



Australian Government  
Productivity Commission

Financial Performance of  
Government Trading Enterprises  
2004–05 to 2006–07

Productivity Commission  
Research Paper

July 2008

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# Foreword

This report on the performance of government trading enterprises (GTEs) is the latest in a series that originally commenced in 1991 as a wider, COAG-sponsored exercise (the 'red book'). The present series of reports focuses on financial performance, and forms part of the Commission's research into the performance of Australian industries and the progress of microeconomic reform.

It is imperative that GTEs, as significant providers of infrastructure services, operate efficiently. Those services are key determinants of Australia's international competitiveness as well as being fundamental to community wellbeing.

Despite commitments by governments to operate their businesses on a fully commercial basis, many GTEs continue to be commercially unsustainable. The majority failed to achieve even the risk-free rate of return in 2006-07.

This under-performance impedes efficient capital management, the focus of a three-year research program which concludes with this report. The research has emphasised the inter-relationship between GTEs operating profitably, properly managing their assets and providing efficient services.

The study was undertaken in the Economic Infrastructure Branch under the supervision of Chris Sayers, and with the guidance of Commissioners Michael Woods and Steven Kates. The Commission is grateful for the continuing cooperation of State and Territory governments in the preparation of this annual series.

Gary Banks AO  
Chairman

July 2008



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# Contents

<b>Foreword</b>	<b>III</b>
<b>Contents</b>	<b>V</b>
<b>Abbreviations</b>	<b>VIII</b>
<b>Part A</b>	<b>1</b>
<b>1 Introduction</b>	<b>3</b>
1.1 Scope	3
1.2 Approach	4
1.3 Performance indicators	8
1.4 Capital management research	15
1.5 Report structure	16
Attachment 1.1 Data item definitions	17
<b>2 Financial performance overview</b>	<b>21</b>
2.1 Monitored GTEs	21
2.2 Market environment	23
2.3 Profitability	24
2.4 Financial management	29
2.5 Transactions with government	31
Attachment 2.1 GTE return on assets, 2004-05 to 2006-07	36
<b>3 Community service obligations – funding and capital management</b>	<b>39</b>
3.1 Defining community service obligations	40
3.2 How are CSOs costed, funded and reported in practice?	43
3.3 Investment and incentive issues	48

---

<b>4</b>	<b>Profitability and capital management</b>	<b>51</b>
4.1	Profitability	52
4.2	Capital management	54
4.3	Implications of poor capital management	57
<b>Part B</b>		<b>61</b>
<b>5</b>	<b>Electricity</b>	<b>63</b>
5.1	Monitored GTEs	64
5.2	Market environment	67
5.3	Profitability	72
5.4	Financial management	76
5.5	Transactions with government	78
5.6	GTE performance reports	81
<b>6</b>	<b>Water</b>	<b>129</b>
6.1	Monitored GTEs	130
6.2	Market environment	132
6.3	Profitability	137
6.4	Financial management	140
6.5	Transactions with government	142
6.6	GTE performance reports	147
<b>7</b>	<b>Urban transport</b>	<b>197</b>
7.1	Monitored GTEs	198
7.2	Market environment	200
7.3	Profitability	202
7.4	Financial management	205
7.5	Transactions with government	206
7.6	GTE performance reports	211
<b>8</b>	<b>Rail</b>	<b>223</b>
8.1	Monitored GTEs	224
8.2	Market environment	226

---

8.3	Profitability	231
8.4	Financial management	233
8.5	Transactions with government	235
8.6	GTE performance reports	239
<b>9</b>	<b>Ports</b>	<b>253</b>
9.1	Monitored GTEs	254
9.2	Market environment	255
9.3	Profitability	258
9.4	Financial management	260
9.5	Transactions with government	261
9.6	GTE performance reports	265
<b>10</b>	<b>Forestry</b>	<b>305</b>
10.1	Monitored GTEs	306
10.2	Market environment	307
10.3	Profitability	312
10.4	Financial management	315
10.5	Transactions with government	317
10.6	GTE performance reports	321
<b>11</b>	<b>Other government trading enterprises</b>	<b>335</b>
<b>A</b>	<b>Monitored GTEs</b>	<b>343</b>
	<b>References</b>	<b>347</b>

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# Abbreviations

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AERU	Airspace and Environment Regulatory Unit
AIFRS	Australian-equivalent International Financial Reporting Standards
BOOT	Build Own Operate Transfer
COAG	Council of Australian Governments
CPI	Consumer Price Index
CRN	Country Regional Network
CSO	Community service obligation
DTEI	Department of Transport, Energy and Infrastructure (SA)
EBIT	Earnings before interest and tax
ESC	Essential Services Commission (Victoria)
FPQO	Forestry Plantations Queensland Office
GBE	Government business enterprise
GOC	Government-owned corporation



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GPOC	Government Prices Oversight Commission (Tasmania)
GTE	Government trading enterprise
GWh	Gigawatt hour
ICRC	Independent Competition and Regulatory Commission (ACT)
IPART	Independent Pricing and Regulatory Tribunal (NSW)
KV	Kilovolt
MDBC	Murray–Darling Basin Commission
MWh	Megawatt hour
NAP	National Action Plan for Salinity and Water Control
NCC	National Competition Council
NEM	National Electricity Market
NEMO	National Electricity Market Operator
NFPS	National Forestry Policy Statement
NRC	National Rail Corporation
NSW	New South Wales
NT	Northern Territory
NTER	National Tax Equivalent Regime
NWI	National Water Initiative
NWC	National Water Commission
PPA	Power-purchase agreement
PTB	Passenger Transport Board
PTE	Public trading enterprise
QCA	Queensland Competition Authority

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RAB	Regulatory asset base
RFAs	Regional Forestry Agreements
RNA	Regional Network Access
SA	South Australia
SGARA	Self-generating and regenerating asset
SOC	State-owned corporation
SOE	State-owned enterprises
TCFA	Tasmanian Community Forest Agreement
TOC	Territory-owned corporation
TRP	Timber release plan
TWh	Terawatt hour
WA	Western Australia

## Key points

- The financial performance of 86 government trading enterprises (GTEs) providing services in key sectors of the economy — including electricity, water, urban transport, rail, ports and forestry — is presented in this report. In 2006-07, these GTEs controlled about 2.8 per cent of Australia's non-household assets (valued at \$192 billion) and accounted for around 1.7 per cent of GDP.
- Overall, the profitability of GTEs increased by 36 per cent in 2006-07, with mixed results across sectors. Profitability increased in the electricity, urban transport and ports sectors, but declined in the rail, water and forestry sectors.
  - For sectors recording a profit improvement, much of this derived from the performance of a single GTE in that sector (between 41 per cent and 63 per cent of increased profits).
- Profitability also varied among GTEs:
  - profits declined for two-fifths of GTEs
  - fourteen GTEs (of which five were in the water sector) reported losses.
- Just over half of monitored GTEs failed to achieve a return on assets above the risk-free rate of return in 2006-07. This implies that an even greater proportion did not earn a commercial rate of return (which would include a margin for non-diversifiable risk).
  - Twelve GTEs (14 per cent) failed to achieve a positive return on their assets.
- The poor financial performance of many GTEs underscores a long-term failure to operate these businesses on a fully commercial basis, in accordance with Competition Policy Agreements.
- In total, GTEs made dividend payments to owner-governments of almost \$4.4 billion in 2006-07. In addition, income tax and tax-equivalent payments totalled \$1.8 billion.
- Contrary to stated policies, not all governments have identified all existing community service obligations (CSOs). Also, governments are generally not reporting funding for CSOs in a transparent manner. Almost no information is reported on the costs of meeting CSOs.
- Inadequate funding for provision of CSOs affects a GTE's financial performance and can result in inadequate or misallocated investment, price increases for non-CSO services, and/or lower quality service provision.
- Poor profitability can lead to inadequate investment and asset maintenance, which can in turn reduce the future profitability of GTEs. Without a return to commercially sustainable operations, this cycle can persist.

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## PART A

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# 1 Introduction

This report contains a consistent set of financial performance indicators for 86 government trading enterprises (GTEs) covering the period 2004-05 to 2006-07. It is one in a series of reports published since 1991 by the Productivity Commission and its predecessor, the Industry Commission.

This monitoring forms part of the Commission's research into the performance of Australian industries and the progress of microeconomic reform. Reporting on performance also increases transparency and, thereby, strengthens accountability. In addition, a comparable set of performance indicators can facilitate 'yardstick' competition, which is particularly important in industries where businesses do not face vigorous direct competition.

The information presented in this report covers annual financial performance and management. This information is suitable for making a general assessment of financial performance within and across sectors. It cannot be used for a detailed performance analysis of individual GTEs. A thorough examination of their financial statements and the market circumstances that they face would be required for that purpose.

## 1.1 Scope

Government trading enterprises are government-owned or government-controlled entities that produce goods and services on a commercial basis by substantially or fully covering their costs. They are outside the general government sector and are separate from government financial enterprises in banking, insurance and related sectors. GTEs are also commonly referred to as:

- government business enterprises (GBEs)
- government-owned corporations (GOCs)
- public trading enterprises (PTEs)
- public corporations
- state-owned corporations (SOCs)

- 
- state-owned enterprises (SOEs) or
  - territory-owned corporations (TOCs).

These terms are often used interchangeably. In some cases, they have specific local and statutory relevance. For example, the term GBE in Tasmania refers to specific entities in schedule 1 of the *Government Business Enterprises Act 1995* (Tasmania), such as Forestry Tasmania and the Hydro-Electric Corporation.

The monitored GTEs represent the majority, but not all, of the GTEs currently operating in their respective sectors. Data for GTEs monitored in previous reports are not included in this report if the GTE was not operating in 2006-07. These GTEs have generally been privatised or had their assets and operations transferred to other GTEs or new entities.

## 1.2 Approach

The performance indicators presented in this report were derived from data in annual report financial statements. While the indicators and data presented are broadly consistent over time and across jurisdictions, care should be exercised when comparing these measures with those presented in previous reports. There have been changes in accounting standards, data sources and the indicators employed, all of which affect such comparisons.

### Performance framework

This is the second report in this series to assess performance based on Australian-equivalent International Financial Reporting Standards (AIFRS). The performance framework has been further refined for this report to ensure that it continues to provide reliable measures of performance under AIFRS.

Specifically, changes to the aggregation of data items reported in the income statement and balance sheet allow a more accurate and holistic measure of GTE performance.

#### *Changes to income statement aggregates*

The performance framework used in the past did not distinguish between different types of income. However, under AIFRS, income is defined broadly to include all

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potential increases in economic benefit accruing during the accounting period (AASB 2004). Consequently, the following are separately identified:

- *Revenue before movements in fair value* — actual flow of funds (or payables) associated with business activity including the cash received from customers and governments for the provision of services, from the sale of assets or through grants. Revenue before movements in fair value comprises operating and non-operating revenue.
- *Movements in fair value and actuarial gains* — net accounting gains arising from the revaluation of certain types of assets and liabilities — such as derivative financial instruments, superannuation, insurance and emission rights — recorded as net revenue gains in the income statement.

Revenue before movements in fair value is of most interest when assessing how well a GTE is managing its productive assets and other factors under management's control (for example, the GTE's ability to service its liabilities, return dividends to shareholders or fund investments from retained profits). Movements in fair value and actuarial gains, on the other hand, largely reflect the impact of changes outside the control of the GTE.<sup>1</sup> While movements in fair value represent changes in equity at the accounting date, they do not represent a flow of funds into, or out of, the GTE until the assets are realised or the liabilities are settled.

### *Changes to balance sheet aggregates*

Measures of assets, liabilities and equity are essential for assessing performance. They provide a means of normalising the observed performance of individual GTEs over time, against similar organisations and in comparison with accepted benchmarks.

The performance framework used in the past did not distinguish between different types of assets and liabilities other than to differentiate between current and non-current assets and liabilities. However, under AIFRS a much broader range of assets and liabilities are brought onto the balance sheet, highlighting the need for more flexible definitions. Consequently, the following were separately identified:

- *Operating assets and liabilities* — include assets and liabilities directly related to the GTE's ongoing activities. Operating assets includes the physical infrastructure used to produce services, cash, receivables and other assets that can be converted to cash or used to meet expenses and other liabilities (including

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<sup>1</sup> Management's financial and risk management strategies influence the extent to which a GTE's net worth is exposed to such changes.

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investments). Operating liabilities include those incurred as a consequence of normal operating practices (including interest-bearing financial liabilities).

- *Non-operating assets and liabilities* — include assets and liabilities less closely related to ongoing activities such as derivative financial instruments, tax assets (liabilities) and other intangibles. Changes in the value of these assets and liabilities can be largely outside management control.

Different measures of assets and liabilities are appropriate depending on the perspective from which performance is assessed. Where performance is assessed from a sustainability perspective, operating assets and liabilities are most relevant. Alternatively, measures including both operating and non-operating assets and liabilities are more appropriate where performance is assessed from the perspective of the opportunity cost of equity invested.

For a more holistic view of performance, it is also useful to supplement the traditional measure of equity (the residual of total assets over total liabilities) with a measure of equity which excludes non-operating assets and liabilities:

- *Equity based on operating assets and liabilities* — measured as the residual of operating assets less operating liabilities, provides a useful measure of the equity that can be more easily converted into cash to service debts, settle liabilities, fund investments or be returned to shareholders.

### *Improvements to indicators*

The revised income statement and balance sheet aggregates allow for a more informed view of performance by allowing for some indicators to be supplemented and others to be revised:

- *Supplemented* — For example, ‘liabilities to equity’ and ‘return on equity’ are assessed against measures of equity based on both total assets and liabilities, and operating assets and liabilities. This facilitates a more detailed assessment of differences in performance against these indicators. In particular, it provides a greater insight into the performance volatility that can arise where accounting standards such as *Financial Instruments: Recognition and Measurement* (AASB 139) are based on atypical or transient market movements (box 1.1).
- *Revised* — Some indicators were revised to better illustrate the relationship of primary interest. For example, debt exposure is measured as ‘debt to equity based on operating assets and liabilities’ and ‘debt to operating assets’ because these represent the assets that generate income directly or can be more easily converted to cash to service that debt. For the same reason, both the ‘current ratio’ and ‘leverage ratio’ are based on operating assets and liabilities.



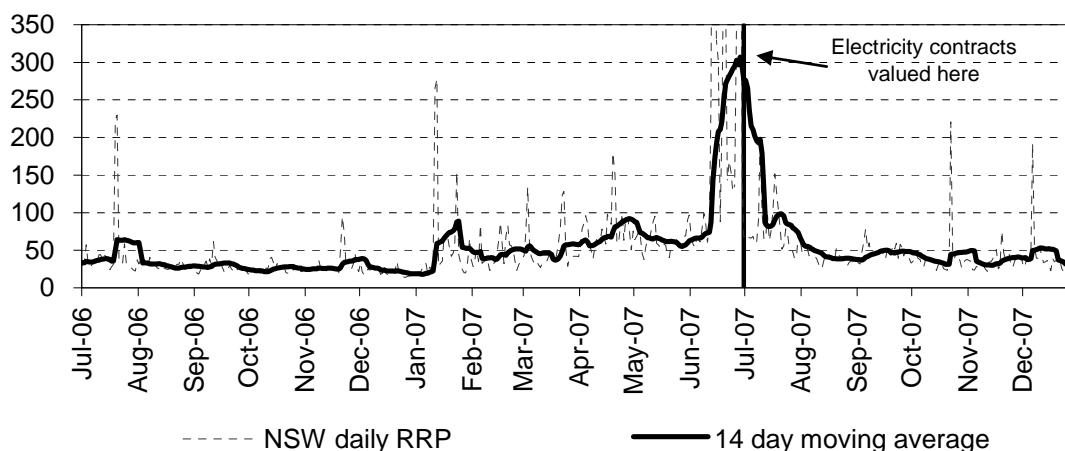
### Box 1.1 The impact of AASB 139 and atypical electricity price movements on Macquarie Generation's balance sheet

Under AIFRS *Financial Instruments: Recognition and Measurement* (AASB 139), all financial instruments are recognised in the balance sheet and must be remeasured to fair value at the end of the financial reporting period.<sup>a</sup> Any movements in the value of these instruments have implications for measures of assets, liabilities and equity. Where revaluation results in movements in the fair value of financial instruments classified as 'financial instruments held for trading', these movements are recognised in the income statement with consequent implications for income, profit and tax.

One effect of AASB 139 is the potential for fair value movements based on atypical or transient market movements. This introduces changes in performance indicators that do not reflect changes in underlying performance.

This is illustrated by the effect of a significant increase in electricity prices in late 2006-07 on Macquarie Generation's reported equity. Macquarie recorded an equity deficit of \$57 million at 30 June 2007, which was attributed to the application of AASB 139 in the context of the substantial increase in market prices in response to drought conditions and supply interruptions in late 2006-07.

**NEMCO daily recommended retail prices for New South Wales**



In its annual report, Macquarie argued that:

This result was brought about by the accounting effect of the rising forward curve in the price of electricity but does not reflect any underlying weakness or change in the health of the business. (Macquarie Generation 2007, p. 6)

Macquarie noted that if the fair value of financial instruments had been calculated at 17 August 2007, the value of financial derivative assets would have been \$1 million higher and financial derivative liabilities would have been \$1 billion lower. The net effect would have been an estimated equity of \$600 million as at 17 August 2007 (Macquarie Generation 2007, p. 65).

<sup>a</sup> Excludes financial assets, held-to-maturity investments, and loans and receivables. For a more complete discussion of the AASB 139 requirements, refer to PC (2006), attachment 3A.

Sources: Macquarie Generation (2007); NEMCO (2008).

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Similarly, profits, return on assets and dividend payout ratios are based on income before movements in fair value. Accounting gains are excluded because they can only be returned to shareholders by increasing debt or when the organisation is sold.

In addition, a new indicator, grants revenue ratio (the proportion of total income attributed to government grants), was introduced. This indicator provides information about the reliance by GTEs on government funding to support their ongoing operations.

## **Consultation**

State and Territory Governments were given the opportunity to comment on the individual GTE reports to ensure accuracy of the information presented.

## **1.3 Performance indicators**

Financial performance indicators provide an overall picture of how a GTE is performing over time as well as relative to other GTEs. These indicators are presented under three broad headings — profitability, financial management and transactions with government.

Generally, it is reasonable to make comparisons across GTEs in the same sector in Australia, although the different range of activities undertaken by the various GTEs should be taken into account. For example, the WA Horizon Power and the NT Power and Water were vertically integrated electricity GTEs during the reporting period — undertaking generation, transmission, distribution and retail activities. In contrast, other GTEs in the electricity sector generally specialise in only one, or in some cases two, of these activities.

Analyses of privately-owned businesses operating in similar sectors in Australia and overseas can also provide useful benchmarks against which the performance of GTEs can be compared. However, this is beyond the scope of this report.

### **Profitability indicators**

Profitability indicators are a concise and consistent way of presenting financial information. In the absence of stock market valuations, they are an important guide

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to the performance of a GTE.<sup>2</sup> Profitability indicators provide governments and the community with a means of evaluating how well GTEs are using the assets vested in them.

Profitability, however, can be affected by factors outside the control of GTEs. For example, the weather can affect the revenue of many GTEs in the water and electricity sectors. This can significantly affect profitability from year to year, particularly as many GTEs have relatively high fixed costs.

The five profitability indicators used in this report are listed in box 1.2, along with an explanation of what they represent and how they are interpreted. Definitions for data items used in the estimation of these indicators are provided in attachment 1.1.

**Box 1.2 Profitability indicators**

*Profit before tax* — is an indicator of the performance of an entity, before income tax is paid. It measures the difference between revenue before movements in fair value and total expenses (excluding income tax).

$$\begin{aligned}\text{Profit before tax} &= \text{Revenue before movements in fair value} \\ &\quad - \text{Total expenses (excluding income tax)}\end{aligned}$$

*Operating profit margin* — is an indicator of the surplus (before interest expense and income tax) earned on operating revenue. It measures trends in operating revenue and expenses that are independent of changes in capital structure and tax regimes.

$$\text{Operating profit margin} = \frac{\text{Earnings before interest and tax (EBIT) from operations}}{\text{Operating revenue}} \times 100$$

*Cost recovery* — is an indicator of the ability of an entity to generate adequate revenue to meet operating expenses. Investment income, government grants and gross interest expense are excluded. A cost recovery ratio of 100 per cent or more indicates that a government trading enterprise (GTE) is able to meet its operating expenses from its operating revenue, excluding the cost of servicing debt.

$$\text{Cost recovery} = \frac{\text{Operating revenue}}{\text{Operating expenses}} \times 100$$

(Continued next page.)

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<sup>2</sup> If a company is listed on the stock exchange, the market assessment of the value of its equity is generally expressed through the price of its shares. Expected returns are capitalised into the value of the company through movements in its share price which encapsulates, at any particular time, investors' views of its current and prospective financial performance.

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## Box 1.2 (continued)

*Return on operating assets* — is an indicator of the rate of return earned from operating assets. The ratio provides a measure of the efficiency with which an entity uses the operating assets vested in it to produce profit before interest and tax. It is a useful indicator for comparing the profitability of GTEs and businesses in similar industries against a benchmark rate of return equal to the risk-adjusted weighted average cost of capital.

The return on operating assets is affected by changes in asset values arising from asset revaluations, transfers or sales. For example, GTEs use different asset valuation methods. Reported asset values can vary significantly for a given GTE over time, which reduces comparability.

If assets are overvalued, GTEs might not appear to earn sufficient returns. Further, inappropriate asset valuations have implications for the efficiency of prices because they do not properly incorporate the actual cost of depreciation and might lead to imperfect measures of the rate of return on assets.

$$\text{Return on operating assets} = \frac{\text{Earnings before interest and tax (EBIT)}}{\text{Average operating assets}} \times 100$$

*Return on equity* — is an indicator of the rate of return that an entity is providing to shareholders. The ratio allows the rate of return achieved by a GTE to be contrasted with that expected from alternative investments with a similar level of risk.

Two measures of return on equity are reported. The first is based on an all inclusive measure of assets and liabilities:

$$\text{Return on total equity} = \frac{\text{Operating profit after tax}}{\text{Average total equity}} \times 100$$

The second is measured as the residual of operating assets over operating liabilities (excluding tax, derivative instruments and other intangibles assets and liabilities).

$$\text{Return on equity based on operating assets and liabilities} = \frac{\text{Operating profit after tax}}{\text{Average equity based on operating assets and liabilities}}$$

A significant difference in the trend of these two indicators suggests that total equity is being influenced by the valuation of non-operating assets and liabilities.

## Financial management

Debt is a major source of funds from which GTEs finance their activities. The capital structure of a GTE is partly determined by the financial risk associated with the use of debt finance. This risk stems from the commitment to pay interest and repay the principal, irrespective of earnings. For example, a decline in operating

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revenue or an increase in the cost of servicing debt can result in liquidity problems if a GTE's capital structure is poorly managed.

Financial management indicators provide information on the extent to which debt is used to finance a GTE's assets, and the GTE's ability to meet periodic interest payments and short-term liabilities.

Various factors — including the impact of government directives, changes in asset values and financial restructuring — should be taken into account when assessing financial management performance, particularly over time.

Changes in liabilities affect the debt to equity indicator based on operating assets and liabilities because equity is a residual measure obtained by deducting operating liabilities from operating assets. An adjustment to provisions for employee entitlements would, if it leads to an increase in total liabilities, decrease equity (and vice versa), other things being equal. Debt to operating equity and debt to operating assets are also affected by financial restructuring. These ratios are influenced by debt for equity swaps, debt transfers to government, retirement of debt and debt revaluations — either directly through their impact on debt levels or indirectly through their impact on the value of equity.

The six financial management indicators used in this report are listed in box 1.3 along with an explanation of what they represent and how they are interpreted. Definitions of data items used in the estimation of these indicators are provided in attachment 1.1.

**Box 1.3      Financial management indicators**

*Debt to equity* — is an indicator of the risk associated with the entity's capital structure in terms of the amount of capital sourced from borrowing and the amount from shareholders (governments in the case of wholly-owned government trading enterprises (GTEs)).

$$\text{Debt to equity} = \frac{\text{Debt}}{\text{Equity based on operating assets and liabilities}} \times 100$$

*Debt to operating assets* — is an indicator of the proportion of assets that are financed with borrowed capital. It gives an indication of the level of exposure to creditors and their interest in the GTE.

$$\text{Debt to operating assets} = \frac{\text{Debt}}{\text{Average operating assets}} \times 100$$

(Continued next page.)

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### Box 1.3 (continued)

*Liabilities to equity* — is an indicator of the exposure to claims over the assets of the GTE by all creditors, in the event that the business ceases operations. An acceptable level for these debt ratios is likely to vary over time and between industries.

Two liability to equity ratio measures are reported to allow for any volatility in these valuations. The first is based on an all inclusive measure of assets and liabilities:

$$\text{Total liabilities to equity} = \frac{\text{Total liabilities}}{\text{Total equity}} \times 100$$

The second excludes non-operating assets and liabilities such as income tax, derivative financial instruments and other intangibles.

$$\text{Operating liabilities to equity based on operating assets and liabilities} = \frac{\text{Operating liabilities}}{\text{Equity based on operating assets and liabilities}} \times 100$$

A significant difference in the trend of these two indicators suggests that total equity is being influenced by the valuation of non-operating assets and liabilities.

*Interest cover* — is an indicator of an entity's ability to meet periodic interest payments from current profit (before interest expense). The level of interest cover gives an indication of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced profitability.

$$\text{Interest cover} = \frac{\text{Earnings before interest and tax (EBIT)}}{\text{Gross interest expense}}$$

*Current ratio* — is an indicator of an entity's ability to meet short-term operating liabilities by realising short-term operating assets. A current ratio greater than 100 per cent indicates that current operating assets exceed current operating liabilities and, if realised, their disposal would meet short-term obligations. The acceptable level for the current ratio will be related to the stability of cash flows.

$$\text{Current ratio} = \frac{\text{Current operating assets}}{\text{Current operating liabilities}} \times 100$$

*Leverage ratio* — is an indicator of an entity's ability to meet long-term debt through the disposal of current and non-current operating assets. A ratio of 100 per cent indicates that there are no operating liabilities. A ratio greater than 100 per cent indicates that operating liabilities are greater than zero, but less than operating assets. A negative ratio indicates that operating liabilities exceed operating assets.

$$\text{Leverage ratio} = \frac{\text{Total operating assets}}{\text{Equity based on operating assets and liabilities}} \times 100$$

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## Transactions with government

Transactions with government consist of:

- transfers to government in the form of income tax-equivalent and dividend payments
- payments from government in the form of payments for specific agreed services, community service obligations (CSOs) and grants.

Changes in policies and practices by GTEs and governments over the reporting period can sometimes make comparisons difficult. For example, prior to July 2005, the Victorian Government required rural water GTEs to achieve a 4 per cent return on the assets used to provide bulk water services to regional urban authorities. This revenue was used to fund dividend payments to government as well as activities such as water quality monitoring and provision of recreational facilities at storages. Subsequently, the *Securing our Water Future Together* white paper announced the Victorian Government's decision to:

- forgo the dividend paid by rural authorities attributable to the 4 per cent rate of return in the 2005-06 financial year, and
- implement alternative arrangements for activities previously funded by the 4 per cent rate of return revenue, by 1 July 2005 (DSE 2004).

The six indicators used in this report to measure transactions with government are listed in box 1.4, along with an explanation of what they represent and how they are interpreted. Definitions for data items used in the estimation of these indicators are provided in attachment 1.1.

### Box 1.4 Transactions with government indicators

*Dividends* — are the value of funds transferred from the present and past after-tax profits of an entity to its owners. In some cases, governments have effected changes to the capital structure of a government trading enterprise (GTE) by requiring the payment of special dividends.

Under AASB 110, dividends must be reported in the financial year that they are declared rather than the year to which they relate. For example, a dividend from 2006-07 profits will not be reported in the 2006 07 operating result if it is not declared prior to 30 June 2007.

Unless otherwise noted, dividends for the financial year were not adjusted or re-allocated to previous years to take account of changes in practices or policies.

(Continued next page.)

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**Box 1.4** (continued)

*Dividend to equity based on operating assets and liabilities ratio* — is an indicator of the size of an entity's dividend payments relative to equity based on operating assets and liabilities. A low measure may indicate that profits are being retained by the entity to fund capital expenditure.

In some cases, comparisons of dividend ratios have to be interpreted with caution. The timing of dividend payments, declarations of dividends by boards, and ministerial approval or directions to pay dividends can result in instances where dividends reported for a financial year relate to operating results in previous years.

$$\text{Dividend to equity based on operating assets and liabilities ratio} = \frac{\text{Dividends paid or provided for}}{\text{Average equity based on operating assets and liabilities}} \times 100$$

*Dividend payout ratio* — is an indicator of the size of an entity's dividend payments relative to its profits before movements in fair value. It gives an indication of the share of profit after tax that is returned to shareholders. The greater the dividend payout ratio, the higher the share of profit after tax that is returned to shareholders. A ratio greater than 100 per cent indicates that an entity has paid a dividend that exceeds its current profit after tax.

$$\text{Dividend payout ratio} = \frac{\text{Dividends paid or provided for}}{\text{Operating profit after tax}} \times 100$$

*Income tax expense* — is the value of income tax or income tax-equivalent expenses payable to government by GTEs. Trends in the value of income tax-equivalent payments do not always follow trends in pre-tax operating profit because of past income tax losses, changes in tax rates and timing, and other differences between accounting and taxable income.

*Grants revenue ratio* — is an indicator of a GTE's reliance on government grants to finance operations. The ratio measures the proportion of revenue before movements in fair value that was provided by government grants (excluding funding for community service obligations (CSOs) and specifically contracted services). A larger ratio implies a greater reliance on government support.

$$\text{Grants revenue ratio} = \frac{\text{Grants to cover deficits in operations}}{\text{Revenue before movements in fair value}} \times 100$$

*CSO funding* — is the sum of payments by governments to GTEs for the specific non-commercial activities that they direct GTEs to undertake. CSO payments are reported only when separately disclosed in financial statements, unless otherwise noted.



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## Data

The data used in calculating the financial performance indicators for 2004-05 to 2006-07 were taken from General Purpose Financial Statements reported in published annual reports.

Unless otherwise stated, the data presented in this report are in nominal values — amounts denominated in terms of values at a particular point in time using ‘dollars of the day’. Where changes in real (inflation adjusted) values are reported, nominal values were adjusted to their 2006-07 values using a price deflator.

The Australian Bureau of Statistics’ *implicit price deflator for gross fixed capital formation — public corporations* was used to convert nominal into real data. It was judged to most closely reflect the underlying cost structure of GTEs. However, there are alternative measures of price change that could have been used, which would have resulted in different real values (table 1.1).

Table 1.1      **Selected deflators, index 2006-07 = 100**

Year	Implicit price deflator			Consumer price index
	Gross fixed capital formation (public corporations)	Final consumption expenditure (government)	Gross domestic product	All groups (Australia)
2002-03	86.6	85.3	84.9	89.7
2003-04	86.9	87.5	87.9	91.9
2004-05	90.3	91.1	91.1	94.2
2005-06	91.9	94.7	95.4	98.0
2006-07	100.0	100.0	100.0	100.0

Sources: ABS (2007a, 2007b).

## 1.4 Capital management research

The Commission is currently undertaking a program of research into GTE capital management in conjunction with the financial performance monitoring. Capital management was identified as warranting closer analysis given that most GTEs have capital intensive operations. Improvements to capital productivity arguably offer the greatest scope for further gains in financial performance.

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The topics covered in the previous report were asset valuation and capital management, and rate of return measures and capital management (PC 2007). The areas covered this year are the impact on capital management and investment of:

- inadequate compensation for CSOs (chapter 3)
- profitability and capital management (chapter 4).

Many GTEs are required by government to undertake non-commercial activities for community benefit. Such CSOs affect the financial performance of a GTE if not appropriately identified, costed and funded. Chapter 3 investigates the effect of mandating under-funded CSOs on capital management and the policies and practices of Australian Governments and GTEs. It also focuses on the adequacy of transparency in reporting.

More than half of the GTEs included in this report did not achieve a commercial rate of return on average over the period 2004-05 to 2006-07. In addition to limiting the return to owner governments, poor performance might have implications for GTE capital management that affect both the GTE and wider economy. The research in chapter 4 was undertaken to explore the possible effects of poor profitability on the capital management strategies of GTEs.

## **1.5 Report structure**

For the remainder of this part of the report, Part A, an overview of the financial performance of the monitored GTEs over the last three years is presented in chapter 2. The findings of the research into implications of inadequate compensation for CSOs, and implications of inadequate rates of return for capital management are presented in chapters 3 and 4 respectively.

In Part B, GTE performance reports are presented by sector, with commentary on the influence of structural reforms and the market environment on performance. State and Territory treasury departments were given the opportunity to review these performance reports.

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## Attachment 1.1 Data item definitions

Definitions for data items used to estimate the financial performance indicators used in this report are provided in tables 1.2 and 1.3.

**Table 1.2      Income statement data item definitions**

<i>Data item</i>	<i>Definition</i>
Earnings before interest and tax (EBIT)	'Profit before income tax' plus 'gross interest expense'.
EBIT from operations	'Profit before tax' plus 'gross interest expense' less 'other revenue before movements in fair value' (which includes 'investment income').
Government grants	See 'receipts from government to cover deficits on operation'.
Gross interest expense	Includes interest, finance charges on finance leases and all debt related financial expenses.
Income tax	The current income tax expense, or income tax-equivalent expense, on profit before movements in fair value calculated using tax-effect accounting (AASB 112).
Investment income	Income received and receivable on financial assets and other investments, including interest, rent and royalties.
Operating expenses	Total expenses less gross interest expense.
Operating profit after tax	'EBIT from operations' less income tax.
Operating revenue	Revenue related to core operations including receipts from governments for community service obligations (CSOs) or specific agreed services, other revenue from sales and levies and developer contributions (but excludes equity contributions from governments).
Other revenue before movements in fair value	Includes government grants, investment income, net gains from asset sales and other revenue not related to core operations or to movements in fair value. Excludes governments equity contributions.
Profit before tax	'Revenue before movements in fair value' less 'total expenses'.
Receipts from government to cover deficits on operation	Includes receipts from governments to cover deficits on operations, capital works and debt reduction, but excludes receipts from governments for CSOs and specific agreed services. Excludes governments equity contributions.
Revenue before movements in fair value	'Revenue from operations' plus 'other revenue before movements in fair value'.
Revenue from movements in fair value.	Includes movements in fair value and actuarial gains reported as revenue in the income statement such as financial instrument fair value movement, superannuation actuarial gains, changes in the fair value of emission rights.
Total expenses	Includes salaries and wages, purchases, interest, bad and doubtful debts, charges for depreciation, amortisation or diminution in the value of assets and abnormal expenses.
Total income	'Revenue before movements in fair value' plus 'revenue from movements in fair value and actuarial gains'.

**Table 1.3 Balance sheet and equity data item definitions**

<i>Data item</i>	<i>Definition</i>
Average equity based on operating assets and liabilities	Average of equity based on operating assets and liabilities at the beginning and end of the reporting period.
Average operating assets	Average of the value of operating assets at the beginning and end of the reporting period.
Average total assets	Average of the value of assets at the beginning and end of the reporting period.
Average total equity	Average of total equity at the beginning and end of the reporting period
Current assets	'Current operating assets' plus 'current non-operating assets'.
Current liabilities	'Current operating liabilities' plus 'current non-operating liabilities'.
Current non-operating assets	Includes derivatives, income tax and other intangible assets that would, in the ordinary course of operations, be exercised or consumed within 12 months after the end of the reporting period.
Current non-operating liabilities	Includes derivatives, income tax and other liabilities with values outside the control of management that would, in the ordinary course of operations, be due and payable within 12 months after the end of the reporting period.
Current operating assets	Includes cash, current receivables, inventories, investments and other current assets that would, in the ordinary course of operations, be exercised or consumed within 12 months after the end of the reporting period.
Current operating liabilities	Includes interest-bearing liabilities, trade and other payables, provisions and other liabilities that would, in the ordinary course of operations, be due and payable within 12 months after the end of the reporting period.
Debt	'Current interest-bearing liabilities' plus 'non-current interest bearing liabilities'. Excludes non-interest bearing loans.
Dividends paid or provided for	The amount included in the statement of changes in equity for dividends. Includes normal and special dividends and statutory levies on profits and revenue. Excludes returns on capital.
Equity based on operating assets and liabilities	'Operating assets' less 'operating liabilities'.
Non-current assets	'Non-current operating assets' plus 'non-current non-operating assets'.
Non-current liabilities	'Non-current operating liabilities' plus 'non-current non-operating liabilities'.
Non-current non-operating assets	Includes derivatives, deferred income tax and other intangible assets that could, in the ordinary course of operations, not be exercised or consumed within 12 months after the end of the reporting period.

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**Table 1.3** (continued)

<i>Data item</i>	<i>Definition</i>
Non-current non-operating liabilities	Includes derivatives, deferred income tax and other liabilities with values outside the control of management that would, in the ordinary course of operations, be due and payable more than 12 months after the end of the reporting period.
Non-current operating assets	Includes property, plant and equipment, investments and other non-current assets that would, in the ordinary course of operations, not be exercised or consumed within 12 months after the end of the reporting period.
Non-current operating liabilities	Includes interest-bearing liabilities, provisions and other liabilities that would, in the ordinary course of operations, be due and payable more than 12 months after the end of the reporting period.
Non-operating assets	'Current non-operating assets' plus 'non-current non-operating assets'.
Non-operating liabilities	'Current non-operating liabilities' plus 'non-current non-operating liabilities'.
Total assets	'Current assets' plus 'non-current assets'.
Total equity	Total assets less total liabilities.
Total liabilities	'Current liabilities' plus 'non-current liabilities'.
Total operating assets	'Current operating assets' plus 'non-current operating assets'.
Total operating liabilities	'Current operating liabilities' plus 'non-current operating liabilities'.



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## 2 Financial performance overview

An overview of the financial performance of the monitored government trading enterprises (GTEs) for the period 2004-05 to 2006-07 is presented in this chapter. Financial performances of GTEs are examined using the performance indicators defined in chapter 1. Detailed assessments of the performance of each sector and of individual monitored GTEs are included in part B of this report.

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

When making comparisons between GTEs, consideration should also be given to differences in the nature and scale of the businesses, their individual market environments, the valuation of their assets and the level of payments for community service obligations (CSOs).

### 2.1 Monitored GTEs

The 86 GTEs monitored in this report undertake a range of activities across six sectors — electricity, water (which includes sewerage, drainage and irrigation services), urban transport, rail, ports and forestry (table 2.1). Three GTEs that do not fit within these sectors — Airservices Australia, Australia Post and TT-Line — are reported separately. State Water, VicTrack and TT-Line are monitored for the first time in this report.

Government-owned businesses contributed nearly 1.7 per cent to Australia's GDP in 2006-07 (ABS 2007a). The monitored GTEs controlled assets valued at \$192 billion and generated \$52 billion of income in 2006-07 (figure 2.1).<sup>1</sup> In aggregate, they accounted for 80.7 per cent of the revenue generated by all government-owned businesses in Australia (ABS 2008b).

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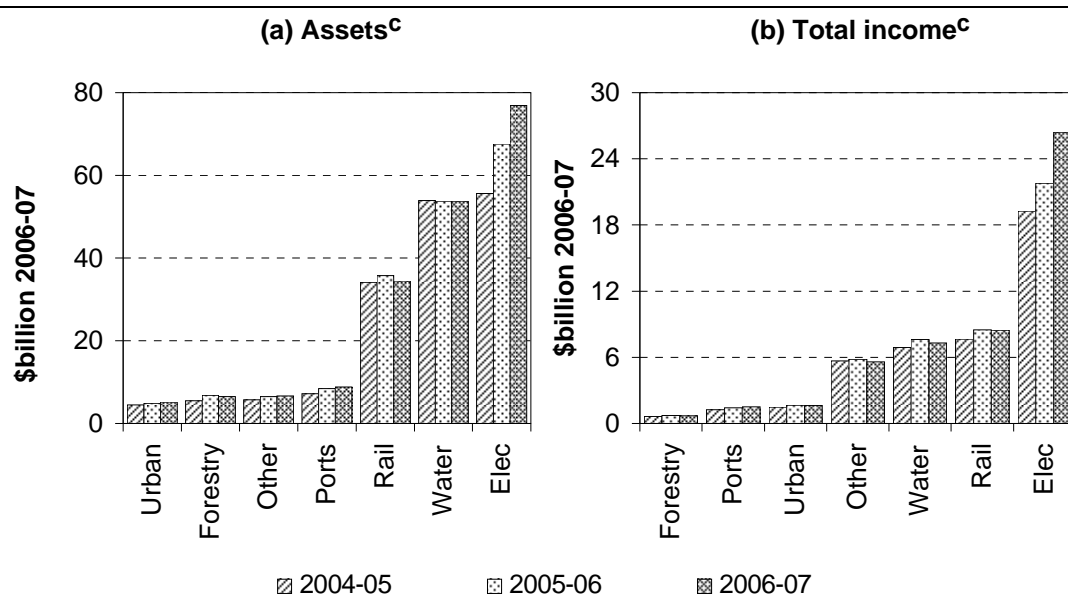
<sup>1</sup> Monitored GTE assets represented about 1.5 per cent of total assets or 2.8 per cent of non-household assets in Australia at 30 June 2007 (ABS 2007a).

Table 2.1 **Monitored GTEs by sector and jurisdiction, 2006-07**

<i>Sector</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>Aust Govt</i>	<i>Total</i>
Electricity (chapter 5)	7	–	7	4	–	3	–	1	1 <sup>a</sup>	23
Water (chapter 6)	4 <sup>b</sup>	13	1	1	1	3	1	–	–	24
Urban transport (chapter 7)	2	–	–	1	1	1	–	–	–	5
Rail (chapter 8)	2	2 <sup>c</sup>	1	–	–	–	–	–	1	6
Ports (chapter 9)	3	2	6	6	–	1	–	1	–	19
Forestry (chapter 10)	1	1	1	1	1	1	–	–	–	6
Other (chapter 11)	–	–	–	–	–	1 <sup>d</sup>	–	–	2 <sup>e</sup>	3
<b>All</b>	<b>19</b>	<b>18</b>	<b>16</b>	<b>13</b>	<b>3</b>	<b>10</b>	<b>1</b>	<b>2</b>	<b>4</b>	<b>86</b>

<sup>a</sup> Snowy Hydro, which is jointly owned by the Australian, NSW and Victorian Governments. <sup>b</sup> State Water is included for the first time in this report. <sup>c</sup> VicTrack is included for the first time in this report. <sup>d</sup> TT-Line is included in for the first time in this report. <sup>e</sup> Includes Airservices Australia and Australia Post. – Zero or rounded to zero.

Figure 2.1 **Assets and revenue by sector, 2006-07<sup>a,b</sup>**



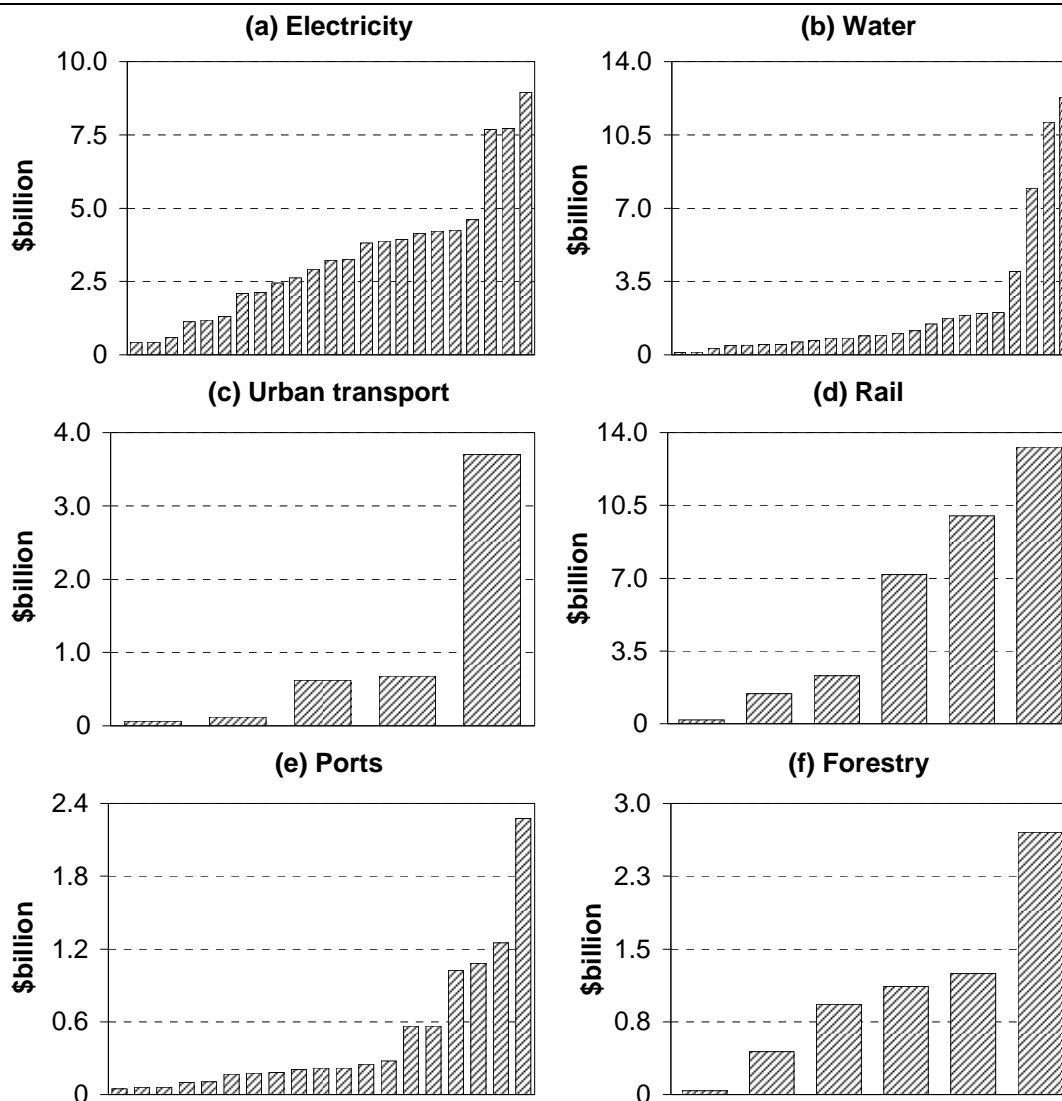
<sup>a</sup> The values of sector assets for 2004-05 and 2005-06 were converted to 2006-07 dollars using the ABS implicit price deflator — gross fixed capital formation of public corporations (chapter 1). <sup>b</sup> **Other** includes Airservices Australia, Australia Post and TT-Line. **Elec** refers to the electricity sector government trading enterprise (GTEs). **Urban** refers to urban transport GTEs. <sup>c</sup> Includes four WA electricity GTEs, Forestry Plantations Queensland and Tasmanian Ports Corporation which did not operate in 2004-05, or for the entire 2005-06 financial year. These GTEs contributed \$8.3 billion to total assets in 2005-06 and \$8.2 billion in 2006-07. They contributed \$1.0 billion to total income in 2005-06 and \$3.8 billion in 2006-07.

