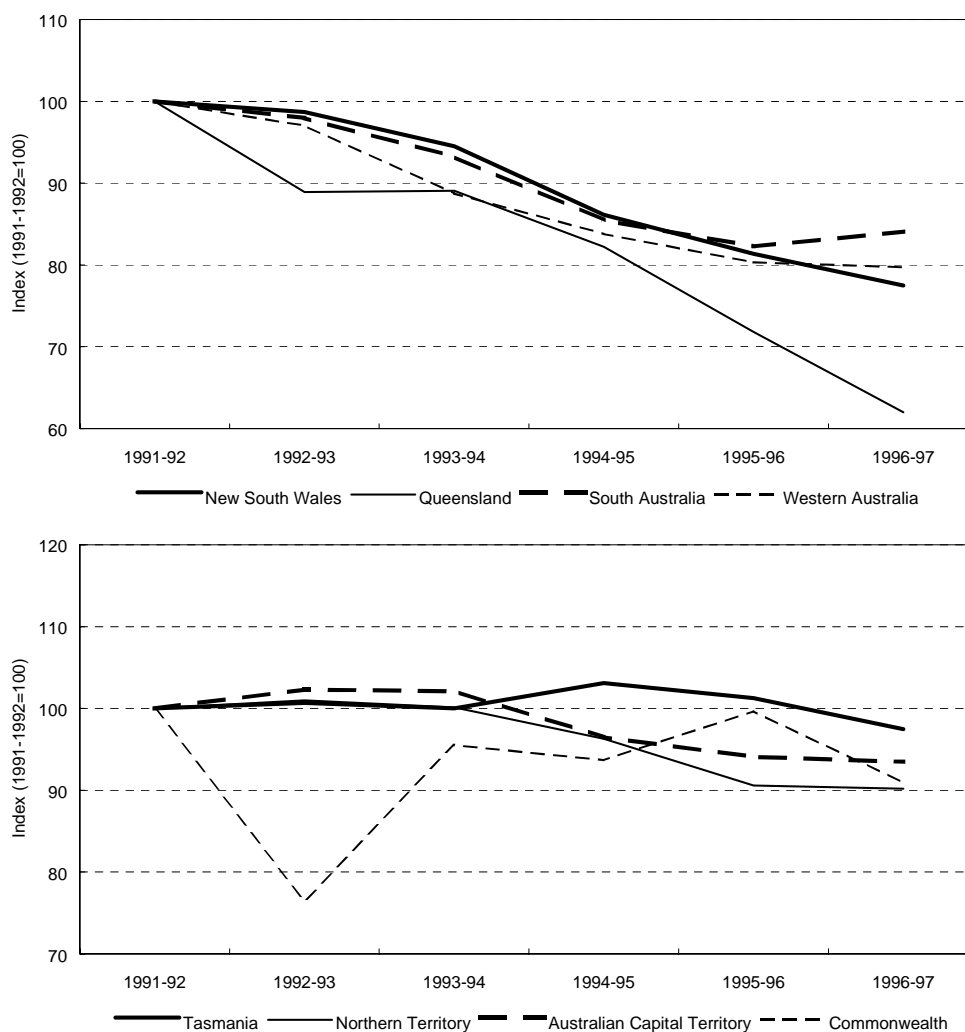
Independent price regulation has played an important role in passing on cost reductions to consumers over the period. For example, in New South Wales, IPART determinations have produced a \$560 million cumulative reduction (31.4 per cent) in electricity bills for non-residential electricity customers since July 1993 (IPART 1997). In most jurisdictions the relevant Minister has lowered the average real price of electricity (or kept tariff increases below nominal price increases) from 1991–92 to 1996–97.

In most jurisdictions, business users received larger price reductions than residential consumers (see Figures 2B.1 & 2B.2). Business price reductions exceeded residential price reductions by 24 percentage points in South Australia, 13 percentage points in New South Wales, 12 percentage points in Queensland and 6 percentage points for the Australian Capital Territory. Two exceptions were Western Australia and Tasmania, where residential prices fell by nearly 8 percentage points more than business prices. The other exception was in the Northern Territory where prices for the two groups fell to about the same level.

jurisdictions with more than one electricity GTE reporting, individual prices indices were weighted by each GTE’s share of total revenue.

⁶ Labour productivity has increased in terms of output per full-time employee but this does not include labour which has been outsourced to replace full-time employees.

Figure 2.1 Real price index for all customers by jurisdiction, 1991-92 to 1996-97



Notes: The scale ranges used along the y axis of each chart are different. Real price indices are constructed by deflating average selling prices of electricity distributors in each jurisdiction, by the appropriate capital city Consumer Price Index. In jurisdictions with more than one electricity GTE reporting, individual prices indices were weighted by each GTE's share of total revenue in the jurisdiction. There was insufficient data provided to include a price index for Victorian electricity GTEs over the period.

The larger price reductions to business users have been the result of price regulators' efforts to reduce cross-subsidies between the two groups of users and to set prices which reflect the costs of supplying electricity to each group. For example, the Queensland Government reduced electricity prices for commercial and industrial customers by 8 per cent in March 1995 and by 5 per

cent in March 1998. The second reduction was estimated to benefit these users by around \$70 million in terms of cost reductions (Edwell 1998).

The role of price regulation has become less important as more and more consumers are free to choose their own electricity supplier (see Table 2.3). Since the advent of the NEM which integrated the wholesale electricity markets in Victoria and New South Wales, choice in electricity supply has been available to around 60 per cent of energy customers in New South Wales and around 50 per cent in Victoria (Delta 1997). In October 1997, the first round of large contestable customers from the Australian Capital Territory entered the NEM. In March 1998, the first round of contestable customers entered the Queensland wholesale electricity market.

Price competition has intensified within States (through wholesale electricity markets) and between some States (through the NEM). The average spot price for power in Victoria and New South Wales since 1996–97 is claimed to have fallen to below the average cost of generating power in the two jurisdictions (Gibbs 1998).

Service quality

Service quality has become increasingly important in terms of electricity GTEs competitive advantage, particularly with the advent of the ‘contestable customer’. Generally, electricity distributors have adopted a stronger customer focus over the period. Since 1991 most distributors have implemented programs specifically designed to improve the level of customer service they deliver. Many distributors monitor customer satisfaction as part of their annual reporting function and some set customer service level targets to be used as performance targets.

Reliability of supply is a key measure of service quality in the electricity industry. This is particularly so for business users for whom supply interruptions can be costly in terms of loss of production. GTEs reported average loss of supply, average outage frequency and average outage duration as measures of reliability for the period 1991–92 to 1996–97.

The average loss of supply is the total length of time (on average) that a customer is without the supply of power during the year. This measure is expected to fluctuate widely between years because most outages are caused by storms and bushfires. It also reflects the ability of distributors to restore supply quickly.

Average loss of supply fluctuated widely in some jurisdictions over the period. In Queensland, the average loss of power was 203 minutes during 1991–92,

106 minutes during 1994–95 and then back up to 146 minutes in 1996–97. In the Australian Capital Territory, the average loss of power was 44 minutes during 1993–94, 25 minutes during 1994–95 and then back up to a high of 52 minutes in 1996–97 (see Figure 2.2).

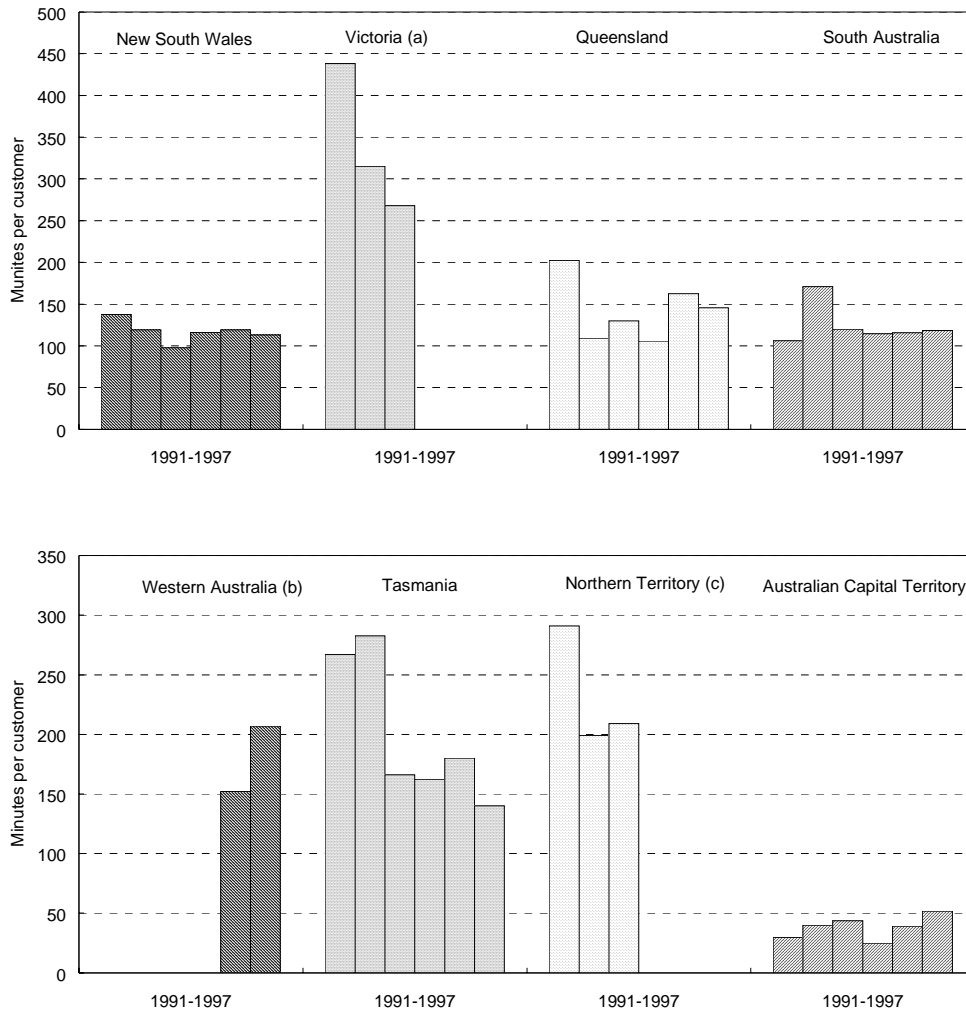
That said, the average loss of supply became less variable over the period in two jurisdictions. In New South Wales the average loss of power was 138 minutes during 1991–92, gradually decreasing to 113 minutes in 1996–97. In South Australia the average loss was 171 minutes in 1992–93, gradually decreasing to 118 minutes in 1996–97 (see Figure 2.2).

In two jurisdictions the average loss of supply improved dramatically. In Tasmania average loss of power reduced from 263 minutes in 1991–92 to 140 minutes in 1996–97. In Victoria (for the three years reported) average loss of power reduced from 438 minutes in 1991–92 to 268 minutes in 1994–95 (see Figure 2.2).

For some electricity users the average outage frequency is a more pertinent indicator of service reliability. It measures the number of times (on average) that a customer loses supply each year. Customers in most jurisdictions monitored, experienced fluctuations in the number of outages each year over the period. A notable exception was Tasmania, which had a gradually decreasing number of outages from three interruptions per customer in 1992–93 down to two interruptions in 1996–97 (see Figure 2B.3).

For other electricity users the average outage duration is a more pertinent indicator of service reliability. This measures the amount of time (on average) that a customer is without power per interruption. Customers in all jurisdictions experienced wide fluctuations in outage duration each year over the period. A possible exception was the Northern Territory (for the three years reported), which had a gradually decreasing minutes per interruption from 62 minutes per interruption in 1992–93 down to 41 minutes per interruption in 1996–97 (see Figure 2B.4).

Figure 2.2 Loss of supply per customer, 1991-92 to 1996-97



- Notes:
- The scale ranges used along the y axis of each chart are different.
 - Loss of supply factor equals total number of customer minutes interrupted divided by the average number of customers.
 - a Data was not provided for Victoria for 1994-95. Victorian generators and distributors were not monitored after 1994-95.
 - b Data was not provided for Western Australia for 1991-92, 1992-93, 1993-94 and 1994-95.
 - c Data was not provided for the Northern Territory for 1994-95, 1995-96 and 1996-97.

2.4 Shareholder outcomes

Government represents the shareholder interest in GTEs and dividends represent returns to shareholder governments. Underlying returns to shareholders are electricity GTE earnings or operating profits. After taxes, the residual profit represents a return on equity which is then distributed as dividends or retained by GTEs.

Profitability

Operating profit before tax measures the operational performance of GTEs, before income tax is paid. It measures the difference between total revenue and total expenses and includes abnormal items such as revenue from asset sales.

In most jurisdictions, electricity GTE's operating profit improved substantially over the period. For example, in Tasmania operating profit before tax increased from \$30 million in 1991–92 to \$85.5 million in 1996–97. In the Australian Capital Territory operating profit grew steadily from \$24 million in 1991–92 to \$43 million in 1996–97. In Queensland operating profit increased sharply between 1991–92 and 1993–94 from \$549 million to \$771 million, and then fell back to \$664 million in 1996–97. The two exceptions were the Northern Territory and the Commonwealth, both recording operating losses for most of the period (see Figure 2.3).

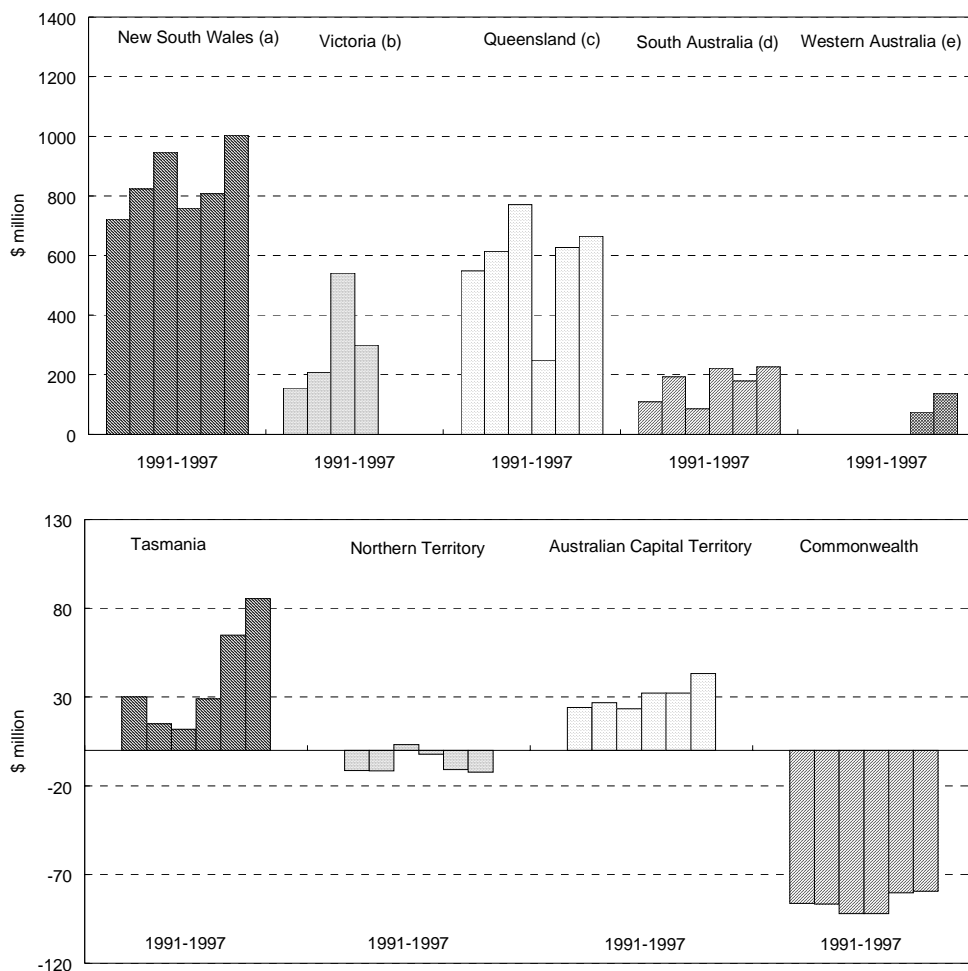
Revenue

Total revenue consists primarily of revenue from the sale of electricity, but also includes other items such as investment income and abnormal revenue.

Total revenue grew steadily in most jurisdictions from 1991–92 to 1996–97. Growth was relatively strong in New South Wales, Queensland, Western Australia, Tasmania and the Northern Territory, while South Australia, Australian Capital Territory and the Commonwealth maintained fairly constant revenue levels over the period. Growth in electricity consumption and production over the period has enabled an expansion in sales volumes in these jurisdictions (see Box 2.1 and Figure 2B.5).

Some revenue increases, and hence profit increases, over the period were due to increases in abnormal revenue. Abnormal revenue usually includes such items as asset sales which are considered abnormal by reason of their size and effect on operating profit.

Figure 2.3 Operating profit before income tax by jurisdiction, 1991-92 to 1996-97



- Notes:
- The scale ranges used along the y axis of each chart are different.
 - Operating profit before income tax is calculated by subtracting total expenses from total revenue and includes abnormals.
 - a Only four of the 25 distributors operating in New South Wales in 1994-95 were monitored in that year. From 1995-96 onwards, all 25 (merged into six distributors) were monitored.
 - b Victorian generation and distribution GTEs were not monitored after 1994-95. Comparisons between 1992-93 and 1993-94 and 1994-95 may not be valid due to the disaggregation of the State Electricity Commission of Victoria (SECV) over the period.
 - c The Queensland electricity supply industry was restructured and only half the 1994-95 financial year data was reported.
 - d Operating profit fell dramatically in 1993-94 due to a significantly high abnormal expense in that year.
 - e The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995, when Western Power was established as a separate electricity provider and only half the 1994-95 financial year data were reported.

In most jurisdictions abnormal revenues made up a relatively small percentage of total revenue. One exception was New South Wales, where abnormal revenue represented around 18 per cent of total revenue in 1996–97, compared to less than 1 per cent the year before. This included income from a leased power station and superannuation contributions.

Expenses

Total expenses relate primarily to the expenses directly incurred in generating sales revenue — but also includes other items such as depreciation and abnormal expenses.

Total expenses increased in most jurisdictions. Expenses growth was relatively strong in New South Wales, Queensland, and the Northern Territory. Total expenses fell marginally in the Australian Capital Territory and the Commonwealth.

Higher labour productivity and lower operating and maintenance costs over the period enabled many GTEs to lower (or control growth in) total expenses, while expanding production and sales revenue (see Figure 2B.6).

As with revenues, some expense increases, and hence profit movements over the period, were due to increases in abnormal expenses. Abnormal expenses include items such as redundancy packages.

In most jurisdictions abnormal expenses made up a relatively small percentage of total expenses. A notable exception was in South Australia, where abnormal expense represented around 16 per cent of total expense in 1993–94, compared to less than 1 per cent the year before. This included an increase in employee retirement entitlements and expenditure on redundancy packages.

A major component of total expenses for most electricity GTEs is interest expense or the cost of servicing debt. Interest expense as a proportion of total expense has fallen dramatically in most jurisdictions, contributing to improved operating profit, while expanding output. For example, in Queensland interest expense as a proportion of total expenses fell from 27 per cent in 1991–92 to 11.3 per cent in 1996–97. This is largely the result of debt reduction policies adopted by many GTEs and the lower debt servicing costs due to lower interest rates over the period (see Figure 2B.7).

Income tax-equivalent expense

Nearly all electricity GTEs are subject to an income tax-equivalent regime. The exception is the Snowy Mountain Hydro-electric Authority which operates on a cost recovery basis and is not currently required to pay income tax.

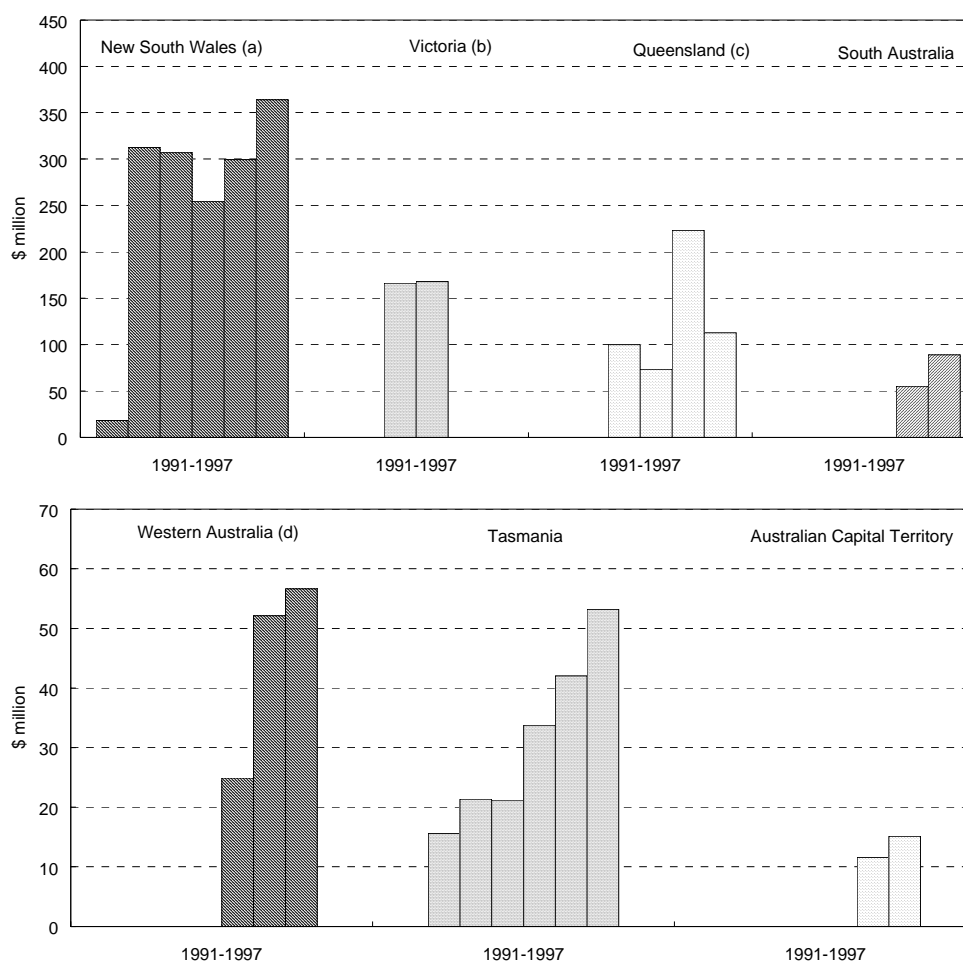
Income tax expense paid or payable has increased in all jurisdictions over the period (see Figure 2.4). This reflects both an increase in taxable earnings and efforts by government to promote competitive neutrality by requiring GTEs to pay income tax-equivalents.

For example, in Western Australia an income tax-equivalent expense was not paid or payable until 1994–95 when the former State Energy Commission of Western Australia (SECWA) was corporatised. The new entity — Western Power incurred a tax-equivalent expense of \$57 million in 1996–97.

New South Wales electricity GTEs have operated under a tax-equivalent regime since July 1992, when Pacific Power (the monopoly generator for New South Wales until March 1996) first incurred a tax-equivalent expense. In New South Wales tax-equivalent expense paid or payable increased from \$18.1 million in 1991–92 to \$363.9 million in 1996–97.

ETSA Corporation in South Australia was one of the last electricity GTEs to adopt an income tax-equivalent regime, incurring its first tax liability of \$55.3 million in 1995–96, which increased to \$88.9 million in 1996–97 (see Figure 2.4).

Figure 2.4 Tax-equivalent expense by jurisdiction, 1991–92 to 1996–97



- Notes: The scale ranges used along the y axis of each chart are different.
- Income tax-equivalent expense on operating profit before tax (including abnormal items) calculated using tax effect accounting (AAS3).
- a Only four of the 25 distributors operating in New South Wales in 1994–95 were monitored in that year. From 1995–96 onwards, all 25 (merged into six distributors) were monitored.
- b Victorian generation and distribution GTEs were not monitored after 1994–95.
- c The Queensland electricity supply industry was restructured and only half the 1994–95 financial year data was reported.
- d The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when Western Power was established as a separate electricity provider and only half the 1994–95 financial year data was reported.

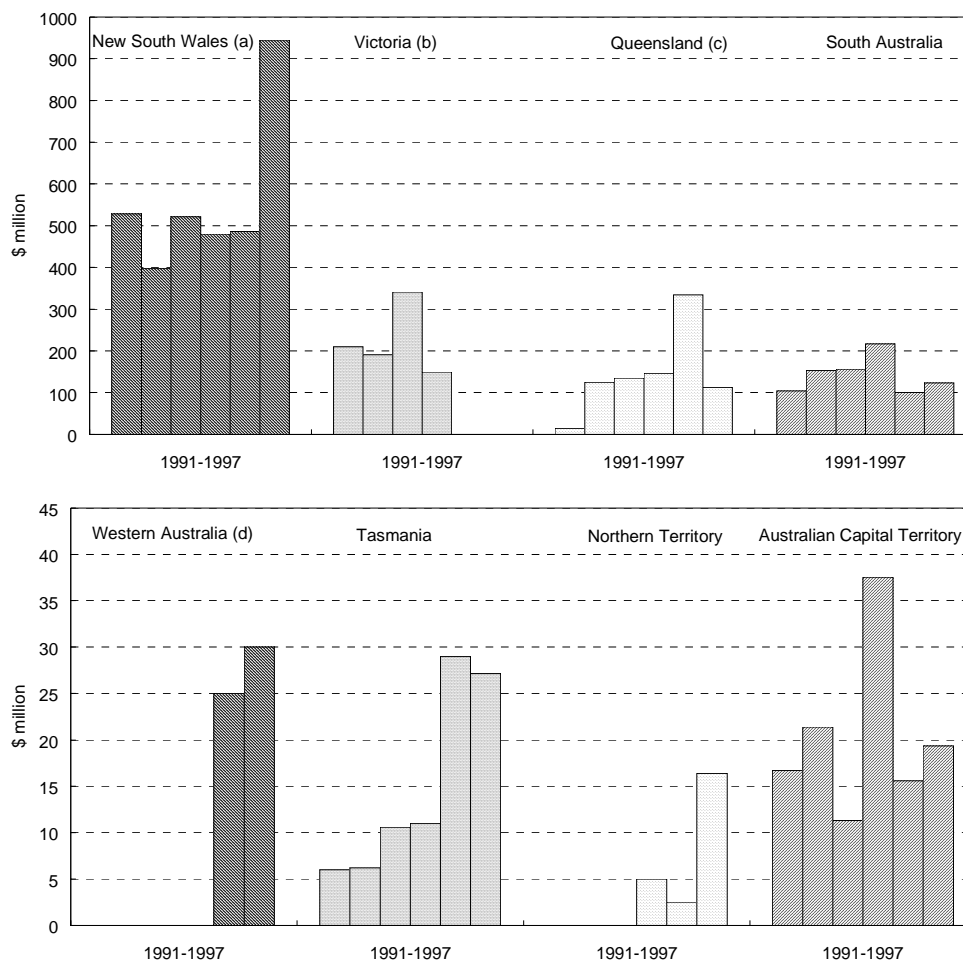
Dividend payments

Nearly all electricity GTEs now operate under a dividend policy, requiring them to make dividend payments from their operating profits to their shareholder Governments.

The level of dividend payments fluctuated in most jurisdictions over the period. Dividend payments tend to fluctuate more than income tax-equivalent expense because they are not determined by a set proportion (or rate) of operating profit from year to year, but by annual financial performance agreements between GTEs and their governments.

Recent years have seen added pressure on GTEs to return dividends to their owner governments, which is consistent with government efforts to promote competitive neutrality between GTEs and their private sector counterparts. For example, dividend payments in Tasmania grew substantially over the period from \$6 million in 1991–92 to \$27 million in 1996–97. Dividend payments to the New South Wales Government were more or less constant from 1991–92 to 1995–96, but nearly doubled between 1995–96 and 1996–97, increasing from \$486 million to \$945 million (see Figure 2.5).

Figure 2.5 Dividends paid or provided for by jurisdiction, 1991–92 to 1996–97



- Notes:
- The scale ranges used along the y axis of each chart are different.
 - Dividends paid or provided for include normal and special dividends and special levies on profits and revenues and excludes returns of capital.
 - a Only four of the 25 distributors operating in New South Wales in 1994–95 were monitored in that year. From 1995–96 onwards, all 25 (merged into six distributors) were monitored.
 - b Victorian generation and distribution GTEs were not monitored after 1994–95.
 - c The Queensland electricity supply industry was restructured and only half the 1994–95 financial year data was reported.
 - d The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when Western Power was established as a separate electricity provider and only half the 1994–95 financial year data was reported.

Return on equity

Return on equity (ROE) is a measure of the returns to equity capital. It is measured as after-tax operating profit as a proportion of average total equity. In the case of GTEs, this represents profits available after-tax to provide a return on government capital investment (on behalf of the community). A ‘satisfactory’ rate of return is one which provides a return comparable with that available from alternative investments. From governments’ perspective this return is received in the form of dividends (and retained earnings).

ROE for electricity GTEs was more or less consistent with what is required in the private sector (see Section 1.1). Most jurisdictions reported an ROE somewhere between 5 and 15 per cent over most of the period. The exceptions to this were Tasmania, which had returns lower than 5 per cent and negative returns for three years, and the Northern Territory and the Commonwealth, where ROE was negative for most years over the period (see Figure 2.6). In addition, Victoria had a ROE of 24 per cent in 1993–94, which was due to the combined effect of an increase in after-tax profits and a fall in average equity for that year.

The introduction of tax-equivalent regimes tended to substantially reduce ROE, particularly in the initial years following the introduction of such regimes. For example, ROE in South Australia fell from 15.4 per cent in 1994–95 down to 7.3 per cent in 1996–97. In New South Wales ROE fell from 13.3 per cent in 1991–92 down to 6.2 per cent in 1992–93 (see Figure 2.6).

ROE is determined on the one hand by the operating profit generated by GTEs, which increased over the period. The other component of ROE is the value of equity in the GTE, which is the difference between the value of assets and liabilities held by GTEs. Equity levels tended to increase over the period as asset values increased and liability levels remained fairly constant.

Assets

Asset values increased in most jurisdictions, contributing to the variability in ROE. This was a reflection of asset revaluations (including changes in valuation methods) in some cases and rationalisation of assets and capital expenditure in others.

As part of corporatisation and the reform process more generally, most electricity GTEs changed asset valuation methods from historical cost to current valuation methods, to provide a more meaningful value, taking account of depreciated current replacement cost or current market value of assets. A change in valuation methods explains most of the relatively large one-off

increases in the value of assets over the period. For example, in South Australia asset values increased from \$2420 million in 1994–95 to \$3634 million in 1995–96, when ETSA Corporation changed to the optimised deprival valuation method of asset valuation, to meet the Corporation’s obligations under the NEM (see Figure 2B.8).

Declining capital expenditure and asset revaluations have led to declining asset values in some jurisdictions. In New South Wales, Pacific Power re-valued its non-current assets downward from \$10 544 million in 1993–94 down to \$7245 million in 1994–95. Capital expenditure by Pacific Power over the period fell from \$558 million in 1991–92 down to \$22 million in 1996–97. This reflected a situation where there has been sufficient generation capacity to cater for growing demand without investing in new capacity.

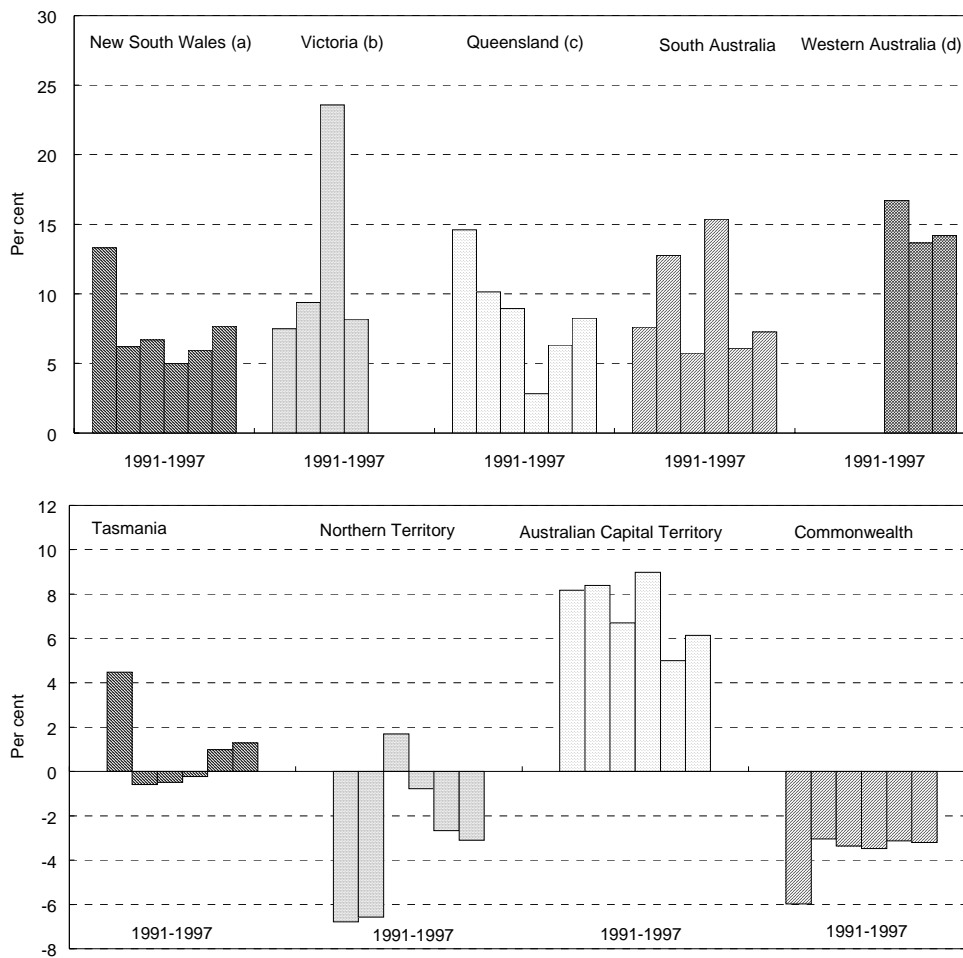
Liabilities

ROE levels are also affected by changes in liabilities. There was relatively little variation in liability levels in some jurisdictions and clear trends in others. Many electricity GTEs adopted debt reduction policies over the period in preparation for the reforms agreed to in their jurisdictions.

Debt reduction policies were required for many GTEs to be able to operate on a commercial footing. In Tasmania, the Hydro-Electric Corporation has reduced its liabilities from \$2118 million in 1991–92 gradually down to \$1960 million in 1996–97 (see Figure 2B.9). By 1993–94 their on-going capital works program was funded entirely from internal funds, rather than from borrowings and State Government compensation (as was the case in previous years).

The physical restructure of electricity GTEs necessitated capital restructuring in some cases to maintain an appropriate level of gearing. For example, in South Australia, ETSA Corporation increased its liabilities through an increase in current borrowing from \$74 million in 1995–96 to \$284 million in 1996–97 following the separation of its generating activities (to form Optima Energy) (see Figure 2B.9).

Figure 2.6 Return on equity by jurisdiction, 1991-92 to 1996-97



- Notes: The scale ranges used along the y axis of each chart are different.
- Return on equity is the ratio of operating profit after tax to average total equity. Operating profit after tax is calculated by subtracting total expenses and income tax paid or payable from total revenue (includes abnormal items). Equity is calculated by subtracting total liabilities from total assets.
- Return on equity cannot be calculated on a strictly comparable basis because of revaluations and abnormal items during the monitored period.
- a Only four of the 25 distributors operating in New South Wales in 1994-95 were monitored in that year. From 1995-96 onwards, all 25 (merged into six distributors) were monitored.
 - b Victorian generation and distribution GTEs were not monitored after 1994-95. Comparisons between 1992-93 and 1993-94 and 1994-95 may not be valid due to the disaggregation of the State Electricity Commission of Victoria (SECV) over the period.
 - c The Queensland electricity supply industry was restructured and only half the 1994-95 financial year data was reported.
 - d The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when Western Power was established as a separate electricity provider and only half the 1994-95 financial year data was reported.

2.5 Community outcomes

Two ways in which the broader community is affected by the performance of electricity GTEs are through the impact on the environment and the provision of community service obligations (CSOs).

The environment

Many electricity GTEs increased their environment related expenditure over the period. For example, in New South Wales, Pacific Power's spending on environmental research increased from \$5.6 million in 1992–93 to \$13.3 million in 1996–97.

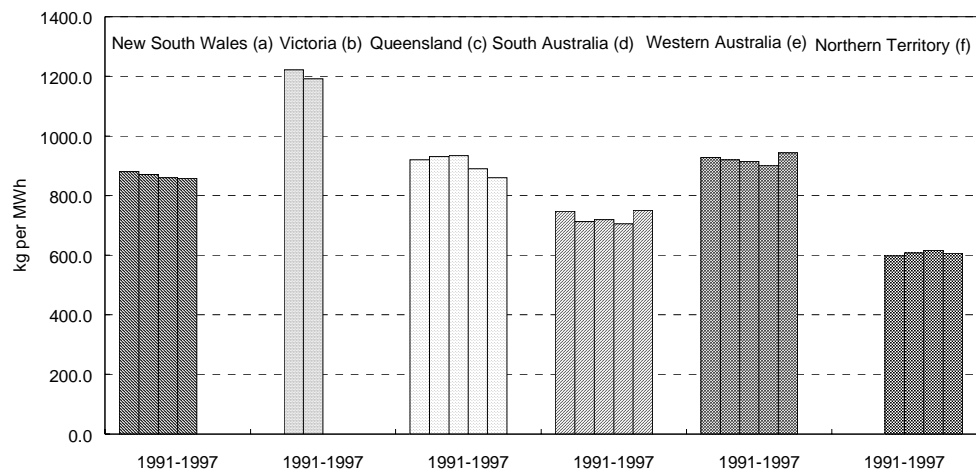
A substantial amount of this investment has focussed on renewable energy sources. These include solar power, wind power, biomass power and hydro-power. An estimated \$43 million of new investments in renewable energy infrastructure is currently operational or under construction (Syvret 1998). Hydro-electricity is the major source of renewable electricity currently available and the Snowy Mountains Hydro-electric Authority provides 84.5 per cent of the renewable energy supplied to the South–East Australian interconnected grid.

Several electricity GTEs have recently earned accreditation by the Sustainable Energy Development Authority (SEDA) as providers of alternatives to electricity generated at coal-fired power stations. They are Energex in Queensland, ETSA Power Corporation in South Australia and Advanced Energy, Energy Australia, Intergal Energy, Great Southern Energy, North Power and Australian Inland Energy in New South Wales (Syvret 1998).

Some GTEs have made commitments to achieve certain environmental standards, as part of the Commonwealth Government's National Greenhouse Challenge Program. Under this program, Western Power signed Western Australia's first Greenhouse Co-operative Agreement with the Commonwealth Government, and made a commitment to a set of actions and targets aimed at reducing anticipated greenhouse gas emissions in the year 2000 by 7 per cent and by a further 8 per cent in the years after 2000.

From 1991–92 to 1996–97, carbon dioxide emission levels (as a proportion of electricity generated) declined or remained stable in all jurisdictions where GTEs reported data (see Figure 2.7).

Figure 2.7 Carbon dioxide (CO₂) emissions by jurisdiction, 1991-92 to 1996-97



- Notes: Carbon dioxide emissions (kg) per unit of annual electricity generation (MWh).
 Victorian distributors were not monitored after 1994-95.
 ACTEW Corporation in the Australian Capital Territory does not generate its own power.
 This measure is not relevant to hydro-power generation in Tasmania and the Commonwealth.
- a Data was not provided for New South Wales for 1995-96 and 1996-97.
 - b Data was not provided for Victoria for 1991-92 and 1994-95.
 - c Data was not provided for Queensland for 1996-97.
 - d Data was not provided for South Australia for 1996-97.
 - e Data was not provided for Western Australia for 1996-97.
 - f Data was not provided for the Northern Territory for 1991-92, 1992-93.

Community service obligations

CSOs require GTEs to carry out activities relating to inputs or outputs which they would not elect to do on a commercial basis. Most jurisdictions have embarked on programs to review all their major CSOs or are about to do so, across the whole GTE sector. They have adopted policies which include the identification of all CSOs delivered by GTEs, the negotiation of contracts for their provision, the application of consistent costing methods to all CSOs and their direct funding through the budget.

Several electricity GTEs provided CSOs over the period. These were delivered in various forms including pensioner rebates, tariff equalisation, public lighting and Aboriginal community services. Of those CSOs reported, most were clearly identified and funded directly from State Government budgets. Exceptions were Macquarie Generation and North Power which funded their CSO

internally. The cost (or size) of the CSOs reported ranged considerably across GTEs — from around 0.5 per cent to around 9 per cent of total revenue.

2.6 Employee outcomes

The effects of electricity reform on people employed by electricity GTEs can be measured in two ways — by the level of employment in the sector and workplace safety performance.

Levels of employment

The amount of labour employed by the Australian electricity supply industry (including the private sector) has declined substantially over the period. In 1991–92, 58 142 people were employed by the industry compared to 38 218 in 1995–96 (ABS 1998b). For the electricity GTEs monitored, people employed declined by 45 per cent from 51 078 in 1991–92 to 28 059 in 1996–97. However, many electricity GTEs have also outsourced some functions such as maintenance and information technology.

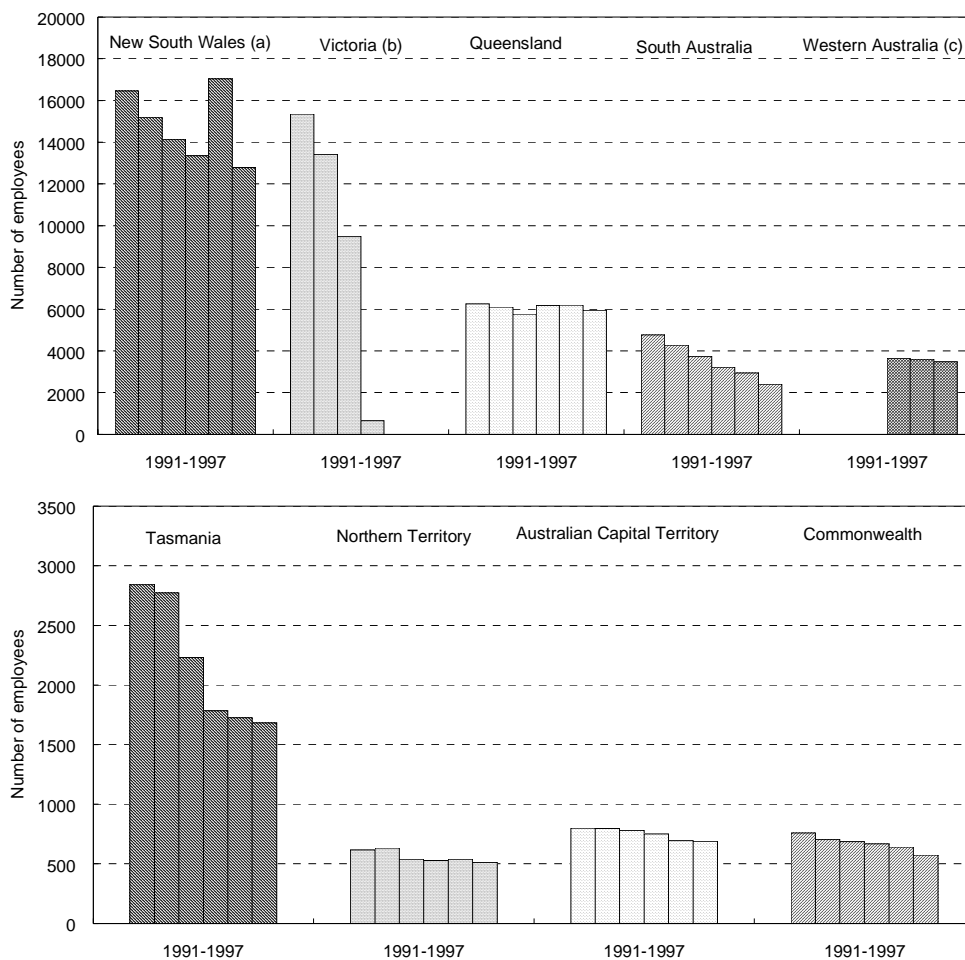
The decline in employment has occurred while electricity generation and consumption have been increasing (see Box 2.1). The number of employees in the monitored electricity supply industry has declined as a result of the privatisation of most electricity assets in Victoria (see Figure 2.8).

Workplace safety

The workplace safety of electricity GTEs has improved significantly over the period in nearly all jurisdictions. A key measure of safety is the lost time injury frequency rate (LTIFR) which is the number of work related injuries that result in time off work. Improvement in this area is consistent with efforts at both the Commonwealth and State Government level, to improve Australia's occupational health and safety performance across all industries. For example, in Tasmania the average LTIFR fell by 60 per cent between 1991–92 and 1996–97 (see Figure 2.9).

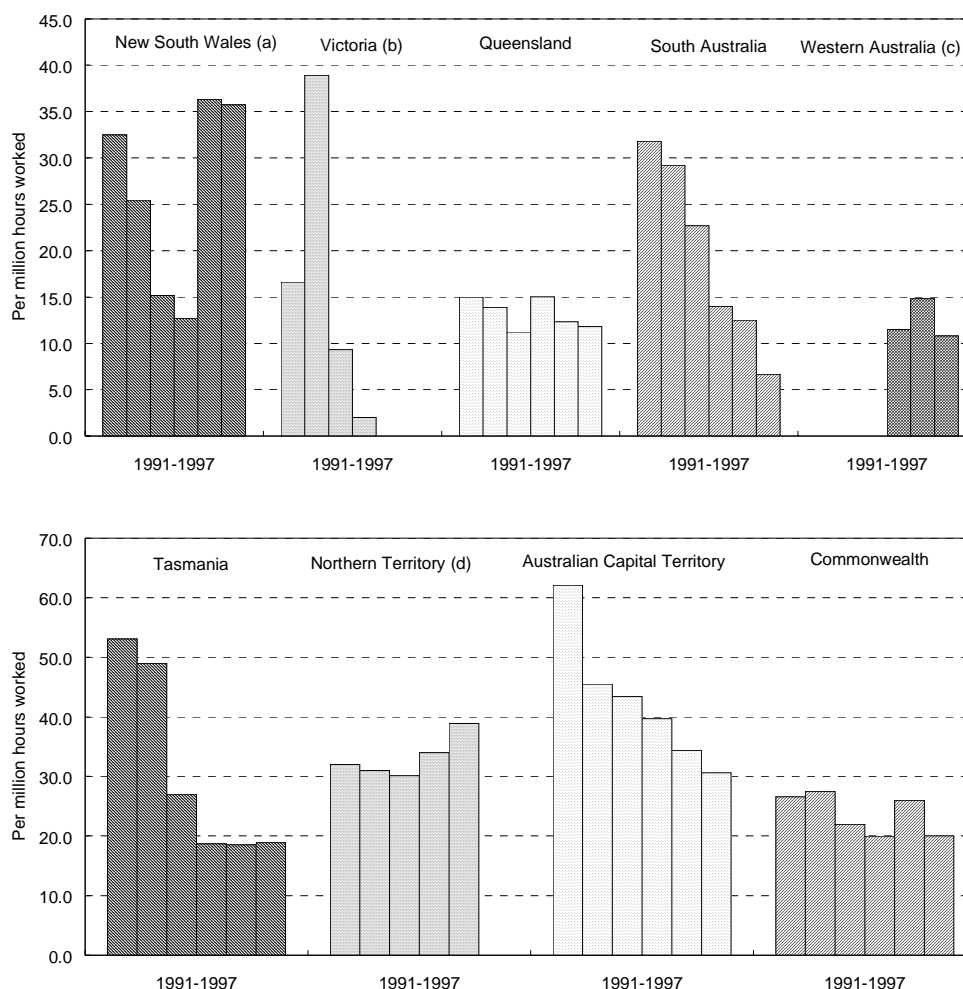
Electricity GTEs reported having devoted more resources to improving the safety of their workplaces and reducing workplace injuries over the period.

Figure 2.8 Total direct GTE employment by jurisdiction, 1991-92 to 1996-97



- Notes: The scale ranges used along the y axis of each chart are different. Total employment is measured as the average of full-time equivalent staff at the beginning and end of the period. This measure overstates the decline in labour used by GTEs because labour outsourcing is not accounted for.
- a Only four of the 25 distributors operating in New South Wales in 1994-95 were monitored in that year. From 1995-96 onwards, all 25 (merged into six distributors) were monitored, which to some extent explains the substantial change from 1994-95 to 1995-96.
 - b Victorian generation and distribution GTEs were not monitored after 1994-95. Data for 1994-95 refers to transmission GTEs only, which explains the substantial change from 1993-94 to 1994-95.
 - c The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when Western Power was established as a separate electricity provider.

Figure 2.9 Lost time injury frequency rates by jurisdiction, 1991–92 to 1996–97



- Notes:
- The scale ranges used along the y axis of each chart are different.
 - Lost time injury frequency rate equals the number incidents per annum (leading to at least half a shift off work) per million hours worked per annum.
 - Data was not provided for Victorian generation and distribution GTEs.
 - a Only four of the 25 distributors operating in New South Wales in 1994–95 were monitored in that year. From 1995–96 onwards, all 25 (merged into six distributors) were monitored.
 - b Victorian generation and distribution GTEs were not monitored after 1994–95. Data for 1994–95 refers to transmission GTEs only, which explains to some extent the substantial change from 1993–94 to 1994–95.
 - c The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when Western Power was established as a separate electricity provider.
 - d Data was not provided for the Northern Territory for 1996–97.

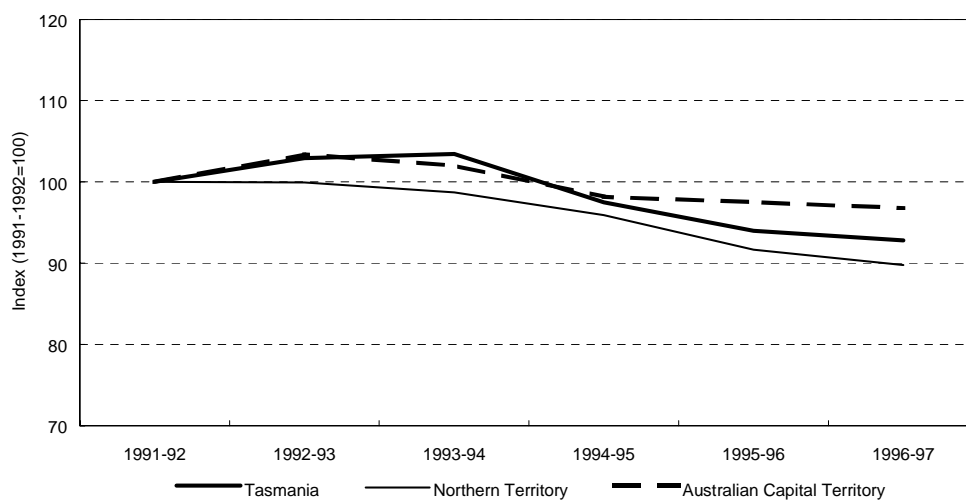
Attachment 2A Revenue by jurisdiction

Table 2A.1 Total revenue by electricity GTE, 1996–1997

<i>GTE</i>	<i>Revenue (\$ million)</i>	<i>Per cent share (%)</i>
New South Wales		
<i>Generation and Transmission</i>		
Delta Electricity	700.8	4.7
Macquarie Generation	866.4	5.8
Pacific Power	936.9	6.3
TransGrid	386.3	2.6
<i>Distribution</i>	198.7	1.3
Advance Energy		
Australian Inland Energy	38.1	0.3
EnergyAustralia	2061.0	13.8
Great Southern Energy	314.6	2.1
Integral	1047.2	7.0
NorthPower	419.9	2.8
<i>Total for New South Wales</i>	<i>6969.9</i>	<i>46.8</i>
Queensland		
<i>Generation</i>		
AUSTA Electric	83.3	1.0
<i>Distribution and Transmission</i>		
Queensland Transmission and Supply Corp.	4087.1	27.4
<i>Total for Queensland</i>	<i>4170.4</i>	<i>28.0</i>
Western Australia		
Western Power	1335.7	9.0
South Australia		
<i>Generation and Transmission</i>		
ETSA Power	971.0	6.5
Optima Energy	169.3	1.1
<i>Distribution</i>		
ETSA Transmission	113.0	1.0
<i>Total for South Australia</i>	<i>1253.3</i>	<i>8.4</i>
Tasmania		
Hydro Electric Corporation	528.2	3.6
Northern Territory		
Power and Water Authority	232.7	1.6
Australian Capital Territory		
ACTEW Corporation	235.8	1.6
Commonwealth		
Snowy Mountains Hydro-electric Authority	171.3	1.2
TOTAL	14 897.3	100

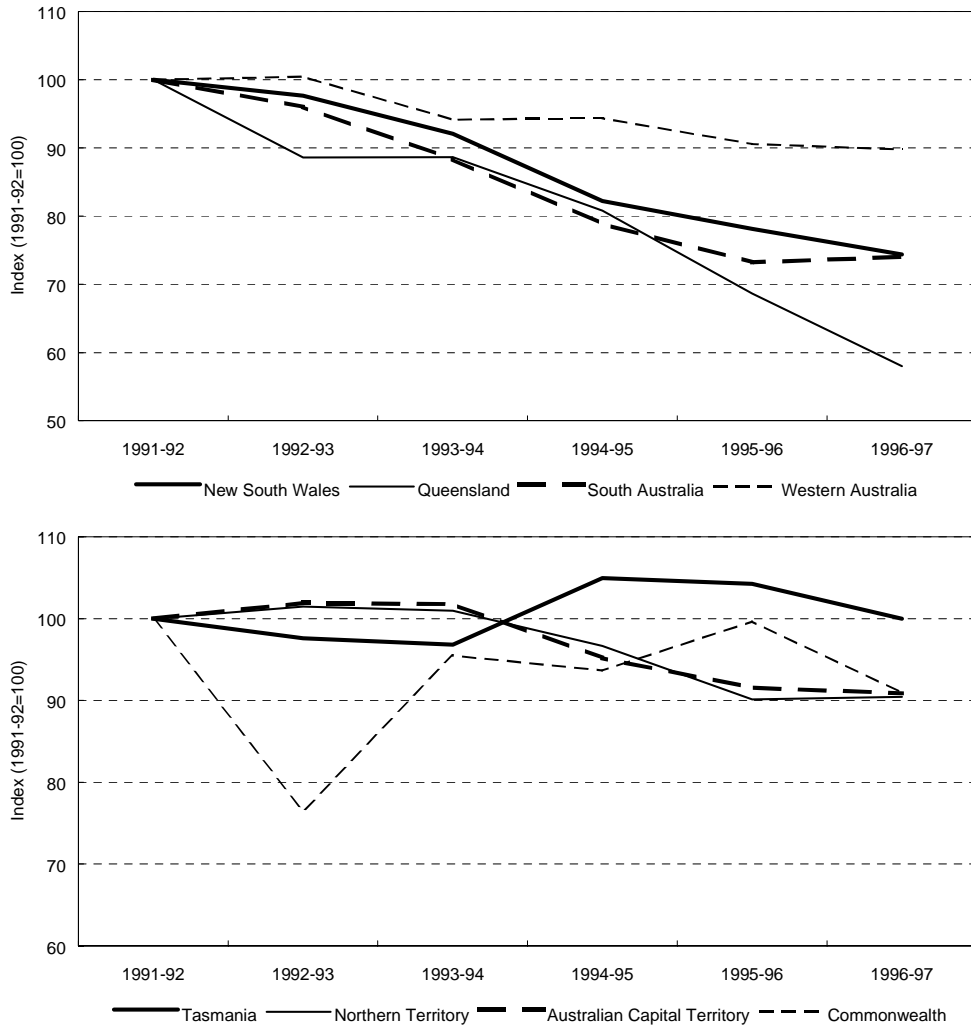
Attachment 2B Supporting figures

Figure 2B.1 Residential real price index by jurisdiction, 1991-92 to 1996-97



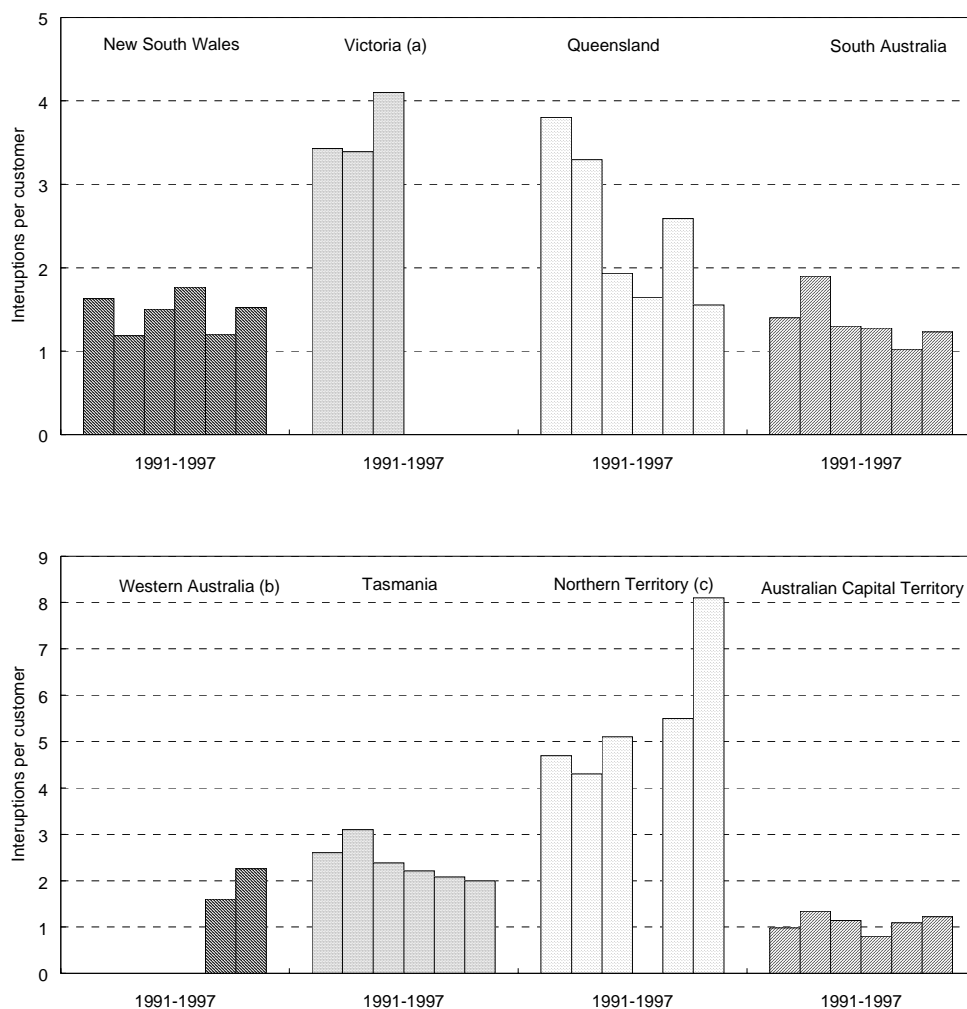
Notes: The scale ranges used along the y axis of each chart are different. Real price indices are constructed by deflating average selling prices of electricity distributors in each jurisdiction, by the appropriate capital city Consumer Price Index. In jurisdictions with more than one electricity GTE reporting, individual prices indices were weighted by each GTE's share of total revenue in the jurisdiction. There was insufficient data provided to include a price index for Victorian electricity GTEs over the period.

Figure 2B.2 Business real price index by jurisdiction, 1991-92 to 1996-97



Notes: The scale ranges used along the y axis of each chart are different. Real price indices are constructed by deflating average selling prices of electricity distributors in each jurisdiction, by the appropriate capital city Consumer Price Index. In jurisdictions with more than one electricity GTE reporting, individual prices indices were weighted by each GTE's share of total revenue in the jurisdiction. There was insufficient data provided to include a price index for Victorian electricity GTEs over the period.

Figure 2B.3 Average outage frequency by jurisdiction, 1991–92 to 1996–97



Notes: The scale ranges used along the y axis of each chart are different.

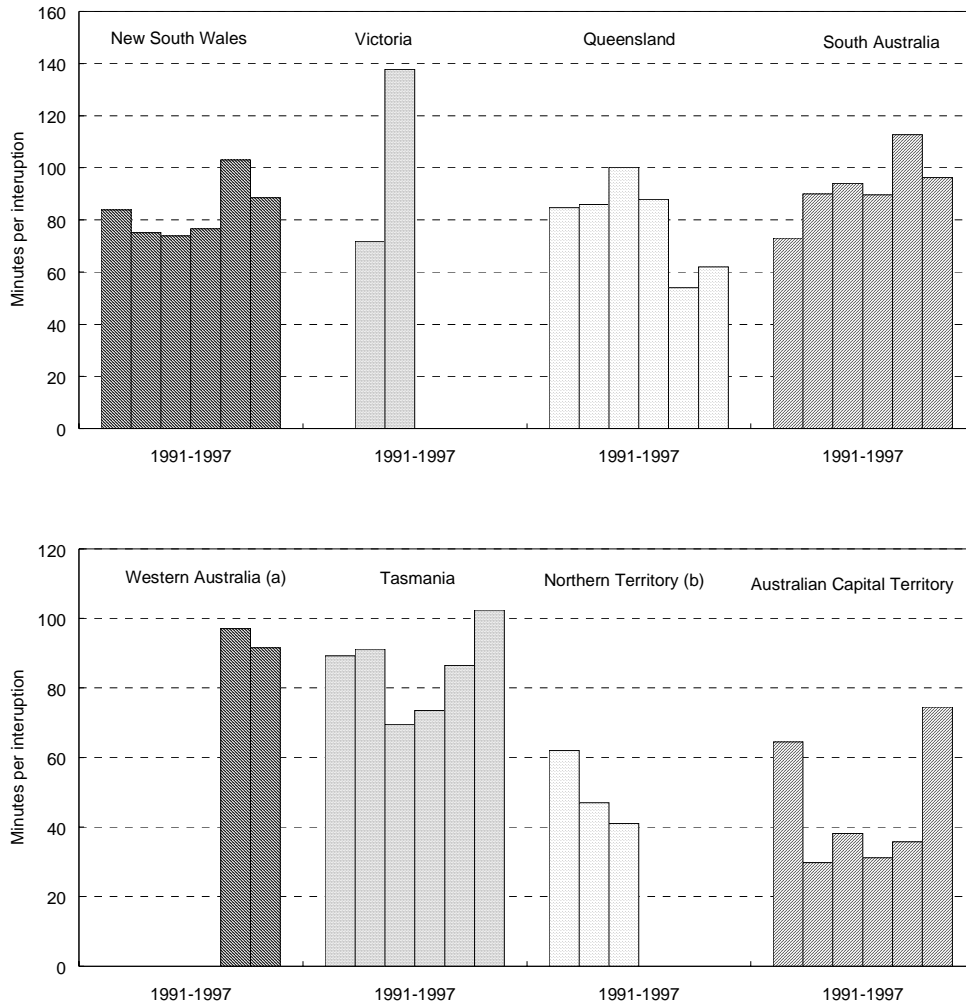
Average outage frequency equals total number of customer interruptions divided by the average total number of customers.

a Data was not provided for Victoria for 1994–95. Victorian generators and distributors were not monitored after 1994–95.

b Data was not provided for Western Australia for 1991–92, 1992–93, 1993–94 and 1994–95.

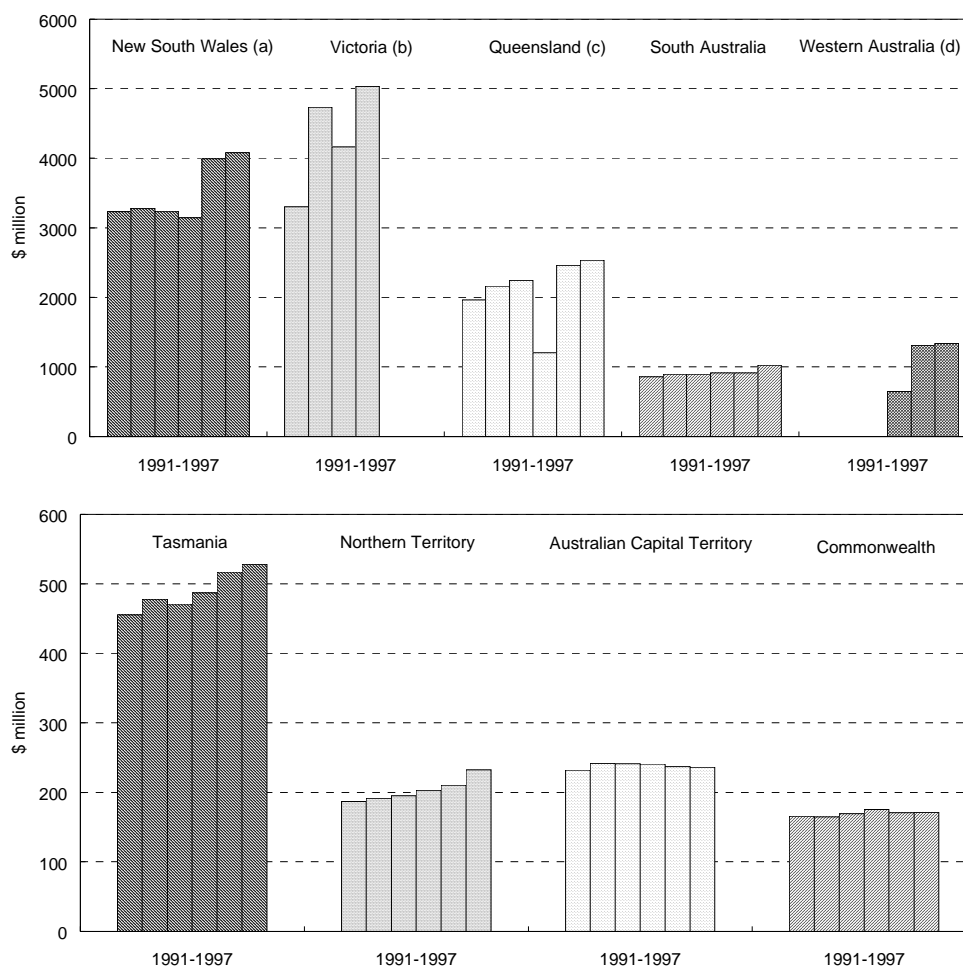
c Data was not provided for the Northern Territory for 1994–95.

Figure 2B.4 Average outage duration by jurisdiction, 1991-92 to 1996-97



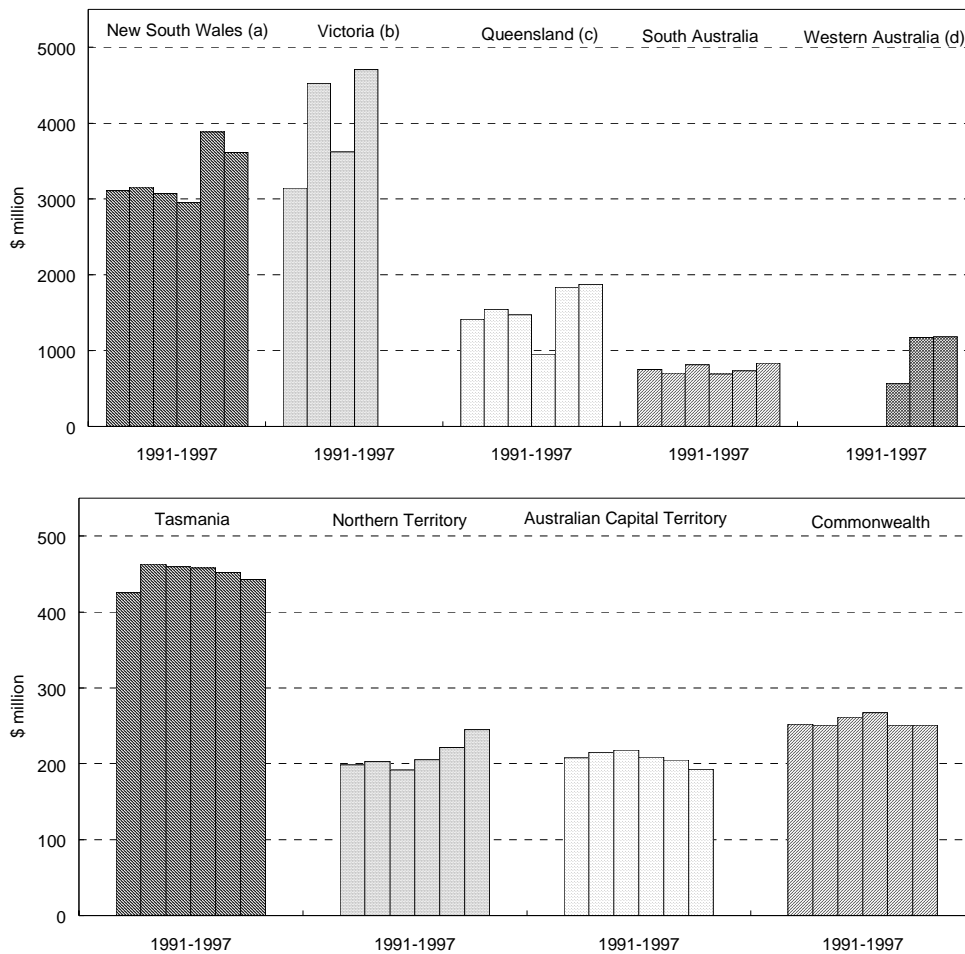
Notes: The scale ranges used along the y axis of each chart are different.
 Average outage duration equals total number of customer minutes interrupted divided by total number of customer interruptions.
 Data was not provided for Victorian distribution GTEs.
 a Data was not provided for Western Australia for 1991-92, 1992-93, 1993-94 and 1994-95.
 b Data was not provided for the Northern Territory for 1994-95, 1995-96 and 1996-97.

Figure 2B.5 Total revenue by jurisdiction, 1991–92 to 1996–97



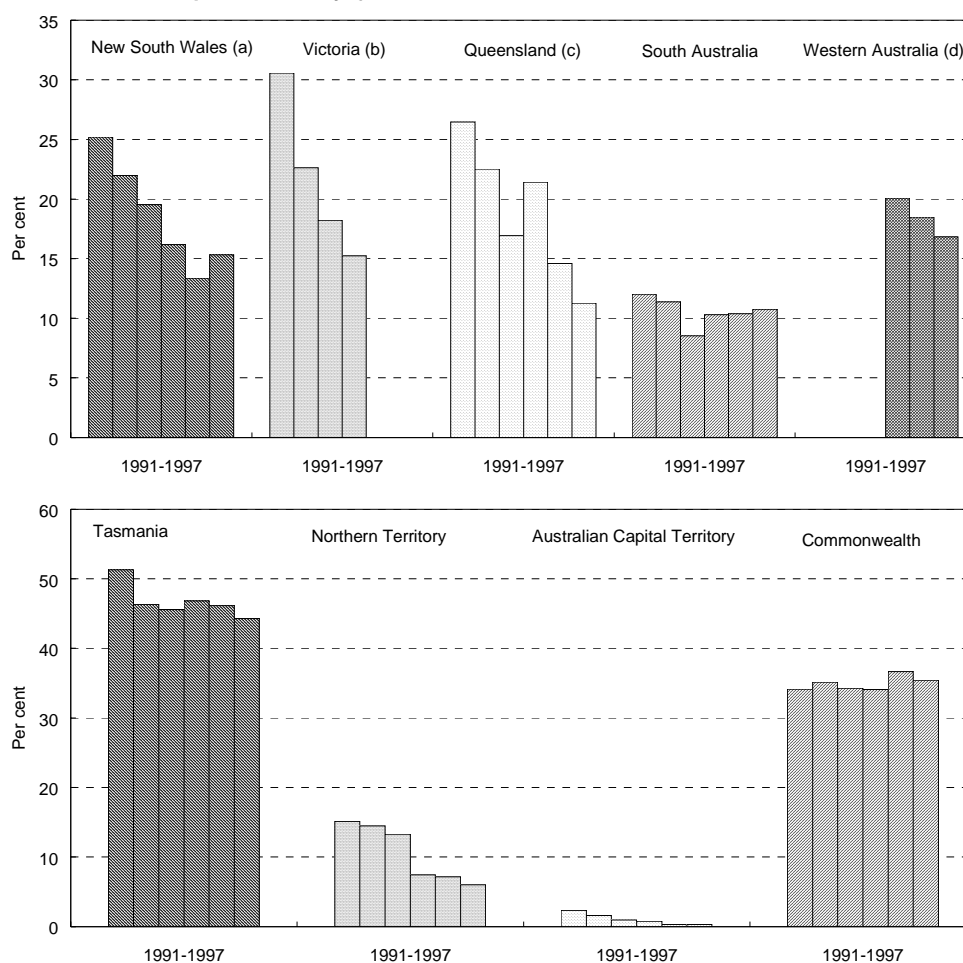
- Notes: The scale ranges used along the y axis of each chart are different.
- Total revenue includes revenue from sales and levies, revenue from asset sales, investment income, receipts from government for specific agreed services, other revenue from operations, receipts from government to cover operating deficits on operations and abnormal revenue. Excludes funds received for specific capital works from governments or other parties, and equity contributions from government.
- a Only four of the 25 distributors operating in New South Wales in 1994–95 were monitored in that year. From 1995–96 onwards, all 25 (merged into six distributors) were monitored, which to some extent explains the substantial change from 1994–95 to 1995–96.
- b Victorian generation and distribution GTEs were not monitored after 1994–95. Comparisons between 1992–93 and 1993–94 and 1994–95 may not be valid due to the disaggregation of the State Electricity Commission of Victoria (SECV) over the period.
- c The Queensland electricity supply industry was restructured and only half the 1994–95 financial year data was reported.
- d The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when Western Power was established as a separate electricity provider and only half the 1994–95 financial year data was reported.

Figure 2B.6 Total expenses by jurisdiction, 1991-92 to 1996-97



- Notes:
- The scale ranges used along the y axis of each chart are different.
 - Total expenses includes salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution of assets and abnormal expenses.
 - a Only four of the 25 distributors operating in New South Wales in 1994-95 were monitored in that year. From 1995-96 onwards, all 25 (merged into six distributors) were monitored, which to some extent explains the substantial change from 1994-95 to 1995-96.
 - b Victorian generation and distribution GTEs were not monitored after 1994-95. Comparisons between 1992-93 and 1993-94 and 1994-95 may not be valid due to the disaggregation of the SECV over the period.
 - c The Queensland electricity supply industry was restructured and only half the 1994-95 financial year data was reported.
 - d The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when Western Power was established as a separate electricity provider and only half the 1994-95 financial year data was reported.

Figure 2B.7 Gross interest expense as a percentage of total expenses by jurisdiction, 1991–92 to 1991–97

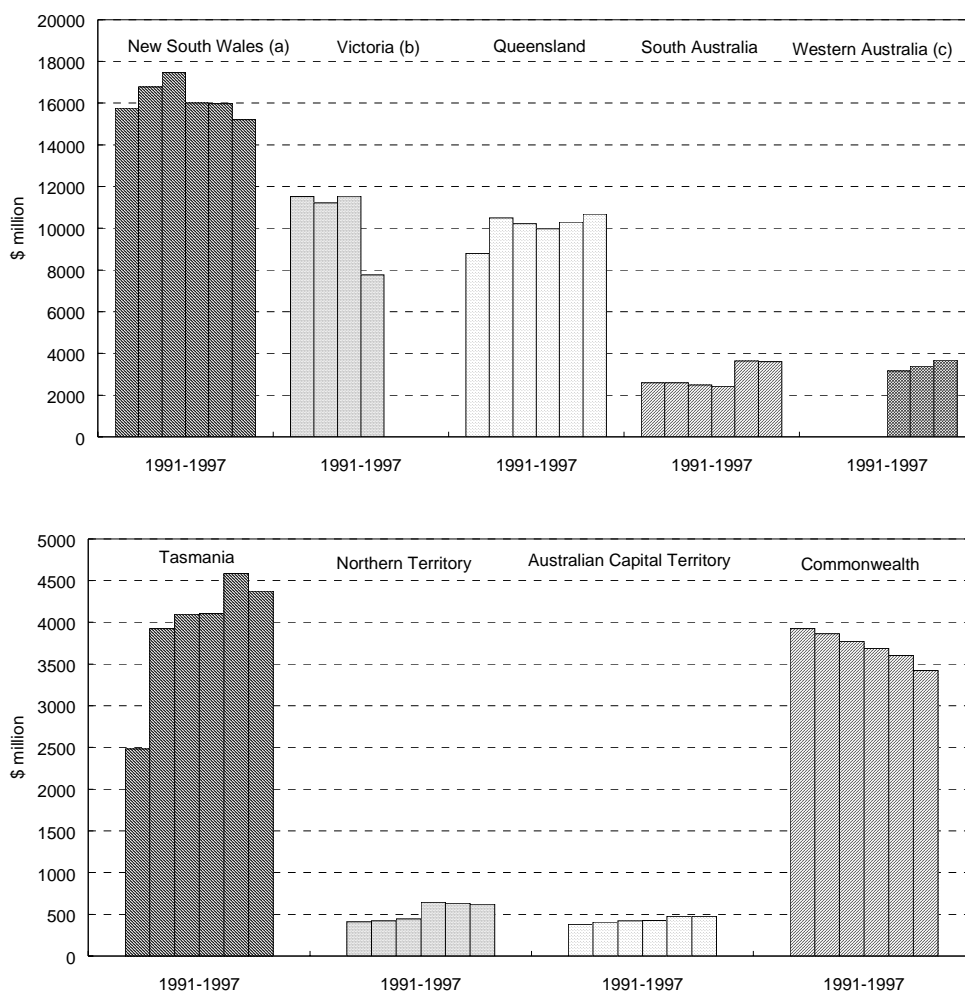


Notes: The scale ranges used along the y axis of each chart are different.

Gross interest expense is the amount charged to the profit and loss account. It includes finance charges on finance leases and all debt related expenses. Total expenses includes salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution of assets and abnormal expenses.

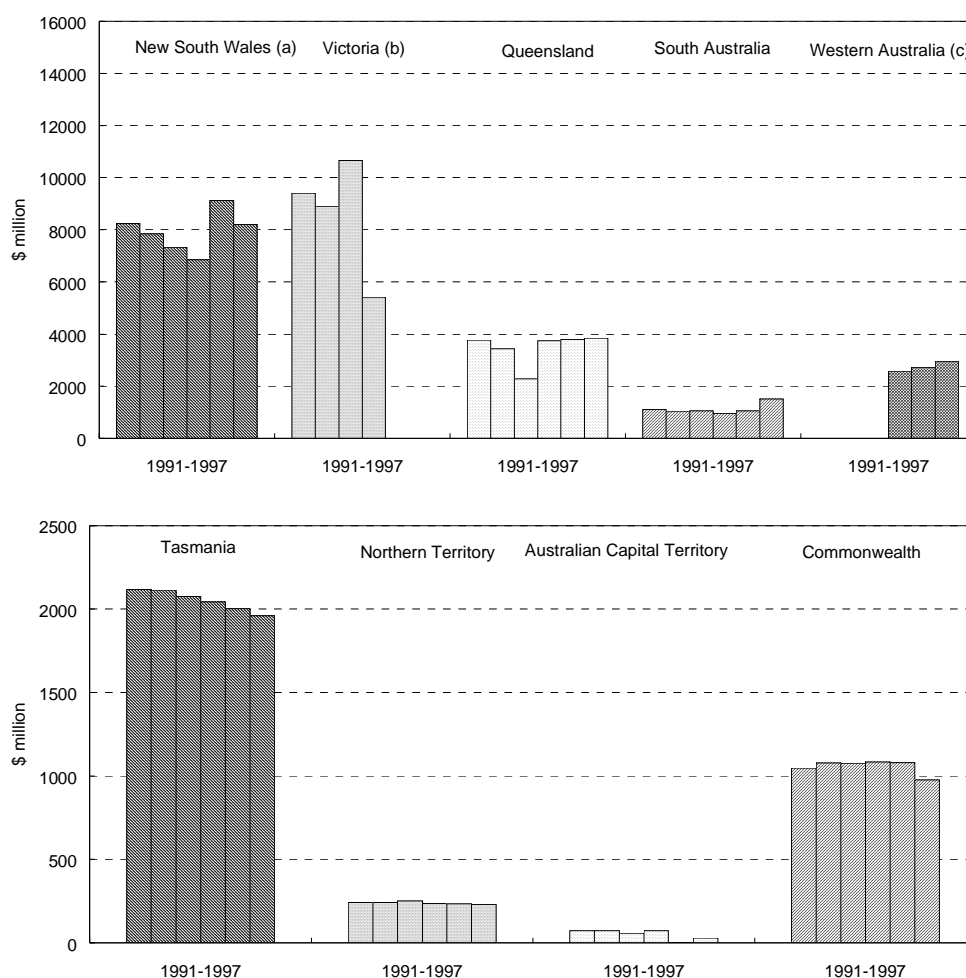
- a Only four of the 25 distributors operating in New South Wales in 1994–95 were monitored in that year. From 1995–96 onwards, all 25 (merged into six distributors) were monitored, which to some extent explains the substantial change from 1994–95 to 1995–96.
- b Victorian generation and distribution GTEs were not monitored after 1994–95. Comparisons between 1992–93 and 1993–94 and 1994–95 may not be valid due to the disaggregation of the State Electricity Commission of Victoria (SECV) over the period.
- c The Queensland electricity supply industry was restructured and only half the 1994–95 financial year data was reported.
- d The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when Western Power was established as a separate electricity provider and only half the 1994–95 financial year data was reported.

Figure 2B.8 Total assets by jurisdiction, 1991-92 to 1996-97



- Notes: The scale ranges used along the y axis of each chart are different.
- Total assets is defined as the service potential for future economic benefits, controlled by the entity as a result of past transactions or other events (measured at the end of the reporting period).
- a Only four of the 25 distributors operating in New South Wales in 1994-95 were monitored in that year. From 1995-96 onwards, all 25 (merged into six distributors) were monitored, which to some extent explains the substantial change from 1994-95 to 1995-96.
 - b Victorian generation and distribution GTEs were not monitored after 1994-95. Comparisons between 1992-93 and 1993-94 and 1994-95 may not be valid due to the disaggregation of the State Electricity Commission of Victoria (SECV) over the period.
 - c The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when Western Power was established as a separate electricity provider.

Figure 2B.9 Total liabilities by jurisdiction, 1991–92 to 1996–97

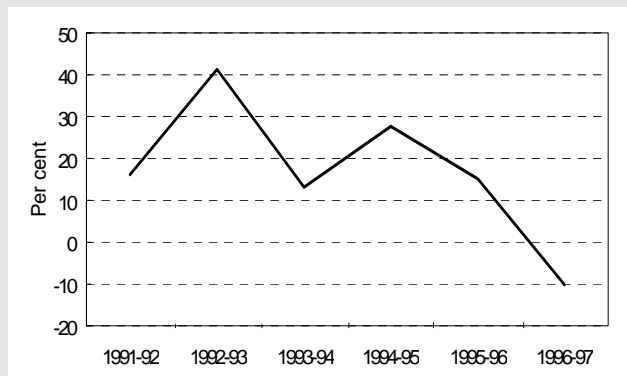
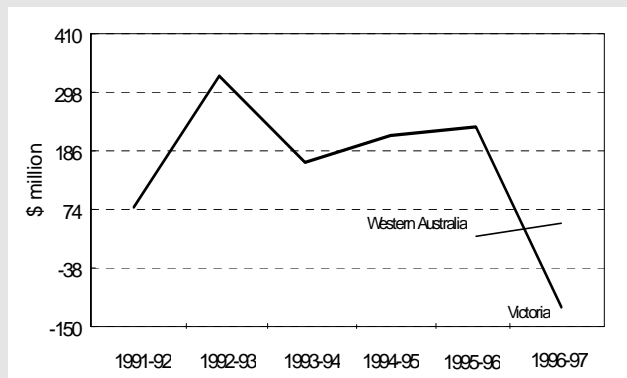
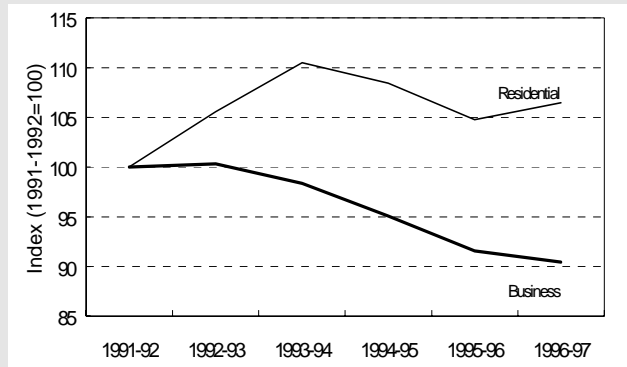


- Notes: The scale ranges used along the y axis of each chart are different. Total liabilities is defined as the future sacrifice of service potential of future economic benefits that the entity is obliged to make to other entities as a result of past transactions or other events (measured as at the end of the reporting period). Includes provisions for employee entitlements, creditors, deferred revenue, all repayable borrowings, interest bearing non-repayable borrowings and redeemable preference shares.
- a Only four of the 25 distributors operating in New South Wales in 1994–95 were monitored in that year. From 1995–96 onwards, all 25 (merged into six distributors) were monitored, which to some extent explains the substantial change from 1994–95 to 1995–96.
- b Victorian generation and distribution GTEs were not monitored after 1994–95. Comparisons between 1992–93 and 1993–94 and 1994–95 may not be valid due to the disaggregation of the State Electricity Commission of Victoria (SECV) over the period.
- c The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when Western Power was established as a separate electricity provider.

3 GAS

Key outcomes

- Gas GTE reform has produced benefits for business gas users — lower real prices — and for shareholder governments — an increase in dividend payments.
- **The real price index** increased on average by 7 per cent for residential customers, and decreased by 10 per cent for business customers from 1991–92 to 1996–97.
- **Operating profit before income tax** varied in Victoria over most of the period. The loss in 1996–97 was due to an abnormal expense. In Western Australia profits have increased since 1995–96.
- **Return on equity** was satisfactory over most of the period. The loss in 1996–97 was due to an abnormal expense and resulted in a negative return on equity in that year.



3.1 Industry structure

There are currently three gas GTEs in Australia: GASCOR and the Gas and Transmission Corporation, which service Victoria and Southern New South Wales, and AlintaGas, which services parts of Western Australia (see Table 3.1).¹ Prior to 1994–95, the South Australian and Commonwealth Governments also owned transmission businesses.

The activities of gas utilities can be broadly classified as:

- production (exploration, extraction, and processing);
- transmission (transportation of gas to distribution networks via pipelines);
- distribution or reticulation (transportation of gas to end users); and
- marketing (selling of gas and associated appliances).

Historically, the industry evolved as a series of highly integrated state-based operations dominated by a few large enterprises. There has always been a substantial degree of private ownership in the industry but with government regulation at all stages of the gas supply chain.

Significant disaggregation and further privatisation have occurred in the gas GTE sector since 1991–92 (see Table 3.2).

The gas GTEs monitored in this report generated revenue of nearly \$1.8 billion, administered assets valued at \$4.4 billion and employed the equivalent of 2300 full-time staff in 1996–97 (see Table 3A.1). They were responsible for generating transmitting and distributing gas to over 1.7 million residential customers and 42 000 businesses. In 1996–97, the GTE sector represented around 70 per cent of the Australian gas industry in revenue terms (see Box 3.1).