Source: Productivity Commission estimates.

The size of monitored GTEs — measured in assets — varies substantially across and within sectors (figure 2.2). The smallest GTE in terms of asset value in 2006-07



Figure 2.2 **Assets — monitored GTEs by sector, 2006-07<sup>a</sup>**



<sup>a</sup> Three monitored government trading enterprises that do not fit within these six sectors — TT-Line (assets \$785 million), Airservices Australia (assets \$5.5 million) and Australia Post (assets \$5.5 billion) — are excluded from this figure.

Source: Productivity Commission estimates.

was VicForests (\$38 million) and the largest was RailCorp (\$13.3 billion). The largest 11 GTEs accounted for around 50 per cent of the total assets of all monitored GTEs.

## 2.2 Market environment

The financial performance of GTEs — relative to that in previous periods and to the performance of other GTEs operating in different parts of the economy — is affected by differences in operating conditions. These differences include variations

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in the demand for a GTE's goods and services, and variations in the costs of production.

The pursuit of non-commercial objectives can also affect the financial performance of GTEs. If a GTE is directed to undertake CSOs without adequate funding, its financial performance will suffer. This is particularly so in the rail and water sectors where CSO payments represent a significant proportion of total income.

The GTEs monitored in this report generally operate in regulated industries, where price increases are typically determined by independent price regulators or require ministerial approval. The influence of regulators' decisions on GTEs' revenue can affect their profitability. It is possible that poor operating results are due to regulated prices being set too low, rather than being indicative of poor management.

Regulators set prices at levels they consider will provide an adequate return on the regulatory asset base (RAB). However, the value of the RAB can vary from that of the accounting asset base because of exclusions from the RAB (such as contributions and gifted assets), or 'line-in-the-sand' approaches to setting initial regulatory asset values. For example, the Victorian Government excludes all investments prior to 1 July 2004 from the initial RAB of rural water GTEs (DSE 2004). Where the RAB excludes assets that have an economic value, prices might be set at levels below those necessary to earn an appropriate rate of return on the GTE's accounting valuation of assets.

The valuation of assets, and the frequency of revaluation, can also affect the reported financial performance of GTEs. Forestry GTEs, for example, are affected annually by revaluations of timber assets, the effect of which is written directly into the income statement (chapter 10).

Infrequent asset revaluations affect measured performance in two ways. First, the divergence between the book value and economic value of assets (and therefore between measured and actual performance) is likely to increase with the time since the most recent valuation. Second, the size of revaluation is likely to increase with greater intervals between revaluations (resulting in volatility in measured performance over time).

## **2.3 Profitability**

Profitability reflects a GTE's capacity to generate earnings from the capital invested in its activities. Profitability should be sufficient to provide owner-governments (and the community) with a return similar to that available from alternative investments with similar risk profiles.

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In this report, profitability measures include the level of profit before tax, the return on operating assets, the return on total equity, and the cost recovery ratio as defined in chapter 1. These measures are influenced by the relative importance of different income sources, particularly government support through grants (section 2.5).<sup>2</sup>

## **Profit before tax**

The monitored GTEs reported a total profit before tax of \$9.1 billion in 2006-07, representing an increase in real (inflation-adjusted) terms of around \$2.4 billion (35.8 per cent) from 2005-06.<sup>3</sup> Performance across sectors was mixed, with total profit before tax increasing in the electricity, urban transport and ports sectors, while declining in the rail, water and forestry sectors between 2005-06 and 2006-07 (table 2.2).

The performance of individual GTEs significantly influenced the aggregate performance of many sectors in 2006-07. For example, 82.2 per cent (\$619 million) of the fall in profit before tax for the rail sector was attributable to Australian Rail Track Corporation. Although accounting for a smaller fall in absolute terms, TransAdelaide similarly accounted for 96.8 per cent of the declines in the urban transport profit before tax. In contrast, Energex accounted for \$1.4 billion (42.9 per cent) of the improvements in profit before tax in the electricity sector, while Forest Products Commission Western Australia was the only forestry GTE to improve its profit before tax.

Although just over half of the monitored GTEs (52.5 per cent) improved their profit before tax in 2006-07 (in real terms), the spread of performance varied by sector.<sup>3</sup> For example, profits improved for 66.7 per cent of port GTEs and 63.2 per cent of electricity GTEs. However, only 20.0 per cent of forestry and 33.3 per cent of water GTEs increased their profits. Similarly, while 83.7 per cent of GTEs achieved a profit in 2006-07, only 50.0 per cent of rail GTEs did (table 2.2).

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<sup>2</sup> In this report, profit before tax measures the difference between revenue before movements in fair value and total expenses (before income tax). It includes both operating and non-operating revenue and can vary significantly from earnings before income and tax from operations (EBIT from operations), particularly where government grants represent a significant proportion of income (chapter 1).

<sup>3</sup> Six monitored GTEs — the four WA electricity GTEs, Forestry Plantations Queensland and Tasmanian Ports Corporation — did not operate for the entire 2005-06 financial year. Data for these GTEs are included in estimates for 2006-07, but are excluded from estimates of change between 2005-06 and 2006-07.

**Table 2.2 Real change in profit before tax between 2005-06 and 2006-07**

	<i>Reductions<sup>a,b</sup></i>			<i>Increases<sup>a,c</sup></i>			<i>Net change<sup>a,d</sup></i>		<i>GTEs making profits<sup>e</sup></i>
	<i>Amount</i>	<i>GTEs</i>	<i>Share of largest</i>	<i>Amount</i>	<i>GTEs</i>	<i>Share of largest</i>			
	\$million	no.	%	\$million	no.	%	\$million	%	no.
Electricity <sup>a</sup>	-454	7	28.7	3 275	12	42.9	2 821	105.3	20
Water	-264	16	29.9	106	8	76.6	-158	-7.8	19
Urban	-16	2	96.8	93	3	56.2	76	-457.9	4
Rail	-753	3	82.2	431	3	49.2	-321	-52.4	3
Ports <sup>a</sup>	-47	6	34.7	57	12	40.8	11	2.5	18
Forestry <sup>a</sup>	-62	4	74.0	—	1	100.0	-62	-35.9	5
Other	—	—	—	9	3	63.0	9	1.3	3
<b>All</b>	<b>-1 596</b>	<b>38</b>	<b>38.8</b>	<b>3 972</b>	<b>42</b>	<b>35.4</b>	<b>2 375</b>	<b>35.8</b>	<b>72</b>

<sup>a</sup> Excludes six monitored government trading enterprises (GTEs) — the four WA electricity GTEs, Forestry Plantations Queensland and Tasmanian Ports Corporation — that did not operate for the complete 2005-06 financial year. <sup>b</sup> **GTEs** refers to the number of monitored GTEs reporting a decline in profit before tax between 2005-06 and 2006-07. **Share of largest** is the proportion of total sector decline in profit before tax between 2005-06 and 2006-07, that is attributable to the GTE reporting the largest decline in dollar terms. <sup>c</sup> **GTEs** refers to the number of monitored GTEs reporting an increase in profit before tax between 2005-06 and 2006-07. **Share of largest** is the proportion of total sector increase in profit before tax between 2005-06 and 2006-07, that is attributable to the GTE reporting the largest increase in dollar terms. <sup>d</sup> Total increases in profit before tax less total declines in profit before tax (in real, inflation-adjusted terms). The percentage change is the net change compared to total sector profit before tax in 2005-06, measured in 2006-07 dollars. <sup>e</sup> Number of monitored GTEs reporting a profit before tax in 2006-07 (including those listed in note a). — Zero or rounded to zero.

Source: Productivity Commission estimates.

**Table 2.3 Selected profitability measures (per cent)<sup>a</sup>**

<i>Sector</i>	<i>Return on operating assets</i>		<i>Return on total equity<sup>b</sup></i>		<i>Cost recovery</i>	
	<i>2005-06</i>	<i>2006-07</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2005-06</i>	<i>2006-07</i>
Electricity <sup>a</sup>	7.4	12.2	13.6	16.4	123.2	125.6
Water	5.0	4.9	4.7	5.0	152.7	150.5
Urban	2.4	2.9	-31.6	-22.2	62.3	60.5
Rail	3.1	2.1	-3.1	-3.2	89.5	90.7
Ports <sup>a</sup>	7.1	6.9	3.8	3.8	136.6	139.0
Forestry <sup>a</sup>	8.5	5.4	2.4	2.2	124.1	108.6

<sup>a</sup> Excludes six monitored government trading enterprises (GTEs) — the four WA electricity GTEs, Forestry Plantations Queensland and Tasmanian Ports Corporation — that did not operate for the complete 2005-06 financial year. <sup>b</sup> Return on total equity measures are based on operating profit after tax and are sensitive to how government funding is recorded in financial statements. In this report, governments grants (other than for specific agreed services and community service obligations) are classified as non-operating revenue (chapter 1).

Source: Productivity Commission estimates.

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## Return on assets, return on equity and cost recovery

The change in the overall financial performance of monitored GTEs was mixed in 2006-07 (table 2.3).<sup>4</sup> The electricity and urban transport sectors all achieved improved returns on assets and on equity, while the rail, ports and forestry sectors' return on both these measures deteriorated. The water sector achieved a higher return on equity, but a marginally falling return on assets.

Movements in cost recovery also varied by sector. It is important to note that cost recovery of the urban transport and rail sectors was less than 100 per cent, indicating that revenue from operations was insufficient to cover expenses from operations.

Profitability also varied considerably between and within sectors in 2006-07 (figure 2.3).

## Benchmark comparisons

A commercial rate of return would equate at least to the risk-free rate of return on capital plus a margin reflecting the non-diversifiable market risk inherent in the investment.

The 10-year Australian Government bond rate is widely used as the risk-free rate of return benchmark. The average rate of return on 10-year Australian Government bonds in 2006-07 was 5.8 per cent (RBA 2008).<sup>5</sup> Given the non-diversifiable risk inherent in any business activity, it is reasonable to expect that GTEs should be generating returns on assets above the risk-free rate.<sup>6</sup>

More than half (52 per cent) of monitored GTEs failed to achieve a return on operating assets above the risk-free rate of return in 2006-07. Twelve GTEs (14 per cent) failed to achieved a return on operating assets above zero.

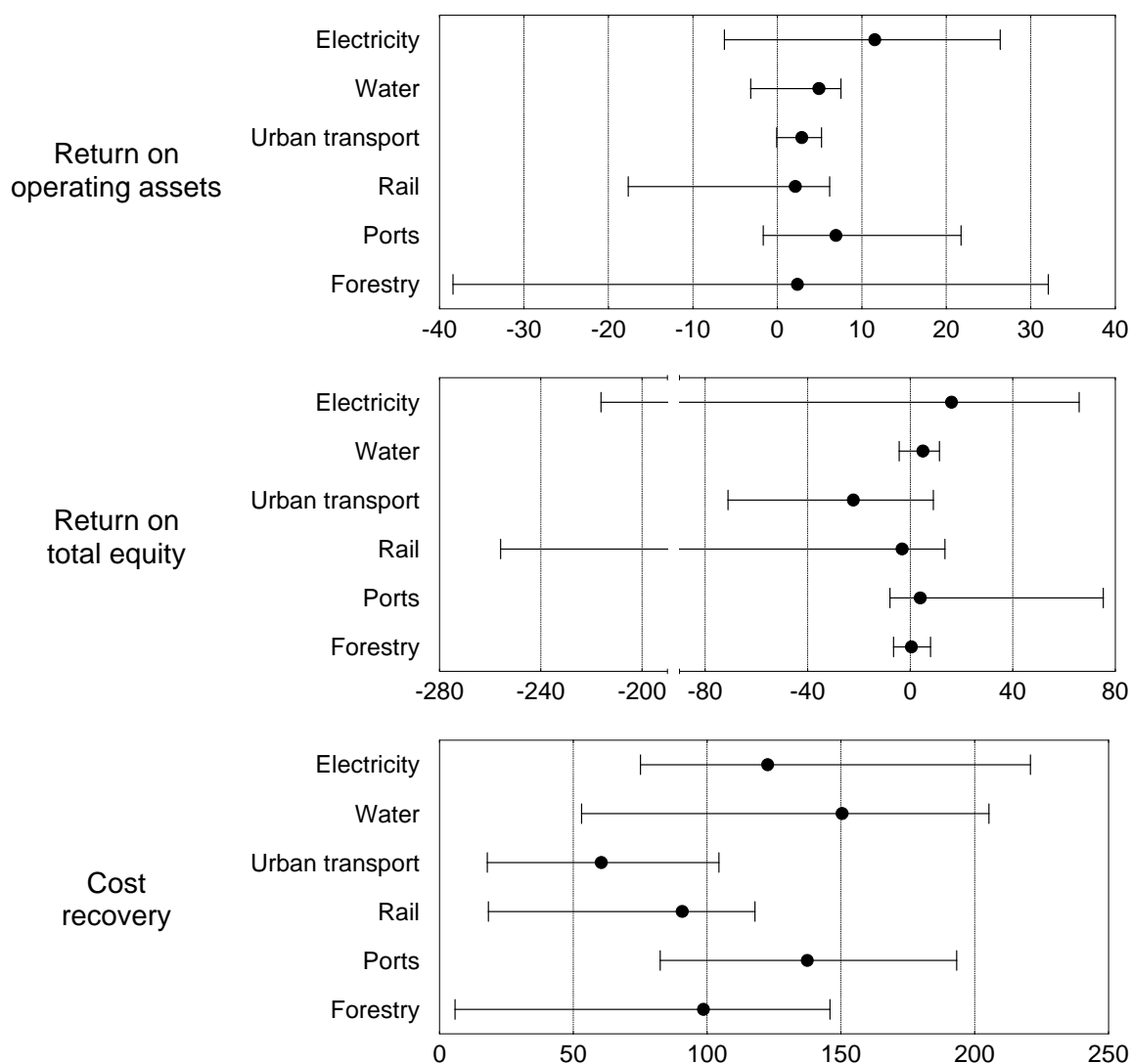
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<sup>4</sup> Six monitored GTEs — the four WA electricity GTEs, Forestry Plantations Queensland and Tasmanian Ports Corporation — did not operate for the entire 2005-06 financial year. Data for these GTEs are included in estimates for 2006-07, but are excluded from estimates of change between 2005-06 and 2006-07.

<sup>5</sup> Based on the average daily rate over the 12 months to June 2007. The rate is usually based on the average bond rate over a specified period (12 months) rather than the 'on the day' rate at 30 June 2007, in order to minimise the effect of short-term volatility.

<sup>6</sup> Typical values estimated by regulators as an approximate overall rate of return (including an allowance for non-diversifiable risk) are somewhat higher than the risk-free rate. For example, the NSW Independent Pricing and Regulatory Tribunal accepted a nominal post-tax return of between 6 per cent and 7 per cent for electricity distributors over the period February 2004 to June 2008 (IPART 2004).

Figure 2.3 **Selected profitability measures, 2006-07 (per cent)<sup>a</sup>**



<sup>a</sup> The dot represents the weighted mean value and the 'whiskers' represent the range of values for a given performance indicator by sector.

Source: Productivity Commission estimates.

The 2006-07 performance continues the poor financial performance of the majority of GTEs that has been observed in previous reports in this series (see, for example, PC 2002a, 2003, 2004, 2005a, 2006, 2007). This suggests a lack of commitment by owner-governments to operate their businesses on a fully commercial basis, despite their previous undertaking to do so (NCC 1998; Trembath 2002; COAG 2005).

Returns were generally higher in the electricity and ports sectors where 82.6 per cent and 63.2 per cent of GTEs respectively, achieved returns above the

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10-year bond rate. However, performance in other sectors — particularly urban transport, rail and water — suggests scope for improvement:

- *Urban transport* — no urban transport GTE achieved the risk-free rate of return, and 20.0 per cent did not achieve a positive return.
- *Rail* — 83.3 per cent of rail GTEs failed to achieve the risk-free rate of return, and 50.0 per cent did not achieve a positive return.
- *Water* — 79.2 per cent of water GTEs did not achieve a risk-free rate of return, and 16.7 per cent failed to achieve a positive return.

## 2.4 Financial management

The financial management indicators in this report provide information about the capital structure of GTEs and their ability to meet the costs of servicing debt and other liabilities as they fall due.

Caution is required when comparing financial management indicators over time because changes in the capital structure of GTEs — including those arising from revaluations and changes to valuation methods — affect inter-temporal performance comparisons. Further information on these indicators is provided in chapter 1.

### Debt levels

Between 30 June 2006 and 30 June 2007, average debt in the ports, electricity, water and forestry sectors increased in real terms by 8.0 per cent, 6.7 per cent, 5.6 per cent and 4.3 per cent respectively.<sup>7</sup> Over the same period, there was a significant decrease in the urban transport sector (49.1 per cent or \$1.0 billion), and lesser decreases in the rail sector and for the ‘other’ group of GTEs — 7.9 per cent (\$498 million) and 15.9 per cent (\$141 million) respectively (table 2.4).

Between 30 June 2006 and 30 June 2007, 44.2 per cent of monitored GTEs decreased their real debt level. The reason for this decrease included debt reduction programs, reduced capital expenditure and the partial privatisation of some businesses. Ten GTEs carried no debt at 30 June 2007 (the same number as at 30 June 2006, but comprising a different set of GTEs) (table 2.4).

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<sup>7</sup> An increase in debt is not *prima facie* evidence of poor financial management as a GTE might be using debt to finance projects that will improve future performance (after debt servicing costs are taken into account).

Table 2.4 Debt levels of monitored GTEs

Sector	30 June 2006		30 June 2007		GTEs with no debt <sup>a</sup>		Monitored GTEs
	Total	Average <sup>b</sup>	Total	Average <sup>b</sup>	2006	2007	
	\$million	\$'000	\$million	\$'000	no.	no.	no.
Electricity <sup>c</sup>	25 108	1 091 642	26 788	1 164 688	2	2	23
Water <sup>d</sup>	10 603	441 787	11 193	466 382	1	2	24
Urban transport <sup>e</sup>	2 093	418 546	1 065	213 054	—	—	5
Rail <sup>f</sup>	6 268	1 044 727	5 770	961 690	3	3	6
Ports <sup>g</sup>	1 746	91 903	1 886	99 238	4	3	19
Forestry <sup>h</sup>	381	63 551	398	66 280	—	—	6
Other <sup>i</sup>	892	297 287	750	250 164	—	—	3
<b>All</b>	<b>47 091</b>	<b>547 570</b>	<b>47 850</b>	<b>556 397</b>	<b>10</b>	<b>10</b>	<b>86</b>

<sup>a</sup> Different government trading enterprises (GTEs) were debt free at 30 June 2006 and 30 June 2007.

<sup>b</sup> Averages are based on the number of monitored GTEs and are expressed in 2006-07 dollars. <sup>c</sup> Eight GTEs accounted for 71.3 per cent of electricity sector debt at 30 June 2007. <sup>d</sup> Five GTEs accounted for 77.3 per cent of water sector debt at 30 June 2007. <sup>e</sup> The WA Public Transport Authority accounted for 80.6 per cent of urban transport sector debt at 30 June 2007. <sup>f</sup> Queensland Rail accounted for 79.1 per cent of rail sector debt at 30 June 2007. <sup>g</sup> Five GTEs accounted for 73.2 per cent of ports sector debt at 30 June 2007. <sup>h</sup> Forests NSW accounted for 40.2 per cent of forestry sector debt at 30 June 2007. <sup>i</sup> Australia Post accounted for 70.8 per cent of the 'other' GTEs sector debt at 30 June 2007. — Zero or rounded to zero.

Source: Productivity Commission estimates.

Table 2.5 Selected financial performance measures

Sector	Debt to equity		Current ratio		Interest cover <sup>a</sup>	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
	%	%	%	%	times	times
Electricity	86.6	89.2	71.7	93.2	3.0	4.7
Water	26.2	28.1	55.0	50.8	4.3	3.9
Urban transport	104.7	31.2	8.0	34.4	0.9	1.8
Rail	24.1	23.0	110.2	90.2	2.4	1.7
Ports	29.1	29.7	193.7	132.6	5.7	5.5
Forestry	24.0	22.0	126.5	133.7	11.2	9.6
Other	27.8	20.7	78.4	92.3	13.9	15.5

<sup>a</sup> Excludes six monitored government trading enterprises (GTEs) — the four WA electricity GTEs, Forestry Plantations Queensland and Tasmanian Ports Corporation — that did not operate for the complete 2005-06 financial year. Also excludes Forests NSW because its reported interest expenses were capitalised.

Source: Productivity Commission estimates.

## Debt to equity, current ratios and interest cover

Although the debt levels of about 45.3 per cent of monitored GTEs increased between 30 June 2006 and 30 June 2007, this was offset by the increase in assets.



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As a consequence, aggregate debt to assets remained relatively unchanged at 28.4 per cent at 30 June 2007 (from 28.0 per cent at 30 June 2006).

The weighted average debt to equity for the monitored GTEs was around 43.4 per cent at 30 June 2007 (unchanged from 30 June 2006). However, the ratio varied considerably between sectors — ranging from 20.7 per cent for the ‘other’ group of GTEs to 89.2 per cent in the electricity sector (table 2.5).

Interest cover increased in the urban transport, electricity and the ‘other’ group of GTEs sectors to 1.8 times, 4.7 times and 15.5 times respectively (table 2.5).<sup>8</sup> Interest cover declined in all other sectors, with the largest proportional declines in the rail and forestry sectors (which decreased to 1.7 times and 9.6 times, respectively).

Financial management performance indicators also varied considerably within each sector (figure 2.4).

## **2.5 Transactions with government**

The Council of Australian Governments endorsed the corporatisation of GTEs as part of a range of reforms under the Competition Principles Agreement in 1995. An objective of the Agreement was to enhance the efficient allocation of resources by removing any competitive advantage that government-owned businesses have as a result of public ownership. Under the agreement, governments re-committed to income tax-equivalent payments and debt guarantee fees for all significant GTEs, where the benefits outweighed the implementation costs.

The income tax-equivalent, dividend and CSO payments of GTEs are examined in the following sections. For more information on these measures, see chapter 1.

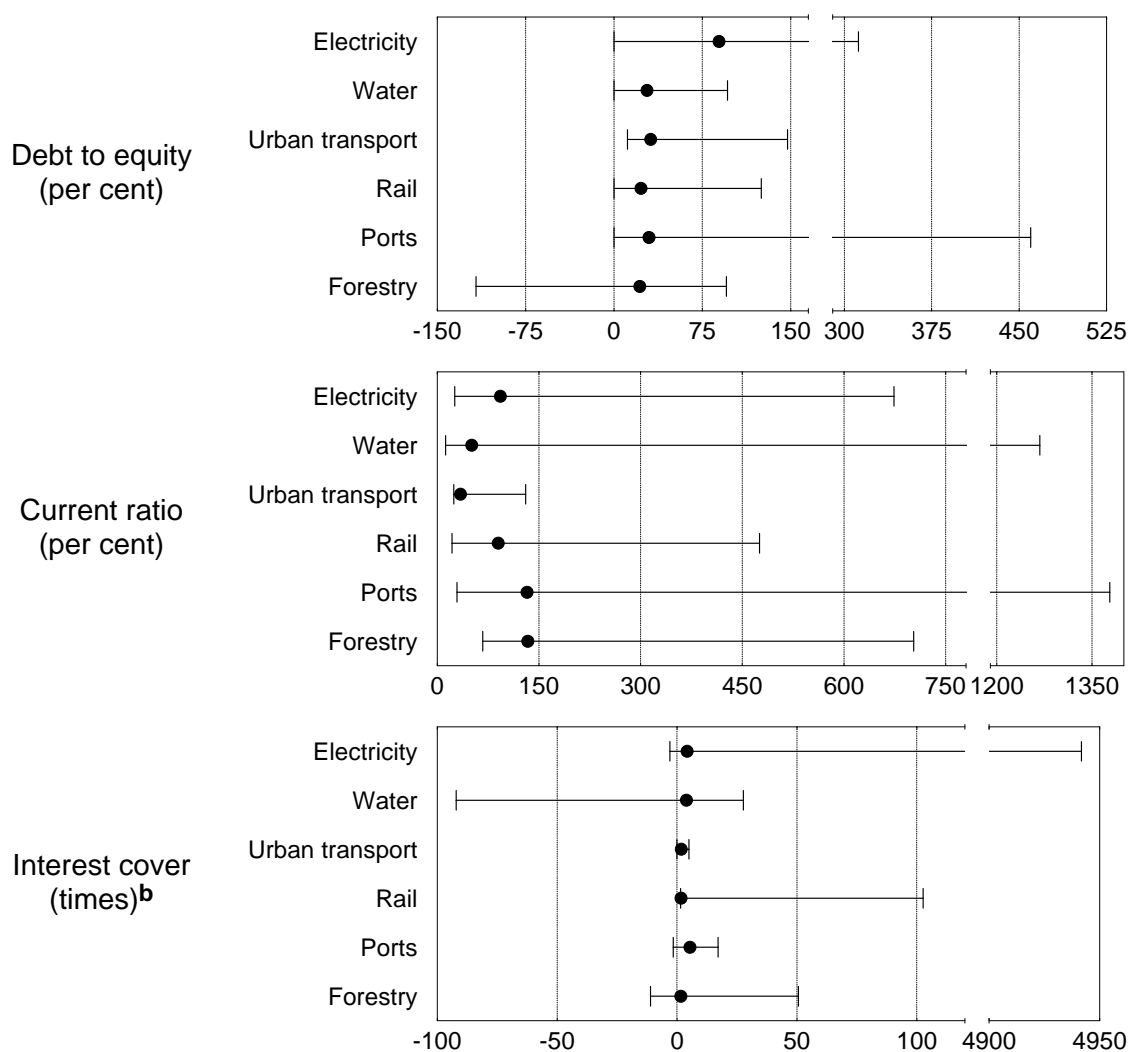
### **Income tax-equivalent expenses**

Under an income tax-equivalent regime, GTEs are required to pay tax on their profit at the same company tax rate as private businesses. If this were not the case, all other things being equal, a GTE would be able to earn the same after-tax rate of return as private businesses while having lower prices or higher operating costs.

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<sup>8</sup> Six monitored GTEs — the four WA electricity GTEs, Forestry Plantations Queensland and Tasmanian Ports Corporation — did not operate for the entire 2005-06 financial year. Data for these GTEs are included in estimates for 2006-07, but are excluded from estimates of change between 2005-06 and 2006-07.

Figure 2.4 Selected financial management indicators, 2006-07<sup>a</sup>



<sup>a</sup> The dot represents the weighted mean value and the 'whiskers' represent the range of values for a given performance indicator by sector. <sup>b</sup> Forests NSW is excluded from the calculation of interest cover for the sector because its reported interest expenses were capitalised.

Source: Productivity Commission estimates.

Most GTEs have been subject to the National Tax-Equivalent Regime (NTER) since June 2001.<sup>9</sup> The NTER unified the income tax-equivalent arrangements of GTEs that were previously subject to the income tax-equivalent regimes of their respective owner-governments:

The primary objective of the NTER is to promote competitive neutrality, through a uniform application of income tax laws, between the NTER entities and their privately held counterparts. (ATO 2006, p. 6)

<sup>9</sup> Australian Government-owned entities pay income tax to the Australian Taxation Office.

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The monitored GTEs recorded \$1.8 billion in income tax and tax-equivalent expenses in 2006-07, 7.4 per cent (\$121 million) lower than the previous year in real terms.<sup>10</sup> This includes income tax-equivalent benefits of \$210 million recorded for 2006-07 by 13 GTEs. Eleven monitored GTEs did not record an income tax-equivalent expense for 2006-07 because they were exempted from the NTER by their owner-governments (four GTEs),<sup>11</sup> or because they did not record a profit.

## Dividends

The payment of dividends is designed to provide owner-governments with a return on the funds invested in GTEs, and to bring GTEs into line with private-sector businesses that typically distribute a proportion of their profits to shareholders.

Fifty-seven monitored GTEs declared dividends totalling \$4.4 billion to their owner-governments in 2006-07. The majority (61.6 per cent) of these dividends were from the electricity sector.

Total dividends increased by 28.6 per cent (\$962 million) in real terms in 2006-07.<sup>10</sup> This was largely attributable to increased dividends from electricity GTEs (which increased by 78 per cent or \$1 billion). Rail and ports sector dividends increased by lesser amounts (\$71 million and \$4 million respectively). These increases were offset by decreases in the dividends paid by water, urban transport, forestry and other government GTEs — which fell by \$225 million, \$33 million, \$12 million and \$9.6 million respectively.

Nine GTEs in 2006-07 (six in 2005-06) reported dividend payout ratios of over 100 per cent, mainly in the water and ports sectors. That is, dividends paid or provided for exceeded operating profit (after tax) in that year. It implies that the GTE might be required to fund the dividend payment from previous years' retained earnings or from borrowings.

Some GTEs (seven in 2005-06 and six in 2006-07) made dividend payments after reporting after-tax losses, resulting in negative dividend payout ratios. This can be explained by their owner-governments requiring them to pay pre-determined special dividends of a given amount regardless of after-tax profits. Negative dividend

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<sup>10</sup> Six monitored GTEs — the four WA electricity GTEs, Forestry Plantations Queensland and Tasmanian Ports Corporation — did not operate for the entire 2005-06 financial year. Data for these GTEs are included in estimates for 2006-07, but are excluded from estimates of change between 2005-06 and 2006-07.

<sup>11</sup> Government trading enterprises exempted from the NTER for 2006-07 were Rail Corporation NSW, the Rail Infrastructure Corporation, and Sydney Ferries Corporation. The WA Public Transport Authority was also exempted from the NTER because it is an on-budget agency.

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payout ratios can also occur when dividend payments during the year are based on prior-year operating results.<sup>12</sup>

## **Community service obligations**

Government trading enterprises can provide economic and social benefits to the community over and above the direct benefits paid for by consumers. For example, urban transport services might have benefits such as greater mobility and access for disadvantaged groups, as well as other positive externalities such as reduced motor vehicle pollution, urban road congestion, and reduced parking requirements (where these are not being directly addressed by other policies).

Historically, governments have recognised such benefits through the funding of operating deficits of the relevant GTEs. However, current government policy is to make on-budget payments directly to the GTEs for meeting CSOs, such as charging concession fares for pensioners.

Governments paid monitored GTEs \$3.9 billion in disclosed CSO payments in 2006-07. Rail GTEs received 65.6 per cent of the overall CSO funding, with those in the water sector receiving 19.0 per cent and in the electricity sector 13.8 per cent, in 2006-07. The urban transport sector accounted for most of the remaining CSO funding. The rail and water GTEs rely the most on CSO funding, amounting to 30.5 per cent and 10.2 per cent respectively of total income in 2006-07 (figure 2.5). CSO funding is particularly important for some GTEs (table 2.6).

Some GTEs provide CSOs but are not compensated through specific CSO funding. Although V/Line Passenger Corporation did not receive CSO funding, 33 per cent of its farebox revenue was derived from concession fares in 2006-07 (VLPC 2007). V/Line Passenger Corporation received government grants of \$256 million (accounting for 80.2 per cent of its revenue) in 2006-07 (chapter 8).

Other GTEs provide CSOs without reimbursement. For example, Forestry Tasmania stated that it was required to undertake non-commercial activities costing \$5.3 million in 2006-07, even though it did not receive CSO payments over the reporting period (chapter 10).

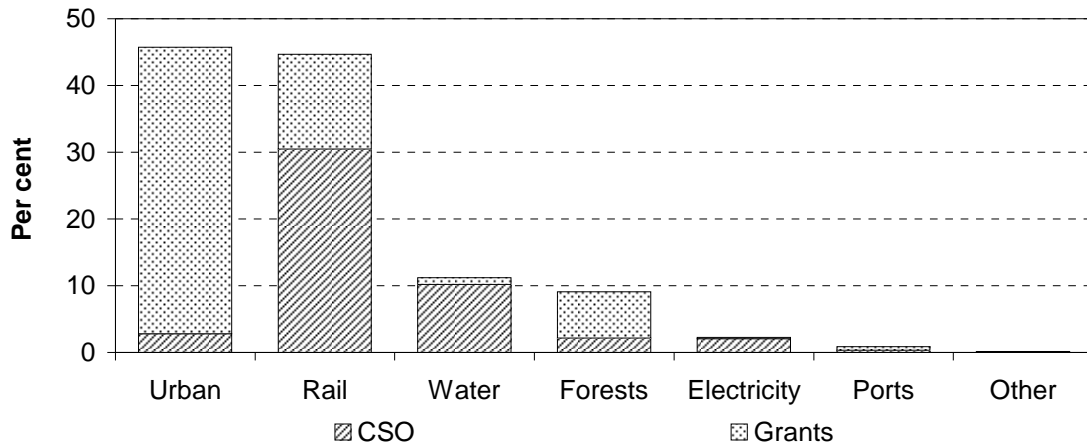
Although the majority of GTEs (48 of 86) received no grant funding in 2006-07, it can be a major source of income for some GTEs (table 2.6). Urban transport, rail and forestry GTEs rely most heavily on government grants. They received

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<sup>12</sup> Under AASB 110, dividends must be reported in the financial year that they are declared rather than the year to which they relate. For example, a dividend from 2006-07 profits will not be reported in the 2006-07 operating result, if it is not declared prior to 30 June 2007.

42.9 per cent, 14.2 per cent and 6.9 per cent respectively of total sector income from government grants in 2006-07 (figure 2.5).<sup>13</sup>

**Figure 2.5 Share of GTE income from CSO and government funding, 2006-07**



Source: Productivity Commission estimates.

**Table 2.6 GTEs most reliant on CSO and government grant funding, 2006-07**

GTE	CSO as share of total income <sup>a</sup>	GTE	Grants revenue ratio <sup>b</sup>
	%		%
Rail Infrastructure Corp (Rail)	67.9	Public Transport Authority (Urban)	83.3
RailCorp (Rail)	50.3	V/Line Passenger Corp (Rail)	80.2
Sydney Ferries Corp (Urban)	36.3	Dampier Port Authority (Ports)	34.8
Queensland Rail (Rail)	30.0	Forestry Plantations Queensland (Forestry)	29.2
Darwin Port Corp (Ports)	28.6	Rail Infrastructure Corp (Rail)	25.2
Water Corp (Water)	23.0	Sydney Ferries Corp (Urban)	22.6
State Water (Water)	21.8	RailCorp (Rail)	19.5
Grampians Wimmera Mallee (Water)	18.5	VicTrack (Rail)	18.2
SA Water (Water)	18.2	State Water (Water)	14.6
Goulburn–Murray Water (Water)	17.9	Forestry Tasmania (Forestry)	13.3
Power and Water Corp (Electricity)	10.4	Grampians Wimmera Mallee (Water)	13.0

<sup>a</sup> Total income includes revenue from movements in fair value and actuarial gains (chapter 1). <sup>b</sup> Government grants as a proportion of revenue (chapter 1).

Source: Productivity Commission estimates.

<sup>13</sup> This is equivalent to sector grants revenue ratios of 43.3 per cent, 14.3 per cent and 5.8 per cent respective, as total income exceeds revenue.

## Attachment 2.1 GTE return on assets, 2004-05 to 2006-07

Table 2.7 GTE return on assets, 2004-05 to 2006-07

	Total assets	Return on operating assets		
	2006-07	2004-05	2005-06	2006-07
	\$m	%	%	%
<b>Risk-free rate (10-year government bond rate)<sup>a</sup></b>		<b>5.4</b>	<b>5.4</b>	<b>5.8</b>
Forest Products Commission (Forests)	442	-19.6	49.6	32.1
Energex (Electricity)	7 684	6.5	6.3	26.4
Ergon Energy (Electricity)	7 716	4.6	5.5	24.3
Airservices Australia (Other)	785	19.8	25.9	24.2
Albany Port Authority (Ports)	47	10.0	6.5	21.7
Enertrade (Electricity)	591	-38.0	-14.6	18.2
Synergy (Electricity) <sup>b</sup>	422	..	..	17.7
Macquarie Generation (Electricity)	3 876	8.5	9.4	13.9
Stanwell Corporation (Electricity)	2 626	3.6	7.6	13.6
Australia Post (Other)	5 491	13.1	13.3	12.6
Snowy Hydro (Electricity)	2 444	13.7	13.0	11.6
Integral Energy (Electricity)	4 147	9.2	9.2	10.6
Eraring Energy (Electricity)	2 922	7.9	7.4	10.2
Fremantle Port Authority (Ports)	219	9.8	8.3	10.1
Newcastle Port Corporation (Ports)	170	8.7	9.4	10.0
Geraldton Port Authority (Ports)	177	6.3	5.6	9.9
Port of Brisbane Corporation (Ports)	2 276	7.3	11.7	9.8
ForestrySA (Forests)	1 116	11.1	10.3	9.2
Country Energy (Electricity)	4 616	7.9	11.1	8.7
Sydney Ports Corporation (Ports)	1 084	16.3	9.5	8.7
EnergyAustralia (Electricity)	8 948	6.1	8.2	8.5
Delta Electricity (Electricity)	3 222	12.1	12.0	8.3
Port Kembla Port Corporation (Ports)	182	4.8	5.6	7.8
Water Corporation (Water)	11 102	6.6	7.2	7.5
Tasmanian Ports Corporation (Ports) <sup>b</sup>	250	..	..	7.4
Dampier Port Authority (Ports)	99	-1.5	4.9	7.4
Powerlink (Electricity)	4 215	6.9	7.6	7.3
TransGrid (Electricity)	3 929	6.4	7.0	7.3
City West Water (Water)	934	11.4	9.5	7.3
Horizon Power (Electricity) <sup>b</sup>	423	..	..	7.3
South East Water (Water)	1 463	9.2	8.1	7.2
ACTEW Corporation (Water)	1 751	8.3	8.6	7.2

Table continued next page.

Table 2.7 (continued)

	<i>Total assets</i>	<i>Return on operating assets</i>		
	2006-07	2004-05	2005-06	2006-07
Cairns Port Authority (Ports)	564	5.9	6.3	7.0
CS Energy (Electricity)	3 262	4.5	5.2	6.9
Western Power (Electricity) <sup>b</sup>	3 816	..	..	6.9
Aurora Energy (Electricity)	1 301	7.6	5.5	6.8
Hydro-Electric Corporation (Electricity)	4 249	-12.2	3.5	6.8
Bunbury Port Authority (Ports)	105	5.1	6.3	6.5
Melbourne Water Corporation (Water)	3 979	7.5	8.2	6.4
Port Hedland Port Authority (Ports)	60	5.0	9.1	6.2
Queensland Rail (Rail)	9 999	6.5	4.4	6.2
SA Water (Water)	7 954	5.2	5.8	5.3
Townsville Port Authority (Ports)	218	6.0	3.1	5.3
State Transit Authority (Urban)	622	2.0	5.5	5.2
Sydney Catchment Authority (Water)	1 149	3.6	4.7	4.7
Ports Corporation of Queensland (Ports)	566	4.6	8.3	4.7
Sydney Water Corporation (Water)	12 296	3.3	3.8	4.7
Central Queensland Ports Authority (Ports)	1 252	3.3	3.0	4.7
Yarra Valley Water (Water)	1 878	6.4	5.8	4.6
Hunter Water Corporation (Water)	2 027	3.1	3.7	4.3
Sunwater (Water)	789	-4.5	0.6	4.2
Transend Networks (Electricity)	1 130	6.2	7.7	4.1
Port of Melbourne Corporation (Ports)	1 024	3.8	4.4	3.5
Hobart Regional Water Authority (Water)	310	4.8	4.6	3.5
Victorian Regional Channels Authority (Ports)	61	1.4	2.9	3.2
TT-Line (Other)	341	-17.2	3.7	3.2
Public Transport Authority (Urban)	3 702	4.8	3.6	3.1
Forests NSW (Forests)	2 704	3.8	7.5	3.0
Esk Water Authority (Water)	125	2.7	2.8	3.0
Rail Corporation NSW (Rail)	13 313	0.7	1.2	2.9
State Water (Water)	444	0.5	3.1	2.9
Forestry Tasmania (Forests)	930	3.1	3.7	2.8
Cradle Coast Water (Water)	105	4.3	3.1	2.8
Mackay Port Authority (Ports)	277	1.1	1.8	2.5
VicTrack (Rail)	7 170	0.9	1.5	2.2
Barwon Regional Water Authority (Water)	1 024	1.5	1.7	1.3
Central Highlands Water (Water)	674	0.5	0.7	1.1
TransAdelaide (Urban)	677	-1.7	3.2	1.0

Table continued next page.

Table 2.7 (continued)

	<i>Total assets</i>	<i>Return on operating assets</i>		
	<i>2006-07</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>
Metro Tasmania (Urban)	63	0.2	0.4	1.0
Goulburn Valley (Water)	497	1.4	0.5	0.9
Central Gippsland Water (Water)	612	1.8	1.5	0.8
Verve Energy (Electricity) <sup>b</sup>	2 088	..	..	0.7
VicForests (Forests)	38	45.5	18.6	0.3
Lower Murray Water (Water)	484	-0.5	0.2	0.2
Sydney Ferries (Urban)	116	2.9	-38.8	-0.1
Tarong Energy (Electricity)	2 116	9.0	7.3	-0.1
Coliban Water (Water)	909	-0.2	-0.5	-1.0
Southern Rural Water (Water)	452	-0.2	-0.3	-1.2
Goulburn Murray Water (Water)	1 981	-0.5	-0.2	-1.4
Darwin Port Corporation (Ports)	206	0.2	-3.2	-1.7
Grampians Wimmera Mallee Water (Water)	796	-1.1	-1.2	-3.1
Rail Infrastructure Corporation (Rail)	2 303	-5.0	0.6	-4.5
Power and Water Corporation (Electricity)	1 180	6.4	4.5	-6.3
V/Line Passenger Corporation (Rail)	183	-0.4	-2.2	-12.7
Australian Rail Track Corporation (Rail)	1 442	11.9	23.3	-17.6
Forestry Plantations Queensland (Forests) <sup>b</sup>	1 249	..	..	-38.4

<sup>a</sup> Based on the average daily rate over the 12 months to June in each year (RBA 2008). <sup>b</sup> Six monitored GTEs — the four WA electricity GTEs, Forestry Plantations Queensland and Tasmanian Ports Corporation — did not operate in 2004-05 or for the complete 2005-06 financial year. .. Not applicable.

Source: Productivity Commission estimates, RBA (2008).



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### 3 Community service obligations – funding and capital management

#### Key points

- Non-commercial activities performed by government trading enterprises (GTEs) in the pursuit of community benefits, at the behest of government, are termed community service obligations (CSOs)
  - typically the activities would not be undertaken by a business operating under commercial imperatives.
- Substantial emphasis is placed on transparency and accountability in all government CSO policies. These policies are subject to intergovernmental agreements.
- Contrary to their stated policies, not all governments are identifying all CSOs. Governments are generally not reporting funding in a transparent manner. Almost no information is reported on the costs of meeting CSOs.
- Inadequate compensation for CSOs affects the financial performance of a GTE and impairs commercial viability
  - this compromises governance and the integrity of operating government businesses on a commercial basis.
- Underfunding a CSO could result in under-investment or higher prices for commercial services. Service quality could also be reduced.

Community service obligations (CSOs) are non-commercial activities undertaken by government trading enterprises (GTEs) at the direction of government to achieve social policy objectives. They can be as diverse as transport concessions for pensioners, charges for water or electricity set below cost, or the provision of non-commercial ferry services.

The CSO payments identified in this report amounted to \$3.9 billion in 2006-07, accounting for approximately 8.5 per cent of total GTE income.<sup>1</sup> CSO payments are most significant in the rail and water sectors, where they accounted for 30.5 per cent

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<sup>1</sup> Excluding the three GTEs in the 'other' group of GTEs, none of which received CSO payments.

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and 10.2 per cent of total income respectively. However, it should be noted that some CSOs are unreported and unfunded, and others are reported but are also unfunded.

The information discussed in this chapter is drawn from GTE annual reports, State and Territory government budget papers, communication with treasury departments and other relevant policy documents. It is limited to information that is readily discoverable. Consequently, there is an unavoidable bias towards what *is* reported and not what *should* be reported.

In this chapter, current approaches to funding CSOs and the possible effects of underfunding CSOs on capital management decisions are examined. This begins with a review of the definition of CSOs agreed by all governments in 1994. It is contrasted with the definitions contained in current government policies (section 3.1). Current costing, funding and reporting practices are discussed in section 3.2. Finally, the effects of underfunding CSOs on capital management decisions are examined in section 3.3.

### **3.1 Defining community service obligations**

The Steering Committee on National Performance Monitoring of Government Trading Enterprises (Steering Committee) recommended the following definition in 1994:

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 in the public or private sectors to generally undertake, or which it would only do commercially at higher prices. (SCNPMGTE 1994, p. 8)

This definition has been directly adopted in South Australia, Western Australia, and the Northern Territory's CSO policy statements. The ACT's budget papers also quote the Steering Committee definition.

The four remaining States have their own definitions. However, they all include minor variations on the defining elements of CSOs. Each policy contains some reference to a government requirement, although there are differences in the strength of the language used. For example, Victoria and Tasmania call for a specific government directive, whereas Queensland only requires the CSO to be

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‘clearly purchased by the Government’. There is a consensus that a CSO must be a non-commercial activity and provide benefit to the community.<sup>2</sup>

The Queensland policy statement includes some private-sector activities as CSOs. This is contrary to the Steering Committee definition, which specifies CSOs are carried out by public enterprises.

## **Why identify CSOs?**

The identification of CSOs assists GTEs with their financial performance, as well as benefiting government and the broader community. Although the former is most relevant to a discussion of capital management decisions, considerations of the latter inform an analysis of how well CSOs are identified and the incentives for good capital management.

Humphry (1997) observed that earning a commercial rate of return should be one of the Government’s principal objectives for its GTEs:

All capital tied up in GTEs has an opportunity cost in that it could be utilised to reduce debt or applied to some other public service. For any investment, the government’s opportunity cost of capital is the same as the private sector’s. (p. 12)

Undertaking non-commercial activities (at the direction of government) without appropriate CSO funding detracts from the commercial objective because it usually requires resources to be allocated away from commercial activities.

An implicit CSO occurs where government does not publish the details of all the required non-commercial activities (Humphry 1997). Further, any unfunded portion of the costs of providing a recognised CSO can also be considered an implicit CSO (PC 2002a). Such implicit CSOs ‘adversely affect the profitability of GTEs, resulting in lower dividend streams and a less valuable asset’ (Humphry 1997, p. 18). This argument also holds for underfunded CSOs.

Mandatory identification of CSOs and the transparent reporting of costing and funding methods guards against such outcomes. It not only promotes good governance but also reduces incentives to underfund CSOs. It helps clarify what constitutes ‘appropriate’ funding, as both the public and intended service recipients are made aware of the cost to society of pursuing social objectives through GTEs.

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<sup>2</sup> Businesses could offer concessions to identifiable user groups for sound commercial reasons. It is difficult to determine the extent to which a GTE would offer concessions in the absence of a government requirement to do so.

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Transparency is defined as a glossary term in NSW Social Policy as:

Access by the public to information about the activities of Government agencies; especially the correct identification of costs and benefits associated with the delivery of goods and services. (NSW Government 1994, p. 55)

Transparency is referred to in every State and Territory government's policy document pertaining to CSOs (box 3.1). The Australian Government has no explicit policy regarding CSOs. The two Australian Government GTEs monitored in this report — Airservices Australia and Australia Post — identify the cost of providing CSOs but these are not reimbursed by the Commonwealth.

**Box 3.1      Emphasis on transparency in policy**

**New South Wales** — 'to ensure transparency, costs should always be reported in a sufficiently disaggregated form to enable both policy-makers and the public to evaluate the merits of each program' (NSW Government 1994, p. 29).

**Victoria** — transparency and full disclosure are discussed in the government policy, particularly to assist in improving accountability for both community service obligation (CSO) provision and government trading enterprises (GTEs) themselves.

**Queensland** — 'a high degree of transparency and accountability' (Queensland Treasury 1999, p. 3) is listed as a key objective of CSO policy.

**South Australia** — a key guideline is that 'CSO payments will be transparent and clearly reported' (SA Government 2004, p. 4).

**Western Australia** — GTEs are required to report on CSO provision. This includes an assessment of performance and detailed costings.

**Tasmania** — the policy objectives include improving the transparency of CSO service delivery. The corresponding policy outcome of implementing the policy is expected to be 'greater accountability to the Parliament and the community due to transparency of cost and price information' (Tasmanian Government 1996a, p. 9).

**ACT** — budget papers include a statement that 'the separate identification of CSOs provides transparency on the full cost of services, and the financial implications of Government decisions in the provision of services to specific targeted groups in the community' (ACT Treasury 2007, p. 66).

**Northern Territory** — government policy 'is aimed at clearly identifying the non-commercial functions performed by GTEs, making the functions transparent, and making their delivery accountable to the community' (NT Government (ud), p. 1).

*Sources:* ACT Treasury (2007); NSW Government (1994); NT Government (ud); Queensland Treasury (1999); SA Government (2004); Tasmanian Government (1996a, 1996b); Victorian Treasury (1994); WA Treasury (2000).

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## 3.2 How are CSOs costed, funded and reported in practice?

The main aim of CSO policy is to prevent the imposition of non-commercial obligations from adversely affecting the financial performance of a GTE. The full cost of the service obligation must be estimated in order to determine the required level of funding. Public reporting is necessary to increase transparency and make boards and government accountable.

### Costing

The 2002 report in this series observed that ‘an appropriately costed CSO does not represent a subsidy to the GTE — it is a fee for service’ (PC 2002a, p. 69).

The method used to ascertain the cost of CSOs and the required funding determines how successfully the commercial and non-commercial activities of a GTE are separated from each other. There are three major methods — avoidable cost, fully-distributed cost and stand-alone cost.

Adoption of the avoidable cost method was advocated by the Steering Committee, although some caveats were included in their recommendation, particularly regarding decreasing cost considerations. The NSW, Victoria, Queensland, WA, Tasmania and NT policies all endorse the avoidable cost method.<sup>3</sup> However, the NSW policy is to use fully-distributed costs under some circumstances.

*Avoidable cost* includes all costs that could have been avoided had the CSO not been provided, net of any revenue generated (CCNCO 1998). The Steering Committee considers that:

In contrast to marginal cost as the cost of an additional unit of output, avoidable cost is used practically as an average cost of a given range of output. It includes all costs associated with the provision of the given additional block of output. These include the average incremental variable costs of the extra output and the estimated additional capital costs per unit where additional capacity is associated with implementation of a CSO. (SCNPMGTE 1994, p. 17)

Any common costs that would have been incurred anyway are excluded.<sup>4</sup> Further, an allowance must be made for returns that could have been achieved if the

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<sup>3</sup> Queensland’s CSO policy does not refer directly to costing, but the avoidable cost method is adopted in the Commercialisation of Government Service Functions in Queensland: Policy Framework (Queensland Treasury 1994). No policy document is available for the ACT.

<sup>4</sup> Common costs are those which are shared by the commercial activities of a GTE and CSO provision. These could include capital and administrative costs, and other overheads.

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resources had been used commercially. Where additional capital is required, a costing should include an appropriate return on capital.

Despite general agreement on the appropriateness of the avoidable cost method, details on how to estimate it are often absent from policy statements. In particular, the treatment of capital costs, return on capital and normal profit, and common costs is not fully elaborated in many cases (box 3.2).

Under the *fully-distributed cost* method, the total cost incurred by the GTE is allocated to all its activities, including all overheads and capital costs. As such, it typically results in estimates that are larger than those produced using the avoidable cost method.

### **Box 3.2 Recognition of costing elements in policy statements**

#### **Capital costs**

The importance of including capital costs devoted solely to the provision of community service obligations (CSOs) is acknowledged in the NSW, Victorian, Queensland, WA, Tasmanian and NT policies.

#### **Return on capital and normal profit**

These costs receive the least recognition in the various policy documents. New South Wales, Queensland, Western Australia, Tasmania and the Northern Territory all mention that a return on capital should be included in costing. However, only New South Wales and Tasmania discuss the need to consider normal profit.

#### **Common costs**

There is unanimous agreement among the jurisdictions that common costs should not be included in avoidable cost. However, where there are significant common costs it may be appropriate to fund a CSO above the avoidable cost level. For example, the NSW policy states that where common costs are significant, the fully-distributed cost method should be favoured over avoidable cost. This is on the basis that unless the GTE receives compensation for these concessions the activity would no longer be commercial. For example, where concessions are provided to consumers who would still otherwise use the service, application of the avoidable cost method would shift the common cost burden onto remaining non-concession consumers. The Victorian policy also allows for departure from the avoidable cost method where there are significant common costs.

*Sources:* NSW Government (1994); NT Government (ud); Queensland Treasury (1999); SA Government (2004); Tasmanian Government (1996a, 1996b); Victorian Treasury (1994); WA Treasury (2000).

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The fully-distributed cost method might be considered to be comparatively fair as all users share the burden of fixed costs which cannot be directly allocated to one activity (SCNPMGTE 1994).

The *stand-alone cost* method evaluates what a CSO would cost if it were the only activity undertaken. This implies all common costs are attributed to the CSO, not just a share, generally resulting in an even larger cost estimate than that obtained under the fully-distributed cost method.

## Funding

Community service obligations can be funded directly through budget appropriation. Alternatively, a government could require its GTEs to internally fund CSOs and choose to accept a lower rate of return on the GTE's assets or charge higher prices for its commercial services. However, this is contrary to the agreed policy of operating GTEs on a fully commercial basis.

There is a high degree of agreement among jurisdictions that CSOs should be directly funded from the budget. The relevant policy documents from New South Wales, Victoria, Western Australia, Tasmania and the Northern Territory all advocate direct funding. Those from Queensland and South Australia do not indicate a preference.

Despite requiring additional taxation, direct funding from the budget has several advantages:

- *Efficiency* — prices for non-CSO functions can be set to reflect the cost of the commercial services supplied by the GTE. This is particularly important for economic infrastructure as the services produced are in many cases inputs into other economic activities.
- *Transparency and accountability* — the level of funding is publicly notified and subject to scrutiny in budgetary processes.
- *Equity* — following a government decision to provide a CSO, funding is sourced from general tax revenue so the cost of social policy is shared by the whole community.

Although direct funding is typically the preferred method, it is apparent that internal transfers and the acceptance of a lower rate of return continue to occur.

Internal funding occurs where the cost of the CSO is covered from GTE revenue. It distorts pricing if the CSO is funded through higher charges for GTE customers.

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Alternatively, acceptance of a lower rate of return avoids a transfer from GTE customers but reduces a GTE's own retained earnings.

It was not possible to determine the extent to which internal transfers and the acceptance of a reduced rate of return are used. Some information about CSO funding is available through the annual reports of GTEs and government budget papers, but this was insufficient. Investigating unreported CSOs was beyond the scope of this review.

An alternative to funding CSOs is to include non-commercial service provision in commercial contracts for a package of services. For example, State Transit Authority began using Metropolitan Bus System Contracts on 1 July 2005 (chapter 7). Contract payments that took into consideration costs, patronage and performance levels replaced CSO payments.

Although service contracts have the advantage of not having to cost CSOs accurately, they do not fully address the tension between government ownership and service procurement. Further, transparency can be reduced as the total contract cost obscures the cost of achieving the social objective.

## Reporting

In 2002, the Commission observed that 'most GTEs did not disclose details of how CSOs were costed or arrangements relating to the payment of the CSO by government' (PC 2002a, p. 75). This continues to remain the case despite the emphasis placed on transparency in government policies. This omission cannot be excused on the grounds of transition to new arrangements with many of the policy documents discussed in box 3.1 having been in place for over ten years.

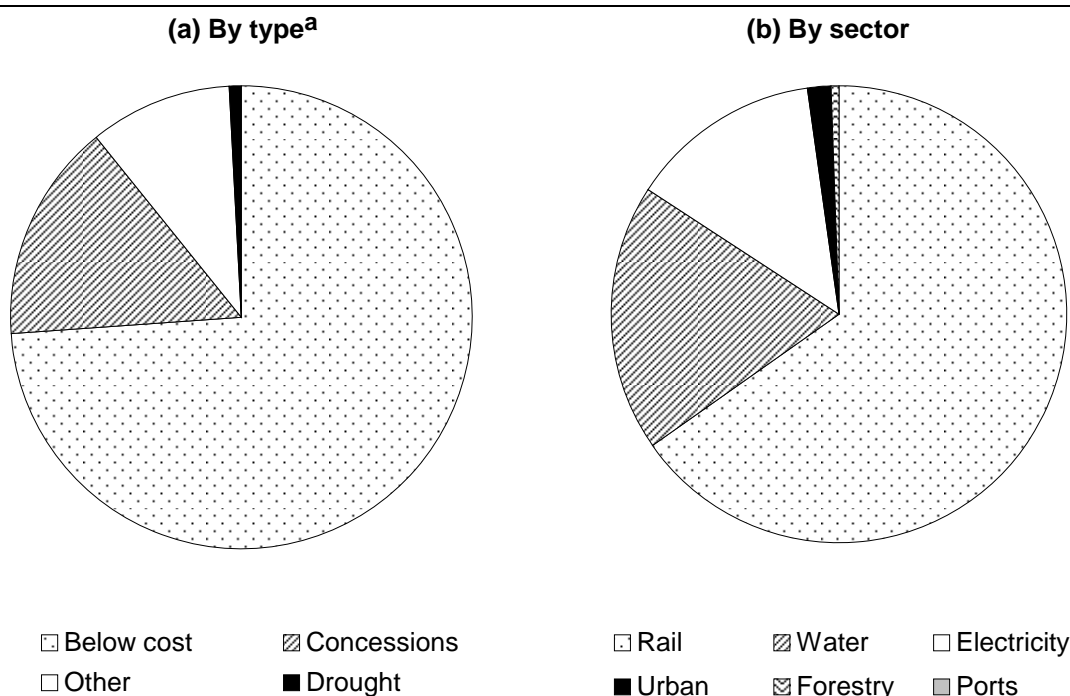
Of the 86 monitored GTEs, 40 received CSO funding in 2006-07. Three of these did not disclose the funding in their annual reports — Metro Tasmania, TransAdelaide and Western Power. Further, Dampier Port Authority stated in its 2006-07 annual report that it received CSO funding but no amount was specified.

Services provided at below cost comprised the largest proportion (73.9 per cent) of total disclosed CSO funding (figure 3.1a) in 2006-07. Funded concessions and rebates comprised 15.4 per cent. The rail and water sectors receive most of the CSO funding, with 65.2 per cent and 19.1 per cent respectively (figure 3.1b).

Drought-related CSO funding accounted for less than 1 per cent of the total. However, this funding formed a material proportion of total income for three water GTEs in 2006-07 — Goulburn–Murray Water (17.9 per cent), Grampians Wimmera Mallee Water (13.9 per cent), and State Water (2.5 per cent).



Figure 3.1 **Community service obligation payments received by monitored GTEs, 2006-07**



<sup>a</sup> **Below cost** includes payments to government trading enterprises (GTEs) that relate to the provision of an activity or service below the cost. It excludes concessions made for targeted groups. **Concessions** includes payments to GTEs that relate to the provision of concession rates for pensioners, students, and other targeted groups. **Other** includes payments to GTEs for community service obligations that do not fit into the below cost, concessions or drought categories. **Drought** includes payments to GTEs that relate specifically to drought relief.

Sources: GTE annual reports and government budget papers.

The clarity of CSO payment information in State and Territory budget papers varies considerably. Western Australia and the Northern Territory both itemise CSO payments in their budget papers. Western Australia did disclose payments to Western Power but no mention could be found of CSO payments to Dampier Port Authority. New South Wales, Victoria, Queensland, South Australia and Tasmania either aggregate CSO payments or present a combined figure with other subsidies and grants.

The NSW and SA Governments allocate a section of their budget papers to a discussion of GTEs (although this does not mention CSOs in the NSW budget papers). In addition to budget papers, the SA Government also publishes an annual ‘transparency statement’ regarding water and wastewater prices that identifies and describes individual CSO payments and the funding provided. However, this reporting does not extend to transport and forestry.

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There are many inconsistencies in the identification and funding of CSOs. Some GTEs provide CSOs but do not identify them as such. For example, the three Victorian urban water GTEs provide pensioner concessions and other rebates without labelling them as CSOs.

Similar activities performed by GTEs that may be regarded as CSOs are not consistently reported or funded as such. For example, concession rates for targeted user groups, such as pensioners, students or those living in caravan parks are provided by many electricity, rail, urban transport and water GTEs. They do not all receive CSO funding for providing these services.

Government trading enterprises can receive CSO funding for some activities but not others. Southern Rural Water acknowledged the receipt of CSO funding for pensioner concessions in its annual report. However, in its water plan (submitted to the Essential Services Commission in October 2007), it requested that pricing arrangements continue to include ‘a component in excess of the direct costs of storage, operation and maintenance’ (SRW 2007, p. 73). This excess is employed, among other things, in funding other CSOs, including the management of recreation facilities. No mention is made of these internally funded CSOs in Southern Rural Water’s annual report.

### *Costs or costing estimates*

Little information is available about the costing of CSOs, making it difficult to assess the adequacy of CSO funding. Only Darwin Port Corporation and Forestry NSW reported the costs and the associated funding that they received. Airservices Australia, Australia Post and Hobart Water just reported costs.

Cost reporting is generally limited to an aggregate amount for all CSOs or itemised against each CSO provided by the GTE. The exception is Australia Post, which publishes an avoidable cost estimate of \$97.3 million for its CSOs — funded internally within the letter service (Australia Post 2007).

The failure to report both costing and funding arrangements together is inconsistent with the emphasis placed on transparency in government CSO policies.

## **3.3 Investment and incentive issues**

Imposing inadequately funded CSOs on GTEs affects their allocation of resources. CSOs are by definition non-commercial activities that GTEs would not undertake in the absence of a requirement to do so.

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Financial losses caused by underfunded (or unfunded) CSOs lower a GTE's return on assets and can also lead to decreased cost recovery if operating expenses are increased without a corresponding increase in operating revenue (through higher than necessary customer charges). Profitability reflects a business's capacity to generate earnings from the capital invested in its activities. Low profitability is a strong indication that the community's assets are not being put to their best use. The implications of low profitability for capital management are discussed in detail in chapter 4.

An entity will only invest in infrastructure if the expected returns to investing exceed the minimum acceptable rate of return. Low earnings on existing capital could reduce expectations about the returns to new investment. Similarly, incentives for a government to fund investment could be reduced if a GTE is receiving low returns on existing assets. Moreover, the ability of a GTE to undertake investment from retained earnings is reduced.

If the GTE is being insufficiently compensated for its efforts, managers could be unwilling to devote resources to CSO provision. This is likely to cause the provision of CSOs to be under-resourced. In the short term, this could result in a deterioration of service quality and inadequate maintenance of assets used for CSO provision.

Conversely, overfunding could create an incentive for the GTE to increase the provision of the CSO beyond the government's intention. For example, if funding for the provision of concession travel is profitable for a transport GTE, it may attempt to stimulate demand among those eligible for the concession. This could cause a reallocation of resources from the commercial activities of the GTE.



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## 4 Profitability and capital management

### Key points

- Sound capital management is essential for productivity and the efficient delivery of government trading enterprise (GTE) services
  - especially for GTEs engaged in capital-intensive activities such as electricity and water supply.
- Capital management decisions have feedback effects on profitability, leading to a cycle of poor capital management and poor profitability for some GTEs.
- Poor profitability adversely affects the capacity of a GTE to fund investment. It also has the potential to distort incentives to invest, which can result in internal misallocation of investment and under-investment overall.
- Poor profitability, and inadequate levels of cost recovery in particular, can also adversely affect asset maintenance.
- Inadequate investment in assets and maintenance expenditure increases the life-cost of assets and can reduce service quality and availability.
- Unless governments support arrangements that promote profitability and good capital management, GTEs will operate inefficiently and continue to rely heavily on government funding.
- Poor capital management can also adversely affect overall economic productivity, by distorting the level of investment in GTE services and the allocation of investment across the economy.

In its 2004-05 report, the Productivity Commission initiated a three-year research program on government trading enterprise (GTE) capital management as part of this series of financial performance monitoring. Capital management was identified as warranting closer analysis because:

... most GTEs have highly capital-intensive operations, and there has been an increase in labour productivity from past reforms. Improvements to capital productivity arguably offer the greatest scope for further gains in financial performance. (PC 2006, p. 7)

The program builds on earlier research into external governance, which also has a significant influence on capital management behaviour (PC 2005a).

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This chapter represents the culmination of the capital management research program. It contains an analysis of the linkages between profitability and capital management. Specifically, it includes an examination of the potential impacts of low profitability on the capacity and incentives to invest in and maintain assets.

The performance data for the period 2004-05 to 2006-07 are available for 80 of the GTEs monitored in this report. These data are discussed in section 4.1, with specific reference to return on assets and cost recovery. The impact of poor performance on investment and capital maintenance is discussed in section 4.2. This is followed by an analysis of the possible implications of GTE capital management decisions on the broader community and economy (section 4.3).

## 4.1 Profitability

The linkage between profitability and capital management was investigated because a significant number of GTEs have consistently failed to achieve commercial levels of performance. This can be illustrated by reviewing the financial results of GTEs using two commonly accepted measures of performance — return on assets and cost recovery.

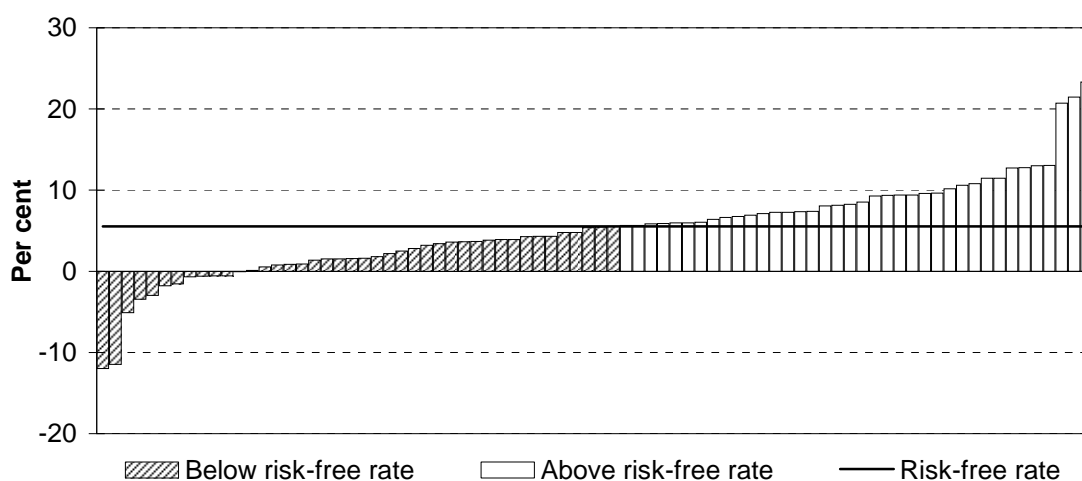
### *Return on assets*

Return on assets is a measure of how well GTEs use the capital vested in them. It reflects the profitability of existing investments, and provides a guide to returns on future investments. In this report, it is defined as the ratio of earnings before movements in fair value, interest and tax to average operating assets (chapter 1). It is influenced by the valuation of assets (PC 2007, chapter 3), as well as by general market conditions (chapter 2).

The accounting rate of return is theoretically inferior to the economic rate of return. In particular, it includes some forms of revenue that are not generated from assets, such as government grants. However, both measures give largely similar results (PC 2007, chapter 4). Furthermore, the accounting return on assets measure is clear, comparable and easily calculated. It is also a widely used and understood basis for analysing financial performance.

In order for a GTE to be commercially sustainable, it would be necessary for it to achieve a rate of return that includes a premium for non-diversifiable risk. However, over half of the 80 GTEs monitored for the past three financial years failed to achieve even the risk-free rate of return on average (figure 4.1). Indeed, 15 per cent of monitored GTEs made a negative return on assets over the period.

Figure 4.1 Return on assets — average for 2004-05 to 2006-07<sup>a</sup>



<sup>a</sup> The risk-free rate is defined as the average rate of return on 10-year Australian Government bonds. The risk-free rate for the period 2004-05 to 2006-07 was 5.54 per cent (RBA 2008).

Sources: Productivity Commission estimates; RBA (2008).

This underperformance is not an aberration. In each financial year since 1998-99, over 40 per cent of the GTEs monitored achieved a rate of return below the risk-free rate. This suggests that there is a systemic problem with the profitability of many GTEs.

### Cost recovery

Cost recovery is a measure of a GTE's capacity to generate sufficient revenue from its non-financial assets to cover its operating expenses. It is defined as the proportion of operating expenses that are covered by operating revenue (chapter 1). However, full cost recovery does not imply that financing costs are necessarily covered, or that a commercial return on capital has been achieved.

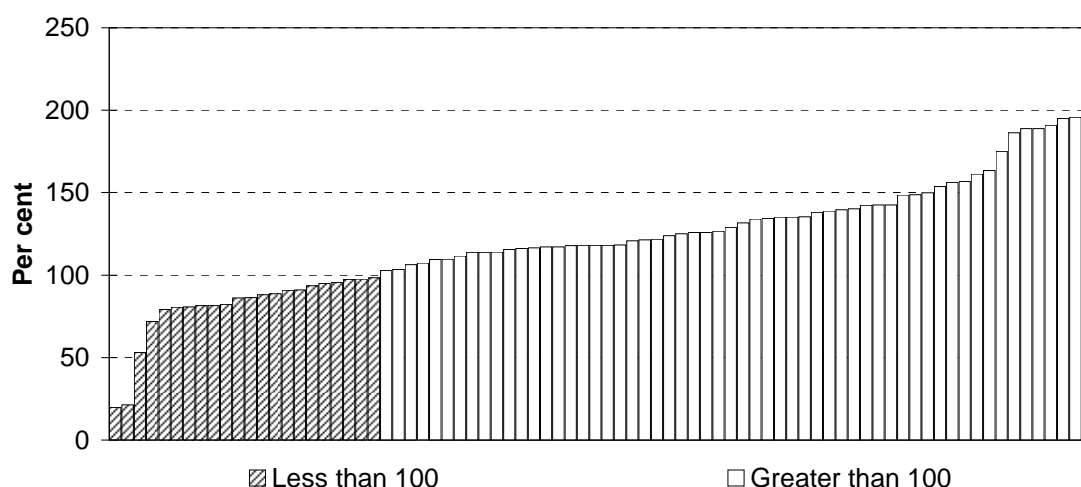
Operating expenses and operating revenue become more difficult to calculate as the activities of a GTE become more complex. Publicly-available accounting data are such that the classification of revenue and expenses becomes subjective. For example, rent is classified as non-operating revenue for most GTEs. However, in the case of port GTEs, rent is classified as operating income because landlord activities are a core component of port GTE businesses.

A GTE that persistently achieves cost recovery below 100 per cent is unable to fully recover its depreciation and maintenance costs in the long term. It therefore cannot maintain its assets and operate in a commercially-sustainable manner without supplementary funding.

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Figure 4.2    **Cost recovery — average for 2004-05 to 2006-07**

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Source: Productivity Commission estimates.

Over one quarter of all GTEs did not fully recover their operating costs in the period 2004-05 to 2006-07 (figure 4.2).

## 4.2    **Capital management**

Sound capital management involves maximising the productivity of assets — achieving required levels of output at minimum cost. It requires a balance to be struck between capital investment or asset replacement, and operating expenditure (including asset maintenance).

A failure to adequately invest in and maintain assets increases costs or reduces the level of output obtainable from the assets. Failure to undertake proper maintenance can reduce the remaining life of assets and bring forward asset replacement expenditure. It can also compromise the service outputs that depend on the degraded assets.

### **Investment and asset maintenance under commercial incentives**

In general, businesses operating on a commercial basis will invest as long as the expected return on investment meets or exceeds the minimum acceptable rate of return. In a competitive market, there are strong incentives to manage assets appropriately to maximise their return and shareholder wealth.



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In a commercial environment, managers' incentives are largely aligned with profit-maximising behaviour through a variety of means such as performance-based pay and capital market disciplines:

... the discipline of capital markets will limit the freedom of private managers to pursue private interests that do not maximize shareholder value. (Sappington and Sidack 2003, p. 496)

The capital structure of a commercial business is constantly being monitored and varied through decisions relating to the payment of dividends, the use of retained earnings for investment, and the raising of debt or equity capital to finance investment.

If the profitability of existing assets is low, the commercial business could reduce its investment in replacement assets. Asset maintenance might be increased in order to prolong the life of existing assets, or decreased if cost recovery is insufficient to cover maintenance outlays.

If a business activity had no prospect of being profitable, normal commercial behaviour would write down any sunk assets. The business would accept that the assets would not be replaced and eventually the services they provide would cease.

## **Government intervention and other behavioural constraints**

Governments have adopted a corporatisation model aimed at replicating market incentives by requiring their GTEs to operate on a commercial basis. They have recommitted to enhancing the commercial focus of GTEs as part of the National Reform Agenda. Further, it was agreed that GTEs should be subject to replicated capital market disciplines and should:

... not enjoy any net competitive advantage simply as a result of their public sector ownership. (Competition Principles Agreement, s.3(1))

Under this model, GTE investment decisions should be driven by commercial imperatives, with the cost of all services fully recovered. However, in the case of GTEs, the incentive to manage assets effectively is weaker than for private sector businesses.

These incentives are compromised when governments are prepared to operate their GTEs on a not-for-profit basis. There is no commercial pressure on the board or managers to maximise profitability by managing their assets efficiently, as some capital market disciplines are absent:

... [a GTE] is an organization comprised of many individuals, including managers who often have considerable discretion to pursue their own objectives. This discretion arises

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in part because [GTEs] are not subject to takeover threats and are generally less subject to the discipline of capital markets than are private enterprises. (Sappington and Sidack 2003, p. 496)

In addition, managers of GTEs might not be subject to sufficient performance-based compensation to create incentives to increase profitability. Cragg and Dyck (2003) found that UK GTEs do not offer performance-based pay to their senior managers. This was attributed to:

... the existence of serious political constraints that limited the use of compensation as a tool to align interests under state ownership. (Cragg and Dyck 2003, p. 211)

On the other hand, if governments apply pressure to boards to increase profitability, there are incentives to increase short-term profits by reducing maintenance expenditure:

Because managers cannot directly own property rights in [a GTE], it is argued that they have only weak incentives to take a long-run view of its development. (Lawson 1994, p. 289)

Governments need to resolve conflicting policy objectives in order to meet their commitment to operate GTEs commercially. For example, governments might have social objectives that require them to keep services in operation, despite being unable to make a return on those assets. In this case, assets have to be maintained and replaced even though they would be considered stranded by a commercial business.

One way of resolving this tension is to adequately fund community service obligations (CSOs) (chapter 3). However, CSO funding that does not match the avoidable costs to a GTE of providing services to different user groups can cause internal over- or under-investment in those services. It can also distort the allocation of investment to the GTE's other services.

Investment could also be delayed in areas of policy interest to government in anticipation that the government will provide additional funding. This form of behaviour is possible:

... because of the information-asymmetry problem, it is very hard for the state to distinguish between the policy induced losses and the own operational losses of [GTEs]. (Lin et al. 1998, p. 426)

Regulatory error can be another source of disincentives to manage assets efficiently. Unachievable price paths or inappropriate determinations of capital expenditure plans can render a GTE unable to make a commercial return, regardless of output. Alternatively, investment might not be undertaken, or it could be delayed, in the hope that this will prompt an adjustment to the pricing regime.

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## **Funding constraints**

Low levels of profitability can result in GTEs operating under funding constraints. Funds are required over time to pay for the ongoing costs of infrastructure operation, including interest payments and principal repayments (PC 2008).

If operating commercially, a GTE's service revenues should generate sufficient funding for new investment, asset replacement and asset maintenance. There will be insufficient funds to maintain existing assets when a GTE cannot achieve full cost recovery. Consequently, managers have little choice but to run down assets.

Even with full cost recovery, a GTE might be unable to fund both asset replacement and maintenance expenditure, as it might not be making a return on its investments. It must either reduce its maintenance expenditure and run down its assets or increase its maintenance and attempt to extend the life of the assets to forestall replacement.

One possible source of additional income to restore cost recovery and profitability is government funding.

### *Government funding*

Some GTEs rely heavily on government funding in order to sustain operations (box 4.1). This could mean that their incentives are less commercially focused than other GTEs. This is particularly the case if governance arrangements do not sufficiently promote profitability and good capital management.

Funding from governments can take a variety of forms. It can be direct, through grants, asset contributions or equity injections. These forms of funding exempt the GTEs from repaying the principal over time. Alternatively, funding can be indirect, via contracts with a GTE or through the provision of loans at below-market interest rates. Where GTEs rely on government support, their investments are funded from taxpayers rather than customers.

## **4.3 Implications of poor capital management**

The implications of poor capital management — a sub-optimal mix of investment and maintenance expenditure — extend well into the future. Higher life-cycle costs will reduce profitability in future periods if they cannot be passed on to customers. This then feeds back into capital management strategies, and can set up a cycle of poor profitability and poor capital management.

#### Box 4.1 Government funding and profitability

Reliance on direct government funding (excluding community service obligations and equity injections) against the average return on assets for GTEs over the period 2004-05 to 2006-07 is presented in the figure below.

The data on monitored GTEs suggest that government funding has not been successful in returning underperforming GTEs to profitability. For example, only 35 per cent of government grant recipients achieved at least the risk-free rate of return,<sup>a</sup> in comparison with 62 per cent of GTEs that received no government grants. Of those GTEs that obtained government grants amounting to greater than 10 per cent of revenue, only one out of ten achieved greater than the risk-free rate of return.

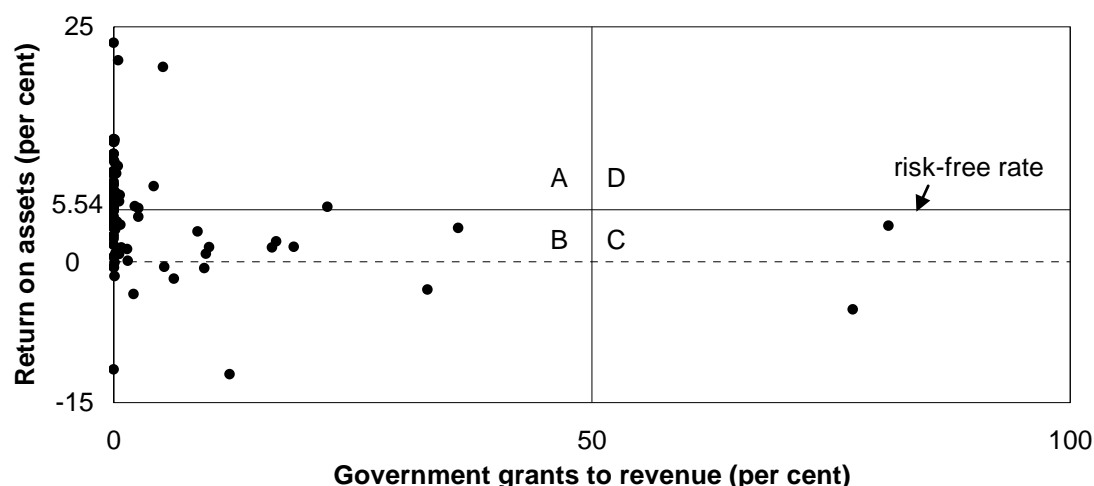
The GTEs in section A of the figure below are achieving a rate of return above the risk-free rate, and in almost all cases have very low levels of government funding. This includes Airservices Australia, which achieved the highest average rate of return (23.3 per cent), with no government funding.

The GTEs in section B are not achieving risk-free rates of return, despite significant government funding in many cases. For example, Sydney Ferries Corporation had the lowest average return on assets (-12.0 per cent), despite grants comprising 12.1 per cent of revenue.

The two GTEs in section C obtained over 50 per cent of revenue from government funding, yet did not achieve the risk-free rate of return. V/Line Passenger Corporation obtained 77.3 per cent of its income over the 2004-05 to 2006-07 period from grants, and made a return on assets of -5.1 per cent. The Public Transport Authority had the highest grants to revenue ratio (81.0 per cent) and made a return on assets of only 3.8 per cent, still below the risk-free rate of 5.54 per cent.

There were no GTEs that received over 50 per cent of revenue from government funds and yet achieved at least the risk-free rate of return (section D).

**Return on assets and revenue from government — average for 2004-05 to 2006-07**



<sup>a</sup> The risk-free rate is defined as the average rate of return on 10-year Australian Government bonds. The risk-free rate for the period 2004-05 to 2006-07 was 5.54 per cent (RBA 2008).

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Poor capital management affects the ability of governments to balance the pursuit of social objectives and at the same time obtain a return on the taxpayer funds invested in the GTEs.

Under-investment or inadequate asset maintenance might increase the return to shareholder-governments in the short term. However, the quality of the services the assets provide can be impaired in the longer term. Consequently, the implicit cost to consumers of those services starts to increase (customers might also switch to alternatives if any are available). Conversely, over-investment in some areas, resulting from internal misallocations of investment, can improve the service quality of GTEs beyond what is sustainable through payments from customers.

Owner-governments and their GTEs are consequently faced with either improving the efficiency of production, increasing prices to customers or increasing government funding. In the case of electricity, the WA Government has decided to provide \$780 million in grants to subsidise electricity users over three years, instead of introducing the full 47 per cent electricity price increase recommended by the Office of Energy for 2009-10 (Carpenter 2008). The Office of Energy (2008) found that while WA residential electricity prices have not risen in nominal terms since 1997-98, electricity supply costs have increased. Without this funding, the profitability of WA electricity GTEs would have been affected, particularly in the case of Verve Energy.

Sydney Ferries Corporation is an example of a GTE that is reliant on transfers in the form of government grants. Despite these grants, a loss has been incurred in every year since the services were separated from the State Transit Authority. A Special Commission of Inquiry into Sydney Ferries Corporation indicated that:

In relation to a service such as public transport by ferries which is rarely if ever reasonably to be seen as profit-making, government's paramount role is to provide the money. (Walker 2007, p. 6)

Operating GTEs on a fully commercial basis is the most efficient way of sustainably balancing the interests of customers and governments. Government payments to GTEs through transparent CSOs can be appropriate if, for example, they are directed to improving the welfare of disadvantaged members of society. However, transfer payments directly to disadvantaged individuals and user-pays systems for service provision can be more efficient methods of allocating resources.

In order to reverse the effects of a history of poor capital management, a higher level of investment and maintenance is likely to be required in the short term. This investment must be funded, either through price increases or government grants or equity injections. Delaying this investment can, over time, increase the costs of

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returning GTEs to profitability, as capital management could continue to deteriorate in the intervening period.

Poor capital management can also adversely affect overall economic productivity, by distorting the level of investment in GTE services and the allocation of investment across the economy.



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## PART B



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## 5 Electricity

### Key points

- The performances of 23 electricity government trading enterprises (GTEs) are presented in this chapter. Together they controlled assets valued at \$76.9 billion and generated \$26.4 billion of income in 2006-07.
- Overall, the profit before tax of electricity GTEs increased by more than 105 per cent in real terms to \$5.6 billion in 2006-07. Within the sector:
  - 85.3 per cent of the increase in profit before tax was attributable to two GTEs (Ergon Energy and ENERGEX)
  - profits (in real terms) declined for eight GTEs
  - three GTEs recorded a loss before tax.
- Return on assets improved to 11.5 per cent in 2006-07. Of the monitored GTEs, four did not earn a risk-free rate of return.
- Debt to assets for the sector decreased from 43.5 per cent to 42.2 per cent in 2006-07. Two electricity GTEs operated without debt.
- Nineteen electricity GTEs made dividend payments to owner-governments, totalling \$2.7 billion. The sector recorded an income tax-equivalent expense of \$872 million in 2006-07.
- Ten electricity GTEs received community service obligation (CSO) funding totalling \$543 million in 2006-07. CSO payments comprised 2.1 per cent of sector income.

The financial performances of 23 electricity government trading enterprises (GTEs) are reported in this chapter. Together they controlled \$76.9 billion in assets and generated around \$26.4 billion in income in 2006-07.

The majority (18) of the monitored GTEs operate in the National Electricity Market (NEM), a wholesale market for the supply and purchase of electricity. The five monitored GTEs not currently operating in the NEM are based in Western Australia and the Northern Territory. Tasmania entered the NEM on 29 May 2005 and began trading with other States when the Basslink interconnector became operational on 29 April 2006.

Financial performance summaries, including performance indicators for each electricity GTE monitored over the period 2004-05 to 2006-07, are presented after

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this introduction. Their financial performances are examined using the financial indicators defined in chapter 1.

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

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

## **5.1 Monitored GTEs**

The types of activities undertaken by the individual electricity GTEs and their involvement in ancillary services should be taken into account when comparing financial performances (table 5.1).

The four principal activities carried out by electricity businesses are: generation of electricity; the transmission of electricity at high voltages; the distribution of electricity at low voltages; and the retailing of electricity to customers.<sup>1</sup> Of the 23 GTEs monitored, 12 were involved in only one principal activity in 2006-07. Eight solely generated electricity, three solely transmitted electricity and one solely provided retail services. The remaining 11 performed more than one principal activity, with two being fully-integrated utilities — Horizon Power in Western Australia and Power and Water Corporation (PWC) in the Northern Territory — involved in all four activities.<sup>2</sup>

In addition to providing generation, transmission, distribution or retail services, and combinations thereof, many electricity GTEs are also involved in engineering

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<sup>1</sup> Transmission and distribution classifications are based on the Australian Energy Regulator classifications. Transmission GTEs transfer electricity at 220 KV or above, although they may also have network assets that operate between 66 KV and 220 KV. GTEs with no network assets operating at 220 KV or above are deemed to be distribution GTEs.

<sup>2</sup> For this chapter, electricity GTEs are classed as ‘generation’, ‘transmission’ or ‘distribution’ GTEs according to their primary activity (with distribution including retailing). The two GTEs that perform generation, transmission, distribution and retail are classified as ‘integrated’.

Table 5.1 **Activities — electricity GTEs, 2006-07<sup>a</sup>**

<i>Electricity GTE</i>	<i>Activities</i>			
	<i>Generation</i>	<i>Transmission</i>	<i>Distribution</i>	<i>Retail</i>
<i>New South Wales, Victoria, Australian Government</i>				
Snowy Hydro	✓	x	x	✓
<i>New South Wales</i>				
Country Energy	x	✓	✓	✓
Delta Electricity	✓	x	x	x
EnergyAustralia	x	x	✓	✓
Eraring Energy	✓	x	x	x
Integral Energy	x	x	✓	✓
Macquarie Generation	✓	x	x	x
TransGrid	x	✓	x	x
<i>Queensland</i>				
CS Energy	✓	x	x	x
ENERGEX	x	x	✓	✓ <sup>b</sup>
Enertrade <sup>c</sup>	✓	x	x	x
Ergon Energy Group	✓	x	✓	✓ <sup>d</sup>
Powerlink	x	✓	x	x
Stanwell Corporation	✓	x	x	x
Tarong Energy	✓	x	x	x
<i>Western Australia</i>				
Horizon Power	✓	✓	✓	✓
Synergy	x	x	x	✓
Verve Energy	✓	x	x	x
Western Power	x	✓	✓	x
<i>Tasmania</i>				
Aurora	x	x	✓	✓
Hydro-Electric Corporation	✓	x	✓	✓
Transend Networks	x	✓	x	x
<i>Northern Territory</i>				
Power and Water Corporation	✓	✓	✓	✓

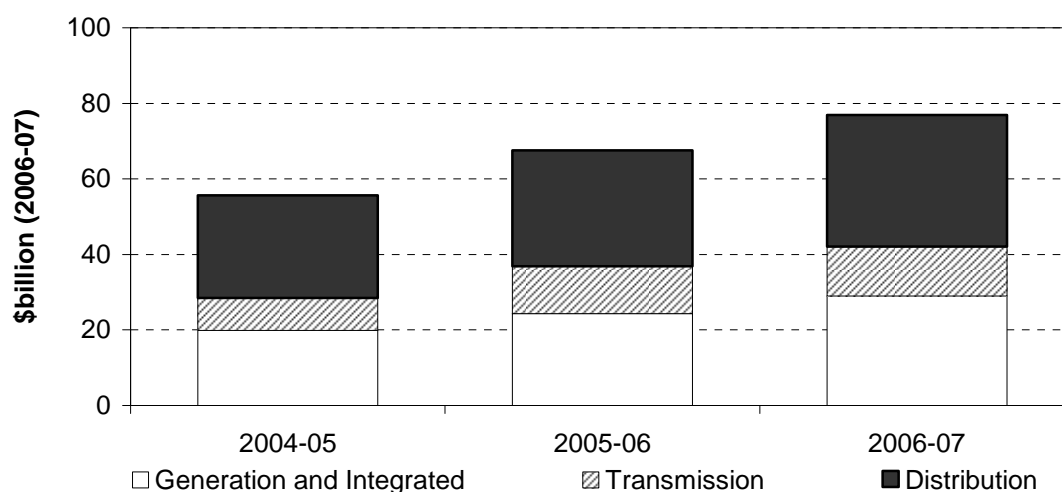
<sup>a</sup> No electricity government trading enterprises exist in Victoria or South Australia as the electricity sector was completely privatised in these States during the mid-1990s. <sup>b</sup> ENERGEX sold its retail business in 2006-07.

<sup>c</sup> Enertrade also trades power from privately-owned generators into the National Electricity Market. <sup>d</sup> Ergon Energy Group sold its retail business in 2006-07.

consulting services. In 2006-07, five electricity GTEs also supplied gas and two — Country Energy and PWC — supplied water.

Between 2005-06 and 2006-07, total assets controlled by electricity GTEs grew by \$9.4 billion (13.9 per cent) in real terms to \$76.9 billion (figure 5.1).

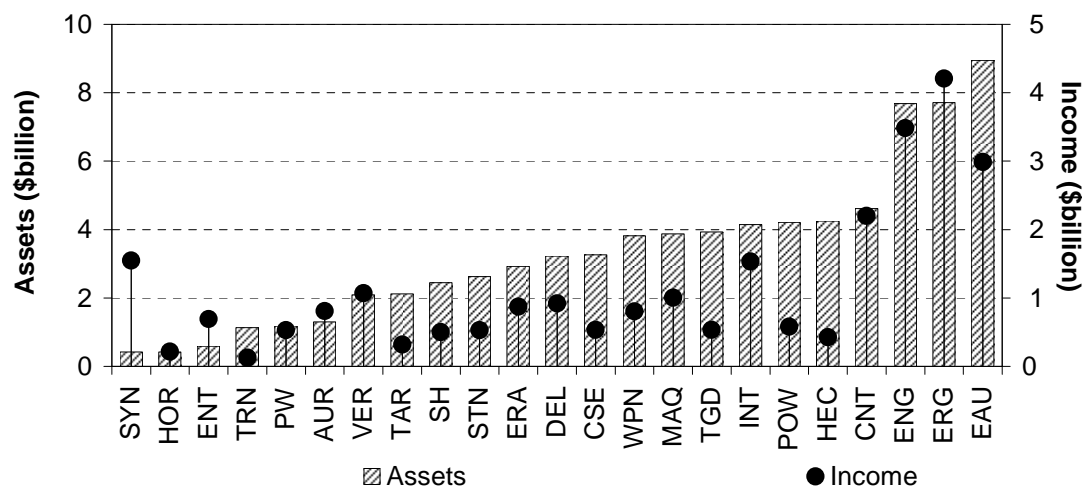
Figure 5.1 **Sector assets — electricity GTEs<sup>a,b</sup>**



<sup>a</sup> The value of sector assets is reported in 2006-07 dollars using the ABS implicit price deflator — gross fixed capital formation for public corporations (chapter 1). <sup>b</sup> Electricity government trading enterprises (GTEs) are classed as 'generation', 'transmission' or 'distribution' GTEs according to their primary activity (with distribution including retail). The two GTEs that perform generation, transmission, distribution and retail are classed as 'integrated' GTEs.