Table 3.1 Activities of monitored GTEs in the gas industry, 1996–97

<i>GTE</i>	<i>Activity</i>		
	<i>Transmission</i>	<i>Distribution</i>	<i>Marketing</i>
Victoria			
GASCOR		✓	✓
Gas Transmission Corporation	✓		
Western Australia			
AlintaGas	✓	✓	✓

¹ In addition, the Power and Water Authority (Northern Territory), owns two privately operated gas pipeline businesses — DARNOR and GASCO. In Queensland, the Dalby and Roma local governments own and operate gas distribution businesses.

Table 3.2 Monitored gas GTEs, 1991–92 to 1996–97

1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
Victoria					
<i>Transmission and Distribution</i>					
Gas and Fuel Corporation			<i>Transmission</i> Gas Transmission Corporation		Gas Transmission Corporation
			<i>Distribution</i> GASCOR		GASCOR
Western Australia					
State Electricity Commission ^a			Western Power ^b		
			AlintaGas		AlintaGas
South Australia					
Pipelines Authority of South Australia			Private business (Not monitored)		
Commonwealth					
Pipeline Authority			Private business (Not monitored)		

a The State Electricity Commission provided gas and electricity services to Western Australia.

b Western Power provides electricity services to Western Australia.

Box 3.1 Australian gas supply market

- In 1996 natural gas accounted for around 18 per cent of Australia's primary energy.^a
- The natural gas industry aims to achieve a 20 per cent share of the primary energy market by the year 2000.
- Consumption of gas grew by 2.2 per cent on average per year between 1990–91 and 1995–96.
- During 1995–96 net production in Australia was equal to 1053 PJ, of which 404 PJ was exported.
- The quantity of natural gas sold has fallen from 405 PJ in 1991–92 to 374 PJ in 1995–96.
- During 1995–96, the industry earned sales revenue of \$2426.9 million.
- During 1995–96, total capital expenditure on natural gas production was \$1031 million, compared to \$1485 million in 1991–92.
- Australian natural gas prices are among the lowest of the OECD countries.
- Annual capital investment in the Australian gas industry exceeds \$1 billion.

a The dominant sources of final energy consumption in Australia are petroleum, natural gas and electricity.

Source: AGA 1998.

3.2 Key reforms

Reform of Australia's gas industry was driven initially by inter-governmental undertakings through the Council of Australian Governments (COAG) process and more recently by government commitments under the National Competition Policy (NCP).

Broad policy parameters

In December 1992, COAG agreed to open the Australian gas supply industry to greater competition. They noted that barriers to trade in natural gas markets could inhibit the development of the industry and discourage exploration and commercial development of gas markets and infrastructure.

In February 1994, COAG agreed to reforms to remove impediments to 'free and fair' trade in natural gas. The underlying objective was to develop a nationally integrated and competitive industry in which consumers could contract directly

with a gas producer of their choice, and separately with a pipeline operator for gas haulage.

To achieve this, COAG agreed on the following principles and specific reforms to be implemented by 1 July 1996:

- introduce a uniform framework for access to gas transmission pipelines;
- reform gas franchise arrangements;
- corporatise remaining government owned utilities; and
- implement ‘structural separation’ or ‘ring fencing’ of vertically integrated transmission and distribution activities.²

At the April 1995 COAG meeting, the above reforms were brought within the ambit of the NCP process — with payments to the States and Territories being dependent, in part, on adequate progress in implementing the reforms.

Specific reforms

The Australian gas industry has undergone reform in the following areas:

- industry restructuring;
- price regulation; and
- access to pipelines.

Major policy initiatives affecting the Australian gas supply industry are summarised in Table 3.3.

² ‘Ring fencing’ involves splitting financial and administrative business units within a single entity.

Table 3.3 Reform initiatives affecting the gas industry, 1991–92 to 1996–97

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Victoria ^a	May 1994	GFCV contract out support services.
	Dec 1994	Gas Transmission Corporation and East Australian Pipelines Ltd undertake joint study into the connection of the New South Wales and Victorian transmission grids by a pipeline between Albury and Wagga Wagga. GFCV separated vertically into transmission (the Gas Transmission Corporation) and distribution businesses (GASCOR trading as the ‘Gas and Fuel’).
	June 1995	GFCV wound up.
	Aug 1995	GFE Resources Ltd, the exploration arm of the former GFCV, is sold to Cultus Petroleum NL.
	Nov 1995	<i>Gas Industry (Extension of Supply) Act 1995</i> was passed. This enables variations to the policy of standard natural gas tariffs in some ‘new areas’ to enable communities to negotiate an infrastructure tariff to receive natural gas supply.
	June 1996	A 2 per cent tariff increase for domestic consumers on gas consumed after 1 July 1996.
	July 1996	A ‘ring-fenced’ structure of two financially and operationally discrete businesses, based on Gas and Fuel’s core activities, was introduced. These businesses are known as Network, covering gas distribution operations, and Energy Retail, marketing gas.
South Australia	Oct 1993	South Australian Government sells its majority holding in SAGASCO Holdings Limited to Boral. The group included a gas and oil producer and explorer (SAGASCO Resources), and LPG business (SAGASCO LPG), and the distributor retailer of gas in South Australia (The Gas Company).
	June 1995	Assets of the Pipeline Authority of South Australia sold to Tenneco Gas Australia together with haulage contracts. Gas purchase and sale contracts transferred to newly established Natural Gas Authority of South Australia.

Table 3.3 Reform initiatives affecting the gas industry, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Western Australia ^b	Jan 1995	Separation of the State Energy Commission into two corporatised businesses — Western Power (electricity), and AlintaGas (gas), and creation of an independent Office of Energy responsible for regulatory functions. AlintaGas retained as a vertically integrated transmission and distribution/retail entity but with ‘ring fencing’ of business units.
		Retail market to be deregulated over time allowing progressively smaller users to deal directly with gas producers and wholesalers.
	Jan 1996	Customers using at least 1000 TJ per year at a single site became able to contract directly with any gas supplier.
	1995–96	The Western Australia Government announced a plan to sell up to 60 per cent of the Dampier to Bunbury natural gas pipeline. Expressions of interest were also sought to build, own and operate a gas reticulation system in Kalgoorlie/Boulder to distribute gas supplied through the Goldfields Gas Pipeline.
	Jan 1997	Customers using at least 1000 TJ per year at a single site became able to contract directly with any gas supplier.
		Regulations providing for third party access to AlintaGas’ gas distribution system, were promulgated.
	1996–97	The Western Australia Government announced its intention to sell 100 per cent of the Dampier to Bunbury Natural Gas Pipeline.

a In December 1997, GASCOR was split into six government owned businesses, three retail and three distribution businesses; and the GTC was disaggregated to form two new transmission entities, Transmission Pipelines Australia and Victorian Energy Networks.

b The Dampier-Bunbury pipeline was subsequently sold in March 1998 for \$2.3 billion. From January 1997, customers using at least 500 TJ per year at a single site became able to contract directly with any gas supplier.

From January 1998, customers using at least 250 TJ per year at a single site became able to contract directly with any gas supplier.

Industry restructuring

The level of government ownership and operation of transmission and distribution infrastructure has declined as a result of substantial restructuring over the period.

The Commonwealth Government sold the Moomba to Sydney pipeline in June 1994 to East Australian Pipelines Limited. The South Australian Government sold its majority holdings in SAGASCO Holdings Limited to Boral in October

1993 and in June 1995, sold the Moomba to Adelaide pipeline to Tenneco Gas Australia.

The Victorian Government commenced restructuring the Gas and Fuel Corporation of Victoria (GFCV) in 1991. During 1994–95, the GFCV was vertically separated and two legally separate corporatised identities were created. In December 1994, the Gas and Transmission Corporation (GTC) took over the transmission functions of the GFCV, and in June 1995 GASCOR took over the distribution and marketing functions of the GFCV.

During 1997–98, the GTC was disaggregated and two new transmission businesses were formed — Transmission Pipelines Australia and Victorian Energy Networks Corporation. GASCOR was separated further, into three government owned distribution business, Westar, Stratus Networks and Multinet Gas, and three government owned retailing businesses, Kinetic Energy, Energy 21 and Ikon Energy.

In January 1995, the Western Australian Government broke up its energy utility, the State Electricity Commission of Western Australia (SECWA). AlintaGas was created as a corporatised entity to carry on the gas business of the SECWA and operates its transmission activities separately from its distribution and marketing activities. The distribution arm of AlintaGas is required to negotiate with the transmission arm for pipeline capacity and access.

During 1996–97, the Western Australian Government foreshadowed full privatisation of the Dampier-Bunbury pipeline, which has resulted in the complete separation of gas transmission and distribution activities in the State.³

Price regulation

Since 1981, a policy of uniform published gas tariffs for the supply of natural and tempered liquefied petroleum gas has operated across all areas supplied by GASCOR (then the Gas and Fuel Corporation). This has meant that the same domestic, commercial and industrial tariffs have applied to customers regardless of their location, with the exception of large users on individual contracts.

The *Gas Industry Act 1994*, which created GASCOR and GTC, also established a means for the regulation of gas and transmission prices on an interim basis. Until formal third party access regimes are introduced for the transmission and distribution networks, both the GTC and GASCOR must obtain Ministerial endorsement for increases in prices. A 2 per cent price increase for domestic consumers was endorsed in June 1996, to apply to gas consumed after July

³ The Dampier-Bunbury pipeline was subsequently sold in March 1998 for \$2.3 billion.

1996. A further increase of 1.3 per cent on all uniform tariffs (domestic, industrial and commercial), was announced in June 1997 to apply to gas consumed after August 1997.

After this interim arrangement both entities will be regulated by the Office of the Regulator General in Victoria, when privatised.

The *Gas Corporation Act 1995* and the *Energy Coordination Act 1995*, which created AlintaGas and the Office of Energy respectively, also established a means for the regulation of retail and transmission prices. AlintaGas must obtain Ministerial approval for price changes until formal third party access regimes are introduced for the transmission and distribution networks in Western Australia.

Access to pipelines

Economies of scale associated with gas transmission and distribution can inhibit the commercial duplication of pipeline infrastructure in Australia. Third party access to pipelines can promote competition by allowing consumers to contract directly with a gas producer of their choice for the supply of gas. It also allows separate contracting with the pipeline operator for gas haulage.

For some years, Australian Governments have been developing third party access arrangements for pipelines on a State-by-State basis. State based access legislation has tended to provide the potential for and the circumstances under which access may be provided, rather than a right of access (IC 1995). These regimes have been developed outside the national framework (discussed below).

Central to governments' commitments under the NCP is the introduction of a uniform, nation wide framework for access to gas transmission pipelines. COAG also noted that legislation facilitating third party access should be developed co-operatively between jurisdictions. A Gas Reform Task Force (the Task Force) was established in June 1995, and development of a National Code (Code) for access commenced.

By mid 1996, the Task Force had developed a draft Code — originally to apply to transmission pipelines and scheduled to take effect on 1 July 1996. Following release of the draft for public consultation, COAG agreed to broaden the scope and extend the time frame for the reforms. In December 1996, the Prime Minister proposed that:

- the national access framework apply to distribution systems as well as transmission pipelines;
- the Code be given consistent legislative effect by jurisdictions by 1 July 1997;

- any derogation from the Code and transitional arrangements be fully transparent and have firm end dates, with transitional arrangements to be phased out by 1 July 2001; and
- the Australian Competition and Consumer Commission (ACCC) be the single national regulator for transmission pipelines, with gas distribution pipelines to be regulated by independent regulators.

All jurisdictions have agreed to these proposals.

In February 1997, the Gas Reform Implementation Group (GRIG) was given the task of finalising and implementing the Code. In November 1997 the Code was finalised and all jurisdictions signed the Natural Gas Pipeline Agreement. In June 1998 all jurisdictions except Western Australia (which is still in the process) had passed gas pipeline access legislation and in July 1998 the South Australian and Commonwealth legislation became operational.

3.3 Consumer outcomes

Gas GTEs supply around 1.8 million customers, the majority of which are residential customers. GASCOR service nearly 1.4 million of these throughout Victoria and southern New South Wales, and AlintaGas service nearly 390 000 in Western Australia. Overall they supply around 60 per cent of the Australian customer base.

Reform of the gas GTEs directly affects customers through changes in the price of gas and changes in service quality. Gas prices and service quality also affect consumers indirectly to the extent that gas costs are reflected in the final prices of other goods and services.

Real prices

Gas GTEs reported real price indices based on the average price of gas sold to residential users and business users. The business users price index incorporates both commercial and industrial customers.

Residential customers in Western Australia benefited from a reduction in real gas prices of 9 per cent from 1991–92 to 1996–97. There has been no change in nominal tariffs for business customers since 1991, which amounts to a real decline in business tariffs of 10.5 per cent from 1991–92 to 1996–97.⁴

⁴ Tariffs for business customers does not include prices of individual contracts, which make up the majority of AlintaGas' commercial and industrial business. Contract price data is

Real gas prices for residential customers in Victoria increased by 7.4 per cent over the period. This was due to an increase in the domestic tariff of 10 per cent on 8 January 1993. However, business customers in Victoria benefited from a real price reduction of 8.6 per cent from 1991–92 to 1996–97 (see Figure 3B.1).

Figure 3.1 Residential real price index, 1991–92 to 1996–97



Notes: Real price indices are constructed by deflating average selling prices of gas distributors in each jurisdiction, by the appropriate capital city Consumer Price Index. In jurisdictions with more than one gas GTE reporting, individual prices indices were weighted by each GTE's share of total revenue in the jurisdiction.

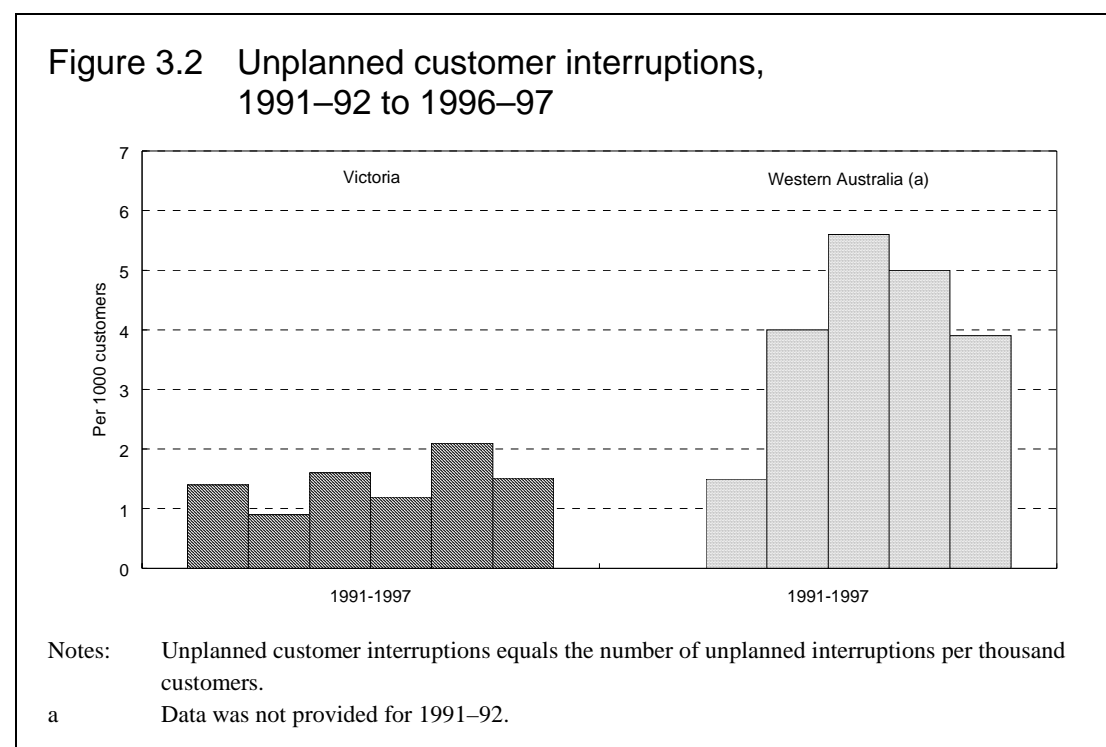
not available on a comprehensive basis. A Consumer Price Index (CPI) (capital city) increase of 11.7 per cent over the period was used to derive the real change in tariffs for business customers over the period (ABS 1998a).

Service quality

Reliability of supply and timely responses to customer complaints and inquiries are key elements of customer service.

Both AlintaGas (Western Australia) and GASCOR (Victoria) monitor these elements of customer service as part of their annual reporting function. They have implemented programs specifically designed to improve the level of customer service they deliver. AlintaGas launched its Customer Service Charter to all of its residential gas customers in 1995. Recently, GASCOR's customer service efforts have focused on providing a 'seamless and efficient changeover' for their customers during the GFCV's restructuring phase.

Reliability of supply is measured as the number of unplanned interruptions to gas supply per thousand customers. In Victoria, reliability remained relatively stable over the period. Unplanned interruptions in Western Australia increased from 1.5 in 1992–93 to 5.6 in 1994–95 and down to 3.9 in 1996–97 (see Figure 3.2).



The inconvenience of supply interruptions to the customer is measured as the average number of seconds per customer interruption. In Victoria, the length of customer interruptions varied considerably, with a low of 17.3 seconds in 1992–93 and a high of 384 seconds in 1995–96. In Western Australia, the length of customer interruptions was below 50 seconds in all years except in

1995–96, when the average interruption duration was 372 seconds. This was due largely to one incident where a telephone contractor severed a gas main and a water main (see Figure 3B.2).

The time taken to respond to customer calls is used as a measure of a GTEs ability to service customers with complaints or inquiries expeditiously. Both jurisdictions increased the percentage of calls answered within 20 seconds. AlintaGas in Western Australia answered 52.2 per cent of calls in 20 seconds, gradually increasing to 81 per cent in 1996–97. GASCOR in Victoria answered 64.1 per cent of calls in 1991–92, increasing to 84 per cent in 1996–97 (see Figure 3B.3).

3.4 Shareholder outcomes

Government represents the shareholder interest in GTEs and dividends represent returns to shareholder governments. Underlying returns to shareholders are gas GTE earnings or operating profits. After taxes, the residual profit represents a return on equity which is then distributed as a dividend or retained by GTEs.

Profitability

Operating profit before tax — a measure of the operational performance of GTEs — is the difference between total revenue and total expenses, and includes abnormal items like revenue from asset sales and devaluation expenses.

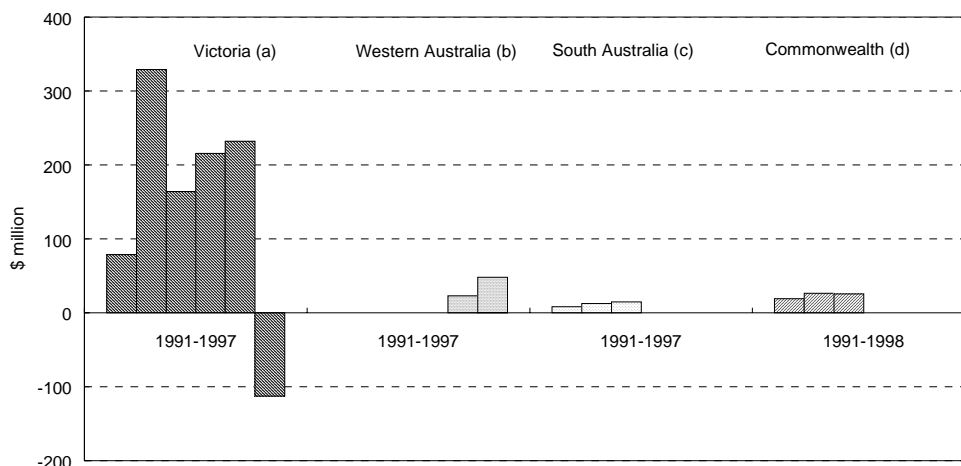
In Victoria, operating profit before tax increased from \$78.7 million in 1991–92 to \$232 million in 1995–96. A loss of \$112.5 million was incurred in 1996–97 as a result of GASCOR's part in the settlement of the Petroleum Resource Rent Tax (PRRT) dispute.⁵ GASCOR's operating profit before tax and abnormal items was \$133.6 million in 1996–97.

In Western Australia operating profit increased from \$22.8 million in 1995–96 to \$47.8 million in 1996–97.

Operating profits before tax for the pipeline businesses in South Australian and the Commonwealth also grew, but at a moderate rate (see Figure 3.3).

⁵ In November 1996, the Victorian Government, the Commonwealth Government and the Bass Strait gas producers, Esso and BHPP, agreed to settle the dispute over liability for and incidence of PRRT. The dispute centred on whether Esso and BHPP had the right to pass on PRRT, imposed by the Commonwealth Government on Bass Strait gas production since July 1990, under contracts with Gas and Fuel (GASCOR) and Generation Victoria.

Figure 3.3 Operating profit before income tax by jurisdiction, 1991–92 to 1996–97



- Notes: Operating profit before income tax is calculated by subtracting total expenses from total revenue and includes abnormals.
- a In 1992–93, the Gas and Fuel Corporation had abnormal revenues of \$170.4 million for a write-back of gas services/metering fixed costs. In 1996–97, GASCOR had a net total abnormal expense of \$279 million which produced an operating loss in that year.
 - b The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when AlintaGas was established as a separate gas provider. Data for 1994–95 covers the initial six months of operation from 1 January to 30 June 1995.
 - c The Pipeline Authority of South Australia was privatised in 1994–95.
 - d The Pipeline Authority (Commonwealth) was privatised in 1993–94.

Revenue

Total revenue comprises the proceeds from the sale of gas, but also includes other items such as investment income and abnormal revenue.

Total revenue grew in all jurisdictions from 1991–92 to 1996–97. In Victoria, revenues increased from \$1063 million in 1991–92 to \$1307 million in 1996–97. The sharp increase from 1993–94 to 1994–95 was due largely to the increase in residential prices in 1993–94 (see Figure 3B.4).

In Western Australia, revenue increased from \$438 million in 1995–96 to \$467 million in 1996–97. The increase is explained mainly by rising real residential prices in Western Australia since 1995–96.

Some revenue, and hence profit, increases over the period were due to increases in abnormal revenue. Abnormal revenue usually includes such items as asset sales which are considered abnormal by reason of their size and effect on

operating profit. For example, in 1992–93 the Gas and Fuel Corporation (GASCOR) had abnormal revenue of \$170.4 million (due to a change in accounting policy), which represented a little over half of total revenue in that year.

Expenses

Total expenses relate primarily to the expenses directly incurred in generating sales revenue — but also include other items such as depreciation and abnormal expenses.

Total expenses increased in all businesses except those of the Commonwealth. In Victoria, expenses increased from \$983.9 million in 1991–92 to \$1367 million in 1996–97. In Western Australia, expenses increased from \$415 million in 1995–96 to \$419 million in 1996–97 (see Figure 3B.5).

As with revenues, some expense increases, and hence profit movements over the period, were due to increases in abnormal expenses. Abnormal expenses usually included items such as redundancy packages, considered abnormal by reason of their size and effect on operating profit. In 1996–97, GASCOR incurred a net abnormal expenses of \$279 million for the PRRT dispute settlement, which represented 26 per cent of total expenses.

A major component of total expenses is interest expense or the cost of servicing debt. Interest expense as a proportion of total expenses declined in all jurisdictions, contributing to improved operating profits over the period.

In Victoria interest expense as a proportion of total expenses fell from 9.9 per cent in 1991–92 to 6.4 per cent in 1996–97. In Western Australia, interest expense as a proportion of total expenses fell from 34.9 per cent in 1991–92 to 29.4 per cent in 1996–97. This was largely the result of debt reduction strategies (to manage high gearing levels) and lower debt servicing costs due to lower interest rates over the period (see Figure 3B.6).

Income tax-equivalent expense

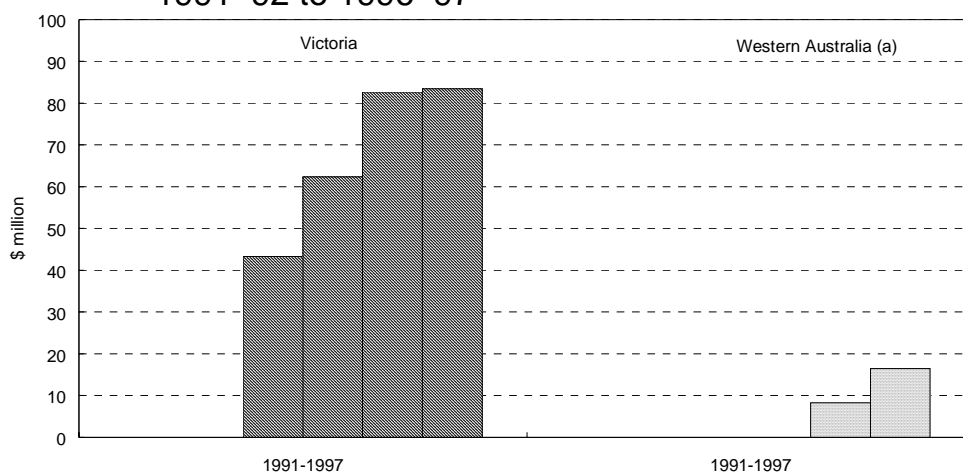
All gas GTEs now operate under an income tax-equivalent regime. Income tax expense paid or payable increased in Victoria and Western Australia over the period — reflecting both an increase in taxable earnings and efforts by governments to promote competitive neutrality by requiring GTEs to pay income tax-equivalents.

The Gas and Fuel Corporation of Victoria was not subject to a tax-equivalent regime until 1993–94. In 1993–94, tax-equivalent expense paid or payable by

GASCOR was \$43.3 million, which increased steadily to \$83.4 million by 1996-97.

The SECWA was not subject to a tax-equivalent regime. AlintaGas first incurred a tax equivalent expense in 1995-96, 18 months after taking over the gas business of the SECWA as a corporatised entity.⁶ Tax-equivalent expense paid or payable by AlintaGas were 8.3 million in 1995-96, increasing to \$16.4 million in 1996-97 (see Figure 3.4).

Figure 3.4 Income tax-equivalent expense by jurisdiction, 1991-92 to 1996-97



Notes: Income tax-equivalent expense on operating profit before tax (including abnormal items) calculated using tax effect accounting (AAS3).

The Pipeline Authority of South Australia and the Pipeline Authority (Commonwealth) did not incur tax expense over the monitoring period.

a The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when AlintaGas was established as a separate gas provider. AlintaGas received a tax credit in the first six months of its operation.

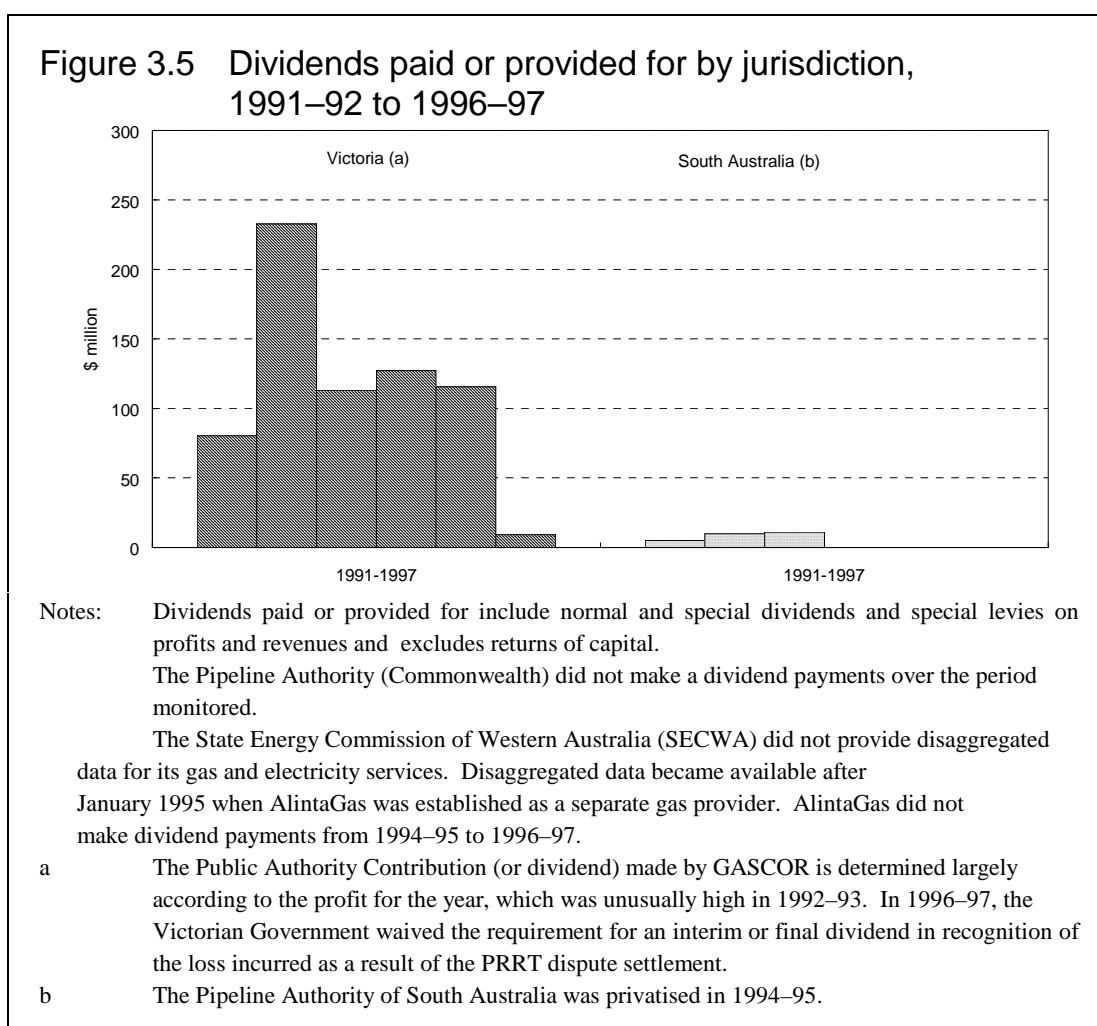
The Pipeline Authority of South Australia and the Pipeline Authority (Commonwealth) did not incur tax expenses over the period of their operation as GTEs.

⁶ In its six months of operation AlintaGas received a tax credit of \$281 000 from the Western Australian Government.

Dividend payments

Two of the four gas GTEs monitored, operated under a dividend policy which required them to make dividend payments from their operating profits to their shareholder governments. Dividend payments declined in Victoria and remained relatively stable in South Australia.

The Gas and Fuel Corporation (GASCOR) increased dividend payments from \$80.2 million in 1991–92 to \$116 million in 1995–96. In 1996–97, the Victorian Government waived the requirement for an interim or final dividend in recognition of the loss incurred as a result of the PRRT dispute settlement (see Figure 3.5).



The South Australian Pipeline Authority gradually increased its dividend payment from \$5 million to \$11 million between 1991–92 and 1993–1994.

AlintaGas and the Commonwealth Pipeline Authority did not pay dividends over the period monitored.⁷

Return on equity

Return on equity (ROE) is measured by after-tax operating profit as a proportion of average total equity. In the case of GTEs, this represents profits available after tax to justify the government's equity investment (on behalf of the community) in a particular activity.

A 'satisfactory' rate of return is one which ensures that all equity investments provide a return comparable with that available from alternative investments. From governments' perspective this return is received in the form of dividends and retained earnings (which contribute to the generation of dividends in the future).

Return on equity for gas GTEs was substantially higher for most of the period, than the private sector benchmark (see Section 1.1).

The ROE for Victoria fell substantially over the period, from 29.6 per cent in 1991–92 to negative 13.3 per cent in 1996–97 — when GASCOR incurred an operating loss. The 80 per cent ROE recorded in 1992–93 was largely the result of an unusually high profit result in that year. The introduction of a tax-equivalent regime in Victoria in July 1993 had the effect of reducing the ROE (see Figure 3.6).⁸

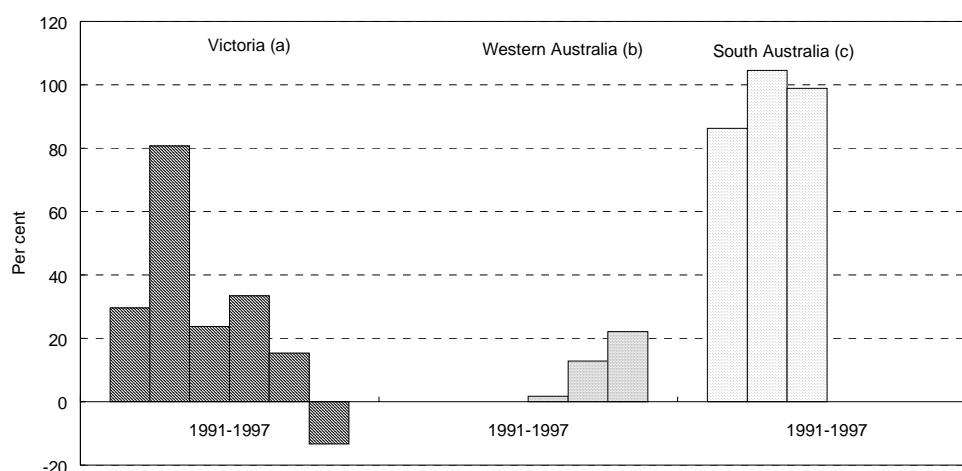
The ROE for Western Australia increased from 12.9 per cent in 1995–96 to 22.2 per cent in 1996–97. AlintaGas has exceeded earnings forecasts in recent years.

The South Australian Pipeline Authority increased its ROE from 86.2 per cent in 1991–92 to 98.8 per cent in 1993–94. The Commonwealth Pipeline Authority recorded negative equity and made operating losses over the period.

⁷ The SECWA paid statutory contributions to the Government in 1993–94 (\$82.1 million) and for the six months to December 1994 (\$83.5 million).

⁸ The imposition of a tax on operating profit reduces return on equity because income tax is subtracted from earnings before return on equity is calculated.

Figure 3.6 Return on equity by jurisdiction, 1991–92 to 1996–97



Notes: Return on equity is the ratio of operating profit after tax to average total equity. Operating profit after tax is calculated by subtracting total expenses and income tax paid or payable from total revenue (includes abnormal items). Equity is calculated by subtracting total liabilities from total assets.

Return on equity cannot be calculated on a strictly comparable basis because of revaluations and abnormal items during the monitored period.

ROE is not applicable to the Pipeline Authority (Commonwealth) which recorded negative equity.

- a In 1996–97, GASCOR incurred an operating loss and hence a negative return on equity in that year.
- b The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when AlintaGas was established as a separate gas provider. AlintaGas made dividend payments.
- c The Pipeline Authority of South Australia was privatised in 1994–95.

Assets

Asset revaluations (including changes in valuation methods) and capital expenditure contribute to the variability in ROE by altering equity levels.

Asset values in Victoria have increased over the period from \$1173 million in 1991–92 to \$2901 million in 1996–97. The relatively large increase from 1995–96 to 1996–97 was due mainly to a significant upward revaluation of GASCOR's distribution network (using the optimised depreciated replacement cost method of valuation). The Gas and Transmission Corporation also revalued its machinery, plant and equipment upward in 1996–97.

Asset values in Western Australia, South Australia and the Commonwealth have remained fairly constant over the period (see Figure 3B.7).

Liabilities

Return on equity levels are also effected by changes in liabilities.

Liability levels in Victoria increased moderately from \$909 million in 1991–92 to \$1045 million in 1995–96. The surge in liabilities in 1996–97 was due to the borrowing of funds to settle the PRRT dispute.

Liability levels in Western Australia fell steadily from \$1446 million in 1994–95 to \$1315 million in 1996–97. This is a result of the debt reduction strategy adopted by AlintaGas when it took over the gas business of the SECWA.

Liability levels of the South Australian Pipeline Authority and the Commonwealth Pipeline Authority remained fairly stable over the period of their operation as GTEs (see Figure 3B.8).

3.5 Community outcomes

Two ways in which the broader community is affected by the performance of gas GTEs are through environmental impacts and the provision of community service obligations (CSOs).

The environment

Natural gas is widely considered to be the most environmentally friendly of all fossil fuels available, because it has the most benign greenhouse gas characteristics. Carbon dioxide emissions per PJ of gas production have remained constant from 1991–92 to 1995–96, with an average emission factor of 51.3 kilo tonnes per PJ. By comparison, in 1995–96 average carbon dioxide emissions per PJ of black coal consumption and brown coal consumption were around 90.6 and 95.1 kilo tonnes respectively (AGA 1998).

However, there are other aspects of gas transmission and distribution that require environmental management. Both GASCOR and AlintaGas have comprehensive environmental policies in place.

During 1996–97, AlintaGas carried out the first full environmental audit of the Dampier to Bunbury Natural Gas Pipeline and associated facilities. The audit was followed by an assessment of the organisation's Environmental Review and Management Plan, established in 1979. The report found the businesses' environmental performance to be sound.

During 1996–97, GASCOR prepared environmental plans for 12 former gasworks and related properties as part of its land remediation program, which was established in 1989. During 1994–95, GASCOR revised its Corporate Environmental Manual to take account of industry restructuring and changes to international standards on environmental management. The Manual covers areas such as fuel handling, underground tanks, disposal of dust and water from gas mains, environmental assessments and incident reporting.

Community service obligations

CSOs require GTEs to carry out activities relating to inputs or outputs which they would not elect to undertake on a commercial basis.

GASCOR provided such services to the community each year from 1991–92 to 1996–97. These services included the administration of the Victorian Government’s Winter Energy concessions for pensioners and beneficiaries, the provision of tempered liquefied petroleum gas at natural gas prices to rural towns, and recently, the absorption of costs associated with the Easy-Way Scheme to help domestic consumers experiencing difficulties with gas account payments. The total cost of CSO’s each year has been between \$2 million and \$7 million over the period, representing less than 1 per cent of GASCOR’s annual revenue.

AlintaGas is not directed by the Government to provide any CSOs.

3.6 Employee outcomes

Two relevant indicators of employee outcomes of gas GTE reform are employment levels in the sector and workplace safety performance.

Levels of employment

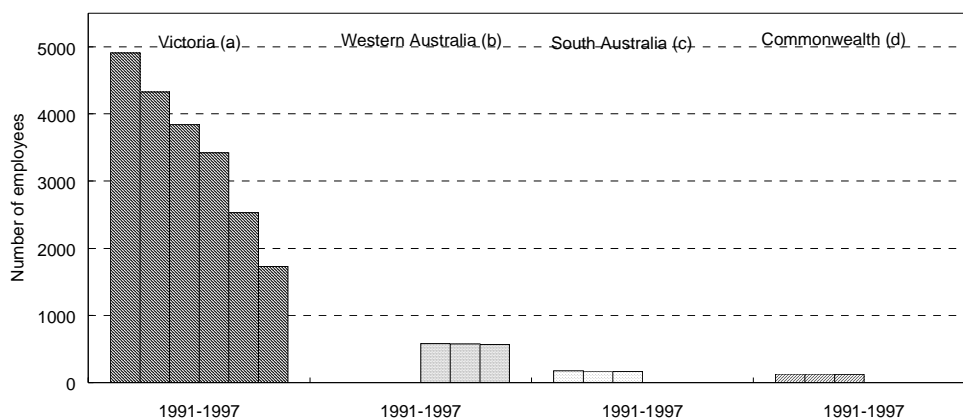
Employment in gas GTEs over the period remained fairly stable in Western Australia, South Australia and the Commonwealth.

In Victoria, employment declined substantially over the period, from 4909 in 1991–92 to 1730 in 1996–97 (see Figure 3.7).

Employment at GASCOR has been falling in response to substantial restructuring of the workforce since 1991–92, when a new common conditions award and voluntary redundancy program were introduced. The decline in direct GTE employment was also the result of many services, such as meter

installation and various maintenance functions, being outsourced over the period, so that the net employment decline would be less than indicated in Figure 3.7.

Figure 3.7 Total direct GTE employment by jurisdiction, 1991–92 to 1996–97



Notes: Total employment is measured as the average of full-time equivalent staff at the beginning and end of the period.

a Some of the decline in full-time employment is the result of outsourcing services such as meter installation and appliance maintenance and mains and service maintenance functions.

b The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when AlintaGas was established as a separate gas provider.

c The Pipeline Authority of South Australia was privatised in 1994–95.

d The Pipeline Authority (Commonwealth) was privatised in 1993–94.

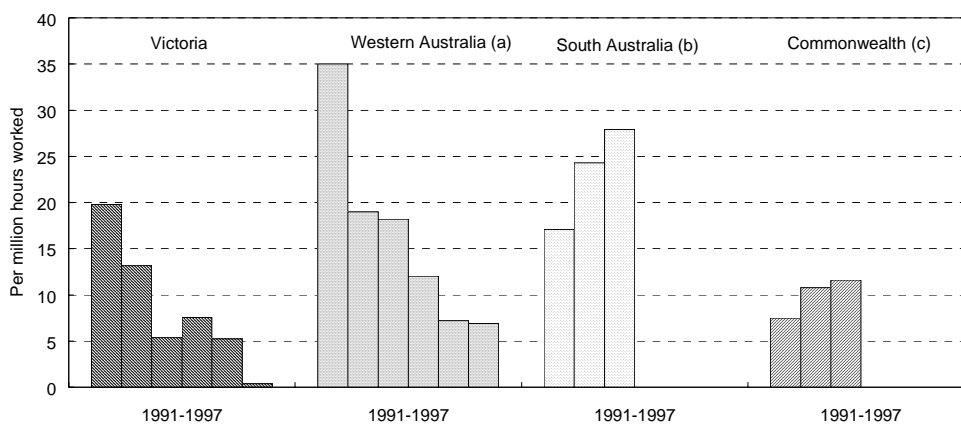
Workplace safety

A key measure of safety is the lost time injury frequency rate (LTIFR) which is the number of work related injuries which result in time off work.

Workplace safety performance for gas GTEs (as measured by LTIFR) have improved greatly in Victoria and Western Australia over the period (see Figure 3.8).

In contrast, safety performance for the Commonwealth and South Australian pipeline authorities deteriorated over the period in which they were monitored.

Figure 3.8 Lost time injury frequency rates by jurisdiction, 1991–92 to 1996–97



Notes: Lost time injury frequency rate equal the number of incidents (leading to at least half a shift off work) per million hours worked per annum.

- a The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when AlintaGas was established as a separate gas provider.
- b The Pipeline Authority of South Australia was privatised in 1994–95.
- c The Pipeline Authority (Commonwealth) was privatised in 1993–94.

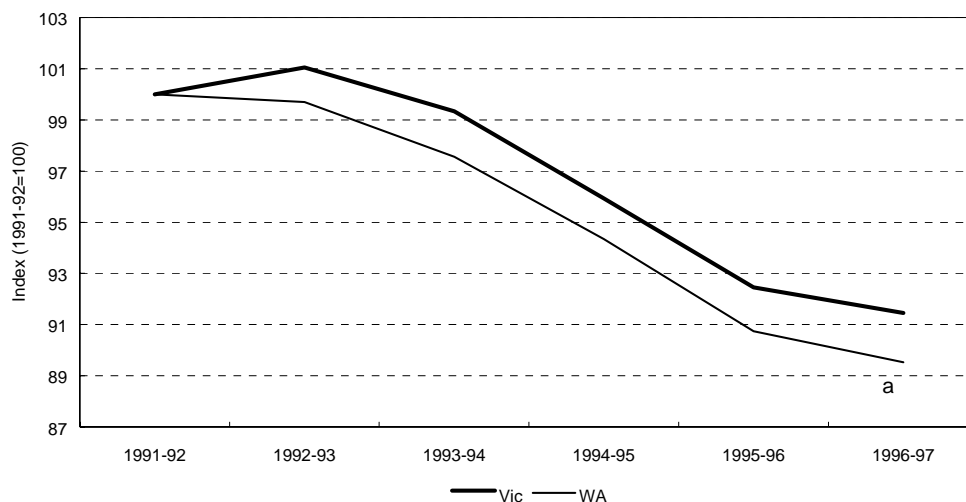
Attachment 3A Revenue by jurisdiction

Table 3A.1 Total revenue by gas industry GTE, 1996–1997

<i>GTE</i>	<i>Revenue (\$ million)</i>	<i>Share (per cent)</i>
Victoria		
Gas Transmission Corporation	85	5
GASCOR	1222	69
Western Australia		
AlintaGas	467	26
TOTAL	1774	100

Attachment 3B Supporting figures

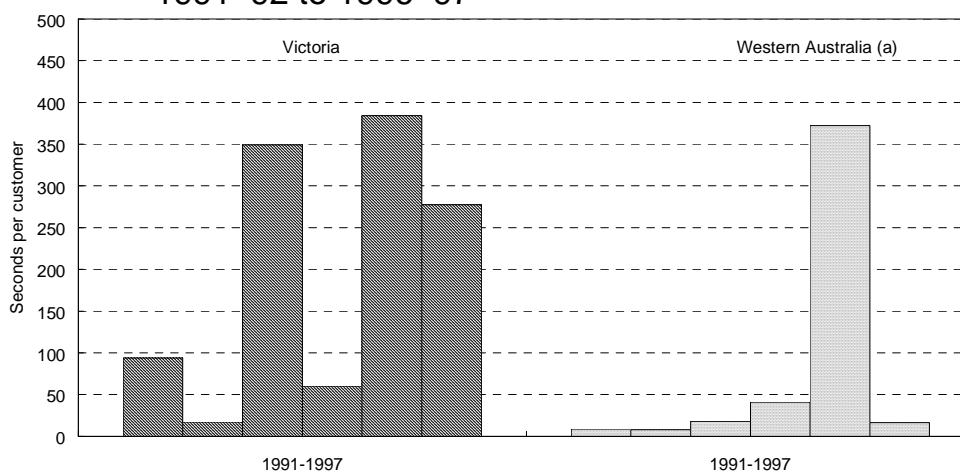
Figure 3B.1 Business real price index by jurisdiction, 1991–92 to 1996–97



Notes: Real price indices are constructed by deflating average selling prices of gas distributors in each jurisdiction, by the appropriate capital city Consumer Price Index. In jurisdictions with more than one gas GTE reporting, individual prices indices were weighted by each GTE's share of total revenue in the jurisdiction.

a Business price data refers to tariffs for business customers and does not include individual contract price data (which was not provided on a comprehensive basis).

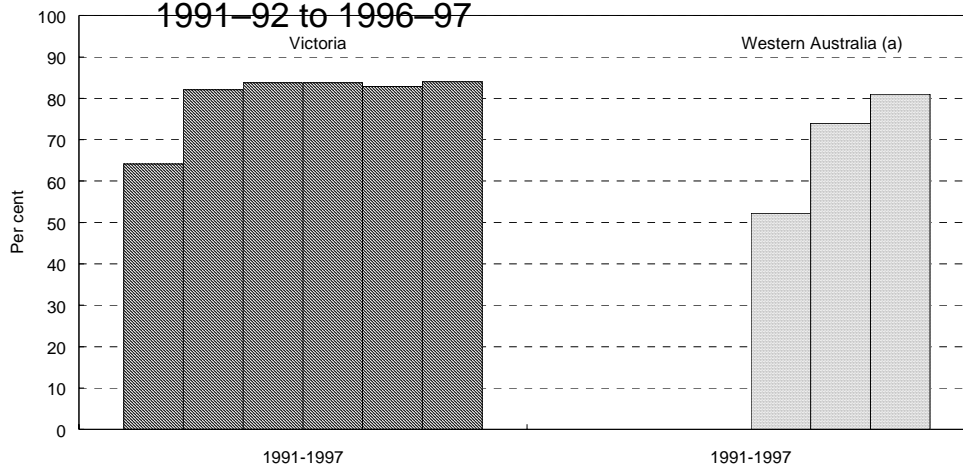
Figure 3B.2 Length of customer interruptions by jurisdiction, 1991–92 to 1996–97



Notes: The length of customer interruptions equals the average number of seconds per customer interruption.

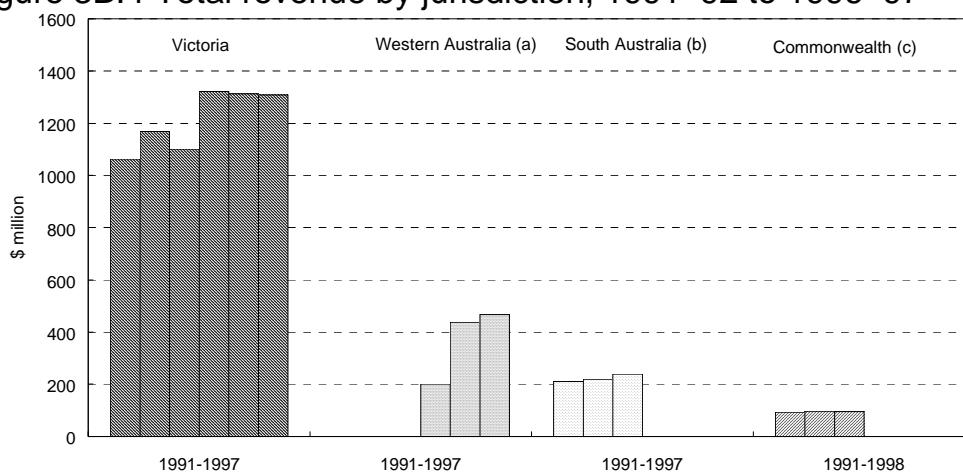
a The large increase in 1995–96 was due mainly to one incident involving a severed gas main.

Figure 3B.3 Calls answered within 20 seconds, 1991-92 to 1996-97



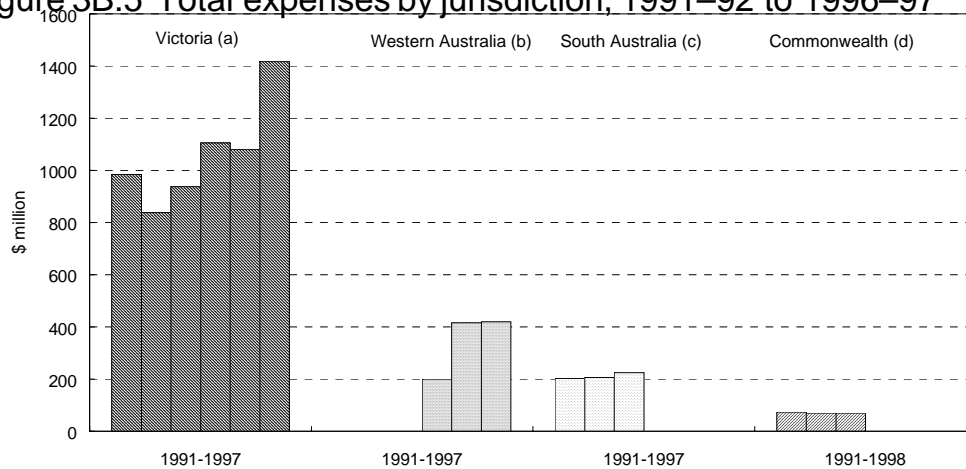
Notes: Calls answered within 20 seconds equals the percentage of all calls answered in 20 or less.
 a The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when AlintaGas was established as a separate gas provider.

Figure 3B.4 Total revenue by jurisdiction, 1991-92 to 1996-97



Notes: Total revenue includes revenue from sales and levies, revenue from asset sales, investment income, receipts from government for specific agreed services, other revenue from operations, receipts from government to cover operating deficits on operations and abnormal revenue. It excludes funds for specific capital works and equity contributions from government.
 a The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when AlintaGas was established as a separate gas provider. Data for 1994-95 covers the initial 6 months of operation from 1 January 1995.
 b The Pipeline Authority of South Australia was privatised in 1994-95.
 c The Pipeline Authority (Commonwealth) was privatised in 1993-94.

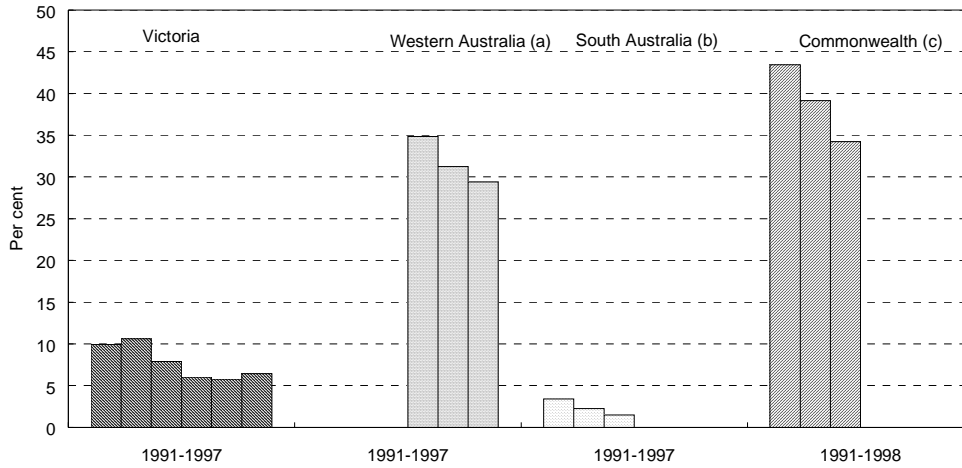
Figure 3B.5 Total expenses by jurisdiction, 1991–92 to 1996–97



Notes: Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution of assets and abnormal expenses.

- a In 1996–97, GASCOR had a net total abnormal expense of \$279 million.
- b The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when AlintaGas was established as a separate gas provider. Data for 1994–95 covers the initial six months of operation from 1 January to 30 June 1995.
- c The Pipeline Authority of South Australia was privatised in 1994–95.
- d The Pipeline Authority (Commonwealth) was privatised in 1993–94.

Figure 3B.6 Gross interest expense as a percentage of total expenses by jurisdiction, 1991-92 to 1991-97



Notes: Gross interest expense is the amount charged to the profit and loss account, including finance charges on finance leases and all debt related financial expenses. Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution of assets and abnormal items.

- a The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when AlintaGas was established as a separate gas provider.
- b The Pipeline Authority of South Australia was privatised in 1994-95.
- c The Pipeline Authority (Commonwealth) was privatised in 1993-94.

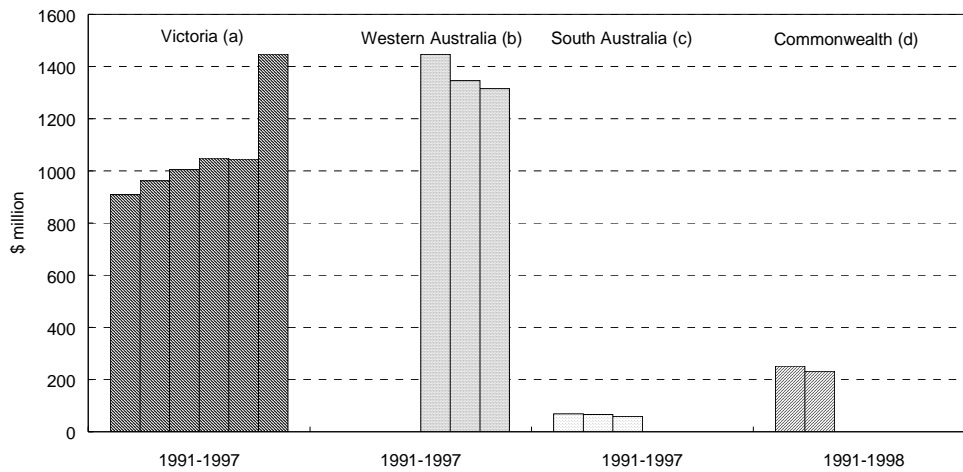
Figure 3B.7 Total assets by jurisdiction, 1991–92 to 1996–97



Notes: Total assets are defined as the service potential for future economic benefits, controlled by the entity as a result of past transactions or other events (measured at the end of the reporting period).

- a The increase in assets from 1993–94 to 1996–97 was due to a revaluation of some non-current assets by GASCOR using the optimised depreciated replacement cost valuation method and by the Gas Transmission Corporation.
- b The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when AlintaGas was established as a separate gas provider.
- c The Pipeline Authority of South Australia was privatised in 1994–95.
- d The Pipeline Authority (Commonwealth) was privatised in 1993–94.

Figure 3B.8 Total liabilities by jurisdiction, 1991-92 to 1996-97



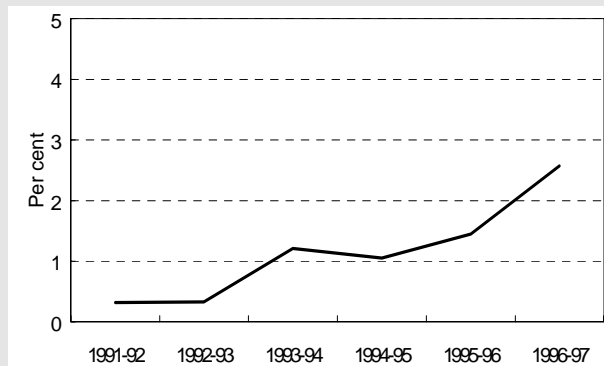
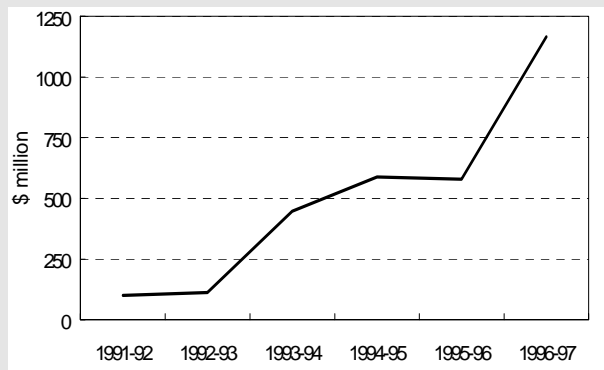
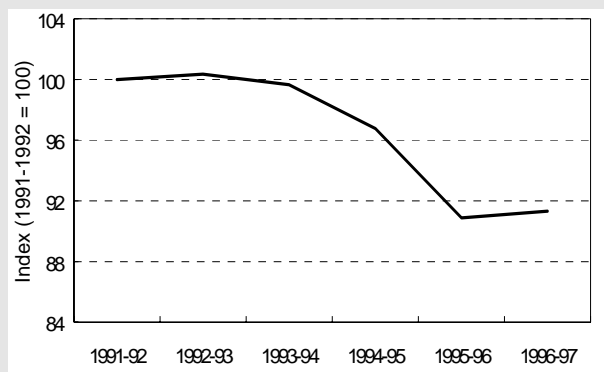
Notes: Total liabilities are defined as the future sacrifice of service potential of future economic benefits that the entity is obliged to make to other entities as a result of past transactions or other events (measured as at the end of the reporting period). Includes provisions for employee entitlements, creditors, deferred revenue, all repayable borrowings, interest bearing non-repayable borrowings and redeemable preference shares.

- a In 1996-97, GASCOR borrowed the funds to settle the PRRT dispute.
- b The State Energy Commission of Western Australia (SECWA) did not provide disaggregated data for its gas and electricity services. Disaggregated data became available after January 1995 when AlintaGas was established as a separate gas provider.
- c The Pipeline Authority of South Australia was privatised in 1994-95.
- d The Pipeline Authority (Commonwealth) was privatised in 1993-94.

4 WATER, SEWERAGE, DRAINAGE AND IRRIGATION

Key outcomes

- Over the period 1991–92 to 1996–97, the monitored water authorities have on average reduced their prices in real terms. With their large asset and equity base, the return on equity, while rising, has on average been low.
- The revenue-weighted, **real price index** for the water services provided by all monitored authorities, declined by 9 per cent over the period.
- **Pre-tax profit** increased substantially, notwithstanding the fall in real prices. However, the profit increase was from a low base.
- Weighted average **return on equity** increased, but was still less than 3 per cent in 1996–97.



4.1 Industry structure

Water GTEs undertake a variety of activities, including water treatment, bulk water supply, reticulation and retail supply, sewerage collection and treatment, drainage and irrigation. The monitored GTEs are involved in some or all of these activities (see Table 4.1). These activity differences, the differing geography, and the particular mix of urban and rural service delivery conditions under which water authorities operate, all have an influence on performance measures for individual GTEs.

The industry structure has changed over the 1990s (see Table 4.2). In some cases, GTEs have been disaggregated into specialised units, with each unit performing functions that were previously undertaken within the one organisation. One such GTE, the Melbourne Water Corporation, was disaggregated into four separate state owned enterprises on 1 January 1995 — a wholesaler of bulk water and three separate retail water companies.

To illustrate their activities and the service area covered, water authorities have been categorised into four groupings — urban, mixed rural, bulk water and irrigation (see Table 4.3).

The largest category — urban water authorities — provide the majority of their services to urban populations. GTEs in this category also generate the largest revenues (see Table 4A.1). For example, in 1996–97, Sydney Water and Melbourne's urban water GTEs generated 27 per cent and 24 per cent respectively of total industry revenue.¹ By contrast, two of the smaller urban GTEs — Gosford City Council and Wyong Shire — generated only 0.9 per cent and 0.8 per cent respectively.

Some of the dimensions of the water industry and its operating environment are outlined in Box 4.1.

¹ The Melbourne figure refers to the combined revenues of the three major urban retail water companies. To avoid double counting, the Melbourne figure does not include revenue of the Melbourne Water Corporation, most of which is derived from the wholesale of bulk water to the three retail water companies.

Table 4.1 Activities of monitored GTEs in the water services industry, 1996–97

GTE	Activity				
	Bulk water	Reticulation	Sewerage	Drainage	Irrigation
New South Wales					
Gosford City Council	✓	✓	✓	✓	
Hunter Water Corporation	✓	✓	✓	✓	
Sydney Water Corporation	✓	✓	✓	✓	
Wyong Shire Council	✓	✓	✓	✓	
Victoria					
Barwon Water	✓	✓	✓	✓	
‘Melbourne Water Consolidated’ ^a					
City West Water		✓	✓		
Melbourne Water Corporation	✓		✓	✓	
South East Water		✓	✓		
Yarra Valley Water		✓	✓		
Queensland					
Brisbane Water	✓	✓	✓	✓	
Department of Natural Resources, State Water Projects					✓
Gold Coast Water	✓	✓	✓	✓	
South Australia					
South Australian Water Corporation ^b	✓	✓	✓	✓	✓
Western Australia					
WA Water Corporation ^b	✓	✓	✓	✓	✓
Tasmania^c					
Hobart Regional Water Authority	✓				
North West Regional Water Authority	✓				
Rivers and Water Supply Commission					✓
Esk Water Authority ^d	✓				
Northern Territory					
Power and Water Authority ^b	✓	✓	✓	✓	
Australian Capital Territory					
ACTEW Corporation	✓	✓	✓		

a The former Melbourne Water Corporation was disaggregated in 1994–95 — ‘Melbourne Water Consolidated’ is the sum of the four water GTEs now serving metropolitan Melbourne; it includes one wholesale water business (Melbourne Water Corporation) and three retail water businesses (City West Water, South East Water and Yarra Valley Water).

b These authorities supplied separate data for their metropolitan and country operations.

c The three Tasmanian bulk water GTEs on-sell bulk water to local councils who are responsible for its retail sale.

d The former North Esk scheme was transferred to Local Government and renamed the Esk Water Authority from 1 July 1997.

Box 4.1 The Australian water industry, 1991–92 to 1996–97

- The water industry is one of the nation's largest, with assets of over \$90 billion at replacement cost, of which some \$50 billion is devoted to servicing urban areas.
- The urban water industry supplies water and sewerage services to 12 million Australians through 180 000 kilometres of water and sewerage mains.
- Water services must be provided from the driest environments, such as Adelaide with a mean annual rainfall of 453 mm, to wetter environments like Sydney with 1105 mm.
- The industry must invest in long-lived assets such as water storages, with enough capacity to meet demand requirements well into the future.
- The water industry also operates in a business environment in which it must satisfy ever more stringent health and environmental standards.
- The industry must co-ordinate with a range of government agencies responsible for health, environmental protection and land management matters, all associated with water use and waste water discharge.
- In 1996–97, the average Australian household paid over \$900 for water and sewerage services.
- The volume of water supplied by the monitored urban authorities increased by 5 per cent over the period and the volume of sewerage treated increased by only 2 per cent, as the effects of population growth and continuing urban development were partially offset by reduced volumes supplied and treated per property.
- Reductions in water consumption per property have resulted partly from new pricing formulas, that reflect the amount consumed and give less emphasis to property-based charges, which provide no financial incentive for consumers to minimise their water use.
- It has been estimated that by 1996–97, approximately 50 per cent of urban water authority revenue was raised from usage charges.

Table 4.2 Monitored water GTEs, 1991–92 to 1996–97

<i>1991–92</i>	<i>1992–93</i>	<i>1993–94</i>	<i>1994–95</i>	<i>1995–96</i>	<i>1996–97</i>
<i>New South Wales</i>					
Hunter Water Corporation	→				Hunter Water Corporation
Sydney Water Board	→		Sydney Water Corporation	→	Sydney Water Corporation
			Gosford City Council	→	Gosford City Council
			Wyong Shire Council	→	Wyong Shire Council
<i>Victoria</i>					
Melbourne Water	→		Melbourne Water	→	Melbourne Water
			City West Water	→	City West Water
			South East Water	→	South East Water
			Yarra Valley Water	→	Yarra Valley Water
			Barwon Water	→	Barwon Water

Table 4.2 Monitored water GTEs, 1991–92 to 1996–97 (continued)

<i>1991–92</i>	<i>1992–93</i>	<i>1993–94</i>	<i>1994–95</i>	<i>1995–96</i>	<i>1996–97</i>
<i>Queensland</i>					
Brisbane City Council (Water and Sewerage Department)					→ Brisbane Water
			Gold Coast Water		→ Gold Coast Water
Department of Primary Industries and Water Resources Queensland					→ Department of Natural Resources, State Water Projects
<i>Western Australia</i>					
Water Authority of Western Australia					→ Water Corporation of Western Australia
<i>South Australia</i>					
SA Engineering and Water Supply Department				→ South Australian Water Corporation	→ South Australian Water Corporation
North West Regional Water Authority				→ North West Regional Water Authority	→ North West Regional Water Authority

Table 4.2 Monitored water GTEs, 1991–92 to 1996–97 (continued)

1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
<i>Tasmania</i>					
Hobart Regional Water Board				Hobart Regional Water Board	Hobart Regional Water Authority
North West Regional Water Authority				North West Regional Water Authority	North West Regional Water Authority
Rivers and Water Supply Commission, North Esk				Rivers and Water Supply Commission, North Esk	Esk Water Authority
<i>Australian Capital Territory</i>					
Australian Capital Territory Electricity and Water				ACTEW Corporation	ACTEW Corporation
<i>Northern Territory</i>					
Power and Water Authority				Power and Water Authority	Power and Water Authority

Table 4.3 Water authority groupings and service areas, 1996–97

<i>GTE</i>	<i>Service area</i>
Urban	
ACTEW Corporation (ACT)	Greater Canberra and ACT
Barwon Water (VIC)	Geelong, Bellarine Peninsula and surrounding areas
Brisbane Water (QLD)	Greater Brisbane
City West Water (VIC)	Melbourne CBD, inner and western suburbs
Gold Coast Water (QLD)	Gold Coast
Gosford City Council (NSW)	City of Gosford
Hunter Water Corporation (NSW)	Newcastle, Lake Macquarie, Maitland, Cessnock and the Shire of Port Stephens
Power and Water Authority (NT, metro.)	Darwin
Water Corporation (SA, metro.)	Adelaide and surrounding areas
South East Water (VIC)	South–East Melbourne and the Mornington Peninsula
Sydney Water Corporation (NSW)	Greater Sydney, Illawarra and the Blue Mountains
Wyong Shire Council (NSW)	Wyong Shire
Yarra Valley Water (VIC)	Yarra Valley (North–East Melbourne)
Water Corporation (WA, metro.)	Perth, Mandurah and surrounding areas
Mixed rural	
Power and Water Authority (NT, country)	Alice Springs and remainder of Northern Territory
Water Corporation (SA, country)	Remainder of South Australia
Water Corporation (WA, country)	Remainder of Western Australia
Bulk water	
Hobart Regional Water Authority (TAS)	Greater Hobart
Melbourne Water Corporation (VIC) ^a	Greater Melbourne and the Mornington Peninsula
North West Regional Water Authority (TAS)	Devonport and municipalities of Waratah-Wynyard, Circular Head, Central Coast, Latrobe and Kentish
Rivers and Water Supply Commission, North Esk (TAS)	Launceston, George Town, Prospect Vale, Hadspen and Bell Bay
Irrigation	
Department of Natural Resources, State Water Projects (QLD)	Rural Queensland

a Melbourne Water Corporation provides bulk water and sewerage and drainage services. For purposes of jurisdictional comparison, the Melbourne water industry is consolidated to include Melbourne Water Corporation and three retail water businesses (City West Water, South East Water and Yarra Valley Water).

4.2 Key reforms

Water utilities have undergone a variety of institutional and administrative reforms during the 1990s, which were directed at improving their management and operational performance. However, unlike other areas of economic infrastructure such as electricity, Australian governments have not privatised their water utilities.

In February 1994, the Council of Australian Governments (COAG) agreed to develop a 'strategic framework' for water reform and in April 1995, governments agreed to bring this COAG strategic framework within the ambit of the National Competition Policy (NCP) process. The COAG water reform framework commits governments to administrative reforms, including consumption-based and two-part charging, full cost recovery (with subsidies made transparent), separate identification and funding of community service obligations (CSOs), the introduction of trading in rural water entitlements and the allocation of water for the environment as a legitimate use of water resources.

A number of administrative reforms have already led to improved pricing and allocative mechanisms being implemented. Consumption-based charging has been progressively introduced and property-based charges largely phased out. The larger price differentials between domestic and commercial users are also being phased out by reducing water charges for commercial users relative to household users.

The thrust of institutional reforms has been greater exposure to competitive processes and revised governance and accountability arrangements. Institutional reforms have been adopted which separate the roles of service delivery, land and water resource management, standard setting, regulation and policy-making. Reforms directed at competition, through contracting out for example, were directed at achieving a more commercial approach toward service delivery so that better outcomes could be delivered to all major stakeholder groups.

In most jurisdictions, water authorities have been moved out of traditional departmental structures and corporatised. Conditions for their establishment as corporate entities have usually been defined in omnibus corporatisation legislation introduced by the states. The legislation typically provides for the establishment of clear commercial objectives so as to eliminate the conflict between commercial and non-commercial objectives which existed previously.

In some jurisdictions, commercial functions have been separated from policy and regulatory functions on an administrative basis. In other jurisdictions regulatory functions are provided for in legislation. For example, the Office of the Regulator General in Victoria has legislated (non-price) responsibilities with respect to metropolitan Victorian water authorities.

Expert rather than representative Boards have been appointed. Boards are held accountable for the commercial performance of GTEs and for satisfying customer needs and providing a satisfactory return to shareholder governments.

One of the more significant initiatives occurred in 1996, when the South Australian Government contracted out the management and operation of the water supply system for the Adelaide metropolitan area. The magnitude and scope of the contract was unprecedented in Australia — the contract runs for 15 years and makes the contractor, United Water, responsible for the operation, maintenance and implementation of capital works programs over that period, while infrastructure ownership, customer billing and capital works investment decisions remain with the government owned South Australian Water Corporation.

A different approach has been adopted in Queensland where, unlike other jurisdictions, the majority of urban water services are provided by local governments. During the second half of 1996–97, the 17 largest councils in Queensland (which account for about 80 per cent of expenditure on urban water services in Queensland) undertook assessments of the public benefit of applying competitive neutrality reforms to their water and sewerage business activities. As a result, all 17 councils have implemented full cost pricing from 1 July 1998.

Other reform initiatives are outlined in Table 4.4. Collectively, they have been the drivers for the improved outcomes described below.

Table 4.4 Reform initiatives affecting the water industry, 1991–92 to 1996–97

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
National	Feb 1994	COAG endorsed a framework of initiatives for the water industry over a seven year period. The framework covers water pricing reform based on the principles of consumption-based pricing and full cost recovery, elimination of cross-subsidies and making cross-subsidies transparent. Also covered are issues on water allocation and entitlement, reform of irrigation systems, allocating water for environmental purposes and institutional reform.
New South Wales	Jan 1992	Hunter Water Corporation (HWC) (previously Hunter Water Board) established under the <i>State Owned Corporations Act 1989</i> .
	July 1992	Government Pricing Tribunal (GPT) established to review and determine maximum prices charged by GTEs, including water authorities.
	1993–94	Sydney Water Board (SWB) adopted a holding company subsidiary model for its operations. Three subsidiaries established — utilities, Bulk Water and Waste Water, and Australian Water Technologies (AWT). Internal services provided by AWT opened to market competition. Regulatory responsibility for drinking water quality removed from SWB and placed with the Department of Health. SWB's prices set for the first time as a result of a determination process involving the GPT. The GPT endorsed a single water price replacing a four tier water charging arrangement.
	1994–95	Negotiation of a five year package of regulatory reforms for HWC for the period 1995 to 2000, covering access to untreated water, service standards, pricing and discharge standards. The property valuation component of HWC's tariffs was removed. Introduction of build, own, operate schemes as a means of developing and financing capital works. A contract was signed for the construction, operation and maintenance of water filtration plants at Illawarra and Woronora.
	1995	All government irrigation areas in the Murray and Lachlan Valley privatised. Two smaller schemes in the Murrumbidgee Valley also privatised.
	Jan 1995	Sydney Water Corporation (SWC) (previously Sydney Water Board) established under the <i>State Owned Corporations Act 1989</i> and placed under similar regulatory regime to HWC (see above). Regulatory and operational functions begin to be separated.

Table 4.4 Reform initiatives affecting the water industry, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
New South Wales (continued)	July 1995	HWC introduced a Customer Service Charter as a means of measuring the level of service provided to customers.
	Oct 1995	Residential property taxes eliminated.
	1995–96	Water reform package announced by Government included process to establish water quality and river flow objectives for all rivers, adoption of a new range of charges for all water users, and referral of bulk rural water pricing to the Independent Pricing and Regulatory Tribunal (IPART).
	June 1996	IPART sets a four year maximum price path for water supply, sewerage and drainage services provided by metropolitan water authorities.
	August 1997	Water reforms announced by the New South Wales Government to upgrade the resource allocation framework to provide clearer specification of water entitlements, including those allocated for environmental use.
Victoria	Oct 1993	Office of Water Reform established to oversee the management of water resources.
	June 1994	Introduction of a policy to increase the user pays proportion of water bills for customers in the Melbourne metropolitan region.
	July 1994	Melbourne Parks and Waterways separated from the Melbourne Water Corporation.
	1995	Amalgamation of 83 non-metropolitan water authorities into 19 regional authorities.
		Rural Water Corporation disaggregated into four rural water authorities. Policy and regulatory functions were removed.
	Jan 1995	Melbourne Water Corporation disaggregated into three retail water businesses (City West Water, South East Water and Yarra Valley Water) and a wholesale water and sewerage business, which retained the name of Melbourne Water Corporation.
	July 1995	Legislative amendments to enable temporary interstate trade in irrigation water allocation.
Sept 1995	Legislative amendments to the licensing arrangements for the three metropolitan retail companies, allowing provision for third party access to their infrastructure.	

Table 4.4 Reform initiatives affecting the water industry, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Victoria (continued)	1995–96	Increase in the percentage of customers within non-metropolitan water authorities charged using a two-part user pays pricing tariff. Tariff involves a fixed charge (independent of property values in 95 per cent of cases) plus a variable charge based on consumption. Restructure and sale of the scientific and technical services businesses of the former Rural Water Corporation.
	October 1997	Major water reform package announced to reduce average domestic water prices, abolish property value-based water charges and a debt restructure package for metropolitan and non-metropolitan urban water authorities.
Queensland	May 1995	Gold Coast Water established as a Department of the new City of Gold Coast, which was formed from the amalgamation of the Gold Coast City Council and Albert Shire Council.
	July 1995	State Water Projects established as a business unit in the Department of Natural Resources as a first stage in commercialisation. Also, Brisbane Water established as a separate business unit of Brisbane City Council.
	September 1996	Policy document <i>Rural Water: Pricing and Management</i> released and outlined strategies for achieving COAG water pricing and cost recovery targets for rural water supplies.
	May 1997	<i>Local Government Act 1993</i> amended to apply COAG water reform pricing principles to the 17 largest local governments.
South Australia	Dec 1994	Volumetric water pricing for residential users announced. Commercial users retained on a value-based system with some usage charges.
	1994–95	Regulatory functions transferred from the Engineering and Water Supply Department (EWSD) to non-commercial government agencies. Sale of EWSD's manufacturing and fabrication businesses to the private sector.
	July 1995	EWSD corporatised and renamed the South Australian Water Corporation.
	1995–96	Continuation of pricing reform by South Australian Water Corporation to extend volumetric pricing system to ensure all water usage incurs a charge.

Table 4.4 Reform initiatives affecting the water industry, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
South Australia (continued)	Jan 1996	Management, operation and maintenance of Adelaide's water and sewerage network, together with management of capital works program, contracted out to United Water International for the next 15 years. Functions remaining in South Australian Water Corporation were restructured.
	July 1997	New <i>Water Resources Act 1997</i> provides for transferable entitlements consistent with COAG principles, water allocation plans which specify water for the environment and greater devolution of water resource management to local communities.
Western Australia	1993–94	Two year program began to phase out the free water consumption allowance. Commencement of the phasing in for non-residential metropolitan customers of water charges based on meter size and volume of water consumed.
	1995–96	Phasing in of meter size-based water service charges extended to non-residential country customers. Commencement of a five year program to replace value-based charges with fixture based and volumetric charges for non-residential metropolitan sewerage customers.
		Operation and maintenance of Perth's water and wastewater reticulation services outsourced under two private sector contracts.
	Jan 1996	The then Water Authority of Western Australia and the Waterways Commission replaced with: <ul style="list-style-type: none"> • the Water Corporation which provides water, sewerage, drainage and irrigation services; • a Water and Rivers Commission whose functions are to assess, allocate and conserve water resources; and • an Office of Water Regulation which provides independent advice to the Government on water issues and administers a utility licensing regime.
	March 1996	A farmer-led organisation, South West Irrigation, has taken over management of irrigation services in the south-west of the State from the Water Corporation. Farmers now have direct control over the delivery of water irrigation needs. However, the south-west irrigation system's assets are still owned by the Water Corporation.
	1997	Work underway on new legislation with the objective of implementing the COAG water reform framework as part of the NCP.

Table 4.4 Reform initiatives affecting the water industry, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Tasmania	July 1995	Hobart Regional Water Board, North West Regional Water Authority and Rivers and Water Supply Commission becomes a government business enterprise with the passage of <i>Government Business Enterprises Act 1995</i> . The Act introduces competitive neutrality principles and provides for the establishment of an independent commission to investigate and report on GBE pricing policies.
	1995–96	Development of a user pays water pricing policy for use by the Hobart Regional Water Board which eliminates cross-subsidies and improves price signals.
	1997	Premier commits to new legislation with the objective of implementing the COAG water reform framework as part of the NCP.
	July 1997	All three bulk water suppliers became subject to an income tax-equivalent regime.
Northern Territory	1995	Development of a trade waste tariff policy based on user pays.
	April 1995	Power and Water Authority classified as a Government Business Division (GBD) under the <i>Financial Management Act 1995</i> .
	November 1995	A set of principles and guidelines for the operation of GBDs was established. These included an approved pricing methodology for user charges, full cost attribution for GBDs, direct funding of CSOs and the introduction of a tax equivalent regime.
	1996–97	Water and sewerage charges increased by 29 per cent and 8 per cent respectively since 1994–95 as the result of a move toward full cost recovery. Northern Territory now reports near to full cost recovery for metropolitan supply.
Australian Capital Territory	July 1994	A usage based water pricing policy system introduced and the free water allowance effectively removed for all customers.
	July 1995	ACTEW corporatised.
	November 1997	Independent Pricing and Regulatory Commission established to advise on regulated industries, including sewerage and water.

4.3 Consumer outcomes

One of the objectives of water reform has been to ensure that water prices reflect full cost recovery. Traditionally, water prices have often been set at a price below the cost of delivery.

As part of achieving full cost recovery, jurisdictions have attempted to reduce or eliminate cross-subsidies between different classes of water users — in this process a number of jurisdictions have restructured their tariffs to reduce charges to business water users *vis a vis* household users.

Moving to full cost recovery has resulted in greater rationing of water as a scarce commodity and greater recognition of its use as an environmental resource.

Once full cost recovery has been achieved, consumers are likely to expect continuing benefits resulting from ongoing efficiency measures, lower real prices and further improvements in product and service quality.

Real prices

Over the period 1991–92 to 1996–97, real prices have risen in some jurisdictions and fallen in others (see Figure 4.1).

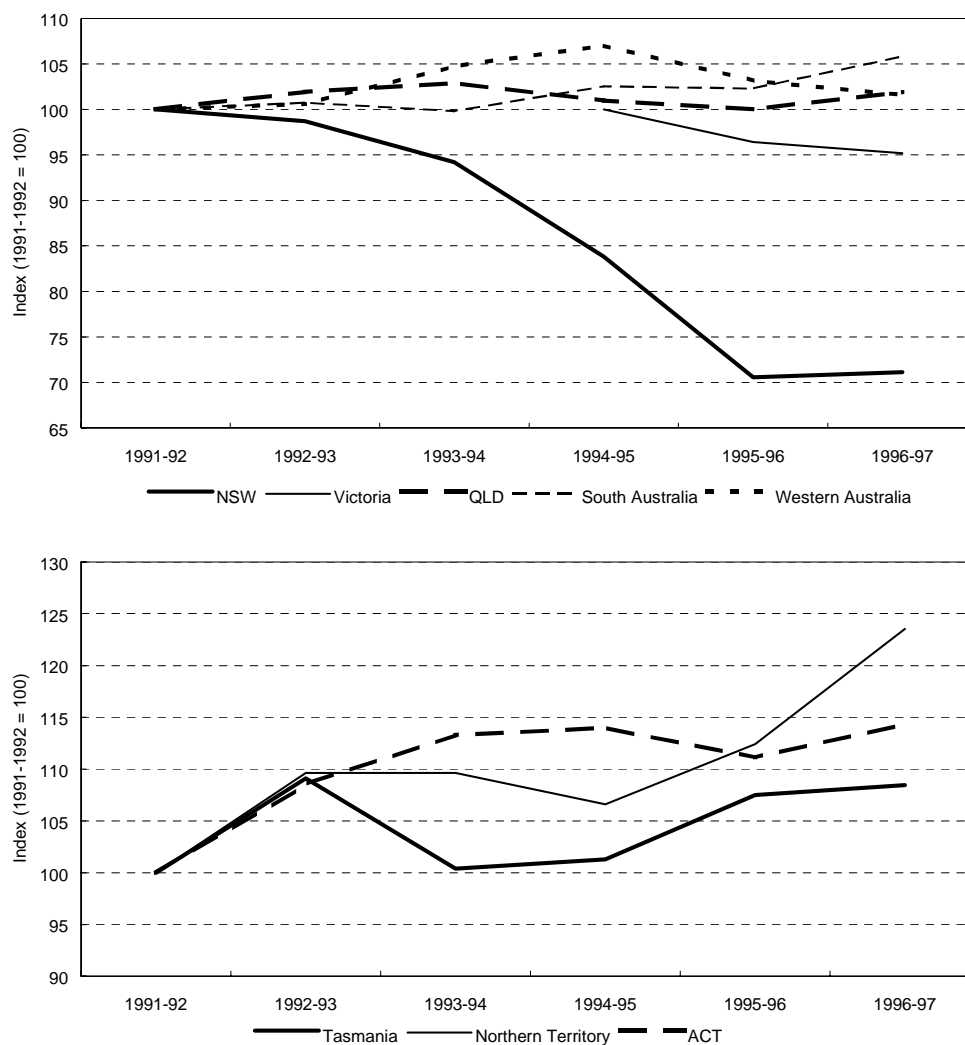
New South Wales and Victoria are the only two jurisdictions to have experienced falling real prices since 1991–92. In New South Wales in particular, there has been a major reduction of about 30 per cent, representing a consumer saving of about \$1 billion over the period, relative to the situation if real prices had remained unchanged (see Figure 4.1). Although the price reduction in New South Wales has been from a relatively high base, it has nevertheless been substantial.

The small reduction in real prices for Victoria since 1994–95, reflects the implementation of a price freeze, following disaggregation of the Melbourne Water Corporation into four separate water supply entities during that year. In all jurisdictions other than New South Wales and Victoria — notwithstanding fluctuations over time — real prices were higher at the end of the reporting period than at the beginning. This was most pronounced in the case of Tasmania and the two Territories.

The real prices reported in Figure 4.1 are a composite index of metropolitan prices, including water, sewerage and other service charges for the major urban water GTEs in each jurisdiction. The price figures reflect capital city prices which account for 90 per cent or more of the jurisdictional aggregate. For example, the New South Wales results mainly reflect prices for the Sydney

Water Corporation, which are subject to determinations by IPART in that State. The exceptions are Tasmania and South Australia, where regional and country operations represent a major component of the overall jurisdictional result.

Figure 4.1 Real price index by jurisdiction, 1991–92 to 1996–97



Notes: The scale ranges used along the y axis of each chart are different.
 Real price indices for each jurisdiction are constructed by deflating average selling prices by the appropriate capital city Consumer Price Index
 Except for Tasmania, values refer to overall (water and sewerage) metropolitan retail prices.
 The Tasmanian figure is a weighted average of three bulk water suppliers who sell to Local Councils for retail on-selling.

A number of State Governments have established independent prices oversight bodies. In New South Wales, the Independent Price and Regulatory Tribunal

(IPART) has completed a number of water pricing determinations since it came into existence in 1992. The thrust of these determinations has been to reduce Sydney's water prices and those of the surrounding Gosford, Wyong and Hunter Councils. Consistent with the trend in other jurisdictions, IPART has also increased the consumption-based component of water charges *vis a vis* property values.

Another feature of pricing has been a re-alignment of price relativities between household and commercial users. The price data on this is somewhat incomplete for the purpose of comparing charges for both of these groups but, in jurisdictions where this change in relativities has been implemented, the prices charged to commercial users have declined *vis a vis* households.

Consumer outcomes can be favourably influenced in the future by financial restructuring packages of the kind recently announced in Victoria (see Box 4.2).² This package switches the benefits of reform from the government to consumers, through debt transfer and reduced dividend requirements.

² Note that the Victorian package falls outside the monitoring period covered by this report.

Box 4.2 Financial restructuring package for Melbourne's water authorities

In October 1997, the Victorian Government announced a major water reform package to take effect from 1 January 1998. The Government announced an average 18 per cent reduction in water bills. All water and sewerage charges based on property values are to be abolished. Flat fixed charges per property have been introduced and greater reliance is being placed on usage charges.

The water reform package includes an \$850 million debt transfer from Melbourne's water authorities. Not only will the Government now assume responsibility for managing this debt, but it will also pay the associated interest charges. This will assist the water enterprises in accommodating the impact of the revenue reduction resulting from the average 18 per cent price reduction.

The \$850 million debt transfer will also give the enterprises a debt to equity ratio that is closer to normal commercial standards — it will make them more accountable by establishing an expectation that they should now be able to perform on a commercial basis.

The Victorian Government is also expected to ameliorate the impact of price reductions on the revenues of Melbourne's water authorities, by reducing the amount of dividend payments required from them. While this measure was not part of the October 1997 announcement, Victoria's 1998–99 budget papers forecast a \$158.8 million reduction in taxes and dividends payable by the relevant water authorities.