Source: Productivity Commission estimates.

Figure 5.2 **Assets and income — electricity GTEs, 2006-07**



Source: Productivity Commission estimates.

EnergyAustralia and Eraring Energy (Eraring) were the largest contributors to total asset growth, with real increases in the value of their assets of \$1.8 billion and \$1.2 billion respectively.

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Among electricity GTEs, the asset base of generation GTEs grew the most (relative to the asset bases of distribution and transmission GTEs) in real terms from 2005-06 to 2006-07, increasing by \$4.8 billion. The key drivers behind the growth in assets of these GTEs were the revaluation of existing capital assets, increases in receivables, and substantial increases in deferred tax assets caused by changes in the fair value of derivative liabilities. The asset base of distribution GTEs grew by \$4.1 billion in real terms, largely due to the \$1.8 billion real increase in EnergyAustralia's assets.

The size of the monitored electricity GTEs varies in terms of the value of the assets controlled and revenue generated (figure 5.2). In 2006-07, the smallest in terms of asset value was Synergy (\$422 million) and the largest was EnergyAustralia (\$8.9 billion).

## **5.2 Market environment**

Governments have introduced reforms aimed at improving the efficiency and financial performance of electricity GTEs. The reforms have focused on the governance of GTEs, the efficiency of the production process, the environmental impact of electricity consumption and the competitiveness of market structures in which the GTEs operate. These reforms have implications for the financial performance of GTEs and the comparison of performances over time.

### **Structural reform**

Since the mid-1990s, there has been a series of structural reforms (and privatisations) aimed at increasing the commercial focus of the electricity industry. These include the separation of the competitive generation and retail sectors from the natural monopoly elements of transmission and distribution. Recent structural reforms include:

- In New South Wales, Country Energy absorbed the operations of Australian Inland Energy on 1 July 2005, leaving three distribution businesses in total.
- In Queensland, the transmission business of the Queensland Transmission and Supply Corporation (QTSC) was established as a separate corporation, trading as Powerlink, along with a fourth generation GTE, subsequently renamed Enertrade.<sup>3</sup>

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<sup>3</sup> Queensland Power Trading Corporation (QPTC) was established to assist in the transition to the new industry structure by finalising a range of financial and administrative matters arising

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- In Western Australia, Western Power was disaggregated into four independent corporations — Verve Energy (generation), Western Power (distribution and transmission), Synergy (retail) and Horizon Power (integrated regional provider) on 1 April 2006.

## **The National Electricity Market**

The market environment has continued to evolve over the past decade, with the development of the NEM and its associated regulatory structures. Over the same period, the extent of customer contestability has been expanded to provide users with greater choice of electricity supplier in each jurisdiction.

Western Australian businesses do not participate in the NEM. However, the State Government established the WA Wholesale Electricity Market in September 2006. This market provides a vehicle for electricity trading between generators and distributors. The Independent Market Operator — a statutory corporation established on 1 December 2004 — is responsible for administering and operating the market.

The electricity retail sector has also been transformed, with retail contestability applying in New South Wales, Victoria, South Australia and the ACT. Queensland also implemented full retail contestability from 1 July 2007.

These changes, and the development of the NEM, have a number of implications for GTE performance. Most electricity generation and retail GTEs now face greater competition than they experienced in the past. Competition has also been facilitated in most jurisdictions by the adoption of the access provisions for distribution and transmission networks. These provisions give retailers and businesses purchasing wholesale electricity a right of access to these networks.

### *Recent developments in the National Electricity Market*

Australian Governments signed the Australian Energy Market Agreement in June 2004. The agreement includes the creation of the Australian Energy Market Commission (AEMC), which has responsibility for rule-making and market development, and the Australian Energy Regulator (AER), which has responsibility for market regulation (other than retail pricing) and enforcement.

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from the restructure of QTSC. QPTEC was also involved in trading electricity generated by a number of private-sector generators. Although established as a transitional body, QPTEC became Queensland's fourth generation GTE in June 1999 and was renamed Enertrade.

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At the COAG meeting in April 2007, the Australian, State and Territory Governments agreed to establish a NEM Operator (NEMO) for both electricity and gas, encompassing a new national transmission planning function. It was decided that the new arrangements would not bind transmission companies to specific investment decisions, and that accountability for jurisdictional transmission investment, operation and performance would remain with the transmission network service providers. New South Wales stressed that its agreement to the establishment of the national transmission planning function was conditional on the planner not impeding the State's significant investment in its transmission network (COAG 2007).

Recent moves within the electricity industry toward integration of generators and retailers might also affect efficiency and competitiveness in the NEM. The Australian Competition and Consumer Commission has expressed the view that this type of merger can be beneficial because of improved risk management and that it is not necessarily anti-competitive (Willet 2005a; 2005b).

## **Price and environmental regulation**

Most of the monitored electricity GTEs operate under some form of price regulation. AER is responsible for the regulation of transmission GTEs (except in Western Australia), and is scheduled to progressively accept responsibility for distribution GTEs from 2008, which are currently administered by the States (AER 2007).

Retail price caps are administered by the States. However, Australian governments have agreed to remove these caps once effective retail competition has been established in their respective jurisdictions.<sup>4</sup> To determine the appropriate timing for the removal of these caps, AEMC will undertake assessments of the retail competition in New South Wales, Victoria and South Australia over the next three years (AER 2007).

All electricity GTEs are subject to environmental regulation. On 8 December 2000, the Commonwealth Parliament passed the *Renewable Energy (Electricity) Act 2000*, establishing renewable energy targets for electricity supply in Australia. The legislation requires wholesale purchasers of electricity to proportionately contribute towards the generation of an additional 9500 GWh of renewable energy annually by 2010 (PC 2005b). From 1 April 2001, all energy wholesalers have had to purchase increasing amounts of electricity generated from renewable sources.

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<sup>4</sup> Australian Energy Market Agreement 2004 (amended 2006).

Most electricity generation GTEs are pursuing investment opportunities, including wind and solar power, to meet this target and also to satisfy consumer demand for 'green' energy.

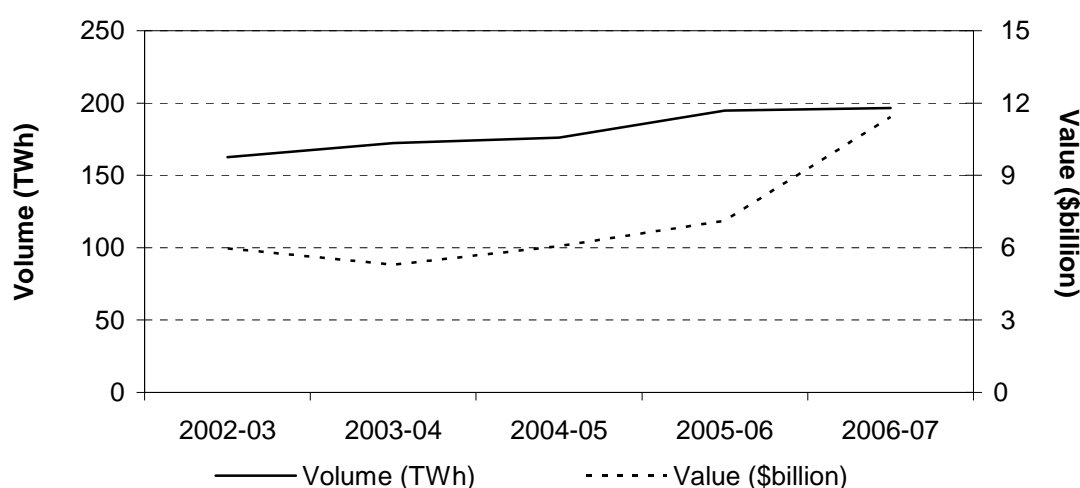
Greenhouse gas regulation is currently administered on a state and territory basis, with cap and trade emission schemes in place in New South Wales and the ACT. However, the Australian Government has committed to a national emissions trading scheme, which is scheduled to commence in 2010. A Green Paper on the scheme design was released in mid-July 2008.

## Production and demand

Consumption of electricity was fairly stable in 2006-07, with about 197 000 GWh of electricity passing through the NEM (figure 5.3). Although this represents less than a 1.0 per cent increase on 2005-06, the value of the electricity traded increased by 60.2 per cent in 2006-07. This reflects the average spot price of electricity, which increased from \$37 per MWh in 2005-06 to \$54 per MWh in 2006-07 (NEMMCO 2006, 2007). Prima facie, the higher spot price suggests generating capacity is not meeting increasing electricity demand.

Electricity demand now has two peaks — summer and winter. In the past three years, warmer summers led to increased demand. The winter of June 2007 also resulted in record electricity demand (AER 2007).

Figure 5.3 **National Electricity Market electricity volume and value<sup>a</sup>**



<sup>a</sup> Volume data represents volume of electricity sent out of the National Electricity Market.

Source: NEMMCO (2007).



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The ability of the NEM to meet this demand is dependent on the supply conditions faced by generation and transmission GTEs. For example, drought conditions in 2006-07 reduced the generation capacity of some GTEs, in particular hydro-generators such as Snowy Hydro Limited (Snowy Hydro) and the Hydro-Electric Corporation (HEC). Supply can also be affected by network outages, such as the severing of the transmission connection between Victoria and Snowy Hydro that occurred during the Victorian bushfires in January 2007.

As a result of the supply constraints and increased demand, the number of price spikes increased in 2006-07, and some of the highest spot prices in the history of the NEM were recorded (AER 2007). Spot prices were particularly high at the end of 2006-07, because of additional outages of generators and networks.

### *Impact on financial performance*

Many electricity GTEs use forward contracts in order to hedge against the volatility of future spot prices. These forward contracts allow GTEs to contract a price for a specified volume of electricity, a number of months or years in advance.<sup>5</sup>

Under accounting standard AASB139, these forward contracts are classified as derivative financial instruments. AASB139 requires that all derivative financial instruments be reported in the financial statements at their fair value, as at the reporting date. In the case of electricity forward contracts (which are traded in relatively small numbers), the fair value is calculated using an estimated price of the forward contract, which is partly based on prevailing, highly volatile spot prices. Consequently, forward prices are also highly volatile.

Forward prices achieved historically high levels in June 2007, reflecting prevailing high spot prices. Consequently, the forward contracts held by some GTEs were subject to significant revaluations.

These derivative revaluations were detrimental to the financial positions of some electricity GTEs — in particular generation GTEs. For example, equity in Macquarie Generation (Macquarie) was -\$57.4 million, after the valuation of its derivative assets and liabilities at 30 June 2007 (chapter 1). In its annual report, Macquarie stated that this effect was temporary, and that had the valuation of its forward contracts occurred on 17 August 2007, its equity would have been valued at \$600 million.

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<sup>5</sup> The forward contracts are not for the physical purchase or sale of electricity. They are settled by a net cash payment, which depends on the contracted price and the spot price at the time of settlement.

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Overall, the requirement to report at fair value, combined with movements in electricity spot and forward prices, has resulted in significant volatility in the reported financial performance of some GTEs. However, the new framework for analysis of performance established for this report minimises the impact of temporary fair market valuation volatility on the financial performance of GTEs (chapter 1).

## 5.3 Profitability

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

The monitored electricity GTEs recorded a profit before tax of \$5.6 billion in 2006-07. ENERGEX and Ergon Energy (Ergon) together accounted for more than half of the sector profit before tax in 2006-07 (29.7 per cent and 22.6 per cent respectively). However, ENERGEX and Ergon's results were largely attributable to the sale of retail subsidiaries that generated income of \$1.4 billion and \$1.0 billion respectively.

Excluding the WA electricity GTEs, profits increased by \$2.8 billion (105 per cent) in real terms from 2005-06.<sup>6</sup> If the sale of ENERGEX and Ergon's retail subsidiaries were excluded, the increase in sector profit before tax (excluding WA GTEs) would have been \$435 million (16.2 per cent).

All but three GTEs achieved a positive profit before tax in 2006-07, the same number (but not all the same GTEs) as in 2005-06. Verve Energy, Tarong Energy (Tarong) and PWC all made losses, with Verve Energy being the only one of these to have also made a loss in 2005-06. Verve Energy attributes its loss to limited gas availability and price limitations inherent in its vesting contract with Synergy. PWC and Tarong attributed their losses to asset impairment and drought conditions respectively.

Cost recovery is a measure of a GTE's ability to generate adequate revenue to meet expenses. A cost recovery ratio below 100 per cent suggests that a GTE was unable to meet its operating costs even before the cost of servicing debt is taken into account (chapter 1).

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<sup>6</sup> Verve Energy, Western Power, Synergy and Horizon Power are excluded because 2005-06 financial data are for the period 1 April 2006 to 30 June 2006 only. Therefore profit before tax for 2005-06 and 2006-07 are not directly comparable. The four WA GTEs have been excluded from the 2005-06 calculations of cost recovery, return on assets, return on equity and interest cover.

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All but three of the electricity GTEs recorded a cost recovery ratio greater than 100 per cent in 2006-07, indicating that they were able to fully recover their operating costs from operating revenue (figure 5.4). The highest cost recovery ratio was HEC (221 per cent), with both Powerlink and TransGrid also recording cost recovery ratios of over 190 per cent. Overall, the sector cost recovery ratio was 123 per cent in 2006-07. Excluding the WA GTEs, this represents an increase of 2.4 percentage points.

The increased profit in 2006-07 was reflected in an improvement in the overall sector return on assets, to 11.5 per cent in 2006-07. All but two of the electricity GTEs reported positive returns (up to 26.4 per cent) in 2006-07 (figure 5.5). PWC and Tarong recorded returns of -6.3 per cent and -0.1 per cent respectively, following from their operating losses.

The sector rate of return on assets of 11.5 per cent in 2006-07 was greater than the risk-free rate of return.<sup>7</sup> The median rate of return on assets for the monitored electricity GTEs was 8.3 per cent, and therefore also exceeded the risk-free rate. Nineteen of the 23 electricity GTEs achieved a return on assets equal to or greater than 5.8 per cent in 2006-07.

The NSW Independent Pricing and Regulatory Tribunal (IPART) suggested that a nominal return before tax of 8.6 per cent on assets would be an appropriate benchmark for electricity retail GTEs (IPART 2007). Similarly, the Queensland Competition Authority (QCA) has recommended after-tax returns of 8.5 per cent for its distribution GTEs (QCA 2005). However, IPART recommended a before tax rate of return of 7 per cent for its distribution GTEs in its 2004 determination (IPART 2004).

The majority of electricity GTEs, as well as the sector as a whole, are achieving returns broadly commensurate with the IPART and QCA benchmarks. For example, ten out of 23 electricity GTEs achieved a return on assets in excess of 8.5 per cent in 2006-07.<sup>8</sup> A further five GTEs achieved a rate of return over 7 per cent.<sup>9</sup>

Return on equity is a measure of a GTE's operating earnings before interest and after tax expressed as a proportion of equity remaining in the business. The sector

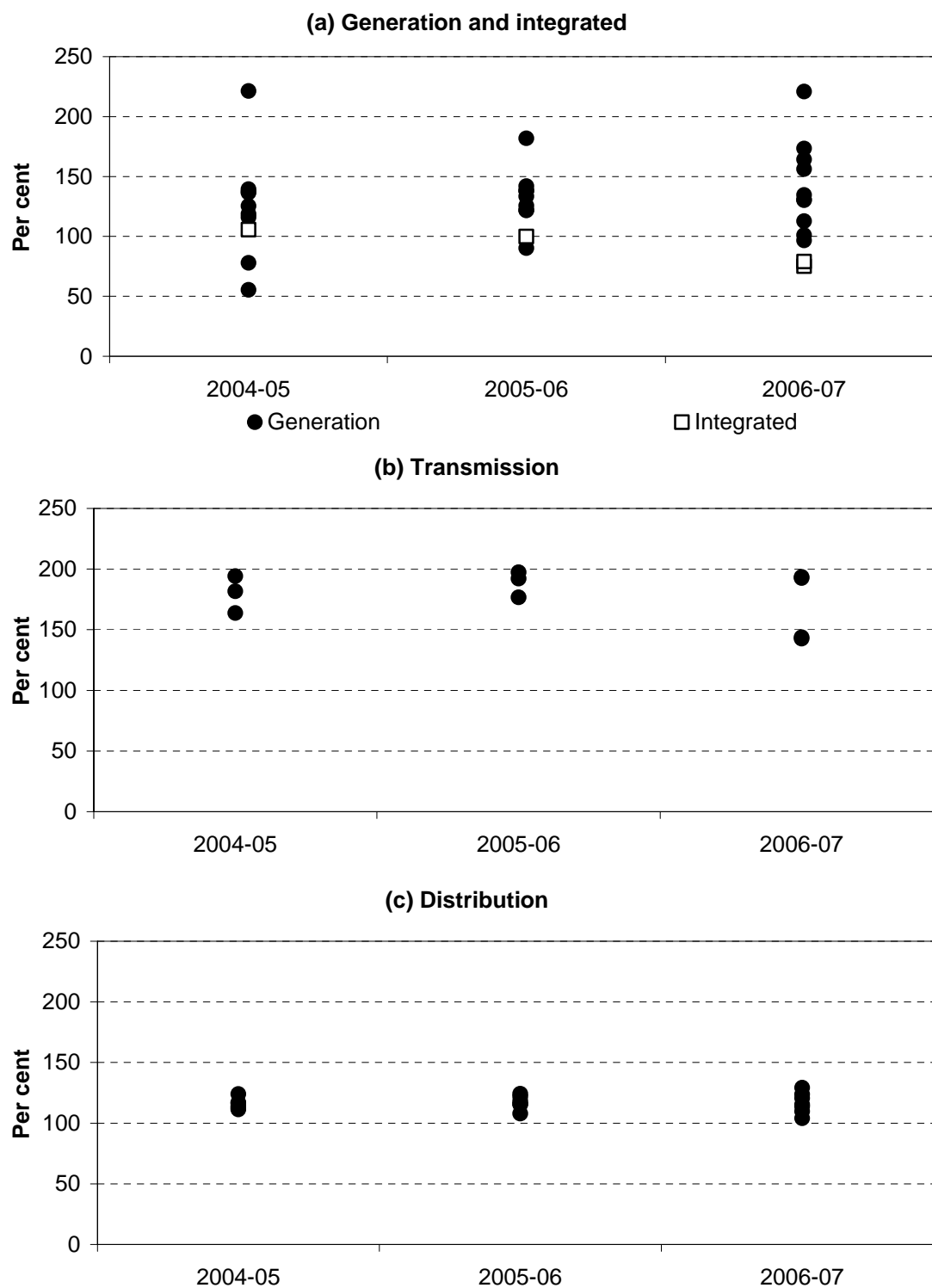
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<sup>7</sup> The risk-free rate of return used is the 2006-07 interest rate on 10-year Australian Government bonds of 5.8 per cent (RBA 2008).

<sup>8</sup> All except Synergy and Snowy Hydro were either NSW or Queensland GTEs.

<sup>9</sup> Including Delta Electricity, EnergyAustralia, Horizon Power, Powerlink, and TransGrid.

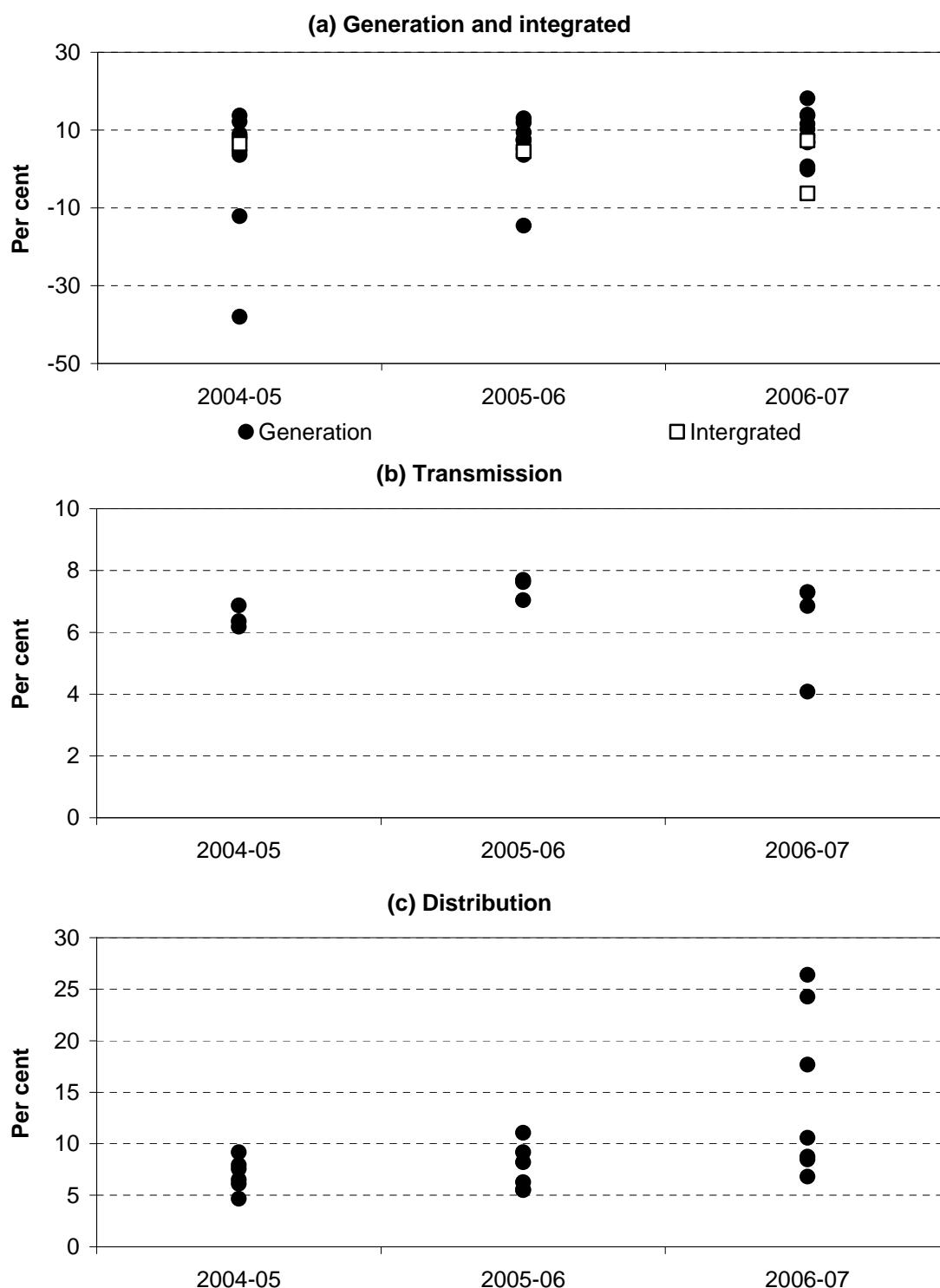
Figure 5.4 **Cost recovery — electricity GTEs<sup>a</sup>**



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

Source: Productivity Commission estimates.

Figure 5.5 Return on assets — electricity GTEs<sup>a</sup>



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

Source: Productivity Commission estimates.

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return on equity was 16.1 per cent in 2006-07. Excluding the WA GTEs, return on equity increased by 2.8 percentage points, reflecting the improved sector profitability.

## 5.4 Financial management

Financial management indicators provide information about the capital structure of GTEs and their ability to meet the cost of servicing debt and other liabilities as they fall due.

Governments have occasionally restructured their electricity GTEs. This has generally involved the transfer of both assets and liabilities to State and Territory Governments, and the contribution or withdrawal of equity. In 2006-07, Eraring made a \$184 million return of equity payment to the NSW Government. In contrast, Horizon Power received an \$11.0 million equity contribution from the WA Government.

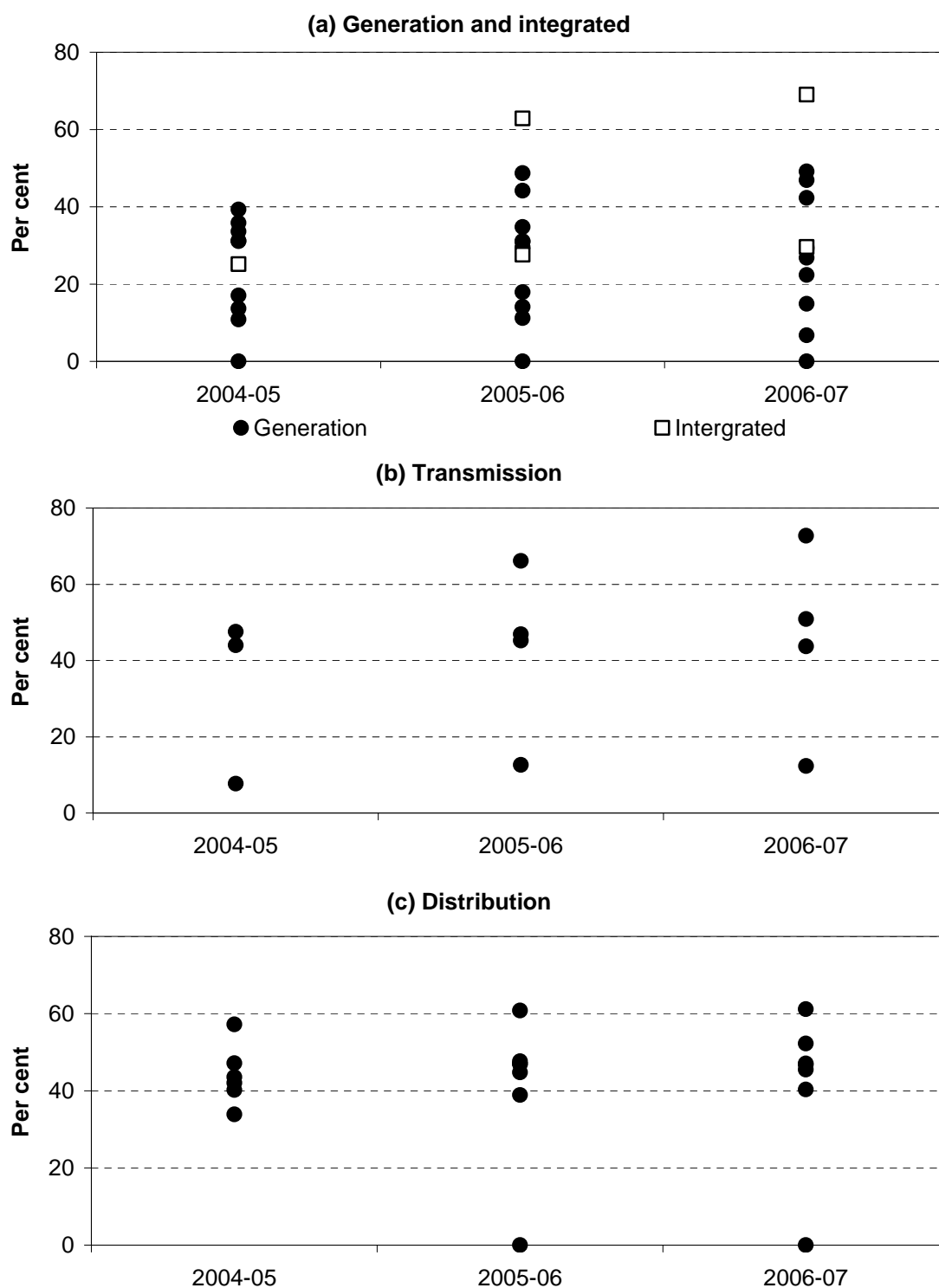
There is considerable diversity in the capital structure of electricity GTEs, as measured by debt to assets (figure 5.6). Two electricity GTEs (Enertrade in Queensland and Synergy in Western Australia) operated debt free in 2006-07, while five had debt to assets of over 50 per cent. The majority of electricity GTEs (12 of 23) had debt to assets of between 25 per cent and 50 per cent in 2006-07.

The proportion of debt in the electricity sector's capital structure decreased from 2005-06 to 2006-07, with sector debt to assets falling from 43.5 per cent to 42.2 per cent. In contrast, the median debt to assets of the monitored electricity GTEs increased from 38.9 per cent in 2005-06 to 42.3 per cent in 2006-07. These results are partly attributable to asset growth in a few GTEs in 2006-07. In particular, Delta Electricity, HEC, Integral Energy and Transend Networks all experienced declines in their debt to assets despite increases in their level of debt.

Sixteen GTEs increased their debt in real terms in 2006-07, by between \$3.3 million and \$497 million. A few electricity GTEs have moved against this trend by reducing their debt and, in turn, their debt to assets. For example, Snowy Hydro reduced its debt by 15.0 per cent in real terms in 2006-07, which led to a fall in its debt to assets from 48.7 per cent to 42.3 per cent.

Of those with debt, 11 electricity GTEs had an interest cover greater than three times in 2006-07. Only two GTEs (PWC and Tarong) did not obtain a positive interest cover. The sector interest cover increased to 4.3 times in 2006-07. This indicates that the margin insulating electricity GTEs from increases in interest rates or falling revenue has increased in the past year, strengthening their ability to service debt out of current earnings.

Figure 5.6 Debt to total assets — electricity GTEs<sup>a</sup>



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

Source: Productivity Commission estimates.

## 5.5 Transactions with government

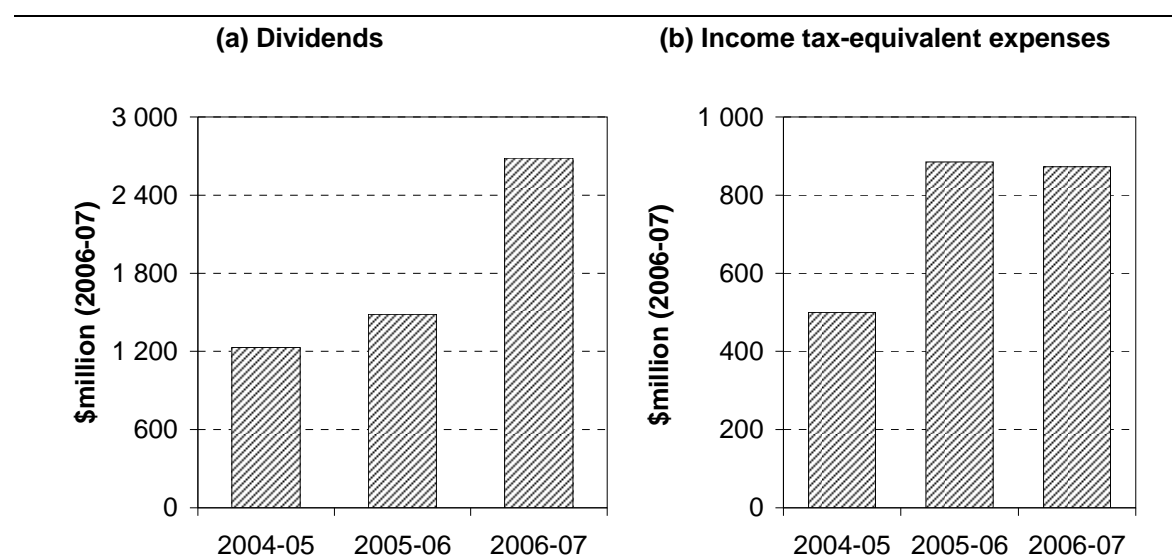
Governments have increased the commercial focus of GTEs and facilitated competitive neutrality by exposing them to incentives and regulations similar to those faced by private-sector businesses. For a more detailed discussion of competitive neutrality principles, see chapter 2.

Requirements to pay dividends, income tax-equivalent regimes and debt guarantee fees are examples of how governments have imposed the principles of competitive neutrality on their electricity GTEs.

Electricity GTEs make income tax-equivalent and dividend payments to their owner-governments. Aggregate dividends increased by 80.7 per cent in real terms to \$2.7 billion in 2006-07, in line with the growth in sector profit (figure 5.7a). The total dividends declared by GTEs varied between states in 2006-07 — New South Wales (\$818 million), Queensland (\$1.7 billion), Western Australia (\$32.5 million), and Tasmania (\$49.6 million). PWC in the Northern Territory did not declare a dividend in 2006-07.

Between 2005-06 and 2006-07, income tax-equivalent expenses for the sector as a whole decreased by 1.4 per cent in real terms to \$872 million (figure 5.7b), in contrast with the substantial increase in the sector's overall profitability.

Figure 5.7 **Dividends and income tax-equivalent expenses — electricity GTEs<sup>a</sup>**



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

Source: Productivity Commission estimates.

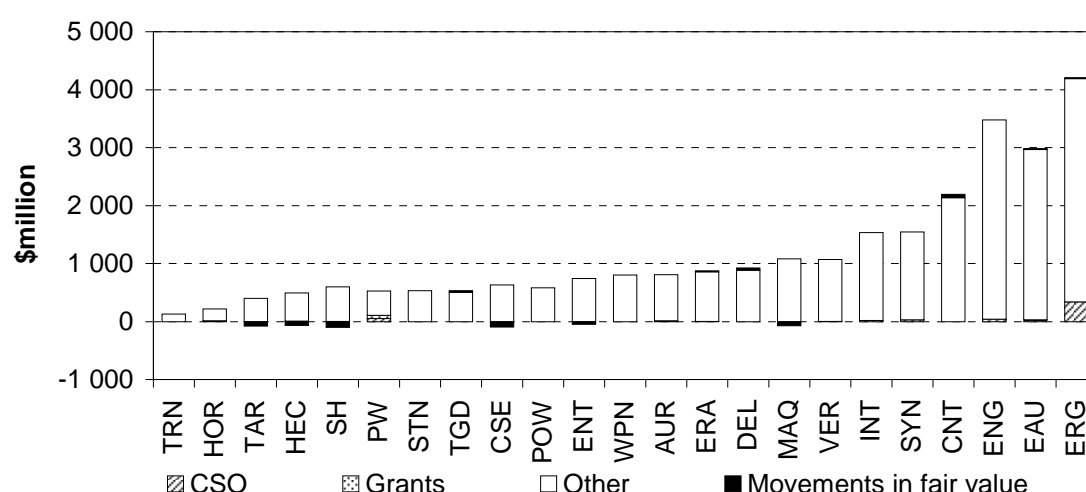


As part of the reform process, governments have agreed to identify, cost and fund the CSOs that they impose on electricity GTEs. CSO funding is received for the provision of rebates, concessions, and the uneconomic supply of electricity to some customers.

Ten of the monitored electricity GTEs received CSO funding in 2006-07. Generally, GTEs involved in distribution and retail are subject to these CSOs. However, there are some examples of CSOs being placed on generation GTEs. Disclosed CSO payments to electricity GTEs amounted to \$543 million in 2006-07, a real decrease of 17.1 per cent (\$112 million) from 2005-06.

A small number of electricity GTEs received government grants (figure 5.8). The largest recipient was PWC. It received \$50.3 million in 2006-07, for the provision of Indigenous Essential Services. This amount represented 9.5 per cent of PWC's revenue in 2006-07.

Figure 5.8 **Income sources — electricity GTEs, 2006-07**



Source: Productivity Commission estimates.

## ELECTRICITY

Table 5.2 Whole of sector performance indicators, 2004-05 to 2006-07<sup>a</sup>

		Pre-AIFRS <sup>b,c</sup>		AIFRS <sup>b</sup>	
Indicators	Units	2004-05	2004-05	2005-06 <sup>d</sup>	2006-07
Size					
Total assets	\$m	50 274	50 189	62 088	76 922
Total income	\$m	17 476	17 391	20 012	26 412
Profitability					
Profit before tax	\$m	2 279	1 517	2 474	5 599
Operating profit margin	%	19.3	14.9	18.9	18.4
Cost recovery	%	123.9	117.5	123.2	122.6
Return on assets	%	7.0	5.7	7.4	11.5
Return on total equity	%	11.6	11.2	13.6	16.1
Return on operating equity <sup>e</sup>	%	10.4	9.2	11.2	12.4
Financial management					
Debt to equity	%	71.4	77.3	86.6	89.2
Debt to assets	%	36.7	37.5	43.5	42.2
Total liabilities to equity	%	123.8	164.1	179.8	260.8
Operating liabilities to equity <sup>f</sup>	%	94.9	106.2	119.8	127.5
Interest cover	times	3.0	2.3	3.0	4.3
Current ratio	%	69.3	61.5	71.7	93.2
Leverage ratio	%	194.9	206.2	219.8	227.5
Payments to and from government					
Dividends	\$m	1 112	1 112	1 366	2 685
Dividend to equity ratio	%	4.4	4.8	5.7	9.5
Dividend payout ratio	%	42.8	52.2	50.9	76.5
Income tax expense	\$'000	756 873	451 804	813 051	872 496
Grants revenue ratio	%	0.0	0.3	0.3	0.2
CSO funding	\$'000	462 263	462 263	601 522	542 682

<sup>a</sup> Figures are nominal values. <sup>b</sup> Electricity GTEs commenced reporting under Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for electricity GTEs. <sup>c</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>d</sup> On 1 April 2006, the former Western Power Corporation was disaggregated into four independent corporations (Verve Energy, Western Power, Synergy and Horizon Power). Data on revenue and expenditure for the new corporations in 2005-06 are available only for the period 1 April 2006 to 30 June 2006. As a result, these entities were excluded from the calculation of dividend and grants ratios, interest cover and all profitability indicators except profit before tax for 2005-06. They were included in the calculation of total assets and all financial management indicators except interest cover. <sup>e</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>f</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'.

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## 5.6 GTE performance reports

Delta Electricity (NSW)  
Macquarie Generation (NSW)  
Eraring Energy (NSW)  
TransGrid (NSW)  
EnergyAustralia (NSW)  
Integral Energy (NSW)  
Country Energy (NSW)  
CS Energy (Queensland)  
Stanwell Corporation (Queensland)  
Tarong Energy (Queensland)  
Enertrade (Queensland)  
Powerlink (Queensland)  
Ergon Energy Group (Queensland)  
ENERGEX (Queensland)  
Verve Energy (WA)  
Western Power (WA)  
Synergy (WA)  
Horizon Power (WA)  
Hydro-Electric Corporation (Tasmania)  
Aurora Energy (Tasmania)  
Transend Networks (Tasmania)  
Power and Water Corporation (NT)  
Snowy Hydro (Australian Government/NSW/Victoria)

Delta Electricity (Delta) operates under the *State Owned Corporations Act 1989* and the *Energy Services Corporations Act 1995*. Delta is the second largest electricity generator in the National Electricity Market, contributing around 12 per cent of total supply. Although not facing direct price regulation, Delta is subject to the National Electricity Law and National Electricity Rules, which set a maximum spot price of \$10 000 per MWh (AEMC Reliability Panel 2007).

Delta's total income increased by 3.0 per cent (\$27.2 million) to \$921 million in 2006-07. However, profit before tax declined by 14.0 per cent (\$26.3 million) to \$162 million, reflecting a 9.2 per cent (\$60.9 million) increase in total expenses. The increase in total expenses was largely attributable to a \$52.1 million increase in generating costs and a \$12.5 million increase in depreciation.

The value of Delta's assets increased by 50.0 per cent (\$1.1 billion) to \$3.2 billion in 2006-07. This increase was largely attributable to increases in trade and other receivables (\$385 million) and deferred tax assets arising from revaluation of derivative instruments for fair value movements (\$315 million), revaluations of power station plant and equipment (\$275 million) and capital investment (\$148 million). Delta's liabilities also increased significantly, more than doubling from \$1.4 billion in 2005-06 to \$3.0 billion in 2006-07. The major sources of increase were electricity contracts (\$1.0 billion), and trade and other payables (\$400 million). The decline in profit before tax resulted in a fall in return on assets to 8.3 per cent in 2006-07.

Delta's level of debt increased by 13.3 per cent to \$660 million in 2006-07. However, with an increase in the value of its assets, debt to total assets fell slightly from 29.5 per cent in 2005-06 to 26.8 per cent in 2006-07.

Delta is required to make dividend and income tax-equivalent payments. Delta provided for a \$114 million dividend payment, and recorded an income tax-equivalent expense of \$49.8 million in 2006-07. \

Delta does not receive community service obligation funding.

## DELTA ELECTRICITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	1 892	1 900	2 148	3 222
Total income	\$m	816	795	894	921
Profitability					
Profit before tax	\$'000	180 481	170 215	188 445	162 112
Operating profit margin	%	28.2	27.2	27.6	23.2
Cost recovery	%	139.3	137.3	138.1	130.3
Return on assets	%	12.6	12.1	12.0	8.3
Return on total equity	%	21.3	28.6	26.2	32.7
Return on operating equity <sup>c</sup>	%	16.9	18.2	16.3	11.5
Financial management					
Debt to equity	%	57.3	61.0	48.5	44.1
Debt to assets	%	31.0	31.2	29.5	26.8
Total liabilities to equity	%	136.3	214.5	194.3	1 394.0
Operating liabilities to equity <sup>d</sup>	%	84.9	95.6	74.2	89.7
Interest cover	times	4.2	4.1	4.9	4.7
Current ratio	%	74.9	66.8	57.8	85.6
Leverage ratio	%	184.9	195.6	174.2	189.7
Payments to and from government					
Dividends	\$'000	123 488	123 488	131 638	113 619
Dividend to equity ratio	%	12.2	13.0	12.2	8.4
Dividend payout ratio	%	72.4	71.4	75.2	73.4
Income tax expense <sup>e</sup>	\$'000	56 993	46 046	58 023	49 835
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Delta Electricity (Delta) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Delta. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> Income tax-equivalent expense excluded tax on fair value movements where these data were separately disclosed in Delta's financial accounts. Tax on fair value movements amounted to \$12.2 million in 2005-06 and \$11.3 million in 2006-07. — Zero or rounded to zero.

Macquarie Generation (Macquarie) operates under the *State Owned Corporations Act 1989* and the *Energy Services Corporations Act 1995*. It is the largest electricity generator in the National Electricity Market, contributing around 13 per cent of total supply in 2007. Although it does not face direct price regulation, Macquarie is subject to the National Electricity Law and National Electricity Rules, which set a maximum spot price of \$10 000 per MWh (AEMC Reliability Panel 2007).

Macquarie's total income increased by 4.6 per cent (\$43.9 million) in 2006-07, despite a decline of \$146 million in income from fair value movements. Omitting fair value movements, profit before tax increased by 82.9 per cent (\$163 million), reflecting a \$186 million increase in electricity sales revenue.

The value of Macquarie's assets increased by 30.4 per cent (\$904 million) to \$3.9 billion in 2006-07. This increase was largely attributable to increases in trade and other receivables (\$417 million) and deferred tax assets arising from revaluation of derivative instruments for fair value movements (\$497 million). Macquarie's total liabilities also increased significantly, nearly doubling from \$2.0 billion in 2005-06 to \$3.9 billion in 2006-07. The major source of increase was electricity derivative contracts which increased from \$57.7 million in 2005-06 to \$1.7 billion in 2006-07. Overall, return on assets increased substantially, to 13.9 per cent in 2006-07.

Macquarie's level of debt was stable at around \$890 million in 2006-07. However, with an increase in the value of its assets, debt to assets fell slightly from 31.0 per cent in 2005-06 to 29.1 per cent in 2006-07.

Macquarie is required to make dividend and income tax-equivalent payments. Macquarie provided for a \$180 million dividend payment and recorded an income tax-equivalent expense of \$108 million in 2006-07.

Macquarie does not receive community service obligation funding.

## MACQUARIE GENERATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	2 882	2 889	2 972	3 876
Total income	\$m	848	835	961	1 005
Profitability					
Profit before tax	\$'000	166 844	159 634	196 617	359 561
Operating profit margin	%	29.3	28.2	29.5	39.1
Cost recovery	%	141.5	139.4	141.9	164.2
Return on assets	%	8.7	8.5	9.4	13.9
Return on total equity	%	14.7	19.9	20.1	65.9
Return on operating equity <sup>c</sup>	%	11.6	12.4	12.3	17.9
Financial management					
Debt to equity	%	59.5	61.1	53.4	48.5
Debt to assets	%	33.5	33.6	31.0	29.1
Total liabilities to equity	%	127.1	193.6	196.2	.. <sup>d</sup>
Operating liabilities to equity <sup>e</sup>	%	77.5	81.8	72.8	77.3
Interest cover	times	3.0	2.9	3.7	6.4
Current ratio	%	58.7	56.0	70.5	85.6
Leverage ratio	%	177.5	181.8	172.8	177.3
Payments to and from government					
Dividends	\$'000	105 000	105 000	130 000	180 000
Dividend to equity ratio	%	6.5	6.7	8.0	10.3
Dividend payout ratio	%	56.3	53.7	65.2	57.7
Income tax expense <sup>f</sup>	\$'000	61 423	42 892	61 495	108 032
Grants revenue ratio	%	—	0.3	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Macquarie Generation (Macquarie) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Macquarie. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Macquarie had negative total equity in 2006-07, primarily due to a \$1.7 billion increase in derivative financial instruments, which caused total liabilities to double. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>f</sup> Income tax-equivalent expense excluded tax on fair value movements where these data were separately disclosed in Macquarie's financial accounts. Tax on fair value movements amounted to \$19.8 million in 2005-06 and Macquarie recorded an income tax-equivalent benefit on fair value movements of \$23.2 million in 2006-07. .. Not applicable. — Zero or rounded to zero.

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## ERARING ENERGY

## New South Wales

Eraring Energy (Eraring) operates under the *State Owned Corporations Act 1989* and the *Energy Services Corporations Act 1995*. Eraring generates and trades electricity in the National Electricity Market. Its generation assets have a capacity of approximately 3042 MW — the largest being the Eraring coal-fired power station with a capacity of 2640 MW. Eraring contributes around 9 per cent of total supply to the National Electricity Market. Although not facing direct price regulation, Eraring is subject to the National Electricity Law and National Electricity Rules, which set a maximum spot price of \$10 000 per MWh (AEMC Reliability Panel 2007).