Governments have discretion in how the benefits of reform are shared between consumers and the government as shareholder.

The measures outlined above represent a substantial switch in the sharing of financial outcomes from the Government to consumers. From an outcomes perspective, Victorian consumers will be unequivocally better off from 1 January 1998, but from a Government shareholder perspective, budget projections are for lower dividend payments to the Government as noted earlier.

Service quality

Overall, service quality has remained at high levels and where problems have occurred, they appear to have been rectified. Within each jurisdiction, service quality measures are reported for the major urban water authorities only. Four performance indicators are reported, namely:

- compliance with water quality standards;

- compliance with sewerage effluent standards;
- water main breaks (per 100 kilometres); and
- sewer chokes (per 100 kilometres).

Compliance with water standards refers to the percentage of water samples tested which meet the established guidelines with respect to microbiological, pH, colour and turbidity measures. The New South Wales figures for this measure reflect some problems experienced by Sydney Water Corporation earlier in the reporting period, prior to the widely-reported water quality problems in 1998 (see Figure 4.2).

The setting of sewerage effluent standards and their monitoring is usually the responsibility of the environmental protection agency in each jurisdiction. Compliance with sewerage effluent standards has been close to 100 per cent in those jurisdictions for which data is available (see Figure 4.3).

Consumers are also concerned with the reliability of water and sewerage services. Water service reliability is determined by the frequency of interruptions and the time taken to restore supply. Most authorities endeavour to restore supply within five hours and generally succeed in doing so. Under its residential Customer Charter, Yarra Valley Water in Melbourne for example, offers its customers a \$20 rebate if water is cut off for more than five hours.

Frequency of interruptions is measured as the number of main breaks per year per 100 kilometres of water main. Main breaks depend on a number of factors, but tend to be more common in inner urban areas where water mains are older. The measure varies significantly between jurisdictions (see Figure 4.4).

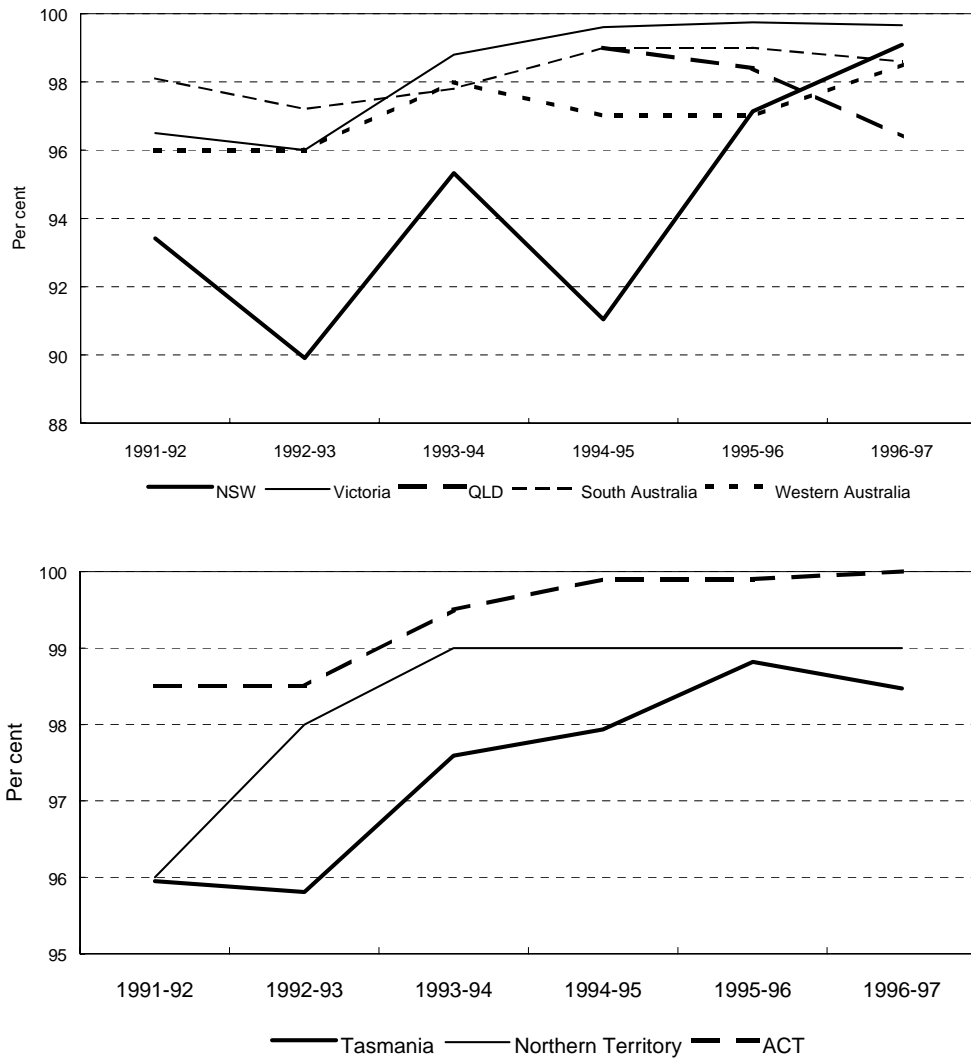
The number of sewer chokes per 100 kilometres of sewer line is used as a measure of service reliability. The measure varies somewhat between jurisdictions, but within jurisdictions there are no major trends evident over the monitored period (see Figure 4.5).

Apart from the service quality measures outlined above, water authorities have committed themselves to a range of obligations under operating licences and customer service charters describing in detail the quality of service they are to provide. These documents also outline mechanisms for complaints and dispute resolution. In some jurisdictions, relative performance against a range of service quality indicators is monitored and reported on by an independent regulator. For example, the Office of the Regulator-General (ORG) in Victoria has produced two major reports comparing the performance of Melbourne's three retail water and sewerage licensees.

Customer contracts have been written to provide financial rebates for non-performance of service obligations in certain circumstances. In 1996–97, Sydney Water Corporation returned \$1.6 million in customer rebates — a reminder and an incentive for water authority managers to aim for continuous improvement in service delivery.

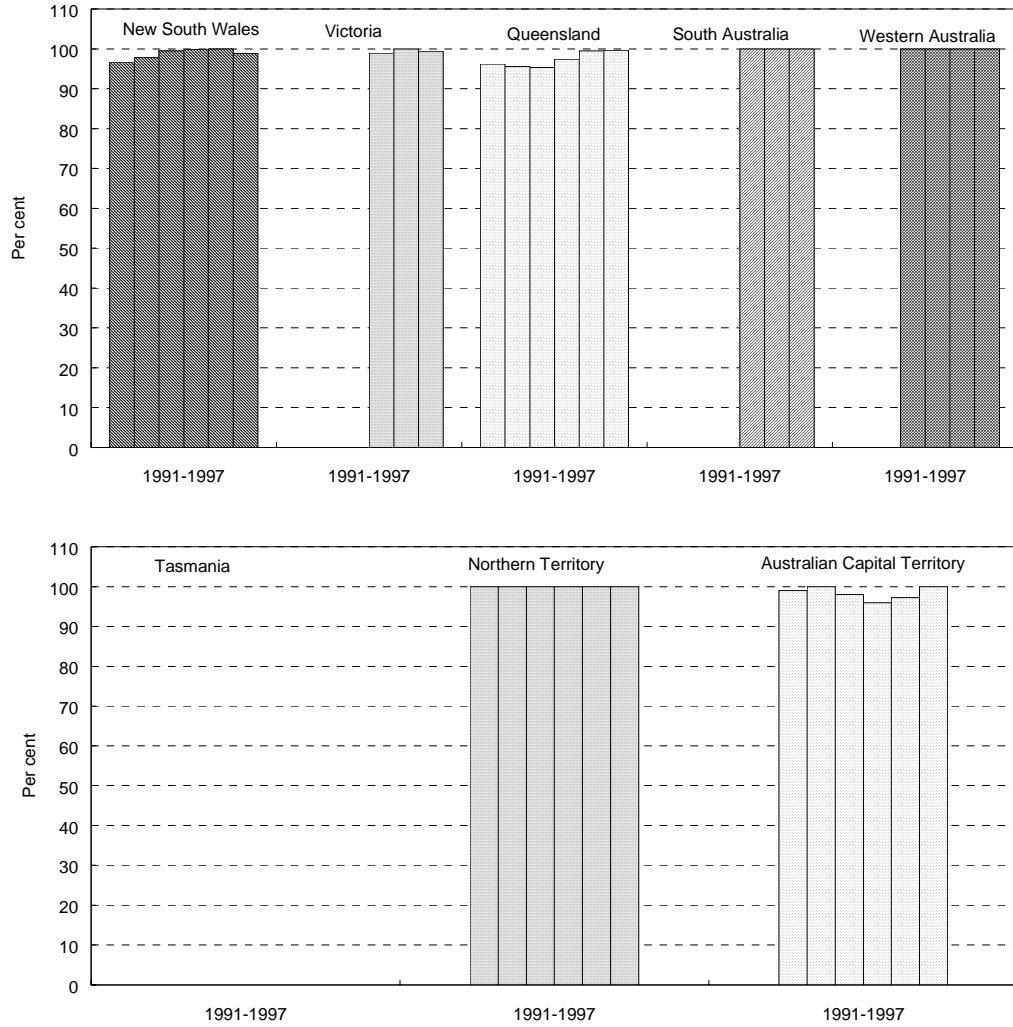
Other service quality developments include the establishment in some jurisdictions of formal consultation mechanisms to obtain a customer perspective on the performance of the authorities. To this end, Sydney Water Corporation has established a number of consultation councils which provide a forum for interested customers to provide feedback on how Sydney Water can improve its performance.

Figure 4.2 Compliance with water quality standards by jurisdiction, 1991-92 to 1996-97



Notes: The scale ranges used along the y axis of each chart are different. Compliance with water standards is measured as the percentage of samples meeting the guidelines with respect to both microbiological and compliance for pH, colour and turbidity measures.

Figure 4.3 Compliance with sewerage effluent standards by jurisdiction, 1991–92 to 1996–97



Notes: Compliance with sewerage effluent is measured as the percentage of samples complying with State and Territory based licensing agreements.

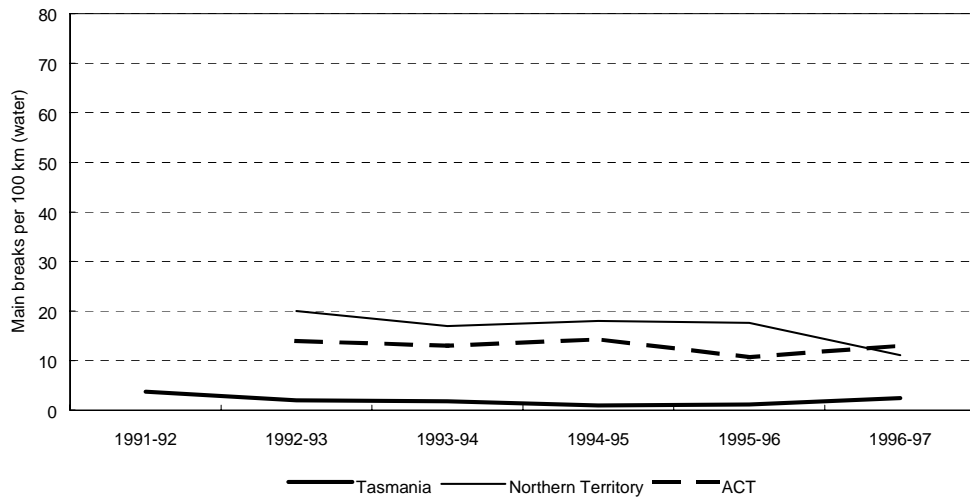
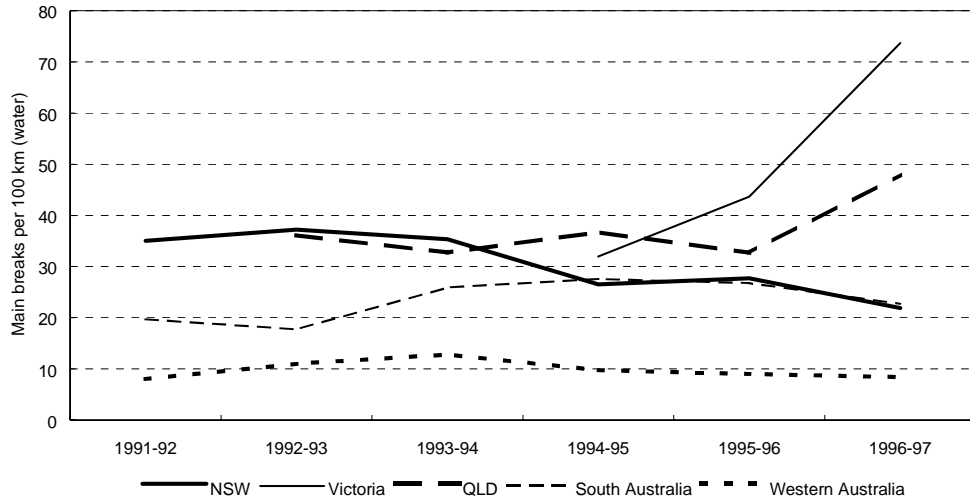
Not applicable to Tasmanian bulk water authorities.

New South Wales data refers to the Hunter Water Corporation only.

Victorian data refers to the average of Melbourne's three major water retailers since 1994–95, the financial year in which they were first established.

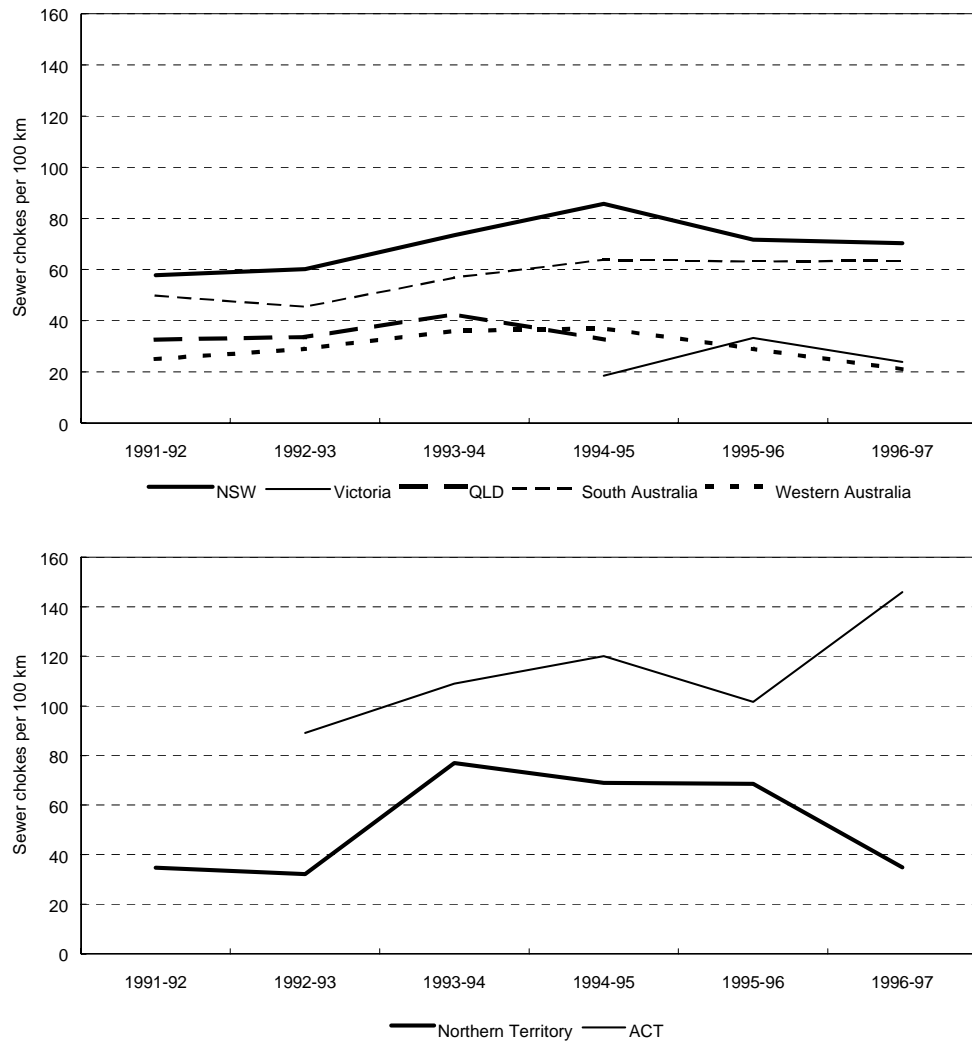
Queensland data refers to the Gold Coast City Council only.

Figure 4.4 Main breaks per 100 km (water) by jurisdiction, 1991-92 to 1996-97



Notes: Main breaks include bursts and leaks. Leaks include main faults that can be fixed without shutting down the main.
 Figures relate to metropolitan water supplies only.

Figure 4.5 Sewer chokes per 100 km by jurisdiction, 1991-92 to 1996-97



Notes: Chokes are confirmed partial or total blockages occasioning an interruption to service, excluding any blockages that occur in the service connection of internal drains. Figures relate to metropolitan water supplies only.

4.4 Shareholder outcomes

Shareholder outcomes for the monitored authorities have improved, with profit increases in most jurisdictions.³ Income tax-equivalent expense and dividend

³ The monitored authorities mainly comprise the major urban water authorities in the capital cities.

payments to government have been increasing in those jurisdictions where the corresponding competitive neutrality and dividend policies are in place. However, water authorities in most jurisdictions have failed to generate commercial rates of return on equity (ROE), although the ROE is contingent upon the valuation of assets and their inclusion in the asset base.⁴

Profitability

In 1996–97, all jurisdictions reported an operating profit before income tax — except Tasmania, which reported a small operating loss (see Figure 4.6). Despite yearly fluctuations, operating profit has improved in all jurisdictions and was higher at the end of the period monitored than at the beginning.⁵

Operating profit before income tax is influenced by the combination of prices, business volume and expenses. The individual and collective influence of these factors has varied between jurisdictions.

By controlling their expenses, some jurisdictions have managed to increase their profit, even though prices and revenues have simultaneously been falling. For example, expenses have been reduced in New South Wales and profit has grown, while at the same time Sydney consumers have enjoyed significant real price reductions imposed by IPART (see Figures 4.1 and 4.8).

A fall in expenses can reflect reduced general business operating costs or a reduction in finance charges. In Victoria, profit growth has been largely driven by a decline in interest charges since 1994–95, both absolutely and as a proportion of total expenses (see Figure 4.9).⁶

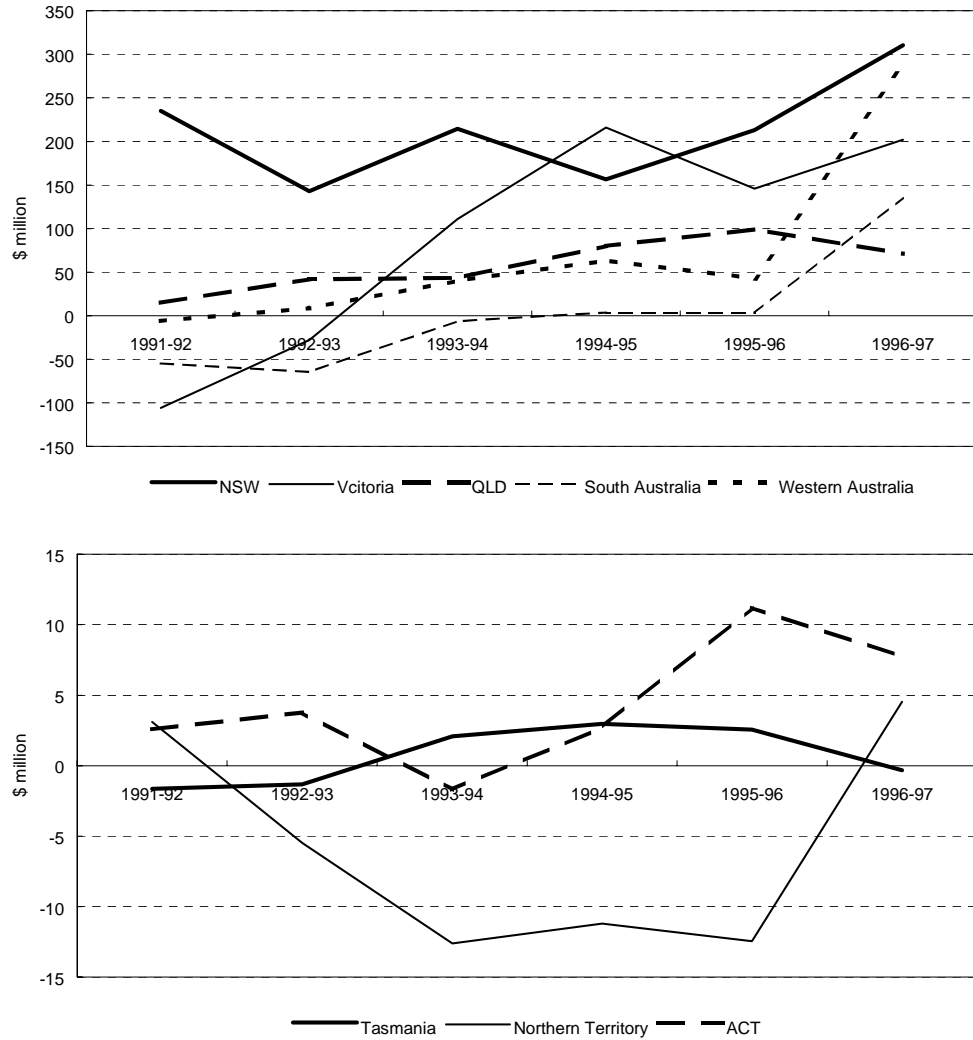
Other jurisdictions such as the Northern Territory made several losses over the period, but restored their operating profit in 1996–97, from reduced expenses and, more particularly, from strong price and revenue growth (see Figures 4.1 and 4.8).

⁴ ROE is equal to after-tax profit before the payment of a dividend and is expressed as a percentage of the calculated equity figure.

⁵ The small operating loss before income tax reported by Tasmania in 1996–97, was nevertheless an improvement on the operating loss in 1991–92.

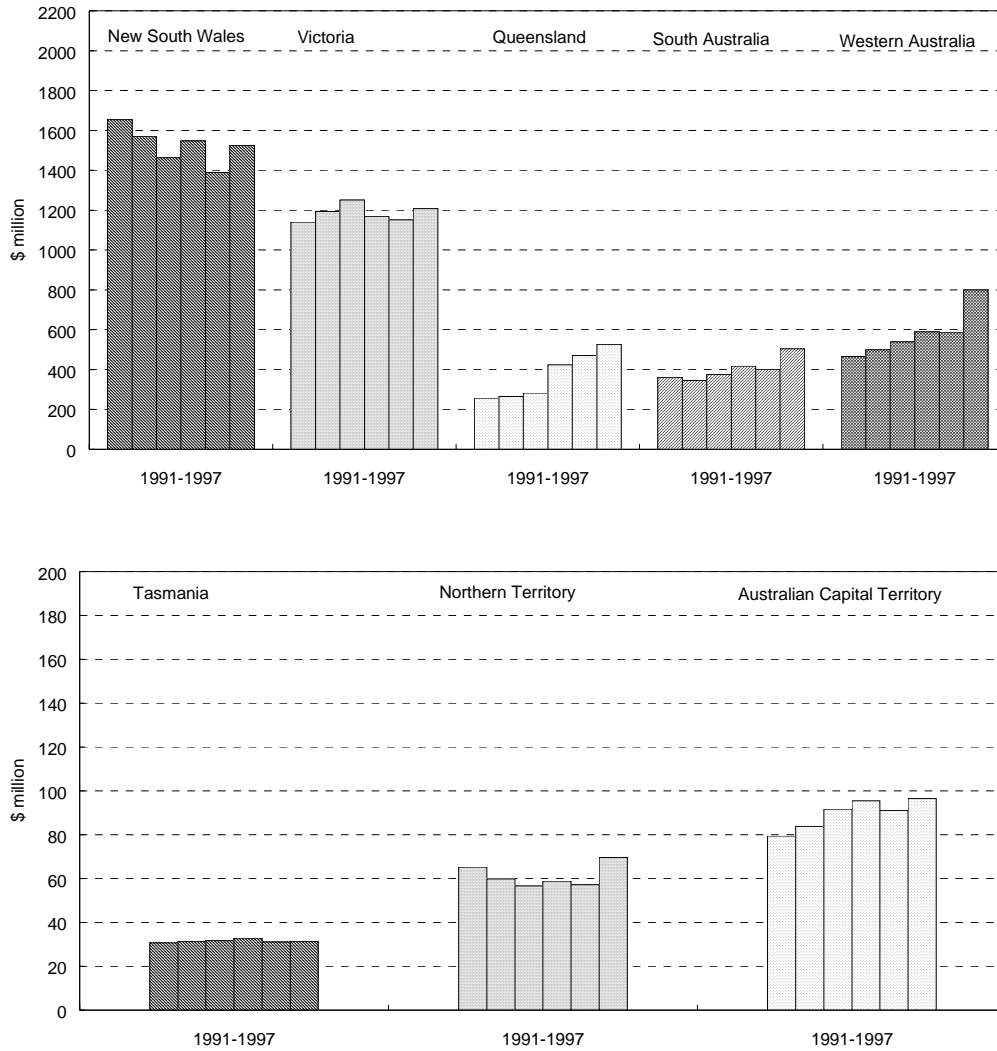
⁶ While reported profits have grown strongly in Victoria following disaggregation of the Melbourne Water Corporation into a number of entities, the Annual Reports of the relevant bodies emphasise that caution needs to be exercised in comparing Victoria's results over time because of the disaggregation.

Figure 4.6 Operating profit before income tax by jurisdiction, 1991-92 to 1996-97



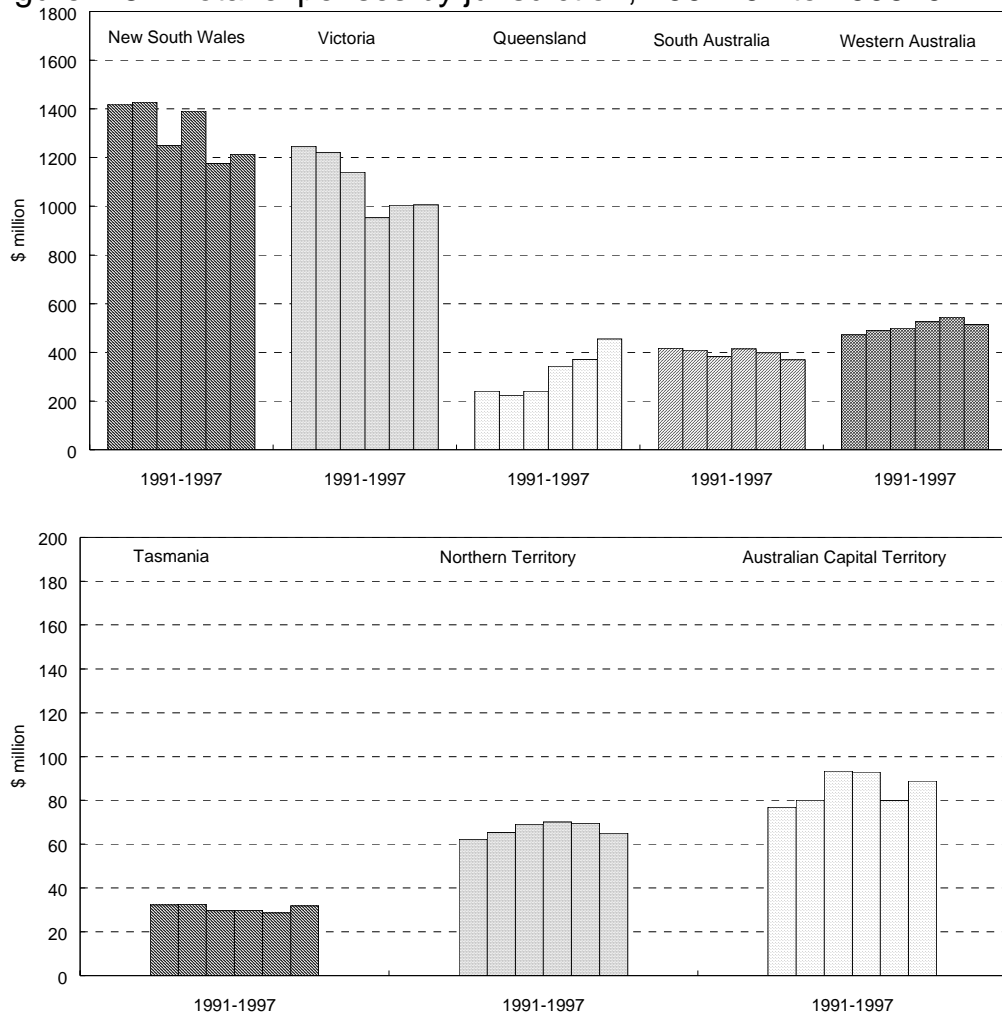
Notes: The scale ranges used along the y axis of each chart are different. Operating profit before income tax is defined as total revenue less total expenses and includes abnormals.

Figure 4.7 Total revenue by jurisdiction, 1991-92 to 1996-97



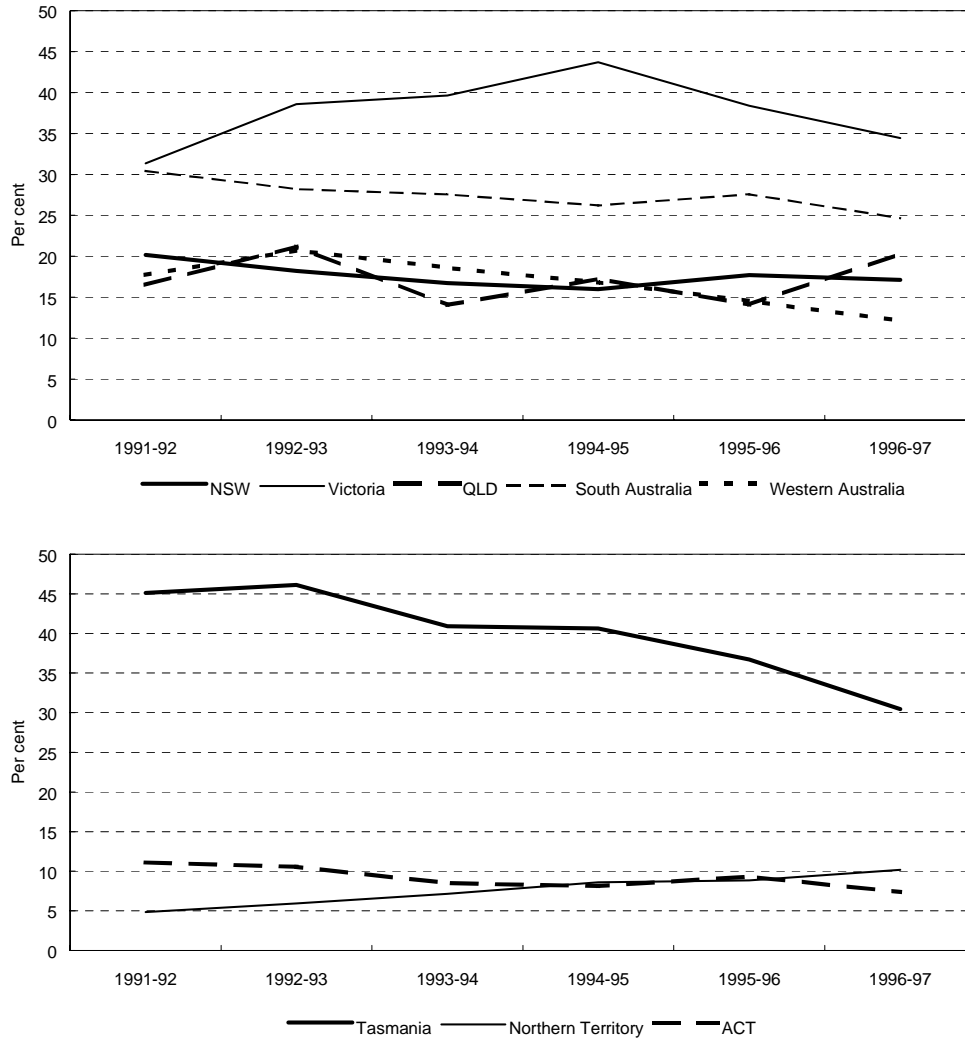
Notes: The scale ranges used along the y axis of each chart are different.
 Total revenue includes revenue from sales and levies, revenue from asset sales, investment income, receipts from governments for specific agreed services, other revenue from operations, receipts from government to cover deficits on operations and abnormal revenue. It excludes funds received for specific capital works from governments or other parties, and equity contributions from governments.
 Victorian figures exclude post-disaggregation revenue data for the Melbourne Water Corporation (see Note a, Table 4A.1 for details).

Figure 4.8 Total expenses by jurisdiction, 1991–92 to 1996–97



Notes: The scale ranges used along the y axis of each chart are different.
 Total expenses is include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution in value of assets and abnormal expenses.
 Victorian figures exclude post-disaggregation expense data for the Melbourne Water Corporation.

Figure 4.9 Gross interest expense as a percentage of total expenses by jurisdiction, 1991-92 to 1996-97



Notes: Gross interest expense is the amount charged to the profit and loss account. It includes finance charges on finance leases and all debt related financial expenses. Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution of assets and abnormal expenses.

Income tax-equivalent expense and dividend payments

In most jurisdictions, policies on income tax-equivalent expense and dividend payments have been introduced as part of the package of GTE reforms designed to encourage a more commercial approach to their operation.⁷

Income tax-equivalent expense and dividend payments to government can only be generated in a sustained manner from profitable enterprises. Associated with the increase in profits before income tax reported above, the aggregate level of dividends paid by the monitored authorities also increased, from \$329 million in 1991–92 to \$712 million in 1996–97, or 93 per cent in real terms.

New South Wales, Victoria and Western Australia are the only jurisdictions to have had comprehensive income tax-equivalent and dividend arrangements in place throughout the monitored period.⁸ In the remaining jurisdictions, income tax-equivalent and dividend regimes have been either non-existent or else applicable for only part of the monitored period (see Figures 4.10 and 4.11).

Note that the jurisdictional aggregates in Figures 4.10 and 4.11 are relatively large for New South Wales and Victoria — this can mask what are sometimes more significant percentage changes among the smaller jurisdictions such as Western Australia, albeit the changes are off a smaller base.

State Treasuries normally determine the size of dividend payments after considering among other things, the impact of tax-equivalent regimes on the level of after-tax profit. Income tax-equivalent regimes mean that like the private sector, income tax must be paid, with dividends paid from after-tax profits.

Apart from the obvious revenue-raising objective, income tax-equivalent regimes constitute one element of GTE reform aimed at achieving competitive neutrality between GTEs and private sector competitors.

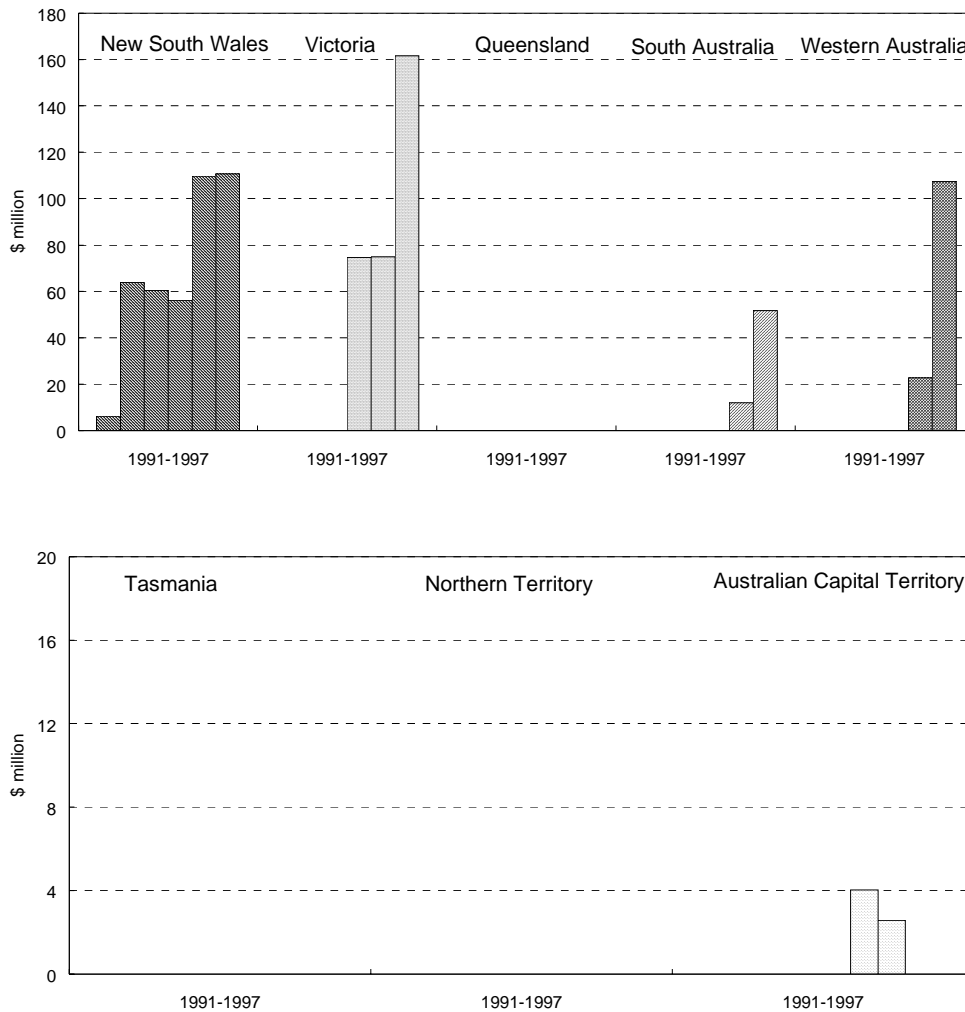
Dividend payments on the other hand represent a return on the equity provided, where government-sourced equity capital has an opportunity cost — the rate of return that could be achieved in alternative uses. The requirement to pay dividends imposes a discipline to practice sound financial management. It also

⁷ The tax figures used in this report are those for income tax expense or income tax-equivalent expense. Income tax expense is different from the amount of tax actually paid in any year because under tax effect accounting (AAS3), timing differences can arise for example, because of different depreciation rates used by the business compared with the rates used for tax purposes.

⁸ In Victoria, Barwon Water is not subject to a tax-equivalent regime.

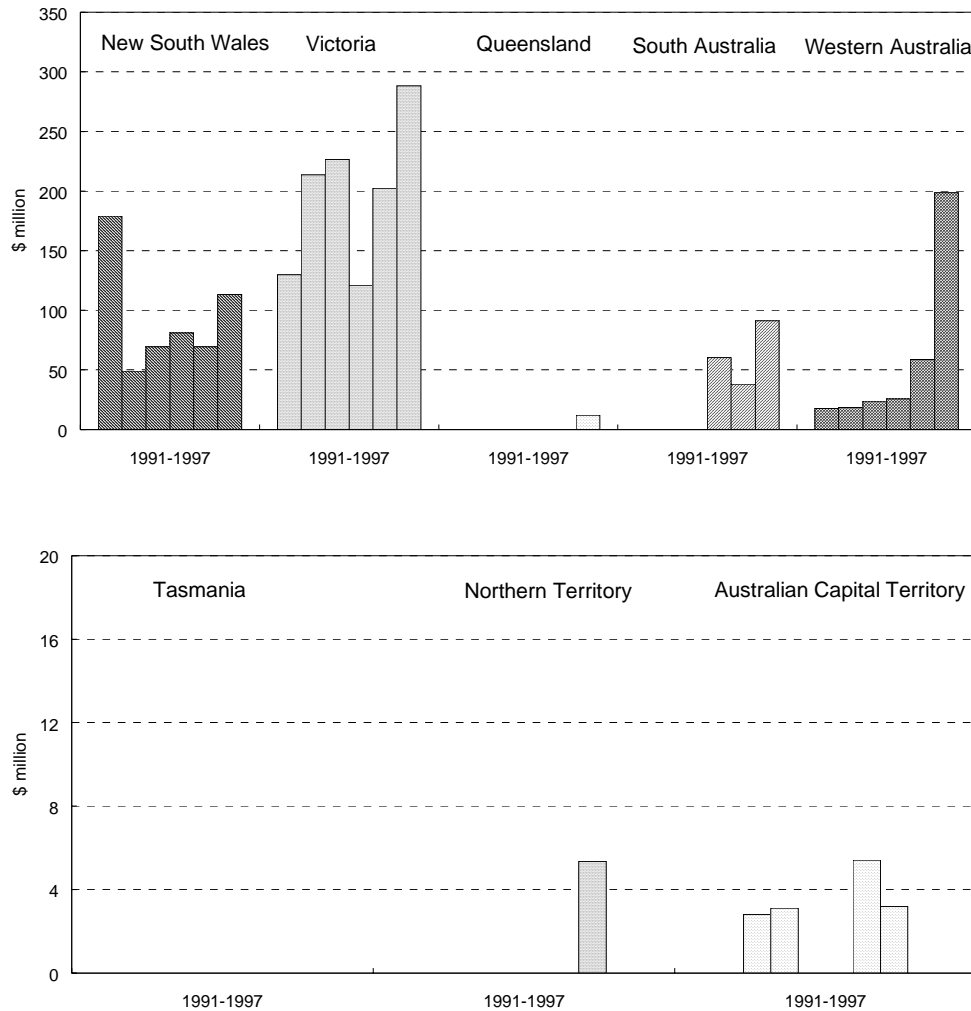
imposes a test on whether new investments are capable of generating sufficient financial return to pay a dividend.

Figure 4.10 Income tax-equivalent expense by jurisdiction, 1991-92 to 1996-97



Notes: The scale ranges used along the y axis of each chart are different.
 Income tax-equivalent expense on operating profit before tax (including abnormal items) calculated using tax effect accounting (AAS3).

Figure 4.11 Dividends paid or provided for by jurisdiction, 1991–92 to 1996–97



Notes: The scale ranges used along the y axis of each chart are different.
Dividends paid or provided for include normal and special dividends and special levies on profits and revenues and excludes returns of capital.

Return on equity

Asset valuation procedures can affect the calculated return on equity (ROE). Therefore, jurisdictional comparisons of ROE should not be made where a mix of historical cost and written-down replacement cost valuation methods are used. In particular, the mix of historical cost and other valuation methods used by some Victorian water authorities, tends to result in a relatively low valuation and a correspondingly high ROE figure.

In all jurisdictions, except Victoria for the reasons noted above, water authorities earned an after-tax, nominal ROE of less than 3 per cent (see Figure 4.12). This is low compared with, for example, a benchmark return of 11 per cent in a draft determination by the ORG (Victoria) and the Australian Competition and Consumer Commission (see Section 1.1 for details).

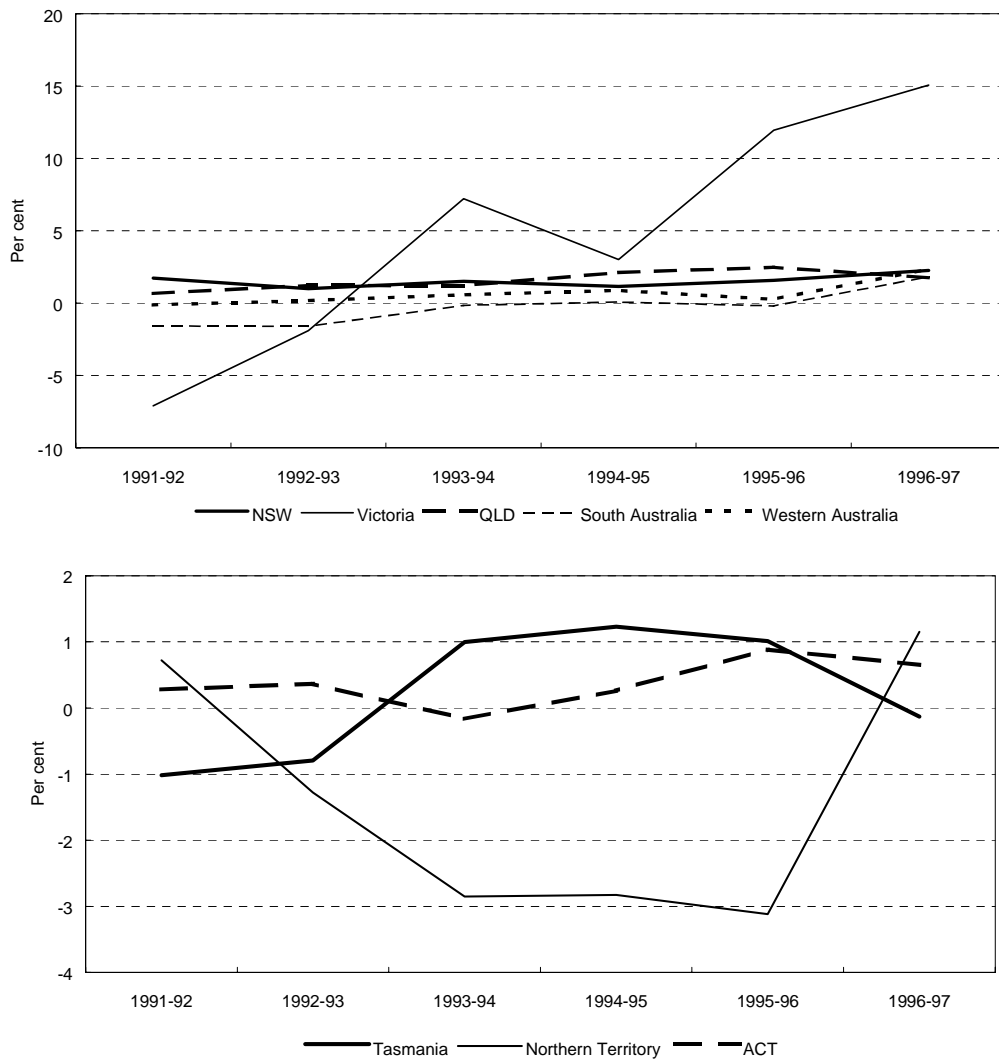
Assets and liabilities

As noted previously, differences in the approach to asset valuation can impact on the calculated ROE figure. The value of assets recorded for New South Wales is much higher than that for Victoria (see Figure 4.13). With the data available, it is not possible to tell the exact extent to which the difference is due to physical asset differences, and to what extent it reflects different accounting treatments of asset valuation.

Liabilities also affect the calculated ROE figure.⁹ Victoria has the largest liabilities, mainly because of substantial borrowings by Melbourne's water GTEs (see Figure 4.14). The cost of this debt is reflected in the relatively high percentage of total expenses accounted for by interest charges, prior to the \$850 million debt transfer to the Victorian Government referred to in Box 4.2.

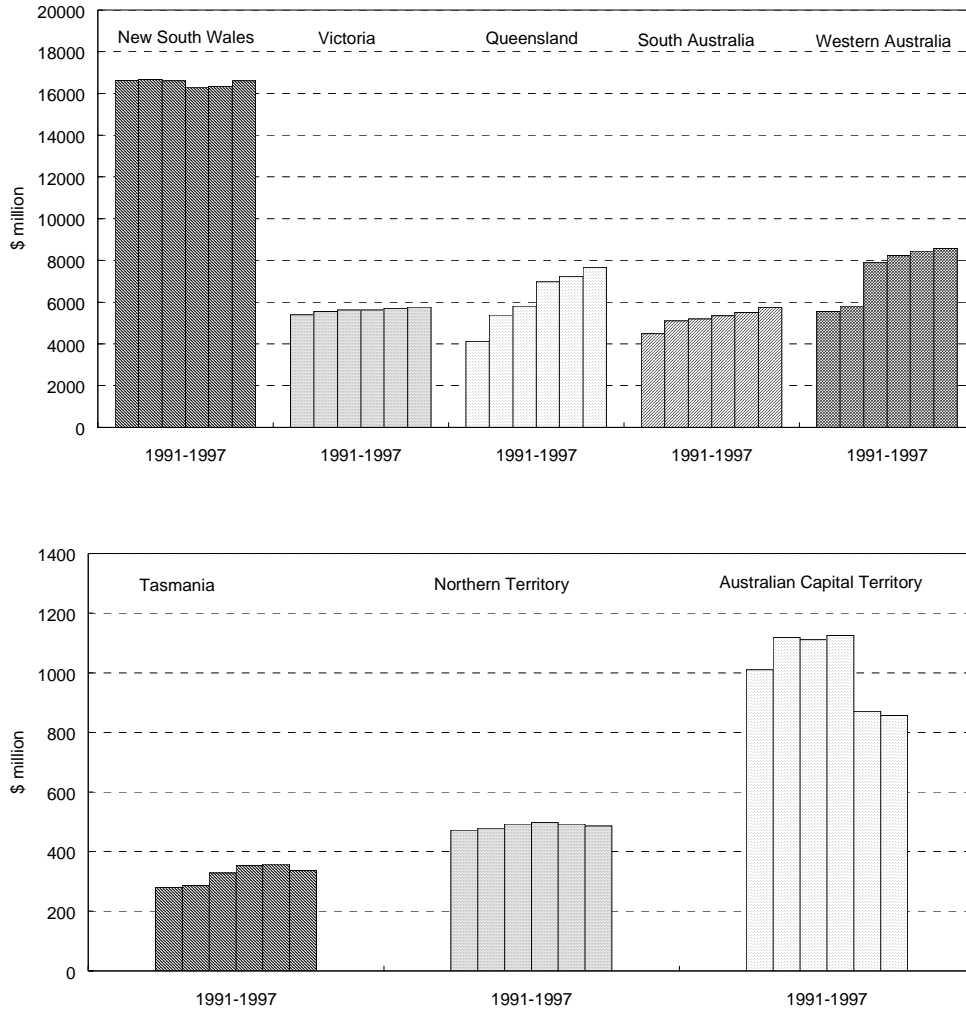
⁹ Non-current liabilities in the form of longer-term borrowings are the major liability in the balance sheets of most water authorities. In some cases water authorities borrow through their State Treasury Corporations, in which case the interest is not paid to an external lender but to the government itself.

Figure 4.12 Return on equity by jurisdiction, 1991–92 to 1996–97



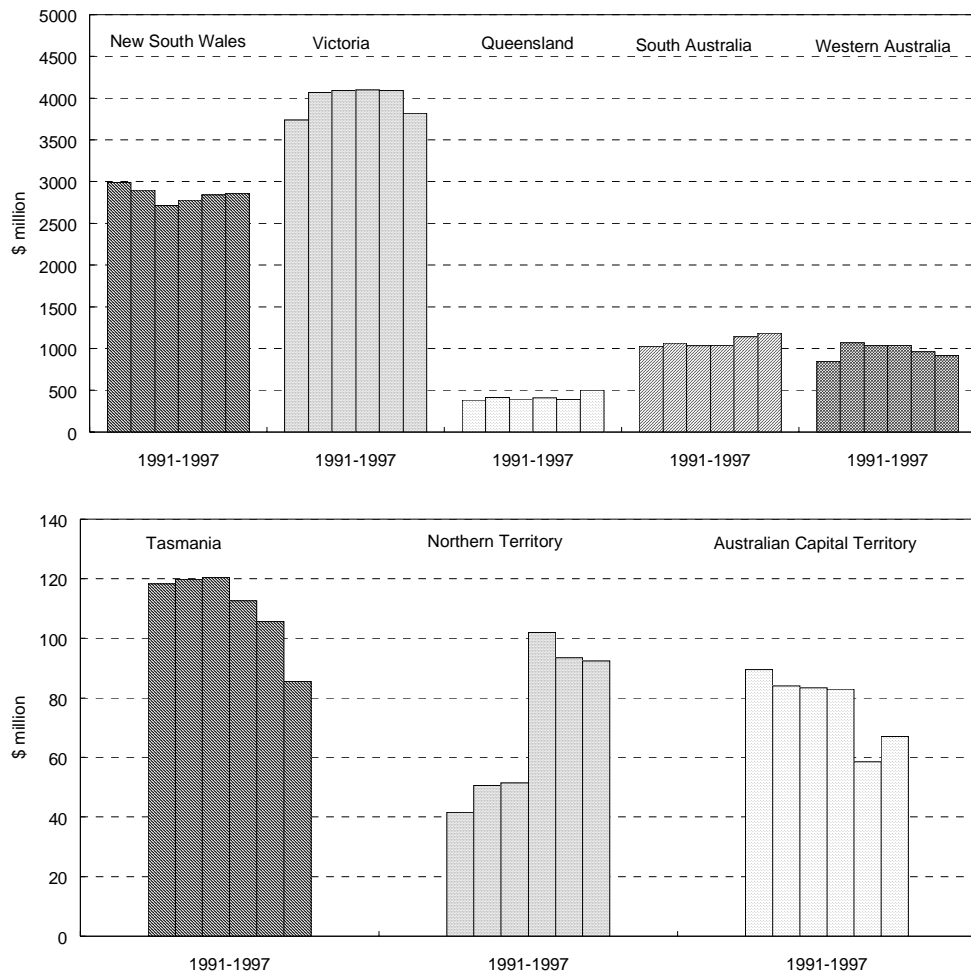
Notes: The scale ranges used along the y axis of each chart are different. Return on equity is the ratio of operating profit after tax to average total equity. Operating profit after tax is calculated by subtracting total expenses and income tax paid or payable from total revenue (includes abnormal items). Equity is calculated by subtracting total liabilities from total assets. Return on equity cannot be calculated on a strictly comparable basis because of revaluations and abnormal items during the monitored period.

Figure 4.13 Total assets by jurisdiction, 1991-92 to 1996-97



Notes: The scale ranges used along the y axis of each chart are different.
 Total assets are defined as the service potential or future economic benefits, controlled by the entity as a result of past transactions or other events (measured at the end of the reporting period).
 The values in this figure are not strictly comparable, because of different bases used for asset valuation eg the use of historical cost by Victoria, compared with written down replacement cost for other jurisdictions.

Figure 4.14 Total liabilities by jurisdiction, 1991–92 to 1996–97



Notes: The scale ranges used along the y axis of each chart are different. Total liabilities are defined as the future sacrifice of service potential or future economic benefits that the entity is obliged to make to other entities as a result of past transactions or other events (measured as at the end of the reporting period). Includes provisions for employee entitlements, creditors, deferred revenue, all repayable borrowings, interest bearing non-repayable borrowings and redeemable preference shares.

4.5 Community outcomes

Community outcomes have been improved by means of higher water quality and environmental standards associated with waste water and effluent disposal. As a result, community health and safety have also been protected. At the same time, concessions and CSOs have generally been maintained, with policies to explicitly fund these beginning to emerge.

The trend toward consumption-based water charges has encouraged consumers to reduce their water use. Not only does this defer the need for additional infrastructure to satisfy growing demand, but it reduces the harmful environmental effects of wastewater and sewerage effluent disposal.

Major urban water authorities are now required to meet certain environmental conditions under their operating licences. Authorities like Sydney Water have begun to publish an Annual Environment Report, in which the Corporation documents its environmental performance. In South Australia, the South Australian Water Corporation must, as a condition of licence under the *Environment Protection Act 1993*, prepare Environmental Improvement Plans (EIPs) for its wastewater treatment plants.

As part of the NCP, governments committed themselves to recognising water allocations for environmental purposes, as a legitimate use of water. For example, South Australia's *Water Resources Act 1997*, provides formal recognition and protection of environmental water flows through the requirement to produce water allocation plans for certain catchment areas. Among other things, these plans are required to assess environmental water needs and to set out programs for monitoring the 'environmental health' of the relevant water catchments.

Water authorities deliver a range of CSOs. Best practice is to have CSOs clearly identified and funded directly from government budgets and attempts have been made to do this in a number of jurisdictions (see Box 4.3).

Box 4.3 Community service obligations (CSOs)

- The COAG water reform framework includes disclosure of the cost to service providers of delivering water services to classes of customer at less than full cost, and compensation for this cost as a CSO.
- A major CSO is provided by the South Australian Water Corporation in supplying water to country areas at the same price as in Adelaide.
- Concessions, flood mitigation and maintaining parks and gardens, are other examples of water industry CSOs.
- In 1996–97, the South Australian Water Corporation received \$72 million in revenue for CSOs from the South Australian government for the first time — which partly explains the improvement in its financial performance indicators in that year.
- In the same year, the Government of Western Australia made payments to the Water Corporation in that State totalling \$182.3 million for CSOs.
- This payment for CSOs included service provision outside the metropolitan area at less than full cost, pensioner and seniors card concession rebates, and concessions to non-rated properties owned by charitable, religious and sporting organisations.
- In 1996–97, the Northern Territory Government also introduced explicit CSO funding — for remote area service provision and the retention of uniform tariffs.

4.6 Employee outcomes

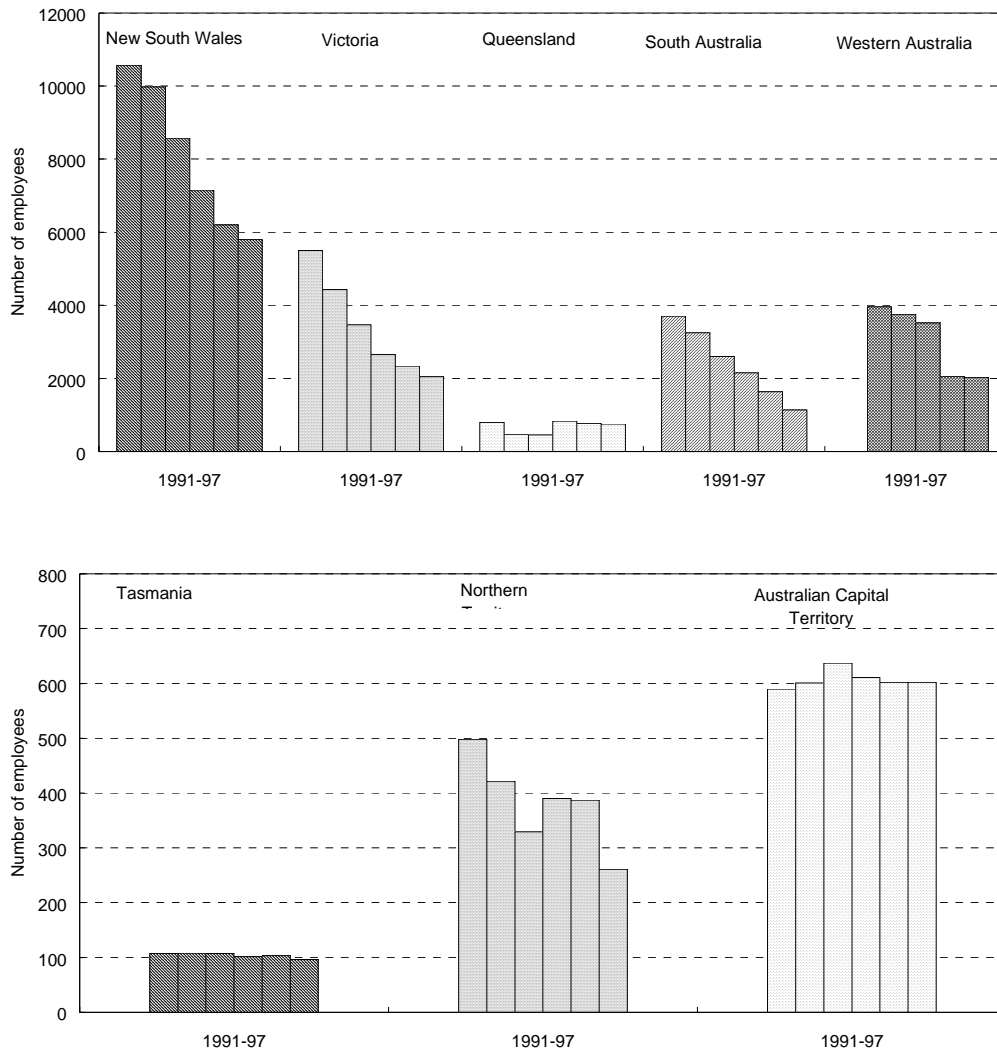
Over the six years from 1991–92, the number of people employed by the monitored water authorities has declined from approximately 22 000 in 1991–92 to 13 000 in 1996–97 (see Figure 4.15), although the net effect is difficult to determine because water authorities have outsourced many of their activities.

Also, where restructuring has occurred and water policy and regulatory functions are now performed by organisations external to the water authority, employment in the sector may not have fallen by as much as the numbers for the water authority itself would suggest.

Where restructuring and downsizing has occurred, assistance has in some cases been provided in finding alternative employment. For example, as a result of the major outsourcing in South Australia, 355 employees found positions with the contractor United Water and another 268 employees were offered voluntary

separation packages or were assisted to obtain alternative positions and thereby honour a promise of no compulsory retrenchment.

Figure 4.15 Total direct GTE employment by jurisdiction, 1991-92 to 1996-97



Notes: The scale ranges used along the y axis of each chart are different.
 Total employment is measured as the average of full-time equivalent staff at the beginning and end of the period.
 The numbers in this figure ignore the effects of contracting out.

Water authorities are generally reporting in their Annual Reports that they are enhancing their human resource management strategies in an effort to improve both employer and employee outcomes. These enhancements include staff

opinion surveys to obtain employee feedback, skill development, greater use of enterprise bargaining and occupational health and safety (OH&S) training and management to reduce workplace injuries.

Enterprise bargaining agreements (EBAs) are being used to link wage increases to productivity improvements. Yarra Valley Water for example commenced its second two year EBA in December 1997, with both agreements targeted to deliver wage increases of about 8 per cent over two years, but with partial linking to productivity improvements. For non-executive staff, the Sydney Water Corporation is also entering its second generation enterprise agreements, which emphasise the linking of improved business performance to pay and recognition.

The South Australian Water Corporation provides skill training with a strong emphasis on OH&S — in 1996–97 it achieved a 55 per cent reduction in workers' compensation claims for injuries. In its 1996–97 Annual Report, the Sydney Water Corporation reported a falling injury rate, with fewer people injured on the job for the fifth consecutive year.

Attachment 4A Supporting data

Table 4A.1 Total revenue by water industry GTE, 1996–97 (\$ million)

<i>GTE</i>	<i>Revenue</i>	<i>Share (per cent)</i>
Sydney Water Corporation	1 283	27.0
'Melbourne Water Consolidated' ^a	1 143	24.0
Water Corporation WA (all undertakings)	800	16.8
South Australian Water Corporation (all undertakings)	505	10.6
Brisbane Water	333	7.0
Hunter Water Corporation	154	3.2
Gold Coast Water	131	2.8
ACTEW Corporation	96	2.0
Power and Water Authority (all undertakings)	70	1.4
Barwon Water	64	1.4
Department of Natural Resources, State Water Projects	62	1.3
Gosford City Council	46	1.0
Wyong Shire Council	40	0.8
Hobart Regional Water Board	18	0.4
North West Regional Water Authority	8	0.2
Rivers and Water Supply Commission, North Esk	6	0.1
All	4 758	100.0
City West Water	301	6.3
South East Water	402	8.5
Yarra Valley Water	439	9.2

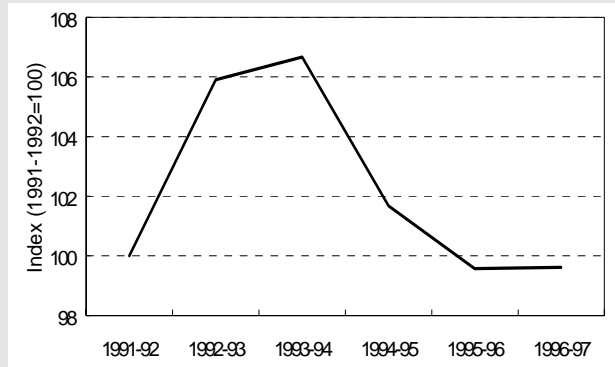
a 'Melbourne Water Consolidated' refers to the three retail water GTEs now serving metropolitan Melbourne following disaggregation of the Melbourne Water Corporation from 1 January 1995. Melbourne's new water entities include one wholesale water business (Melbourne Water Corporation) and three retail water businesses (City West Water, South East Water and Yarra Valley Water). However, the revenue from bulk or wholesale water sales by Melbourne Water Corporation to the three retail businesses, is excluded from the 'Melbourne Water Consolidated' revenue figure to avoid double counting and to provide a comparable figure with other jurisdictions.

5 URBAN TRANSPORT

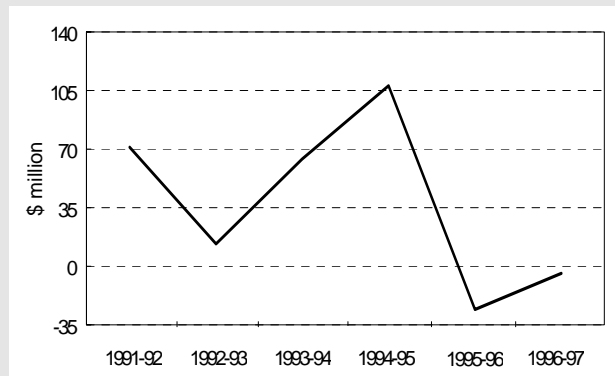
Key outcomes

- Over the period monitored, limited reform of urban transport GTEs has not produced significant benefits for consumers and the industry.

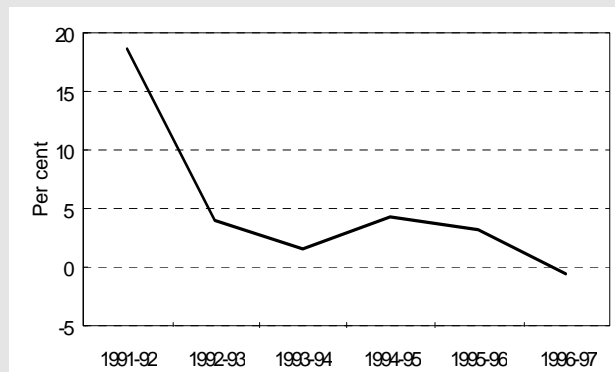
- **The real price index** on an industry basis increased by 7 per cent in the first half of the period — but has subsequently declined.



- Industry **pre-tax operating profit** has been variable over the period. Significant changes in year-to-year profit have generally resulted from abnormal expense or revenue items.



- **Return on equity** for the industry has fallen to just under minus 1 per cent over the period. The high return in 1991–92 results from a one-off change in financial reporting.



5.1 Industry structure

Ten urban transport authorities are discussed in this chapter (see Table 5.1).¹ These authorities vary in size and the range of services they provide. The mix of activities is outlined in Table 5.2.

With the exception of TransAdelaide and the State Rail Authority (New South Wales), all authorities operating urban passenger trains also provide freight and non-urban passenger services. Following the restructure of the former State Rail Authority in 1996–97, freight rail services are now provided by the Freight Rail Corporation.

Governments have a long history of involvement in the provision of urban transport services. Some of the reasons commonly advanced for government involvement include the existence of natural monopoly elements (particularly in rail), the need for service co-ordination and system wide ticketing, the environmental benefits associated with public urban transport, and their special role in access, especially in the case of disadvantaged groups.²

In 1996–97, the monitored urban transport authorities generated \$535 million in operating revenue and controlled assets valued at \$1.14 billion.³ They carried approximately one billion passengers, (987 million in 1991–92).⁴ The State Rail Authority (New South Wales) is the largest, accounting for 32 per cent of urban passenger boardings, followed by the Public Transport Corporation (Victoria) and the State Transit Authority (New South Wales), accounting for 24 per cent and 21 per cent of passenger boardings, respectively.

¹ Rail GTEs providing urban passenger train services are discussed in this Chapter and in Chapter 6. The only urban transport GTE not included is the Darwin Bus Service, the government owned operator of buses in Darwin, the Northern Territory.

² An industry is considered to be a natural monopoly if total costs of production are lower when a single firm produces the entire industry output, than when two or more firms divide the total among themselves. It is generally accepted that railway networks (rail track and signalling), exhibit natural monopoly characteristics.

³ Operating revenue excludes abnormal revenue, investment income and receipts from governments to cover operating deficits. The industry figures for operating revenue and total assets exclude the urban rail operations of the State Rail Authority, Public Transport Corporation, Queensland Rail and Westrail (not available separate to other operations). The industry figure for total assets excludes the Public Transport Corporation, the State Rail Authority, Queensland Rail and Westrail (not available separate from other operations).

⁴ Number of passengers is measured in terms of passenger boardings.

Table 5.1 Monitored urban transport GTEs, 1991–92 to 1996–97

1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
<i>New South Wales</i>					
State Transit Authority	→				State Transit Authority
State Rail Authority ^a	→				State Rail Authority
<i>Victoria</i>					
Public Transport Corporation	→				Public Transport Corporation
<i>Queensland</i>					
Brisbane Transport	→				Brisbane Transport
Queensland Rail	→				Queensland Rail
<i>Western Australia</i>					
Transperth ^b	→ Metrobus		→ Metrobus		
<i>South Australia</i>					
State Transport Authority	→ TransAdelaide		→ TransAdelaide		
<i>Tasmania</i>					
Metropolitan Transport Trust	→				Metropolitan Transport Trust
<i>Australian Capital Territory</i>					
ACTION	→				ACTION

a The State Rail Authority was restructured in 1996–97. The restructured State Rail Authority provides urban and non-urban passenger services. Other functions were transferred to a number of new rail entities.

b Westrail provides urban rail passenger services under contract to Transperth.

Table 5.2 Activities of monitored GTEs in the urban transport industry, 1996–97

<i>GTE</i>	<i>Service</i>			
	<i>Trains</i>	<i>Trams</i>	<i>Buses</i>	<i>Ferries</i>
New South Wales^a				
State Transit Authority			✓	✓
State Rail Authority	✓			
Victoria				
Public Transport Corporation	✓	✓	✓	
Queensland				
Brisbane Transport			✓	✓
Queensland Rail	✓			
South Australia				
TransAdelaide	✓	✓	✓	
Western Australia^b				
MetroBus			✓	
Westrail	✓			
Tasmania				
Metropolitan Transport Trust			✓	
Australian Capital Territory				
ACTION			✓	

a In 1995–96, the former State Rail Authority of NSW provided urban and non-urban rail passenger services, rail freight services and was responsible for the rail infrastructure. Effective from 1 July 1996, the restructured State Rail Authority provides urban and non-urban rail passenger services. The other functions of the former State Rail Authority were transferred to a number of newly established separate rail entities.

b Transperth was restructured in 1993–94. MetroBus is the trading name adopted by the Metropolitan (Perth) Passenger Transport Trust following the restructure. MetroBus competes for service contracts as they are tendered. The ferry service was operated by MetroBus until February 1995, when it was taken over by a private sector company which had successfully tendered for the provision of the service. Westrail provides urban passenger rail services under contract to Transperth.

Over the last six years, employment has fallen by 31 per cent from just under 40 000 in 1991–92 to around 28 000 in 1996–97.⁵ The State Rail Authority (New South Wales) and the Public Transport Corporation (Victoria) are the largest employers, accounting for 33 per cent and 22 per cent of total industry employment. The State Transit Authority accounts for 15 per cent of total industry employment.

⁵ Full-time equivalent staff.

5.2 Key reforms

Microeconomic reform, by governments at the Commonwealth, State and Local level, has resulted in a number of administrative and operational changes to urban transport GTEs. These reforms were largely aimed at increasing the commercial focus of urban transport GTEs and reducing their reliance on government contributions.

The key reforms introduced in the last six years are outlined in Table 5.3

The urban transport sector is not subject to a specific agreement under the National Competition Policy (NCP) package of reforms (see Chapter 1). However, some aspects of the NCP agreements will impact on urban transport GTEs. These include the commitment by State Governments to apply competitive neutrality principles to their significant business activities and prices oversight of public monopolies.

Reform of urban transport authorities has not been as far reaching as in other sectors. Most urban transport GTEs remain statutory authorities.

In 1997–98, the Victorian Government restructured the Public Transport Corporation's passenger services into five corporations (two train corporations, two tram corporations and V/Line passenger corporation). The Victorian Government has foreshadowed that the corporatised passenger services will be sold as individual franchises, with re-tendering to occur at the end of the franchise period.

ACTION forms part of the Australian Capital Territory's Department of Urban Services. Brisbane Transport operates as part of the Brisbane City Council. TransAdelaide provides urban passenger services under contract to the Passenger Transport Board and Westrail (Western Australia) and MetroBus (Western Australia) provide urban passenger services under contract to Transperth.

Commercialisation and corporatisation

During 1995–96, Brisbane Transport became a commercialised business unit of the Brisbane City Council. An eight member advisory Board was appointed to oversee operations. In response to its increased commercial focus, Brisbane Transport has concentrated on improving services through the implementation of the Brisbane Ferry Strategy (to provide high speed catamaran services to

complement cross-river services) and the introduction of self-managed work teams focused on improved customer service.⁶

In 1995–96, the Metropolitan Transport Trust (Tasmania) was made a government business enterprise (GBE) subject to the *Government Business Enterprise Act 1995*. The Act provides for full competitive neutrality including the identification, costing and funding of community service obligations (CSOs).⁷ Over the period the Metropolitan Transport Trust only received explicit funding for costs incurred in providing transport for school travel. The Metropolitan Transport Trust also became subject to prices oversight under the *Government Prices Oversight Act 1995*.

The Metropolitan Transport Trust retains transport policy and regulatory functions. However, the Tasmanian Government has foreshadowed that these will be transferred to the Department of Transport. In February 1998, the Metropolitan Transport Trust was made a state owned company subject to corporations law.

During 1995–96, a six member Board was established to oversee ACTION's business and increase its commercial focus.

Where GTEs are providing more than urban transport services the State Rail Authority (New South Wales), Queensland Rail, the Public Transport Corporation (Victoria) and Westrail (Western Australia), separate business units have been established to strengthen their commercial focus.⁸

Increased exposure to competition

Competitive tendering for designated bus and ferry services is emerging as an effective method of introducing competitive pressures to the provision of urban transport services.

The Victorian, South Australian and Western Australian Governments have all embarked on a program of tendering for the provision of urban transport

⁶ On 1 July 1998, Brisbane Transport was formally commercialised under the relevant provisions of the *Local Government Act 1993*, following a public benefit assessment as required under the NCP.

⁷ A community service obligation arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government does not require other businesses to generally undertake, or which it would only do commercially at higher prices (SCNPMGTE 1994).

⁸ Reforms specific to rail GTEs are discussed in Chapter 6.

services — GTEs compete with private sector providers for the right to operate certain urban passenger services.

In Victoria, all bus services operated by the Public Transport Corporation were tendered in 1993, with a private operator now providing 80 per cent of these services.

In South Australia, the former State Transport Authority was restructured in 1994–95. As a part of the restructure:

- TransAdelaide was formed and assumed the operating functions of the former State Transport Authority; and
- The policy, planning and regulatory functions of the State Transport Authority were transferred to a new organisation — the Passenger Transport Board (PTB).

The PTB developed an area-based competitive tendering program for the provision of urban transport services within the Adelaide metropolitan region. TransAdelaide is required to compete with the private sector on the basis of a set of costing rules aimed at ensuring competitive neutrality.

The South Australian Government transferred the majority of TransAdelaide's bus, depot and workshop assets to the South Australian Department of Transport and control of the ticketing system was transferred to the PTB.

During 1995–96, the PTB (South Australia), awarded five service contracts. TransAdelaide was awarded two in its own right and a third as part of a joint venture. Two service contracts (previously operated by TransAdelaide) were awarded to private sector companies. In 1996–97, TransAdelaide was awarded a further two service contracts. Following the awarding of these contracts, there was a pause in the competitive tendering of service contracts while the process was reviewed. During this period the remaining services will be operated by TransAdelaide following negotiation with the PTB.

The Western Australian Government restructured Transperth during 1993–94. As a result of the restructure:

- A Public Transport Co-ordinator, with responsibility for public transport development, planning and the co-ordination of competitive tendering of service contracts, was established within the Department of Transport;
- MetroBus was established. As the government owned operator it competes for service contracts as they are tendered; and
- The urban transport system operating within Perth continued to be known as Transperth. It comprises bus, train, ferry and information services. Private companies and government organisations compete to operate

Transperth services, and the successful tenderers are known as Transperth operators.

The Western Australian Government transferred assets (valued at \$66 million) from MetroBus to the Department of Transport.⁹ These common user assets are available to be leased by service operators.

Since 1994–95, the Western Australian Government, through Transperth, has tendered 50 per cent of metropolitan bus services. During 1994–95, of three bus services tendered — two were awarded to MetroBus and one to a private operator. The contract to operate Perth’s ferry services was also awarded to a private operator. In 1995–96, another five bus services were tendered — contracts were awarded to three private operators. During the year, the operation of the new Central Area Transit System — a free service operating in central Perth — was also tendered, with MetroBus being awarded the contract.

In October 1997, the Western Australian Minister for Transport announced that the remaining service contracts and the three tenders previously awarded to MetroBus would be tendered out to the private sector. MetroBus ceased operations in July 1998 and all bus services in Western Australia are now provided by private operators.

⁹ This also resulted in a reduction in MetroBus’s debt servicing costs.

Table 5.3 Reform initiatives affecting the urban transport industry, 1991–92 to 1996–97

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>	
New South Wales	1992–93	Commercialisation initiatives introduced for the State Transit Authority. These include performance monitoring arrangements, transparent funding for community service obligations (CSOs) provided under contract, and restructuring to enhance accountability and debt reduction. The State Transit Authority brought under the full provisions of the <i>Passenger Transport Act 1990</i> requiring it to operate under the same conditions as private bus operators. The State Transit Authority opened its information technology and fuel maintenance activities to competitive tendering.	
	1993–94	Automatic ticketing introduced within the CityRail network.	
	1994–95	Integration of ticketing across various public transport modes.	
	1995–96	Development of a detailed bus priority plan for Sydney comprising physical measures (for example, bus lanes) and regulatory measures (for example new rules for priority traffic). Preparation for the restructure of the former State Rail Authority.	
	Victoria ^a	1993–94	Legislative changes to clarify the roles of the Department of Transport and the Public Transport Corporation and the development of formal annual service agreements. Restructuring of the Public Transport Corporation into business units. Ancillary administrative and trading activities within the Public Transport Corporation contracted out to the private sector.
		1993–94	80 per cent of former government bus services in Melbourne contracted to a private operator. The remaining 20 per cent are provided by Met Bus. Continuing introduction of driver-only suburban trains and trams.
Queensland ^b		1995–96	Commercialisation of Brisbane Transport. This involved the appointment of an eight member Board, establishing operating agreements between Brisbane Transport and the Brisbane City Council, and the clarification of liabilities and the ownership of assets.

Table 5.3 Reform initiatives affecting the urban transport industry, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Queensland (continued)	Nov 1996	<i>Local Government Act 1993</i> amended to require Queensland's 17 largest councils to undertake public benefit assessments with a view to adopting competitive neutrality reforms (corporatisation, commercialisation or full cost pricing) for their significant business activities, including in Brisbane's case, public transport services.
	May 1997	<i>Local Government Act 1993</i> amended to provide the framework for competitive neutrality reform of Brisbane Transport and other significant council business activities.
South Australia	1994–95	New <i>Passenger Transport Act 1994</i> takes effect. The Act established the Passenger Transport Board (PTB) to oversee the creation and maintenance of an integrated network of passenger transport services. The Board will undertake the regulation, co-ordination and funding of public transport services including bus, rail, tram and taxi services.
	1994–95	TransAdelaide formed in July 1994, assuming the operating functions of the State Transport Authority. The policy and planning functions of the former State Transport Authority were assumed by the PTB. Selected public bus transport routes competitively tendered from March 1995. The majority of TransAdelaide's bus, depot and workshop assets transferred to the South Australian Department of Transport and control of the ticketing system transferred to the PTB.
	1995–96	Five service contracts awarded during the year. TransAdelaide awarded two contracts in its own right and a third as part of a joint venture arrangement with Australian Transit Enterprises. The remaining two contracts were awarded to private operators.
	1996–97	TransAdelaide awarded two new service contracts. A review of competitive tendering process announced. TransAdelaide to operate remaining service contracts not yet tendered.
Western Australia	1992–93	Urban transport pricing reforms for Transperth, with fares based on distance-based costs.
	1993–94	Transperth restructured, including the establishment of a Public Transport Co-ordinator within the Department of Transport, with responsibility for public transport policy, planning and co-ordination of competitive tendering of route service contracts. MetroBus was the trading name adopted by the Metropolitan (Perth) Passenger Transport Trust subsequent to the restructure.

Table 5.3 Reform initiatives affecting the urban transport industry, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Western Australia (continued)	1994–95	Transfer of all monitoring, regulatory and policy-related functions from urban transport authorities to the Department of Transport. Bus services around Perth put up for tender. To 30 June 1995, two contracts had been won by MetroBus, and one by a private contractor. Transperth ferry services (previously operated by MetroBus) contracted out to a private operator commencing February 1995.
	1995–96	MetroBus awarded the contract to operate the Central Area Transit System. The contracts to operate five bus services allocated to three private groups. 50 per cent of metropolitan bus services contracted out. MetroBus directed to sell its bus fleet to the Western Australian Department of Transport, and lease back buses from the Department.
	1995–96	The Metropolitan Transport Trust made a GBE under the <i>Government Business Enterprises Act 1995</i> from 1 July 1995. The Act provides for competitive neutrality including the identification, costing and funding of CSOs. Also subject to prices oversight under the <i>Government Prices Oversight Act 1995</i> .
	1996–97	The Metropolitan Transport Trust negotiated a three year contract with the Tasmanian Government, to continue to provide bus services at the then current levels. The contract was negotiated within the Tasmanian Government's CSO policy framework and is conditional on achieving annual savings of \$2 million.
Australian Capital Territory	1992–93	Budget strategy agreed to by ACTION, and the Australian Capital Territory Treasury, requiring improved efficiency and operating cost savings to reduce the real level of government contributions.
	1995–96	A six member Board established to oversee ACTION's business and allow it to operate on a more commercial basis.
	1996–97	A new savings agreement entered into, to further reduce the level of Government contributions.

Notes: Reforms specific to rail GTEs are discussed in Chapter 6.

- a In 1997–98, the Victorian Government restructured the Public Transport Corporation's passenger services into five corporations. The rights to operate these businesses will be franchised.
- b In December 1997, the Brisbane City Council decided to formally commercialise Brisbane Transport under the provisions of the *Local Government Act 1993* effective from 1 July 1998.

5.3 Consumer outcomes

Most urban transport travel is undertaken to and from work and school during peak times. However, urban transport also plays an important role in getting people to and from shopping and leisure activities such as tourism.

Real prices

Owner governments control all aspects of urban transport pricing. In New South Wales and Tasmania, independent bodies recommend appropriate pricing regimes. However, the ultimate decision rests with governments. In other jurisdictions, urban transport fares are set by the government following recommendations from the urban transport GTE.

The Industry Commission (1994) noted that governments have, for many reasons (including political), restrained fare levels. Fare restructuring in recent years has seen moves to align fare levels more closely with the cost of provision.

The real price index for urban transport services was higher in 1996–97 than in 1991–92, for all jurisdictions with the exception of New South Wales (see Figure 5.1).¹⁰ The fall in New South Wales's real price index largely reflects significant falls in the average price for urban rail services provided by the State Rail Authority (12 per cent over the six year period).

Both the State Transit Authority and the State Rail Authority are subject to prices oversight by the Independent Pricing and Review Tribunal (IPART).¹¹ A review of urban passenger fares by IPART in 1996 resulted in average increases to rail, bus and ferry fares.

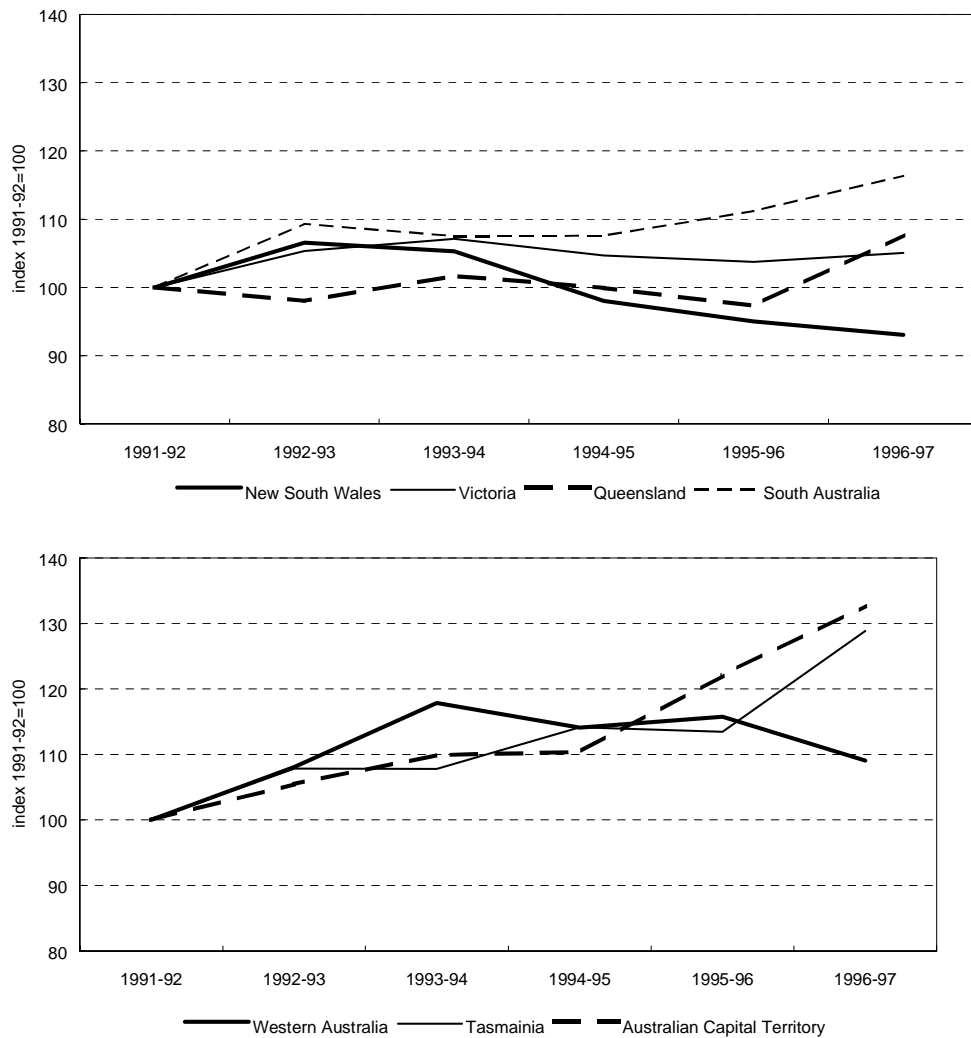
In some jurisdictions, increases in the price index over the period monitored may reflect the introduction of commercial reforms by governments to increase cost recovery through customer revenue. This was the major objective of pricing reforms introduced by Transperth and MetroBus (Western Australia) in

¹⁰ The real price index for each GTE is calculated by deflating the average selling prices by the appropriate capital city Consumer Price Index (CPI). Where urban transport services are provided by more than one GTE within a jurisdiction the average price index is calculated by weighting each GTE's price index by its share of customer revenue.

¹¹ In New South Wales, the pricing of urban passenger services is regulated by the Independent Pricing and Review Tribunal (IPART). IPART determines maximum prices, which must be charged unless the State Rail Authority or the State Transit Authority has the approval of the Treasurer to charge lower prices. IPART also reviews and makes recommendations relating to pricing policies.

1992–93 (Transperth 1993). A new fare structure was introduced by Transperth, aimed at increasing the user contribution towards the cost of providing urban transport services. This resulted in an overall increase of around 12 per cent.

Figure 5.1 Real price index by jurisdiction, 1991–92 to 1996–97



Notes: The real price index for each GTE is calculated by deflating the average selling prices by the appropriate capital city Consumer Price Index. Where urban transport services are provided by more than one GTE within a jurisdiction (New South Wales, Queensland, and Western Australia) the average price index is calculated by weighting each GTE's price index by its share of customer revenue (cash box and other non-government revenue minus investment income).

ACTION (Australian Capital Territory) increased bus fares in 1991–92, 1993–94, 1995–96 and again in 1996–97.¹² According to ACTION (1996) these fare increases were aimed at bridging the gap between average full fares in the Australian Capital Territory and other States. Prior to the increases ACTION's average fare was about 50 per cent below the average of other States for similar services.

During 1996–97, the Tasmanian Government Prices Oversight Commission (GPOC) reviewed the Metropolitan Transport Trust's fare structure.¹³ It used benchmark costs to recommend the maximum revenue from fares and government contribution required for the Metropolitan Transport Trust to deliver the then current level of services. The GPOC recommended that fares should increase because of the low level of cost recovery from users. The Tasmanian Government chose not to fully implement the GPOC's fare recommendations, limiting fare increases to the CPI.

Quality of service

Users of urban transport expect timely and reliable services. Two measures of the quality of service provided by urban transport GTEs are service delays and service cancellations. Some GTEs did not provide quality of service data for their urban transport operations. This makes comparisons over time difficult.

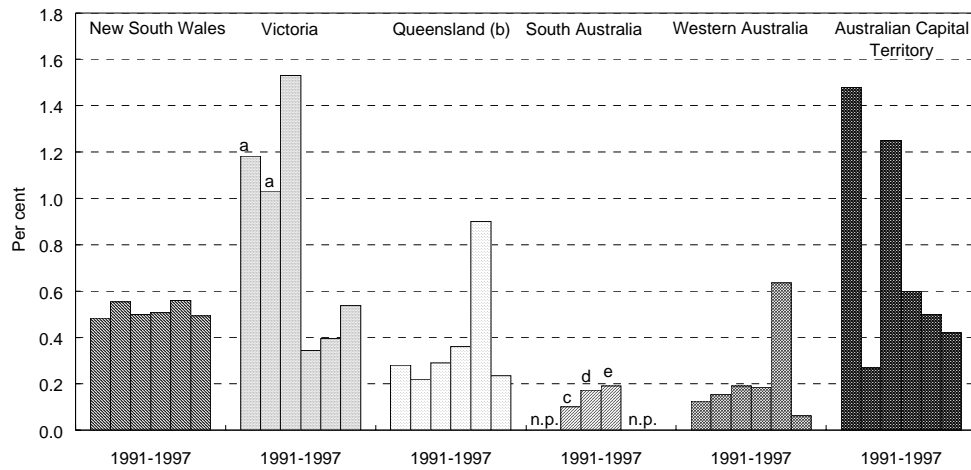
Based on the limited information available, the performance of urban transport GTEs with respect to service cancellations and delays has been variable over the period monitored (see Figures 5.2 and 5.3).

Between 1991–92 and 1996–97, the proportion of service cancellations in each jurisdiction has remained relatively low, with more than 98 per cent of scheduled services being provided in most jurisdictions.

¹² In 1991–92 and 1992–93, fare increases were applied to most tickets. In 1995–96, the fare increase was applied to adult pre-purchased tickets. Child, student and concession fares remained unchanged, as did cash fares for all categories. In 1996–97, the fare increase was applied to most pre-purchased tickets for adults and pensioner, senior and child categories. New tickets were also introduced for students and for families and shoppers travelling at off-peak times.

¹³ The GPOC was established by the Tasmanian Government, under the *Government Prices Oversight Act 1995*. GPOC is an independent body with responsibility for conducting investigations into the pricing policies and practices of GBEs, government agencies and local government bodies that are monopoly, or near monopoly, suppliers of goods and services in Tasmania.

Figure 5.2 Service cancellations by jurisdiction, 1991–92 to 1996–97



Notes: Service cancellations are measured as the number of services cancelled for the year due to all causes such as breakdowns, industrial disputes and lack of vehicles as a proportion of total scheduled route services per annum. Where urban transport services are provided by more than one GTE within a jurisdiction (New South Wales, Queensland and Western Australia), average service cancellations are calculated by weighting each GTE's measure by its share of total passenger boardings.

Tasmania (Metropolitan Transport Trust) excluded because information not provided.

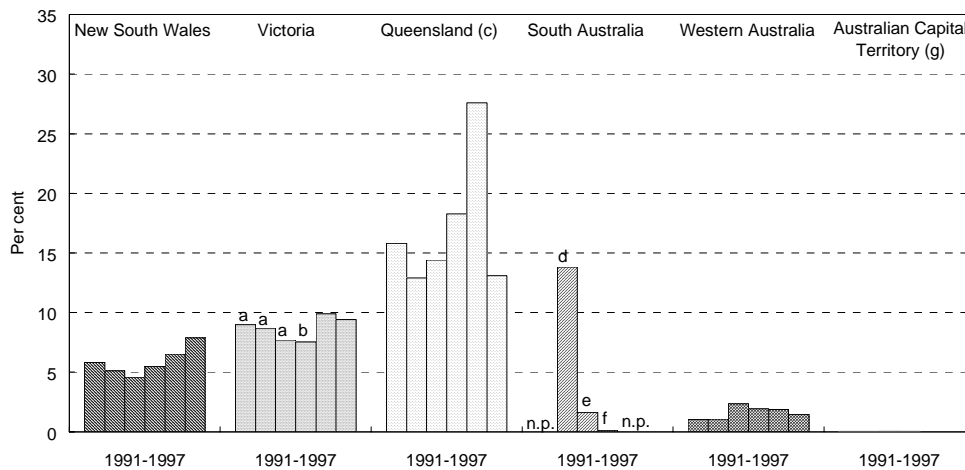
- a Excludes Public Transport Corporation's tram operations.
- b Service cancellations for Queensland relates to Queensland Rail's urban transport operations between 1991–92 and 1995–96 and both Queensland Rail and Brisbane Transport in 1996–97. Information relating to Brisbane Transport's urban transport operations prior to 1996–97 was not provided.
- c Excludes TransAdelaide's tram and bus operations.
- d Excludes TransAdelaide's tram operations.
- e Excludes TransAdelaide's tram and train operations.
- n.p. Not provided.

The sharp increase in service cancellations by MetroBus (Western Australia) in 1995–96 reflects the impact of industrial action by bus drivers during the year — cancellations for other reasons remained at levels consistent with previous years. The increase in service cancellations by Queensland Rail in 1995–96 largely resulted from network upgrading.

In 1994–95, service cancellations by the Public Transport Corporation (Victoria) fell from 1.53 to 0.34 per cent (see Figure 5.2). This reflects the introduction of a number of strategies including a change in fleet maintenance programs (to minimise the amount of time trains and trams spend in workshops) and specific programs designed to improve the reliability of vehicles (including

design modifications and improved preventative maintenance).¹⁴ The slight deterioration in performance since then, reflects increased train service cancellations.

Figure 5.3 Service delays by jurisdiction, 1991–92 to 1996–97



- Notes: Service delays are measured as the number of services delayed for more than a targeted time beyond the scheduled timetable as a proportion of total scheduled route services per annum. Where urban transport services are provided by more than one GTE within a jurisdiction (New South Wales, Queensland and Western Australia), average service delays are calculated by weighting each GTE's measure by its share of total passenger boardings.
- Tasmania (Metropolitan Transport Trust) excluded because information not provided.
 - a Excludes the Public Transport Corporation's tram and bus operations.
 - b Excludes the Public Transport Corporation's tram operations.
 - c Service delays in Queensland includes Queensland Rail's urban rail passenger operations for all years and Brisbane Transport's urban transport operations in 1994–95 only (information for other years is not provided).
 - d Excludes TransAdelaide's tram and bus operations.
 - e Excludes TransAdelaide's tram operations.
 - f Excludes TransAdelaide's tram and train operations.
 - g Service delays in the Australian Capital Territory were negligible in all years monitored.
 - n.p. Not provided.

Over the period monitored, the proportion of service delays has remained relatively low in Western Australia and the Australian Capital Territory. Service delays appear to be most prevalent in the case of urban rail and tram operations.

¹⁴ See Victorian Auditor-Generals Office (1998).

5.4 Shareholder outcomes

Governments represent the shareholder interest of the community. Financial outcomes are a measure of how well these interests are being served.

There are a number of factors that should be taken into account when assessing financial outcomes over time. First, cost structures are influenced by the mix of transport services provided. Some transport modes (such as trains) have higher fixed costs than others (such as buses). For example, ACTION (Australian Capital Territory), which only operates buses, has a lower proportion of fixed costs compared to the Public Transport Corporation (Victoria), which operates trams, trains and buses.

Second, asset valuation methods differ between urban transport authorities, across asset classes within some authorities and over time. This limits useful comparison. Historical cost is used as the valuation method for some of the assets of, Westrail, and ACTION.¹⁵ The State Rail Authority, State Transit Authority (New South Wales), the Public Transport Corporation (Victoria), Queensland Rail, Brisbane Transport, the Metropolitan Transport Trust (Tasmania), TransAdelaide and MetroBus (Western Australia) value all or most of their assets using current cost methods.¹⁶ Most of these GTEs have moved from valuing assets at historical cost to current valuation over the period monitored.

Third, urban transport provides economic and social benefits to the community over and above the benefits received by the users of public transport services. These benefits include reduced road congestion, reduced pollution and greater mobility for disadvantaged groups. Traditionally, these benefits were paid for through implicit subsidies by funding the operating deficits incurred by urban transport authorities. However, in the interests of transparency, many governments now account explicitly for the social benefits of urban transport and fund them through payments to the authorities as CSOs.

The State Rail Authority and the State Transit Authority (New South Wales), Queensland Rail, Westrail (Western Australia) and ACTION (Australian

¹⁵ ACTION values its land and buildings at current valuation.

¹⁶ In 1994–95, TransAdelaide revalued, at current valuation all non-current assets associated with its bus transport business. It also revalued a proportion of its property holdings. In 1995–96, MetroBus revalued its land, buildings and all other non-current assets on the basis of current cost. In 1996–97, all non-current assets were revalued at net current replacement cost.

Capital Territory) receive explicit CSO payments. There are however, differences in the level and definition of payments.¹⁷

Profitability

Operating profit before income tax is determined by the revenue generated less the expenses incurred, including abnormal items. Urban transport GTEs are funded by governments using different methods. Some receive explicit funding for CSOs, some receive deficit funding and others are funded to meet the cost of providing services. Consequently, it is difficult to make direct inter-jurisdictional comparisons of profit.

The major factors affecting the total revenue of urban transport GTEs include the level of passenger business, payments from government (including CSOs and payments to fund operating deficits) and abnormal items (usually associated with the reform process). Interest expense, depreciation expense, labour costs and abnormal items (usually associated with the restructure of workforces) are the main expenses.

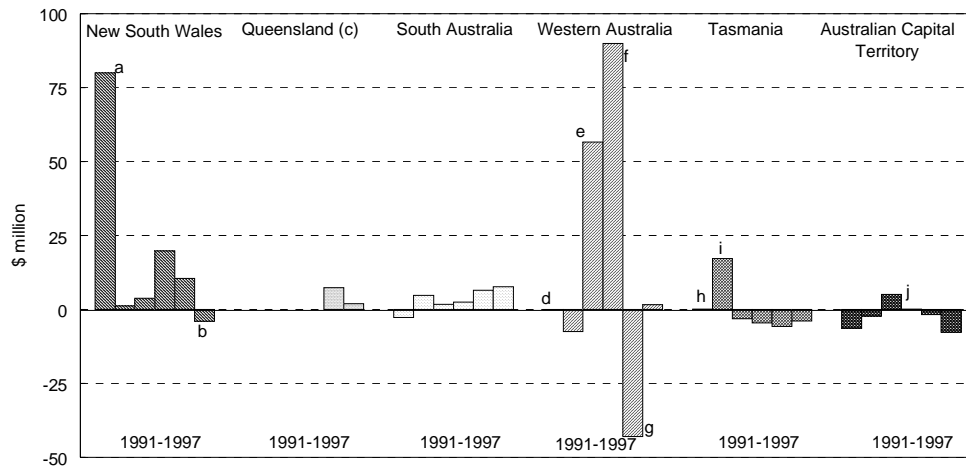
The operating profit of urban transport GTEs over the period monitored has been variable. In some cases significant changes in profit reflect the impact of abnormal items (see Figure 5.4 and the accompanying notes). This makes it difficult to make robust comparisons of profit between jurisdictions and over time.

The significant improvement in operating profit for MetroBus (Western Australia) in 1994–95 and 1995–96, reflects abnormal items arising from actuarial reviews of superannuation liabilities. The transfer of service contracts previously operated by MetroBus has also had an impact on profit.

The profit of TransAdelaide has increased steadily since 1993–94. Over this period, total expenses have fallen faster than total revenue. The Metropolitan Transport Trust (Tasmania) and ACTION (Australian Capital Territory) have consistently made operating losses over the period monitored. In the case of the Metropolitan Transport Trust this reflects falling revenue and increasing expenses (largely reflecting the impact of abnormal items principally resulting from asset valuations) and in the case of ACTION revenue has fallen faster than expenses.

¹⁷ CSO payments received by rail GTEs are discussed in Chapter 6.

Figure 5.4 Operating profit before income tax by jurisdiction, 1991–1992 to 1996–97



Notes: Operating profit before income tax is calculated by subtracting total expenses from total revenue and includes abnormals.

Excludes the State Rail Authority, Public Transport Corporation, Queensland Rail and Westrail, separate information on urban transport operations is not available for these GTEs.

a In 1991–92, the method for calculating CSO payments to the State Transit Authority included a return on assets which resulted in a profit. This was returned to the New South Wales Government by payment of a dividend of \$58.3 million.

b The operating loss in 1996–97 largely reflects the impact of an abnormal expense (\$5.1 million) relating to unfunded superannuation liabilities resulting from unprovided employer tax allocations in previous years.

c Brisbane Transport did not record an operating result between 1991–92 and 1994–95.

d In 1991–92, MetroBus made an operating loss of \$20 000.

e In 1993–94, the significant increase in MetroBus's operating profit reflects an abnormal item relating to the adjustment of superannuation provisions, following an actuarial review (\$41.8 million).

f In 1994–95, MetroBus made an operating profit of \$284 million. The significant increase in profit reflects an abnormal item (\$276 million) relating to the adjustment of superannuation provisions, following an actuarial review.

g The significant deterioration in MetroBus's profit in 1995–96, reflects the impact of the transfer of business to private operators.

h In 1995–96, the Metropolitan Transport Trust made an operating profit of \$133 000.

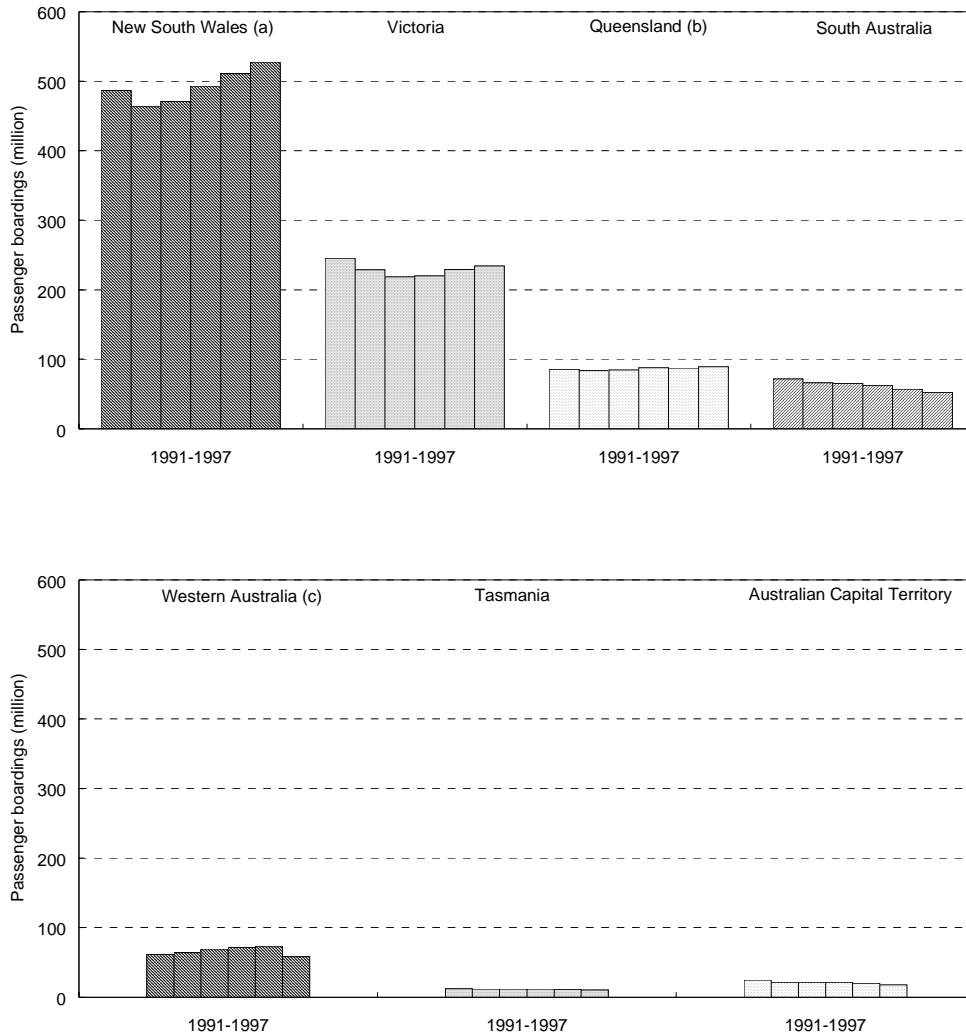
i The operating profit in 1992–93, largely reflects an abnormal revenue item (\$16.3 million) relating to an adjustment of superannuation provisions.

j In 1994–95, ACTION made an operating profit of \$91 000.

Patronage has also had an impact on profit. In most jurisdictions patronage — measured as total passenger boardings — has either fallen or remained constant over the period monitored (see Figure 5.5). Over the period patronage in the Australian Capital Territory and Tasmania fell by 27 per cent and 12.5 per cent

respectively. In some cases the downward trend in patronage was reversed in the latter half of the period monitored.

Figure 5.5 Total passenger boardings by jurisdiction, 1991-92 to 1996-97



Notes: Total passenger boardings include all passenger boardings across modes, including charter passengers.

a Includes passenger boardings for State Transit Authority buses and ferries and State Rail Authority urban passenger trains.

b Includes passenger boardings for Brisbane Transport buses and ferries and Queensland Rail urban passenger trains.

c Includes passenger boardings for MetroBus buses and Westrail urban passenger trains.

Revenue and expenses

In the case of TransAdelaide and MetroBus (Western Australia), total revenue and total expenses have been affected by the transfer of service contracts to private sector operators following competitive tendering processes.

In the case of TransAdelaide, total revenue has fallen 14 per cent (23 per cent in real terms) since 1991–92 (see Figure 5.6). This largely reflects the impact of the transfer of service contracts to private sector operators and falling patronage (total passenger boardings have fallen 27 per cent) which is also influenced by the transfer of contracts. Most of TransAdelaide's passengers do not pay full fares.

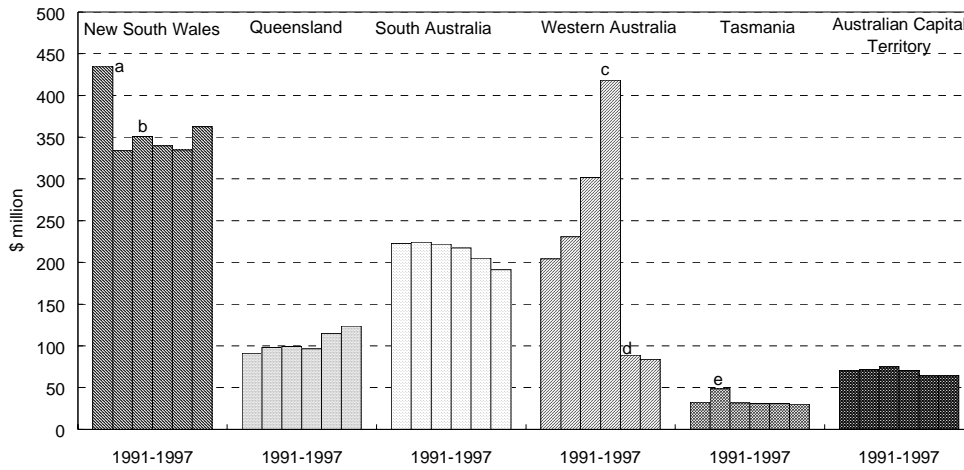
Over the same period, TransAdelaide's total expenses have fallen 19 per cent (27 per cent in real terms) (see Figure 5.7). Falls in maintenance, depreciation and amortisation expenses associated with the transfer of assets to other government departments have contributed to lower total expenses. Since 1991–92, labour expenses have fallen 24 per cent (32 per cent in real terms) and employment of full-time equivalents has fallen by 44 per cent.

The transfer of service contracts to private sector operators has also had a significant impact on MetroBus. Over the period monitored, total revenue fell 58.8 per cent (63 per cent in real terms) (see Figure 5.6). By the end of the period monitored, almost 50 per cent of the services previously provided by MetroBus were being provided by the private sector.

Total expenses fell 59.6 per cent (64 per cent in real terms) over the same period, reflecting outsourcing of non-core functions, reduced labour costs (labour costs have fallen 53 per cent (58 per cent in real terms) since 1991–92), closure of some workshops, reduced depreciation, amortisation and debt servicing costs with the transfer of common user assets to the Department of Transport (see Figure 5.7). The transfer of functions to other government departments has also impacted on expenses.¹⁸

¹⁸ Responsibility for the suburban passenger train contract was transferred to the Department of Transport at the end of 1993–94.

Figure 5.6 Total revenue by jurisdiction, 1991-92 to 1991-97



Notes: Total revenue includes revenue from sales and levies, revenue from asset sales, investment income, receipts from government for specific agreed services, other revenue from operations, receipts from government to cover operating deficits on operations and abnormal revenue. It excludes funds received for specific capital works from governments or other parties, and equity contributions from government.

Excludes the State Rail Authority, Public Transport Corporation, Queensland Rail and Westrail. Separate information on urban transport operations is not available for these GTEs.

a In 1991-92, the method for calculating CSO payments to the State Transit Authority included a return on assets, CSO payments in subsequent years do not include a return on assets. Total revenue in 1991-92, includes an abnormal revenue item (\$36.8 million) relating largely to a New South Wales Government contribution to fund payments to employees under a voluntary redundancy program.

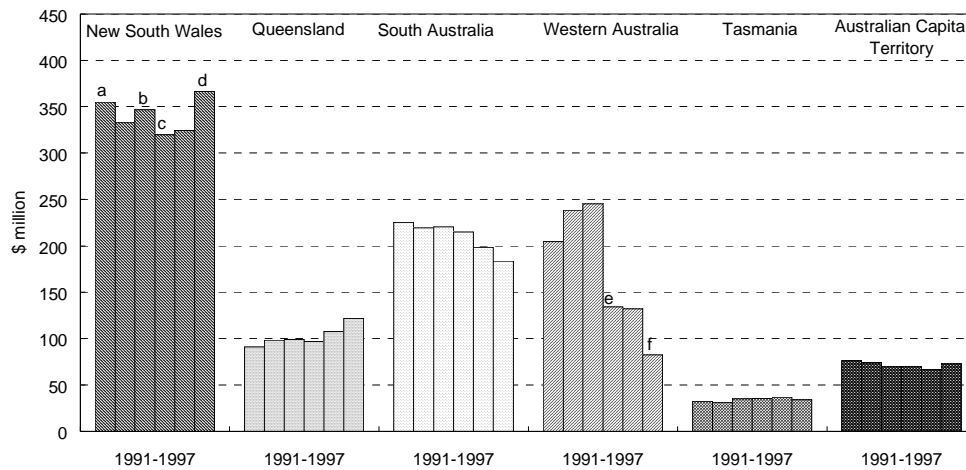
b Includes an abnormal revenue item (\$21 million), from the proceeds from asset sales.

c The significant increase in MetroBus's total revenue in 1994-95 reflects an abnormal item (\$276 million) relating to the adjustment of superannuation provisions, following an actuarial review.

d In 1995-96, MetroBus recorded a significant fall in revenue associated with lower patronage, the loss of the Midland contract area (to a private operator) and reduced funding as a result of the Public Transport Reform Program.

e In 1992-93 the Metropolitan Transport Trust recorded an abnormal revenue item (\$16.3 million) relating to an adjustment of superannuation provisions.

Figure 5.7 Total expenses by jurisdiction, 1991–92 to 1991–97



Notes: Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution of assets and abnormal expenses.

Excludes the State Rail Authority, Public Transport Corporation, Queensland Rail and Westrail. Separate information on urban transport operations is not available for these GTEs.

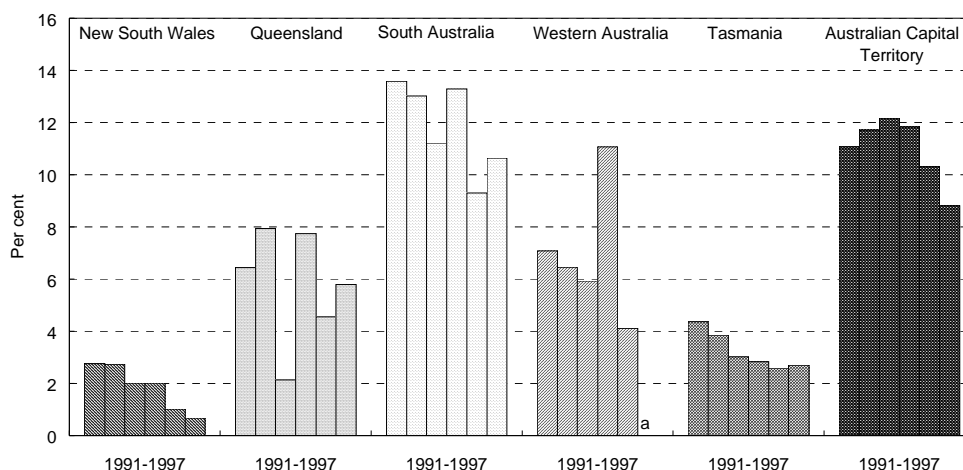
- a Includes an abnormal item (\$9.9 million) comprising severance and redundancy payments in lieu of notice under the voluntary redundancy program.
- b Includes an abnormal item (\$27.5 million) following the introduction of a provision for major periodic maintenance on buses and a write-down of the value of certain classes of ferries.
- c Includes an abnormal item (\$14.7 million) largely reflecting the creation of a provision for major periodic maintenance for the ferry fleet and an increment in the provision for the bus fleet. There was a significant reduction in superannuation expense following an actuarial review.
- d In 1996–97, State Transit Authority incurred a large abnormal expense (\$5.1 million) relating to unfunded superannuation liabilities resulting from unprovided employer tax allocations in previous years.
- e The suburban passenger train contract was transferred to the Department of Transport at the end of 1993–94. Total expenses for 1994–95, exclude the contract payment that would have been made had MetroBus retained the responsibility.
- f The significant fall in total expenses reflects reduced labour costs and reduced depreciation expenses following the transfer of assets to the Western Australian Department of Transport.

Interest expense

In most cases, interest expense does not represent a significant share of total expenses (see Figure 5.8). With the exception of Brisbane Transport, interest expense incurred by urban transport GTEs has fallen over the period monitored. The falls in interest expense reflects both falling interest rates and retirement of debt by GTEs. The debt held by TransAdelaide and MetroBus (Western

Australia) was significantly reduced following the transfer of some assets and associated debt to their respective government departments.

Figure 5.8 Gross interest expense as a percentage of total expenses by jurisdiction, 1991–92 to 1991–97



Notes: Gross interest expense is the amount charged to the profit and loss account. It includes finance charges on finance leases and all debt related financial expenses. Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution of assets and abnormal expenses.

Excludes the State Rail Authority, Public Transport Corporation, Queensland Rail and Westrail. Separate information on urban transport operations is not available for these GTEs.

a MetroBus did not incur any interest expenses in 1996–97.

Income tax-equivalent expense and dividend payments

Governments act as the shareholders of urban transport GTEs on behalf of the community. Requiring dividend payments from GTEs is often justified as a return on shareholder funds.

Subjecting GTEs to tax-equivalent regimes is often justified on the grounds of competitive neutrality — the intention being to make GTEs operate under comparable taxation arrangements to those applying to private sector businesses.

Unlike other GTEs, urban transport GTEs have been required to make dividend payments and made subject to income tax-equivalent regimes only recently.

Some urban transport GTEs are still not subject to such regimes, but will be in the future.

The State Rail Authority, State Transit Authority (New South Wales), Queensland Rail, Westrail, TransAdelaide and the Metropolitan Transport Trust (Tasmania) are subject to income tax-equivalent regimes.¹⁹ A number of urban transport GTEs are also subject to sales tax-equivalent regimes — which are not discussed in this report.

In the case of the State Transit Authority, the tax-equivalent regime was phased in during 1995–96, taking full effect in 1996–97. The tax-equivalent regime sets a notional tax rate of 36 per cent. In 1996–97 State Transit Authority recorded a tax benefit (see Figure 5.9 and accompanying notes). The Metropolitan Transport Trust has been subject to a tax-equivalent regime since 1992–93. Since 1994–95 Metropolitan Transport Trust has recorded a tax benefit (see Figure 5.9 and accompanying notes).

TransAdelaide and MetroBus (Western Australia) became subject to a tax-equivalent regime in 1996–97, although neither incurred an income tax-equivalent expense.

The State Transit Authority (New South Wales), Queensland Rail, Westrail (Western Australia), Brisbane Transport and TransAdelaide are required to make dividend payments.²⁰

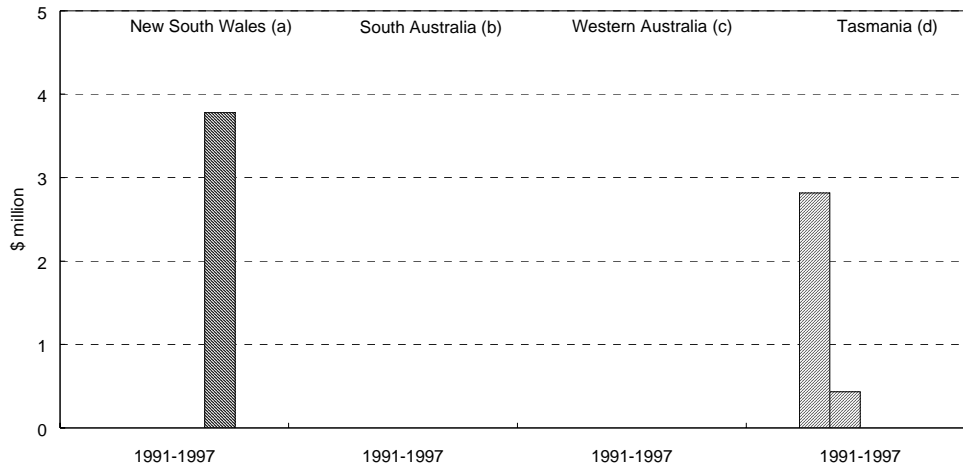
In 1991–92, the CSO payment to the State Transit Authority included a return on assets and this resulted in a significant profit. This profit was returned to the New South Wales Government by payment of a relatively large dividend. Since then the State Transit Authority has made smaller dividend payments in 1994–95 and 1995–96 (see Figure 5.10). In 1996–97, it was recommended by the Board of Directors that no dividend be paid following the abnormal loss caused by an imputed tax adjustment to the State Transit Authority's superannuation fund.

Brisbane Transport made a dividend payment to the Brisbane City Council for the first time in 1996–97. TransAdelaide also made a dividend payment for the first time in 1996–97.

¹⁹ The State Rail Authority (New South Wales), Queensland Rail and Westrail (Western Australia) are discussed in Chapter 6.

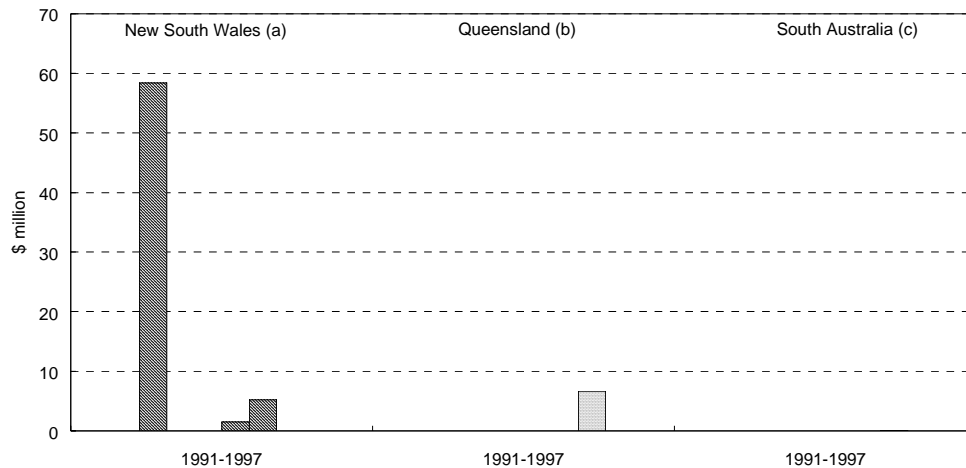
²⁰ Queensland Rail and Westrail (Western Australia) are discussed in Chapter 6.

Figure 5.9 Income tax-equivalent expense by jurisdiction, 1991–92 to 1996–97



- Notes: Income tax-equivalent expense on operating profit before tax (including abnormal items) calculated using tax effect accounting (AAS3). Excludes Queensland Rail and Westrail. Separate information on urban transport operations is not available for these GTEs. The State Rail Authority, Public Transport Corporation, Brisbane Transport and ACTION did not incur tax-equivalent expense over the period monitored.
- a The State Transit Authority did not incur tax-equivalent expense between 1991–92 and 1994–95. A tax-equivalent regime was phased in during 1995–96. An income tax-equivalent benefit was recorded in 1996–97.
 - b TransAdelaide was made subject to a tax-equivalent regime for the first time in 1996–97 and recorded an income tax-equivalent benefit.
 - c MetroBus (Western Australia) was made subject to a tax-equivalent regime for the first time in 1996–97, but did not incur a tax-equivalent expense.
 - d The Metropolitan Transport Trust did not incur income tax-equivalent expense in 1991–92. Income tax-equivalent benefits were recorded between 1994–95 and 1996–97.

Figure 5.10 Dividends paid or provided for by jurisdiction, 1991–92 to 1996–97



Notes: Dividends paid or provided for include normal and special dividends and special levies on profits and revenues and excludes returns of capital.

Excludes Queensland Rail and Westrail. Separate information on urban transport operations is not available for these GTEs.

The State Rail Authority, Public Transport Corporation, Metropolitan Transport Trust, MetroBus (Western Australia) and ACTION (Australian Capital Territory) did not make dividend payments over the period monitored.

a The State Transit Authority did not make dividend payments in 1992–93, 1993–94 or 1996–97. In 1991–92, the method for calculating CSOs included a return on assets which resulted in a profit which was returned to the New South Wales Government by payment of a dividend.

b Brisbane Transport did not make dividend payments between 1991–92 and 1995–96.

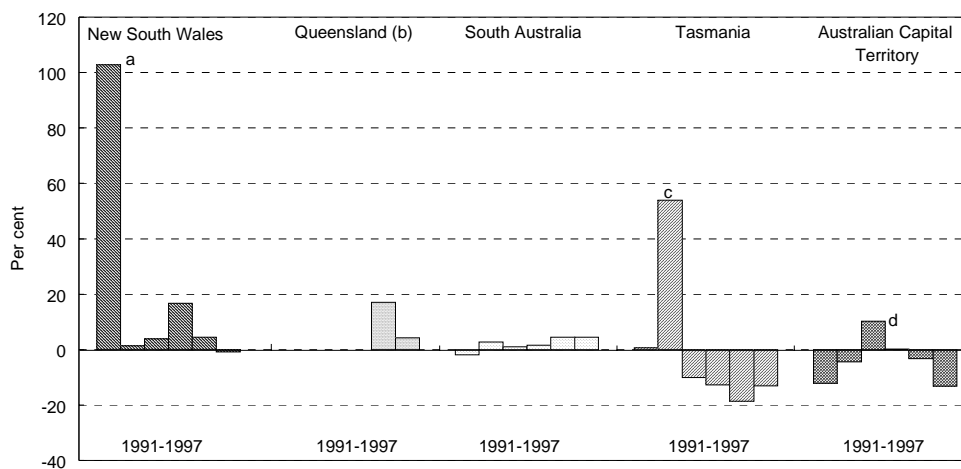
c TransAdelaide made a dividend payment for the first time in 1996–97. Dividends paid or provided for were \$100 000 in 1996–97.

Return on equity

Return on equity is the ratio of operating profit after tax to equity held in the entity as measured by total assets less total liabilities. A negative return on equity may reflect operating losses or liabilities greater than assets.

The return on equity generated by urban transport GTEs over the period monitored has been variable (see Figure 5.11). The major factors impacting on the return on equity for urban transport GTEs over the period monitored, include operating losses, abnormals, asset revaluations, and the transfer of assets and liabilities.

Figure 5.11 Return on equity by jurisdiction, 1991-92 to 1996-97



Notes: Return on equity is the ratio of operating profit after tax to average total equity. Operating profit after tax is calculated by subtracting total expenses and income tax paid or payable from total revenue (includes abnormal items). Equity is calculated by subtracting total liabilities from total assets.

Return on equity cannot be calculated on a strictly comparable basis because of revaluations and abnormal items during the monitored period.

Excludes the State Rail Authority, Public Transport Corporation, Queensland Rail and Westrail Separate information on urban transport operations is not available for these GTEs. Excludes MetroBus (Western Australia) which had negative equity between 1991-92 and 1996-97.

a In 1991-92, the method for calculating CSO payments to the State Transit Authority included a return on assets which resulted in a profit. This was returned to the New South Wales Government by payment of a dividend of \$58.3 million.

b No operating profit after income tax was made by Brisbane Transport between 1991-92 and 1994-95. Return on equity is zero for these years.

c The significant increase in return on equity in 1992-93, largely reflects an abnormal revenue item (\$16.3 million) relating to an adjustment of superannuation provisions.

d Return on equity was 0.2 per cent in 1994-95.

Significant improvements in return on equity have resulted from the impact of abnormal items on operating profit. For example, the significant increase in return on equity for Tasmania in 1992-93, largely due to an increase in operating profit after income tax, due to significant net abnormal items for that year.²¹ The reduction in superannuation provisions also reduced the Metropolitan Transport Trust's total liabilities for that year, thereby increasing total equity. The increase in operating profit after-tax more than offset the increase in equity.

²¹ Abnormal revenue item (\$16.3 million) relating to an adjustment of superannuation provisions.

Changes in asset valuations also make it difficult to compare rates of return over time. Most urban transport GTEs have revalued their assets, moving from an historical to a current valuation methods. Also some have transferred assets and liabilities to other government departments. Transfers and asset revaluations have a significant influence on return on equity measures because of their impact on asset values and operating profit (through depreciation expense).

Assets and liabilities

In most jurisdictions the value of urban transport assets have fallen over the period monitored (see Figure 5.12). Falls in asset values have been most significant in South Australia and Western Australia following the introduction of competitive tendering for service contracts in these jurisdictions. Both the South Australian and Western Australian Governments required their urban transport GTEs to transfer common user assets to other government departments.

In the case of TransAdelaide, asset values have fallen (see Figure 5.12), largely through the transfer of:

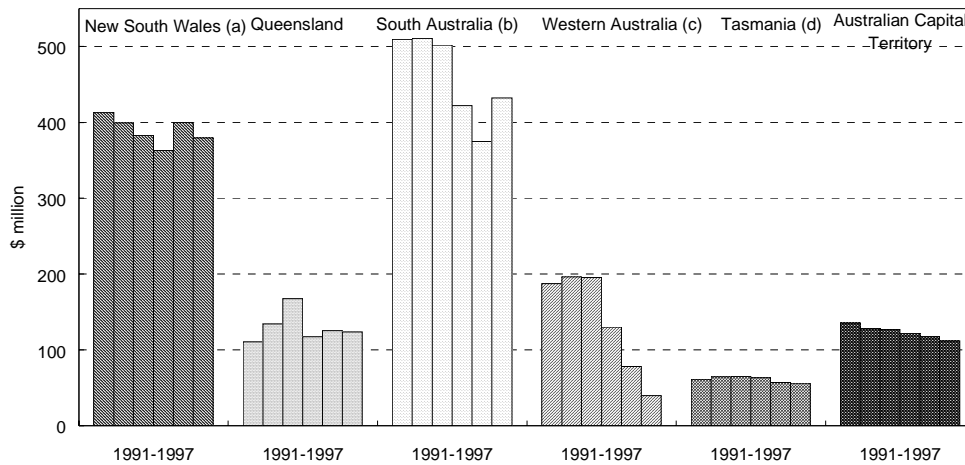
- The Adelaide O-Bahn Busway to the South Australian Department of Transport in 1994–95. Other minor assets were transferred to other government departments. The assets transferred had a written-down value of \$75.3 million; and
- The then State Transport House and Underpass (valued at \$16.2 million) to the South Australian Department for State Government Services, the Crouzet ticketing system valued at \$6.5 million to the Passenger Transport Board and buses, a number of bus depots and the Regency Park Workshop (valued at \$38.1 million) to the Department of Transport during 1996–97.

In the case of MetroBus (Western Australia) asset values fell (see Figure 5.12), during the period monitored, largely through the transfer of :

- \$66 million in common user assets to the Western Australian Department of Transport in 1994–95;
- The entire bus fleet (valued at \$70 million) along with the Mundaring bus lay-over to the Western Australian Department of Transport in 1995–96;²² and
- Other assets (at written-down value of \$8.5 million) to the Western Australian Department of Transport following the loss of a number of tender areas.

²² These buses were made available for lease to both MetroBus and private operators tendering for service contracts.

Figure 5.12 Total assets by jurisdiction, 1991–92 to 1991–97



Notes: Total assets are defined as the service potential for future economic benefits, controlled by the entity as a result of past transactions or other events (measured at the end of the reporting period).

Excludes the State Rail Authority (New South Wales), the Public Transport Corporation (Victoria) Queensland Rail and Westrail. Separate information on urban transport operations is not available for these GTEs.

Asset valuation methods vary between jurisdictions. The State Transit Authority (New South Wales), Brisbane Transport, the Metropolitan Transport Trust (Tasmania) and TransAdelaide and MetroBus (Western Australia) value all or most of their assets using current valuation methods. ACTION values most of its assets using historical cost.

a In 1993–94, the State Transit Authority revalued commercial land upwards. In 1994–95, the State Transit Authority undertook a market valuation (upwards) of all property, plant and equipment. In 1995–96, the State Transit Authority revalued its property, plant and equipment (with exception of work in progress and wharf improvements) to current valuation, subject to the revalued amount not exceeding the recoverable amount.

b In 1994–95, a number of assets, including the Adelaide O-Bahn, at a written-down value of \$75.3 million were transferred to other South Australian Government Departments. In 1995–96, assets (including the ticketing system, buses and depots) valued at \$52.2 million were transferred to other South Australian Government Departments. In 1996–97, railcars were revalued upwards.

c In 1994–95, \$66 million of common user assets were transferred from MetroBus to the Western Australian Department of Transport. In 1995–96, the bus fleet and the Mundaring bus lay-over facility were transferred to the Western Australian Department of Transport. Land and buildings were revalued. In 1996–97, assets were transferred to the Western Australian Department of Transport following the loss of service contracts. In 1996–97 all non-current assets were revalued on the basis of net current cost.

d The Metropolitan Transport Trust revalued its land and buildings (downwards) in 1993–94, its buses (downwards) in 1994–95, and land and buildings were revalued downwards in 1995–96.

Asset values in other jurisdictions have been affected by revaluations. For example, the State Transit Authority (New South Wales) revalued its assets in 1993–94, 1994–95 and in 1995–96. The Metropolitan Transport Trust

(Tasmania) revalued its assets (generally downwards) in 1993–94, 1994–95 and in 1995–96 (see Figure 5.12).

Over the period monitored, total liabilities held by urban transport GTEs have fallen. Generally, falls in total liabilities have resulted from reductions in debt levels and provisions for employee entitlements.

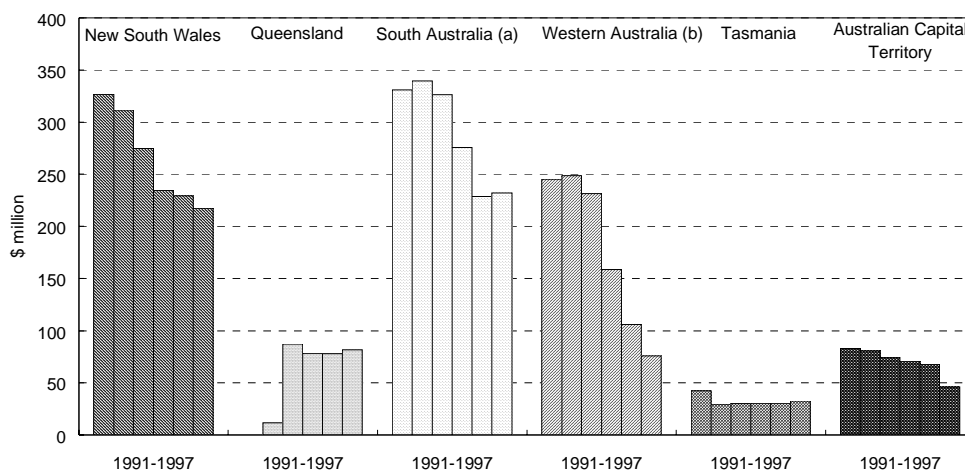
Since 1991–92, the State Transit Authority has embarked on a program of redeeming debt. During the period monitored, total liabilities have fallen 34 per cent (41 per cent in real terms) and non-current loans have fallen by 92 per cent (see Figure 5.13). Over this period, most capital expenditure has been financed internally.

Falls in total liabilities have also been significant in the case of TransAdelaide and MetroBus (Western Australia). Since 1991–92, total liabilities have fallen by 30 per cent (38 per cent in real terms) in the case of TransAdelaide and by 69 per cent (72 per cent in real terms) in the case of MetroBus (see Figure 5.13). This is mainly attributable to debt transfers and reduced provisions for employee entitlements flowing from workforce restructuring.

In Western Australia and South Australia the transfer of assets to other departments usually involved the transfer of associated debt. For example, when the Adelaide O-Bahn Busway and other assets were transferred from TransAdelaide to the other government departments, \$75.3 million of debt was also transferred. During 1995–96, MetroBus (Western Australia) used part of the proceeds from the sale of its bus fleet and the Mundaring bus lay-over facility to the Department of Transport, to repay a Treasury Corporation loan.²³

²³ As of 1996–97, MetroBus has no debt.

Figure 5.13 Total liabilities by jurisdiction, 1991–92 to 1991–97



Notes: Total liabilities are defined as the future sacrifice of service potential of future economic benefits that the entity is obliged to make to other entities as a result of past transactions or other events (measured as at the end of the reporting period). Includes provisions for employee entitlements, creditors, deferred revenue, all repayable borrowings, interest bearing non-repayable borrowings and redeemable preference shares.

Excludes the State Rail Authority, Public Transport Corporation, Queensland Rail and Westrail. Separate information on urban transport operations is not available for these GTEs.

a In 1994–95, the Adelaide O-Bahn and associated debt (\$75.3 million), was transferred to the Department of Transport. In 1995–96, a number of assets and the associated debt (\$25.8 million) were transferred to other South Australian Government Departments.

b In 1994–95, common user assets and associated debt were transferred from MetroBus to the Western Australian Department of Transport. In 1995–96, the bus fleet and the Mundaring bus lay-over facility were transferred to the Western Australian Department of Transport. Part of the proceeds (\$60.9 million) from the transfer were used to retire debt.

5.5 Community outcomes

Traditionally, the additional economic and social benefits generated from the provision of urban transport services were recognised implicitly by governments and paid for by funding operating deficits.

Some governments have decided to account explicitly for the social benefits of urban transport by entering into CSO contracts with their GTEs. These contracts identify and cost the community services that government's require of their urban transport GTEs. Other GTEs only receive explicit funding for concession services and some continue to receive deficit funding in recognition of the community benefits they provide (see Table 5.4).

Table 5.4 Community service obligations and concession payments by jurisdiction , 1991–92 to 1996–97, (\$ million)

	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
State Transit Authority (New South Wales) ^a	226.6	152.4	149.3	149.5	139.0	150.5
TransAdelaide (South Australia) ^b	30.7	24.5	22.5	n.r.	n.r.	n.r.
Metropolitan Transport Trust (Tasmania) ^c	24.3	28.6	58.9	66.0	n.a.	n.a.
ACTION (Australian Capital Territory) ^d	n.r.	n.r.	n.r.	n.r.	n.r.	34.8

Notes: Excludes the State Rail Authority and Queensland Rail. Information on the CSOs paid for urban transport passenger services is not separately available.

Excludes MetroBus (Western Australia) — information on concession payments not available.

Excludes the Public Transport Corporation (Victoria) and Brisbane Transport (Queensland). These GTEs do not receive explicit CSO or concession payments.

a The State Transit Authority (New South Wales) has received CSO payments for the entire period monitored.

b TransAdelaide received reimbursements to cover the cost of fare concessions for students, the unemployed, pensioners and senior citizens between 1991–92 and 1993–94. From 1994–95, TransAdelaide has received service contract payments from the Public Transport Board.

c The Metropolitan Transport Trust (Tasmania) received funding for providing travel for school children.

d 1996–97 was the first year ACTION received a CSO payment.

n.a. Not available.

n.r. Explicit CSO or concession payments not received in these years.

The State Rail Authority and the State Transit Authority (New South Wales), Queensland Rail, and ACTION (Australian Capital Territory) receive explicit CSO payments. The CSO payments given to Queensland Rail and the State Rail Authority for the provision of urban passenger services are incorporated into total CSO payments — these are discussed in Chapter 6.

The New South Wales Department of Transport has had formal CSO contracts with the State Transit Authority since 1992–93. The Department has separate CSO contracts with each of the business groups (Sydney Buses, Sydney Ferries and Newcastle Buses and Ferries) operating within the State Transit Authority.

Each contract is divided into three elements:

- A pricing CSO payment reimburses the State Transit Authority for offering fares below a commercial level — deemed to be the level applicable to private operators. Fares for the State Transit Authority are set by IPART and the Department of Transport regulates the fares set by private operators;

- A service CSO payment reimburses the State Transit Authority for providing non-commercial services in excess of a minimum service level requirement. The additional services generally relate to late night services or higher frequency services during the day; and
- A concession CSO payment reimburses the State Transit Authority for offering Government determined concessions. This includes the provision of free and concession travel for school students, and concession travel for tertiary students, pensioners and senior citizens, people with disabilities and welfare recipients. Reimbursement is based on the number of trips taken and the distance travelled.²⁴

ACTION (Australian Capital Territory) entered into an explicit CSO contract for the first time in 1996–97 and no longer receives deficit funding. ACTION receives:

- a pricing CSO payment — the difference between commercial fares and regulated fares;
- a service CSO payment — the cost incurred in providing non-commercial services;
- a concessional CSO payment — revenue foregone from providing concession travel to certain sections of the community; and
- a school CSO payment — the cost incurred in providing special school services.

Prior to the introduction of tendering for contract services TransAdelaide and MetroBus (Western Australia) received both deficit funding and reimbursement for the provision of concession travel to certain sections of the community. Since the introduction of tendering, the cost of providing concession travel has been incorporated into contract payments.

During the period monitored, the Metropolitan Transport Trust (Tasmania) received explicit funding only for the net cost of providing transport to school children.²⁵ However, in its 1997–98 budget the Tasmanian Government has recognised that there is a substantial CSO component in the public urban transport service provided by the Metropolitan Transport Trust and that this will

²⁴ The New South Wales Government has a policy of providing free transport to primary and secondary school students according to eligibility criteria.

²⁵ The Metropolitan Transport Trust has been reimbursed the net cost of providing concession travel to school children since 1993–94. Prior to that the Metropolitan Transport Trust was only reimbursed for foregone revenue.

be explicitly recognised through a CSO contract. The estimated cost of CSOs provided by the Metropolitan Transport Trust for 1997–98 is \$18.8 million.

The Public Transport Corporation (Victoria) and Brisbane Transport do not receive explicit funding for CSOs or concession travel. The Public Transport Corporation receives funding from the Victorian Government for general operating deficits. These general payments are made to assist in meeting a number of identified, though not explicitly measured CSOs, including the provision of affordable freight and passenger services, improved access to disadvantaged groups, reduced road congestion and reduced air pollution.

5.6 Employee outcomes

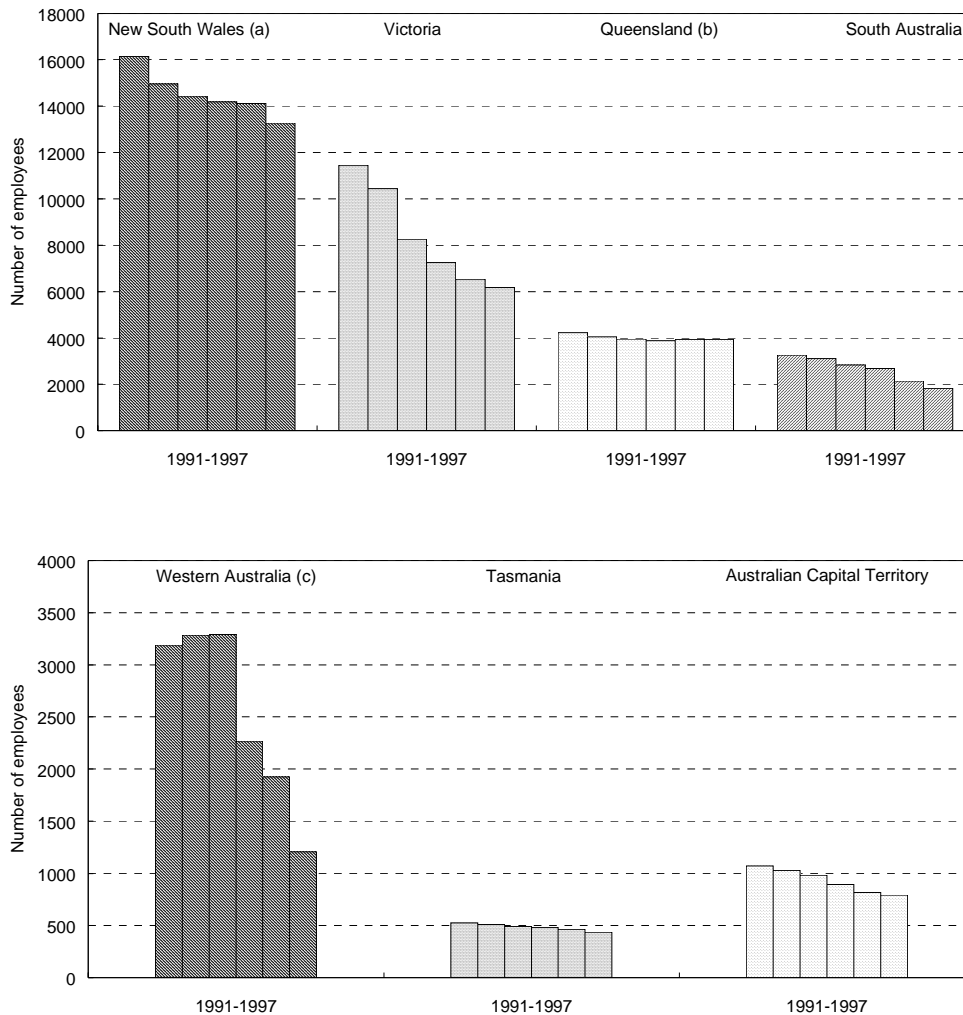
Over the six year period, there has been a significant reduction in the total number of full-time equivalents employed by urban transport GTEs — 31 per cent (see Figure 5.14). At the same time the total number of passenger boardings have increased by less than 1 per cent (see Figure 5.5).

Employment numbers have fallen across all GTEs providing urban transport services. Employment numbers have been affected by the contracting out of non-core services, the transfer of regulatory functions to other areas of government and the transfer of service contracts to private sector operators.

Most of the downsizing of workforces has been through voluntary redundancies and natural attrition. Some GTEs have had counselling and retraining programs in place to assist their employees in meeting the challenges of the restructuring process.

Some urban transport GTEs are now operating under enterprise bargaining agreements (EBAs) and most have been involved with award restructuring. Usually a number of EBAs have been introduced across one organisation resulting in different employment arrangements to suit conditions at different work locations.

Figure 5.14 Total direct GTE employment by jurisdiction, 1991-92 to 1996-97

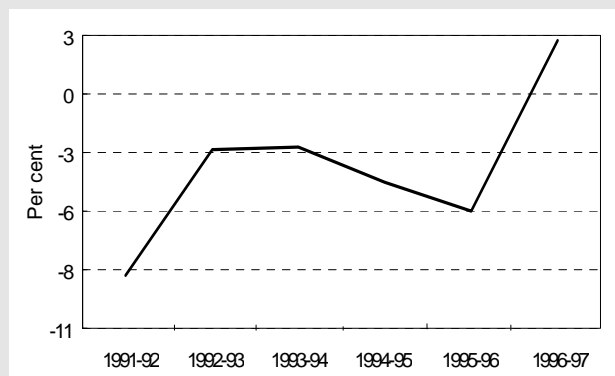
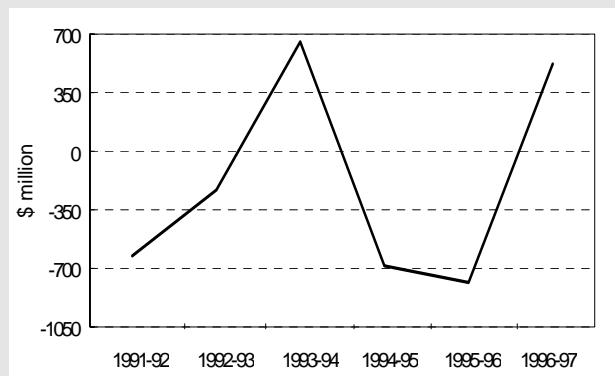


- Notes:
- The scale ranges used along the y axis of each chart are different.
 - Total employment is measured as the average of full-time equivalent staff at the beginning and end of the period.
 - Total employment numbers over the period monitored have been affected by the transfer of functions, contracting out of non-core services and redundancies.
- a Includes all employees of the State Transit Authority and those employed by the State Rail Authority in the provision urban rail passenger services.
 - b Includes all employees of Brisbane Transport and those employed by Queensland Rail in the provision of urban rail passenger services.
 - c Includes all employees of MetroBus and those employed by Westrail in the provision of urban rail passenger services.

6 RAILWAYS

Key outcomes

- Consumers of rail services have benefited from lower real prices — however, the industry has on average generated operating losses.
- **The real price index** on an industry basis is 11 per cent lower in 1996–97 than in 1991–92. Falls have been most significant for freight services.
- Industry **pre-tax operating profit** has been variable over the period. Significant changes in yearly profits have generally resulted from abnormal expense or revenue items.
- **Return on equity** for the industry has generally been negative over the period monitored.



6.1 Industry structure

Nine GTEs provide rail transport services within Australia. Eight authorities are covered in this chapter (see Table 6.1) — TransAdelaide only provides urban passenger services and is discussed in Chapter 5. The authorities vary significantly in their size and the range of freight, urban and non-urban services they provide (see Table 6.2).

Governments have a long history of involvement in the provision of rail services. Private sector provision of railways was quite common in the early 1900s. In a number of cases, it was the failure of private rail companies that prompted governments to become involved in the provision of rail services.

One common justification for government intervention is the existence of natural monopoly characteristics.¹ It is now generally accepted that such natural monopoly elements are confined to rail track and signalling infrastructure and that there is scope for increased competition in above-rail service provision.²

Government intervention is also advocated on the basis of providing access to transport, especially for disadvantaged groups in the community. A further case relates to a reduction of the costs of congestion and pollution associated with road transport.

In 1996–97, rail GTEs generated a total of \$56.8 billion in operating revenue and controlled assets valued at \$19.5 billion.³ Queensland Rail and the State Rail Authority (New South Wales) are the largest, accounting for 35 per cent and 20 per cent respectively, of total operating revenue. Queensland Rail controls 33 per cent of industry assets, with the State Rail Authority controlling 24 per cent.

¹ An industry is considered to be a natural monopoly if total costs of production are lower when a single firm produces the entire industry output, than when two or more firms divide the total among themselves. It is generally accepted that railway networks exhibit some natural monopoly characteristics.

² Above-rail refers to the services provided using rail infrastructure. Below-rail includes the track, stations, signalling and other infrastructure used for running train services.

³ Operating revenue excludes abnormal revenue, investment income and receipts from governments to cover operating deficits.

Table 6.1 Monitored rail GTEs, 1991–92 to 1996–97

1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
New South Wales					
State Rail Authority	→			State Rail Authority	State Rail Authority Freight Rail Corporation Rail Access Corporation ^a Railway Services Authority ^a
Victoria					
Public Transport Corporation	→				Public Transport Corporation ^b
Queensland					
Queensland Rail	→				Queensland Rail
Western Australia					
Westrail	→				Westrail ^c
Commonwealth					
Australian National Railways Commission	→				Australian National Railways Commission
		National Rail Corporation	→		National Rail Corporation

Notes: TransAdelaide provides urban passenger services and is discussed in Chapter 5.

a Not monitored.

b In 1997–98, the Public Transport Corporation’s passenger services were restructured into five separate corporations.

c Westrail was exposed to commercialisation principles under the ‘Right Track’ initiative and financial reform package on 1 July 1996.

Table 6.2 Activities of monitored GTEs in the rail industry, 1996–97

<i>GTE</i>	<i>Activity</i>			
	<i>Urban passenger</i>	<i>Non-urban passenger</i>	<i>Intrastate freight</i>	<i>Interstate freight</i>
State Rail Authority (New South Wales) ^a	✓	✓		
Freight Rail Corporation (New South Wales)			✓	
Public Transport Corporation (Victoria) ^b	✓	✓	✓	✓
Queensland Rail (Queensland)	✓	✓	✓	
Westrail (Western Australia) ^c	✓	✓	✓	
Australian National Railways Commission (Commonwealth) ^d		✓	✓	
TransAdelaide (South Australia)	✓			
National Rail Corporation (Commonwealth, New South Wales, Victoria)				✓

a Prior to 1996–97, the State Rail Authority also provided intrastate freight services. From 1 July 1996, the New South Wales Government restructured the State Rail Authority into four separate entities. As a consequence all freight operations were transferred to the Freight Rail Corporation.

b Over the period monitored, the Public Transport Corporation provided both passenger and freight services. In 1997–98, V/Line freight was established as a separate entity to provide interstate and limited intrastate freight services.

c Transperth contracts Westrail to provide urban rail services in metropolitan Perth.

d In November 1997, Australian National was sold to three private operators. Over the period monitored, Australian National provided intrastate freight services within South Australia and Tasmania. Its business operations changed significantly with the establishment of National Rail, maintenance and contract work became one of its main sources of revenue. It remained involved in interstate freight through its track operations and minor services to Kalgoorlie.

In 1996–97, rail GTEs employed almost 43 200 people (almost 69 500 in 1991–92).⁴ Most are employed in the provision of freight services (18 811), followed by urban passenger services (15 473) and non-urban passenger services (4 124). The State Rail Authority (New South Wales) and Queensland Rail are the largest employers, accounting for 34 per cent and 31 per cent, respectively, of total employment. The Public Transport Corporation (Victoria) accounts for 15 per cent of total employment.

Rail GTEs generated \$2.9 billion in freight revenue and carried 68.2 million net tonne-kilometres in 1996–97.⁵ Queensland Rail and the Freight Rail Corporation (New South Wales) dominate this sector, accounting for

⁴ Full-time equivalent staff.

⁵ Freight revenue includes all revenue earned from freight operations. It excludes property rentals, asset sales, advertising and investment income, and all government revenue for community service obligations (CSOs) and deficit funding.

46 per cent and 23 per cent of total freight revenue respectively (see Table 6.3). Rail freight provides services mainly to the mining and agricultural industries.

Box 6.1 The industry

- Australia's rail system comprises 40 553 kilometres of track, the bulk of which (34 530 kilometres) is operated by government owned GTEs. The remainder (6 023 kilometres) is operated by the private sector.
- Government owned railways employ approximately 43 000 people and 4 000 are employed by private rail operators. Another 15 000 people are employed in support industries such as manufacturing, supply and contracting.
- Rail freight haulage has steadily increased from 85.5 billion net tonne-kilometres in 1989–90 to 110.5 billion net tonne-kilometres in 1996–97.
- In 1994–95, rail's share of the combined rail and road non-urban tonne-kilometres was 56 per cent or 99.9 billion net tonne-kilometres — 62 per cent of this was carried by government owned railways.
- Government railways principally carry coal, grain, ores and minerals, steel, containers, manufactured industrial products and general freight. Private railways are predominantly used for iron ore in north–west Western Australia and Whyalla in South Australia, non-ferrous ores in Queensland, New South Wales and Tasmania and sugar cane in Queensland.
- In 1995–96, 431 million passenger journeys were made using rail services (98 per cent on government owned railways) and 10.5 million non-urban passenger journeys were made.

Source: ARA 1998.

Urban passenger services recorded almost 439 million passenger boardings, generating \$655 million in passenger revenue in 1996–97.⁶ The State Rail Authority (New South Wales) accounted for 65 per cent of total passenger revenue and 60 per cent of total passenger boardings (see Table 6.3). The Public Transport Corporation accounted for 23 per cent of passenger revenue and 26 per cent of total passenger boardings.

⁶ Passenger revenue includes all revenue earned from urban passenger operations including government compensation for fare concessions. It excludes property rentals, assets sales, advertising and investment income, and government revenue for other CSOs and deficit funding.

The non-urban passenger task was over 1.8 billion passenger-kilometres, earning over \$289 million in 1996–97.⁷ The State Rail Authority (CountryLink) of New South Wales again dominated this sector, accounting for 45 per cent of total non-urban passenger revenue and 56 per cent of total passenger-kilometres.

Table 6.3 Selected statistics for rail GTEs, 1991–92 and 1996–97

<i>GTE</i>	<i>Net freight tonne-kilometres (million)</i>		<i>Urban passenger journeys (million)</i>		<i>Non-urban passenger kilometres (million)</i>	
	<i>1991–92</i>	<i>1996–97</i>	<i>1991–92</i>	<i>1996–97</i>	<i>1991–92</i>	<i>1996–97</i>
New South Wales						
State Rail Corporation	13 811	n.r.	244	265	819	1 005
Freight Rail Corporation	n.r.	12 138				
Victoria						
Public Transport Corporation	3 249	2 267	109	113	755	n.p.
Queensland						
Queensland Rail	24 461	28 756	40	41	296	309
Western Australia						
Westrail	4 878	7 496	7	20	161	153
Commonwealth						
National Rail Corporation	n.r.	16 000	n.r.	n.r.	n.r.	n.r.
Australian National	7 799	1 517	n.r.	n.r.	166	344
Total	54 198	68 172	400	439	2 197	1 811

Notes: Totals do not add up due to rounding.

n.p. Not provided.

n.r. Not relevant.

6.2 Key reforms

Microeconomic reform, by governments at the Commonwealth and State level, has resulted in a number of administrative and operational changes to rail GTEs. These reforms aimed to improve the performance of rail GTEs and encourage them to operate on a more commercial basis. The key reforms introduced over the six year period are outlined in Table 6.4.

⁷ The figure for non-urban passenger kilometres excludes the Public Transport Corporation. Non-urban passenger revenue includes all revenue from non-urban passenger operations including government compensation for fare concessions. It excludes property rentals, assets sales, advertising and investment income, and government revenue for other CSOs and deficit funding.

During the 1990s, all rail GTEs were commercialised and some were corporatised. These processes included defining clearer management responsibilities, the transfer of regulatory responsibilities, identification and explicit funding of community service obligations (CSOs) and the introduction of stronger financial disciplines.⁸

These early reform initiatives were given further impetus with the agreement by the Council of Australian Governments (COAG) to implement the National Competition Policy (NCP) package in April 1995. The package provides a more nationally focused and systematic approach to ongoing infrastructure reform. Unlike the electricity, gas and water sectors, the rail sector is not the subject of a specific reform agreement.

However, a number of measures in the NCP agreements have and will continue to influence rail reform in Australia. These include the commitments to competitive neutrality, structural reform of public monopolies and prices oversight of public monopolies.

As a part of the NCP agreements, governments agreed to apply competitive neutrality principles to all their significant business activities. This involves corporatisation, the introduction of income tax-equivalent regimes and debt guarantee fees, and exposure to those regulations which private sector businesses are normally subject. Competitive neutrality principles also include clearly defined and explicitly funded CSOs. Some rail GTEs are now subject to income tax-equivalent and dividend regimes.

Governments also agreed to a number of procedures and principles to be applied when undertaking structural reform of monopoly businesses. The principles do not require that privatisation or structural reform be undertaken, rather they seek to ensure that governments systematically consider a range of issues before engaging in privatisation and introducing competition to public monopoly markets such as rail.

Jurisdictions have taken different approaches to the structural reform of rail GTEs. Some have chosen to maintain integrated entities, others have structurally separated rail GTEs on an activity basis.

⁸ A CSO arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government does not require other businesses to generally undertake, or which it would only do commercially at higher prices (SCNPMGTE 1994).

Table 6.4 Reform initiatives affecting the rail industry, 1991–92 to 1996–97

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
New South Wales	1991–92	State Rail Authority begins receiving payments for community service obligations (CSOs) from the New South Wales Government. The CSO payments cover revenue shortfalls resulting from the provision of non-commercial services directed by government.
	1993–94	The State Rail Authority began single corridor management of the Brisbane to Melbourne passenger route. Introduction of separate financial structures, balance sheets and transfer pricing arrangements for State Rail Authority business groups. Contracting out of revenue collection and maintenance of Cityrail automatic ticketing machines. Leasing arrangements introduced for new rolling stock and locomotives, owned and maintained by private firms.
	1994–95	RailNet formed to manage, improve and expand the rail network to meet future needs. The three business groups and National Rail Corporation to contract with RailNet and pay an access fee to operate their services on the New South Wales rail network. Non-core functions of the State Rail Authority's business groups transferred to Rail Services Group. These include construction and maintenance of tracks and signals, and maintenance of locomotives and rolling stock.
	1995–96	The Transport Administration Amendment Bill was passed by Parliament in June 1996. The legislation creates an open access regime in New South Wales allowing accredited operators (both public and private) to obtain access to the New South Wales rail network. The Bill established the Public Transport Authority, an advisory body responsible for providing the New South Wales Government with advice and suggestions on improvement of public transport facilities. The Bill allowed the State Rail Authority to be restructured into four independent entities.

Table 6.4 Reform initiatives affecting the rail industry, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
New South Wales ^a (continued)	1996–97	<p>The four new entities began operating separately on 1 July. The new entities were the Rail Access Corporation (RAC) and Freight Rail Corporation (FreightCorp), both of which were corporatised, the Rail Services Authority which provided track maintenance services to the RAC and other clients and the restructured State Rail Authority, provider of urban and non-urban passenger rail services.</p> <p>Private freight and non-metropolitan passenger rail operators now have the opportunity to compete head-to-head with government owned services on public railway lines through access agreements individually negotiated with the RAC.</p>
Victoria ^b	1992–93	<p>Two country rail services Melbourne to Warrnambool and Melbourne to Shepparton contracted out to private operators.</p> <p>Closure of a number of train, locomotive and wagon maintenance depots.</p>
	1993–95	Removal of restrictions applying to the transport by road of bulk oil, minor bulk commodities, timber, cement and briquettes.
	1993–94	<p>The Public Transport Corporation restructured into five business units a small corporate headquarters and three Commercial Services Groups. Each business unit is headed by a Managing Director and is fully accountable.</p> <p>The Public Transport Corporation outsources various cleaning, maintenance, security and infrastructure activities.</p> <p>Two thirds of the old government bus service awarded to a private operator. The remaining third became Met Bus.</p> <p>Progressive introduction of driver-only trains for suburban and country passenger and freight services.</p>
	1994–95	Information technology activities, heavy vehicle, maintenance, some infrastructure capital works and cleaning outsourced.
	1995–96	The <i>Rail Corporations Act 1996</i> passed. The Act allows for the establishment of V/Line Freight and Victorian Rail Track as body corporates, and allows access to Victoria's rail infrastructure for private freight and passenger operators.

Table 6.4 Reform initiatives affecting the rail industry, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Queensland	1991–92	The <i>Transport Infrastructure (Railways) Act 1991</i> established Queensland Rail as a corporate body and made provision for the establishment of a Board of Directors.
	1992–93	Queensland Rail moves from cash to accrual accounting.
	1993–94	Review of the Government's export coal royalty–rail haulage policy, resulting in a phased removal of 'de-facto' royalties collected through rail freight rates to be completed by 2000. Collections of 'de-facto' royalties will be reimbursed to Government. Transparent funding of CSOs introduced.
	1994–95	Two-driver and driver-only operations introduced throughout Queensland.
	1995–96	Queensland Rail corporatised, becoming subject to an income tax-equivalent regime and receiving explicit funding for CSOs. Technical and safety functions moved to the Queensland Department of Transport. Network access unit established, independent of existing business groups, responsible for all dealings with third party operators and the development of organisational policy.
	Western Australia	1992–93
1994–95		Corporatisation of Westrail abandoned in favour of financial reforms under the 'Right Track' program. Planned financial reforms include the explicit funding of all CSOs associated with passenger services, reduced debt and the introduction of an income tax-equivalent regime. Transport of major bulk ore, minerals and woodchips deregulated.
1995–96		Financial reform package agreed to with Treasury. The package covers explicit compensation for CSOs, payments of past superannuation liabilities, the reduction of debt through a land rationalisation sales program, and the introduction of income tax-equivalent and dividend regimes.
1996–97		Westrail outsources all track maintenance and development work. Westrail establishes an infrastructure division which operates separately to other divisions for reasons relating to third party access.

Table 6.4 Reform initiatives affecting the rail industry, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Commonwealth ^c	1991–92	National Rail Corporation established, to operate the interstate rail freight business in Australia, with the Commonwealth, New South Wales and Victorian Governments as shareholders.
	1992–93	Australian National began single corridor management of the Sydney to Perth passenger route (the Indian-Pacific).
	1993–94	Australian National interstate freight business transferred to National Railway Corporation. Contract revenue (including maintenance and construction services for other rail GTEs and third party operators) became the major source of revenue for Australian National.
	1995–96	Arrangements for access by third parties to Australian National's interstate track finalised. Two private operators negotiated with Westrail, Australian National and the Public Transport Corporation for access to rail infrastructure across the Melbourne–Adelaide–Perth corridor and began providing freight services in direct competition with National Rail Corporation.
	1996–97	The Commonwealth Government announces its intention to sell Australian National and its share of the National Rail Corporation.
a		A contestability arrangement for track maintenance, introduced in 1996–97, was suspended in late 1997 to provide time to deal with certain structural weaknesses. The problem has been addressed by establishing the corporatised rail entity Rail Services Australia, the successor of the former Railway Services Authority. The suspension continues until mid 1999 — from then on, private sector providers of rail maintenance services will have the opportunity to compete with Railway Services Australia to maintain parts of the public rail network under alliance-based contracts with the RAC.
b		In 1997–98, the Victorian Government restructured the Public Transport Corporation's passenger services into five corporations. The rights to operate these businesses will be franchised and V/Line Freight will be sold with a long-term lease over intrastate track, signalling and train control.
c		In November 1997, the Commonwealth Government sold Australian National to three private sector operators. In February 1998, the Australian Rail Track Corporation was created to address inefficiencies inherent in the lack of a single national access regime for those wishing to operate interstate services.

The NCP agreements also committed governments to the establishment of a national access regime for services provided by essential infrastructure facilities. The development of a national access regime has had a significant impact on rail GTEs in Australia.

Although railways compete with road transport, there is little scope for competition between rail authorities because the markets they operate in are geographically determined by the infrastructure they own. Third party access to

rail infrastructure is seen as a means of increasing the scope for competition in rail services. Governments have taken different approaches to third party access to rail infrastructure.

Commercialisation and corporatisation

In response to the commercialisation and corporatisation process, rail GTEs have internally restructured their operations, introduced operational changes and encouraged greater involvement by the private sector.

Most rail GTEs have established separate business units or divisions relating to their core services. These units operate independently of each other. Within the Public Transport Corporation (Victoria), for example, each unit manages its own finances, human resources, planning, commercial development, safety, product development, service delivery and marketing.

The increased commercial focus has prompted some GTEs to introduce new services and initiatives aimed at improving system efficiencies and attracting and retaining customers. For example, the National Rail Corporation (Commonwealth) has introduced a number of new services including a premium express freight bi-modal service (RoadRailer), which commenced in November 1994. In Western Australia, Westrail's Freight Services Division has promoted total logistics management, concentrating on providing an integrated transport service encompassing seamless, rail and road transport, inventory management and associated information systems.

The stronger commercial focus has prompted some GTEs to rationalise services, for example, the Public Transport Corporation (Victoria) has replaced some country passenger services with coach services and franchised two services to private operators. Most rail GTEs have also rationalised their workshop and maintenance operations. For example, in 1992–93, the Public Transport Corporation closed a number of train, locomotive and wagon maintenance depots.

Commercial imperatives have also contributed to greater private involvement in the provision of non-core services, with a number of GTEs contracting out train and station cleaning. Other GTEs have contracted out maintenance of both rolling stock and track. For example, in 1995–96, Westrail (Western Australia) outsourced the cleaning and maintenance of its country passenger road coach fleet and the National Rail Corporation (Commonwealth) outsourced the reconditioning and preventative maintenance of its wagons. In 1996–97, Westrail was the first rail GTE to outsource all its track maintenance and development work (see Table 6.4).

Structural reform

The State Rail Authority (New South Wales) is the only rail GTE to have undergone significant restructuring over the period monitored. Effective from 1 July the former State Rail Authority was divided into four independent business entities.

The Rail Access Corporation (RAC), as owner of the rail infrastructure, is responsible for managing the State's rail infrastructure and for providing access to rail operators to the network. The Railway Services Authority (RSA) initially provided rail infrastructure maintenance services under contract to the other rail entities. From 1 July 1998 this role was transferred to the RSA's successor — Railway Services Australia.

The Freight Rail Corporation provides freight services throughout New South Wales and owns and maintains its own rolling stock and locomotives. City and country passenger services are now provided by a restructured State Rail Authority, which is also responsible for train control under contract to the RAC. The State Rail Authority retains responsibility for its rolling stock maintenance, some of which is contracted to the private sector. The RAC, the Freight Rail Corporation and Railway Services Australia have been corporatised.

There has also been some restructuring of interstate freight operations following the establishment of the National Rail Corporation (Commonwealth). In 1991–92, the National Rail Corporation was established by the Commonwealth and State Governments to take over interstate freight traffic from the State rail systems and Australian National (Commonwealth).⁹ Establishment involved the transfer of business and assets (mainly above-rail) associated with interstate freight to the National Rail Corporation.

The establishment of the National Rail Corporation has had an impact on most of the rail GTEs monitored in this report. However, the most significant impact has been on Australian National. All of Australian National's interstate freight business was transferred, leaving Australian National with an interstate passenger business, intrastate freight business (Tasmania and South Australia) and a series of engineering businesses.

This left Australian National in a position where it was unable to service its debt because the assets transferred to the National Rail Corporation were those that generated the bulk of its income. In late 1997, the Commonwealth Government

⁹ The Commonwealth Government, New South Wales and Victoria are all shareholders of the National Rail Corporation. Queensland and Western Australia, while not shareholders, were also involved in the transfer of assets and business.

sold Australian National's freight and passenger businesses to three private operators and announced its intention to sell its share of the National Rail Corporation.

In 1997–98, the Victorian Government restructured the Public Transport Corporation's passenger services into five corporations (two train corporations, two tram corporations and V/Line passenger corporation). The Victorian Government has foreshadowed that the corporatised passenger services will be sold as individual franchises, with re-tendering to occur at the end of the franchise period. V/Line Freight will be given a long-term lease from Victorian Rail Track Corporation over the non-metropolitan intrastate track, signalling and train control and sold to a private operator. The Victorian Rail Track Corporation will remain in government ownership.

Access arrangements

Recent rail reform has been driven by the recognition that separation of above- and below-rail operations should increase the scope for competition between rail entities.¹⁰ The development of third party access arrangements has been accelerated with the development of a national access regime under the NCP.

A number of jurisdictions now have arrangements in place aimed at ensuring effective third party access to the services generated by rail infrastructure. In New South Wales, the RAC, which is independent of the other businesses established following the restructure of the former State Rail Authority, is responsible for negotiating the use of the track by rail operators.

In contrast, the Queensland and Western Australian Governments have chosen to maintain their GTEs as integrated rail providers. In Queensland, a separate business unit (within Queensland Rail) was established in 1995–96 to deal with access issues. The Network Access Unit, as it is known, is responsible for all dealings and negotiations with third party operators and the development of associated organisational policy.

Queensland Rail has put in place accounting arrangements to separately identify network infrastructure costs and operating costs. This is intended to ensure that third party operators and internal business groups are treated equally for the purposes of access pricing. A similar division was established within Westrail (Western Australia) in 1996–97.

¹⁰ Although railways have some natural monopoly characteristics, there is scope to increase competition between rail entities by separating the competitive elements (above-rail service provision) from the non-competitive elements (track infrastructure).

Over the period monitored, Track Access, a business unit within Australian National, was responsible for managing access to all sections of the Commonwealth owned interstate track, network capacity planning, train control, infrastructure management, and track safety. Rail infrastructure under its control stretched from the eastern States to Western Australia and the Northern Territory.

In 1997–98, the Commonwealth Government established the Australian Rail Track Corporation to manage access to the interstate rail network, removing the need to negotiate with a number of rail entities. It also undertakes the functions of the former Track Access unit.

Three private operators (Specialised Container Transport, Toll Train (previously TNT) and Patrick) have negotiated access to rail infrastructure across the Melbourne to Adelaide to Perth corridor. They provide freight services in direct competition with the National Rail Corporation.

Deregulation

During the 1990s, the transport of certain commodities has been deregulated.¹¹ Western Australia deregulated the transport of bulk fuels, minor bulks and timber in 1992–93 and the transport of major bulk ore, mineral and woodchip traffics in 1994–95. In Victoria, restrictions on the transportation by road of bulk oil, minor bulk commodities, timber, cement and briquettes have been phased out.

6.3 Consumer outcomes

Rail GTEs provide services to a number of markets, including freight, urban and non-urban passenger. The consumers of freight rail services include businesses involved in mining, minerals processing, electricity generation, primary industries (for example, grain and livestock), and importers and exporters (transport of containerised goods).

Rail plays a major role in urban passenger transport systems, particularly in larger cities. Most urban rail travel is undertaken to and from work and school during peak times. Urban rail can also play an important role in getting people to and from leisure activities, especially in the case of special events. Non-urban passenger services play an important role in linking capital centres with regional centres and in serving leisure and tourism markets. The consumers of

¹¹ Prior to deregulation, certain commodities were only permitted to be transported by rail and on nominated routes.

these rail services can expect to benefit from reform through lower real prices and improved product and service quality.

Real Prices

Aggregate average prices for rail services are lower in 1996–97 than they were in 1991–92, in real terms, for all jurisdictions with the exception of the Commonwealth.¹² Aggregate average prices have consistently fallen in Western Australia — in real terms average prices have fallen by 38 per cent between 1991–92 and 1996–97. Other jurisdictions have experienced a mixed pattern, with real prices falling and rising over the period (see Figure 6.1).

Where real prices have fallen, the falls have been most significant for freight services. Average freight prices (in real terms) have fallen in Western Australia and Queensland by 42 per cent and 13 per cent respectively (see Figure 6.2(a)).

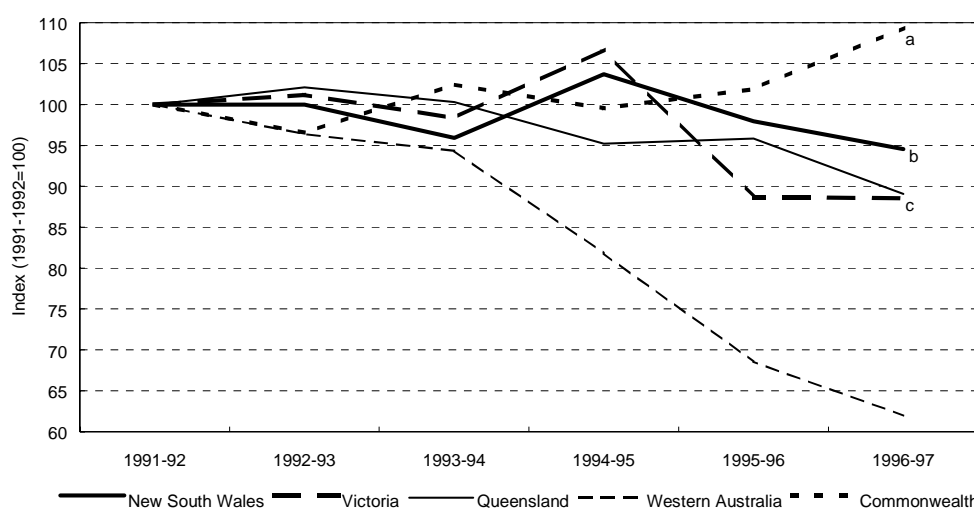
Movements in the price indices of the various jurisdictions do not necessarily indicate that actual prices have changed. Changes in some jurisdictions after 1993–94 could reflect the loss of business when interstate freight business was transferred to the National Rail Corporation. The changing composition of the freight task would have an impact on average prices and hence price indices. However, actual prices may also have increased as State rail authorities attempted to recover revenue lost when the interstate freight business was transferred to the National Rail Corporation.¹³

The significant reductions in real freight prices in Western Australia are likely to reflect the impact of the removal of all restrictions on the transport of freight in that State. With no restrictions on how freight can be transported, Westrail has been forced to price more competitively to ensure that it does not lose business to road transport.

¹² The price index for each jurisdiction is constructed by deflating average selling prices by the appropriate capital city Consumer Price Index. The aggregate price index is an average of the price indices for urban and non-urban passenger and freight services weighted by revenue shares. Where services are provided by more than one GTE within a jurisdiction, a jurisdictional index is calculated by weighting each GTE's price index by their share of total freight, urban and non-urban passenger revenue.

¹³ State rail authorities may possess market power in the provision of intrastate rail freight services. The majority of intrastate rail freight users are large volume, low value commodity producers which are dedicated rail users.

Figure 6.1 Aggregate real price index by jurisdiction, 1991–92 to 1996–97



Notes: Real price indices for each jurisdiction are constructed by deflating average selling prices by the appropriate capital city Consumer Price Index. The aggregate price index is an average of the price indices for urban and non-urban passenger and freight services weighted by revenue shares.