Eraring's total income increased by 20.1 per cent (\$146 million) in 2006-07, despite a decline of \$75.7 million in income from fair value movements. Profit before tax nearly doubled to \$188 million, mostly due to a \$219 million increase in revenue from electricity sales.

The value of Eraring's total assets increased by 85.9 per cent (\$1.4 billion) to \$2.9 billion in 2006-07. This increase was largely attributable to increases in receivables (\$390 million) and deferred tax assets on fair value assessment of electricity derivatives (\$365 million), and power station plant and equipment revaluations (\$1.8 billion). Despite this increase, the increased profitability was such that return on assets and on equity increased to 10.2 per cent and 20.9 per cent respectively.

Total debt rose by \$82.3 million (38.7 per cent) to \$295 million in 2006-07. Consequently, Eraring's debt to assets and debt to equity increased to 14.9 per cent and 18.6 per cent respectively.

Eraring is required to make dividend and income tax-equivalent payments. It provided for a \$132 million dividend payment and recorded an income tax-equivalent expense of \$56.2 million in 2006-07. The NSW Government also made an equity withdrawal of \$184 million from Eraring.

Eraring received \$70 000 in community service obligation funding in 2006-07.



## ERARING ENERGY (continued)

### Performance indicators 2004-05 to 2006-07

Indicators	Units	Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
		2004-05 <sup>c</sup>	2004-05 <sup>c</sup>	2005-06 <sup>d</sup>	2006-07 <sup>e</sup>
Size					
Total assets	\$m	1 592	1 561	1 571	2 922
Total income	\$m	594	587	728	875
Profitability					
Profit before tax	\$'000	115 700	109 531	96 967	187 735
Operating profit margin	%	21.4	20.3	17.8	23.4
Cost recovery	%	127.2	125.4	121.6	130.6
Return on assets	%	8.1	7.9	7.4	10.2
Return on total equity	%	7.9	8.6	8.2	20.9
Return on operating equity <sup>f</sup>	%	7.8	8.0	7.4	10.5
Financial management					
Debt to equity	%	14.0	14.9	18.4	18.6
Debt to assets	%	10.5	10.8	14.0	14.9
Total liabilities to equity	%	37.5	50.7	58.4	668.8
Operating liabilities to equity <sup>g</sup>	%	33.0	37.3	30.1	55.4
Interest cover	times	11.3	10.7	7.2	13.8
Current ratio	%	51.2	40.6	84.2	80.0
Leverage ratio	%	133.0	137.3	130.1	155.4
Payments to and from government					
Dividends	\$'000	82 327	82 327	41 320	132 131
Dividend to equity ratio	%	7.0	7.4	3.7	9.6
Dividend payout ratio	%	89.7	92.2	49.5	92.2
Income tax expense <sup>h</sup>	\$'000	35 571	31 317	29 129	56 156
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	89	89	60	70

<sup>a</sup> Eraring Energy (Eraring) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Eraring. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Eraring repaid capital of \$16.0 million in August 2004 via a non-cash equity to debt swap. <sup>d</sup> Eraring returned \$49.0 million of equity to the NSW Government in 2005-06. <sup>e</sup> Eraring returned \$184 million of equity to the NSW Government in 2006-07. <sup>f</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>g</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>h</sup> Income tax-equivalent expense excluded tax on fair value movements where these data were separately disclosed in Eraring's financial accounts. Tax on fair value movements amounted to \$28.8 million in 2005-06 and \$6.0 million in 2006-07. — Zero or rounded to zero.

TransGrid was established under the *Electricity Transmission Authority Act 1994* and corporatised on 14 December 1998 under the *Energy Services Corporations Amendment (TransGrid Corporatisation) Act 1998*. TransGrid operates under the *State Owned Corporations Act 1989*, and its revenues are subject to regulation by the Australian Energy Regulator.

TransGrid is responsible for the planning, management and development of the NSW high-voltage electricity transmission network — the largest high-voltage network in Australia. It transmits power between generators and bulk distributors, some large direct customers and to interconnectors linking Victoria, Queensland and SA.

Total income increased by 2.0 per cent (\$10.6 million) in 2006-07, despite an \$18.2 million decline in income from fair value movements. Profit before tax increased by 11.4 per cent (\$14.6 million) to \$142 million, which was largely attributable to a \$27.1 million increase in revenue from transmission. However, expenses from transmission also increased by \$15.8 million.

The value of TransGrid's total assets increased by 4.8 per cent (\$179 million) to \$3.9 billion in 2006-07, mainly because of \$189 million of additions to network and other assets. Despite this increase, the increase in profitability was such that return on assets increased to 7.3 per cent in 2006-07.

Debt remained steady at approximately \$1.5 billion in 2006-07. Consequently, the increase in total assets caused a fall in debt to assets and debt to equity, to 43.7 per cent and 87.6 per cent respectively.

TransGrid is required to make dividend and income tax-equivalent payments to the NSW Government. TransGrid provided for a dividend payment of \$71.5 million and recorded an income tax-equivalent expense of \$42.6 million in 2006-07.

TransGrid does not receive community service obligation funding.

## TRANSGRID (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	3 733	3 697	3 750	3 929
Total income	\$m	451	429	523	534
Profitability					
Profit before tax	\$'000	116 449	99 143	127 194	141 750
Operating profit margin	%	48.8	44.9	48.0	48.1
Cost recovery	%	195.2	181.6	192.2	192.5
Return on assets	%	5.9	6.4	7.0	7.3
Return on total equity	%	9.6	11.6	12.4	12.0
Return on operating equity <sup>c</sup>	%	9.0	12.6	13.3	12.5
Financial management					
Debt to equity	%	76.3	108.5	94.9	87.6
Debt to assets	%	40.9	47.6	45.2	43.7
Total liabilities to equity	%	99.8	142.9	131.4	129.9
Operating liabilities to equity <sup>d</sup>	%	86.3	128.1	111.7	105.0
Interest cover	times	2.1	2.0	2.3	2.4
Current ratio	%	42.2	24.4	39.9	47.9
Leverage ratio	%	186.3	228.1	211.7	205.0
Payments to and from government					
Dividends	\$'000	38 000	38 000	69 500	71 482
Dividend to equity ratio	%	1.9	2.7	4.7	4.5
Dividend payout ratio	%	21.1	21.5	35.6	35.9
Income tax expense <sup>e</sup>	\$'000	39 320	25 020	33 427	42 588
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> TransGrid commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for the TransGrid. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> Income tax-equivalent expense excluded tax on fair value movements where these data were available from Transgrid's financial accounts. Tax on fair value movements amounted to \$17.1 million in 2005-06 and \$11.9 million in 2006-07. — Zero or rounded to zero.

EnergyAustralia operates under the *State Owned Corporations Act 1989* and the *Energy Services Corporations Act 1995*. The majority of EnergyAustralia's revenues are derived from electricity distribution and retailing, operating within the framework of the *Electricity Supply Act 1995*. EnergyAustralia operates gas and electricity retail businesses in NSW, Queensland, SA, Victoria and the ACT. In July 2005, EnergyAustralia formed the EA-IPR Retail Partnership with International Power (Retail) Pty Ltd, a 50:50 joint venture to sell gas and electricity to retail customers in Victoria and SA. EnergyAustralia also owns and operates part of the NSW electricity transmission network.

EnergyAustralia's total income increased by 3.1 per cent (\$89.4 million) in 2006-07, despite a decline of 25.6 million in income from fair value movements. Profit before tax increased by 17.7 per cent (\$53.6 million) to \$357 million in 2006-07,<sup>1</sup> primarily driven by growth in revenues from the sale and delivery of energy (\$85.8 million).

The value of EnergyAustralia's assets increased by 35.8 per cent (\$2.4 billion) to \$8.9 billion in 2006-07, mainly because of increases in receivables (\$664 million) and derivatives (\$988 million), and capital expenditure (\$796 million). As a result of the increased profit before tax, return on assets increased to 8.5 per cent in 2006-07.

Debt increased by 26.5 per cent (\$744 million) to \$3.6 billion in 2006-07. This was reflected in higher debt to assets and debt to equity of 52.3 per cent and 169 per cent respectively. Total operating liabilities increased by 31.6 per cent (\$1.3 billion) mainly because of increased debt, and trade and other payables. The higher operating liabilities were reflected in an increase in the operating liabilities to equity from 197 per cent in 2005-06 to 254 per cent in 2006-07.

EnergyAustralia is required to make dividend and income tax-equivalent payments. It provided for a \$162 million dividend and recorded an income tax-equivalent expense of \$115 million in 2006-07.

The NSW Government funds EnergyAustralia for the provision of agreed community service obligations (CSOs). These include the provision of rebates to pensioners and low income households, medical rebates for people on life-support systems, and the Electricity Payment Assistance Scheme. EnergyAustralia received \$27.3 million in CSO funding in 2006-07.

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<sup>1</sup> The increase in profit understates the growth in revenue attributable to operations because the 2005-06 data included \$52.6 million from the sale of Victorian and SA operations.

## ENERGYAUSTRALIA (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	6 017	6 012	6 589	8 948
Total income	\$m	2 824	2 858	2 897	2 986
Profitability					
Profit before tax	\$'000	264 500	169 000	303 300	356 900
Operating profit margin	%	15.7	12.4	15.3	17.0
Cost recovery	%	118.6	114.1	118.0	120.5
Return on assets	%	7.5	6.1	8.2	8.5
Return on total equity	%	15.9	17.1	19.4	17.9
Return on operating equity <sup>c</sup>	%	15.0	14.2	16.1	18.0
Financial management					
Debt to equity	%	110.4	132.1	135.9	168.7
Debt to assets	%	45.2	47.1	47.6	52.3
Total liabilities to equity	%	165.1	259.9	282.0	264.1
Operating liabilities to equity <sup>d</sup>	%	143.9	180.3	197.0	254.2
Interest cover	times	2.5	2.0	2.7	2.6
Current ratio	%	53.2	39.9	41.2	59.1
Leverage ratio	%	243.9	280.3	297.0	354.2
Payments to and from government					
Dividends	\$'000	81 100	81 100	205 200	162 300
Dividend to equity ratio	%	3.4	4.0	10.1	7.8
Dividend payout ratio	%	22.4	28.3	62.4	43.3
Income tax expense	\$'000	83 100	63 100	98 800	115 400
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	33 200	33 200	29 800	27 300

<sup>a</sup> EnergyAustralia commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for the EnergyAustralia.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

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## INTEGRAL ENERGY

## New South Wales

Integral Energy (Integral) operates under the *State Owned Corporations Act 1989* and the *Energy Services Corporations Act 1995*. Integral distributes and retails electricity to residential and commercial customers in NSW within the framework of the *Electricity Supply Act 1995* and the National Electricity Rules. It also provides metering and data services to industrial and commercial customers.

Integral's total income increased by 7.1 per cent (\$101 million) in 2006-07, despite a decline of 29.7 million in income from fair value movements. Profit before tax increased by 37.5 per cent (\$65.1 million) to \$239 million in 2006-07. This was achieved through a 6.2 per cent (\$62.4 million) increase in revenue from electricity sales, combined with an 18.6 per cent (\$45.9 million) increase in revenue from third-party retailers. The increase in revenue exceeded a 5.4 per cent (\$65.9 million) rise in total expenditure.

Total assets increased by 30.4 per cent (\$968 million) to \$4.1 billion in 2006-07, reflecting increases in derivatives (\$463 million) and receivables (\$136 million), and capital expenditure (\$409 million). Current operating assets grew by 53.4 per cent (\$156 million), due mainly to the increase in receivables. This outweighed a 10.7 per cent (\$89.9 million) increase in current operating liabilities. Consequently the current ratio increased to 48.2 per cent in 2006-07. With profit before tax increasing more than assets, return on assets and on equity increased to 10.6 per cent and 23.6 per cent respectively in 2006-07.

Debt rose by 10.8 per cent (\$150 million) in 2006-07. However, the increase in debt was outweighed by the increase in assets, causing debt to equity to fall from 125 per cent to 117 per cent. Higher debt resulted in an 11.2 per cent (\$10.8 million) increase in finance costs. However, as the increase in profit was greater than that in finance costs, interest cover improved from 2.8 to 3.2 times in 2006-07.

Integral is required to make dividend and income tax-equivalent payments to the NSW Government. Integral provided for a dividend of \$107 million in 2006-07, and recorded an income tax-equivalent expense of \$86.0 million.

Integral received \$19.7 million in funding for the provision of community service obligations relating primarily to rebates for pensioners and the Electricity Payment Assistance Scheme in 2006-07.

## INTEGRAL ENERGY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	3 007	2 979	3 179	4 147
Total income	\$m	1 352	1 343	1 431	1 532
Profitability					
Profit before tax	\$'000	191 403	175 673	173 699	238 760
Operating profit margin	%	20.5	19.3	19.4	22.6
Cost recovery	%	125.8	124.0	124.1	129.2
Return on assets	%	9.4	9.2	9.2	10.6
Return on total equity	%	18.9	25.5	23.4	23.6
Return on operating equity <sup>c</sup>	%	17.1	19.7	18.4	21.6
Financial management					
Debt to equity	%	96.0	104.0	124.5	116.8
Debt to assets	%	40.7	42.0	47.0	46.8
Total liabilities to equity	%	167.8	234.5	259.9	213.2
Operating liabilities to equity <sup>d</sup>	%	135.9	147.5	173.7	168.1
Interest cover	times	3.2	3.1	2.8	3.2
Current ratio	%	33.9	32.8	34.8	48.2
Leverage ratio	%	235.9	247.5	273.7	268.1
Payments to and from government					
Dividends	\$'000	114 132	114 132	103 866 <sup>e</sup>	107 033
Dividend to equity ratio	%	9.2	9.9	9.2	8.8
Dividend payout ratio	%	53.7	50.2	50.0	41.0
Income tax expense	\$'000	64 590	34 160	65 213	85 986
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	20 720	20 720	20 624	19 737

<sup>a</sup> Integral Energy (Integral) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for the Integral. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> According to Integral's annual report, the reduction in dividend from 2004-05 to 2005-06 resulted from a change in the distribution policy (90 per cent of after-tax profit to 80 per cent), as well as adjustments related to year-end actuarial assessments. — Zero or rounded to zero.

Country Energy operates under the *State Owned Corporations Act 1989* and the *Energy Services Corporations Act 1995*. Country Energy is the largest regional energy business in Australia. It holds electricity and gas distribution and retail licenses in NSW and Victoria and holds retail licenses in Queensland, SA and the ACT.<sup>1</sup> The operations of Australian Inland Energy Water Infrastructure (Australian Inland) were merged with Country Energy on 1 July 2005. Since the merger, Country Energy has been listed as a water supply authority under the *Water Management Act 2000*.

Country Energy increased total income by 8.8 per cent (\$177 million) in 2006-07, which included a \$25.5 million increase from movements in fair value. Profit before tax decreased by 24.8 per cent (\$57.6 million) to \$175 million in 2006-07, due to a 12.0 per cent (\$209 million) increase in total expenses. The growth in total expenses was largely attributable to a \$172 million increase in electricity sale and delivery costs.

Total assets increased by 23.8 per cent (\$889 million) to \$4.6 billion in 2006-07, largely because of \$501 million of capital expenditure and a \$551 million increase in the value of derivative financial instruments. As a result of the lower profit before tax, return on assets and on equity declined to 8.7 per cent and 21.9 per cent respectively in 2006-07.

Debt increased by 12.0 per cent (\$238 million) to \$2.2 billion in 2006-07. Despite the increase in the value of assets, debt to assets and debt to equity increased to 61.1 per cent and 227 per cent respectively.

Country Energy is required to make dividend and income tax-equivalent payments. It provided for a dividend payment of \$51.3 million and recorded an income tax-equivalent expense of \$58.2 million in 2006-07.

Country Energy received community service obligation (CSO) funding from governments for concessions given to pensioners, customers in caravan parks and those who rely on life support machines. CSO funding is not reported separately in Country Energy's accounts.

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<sup>1</sup> Country Energy also has special approval for the distribution and retailing of electricity in parts of South West Queensland.



## COUNTRY ENERGY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	3 188	3 179	3 727 <sup>c</sup>	4 616
Total income	\$m	1 704	1 695	2 019	2 197
Profitability					
Profit before tax	\$'000	150 977	130 677	232 526	174 914
Operating profit margin	%	15.2	14.1	17.9	13.4
Cost recovery	%	118.0	116.4	121.9	115.4
Return on assets	%	8.4	7.9	11.1	8.7
Return on total equity	%	25.3	31.7	40.7	21.9
Return on operating equity <sup>d</sup>	%	22.6	24.0	33.2	23.6
Financial management					
Debt to equity	%	190.0	218.0	217.7	227.4
Debt to assets	%	55.9	57.2	60.8	61.1
Total liabilities to equity	%	289.2	425.8	371.3	272.1
Operating liabilities to equity <sup>e</sup>	%	240.1	281.3	282.3	287.5
Interest cover	times	2.4	2.2	2.8	2.2
Current ratio	%	48.8	42.0	43.8	46.9
Leverage ratio	%	340.1	381.3	382.3	387.5
Payments to and from government					
Dividends	\$'000	18 100	18 100	76 756	51 302
Dividend to equity ratio	%	2.0	2.3	9.0	5.4
Dividend payout ratio	%	8.7	9.5	27.1	23.1
Income tax expense <sup>f</sup>	\$'000	52 258	47 858	71 153	58 227
Grants revenue ratio <sup>g</sup>	%	—	—	—	na
CSO funding <sup>h</sup>	\$'000	na	na	na	na

<sup>a</sup> Country Energy commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Country Energy. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Included \$85.5 million in assets related to the merger with Australian Inland on 1 July 2005. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>f</sup> Excludes income tax on fair value movements, which amounted to \$10.6 million in 2005-06 and \$18.2 million in 2006-07. <sup>g</sup> In its 2006-07 annual report, Country Energy stated that it received \$700 000 from the NSW Government's Climate Change Fund. However, this was not disclosed separately in its financial statements. <sup>h</sup> Although Country Energy receives funding from governments for concessions given to pensioners, customers in caravan parks and those who rely on life support machines, it was not reported separately in Country Energy's accounts. — Zero or rounded to zero. na Not available.

CS Energy operates under the *Corporations Act 2001* and the *Government Owned Corporations Act 1993*. CS Energy operates power stations with a combined generating capacity of 3210 MW at four locations in Queensland and is subject to the National Electricity Rules. Generated electricity is sold into the National Electricity Market.

Total income fell by \$2.5 million to \$534 million in 2006-07, however this included a \$102 million decline in income from fair value movements. Omitting fair value movements, profit before tax more than doubled to \$157 million in 2006-07. This increase in profit before tax reflects growth of \$111 million in revenue from sale of electricity, which outweighed a 3.6 per cent (\$16.6 million) increase in total expenses.

The value of CS Energy's assets increased by 53.8 per cent (\$1.1 billion) to \$3.3 billion in 2006-07. The growth in assets reflected increases in derivatives (\$204 million), receivables (\$267 million), deferred tax assets relating to movements in derivatives (\$255 million) and capital investment of \$373 million (primarily in the new Kogan Creek power station). The current ratio increased to 195 per cent in 2006-07, because of changes in both current operating assets and current operating liabilities. With the increase in profit exceeding the increase in assets, return on assets and on equity increased to 6.9 per cent and 19.2 per cent respectively in 2006-07.

Debt increased by 71.2 per cent (\$459 million) to \$1.1 billion in 2006-07, which resulted in debt to assets and debt to equity increasing to 46.9 per cent and 81.3 per cent respectively.

CS Energy is required to make dividend and income tax-equivalent payments. CS Energy provided for a \$34.6 million dividend payment and recorded an income tax-equivalent expense of \$18.6 million in 2006-07.

CS Energy does not receive community service obligation funding.

## CS ENERGY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06 <sup>c</sup>	2006-07
Size					
Total assets	\$m	1 840	1 734	2 121	3 262
Total income	\$m	474	474	537	534
Profitability					
Profit before tax	\$'000	49 829	52 580	74 701	157 225
Operating profit margin	%	14.6	15.8	18.0	25.6
Cost recovery	%	117.1	118.7	122.0	134.4
Return on assets	%	4.1	4.5	5.2	6.9
Return on total equity	%	6.4	8.3	8.1	19.2
Return on operating equity <sup>d</sup>	%	5.5	6.8	6.6	11.0
Financial management					
Debt to equity	%	51.6	56.0	53.0	81.3
Debt to assets	%	30.2	31.1	34.8	46.9
Total liabilities to equity	%	109.6	130.5	112.8	568.0
Operating liabilities to equity <sup>e</sup>	%	70.9	80.3	67.0	97.1
Interest cover	times	3.4	3.3	4.4	32.7
Current ratio	%	54.5	75.5	79.3	195.1
Leverage ratio	%	170.9	180.3	167.0	197.1
Payments to and from government					
Dividends	\$'000	29 151	29 151	40 170	34 640
Dividend to equity ratio	%	2.9	3.1	3.7	2.7
Dividend payout ratio	%	52.2	46.4	56.7	24.3
Income tax expense	\$'000	13 390	11 900	24 485	18 601
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> CS Energy commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for the CS Energy. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> CS Energy received a \$250 million equity injection from the Queensland Government in 2005-06. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Stanwell Corporation (Stanwell) operates under the *Corporations Act 2001* and the *Government Owned Corporations Act 1993*. Stanwell generates electricity for sale into the National Electricity Market. It operates the Stanwell coal-fired power station and several gas, bio-mass, hydro and wind generation plants with a combined generating capacity in excess of 1740 MW. Stanwell sold its subsidiary, ZeroGen Pty Ltd, to the Queensland Government on 16 March 2007.

Profit before tax grew by 115 per cent (\$119 million) to \$223 million in 2006-07. The higher profit reflected increases in electricity sales (\$37.6 million) and coal revenue sharing arrangements (\$42.5 million), as well a net gain of \$14.2 million from the sale of ZeroGen Pty Ltd. Expenses declined by 4.0 per cent (\$12.7 million), mainly in cost of sales, development costs written off and other expenses.

The value of Stanwell's assets rose by 55.2 per cent (\$934 million) to \$2.6 billion in 2006-07. This was mainly attributable to increases in cash (\$117 million), receivables (\$167 million), derivative financial instruments (\$393 million) and deferred tax assets on derivative financial instruments (\$310 million). The increases in cash and receivables, as well as a \$135 million reclassification of non-current assets as assets held for sale, were reflected in a 467 per cent (\$419 million) increase in current operating assets. This outweighed a 236 per cent (\$252 million) increase in current operating liabilities, which was largely attributable to a \$118 million increase in payables, and a \$78.0 million reclassification of liabilities as held for sale. Consequently, the current ratio increased to 142 per cent in 2006-07. As the increase in profit exceeded the increase in assets, return on assets and on equity increased to 13.6 per cent and 21.8 per cent respectively in 2006-07.

Total debt fell by 32.2 per cent (\$55.4 million) to \$117 million in 2006-07, which was reflected in declines in debt to assets and debt to equity to 6.8 per cent and 8.3 per cent respectively.

Stanwell is required to make dividend and income tax-equivalent payments to the Queensland Government. Stanwell provided for a \$122 million dividend payment and recorded an income tax-equivalent expense of \$67.2 million in 2006-07.

Stanwell does not receive community service obligation funding.

## STANWELL CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

Indicators	Units	Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
		2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	1 653	1 636	1 693	2 626
Total income	\$m	372	373	423	529
Profitability					
Profit before tax	\$'000	39 126	38 733	103 842	222 926
Operating profit margin	%	14.1	13.8	27.5	42.3
Cost recovery	%	116.4	116.0	138.0	173.4
Return on assets	%	3.5	3.6	7.6	13.6
Return on total equity	%	4.2	4.1	8.4	21.8
Return on operating equity <sup>c</sup>	%	3.4	3.4	6.8	11.1
Financial management					
Debt to equity	%	16.3	16.6	13.4	8.3
Debt to assets	%	13.5	13.7	11.2	6.8
Total liabilities to equity	%	62.7	63.6	65.0	683.2
Operating liabilities to equity <sup>d</sup>	%	21.0	21.7	22.0	34.6
Interest cover	times	3.7	3.6	9.4	19.2
Current ratio	%	135.2	141.0	84.0	141.6
Leverage ratio	%	121.0	121.7	122.0	134.6
Payments to and from government					
Dividends	\$'000	23 564	23 564	60 617	122 301
Dividend to equity ratio	%	1.9	1.9	4.8	9.1
Dividend payout ratio	%	55.2	56.8	70.8	82.3
Income tax expense	\$'000	9 671	9 553	30 953	67 164
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Stanwell Corporation (Stanwell) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for the Stanwell. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports.

<sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Tarong Energy (Tarong) operates under the *Corporations Act 2001* and the *Government Owned Corporations Act 1993*. Tarong generates electricity for sale into the National Electricity Market. It operates power stations (one coal-fired, one gas turbine, one hydro and two wind) with a combined generating capacity of over 1934 MW. Tarong also owns a 50 per cent interest in the Tarong North Power Station under a joint-venture agreement with Tokyo Electric Power Company and Mitsui.

Total income fell by 28.1 per cent (\$124 million) to \$317 million in 2006-07, which included a decline of \$79.6 million in income from movements in fair value. Tarong made a loss before tax of \$18.5 million in 2006-07, as compared with a profit before tax of \$99.7 million in 2005-06. According to Tarong, the loss resulted from generation capacity being cut by more than half due to drought conditions in 2006-07. Revenue from sale of electricity declined by \$51.8 million. Total expenses increased by 21.6 per cent (\$73.9 million), reflecting an increase in services expense of \$28.9 million and asset write-downs of \$32.5 million. Fuel costs declined by \$11.0 million.

The value of Tarong's assets increased by 34.9 per cent (\$548 million) to \$2.1 billion in 2006-07, largely because of a \$146 million increase in receivables and a \$353 million increase in derivative financial instruments. The increase in receivables, combined with the reclassification of \$184 million of non-current assets as assets held for sale, was reflected in a 434 per cent (\$394 million) rise in current operating assets. This increase outweighed the 50.8 per cent (\$78.3 million) growth in current liabilities. Consequently, the current ratio increased to 208 per cent in 2006-07. As a result of the loss before tax, return on assets declined to -0.1 per cent in 2006-07.

Debt increased by 33.7 per cent (\$93.3 million) to \$370 million in 2006-07. This led to increases in debt to equity and debt to assets to 32.8 per cent and 22.3 per cent respectively.

Tarong is required to make dividend and income tax-equivalent payments. After its operating loss, Tarong made no provision for a dividend in 2006-07, but recorded an income tax-equivalent benefit of \$29.7 million.

Tarong does not receive community service obligation funding.

## TARONG ENERGY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05 <sup>c</sup>	2004-05 <sup>c</sup>	2005-06	2006-07
Size					
Total assets	\$m	1 614	1 563	1 568	2 116
Total income	\$m	505	505	441	317
Profitability					
Profit before tax	\$'000	113 700	117 617	99 730	-18 512
Operating profit margin	%	25.7	26.6	25.0	-3.4
Cost recovery	%	134.5	136.3	133.3	96.7
Return on assets	%	8.3	9.0	7.3	-0.1
Return on total equity	%	10.8	12.1	9.7	2.4
Return on operating equity <sup>d</sup>	%	8.0	8.9	7.1	1.4
Financial management					
Debt to equity	%	22.2	23.7	24.2	32.8
Debt to assets	%	16.2	17.0	17.9	22.3
Total liabilities to equity	%	85.0	92.9	90.9	271.8 <sup>e</sup>
Operating liabilities to equity <sup>f</sup>	%	36.5	38.9	36.7	54.9
Interest cover	times	7.0	6.9	8.9	..
Current ratio	%	41.8	42.7	58.8	208.4
Leverage ratio	%	136.5	138.9	136.7	154.9
Payments to and from government					
Dividends	\$'000	63 680	63 680	55 465	—
Dividend to equity ratio	%	5.4	5.8	4.9	—
Dividend payout ratio	%	67.4	64.8	70.0	—
Income tax expense	\$'000	34 100	35 107	30 233	-29 723
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Tarong Energy (Tarong) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for the Tarong. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Tarong's revenue and expenses declined following the sale of its interest in the SA gas supplier Terra Gas Trader, on 12 February 2005. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> The increase in total liabilities to equity was mostly due to a \$775 million increase in the value of derivatives. <sup>f</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

The Queensland Power Trading Corporation (Enertrade) operates under the *Corporations Act 2001* and the *Government Owned Corporations Act 1993*. Enertrade acts as a wholesale trader of power-purchase agreements (PPAs). It also owns and operates the North Queensland Gas Pipeline and the associated gas processing facility near Moranbah, as well as the Barcaldine gas-fired power station and the associated pipeline.

Since 1 July 2002, Enertrade has made provision for estimated future losses related to its PPAs. The carrying amount of the provision is revised annually to the best estimate as at the reporting date.<sup>1</sup> The provision declined by \$149 million in 2006-07, due to the cancellation of the Mount Stuart Power Station PPA on 26 December 2006.

Total income increased by 30.4 per cent (\$161 million) to \$693 million in 2006-07, despite a decline of \$66.1 million in income from movements in fair value. Enertrade recorded a \$92.6 million profit before tax in 2006-07, compared with a loss before tax of \$50.6 million in 2005-06. The profit reflected a \$223 million increase in energy sales revenue, mainly due to increased generation and higher wholesale prices. This increase in revenue outweighed an \$84.3 million increase in total expenses.

The value of Enertrade's assets grew by 35.0 per cent (\$153 million) to \$591 million in 2006-07, primarily because of a \$214 million increase in trade and other receivables. By contrast, cash assets declined by \$65.9 million. Total liabilities increased by 82.7 per cent (\$324 million) to \$715 million, reflecting a \$226 million increase in trade and other payables, as well as a \$239 million increase in derivative financial instruments. The positive outcome resulted in a return on assets of 18.2 per cent in 2006-07. Return on operating equity declined to 102 per cent, driven by the increase in operating assets, which exceeded the increase in operating liabilities.

Enertrade had no outstanding debt in 2006-07.

Enertrade provided for a \$30.0 million dividend payment. However, due to accumulated tax losses it recorded an income tax-equivalent benefit of \$195 000 in 2006-07. Enertrade does not receive community service obligation funding.

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<sup>1</sup> The estimate depends on future changes in the market prices for electricity and the prevailing interest rates. The provision is recorded as a liability in the balance sheet and the annual revision is recognised in expenses in the income statement.



## ENERTRADE (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05 <sup>c</sup>	2004-05 <sup>c</sup>	2005-06	2006-07 <sup>d</sup>
Size					
Total assets	\$m	262	245	438	591
Total income	\$m	414	411	531	693
Profitability					
Profit before tax	\$'000	-55 237	-97 939	-50 556	92 596
Operating profit margin	%	-17.8	-28.7	-10.8	11.3
Cost recovery	%	84.9	77.7	90.3	112.8
Return on assets	%	-20.0	-38.0	-14.6	18.2
Return on total equity	%	..	..	121.1	..
Return on operating equity <sup>e</sup>	%	..	..	121.0	102.4
Financial management					
Debt to equity	%	..	..	—	—
Debt to assets	%	—	—	—	—
Total liabilities to equity	%	..	..	835.9	..
Operating liabilities to equity <sup>f</sup>	%	..	..	824.5	410.1
Interest cover	times	..	..	..	331.7
Current ratio	%	90.5	81.6	185.1	128.0
Leverage ratio	%	..	..	924.5	510.1
Payments to and from government					
Dividends	\$'000	—	—	—	30 000
Dividend to equity ratio	%	..	..	—	37.0
Dividend payout ratio	%	..	..	..	36.1
Income tax expense	\$'000	—	-292	-1 379	-195
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Enertrade commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Enertrade. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Total equity was negative in 2004-05. This was largely attributable to provisions for onerous contracts related to power purchasing agreements. <sup>d</sup> Total equity was negative in 2006-07. This was largely attributable to derivative financial instruments recorded at fair value. <sup>e</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>f</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

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## POWERLINK

## Queensland

Powerlink operates under the *Corporations Act 2001* and the *Government Owned Corporations Act 1993*. Powerlink owns and manages the Queensland high voltage transmission network and operates in the National Electricity Market as a Transmission Network Service Provider. Powerlink also has a 41 per cent share in ElectraNet SA, an SA transmission company.

Profit before tax increased slightly to \$172 million in 2006-07, with a 9.7 per cent (\$51.5 million) increase in revenue being largely offset by a 14.0 per cent (\$50.2 million) increase in total expenses. Growth in revenue was largely attributable to a \$43.4 million increase in grid sales revenue, while the rise in expenses was mainly because of increases in depreciation (\$20.7 million), finance costs (\$19.3 million) and network maintenance (\$9.9 million).

The value of Powerlink's total assets increased by 14.7 per cent (\$541 million) to \$4.2 billion in 2006-07. This mainly reflected capital works projects of \$583 million carried out as part of investment in its transmission network in response to current and anticipated growth in Queensland's electricity demand. The increase in total assets and the small change to profitability caused return on assets to fall to 7.3 per cent in 2006-07.

Debt increased by 22.0 per cent (\$362 million) to \$2.0 billion in 2006-07. This increased debt to equity and debt to assets to 106 per cent and 50.9 per cent respectively.

Powerlink is required to make dividend and income tax-equivalent payments. A dividend of \$92.6 million and an income tax-equivalent expense of \$56.0 million were recorded in 2006-07.

Powerlink does not receive community service obligation funding.

## POWERLINK (continued)

### Performance indicators 2004-05 to 2006-07

Indicators	Units	Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
		2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	3 370	3 352	3 674	4 215
Total income	\$m	463	461	529	581
Profitability					
Profit before tax	\$'000	147 149	139 781	170 462	171 767
Operating profit margin	%	48.6	48.5	49.3	48.3
Cost recovery	%	194.4	194.2	197.3	193.5
Return on assets	%	7.0	6.9	7.6	7.3
Return on total equity	%	11.0	12.5	14.0	14.0
Return on operating equity <sup>c</sup>	%	10.7	11.0	12.2	12.0
Financial management					
Debt to equity	%	91.5	92.5	94.3	105.8
Debt to assets	%	43.7	44.0	46.9	50.9
Total liabilities to equity	%	115.0	139.4	143.5	160.7
Operating liabilities to equity <sup>d</sup>	%	109.1	110.4	110.5	122.1
Interest cover	times	2.7	2.6	2.8	2.5
Current ratio	%	74.4	74.4	75.4	64.7
Leverage ratio	%	209.1	210.4	210.5	222.1
Payments to and from government					
Dividends	\$'000	82 649	82 649	95 167	92 606
Dividend to equity ratio	%	5.1	5.2	5.7	5.1
Dividend payout ratio	%	48.0	47.3	46.8	42.5
Income tax expense	\$'000	43 837	42 756	51 503	56 009
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Powerlink commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for the Powerlink. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

The Ergon Energy Group (Ergon) operates under the *Corporations Act 2001* and the *Government Owned Corporations Act 1993*. Ergon acted as an electricity generator, distributor and retailer until 1 March 2007, when it sold its retail subsidiaries Powerdirect Australia Pty Ltd and Powerdirect Utility Services Pty Ltd.

Ergon's total income increased by 87.3 per cent (\$2.0 billion) to \$4.2 billion in 2006-07, largely because of the \$1.0 billion gain from the sale of its retail subsidiaries. This sale was also the key driver of the 625 per cent (\$1.1 billion) increase in profit before tax, to \$1.3 billion in 2006-07.

Excluding the gain from the sale of its retail subsidiaries, Ergon's profit before tax increased by 45.1 per cent (\$78.7 million). This was mainly because of growth in sales revenue (\$798 million) and interest (\$125 million), which were partially offset by increases in network charges and electricity purchases (\$703 million), and finance costs (\$122 million).

The value of Ergon's assets increased by 16.0 per cent (\$1.1 billion) to \$7.7 billion in 2006-07. The increase reflected growth in cash assets (\$295 million), receivables (\$126 million), financial assets (\$218 million) and deferred tax assets (\$107 million), as well as \$1.2 billion of capital works. According to Ergon, most of the capital investment was part of a \$3.9 billion capital investment plan for the five-year period to June 2010 aimed at improving network reliability. As the increase in profit outweighed the increase in assets, return on assets and on equity rose to 24.3 per cent and 11.1 per cent respectively in 2006-07.

Debt increased by 17.1 per cent (\$368 million) to \$2.5 billion in 2006-07. Consequently, debt to assets and debt to equity increased to 40.4 per cent and 81.5 per cent respectively.

Ergon is required to make dividend and income tax-equivalent payments. Ergon provided for a dividend of \$955 million and recorded an income tax-equivalent expense of \$85.6 million in 2006-07.<sup>1</sup>

Ergon receives community service obligation (CSO) funding to cover any shortfall incurred in supplying electricity to non-contestable customers at gazetted tariffs. CSO funding amounted to \$340 million in 2006-07.

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<sup>1</sup> The dividend provided for included a \$92.4 million dividend from operating activities, and an \$863 million dividend for the repatriation of sales proceeds relating to Powerdirect Australia and Powerdirect Utility Services.

## ERGON ENERGY GROUP (continued)

### Performance indicators 2004-05 to 2006-07

Indicators	Units	Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
		2004-05	2004-05	2005-06 <sup>c</sup>	2006-07 <sup>d</sup>
Size					
Total assets	\$m	5 642	5 625	6 652	7 716
Total income	\$m	2 084	2 084	2 246	4 207
Profitability					
Profit before tax	\$'000	147 335	141 890	174 349	1 264 368
Operating profit margin	%	11.5	11.2	13.3	12.0
Cost recovery	%	113.0	112.7	115.4	113.7
Return on assets	%	4.7	4.6	5.5	24.3
Return on total equity	%	8.1	8.0	9.0	11.1
Return on operating equity <sup>e</sup>	%	6.6	6.7	7.5	9.0
Financial management					
Debt to equity	%	60.9	62.1	68.8	81.5
Debt to assets	%	33.5	33.8	38.9	40.4
Total liabilities to equity	%	136.5	136.8	157.1	216.5
Operating liabilities to equity <sup>f</sup>	%	81.6	83.4	86.5	115.2
Interest cover	times	2.5	2.4	2.3	6.0
Current ratio	%	143.3	137.8	143.4	116.0
Leverage ratio	%	181.6	183.4	186.5	215.2
Payments to and from government					
Dividends	\$'000	82 111	82 111	87 482	955 449 <sup>g</sup>
Dividend to equity ratio	%	2.8	2.9	2.9	30.7
Dividend payout ratio	%	42.5	43.2	39.1	341.4
Income tax expense	\$'000	44 696	43 049	68 847	85 638
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	176 872	176 872	326 717	339 596

<sup>a</sup> Ergon Energy Group (Ergon) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Ergon. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> The retail arm of Ergon, Ergon Energy Pty Ltd, acquired the Victorian-based energy retailer Australian Energy Pty Ltd, trading as Powerdirect, on 24 April 2006 by purchasing 100 per cent of its shares. <sup>d</sup> Income includes \$1.0 billion gain from the sale of Ergon's retail subsidiaries. <sup>e</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>f</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>g</sup> The 2006-07 dividend included a \$92.4 million dividend from operating activities, and a \$863 million dividend for the repatriation of sales proceeds relating to Powerdirect Australia and Powerdirect Utility Services. — Zero or rounded to zero.

ENERGEX operates under the *Corporations Act 2001* and the *Government Owned Corporations Act 1993*. It distributes electricity in South East Queensland and was also an electricity and gas retailer until 1 February 2007, when it sold its retail subsidiaries — Sun Gas and Sun Retail. ENERGEX's gas distribution subsidiary Allgas was sold on 1 November 2006.

ENERGEX's total income increased by 32.4 per cent (\$853 million) to \$3.5 billion in 2006-07, largely because of the \$1.4 billion gain on the sale of its retail and gas distribution subsidiaries. These sales were also the key drivers of the 603 per cent (\$1.4 billion) growth in profit before tax, which was \$1.7 billion in 2006-07.

Excluding the gain from the sale of its subsidiaries, ENERGEX's profit before tax increased by 21.4 per cent (\$50.6 million), mainly because of growth in revenue from services (\$67.9 million), capital contributions (\$18.2 million) and interest revenue (\$62.0 million).

Total assets grew by 16.0 per cent (\$1.1 billion) to \$7.7 billion in 2006-07. This was mainly because of capital expenditure (\$724 million) and increases in cash assets (\$1.2 billion), which outweighed the reduction in assets held for sale (\$321 million). The growth in cash assets was the main contributor to the 44.5 per cent growth in current operating assets, which was reflected in a rise in the current ratio to 674 per cent in 2006-07. The increase in total assets outweighed a 2.3 per cent (\$104 million) increase in total liabilities, and resulted in a 46.4 per cent increase in total equity. The increase in equity was higher than the increase in profit, and caused return on total equity to fall to 12.3 per cent in 2006-07.

Debt increased by 18.3 per cent (\$506 million) in 2006-07, resulting in a slight increase in debt to assets to 47.1 per cent. However, the increase in equity outweighed the increase in debt, causing debt to equity to fall to 83.0 per cent.

ENERGEX paid a \$500 million dividend and recorded an income tax-equivalent expense of \$79.2 million in 2006-07.<sup>1</sup>

ENERGEX received \$39.4 million for community service obligations related to supplying electricity at gazetted tariffs to non-contestable customers and pensioners in 2006-07. This was reduced from \$141 million in 2005-06, reflecting the sale of Sun Retail.

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<sup>1</sup> Although not explicitly stated in its annual report, correspondence from Queensland Treasury indicated that the 2006-07 dividend included a component representing the partial repatriation of proceeds from the sale of ENERGEX's retail and gas subsidiaries.

## ENERGEX (continued)

### Performance indicators 2004-05 to 2006-07

Indicators	Units	Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
		2004-05	2004-05	2005-06	2006-07 <sup>c</sup>
Size					
Total assets	\$m	5 617	5 626	6 624	7 684
Total income	\$m	2 352	2 386	2 629	3 482
Profitability					
Profit before tax	\$'000	226 100	233 900	236 300	1 661 100
Operating profit margin	%	14.4	14.5	13.7	19.1
Cost recovery	%	116.8	117.0	115.9	123.6
Return on assets	%	6.3	6.5	6.3	26.4
Return on total equity	%	10.9	14.5	14.5	12.3
Return on operating equity <sup>d</sup>	%	9.5	10.5	10.5	9.2
Financial management					
Debt to equity	%	83.2	83.5	97.4	83.0
Debt to assets	%	40.8	40.2	47.0	47.1
Total liabilities to equity	%	139.2	198.4	221.5	154.8
Operating liabilities to equity <sup>e</sup>	%	103.9	107.8	122.7	92.0
Interest cover	times	2.9	3.0	2.8	10.8
Current ratio	%	148.2	141.2	213.6	673.8
Leverage ratio	%	203.9	207.8	222.7	192.0
Payments to and from government					
Dividends	\$'000	115 600	115 600	122 600	500 000
Dividend to equity ratio	%	4.3	4.4	4.5	14.8
Dividend payout ratio	%	45.3	42.2	42.8	160.7
Income tax expense	\$'000	81 600	70 600	72 900	79 200
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	161 800	161 800	140 800	39 400

<sup>a</sup> ENERGEX commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for the ENERGEX. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Total income includes a \$1.4 billion gain on the sale of ENERGEX's retail and gas distribution subsidiaries. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Verve Energy was established on 1 April 2006 following the vertical disaggregation of the former Western Power Corporation into four independent corporations — Verve Energy (generation), Western Power (distribution and transmission), Synergy (retail) and Horizon Power (integrated regional provider). This restructuring formed part of the WA Government's reform of the electricity industry. Verve Energy is subject to the *Electricity Corporation Act 1994*.

Verve Energy owns and operates power stations in the South West Interconnected System Network. The WA Government has imposed a 3000 MW cap on Verve Energy's non-renewable generation capacity to encourage competition in electricity generation. Its current capacity of 3207 MW exceeds the cap, and it plans to achieve the 3000 MW limit by August 2008 by retiring old generation assets. Verve Energy has traded electricity on the Wholesale Electricity Market since 21 September 2006.

Financial data on Verve Energy's 2005-06 performance are for the period 1 April 2006 to 30 June 2006, and therefore 2005-06 revenue and expenses data are not directly comparable with 2006-07 data.

Verve Energy recorded a loss before tax of \$75.8 million in 2006-07. Verve Energy attributed this to limited gas availability, forcing the use of higher-priced liquid fuels. Fuel and electricity purchases comprised 58.7 per cent of Verve Energy's total expenditure in 2006-07. Verve Energy also cited the vesting contract with Synergy as limiting its ability to charge market rates, which was reflected in its loss before tax.

Total assets decreased by 1.3 per cent (\$26.9 million) to below \$2.1 billion in 2006-07, largely because of depreciation charges, as well as asset decommissioning costs and disposals. Return on assets was 0.7 per cent in 2006-07.<sup>1</sup>

Debt increased by 10.5 per cent to just over \$1.0 billion in 2006-07. With an increase in debt and decrease in assets, debt to assets and debt to equity increased to 49.1 per cent and 175 per cent respectively.

Verve Energy made no dividend provision in 2006-07. As it reported an operating loss for this period, it received an income tax-equivalent benefit of \$22.4 million.

Verve Energy does not receive community service obligation funding.

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<sup>1</sup> Although Verve Energy recorded a pre-tax operating loss in 2006-07, it achieved positive earnings before interest and tax, and consequently a positive return on assets.