Movements in the price index do not necessarily indicate that actual prices have changed.

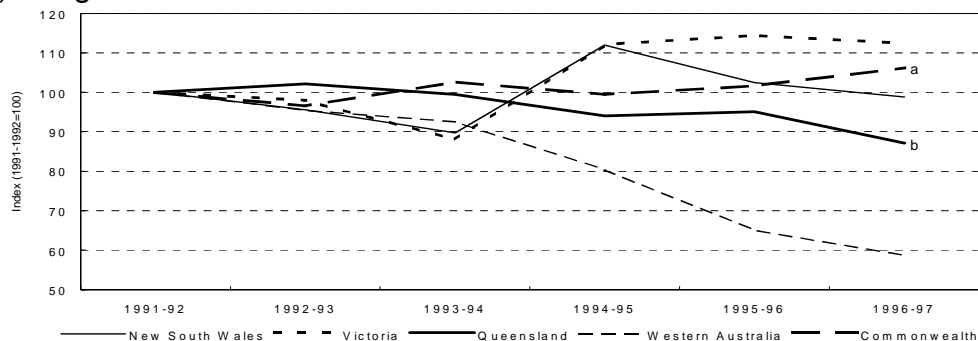
- a The aggregate price index for the Commonwealth relates to Australian National's urban passenger and freight services between 1991–92 and 1996–97 and the National Rail Corporation's freight services between 1993–94 and 1996–97.
- b The aggregate price index for New South Wales relates to the former State Rail Authority's urban, non-urban and passenger services between 1991–92 and 1995–96, the restructured State Rail Authority's urban and non-urban passenger services and the Freight Rail Corporation's freight services in 1996–97.
- c The aggregate price index for Victoria excludes non-urban passenger services after 1994–95 (incomplete time series — information not provided).

Since 1991–92, the real average price indices for urban passenger services have followed a similar pattern across the jurisdictions (see Figure 6.2(b)). In the early 1990s average real prices for urban passenger services increased in all jurisdictions. This upward trend has generally continued in Queensland. In other jurisdictions, the average price for urban passenger services has subsequently fallen.

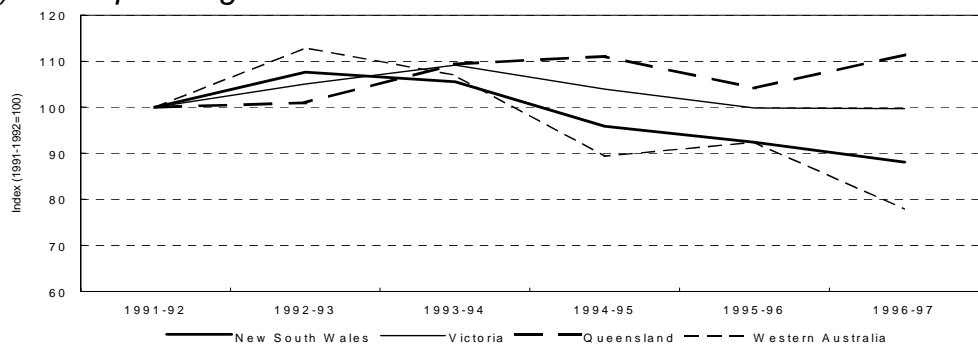
Rail GTEs offer a number of fare types to their urban passengers, including single-trip, multi-modal and periodic (weekly and monthly tickets). Consequently, fluctuations in the real price index for a jurisdiction could reflect changes in the mix of ticket types as well as changes in price. For example, at constant prices and a given number of passengers, a shift of customers to a cheaper fare would reduce the real price index because revenues would fall.

Figure 6.2 Real price indices — freight, urban and non-urban services by jurisdiction, 1991–92 to 1996–97

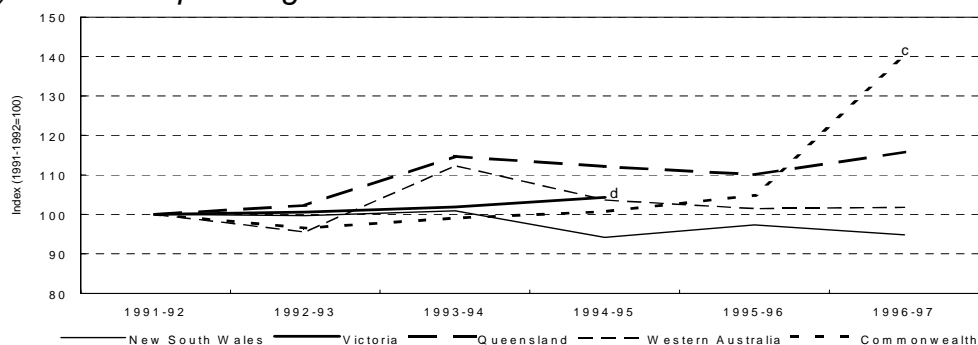
(a) Freight



(b) Urban passenger



(c) Non-urban passenger



- Notes: Real price indices for each jurisdiction are constructed by deflating average selling prices by the appropriate capital city Consumer Price Index. Movements in the price index do not necessarily indicate that actual prices have changed.
- a The real price index for freight services in the Commonwealth relates only to Australian National in 1991–92 and 1992–93 and to both Australian National and National Rail Corporation between 1993–94 and 1996–97.
 - b The real price index for freight services in New South Wales relates to the former State Rail Authority between 1991–92 and 1995–96 and to the Freight Rail Corporation for 1996–97.
 - c The non-urban price index for the Commonwealth relates only to Australian National.
 - d The real price index for non-urban passenger services in Victoria not available after 1994–95 (incomplete time series — information not provided).

Urban passenger fares are regulated in all jurisdictions.¹⁴ In 1993–94, the Victorian Government approved a general 10 per cent increase in fares and the Queensland Government allowed an increase in fares and the removal of half price weekend fares. In 1996, Independent Pricing and Review Tribunal (IPART) undertook a major review of pricing of urban public passenger transport services for New South Wales. This determination allowed for some increases in State Rail Authority fares and a restructure of fares. The restructure resulted in fewer fare bands and a constant relationship between off-peak fares and single journey fares.

With the exception of New South Wales, real average prices for non-urban passenger services are higher in 1996–97 than in 1991–92 (see Figure 6.2(c)). Such increases in non-urban passenger fares may reflect moves by rail authorities to more commercial pricing policies aimed at improving cost recovery.

Service quality

Timeliness and reliability are important to rail passengers and freight customers. Urban and non-urban passengers use rail to get somewhere, be it work, school or a holiday destination. They expect to be able to get there on time and to have access to regular and reliable services.

Reliability can be the overriding factor for some users of freight services, where rail is but one link in the transport chain and there may be significant costs associated with unreliability (for example, inventory costs and a loss of sales or customers). Users of rail freight expect to receive their goods on time and to be able to give their customers some certainty.

One measure of service quality is on time running of rail services which provides an indication of the reliability of train services.

In New South Wales and Queensland, on time running of freight services was higher in 1996–97 than it was in 1991–92 (see Figure 6.3(a)). The initial deterioration in on time running of freight services within the Commonwealth jurisdiction is likely to reflect the impact of the transfer of Australian National's interstate freight business to the National Rail Corporation. As the National

¹⁴ In most jurisdictions, urban rail fares are set by State Governments following recommendations from the rail GTEs. In New South Wales, the pricing of urban passenger services is regulated by the Independent Pricing and Review Tribunal (IPART). IPART determines maximum prices, which must be charged unless the State Rail Authority has the approval of the Treasurer to charge lower prices. IPART also reviews and makes recommendations relating to pricing policies.

Rail Corporation became progressively operational, its on time running improved.

In all jurisdictions, except New South Wales, on time running of urban passenger services is higher in 1996–97 than it was in 1991–92 (see Figure 6.3(b)). In Victoria and Western Australia, more than 90 per cent of urban passenger services arrived within three minutes of the scheduled time, on a consistent basis. On time running of urban passenger services in New South Wales has deteriorated since 1993–94 (falling 6 per cent) and in Queensland on time running deteriorated before improving significantly in 1996–97.

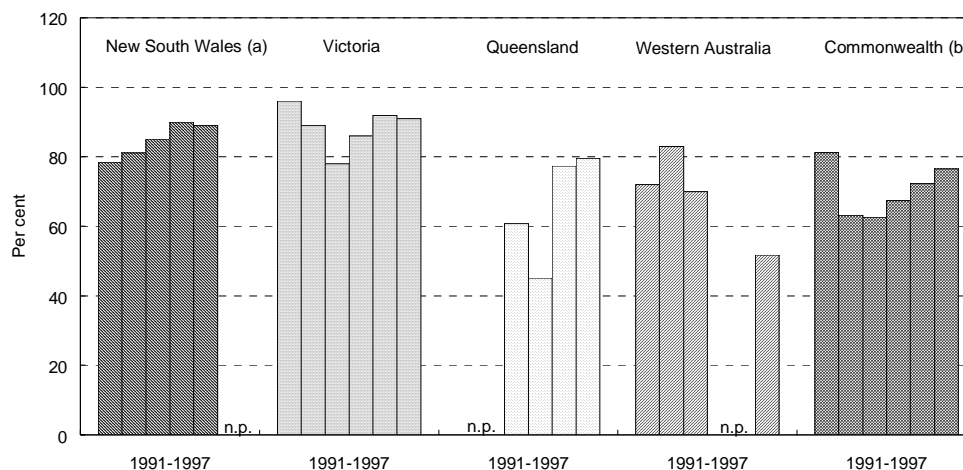
Some of the factors that might affect the ability of GTEs to provide reliable services, include congestion in availability of rolling stock, track standards and the need for track and rolling stock maintenance. For example, the deterioration and subsequent improvement in the on time running performance of Queensland Rail, was significantly affected by infrastructure upgrading. The Mainline Upgrade Project (commenced in 1993) involved bridge replacement and strengthening between Brisbane and Cairns.¹⁵

In its 1996–97 Annual Report, the State Rail Authority (New South Wales) identified the introduction of an ‘over-ambitious’ timetable as the major reason for the deterioration in the on time running of urban passenger services for that year — a revised timetable was introduced towards the end of year resulting in immediate improvements to service reliability (SRA 1997).

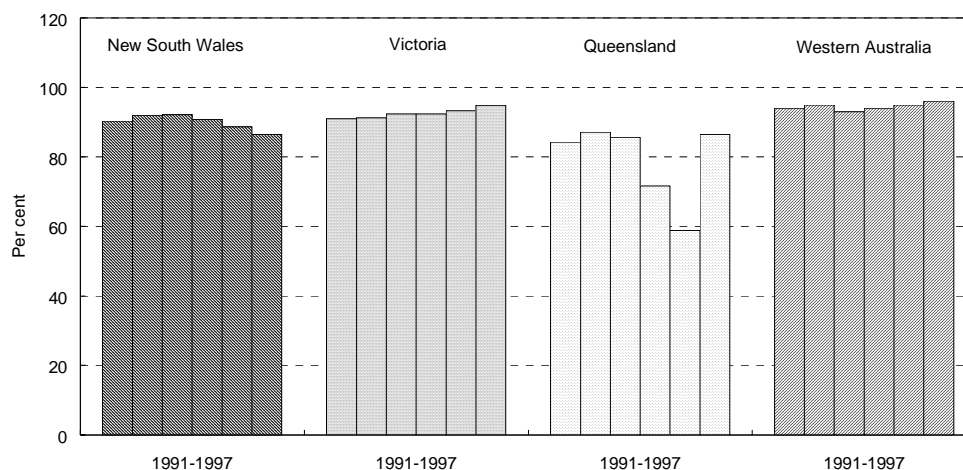
¹⁵ With the completion of the project, travel time for freight services has been reduced by up to three hours.

Figure 6.3 On time running by jurisdiction, 1991–92 to 1996–97

(a) Freight services (within 30 minutes)



(b) Urban services (within 3 minutes)



Notes: On time running (freight services) measures the proportion of trips arriving within thirty minutes of the scheduled arrival time. On time running (urban passenger services) measures the proportion of trips arriving within three minutes of the scheduled arrival time.

On time running for non-urban passenger services is excluded due to inconsistencies in definitions across GTEs.

a On time running (freight services) for New South Wales relates to the former State Rail Authority's freight operations between 1991–92 and 1995–96 and to the Freight Rail Corporation's freight operations for 1996–97.

b On time running (freight services) for the Commonwealth jurisdiction relates only to Australian National for 1991–92 and 1992–93. From 1993–94, Commonwealth on time running (freight services) is a weighted average of Australian National and National Rail Corporation measures (weighted by share of net freight tonne-kilometres).

n.p. Not provided.

6.4 Shareholder outcomes

From the perspective of governments in representing the shareholder interest in GTEs, outcomes are mainly expressed in financial terms. By analysing shareholder outcomes from a financial perspective, it is possible to determine how the benefits of reform are being shared between government and consumers. However, restructuring, the transfer of business and assets, changes in accounting policies (for example, asset valuation and the treatment of government contributions) all have an impact on performance and make it difficult to assess performance on a consistent basis over time.

Governments as shareholders benefit from the yearly profits of rail entities by receiving dividend payments and to a lesser extent through income tax-equivalent regimes. Governments are also interested in ensuring that they earn an appropriate return on the equity invested in rail GTEs. Return on equity also provides an indication of the long-term viability of a business and indicates how well the entity is utilising the equity that a shareholder government has invested in the business. The level and consistency of returns available to shareholder governments is largely determined by the operating profit of rail GTEs.

Over the period monitored, most rail GTEs have made significant operating losses and generated poor returns on equity. The poor performance of most rail GTEs suggests that either reforms have not been sufficient (there are still improvements in efficiency to be made), that State Governments are not adequately funding CSOs, that rail assets have not been valued on an appropriate basis, or some combination of these.

Operating losses suggest that either there is greater scope to reduce total expenses through further reform or that governments still have to get their pricing and CSO policies right. Indeed, with the exception of Queensland Rail and Westrail, most rail GTEs have achieved cost recovery levels significantly below 100 per cent.¹⁶ Cost recovery levels are even lower when expressed in terms of customer revenue.¹⁷ The inability of some rail GTEs to cover operating costs indicates that either costs are still too high or that rail GTEs are not generating sufficient revenue.

In addition to receiving CSO payments, some rail GTEs continue to receive funding to finance operating deficits. Australian Governments contributed a

¹⁶ Cost recovery is measured as the ratio of operating revenue (total revenue less abnormal revenue, investment income and receipts from governments to cover operating deficits) to operating expenses (total expenses less abnormal expenses and gross interest expense). This measure includes payments made to rail GTEs for CSOs.

¹⁷ This measure of cost recovery excludes payments for CSOs.

total of \$441.3 million to funding the operating deficits of their rail GTEs in 1996–97. This continued financing of operating deficits by governments suggests that they believe that railways provide additional benefits to the community that have not been explicitly identified and costed as CSOs by owner governments.

Another factor, impacting on the operating profit of rail GTEs, could be that, historically, road user charges have not accurately reflected the true cost of road usage. Consequently, this may have provided an incentive to use road transport instead of rail freight.

The National Road Transport Commission (NRTC) has initiated significant reforms of road user charges in an effort to more accurately reflect the cost that heavy vehicle usage places on roads. However, these reforms may not have yet had their full impact upon the redistribution of transport traffic between the two modes.

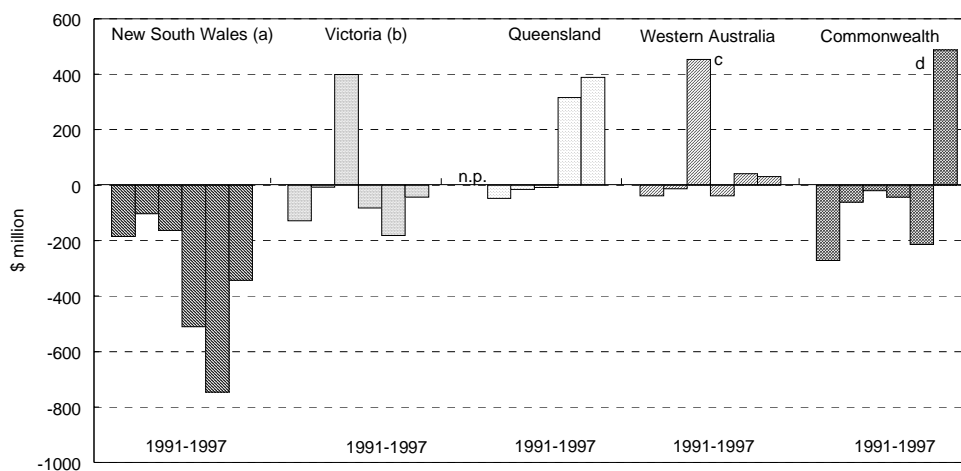
The low returns on equity generated over the period monitored may reflect the poor profitability of many rail GTEs and the inappropriate valuation of their assets. In most cases, the assets of rail GTEs are valued on an historical cost basis. Historical cost valuations are not always indicative of the economic value of assets.

Profitability

Operating profit before income tax is determined by the revenue generated less the expenses incurred, including abnormal items. The major factors affecting the total revenue of rail GTEs include the level of freight and passenger business, payments from government (including CSOs and payments to fund operating deficits) and abnormal items (usually associated with the reform process). On the expenses side, asset acquisition and maintenance costs, interest expense, depreciation expense, labour costs and abnormal items (usually associated with the restructure of workforces) are important determinants of profit.

Over the period monitored, rail GTEs have consistently made operating losses (see Figure 6.4). Significant improvements in year-to-year operating profit have largely been associated with large abnormal items and not improved performance. Since its corporatisation in 1995–96, Queensland Rail has recorded substantial operating profits (before income tax) and Westrail (Western Australia) had recorded modest operating profits in the last two years. The Freight Rail Corporation (New South Wales) also recorded an operating profit in its first year of operation (1996–97).

Figure 6.4 Operating profit before income tax by jurisdiction, 1991–92 to 1996–97



Notes: Operating profit before income tax is calculated by subtracting total expenses from total revenue and includes abnormals.

a Relates only to the operations of the former State Rail Authority between 1991–92 and 1995–96 and both the restructured State Rail Authority and the Freight Rail Corporation for 1996–97.

b Includes all Public Transport Corporation operations. The significant increase in operating profit in 1993–94 reflects net abnormal items of \$603.8 million associated with a reduction in unfunded superannuation liabilities and a reduction in employee leave entitlements. The abnormal relating to superannuation reflects one-off Victorian Government funding, staff downsizing, legislative changes and a change in actuarial assumptions.

c The significant improvement in Westrail’s operating profit in 1993–94 reflects a large abnormal revenue item, associated mainly with a reduction in the provision for superannuation liabilities following an actuarial valuation.

d The significant improvement in operating profit for the Commonwealth in 1996–97 reflects a large abnormal revenue item for Australian National.

The impact of abnormal items can mask underlying performance (see Figures 6.5 and 6.6). If the impact of abnormal items is excluded Queensland Rail and Westrail (Western Australia) have been the most profitable rail GTEs in the last six years. In the case of Queensland Rail, improved profit has been achieved through generating sufficient revenue to cover progressively higher expenses. In Westrail’s case improved profit has been achieved through modest improvement in revenue and reductions in expenses.

New South Wales

Total New South Wales revenue was fairly stable between 1991–92 and 1993–94, falling in 1994–95 (see Figure 6.5). Between 1993–94 and 1994–95, net freight tonne-kilometres fell by 45 per cent, largely as a result of the 1994

drought and failed wheat crop. Over the same period freight revenue fell by 28 per cent (31 per cent in real terms). The increase in revenue in 1996–97, reflects a significantly higher CSO payment to cover access charges payable by the State Rail Authority to the RAC for use of the track.

In 1996–97, the Freight Rail Corporation's first year of operation, it carried 21 per cent more net freight tonne-kilometres and generated 18 per cent (16 per cent in real terms) more freight revenue than the former State Rail Authority carried and generated in 1995–96.

Over the six year period, total New South Wales expenses increased by 27 per cent (13 per cent in real terms) (see Figure 6.6). Since 1991–92, the workforce has been reduced by 29 per cent.¹⁸ However, falls in labour costs have been offset by increases in depreciation expense (following revaluation of assets in 1994–95), increased superannuation expense (following an actuarial review in 1995–96) and additional costs associated with the restructure of the former State Rail Authority.

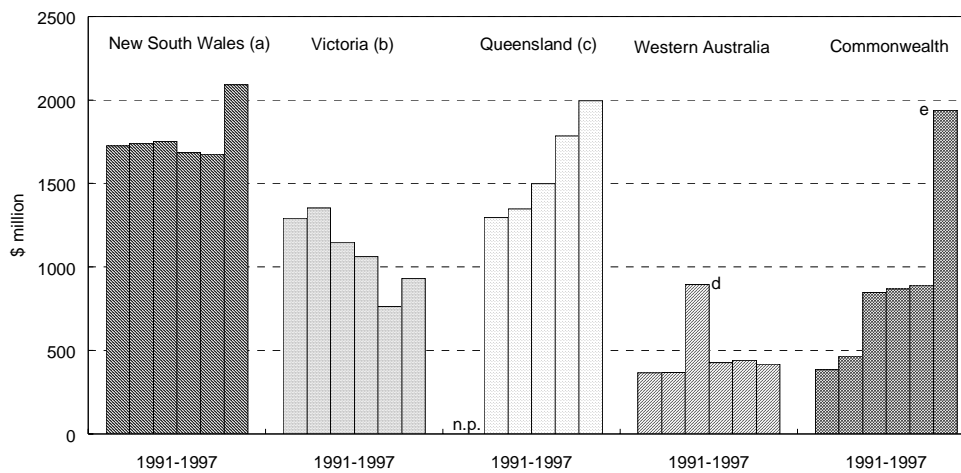
Victoria

Over the six year period, the Public Transport Corporation's (Victoria) total revenue has fallen 28 per cent (38 per cent in real terms) (see Figure 6.5). During that time net freight tonne-kilometres carried by the Public Transport Corporation has fallen by 38 per cent and freight revenue has fallen by 13 per cent (22 per cent in real terms). This largely reflects the impact of a poor grain harvest in 1994–95 and the transfer of interstate freight business to the National Rail Corporation.

Changes in accounting practices have also had an impact on total revenue over the period. Prior to 1994–95, capital grants received from the Victorian Government were credited to contributed capital. In 1994–95 and in 1996–97, capital grants were treated as income, increasing total revenue. In 1995–96, capital grants were treated as contributed capital, decreasing total revenue.

¹⁸ No allowance is made for those employees that were transferred to the RAC and RSA.

Figure 6.5 Total revenue by jurisdiction, 1991-92 to 1996-97



Notes: Total revenue includes revenue from sales and levies, revenue from asset sales, investment income, receipts from government for specific agreed services, other revenue from operations, receipts from government to cover operating deficits on operations and abnormal revenue. It excludes funds received for specific capital works from governments or other parties, and equity contributions from government.

a Total revenue for New South Wales relates only to the operations of the former State Rail Authority between 1991-92 and 1995-96 and both the restructured State Rail Authority and the Freight Rail Corporation for 1996-97.

b Includes all Public Transport Corporation operations. In 1994-95 and 1996-97, capital grants from the Victorian Government were treated as revenue. Between 1991-92 and 1993-94 and in 1995-96 capital grants from the Victorian Government are treated as contributed capital.

c Since 1993-94, Queensland Rail has received explicit CSO payments.

d Significant increase in Westrail's total revenue in 1993-94 reflects a large abnormal revenue item (\$462.3 million), associated mainly with a reduction in the provision for superannuation liabilities following an actuarial valuation.

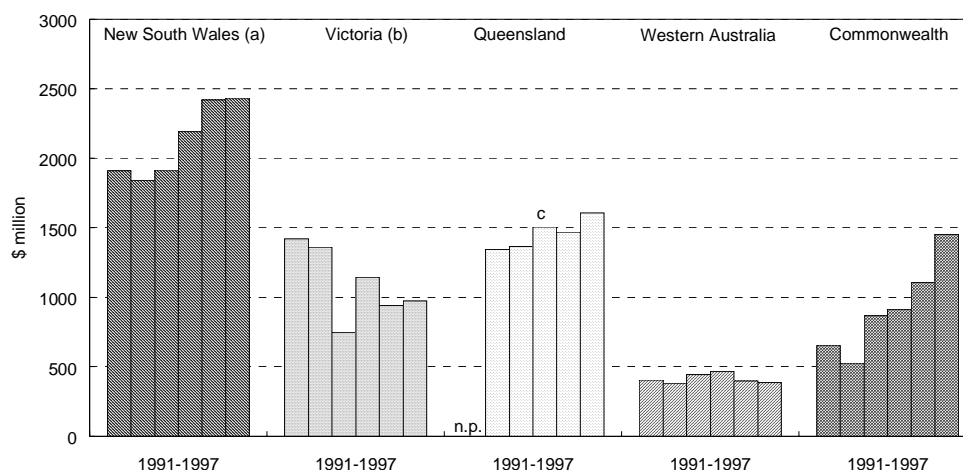
e Significant increase in Commonwealth revenue reflects a large abnormal revenue item (\$558.3 million) associated with the continued restructure of Australian National.

n.p. Not provided.

Disregarding the impact of abnormal items, which cause variations in total expenses on a yearly basis, the Public Transport Corporation's total expenses have decreased significantly since 1991-92 (31 per cent in nominal terms and 38 per cent in real terms) (see Figure 6.6). This reflects significant falls in salary and wage costs (34 per cent in nominal terms and 41 per cent in real terms), the impact of the rationalisation of workshops (including closure, outsourcing and rationalisation of activities in remaining workshops), outsourcing of many building and maintenance operations, competitive tendering of various capital works projects, improvement in work practices (for

example, the introduction of driver-only trains and trams) and the contracting out of bus services to the private sector.¹⁹

Figure 6.6 Total expenses by jurisdiction, 1991–92 to 1996–97



Notes: Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution of assets and abnormal expenses.

a Total expenses for New South Wales relates only to the operations of the former State Rail Authority between 1991–92 and 1995–96 and both the restructured State Rail Authority and the Freight Rail Corporation for 1996–97.

b Includes all Public Transport Corporation operations. The significant decrease in total expenses in 1993–94 reflects net abnormal items of \$603.8 million associated with a reduction in unfunded superannuation liabilities and a reduction in employee leave entitlements. The abnormal relating to superannuation reflects one-off Victorian Government funding, staff downsizing, legislative changes and a change in actuarial assumptions.

c In 1994–95, Queensland Rail had abnormal expenses associated with a derailment. These include the write-off of rolling stock, minor workshop repairs, and the labour and plant hire costs incurred in bringing the track back to operating capacity.

n.p. Not provided.

Queensland

Between 1992–93 and 1996–97, Queensland Rail's total revenue increased by 54 per cent (38 per cent in real terms) (see Figure 6.5). Over this period, net freight tonne-kilometres carried by Queensland Rail grew by almost 18 per cent — growth in urban passenger journeys has been more modest at 5 per cent. The introduction of explicit CSO payments, fare increases and successful programs to counter passenger fare evasion have also contributed to increased total

¹⁹ Although reductions in the labour force were associated with increased termination payments, these were partially offset through contributions by the Victorian Government.

revenue. Since 1993–94, capital grants from the Queensland Government have been accounted for as equity contributions in the year of receipt. Prior to that they were treated as revenue.

Queensland Rail's total expenses have increased by almost 20 per cent since 1992–93 (7 per cent in real terms) (see Figure 6.6). Over this period, labour costs (including on-costs) have increased 10 per cent (fallen 2 per cent in real terms) and at the same time the number of full-time equivalent employees fell by 19 per cent. This reflects productivity gains and increased wages under successive enterprise bargaining agreements (EBAs). Increases in depreciation and interest expense associated with the acquisition and construction of new assets has also contributed to the increase in total expenses.

Western Australia

Since 1991–92, Westrail's total revenue has increased by 14 per cent (2 per cent in real terms) if abnormal revenue is excluded (see Figure 6.5). Over this period, urban passenger journeys and net freight tonne-kilometres carried increased significantly (181 per cent and 54 per cent respectively) and non-urban passenger kilometres remained fairly constant. The increase in urban passenger and freight revenue was somewhat less. This reflects the fact that Westrail receives a contract payment from Transperth for providing urban passenger services (which is not necessarily linked to the number of passenger journeys). It also reflects the impact of falling real freight prices.

Over the same period, total expenses increased sharply in 1993–94 and in 1994–95, largely reflecting higher depreciation and interest expenses associated with the construction and acquisition of fixed assets and fuel and materials costs associated with an increased task (see Figure 6.6). Although there was a significant fall in labour costs in 1994–95 (14 per cent in nominal terms and 23 per cent in real terms), this was more than offset by increases in outsourcing costs and abnormally high costs for derailments and washouts.²⁰

Since 1994–95, total expenses have fallen by 17 per cent (21 per cent in real terms). This reflects a fall in intersystem freight costs (the National Rail Corporation now runs its own trains) and decreases in labour costs (labour costs have fallen 29 per cent since 1994–95). However, the reduction in total expenses was partly offset by increased fuel costs, outsourcing costs and

²⁰ The closure of the Midland workshops resulted in maintenance work being rescheduled and outsourced. The 1994–95 outsourcing costs include a 'catch up' for work not performed during the wind up period.

increased depreciation and interest expenses associated with increased borrowings and additional asset acquisitions.

Commonwealth

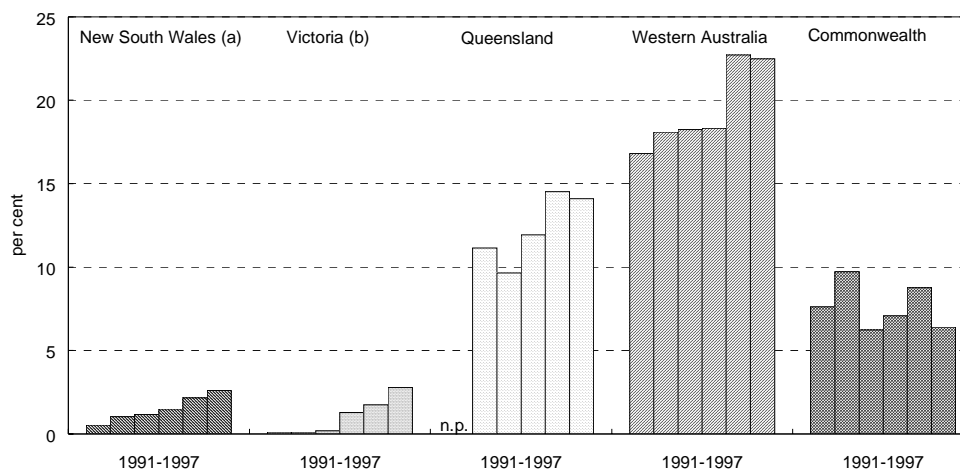
Commonwealth total revenue (excluding the impact of abnormals) has remained relatively constant after initially increasing in 1993–94 when the National Rail Corporation became fully operational (see Figure 6.5). Over the six year period, Australian National's total revenue has steadily decreased and the National Rail Corporation's total revenue has increased — as expected with the transfer of interstate freight operations to the National Rail Corporation.

Since the commencement of operations in 1993–94, the National Rail Corporation has progressively carried more net freight tonne-kilometres each year (as interstate freight business was transferred to the National Rail Corporation from the other rail GTEs). However, the National Rail Corporation has felt the impact of competition from private rail providers with freight revenue falling by 7 per cent (8 per cent in real terms) in 1996–97 and net freight tonne-kilometres carried in 1996–97 falling by 5 per cent. Since 1993–94, total expenses have increased steadily, reflecting higher depreciation and amortisation expenses for the National Rail Corporation associated with the continued transfer of assets from other rail authorities and the acquisition of new assets.

Interest expense

In most cases interest expense does not represent a significant share of total expenses (see Figure 6.7). Where it does — Western Australia and Queensland — its importance has been increasing since 1991–92. In both cases the increase reflects higher gross interest expense, associated with the acquisition and construction of new assets, over the period.

Figure 6.7 Gross interest expense as a percentage of total expenses by jurisdiction, 1991-92 to 1996-97



Notes: Gross interest expense is the amount charged to the profit and loss account. It includes finance charges on finance leases and all debt related financial expenses. Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution of assets and abnormal expenses.

a Relates only to the operations of the former State Rail Authority between 1991-92 and 1995-96 and both the restructured State Rail Authority and the Freight Rail Corporation for 1996-97.

b Includes all Public Transport Corporation operations.

n.p. Not provided.

Income tax-equivalent expense and dividend payments

Governments act as the shareholder of rail GTEs on behalf of the community. Requiring dividend payments from GTEs is often justified as a return on shareholder funds. Subjecting GTEs to income tax-equivalent regimes is often justified on the grounds of competitive neutrality, the intention being to make GTEs operate under comparable tax arrangements to those applying to private sector firms.

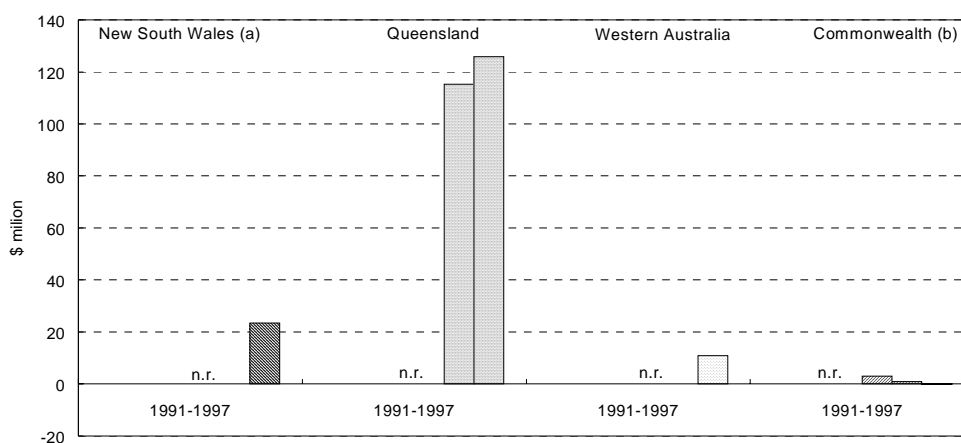
Unlike other GTEs, the requirement for rail GTEs to make dividend payments and be subject to income tax-equivalent expense has been introduced only recently.

The Freight Rail Corporation (New South Wales), Queensland Rail, Westrail (Western Australia) and the National Rail Corporation have been made subject

to income tax-equivalent regimes over the period monitored (see Figure 6.8).²¹ Of the rail GTEs subject to income tax-equivalent regimes, only the National Rail Corporation has actually made a tax payment.²²

With the likelihood of direct competition from third party rail operators increasing with the development and implementation of access regimes, the issue of tax and competitive neutrality is likely to become more significant.

Figure 6.8 Income tax-equivalent expense by jurisdiction, 1991–92 to 1996–97



Notes: Income tax-equivalent expense on operating profit before tax (including abnormal items) calculated using tax effect accounting (AAS3).

Excludes Victoria. The Public Transport Corporation did not incur income tax-equivalent expense over the period monitored

a Relates only to the operations of the former State Rail Authority between 1991–92 and 1995–96 and both the restructured State Rail Authority and the Freight Rail Corporation for 1996–97.

b Australian National did not incur income tax-equivalent expense between 1991–92 and 1996–97. In 1995–96, the National Rail Corporation made a tax payment of \$912 000 and in 1996–97, they received an income tax credit of \$285 000 resulting from an amendment to their 1995–96 tax return.

n.r. Not relevant. Income tax-equivalent expense not incurred in these years.

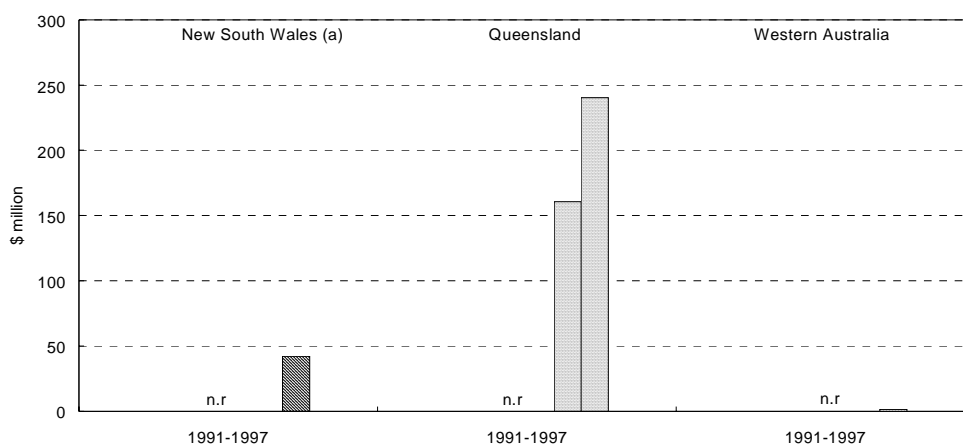
²¹ The Freight Rail Corporation (New South Wales), Queensland Rail and Westrail (Western Australia) are all subject to state based tax-equivalent regimes.

²² The adoption of tax effect accounting means the income tax-equivalent expense for any year differs from the amount of tax payable for that year because of timing differences (for example timing differences may arise because of the different depreciation schedules adopted by the business and the tax office).

Queensland Rail has been required to make dividend payments since 1995-96 and Westrail (Western Australia) and the Freight Rail Corporation (New South Wales) were required to make dividend payments from 1996-97.

In the case of Westrail (Western Australia), initial dividend payments will be equivalent to the interest and the sinking fund costs associated with the repayment of their general loan fund liabilities. Once a 50:50 debt to equity structure is established and subject to continued funding of past service superannuation liabilities and explicit funding of CSOs by the Western Australian Government, Westrail plans to have a long-run target dividend payout ratio of 50 per cent of after-tax profits. Queensland Rail aims to pay 100 per cent of its after tax-equivalent profit on CSO business plus 50 per cent of remaining after tax-equivalent profit as a dividend.

Figure 6.9 Dividends paid or provided for by jurisdiction, 1991-92 to 1996-97



Notes: Dividends paid or provided for includes normal and special dividends and special levies on profits and revenues, excludes returns of capital.
Excludes Victoria because the Public Transport Corporation did not make dividend payments between 1991-92 and 1996-97.

a Relates only to the operations of the former State Rail Authority between 1991-92 and 1995-96 and both the restructured State Rail Authority and the Freight Rail Corporation for 1996-97.

n.r. Not relevant. Dividend payments not made in these years.

In total, Australian governments received or will receive \$284 million in dividend payments in 1996-97.²³ Since 1995-96, Australian governments have or will receive a total of \$444.7 million in dividend payments, with over

²³ Dividends are not necessarily paid in the year that they are generated.

90 per cent of those payments being generated by Queensland Rail (see Figure 6.9).

Return on equity

Return on equity is the ratio of operating profit (after-tax) to equity held in the entity as measured by total assets less total liabilities. A negative return on equity may reflect operating losses or liabilities greater than assets. The major factors impacting on the return on equity ratios for rail GTEs over the period monitored, include operating losses, asset revaluations, and the transfer of liabilities.

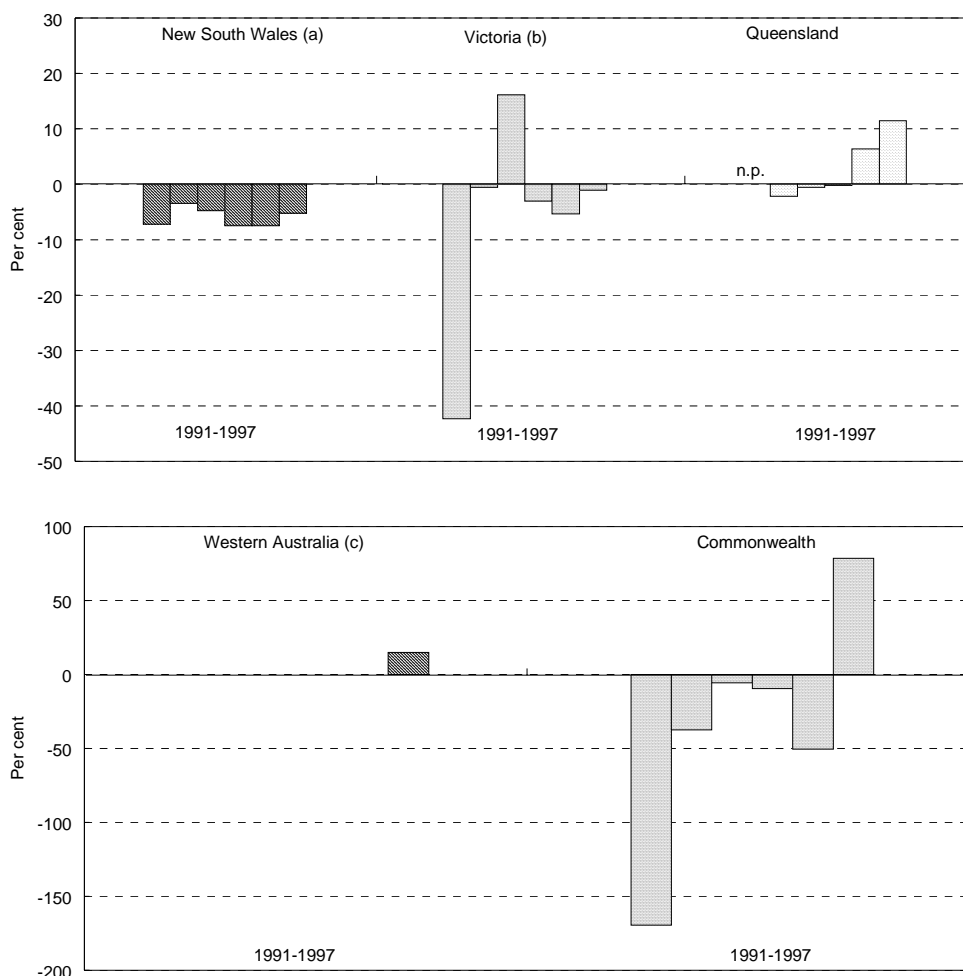
The returns on equity held by the shareholder governments of rail GTEs have generally been negative, reflecting operating losses over the period (see Figure 6.10). In most cases, significant improvements to return on equity reflect the impact of abnormal items on operating profit after income tax. For example, the turnaround in the return on equity for Victoria in 1993–94 reflects an increase in operating profit after-tax due to significant net abnormal items for that year.²⁴ The reduction in unfunded superannuation liabilities also reduced the Public Transport Corporation's total liabilities for that year, thereby increasing total equity. However, the increase in operating profit after-tax more than offset the increase in equity. Similarly, the improvement in the Commonwealth's return on equity in 1996–97 reflects the impact of significant abnormal items.

As a part of the corporatisation process, some rail GTEs have revalued their assets, moving from historical to current valuation methods. Asset revaluations will have a significant influence on return on equity measures because of their impact on asset values and operating profit (through depreciation expense). Changes in asset valuations also make it difficult to assess performance on a consistent basis over time.

Both the State Rail Authority (New South Wales) and Queensland Rail have revalued their assets during the period monitored. Following the revaluation of its assets in 1994–95, average equity in the former State Rail Authority almost doubled, and their operating loss increased by over 200 per cent (largely due to higher depreciation expense and a downturn in freight revenue). The combined effect was a further deterioration in return on equity.

²⁴ Abnormal items of \$603.8 million primarily reflect reductions in unfunded superannuation liabilities arising from one-off Victorian Government funding, staff downsizing, legislative changes and changes in actuarial assumptions.

Figure 6.10 Return on equity by jurisdiction, 1991-92 to 1996-97



- Notes: The scale ranges used along the y axis of each chart are different.
- Return on equity is the ratio of operating profit after-tax to average total equity. Operating profit after-tax is calculated by subtracting total expenses and income tax paid or payable from total revenue. Equity is calculated by subtracting total liabilities from total assets.
- Return on equity cannot be calculated on a strictly comparable basis because of revaluations and abnormal items during the monitored period.
- a Relates only to the operations of the former State Rail Authority between 1991-92 and 1995-96 and both the restructured State Rail Authority and the Freight Rail Corporation for 1996-97.
 - b Includes all Public Transport Corporation operations. The significant increase in return on equity in 1993-94 reflects an increase in operating profit after income tax due to significant net abnormals for that year.
 - c Between 1991-92 and 1995-96, Westrail had negative equity, and so the return on equity measure for these years is excluded.
 - n.p. Not provided.

In contrast to New South Wales, asset values decreased following the revaluation of Queensland Rail's assets in 1995–96. This, combined with an increase in total liabilities, resulted in a reduction in equity. Queensland Rail also made an operating profit in that year, which resulted in a positive return on equity.

Assets and liabilities

The methods of valuing assets differ between rail GTEs. The State Rail Authority and the Freight Rail Corporation (New South Wales), Queensland Rail and the Public Transport Corporation (Victoria) value most of their assets at current cost (using deprival value methods). All other rail authorities use historical cost. Changes in asset values over the period monitored have been driven by revaluations, capital expenditure on upgrading rolling stock and infrastructure, restructuring and asset transfers.

Increases in asset values over the six year period have typically been associated with asset revaluations and the acquisition and construction of new fixed assets (see Figure 6.11). Over the period, the former State Rail Authority (New South Wales), Queensland Rail, and the Public Transport Corporation (Victoria) revalued their assets. In 1994–95, the former State Rail Authority undertook a complete revaluation of fixed assets on a deprival basis — previously assets were valued at historical cost. Queensland Rail revalued some infrastructure assets in 1993–94 and again in 1994–95 (deprival value) — all of Queensland Rail's assets were revalued in 1995–96 following corporatisation.

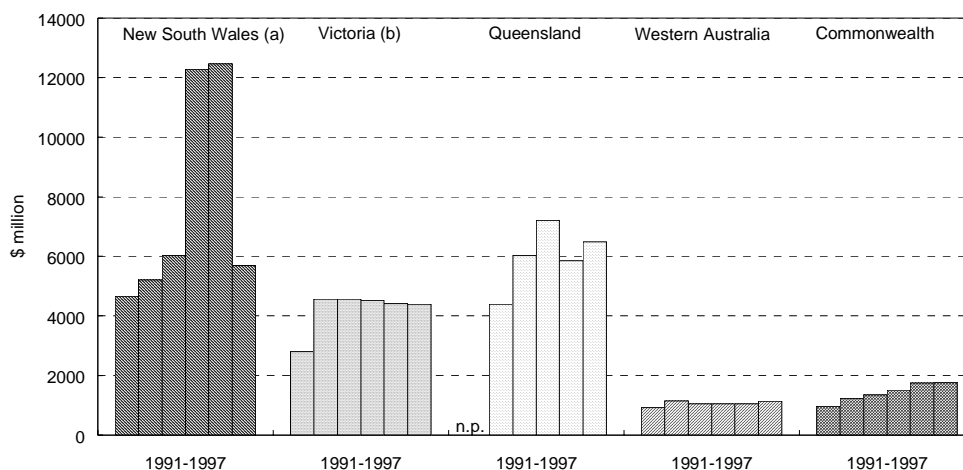
The significant fall in New South Wales's total assets in 1996–97 largely reflects the impact of the restructure of the former State Rail Authority. The restructure included a general divesting of assets valued at \$6.4 billion to other entities, and a consequential derecognition of land controlled by the RAC of \$856.5 million.

The Public Transport Corporation (Victoria) undertook a revaluation of land during 1992–93 (freehold land was revalued by Board valuation, Crown Land was valued for the first time in the financial statements, and there was a recognition of certain leases as finance leases). In 1995–96, certain land and buildings were revalued to recoverable amounts based on external valuations.

The falls in the Public Transport Corporation's asset values have coincided with the transfer of functions and the surrender of assets. In 1994–95, asset acquisitions were exceeded by the transfer of land to the Crown, accumulated depreciation and a reduction in creditors due to the transfer of various functions

to the Department of Transport.²⁵ In 1996–97, acquisitions were again exceeded by accumulated depreciation and the surrender of assets to the Crown.

Figure 6.11 Total assets by jurisdiction, 1991–92 to 1996–97



Notes: Total assets are defined as the service potential for future economic benefits, controlled by the entity as a result of past transactions or other events (measured at the end of the reporting period).

Asset valuation methods vary between jurisdictions. In New South Wales, Victoria and Queensland most assets are valued at current cost. Westrail, Australian National and the National Rail Corporation value most of their assets at historical cost.

a Relates only to the operations of the former State Rail Authority between 1991–92 and 1995–96 and both the restructured State Rail Authority and the Freight Rail Corporation for 1996–97. The significant increase in the value of assets in 1994–95 resulted from a revaluation of assets. The dramatic decrease in asset values in 1996–97 resulted mainly from a transfer of assets to the RAC and the RSA — both GTEs are not monitored in this report.

b Includes all Public Transport Corporation operations.

n.p. Not provided.

In its submission to the House of Representatives inquiry into the role of rail in the national transport network, the Bureau of Transport Economics estimated that the government sector invested just over \$9 billion in new fixed rail assets between 1991–92 and 1996–97.²⁶ Over this period, New South Wales made the greatest investment followed by Queensland, Victoria and Western Australia. During the 1990s, Victorian rail investment fell to below \$100 million per annum and Western Australia rose to third place in the ranking (BTE 1998).

²⁵ Responsibility for contracted private bus and rail passenger services and other associated administrative functions were transferred from the Public Transport Corporation to the Victorian Department of Transport.

²⁶ The inquiry was undertaken by the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform.

Much of this capital expenditure has involved upgrading railway stations, track and infrastructure, and the acquisition of new passenger trains and carriages and new freight wagons.

Over the period monitored, Queensland Rail has invested over \$3 billion in property, infrastructure and rolling stock. Major projects undertaken include the Mainline Upgrade, construction of and upgrading of the Cityrail network. Over the same period Westrail (Western Australia) has spent a total of \$635.7 million on the purchase of locomotives, upgrading of track and platform infrastructure and the electrification of the urban passenger network.

Falls in total liabilities have largely been associated with reduced provisions for employee entitlements and the transfer of some liabilities to State Treasuries (see Figure 6.12).

The increase in the former State Rail Authority's (New South Wales) total liabilities in 1993–94 was associated with a significant increase in borrowings. The adoption of new accounting standards in 1994–95 — a new method of assessing the liabilities for long service leave, severance benefits and pay in lieu of certain holidays worked — reduced provisions for these. During 1996–97, the New South Wales Treasury assumed the responsibility for estimated unfunded pension liabilities at 30 June 1997.

Over the six year period, Queensland Rail's total liabilities have progressively increased — 87 per cent (68 per cent in real terms) since 1992–93 (see Figure 6.12). This largely reflects the impact of increased borrowings associated with the construction and acquisition of new assets and increased deferred revenue associated with the sale and leaseback of rolling stock.²⁷

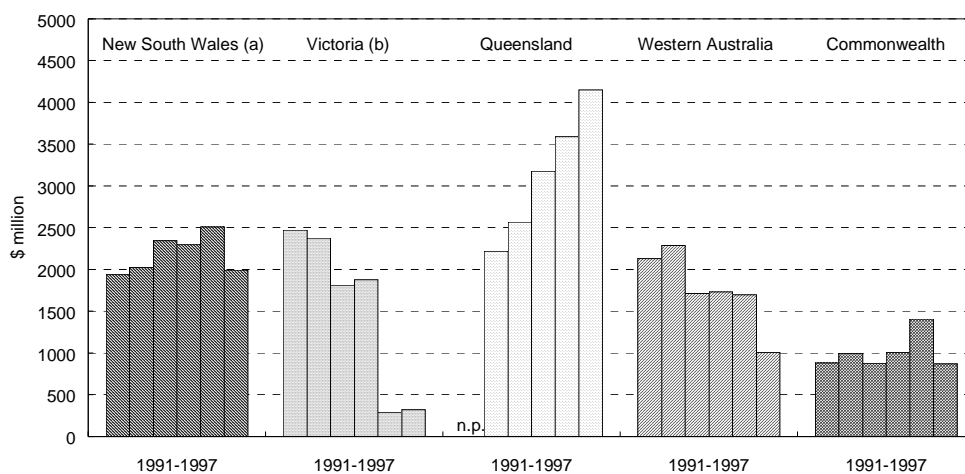
Over the same period, the Public Transport Corporation's (Victoria) total liabilities have fallen by 87 per cent (88 per cent in real terms) (see Figure 6.12). Restructuring of the workforce has resulted in significant falls in the provisions for long service leave, sick leave, accrued leave and superannuation. In 1993–94, unfunded superannuation liabilities were reduced following one-off Victorian Government funding, downsizing, legislative changes and changes in actuarial assumptions. The significant fall in total liabilities in 1995–96 reflects the transfer of unfunded superannuation liabilities to the Department of Treasury and Finance (\$1586.8 million).

Westrail's (Western Australia) total liabilities have fallen 53 per cent (58 per cent in real terms) since 1991–92 (Figure 6.12). The falls in total

²⁷ When a sale and lease back transaction is entered into, the sale proceeds are treated as deferred revenue and are amortised over the life of the lease.

liabilities largely reflect reductions in non-current employee entitlements (long service leave and superannuation) associated with workforce reductions and the transfer of unfunded superannuation liability to the Western Australian Treasury as a part of the financial restructure agreement (in 1996–97 Western Australian Treasury assumed \$725.5 million in superannuation liabilities). The composition of total liabilities has changed as a result. In 1991–92, non-current employee entitlements represented 85 per cent of total liabilities and less than 1 per cent of total liabilities in 1996–97.

Figure 6.12 Total liabilities by jurisdiction, 1991–92 to 1996–97



Notes: Total liabilities are defined as the future sacrifice of service potential of future economic benefits that the entity is obliged to make to other entities as a result of past transactions or other events (measured as at the end of the reporting period). Includes provisions for employee entitlements, creditors, deferred revenue, all repayable borrowings, interest bearing non-repayable borrowings and redeemable preference shares.

a Relates only to the operations of the former State Rail Authority between 1991–92 and 1995–96 and both the restructured State Rail Authority and the Freight Rail Corporation for 1996–97.

b Includes all Public Transport Corporation operations.

6.5 Community outcomes

Rail provides economic and social benefits to the community over and above the direct benefits purchased by the users of public transport services. These benefits include reduced pollution and urban road congestion, and greater mobility and access for disadvantaged groups.

Traditionally, these benefits have been implicitly acknowledged by shareholder governments and paid for by funding the authorities’ operating deficits. However, many governments now make specific payments, in the form of CSO

payments, to their rail authorities to account for the social benefits of rail transport.

Explicitly funded CSO payments have increased from \$376 million in 1991–92 to \$1.2 billion in 1996–97 (see Figure 6.13). Increased CSO payments may reflect:

- an increase in the value placed on the community services provided by rail GTEs;
- an increase in the range of community services provided;
- increasing recognition by State Governments that best practice suggests CSO funding be explicit and transparent; or
- some combination of these.

Most rail GTEs receiving explicit CSO payments also receive contributions to cover operating losses and capital expenditure from their shareholder governments.

The State Rail Authority and the Freight Rail Corporation (New South Wales), Queensland Rail and Westrail receive explicit CSO payments.

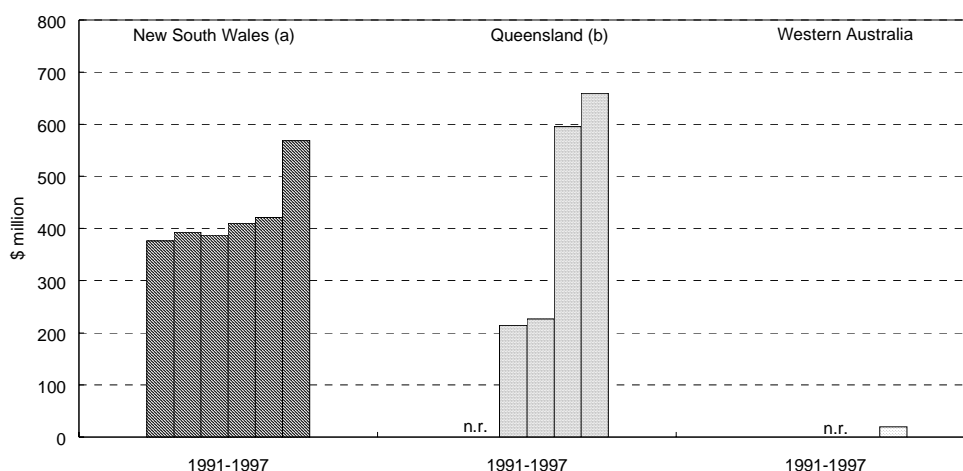
New South Wales

Prior to 1996–97, the former State Rail Authority (New South Wales) received CSO payments for freight and passenger services.²⁸ The payments for freight services, covered expenditure incurred in operating the portion of the freight network which is not commercially viable. CSO payments to the State Rail Authority for passenger services are made to improve community mobility and to promote an optimum balance between private and public transport. Payments include reimbursements for revenue foregone as a result of fare reductions to selected community groups and the cost of providing services beyond levels which would be provided in a commercial environment.

1991–92 was the first year that the former State Rail Authority entered into a CSO agreement with the New South Wales Government. Under the agreement the Government reimbursed the revenue shortfall (measured against best practice costs) where it required the former State Rail Authority to deliver freight and passenger services which the Authority would not provide on a commercial basis. From 1993–94, the CSO contracts have been with the individual business groups of the State Rail Authority and its successors.

²⁸ Since 1994–95, CSO payments have been known as Social Program payments.

Figure 6.13 CSO payments by jurisdiction, 1991–92 to 1996–97



- Notes: Only includes explicit funding for CSO payments — general subsidies are excluded. Excludes Victoria and Commonwealth, as explicit CSO payments are not made in these jurisdictions.
- a Relates only to the operations of the former State Rail Authority between 1991–92 and 1995–96 and both the restructured State Rail Authority and the Freight Rail Corporation for 1996–97.
 - b Excludes amounts received from various Queensland Government Departments as contributions towards reimbursing Queensland Rail for revenue foregone in providing concessions to senior citizens, pensioners and school children. These are accounted for as sales revenue. Since 1992–93, Queensland Rail had received \$114.7 million in concession payments.
- n.r. Not relevant. Explicit CSO payments not made in these years.

In 1996–97, following the restructure of the former State Rail Authority, the Freight Rail Corporation now has a CSO contract with the New South Wales Government to provide freight train services to a number of rural areas at a non-commercial rate. Many companies and primary producers use these services to deliver freight to various destinations. The Freight Rail Corporation receives explicit funding for the provision of these services.

The restructured State Rail Authority receives reimbursement for revenue foregone in providing concession fares to specified classes of passenger, as well as revenue shortfalls incurred in providing certain train services at the request of the New South Wales Government. In 1996–97, the State Rail Authority also received a payment to cover the introduction of access charges payable to the RAC.

Queensland

In 1993–94, Queensland Rail received explicit CSO payments for the first time. CSO payments were made for certain freight and passenger rail services and

excluded amounts received from various Queensland Government Departments. These payments are a direct reimbursement for concessions provided to senior citizens, pensioners and school children and are recorded as sales revenue. Since 1992–93, Queensland Rail has received over \$114 million in reimbursements for concessions.

In 1995–96, CSOs were identified and costed in preparation for corporatisation. These are services Queensland Rail would not provide on fully commercial grounds, but which the Queensland Government requires as a service to the community. Queensland Rail receives payments from the Department of Transport to cover them. These receipts include a reimbursement for any operating shortfall as well as the annual depreciation and return on assets components of the assets utilised in those services.

Contributions received in respect of passenger services are for the Cityrail and TravelTrain services, and the Brisbane to New South Wales border portion of the interstate services. Contributions received in respect of freight services are for low volume routes and Q-Link operations.

Western Australia

Prior to 1996–97, Westrail (Western Australia) received implicit subsidies for providing a number of non-urban passenger services. These subsidies typically reflected the difference between revenue and expenditure. In 1996–97, Westrail received direct funding for the net cost (revenue received less cost incurred) of CSOs — measured on a long-run avoidable cost basis.²⁹ CSO payments were received for country passenger services and for Midland workshops maintenance and security.

The passenger CSO is calculated by measuring the operating and capital costs of operating the services on a long-run avoidable cost basis, in accordance with Treasury guidelines and then deducting the revenue received. Pensioners travelling on the interstate service (between Perth and Kalgoorlie) are entitled to a concessional fare as approved by the Government. The difference between the concessional fare and the adult fare is required to be paid by Westrail to Australian National and this amount also qualifies for inclusion as a CSO.

²⁹ The long-run avoidable cost approach identifies the cost associated with an increase or decrease in the production of the CSO service. It measures the cost of an additional range or block of output and includes the incremental variable costs of the extra output and additional capital costs where increased capacity is required.

Victoria and Commonwealth

The Public Transport Corporation (Victoria), Australian National and the National Rail Corporation (Commonwealth) do not receive explicit funding for CSOs. Australian National receives general revenue supplements for track maintenance, track access and passenger services. The Public Transport Corporation receives payments from the Victorian Government to supplement its revenue and to fund its capital works. They are general payments made to assist in meeting a number of identified, though not explicitly measured CSOs — including the provision of affordable freight and passenger services, concession fares in support of education and social welfare programs, improved access to disadvantaged groups, reduced road congestion and air pollution.

6.6 Employee outcomes

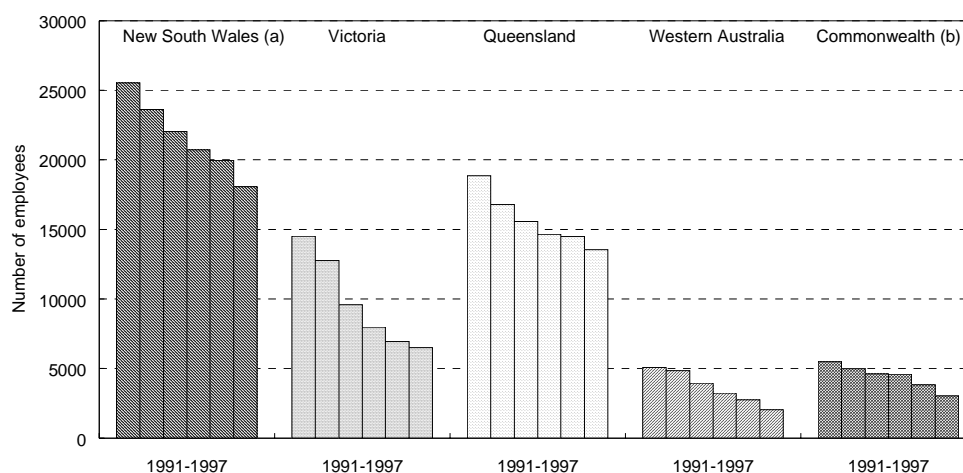
Over the six year period, there has been a significant reduction in the total number of full-time equivalents employed by rail GTEs (38 per cent). At the same time, total net freight tonne-kilometres have increased by 26 per cent, the total number of urban passengers journeys taken increased by 10 per cent, and non-urban passenger kilometres travelled fell by 18 per cent (see Table 6.3).

Employment has fallen in all rail GTEs with the exception of the National Rail Corporation. Employment numbers have also been affected by the contracting out of non-core services and the transfer of regulatory functions. Most of the downsizing has been through voluntary redundancies and most GTEs have had counselling and retraining programs in place to assist their employees in meeting the challenges of the restructuring process. Some of those leaving the employment of rail GTEs are likely to have found employment with contractors.

For example, in 1993–94, Queensland Rail introduced a program comprising extensive staff counselling services, workshops, information sessions on voluntary early retirement and redeployment options, assistance to enhance job-specific skills, and professional job search skills training. The former State Rail Authority (New South Wales) introduced a similar program, in the same year, which included career counselling, information seminars, training in job search skills and interview techniques, and skill development.

All rail GTEs currently operate under an EBA and most rail employees have received pay increases under successive EBAs. For example, Queensland Rail negotiated its first EBA in 1992–93, the agreement allowed for a wage increase based on agreed workplace reforms with a total increase of 7.5 per cent available over the life of the agreement. In 1996–97, Queensland Rail's third EBA provides for a wage increase of 6 per cent for most staff over two years.

Figure 6.14 Total direct GTE employment by jurisdiction, 1991–92 to 1996–97



- Notes:
- The scale ranges used along the y axis of each chart are different.
 - Total employment is measured as the average of full-time equivalent staff at the beginning and end of the period.
 - Total employment numbers over the period monitored have been affected by the transfer of functions, contracting out of non-core services and redundancies.
- a Relates only to the operations of the former State Rail Authority between 1991–92 and 1995–96 and both the restructured State Rail Authority and the Freight Rail Corporation for 1996–97.
- b Relates only to the operations of Australian National in 1991–92 and Australian National and the National Rail Corporation between 1992–93 and 1996–97.

The former State Rail Authority (New South Wales) also entered into its first EBA in 1992–93 — under the agreement employees were entitled to a 4.5 per cent pay rise in two instalments at six month intervals. The former State Rail Authority's third enterprise agreement (certified during 1995–96) provided for two wage increases of 3 per cent, the first payable from the date of certification and the second from 1 July 1996.

Rail GTEs have also had programs in place aimed at improving occupational health and safety outcomes, by increasing awareness of employee responsibilities and implementing a range of safety policies. As a result, Queensland Rail has reduced its lost time frequency rate by 38.5 per cent (down from 65 accidents per million working hours in 1991–92 to 40 accidents per million working hours in 1996–97). The former State Rail Authority (New South Wales) and its successors have reduced workers' compensation claims of

five days or more by 45 per cent since 1991-92 (down from 74 per 1000 employees in 1991-92 to 41 per 1000 employees in 1996-97).³⁰

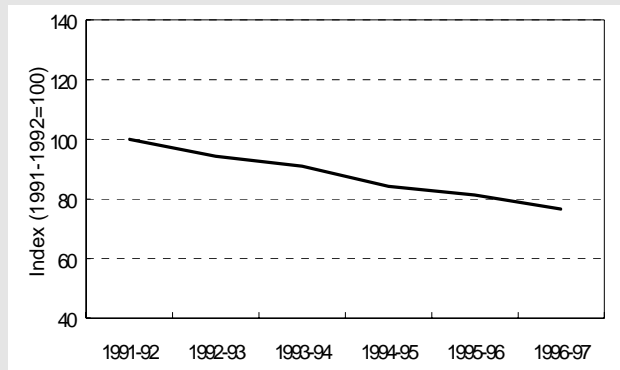
³⁰ Figure for 1996-97 include the RSA and the Freight Rail Corporation.

7 PORTS

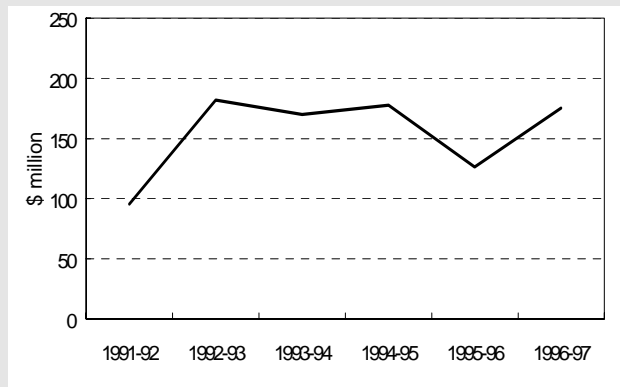
Key outcomes

- Port authority reform has produced benefits for port users — lower real prices — and for the industry — increased profits.

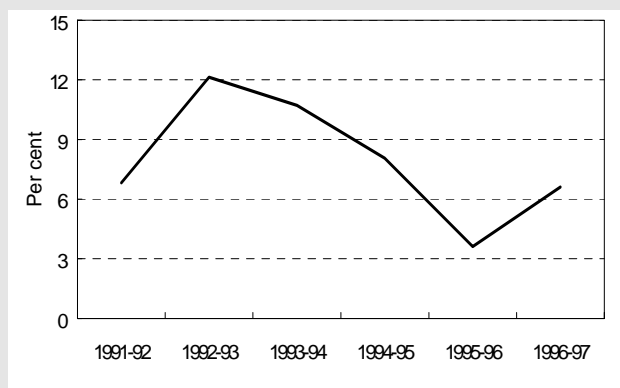
- **The real price index** on an industry basis fell by 23 per cent over the period monitored.



- **Industry pre-tax operating profit** increased by 83 per cent (63 per cent in real terms).



- **Return on equity** for the industry has averaged around 8 per cent for the period monitored, but the performance of individual jurisdictions has been more variable.



7.1 Industry structure

Over the six year period covered by this report, the structure and activities of the monitored port authorities has changed considerably. The port authorities monitored each year since 1991–92 are represented in Table 7.1.

Most of the port authorities covered are responsible for administering only one major port.¹ Each port has unique natural characteristics including geography, weather, distances to other ports and proximity to land transport links. These factors limit the scope for competition between ports and influence the cost structures faced by port authorities. For example, the need to dredge channels can greatly increase port charges.

Ports can be classified into one of the following three categories:

- *Integrated ports* — incorporate a broad mix of both public and private sector investment and service general cargo, container cargo, bulk cargo and recreational and passenger vessels.
- *Dedicated ports* — providing little if any general cargo infrastructure, with facilities concentrated in one or two bulk commodity operations in export-oriented industries such as coal.
- *Regional ports* — service major regional areas and may be dominated by a core group of bulk commodities supplemented by a mix of general and or container cargo and tourist and recreation facilities.²

Port authorities are responsible for overall port management. They conduct a number of port services and activities in common (core activities). These include: the provision of safe access and harbouring for ships by planning and providing port infrastructure such as channels, breakwaters, navigational aids and berths; the provision of land in the role of a landlord; and port promotion and marketing.

1 Exceptions include:

- South Australian Ports Corporation, which administers nine regional ports in addition to the Port of Adelaide;
- Victorian Channels Authority, which ensures the maintenance of shipping channels within Port Phillip and Corio bays, Portland and Westernport; and
- Sydney Ports Corporation, which administers Sydney Harbour and Botany Bay.

2 With the exception of Hobart, a regional port, all Australian capital city ports can be classified as integrated ports. The port of Burnie can also be classified as an integrated port. Concentrating on bulk coal operations, the ports of Gladstone and Port Kembla can be classified as dedicated ports. The ports of Newcastle, Devonport, Launceston and the nine ports administered by the South Australian Ports Corporation can be classified as regional ports.

In a number of jurisdictions, some of these activities are conducted by another authority. One such case is the Victorian Channels Authority, which is responsible for safe navigation and the control of shipping movements in the port waters of Melbourne, Geelong, Portland and Hastings. The authority is also responsible for the provision and maintenance of navigational aids and channels, and the co-ordination of pollution control and emergency response.

Non-core activities undertaken by the port authorities covered vary widely (see Table 7.2). This reflects different objectives and functions set out in the relevant State legislation, government-approved mission statements, corporate plans or business statements.

Table 7.1 Monitored port GTEs, 1991–92 to 1996–97

1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
New South Wales					
Maritime Services Board				<ul style="list-style-type: none"> → Newcastle Port Corporation → Port Kembla Port Corporation → Sydney Ports Corporation → Office of Marine Administration (Not Monitored) → Waterways Authority (Not Monitored) 	<ul style="list-style-type: none"> → Newcastle Port Corporation → Port Kembla Port Corporation → Sydney Ports Corporation → Office of Marine Administration (Not Monitored) → Waterways Authority (Not Monitored)
Victoria					
Port of Melbourne Authority				<ul style="list-style-type: none"> → Melbourne Port Corporation → Melbourne Port Services Pty Ltd (Not Monitored) → Victorian Channels Authority 	<ul style="list-style-type: none"> → Melbourne Port Corporation → Skilled Engineering (Not Monitored) → Victorian Channels Authority

Table 7.1 Monitored port GTEs, 1991–92 to 1996–97 (continued)

1991–92	1992–93	1993–94	1994–95	1995–96	1996–97	
Queensland						
Gladstone Port Authority	→		Gladstone Port Authority ^a	→ Gladstone Port Authority		
Port of Brisbane Authority	→		Port of Brisbane Corporation	→ Port of Brisbane Corporation		
Western Australia						
Fremantle Port Authority	→				Fremantle Port Authority ^b	
South Australia						
Department of Marine and Harbors	→ Marine and Harbors Agency	→ South Australian Ports Corporation		→ South Australian Ports Corporation		
Tasmania						
Burnie Port Authority	→			Burnie Port Authority	→ Burnie Port Corporation	
Marine Board of Hobart	→			Marine Board of Hobart	→ Hobart Port Corporation	
Port of Launceston	→			Port of Launceston	→ Port of Launceston Corporation	
		Port of Devonport Authority	→		Port of Devonport Authority	→ Port of Devonport Corporation
Northern Territory						
Darwin Port Authority	→				Darwin Port Authority	

a On 1 July 1994, the Gladstone Port Authority was corporatised.

b On 1 July 1996, the Fremantle Port Authority was commercialised.

Table 7.2 Key non-core activities of port authorities, 1996–97

GTE	Activity					
	Pilotage ^a	Towage ^b	Steve- doring ^c	Airport	Property rental ^d	Equipment hire ^e
New South Wales						
Sydney Ports Corporation						
Newcastle Port Corporation	✓					✓
Port Kembla Port Corporation	✓					✓
Victoria						
Melbourne Port Corporation						
Victorian Channels Authority						
Queensland						
Gladstone Port Authority			✓		✓	✓
Port of Brisbane Corporation ^f				✓		✓
South Australia						
South Australian Ports Corporation	✓					✓
Western Australia						
Fremantle Port Authority					✓	✓
Tasmania						
Burnie Port Corporation ^g			✓	✓	✓	✓
Hobart Port Corporation					✓	✓
Port of Devonport Corporation				✓	✓	
Port of Launceston Corporation					✓	✓
Northern Territory						
Darwin Port Authority	✓	✓	✓		✓	✓

a Pilot services are generally delivered by a single licensed private operator in each port.

b With the exception of the ports of Newcastle and Sydney–Botany, where tugs are supplied by two operators, a sole private towage operator services most Australian ports. The industry is dominated by two suppliers — Howard Smith and Adsteam. Together they accounted for around three-quarters of the Australian towage market in 1995 (ACCC 1995). Brambles operate towage services in all Tasmanian ports.

c A duopoly (P&O Ports and Patrick The Australian Stevedore) exists in international container stevedoring in the large capital city ports of Sydney, Melbourne, Brisbane and Fremantle.

d Non-port related property.

e Includes cargo handling equipment, bulk loaders and other cargo handling equipment.

f Port of Brisbane Corporation is a part owner of the Brisbane Airport Corporation Ltd.

g Stevedoring labour jointly provided by the port authority and a private sector operator.

Business operating environment

In 1996–97, the fourteen port authorities covered in this report generated over \$575 million in revenue from operations, administered \$2.7 billion in assets and employed around 1677 full-time equivalent staff.³

These port authorities are an integral part of the waterfront chain of services. Although the range of activities undertaken by the authorities has declined, they collectively remain significant port service providers within their industry (see Box 7.1).

Box 7.1 The industry

- There are approximately 80 commercial and semi-commercial ports located around the Australian coastline and on its surrounding islands.
- Approximately 3000 exporters and 30 000 importers in Australia use port authority services.
- In 1995–96, the value of cargo shipped through all ports in Australia was around \$120 billion, compared with Australia's GDP in that year of \$434 billion.
- In 1995–96, the volume of international cargo passing through all ports in Australia totalled 457 million tonnes, of which 50 per cent was handled by the monitored port authorities.
- In terms of volume, approximately 99 per cent of imports and 96 per cent of exports were transported by sea in 1995–96. In terms of value, 70 per cent of imports and 78 per cent of exports were transported by sea.
- Approximately 98 per cent of sea imports enter through the ports of Sydney, Melbourne, Brisbane, Adelaide and Fremantle. Approximately 75 per cent by value of these imports enter either through Sydney or Melbourne ports. Approximately 80 per cent by value of sea exports are shipped through the ports of Sydney, Melbourne, Brisbane, Adelaide and Fremantle.

Source: PC 1998a, ABARE 1998, AAPMA 1998.

Trade throughput is a significant generator of revenue for the port authorities. Monitored port authorities handled 239 million tonnes of cargo including 2.5 million containers in 1996–97 (see Table 7.3).

The increase in container traffic at most ports — 45 per cent over the six year period, has been driven by the need to improve the efficiency of cargo handled at the port–land interface and to protect cargo against damage.

³ In 1996–97, employment numbers for the Burnie Port Corporation were not provided.

Table 7.3 Selected statistics for port authorities, 1991-92 and 1996-97

<i>GTE</i>	<i>Container traffic ('000 TEUs^a) 1991-92</i>	<i>Container traffic ('000 TEUs) 1996-97</i>	<i>Throughput^b (million mass tonnes) 1991-92</i>	<i>Throughput^b (million mass tonnes) 1996-97</i>
New South Wales				
Sydney Ports Corporation	522	730	20	21
Port Kembla Port Corporation	2	1	26	27
Newcastle Port Corporation	3	9	45	67
Victoria				
Port of Melbourne Authority	674	n.r.	18	n.r.
Melbourne Port Corporation	n.r.	986	n.r.	19
Victorian Channels Authority	n.r.	n.r.	n.r.	n.r.
Queensland				
Gladstone Port Authority	n.r.	4	32	38
Port of Brisbane Corporation	200	273	17	20
South Australia				
South Australian Ports Corporation	43	88	16	13
Western Australia				
Fremantle Port Authority	132	210	15	22
Tasmania				
Burnie Port Corporation	77	122	2	3 ^c
Hobart Port Corporation	35	25	3	2
Port of Devonport Corporation	32	86	1	2
Port of Launceston Corporation	37	16	3	4
Northern Territory				
Darwin Port Authority	5	6	1	1
Total	1762	2556	199	239

a Twenty-foot equivalent unit (TEU) is a container counting unit based on the International Standards Organisation 20ft by 8.5ft by 8.5ft container.

b Total tonnage of cargo passing through the port(s) administered by the authority.

c Preliminary estimate.

n.r. Not relevant.

7.2 Key reforms

Port authorities have been the subject of considerable reform. The reform process has involved corporatisation, commercialisation, restructuring, privatisation and the contracting out of some functions. Greater emphasis has been placed on the commercial role of port authorities to create incentives for efficient management. The main reform initiatives affecting port authorities are outlined in Table 7.4.

Monitored port authorities in New South Wales, Victoria, Queensland, South Australia and Tasmania have been corporatised.⁴ The key initiatives associated with corporatisation are the separation of commercial and regulatory functions, identifying and costing community service obligations and providing for dividend and tax-equivalent regimes.

In the Northern Territory, the Darwin Port Authority was partially corporatised in July 1996. Although this involved some of the elements listed above, the authority is not subject to corporations law and does not have a Board of Directors.

In contrast, the Fremantle Port Authority in Western Australia was commercialised on 1 July 1996. Like the corporatised ports in other States and the Northern Territory, it is required to pay dividends and is subject to an income tax-equivalent regime. However, the Western Australian Government has retained the veto over charges and granted less autonomy to the Board over matters such as appointment of senior staff.

Structural reform

Most monitored port authorities in Australia have moved or are in the process of moving to a landlord model. The landlord model is characterised by the port authority concentrating on the supply of core activities only, with the more contestable waterfront services, such as stevedoring and pilotage supplied privately.

The Western Australian Government implemented the landlord model by requiring the Fremantle Port Authority to contract out pilotage, stevedoring maintenance and fork lift training to private operators. More recently, an access regime has been established to facilitate the sale of bulk handling facilities in order to divest the South Australian Ports Corporation of this non-core activity. In contrast, the Darwin Port Authority undertakes the most complete range of key port services and activities, but is gradually moving toward the landlord model.

⁴ Corporatisation can be implemented either through incorporation under the corporations law as a limited liability company, or as a statutory authority under its own legislation. The statutory option has been the most common approach for corporatising Australian port authorities. It is usually supported through the application of umbrella legislation which regulates some common aspects of a number of GTEs. It allows for the government to customise the regulatory environment to include features not required under corporations legislation.

During the 1990s, structural reforms of port authorities resulted in the restructuring of some entities and the devolving of regulatory functions to independent bodies.

In New South Wales, the Maritime Services Board was restructured to create five new bodies:

- three new statutory state owned corporations (Sydney Ports Corporation, Newcastle Port Corporation and Port Kembla Port Corporation);
- the Waterways Authority, responsible for recreational and commercial boating throughout New South Wales; and
- the Office of Marine Administration, a regulatory body responsible for monitoring the performance of port corporations under Port Safety Operating Licences.⁵

In Victoria, the Port of Melbourne Authority (PMA) was restructured to form the following successor bodies:

- Melbourne Port Corporation (MPC), a commercial ‘port landlord’;
- Victorian Channels Authority (VCA), a channel operator; and
- Melbourne Port Services Pty Ltd (MPS), a subsidiary of the MPC, established to provide port services previously delivered by the PMA.⁶

Other Victorian Government port policy initiatives include:

- the transfer of environmental, safety and pricing regulation of port activities to the relevant regulatory agencies of Government;
- changing the responsibility for the management of non-commercial ports to local committees, with separate budget funding; and
- privatisation of on-shore facilities in the regional ports of Portland and Geelong.

As a consequence of these reform initiatives, changes to port authority structures can create discontinuities in the trend data which is used to demonstrate reform outcomes. Hence, comparability over time is not always possible.

⁵ Port Safety Operating Licences are granted for a five year period. Under the licence, port corporations must achieve specific performance targets for key safety functions such as responding to port-related emergencies.

⁶ The MPC and VCA tender their port service requirements (electrical and maintenance services, building works maintenance, channel dredging and port ancillary services). MPS delivers port services in the Port of Melbourne including dredging, security, cleaning and general maintenance services. However, in May 1997, MPS was sold to Skilled Engineering Ltd.

The outcome of these reforms on port users — shippers and ship owners and the government as a shareholder, are outlined in Sections 7.3 and 7.4.

Administrative changes

As a result of corporatisation and commercialisation, most port authorities have restructured and rationalised their internal operations, reduced employee numbers and revalued their assets.

The Boards of the corporatised authorities generally have some autonomy in the day-to-day decisions regarding investment, revenues and expenses and commercial strategy. In exchange, the Board and senior management are made more accountable, and to compensate for the absence of market-based sanctions, the performance of the port is usually monitored.

One important feature of the corporatisation models chosen by State Governments for their port authorities, is provision for the explicit funding of community service obligations (CSOs). Ministers retain the power to direct their respective ports to supply non-commercial activities, but typically must make the direction in writing and provide for explicit funding.⁷

Financial changes

Port authorities which have been corporatised have a greater degree of control over their financial affairs. However, they are invariably subject to some government directions on raising capital, undertaking investment and payment of dividends.

The monitored port authorities do not receive any direct or indirect government funding for capital projects, though State Governments can clearly contribute equity if they wish. The South Australian Government converted some debt (\$6.6 million) to equity when the South Australian Ports Corporation was created.

Despite the corporatisation of most monitored port authorities, some restrictions apply to raising debt capital. The monitored port authorities in Victoria, South Australia and the Northern Territory are restricted to borrowing from their respective State Treasuries, while other port authorities have more freedom to raise debt capital in external markets. For example, port authorities in Queensland must give the Queensland Treasury Corporation the chance to supply debt capital, but they are able to borrow more widely.

⁷ For example, in Victoria a port corporation may be reimbursed by the State Government for CSOs.

The ability of the monitored ports to independently set target rates of return on assets is also limited. The development of an annual charter or business plan may involve negotiation with the Minister over a target rate of return. In Western Australia, the Minister for Transport sets a target rate of return based on written-down current cost of assets at Fremantle. In 1996–97, this was 2.5 per cent — the Fremantle Port Authority achieved a rate of return on assets of 6.9 per cent in 1996–97. Similarly, the South Australian Ports Corporation must negotiate a medium-to long-term rate of return target with the Minister each year, with annual targets identified in the performance statement.

Furthermore, the corporatised ports are not entirely free to determine their own investment programs. Typically, Ministerial approval is required in writing for the purchase and disposal of assets over prescribed value limits. In New South Wales, the port authorities must obtain written approval for the sale or acquisition of assets or investments where they exceed a prescribed value. Currently, this value is equal to 10 per cent of the consolidated fixed assets and investments as disclosed in its last audited accounts.

Within these constraints, the Boards reportedly use quite different hurdle rates:

- Brisbane has developed its own investment guidelines, with the hurdle rate varying between 8 per cent and 12 per cent depending upon the project;
- the port authorities in New South Wales use an estimate of the weighted average cost of capital in line with New South Wales Treasury Financial Appraisal Guidelines;
- Fremantle uses a discount rate based on the cost of capital; and
- the Board of the Melbourne Port Corporation is understood to be using an internal rate of return of 12 per cent to 14 per cent.

Table 7.4 Reform initiatives affecting port authorities, 1991–92 to 1996–97

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
New South Wales	1991–92	Closure of Balmain Coal Loader and Goat Island shipyard. Staff rationalisation and subsequent relocation of marine operations.
	1993–94	Closure of Sydney maintenance workshop and increase in contracting out of services. Waterfront construction and navigational aids businesses contracted out. Introduction of Maritime Services Board enterprise agreement.
	1995–96	On 30 June 1995, the former Maritime Services Board was dissolved and in its place, three independent port corporations were established in Sydney, the Hunter and the Illawarra regions under the <i>State Owned Corporations Act 1989</i> . All marine regulatory and port policy functions were separated and brought under the Government's control. In addition, all boating related functions were brought under a separate Waterways Authority.
	June 1996	A new capital structure for the port corporations was implemented based on commercial principles. As a result, New South Wales port corporations have better defined commercial objectives and are free to compete for business.
Victoria	1994	Reduction of port authority charges including the abolition of the State tonnage duty and 15 per cent reduction in wharfage at the Port of Melbourne.
	1995	Legislation to remove non-commercial community ports from the scope of port authorities and place them under the management of local committees, with separate budget funding.
	Nov 1995	The <i>Port Service Act 1995</i> was passed in the Victorian Parliament. This facilitated, in early 1996, the disaggregation of the Port of Melbourne Authority into the Melbourne Port Corporation (MPC) and its subsidiary Melbourne Port Services, and the separate statutory authority, Victorian Channels Authority (VCA). MPC is responsible for land management at, and the future development of, the Port of Melbourne. The VCA operates harbour control in Port Phillip Bay and the ports of Melbourne and Geelong, and also ensures the maintenance of the shipping channels within Port Phillip and Corio Bays, Portland and Westernport.
	March 1996	Port of Portland sold to a private consortium comprising Infratil Australia Limited and Ascot Investment Pty Ltd (50 per cent each) for \$30 million.

Table 7.4 Reform initiatives affecting port authorities, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Victoria (continued)	May 1996	Port of Geelong sold to a private consortium consisting of TNT Australia Pty Ltd and Infrastructure Investment Corporation Ltd for \$50.5 million.
	Dec 1996	The Victorian Government applied to the National Competition Council (NCC) to consider the effectiveness (under Part IIIA of the <i>Trade Practices Act 1974</i>) of its access regime for Victorian commercial shipping channels. This was the first access issue concerning the maritime industry considered by the NCC. Certification was granted in August 1997.
	May 1997	Melbourne Port Services (MPS) was sold to Skilled Engineering Ltd for \$7.9 million plus 50 per cent of the net proceeds to be realised from the sale of the dredge <i>M V Vella</i> .
	1996–97	Port of Hastings management contracted out.
Queensland	July 1994	Brisbane Port Authority, Gladstone Port Authority and Ports Corporation of Queensland corporatised as part of the <i>Government Owned Corporations Act 1993</i> . The Act provides for a range of reforms, including direct funding of community service obligations (CSOs) and the payment of income tax-equivalents.
	July 1995	Cairns, Townsville, Mackay, Rockhampton and Bundaberg port authorities corporatised.
South Australia	1993	Reform of Marine and Harbors Agency's pricing policy.
	Nov 1994	Marine and Harbors Agency corporatised forming the South Australian Ports Corporation.
	Nov 1994	Non-commercial and regulatory responsibilities were transferred from the South Australian Ports Corporation to the Department of Transport.
	1994–95	Pricing reform undertaken with an increased focus on user-pays.
	July 1995	The Corporation was subject to an income tax-equivalent regime.
	Dec 1996	The <i>South Australian Ports (Bulk Handling Facilities) Act 1996</i> was established to provide an access regime for the sale of bulk handling facilities operated by the Ports Corporation.

Table 7.4 Reform initiatives affecting port authorities, 1991–92 to 1996–97 (continued)

<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Western Australia	1994	Fremantle Port Authority closes non-core Stevedoring Maintenance Unit.
	1995–96	The Government published a policy statement on the role of port authorities. Port authorities are seen primarily as trade facilitators operating on commercial disciplines to maximise the benefits to port users directly, and the Western Australian community broadly.
	July 1996	The Fremantle Port Authority was commercialised and subject to an income tax-equivalent regime.
	Oct 1996	The Bunbury Port Authority was commercialised.
Tasmania	June 1993	Introduction of competitive neutrality principles to Tasmania’s main port authorities requiring them to pay income tax-equivalents and guarantee fees on new borrowings.
	July 1997	Burnie Port Authority, Marine Board of Hobart, Port of Devonport Authority and the Marine Board of Launceston corporatised as part of the <i>Port Corporation Act 1997</i> . The Act provides for a range of reforms, including the divestment of the ports non-commercial activities. The reforms also provided for the establishment of the Marine and Safety Authority, which assumed the functions of the Navigation and Survey Authority of Tasmania and regulatory activities formerly undertaken by the Ports.
Northern Territory	1995	First stage of the construction of East Arm port facilities in Darwin.
	April 1995	Darwin Port Authority classified as a government business division (GBD) under the <i>Financial Management Act 1995</i> .
	July 1996	The Authority was subject to an income tax-equivalent regime.
	July 1996	Government funded CSOs provided by the Authority for the first time.

7.3 Consumer outcomes

Port authorities play a pivotal role in the provision and maintenance of navigational aids, channels and berths. They co-ordinate and in some cases are involved in the provision of marine services such as pilotage, towage, mooring

and unmooring. The services they provide impact on shipping lines as well as shippers.

Charges for these services (where applicable) are levied by port authorities. In most cases, the incidence of port charges has shifted from the cargo owner to the shipping line. Governments have sought to place greater responsibility for port authority costs on those who directly benefit from the use of port authority services, by attaching a greater emphasis on ship-based charges.⁸

Since 1995, most State Governments have established independent prices oversight bodies. In all cases, a specific port must be declared a government monopoly by the relevant Minister before its pricing can be subjected to supervision.⁹ Thus far, only the Victorian port industry has been declared to be a regulated industry under the *Office of Regulator General Act 1994*.

Although most port authorities are not subject to prices oversight by an independent regulator, the majority of port authorities have reviewed their pricing policies over the period monitored.

Real Prices

Over the last six years the users of port services — shippers and ship owners have benefited from a reduction in real prices for port services.

The real price indices for monitored port authority services declined in most jurisdictions between 1991–92 and 1996–97 (see Figure 7.1). The most significant price reductions occurred in Tasmania and New South Wales, where real prices fell by 47 per cent and 36 per cent respectively. In South Australia and Queensland, real prices fell by 13 per cent and 12 per cent respectively.

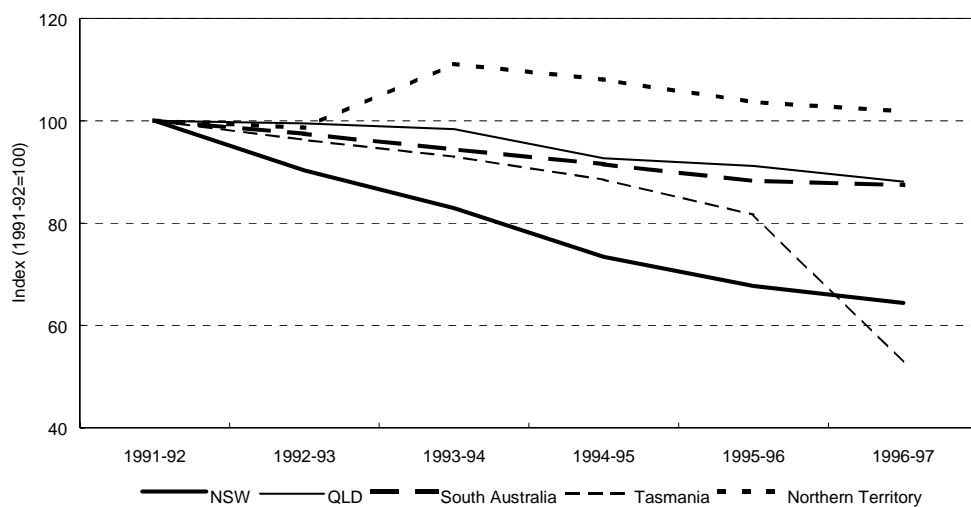
⁸ Ship-based charges include tonnage and berth hire to cover the cost of dredging, the provision of navigational aids and wharf infrastructure. Cargo-based charges include wharfage to cover the cost of stacking and sorting areas.

⁹ Independent pricing and oversight authorities have been established in New South Wales (Independent Price and Regulatory Tribunal (IPART)), Victoria (Office of the Regulator-General), Tasmania (Government Prices Oversight Commission) and Queensland (Queensland Competition Authority). In South Australia, the Minister for Government Enterprises must approve the South Australian Ports Corporation's fees and charges, and in Western Australia the Minister for Transport must approve the fees and charges of the Fremantle Port Authority.

The Northern Territory Government does not propose to establish an independent prices oversight body because the number, size and scope of Territory government business activities is not large enough to warrant the cost of such a body. Instead, independent prices oversight will be performed by the Treasury.

Despite an increase in wharfage charges imposed on imported bulk hydrocarbons by the Darwin Port Authority in 1993–94, the real price index has declined by 8 per cent since that time. The Darwin Port Authority has been regularly reviewing its pricing policies to ensure that there is a direct correlation between the charge and their costs. A detailed external review of their pricing policies was conducted in 1996–97.

Figure 7.1 Real price index by jurisdiction, 1991–92 to 1996–97



Notes: Real price indices are constructed by deflating average selling prices by the appropriate capital city Consumer Price Index. The real price index is calculated as the weighted average of port authority charges, with weights corresponding to each GTE's share of total revenue in their respective jurisdictions.

Excludes the Port of Melbourne Authority, Melbourne Port Corporation, Victorian Channels Authority (data sets are not comparable between these Victorian port authorities) and Fremantle Port Authority.

In some cases, the decline in real prices reflects the port authorities' policy to review and reduce prices over time. The Sydney Port Corporation has a commitment to the New South Wales Government to reduce charges by 10 per cent over two years following corporatisation. A reduction of 5 per cent per year became effective from 1 July 1996. A further price reduction of 5 per cent effective from 1 July 1997 is expected to result in a further saving of some \$3.4 million a year for shippers and ship owners. Similarly, Newcastle Port Corporation announced a 30 per cent reduction in the port-access charge and a 25 per cent reduction in the wharfage charge on grain exports in 1996–97. Port Kembla Port Corporation also reduced scheduled charges to port users by an average of 5 per cent in 1996–97.

Service quality

The timeliness and reliability of the services provided by port authorities are measured either by the berth occupancy rate (port authorities are responsible for the provision of berths) or by ship turnaround time (port authorities and other service providers impact on this indicator).

The timeliness and reliability of moving sea cargo through the Australian ports is critical for importers and exporters. They require timely receipt of imports to maintain production schedules and delivery of export cargo to meet contractual commitments. Similarly, ship owners need to protect their schedule integrity against delays and utilise their assets efficiently.

Berth occupancy is a measure of the utilisation of port berth facilities.¹⁰ There are costs associated with both high and low berth capacity utilisation. High capacity utilisation can result in delays in securing a berth upon arrival, ship queues, delays in loading, unloading and departure on the next leg of the voyage. Consequently, higher shipping costs and charges can be incurred by the ship owner and shippers. Alternatively, low capacity utilisation does not allow port authorities to fully recover the cost of their investment. The optimal capacity is that which minimises the cost of provision of the facility and its use, including congestion costs.

Berth capacity must be planned against long-term trade projections as port infrastructure assets are long-lived. A berth occupancy rate of around 60 per cent is considered optimal for container operations (SCNPMGTE 1997a). However, lower berth occupancy rates are likely to be optimal in Australia's trades which are characterised by high levels of variability in demand because of their 'thinness'.

Ship turnaround time is a measure of the elapsed time from the arrival of a ship at the port boundary (usually the pilot pick-up point) to departure (the pilot drop-off point). The overall turnaround time is dependent on the performance of a number of port service providers, notably the port authority, pilot, tug and stevedore, as well as on the quantity of cargo exchanged.¹¹

¹⁰ Berth occupancy is a measure of how much available capacity (calculated as the wharf length by the time available during the reported period summed over all berth (s)) is utilised by vessels (calculated by the length of the vessel by the time the vessel is at berth summed over all berths) on a per annum basis.

¹¹ Subsidiary ship turnaround times — time awaiting berth, time at berth, time working at berth and time awaiting departure — are not reported separately by most ports. The discussion in this section is limited to overall turnaround time.

The overall ship turnaround time is important to ship owners as reduced port times are consistent with lower costs. In addition, the reliability of ship owners is higher when consistent turnaround times are achieved.

Berth occupancy

The average berth occupancy rate at container terminals in all jurisdictions has varied over the period monitored (see Figure 7.2). In New South Wales, South Australia and Western Australia (excluding 1991–92), the berth occupancy rate increased. This reflects the significant growth in container traffic at container terminals in these States over the period monitored (see Table 7.3).

Average berth occupancy rates in New South Wales remain the highest of all container ports. In 1996–97, berth occupancy rates averaged around 48 per cent in New South Wales compared with 42 per cent in Queensland, 30 per cent in Western Australia and 28 per cent in South Australia and Tasmania.

The berth occupancy rates reported for Western Australian, South Australian and Tasmanian port authorities might suggest excess investment in berth infrastructure relative to the level of trade at these container ports.

The average berth occupancy rate at other (bulk) operations has also varied with New South Wales recording the highest berth occupancy rates over the period monitored (see Figure 7.3). The berth occupancy rates for New South Wales include the largest monitored bulk ports in Australia — Newcastle and Port Kembla. In 1996–97, Newcastle and Port Kembla collectively reported an average berth occupancy rate of 82 per cent, although individually their berth occupancy rates were around 87 per cent and 69 per cent respectively.

Newcastle's high average berth occupancy rate suggests a shortfall in berth capacity, which results in ship queues and higher costs for shippers and ship owners.

In its draft report on the Black Coal Industry (IC 1998), the Commission found further evidence to support these findings:

The system of ship queuing off the port of Newcastle imposes significant costs on mining companies shipping coal through that port. The current shortfall in capacity at Port Waratah Coal Services (PWCS) has worsened the problems of ship queuing off the port of Newcastle. This has had a negative impact on Australia's black coal export industry (IC 1998, p. 206).

However, in a submission in response to the draft report, Rio Tinto Energy, suggested that:

The queues were mainly a result of an unforeseen increase in coal shipped in 1997, which was 19 per cent greater than in 1996. The port throughput has been growing at around 7 per cent for some years...

To manage the surge in throughput experienced in mid 1997, the PWCS would have needed more capacity than was available...

There is always a judgement to be made about the trade off between how much to spend on new capacity and the risk of overinvestment (sub. 65, p. 5).

Ship turnaround time

The average ship turnaround time at container terminals in most jurisdictions has improved over the period monitored. However, in Queensland ship turnaround time increased from 24 hours to 32 hours over the period (see Figure 7.4).

Ship turnaround times in Sydney and Hobart remain the slowest of all container ports monitored. In 1996–97, ship turnaround time in Sydney and Hobart averaged around 40 hours. The higher turnaround times in Sydney reflect in part the volume of container trade passing through this port — more than twice that of most other Australian ports (except Melbourne).¹²

The average median ship turnaround times for bulk operations in New South Wales increased from 89 hours in 1991–92 to 120 hours in 1996–97 (see Figure 7.5). This result was largely due to slower turnaround times at Newcastle, where they have risen 77 per cent since 1991–92. Port Kembla went against the trend and significantly improved turnaround times over the period monitored. Average median ship turnaround times in Queensland, South Australia and Western Australia remained relatively unchanged.

¹² As one of the major terminating ports in Australia, Sydney is especially vulnerable to whatever delay factors may be imposed on it by other ports as well as itself. For example, a poorly designed loading plan at an overseas terminal may reduce delays (and loading time) at that port but increase them at the unloading end where multiple lifts and restows are necessary to access containers that are to be unloaded at their final destination.

Figure 7.2 Berth occupancy — container terminal

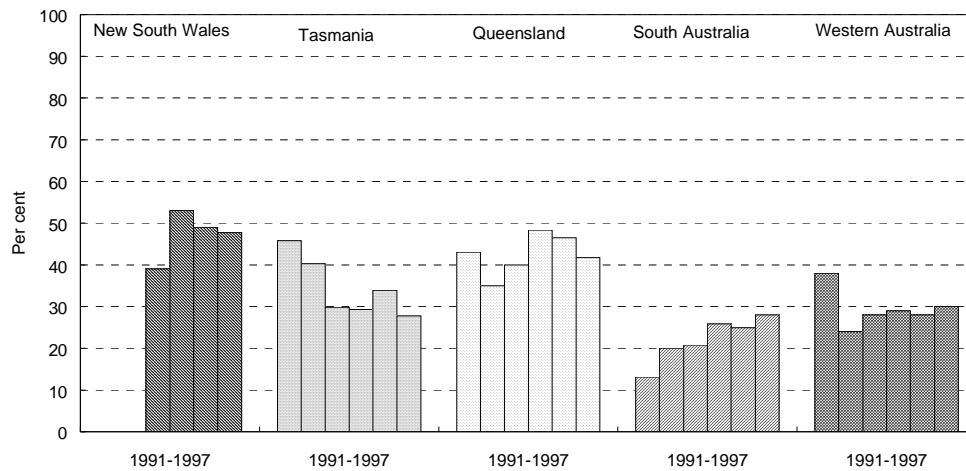
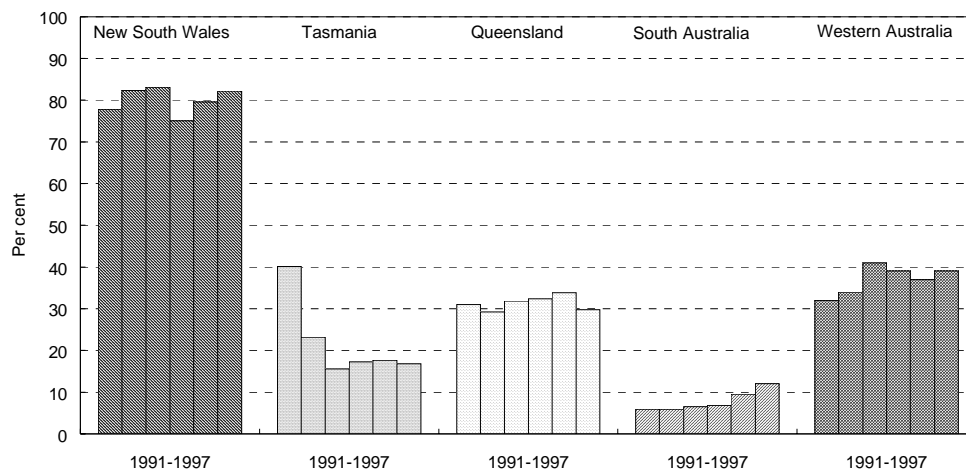


Figure 7.3 Berth occupancy - other than container terminal



Notes: Average berth occupancy is calculated separately for other cargoes and container cargoes, as the weighted average of individual measures. Within each jurisdiction the weights correspond to each GTE's share in the total tonnage of (other) cargo handled and the number of containers handled.

Berth occupancy at container terminals is calculated for ports administered by the Burnie Port Authority, Port of Launceston Corporation, Fremantle Port Authority, Port of Brisbane Corporation, South Australian Port Corporation and Sydney Ports Corporation. Berth occupancy at other (bulk) operations is calculated for ports administered by the Burnie Port Authority, Port of Launceston Corporation, Fremantle Port Authority, Gladstone Port Authority, Newcastle Port Corporation, Port of Brisbane Corporation, Port Kembla Corporation and South Australian Port Corporation.

Figure 7.4 Median ship turnaround time - container terminal

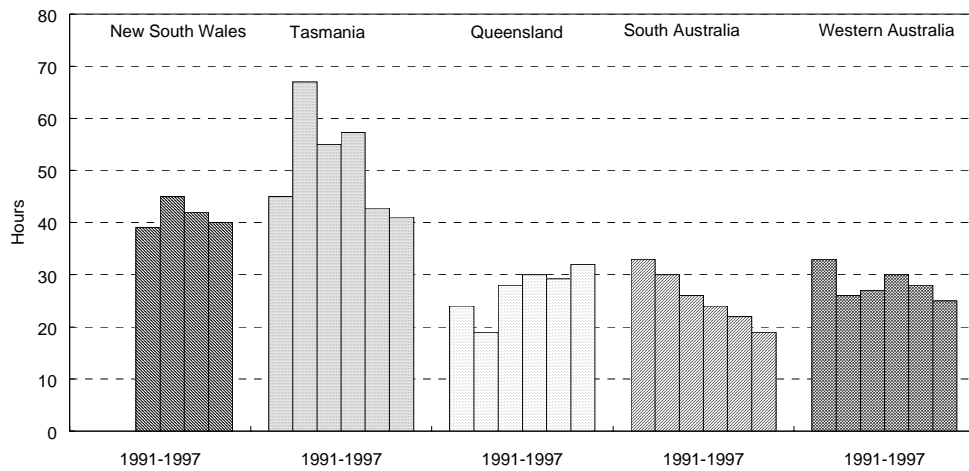
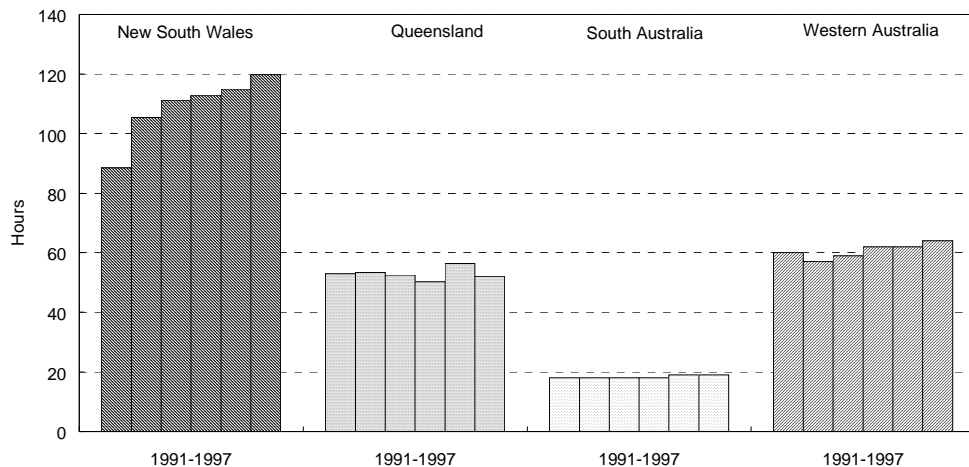


Figure 7.5 Median ship turnaround time - other than container terminal



Notes: Average ship turnaround time is calculated separately for other cargoes and container cargoes, as the weighted average of individual measures. Within each jurisdiction the weights correspond to each GTE's share in the total tonnage of (other) cargo handled and the number of containers handled. Median turnaround times are the central or middle observation. Ship turnaround time (container) is calculated for ports administered by the Fremantle Port Authority, Hobart Port Corporation, Port of Brisbane Corporation, South Australian Port Corporation and Sydney Ports Corporation. Ship turnaround time (other) is calculated for ports administered by the Fremantle Port Authority, Gladstone Port Authority, Newcastle Port Corporation, Port of Brisbane Corporation, Port Kembla Port Corporation and South Australian Port Corporation.

7.4 Shareholder outcomes

Unlike a publicly listed company which has private shareholders, a government acts as the shareholder on behalf of the community in GTEs. Returns to the government as a shareholder are received as dividends and payments of income tax-equivalent expense. Return on equity provides a measure of the rate of after-tax profit earned on equity invested in GTEs.

Income tax-equivalent expense, dividends and return on equity are determined by the financial performance of a GTE. Analysis of shareholder returns and the underlying financial performance of the GTE, also reveals how the benefits of reform are being shared between government and port users.

Profitability

All jurisdictions made a pre-tax operating profit in most years over the period monitored. However, the profitability of each jurisdiction varied substantially (see Figure 7.6).

The operating profit of each port authority is determined by the revenue generated less expenses incurred, including any abnormal items. The major factors affecting the generation of revenue are trade throughput and the sale of assets. Expenses are affected by capital and maintenance costs, interest, depreciation and the restructure of workforces and associated costs of redundancy packages.

The New South Wales port authorities experienced a downward trend in operating profit, revenue and expenses over the period monitored (see Figures 7.6, 7.7 and 7.8). This was due primarily to lower charges to customers (reduction in pilotage, wharfage, navigation service charges, port management and port-access charges) which resulted in a 24 per cent decline in revenue (33 per cent in real terms). During the period, expenses declined by 33 per cent (41 per cent in real terms) through lower salary, wage and superannuation outlays, following a voluntary redundancy campaign, lower depreciation charges and lower finance expenses on borrowings and the removal of doubtful debt provisions.

The South Australian Ports Corporation incurred an operating loss in 1994–95 and 1995–96. Profit was adversely affected by abnormal expenses and higher costs associated with a workforce restructure and redundancy payments (see Figure 7.8). Despite these operating losses the port made provision for dividend payments and income tax-equivalent expense to the State Government.

The Victorian and Western Australian port authorities increased their operating profit by over 200 per cent over the period monitored. In Victoria, the downsizing and rationalisation of the Port of Melbourne Authority has contributed significantly to cost reductions.

In Western Australia, revenue generated by the Fremantle Port Authority increased by 45 per cent (30 per cent in real terms), while expenses remained relatively unchanged over the reporting period (see Figure 7.7 and 7.8). Since 1991–92, total port trade has grown by 34.3 per cent and this has contributed significantly to the increase in operating profit.

Although the Darwin Port Authority (DPA) increased its operating profit over the period monitored, the 1996–97 result is inflated by a \$1.9 million payment (for the first time) from the government toward the cost of the community and government service obligations which are provided by the DPA. Revenue generated over the six years increased by 53 per cent (35 per cent in real terms), with little change in expenses over the same period (see Figures 7.7 and 7.8). The increase in revenue was driven by an increase in tonnages of general and containerised cargoes handled by the port, partly reflecting greater use of the port by livestock exporters.

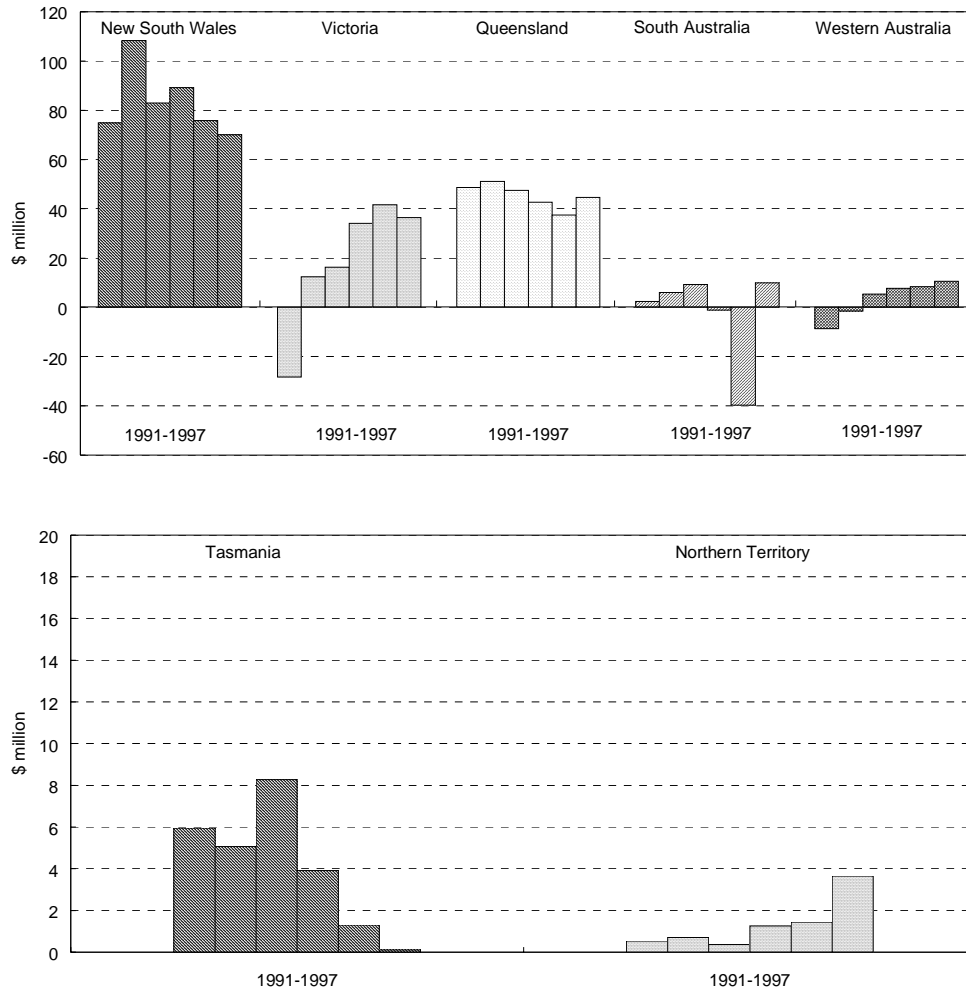
The Tasmanian port authorities' operating profit declined from \$5.9 million in 1991–92 to \$116 000 in 1996–97. Operating profit has been reduced by a decline in revenue and an increase in total expenses (see Figures 7.7 and 7.8).

A range of factors, including the costs associated with divesting non-core activities directly affected profit. The Port of Launceston Authority, the Burnie Port Authority and the Marine Board of Hobart rationalised their operations during 1995–96 and incurred increased expenses through redundancy payments. In addition, a loss of income from stevedoring operations and a reduction in trade throughput has contributed to the decline in revenue.

Interest expense or the cost to service borrowings can be a significant expense item. In 1996–97, interest as a percentage of total expenses ranged from 23 per cent in New South Wales to 5 per cent in Queensland.

Interest expense as a percentage of total expenses has tended to decline or remain relatively unchanged in all jurisdictions over the six year period (see Figure 7.9). In those jurisdictions where interest expense has declined, namely Queensland, South Australia, Western Australia, and to a lesser extent Tasmania, the Governments have encouraged their respective port authorities to reduce debt levels and to finance new capital outlays from internal finances rather than from borrowings. Interest rates have also declined during the period.

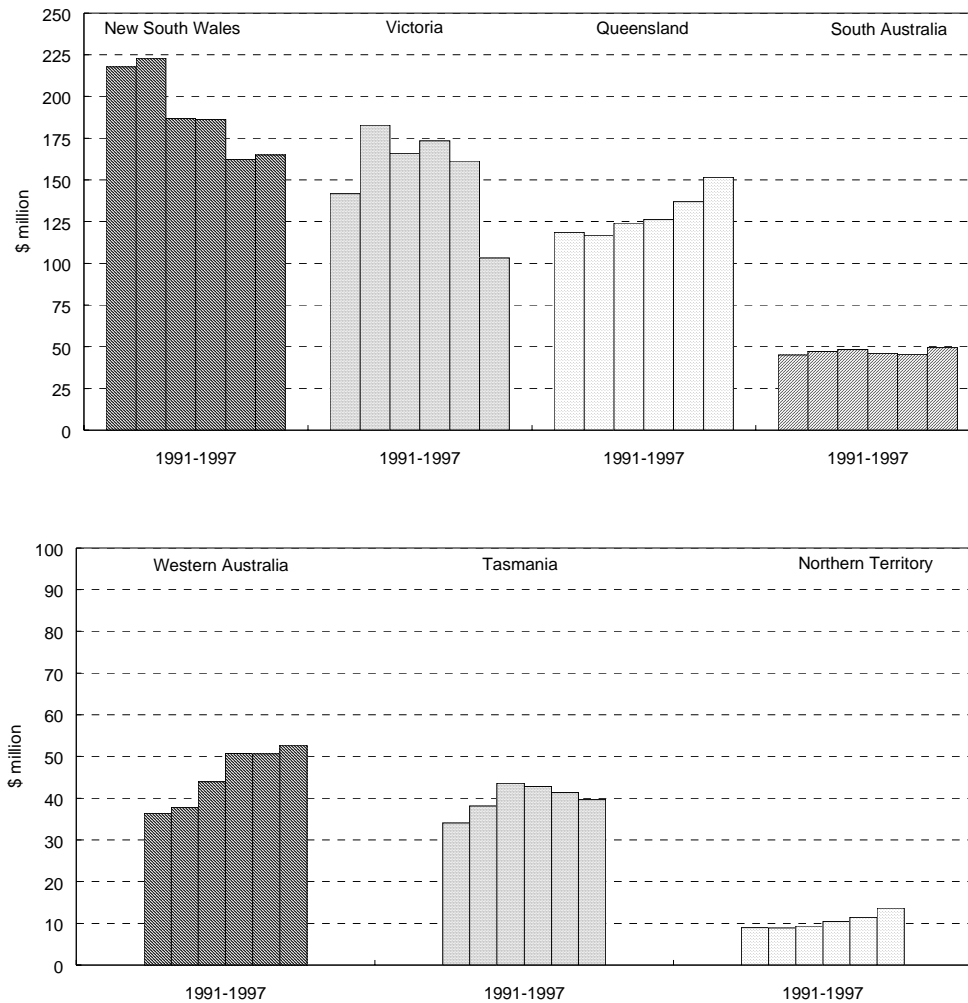
Figure 7.6 Operating profit before income tax by jurisdiction, 1991–92 to 1996–97



Notes: The scale ranges used along the y axis of each chart are different. Operating profit before income tax is defined as total revenue less total expenses and includes abnormals.

Historical data for monitored port authorities in New South Wales have been adjusted to include only Newcastle Port Corporation, Port Kembla Port Corporation and Sydney Ports Corporation. Historical data for monitored port authorities in Victoria relates to the Port of Melbourne Authority from 1991–92 to 1994–95, the Port of Melbourne Authority, the Melbourne Port Corporation (MPC) and the Victorian Channels Authority (VCA) in 1995–96, and the MPC and the VCA in 1996–97. The Port of Melbourne Authority operated for eight months in 1995–96. The MPC and VCA operated for four months only in 1995–96.

Figure 7.7 Total revenue by jurisdiction, 1991-92 to 1996-97

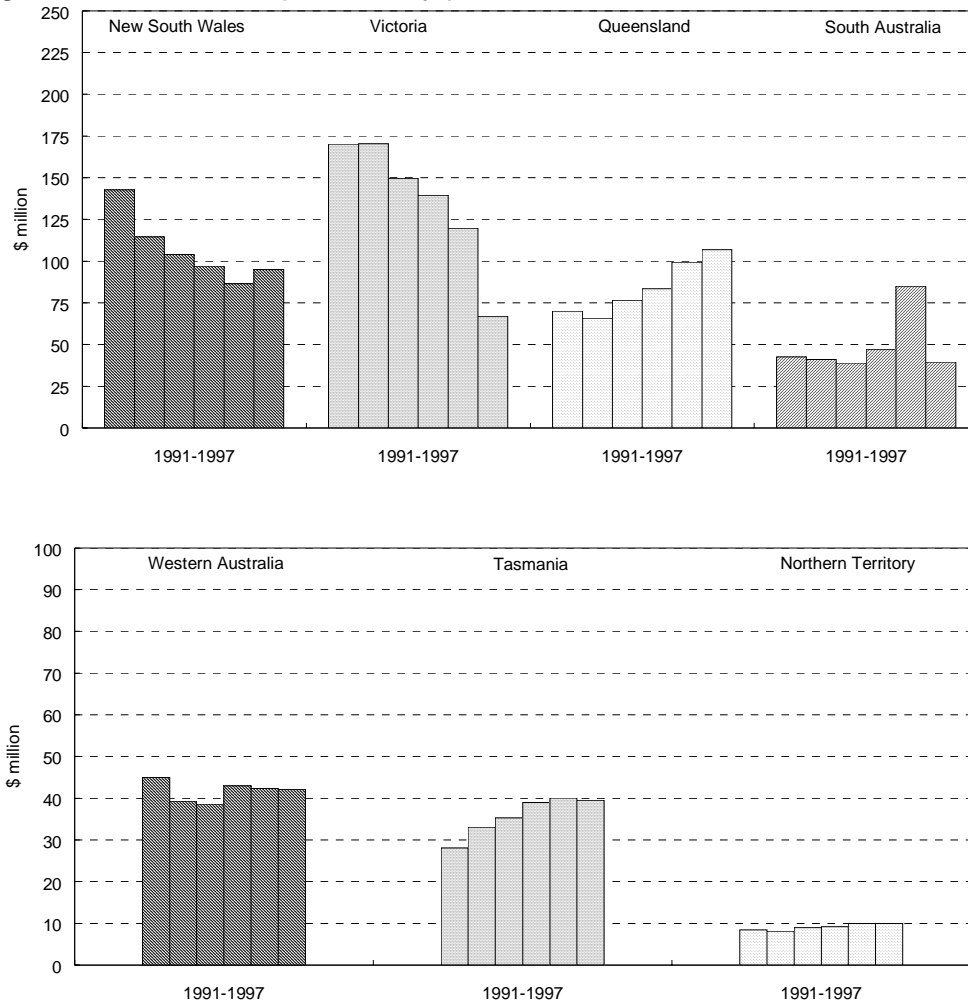


Notes: The scale ranges used along the y axis of each chart are different.

Total revenue includes revenue from sales and levies, revenue from asset sales, investment income, receipts from governments for specific agreed services, other revenue from operations, receipts from government to cover deficits on operations and abnormal revenue. It excludes funds received for specific capital works from governments or other parties, and equity contributions from governments.

Historical data for monitored port authorities in New South Wales have been adjusted to include only Newcastle Port Corporation, Port Kembla Port Corporation and Sydney Ports Corporation. Historical data for monitored port authorities in Victoria relates to the Port of Melbourne Authority from 1991-92 to 1994-95, the Port of Melbourne Authority, the Melbourne Port Corporation (MPC) and the Victorian Channels Authority (VCA) in 1995-96, and the MPC and the VCA in 1996-97. The Port of Melbourne Authority operated for eight months in 1995-96. The MPC and VCA operated for four months only in 1995-96.

Figure 7.8 Total expenses by jurisdiction, 1991–92 to 1996–97

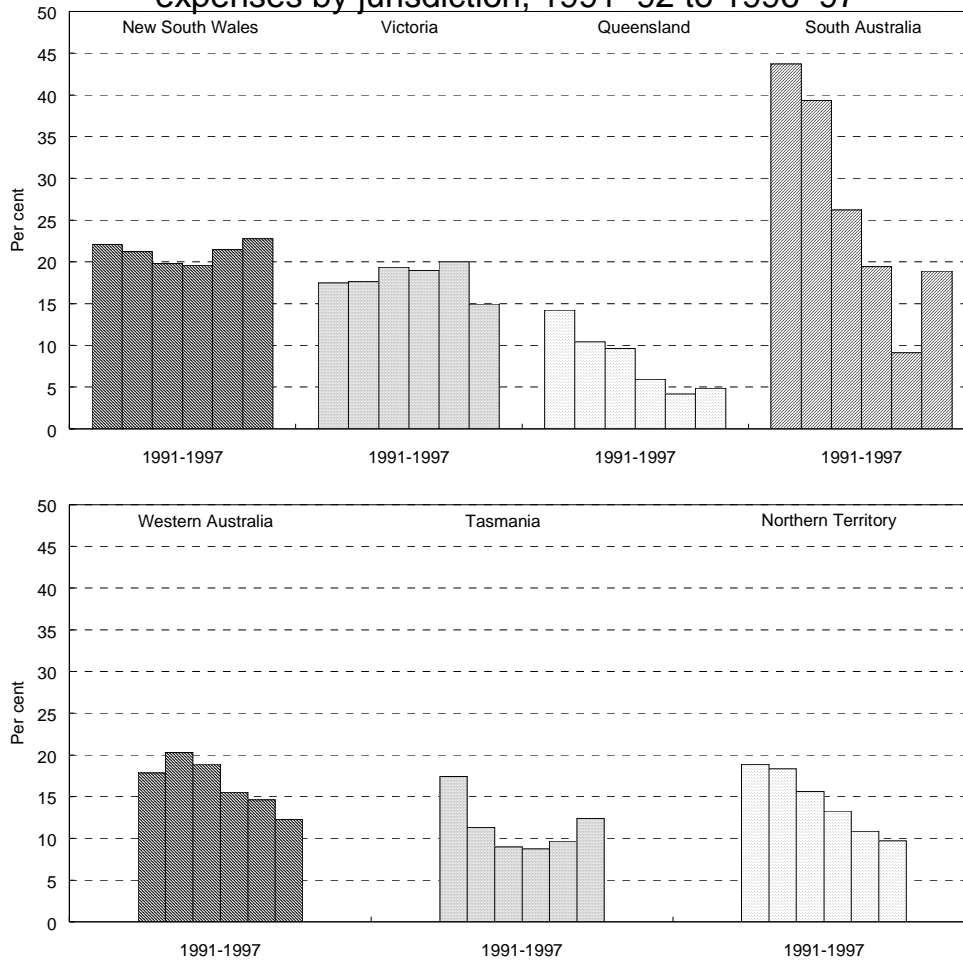


Notes: The scale ranges used along the y axis of each chart are different.

Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution in value of assets and abnormal expenses.

Historical data for monitored port authorities in New South Wales have been adjusted to include only Newcastle Port Corporation, Port Kembla Port Corporation and Sydney Ports Corporation. Historical data for monitored port authorities in Victoria relates to the Port of Melbourne Authority from 1991–92 to 1994–95, the Port of Melbourne Authority, the Melbourne Port Corporation (MPC) and the Victorian Channels Authority (VCA) in 1995–96, and the MPC and the VCA in 1996–97. The Port of Melbourne Authority operated for eight months in 1995–96. The MPC and VCA operated for four months only in 1995–96.

Figure 7.9 Gross interest expense as a percentage of total expenses by jurisdiction, 1991-92 to 1996-97



Notes: Gross interest expense is the amount charged to the profit and loss account. Includes finance charges on finance leases and all debt related financial expenses. Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution of assets and abnormal expenses.

Historical data for monitored port authorities in New South Wales have been adjusted to include only Newcastle Port Corporation, Port Kembla Port Corporation and Sydney Ports Corporation. Historical data for monitored port authorities in Victoria relates to the Port of Melbourne Authority from 1991-92 to 1994-95, the Port of Melbourne Authority, the Melbourne Port Corporation (MPC) and the Victorian Channels Authority (VCA) in 1995-96, and the MPC and the VCA in 1996-97. The Port of Melbourne Authority operated for eight months in 1995-96. The MPC and VCA operated for four months only in 1995-96.

Income tax-equivalent expense

All monitored port authorities are subject to an income tax-equivalent regime and are required to pay income tax at the company rate of 36 per cent.¹³ This practice is justified on the grounds of competitive neutrality and is intended to make government authorities operate under comparable tax arrangements to those applying in the private sector.

The income tax-equivalent regime was introduced as part of the corporatisation process and is relatively new to most jurisdictions. Although the income tax-equivalent expense paid or payable varies between jurisdictions, total income tax-equivalent expense paid or payable has increased from \$855 000 in 1992–93 to \$67.8 million in 1996–97 (see Figure 7.10). This reflects an increase in the number of jurisdictions required to pay income tax as well as an increase in taxable earnings in some jurisdictions.

Dividend payments

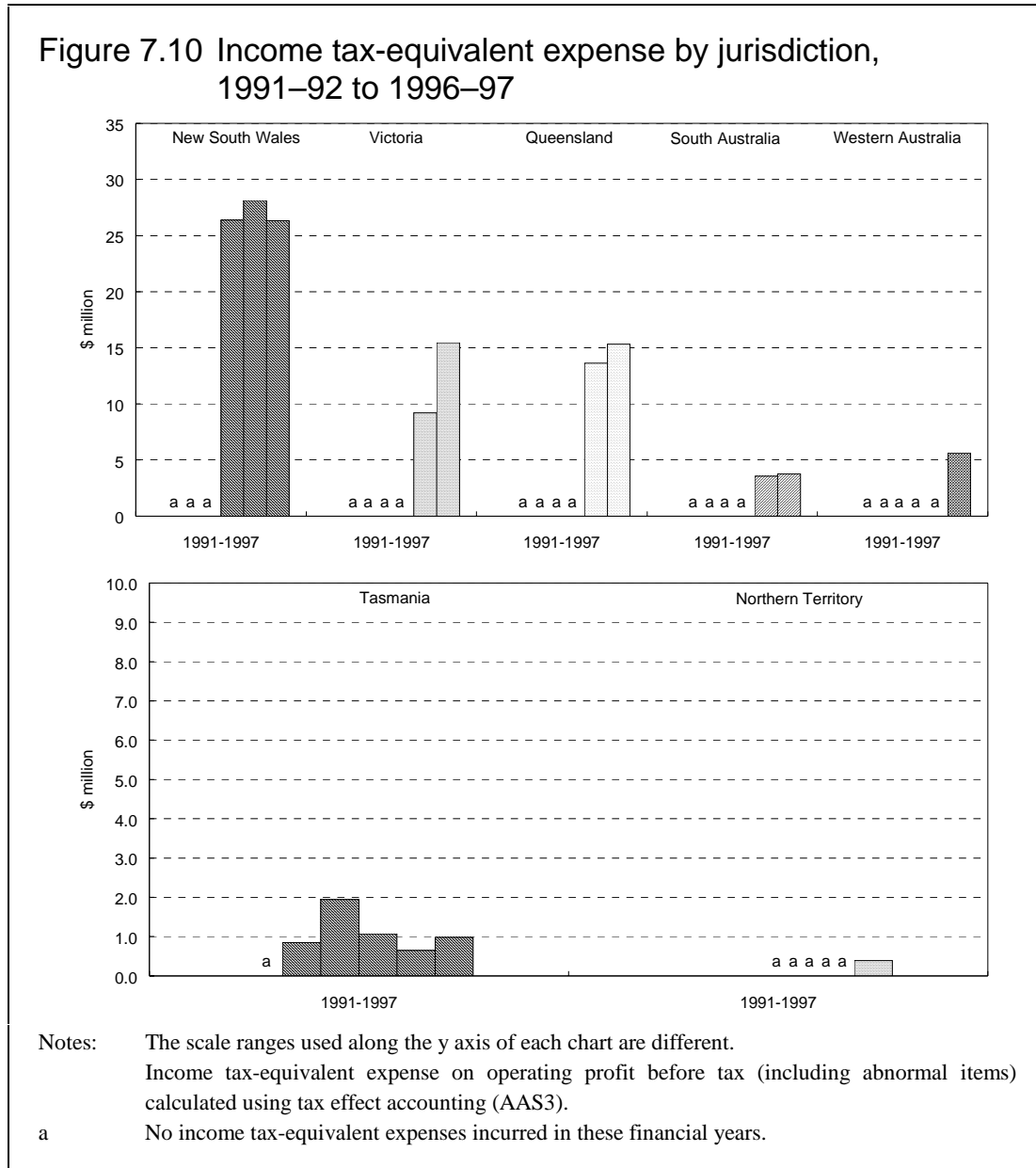
The majority of State Governments require their port authorities to pay a dividend. The method for calculating dividends differs from port to port. Fremantle Port Authority is required to pay a proportion of its after-tax profit which differs according to its debt to equity ratio. Most other ports pay dividends as a fixed percentage of after-tax profit.

The dividend required from the South Australian Ports Corporation is 60 per cent of net profit after-tax, or 75 per cent of pre-tax operating profit. In Victoria, dividends are calculated as 50 per cent of after-tax profit. However, dividend payments combined with income tax equivalent expense are calculated as 65 per cent of pre-tax profit. In New South Wales, dividends are negotiated with the New South Wales Treasury, but are generally around 50 per cent of after-tax profit. In Queensland, dividends are set in consultation with shareholder Minister(s) (in 1997 they were 40 per cent of after-tax profit).

During the period monitored the Tasmanian port authorities were not required to pay a dividend to the State Government. However, since 30 July 1997 they have been subject to a dividend regime, with dividend payments calculated as 70 per cent of pre-tax profit. In contrast, the Northern Territory Government determines dividends on a case-by-case basis.

¹³ The adoption of tax effect accounting means the income tax-equivalent expense for any year differs from the amount payable for that year because of timing differences (for example, timing differences may arise because of the different depreciation schedules adopted by the business and the tax office).

In some years, dividend payments were actually paid to Governments from retained profits or asset revaluation reserves when the port authority operated at a loss (see Figures 7.6 and 7.11). This is particularly the case in Victoria and South Australia, the latter being a special case.¹⁴

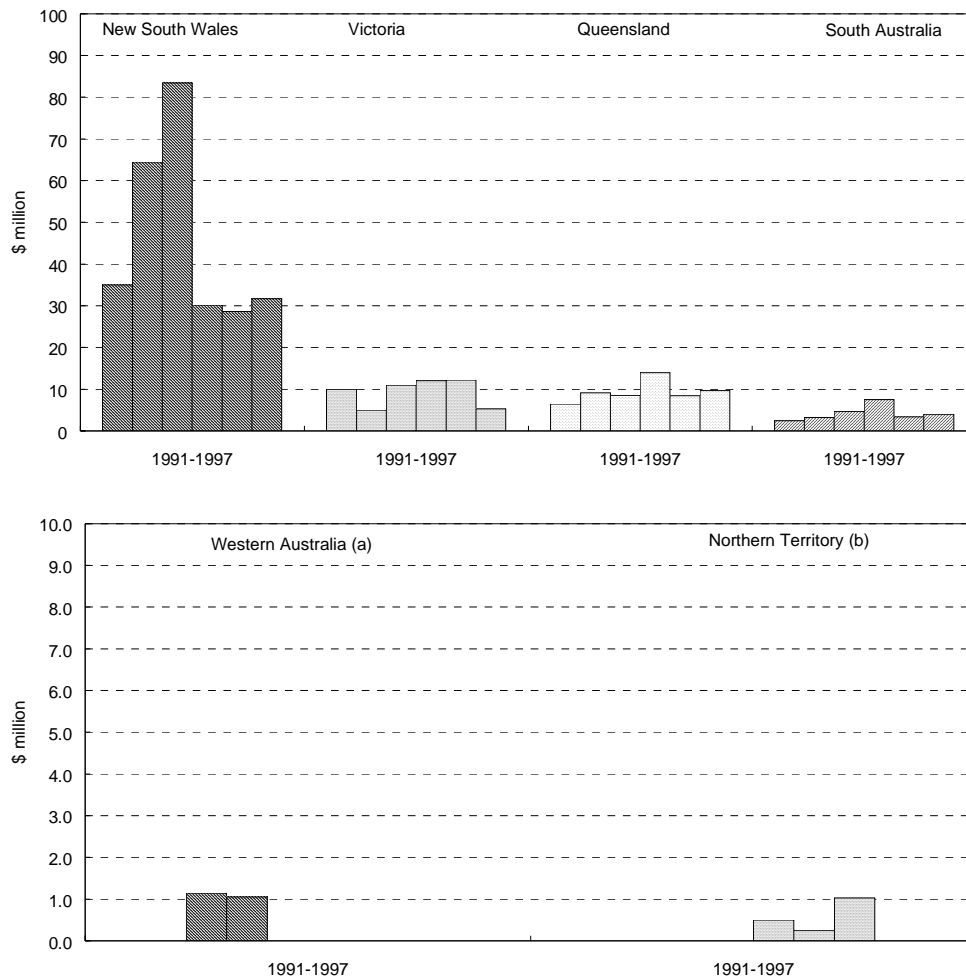


Although income tax-equivalent regimes are a recent reform initiative, dividend payments have been required by most jurisdictions over a longer period. Total

¹⁴ The operating loss incurred by the South Australian Ports Corporation was driven by abnormal expenses of \$13 million in 1994-95 and \$49 million in 1995-96.

dividends paid or payable to the government however, have declined slightly over the period from \$55 million in 1991–92 to \$51 million in 1996–97.

Figure 7.11 Dividends paid or payable by jurisdiction, 1991–92 to 1996–97



- Notes: The scale ranges used along the y axis of each chart are different.
Dividends paid or provided for include normal and special dividends and special levies on profits and revenues and excludes returns of capital.
- a In 1991–92 and 1992–93, the Fremantle Port Authority paid a statutory contribution to the State Government which was based on turnover rather than profit. Since commercialisation in 1996–97, the Fremantle Port Authority has been subject to a dividend policy calculated on a profit basis.
- b In 1991–92, 1992–93 and 1993–94 the Darwin Port Authority did not make a dividend payment to the Government.

Return on equity

Return on equity for all jurisdictions presents a mixed picture for the period monitored (see Figure 7.12).¹⁵ In some years a number of jurisdictions including South Australia, Western Australia, Tasmania and Victoria recorded a negative return on equity.¹⁶

In New South Wales, Queensland and Tasmania return on equity has declined, due largely to a decline in operating profit. In Queensland, the Brisbane Port Corporation's operating profit was significantly affected by borrowings (interest expense), depreciation expense (78 per cent increase) following a revaluation of assets, the impact of abnormal items and the introduction of an income tax-equivalent regime from 1 July 1995. Consequently, return on equity fell from 14 per cent in 1991–92 to 4 per cent in 1996–97.

In contrast, return on equity has increased at port authorities in Victoria, South Australia, Western Australia and the Northern Territory. Generally this reflects an increase in operating profit by a greater amount than the increase in asset values following a revaluation of assets as part of the corporatisation process.

In the Northern Territory, return on equity increased from 2 per cent in 1991–92 to 8 per cent in 1996–97. Substantial growth in revenue and the subsequent increase in operating profit has more than offset the effect of an increase in asset values since 1994–95. The value of assets increased as a result of a revaluation and the construction of a new port facility valued at \$87.7 million. However, interest payments associated with the new port facility are not included as an expense.¹⁷ If capitalised interest of \$1.63 million in 1995–96 and \$4.3 million in 1996–97 had been included as an expense, a negative return on equity would have occurred.

¹⁵ Return on equity is calculated by expressing operating profit after-tax (and including abnormal items), as a percentage of average total equity, which is the difference between the value of assets and liabilities.

¹⁶ A negative return on equity may reflect operating losses or liabilities greater than assets. It may also be the case that a positive ratio does not accurately reflect the financial viability of the port authority because if a port authority operates at a loss and has liabilities greater than assets this will be reflected as a positive return on equity. For example, in 1991–92 and 1992–93 the Fremantle Port Authority in Western Australia incurred an operating loss and negative equity because liabilities exceeded assets.

¹⁷ The Darwin Port Authority is borrowing funds from the Northern Territory Treasury Corporation to finance the construction of this facility. Interest charged on the advances from the Northern Territory Treasury is being capitalised. The Northern Territory Government has not finalised a long-term agreement on the terms and conditions of the advances and the extent of responsibility of the port authority for meeting interest and repayments on the advances from its trading revenue.

One useful way of determining whether a port GTE is delivering a satisfactory rate of return on equity is to make a benchmark comparison. The Office of the Regulator-General in Victoria and the Australian Competition and Consumer Commission (ACCC) have proposed a benchmark return on equity of 11 per cent for gas transmission assets (see Section 1.1).

In 1996–97, most jurisdictions reported a return on equity less than 11 per cent. The exceptions to this were Western Australia which reported a return of 23 per cent (increasing from negative 103 per cent in the previous financial year) and New South Wales which reported a return of 14 per cent (see Figure 7.12).¹⁸

Assets and liabilities

The change in asset values across jurisdictions over the period monitored, reflects asset revaluations, new investment in capital, and the sale or transfer of assets (see Figure 7.13).

As part of the corporatisation process, most port authorities have revalued their assets using current valuation methods to replace historical cost accounting over the period monitored. The outcome of these valuations has varied between jurisdictions and makes it difficult to compare return on equity over time in each jurisdiction.¹⁹

In some cases, the change in valuation methods can help explain the relatively large one off increase or decrease in the value of assets over the period. The restructure of the Port of Melbourne Authority in 1995–96 initially reduced the value of assets and liabilities held by the two newly created entities — the Victorian Channels Authority and the Melbourne Port Corporation. However, in 1996–97, all Melbourne Port Corporation's assets were independently revalued as a basis for establishing future leases on commercial principles. As a result, there was an upward revaluation of property, plant and equipment by 56 per cent.

¹⁸ The significant change in return on equity reported by Western Australia largely reflects the transfer of superannuation liabilities to the State Government.

¹⁹ A revaluation of assets has occurred in most jurisdictions including: New South Wales in 1995–96 (a decrease in asset values occurred); Victoria in 1996–97 (an increase in asset values occurred); Queensland in 1994–95 (an increase in the value of assets occurred); South Australia in 1995–96 (a decrease in asset values occurred); Western Australia in 1993–94 and 1995–96 (an increase in asset values occurred); and the Northern Territory in 1996–97 (an increase in asset values occurred). Tasmanian port authorities' assets are valued at historical cost.

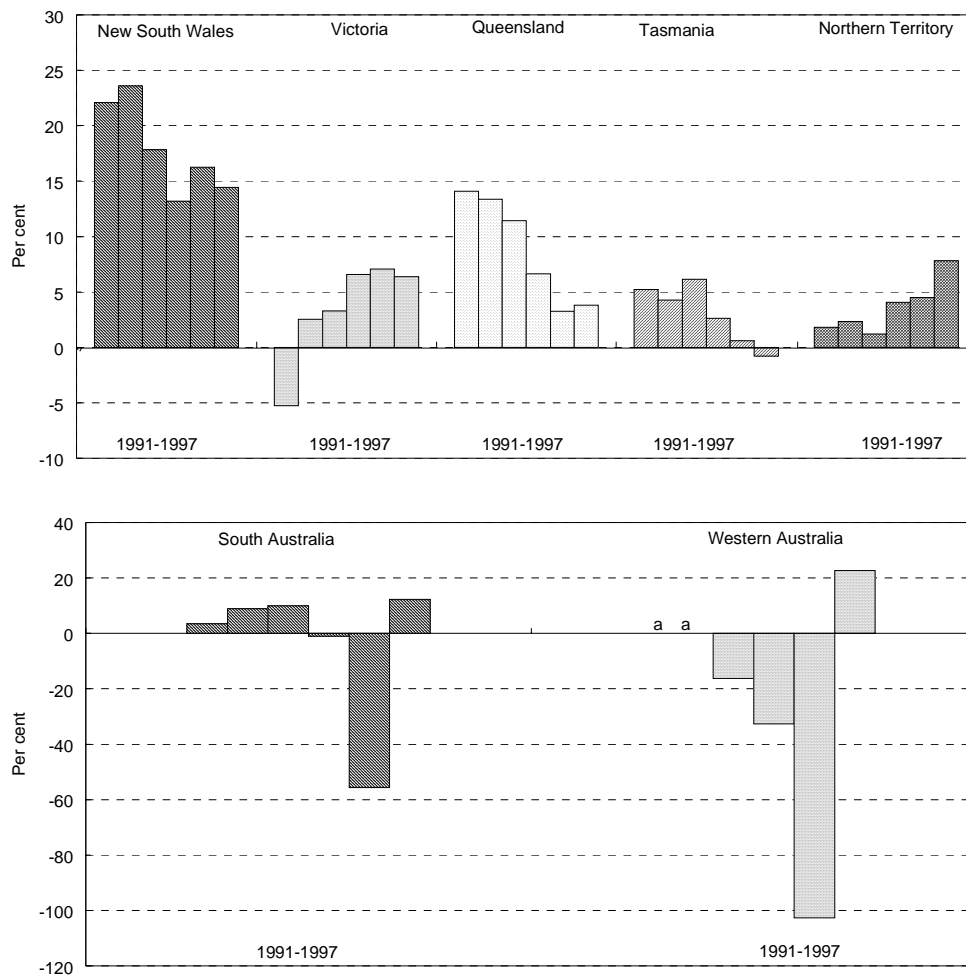
The substantial decline in asset values at the South Australian Ports Corporation in 1995–96 resulted from a \$49 million write-down in the value of non-current assets associated with the adoption of current valuation methodology. The value of assets was also affected by the transfer of all assets associated with CSOs and the sale of container terminal cranes and other equipment held by the Corporation.

In contrast, the increase in asset values at the Brisbane Port Corporation and the Darwin Port Authority is associated with the acquisition of a share in the Brisbane airport in 1996–97, and the construction of a new port facility in Darwin which commenced in 1994–95. In addition, a revaluation of assets at these port authorities saw the value of assets at the Brisbane Port Corporation increase by 67.7 per cent on 1 July 1994, and increase by 30 per cent at the Darwin Port Authority in 1996–97.

Return on equity is also affected by changes in liabilities. Trends in liability levels have also varied between jurisdictions (see Figure 7.14). Over the period monitored, borrowings were the key determinant of an increase or decrease in liability levels. In Queensland, total liabilities increased from \$92 million in 1995–96 to \$283 million in 1996–97. This relates almost solely to borrowings of \$193 million to purchase a share in the Brisbane airport.

However, a transfer of employee entitlements (superannuation pension liabilities) from the Fremantle Port Authority to the Western Australian Government was a major contributor to a decline in liability levels from \$101 million in 1995–96 to \$68 million in 1996–97.

Figure 7.12 Return on equity by jurisdiction, 1991–92 to 1996–97



Notes: The scale ranges used along the y axis of each chart are different.

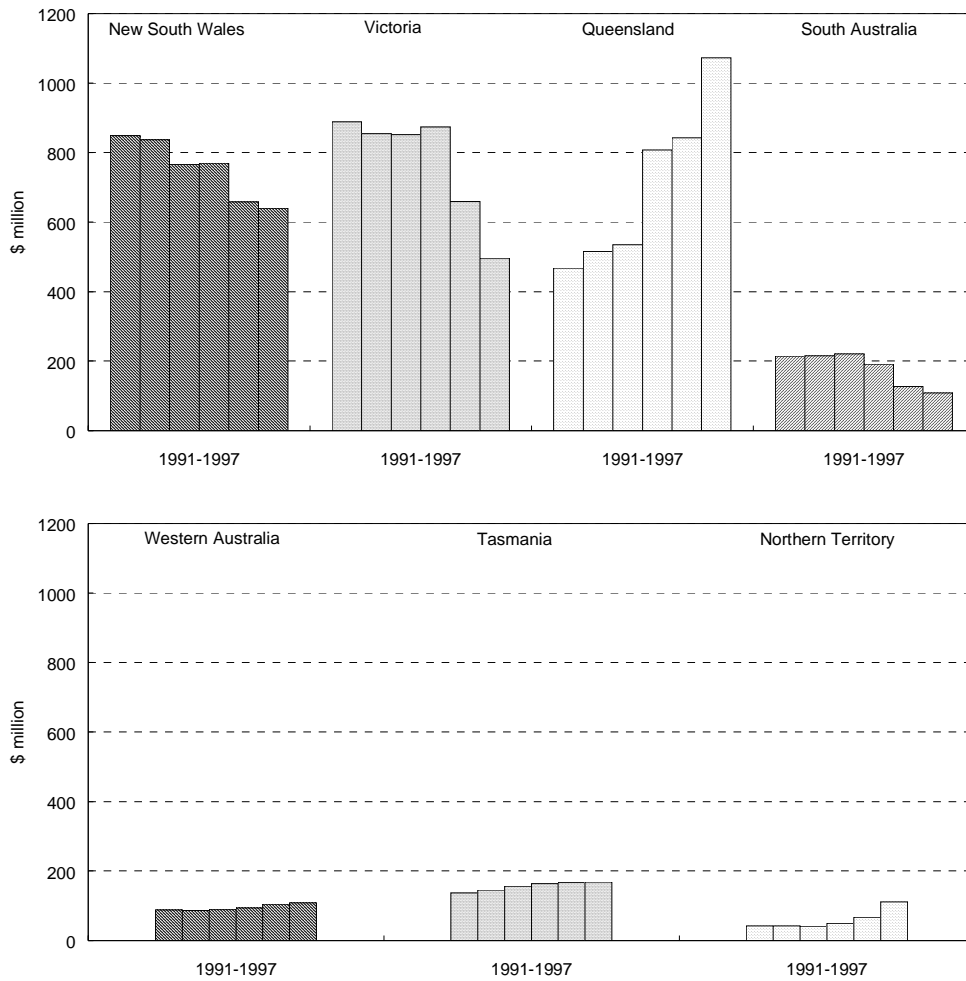
Return on equity is the ratio of operating profit after-tax to average total equity. Operating profit after tax is calculated by subtracting total expenses and income tax paid or payable from total revenue (includes abnormal items). Equity is calculated by subtracting total liabilities from total assets.

Return on equity cannot be calculated on a strictly comparable basis because of revaluations and abnormal items during the monitored period.

Historical data for monitored port authorities in New South Wales have been adjusted to include only Newcastle Port Corporation, Port Kembla Port Corporation and Sydney Ports Corporation. Historical data for monitored port authorities in Victoria relates to the Port of Melbourne Authority from 1991–92 to 1994–95, the Port of Melbourne Authority, the Melbourne Port Corporation (MPC) and the Victorian Channels Authority (VCA) in 1995–96, and the MPC and the VCA in 1996–97. The Port of Melbourne Authority operated for eight months in 1995–96. The MPC and VCA operated for four months only in 1995–96.

a In 1991–92 and 1992–93 the Fremantle Port Authority incurred an operating loss as well as negative equity, which results in a positive return on equity. This result has therefore been excluded.

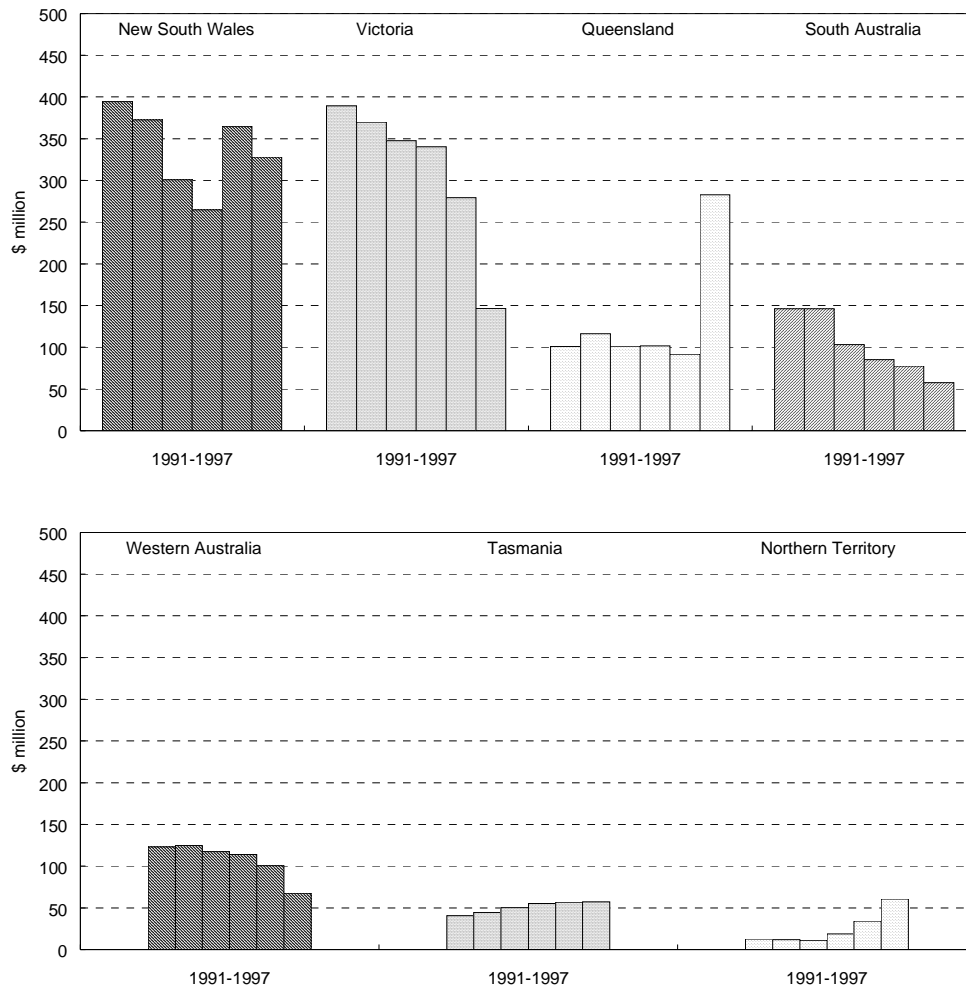
Figure 7.13 Total assets by jurisdiction, 1991-92 to 1996-97



Notes: Total assets are defined as the service potential or future economic benefits, controlled by the entity as a result of past transactions or other events (measured at the end of the reporting period).

Historical data for monitored port authorities in New South Wales have been adjusted to include only Newcastle Port Corporation, Port Kembla Port Corporation and Sydney Ports Corporation. Historical data for monitored port authorities in Victoria relates to the Port of Melbourne Authority from 1991-92 to 1994-95, the Port of Melbourne Authority, the Melbourne Port Corporation (MPC) and the Victorian Channels Authority (VCA) in 1995-96, and the MPC and the VCA in 1996-97. The Port of Melbourne Authority operated for eight months in 1995-96. The MPC and VCA operated for four months only in 1995-96.

Figure 7.14 Total liabilities by jurisdiction, 1991–92 to 1996–97



Notes: Total liabilities are defined as the future sacrifice of service potential or future economic benefits that the entity is obliged to make to other entities as a result of past transactions or other events (measured as at the end of the reporting period). Includes provisions for employee entitlements, creditors, deferred revenue, all repayable borrowings, interest bearing non-repayable borrowings and redeemable preference shares.

Historical data for monitored port authorities in New South Wales have been adjusted to include only Newcastle Port Corporation, Port Kembla Port Corporation and Sydney Ports Corporation. Historical data for monitored port authorities in Victoria relates to the Port of Melbourne Authority from 1991–92 to 1994–95, the Port of Melbourne Authority, the Melbourne Port Corporation (MPC) and the Victorian Channels Authority (VCA) in 1995–96, and the MPC and the VCA in 1996–97. The Port of Melbourne Authority operated for eight months in 1995–96. The MPC and VCA operated for four months only in 1995–96.

7.5 Community outcomes

Prior to corporatisation, most port authorities were funded for community service obligations (CSOs).²⁰ However, over the period monitored, reform initiatives have resulted in a divestment of non-commercial activities and a significant decline in CSO payments by State Governments to their port authorities.

In South Australia, this was achieved by the Ports Corporation transferring its responsibility for non-commercial activities to the Department of Transport. Since 1 July 1994, some non-commercial activities are performed by the Corporation on a cost recovery basis and invoiced accordingly. In Western Australia, the Fremantle Port Authority recoups the cost of providing and maintaining navigational aids from the Department of Transport.

Good governance dictates that port authorities identify and cost CSOs. The Northern Territory, and to a lesser extent Queensland and Tasmanian port authorities are the only authorities to do so.

Where CSOs are provided or have been provided, the community has benefited from improved recreational facilities, the provision and maintenance of fishing fleet facilities, and a greater awareness of recreational boating and marine safety.

In recognition of the contribution made to the Northern Territory economy by the fishing fleets based in Darwin, the Government provides support to the fishing industry through subsidising the cost of providing and maintaining fishing fleet facilities. In providing this CSO, the Darwin Port Authority manages a non-tidal mooring basin for use by fishing vessels during the off season. The basin also provides a refuge for fishing vessels during cyclone activity.

The Darwin Port Authority also maintains recreational facilities at the Darwin wharf precinct. In 1996–97, the Darwin Port Authority received \$1.9 million towards the cost of maintaining recreational and professional fishing fleet facilities. In previous years, funding was provided for CSOs but was not explicitly identified in the financial statements.

²⁰ A community service obligation arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government does not require other businesses to generally undertake, or which it would only do commercially at higher prices (SCNPMGTE 1994).

The Tasmanian port authorities can apply to the Treasurer under s.4A(1) of the *Marine Act 1976* for various functions or duties performed, facilities or services provided, or concessions allowed by the Board, to be regarded as CSOs. An application may be made for a range of activities including regulation of waterways, marine pollution, maritime planning, assistance to various organisations, provision of various facilities and assistance to community organisations.

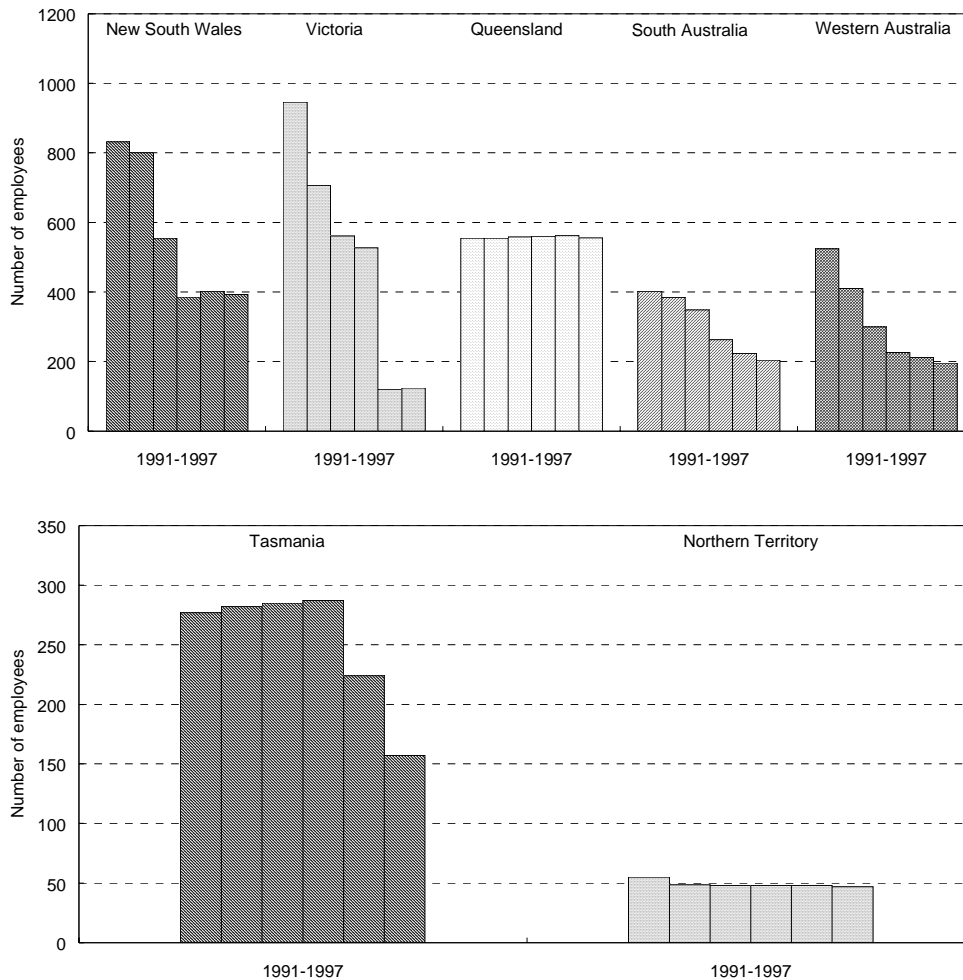
In 1996–97, the Tasmanian port authorities received around \$415 000 toward the cost of providing CSOs. However, from 30 July 1997 Tasmanian port authorities will focus on their commercial activities, while the regulatory and recreational functions of the port authorities, together with the work of the Navigation and Survey Authority of Tasmania, will be transferred to a new statutory body to be called the Marine and Safety Authority.

7.6 Employee outcomes

The reform initiatives undertaken by the port authorities over the period monitored have resulted in a significant decline in employee numbers. The number of full-time equivalent staff employed by the port authorities has declined by 53 per cent from 3590 in 1991–92 to 1677 in 1996–97 (see Figure 7.15). Over the same period there has been a 20 per cent increase in the volume of international cargo handled by the monitored port authorities (see Table 7.3).

Employment has fallen in all jurisdictions with the exception of Queensland. Most of the downsizing has occurred as a result of voluntary redundancies. The downsizing in most cases is directly linked to the transfer of non-core activities to the private sector or to other government agencies. The contracting out of non-core activities may have absorbed a proportion of those employees who agreed to take voluntary redundancy packages.

Figure 7.15 Total direct GTE employment by jurisdiction, 1991-92 to 1996-97



Notes: The scale ranges used along the y axis of each chart are different.
 Total employment is measured as the average of full-time equivalent staff at the beginning and end of the period.
 The Burnie Port Corporation in Tasmania did not provide employee numbers in 1996-97.

Most port authorities have introduced enterprise bargaining agreements (EBAs) at the workplace for the remaining employees. EBAs are expected to contribute to significant productivity improvements, lower overhead costs, and a more flexible and multiskilled workforce. The EBAs have replaced a multiplicity of awards and eliminated demarcation disputes. For employees, EBAs are expected to create a structured career path, greater access to training and development courses and more flexible working hours.

In response to the changing workplace environment, a number of port authorities have introduced an extensive program of training courses and workshops for their employees. For example, the Sydney Ports Corporation have provided staff with the opportunity to attend workshops and courses on change management, customer service, process mapping, and computer training. All port officers have undertaken dangerous goods training, and the Marine Services Unit have continued an extensive multiskilling program aimed at quality assurance, occupational health and safety, emergency response and environmental management.

These workshops and courses are expected to foster the development of staff skills and opportunities for advancement. Employees are also expected to reap the benefits of ongoing training which ensures that skills keep pace with technology.

Occupational health and safety

Over the period monitored most port authorities have implemented occupational health and safety programs aimed at improving the health and safety of their employees. These programs have contributed to a reduction in the number of workplace accidents and the time lost to work place injuries (see Table 7.5).

Table 7.5 Lost time injury frequency rate (per million hours worked), 1991–92 to 1996–97

<i>GTE</i> ^a	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
Sydney Ports Corporation					23	21
Port Kembla Port Corporation				3	3	1
Gladstone Port Authority		21	15	11	12	6
Fremantle Port Authority	84	72	51	50	28	25
Hobart Port Corporation					28	26

Notes: Lost time injury frequency rate equals the number incidents per annum (leading to at least half a shift off work) per million hours worked per annum.

a Not all port authorities use lost time injury frequency rate to measure safety performance. However, some port authorities including the South Australian Ports Corporation and the Port of Devonport Corporation have indicated that workplace accidents or total days lost per employee have declined.

In the case of the Fremantle Port Authority, the lost time injury frequency rate (LTIFR) has declined by 70 per cent over the period. As a consequence, the port authority's insurance premiums have fallen by 60 per cent since 1991–92 (information supplied by the Fremantle Port Authority). Some of the factors that have contributed to the significant decline in the LTIFR are discussed in Box 7.2.

Box 7.2 Factors which have contributed to a reduction in the lost time injury frequency rate at the Fremantle Port Authority

- The Fremantle Port Authority has introduced a stringent system of incident and accident reporting and investigation over the period monitored. Every incident or accident that has the potential to result in injury, illness, damage to property or the environment, or loss to the business is reported and investigated. The aim is to ensure timely reporting, investigation, analysis and response, with the overall aim of making the Fremantle Port Authority safer for employees, contractors and the general public.
- Other initiatives include the development of improved systems for site inspections and hazard identification. Staff are also trained to identify hazards and areas where problems are most likely to occur as part of the preventive approach to occupational health and safety.
- In 1994, a loss prevention program referred to as the Safety Management System (SMS) was developed at the port authority with widespread input from staff. The SMS is a structured and comprehensive system which focuses on loss control and is designed to ensure that all areas at the Fremantle Port Authority follow systems in their work which are designed to improve safety and control losses.
- In addition to the authority's commitment to safety and loss prevention, other factors may have contributed to the reduction in the LTIFR over the period. These include:
 - a 63 per cent reduction in staff numbers; and
 - a divestment of non-core activities to private contractors (pilotage, stevedoring maintenance and fork lift training).

Source: Information supplied by the Fremantle Port Authority.

8 COMMONWEALTH GTES

Key outcomes

- **Telstra**

Profits have increased substantially, from \$658 million to \$2073 million. Dividend payments to the Commonwealth Government have also increased — they totalled \$8348 million over the period (including a \$3150 million special dividend in 1997). Income tax expense totalled \$4516 million.

Real prices have fallen by 23 per cent on average. Access to services has increased.

- **Australia Post**

Profits have increased from \$238 million to \$353 million. A total of \$685 million in dividends and \$450 million in capital repayments were paid to the Commonwealth Government over the period. Australia Post's income tax expense totalled \$640 million.

The real price of a standard letter fell by 8.7 per cent. Service quality was maintained.

- **Federal Airports Corporation**

Profits were up by 116 per cent, from \$89 million to almost \$192 million. Dividend payments to the Commonwealth Government totalled almost \$129 million. Income tax expense totalled \$365 million.

Landing charges fell by 3 per cent in real terms.

- **Airservices Australia**

Profits fluctuated, and were slightly down in 1996–97 compared to 1991–92. Profits were made in all but one year. A total of \$63 million was paid in dividends. Income tax expense totalled \$94 million. A capital repayment of \$49 million was made in 1996.

Average prices fell by 40 per cent in real terms.

- **Australian National Line (ANL)**

Profits and payments to the Commonwealth Government have been very low, with profits before tax made in only two out of the six years. No dividends were paid.

ANL withdrew several of its major services. Freight rates on ANL's services have fallen in recent years.

8.1 Background

The Commonwealth Government was responsible for 11 GTEs as at 30 June 1997.¹ These GTEs covered a range of activities, including the provision of communication and railway services, and the regulation of air travel.

The main changes and performance outcomes from the perspective of consumers, the Commonwealth Government and the broader community, are identified in this chapter for the following GTEs:

- Telstra;
- Australia Post;
- Federal Airports Corporation;
- Airservices Australia; and
- Australian National Line.

These five GTEs had combined assets valued at over \$32 billion as at 30 June 1997. Telstra was by far the largest of these GTEs, with total assets valued at around \$26 billion.

Three other Commonwealth GTEs are also covered in this report:

- the Snowy Mountains Hydro-electric Authority (Chapter 2);
- the National Rail Corporation (Chapter 6); and
- the Australian National Railways Commission (Chapter 6).

Other Commonwealth GTEs not covered in this report include the Defence Housing Authority, ADI Limited and the Australian Technology Group Limited.

The Commonwealth GTEs monitored each year since 1991–92 are represented in Table 8.1.

Unlike previous chapters, the GTEs covered here are discussed separately because they either operate in different industries or are engaged in different activities within the same industry. Needless to say, because these GTEs operate in different activities, comparisons between them are difficult to make. This is particularly the case when assessing outcomes from the point of view of consumers and the community as a whole.²

¹ Airservices Australia was formally taken off the Commonwealth Government's list of government business enterprises (GBEs) in September 1997. However, it remained a Public Trading Enterprise, and its functions were not changed as a result of the re-classification.

² It is noted that the indicators used to gauge GTE performance regarding community outcomes are often partial and, as such, require careful interpretation. It is also noted that

Key reforms

The policies guiding the reform of Commonwealth GTEs have changed considerably over the 1990s. These changes have included policy statements and legislation to encourage greater competition, efficiency and accountability.

Some of the main reforms used to pursue these objectives have included management and governance reforms, corporatisation, competition reforms, competitive tendering and contracting out and, in some cases, privatisation. The specific reforms that have occurred for each GTE are outlined in Table 8.2.

Changes to the governance arrangements for Commonwealth GTEs have been aimed at further improving the accountability of GTEs and reinforcing their commercial focus, while achieving certain community goals and standards (see Box 8.1). These changes have encouraged competitive neutrality between the private and public sectors, and imposed market disciplines on GTEs similar to those in the private sector. These changes have been designed to not only assist the efficient allocation of resources between the two sectors, but also to help GTEs make efficient resource decisions of their own.

These changes have occurred against the backdrop of substantial change in the 1980s. Of particular significance was the Government's reforms of GTEs in 1987. These changes emphasised that Boards were responsible for business strategies and day-to-day management policies, while Ministers exercise strategic control consistent with their accountability to Parliament. In line with these reforms, many of the Government's significant business activities were corporatised in the late 1980s, including Australia Post and Telstra. These changes have had considerable impact on the operations of Commonwealth GTEs and their financial performance.

Another significant policy affecting Commonwealth GTEs has been the Council of Australian Government's (COAG) agreement to the National Competition Policy (NCP) in 1995. This national policy has complemented industry-specific competition reforms in telecommunications in 1991 and 1997, and in postal services in 1994–95.

The environment faced by Commonwealth GTEs has also changed significantly in terms of employment relationships as a result of changes to legislation affecting workplace relations. Moves to enterprise bargaining under the *Industrial Relations Reform Act 1993* and the *Workplace Relations Act 1996*,

employment numbers do not take account of possible contracting out — which has tended to occur in many GTEs over the period (see Chapter 1).

have provided impetus for changing work practices and productivity improvement.

The introduction of the *Occupational Health and Safety (Commonwealth Employment) Act 1991* has also affected the management of occupational health and safety within each Commonwealth GTE.

Box 8.1 Corporate governance arrangements^a

Key elements of the Commonwealth's corporate governance arrangements from 1993 include:

- Boards being responsible for the day-to-day running of GTEs with Ministers responsible for oversight and strategic control;^b
- Ministers providing a clear mandate and set of objectives for GTEs, including consideration for community service obligations (CSOs);
- each GTE developing a corporate plan, agreed to by the Board and the responsible Minister, including a financial target, dividend policy and capital structure. This includes the requirement that GTEs earn commercial returns on their assets equivalent to the risk-free rate (long-term bond rate) plus an appropriate margin for risk;
- that in adding to shareholder value, GTEs operate efficiently and price efficiently;
- GTEs preparing an Annual Report which is tabled in Parliament;
- from 1997, GTEs and Ministers agreeing on a Statement of Corporate Intent — which is a public document including a business description, vision statement, accountability obligations, and broad expectations on financial and non-financial performance; and
- no formal guarantees for GTE liabilities (as a general rule).

a For a more comprehensive outline of Commonwealth governance arrangements between 1993 and 1997, refer to DoFA (1993) and DoFA (1997). Changes in 1997 followed a report by Humphry (1997). Key elements of these changes include closer alignment of GTE accountability arrangements with the general accountability arrangements prevailing for the private sector; more effective shareholder monitoring of GTE financial performance; and community service obligations (CSOs) funded from the Budget rather than through internal cross-subsidies (although universal service obligations (USOs) will continue to be funded from cross-subsidies).

b It is noted that the Commonwealth Government generally refers to its GTEs as government business enterprises (GBEs).

Table 8.1 Monitored Commonwealth GTEs, 1991–92 to 1996–97

1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
ANL Ltd	→				ANL Ltd
Federal Airports Corporation	→				Federal Airports Corporation
Australia Post	→				Australia Post
Telecom	→ Telstra Corporation	→			Telstra Corporation
	Australian Maritime Safety Authority (AMSA)	(AMSA not monitored after 1993–94)			
Civil Aviation Authority	→				Airservices Australia → Airservices Australia
					Civil Aviation Safety Authority (Not Monitored)
Snowy Mountains Hydro-electric Authority	→				Snowy Mountains Hydro-electric Authority (Chapter 2)
Pipeline Authority	→				Private Business (Not Monitored)
Australian National Railways Commission	→				Australian National Railways Commission (Chapter 6)
	National Rail Corporation			→	National Rail Corporation (Chapter 6)

Table 8.2 Reform initiatives affecting Commonwealth GTEs, 1991–92 to 1996–97

<i>GTE</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Telstra Corporation Ltd	June 1991	The regulatory arrangements, and the structure of the telecommunications industry for the transition to open competition for the period 1 July 1991 to 30 June 1997, were established in the <i>Telecommunications Act 1991</i> . Key elements were: <ul style="list-style-type: none"> • the establishment of a duopoly on fixed network provision until 30 June 1997; • the merger of Telecom and Overseas Telecommunications Corporation (OTC), and the sale of AUSSAT to the second national carrier; • the issuing of three public mobile telephone licences; • the full resale of domestic and international capacity; and • extended responsibilities and powers for the industry specific regulator AUSTEL.
	Jan 1992	Optus licensed as the second national carrier.
	Feb 1992	Telecom Australia and OTC merged to form the Australian and Overseas Telecommunications Corporation (AOTC).
	June 1992	Optus commenced operations in the mobile telephone service market.
	Nov 1992	Optus interconnected with the AOTC network to provide domestic long distance and international services.
	Dec 1992	A third mobile licence was granted to Vodafone.
	April 1993	AOTC became Telstra Corporation Ltd, but retained the trading name 'Telecom Australia' for domestic purposes.
	Oct 1993	Vodafone commenced operations, competing with Optus and Telstra in the provision of digital mobile telephone services.
	June 1994	Application of a new telecommunications national code specifying technical, design, safety, environmental and other standards. The code facilitated a network rollout by establishing a uniform national regulatory regime.
	July 1995	Access regime established for service providers in relation to broadband cable infrastructure. The access regime allowed service providers access to broadband cable for the provision of telephony and broadband services with limited exceptions.

Table 8.2 Reform initiatives affecting Commonwealth GTEs, 1991–92 to 1996–97 (continued)

<i>GTE</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Telstra Corporation Ltd (continued)	July 1995	Telecom Australia changed its trading name to Telstra.
	April 1996	The Commonwealth competitively tendered for the operation and maintenance of the Commonwealth's transmission network (used primarily to broadcast programs produced by the Australian Broadcasting Corporation and Special Broadcasting Services). This measure introduced competition into a sector previously dominated by Telstra.
	July 1997	Full and open competition was introduced in telecommunications on 1 July 1997. This included changes to the <i>Trade Practices Act 1974</i> , giving the Australian Competition and Consumer Commission (ACCC) specific powers to regulate anti-competitive conduct in telecommunication markets and to administer a telecommunications specific access regime. It also provided for increased industry self-regulation through codes of practice, with the Australian Communications Authority (ACA) intervening where necessary.
	Nov 1997	One third of Telstra was sold to the public and shares listed.
Australia Post	Dec 1994	Competition in the letter market was increased through amendments to the <i>Australian Postal Corporation Act 1989</i> . New services to be opened to direct competition were: <ul style="list-style-type: none"> • domestic letters carried within Australia where the charge is not less than four times the standard letter rate or weighing more than 250 grams (the thresholds for competition had been ten times the standard letter rate and 500 grams); • carriage of bulk letters between cities (that is, interconnection); • movement of letters within a document exchange service and the transfer of letters within an organisation by third parties; and • outbound international letters and the carriage of overseas mail for lodgement with Australia Post for final delivery.
	1995	New bulk mail interconnection arrangements were introduced, including lower prices for same state lodgement and delivery.
	May 1994	The former Commonwealth Government announced its intention to divest FAC's airports as part of its 'Working Nation: Policies and Programs'.