## VERVE ENERGY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06 <sup>b</sup>	2006-07
Size					
Total assets	\$m	..	..	2 115	2 088
Total income	\$m	..	..	256	1 071
Profitability					
Profit before tax	\$'000	..	..	-14 290	-75 811
Operating profit margin	%	..	..	0.7	0.9
Cost recovery	%	..	..	100.7	100.9
Return on assets <sup>c</sup>	%	..	..	0.3	0.7
Return on total equity	%	..	..	1.0	5.4
Return on operating equity <sup>d</sup>	%	..	..	0.9	5.1
Financial management					
Debt to equity	%	..	..	140.4	174.6
Debt to assets	%	..	..	44.2	49.1
Total liabilities to equity	%	..	..	239.4	266.0
Operating liabilities to equity <sup>e</sup>	%	..	..	217.7	252.9
Interest cover	times	..	..	0.3	0.2
Current ratio	%	..	..	79.5	94.1
Leverage ratio	%	..	..	317.7	352.9
Payments to and from government					
Dividends	\$'000	..	..	—	—
Dividend to equity ratio	%	..	..	—	—
Dividend payout ratio	%	..	..	—	—
Income tax expense	\$'000	..	..	-4 512	-22 424
Grants revenue ratio	%	..	..	1.2	0.2
CSO funding	\$'000	..	..	—	—

<sup>a</sup> Verve Energy was established on 1 April 2006 following the vertical disaggregation of the former Western Power into four independent corporations: Verve Energy (generation), Western Power (distribution and transmission), Synergy (retail) and Horizon Power (integrated regional provider). Pre-AIFRS data for Western Power up to 2004-05 are available in previous *Financial Performance of Government Trading Enterprise* reports. <sup>b</sup> Data for 2005-06 are for the period 1 April 2006 to 30 June 2006. <sup>c</sup> Although Verve Energy recorded losses before tax in the three months to 30 June 2006 and in 2006-07, it achieved positive earnings before interest and tax in both periods, and consequently a positive return on assets. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Western Power was established on 1 April 2006 following the vertical disaggregation of the former Western Power Corporation into four independent corporations — Verve Energy (generation), Western Power (distribution and transmission), Synergy (retail) and Horizon Power (integrated regional provider). This restructuring formed part of the WA Government's reform of the electricity industry. Western Power is subject to the *Electricity Corporation Act 1994*.

Western Power transports and distributes electricity in WA, via the South West Interconnected System Network. It is responsible for maintaining the network and providing access services to generators, retailers and other users.

Financial data on Western Power's 2005-06 performance are for the period 1 April 2006 to 30 June 2006, and therefore 2005-06 revenue and expenses data are not directly comparable with 2006-07 data.

Western Power recorded a profit before tax of \$99.3 million in 2006-07. Total income was \$802 million, which included \$148 million in developer and customer contributions. Expenses included contributions to the Tariff Equalisation Fund.<sup>1</sup>

Total assets increased by 14.9 per cent to \$3.8 billion in 2006-07, reflecting \$728 million of capital expenditure. Current operating assets fell by 27.1 per cent (\$58.4 million), reflecting decreases in cash assets and receivables. Current operating liabilities rose by 10.2 per cent (\$28.3 million), primarily due to increased deferred income. Consequently, the current ratio fell to 51.3 per cent in 2006-07. Return on assets was 6.9 per cent in 2006-07.

Western Power has been highly geared in comparison with other government trading enterprises, with a debt to equity ratio of 287 per cent in 2005-06. Debt increased by 18.7 per cent to \$2.6 billion in 2006-07, causing a further increase in debt to equity to 312 per cent. Western Power's debt level resulted in borrowing costs of \$141 million in 2006-07 — representing 20.1 per cent of total expenditure in this period.

Western Power is required to make dividend and income tax-equivalent payments to the WA Government. It made a dividend payment of \$25.7 million and recorded an income tax-equivalent expense of \$29.9 million in 2006-07.

Western Power does not receive community service obligation funding.

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<sup>1</sup> The Tariff Equalisation Fund is used to distribute payments from Western Power to Horizon Power to ensure it remains solvent. Both payments into and receipts from the Tariff Equalisation Fund are determined by the WA Government. The Tariff Equalisation Fund expense for 2006-07 was not recorded separately in Western Power's financial statements.

## WESTERN POWER (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06 <sup>b</sup>	2006-07
Size					
Total assets	\$m	..	..	3 321	3 816
Total income	\$m	..	..	185	802
Profitability					
Profit before tax	\$'000	..	..	24 339	99 336
Operating profit margin	%	..	..	29.6	29.9
Cost recovery	%	..	..	142.0	142.6
Return on assets	%	..	..	1.7	6.9
Return on total equity	%	..	..	5.8	24.9
Return on operating equity <sup>c</sup>	%	..	..	6.3	26.7
Financial management					
Debt to equity	%	..	..	286.5	312.2
Debt to assets	%	..	..	66.1	72.7
Total liabilities to equity	%	..	..	305.3	341.3
Operating liabilities to equity <sup>d</sup>	%	..	..	333.1	360.6
Interest cover	times	..	..	1.8	1.7
Current ratio	%	..	..	77.6	51.3
Leverage ratio	%	..	..	433.1	460.6
Payments to and from government					
Dividends	\$'000	..	..	—	25 664
Dividend to equity ratio	%	..	..	—	3.3
Dividend payout ratio	%	..	..	—	12.2
Income tax expense	\$'000	..	..	7 272	29 929
Grants revenue ratio	%	..	..	—	—
CSO funding	\$'000	..	..	—	—

<sup>a</sup> Western Power was established on 1 April 2006 following the vertical disaggregation of the former Western Power into four independent corporations: Verve Energy (generation), Western Power (distribution and transmission), Synergy (retail) and Horizon Power (integrated regional provider). Pre-AIFRS data for the former Western Power up to 2004-05 are available in previous *Financial Performance of Government Trading Enterprise* reports. <sup>b</sup> Data for 2005-06 are for the period 1 April 2006 to 30 June 2006. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Synergy was established on 1 April 2006 following the vertical disaggregation of the former Western Power Corporation into four independent corporations — Verve Energy (generation), Western Power (distribution and transmission), Synergy (retail) and Horizon Power (integrated regional provider). This restructuring formed part of the WA Government's reform of the electricity industry. Synergy is subject to the *Electricity Corporation Act 1994*.

Synergy is an energy retailer operating in the South West Interconnected System Network in WA. Since 21 September 2006, Synergy has traded electricity on the Wholesale Electricity Market.

Financial data on Synergy's 2005-06 performance are for the period 1 April 2006 to 30 June 2006, and therefore 2005-06 revenue and expenses data are not directly comparable with 2006-07 data.

Synergy recorded a profit before tax of \$64.2 million in 2006-07. Total income was \$1.5 billion for this period. Total expenditure included \$908 million of energy purchases. Further, 32.5 per cent (\$481 million) of Synergy's expenses were comprised of access costs.

Total assets increased by 22.1 per cent to \$422 million in 2006-07, reflecting increases in cash assets and receivables. Synergy had no outstanding debt at 30 June 2007, and incurred finance costs of only \$13 000 during the year. Current operating liabilities comprised 91.5 per cent of Synergy's total liabilities. Synergy's current operating assets, valued at \$374 million, exceeded its current liabilities of \$214 million, as reflected in a current ratio of 175 per cent. Return on assets was 17.7 per cent in 2006-07.

Synergy is required to make dividend and income tax-equivalent payments to the WA Government. Synergy made dividend payments of \$6.9 million and recorded an income tax-equivalent expense of \$19.7 million in 2006-07.

Synergy received \$30.9 million in community service obligation funding in 2006-07.<sup>1</sup> This was for a number of government directed services including rebates for seniors, veterans, pensioners and those with dependent children listed on health care cards. Caravan park rebates and concessional tariffs for charitable and voluntary organisations were also included.

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<sup>1</sup> Community service obligation payments were not separately recorded in Synergy's income statement but were acknowledged in its annual report commentary.

## SYNERGY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06 <sup>b</sup>	2006-07
Size					
Total assets	\$m	..	..	346	422
Total income	\$m	..	..	371	1 547
Profitability					
Profit before tax	\$'000	..	..	19 592	64 230
Operating profit margin	%	..	..	5.2	3.9
Cost recovery	%	..	..	105.4	104.0
Return on assets	%	..	..	6.0	17.7
Return on total equity	%	..	..	8.8	23.5
Return on operating equity <sup>c</sup>	%	..	..	9.4	24.8
Financial management					
Debt to equity	%	..	..	—	—
Debt to assets	%	..	..	—	—
Total liabilities to equity	%	..	..	130.0	123.8
Operating liabilities to equity <sup>d</sup>	%	..	..	134.2	120.0
Interest cover	times	..	..	103.6	4 941.8
Current ratio	%	..	..	178.4	174.9
Leverage ratio	%	..	..	234.2	220.0
Payments to and from government					
Dividends	\$'000	..	..	—	6 856
Dividend to equity ratio	%	..	..	—	4.3
Dividend payout ratio	%	..	..	—	17.2
Income tax expense	\$'000	..	..	5 881	19 656
Grants revenue ratio	%	..	..	—	—
CSO funding <sup>e</sup>	\$'000	..	..	9 200	30 900

<sup>a</sup> Synergy was established on 1 April 2006 following the vertical disaggregation of the former Western Power into four independent corporations: Verve Energy (generation), Western Power (distribution and transmission), Synergy (retail) and Horizon Power (integrated regional provider). Pre-AIFRS data for Western Power up to 2004-05 are available in previous *Financial Performance of Government Trading Enterprise* reports. <sup>b</sup> Data for 2005-06 are for the period 1 April 2006 to 30 June 2006. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. <sup>e</sup> Synergy did not report community service obligation payments separately in its income statement. However, they were acknowledged in its annual report commentary. — Zero or rounded to zero.

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## HORIZON POWER

## Western Australia

Horizon Power was established on 1 April 2006 following the vertical disaggregation of the former Western Power Corporation into four independent corporations — Verve Energy (generation), Western Power (distribution and transmission), Synergy (retail) and Horizon Power (integrated regional provider). Horizon Power operates subject to the *Electricity Corporation Act 1994*.

Horizon Power is an integrated electricity corporation involved in the generation, distribution and retailing of electricity to regional and remote areas of WA. The retail arm can also purchase electricity for sale to these areas. Horizon Power serves the Pilbara North West Interconnected System Network as well as non-interconnected systems in 33 townships in WA.

Financial data on Horizon Power's 2005-06 performance are for the period 1 April 2006 to 30 June 2006, and therefore 2005-06 revenue and expenses data are not directly comparable with 2006-07 data.

Horizon Power recorded total income of \$215 million in 2006-07, despite a \$4.7 million downward movement in fair value derivatives. Profit before tax was \$11.5 million in 2006-07. Revenue of \$219 million included \$69.7 million of Tariff Equalisation Fund revenue<sup>1</sup>. Total expenditure was \$208 million, including \$14.9 million in finance costs.

Total assets increased by 23.3 per cent (\$79.9 million) to \$423 million in 2006-07. This included the recognition of two new power stations valued at \$91.5 million. Return on assets was 7.3 per cent in 2006-07, while return on equity was negative because operating profit after tax was negative.

Debt rose by 24.5 per cent to \$251 million in 2006-07 — increasing Horizon Power's debt to total assets to 69.0 per cent.

Horizon Power is required to make dividend and income tax-equivalent payments to the WA Government. Horizon Power made no provision for a dividend, but recorded an income tax-equivalent expense of \$1.9 million in 2006-07.

Horizon Power received \$12.7 million in community service obligation funding for a number of services in 2006-07. These include an air conditioning subsidy for seniors, caravan park rebates, supply charge rebates, tariff migration reimbursement, and Aboriginal and regional community services.

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<sup>1</sup> The Tariff Equalisation Fund is used to distribute payments from Western Power to Horizon Power to ensure it remains solvent. Both payments into and receipts from the Tariff Equalisation Fund are determined by the WA Government.

## HORIZON POWER (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06 <sup>b</sup>	2006-07
Size					
Total assets	\$m	..	..	343	423
Total income	\$m	..	..	32	215
Profitability					
Profit before tax	\$'000	..	..	-17 857	11 464
Operating profit margin	%	..	..	-55.8	-33.1
Cost recovery	%	..	..	64.2	75.1
Return on assets	%	..	..	-4.4	7.3
Return on total equity	%	..	..	-11.0	-45.7
Return on operating equity <sup>c</sup>	%	..	..	-14.1	-55.5
Financial management					
Debt to equity	%	..	..	255.4	248.0
Debt to assets	%	..	..	62.8	69.0
Total liabilities to equity	%	..	..	238.0	260.6
Operating liabilities to equity <sup>d</sup>	%	..	..	306.4	301.8
Interest cover	times	..	..	..	1.8
Current ratio	%	..	..	31.7	40.2
Leverage ratio	%	..	..	406.4	401.8
Payments to and from government					
Dividends	\$'000	..	..	—	—
Dividend to equity ratio	%	..	..	—	—
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	..	..	-5 260	1 916
Grants revenue ratio	%	..	..	—	—
CSO funding	\$'000	..	..	3 205	12 716

<sup>a</sup> Horizon Power was established on 1 April 2006 following the vertical disaggregation of the former Western Power into four independent corporations: Verve Energy (generation), Western Power (distribution and transmission), Synergy (retail) and Horizon Power (integrated regional provider). Data for Western Power up to 2004-05 are available in previous *Financial Performance of Government Trading Enterprise* reports. <sup>b</sup> Data for 2005-06 are for the period 1 April 2006 to 30 June 2006. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Hydro-Electric Corporation (HEC) operates under the *Hydro-Electric Corporation Act 1995* and the *Government Business Enterprises Act 1995*. HEC generates electricity for Tasmania and provides distribution and retailing services to the Bass Strait Islands. Consulting services are also provided to clients in Australia, Asia, and the Pacific Islands. HEC entered the National Electricity Market (NEM) on 29 May 2005, and commenced trading into the NEM after the Basslink power interconnector between Tasmania and mainland Australia began operating on 29 April 2006.

Hydro-Electric Corporation's total income declined by 14.3 per cent (\$71.3 million) in 2006-07, largely because of a \$132 million loss from fair value movements in electricity derivatives. Profit before tax increased by 391 per cent (\$144 million) to \$181 million in 2006-07, partly reflecting a \$36.6 million increase in electricity revenue. Total expenses also declined by \$145 million, primarily because of a \$155 million reversal of impairment losses.

Total assets increased by 10.4 per cent (\$399 million) to \$4.2 billion in 2006-07. This was mainly attributable to a \$205 million increase in financial assets associated with Basslink. In addition, capital works totalled \$54.2 million, and the value of generation equipment increased by \$155 million due to impairment reversals. As a result of the increase in profit before tax exceeding the increase in assets, return on assets and on equity increased to 6.8 per cent and 24.7 per cent respectively in 2006-07.

Debt fell by 10.7 per cent (\$115 million) to \$1.2 billion in 2006-07. Despite this, debt to assets fell to 29.5 per cent as a result of a greater increase in assets.

Hydro-Electric Corporation is required to make dividend and income tax-equivalent payments to the Tasmanian Government. It paid a \$21.2 million dividend, and recorded an income tax-equivalent expense of \$34.1 million in 2006-07.

Hydro-Electric Corporation received \$6.4 million in community service obligation funding in 2006-07, for providing concessions to eligible customers living on the Bass Strait Islands.



## HYDRO-ELECTRIC CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	3 248	3 105	3 851	4 249
Total income	\$m	456	417	497	426
Profitability					
Profit before tax	\$'000	80 396	-463 760 <sup>c</sup>	36 902	181 013
Operating profit margin	%	33.6	-80.7	20.4	54.7
Cost recovery	%	150.5	55.3	125.6	220.8
Return on assets	%	4.8	-12.2	3.5	6.8
Return on total equity	%	7.7	-23.3	8.6	24.7
Return on operating equity <sup>d</sup>	%	7.3	-15.2	5.7	15.8
Financial management					
Debt to equity	%	74.6	83.9	77.3	77.6
Debt to assets	%	38.3	39.3	31.1	29.5
Total liabilities to equity	%	111.3	229.8	319.6	343.5
Operating liabilities to equity <sup>e</sup>	%	94.7	113.7	175.9	175.4
Interest cover	times	2.1	..	1.4	3.0
Current ratio	%	140.8	140.8	53.0	86.8
Leverage ratio	%	194.7	213.7	275.9	275.4
Payments to and from government					
Dividends <sup>f</sup>	\$'000	40 000	40 000	40 000	21 200
Dividend to equity ratio	%	2.5	2.8	2.8	1.4
Dividend payout ratio	%	34.0	..	49.8	9.2
Income tax expense	\$'000	35 986	-149 908	14 644	34 126
Grants revenue ratio	%	—	—	0.1	0.1
CSO funding	\$'000	6 030	6 030	6 200	6 400

<sup>a</sup> Hydro-Electric Corporation (HEC) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for HEC.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> The 2004-05 loss before tax included a \$540 million impairment expense related to the Bell Bay Power Station. HEC judged that this asset was no longer required as a backup for the hydro-generating system following the commissioning of Basslink. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>f</sup> The 2004-05 dividend of \$40.0 million included a special dividend of \$17.4 million. The 2005-06 dividend of \$40.0 million included a special dividend of \$8.0 million. .. Not applicable. — Zero or rounded to zero.

Aurora Energy (Aurora) was established on 1 July 1998, following the disaggregation of the former Hydro-Electric Corporation. Aurora operates under the *Corporations Act 2001* and the *Electricity Companies Act 1997*. In addition to its retail and distribution activities in Tasmania, Aurora holds electricity retail licenses in NSW, Victoria, Queensland, SA and the ACT. Having entered the National Electricity Market (NEM) on 29 May 2005, Aurora commenced trading electricity in the NEM after the Basslink power interconnector between Tasmania and mainland Australia commenced operation on 29 April 2006.

Total income increased by 8.9 per cent (\$66.1 million) in 2006-07, despite a fall of \$3.7 million in income from movements in fair value. Profit before tax increased by 59.7 per cent (\$16.8 million) to \$45.0 million in 2006-07. The higher profit before tax reflected an 8.7 per cent (\$62.4 million) increase in sales revenue, which exceeded a 7.5 per cent (\$53.0 million) increase in total expenses.

Total assets increased by 17.6 per cent to \$1.3 billion in 2006-07, largely because of capital expenditure (\$104 million), and increases in market-traded receivables and hedge derivatives. Return on assets and on equity were 6.8 per cent and 16.0 per cent respectively in 2006-07.

Current operating assets increased by 25.7 per cent (\$34.7 million) in 2006-07, largely due to increases in cash investments and receivables. Current operating liabilities increased by 76.7 per cent (\$162 million), reflecting an increase in short-term debt. Consequently, Aurora's current ratio declined from 63.7 per cent in 2005-06 to 45.4 per cent in 2006-07.

Debt increased by 9.5 per cent (\$44.0 million), causing debt to assets and debt to equity increase to 45.5 per cent and 121 per cent respectively in 2006-07.

Aurora is required to make dividend and income tax-equivalent payments to the Tasmanian Government. It paid dividends of \$9.6 million and recorded an income tax-equivalent expense of \$12.8 million in 2006-07.

Aurora received \$11.8 million in community service obligation funding in 2006-07, for providing pensioners with discounted electricity.

## AURORA ENERGY (CONTINUED)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	1 072	1 078	1 107	1 301
Total income	\$m	715	708	742	808
Profitability					
Profit before tax	\$'000	49 406	48 867	28 160	44 962
Operating profit margin	%	10.3	10.2	7.3	8.9
Cost recovery	%	111.4	111.3	107.9	109.8
Return on assets	%	7.6	7.6	5.5	6.8
Return on total equity	%	13.3	19.1	13.7	16.0
Return on operating equity <sup>c</sup>	%	15.6	16.7	11.6	14.3
Financial management					
Debt to equity	%	127.2	122.7	114.0	121.4
Debt to assets	%	43.2	43.5	44.8	45.5
Total liabilities to equity	%	165.2	246.0	232.1	222.7
Operating liabilities to equity <sup>d</sup>	%	194.6	181.7	161.2	179.8
Interest cover	times	2.8	2.8	2.0	2.5
Current ratio	%	101.3	96.6	63.7	45.4
Leverage ratio	%	294.6	281.7	261.2	279.8
Payments to and from government					
Dividends	\$'000	13 942	13 942	11 977	9 585
Dividend to equity ratio	%	4.1	3.9	3.1	2.3
Dividend payout ratio	%	26.0	23.4	27.1	16.3
Income tax expense	\$'000	19 225	12 857	9 734	12 816
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	11 513	11 513	11 198	11 780

<sup>a</sup> Aurora Energy commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Aurora Energy. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Transend Networks (Transend) was established on 1 July 1998, following the disaggregation of the Hydro-Electric Corporation. Transend operates under the *Corporations Act 2001* and the *Electricity Companies Act 1997*. Transend owns and operates the high voltage electricity transmission system in Tasmania, which includes almost 3500 km of transmission lines, 47 substations and nine switching stations.

Total income decreased by 4.6 per cent (\$6.1 million) in 2006-07, including a \$3.6 million fall in income from movements in fair value. Profit before tax declined by 38.1 per cent (\$20.0 million) to 32.5 million in 2006-07. This reflected a \$10.0 million fall in revenue from gifted assets combined with a 22.5 per cent (\$17.5 million) increase in total expenses. The increase in total expenses was mainly due to higher depreciation and amortisation expenses, as well as higher operating and maintenance costs.

Transend's total assets increased by 44.4 per cent (\$348 million) to \$1.1 billion in 2006-07, largely because of a \$329 million revaluation of property, plant and equipment. In addition, capital investment amounted to \$64.5 million in 2006-07. Return on assets and on equity fell to 4.1 per cent and 4.6 per cent respectively in 2006-07.

Debt grew by 27.3 per cent (\$25.3 million) to \$118 million in 2006-07, which Transend attributed to increased borrowings to fund its capital investment program. Despite the higher total debt, Transend's debt to assets and debt to equity fell to 12.4 per cent and 12.3 per cent respectively, because of higher total assets.

Transend is required to make dividend and income tax-equivalent payments to the Tasmanian Government. Transend paid dividends of \$18.8 million and recorded an income tax-equivalent expense of \$8.9 million in 2006-07.

Transend does not receive community service obligation funding.

## TRANSEND NETWORKS (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	698	692	782	1 130
Total income	\$m	119	112	131	125
Profitability					
Profit before tax	\$'000	43 366	40 168	52 443	32 456
Operating profit margin	%	38.7	38.9	43.4	30.4
Cost recovery	%	163.2	163.7	176.7	143.7
Return on assets	%	6.6	6.2	7.7	4.1
Return on total equity	%	5.3	7.1	7.9	4.6
Return on operating equity <sup>c</sup>	%	5.0	5.9	6.6	3.8
Financial management					
Debt to equity	%	8.8	8.9	14.7	12.3
Debt to assets	%	7.6	7.7	12.6	12.4
Total liabilities to equity	%	22.0	40.1	48.0	47.8
Operating liabilities to equity <sup>d</sup>	%	14.7	16.0	23.5	18.0
Interest cover	times	18.7	17.4	13.6	6.0
Current ratio	%	31.6	29.8	30.0	25.9
Leverage ratio	%	114.7	116.0	123.5	118.0
Payments to and from government					
Dividends	\$'000	9 924	9 924	13 766	18 774
Dividend to equity ratio	%	1.6	1.7	2.2	2.4
Dividend payout ratio	%	32.7	28.2	34.1	62.9
Income tax expense	\$'000	15 833	11 164	16 099	8 949
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Transend Networks (Transend) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Transend. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Power and Water Corporation (PWC) was established on 1 July 2002, following the corporatisation of the Power and Water Authority. PWC operates under the *Government Owned Corporations Act 2001*.

Power and Water Corporation generates, transmits, distributes and retails electricity throughout the NT. It owns and operates three separate grid systems and purchases gas supplies for electricity generation through its subsidiary, Gasgo Pty Ltd. Under an agreement with the NT Government, PWC also provides electricity, water and sewerage services to remote areas in the NT through its subsidiary, Indigenous Essential Services Pty Ltd.

Power and Water Corporation recorded a loss before tax of \$98.8 million in 2006-07, in comparison with a profit before tax of \$29.1 million in 2005-06. This reflected an increase in total revenue of 5.9 per cent (\$29.5 million) that was exceeded by the increase in total expenses of 33.6 per cent (\$157 million). PWC attributed the higher total expenses to a \$146 million impairment of water and sewerage assets.

The value of PWC's assets decreased by 4.8 per cent (\$59.1 million) to below \$1.2 billion in 2006-07. This was largely because of a \$139 million decrease in water and sewerage system assets, attributable to impairment losses and depreciation. Return on assets and on equity were negative, at -6.3 per cent and -16.5 per cent respectively.

Debt increased by 5.7 per cent to \$348 million in 2006-07. As a result, debt to assets and debt to equity increased to 29.6 per cent and 67.1 per cent respectively in 2006-07.

Power and Water Corporation is required to make dividend and income tax-equivalent payments to the NT Government. It made no provision for a dividend in 2006-07. As it reported an operating loss for this period, it received an income tax-equivalent benefit of \$29.6 million.

Power and Water Corporation received \$54.8 million in community service obligation funding from the NT Government for pensioner concessions, uniform tariffs and the Tranche Four electricity reforms in 2006-07.<sup>1</sup>

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<sup>1</sup> Tranche Four reforms relate to the introduction of retail contestability in the NT. More information about NT Government regulation in this sector is provided in section 5.2 of this chapter.

## POWER AND WATER CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

Indicators	Units	Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
		2004-05	2004-05	2005-06 <sup>c</sup>	2006-07 <sup>c</sup>
Size					
Total assets	\$m	1 057	1 192	1 239	1 180
Total income	\$m	508	490	498	527
Profitability					
Profit before tax	\$'000	52 033	50 602	29 060	-98 780
Operating profit margin	%	14.5	5.3	—	-26.7
Cost recovery	%	116.9	105.6	100.0	78.9
Return on assets	%	7.3	6.4	4.5	-6.3
Return on total equity	%	9.1	1.3	-1.4	-16.5
Return on operating equity <sup>d</sup>	%	8.9	1.3	-1.4	-17.0
Financial management					
Debt to equity	%	44.2	47.2	52.7	67.1
Debt to assets	%	28.2	25.2	27.6	29.6
Total liabilities to equity	%	62.8	94.4	98.8	114.0
Operating liabilities to equity <sup>e</sup>	%	56.6	87.7	96.0	117.9
Interest cover	times	3.1	3.1	2.2	..
Current ratio	%	79.1	81.8	95.7	99.4
Leverage ratio	%	156.6	187.7	196.0	217.9
Payments to and from government					
Dividends	\$'000	18 900	18 900	10 249	—
Dividend to equity ratio	%	2.8	3.0	1.6	—
Dividend payout ratio	%	32.1	229.0	..	..
Income tax expense	\$'000	14 164	14 950	8 541	-29 576
Grants revenue ratio	%	—	10.0	10.4	9.5
CSO funding	\$'000	52 039	52 039	53 718	54 783

<sup>a</sup> The Power and Water Corporation (PWC) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for the PWC. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> The Auditor-General issued a qualified audit opinion in relation to PWC's 2006-07 financial report. It stated that of the \$88.6 million impairment loss recognised in 2006-07, \$43.7 million of impairment loss on water system assets should have been recognised in 2005-06. This would have reduced the value of total assets at 30 June 2006 by \$43.7 million, and also created an impairment expense in the income statement in 2005-06. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Snowy Hydro Limited (Snowy Hydro) commenced operations on 28 June 2002 under the *Snowy Corporatisation Act 1997* when it assumed responsibility for the assets and liabilities of the Snowy Mountains Hydro-Electric Authority. Snowy Hydro operates under the *Corporations Act 2001* and is jointly owned by the Australian, NSW and Victorian Governments.<sup>1</sup>

Snowy Hydro owns and manages the Snowy Mountains Hydro-Electric Scheme, which comprises seven power stations and 16 dams, mainly in the Kosciuszko National Park. Snowy Hydro generates electricity for sale into the National Electricity Market. It acquired 100 per cent of Valley Power, a gas-fired generator operating in Victoria in 2005-06.

Snowy Hydro's total income declined by 2.4 per cent (\$12.1 million) in 2006-07, however this included a decrease of \$109 million in income from movements in fair value. Profit before tax declined by 11.2 per cent (\$21.1 million) to \$167 million, as the 19.2 per cent (\$96.7 million) increase in revenue was exceeded by a 37.3 per cent (\$118 million) increase in total expenses. The increase in total expenses was partly attributable to a \$115 million increase in direct costs, which according to Snowy Hydro resulted from increased use of gas-fired power stations and water recycling because of drought.

The value of Snowy Hydro's assets grew by 7.3 per cent (\$167 million) to over \$2.4 billion in 2006-07, reflecting increases in receivables, electricity price-risk hedging contracts and capital investment. Current operating assets more than doubled to \$170 million, while current operating liabilities declined by 40.0 per cent to \$185 million. As a result, the current ratio increased from 25.8 per cent in 2005-06 to 91.9 per cent in 2006-07. Return on assets fell to 11.6 per cent in 2006-07.

Debt fell by 7.5 per cent to \$799 million, resulting in a fall in debt to assets to 42.3 per cent in 2006-07.

Snowy Hydro is required to make dividend and income tax payments. Snowy Hydro distributed dividends of \$50.0 million and recorded an income tax expense of \$24.2 million in 2006-07. Snowy Hydro does not receive community service obligation funding.

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<sup>1</sup> Shareholdings in Snowy Hydro are the Australian (13 per cent), NSW (58 per cent) and Victorian (29 per cent) Governments.



## SNOWY HYDRO (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	1 891	2 124	2 277 <sup>c</sup>	2 444
Total income	\$m	424	427	511	499
Profitability					
Profit before tax	\$'000	199 022	200 425	187 918	166 827
Operating profit margin	%	55.0	54.8	45.0	35.9
Cost recovery	%	222.4	221.2	181.8	156.1
Return on assets	%	13.5	13.7	13.0	11.6
Return on total equity	%	18.1	13.9	12.4	14.7
Return on operating equity <sup>d</sup>	%	20.4	19.7	17.7	19.9
Financial management					
Debt to equity	%	69.0	70.0	95.9	79.0
Debt to assets	%	35.6	35.8	48.7	42.3
Total liabilities to equity	%	88.3	70.9	75.6	89.2
Operating liabilities to equity <sup>e</sup>	%	94.1	95.3	102.9	92.8
Interest cover	times	6.6	6.7	5.4	4.2
Current ratio	%	79.3	64.0	25.8	91.9
Leverage ratio	%	194.1	195.3	202.9	192.8
Payments to and from government					
Dividends	\$'000	70 000	70 000	70 000	50 000
Dividend to equity ratio	%	7.8	8.0	7.9	5.2
Dividend payout ratio	%	38.4	40.4	44.5	26.3
Income tax expense	\$'000	51 116	59 675	65 870	24 186
Grants revenue ratio	%	—	—	—	0.1
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Snowy Hydro commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Snowy Hydro. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> In 2005-06, Snowy Hydro acquired 100 per cent of Valley Power, a gas-fired generator operating in Victoria. The acquisition increased Snowy Hydro's assets by \$243 million, including \$72.0 million in goodwill. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.



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## 6 Water

### Key points

- The performances of 24 water government trading enterprises (GTEs) are presented in this report. Together they controlled assets valued at \$53.7 billion and generated \$7.3 billion of total income in 2006-07.
- Overall, the profit before tax of water GTEs decreased by 7.8 per cent in real terms to \$1.9 billion in 2006-07. Within the sector:
  - a single GTE (Water Corporation) accounted for 39.0 per cent of profit before tax in 2006-07
  - profit decreased (in real terms) for 16 GTEs
  - five GTEs recorded a loss before tax.
- Return on assets decreased marginally from 5.0 per cent to 4.9 per cent in 2006-07. Nineteen of the 24 monitored GTEs earned less than the risk-free rate of return.
- Debt to assets for the sector increased from 20.0 per cent to 21.9 per cent in 2006-07. Two water GTEs operated without debt.
- Fifteen water GTEs made dividend payments to owner-governments totalling \$981 million. The sector recorded an income tax-equivalent expense of \$571 million in 2006-07.
- Eighteen water GTEs received community service obligation (CSO) funding totalling \$745 million in 2006-07. CSO payments comprised 10.2 per cent of sector income.

The financial performances of 24 water sector government trading enterprises (GTEs) are reported in this chapter. Together they controlled \$53.7 billion in assets and generated around \$7.3 billion in income in 2006-07.

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

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

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exercised in making performance comparisons over longer time periods than that covered in this report.

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

## **6.1 Monitored GTEs**

The monitored water sector GTEs vary in size and the range of services they provide. Several carry out all the activities involved in the supply of water and the disposal of stormwater and sewage. Others provide only a limited range of these services. The nature of their activities and services also varies by whether they operate in urban, regional or rural areas.

The activities of the monitored water GTEs are shown in table 6.1. Some have interests in areas other than water. For example, ACTEW Corporation of the ACT has a joint venture interest with the private sector for the supply of gas and electricity.

The set of monitored water GTEs does not include local government service providers. In some cases the revenues generated by these providers can be substantial. For example, the Brisbane City Council and Gold Coast City Council recorded revenue of \$578 million and \$319 million respectively from their water operations in 2006-07 (BCC 2007; GCCC 2007).

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

Total assets in the water sector remained steady in real terms, totalling \$53.7 billion at the end of 2006-07 (figure 6.1).

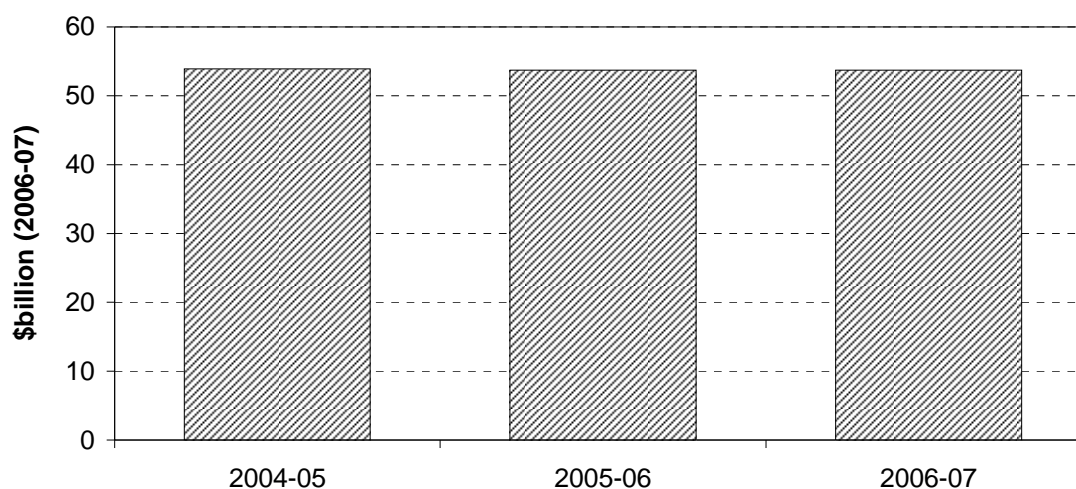
The size of the water sector GTEs — in terms of the value of the assets controlled and income earned — varies substantially (figure 6.2). The smallest monitored water GTE in 2006-07, was Cradle Coast Water (\$105 million in assets and \$10.0 million in total income). The largest monitored water GTE was Sydney Water (\$12.3 billion in assets and \$1.8 billion in total income).

**Table 6.1 Activities — water GTEs, 2006-07**

<i>Water GTE</i>						<i>Activity</i>
	<i>Catchment management</i>	<i>Bulk water</i>	<i>Reticulation</i>	<i>Wastewater treatment</i>		<i>Irrigation supply<sup>a</sup></i>
<i>New South Wales</i>						
Sydney Catchment Authority	✓	✓	✗	✗		✗
Sydney Water	✗	✗	✓	✓		✗
Hunter Water	✓	✓	✓	✓		✗
State Water	✓	✓	✓	✓		✓
<i>Victoria</i>						
Melbourne Water	✓	✓	✓	✓		✗
City West Water	✗	✗	✓	✓		✗
South East Water	✗	✗	✓	✓		✗
Yarra Valley Water	✗	✗	✓	✓		✗
Barwon Water	✗	✓	✓	✓		✗
Coliban Water	✗	✓	✓	✓		✗
Goulburn Valley Water	✗	✓	✓	✓		✗
Gippsland Water	✗	✓	✓	✓		✗
Central Highlands Water	✗	✓	✓	✓		✗
Southern Rural Water	✗	✓	✗	✗		✓
Lower Murray Water	✗	✓	✓	✓		✓
Grampians Wimmera Mallee Water	✗	✓	✓	✓		✓
Goulburn–Murray Rural Water	✗	✓	✓	✗		✓
<i>Queensland</i>						
SunWater	✗	✓	✓	✗		✓
<i>South Australia</i>						
SA Water	✗	✓	✓	✓		✓
<i>Western Australia</i>						
Water Corporation	✓	✓	✓	✓		✓
<i>Tasmania</i>						
Hobart Water	✓	✓	✓	✗		✗
Cradle Coast Water	✗	✓	✗	✗		✗
Esk Water	✗	✓	✗	✗		✗
<i>Australian Capital Territory</i>						
ACTEW Corporation	✓	✓	✓	✓		✗

<sup>a</sup> Not including wastewater sales for irrigation purposes.

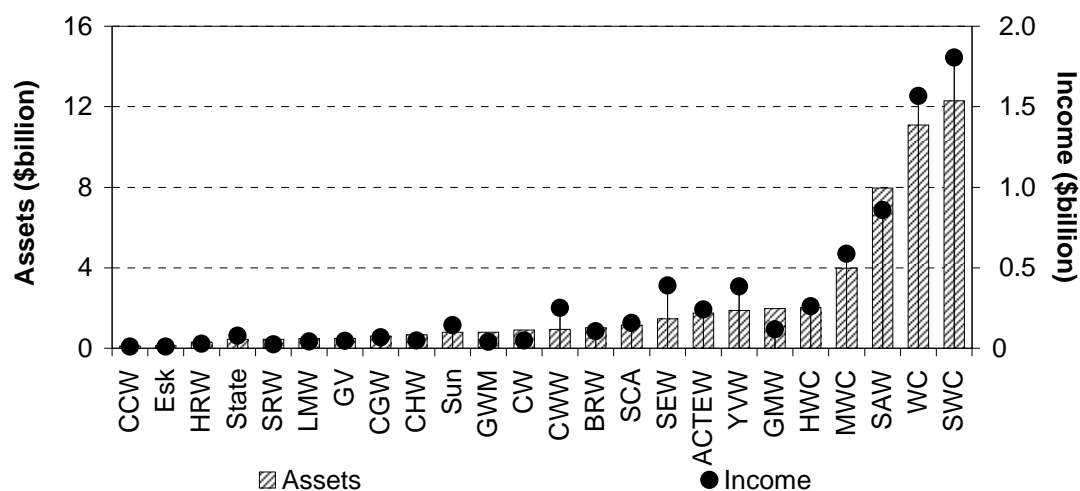
Figure 6.1 **Sector assets — water GTEs<sup>a,b</sup>**



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

Source: Productivity Commission estimates.

Figure 6.2 **Assets and total income — water GTEs, 2006-07**



Source: Productivity Commission estimates.

## 6.2 Market environment

Changes in the operating environment — demand and supply conditions, regulation and pricing arrangements, and sector reforms — can affect the financial performance of water GTEs.

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## Water demand and supply

The demand for water is determined by factors such as population, industry composition and activity, weather conditions and any related restrictions on usage (box 6.1). The performance of many GTEs was adversely affected by drought over the reporting period. In addition to limiting water supply, drought conditions can impose additional costs. For example, SA Water reported increased asset maintenance costs because extremely dry and reactive soils caused pipes to burst (SA Water 2007).

The volume of water supplied by most metropolitan water GTEs has decreased since 2001-02 (figure 6.3). However, the Water Corporation in Western Australia experienced a significant increase (9.9 per cent) in urban water supplied over the same period (WSAA 2008b). Overall, the water supplied by monitored urban water GTEs in Australia declined by 11.8 per cent between 2001-02 and 2006-07.<sup>1</sup>

### Box 6.1      **Restrictions on water usage**

Various types of restrictions have been imposed on water usage:

- Permanent water restrictions
  - South Australia introduced permanent water restrictions in October 2003. Victoria and the ACT followed in 2005 and 2006 respectively.
- Temporary water restrictions
  - All capital cities, except Hobart and Darwin, had water restrictions in place as at 30 June 2007 (WSAA 2008a).
  - Across Victoria, 192 towns were subject to water restrictions as at 30 June 2006 (VWIA 2006).
  - In South East Queensland water restrictions were increased to Level 6 from 23 November 2007, because of worsening drought conditions.
- Specific customer or activity restrictions
  - The WA Government restricted the use of sprinklers by households and businesses to two days per week beginning in September 2001.<sup>a</sup>

<sup>a</sup> This scheme was extended to a permanent watering day roster, effective from 1 October 2007.

Sources: VWIA (2006); WSAA (2008a).

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<sup>1</sup> Calculated using WSAA (2008b) data for ACTEW, City West Water, SA Water, South East Water, Sydney Water, Water Corporation and Yarra Valley Water.

Figure 6.3 Urban water consumption — selected water GTEs<sup>a,b</sup>



<sup>a</sup> Urban water consumption is defined as 'total urban water supplied' from WSAA (2008b). <sup>b</sup> Melbourne Consolidated includes the total urban water supplied by the three Melbourne retail water GTEs — City West Water, South East Water and Yarra Valley Water.

Source: WSAA (2008b).

## Regulation and pricing

The regulatory arrangements for monitored water GTEs differ across jurisdictions. Most GTEs operate under licences that specify standards for water quality and supply reliability, and cover the extraction of water from rivers and underground systems.

The prices charged by NSW, Victorian and ACT water GTEs are regulated by independent bodies.<sup>2</sup> In Queensland, Western Australia, South Australia and Tasmania, water and sewerage charges are set by government after consultation with respective water authorities and other stakeholders.

### Usage-based pricing

Historically, water and sewerage charges were based on property values, accompanied by a free allowance of water that could be consumed without any usage charge. Property-based charges rarely reflected the cost of providing water

<sup>2</sup> The Independent Pricing and Regulatory Tribunal regulates prices for NSW water GTEs, the Essential Services Commission regulates prices for Victorian water GTEs, and the Independent Competition and Regulatory Commission regulates ACTEW Corporation's prices.



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and sewerage services, and sometimes resulted in cross-subsidisation between customers (PC 2002b).

All monitored water GTEs now employ usage-based charges for water supply services,<sup>3</sup> typically comprising a fixed access charge and a volumetric charge based on water use.<sup>4,5</sup> The access charge is intended to reflect the fixed costs of supply, which are a significant proportion of total costs. The volumetric charge is intended to reflect the variable cost of supplying water. In some cases, usage-based charges are in the form of inclining block tariffs, implemented partly as a demand management initiative.

The adoption of usage-based charges means the financial performance of a GTE is directly related to the amount of water it distributes. Further, GTEs that earn a significant share of total income from the volumetric component of usage-based charges have greater exposure to changes in the demand for water.

Governments also collect revenue for water-related initiatives through general water billing arrangements. For example, from 1 October 2003, SA Water customers were required to pay the 'Save the River Murray Levy'.<sup>6</sup> Further, an amendment to the *Water Industry Act 1994* requires Victorian metropolitan and regional urban water authorities to make environmental contributions.<sup>7</sup>

### *Infrastructure contributions*

Developers are required to make contributions to most water GTEs to finance new infrastructure. These contributions take the form of payments or the gifting of assets that they are required to construct.

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<sup>3</sup> Three Tasmanian water GTEs — Hobart Water, Esk Water and Cradle Mountain Water — have a two-part water pricing structure including a variable component which they charge for bulk water supplied to local councils. However, residential and small non-residential properties are charged a flat rate for water supplied by their local council.

<sup>4</sup> Usage-based charges were first introduced in 1982 by the Hunter District Water Board (now the Hunter Water Corporation).

<sup>5</sup> Two GTEs — Water Corporation and SA Water — continue to use property-based charges for sewerage services.

<sup>6</sup> The SA Government uses the revenue generated by the levy to help fund its annual contribution to an agreement with the Australian, NSW, Victorian and ACT Governments to improve the health of the River Murray.

<sup>7</sup> The Act outlines a pre-established schedule of annual payments, effective from 1 October 2004 until 30 June 2008. Goulburn-Murray Water was only required to make a contribution in 2007-08.

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The level of contributed assets from developers that water GTEs receive each year is affected by the level of land development. Changes in the level of developer and customer contributions affect some water GTEs more than others. For example, Goulburn Valley Water's developer charges and contributions accounted for 13.7 per cent of its total income in 2006-07. Developer charges and contributions were not required by the Tasmanian GTEs.

## **Sector reforms**

Water industry reforms have been aimed at improving efficiency and financial performance by making the GTEs more commercially focused. Further, environmental sustainability has become a focus for decision making regarding water resource allocation.

Some GTEs have privatised or outsourced business activities for commercial reasons. For example, SA Water contracted out the management and operation of the water supply for the Adelaide metropolitan area in 1996 to a private company for a period of 15 years. Both Coliban Water and Central Highlands Water have entered into public-private partnerships for infrastructure provision and services.

### *The National Water Initiative*

In June 2004, the Council of Australian Governments (COAG) agreed to the National Water Initiative (NWI).<sup>8</sup> The objective of the NWI is to optimise economic, social and environmental outcomes by developing nationally consistent markets, and regulatory and planning frameworks for managing Australia's surface and groundwater resources (COAG 2004). In 2006, COAG prioritised the delivery of six fundamental reform elements:

1. conversion of existing water rights into secure and tradeable water access entitlements
2. completion of water plans that are consistent with the NWI through transparent processes and using best available science
3. implementation of these plans to achieve sustainable levels of surface and groundwater extraction in practice
4. establishment of open and low-cost water trading arrangements

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<sup>8</sup> All Australian Governments are now signatories to the agreement, although the Tasmanian Government did not sign until 3 June 2005 and the WA Government did not sign until 6 April 2006.

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5. improvement of water pricing to support the wider water reform agenda
  6. implementation of national water accounting and measurement standards, and adequate systems for measuring, metering, monitoring and reporting on water resources (COAG 2006).

The National Water Commission (NWC) was established in 2004 to manage the implementation of the NWI and to implement two programs of the Australian Government Water Fund — Water Smart Australia and Raising National Water Standards. The NWC also undertakes biennial assessments of governments' progress in implementing the NWI.

The first biennial assessment, released in May 2007, found that governments had made considerable progress in implementing the NWI in its first two years. However, more improvement was required in particular areas, such as reducing the over-allocation of water resources.

### **6.3 Profitability**

Profitability indicators provide information on how well GTEs are using the assets vested in them by shareholder-governments to generate earnings. However, the diverse range of activities of water GTEs has to be taken into account when comparing indicators across GTEs.

For the water sector as a whole, profit before tax fell 7.8 per cent in real terms to \$1.9 billion in 2006-07. This resulted from a 2.7 per cent decrease in total revenue and a 0.8 per cent decrease in total expenses in real terms. Individually, eight out of the 24 water sector GTEs reported an improvement in their real operating performance in 2006-07, while the remaining 16 GTEs reported a decline.

The cost recovery ratio indicates the ability of an entity to generate adequate revenue to meet current expenses. Under the NWI, metropolitan water GTEs are expected to achieve upper bound cost recovery by 2008, while rural water GTEs are expected to achieve lower bound cost recovery and, where practicable, move towards the upper bound (COAG 2004).<sup>9</sup>

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<sup>9</sup> Lower bound cost recovery pricing includes operational, maintenance and administrative costs, externalities, taxes or tax-equivalent payments, dividends, provisions for the cost of asset consumption and interest costs on debt. Upper bound — full cost recovery — pricing also encompasses the total opportunity cost of the GTE's investment in assets (calculated using a weighted average cost of capital).

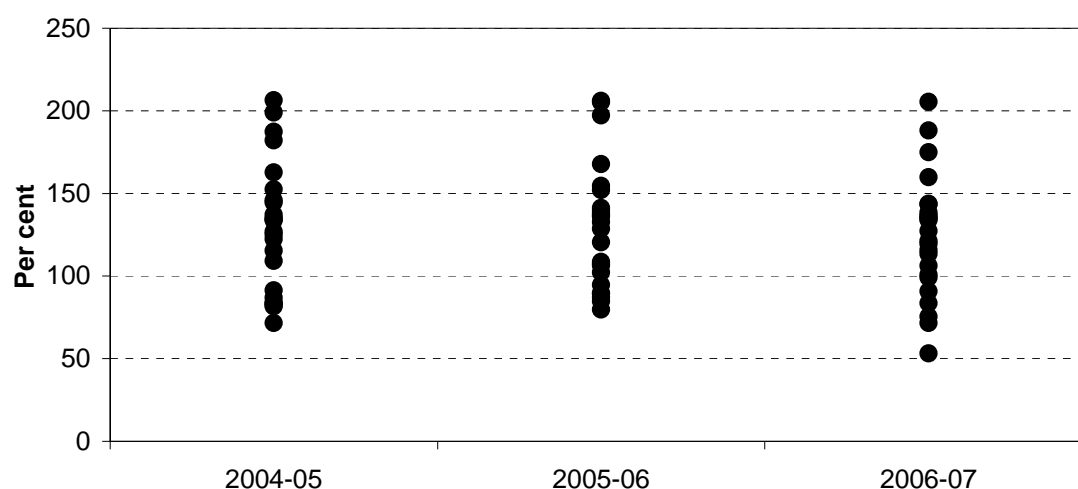
For the sector as a whole, the cost recovery ratio decreased 2.2 percentage points to 150 per cent in 2006-07. Eighteen of the water GTEs recorded a cost recovery ratio over 100 per cent in 2006-07 and five recorded an improved cost recovery ratio from 2005-06 (figure 6.4).

The rate of return on assets is a useful indicator of the efficiency with which an entity uses its assets. The asset base used to calculate the return on assets is the total value of operating assets in a GTE's annual report (including contributed assets). Although contributed assets are gifted to the GTE, they are likely to require maintenance or replacement at some time in the future.

The return on assets for the sector decreased to 4.9 per cent in 2006-07 (from 5.0 per cent in 2005-06), due to the fall in profitability combined with growth in the sector's assets. Nine of the 24 water sector GTEs reported an improvement in their return on assets between 2006-07 and 2005-06 (figure 6.5).

Four water GTEs recorded a negative return on assets for the entire reporting period — Coliban Water, Goulburn–Murray Water, Grampians Wimmera Mallee Water and Southern Rural Water. They all operate in regional or rural Victoria. These GTEs also failed to recover their operating costs during this period (their current ratios were less than 100 per cent).

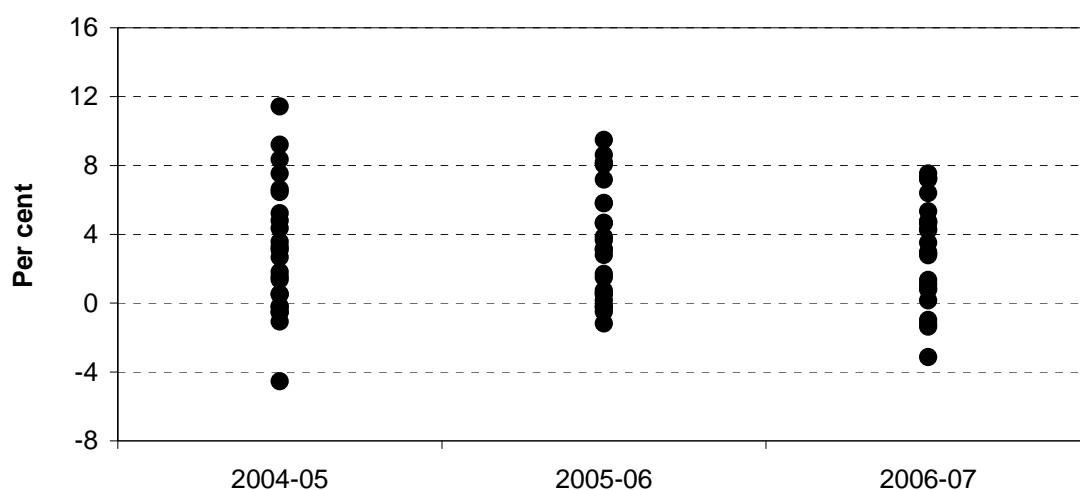
**Figure 6.4 Cost recovery — water GTEs<sup>a</sup>**



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

Source: Productivity Commission estimates.

Figure 6.5 Return on assets — water GTEs<sup>a</sup>



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

Source: Productivity Commission estimates.

Of the 24 water GTEs, 19 did not achieve a return on assets that exceeded the risk-free benchmark rate in 2006-07.<sup>10</sup> This suggests that these water GTEs are not operating on a commercially viable basis. Of the five GTEs that did achieve this level, four were metropolitan water GTEs and one was a territory-wide GTE that encompassed large urban areas.<sup>11</sup>

In Victoria, there are distinct differences in the profitability of water GTEs operating in metropolitan and non-metropolitan areas.<sup>12</sup> The aggregate return on assets for Victorian metropolitan water GTEs in 2006-07 was 6.2 per cent, compared with a return on assets of -0.5 per cent for regional urban and rural water GTEs.

Victoria's rural water GTEs — Southern Rural Water, Lower Murray Water, Grampians Wimmera Mallee Water and Goulburn–Murray Rural Water — were

<sup>10</sup> The risk-free rate of return used is the 2006-07 interest rate on a 10-year Australian Government bond (5.8 per cent) (RBA 2008).

<sup>11</sup> The five GTEs are ACTEW Corporation, City West Water, Melbourne Water Corporation, South East Water and Water Corporation.

<sup>12</sup> The metropolitan water GTEs are City West Water, Melbourne Water Corporation, South East Water and Yarra Valley Water. The other monitored water GTEs from Victoria are regional urban or rural water authorities.

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subject to a price determination by the Essential Services Commission (ESC) for the first time on 1 July 2006.<sup>13</sup> Under the new price determination arrangements, the ESC allows the rural water GTEs to choose between using the renewals annuity approach or including the cost of capital investments in their regulatory asset value. The ESC then sets prices based on the revenue requirements of the GTE.<sup>14</sup> Only Southern Rural Water and Lower Murray Water elected to retain the renewals annuity approach.

Generally, using the renewals annuity approach results in lower prices and decreased reported profitability. It involves setting aside funds for known future asset replacement and rehabilitation. It is an alternative to setting prices based on the consumption of existing fixed assets using an accounting measure of depreciation. Indeed, the use of the renewals annuity approach would have contributed to the negative return on assets reported by Victorian rural GTEs prior to 2006-07. For a more detailed discussion of the effect of renewals annuity pricing see box 6.1 of the 2005-06 report (PC 2007).

Another measure of profitability is return on equity — the GTE's operating earnings before interest and after tax for the year expressed as a proportion of equity held in the business. The return on equity followed a similar trend to return on assets for most water GTEs in 2006-07.

Setting charges that do not cover costs, including the cost of capital, has implications for performance, particularly when considering future investment decisions within the sector and across the economy. Under the full corporatisation model, the intention is to subject GTEs to the same capital market disciplines as the private sector. However, in practice many water GTEs are not generating a commercially sustainable rate of return on assets (chapter 4).

## 6.4 Financial management

Financial management indicators provide information about the capital structure of GTEs and their ability to meet the cost of servicing debt and other liabilities as they fall due.

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<sup>13</sup> Previously all Victorian rural GTEs used the renewals annuity approach in setting water charges.

<sup>14</sup> The ESC determines the prices that are required to generate sufficient revenue to cover service costs — including operating and capital expenditure, compliance costs and depreciation (ESC 2006).

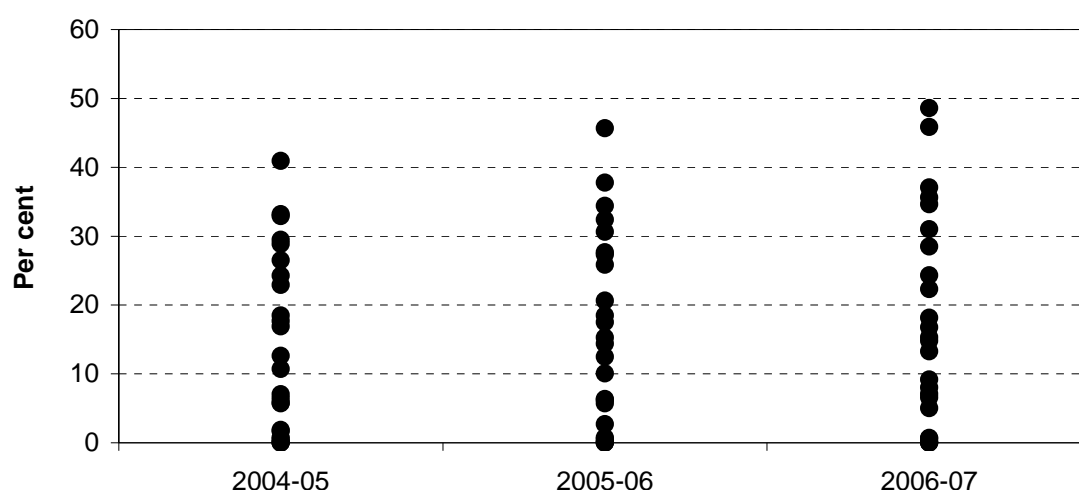
Water sector debt increased by \$590 million (5.6 per cent) in real terms to \$11.2 billion in 2006-07. Three water GTEs — Sydney Water Corporation, Water Corporation and Sun Water — held 47.9 per cent of the sector's debt in 2006-07. The increase in debt for the sector, combined with steady operating assets, resulted in a small increase in debt to assets from 20.0 per cent in 2005-06 to 21.9 per cent in 2006-07 (figure 6.6).

Individually, debt to assets increased for 14 water GTEs and declined for eight in 2006-07. Two GTEs — Southern Rural Water and Esk Water — were without debt at 30 June 2007.

Interest cover measures the capacity of a GTE to meet periodic interest payments out of current earnings. A high interest cover indicates that an entity could sustain a fall in profit or an increased interest expense and still meet the cost of servicing debt. The interest cover for the water sector was 3.9 times in 2006-07, down from 4.3 times in 2005-06. Three GTEs had negative interest cover ratios and another three had ratios below 2 times in 2006-07.

The ability of water GTEs to meet short-term operating liabilities without having to use funds other than current operating assets is indicated by having a current ratio of over 100 per cent. The current ratio of the water sector as a whole was 50.8 per cent in 2006-07, down from 55.0 per cent in 2005-06, suggesting water GTEs may have difficulty meeting short-term obligations.

**Figure 6.6 Debt to operating assets — water GTEs<sup>a</sup>**



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

Source: Productivity Commission estimates.

Individually, 14 water GTEs had current ratios of less than 100 per cent, compared with ten in 2005-06. Melbourne Water had the lowest current ratio, at 12.4 per cent. Although some water GTEs had current ratios below 100 per cent, the reasonably stable cash flows that are generally a feature of the water sector suggest that low current ratios could be sustainable.

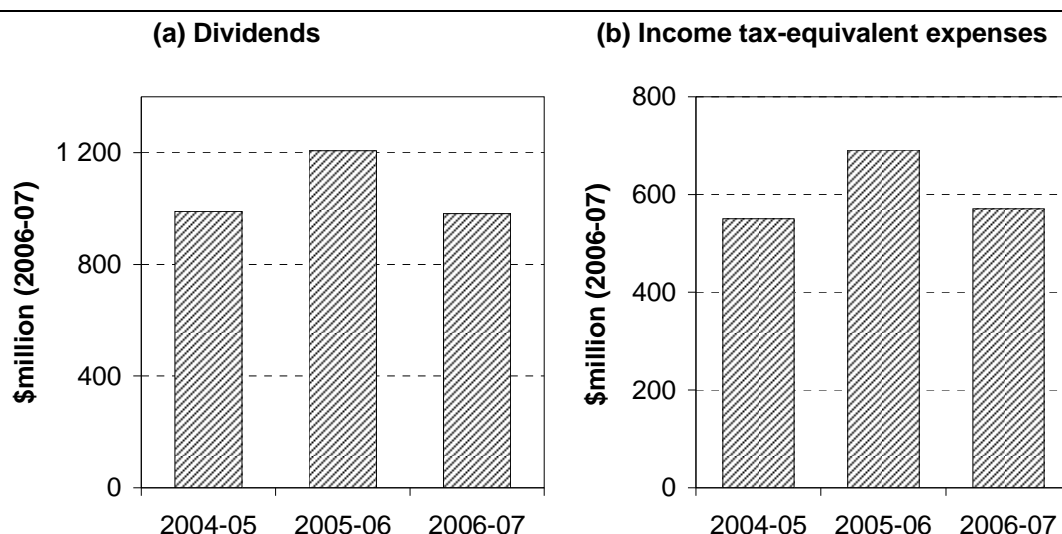
## 6.5 Transactions with government

Governments have sought to give GTEs a greater commercial focus as part of the reform process. They have also attempted to facilitate competitive neutrality by exposing them to replicated capital market disciplines and regulations similar to those faced by private sector businesses.

The dividend payable by each GTE depends on the dividend policy of its owner-government. Fifteen of the 24 monitored water GTEs distributed dividends in 2006-07. Of these, three recorded dividend payout ratios of at least 100 per cent and a further three recorded a ratio above 50 per cent (figure 6.7a). All nine of the GTEs that did not report a dividend payment in 2006-07 were Victorian regional or rural water authorities. For the sector as a whole, dividend payments decreased by \$225 million (18.7 per cent) in real terms to \$981 million in 2006-07.

The value of recorded income tax-equivalent expenses decreased by \$120 million (17.4 per cent) in real terms to \$571 million in 2006-07 (figure 6.7b). This was

Figure 6.7 Dividends and income tax-equivalent expenses — water GTEs<sup>a</sup>



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

Source: Productivity Commission estimates.



mostly a result of the 7.8 per cent real decrease in profit before tax recorded for the sector.

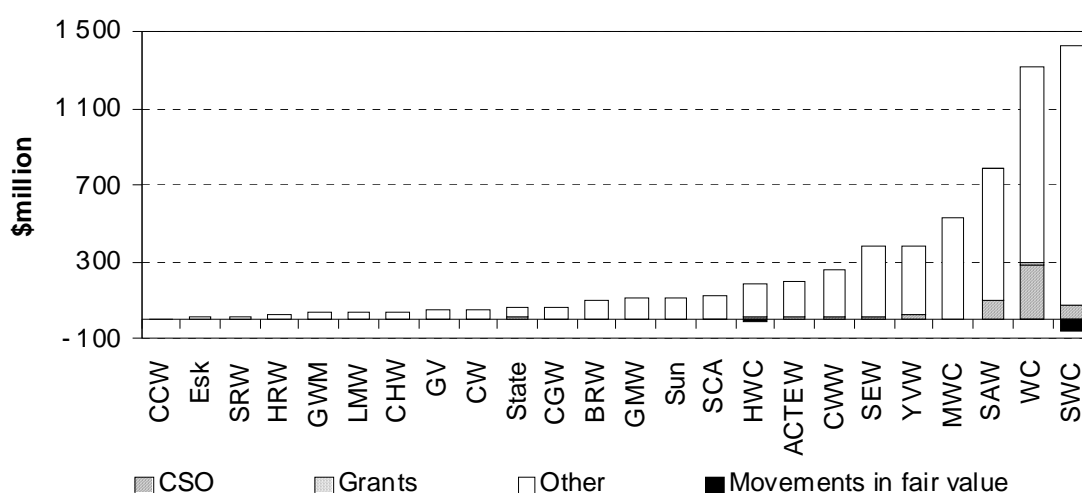
Seventeen GTEs recorded income tax-equivalent expenses in 2006-07. Four of these GTEs recorded higher real income tax-equivalent expenses in 2006-07 than in 2005-06. Two GTEs recorded income tax-equivalent benefits in 2006-07.

The change in income tax-equivalent expenses does not always reflect the movements in profit before tax — in some cases other factors such as asset revaluations and previous tax payments had a greater influence. For example, SunWater received a favourable tax ruling during 2006-07, which led to it recording an income tax-equivalent benefit despite a profit before tax of \$20.1 million.

Community service obligations provided by some water GTEs include concessions, the supply of services below the cost of provision and upgrading sewerage infrastructure. Eighteen water GTEs received CSO funding totalling \$745 million in 2006-07.<sup>15</sup> Payments to the Water Corporation of Western Australia accounted for 48.3 per cent of all CSO funding in the water sector (figure 6.8).

The real value of CSO payments decreased for all but four of the GTEs that received CSO funding — Central Gippsland Water, Goulburn-Murray Water, Grampians Wimmera Mallee Water and SunWater. Goulburn-Murray Water and

**Figure 6.8 Income sources — water GTEs, 2006-07**



Source: Productivity Commission estimates.

<sup>15</sup> Several Victorian GTEs disclosed CSO payments in their annual reports, but did not report the amount separately in their financial statements.

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Grampians Wimmera Mallee Water experienced large increases in CSO payments due to the introduction of the Drought Relief Rebate Scheme. Eleven GTEs experienced a decrease in CSO payments of over 5 per cent in real terms.

Community service obligation payments represented over 10 per cent of total income for five GTEs — State Water (21.8 per cent), Grampians Wimmera Mallee Water (18.5 per cent), Goulburn–Murray Water (17.9 per cent), SA Water (18.2 per cent) and Water Corporation (23.0 per cent).

## WATER

Table 6.2 Whole of sector performance indicators 2004-05 to 2006-07<sup>a</sup>

		<i>Pre-AIFRS<sup>b,c</sup></i>	<i>AIFRS<sup>b</sup></i>		
<i>Indicators</i>	<i>Units</i>	<i>2004-05</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>
<i>Size</i>					
Total assets	\$m	48 680	48 663	49 365	53 734
Total income	\$m	6 312	6 223	7 003	7 309
<i>Profitability</i>					
Profit before tax	\$m	1 818	1 685	1 871	1 878
Operating profit margin	%	35.3	33.8	34.5	33.5
Cost recovery	%	154.6	151.0	152.7	150.5
Return on assets	%	4.8	4.6	5.0	4.9
Return on total equity	%	4.5	4.6	4.7	5.0
Return on operating equity <sup>d</sup>	%	4.3	4.2	4.4	4.6
<i>Financial management</i>					
Debt to equity	%	22.1	22.6	26.2	28.1
Debt to assets	%	17.4	17.6	20.0	21.9
Total liabilities to equity	%	32.7	40.9	44.6	48.7
Operating liabilities to equity <sup>e</sup>	%	26.8	28.1	31.8	33.9
Interest cover	times	4.6	4.2	4.3	3.9
Current ratio	%	61.3	57.1	55.0	50.8
Leverage ratio	%	126.8	128.1	131.8	133.9
<i>Payments to and from government</i>					
Dividends	\$'000	898 492	893 682	1 108 658	981 183
Dividend to equity ratio	%	2.3	2.4	3.0	2.5
Dividend payout ratio	%	54.4	56.4	68.0	55.7
Income tax expense	\$'000	524 538	496 858	635 106	570 656
Grants revenue ratio	%	0.5	0.7	1.0	1.0
CSO funding	\$'000	553 743	556 354	686 347	745 167

<sup>a</sup> Figures are nominal values. <sup>b</sup> Water GTEs commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for water GTEs. <sup>c</sup> Data prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'.



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## 6.6 GTE performance reports

Sydney Catchment Authority (NSW)

Sydney Water Corporation (NSW)

Hunter Water Corporation (NSW)

State Water Corporation (NSW)

Melbourne Water Corporation (Victoria)

City West Water (Victoria)

South East Water (Victoria)

Yarra Valley Water (Victoria)

Barwon Region Water Authority (Victoria)

Coliban Region Water Authority (Victoria)

Goulburn Valley Region Water Authority (Victoria)

Central Gippsland Region Water Authority (Victoria)

Central Highlands Region Water Authority (Victoria)

Gippsland and Southern Rural Water Authority (Victoria)

Lower Murray Urban and Rural Water Authority (Victoria)

Grampians Wimmera Mallee Rural Water Authority (Victoria)

Goulburn–Murray Rural Water Authority (Victoria)

SunWater (Queensland)

Water Corporation (WA)

SA Water Corporation (SA)

Hobart Regional Water Authority (Tasmania)

Cradle Coast Water (Tasmania)

Esk Water Authority (Tasmania)

ACTEW Corporation (ACT)

Sydney Catchment Authority (SCA) was established by the *Sydney Water Catchment Management Act 1998*. SCA is responsible for bulk water supply and managing and protecting catchment areas. SCA's activities are carried out under an operating licence granted by the Governor and a water management licence issued by the Department of Environment and Climate Change.<sup>1</sup>

The *Public Sector Employment Legislation Amendment Act 2006*, which commenced on 17 March 2006, required the transfer of all staff from SCA to the Sydney Catchment Authority Division of Government Services (SCA Division). SCA Division provides personnel services to SCA.

The Independent Pricing and Regulatory Tribunal (IPART) determines both the price of bulk water and other services charged by SCA. In September 2006, IPART published bulk water prices — aimed at reflecting the cost of provision — to be charged by the SCA from 1 October 2006 until 30 June 2010.

Total income increased by \$11.0 million, despite a \$4.1 million decrease in superannuation actuarial gains. Profit before tax increased by 9.0 per cent to \$24.2 million in 2006-07, driven by a \$12.7 million increase in bulk water sales revenue. SCA's core business is the sale of bulk water, comprising 97.5 per cent of total revenue in 2006-07. Increased finance costs and pumping costs due to drought conditions contributed to a \$13.1 million increase in expenses.

Total assets increased by \$251 million (28.0 per cent) in 2006-07, mostly because of a revaluation of facility and land assets (\$863 million), and the capitalisation of ground water exploration (\$13.3 million). Total liabilities increased by \$127 million (33.2 per cent) because of an increase in NSW Government loans and deferred tax liabilities arising from asset revaluations.

In 2006-07, SCA provided for a \$19.7 million dividend payment and recorded a \$3.8 million income tax-equivalent expense.

As catchment manager, SCA undertakes activities to protect the environment and cultural heritage sites and provide compatible opportunities for recreation. Although SCA is required to undertake these activities under its operating licence, no community service obligation payments were recorded in its financial statements.

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<sup>1</sup> A new operating licence was issued on 1 January 2006 and will expire on 30 June 2010. The water management licence defines SCA's water access rights and obligations. It was issued on 23 April 2001 for a period of 20 years.

## SYDNEY CATCHMENT AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

Indicators	Units	Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
		2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	775	780	898	1 149
Total income	\$m	126	122	147	158
Profitability					
Profit before tax	\$'000	21 841	14 309	22 150	24 152
Operating profit margin	%	26.8	21.2	26.8	30.2
Cost recovery	%	136.6	126.8	136.7	143.3
Return on assets	%	4.5	3.6	4.7	4.7
Return on total equity	%	5.2	4.4	5.4	7.4
Return on operating equity <sup>c</sup>	%	5.2	4.4	5.4	7.0
Financial management					
Debt to equity	%	35.5	36.3	61.0	54.2
Debt to assets	%	24.1	24.3	37.8	37.1
Total liabilities to equity	%	47.4	51.9	74.6	80.0
Operating liabilities to equity <sup>d</sup>	%	47.3	49.6	73.6	64.3
Interest cover	times	2.7	2.1	2.3	2.0
Current ratio	%	33.7	31.7	27.4	20.1
Leverage ratio	%	147.3	149.6	173.6	164.3
Payments to and from government					
Dividends	\$'000	15 387	15 387	16 581	19 745
Dividend to equity ratio	%	2.9	3.0	3.2	3.2
Dividend payout ratio	%	56.2	68.4	59.3	46.4
Income tax expense	\$'000	5 977	3 426	9 351	3 796
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Sydney Catchment Authority (SCA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for SCA.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Sydney Water Corporation (Sydney Water) is constituted under the *State Owned Corporations Act 1989* and operates under the *Sydney Water Act 1994*. Sydney Water supplies drinking water, recycled water, wastewater and some stormwater services to Sydney, the Blue Mountains and Illawarra under an operating licence granted by the Governor.<sup>1</sup> Under the conditions of its operating licence, Sydney Water must take action to reduce per capita water use, excluding recycled water, to a conservation target of 329 L/day by 2010-11.

Sydney Water's charges are regulated by the Independent Pricing and Regulatory Tribunal (IPART) according to a determination effective until 30 June 2009. A two-tier pricing structure has been adopted to promote water conservation. IPART also conducts annual audits of Sydney Water's licence compliance.

Total income increased by \$58.6 million, although this included a \$93 million decline in superannuation actuarial gains. Profit before tax increased by \$104 million (40.4 per cent) to \$360 million in 2006-07. Higher service availability and usage charge revenue (\$91.0 million), and developer contributions for capital works (\$51.1 million) comprised most of the increase in revenue. Expenses increased by \$48.1 million, mostly due to higher bulk water, maintenance and other operating expenses.

Assets increased by around \$1.5 billion (13.7 per cent) in 2006-07, primarily because of additions to system assets and works-in-progress. Liabilities increased by \$721 million (16.6 per cent) due to increased debt and deferred tax liabilities.

Sydney Water provided for \$140 million in dividends and recorded a \$103 million income tax-equivalent expense in 2006-07.

Sydney Water received community service obligation (CSO) payments for providing pensioner and other rebates (\$89.2 million), and priority sewerage social programs (\$515 000). In addition to CSO funding, Sydney Water also received reimbursements from the Department of Environment and Climate Change Water Savings Fund (\$15.2 million).

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<sup>1</sup> The operating licence places obligations on Sydney Water with respect to drinking water standards, infrastructure performance, customer service, system performance, water conservation targets, demand management, recycling requirements and environmental performance. The current licence was issued on 1 July 2005 and will expire on 30 June 2010.



## SYDNEY WATER CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	12 120	11 574	10 819	12 296
Total income	\$m	1 417	1 361	1 746	1 805
Profitability					
Profit before tax	\$'000	270 106	223 019	256 283	359 858
Operating profit margin	%	29.5	25.5	26.4	30.4
Cost recovery	%	141.9	134.3	135.9	143.7
Return on assets	%	3.5	3.3	3.8	4.7
Return on total equity	%	4.2	4.3	3.9	5.8
Return on operating equity <sup>c</sup>	%	4.2	3.9	3.6	5.3
Financial management					
Debt to equity	%	31.2	33.4	41.3	40.7
Debt to assets	%	22.5	22.9	25.8	28.5
Total liabilities to equity	%	41.4	60.1	66.9	69.8
Operating liabilities to equity <sup>d</sup>	%	39.0	45.8	54.6	52.2
Interest cover	times	2.8	2.5	2.5	3.0
Current ratio	%	41.0	33.2	33.9	38.7
Leverage ratio	%	139.0	145.8	154.6	152.2
Payments to and from government					
Dividends	\$'000	120 000	120 000	193 000	140 000
Dividend to equity ratio	%	1.4	1.5	2.6	1.9
Dividend payout ratio	%	33.2	39.0	72.7	34.9
Income tax expense	\$'000	55 025	51 089	134 518	102 568
Grants revenue ratio	%	—	—	1.1	0.9
CSO funding	\$'000	79 079	79 079	86 075	89 676

<sup>a</sup> Sydney Water Corporation (Sydney Water) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Sydney Water. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

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## HUNTER WATER CORPORATION

## New South Wales

Hunter Water Corporation (HWC) operates under the *State Owned Corporations Act 1989* and the *Hunter Water Act 1991*. HWC provides water, wastewater and drainage services to over half a million people living in the Cessnock, Lake Macquarie, Maitland, Newcastle and Port Stephens areas. HWC's activities are carried out under an operating licence granted by the Governor.<sup>1</sup>

The Independent Pricing and Regulatory Tribunal (IPART) regulates HWC's charges. IPART's most recent price determination phases out discounts for water users consuming more than 1000 kilolitres per year by 1 July 2008, and requires stormwater charges for non-residential customers to be based on property size.<sup>2</sup>

Profit before tax increased by 4.3 per cent to \$74.6 million in 2006-07. Total income grew by 11.6 per cent to \$260 million, mainly as a result of increased revenue from property management for Government (\$16.9 million), as well as higher service and usage charge revenue (\$12.9 million). Expenses increased by 24.3 per cent to \$171 million, largely due to higher costs associated with property management.

Total assets decreased by \$300 million (12.9 per cent) to \$2.0 billion in 2006-07, primarily because of a decrease in the value of water and sewer assets. Total liabilities remained comparatively steady, falling by \$2.4 million (0.3 per cent) to \$687 million. Debt increased by 41.3 per cent to \$332 million, leading to higher debt to equity and debt to assets.

Hunter Water Corporation is subject to dividend and income tax-equivalent payments. HWC distributed \$34.6 million in dividends in 2006-07. A \$28.4 million income tax-equivalent expense was recorded for 2006-07.

The NSW Government funds HWC to provide tariff rebates to pensioners and for exempt properties such as churches. Community service obligation payments for these services equalled \$9.0 million in 2006-07, accounting for 3.5 per cent of HWC's total income.

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1 The licence prescribes service requirements regarding drinking water quality, water continuity and pressure, and wastewater transport. It also imposes conditions relating to customer service, environmental management and systems performance. The operating licence expired on 30 June 2007 and a new licence was issued for the period 1 July 2007 to 30 June 2012.

2 The price determination applies for the period 1 November 2005 to 30 June 2009.

## HUNTER WATER CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		<i>Pre-AIFRS<sup>a,b</sup></i>	<i>AIFRS<sup>a</sup></i>		
<i>Indicators</i>	<i>Units</i>	<i>2004-05</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>
<i>Size</i>					
Total assets	\$m	2 332	2 380	2 327	2 027
Total income	\$m	183	178	233	260
<i>Profitability</i>					
Profit before tax	\$'000	63 842	62 905	71 534	74 633
Operating profit margin	%	40.2	38.6	40.4	37.4
Cost recovery	%	167.2	162.8	167.8	159.8
Return on assets	%	3.2	3.1	3.7	4.3
Return on total equity	%	2.6	3.1	3.8	4.2
Return on operating equity <sup>c</sup>	%	2.5	2.6	3.1	3.5
<i>Financial management</i>					
Debt to equity	%	8.0	8.0	11.9	21.0
Debt to assets	%	7.1	7.0	10.0	15.3
Total liabilities to equity	%	14.7	40.6	42.1	51.3
Operating liabilities to equity <sup>d</sup>	%	12.2	13.4	17.0	27.5
Interest cover	times	7.3	7.2	6.0	5.0
Current ratio	%	45.0	40.1	56.8	34.0
Leverage ratio	%	112.2	113.4	117.0	127.5
<i>Payments to and from government</i>					
Dividends	\$'000	33 800	33 800	35 100	34 600
Dividend to equity ratio	%	1.6	1.6	1.7	1.9
Dividend payout ratio	%	64.2	63.6	55.7	55.1
Income tax expense	\$'000	20 819	17 350	20 629	28 377
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	9 668	9 668	9 503	8 994

<sup>a</sup> Hunter Water Corporation (HWC) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for HWC.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

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## STATE WATER CORPORATION

## New South Wales

State Water Corporation (State Water) operates under the *State Owned Corporations Act 1989* and the *State Water Corporation Act 2004*. State Water provides all bulk water delivery functions to areas not covered by the Sydney Catchment Authority, Sydney Water Corporation, Hunter Water Corporation or other water supply authorities. It is also responsible for the Fish River Water Supply Authority. State Water is subject to an operating licence issued by the Governor.<sup>1</sup>

State Water passes on a proportion of revenue from bulk water charges to the NSW Government for its contribution to the operational and capital costs of the Murray-Darling Basin Committee (MDBC). State Water also constructs and maintains some of MDBC's assets under contract.

State Water's charges are regulated by the Independent Pricing and Regulatory Tribunal (IPART). In September 2006, IPART issued a bulk water price determination for the period from 1 October 2006 to 30 June 2010.

Profit before tax increased by 19.3 per cent to \$9.8 million in 2006-07. Total income fell by 7.2 per cent to \$77.4 million, mainly due to reduced revenue from storage and delivery of water services, and contracted activities for MDBC. Expenses decreased by 11.1 per cent to \$62.7 million because of a fall in maintenance costs and interest expenses.

Total assets increased by \$30.6 million (7.4 per cent) to \$444 million in 2006-07. The increase was largely due to an upward revaluation of water infrastructure (\$262 million), which was offset by increases in depreciation and impairment (\$227 million). Total liabilities decreased by 4.4 per cent to \$105 million. Debt was reduced by 36.5 per cent to \$39.2 million, reflected in lower debt to equity and debt to assets.

State Water provided for a dividend of \$11.9 million and recorded a \$1.6 million income tax-equivalent expense in 2006-07.

State Water receives contributions from the NSW Government to cover the costs of activities such as flood operations, environmental flows and mandated capital improvements (\$14.9 million in 2006-07). An additional payment of \$1.9 million was made in 2006-07 for drought assistance provided to general security irrigators in the Lachlan Valley. Community service obligation payments totalled \$16.9 million in 2006-07, comprising 21.8 per cent of total income.

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<sup>1</sup> The operating licence dictates that State Water's principle objective is to capture, store and release water in an efficient, effective, safe and financially responsible manner.

## STATE WATER CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	415	397	413	444
Total income	\$m	50	58	83	77
Profitability					
Profit before tax	\$'000	434	1 759	8 239	9 829
Operating profit margin	%	-31.3	-39.8	2.2	-0.9
Cost recovery	%	76.1	71.5	102.3	99.1
Return on assets	%	0.2	0.5	3.1	2.9
Return on total equity	%	-4.5	-6.3	—	-0.7
Return on operating equity <sup>b</sup>	%	-4.4	-6.2	—	-0.7
Financial management					
Debt to equity	%	21.1	22.2	20.2	11.0
Debt to assets	%	16.2	16.9	15.2	9.2
Total liabilities to equity	%	31.2	32.7	36.4	31.2
Operating liabilities to equity <sup>c</sup>	%	30.2	31.4	34.6	24.8
Interest cover	times	2.4	7.6	2.9	4.9
Current ratio	%	322.4	173.8	161.1	92.7
Leverage ratio	%	130.2	131.4	134.6	124.8
Payments to and from government					
Dividends	\$'000	—	—	7 937	11 884
Dividend to equity ratio	%	—	—	2.6	3.6
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	2 473	2 813	1 624	1 619
Grants revenue ratio <sup>d</sup>	%	21.2	29.3 <sup>e</sup>	10.0	14.6
CSO funding <sup>d</sup>	\$'000	—	—	17 100	16 859 <sup>f</sup>

<sup>a</sup> State Water Corporation (State Water) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for State Water. <sup>b</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>c</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>d</sup> A breakdown of government contributions is not provided for the 2004-05 financial year, therefore all government funding has been classified as grants. <sup>e</sup> The Murray–Darling Basin Commission (MDBC) contracts State Water to undertake operational activities and regular maintenance of its assets. Water delivery revenue included charges attributable to the operation of the MDBC which is payable to the NSW Treasury. In 2004-05, this amount (\$6.6 million) was retained by State Water as an implicit subsidy. <sup>f</sup> Included \$2 million to compensate State Water for waiving the fixed entitlement charges for general security irrigators in the Lachlan Valley for 2006-07 as part of a package of drought assistance measures approved by the NSW government. .. Not applicable. — Zero or rounded to zero.

Melbourne Water Corporation (MWC) operated under the *Melbourne Water Corporation Act 1992* and the *State Owned Enterprises Act 1992* in 2006-07.<sup>1</sup> MWC provides wholesale water and sewerage services to City West Water, South East Water and Yarra Valley Water and a number of regional water businesses adjacent to Melbourne. It is also responsible for managing Melbourne's water catchments and for providing stormwater and drainage services.<sup>2</sup> As part of the *Our Water Our Future — The Next Stage of the Government's Water Plan*, MWC plans to construct a water treatment plant at Tarago Reservoir by late 2009 and a pipeline from the Goulburn River to Sugarloaf Reservoir by mid 2010.

The Essential Services Commission became responsible for regulating the pricing and services of MWC on 1 January 2004. Its first price determination, which became effective from 1 July 2005, provided for annual price increases of above the inflation rate until 30 June 2008 — 3.61 per cent for bulk water service and usage charges to the metropolitan water retailers, and 1.28 per cent for bulk sewerage service and usage charges, trade waste charges and drainage rates.

Profit before tax decreased by \$59.6 million (27.3 per cent) to \$159 million in 2006-07 — the combination of a \$13.6 million (2.3 per cent) decline in revenue and a \$46.0 million (12.6 per cent) increase in total expenses. Although revenue from ongoing operations (water, sewage disposal and drainage rates) increased in 2006-07, total income decreased because of once-off inclusions in 2005-06.<sup>3</sup> The increase in total expenses was largely attributable to increases in depreciation, along with operational and borrowing expenses.

Assets increased by \$210 million (5.6 per cent) in 2006-07, primarily because of additions to infrastructure and capital works. Liabilities increased by \$164 million (8.5 per cent), which included an increase in current borrowings of \$80.4 million.

Dividend payments were \$86.6 million in 2006-07. MWC recorded an income tax-equivalent expense of \$43.9 million in 2006-07, down 25.5 per cent from 2005-06. No community service obligation payments were received in 2006-07.

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<sup>1</sup> From 1 July 2007, MWC operates under the *Water Act 1989*.

<sup>2</sup> Water supply and sewage treatment charges and drainage rates constitute the majority of MWC's revenue. MWC relies on the three retail water GTEs (City West Water, South East Water and Yarra Valley Water) for billing and collection of its drainage services charges.

<sup>3</sup> Revenue in 2005-06 included a once-off recognition of \$39.2 million related to the transfer of assets when MWC assumed responsibility for the Port Phillip and Westernport catchment areas on 18 November 2005.

## MELBOURNE WATER CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	3 263	3 633	3 769	3 979
Total income	\$m	525	525	592 <sup>c</sup>	588
Profitability					
Profit before tax	\$'000	188 621	192 979	218 397	158 756
Operating profit margin	%	50.6	51.6	51.4	42.8
Cost recovery	%	202.6	206.4	205.9	174.9
Return on assets	%	8.2	7.5	8.2	6.4
Return on total equity	%	13.5	11.6	13.2	10.7
Return on operating equity <sup>d</sup>	%	10.4	9.2	10.5	8.4
Financial management					
Debt to equity	%	60.7	52.1	54.0	55.3
Debt to assets	%	36.1	32.9	34.4	34.6
Total liabilities to equity	%	118.5	101.0	104.8	111.0
Operating liabilities to equity <sup>e</sup>	%	68.0	58.4	59.8	64.3
Interest cover	times	3.4	3.5	3.7	2.8
Current ratio	%	20.0	11.7	18.1	12.4
Leverage ratio	%	168.0	158.4	159.8	164.3
Payments to and from government					
Dividends	\$'000	41 300	41 300	97 000	86 600
Dividend to equity ratio	%	2.1	1.8	4.2	3.7
Dividend payout ratio	%	20.5	19.8	40.3	43.6
Income tax expense	\$'000	62 920	61 338	58 983	43 913
Grants revenue ratio	%	—	0.1	0.1	0.4
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Melbourne Water Corporation (MWC) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 were reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for MWC.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Includes \$39.2 million of assets received from the expansion of river and drainage boundaries. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

City West Water (CWW) operates under the *Corporations Act 2001*, subject to a licence and Statement of Obligations issued by the Victorian State Government under the *Water Industry Act 1994*.<sup>1</sup> CWW's main activities are the provision of drinking water and the collection of sewage and trade waste. It serves around 324 000 residential, commercial and industrial customers in Melbourne's central business district, and the inner and western suburbs.

The Essential Services Commission became responsible for regulating the pricing and services of CWW on 1 January 2004. Its first price determination, which became effective from 1 July 2005, provided for annual price increases for water and sewerage fixed and volumetric charges of 1.9 per cent above the inflation rate until 30 June 2008.

Profit before tax fell by \$16.6 million (26.5 per cent) to \$46.1 million in 2006-07. Total income decreased by \$6.4 million (2.5 per cent), partly due to a fall in developer contributions. Expenses increased by \$10.2 million (5.3 per cent) because of higher expenditure on operating contracts, increased finance costs and higher depreciation expenses.

Assets increased by \$70.2 million (8.1 per cent) in 2006-07, because of additions to infrastructure and cash asset holdings. Liabilities increased by \$58.4 million (12.5 per cent), mainly because of higher debt and deferred tax liabilities. Decreased profitability led to a 2.2 percentage point reduction in the return on assets.

City West Water is required to make dividend and income tax-equivalent payments. Dividends decreased by 45.1 per cent to \$15.2 million in 2006-07, as no interim dividend was declared for 2006-07. CWW recorded a \$19.0 million income tax-equivalent expense, down 19.4 per cent from 2005-06.

Community service obligation payments of \$10.7 million (accounting for 4.3 per cent of total income) were received in 2006-07. These payments reimburse CWW for the cost of providing concessions to pensioners, rebates to not-for-profit organisations and Utility Relief Grant Scheme payments.

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1 The licence, which operates unless and until revoked, sets out the geographical area in which CWW operates and details the rights and responsibilities of CWW and its customers. The Statement of Obligations, which was updated on 1 July 2007, imposes conditions regarding service connections, service provision on behalf of other agencies, dispute resolution, water quality monitoring, environmental management and asset management performance.



## CITY WEST WATER (continued)

### Performance indicators 2004-05 to 2006-07

Indicators	Units	Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
		2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	802	803	864	934
Total income	\$m	264	264	257	250
Profitability					
Profit before tax	\$'000	77 385	77 746	62 664	46 051
Operating profit margin	%	34.4	34.4	29.2	25.3
Cost recovery	%	152.3	152.5	141.2	133.8
Return on assets	%	11.4	11.4	9.5	7.3
Return on total equity	%	16.2	16.1	12.7	10.8
Return on operating equity <sup>c</sup>	%	13.1	12.2	9.6	8.0
Financial management					
Debt to equity	%	46.2	46.2	50.4	57.4
Debt to assets	%	29.5	29.5	32.4	35.6
Total liabilities to equity	%	95.2	107.5	116.8	127.7
Operating liabilities to equity <sup>d</sup>	%	56.8	56.7	61.4	67.5
Interest cover	times	6.8	6.8	5.0	3.4
Current ratio	%	53.3	52.0	31.8	71.0
Leverage ratio	%	156.8	156.7	161.4	167.5
Payments to and from government					
Dividends	\$'000	41 600	41 600	27 700	15 200
Dividend to equity ratio	%	8.2	8.2	5.3	2.8
Dividend payout ratio	%	62.5	66.8	55.6	34.9
Income tax expense	\$'000	24 024	28 338	23 606	19 022
Grants revenue ratio	%	—	—	—	0.8
CSO funding	\$'000	10 001	10 001	11 274	10 676

<sup>a</sup> City West Water (CWW) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for CWW. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

South East Water (SEW) operates under the *Corporations Act 2001*, subject to a licence and Statement of Obligations issued by the Victorian State Government under the *Water Industry Act 1994*.<sup>1</sup> SEW provides water supply and sewerage services to 616 000 customers in the southern and eastern suburbs of Melbourne.

The Essential Services Commission became responsible for regulating the pricing and services of SEW on 1 January 2004. Its first price determination, which became effective from 1 July 2005, provided for average annual price increases of 2.0 per cent above the inflation rate until 30 June 2008.

Profit before tax fell by \$7.2 million (8.7 per cent) to \$75.3 million in 2006-07. Total income increased by \$11.6 million (3.1 per cent) to \$390 million and total expenses increased by \$13.8 million (4.7 per cent) to \$306 million.

Assets increased by \$99.4 million (7.3 per cent) in 2006-07, with capital works of \$111 million. Liabilities increased by \$47.8 million (7.0 per cent), mainly because of increased borrowings and deferred tax liabilities (due to an increase in the value of property, plant and equipment).

South East Water is required to make dividend and income tax-equivalent payments. It paid a dividend of \$17.3 million in 2006-07, which is 62.2 per cent less than in 2005-06. The interim dividend payment for 2006-07 was deferred, partly because of the implementation of higher water restrictions, to form one payment due in October 2007. An income tax-equivalent payment of \$28.5 million was recorded for 2006-07, down 3.8 per cent from 2005-06.

South East Water administers the Pensioner Rebate and the Utility Relief Grant Schemes on behalf of the Victorian Government. In 2006-07, it was also reimbursed for the cost of implementing Water Conservation Rebate Schemes, the Water Smart Gardens and Homes Rebate Scheme, and the HydroShare Scheme. In total, SEW received \$21.2 million in community service obligation payments, accounting for 5.4 per cent of SEW's total income.