Table 8.2 Reform initiatives affecting Commonwealth GTEs, 1991–92 to 1996–97 (continued)

<i>GTE</i>	<i>Date</i>	<i>Nature of reform or policy initiative</i>
Federal Airports Corporation (FAC) (continued)	1996	The National Competition Council (NCC) received an application for the declaration of services related to international freight operations at Sydney and Melbourne Airports.
	June-July 1997	The sale of Melbourne, Brisbane and Perth airports by lease.
Airservices Australia	July 1995	The Civil Aviation Authority (CAA) was replaced by two new authorities — Airservices Australia, which provides civil air traffic management services, and the Civil Aviation Safety Authority (CASA) which is exclusively responsible for air safety regulation.
	1996	A tripartite review of Airservices Australia's capital structure resulted in the organisation repaying \$49 million to the Commonwealth Government.
Australian National Line (ANL) Limited	Aug 1991	The sale of a substantial part of ANL announced.
	Aug 1994	Price Waterhouse–Saloman Brothers report favoured an effective liquidation, as a sale was not considered practicable. The Government withdrew ANL from sale and appointed a new Board to reconstruct the company.
	Sept 1994	ANL's 25 per cent stake in Australian Stevedores sold.
	April 1995	In exploring joint ventures to facilitate restructuring, purchase interest in ANL was expressed. The Government opened ANL for purchase, and compared it with continued restructuring.
	Nov 1995	The Government announced that ANL must be restructured prior to any future sale.
	May 1996	ANL provided the Government with a report on options for proceeding with the sale of ANL.
	1996	ANL undertook a major restructuring, withdrawing from its European trade, selling its 50 per cent shareholding in Coastal ExpressLine, selling its Brisbane container operations, and rationalising its corporate structure and staffing.
	1998	ANL's container shipping and domestic bulk services were sold.

8.2 Telstra Corporation

Telstra Corporation is a fully integrated provider of telecommunications and information products and services, and is Australia's largest supplier of such services.

In 1996–97, Telstra generated revenues of approximately \$16 billion, managed assets valued at almost \$26 billion, and employed on average around 71 000 full-time equivalent employees.

Background

Telstra's principal activities include providing:

- telephone exchange lines;
- local and long distance phone services, including international services to and from Australia;
- mobile telecommunication services; and
- a range of data, internet and on-line services.

In providing these products and services, Telstra owns and operates national narrowband, broadband cable, and cellular and analogue mobile networks — with its broadband cable network commencing in 1995 and undergoing significant expansion since then.³

As at 30 June 1997, Telstra's broadband cable network passed 2.1 million homes, its digital and analogue mobile network covered 2.8 million customers, and 84 per cent of its broad and narrow band lines were digitalised (Telstra 1997a). See Box 8.2 for an overview of the telecommunications market.

Telstra has also entered several alliances with other companies, including a partnership with IBM and Lend Lease regarding information technology management, and a memorandum of understanding with WorldPartners global telecommunications alliance.

³ The *Telecommunications Act 1997* provides for the closure of analogue mobile services from 1 January 2000.

Box 8.2 The telecommunications market

- In 1996–97, communications services (which includes telecommunications and postal services) contributed around \$5 billion to GDP, up from a little under \$3 billion in 1991–92 (in 1996–97 dollars).
- The communications market has expanded rapidly over recent decades from around 3.8 billion messages in 1960 to nearly 21 billion in 1996 — with the telecommunication industry’s share being estimated at over 60 per cent in 1996. In 1995–96, communication assets across Australia were estimated to be \$34.4 billion compared to \$26.3 billion in 1991–92, with capital expenditure estimated at \$8 billion compared to \$4.2 billion.
- A total of 160 900 people were employed in the communication services industry as at May 1997, compared to 124 000 in May 1992.
- Facsimile activities are a significant part of the telecommunications market. The number of pages faxed in Australia each year is estimated to be between three and five billion.
- The number of internet services in Australia has increased from approximately 50 to 470 between 1995 and 1997, with internet traffic on Telstra’s network growing by an average of 8.5 per cent per month in 1997. Email represents over 80 per cent of businesses use of the internet, with the number of email services available in Australia increasing from 25 to 49 between 1992 and 1996.

Source: ABS 1998e, ABS 1998f, NCC 1997c.

Telstra is also required to offer customers access to untimed local calls, and is the nominated provider of Universal Service Obligations (USO). Under the *Telecommunications Act 1997*, the USO is defined as an obligation to ensure that:

- standard telephone services, including services for the disabled;
- public payphones; and
- prescribed carriage services,

are reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business.⁴

⁴ Requirements of this kind are referred to as community service obligations (CSOs) elsewhere in this report. A community service obligation arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government does not require other businesses to generally undertake, or which it would only do commercially at higher prices (SCNPMGTE 1994).

Prior to 1991, Telstra (operating under the names of Telecom and the Overseas Telecommunications Corporation (OTC)) had been the national monopoly carrier of much of Australia's telecommunication services.⁵ Since then, the telecommunications industry and Telstra have undergone considerable change in light of both regulatory and technological developments.

Telstra was 100 per cent owned by the Commonwealth of Australia over the reporting period 1991–92 to 1996–97. This follows a long history of government ownership, as a government business enterprise since 1975 and as part of the Commonwealth Postmaster-General's Department before that.

However, in November 1997 one third of Telstra was sold to the public in Australia's largest public float offer. The Commonwealth Government also proposed to sell the remaining two thirds of Telstra, valued at around \$40 billion to \$45 billion, and drafted the *Telstra (Transition to Full Private Ownership) Bill 1998* to that effect. After the defeat of the Government's legislation in the Senate in July 1998, the Government announced its intention to sell the remaining two thirds of Telstra in stages.⁶

Regulatory reforms

Over the period 1991–92 to 1996–97, there were significant changes to the domestic telecommunications industry arising out of reform. In particular, reforms in 1991, and again in 1997, have dramatically changed the structure and nature of the telecommunications industry in Australia.

In June 1991, the *Telecommunications Act 1991* established a new set of regulatory arrangements and a new structure for the industry. These changes came into effect as part of the transition to open competition and included:

- establishing a duopoly for providing fixed network services;
- issuing new public mobile phone licences (to Optus and Telstra in 1991 and Vodafone in 1992); and
- further expanding the powers of the industry regulator Austel.

On 1 July 1997, the *Telecommunications Act 1997* removed all regulatory barriers for new entrants to the Australian telecommunications market, with no

⁵ Telecom had been corporatised in 1989, and merged with the OTC in 1992. Telstra was used as the trading name in overseas markets in 1993 and in domestic markets in 1995 following the enactment of the *Telstra Corporations Act 1991*.

⁶ In selling Telstra in stages, the Government has proposed to sell 16 per cent of Telstra in the first instance, followed by the remaining 51 per cent if an independent review certifies that Telstra's service levels are adequate when compared to prescribed criteria.

limit on the number of carriers of telecommunications services. These reforms included arrangements for other carriers to access parts of Telstra's infrastructure under certain circumstances. Telstra has subsequently proposed a range of 'access undertakings' which set out the terms under which Telstra is prepared to offer access to its Public Switched Telephone Network, digital and analogue mobile phone services.

The institutional arrangements for regulating the telecommunications industry also changed on 1 July 1997, with the Australian Competition and Consumer Commission (ACCC) and the Australian Communications Authority (ACA) replacing Austel as the legislative regulator(s) of the industry. The ACCC is responsible for administering the *Trade Practices Act 1974*, including telecommunications specific anti-competitive and access regimes, and the ACA is responsible for administering technical and CSO matters, as well as managing the radio frequency spectrum.

Two industry bodies are now also involved in the regulation of the industry — the Telecommunications Access Forum and the Australian Communication Industry Forum. These industry bodies play an important role in the new regime, being responsible for resolving as many industry-specific matters as possible before referring them to the ACCC or ACA.

Over the period there have also been changes to the specific regulation of Telstra's prices. These include:

- Requiring Telstra to file new basic carriage service tariffs with Austel to be checked for precision and for anti-competitive effects and/or discrimination (from 1991); and
- New *price caps* — from January 1996 an overall price cap of the Consumer Price Index (CPI) minus 7.5 per cent came into effect, with price caps for individual services set at the CPI minus 1 per cent (these arrangements are set to continue until 31 December 1998). The previous price ceiling of 25 cents for untimed local calls and 40 cents for local calls made from pay phones was retained. Previous arrangements had also involved overall price caps. Between 1989–90 and 1991–92 the price cap was the CPI minus 4 per cent; between 1992–93 and 1994–95 the cap was the CPI minus 5.5 per cent; and between July 1995 and December 1995 the cap was the CPI divided by two minus 2.75 per cent.

Arrangements for the corporate governance of Telstra also changed in 1997 to reflect the joint shareholding between the public and the government which commenced after one third of Telstra was privatised in November 1997. These

changes were in addition to the changes occurring for all Commonwealth GTEs (see Box 8.1).

While changes resulting from reforms in 1997 did not come into effect until after the current reporting period, both the industry and Telstra underwent considerable adjustment in the lead up to them.

These reforms, and others, are outlined more comprehensively in Table 8.2.⁷

Technological change

New technology has had a major impact on both the industry and Telstra. In particular, advances in satellite technology, optical fibre and digital technology have created new markets, reduced barriers to old ones and created new opportunities for both existing and potential providers. Technology has also accelerated the convergence of previously distinct markets, including telecommunications, broadcasting and computers, and encouraged the globalisation of such activities.

Consumer outcomes

Many consumers of Telstra's products and services have benefited over the 1990s. Real prices have fallen, and both the range and accessibility of services have expanded. Service quality outcomes have been more mixed (see Box 8.3).

Real prices

The real prices of Telstra's services have fallen consistently in each year between 1991–92 and 1996–97 on a weighted average basis (see Figure 8.1). In 1996–97, the fall was around 3.7 per cent.

Telstra's average real prices have fallen consistently since the Steering Committee commenced reporting. These price falls are consistent with the price-caps set for Telstra's services, which are set at the CPI minus a specified percentage (see the section on regulatory reforms above).

⁷ Other reforms have also occurred, or been proposed, after the end of the reporting period. On 1 January 1998, the Government introduced a Customer Service Guarantee (CSG) standard which ensures that phone users receive financial compensation when their carriers, including Telstra, fail to meet minimum service levels. The Government has also proposed a range of regulatory reforms as part of the Government's *Telstra (Transition to Full Private Ownership) Bill 1998*. These reforms included increasing the powers of the ACCC, requiring Telstra to disclose its internal costs, and increased penalties if carriers do not meet specific standards.

Box 8.3 Key consumer outcomes

Key outcomes for consumers of Telstra's products and services between 1991–92 and 1996–97 include:

- a 23 per cent fall in average weighted real prices, with relative price stability for local calls and substantial falls in the real prices of long distance calls;
- an expansion in the range of new products and services offered, including new Internet services, pay television and billing arrangements;
- improved access to services, with over 90 per cent of the population having access to Telstra's mobile telephone network and Integrated Service Data Network (ISDN) services;^a and
- mixed performance regarding service quality.

a ISDN allows high-speed teleconferencing, multiple services such as fax and telephony, and ultra-fast Internet data and voice connections.

Range of products and services

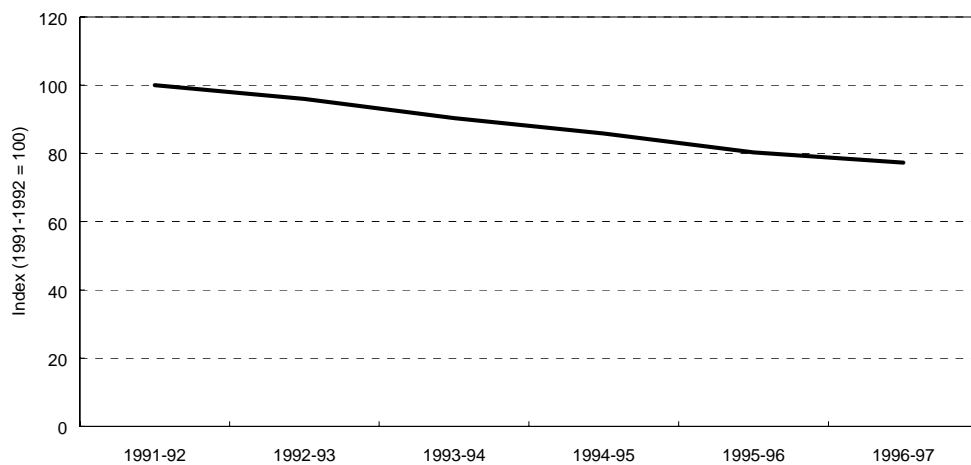
Consumers have also benefited in terms of product and service innovations.

In 1995, Telstra expanded its range of services by introducing its internet service, and launching its first broadband services including pay television (through FOXTEL Cable Telecommunications). In September 1996, Telstra introduced Australia's first high speed cable internet service. In 1997, Telstra was able to offer around one million of its customers in Melbourne and Sydney high speed access to the internet through its *Big Pond* Internet service.

To support enhanced services, Telstra continued to upgrade its networks. For example, Telstra had digitalised 84 per cent of its lines by 1997, enabling it to offer more services to a greater number of its customers. Significantly, country lines were almost as likely to be digitalised as metropolitan lines (81 per cent compared to 86 per cent).

Telstra's billing system has also improved, with all Australians able to receive bills with long-distance calls itemised by 30 June 1997 compared with 77 per cent in 1993. Nearly all of this improvement was due to an increase in the number of country customers provided with itemised bills (up to 100 per cent from 41 per cent in 1993).

Figure 8.1 Real price index, 1991–92 to 1996–97



Notes: The real price index equals the index of average prices for individual services weighted by their contribution to total revenue deflated by the Consumer Price Index.

Access to services

In terms of access to telecommunication services, there have been steady improvements during the reporting period. Some of these improvements include:

- Telstra's broadband cable network reaching approximately 2.1 million homes by 30 June 1997 — as part of this improvement, FOXTEL Cable Television services were extended to cover capital cities in all mainland States during 1996–97 (Telstra 1997a);
- Telstra's mobile networks covered around 91 per cent of the Australian population in 1997 compared to 84 per cent in 1992 (Telstra 1997b, AOTC 1992);
- Telstra offering access to ISDN services to over 93 per cent of its domestic customers by 30 June 1997 (Telstra 1997a), with access charges for country areas the same as for metropolitan areas; and
- nation wide access to telecommunication lines increasing from around eight million to ten million between 1993 and 1997 (Austel various years).

In 1997, 93 per cent of capital city households, and 94 per cent of the rest of Australia, were connected to the basic telecommunications network (ABS 1998c). Local calls were available to all but 17 000 Australians connected to the network.

Service quality

Telstra's service quality has recently been the subject of public debate. However, these concerns have related to the period since mid-1997, during which some of the ACA's indicators have shown a deterioration, rather than the period 1991–92 to 1996–97 covered in this report.

Taking a longer term view of Telstra's performance over the six years covered by this report, the indicators of service quality collected by the Steering Committee show a mixed story, with improvements in several indicators as well as some deterioration in others. Information on service quality collected by Austel (the ACA's predecessor) over the period also supports this somewhat mixed view.

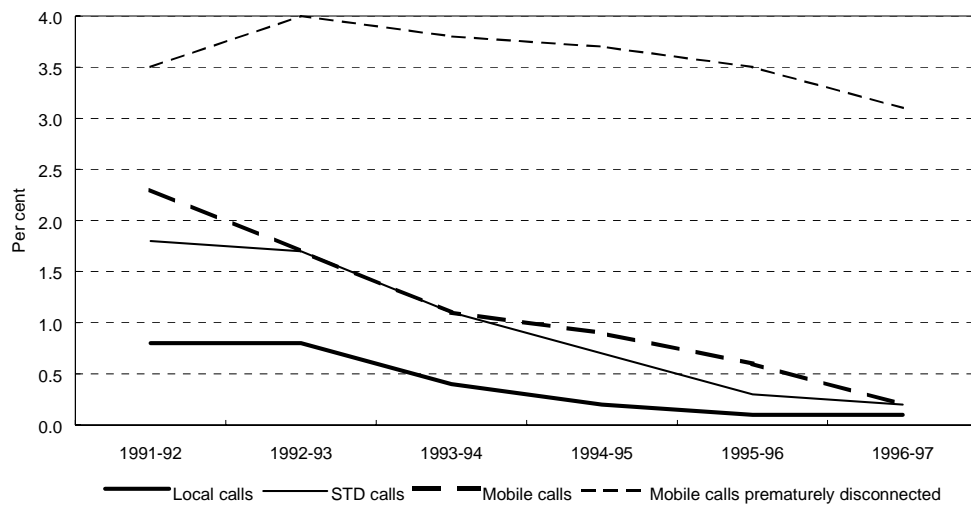
On the positive side, there has been a decline in the frequency of calls not being answered due to network failures. This has occurred across local, long distance and mobile calls (see Figure 8.2).

In terms of operator assisted services, the percentage of calls answered improved slightly in all areas reported between 1991–92 and 1996–97 (although there was some fluctuation within the intervening period). By 1996–97, the percentage of calls answered were 92, 93, 93 and 93 per cent — compared to 90, 83, 89 and 86 per cent in 1991–92 — for directory assistance, international operator, national operator assisted calls, and service difficulties and faults respectively.

Service quality has been fairly constant in terms of the number of pay phones operating, with 95 per cent operating during 1991–92 and 1992–93, and 96 per cent operating between 1993–94 and 1996–97 (SCNPMGTE 1998, 1997b).

Also, a similar proportion of customers were connected to new services on or before the customer required date in 1997 as in 1993 (at 81 per cent and 79 per cent respectively) — although there was some fluctuation in the intervening period. Within this overall figure, there was an improvement for country customers (up from 65 per cent to 79 per cent), but declines for metropolitan residential customers (down from 91 per cent to 89 per cent) and for metropolitan business customers (down from 83 per cent to 74 per cent) (Austel various years).

Figure 8.2 Calls not answered due to network loss, 1991–92 to 1996–97



Notes: Calls not answered due to network loss is measured as the percentage of call attempts that fail to establish a connection due to a shortage or malfunction of Telstra's public switch telephone network switching or signalling equipment.
Mobile calls prematurely disconnected measured as the percentage of all mobile calls disconnected before customer initiated disconnection.

Similarly, the number of customers connected to in-place services on or before the customer required date, while fluctuating in the intervening period, was the same in 1997 as in 1993 (at 87 per cent).⁸ Again, there was an improvement for country customers (up from 82 per cent to 87 per cent) but declines for metropolitan residential customers (down from 92 per cent to 90 per cent) and metropolitan business customers (down from 88 per cent to 81 per cent) (Austel various years).

However, on the down-side, the number of faults cleared within two and three working days declined from 93 per cent to 88 per cent and from 97 per cent to 94 per cent between 1991–92 and 1996–97 respectively.

Caution is needed in interpreting these indicators for several reasons. First, they do not cover the full range of service quality issues. For example, billing accuracy or voice quality have not been reported. Second, for the indicators that have been reported, caution is needed due to the range of factors which may be affecting the indicator. Connection times for new services, for example, might

⁸ 'In-place services' relate to services for which the infrastructure necessary for delivery already exists.

reasonably be expected to be greater as the network expands and increasingly remote areas are connected.

Shareholder outcomes

Outcomes for the Commonwealth Government have been positive over the reporting period (see Box 8.4).

Box 8.4 Key shareholder outcomes

Key outcomes for the Government from Telstra between 1991–92 and 1996–97 include:

- strong profit performances;
- steadily growing dividends — with the payment of a \$3150 million special dividend in 1996–97;
- strong overall returns to equity; and
- maintenance of a strong asset base, consistently in excess of liabilities.

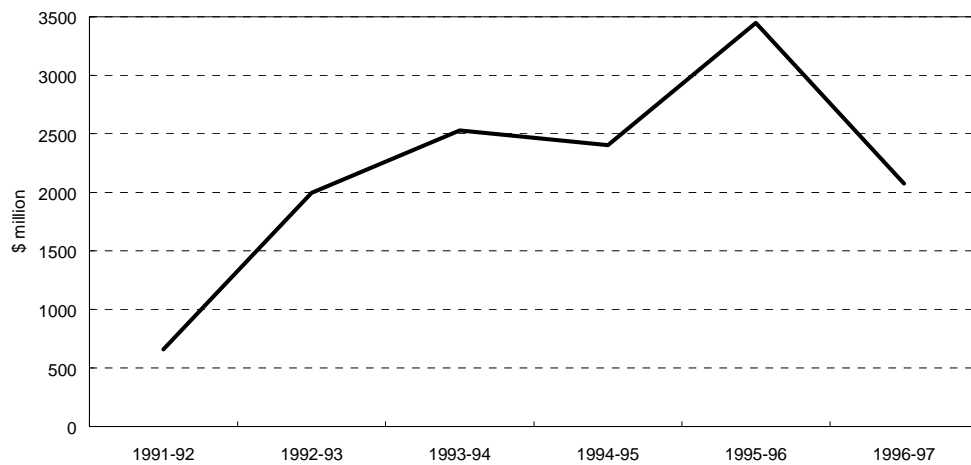
Profitability

Telstra recorded a significant increase in profits between 1991–92 and 1996–97, despite a drop in profit in 1996–97 (see Figure 8.3). Between 1991–92 and 1995–96, Telstra's operating profit before tax, but including abnormals, grew from \$658 million to \$3446 million. In 1996–97, profit was \$2073 million.

The increase in profits in 1995–96 reflected strong revenue growth and limited growth in expenses. The reasonably sharp decline in profits in 1996–97 reflects both a relative increase in the growth of expenses and a slowing in revenue growth.

Overall, Telstra's profit performance has been underpinned by a significant and steady growth in revenues over the 6 year period, with revenues increasing by over 30 per cent (17 per cent in real terms) from \$12 228 million in 1991–92 to \$15 983 million in 1996–97 (see Figure 8.4). The major contributors to the increase in Telstra's revenue over the period has been mobile services, data services, fax services, and ISDN products — including video conferencing, Internet access, and local and wide area network connections (Telstra 1997a).

Figure 8.3 Operating profit before income tax,
1991–92 to 1996–97



Notes: Operating profit before income tax is calculated by subtracting total expenses from total revenue and includes abnormals.

Expenses have increased by around 20 per cent (7 per cent in real terms), from \$11 570 million to \$13 910 million (see Figure 8.4). Increases in the ‘cost of services’ have been the main driver of increased expenses.⁹ Labour costs remained fairly stable over the period, falling marginally in 1996–97, and gross interest expense declined over the period. As a percentage of total expenses, interest expenses fell in all years except 1995–96 (see Figure 8.5).

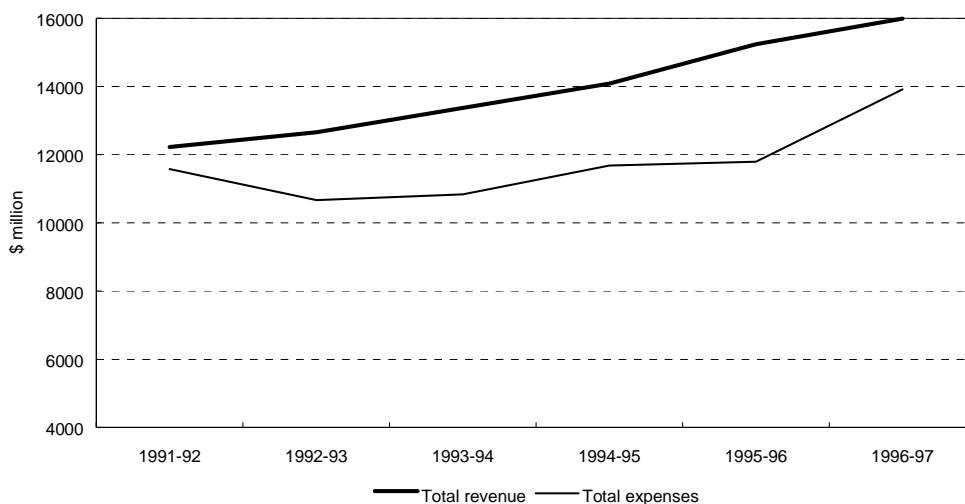
Telstra reported that the tapering of revenue growth in 1996–97 was due to ‘softening economic conditions and increased competition in traditional product areas, including national long distance calls and international telephone services’ (Telstra 1997a). That said, revenues still rose by around 5 per cent in that year.

On the expense side, Telstra incurred several significant abnormal expenses in 1996–97. Although these were offset to some extent by abnormal gains, the net charge of abnormals to Telstra’s operating profit after-tax was over \$1 billion

⁹ Telstra’s ‘cost of sales’ includes payments to other carriers to terminate international outgoing traffic and domestic calls, the costs of mobile hand sets, bonuses paid to dealers, commissions paid to indirect distribution channels, the costs of customer premises, equipment sold, and directory publishing costs. Payments to international carriers to terminate international outgoing calls was the largest component in 1996–97 (Telstra 1997a). As a percentage of operating revenue, direct costs of sales increased from 10.7 per cent in 1994–95 to 12.7 per cent in 1996–97.

(see Box 8.5). This contrasts with 1995–96 where net abnormals added around \$131 million to Telstra’s profit.

Figure 8.4 Total revenue and total expenses, 1991–92 to 1996–97

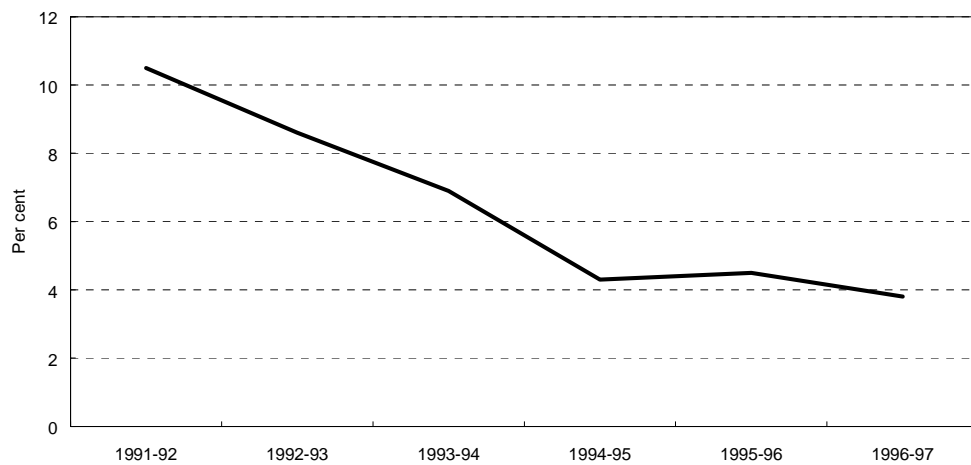


Notes: Total revenue includes revenue from sales, levies and asset sales, investment income, receipts from governments for specific agreed services, other revenue from operations, receipts from government to cover deficits on operations and abnormal revenue. It excludes funds received for specific capital works from governments or other parties, and equity contributions from government.

Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution in value of assets and abnormal expenses.

The largest increase in operating expenses during 1996–97 was in Telstra’s direct ‘costs of sales’ which rose from \$1748 million to \$2033 million. Telstra reported that this was due largely to the growth in the mobile telecommunications market and an increase in payments to international carriers to terminate international outgoing calls.

Figure 8.5 Gross interest expense as a percentage of total expenses, 1991–92 to 1996–97



Notes: Gross interest expense is the amount charged to the profit and loss account. It includes finance charges on finance leases and all debt related financial expenses. Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution of assets and abnormal expenses.

Box 8.5 Abnormal items 1996–97

During 1996–97, Telstra incurred the following abnormal expenses before tax:

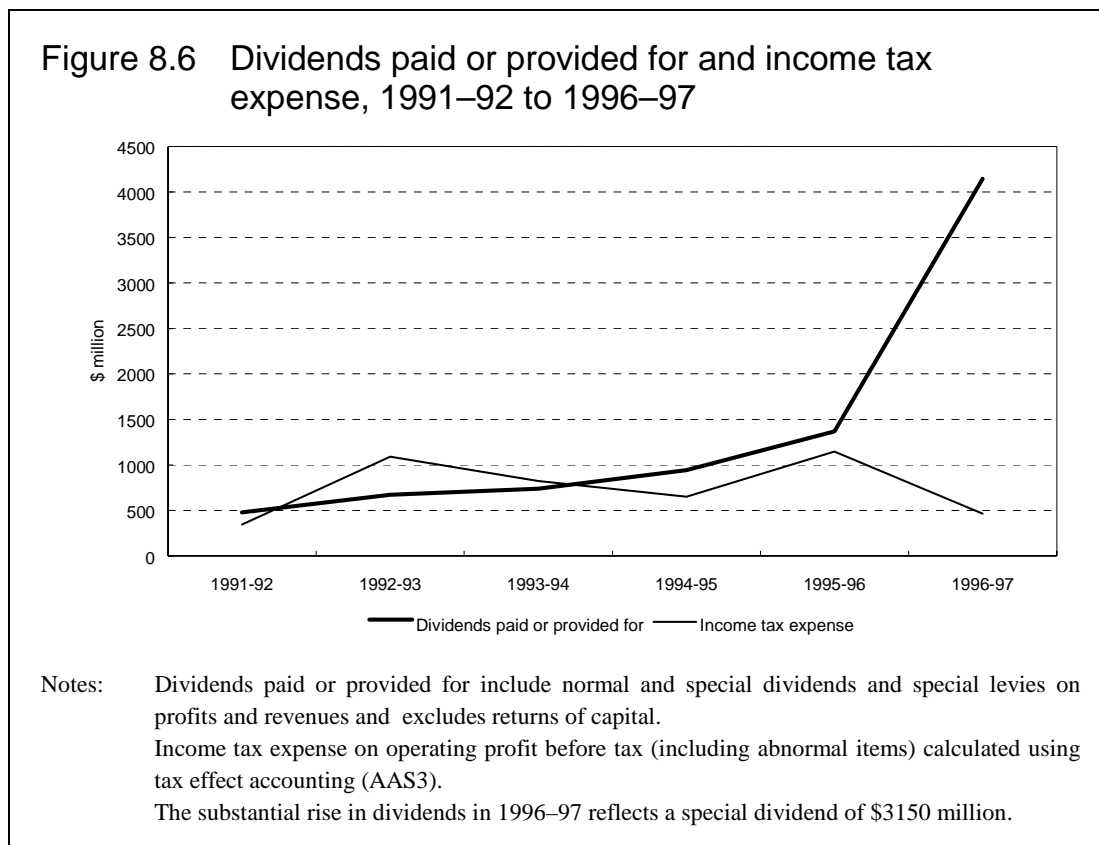
- \$1126 million for redundancy and associated costs relating to the reduction in Telstra's workforce;
- \$394 million to reflect Telstra's obligations related to the Jindalee Operational Radar Network;
- \$342 million for the writing-down of broadband cable assets; and
- \$476 million as a result of an agreement to reduce the rollout of the Broadband Network.

Over the same period, Telstra also recognised the following abnormal gain before tax:

- \$606 million due to the capitalisation of items previously expensed relating to indirect overheads, software and interest (following a change in accounting policy).

Dividend payments and income tax expense

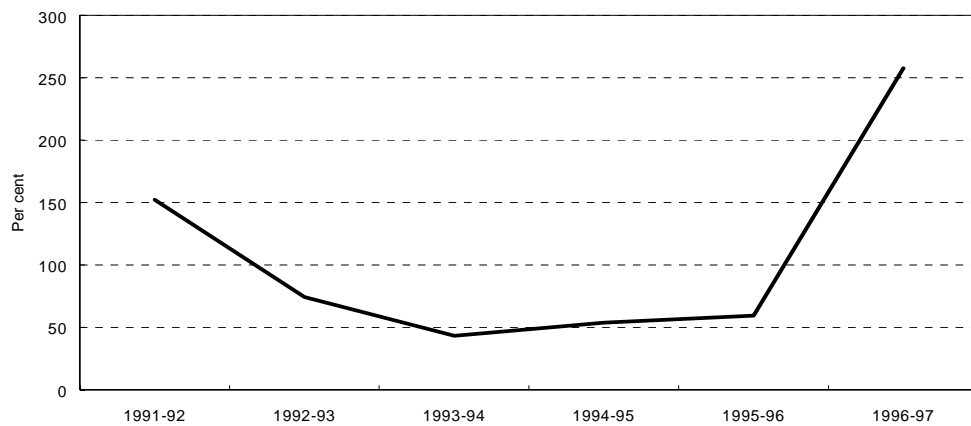
Dividend payments and income tax expense have also increased over the period (see Figure 8.6). There was a particularly large increase in dividend payments in 1996–97 due to a \$3150 million special dividend as part of a restructuring of Telstra's capital base in preparation for privatisation.



The steady increase in dividends paid to the Government over the reporting period has not, however, represented a continuous increase in dividends as a proportion of Telstra's profit (see Figure 8.7). Indeed, dividends as a proportion of Telstra's profit have moved both up and down over the period, declining sharply between 1991–92 and 1993–94, gradually increasing in 1994–95 and 1995–96, and jumping significantly in 1996–97 (reflecting the special dividend paid in that year).

In contrast to dividends paid to the Commonwealth Government, Telstra's income tax expense has not increased consistently over the period. Indeed, income tax expense was just over \$344 million in 1991–92 and was \$464 million in 1996–97.

Figure 8.7 Dividend payout ratio, 1991–92 to 1996–97



Notes: The dividend payout ratio is calculated by dividing dividends paid or provided for by operating profit after-tax, and shows the proportion of operating profit paid as a dividend. The substantial rise in the dividend payout ratio in 1996–97 reflects a special dividend of \$3150 million.

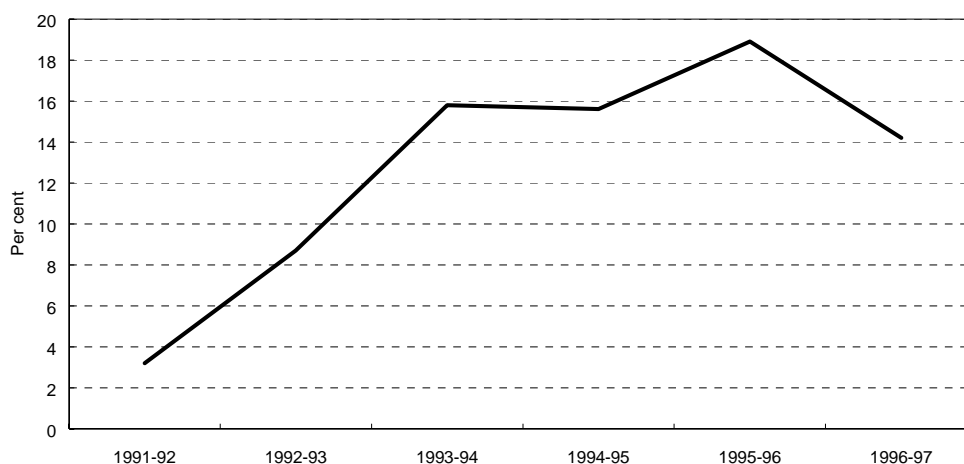
Return on equity

Telstra's return on equity grew rapidly over the early part of the period (see Figure 8.8).¹⁰ Between 1991–92 and 1993–94, it rose from around 3 per cent to around 16 per cent. It rose again in 1995–96 to 19 per cent, before falling back to 14 per cent in 1996–97. This is broadly consistent with profit over these years.

Telstra's achievement of a return on equity of around 14 per cent in 1996–97 is the highest of the Commonwealth GTEs monitored in this report.

¹⁰ Return on equity is defined as the ratio of operating profit after income tax to average total equity, where equity is the difference between total assets and total liabilities. Telstra values its assets at the lower of historical cost and recoverable value.

Figure 8.8 Return on equity, 1991–92 to 1996–97



Notes: Return on equity is the ratio of operating profit after-tax to average total equity. Operating profit after-tax is calculated by subtracting total expenses and income tax paid or payable from total revenue. Equity is calculated by subtracting total liabilities from total assets.

Assets and liabilities

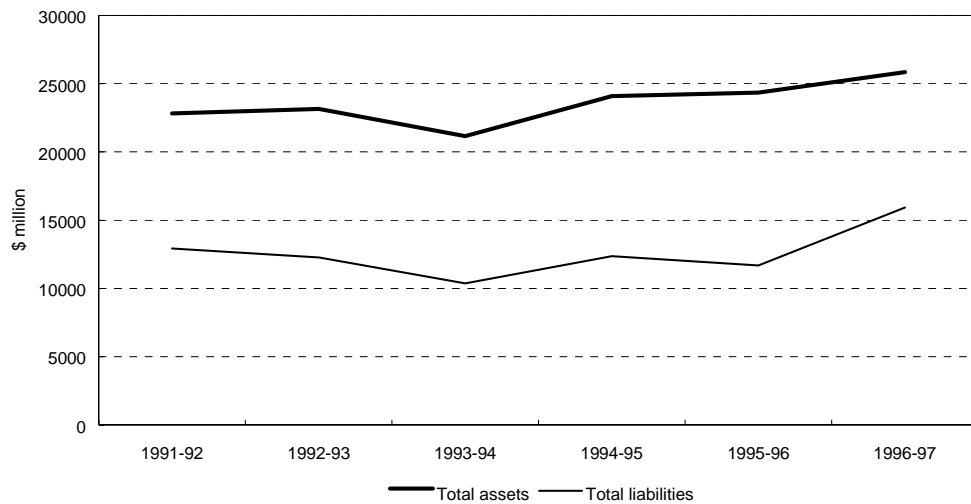
Total assets increased from \$22 823 million in 1991–92 to \$25 858 million in 1996–97 substantially exceeding total liabilities (see Figure 8.9). The \$2021 million decline in 1993–94 largely reflects a \$1868 million decline in non-current assets and a \$335 million decline in current assets. Of the decline in non-current assets, \$1347 million was due to a downward revaluation of certain communication assets after Telstra decided to accelerate the digitalisation of its telecommunication network.

The subsequent increase in asset values in 1994–95 reflects a \$1018 million increase in non-current assets and a \$1926 million increase in current assets (mostly receivables, bank deposits and bills of exchange). The asset growth in 1996–97 was achieved despite several asset write-downs, including a \$342 million abnormal write-down of Telstra's broadband assets (see Box 8.3). The asset growth in 1996–97 was due in part to new capital investment expenditure of \$4504 million, and the capitalisation of items previously expensed (due to a change in accounting policy).

Telstra's total liabilities fluctuated slightly over the period, ending up around \$3000 million higher in 1996–97 than in 1991–92 (see Figure 8.9). The increase in 1996–97 was due largely to Telstra increasing its debt on 30 June 1997 by drawing down on credit facilities including a \$1000 million 364 day facility, and a \$2000 million five year credit facility. Telstra undertook

this increase in debt as part of a recapitalisation of the company in preparation for privatisation. This increase in debt saw Telstra's total debt rise from \$5355 million in 1995–96 to \$7900 million in 1996–97, and represented a significant restructuring of Telstra's capital base — lifting its gross debt to equity ratio from around 42 per cent to 80 per cent.

Figure 8.9 Total assets and total liabilities, 1991–92 to 1996–97



Notes: Total assets are defined as the service potential or future economic benefits, controlled by the entity as a result of past transactions or other events (measured at the end of the reporting period). Telstra records its assets at the lower of historical cost and recoverable value. Total liabilities are defined as the future sacrifice of service potential or future economic benefits that the entity is obliged to make to other entities as a result of past transactions or other events (measured as at the end of the reporting period). Includes provisions for employee entitlements, creditors, deferred revenue, all repayable borrowings, interest bearing non-repayable borrowings and redeemable preference shares.

Community and employee outcomes

The community has been affected by Telstra's activities in several ways other than through the products and services it has offered and their prices.

First, Telstra has benefited the community through the CSOs it has provided. As mentioned earlier, these community benefits include untimed local calls and the provision, on an equitable basis, of reasonable access by all Australians to standard telephone, pay phone services and other 'prescribed carriage services' (*Telecommunications Act 1997*) — Telstra's USO. The cost of providing these USOs in 1996–97 was estimated at \$251.6 million, up from \$149.2 million in

1992–93.¹¹ In meeting its USO, Telstra receives financial contributions from Optus and Vodafone through a Universal Service Obligation Levy Trust Fund. In 1996–97, Telstra funded around 90 per cent of the total cost of the USO, or \$225.4 million. However, Telstra does not receive budget funding for these obligations.

Second, the community has been affected by Telstra’s performance on industrial disputation and occupational health and safety. In these areas, Telstra has been able to reduce the number of days lost due to industrial action, sick leave and industrial accidents from 5.3 per cent of total working days in 1991–92 to 3.4 per cent in 1996–97.

Employees have been affected by Telstra’s decisions on remuneration, and staff levels and redundancies.

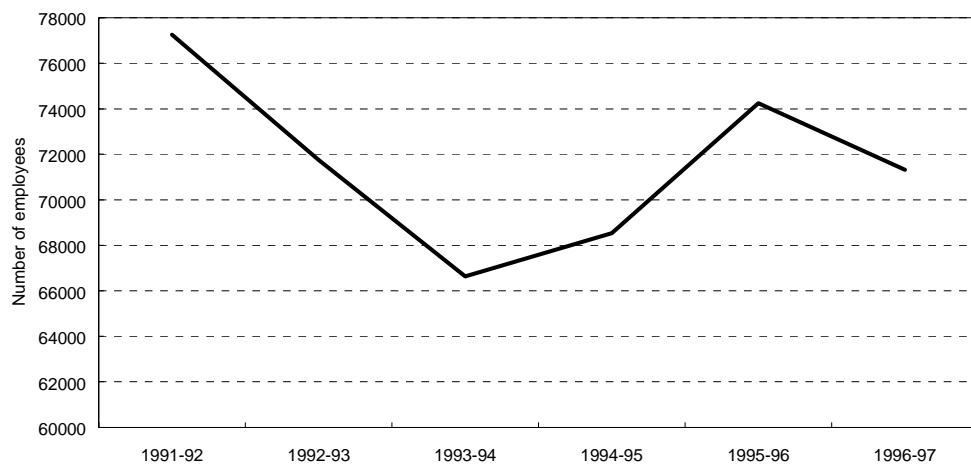
In terms of staff levels, average staff numbers have fallen from 77 255 to 71 316 (see Figure 8.10). Of the decline in staff in 1996–97, Telstra reported that approximately 20 per cent resulted from the outsourcing of activities, through the sale of certain businesses and the contracting out of some operations, and 45 per cent were due to redundancies — some voluntary and some involuntary.¹² See Box 8.2 for information on activity and employment levels in the communications industry generally over the reporting period.

In 1996–97, Telstra also began a new four year program of reducing full-time staff numbers by 25 500.

¹¹ These figures were provided by Telstra, and have been accepted by Austel.

¹² Approximately 1500 new full-time staff were employed in late June 1997 through the consolidation of Pacific Access, Telstra’s directory services joint venture company.

Figure 8.10 Total direct GTE employment, 1991–92 to 1996–97



Notes: Total employment is measured as the average of full-time equivalent staff at the beginning and end of the period.

Summing up

Telstra has performed very strongly over the period 1991–92 to 1996–97.

- Consumers have benefited from lower prices and improved range and access to services, with particularly good results showing up for regional areas. However, indicators of service quality have shown mixed results.
- The Government has benefited from significant dividend payments, and maintenance of the asset base.
- The community has further benefited from reduced working days lost due to industrial disputes, sick leave and industrial accidents. The community has also benefited from Telstra's USOs.

Both technological improvements and increased competition are likely to have played a role in these outcomes.

8.3 Australia Post

Australia Post is Australia's principal mail service provider. Although regulatory reform and new technology have presented Australia Post with many challenges over the 1990s, outcomes for the Commonwealth Government, consumers and the community have been very favourable.

In 1996–97, Australia Post reported \$3110 million in revenue, managed assets valued at \$2589 million, and employed on average approximately 38 000 full-time equivalent employees.

Background

Australia Post's services can be categorised into six key areas:

- letters — collecting, processing and delivering letters, express post, advertising mail and registered mail;
- international — international express post, international parcel services, and international registered post;
- parcels — including express parcel delivery;
- financial services — bill payment facilities, giroPost retail banking services, the electronic lodgement of tax returns, and money orders;
- retail services — selling mail related products and general retail merchandise; and
- other — collectibles such as stamp collections.

In 1996–97, Australia Post delivered 17 million mail items per working day, operated 4462 retail outlets and undertook 160 million financial transactions. See Box 8.6 for an overview of the postal market.

Universal service obligations

In providing letter services, Australia Post has to meet several legislative requirements.

Importantly, Australia Post has to meet its Universal Service Obligation (USO) to provide letter services:

- at a single uniform rate of postage for delivery across Australia (for standard letters carried by ordinary post);
- which are reasonably accessible to all Australians on an equitable basis; and
- at performance standards which reasonably meet social and business needs.

These social objectives are set out in s.27 of the *Australian Postal Corporation Act 1989*.

Australia Post has estimated that the cost of meeting these community service obligations (CSOs) was \$67 million in 1996–97. Australia Post receives no financial assistance from the Government to meet these obligations.

Box 8.6 The postal market

- In 1996–97, household customers sent almost 500 million letters and Australia Post carried around 4200 million articles including letters, parcels, international mail and unaddressed mail.
- In 1996, it was estimated that the broad communications market included 20.8 billion messages, of which 19 per cent were sent by post. This compares to the 3.8 billion messages estimated to have been sent in 1960, at which time postal services' share was around 50 per cent.
- Despite the fall in postal services share of the total message market, mail volumes have grown at around 2 per cent a year between 1960 and 1996 and have been estimated by Australia Post to have reached 4.2 billion items in 1997.
- Mail from businesses to households has been one of the fastest growing areas of postal activity in recent years, growing 40 per cent between 1990 and 1996.
- Overall, approximately 85 per cent of physical mail is sent by business.

Source: Australia Post 1997, NCC 1997c, Marshall 1996.

Reserved services

While Australia Post has to meet its USOs without direct financial assistance, it receives legislative protection from competition in providing its standard letter service. In particular, legislation requires that deliverers, other than Australia Post, of letters weighing less than 250 grams charge at least four times the uniform rate. This 'reservation' of services for Australia Post covers both business and household mail, as well as the delivery within Australia of letters posted from other countries.

In 1996–97, Australia Post's reserved services generated \$1587.2 million in revenue and \$120.2 million in operating profit, while its non-reserved services generated \$1527 million in revenue and \$224.6 million in operating profit. As such, reserved services accounted for 51 per cent of Australia Post's revenue, but only 34.9 per cent of its operating profit in 1996–97. Significantly, the share of Australia Post's operating profit coming from reserved services has continually declined between 1992–93 and 1996–97, falling from 57 per cent to 34.9 per cent (NCC 1997c).

The prices of Australia Post's reserved services are overseen by the ACCC and the Minister for Communications and the Arts. The prices of all other services provided by Australia Post, including parcel deliveries, are not regulated but are open to competition.

In terms of revenues by product type, most of Australia Post's revenues come from its mail services — letters, parcels and international mail. In 1996–97, these services represented 87.8 per cent of Australia Post's operating revenue (before abnormal items). However, Australia Post's financial services and retail outlets have been making an increasing contribution to Australia Post revenues and profit. In 1996–97, financial services contributed about 5 per cent to total turnover, and its retail operations generated \$18 million in profit (the first time Australia Post's retail services have returned a profit).

Competition and changing markets

Australia Post faces considerable competition from private deliverers in distributing newspapers, catalogues and leaflets, and from private couriers in the parcels market. All deliveries of printed mail are also facing increasing competition from electronic services such as telephones, faxes and the internet. Australia Post's non-mail services also face direct competition from newsagents and general retailers in the sale of post-related and other merchandise, and from banks in the provision of financial services.

Over the period, there have been significant changes in the size and structure of the postal services market, and the broader communications market to which it belongs. For example, four out of five letters now originate from businesses rather than households. The size of the 'messages market' has increased, from 3.8 billion messages in 1960 to 20.8 billion messages in 1996 — with Australia Post's market share falling from 50 per cent to 19 per cent.¹³ More fundamentally, there has been a revolution of change in the broader communications market, with technology generating new ways of communicating cost effectively.

There have also been changes in the environment in which Australia Post operates due to regulatory reforms — both to the postal industry itself and to the telecommunications market.

Australia Post has been responding to these changes in several ways. It has sought efficiency gains in its postal network, including in mail collection and delivery, mail sorting and bulk mail transportation. It has also worked on

¹³ Messages include services provided by Australia Post, courier services and unaddressed mail, and phones and fax services.

increasing its returns from its extensive retail network — modernising its retail operations, expanding its range of mail services and related products, providing outlets targeted at different customers, adding auxiliary services such as financial services and merchandise sales, and restructuring the management and ownership of some of its network.

In restructuring the ownership of its network, Australia Post has turned many of its postal outlets into licensed outlets which are privately owned and managed — in 1996–97, there were 2925 such outlets representing 65 per cent of all post offices. Australia Post also introduced community postal agencies to provide basic postal services in Australia’s smaller communities. There were 534 such agencies as at 30 June 1997.

Australia Post also engaged in several joint ventures in the areas of air freight, information technology, data analysis, financial services and international bulk mail. For example, Australia Post has a 50:50 business partnership with Qantas in Australian Air Express Pty Ltd, providing intrastate, interstate and international express air services. In 1995, Australia Post formed a 50:50 joint venture with Chase Manhattan Bank Australia to establish Austrapay Ltd, which provides the electronic payment, cheque processing and remittance services used for over the counter bank and bill payment services.

Regulatory reforms

The main regulatory reforms affecting Australia Post over the period were changes in December 1994 to the *Australian Postal Corporation Act 1989*. These amendments widened the scope for competition in the delivery of letters by:

- reducing the weight threshold for competition from 500 grams to 250 grams, and the price threshold from ten times the standard letter rate to four times;
- formally recognising the operation of document exchange networks by allowing the movement of documents within an exchange service;
- deregulating the carriage of bulk letters between cities, allowing lodgement at specified mail centres (with letters on-delivered by Australia Post at reduced rates); and
- deregulating the carriage of mail out of Australia (with restrictions on the delivery of international mail within Australia maintained).

Reforms in the telecommunications industry over the period are also relevant to Australia Post, with both postal and telecommunication services aiming at satisfying communication needs within the community (see Section 8.2).

In February 1998, the National Competition Council (NCC) completed a review into the *Australian Postal Corporation Act 1989*, and on 13 July 1998 Australia Post released a new service charter.^{14 15}

The Government responded to the NCC review shortly after the release of Australia Post's Service Charter in July 1998. The response included increasing competition from 1 July 2000 by opening up incoming international mail to full competition, and allowing private sector competitors to deliver items weighing more than 50 grams at any price and mail weighing less than 50 grams at not less than one times the standard letter rate. The Government also announced a new CSO on Australia Post to maintain at least 4000 retail post outlets with at least 2500 in rural areas.¹⁶

Consumer outcomes

Consumer outcomes have been very positive over the reporting period (see Box 8.7).

¹⁴ Key recommendations from the NCC review included the further deregulation of Australia Post's services especially with respect to business mail. In particular, the review recommended permitting competition in mail originating from a business and opening inward bound international letters to competition — with the effect that 93 per cent of Australia Post's services would be subject to competition. The review also recommended the maintenance of the USO — although it suggested changes to require cross-subsidies to be met either from the delivery of household letters or the budget.

¹⁵ Key elements of the new service charter include Australia Post's commitment to maintain more than half its retail outlets in rural and remote areas, and to report to Parliament its performance against targets for its services (such as delivery times, the price and availability of stamps, and lodgement points). The charter is underpinned by a set of performance regulations which require Australia Post to deliver certain performance standards including that 94 per cent of non-bulk letters are delivered on time; that 98 per cent of delivery points receive a minimum of five deliveries a week and that not less than 99.7 per cent of delivery points receive not less than two deliveries per week; maintaining a minimum retail presence of 4000 postal outlets with 2500 located in rural or remote areas; and a set minimum of street posting boxes.

¹⁶ Other elements of the reform package included requiring Australia Post to offer discounts for major mail users using barcodes; to work closely with major mail users to develop a bulk mail monitoring system; requiring Australia Post to develop arrangements with potential competitors to ensure they have reasonable access to Australia Post's network on reasonable terms and conditions; and freezing the price of the standard letter at 45 cents until at least 2003. The Government's reforms are expected to push the proportion of Australia Post's revenues exposed to competition up to 88 per cent, compared to 93 per cent recommended by the NCC.

The considerable growth in Australia Post's profit and its payments to the Government, however, indicate that a large amount of the gains from Australia Post's improved performance may not have been passed on to the direct consumers of Australia Post's services.

Box 8.7 Key consumer outcomes

Key outcomes for Australia Post's customers between 1991–92 and 1996–97 include:

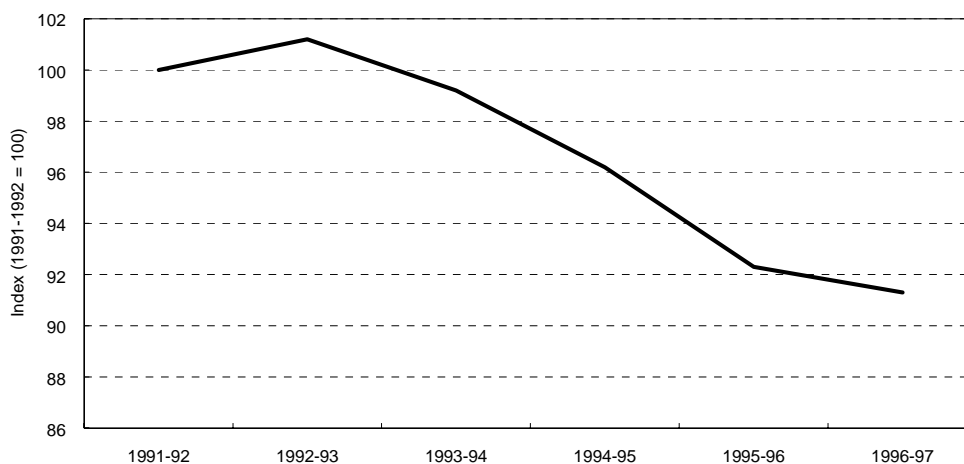
- an 8.7 per cent fall in the real price of posting a standard letter;
- the percentage of mail delivered on time never falling below 92 per cent in any of the six years reported; and
- delivery frequencies being maintained, customer satisfaction increased and more services accessible.

Real prices

The real price of posting a standard letter fell by 8.7 per cent between 1991–92 and 1996–97, with real prices falling consistently since 1992–93 (see Figure 8.11). These real price falls were achieved by Australia Post freezing the price of standard letters at 45 cents since January 1992.¹⁷ The Government has announced that Australia Post will maintain this 45 cent price until 2003.

¹⁷ This real price reduction of 8.7 per cent since 1991–92 is based on average real prices for each year between 1991–92 and 1996–97. Since Australia Post froze the price of posting a standard letter at 45 cents in January 1992 (after increasing it from 43 cents in that month), the fall has been 11.7 per cent (Australia Post 1997).

Figure 8.11 Real price index, 1991–92 to 1996–97



Notes: The real standard letter price relates to the real postage rate applicable to standard letters carried within Australia by ordinary post.

Service reliability and quality

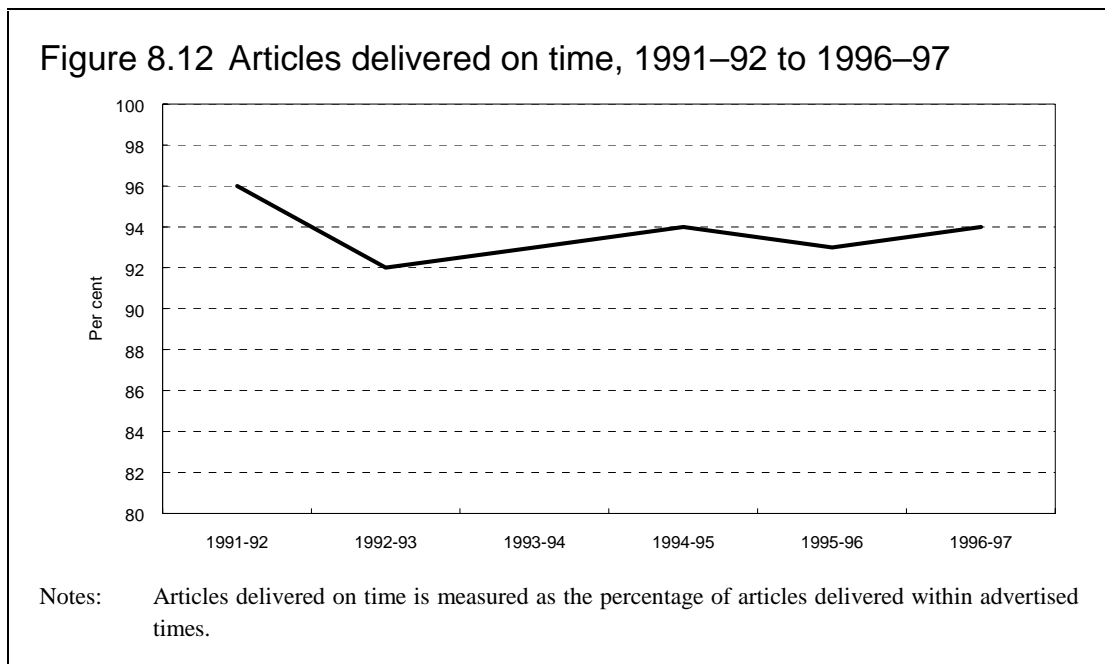
Several indicators of service reliability and quality show that Australia Post has maintained a high level of performance over the reporting period. Service quality was maintained in rural and remote areas as well as metropolitan areas.

For example, although the percentage of articles delivered within advertised times fluctuated over the period, they never fell below 92 per cent and ended up only marginally down in 1996–97 compared to 1991–92 — at 94 per cent compared to 96 per cent (see Figure 8.12). Moreover, the percentage of articles delivered within one day of the advertised time remained very high over the period, not falling below 98 per cent — in 1996–97, this figure was 99 per cent compared to 100 per cent in 1991–92.

Delivery frequencies were also maintained over the reporting period. Mail was delivered within one day across towns, one to two days across major intrastate centres, two to three days across major interstate centres, and three to four days for distant areas (including international and remote locations).

Australia Post has also conducted surveys of customer satisfaction. Australia Post reported a range of customer satisfaction levels for business and private consumers, both of which improved noticeably between 1991–92 and 1996–97. Improvements in customer satisfaction ranged from increases of 9 per cent for business customers on Australia Post's overall performance, to 20 per cent for private customers on Australia Post's consistency in delivering on time. In addition, nine out of ten customers were satisfied with its retail presentations

and service, and approved of recent changes to its retail network (Australia Post 1997).



Service access

Australia Post maintained a significant postal network over the reporting period. In 1996–97, Australia Post had 8.2 million delivery points (up 3.7 per cent from 1995–96).

Of the estimated 2.35 million delivery points in rural and remote areas, 94 per cent of these received five deliveries every week in 1996–97 (the same as in 1995–96). The remaining six per cent of rural and remote recipients received between one and four deliveries a week. In addition, 57.4 per cent of Australia Post's retail outlets were located in rural and remote communities in 1996–97.

The House of Representatives Standing Committee on Transport, Communications and Microeconomic Reform also found that Australia Post's services to rural and remote Australia to be satisfactory (HRSCTCMR 1996).

Moreover, a review of postal services to remote and discrete Aboriginal and Torres Strait Islander communities by the Aboriginal Torres Strait Islander Commission in 1996, found that the delivery service provided by Australia Post was considered to be 'very satisfactory' by the majority of communities visited. In particular, most communities visited saw Australia Post's move to introduce Community Postal Agencies as very positive.

Accessibility to Australia Post's mailing services has also improved, with its decision in 1994 to allow customers to lodge mail up to 6pm at all major population centres (rather than facing an array of mail closing times).

Consumers of Australia Post's services have also gained from access to a wider range of services. For example, in July 1995 Australia Post extended the number of banks operating through its network with the introduction of giroPost — in that year customers were able to have access to Citibank, Challenge Bank, Advance Bank, Adelaide Bank, Metway Bank, Bendigo and Home Building Society, as well as the Commonwealth Bank. The number of agencies consumers can access for paying bills also rose, reaching 230 in 1996–97. In addition, a range of products were introduced over the period, including Express Post in 1991 and KeyPost in 1996.¹⁸

Shareholder outcomes

Outcomes for the Commonwealth Government have been very positive over the period 1991–92 to 1996–97 (see Box 8.8). Profit performances have been strong and substantial payments to the Government have been made, including \$450 million in capital repayments.

Box 8.8 Key shareholder outcomes

Key outcomes for the Government from Australia Post include:

- improved profit, with over \$350 million in profit in 1996–97;
- dividends paid in each year, increasing to \$220 million in 1996–97;
- good returns on equity; and
- a growing asset base, with assets well in excess of liabilities.

Profitability

Australia Post's profit has improved considerably over the period, with profits up from \$237.7 million in 1991–92 to \$353.1 million in 1996–97 (see Figure 8.13). Profit grew strongly between 1993–94 and 1995–96 as a result of increasing revenues and more moderate growth in expenses. An important component of this increased profit performance has been the improvement in

¹⁸ Express Post provides guaranteed overnight delivery to all capital cities and many other destinations. KeyPost is a national certification service designed to provide for secure financial transactions undertaken electronically.

Australia Post's retail activities, from a loss of \$85 million in 1991–92 to a \$18 million profit in 1996–97.

Notably, Australia Post's profit continued to rise between 1994–95 and 1995–96, after the Government opened up the postal market to further competition. The slight decline in profit after-tax in 1996–97 was due to a decrease in net abnormal gains from \$23.9 million in 1995–96 to \$6.5 million in 1996–97. In terms of operating profit before abnormals, Australia Post improved its performance.

In all, Australia Post's revenues rose 34.6 per cent (22 per cent in real terms) and expenses 35.2 per cent (21 per cent in real terms) over the reporting period (see Figure 8.14).

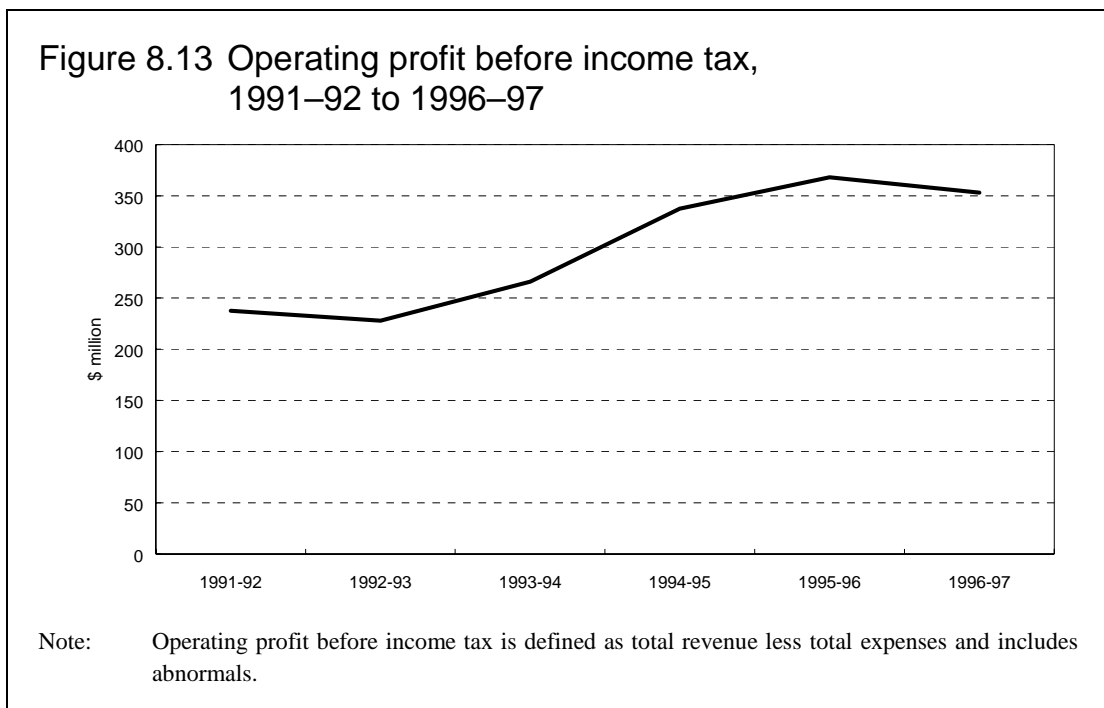
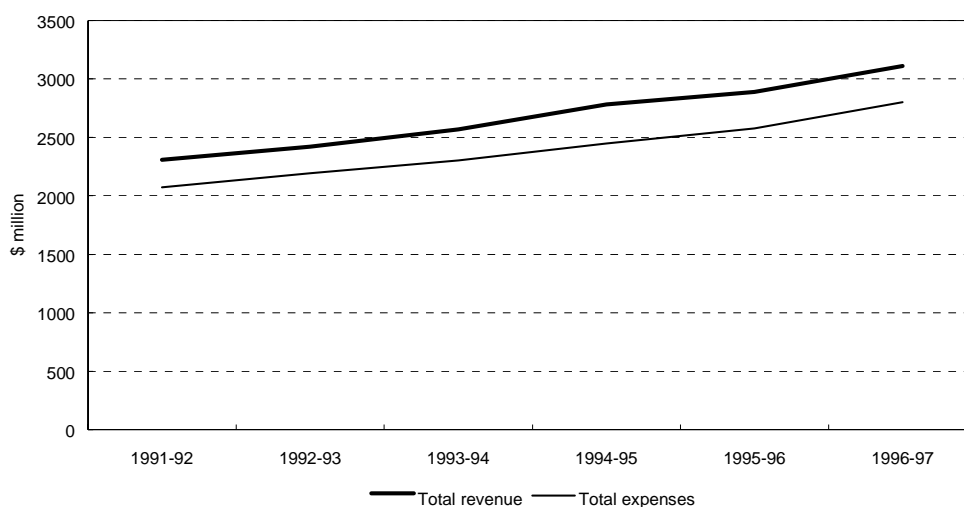


Figure 8.14 Total revenue and total expenses, 1991–92 to 1996–97



Notes: Total revenue includes revenue from sales and levies, revenue from asset sales, investment income, receipts from government for specific agreed services, other revenue from operations, receipts from government to cover operating deficits on operations and abnormal revenue. Excludes funds received for specific capital works from governments or other parties, and equity contributions from government.

Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution of assets and abnormal expenses.

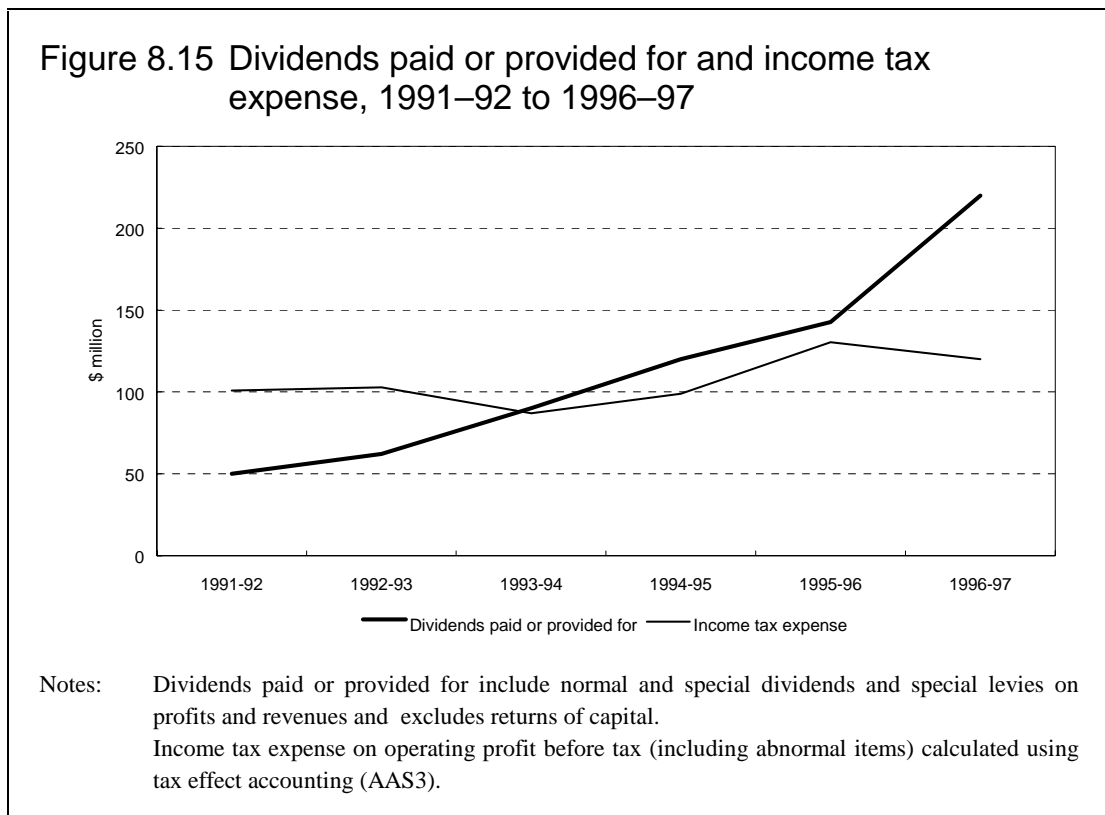
Dividend payments and income tax expense

Australia Post paid \$685 million in dividends, incurred \$639.7 million in income tax expense, and made \$450 million in capital repayments over the reporting period.¹⁹

Dividends paid to the Government have grown throughout the period, increasing from \$50 million in 1991–92 to \$220 million in 1996–97 (see Figure 8.15). This has largely reflected Australia Post's improving profit performances, but also the Government decision in 1995 to increase the dividend payout ratio for its GTEs from 50 per cent to 60 per cent. The large increase in dividends in 1996–97 was mainly due to an \$80 million 'special dividend' paid to the Commonwealth Government. Australia Post reported that this special dividend was 'in line with the Government's Budget directions' (Australia Post 1997). The increase in dividends in 1996–97 resulted in a

¹⁹ The income tax expense figure excludes other Commonwealth taxes which Australia Post also pays.

significant increase in the company's dividend payout ratio for that year (see Figure 8.16).

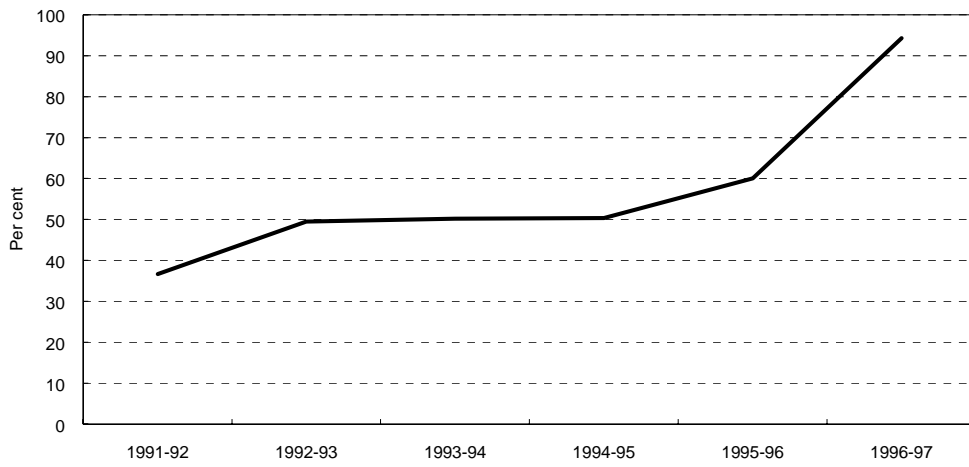


Capital repayments totalling \$450 million were paid by Australia Post to the Commonwealth Government over the period, as part of a restructuring of the company's balance sheet. In 1993–94 \$200 million was repaid, in 1994–95 \$125 million, in 1995–96 \$75 million, and in 1996–97 \$50 million. In each of these years Australia Post issued debt through floating rate notes.

In 1993–94 \$235 million of floating rate notes were issued, in 1994–95 \$57.5 million, in 1995–96 \$25 million, and in 1996–97 a further \$50 million. This largely explains Australia Post's increasing debt to equity ratio between 1992–93 and 1996–97, with the particularly large increase in 1992–93, reflecting the relatively large note issue in that year (see Figure 8.17).

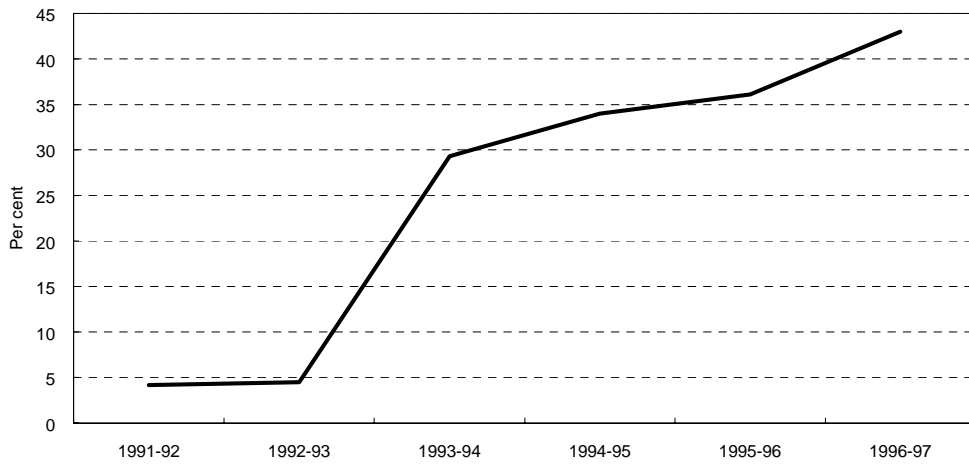
Australia Post's strong profit performance has enabled it to record good returns on assets and equity (see Figure 8.18).

Figure 8.16 Dividend payout ratio, 1991-92 to 1996-97



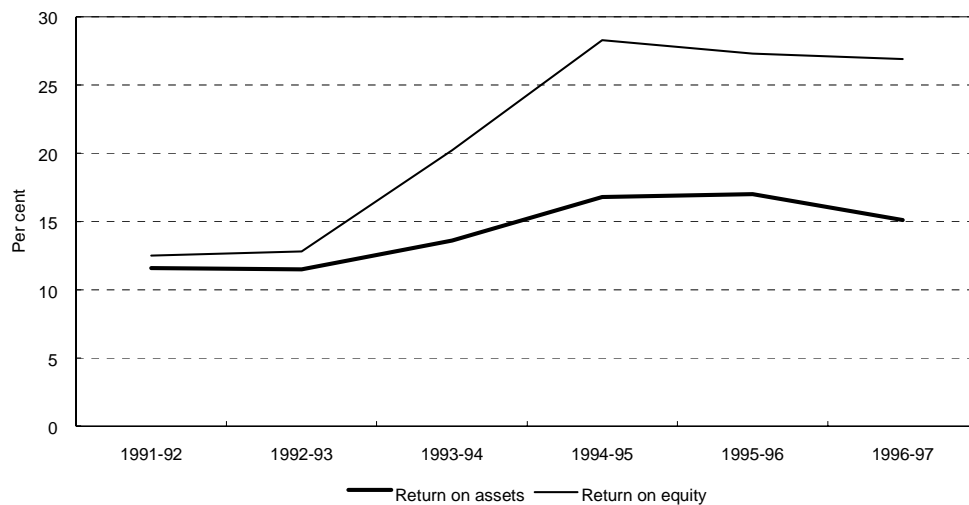
Notes: The dividend payout ratio is calculated by dividing dividends paid or provided for by operating profit after tax and shows the proportion of operating profit paid as a dividend.

Figure 8.17 Debt to equity ratio, 1991-92 to 1996-97



Notes: Debt to equity ratio is the ratio between total debt and total equity.

Figure 8.18 Return on assets and return on equity,
1991–92 to 1996–97



Notes: Return on assets is the ratio of earnings before interest and taxes (including abnormals) to average total assets. Australia Post records its assets at the lower of historical cost and recoverable value.

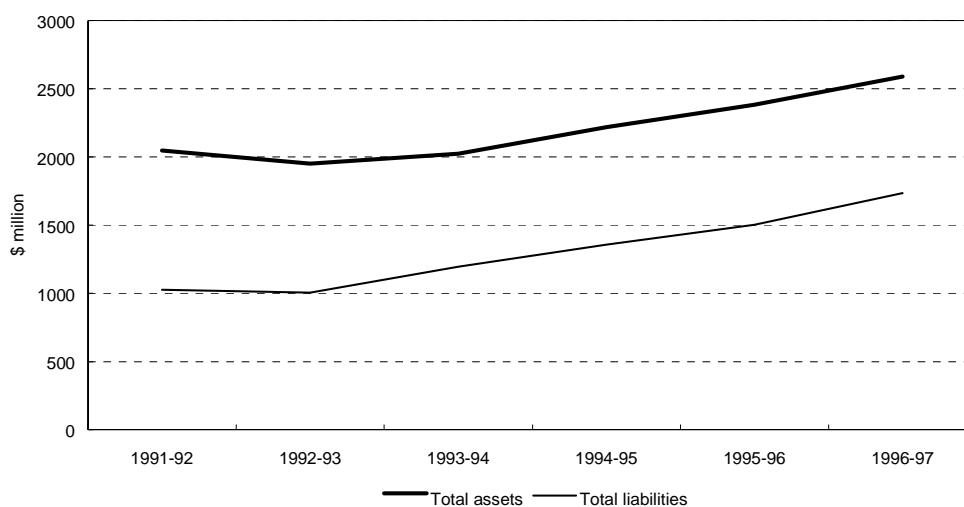
Return on equity is the ratio of operating profit after-tax to average total equity. Operating profit after-tax is calculated by subtracting total expenses and income tax paid or payable from total revenue. Equity is calculated by subtracting total liabilities from total assets.

Assets and liabilities

Australia Post's total assets and liabilities increased between 1991–92 and 1996–97, with assets up around \$542 million (from \$2047 million to \$2589 million in 1996–97) and liabilities up around \$706 million (from \$1027 million to \$1733 million) (see Figure 8.19). Underlying Australia Post's increase in assets has been new investment over the period of around \$1400 million.

Australia Post's debt to equity ratio has increased significantly over the period (see Figure 8.17). This has been a deliberate strategy by Australia Post to adopt more commercial levels of gearing. In doing so, Australia Post sought, and has maintained, a AAA credit rating from Standard and Poors.

Figure 8.19 Total assets and total liabilities, 1991-92 to 1996-97



Notes: Total assets are defined as the service potential or future economic benefits, controlled by the entity as a result of past transactions or other events (measured at the end of the reporting period). Australia Post records its assets at the lower of historical cost and recoverable value. Total liabilities are defined as the future sacrifice of service potential or future economic benefits that the entity is obliged to make to other entities as a result of past transactions or other events (measured as at the end of the reporting period). It includes provisions for employee entitlements, creditors, deferred revenue, all repayable borrowings, interest bearing non-repayable borrowings and redeemable preference shares.

Community and employee outcomes

Both the community at large and employees of Australia Post appear to have been able to gain some positive outcomes over the reporting period.

The community has gained from Australia Post's commitment to its CSOs, including its commitment to a single uniform rate, reasonable accessibility to postal services by all Australians, and maintenance of reasonable performance standards.²⁰ These commitments have been aimed at ensuring affordable, equitable and effective postal services, to facilitate written communications between Australians regardless of location and assist national, social and

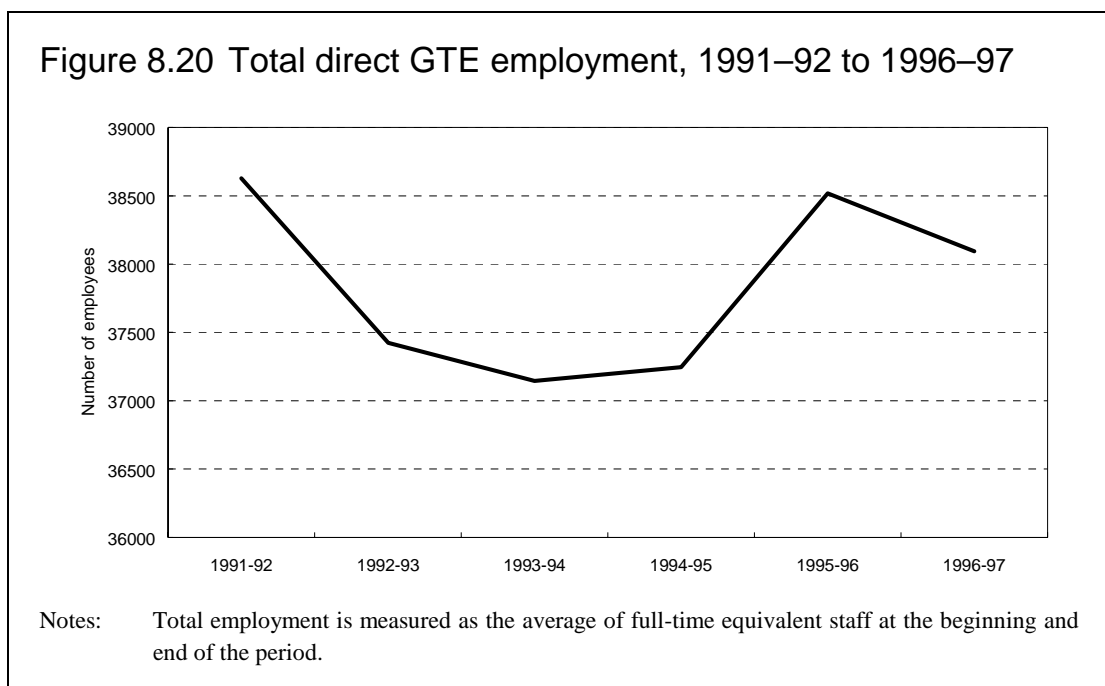
²⁰ The Commission has not attempted in this report to estimate the net benefits (or costs) to the community from these arrangements.

economic cohesion.²¹ The cost of these CSOs has been estimated by Australia Post to have increased from \$52 million in 1991–92 to \$67 million in 1996–97.

There has also been a decline in the number of work-related injuries resulting in the loss of at least one full shift after the day of the incident — falling from just under 40 per million work hours in 1993, to 35 per million work hours in 1997 (Australia Post 1997).

In addition, employees have benefited from training services provided by Australia Post.²² In 1996–97, Australia Post invested \$25.1 million in training and development activities, representing 1.8 per cent of its payroll costs.

Employee numbers have remained fairly stable, with a decrease in full-time employees offset by an increase in part-time employees. There were 33 605 full-time and 3979 part-time staff as at 30 June 1992, and 31 111 full-time and 6185 part-time staff as at 30 June 1997 (Australia Post 1992 and 1997). Average employee numbers for each of the reported years are shown in Figure 8.20. See Box 8.6 for information on activity levels in postal services over the period.



²¹ Notwithstanding these broad national goals, the Commission noted in its submission to the NCC review of the *Australian Postal Corporation Act 1989* that the objectives of these CSOs are not very clearly defined.

²² The benefits of training would be expected to accrue to Australia Post as well as its employees.

8.4 Federal Airports Corporation

The Federal Airports Corporation (FAC) owned and operated Australia's largest airport network over the reporting period 1991–92 to 1996–97, including 22 major international, regional and general aviation airports. Since 30 June 1997, the FAC's role has been significantly reduced as a result of the Commonwealth Government's leasing many of its airports to private operators. From July 1998, two new government bodies took over the FAC's remaining airports.

In 1996–97, the FAC reported \$636 million in revenue, managed \$2957 million in assets and employed on average 1190 staff.

Background

The FAC's core business activities over the reporting period included:

- aeronautical services — providing airport infrastructure such as runways, taxiways, passenger terminals, visual navigation aids, roads, and safety and security services;²³
- retail trading — providing duty free sales, food and beverage sales, and car parking; and
- property — leasing terminal space and other land and buildings.

In providing these services the FAC operated on a commercial basis, and has done so since it was established in 1988. The FAC did not face competition in its aeronautical activities, and faced variable levels of competition for its retail and property services. At the beginning of the period, the FAC was required to earn a rate of return on assets (before interest and tax) of 7.5 per cent in real terms. From 1995–96, this requirement was changed to a rate of return set at the risk free bond rate plus 2.9 per cent.

In 1996, the FAC's role expanded to include the preparation of its airports for sale following the Government's decision to lease the FAC's airports to private operators.

The FAC employed 1190 staff on average during 1996–97, compared to 1409 in 1991–92. Its airports facilitated the transportation of over 60 million passengers in 1996–97 compared to 44 million in 1991–92. See Box 8.9 for an overview of the aviation industry.

²³ The FAC's activities do not include the provision of air traffic control or non-visual navigation aids, flight services, rescue and fire fighting, or investigating the need for new airports.

Policy initiatives

Several policy initiatives affected the FAC over the reporting period. These included changes to pricing arrangements, access arrangements under the NCP, and, significantly, the Government's decision to sell most of the FAC's airports.

Changes to the FAC's pricing arrangements during the period included a decision by the Commonwealth Government in September 1995 that location and service specific pricing would replace the FAC's previous network pricing regime.²⁴ This reform has ensured that charges better reflect the costs of providing services, and has reduced cross-subsidies between airports. Aeronautical prices continued to require Ministerial approval and were monitored by the ACCC (non-aeronautical prices were not subject to such scrutiny).

Box 8.9 The aviation industry

- In 1996–97, air and space services contributed around \$1.7 billion to GDP, up from around \$1.2 billion in 1991–92 (in 1996–97 prices).
- Industry employment was around 50 000 people in May 1997, compared to just under 38 000 in May 1992.
- Between 1991–92 and 1995–96, the hours flown by domestic airlines increased from around 337 000 to over 450 000 and the passenger kilometres travelled increased from 19 billion to 25.5 billion. In 1996–97, the industry carried around 46 million domestic passengers.
- There has also been rapid growth in international passenger and freight traffic, with average annual growth rates of 8.5 per cent and 8.8 per cent respectively, between 1986 and 1995. The number of passengers carried to and from Australia has more than doubled between 1986 and 1996 to around 14 million.
- Between 1991–92 and 1996–97, the value of air freight flown into Australia increased from around \$14 billion to around \$23 billion, and from Australia increased from around \$10 billion to around \$15 billion.

Source: ABS 1998d, ABS 1998e, ABS 1998f, PC 1998b.

Access arrangements under the NCP agreed to by COAG in 1995, have also had some implications for the FAC. For example, on 6 November 1996 the NCC received three applications to declare certain services provided by the FAC at

²⁴ Under the previous regime, charges were generally applied across a wide range of airports (although there was some differentiation between groups of airports and categories of aircraft).

Melbourne and Sydney airports accessible by Australian Cargo Terminal Operators Pty Ltd. The NCC considered these applications and recommended to the Commonwealth Treasurer that the services outlined in two of the three applications should be declared.²⁵

Following an initial decision in 1994 to sell airports controlled by the FAC, the Commonwealth Government decided in 1996 that this should be done in two tranches. Melbourne, Brisbane and Perth were the first to be prepared for sale, and long-term leases to private operators came into effect on 2 July 1997. The sale of these airports raised \$3.3 billion.

All the FAC's other airports, except Essendon Airport and the Sydney Basin airports of Sydney Kingsford Smith, Bankstown, Camden and Hoxton Park, were sold by 30 June 1998. It is expected that the Government will keep control of the Sydney Basin airports until the issue of the second airport is resolved.

The Government has also decided to replace the FAC with the new Sydney Airports Corporation Limited (SACL). On 1 July 1998, this new body took ownership of those FAC assets which remained after selling most of its airports — with the exception of Essendon airport's assets. Essendon airport is now owned and run by Essendon Airports Ltd, which was established in July 1998. Essendon Airports Ltd has the same Board members as the SACL.

A new regulatory regime has been introduced to apply to privatised airports, comprised of a package of measures under the *Airports Act 1996*, the *Trade Practices Act 1974*, and the *Prices Surveillance Act 1983*. Measures included in these changes cover access arrangements, price caps and monitoring, and quality of service monitoring.

Administrative changes

To meet its responsibilities in preparing its airports for sale, the FAC changed its organisational structure in 1996. A key part of these changes was the devolving of services, airport management, and governance functions from the FAC's corporate office to individual airports. For example, the FAC introduced internal Boards for its Sydney, Melbourne, Brisbane, Perth and Adelaide airports. Individual airports were also given responsibility for setting aeronautical charges and debt collection.

²⁵ On 14 July 1997, the Treasurer announced his acceptance of the NCC's recommendations. The FAC then lodged an appeal with the Australian Competition Tribunal in relation to the declaration of its services at Sydney Airport (NCC 1997a).

Consumer outcomes

Consumers of FAC services, including airlines and passengers, have benefited from real price falls in aeronautical charges, and an expansion in the range of retail and property services offered (see Box 8.10).

Box 8.10 Key consumer outcomes

Key outcomes for consumers of FAC services over the period include:

- A 3 per cent fall in the real price of landing charges.
- An expansion of airport services, including increased parking and retail outlets, and upgraded international terminals.

Real prices

Although the Productivity Commission has not collected information on the price of FAC services, the FAC has reported that aeronautical landing charges remained unchanged in nominal terms between April 1991 and January 1997.²⁶ On 1 January 1997, however, aeronautical landing charges rose by 9.1 per cent, with total aeronautical charges increasing by 10.8 per cent on average (with an average increase of 12.1 per cent at Sydney, Melbourne, Brisbane, Perth and Adelaide, but with no increases for the FAC's 17 other airports).²⁷

The 9.1 per cent increase in landing charges over the whole reporting period represents a real price fall of 3 per cent.

Product and service range

In 1996–97, around 250 food, beverage and retail outlets were operating in the FAC's terminals, three times the number when the FAC first started in 1988.

There has also been property development over the period. For example, in 1997 a new International Export Park was completed at Brisbane airport. This facility is expected to be able to handle one million tonnes of cargo per annum.

²⁶ Around 98 per cent of the FAC's aeronautical revenues came from its general landing fee in 1996–97. Other aeronautical revenues came from its Australian Protective Services security charges and general aviation aircraft landing permits. Non-aeronautical revenue mainly derives from retail trading (representing around 39 per cent of total revenue in 1996–97) and property services (representing around 21 per cent of total revenue in 1996–97). Aeronautical revenue represented around 37 per cent of total revenue in 1996–97.

²⁷ The aeronautical landing rate per ton landed was \$6.61 in 1991–92 and \$7.21 in 1996–97.

During 1996–97, the FAC completed expansions to the international terminal facilities at both Melbourne and Brisbane airports, and in 1994–95 a new parallel runway costing \$240 million was opened at Sydney airport. In 1991–92, a new international airport was opened in Darwin. There have also been several smaller developments, such as a new ground transport precinct at Coolangatta Airport, a new common use terminal at Alice Springs airport, and a service station and restaurant at Moorabbin Airport.

Shareholder outcomes

The Commonwealth Government has benefited in several ways from improvements to the FAC's performance over the reporting period (see Box 8.11).

Box 8.11 Key shareholder outcomes

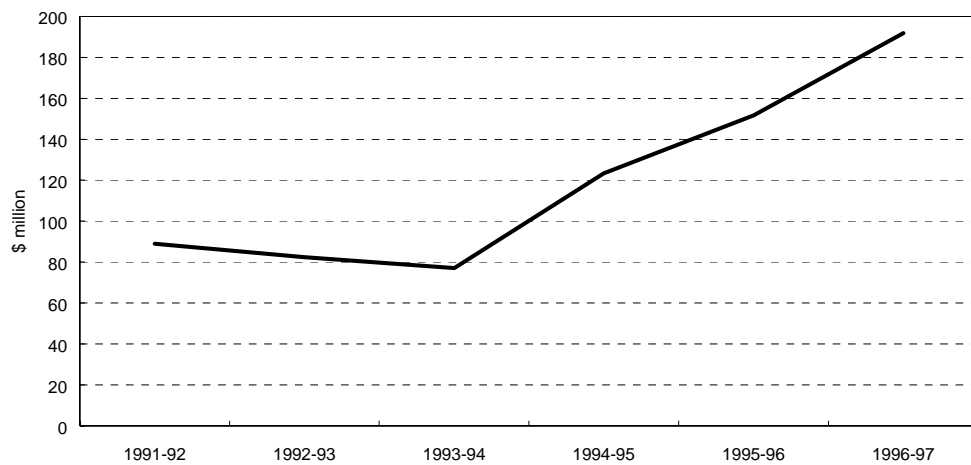
Key outcomes for the Commonwealth Government from the FAC include:

- improved profit performance — with profits increasing 116 per cent (92 per cent in real terms), and only seven airports remaining unprofitable in 1997 compared to eleven in 1988;
- steadily increasing dividend payments — with a \$66 million dividend in 1996–97; and
- maintenance and development of a strong asset base — with the subsequent sale of Melbourne, Brisbane and Perth airports on 2 July 1997 raising \$3300 million.

Profitability

The FAC's operating profit before tax (but including abnormals) declined slightly between 1991–92 and 1993–94, and then increased quite markedly between 1993–94 and 1996–97. The increase over the period as a whole was around 116 per cent (92 per cent in real terms), up from \$89 million to almost \$192 million (see Figure 8.21).

Figure 8.21 Operating profit before income tax,
1991–92 to 1996–97



Notes: Operating profit before income tax is defined as total revenue less total expenses and includes abnormals.

The decline in operating profit in 1992–93, and again in 1993–94, was largely due to abnormal expenses in those periods (see Box 8.12). In 1992–93, the FAC incurred abnormal expenses of \$13.9 million and in 1993–94 the FAC expensed \$16.8 million as an abnormal item. In 1991–92, there were no abnormal expenses.

The improvement in the FAC's profit from 1994–95 was due to both increased revenues and a slowing in the growth of expenses. Revenues rose partly as a result of the economic recovery at the time, and the growth in expenses slowed partly as a result of lower interest charges following a refinancing of \$300 million of the FAC's debt in 1993–94 (which the FAC estimated saved \$16 million per annum in interest charges). This refinancing involved \$300 million of 'foundation loans' from the Commonwealth Government being replaced by a \$200 million Eurobond issue in December 1993, and another \$100 million Eurobond issue in January 1994.

Seven airports remained unprofitable in 1996–97, compared with eleven airports that were unprofitable in 1987–88, the FAC's first year of operation.

Sydney airport continued to be by far the largest contributor to the FAC's profit performance over the period, accounting for 41 per cent of profit before interest and tax in 1996–97. Melbourne and Brisbane were the next largest contributors, accounting for 23 per cent and 17 per cent respectively of the FAC's profit in 1996–97 (FAC 1997).

Box 8.12 Abnormal items 1991–92 to 1996–97

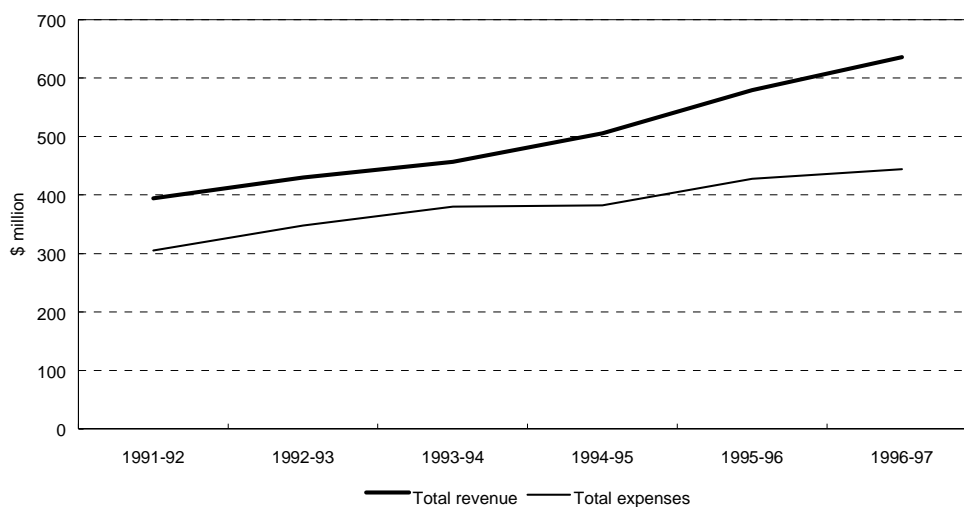
The FAC incurred the following major abnormal expenses:

- \$13.9 million in 1992–93 (\$7.1 million due to building demolition costs and \$6.8 million resulting from a previous overstatement of future tax benefits);
- \$16.8 million in 1993–94 (\$15 million for renegotiating loans with the Commonwealth Government);
- \$4.9 million in 1994–95 for building demolition;
- \$8.8 million in 1995–96 (\$3.3 million for the building of a new international terminal at Brisbane and \$4.6 million for employee rationalisation costs); and
- \$9.9 million in 1996–97 (\$5 million to cover the settlement of litigation costs relating to disputed airport landing fees charged).

There were no major abnormal revenue items.

Revenues increased over the reporting period, from \$394 million in 1991–92 to \$636 million in 1996–97 (see Figure 8.22).

Figure 8.22 Total revenue and total expenses, 1991–92 to 1996–97



Notes: Total revenue includes revenue from sales and levies, revenue from asset sales, investment income, receipts from government for specific agreed services, other revenue from operations, receipts from government to cover operating deficits on operations and abnormal revenue. Excludes funds received for specific capital works from governments or other parties, and equity contributions from government.

Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution of assets and abnormal expenses.

Retail revenue has been the biggest contributor to this growth, increasing around 83 per cent over the period compared to a 47 per cent increase for aeronautical revenue. Retail revenue represented 38.7 per cent of total revenues in 1996–97, up from 34 per cent in 1991–92. At the same time, aeronautical revenues as a proportion of total revenue has fallen slightly from 40 per cent to 37 per cent (FAC 1997).

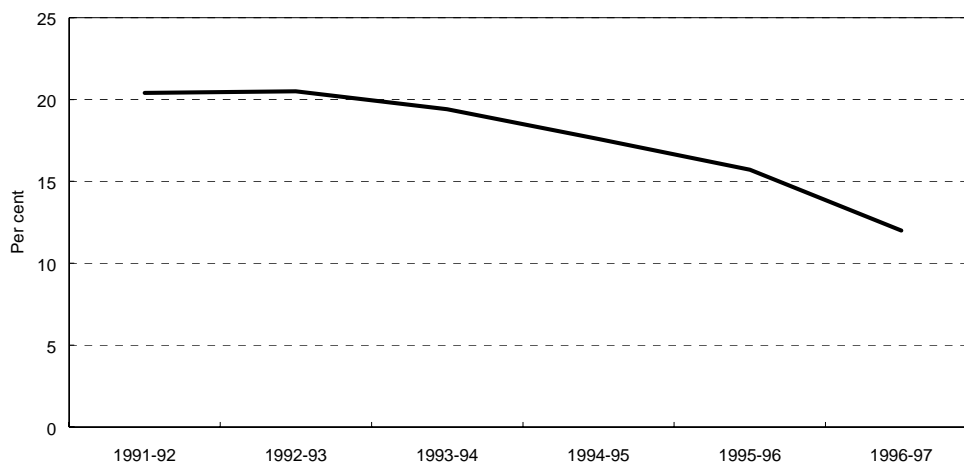
Duty free revenue has been the fastest growing component of retail revenue, representing 41.6 per cent of total trading revenue in 1996–97.

Expenses grew fairly consistently over the period, except for 1993–94, when they plateaued. The FAC reported that the main reason for this was the reduction in staff costs from increased productivity, and the first full year effect of the FAC's refinancing of \$300 million of loans from the Commonwealth Government.

By far the largest expense item over the period was depreciation, which accounted for almost 35.6 per cent of the FAC's total expenses in 1996–97. This is partly due to the FAC's \$1600 million investment in new plant and equipment since 1988.

Interest expenses fell significantly over the period, especially since 1993–94 following the refinancing of its \$300 million loan from the Commonwealth Government. Indeed, gross interest fell around \$17.2 million, from \$70.4 million in 1993–94 to \$53.2 million in 1996–97. Consequently interest as a proportion of total expenses declined from 20 per cent to 12 per cent (see Figure 8.23).

Figure 8.23 Gross interest as a percentage of total expenses, 1991–92 to 1996–97



Notes: Gross interest expense is the amount charged to the profit and loss account. It includes finance charges on finance leases and all debt related financial expenses. Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution of assets and abnormal expenses.

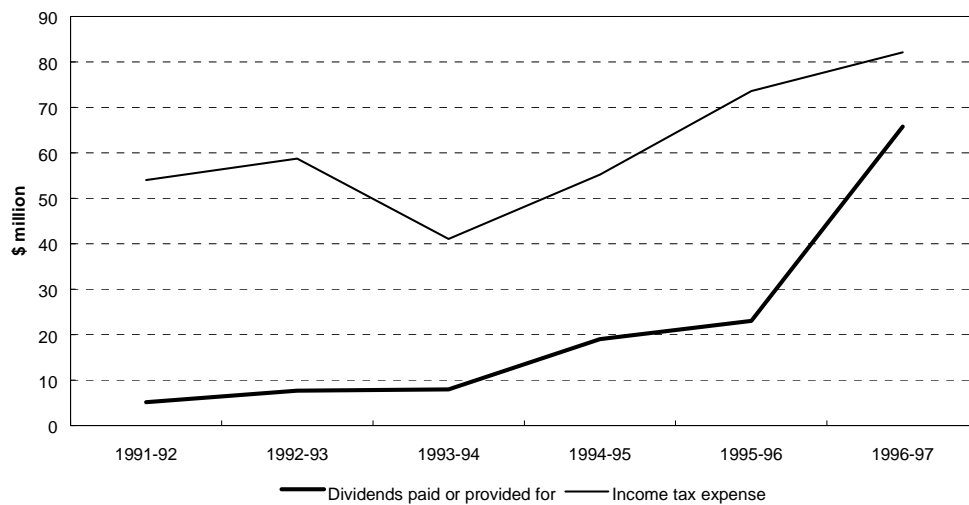
Dividend payments and income tax expense

Dividend payments increased fairly steadily between 1991–92 and 1995–96, before increasing substantially in 1996–97 (see Figure 8.24). The increase in dividends of almost \$66 million in 1996–97, from \$23 million in 1995–96, was due to strong profit performance and moderating capital expenditure requirements (FAC 1997).²⁸

Income tax expense rose every year between 1991–92 and 1996–97 except for 1993–94. The decline in income tax expense of \$6.6 million in 1993–94 was partly due to the reduction in company taxes from 39 per cent to 36 per cent, and partly due to the absence of an abnormal income tax expense.

²⁸ The FAC's 1996–97 Annual Report shows a dividend of \$45 million. This figure was subsequently revised upwards to \$65.8 million.

Figure 8.24 Dividends paid or provided for and income tax expense, 1991–92 to 1996–97



Notes: Dividends paid or provided for include normal and special dividends and special levies on profits and revenues and excludes returns of capital.
Income tax expense on operating profit before tax (including abnormal items) calculated using tax effect accounting (AAS3).

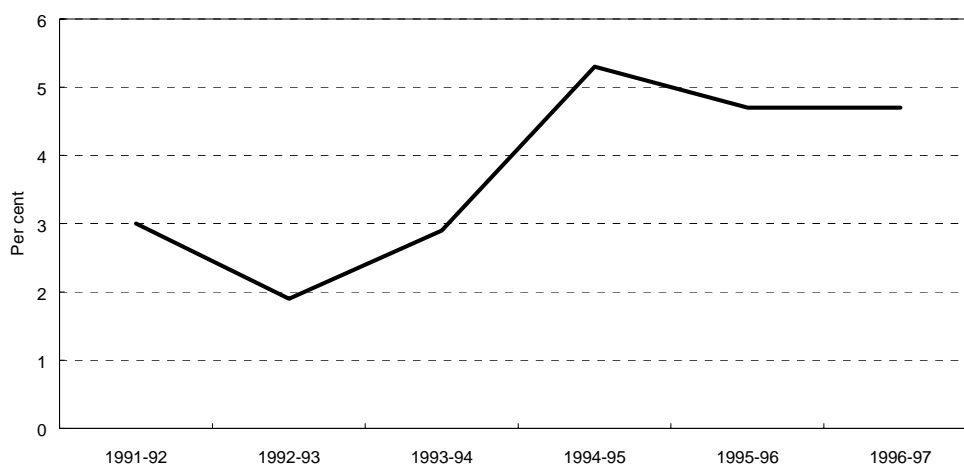
Return on equity

The FAC's return on equity increased between 1992–93 and 1994–95, increasing from 1.9 per cent to 5.3 per cent, after a decline in 1992–93. There was an easing of the FAC's return on equity in 1995–96, falling back slightly to 4.7 per cent. It remained at 4.7 per cent in 1996–97 (see Figure 8.25).

The decline in 1992–93 reflected declining profit in that year. The subsequent increase in 1993–94 was due to a reduction in income tax expense from \$58.7 million to \$41.1 million.

The increase in return on equity in 1994–95 was consistent with the sharp increase in the FAC's profit in that year. Despite strong profit in 1995–96 and 1996–97, equity rose in these two years thereby constraining the FAC's rate of return on equity. In 1995–96, equity rose as a result of an increase in assets after a \$633 million upward revaluation. In 1996–97, equity rose because total liabilities fell due to the Commonwealth Government assuming \$673 million of the FAC's debt.

Figure 8.25 Return on equity, 1991-92 to 1996-97



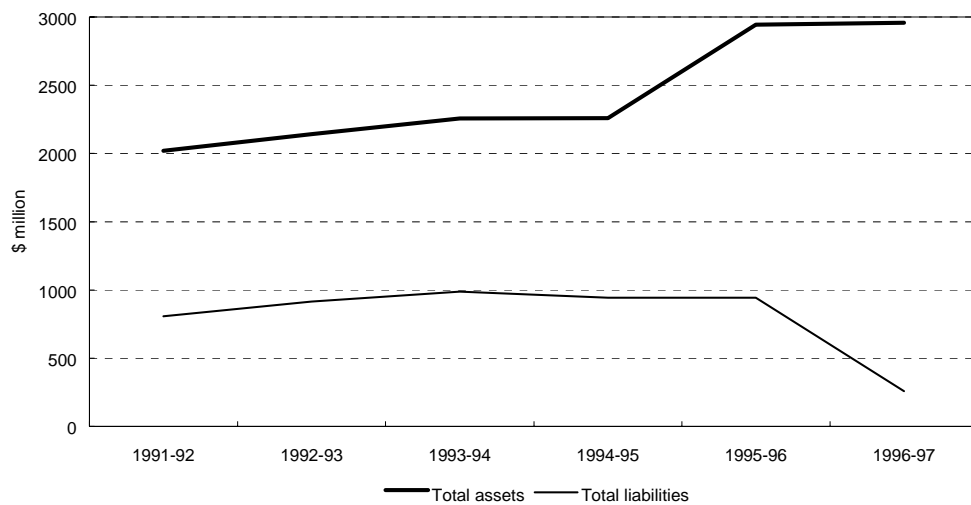
Notes: Return on equity is the ratio of operating profit after-tax to average total equity. Operating profit after-tax is calculated by subtracting total expenses and income tax paid or payable from total revenue. Equity is calculated by subtracting total liabilities from total assets.

In contrast to return on equity, the FAC's return on assets remained fairly constant over the period — being 8.1, 7.4, 7.4, 8.4, 8.4, and 8.3 per cent respectively between 1991-92 to 1996-97.

Assets and liabilities

The FAC's assets increased from \$2019 million in 1991-92 to \$2957 million in 1996-97 (see Figure 8.26). The substantial increase in assets in 1995-96 was due almost entirely to a \$633 million upward revaluation of assets (including land, buildings and runways). This revaluation was more than sufficient to offset a slow down in capital expenditure in that year (\$136.7 million in 1995-96 compared to \$240 million on average over the previous four years). The slow down in capital investment continued in 1996-97, with expenditure of \$115.5 million.

Figure 8.26 Total assets and total liabilities, 1991–92 to 1996–97



Notes: Total assets are defined as the service potential or future economic benefits, controlled by the entity as a result of past transactions or other events (measured at the end of the reporting period). In 1995–96, the FAC’s assets were revalued upwards by \$633 million. Total liabilities are defined as the future sacrifice of service potential or future economic benefits that the entity is obliged to make to other entities as a result of past transactions or other events (measured as at the end of the reporting period). Includes provisions for employee entitlements, creditors, deferred revenue, all repayable borrowings, interest bearing non-repayable borrowings and redeemable preference shares.

The FAC’s total liabilities remained fairly constant over the period until 1996–97, when the Commonwealth Government decided to assume the FAC’s external borrowings in preparation for the sale of its airports. As at 30 June 1997, total liabilities were \$258.1 million, compared to \$806.7 million in 1991–92.

Community and employee outcomes

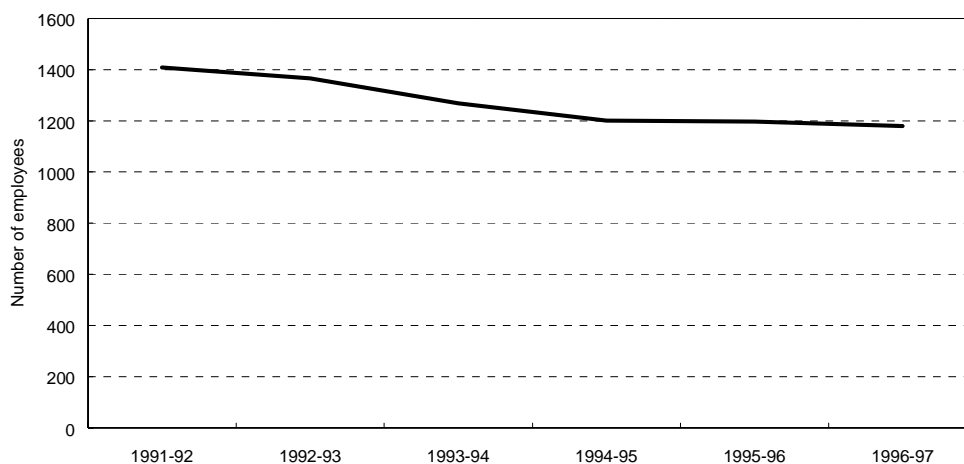
From the point of view of the community in general, there have been no days lost due to industrial disputes since 1993–94 (the first year in which data was collected).

Employees have benefited from increases in remuneration over the reporting period. Staff numbers have remained relatively stable (see Figure 8.27).²⁹

²⁹ In 1997–98, the FAC lost one third of its staff as a result of the sale of the Melbourne, Brisbane and Perth airports

See Box 8.9 for information on activity and employment levels for the air transport industry in general over the reporting period.

Figure 8.27 Total direct GTE employment, 1991–92 to 1996–97



Notes: Total employment is measured as the average of full-time equivalent staff at the beginning and end of the period.

Summing up

The FAC has delivered several positive outcomes over the six years reported. Consumers have gained from a fall in the real prices of aeronautical services and an expansion in the range of retail services. Profits increased over the period, as have payments to the Commonwealth Government — especially toward the end of the reporting period.

The FAC also prepared most of its airports for sale, restructuring its activities and moving its airports towards more autonomous operation. Subsequent to the reporting period, all the FAC's airports were sold except for the Sydney basin airports and Essendon airport.

8.5 Airservices Australia

Airservices Australia (Airservices) commenced operations on 6 July 1995, to provide civil air traffic management (ATM) services in Australian administered airspace. Between 1988 and 1995, the Civil Aviation Authority (CAA) had provided these services (along with the regulation of air safety — a function now performed by the Civil Aviation Safety Authority (CASA)).

This section reports on the performance of Airservices Australia, and its predecessor the CAA, between 1991–92 and 1996–97.

Airservices Australia reported around \$620 million in revenue, managed assets valued at \$732 million, and employed on average 4600 staff in 1996–97.

Background

Airservices' principal activities over the period included:

- the provision of civil ATM services (including air space management, air traffic control, traffic and flight information, navigation services and aeronautical information);
- the operation and maintenance of the national airways system;
- the provision of rescue and fire fighting services at major airports; and
- the conduct of aviation search and rescue services (these services were transferred to a new body, the Australian Maritime Safety Authority (AMSA), on 1 July 1997).

Airservices held a monopoly on the provision of these services throughout the reporting period.

While most of Airservices' activities were commercial, with customers buying its services, it also provided some non-commercial services required by the Commonwealth Government. These services included:

- a telephone complaints service regarding aircraft noise;
- aircraft noise and flight path monitoring;
- providing environmental information; and
- aviation search and rescue functions.

Airservices received some financial assistance from the Commonwealth Government for the provisions of its search and rescue services (\$8.1 million in 1996–97), although not enough to cover all the costs associated with providing them.

The vast majority of Airservices' revenue came from providing air traffic services, and rescue and fire fighting services. In 1996–97, these services represented around 95 per cent of Airservices' revenue. Other sources of revenue include the sale of publications, rental income from Airservices' property, and external consulting and training activities.

In 1996–97, 48 per cent of Airservices' revenues came from international carriers, with a further 48 per cent from domestic carriers. Most of the remaining 4 per cent of revenues came from general aviation services — which relate to services provided at non-major airports.

As mentioned above, the CAA provided these aviation services between 1988 and 1995. The CAA was also responsible, however, for various safety regulation services — including the development and enforcement of Civil Aviation Regulations and the issuing of licences, certificates and permits to give effect to these standards.

These regulations covered the design, operation and maintenance of aircraft, air routes, airway facilities and personnel. Formal responsibilities for these functions resided with the Directorate of Air Safety Regulation (DASR) located within the CAA. The CASA now undertakes these activities.

Airservices does, however, have responsibility for the regulation of environmental matters concerning civil aviation operations.

For background information on the aviation industry refer to Box 8.9.

Key reforms

The aviation industry has undergone considerable reform in the 1990s. The deregulation of the airlines in October 1990 was one such reform. Other reforms have been aimed at the management and ownership of Australia's major airports — which was discussed in Section 8.4.

Reforms have also been aimed at restructuring the provision of ATM services and air safety functions, and it is here that reforms have most directly impacted on Airservices and its predecessor the CAA. Indeed, it was the separation of ATM service and regulatory functions in 1995 that saw the creation of Airservices Australia and the CASA, out of the CAA. These changes were given effect through the *Airservices Act 1995* and the *Civil Aviation Legislation Amendment Act 1995*, and were instituted by the Government in response to safety concerns following aircraft crashes in 1993 and 1994.

Other significant reforms affecting Airservices over the period included:

- subjecting it to an income tax regime from 1991–92;

- organisational and capital restructuring;
- the provision of non-commercial services;
- location specific pricing; and
- the merging of aviation and maritime search and rescue services.

Airservices, and its predecessor the CAA, have undergone several organisational and structural changes over the reporting period. In particular, in 1993–94 the CAA restructured its organisation in response to a review of air safety in 1993. Airservices also changed its capital structure following a review in 1995–96, with the adoption of a target debt to equity level. This resulted in Airservices making a repayment to the Commonwealth Government of \$49 million in July 1996.

During the reporting period, the Government also required Airservices to provide a range of non-commercial services, including the establishment of a noise complaints telephone service, noise and flight path monitoring, and environmental information.

Location-specific pricing was developed by Airservices towards the end of the reporting period to replace its network pricing. The aim of these reforms is to price services more efficiently across locations, by linking them more closely to the level and costs of services provided at individual airports. In doing so, consumers travelling on lower cost routes will not cross-subsidise consumers travelling on routes which are more expensive to provide.

Location-specific pricing for fire fighting and rescue services began from 1 July 1997, after the ACCC accepted the price changes, and for terminal navigation from 1 July 1998. The Government has announced that it will phase in these changes in some airports and provide a \$13 million subsidy on service charges over two years. As part of these pricing reforms, the Government removed its 13 cent per litre duty on aviation fuel in July 1998.

In 1997, the Government decided to amalgamate the search and rescue functions for the aviation and maritime industries. These functions are now performed by the one body called AusSAR which is managed by AMSA. These changes came into effect on 1 July 1997.

Consumer Outcomes

Consumer outcomes were generally positive over the reporting period, although the record on air traffic incidents with the potential for safety consequences has been more disappointing (see Box 8.13).

Box 8.13 Key consumer outcomes

Key outcomes for the consumers of Airservices activities between 1991–92 and 1996–97 include:

- a 40 per cent reduction in the real price of Airservices activities;
- generally positive service quality outcomes, with a steady decline in the number of facility faults; and
- an increase in the number of air traffic incidents with potential for safety consequences.

Real prices

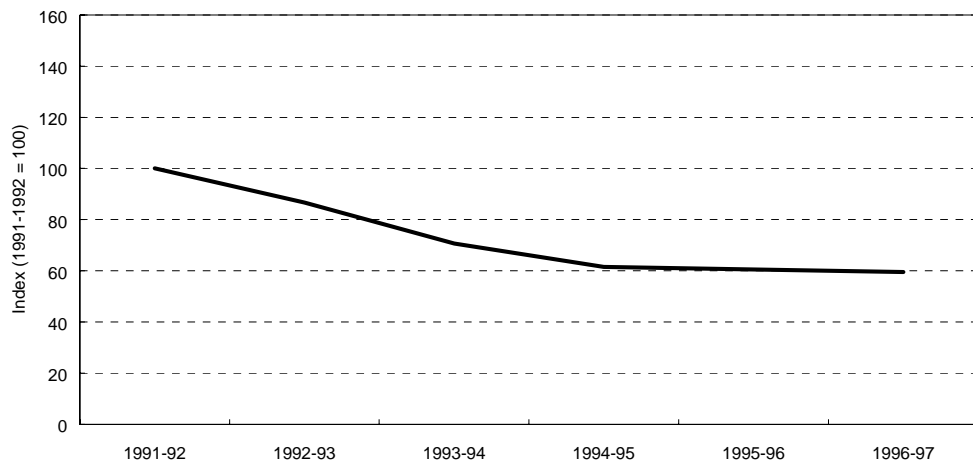
Airservices reduced the average real price of its services by 40 per cent over the reporting period, with nearly all of this decline occurring between 1991–92 and 1994–95 (see Figure 8.28). Airservices indicated that these real price reductions were largely due to the company undertaking a range of efficiency reforms, particularly in 1991–92. These reforms included reducing the size of its workforce, consolidating air traffic services, and streamlining corporate and technical support. Airservices also indicated that these price falls have been due to continued productivity improvements, assisted by enterprise bargaining.

In terms of the effect of these price reductions on the industry, Airservices estimated that the price reduction of 17 per cent in real terms for air traffic services, and rescue and fire fighting services, from 1 July 1994 would save the industry around \$109 million (Airservices Australia 1994).

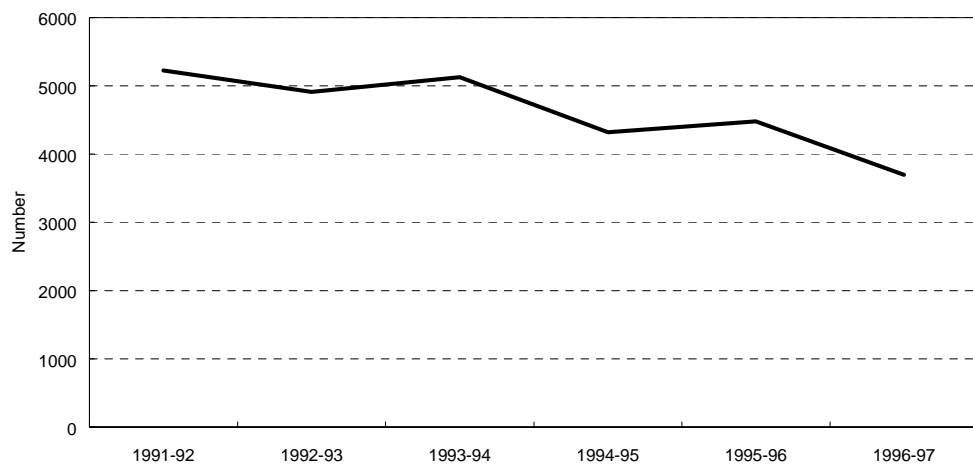
Service quality

Consumers have also benefited from improved service quality with the average number of facility failures falling from 5222 in 1991–92 to 3697 in 1996–97 (see Figure 8.29). The average amount of time each failure lasted fell from 11.1 hours in 1991–92 to 4.6 hours in 1996–97.

In terms of the percentage of flights which were delayed more than five minutes, performance has been mixed. Improvements were made between 1992–93 and 1996–97 in Sydney, Adelaide and Perth, but performance deteriorated in Melbourne and Brisbane (see Table 8.3).

Figure 8.28 Real price index, 1991–92 to 1996–97

Notes: The real price index equals the index of average prices for individual services weighted by their contribution to total revenue deflated by the Consumer Price Index.

Figure 8.29 Facility failures, 1991–92 to 1996–97

Notes: Total number of airways facilities failures.

Table 8.3 Aircraft delays greater than five minutes (per cent)

	1992–93	1993–94	1994–95	1995–96	1996–97
Sydney	23.8	23.9	24.8	22.0	23.3
Adelaide	8.3	5.6	4.9	5.4	5.9
Perth	8.6	3.2	3.6	4.9	6.9
Melbourne	4.7	4.0	4.6	6.3	6.7
Brisbane	9.1	11.5	12.3	10.4	12.1

Safety

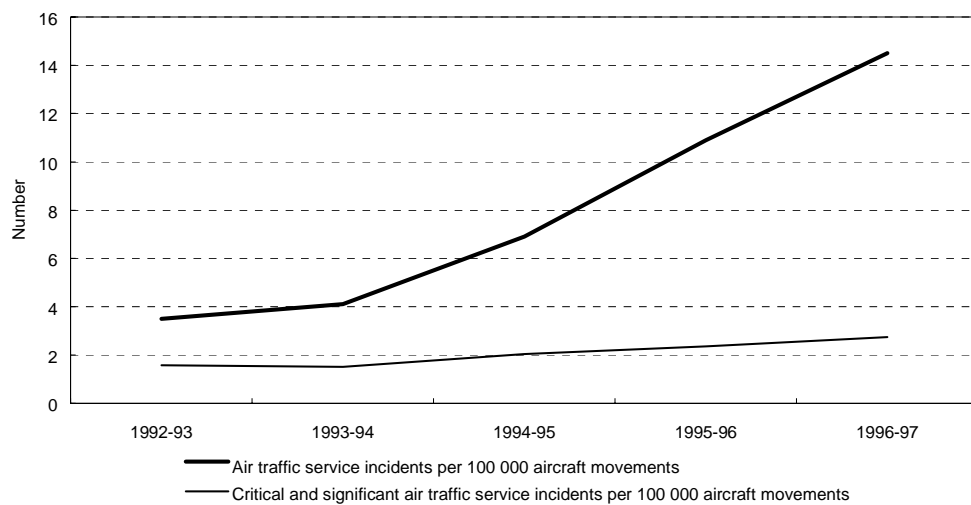
Although Airservices' performance on service quality has generally been fairly positive, air traffic incidents with potential safety consequences have been more variable. While performance indicators measuring employee safety improved, the number of reported incidents per 100 000 aircraft movements rose significantly, from 3.5 in 1992–93 to 14.5 in 1996–97. However, the rise in 'critical and significant' air traffic service incidents has been relatively small (see Figure 8.30).³⁰

Airservices has indicated that part of the reason for the significant rise in the number of total air traffic incidents reported has been its adoption of a more assertive position to such reporting — with the incidents database broadened in 1994–95 to include the tracking of all deviations from standards and practices, even when no immediate safety implication exists.

Specific safety concerns were also raised during the reporting period, particularly with regard to the Monarch Airlines and Seaview Aerocommander aircraft accidents in June 1993 and October 1994 respectively. The Seaview aircraft crash in 1994 came after recommendations from a review of air safety in 1993 had largely been implemented following the Monarch crash. After this second crash the Minister for Transport and Communications decided to separate the core regulatory and safety responsibilities from other civil aviation services.

³⁰ Airservices, along with other air traffic service providers worldwide, has expressed concerns regarding the validity of drawing conclusions on aviation safety performance based on the occurrence of air traffic incidents. Rather, Airservices contends that the number of reported incidents is more a reflection of the effectiveness of the safety reporting system and safety consciousness of the organisation.

Figure 8.30 Total air traffic incidents, 1991–92 to 1996–97



Notes: The database for the 'incidents per 100 000' broadened in 1994–95 to include the tracking of all deviations from standards and practices, not just those with immediate safety implications.

Shareholder outcomes

Shareholder outcomes have generally been favourable over the period (see Box 8.14).

Box 8.14 Key shareholder outcomes

Key outcomes for the Government between 1991–92 and 1996–97 from Airservices include:

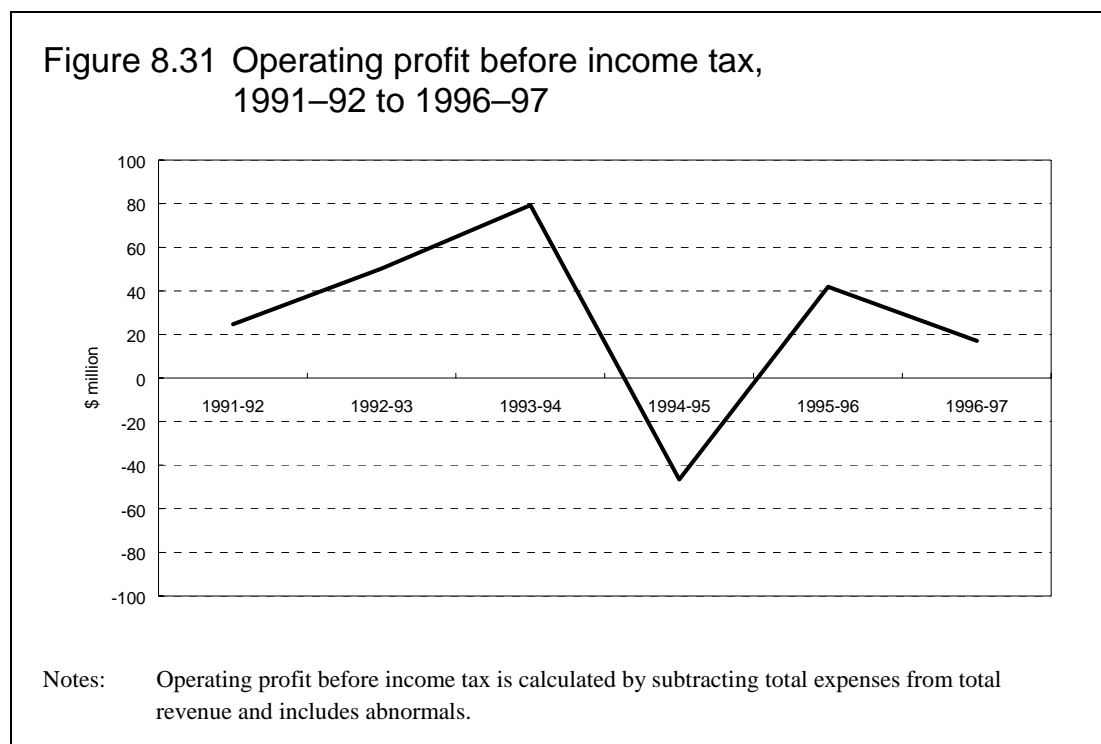
- profits being made in all but one year — although results were variable with returns on equity below most benchmarks;³¹
- paying \$63.1 million in dividends, incurring \$93.6 million in income tax expense (net of tax benefits), and making a capital repayment of \$49 million in 1996; and
- maintenance of the asset base, with assets well in excess of liabilities.

Profitability

Airservices' profits after-tax but including abnormals, were generally positive, although in 1994–95 the company suffered a loss of \$46.4 million (see

³¹ Refer to discussion on benchmarks for return on equity in Section 1.1.

Figure 8.31). A significant part of this decline however, was the result of two large abnormal expenses — \$48 million to meet a shortfall in the company’s superannuation fund and \$13.7 million to create a provision for litigation expenses. These abnormal expenses in 1994–95 compare to net abnormal gains of \$5.1 million in 1993–94.



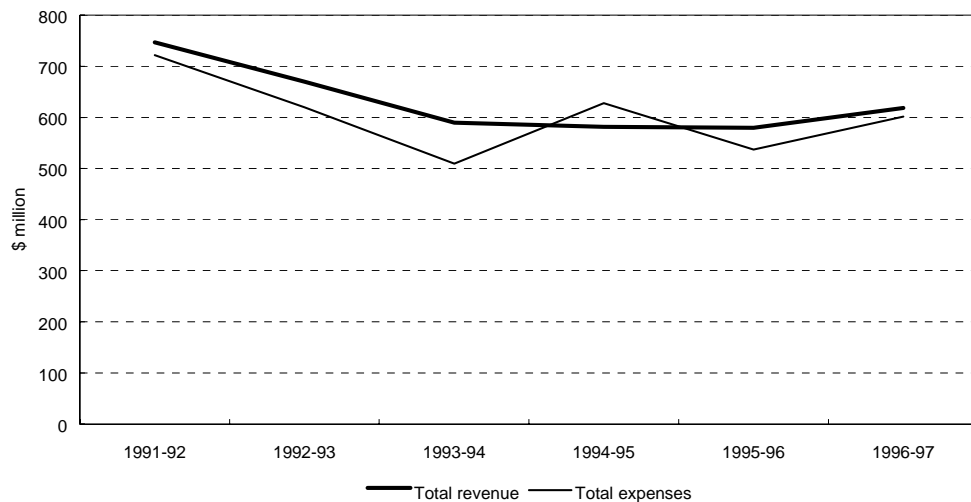
The growth in profits between 1991–92 and 1993–94 occurred despite significant price reductions, largely as a result of reductions in Airservices’ expenses. Profits would have been much higher in 1992–93 if not for \$52.3 million in net abnormal expenses (with \$19.3 million to help cover a superannuation fund shortfall and a \$26.7 million provision for employee entitlements).

The large profit improvement in 1995–96 was substantially due to the absence of significant abnormal expenses compared to 1994–95, with only \$7.1 million net abnormal expenses — which were due to a downward revaluation of some of Airservices assets.

In 1996–97, profits of \$17 million were recorded after \$18.9 million of net abnormal expenses. These net abnormal expense included a \$20.7 million downward revaluation of assets, and \$14.1 million for allowances and payments for staff re-organisations (offset to some extent by a \$12.5 million write-back for the provisions set aside for litigation expenses).

While Airservices' profits have been quite volatile over the period, its revenues and expenses were reasonably steady (see Figure 8.32). Both revenues and expenses fell over the period, although expenses rose by 23 per cent in 1994–95 to exceed revenues. Although expenses rose again in 1996–97, due to abnormal expenses and the transition to a new air traffic system, revenues also rose reflecting increased activity in the aviation industry (up 5.2 per cent).

Figure 8.32 Total revenue and total expenses, 1991–92 to 1996–97



Notes: Total revenue includes revenue from sales and levies, revenue from asset sales, investment income, receipts from governments for specific agreed services, other revenue from operations, receipts from government to cover deficits on operations and abnormal revenue. It excludes funds received for specific capital works from governments or other parties, and equity contributions from governments.

Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution in value of assets and abnormal expenses.

Dividend payments and income tax expense

Airservices paid \$63.1 million in dividends and incurred \$93.6 million in income tax expense over the period. In July 1996, Airservices also made a capital repayment of \$49 million.

Both income tax expense and dividend payments have fluctuated considerably over the period (see Figure 8.33).

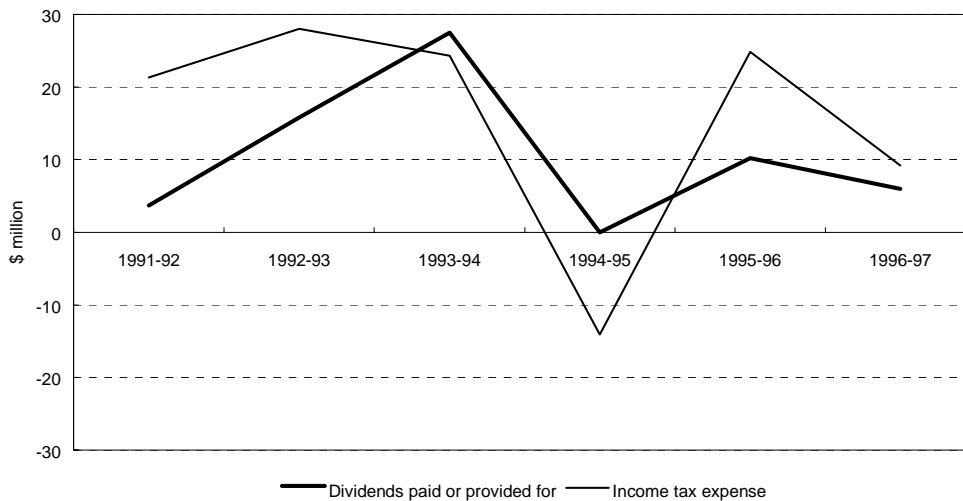
There has also been considerable variability in Airservices' dividend payout ratio, which ranged from 109.1 per cent in 1991–92 to 0 per cent in 1994–95 —

its loss making year (see Figure 8.34). In five out of the six years reported, Airservices' dividend payout ratio has been consistent with, or above, the Government's general benchmark of 60 per cent from 1995 and 50 per cent before then.

Return on equity

Airservices' return on equity has followed its profit performance, fluctuating considerably over the period (see Figure 8.35). With the exception of 1993-94, these results were below what the Commonwealth Government generally expects of its GTEs.³²

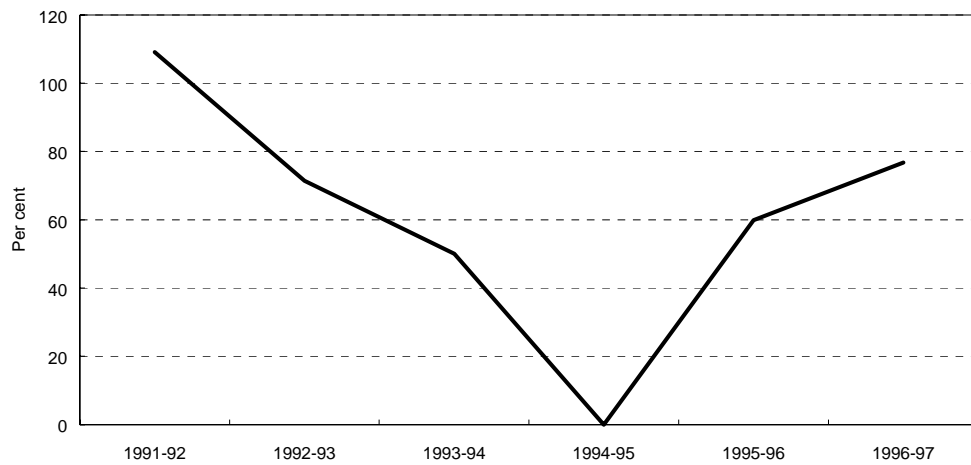
Figure 8.33 Dividends paid or provided for and income tax expense, 1991-92 to 1996-97



Notes: Dividends paid or provided for include normal and special dividends and special levies on profits and revenues and excludes returns of capital.
Income tax expense on operating profit before tax (including abnormal items) calculated using tax effect accounting (AAS3).

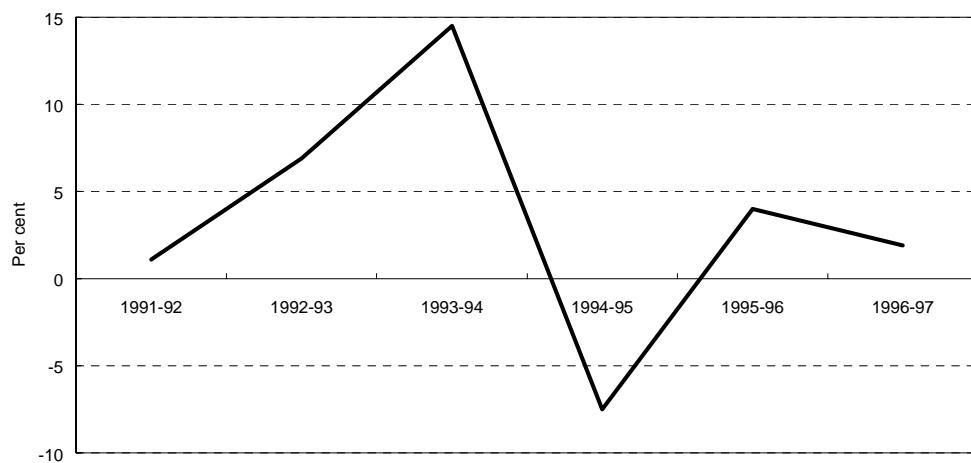
³² See Box 8.1.

Figure 8.34 Dividend payout ratio, 1991–92 to 1996–97



Notes: The dividend payout ratio is calculated by dividing dividends paid or provided for by operating profit after-tax and shows the proportion of operating profit paid as a dividend.

Figure 8.35 Return on equity, 1991–92 to 1996–97



Notes: Return on equity is the ratio of operating profit after-tax to average total equity. Operating profit after-tax is calculated by subtracting total expenses and income tax paid or payable from total revenue. Equity is calculated by subtracting total liabilities from total assets.

Assets and liabilities

There has been no appreciable change to Airservices' asset base over the period, with total assets and liabilities valued at similar levels in 1996–97 and

1991-92 (see Figure 8.36).³³ Assets were valued at \$712 million in 1991-92 and \$731.8 million in 1996-97, and liabilities were valued at \$381.5 million in 1991-92 and \$353.6 million in 1996-97.

Figure 8.36 Total assets and total liabilities, 1991-92 to 1996-97



Notes: Total assets are defined as the service potential or future economic benefits, controlled by the entity as a result of past transactions or other events (measured at the end of the reporting period). Airservices' records its assets at the lower of historical cost and recoverable value. Total liabilities are defined as the future sacrifice of service potential or future economic benefits that the entity is obliged to make to other entities as a result of past transactions or other events (measured as at the end of the reporting period). Includes provisions for employee entitlements, creditors, deferred revenue, all repayable borrowings, interest bearing non-repayable borrowings and redeemable preference shares.

Over the reporting period, Airservices invested around \$200 million in a new computerised air traffic system called TAAATS (The Australian Advanced Air Traffic System). The final cost of TAAATS is expected to total \$360 million (including staff and training costs). The new system commenced operations in Cairns and surrounding airspace in July 1998.³⁴

Airservices managed to increase its equity from \$330.5 million in 1991-92 to \$432.6 million in 1995-96. Airservices made a capital repayment to the Commonwealth Government of \$49 million in July 1996, explaining most of the

³³ Assets were valued at historical cost except for certain non-current assets which have been valued using depreciated replacement cost, net realisable value or market value.

³⁴ Airservices plans to progressively commission TAAATS across Australia during 1998 and 1999.

subsequent fall in equity from \$432.6 million in 1995–96 to \$378.2 million in 1996–97.

Community and employee outcomes

The community at large has benefited from Airservices providing a range of non-commercial services as required by the Commonwealth Government. These services include aviation search and rescue functions, a telephone complaints service regarding aircraft noise, noise and flight path monitoring, and collecting environmental information. In providing rescue and firefighting services, Airservices helps ensure the safe flight of (on average) 3.6 million aircraft movements per year.

Employee outcomes over the period have been favourable in terms of safety, as measured by lost injury time per million employee hours and workers' compensation costs. Lost injury time per million employee hours declined significantly from 41 176 in 1992–93 to 15 098 in 1996–97, while workers' compensation costs in real terms per employee fell from \$472 in 1991–92 to \$436 in 1996–97.

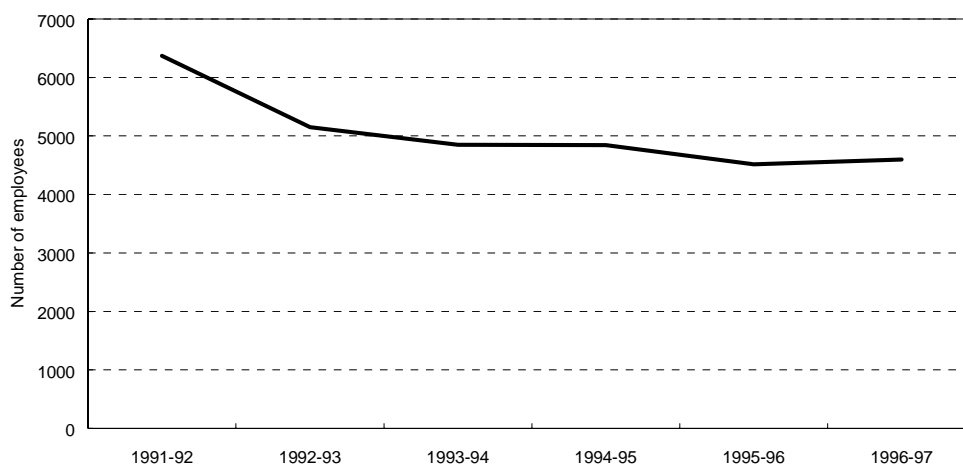
In 1996–97, progress was also made towards implementing an enhanced organisation-wide safety system.

Employees have also attained pay increases over the period, along with other flexibility provisions incorporated into enterprise agreements.³⁵

Average employee numbers fell over the period, falling almost 28 per cent from 6370 in 1991–1992 to 4600 in 1996–97 (see Figure 8.37). See Box 8.9 for information on activity and employment levels for the air transport industry in general over the reporting period.

³⁵ However, the Commission notes that it has not assessed whether employees are better off through these enterprise agreements.

Figure 8.37 Total direct GTE employment, 1991–92 to 1996–97



Notes: Total employment is measured as the average of full-time equivalent staff at the beginning and end of the period.

8.6 Australian National Line

Over the six years reported, Australian National Line (ANL) has undergone considerable restructuring, withdrawing several of its services, divesting several of its shareholdings and assets, and changing its management structure. Although the Commonwealth Government signalled its intention to sell all or part of ANL several times over the reporting period, it remained 100 per cent Government owned.³⁶

ANL reported \$267 million in revenue, managed assets valued at \$217 million, and employed on average 1349 staff in 1996–97.

Background

ANL's principal activity is providing international container shipping services. These services represented around 62 per cent of ANL's total operating revenue in 1996–97. ANL also provides bulk shipping services and participates in some land-based transport. Other services provided include the storage, cleaning and surveying of shipping containers.

³⁶ In August 1998, however, the Commonwealth Government announced it had finalised plans for the sale of ANL's major shipping businesses.

At the beginning of the reporting period ANL provided container services to Europe, New Zealand, North–East Asia and South–East Asia. However, ANL withdrew its service to Europe in 1995 and to New Zealand in 1996. In 1996–97, approximately 60 per cent of ANL’s revenue from container shipping came from its North–East Asia service, which includes Japan, Korea, Hong Kong, Taiwan and China as destinations.

In providing these container shipping services, ANL is a member of various conferences and consortiums. For example, ANL is part of the Australia Northbound Shipping Conference, providing container shipping services around North–East Asia.

In transporting bulk products, including cement, clinker, salt, limestone and coal, ANL offers services around Australia’s coast and to New Zealand.

ANL also part owns a joint venture company, ASP Ship Management, which provides shipping management services such as vessel manning, purchasing, docking, repairs and maintenance. ASP Ship Management employed around 1000 of ANL’s 1380 staff as at 30 June 1997.³⁷

ANL’s fleet of ships stood at ten at the end of the period, comprising two vehicle deck cargo ships, four cellular container ships, and four bulk carriers.

ANL operates in competitive markets, with its operations facing substantial competition from much larger international carriers. Many of these companies have been responding to growing global competition, and excess capacity in international shipping, with mergers and takeovers. The aim of these changes has been to achieve cost savings through rationalising costs, and to take advantage of economies of scale through both service expansion and the deployment of larger ships.

See Box 8.15 for information on the shipping industry.

While the international shipping industry is very competitive, the domestic industry is protected in its coastal operations by cabotage regulation. Cabotage regulations require cargo or passengers transported from one Australian port to another to be carried on Australian licensed vessels unless such ships are not available (see Box 8.15).

³⁷ This entity was sold in the 1997–98 financial year.

Box 8.15 Australian shipping industry

Size and structure

- In 1996–97, water transportation contributed around \$850 million towards Australia's GDP, compared to around \$730 million in 1991–92 (in 1996–97 prices). Water transport employed around 9700 people in 1997, up from 5300 people in 1991–92.
- In value terms, around 70 per cent of Australia's imports and 78 per cent of Australia's exports were transported by sea in 1995–96.
- Around 90 per cent of Australia's total shipping task is international shipping, with the remaining 10 per cent being coastal shipping.
- The value of containerised cargo has been estimated at around \$60 billion. The total costs for the coastal shipping of freight is around \$600 million.
- In 1997, only 10 per cent of Australia's international trade was carried by Australian-flag vessels.

Regulatory environment

- Cabotage — cabotage laws protect the Australian shipping industry from foreign competition by requiring cargo or passengers transported from one Australian port to another to be carried by Australian licensed ships (unless such ships are not available), even if non-licensed ships offer lower rates or better services. Licensed ships are required to pay crews Australian wage rates while engaging in domestic coastal trades and not be in receipt of foreign government subsidies. Cabotage laws are incorporated in Part IV of the *Navigation Act 1912*, and were most recently reviewed in 1997 by the Shipping Reform Group which recommended their removal.
- Part X of the *Trade Practices Act 1974* — Part X grants liner shipping conferences certain exemptions from Part IV of the *Trade Practices Act 1974*, which seeks to prevent anti-competitive practices by companies with market power. Part X was reviewed in 1993, when it was recommended that it be maintained.^a

a Part X is scheduled to be reviewed again in 1998–99 as part of the Commonwealth Government's program of legislation review.

Source: ABS 1998d, ABS 1998e, PC 1998a, The Shipping Reform Group 1997.

Corporatisation and privatisation

In 1989, ANL was converted from a statutory corporation to an incorporated company, 100 per cent owned by the Commonwealth Government. This gave

ANL greater freedom in its borrowings, industrial relations and day-to-day activities.

In 1994, the Government guaranteed all ANL's outstanding debt facilities (including leases), under the *ANL Guarantee Act 1994*.

Private involvement or ownership of ANL has been considered by Commonwealth Governments on several occasions over the period (see Box 8.16). Although ANL's major shipping businesses were sold in 1998, ANL had remained 100 per cent owned by the Commonwealth Government throughout the reporting period.

Structural reform

ANL underwent considerable structural change over the monitored period. Substantial reforms were also implemented in the 1980s, with ANL's fleet reducing from 33 ships to 13 between 1983 and 1988. In particular, the company has withdrawn from areas which either proved unprofitable or inconsistent with the company's strategic direction.

In 1995, ANL commenced a major restructuring program in line with the Government's decision to restructure the company rather than sell it to P&O (see Box 8.16). Key elements of this program have been the withdrawal from two of its major container markets, disposing of non-core businesses, and the rationalising of its corporate structure and staffing arrangements.

Specific changes included:

- withdrawing from its loss making Australia to Europe container service in 1995, and selling the vessel that had operated on that service;
- withdrawing from its loss making Trans Tasman container service in 1996, with the two vessels operating that route being sold and a redundancy program implemented to reflect reduced employee levels (although one vessel was leased back to ANL);
- withdrawing from its Western Australia to Northern-Asia service;
- selling its 50 per cent shareholding in Coastal Expressline Pty Ltd which provides general freight services between mainland Australia and Tasmania; and
- centralising its documentation and accounting system, with all State offices now operating principally as sales offices.

Box 8.16 Government ownership of ANL

Brief history

Government ownership of ANL dates back to 1956 when it was first formed to pull together the Government's publicly owned fleet of ships after the Government was unable to sell them in 1950.^a Prior to 1950, a national shipping fleet was considered essential, partly because of its potential contribution to Australia's defence, and partly to support the Government's policy of encouraging the domestic shipbuilding industry.

After poor performances in the 1970s and 1980s, and a view that ANL required greater capitalisation and integration with other international shipping companies to gain adequate economies of scale, the Government reconsidered the issue of private investment and ownership in 1991.

Recent events

Private ownership of ANL was formally proposed in the 1991 Budget Papers, with the Labor Government announcing its intention to sell 49 per cent of ANL pending agreement by the Labor Party. However, the Labor Party rejected the sale proposal.

The Government also came close to selling ANL to P&O Australia in 1995. However, after final negotiations with unions and P&O Australia failed to make sufficient headway, the Government decided not to proceed with the sale. Instead, the Government announced it would restructure the company to improve its financial position.

The Coalition Government re-iterated its intention to sell ANL in May 1997 and again in September 1997. In November 1997, the Government referred the sale of ANL to its Office of Asset Sales, and in August 1998 the Government announced that contracts for the sales of ANL's major shipping businesses had been finalised.

^a ANL was the trading name of the Australian Coastal Shipping Commission (ACSC) which was established under the *Australian Coastal Shipping Commission Act 1956*.

Although 1995 marked a milestone in the restructure of ANL, the company had been undergoing change for several years. For example, in 1992 ANL changed its workplace arrangements, signing its first enterprise agreement with land-based unions.³⁸ In 1992–93, ANL partially sold its interest in National Terminals, a stevedoring operation, selling its remaining shareholding in 1993–94. In 1993–94, ANL made a \$78.9 million provision for future restructuring, and in 1996–97, ANL commenced negotiations to sell its

³⁸ Moves to enterprise bargaining have been occurring across the board in the local shipping industry, with a shift away from pooled labour arrangements to company specific hiring.

60 per cent shareholding in ASP Ship Management — a sale which subsequently took place in November 1997.

Consumer outcomes

Consumers of ANL's services include exporters, importers and domestic shippers.

Average price and service quality information contains discontinuities because of changes in data collection procedures. This prevents a comprehensive assessment of ANL's performance in these areas.³⁹ That said however, some of the more significant changes affecting ANL's customers have included:

- The withdrawal of some of its services — including ANL's Europe and New Zealand routes in 1995 and 1996 respectively; and
- The reduction in some of its freight rates — with ANL reporting falls in the order of 20 to 30 per cent in the very competitive South-East Asia Trade (ANL 1997). Moreover, in 1996–97 general cargo prices for ANL's northbound services fell between 5.2 per cent (to East Asia) and 14.7 per cent (to South-East Asia). Although prices for southbound services rose by 3.3 per cent from Japan and 0.6 per cent from East Asia, they fell by 13.9 per cent from Korea and 8.9 per cent from South-East Asia.⁴⁰

³⁹ Although ANL measures 'Key Performance Indicators', such as the speed at which containers are available and the speed at which documents are provided to customers, the restructuring and centralisation of ANL during 1996, plus the archiving and disposal of statistical material prior to 1995, has prevented meaningful period-wide assessments.

⁴⁰ Prices in 1997–98 have fallen significantly across both northbound and southbound trade to Japan, Korea, East Asia and South-East Asia (with falls of between 15.9 per cent and 29.8 per cent). ANL reported that these falls were due to the impact of the recent downturn in Asian economies, coming on top of existing surplus shipping capacity.

Shareholder outcomes

Outcomes for the Commonwealth Government from ANL were generally very poor over the period compared to other GTEs in this report (see Box 8.17).

Box 8.17 Key shareholder outcomes

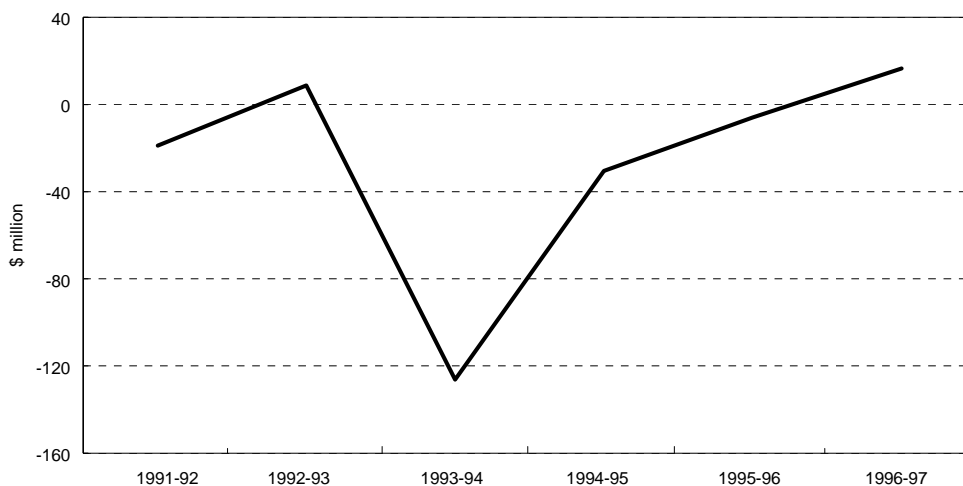
Key outcomes for the Government between 1991-92 and 1996-97 from ANL include:

- low profit results, with losses made in four of the six years reported (although there was some improvement from 1994-95);
- no dividends paid;
- net income tax expenses of \$10.8 million over the period; and
- a declining asset base, with equity falling substantially.

Profitability

ANL has struggled to make profits over the reporting period, with profits after abnormals achieved only in 1992-93 and 1996-97. A \$78.9 million provision for restructuring in 1993-94 contributed to a major slump in operating profit in that year (see Figure 8.38).

Figure 8.38 Operating profit before income tax
1991-92 to 1996-97



Notes: Operating profit before income tax is defined as total revenue less total expenses and includes abnormals.

The major downturn in ANL's profit in 1993–94 was largely due to substantial before tax abnormal losses of \$105.9 million, of which \$78.9 million related to a provision for restructuring costs, and \$15.7 million related to the sale of associated companies.

Profits improved from 1994–95, with the absence of significant abnormal losses in 1994–95, the end of the Stevedoring Industry Levy in August 1995, and positive net abnormals in 1995–96 (with the sale of a ship and reduction in restructuring provisions offsetting other abnormal losses associated with specific asset write-downs).

Although profits were positive again in 1996–97 (\$16.5 million), this was primarily due to net abnormal gains of \$11.6 million — largely driven by a \$25 million write-back of an earlier provision for restructuring, which was found to have been excessive. That said, ANL's operating performance did improve, with cost reductions in liner shipping, increased cargo liftings, improved scheduling and reduced costs in its bulk trades (which experienced a turnaround in 1996–97 to record a positive financial contribution to the company).

Consistent with a company in contraction, both ANL's revenue and expenses fell over the period (see Figure 8.39). Total revenue fell by 55 per cent (60 per cent in real terms), from \$592.2 million to \$267.2 million, while total expenses fell by 59 per cent (63 per cent in real terms) from \$611.1 million to \$250.7 million. The only exception to the downward trend was a significant increase in expenses in 1993–94 associated with the company's decision to provide \$78.9 million in restructuring costs (which, as already noted, was later deemed to have been excessive).

Figure 8.39 Total revenue and total expenses, 1991–92 to 1996–97



Notes: Total revenue includes revenue from sales and levies, revenue from asset sales, investment income, receipts from governments for specific agreed services, other revenue from operations, receipts from government to cover deficits on operations and abnormal revenue. It excludes funds received for specific capital works from governments or other parties, and equity contributions from governments.

Total expenses include salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution in value of assets and abnormal expenses.

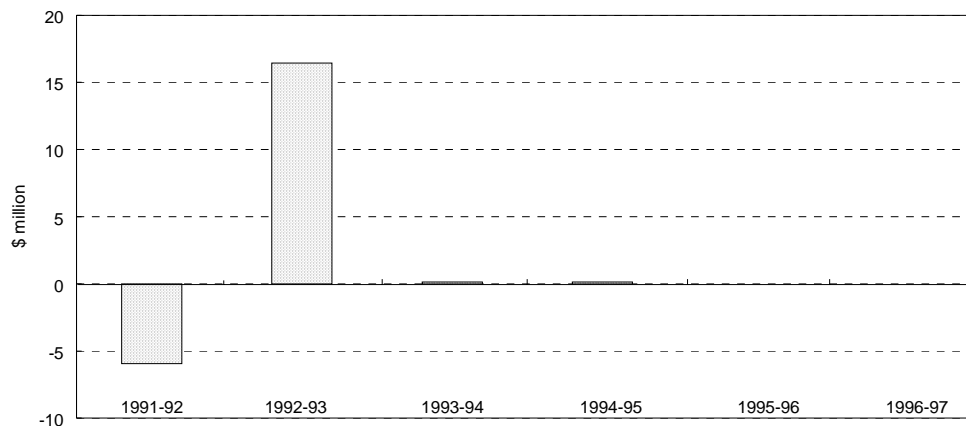
Dividend payments and income tax expense

ANL did not make any dividend payments over the period, reflecting ANL's lack of profits in most years. ANL incurred a net income tax expense of \$10.8 million over the six year period to 30 June 1997 (see Figure 8.40).

ANL recorded an income tax expense benefit of \$5.9 million in 1991–92 due to its losses for the year. Losses in subsequent years, in 1993–94, 1994–95 and 1995–96, while also giving rise to *prima facie* tax benefits, were almost entirely offset by the writing-off of future income tax benefits.

While ANL incurred \$16.4 million in income tax expense in 1992–93 — partly due to ANL's profit for the year, and partly due to \$8.5 million of future income tax benefits being written-off — no tax expense was incurred in 1996–97 despite a profit being recorded. This was due to ANL offsetting its *prima facie* tax expense liability with future income tax expense payments.

Figure 8.40 Income tax expense, 1991–92 to 1996–97



Notes: Income tax expense on operating profit before tax (including abnormal items) calculated using tax effect accounting (AAS3).

Return on assets

ANL's return on assets has been poor relative to the other Commonwealth GTEs covered in this chapter, with a positive return on assets in only three of the six years reported. ANL reported a positive return of 4 per cent in 1992–93, 0.6 per cent in 1995–96, and 11.2 per cent in 1996–97. This improved return on assets in 1996–97, reflected the company's improved profit and smaller asset base.⁴¹

Total assets and total liabilities

Both ANL's total assets and total liabilities have been in decline over the reporting period, except for 1993–94 when ANL's liabilities increased considerably — largely due to a \$78.9 million provision for restructuring and redundancies (see Figure 8.41).⁴²

Shareholder equity has also fallen substantially over the reporting period, falling from \$167 million in 1991–92 to \$4.4 million in 1996–97. Equity was negative in 1994–95 and 1995–96.

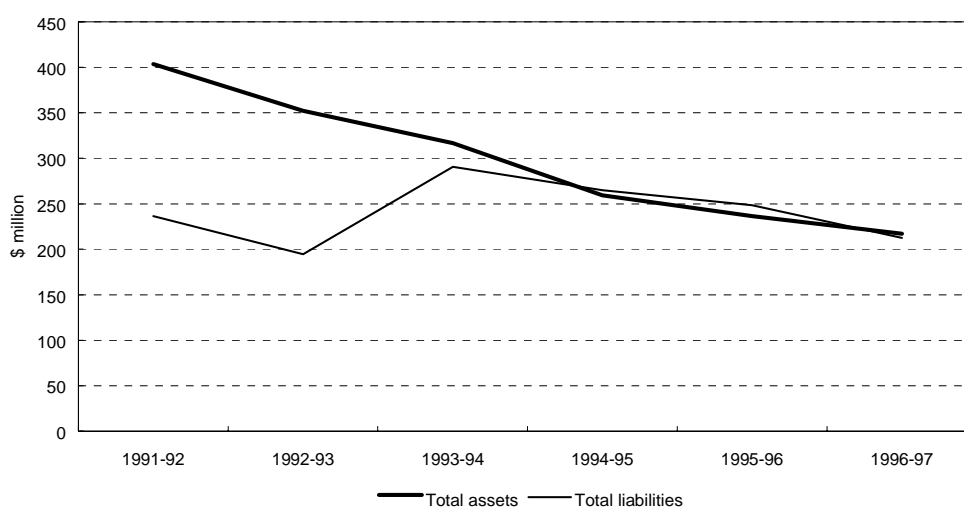
⁴¹ ANL's return on equity figures are not reported as a result of negative average equity in 1995–96 combining with negative profits (that is, losses), which would distort the results.

⁴² That is not to say that ANL did not invest in new assets. Indeed, in 1991–92 ANL invested \$300 million in new technology and equipment, including vessels and cargo handling equipment. However, ANL's disposal of assets outpaced its new acquisitions.

Furthermore, ANL's current liabilities remained significantly above its current assets over the entire reporting period — with current liabilities of \$143.9 million in 1991–92 compared to current assets of \$92.4 million, and current liabilities of \$168.7 million in 1996–97 compared to current assets of \$80.9 million.

Maintaining sufficient capital has been an ongoing challenge for ANL, and has been one of the main reasons why private capital has been suggested at various points in the company's recent history.

Figure 8.41 Total assets and total liabilities, 1991–92 to 1996–97



Notes: Total assets are defined as the service potential for future economic benefits, controlled by the entity as a result of past transactions or other events (measured at the end of the reporting period). Total liabilities are defined as the future sacrifice of service potential of future economic benefits that the entity is obliged to make to other entities as a result of past transactions or other events (measured as at the end of the reporting period). Includes provisions for employee entitlements, creditors, deferred revenue, all repayable borrowings, interest bearing non-repayable borrowings and redeemable preference shares.

Community and employee outcomes

In terms of safety outcomes, ANL was able to achieve a considerable reduction in shipboard accidents over the period, as recorded by the lost time injury ratio. Lost time due to injuries declined from around 80 hours per million hours worked in 1992 to an average of around 7 hours per million hours worked in 1997.

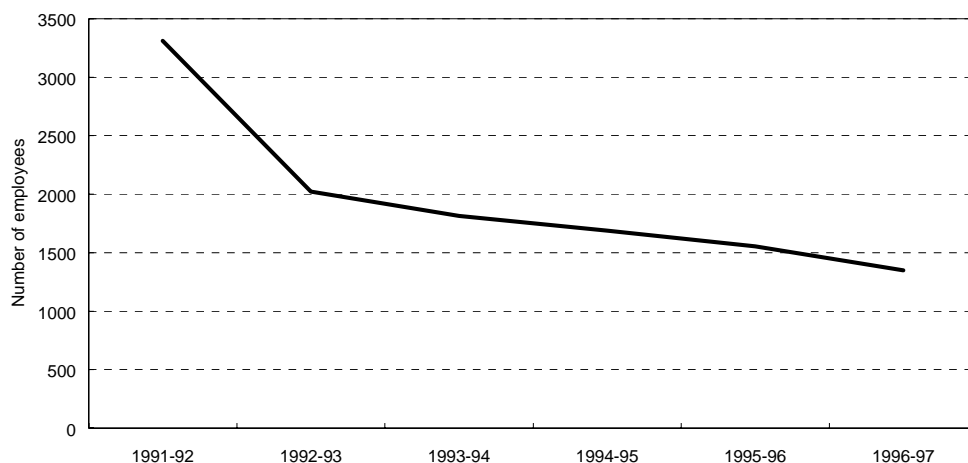
ANL's restructuring has inevitably affected employees, through streamlining operations, reducing staff numbers and moves to enterprise bargaining — including moving from industry-wide pooled labour arrangements to company employment. Over the period, employees gained pay increases, while employee numbers have fallen 59 per cent from 3310 in 1991–92 to 1349 in 1996–97 (see Figure 8.42). See Box 8.15 for information on activity and employment levels for the industry in general over the reporting period.

Summing up

ANL has undergone substantial restructuring between 1991–92 and 1996–97. Of particular significance has been ANL's withdrawal from certain markets and disposal of assets.

ANL's financial outcomes over the period were generally poor compared to other GTEs in this report. ANL has failed to pay a dividend at any time over the period and equity has been in decline. Despite ANL recording a profit in 1996–97, the company has struggled in the face of strong competition from larger international companies.

Figure 8.42 Total direct GTE employment, 1991–92 to 1996–97



Notes: Total employment is measured as the average of full-time equivalent staff at the beginning and end of the period.

ATTACHMENT A PARTICIPATING ENTERPRISES, 1996–97

Table A.1 Participating enterprises by jurisdiction, 1996–97

<i>GTE</i>	<i>Industry Classification</i>
New South Wales	
Delta Electricity	Electricity
Macquarie Generation	Electricity
Pacific Power	Electricity
TransGrid	Electricity
Advance Energy	Electricity
Australian Inland Energy	Electricity
EnergyAustralia	Electricity
Great Southern Energy	Electricity
Integral Energy	Electricity
NorthPower	Electricity
Gosford City Council (Water and Sewerage Department)	Water
Hunter Water Corporation	Water
Sydney Water Corporation	Water
Wyong Shire Council (Water Department)	Water
State Transit Authority	Urban Transport
State Rail Authority of New South Wales	Railways/Urban Transport
Freight Rail Corporation	Railways
Newcastle Port Corporation	Port Authorities
Port Kembla Port Corporation	Port Authorities
Sydney Ports Corporation	Port Authorities
Victoria	
Gas Transmission Corporation	Gas
GASCOR	Gas
Barwon Water	Water
City West Water	Water
Melbourne Water Corporation	Water
South East Water	Water
Yarra Valley Water	Water
Public Transport Corporation	Railways/Urban Transport
Melbourne Port Corporation	Port Authorities
Victorian Channels Authority	Port Authorities

Table A.1 Participating enterprises by jurisdiction, 1996–97
(continued)

<i>GTE</i>	<i>Industry Classification</i>
Queensland	
AUSTA Electric	Electricity
CAPELEC	Electricity
Queensland Transmission and Supply Corporation	Electricity
ENERGEX	Electricity
Brisbane City Council (Water and Sewerage Department)	Water
Department of Natural Resources, State Water Projects	Water
Gold Coast Water	Water
Brisbane Transport	Urban Transport
Queensland Rail	Railways/Urban Transport
Gladstone Port Authority	Port Authorities
Port of Brisbane Corporation	Port Authorities
South Australia	
ETSA Corporation	Electricity
Optima Energy	Electricity
South Australian Water Corporation	Water
TransAdelaide	Urban Transport
South Australian Ports Corporation	Port Authorities
Western Australia	
Western Power	Electricity
AlintaGas	Gas
Water Corporation (Western Australia)	Water
MetroBus	Urban Transport
Westrail	Railways/Urban Transport
Fremantle Port Authority	Port Authorities
Tasmania	
Hydro-Electric Corporation	Electricity
Hobart Regional Water Authority	Water
North West Regional Water Authority	Water
Rivers and Water Supply Commission, North Esk	Water
Metropolitan Transport Trust	Urban Transport
Burnie Port Corporation	Port Authorities
Hobart Port Corporation	Port Authorities
Port of Devonport Corporation	Port Authorities
Port of Launceston Corporation	Port Authorities
Australian Capital Territory	
ACTEW Corporation	Electricity/Water
ACTION	Urban Transport

Table A.1 Participating enterprises by jurisdiction, 1996–97
(continued)

<i>GTE</i>	<i>Industry Classification</i>
Northern Territory	
Power and Water Authority	Electricity/Water
Darwin Port Authority	Port Authorities
Commonwealth	
Snowy Mountains Hydro-electric Authority	Electricity
Australian National Railways Commission	Railways
National Rail Corporation	Railways
Airservices Australia	Other Commonwealth
ANL Limited	Other Commonwealth
Australia Post	Other Commonwealth
Federal Airports Corporation	Other Commonwealth
Telstra Corporation Limited	Other Commonwealth

ATTACHMENT B DEFINITIONS OF FINANCIAL PERFORMANCE INDICATORS

Table B.1 Published financial performance indicators (per cent)

<i>Code</i>	<i>Ratio</i>	<i>Definition</i>
B.01	Return on assets B.16 / B.19	$\frac{\text{Earnings before interest \& tax and after abnormals (EBIT)}}{\text{Average total assets}}$
B.02	Return on operating assets B.17 / B.20	$\frac{\text{EBIT - investment income}}{\text{Average total assets - average financial assets}}$
B.03	Operating sales margin B.17 / (B.14 - B.33)	$\frac{\text{EBIT - investment income}}{\text{Total revenue - investment income}}$
B.04	Return on equity (B.15 - B.31) / B.34	$\frac{\text{Operating profit after income tax}}{\text{Average total equity}}$
B.05	Dividend to equity ratio B.18 / B.34	$\frac{\text{Dividends paid or provided for}}{\text{Average total equity}}$
B.06	Dividend payout ratio B.18 / (B.15 - B.31)	$\frac{\text{Dividends paid or provided for}}{\text{Operating profit after tax}}$
B.07	Debt to equity B.27 / B.26	$\frac{\text{Debt}}{\text{Total equity}}$
B.08	Total liabilities to equity B.22 / B.26	$\frac{\text{Total liabilities}}{\text{Total equity}}$
B.09	Current ratio B.21 / B.23	$\frac{\text{Current assets}}{\text{Current liabilities}}$
B.10	Interest cover B.16 / B.28	$\frac{\text{EBIT}}{\text{Gross interest expense}}$
B.11	Cost recovery ratio B.24 / B.36	$\frac{\text{Revenue from operations}}{\text{Expenses from operations}}$
B.12	Operational performance (B.24 - B.36) / B.20	$\frac{\text{Revenue from operations - expenses from operations}}{\text{Average total assets - average financial assets}}$

Table B.2 Non-published financial performance indicators (\$'000)

<i>Code</i>	<i>Ratio</i>	<i>Definition</i>
B.13	Total Assets	The service potential or future economic benefits, controlled by the entity as a result of past transactions or other events (measured at the end of the reporting period).
B.14	Total Revenue	Includes revenue from sales and levies, revenue from asset sales, investment income, receipts from governments for specific agreed services (eg community service obligations), other revenue from operations, receipts from governments to cover deficits on operations and abnormal revenue. Excludes funds received for specific capital works from governments or other parties, and equity contributions from governments.
B.15	Operating profit before income tax B.14 - B.25	Total revenue less total expenses. Includes abnormal items.
B.16	Earnings before interest and tax (EBIT) B.15 + B.28	Operating profit before income tax plus gross interest expense.
B.17	EBIT from operations B.16 - B.33	Operating profit before income tax plus gross interest expense less investment income.
B.18	Dividends paid or provided for	The amount included in the profit and loss statement for dividends. Includes normal and special dividends and statutory levies on profits and revenues. Excludes returns of capital.
B.19	Average total assets	Average of the value of assets at the beginning and end of the reporting period.
B.20	Operating assets B.19 - B.38	Average total assets less average financial assets.
B.21	Current assets	Cash and other assets that would, in the ordinary course of operations, be available for conversion into cash within 12 months after the end of the reporting period.

Table B.2 Non-published financial performance indicators (\$'000)
(continued)

<i>Code</i>	<i>Ratio</i>	<i>Definition</i>
B.22	Total liabilities	The future sacrifice of service potential or future economic benefits that the entity is obliged to make to other entities as a result of past transactions or other events (measured as at the end of the reporting period). Includes provisions for employee entitlements, creditors, deferred revenue, all repayable borrowings, interest bearing non-repayable borrowings and redeemable preference shares.
B.23	Current liabilities	Liabilities that would, in the ordinary course of operations, be due and payable within 12 months after the end of the reporting period.
B.24	Revenue from operations B.14 - B.29 - B.33 - B.35	Total revenue less abnormal revenue, investment income and receipts from governments to cover deficits on operations.
B.25	Total Expenses	Includes salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution in value of assets and abnormal expenses.
B.26	Total equity B13 - B.22	Total assets less total liabilities.
B.27	Debt	Includes all repayable borrowings (both interest bearing and non-interest bearing), interest bearing non-repayable borrowings, redeemable preference shares and finance leases. Excludes creditors and provisions (but not offsetting assets such as contributions to sinking funds).
B.28	Gross interest expense	Amount charged to the profit and loss account. Includes finance charges on finance leases and all debt related financial expenses.
B.29	Abnormal revenue	Revenues included in operating profit (or loss) after income tax which are considered abnormal by reason of their size and effect on the operating result. Abnormal revenue differs from extraordinary revenue in that extraordinary revenue is attributable to events or transactions of a type that are outside the ordinary operations of the entity and are not of a recurring nature.
B.30	Abnormal expenses	Same as description for B.29, except for expenses.
B.31	Income tax	Income tax expense, or income tax equivalent expense, on operating profit before tax (including abnormal items) calculated using tax effect accounting (AAS3).

Table B.2 Non–published financial performance indicators (\$'000)
(continued)

<i>Code</i>	<i>Ratio</i>	<i>Definition</i>
B.32	Financial assets	Includes cash, bank deposits, negotiable securities, promissory notes, bank accepted bills, certificates of deposits, shares and other assets of a like nature which generate income in the form of interest, dividends or equity income. Excludes trade and other debtors.
B.33	Investment income	Income received and receivable on financial assets.
B.34	Average total equity	Average of total equity at the beginning and end of the reporting period.
B.35	Receipts from Government to cover deficits on operations	Receipts from Government to cover deficits on operations, but excludes receipts from governments for specific agreed services (for example, community service obligations).
B.36	Expenses from operations B.25 - B.30 - B.28	Total expenses less abnormal expenses and gross interest expense.
B.37	Capital contributions	Revenue or deferred revenue from customers for capital works which become GTE assets.
B.38	Average financial assets	Average of financial assets at the beginning and end of the reporting period.

ATTACHMENT C UNITS OF QUANTITY AND DEFLATORS USED

Table C.1 Units of quantity used

<i>Abbreviation</i>	<i>Name</i>	<i>Abbreviation</i>	<i>Name</i>
Power and energy		Mass and derivatives	
MVA	Mega (10 ⁶) volt amps	kg	Kilograms
MW	Mega (10 ⁶) watts	T	Tonnes
MWh	Mega (10 ⁶)-watt hours	DWT	Deadweight tonnes
GW	Giga (10 ⁹) watts	'000 MT	Thousand mass tonnes
GWh	Giga (10 ⁹)-watt hours		
PJ	Peta-joules (10 ¹⁵)		
TJ	Tera-joules (10 ¹²)		
GJ	Giga-joules (10 ⁹)	Volume	
		Vol	Volume
		'000m ³	Thousand cubic metre
		TEU	Twenty foot equivalent units
		kl	Kilolitres
		MI	Megalitres

Consumer price index (1991–92=100)

	<i>1991–92</i>	<i>1992–93</i>	<i>1993–94</i>	<i>1994–95</i>	<i>1995–96</i>	<i>1996–97</i>
Sydney	100.0	100.9	102.3	105.9	111.2	112.8
Melbourne	100.0	100.7	102.8	105.6	109.5	110.9
Brisbane	100.0	101.4	103.4	107.2	111.3	113.1
Adelaide	100.0	102.1	104.1	107.3	111.3	112.3
Perth	100.0	100.3	102.5	106.0	110.2	111.7
Hobart	100.0	101.3	104.3	107.6	111.7	113.4
Darwin	100.0	101.4	103.2	106.2	110.6	112.6
Canberra	100.0	101.6	103.3	106.8	111.6	112.4
Australia	100.0	101.0	102.9	106.2	110.6	112.1

Source: Based on ABS 1998a.

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