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1 The licence, which operates unless and until revoked, sets out the geographical area in which SEW operates and details the rights and responsibilities of SEW and its customers. The Statement of Obligations, which was updated on 1 July 2007, imposes conditions regarding service connections, service provision on behalf of other agencies, dispute resolution, water quality monitoring, environmental management and asset management performance.

## SOUTH EAST WATER (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	1 318	1 319	1 363	1 463
Total income	\$m	381	378	379	390
Profitability					
Profit before tax	\$'000	96 249	96 645	82 504	75 309
Operating profit margin	%	30.4	31.4	28.4	26.4
Cost recovery	%	143.7	145.8	139.7	135.8
Return on assets	%	9.2	9.2	8.1	7.2
Return on total equity	%	11.9	12.7	11.3	10.2
Return on operating equity <sup>c</sup>	%	9.7	9.7	8.6	7.7
Financial management					
Debt to equity	%	43.7	43.5	45.8	45.9
Debt to assets	%	29.0	28.9	30.6	31.0
Total liabilities to equity	%	84.8	98.1	101.4	100.8
Operating liabilities to equity <sup>d</sup>	%	51.0	50.7	52.2	53.2
Interest cover	times	4.9	4.9	4.2	3.8
Current ratio	%	60.1	63.9	59.1	49.6
Leverage ratio	%	151.0	150.7	152.2	153.2
Payments to and from government					
Dividends	\$'000	34 800	34 800	45 800	17 300
Dividend to equity ratio	%	4.0	4.0	5.2	1.9
Dividend payout ratio	%	41.1	41.0	60.2	24.2
Income tax expense	\$'000	29 082	32 665	29 588	28 454
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	19 231	19 755	21 217	21 194 <sup>e</sup>

<sup>a</sup> South East Water (SEW) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for SEW. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> Included reimbursements from the Department of Sustainability and Environment for the installation costs of the HydroShare scheme (used for monitoring water use and educational purposes). — Zero or rounded to zero.

Yarra Valley Water (YVW) operates under the *Corporations Act 2001*, subject to a licence and Statement of Obligations issued by the Victorian State Government under the *Water Industry Act 1994*.<sup>1</sup> YVW provides retail water supply and sewerage services as well as collecting tradewaste. It services almost 651 000 residential and business customers in the northern and eastern suburbs of Melbourne.

The Essential Services Commission became responsible for regulating the pricing and services of YVW on 1 January 2004. Its first price determination, which became effective from 1 July 2005, provided for price increases for water and sewerage fixed and volumetric charges of 1.6 per cent above the inflation rate in each year until 30 June 2008.

Profit before tax fell \$19.1 million (38.9 per cent) in 2006-07. Although total income only decreased slightly, total expenses increased by \$19.4 million (5.9 per cent). This was mainly attributable to higher finance costs, depreciation expenses and contract payments.

Total assets increased by \$159 million (9.2 per cent) in 2006-07 — mainly from capital works in progress and additions to infrastructure (from completed works in progress). Total liabilities increased by \$152 million (13.7 per cent), primarily because of an increase in borrowings of almost \$123 million. As a result, debt to equity and debt to assets increased. The lower return on assets and return on equity reflected decreased profitability.

Yarra Valley Water is subject to dividend and income tax-equivalent payments. YVW made \$14.8 million in dividend payments in 2006-07, down almost 59.8 per cent from 2005-06, as the interim payment for 2006-07 was deferred to October 2007. As a result of the deferred payment, the dividend payout ratio decreased from 48.0 per cent in 2005-06 to 20.9 per cent in 2006-07. YVW recorded an income tax-equivalent expense of \$10.8 million in 2006-07.

Yarra Valley Water is reimbursed for the value of concessions provided to pensioners and not-for-profit entities. Community service obligation payments were \$25.7 million in 2006-07, accounting for 6.7 per cent of total income.

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1 The licence, which operates unless and until revoked, sets out the geographical area in which YVW operates and details the rights and responsibilities of YVW and its customers. The Statement of Obligations, which was updated on 1 July 2007, imposes conditions regarding service connections, service provision on behalf of other agencies, dispute resolution, water quality monitoring, environmental management and asset management performance.

## YARRA VALLEY WATER (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	1 552	1 557	1 719	1 878
Total income	\$m	381	382	384	384
Profitability					
Profit before tax	\$'000	61 129	61 296	49 162	30 016
Operating profit margin	%	25.9	25.9	24.6	21.5
Cost recovery	%	134.9	135.0	132.7	127.3
Return on assets	%	6.4	6.4	5.8	4.6
Return on total equity	%	12.4	14.1	12.8	11.4
Return on operating equity <sup>c</sup>	%	9.6	9.9	9.0	7.9
Financial management					
Debt to equity	%	76.5	76.3	84.4	96.4
Debt to assets	%	41.0	40.9	45.7	48.6
Total liabilities to equity	%	143.5	167.3	179.5	201.8
Operating liabilities to equity <sup>d</sup>	%	86.7	86.4	93.9	106.5
Interest cover	times	2.6	2.6	2.1	1.6
Current ratio	%	52.9	51.5	34.6	31.2
Leverage ratio	%	186.7	186.4	193.9	206.5
Payments to and from government					
Dividends	\$'000	44 100	44 100	36 800	14 800
Dividend to equity ratio	%	5.3	5.3	4.3	1.7
Dividend payout ratio	%	55.6	53.9	48.0	20.9
Income tax expense	\$'000	19 124	16 747	16 747	10 792
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	21 142	23 226	23 813	25 690

<sup>a</sup> Yarra Valley Water (YVW) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for YVW. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Barwon Region Water Authority (Barwon Water) was established in February 1994 under the *Water Act 1989*.<sup>1</sup> Barwon Water is Victoria's largest regional urban water authority, providing water and sewerage services to over 275 000 residents in Geelong and surrounding areas. Barwon Water's Drought Response Plan was implemented in 2006-07 in the face of continued extremely dry conditions. The plan uses water restrictions to manage depleted storages and fast-tracks capital works to ensure future supply.

The Essential Services Commission became responsible for regulating the pricing and services of Barwon Water on 1 January 2004. Its first price determination, which became effective from 1 July 2005, provided for price increases of 5.3 per cent above the inflation rate in each year until 30 June 2008. This resulted in customer bills increasing by 8.4 per cent in 2006-07.

Profit before tax fell by \$3.5 million (27.8 per cent) to \$9.0 million in 2006-07. Total income remained relatively stable in 2006-07, at \$106 million. Total expenses increased by \$4.7 million (5.1 per cent) because of growth in administration and direct operating expenses.

Assets increased by \$31.7 million to \$1.0 billion in 2006-07, mainly due to investment in capital works and a revaluation of land assets. Total liabilities increased by \$19.9 million (17.5 per cent) to \$134 million, due largely to increased borrowings. Consequently, debt to equity and debt to assets increased.

Barwon Water is subject to dividend and income tax-equivalent payments. No dividends were provided for in 2006-07. Barwon Water recorded an income tax-equivalent expense of \$2.9 million in 2006-07.

Barwon Water is reimbursed for the value of concessions provided to pensioners and others, and for the administration of community service obligation (CSO) schemes. CSO payments totalled \$5.1 million in 2006-07, accounting for 4.9 per cent of total income.<sup>2</sup>

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1 Barwon Water operated as a statutory authority in 2006-07. It became a statutory corporation on 1 July 2007 and was renamed the Barwon Region Water Corporation.

2 Community service obligation payments were not separately recorded in Barwon Water's income statement but were acknowledged in its annual report commentary.

## BARWON REGION WATER AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	981	981	992	1 024
Total income	\$m	98	98	104	106
Profitability					
Profit before tax	\$'000	11 236	11 236	12 506	9 030
Operating profit margin	%	18.2	18.3	16.9	11.9
Cost recovery	%	122.3	122.5	120.3	113.6
Return on assets	%	1.5	1.5	1.7	1.3
Return on total equity	%	1.7	1.7	1.6	1.1
Return on operating equity <sup>c</sup>	%	1.7	1.7	1.6	1.0
Financial management					
Debt to equity	%	6.2	6.2	6.7	7.7
Debt to assets	%	5.7	5.7	6.2	7.1
Total liabilities to equity	%	11.1	12.7	13.0	15.1
Operating liabilities to equity <sup>d</sup>	%	9.0	9.0	8.8	10.4
Interest cover	times	4.0	4.0	4.0	3.0
Current ratio	%	91.0	61.3	56.3	63.7
Leverage ratio	%	109.0	109.0	108.8	110.4
Payments to and from government					
Dividends	\$'000	1 014	1 014	—	—
Dividend to equity ratio	%	0.1	0.1	—	—
Dividend payout ratio	%	6.7	6.7	—	—
Income tax expense	\$'000	3 461	3 461	3 832	2 932
Grants revenue ratio	%	—	0.2	0.3	1.9
CSO funding <sup>e</sup>	\$'000	4 691	4 694	5 035	5 121

<sup>a</sup> Barwon Region Water Authority (Barwon Water) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Barwon Water. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> Barwon Water did not report community service obligation payments separately in the income statement. However, they were acknowledged in its annual report commentary. — Zero or rounded to zero.

Coliban Region Water Authority (Coliban Water) was established under the *Water Act 1989*.<sup>1</sup> It provides water and wastewater services to over 66 000 urban and rural customers in Northern Central Victoria and manages, maintains and operates over 50 reservoirs and water storage basins. Coliban Water has two Build Own Operate Transfer (BOOT) schemes that provide water services in some regional areas.<sup>2</sup>

The Essential Services Commission became responsible for regulating the pricing and services of Coliban Water on 1 January 2004. Its first price determination, which became effective from 1 July 2005, provided for average annual price increases of 4.4 per cent above the inflation rate until 30 June 2008.

Coliban Water reported a loss before tax of \$16.7 million in 2006-07. Total income decreased by \$2.9 million (5.8 per cent) to \$47.4 million, largely because of a fall in usage charge revenue. Total expenses increased slightly (2.1 per cent) due to higher partnership contract expenses.

Total assets increased by \$67.3 million (8.0 per cent) to \$909 million in 2006-07, primarily due to higher spending on capital works in progress. Total liabilities increased by \$37.3 million (31.4 per cent) to \$156 million due to new borrowings and trade creditors.

Coliban Water is subject to dividend and income tax-equivalent payments. No dividends or income tax-equivalent expenses were recorded in 2006-07, as Coliban Water declared an operating loss.<sup>3</sup>

Coliban Water was reimbursed \$2.9 million for concessions provided to pensioners and rebates to non-profit organisations in 2006-07. This represented 6.1 per cent of total income.<sup>4</sup>

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1 Coliban Water operated as a statutory authority in 2006-07. It became a statutory corporation on 1 July 2007 and was renamed Coliban Region Water Corporation.

2 Coliban Water has been engaged in three BOOT schemes over the past ten years, of which two remain in operation. One was signed with Bendigo Water Services Pty Ltd in 1999 for the provision of water treatment services in Bendigo, Castlemaine and Kyneton. The other was signed with ETE Coliban Pty Ltd in 2002 for the provision of water reclamation and reuse services for Echuca and Rochester. Contract payments comprise fixed and variable components made by Coliban Water over the 25-year contract period.

3 Coliban Water states in its annual report that it expects to remain in a tax loss position for some time and thus is unlikely to incur income tax-equivalent payments in the near future.

4 Community service obligation payments were not separately recorded in Coliban Water's income statement, but were acknowledged in its annual report commentary.



## COLIBAN REGION WATER AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a,c</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	753	855	841	909
Total income	\$m	50	50	50	47
Profitability					
Profit before tax	\$'000	-6 536	-8 981	-12 426	-16 653
Operating profit margin	%	-19.7	-9.4	-11.7	-19.7
Cost recovery	%	83.5	91.4	89.5	83.5
Return on assets	%	-0.9	-0.2	-0.5	-1.0
Return on total equity	%	-1.3	-0.6	-0.8	-1.2
Return on operating equity <sup>d</sup>	%	-1.3	-0.6	-0.8	-1.3
Financial management					
Debt to equity	%	—	14.6	14.7	17.3
Debt to assets	%	—	12.6	12.5	14.8
Total liabilities to equity	%	1.7	16.3	16.5	20.8
Operating liabilities to equity <sup>e</sup>	%	1.7	16.3	16.5	20.9
Interest cover	times	..	..	..	..
Current ratio	%	399.3	199.4	110.7	45.7
Leverage ratio	%	101.7	116.3	116.5	120.9
Payments to and from government					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	—	—	—	—
Grants revenue ratio	%	—	—	—	—
CSO funding <sup>f</sup>	\$'000	2 616	2 616	2 881	2 884

<sup>a</sup> Coliban Region Water Authority (Coliban Water) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Coliban Water. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Under AIFRS, Coliban Water includes its Build Own Operate Transfer (BOOT) schemes as financial leases. This affects its gross interest expense and level of debt, which are used to calculate a number of performance indicators (chapter 1). <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>f</sup> Coliban Water did not report community service obligation payments separately in its income statement. However, they were acknowledged in its annual report commentary. .. Not applicable. — Zero or rounded to zero.

Goulburn Valley Region Water Authority (GVW) was established in March 1994 under the *Water Act 1989*.<sup>1</sup> GVW provides water and wastewater services to a population of more than 121 000 in Northern Central Victoria, including the townships of Seymour, Euroa and Shepparton.

The Essential Services Commission became responsible for regulating the pricing and services of GVW on 1 January 2004. Its first price determination, which became effective from 1 July 2005, provided for price increases of 4.7 per cent above the inflation rate in each year until 30 June 2008.

Profit before tax increased by \$1.8 million to \$2.3 million in 2006-07. Total expenses remained relatively stable at \$43.9 million, while total income increased by 6.6 per cent to \$46.2 million, mainly because of higher revenue from fees and charges.

Total assets increased by \$13.8 million (2.8 per cent) to \$497 million in 2006-07, due largely to an increase in infrastructure assets. Total liabilities increased by \$12.2 million (21.1 per cent) to \$70.1 million, mostly due to higher short-term borrowings and growth in deferred tax liabilities. Return on assets increased from 0.5 per cent in 2005-06 to 0.9 per cent in 2006-07.

Although GVW is subject to dividend and income tax-equivalent payments, no dividend payments were required in 2004-05 or 2005-06. The Board estimates that no payment will be required for the 2006-07 period. GVW recorded an income tax-equivalent expense of \$688 000 in 2006-07.

Community service obligation (CSO) payments totalling \$2.2 million were received in 2006-07. These payments reimburse GVW for providing concessions to pensioners and others. The costs of administration of these schemes is also funded. CSOs constitute approximately 4.8 per cent of total income.<sup>2</sup>

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1 Goulburn Valley Region Water Authority operated as a statutory authority in 2006-07. It became a statutory corporation on 1 July 2007 and was renamed Goulburn Valley Region Water Corporation.

2 Community service obligation payments were not separately recorded in GVW's income statement but were acknowledged in its annual report commentary.

## GOULBURN VALLEY REGION WATER AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	479	486	483	497
Total income	\$m	48	47	43	46
Profitability					
Profit before tax	\$'000	5 320	5 320	463	2 268
Operating profit margin	%	6.7	8.5	6.0	5.9
Cost recovery	%	107.1	109.2	106.4	106.2
Return on assets	%	1.4	1.4	0.5	0.9
Return on total equity	%	0.7	0.5	0.6	0.5
Return on operating equity <sup>c</sup>	%	0.7	0.5	0.6	0.4
Financial management					
Debt to equity	%	6.3	6.3	6.2	7.1
Debt to assets	%	5.8	5.8	5.7	6.6
Total liabilities to equity	%	8.3	12.6	13.6	16.4
Operating liabilities to equity <sup>d</sup>	%	8.3	8.3	8.0	9.6
Interest cover	times	5.5	5.5	1.2	2.2
Current ratio	%	102.5	90.4	158.5	72.8
Leverage ratio	%	108.3	108.3	108.0	109.6
Payments to and from government					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	—	—	—	—
Income tax expense	\$'000	—	1 598	142	688
Grants revenue ratio	%	0.5	0.5	—	—
CSO funding <sup>e</sup>	\$'000	1 941	1 941	2 153	2 211

<sup>a</sup> Goulburn Valley Region Water Authority (GVW) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for GVW. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> GVW did not report community service obligation payments separately in its income statement. However, they were acknowledged in its annual report commentary. — Zero or rounded to zero.

Central Gippsland Region Water Authority (Gippsland Water) was established on 21 December 1994 under the *Water Act 1989*.<sup>1</sup> It provides water and wastewater services to around 130 000 people in 41 towns in the Central Gippsland area.

The Essential Services Commission became responsible for regulating the pricing and services of Gippsland Water on 1 January 2004. Its first price determination, which became effective from 1 July 2005, provided for price increases of 4.7 per cent above the inflation rate in each year until 30 June 2008.

Gippsland Water recorded a profit before tax of \$3.5 million in 2006-07, 54.2 per cent down on 2005-06, despite a 4.1 per cent rise in revenue. This was outweighed by an 11.9 per cent increase in expenses, due to a combination of increased supplier costs, employee benefits and borrowing costs.

Total assets grew by \$56.6 million (10.2 per cent) to \$612 million in 2006-07. This was due to an increase in capital works-in-progress (particularly for the Gippsland Water Factory — a water recycling project) and land revaluations. Gippsland Water borrowed for the first time in 2005-06 to finance part of this infrastructure development (previously, capital development was funded entirely from retained earnings and government grants). Debt increased by \$15.0 million (107 per cent) in 2006-07. As a result, total liabilities increased by \$24.1 million (93.9 per cent) to \$49.8 million. Debt to equity and debt to assets increased to 5.2 per cent and 5.0 per cent respectively.

Gippsland Water is subject to dividend and income tax-equivalent payments. No dividend was paid in 2006-07. Gippsland Water did not make income tax-equivalent payments in 2006-07 because it did not generate a taxable income.<sup>2</sup>

Gippsland Water received community service obligation payments of \$3.0 million in 2006-07 for pensioner rebate and health care card concession schemes, and rebates for not-for-profit organisations and other programs. This represented 4.4 per cent of total income.<sup>3</sup>

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1 Gippsland Water operated as a statutory authority in 2006-07. It became a statutory corporation on 1 July 2007 and was renamed Central Gippsland Region Water Corporation.

2 Gippsland Water considers it unlikely that operating profits will be sufficient in the foreseeable future to offset income tax deductions associated with the tax depreciation of assets. This is due to higher (accelerated) tax depreciation rates compared with accounting depreciation rates.

3 Community service obligation payments were not separately recorded in Gippsland Water's income statement but were acknowledged in its annual report commentary.

## CENTRAL GIPPSLAND REGION WATER AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	498	498	556	612
Total income	\$m	64	64	66	68
Profitability					
Profit before tax	\$'000	8 921	8 909	7 706	3 528
Operating profit margin	%	13.3	13.3	7.9	0.9
Cost recovery	%	115.4	115.4	108.6	100.9
Return on assets	%	1.8	1.8	1.5	0.8
Return on total equity	%	1.7	1.7	1.0	0.1
Return on operating equity <sup>c</sup>	%	1.7	1.8	1.0	0.1
Financial management					
Debt to equity <sup>d</sup>	%	—	—	2.7	5.2
Debt to assets <sup>d</sup>	%	—	—	2.7	5.0
Total liabilities to equity	%	2.6	2.7	4.8	8.9
Operating liabilities to equity <sup>e</sup>	%	2.6	2.7	4.9	8.9
Interest cover	times	..	..	77.3	4.4
Current ratio	%	265.4	221.1	351.7	221.5
Leverage ratio	%	102.6	102.7	104.9	108.9
Payments to and from government					
Dividends <sup>f</sup>	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	—	—	—	—
Income tax expense	\$'000	—	—	—	—
Grants revenue ratio	%	—	—	2.0	2.2
CSO funding <sup>g</sup>	\$'000	2 384	2 384	2 709	3 002

<sup>a</sup> Central Gippsland Region Water Authority (Gippsland Water) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Gippsland Water. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Gippsland Water operated debt free prior to 2005-06, with capital expenditure funded from retained earnings and government grants. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>f</sup> The dividend relating to the 2005-06 financial year was estimated to be \$220 000. However, payment was not requested by the portfolio Minister. <sup>g</sup> Gippsland Water did not report community service obligation payments separately in the income statement. However, they were acknowledged in its annual report commentary. .. Not applicable. — Zero or rounded to zero.

Central Highlands Region Water Authority (CHW) was established on 1 July 1994 and operates under the *Water Act 1989*.<sup>1</sup> It provides water and wastewater services to a population of over 120 000 in Ballarat and surrounding areas. CHW has two Build Own Operate and Transfer (BOOT) schemes to provide water services in some regional areas.<sup>2</sup>

The Essential Services Commission became responsible for regulating the pricing and services of CHW on 1 January 2004. Its first price determination, which became effective from 1 July 2005, provided for price increases of 4.8 per cent above the inflation rate in each year until 30 June 2008.

A loss before tax of \$1.8 million was reported in 2006-07, an improvement compared with a loss of \$3.2 million in 2005-06. Total income rose 10.6 per cent to \$48.2 million, mostly because of a \$3.4 million increase in the value of resources received free of charge or for nominal cost. Revenue from volume charges fell by \$1.2 million due to drought conditions. However, this was outweighed by a \$2.5 million increase in service charge revenue. Total expenses increased by 7.0 per cent to \$50.1 million due to higher BOOT tolls and amortisation expenses.

Total assets increased by \$55.8 million (9.0 per cent) to \$674 million, due to \$71.0 million in capital works. Total liabilities increased by \$27.7 million (37.1 per cent) to \$102 million in 2006-07.

No dividend was paid in 2006-07. CHW recorded an income tax-equivalent benefit of \$697 000 in 2006-07, because it recorded a loss.

Community service obligation payments are made to CHW for the provision of concessions to pensioners and others. These payments totalled \$2.7 million in 2006-07, accounting for 5.6 per cent of total income.<sup>3</sup>

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1 Central Highlands Region Water Authority operated as a statutory authority in 2006-07. It became a statutory corporation on 1 July 2007 and was renamed Central Highlands Region Water Corporation.

2 CHW entered into a BOOT agreement with Thames Water Ballarat in April 1999. A second BOOT agreement was entered into with Thames Water in November 2003 for water treatment facilities for Beaufort, Blackwood, Forest Hill and Clunes. The contracts require CHW to pay an annual charge comprising both fixed and variable components for 20 years, after which ownership of the water facilities will be transferred to CHW.

3 Community service obligation payments were not separately recorded in CHW's income statement but were acknowledged in its annual report commentary.

## CENTRAL HIGHLANDS REGION WATER AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a,c</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	579	619	619	674
Total income	\$m	43	41	44	48
Profitability					
Profit before tax	\$'000	654	-2 500	-3 164	-1 813
Operating profit margin	%	21.5	20.1	6.9	13.7
Cost recovery	%	127.3	125.2	107.4	115.8
Return on assets	%	1.1	0.5	0.7	1.1
Return on total equity	%	1.7	1.7	0.2	1.3
Return on operating equity <sup>d</sup>	%	1.7	1.7	0.2	1.2
Financial management					
Debt to equity	%	0.1	6.9	6.8	8.7
Debt to assets	%	0.1	6.4	6.3	8.0
Total liabilities to equity	%	2.5	13.3	13.7	17.9
Operating liabilities to equity <sup>e</sup>	%	1.5	8.4	8.4	12.8
Interest cover	times	1.1	0.6	0.6	0.8
Current ratio	%	460.2	347.1	300.8	101.4
Leverage ratio	%	101.5	108.4	108.4	112.8
Payments to and from government					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	—	—	—	—
Income tax expense	\$'000	256	—	1 949	-697
Grants revenue ratio	%	0.6	0.7	0.1	0.9
CSO funding <sup>f</sup>	\$'000	2 251	2 251	2 687	2 687

<sup>a</sup> Central Highlands Region Water Authority (CHW) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for CHW. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Under AIFRS, CHW includes its Build Own Operate Transfer (BOOT) schemes as financial leases. This affects its gross interest expense and level of debt, which are used to calculate a number of performance indicators (chapter 1). <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>f</sup> CHW did not report community service obligation payments separately in its income statement. However, they were acknowledged in its annual report commentary. — Zero or rounded to zero.

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## GIPPSLAND AND SOUTHERN RURAL WATER AUTHORITY      Victoria

Gippsland and Southern Rural Water Authority (Southern Rural Water) was established on 1 July 1995 under the *Water Act 1989*.<sup>1</sup> Southern Rural Water provides irrigation water to customers in three districts, and administers groundwater and surface water licences in Southern Victoria. It also manages several water storage dams that supply irrigators, urban water authorities and several power generators, as well as recreational facilities at these storage sites.

The Essential Services Commission became responsible for regulating the pricing and services of Southern Rural Water on 1 January 2004. Its first price determination became effective from 1 July 2006. It provided for a price increase of 3.7 per cent above the inflation rate, with prices for 2007-08 to be finalised when updated demand figures became available.

Southern Rural Water recorded a loss before tax of \$5.5 million in 2006-07, compared with the \$1.1 million loss recorded in 2005-06. Total income decreased 8.1 per cent to \$23.3 million, mainly due to a \$3.9 million decrease in chargeable works revenue. However, service charge revenue increased by \$2.8 million and revenue from the sale of water remained steady. Total expenses increased by \$2.3 million (8.8 per cent) to \$28.8 million.

Southern Rural Water's total assets remained largely steady in 2006-07, increasing by 1.0 per cent to \$452 million. Total liabilities increased by 14.2 per cent to \$6.5 million in 2006-07, mainly because of increases in provisions for repairs and employee benefits. Southern Rural Water had no debt in 2006-07.

No dividend was paid or provided for in 2006-07. Southern Rural Water did not make income tax-equivalent payments in 2006-07 because of its loss.

Southern Rural Water received community service obligation (CSO) payments of \$4113 in 2006-07, for the provision of concession to pensioners.<sup>2</sup> In addition to the CSO funding, it received grants from the Victorian Government for programs including salinity projects, the Streamflow Management Plan, groundwater appraisals and drought response activities (\$898 000).

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1 Southern Rural Water operated as a statutory authority in 2006-07. It became a statutory corporation on 1 July 2007 and was renamed Gippsland and Southern Rural Water Corporation.

2 Community service obligation payments were not separately recorded in Southern Rural Water's income statement but were acknowledged in its annual report commentary.



## GIPPSLAND AND SOUTHERN RURAL WATER AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	443	443	448	452
Total income	\$m	20	20	25	23
Profitability					
Profit before tax	\$'000	-1 437	-1 079	-1 121	-5 503
Operating profit margin	%	-23.0	-22.5	-17.9	-32.6
Cost recovery	%	81.3	81.6	84.8	75.4
Return on assets	%	-0.3	-0.2	-0.3	-1.2
Return on total equity	%	-0.9	-0.9	-0.9	-1.6
Return on operating equity <sup>c</sup>	%	-0.9	-0.9	-0.9	-1.6
Financial management					
Debt to equity	%	—	—	—	—
Debt to assets	%	—	—	—	—
Total liabilities to equity	%	1.2	1.2	1.3	1.5
Operating liabilities to equity <sup>d</sup>	%	1.2	1.2	1.3	1.5
Interest cover	times	..	..	..	..
Current ratio	%	269.8	215.8	265.9	242.7
Leverage ratio	%	101.2	101.2	101.3	101.5
Payments to and from government					
Dividends <sup>e</sup>	\$'000	380	380	—	—
Dividend to equity ratio	%	0.1	0.1	—	—
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	—	—	—	—
Grants revenue ratio	%	10.6	10.6	2.4	3.9
CSO funding <sup>f</sup>	\$'000	2	2	4	4

<sup>a</sup> Gippsland and Southern Rural Water Authority (Southern Rural Water) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Southern Rural Water. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> The Victorian Government White Paper *Securing our Water Future Together* states at item 6.6 that the government will forgo its dividend entitlement for the 2005-06 financial year. <sup>f</sup> Southern Rural Water did not report community service obligation payments separately in its income statement. However, they were acknowledged in its annual report commentary. .. Not applicable. — Zero or rounded to zero.

Lower Murray Urban and Rural Water Authority (LMW) was established on 1 July 2004 under the *Water Act 1989*.<sup>1</sup> LMW was formed by the merger of the Lower Murray Regional Water Authority's urban water and wastewater business with the Sunraysia Rural Water Authority's rural water business. LMW provides urban water and wastewater services, river quality water services and the collection and disposal of subsurface drainage for three pumped irrigation districts in North-West Victoria. It also manages the region's rural bulk water entitlement and private diversion licences of water users along the Murray River in the area.

The Essential Services Commission became responsible for regulating the pricing and services of LMW on 1 January 2004. Its first price determination became effective from 1 July 2006. It provided for an average price increase of 2.6 per cent for urban water customers and a reduction of 6.6 per cent for rural water customers, excluding the inflation rate, for the two-year period until 30 June 2008.

Profit before tax increased 2.9 per cent to \$720 000 in 2006-07. Total income fell by \$1.6 million (3.6 per cent), primarily because of lower contributions for capital works. Total expenses also decreased by \$1.6 million (3.7 per cent).

Total assets increased by \$3.7 million (0.8 per cent) to \$484 million in 2006-07, largely due to an increase in cash holdings of \$4.3 million. Total liabilities increased by \$4.5 million (6.7 per cent) to \$71.3 million because of higher payables and deferred tax liabilities. Return on assets was steady at 0.2 per cent in 2006-07.

No dividend was paid or provided for in 2006-07. An income tax-equivalent expense of \$1.5 million was recorded in 2006-07. The high income tax-equivalent expense relative to profit arose because of the difference between tax and accounting valuations.

Community service obligation (CSO) payments of \$1.2 million were received in 2006-07. These relate to the provision of concessions to pensioners, the Water and Sewerage Rebate Scheme and the Utility Relief Grants Scheme. CSO payments accounted for 2.8 per cent of total income in 2006-07.

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1 Lower Murray Urban and Rural Water Authority operated as a statutory authority in 2006-07. It became a statutory corporation on 1 July 2007 and was renamed Lower Murray Urban and Rural Water Corporation.

## LOWER MURRAY WATER (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	468	472	481	484
Total income	\$m	38	39	43	42
Profitability					
Profit before tax	\$'000	-2 653	-2 426	700	720
Operating profit margin	%	-15.9	-15.2	-5.7	-10.2
Cost recovery	%	86.3	86.8	94.6	90.8
Return on assets	%	-0.6	-0.5	0.2	0.2
Return on total equity	%	-1.6	-1.8	-0.6	-1.3
Return on operating equity <sup>c</sup>	%	-1.6	-1.6	-0.5	-1.1
Financial management					
Debt to equity	%	0.1	0.1	0.1	0.1
Debt to assets	%	0.1	0.1	0.1	0.1
Total liabilities to equity	%	3.1	16.5	16.1	17.3
Operating liabilities to equity <sup>d</sup>	%	1.7	1.6	1.6	1.9
Interest cover	times	..	..	24.3	27.7
Current ratio	%	512.0	391.6	543.6	500.6
Leverage ratio	%	101.7	101.6	101.6	101.9
Payments to and from government					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	1 791	1 828	81	1 532
Grants revenue ratio	%	0.3	0.3	—	—
CSO funding	\$'000	1 195	1 195	1 259	1 187

<sup>a</sup> Lower Murray Urban and Rural Water Authority (LMW) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for LMW. <sup>b</sup> LMW was formed on 1 July 2004 when the Sunraysia Rural Water Authority (SRW) and the Lower Murray Regional Water Authority were merged. Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Grampians Wimmera Mallee Rural Water Authority (GWMWater) was established on 1 July 2004 under the Water Act 1989.<sup>1</sup> GWMWater was formed following the merger of Grampians Water and Wimmera Mallee Water. GWMWater provides water and wastewater services to urban and some rural customers in Central Western Victoria, serving approximately 72 000 people.

The Essential Services Commission became responsible for regulating the pricing and services of GWMWater on 1 January 2004. Its first price determination became effective from 1 July 2006. It provided for an average price increase of 1.9 per cent for urban water customers and a reduction of 2.3 per cent for rural water customers, excluding the inflation rate, for the two-year period until 30 June 2008.

A loss before tax of \$22.8 million was recorded in 2006-07, compared with a \$7.8 million loss in 2005-06. GWMWater attributed its operating position over the past two years to the impact of drought conditions. Revenue from general rates and charges fell by \$1.8 million in 2006-07. However, total income increased by \$3.3 million as a result of higher government contributions. Total expenses increased by \$18.3 million (40.7 per cent) to \$63.4 million, largely because of increased depreciation of distribution infrastructure (\$18.2 million).

Total assets increased by \$157 million (24.5 per cent) to \$796 million in 2006-07, mainly due to increases in cash holdings and capital works of \$36.0 million and \$136 million respectively. Total liabilities increased by \$24.7 million (209 per cent) to \$36.5 million, because of a \$23.8 million increase in payables.

No dividends were paid or provided for, and no income tax-equivalent expense was recorded in 2006-07, as GWMWater declared an operating loss.

Community service obligation payments totalling \$7.5 million were received in 2006-07, relating to the provision of concessions to pensioners and several rebate schemes. These payments were \$5.7 million higher than in 2005-06, mostly due to the introduction of the Drought Relief Rebate Scheme, and amounted to 18.5 per cent of total income for 2006-07.<sup>2</sup>

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1 Grampians Wimmera Mallee Rural Water Authority operated as a statutory authority in 2006-07. It became a statutory corporation on 1 July 2007 and was renamed Grampians Wimmera Mallee Water Corporation.

2 Community service obligation payments were not separately recorded in GWMWater's income statement but were acknowledged in its annual report commentary.

## GRAMPIANS WIMMERA MALLEE WATER (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	638	638	639	796
Total income	\$m	34	34	37	41
Profitability					
Profit before tax	\$'000	-7 168	-7 040	-7 786	-22 800
Operating profit margin	%	-21.6	-21.4	-25.3	-88.4
Cost recovery	%	82.3	82.4	79.8	53.1
Return on assets	%	-1.1	-1.1	-1.2	-3.1
Return on total equity	%	-1.1	-1.1	-1.4	-4.3
Return on operating equity <sup>c</sup>	%	-1.1	-1.1	-1.4	-4.3
Financial management					
Debt to equity	%	0.5	0.5	0.5	0.6
Debt to assets	%	0.5	0.5	0.5	0.6
Total liabilities to equity	%	1.5	1.5	1.9	4.8
Operating liabilities to equity <sup>d</sup>	%	1.5	1.5	1.9	4.8
Interest cover	times	..	..	..	..
Current ratio	%	229.1	145.8	145.4	192.7
Leverage ratio	%	101.5	101.5	101.9	104.8
Payments to and from government					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	—	—	—	—
Grants revenue ratio	%	2.4	2.4	2.5	13.0
CSO funding <sup>e</sup>	\$'000	1 699	1 699	1 832	7 516

<sup>a</sup> Grampians Wimmera Mallee Rural Water Authority (GWMWater) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for GWMWater. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> GWMWater did not report community service obligation payments separately in its income statement. However, they were acknowledged in its annual report commentary. .. Not applicable. — Zero or rounded to zero.

Goulburn–Murray Rural Water Authority (GMW) was established on 1 July 1994 under the *Water Act 1989*.<sup>1</sup> GMW is responsible for the supply, storage and delivery of water to irrigators and regional urban water authorities over an area of 68 000 square kilometres in Northern Victoria. It is also responsible for some bulk water supply outside the region and for the management and operation of several facilities for the Murray–Darling Basin Commission.

The Essential Services Commission became responsible for regulating the pricing and services of GMW on 1 January 2004. Its first price determination, which became effective from 1 July 2006, provided for a price reduction of 2.2 per cent excluding the inflation rate for the two-year period until 30 June 2008.

A loss before tax of \$28.3 million was recorded in 2006-07, considerably higher than the loss of \$4.2 million declared in 2005-06. Total income decreased slightly, by \$1.5 million (1.3 per cent). Total expenses increased by \$22.5 million (18.2 per cent), accounting for GMW's lower profitability. This was largely because of a \$16.6 million increase in maintenance and operating expenses, particularly for irrigation and drainage infrastructure (\$10.7 million).

Total assets increased by \$30.7 million (1.6 per cent) to approximately \$2.0 billion in 2006-07, mainly due to increased receivables and an upwards revaluation of land assets. Total liabilities increased by \$7.7 million (13.8 per cent) because of higher trade payables and employee benefits.

No dividends were paid or provided for, and no income tax-equivalent expense recorded in 2006-07, as GMW made a loss.

Community service obligation (CSO) payments totalling \$21.2 million were received in 2006-07, of which just under \$30 000 was for the provision of concessions to pensioners. The remainder was for the provision of the Drought Relief Rebate Scheme, whereby users receiving less than 50 per cent of their water right allocations were eligible for a rebate on fixed water charges. This scheme was introduced in 2006-07, explaining the drastic increase in CSO payments from \$69 000 provided in 2005-06.<sup>2</sup>

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1 Goulburn–Murray Rural Water Authority operated as a statutory authority in 2006-07. It became a statutory corporation on 1 July 2007 and was renamed Goulburn–Murray Rural Water Corporation.

2 Community service obligation payments were not separately recorded in GMW's income statement but were acknowledged in its annual report commentary.

## GOULBURN–MURRAY RURAL WATER AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

Indicators	Units	Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
		2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	1 938	1 938	1 950	1 981
Total income	\$m	111	111	120	118
Profitability					
Profit before tax	\$'000	-11 410	-11 410	-4 215	-28 250
Operating profit margin	%	-19.7	-19.7	-14.9	-39.7
Cost recovery	%	83.6	83.6	87.1	71.6
Return on assets	%	-0.5	-0.5	-0.2	-1.4
Return on total equity	%	-1.1	-1.1	-0.8	-2.2
Return on operating equity <sup>c</sup>	%	-1.1	-1.1	-0.8	-2.2
Financial management					
Debt to equity	%	0.8	0.8	0.7	0.7
Debt to assets	%	0.8	0.8	0.7	0.7
Total liabilities to equity	%	3.1	3.1	3.0	3.3
Operating liabilities to equity <sup>d</sup>	%	3.1	3.1	3.0	3.3
Interest cover	times	..	..	..	..
Current ratio	%	157.0	128.5	108.5	101.2
Leverage ratio	%	103.1	103.1	103.0	103.3
Payments to and from government					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	—	—	—	—
Grants revenue ratio	%	8.0	8.0	9.1	11.3
CSO funding <sup>e</sup>	\$'000	53	53	69	21 183 <sup>f</sup>

<sup>a</sup> Goulburn–Murray Rural Water Authority (GMW) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for GMW. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports.

<sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> GMW did not report community service obligation payments separately in the income statement. However, they were acknowledged in its annual report commentary.

<sup>f</sup> Included \$21 million for the Drought Relief Rebate Scheme, which provided a rebate on fixed water charges for users who received less than 50 per cent of water right allocation as at 1 December 2006. .. Not applicable. — Zero or rounded to zero.

SunWater was established under the *Government Owned Corporations Act 1993* on 1 October 2000. SunWater owns and operates bulk water storage and distribution infrastructure, and supplies irrigators, industrial and urban bulk water customers.

SunWater has commercial autonomy over pricing, subject to price paths set by the Queensland Government or directives from shareholding Ministers. A new irrigation price path became effective on 1 July 2006.<sup>1</sup>

SunWater reported a profit before tax of \$20.1 million for 2006-07, compared to a loss of \$71 000 for 2005-06. Total income increased by \$13.0 million (10.1 per cent) to \$143 million. This was largely due to an \$11.5 million increase in irrigation and industrial water revenue. Total expenses decreased by \$7.2 million to \$122 million due to lower impairment expenses.

Total assets increased by \$212 million (36.7 per cent) to \$789 million in 2006-07, almost entirely due to increased capital works. Total liabilities increased by \$190 million (121 per cent) because of increased borrowings. SunWater's debt increased by 195 per cent, driving increases in the debt to equity and debt to assets to 72.0 per cent and 45.8 per cent respectively. Higher profitability was reflected in improved return on assets and return on equity.

SunWater is subject to dividend payments. However, the funds are allocated to dividend reinvestment programs that finance water industry initiatives such as fish locks and an online climate forecasting tool. A dividend payment of \$6.2 million was provided for in 2006-07.

Despite recording an operating profit, SunWater recorded a tax credit of \$8.0 million in 2006-07 following an Australian Taxation Office ruling allowing the write-off of expenditure for construction of a water facility in 2004.

SunWater received \$10.1 million in community service obligation (CSO) funding in 2006-07. This was largely accounted for by the Rural Water Subsidy, which compensates SunWater for the regulated pricing shortfall incurred against the efficient costs of storage and distribution of water for irrigation purposes. CSO funding represented 7.1 per cent of total income in 2006-07.

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<sup>1</sup> The price path is for five years until 30 June 2011.



## SUNWATER (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	458	424	577	789
Total income	\$m	151	117	130	143
Profitability					
Profit before tax	\$'000	49 894	-18 671	-71	20 131
Operating profit margin	%	11.7	-19.3	-12.0	16.3
Cost recovery	%	113.2	83.8	89.3	119.5
Return on assets	%	11.5	-4.5	0.6	4.2
Return on total equity	%	2.4	-4.0	-3.1	7.2
Return on operating equity <sup>c</sup>	%	2.4	-4.0	-3.4	8.4
Financial management					
Debt to equity	%	1.9	2.1	25.7	72.0
Debt to assets	%	1.7	1.9	20.6	45.8
Total liabilities to equity	%	14.0	15.3	37.5	78.6
Operating liabilities to equity <sup>d</sup>	%	7.7	9.0	38.2	83.0
Interest cover	times	94.3	..	1.0	5.0
Current ratio	%	301.1	281.4	122.8	130.8
Leverage ratio	%	107.7	109.0	138.2	183.0
Payments to and from government					
Dividends	\$'000	373	373	3 003	6 170
Dividend to equity ratio	%	0.1	0.1	0.8	1.7
Dividend payout ratio	%	3.9	..	..	20.0
Income tax expense	\$'000	3 729	-7 048	-1 366	-8 031
Grants revenue ratio	%	—	—	4.3	0.1
CSO funding	\$'000	6 097	6 097	6 556	10 073

<sup>a</sup> SunWater commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for SunWater. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Water Corporation was established on 1 January 1996 under the *Water Corporation Act 1995* and operates under a 25 year licence issued by the Economic Regulation Authority.<sup>1</sup> It provides water and wastewater services to almost 2 million people across urban and regional Western Australia, covering an area of 2.5 million square kilometres. The Perth Seawater Desalination Plant was commissioned and began producing drinking water in November 2006. It provides 17 per cent of Perth's drinking water annually (Water Corporation 2007).

The WA Government is responsible for setting water prices. The average general price increased by 3.6 per cent in 2006-07. As in the previous two financial years, this increase was in line with the consumer price index.

Profit before tax increased by \$51.0 million (7.5 per cent) to \$732 million in 2006-07. Total income increased by 10.6 per cent, to almost \$1.6 billion, because of increased revenue from service and volume charges (\$70.0 million) and developer contributions (\$56.0 million). Total expenses increased by 12.8 per cent to \$835 million, due to a rise in most expense items.

Total assets increased by \$523 million (4.9 per cent) in 2006-07, primarily due to investments in capital infrastructure, particularly systems assets. Total liabilities increased by \$367 million (17.8 per cent) due to increased borrowings associated with infrastructure expansion. Debt increased by 22.4 per cent to \$1.8 billion in 2006-07, which increased debt to equity and debt to assets by 3.4 and 2.4 percentage points respectively.

Water Corporation is subject to dividend and income tax-equivalent payments. Water Corporation's dividend policy is to pay 85 per cent of after-tax profits. It made dividend payments of \$356 million in 2006-07. An income tax-equivalent expense of \$218 million was also recorded.

Water Corporation receives community service obligation (CSO) payments for costs incurred in providing country services, pensioner concessions and a program to eliminate septic tanks. CSO payments increased by \$20.0 million (5.9 per cent) to total \$360 million in 2006-07. This accounted for 23.0 per cent of Water Corporation's total income.

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<sup>1</sup> The operating licence was issued in 1996 and expires in 2011.

## WATER CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06 <sup>c</sup>	2006-07
Size					
Total assets	\$m	10 094	10 054	10 579	11 102
Total income	\$m	1 315	1 314	1 416	1 566
Profitability					
Profit before tax	\$'000	605 034	602 996	681 000	732 000
Operating profit margin	%	49.7	49.7	51.2	51.3
Cost recovery	%	198.9	199.0	205.1	205.3
Return on assets	%	6.6	6.6	7.2	7.5
Return on total equity	%	5.5	5.5	6.1	6.7
Return on operating equity <sup>c</sup>	%	5.3	5.3	5.9	6.5
Financial management					
Debt to equity	%	12.3	12.3	16.8	20.2
Debt to assets	%	10.7	10.7	14.4	16.8
Total liabilities to equity	%	19.4	19.6	24.2	28.0
Operating liabilities to equity <sup>d</sup>	%	15.4	14.9	19.9	23.4
Interest cover	times	11.8	11.1	12.9	10.2
Current ratio	%	34.9	39.8	58.5	66.0
Leverage ratio	%	115.4	114.9	119.9	123.4
Payments to and from government					
Dividends	\$'000	311 477	306 627	362 000	356 000
Dividend to equity ratio	%	3.6	3.5	4.1	4.0
Dividend payout ratio	%	67.2	65.8	70.2	61.7
Income tax expense	\$'000	183 531	179 879	202 000	218 000
Grants revenue ratio	%	—	0.5	0.8	0.6
CSO funding	\$'000	288 253	288 253	340 000	360 000

<sup>a</sup> Water Corporation commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Water Corporation.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

South Australian Water Corporation (SA Water) was established under the *South Australian Water Corporation Act 1994*, and operates subject to the *Public Corporations Act 1993*. SA Water provides water and wastewater services to over 1.5 million customers in metropolitan and country areas of SA.<sup>1</sup>

Charges for water and sewerage services are set by the SA Government. The Essential Service Commission of South Australia is engaged to conduct annual inquiries into the pricing decisions that are independent and publicly available.

Profit before tax decreased by \$12.6 million (3.9 per cent) to \$312 million in 2006-07. Total income increased by \$25.3 million (3.0 per cent) to \$857 million due to higher revenue from water rates and charges. This was outweighed by a \$37.6 million (7.4 per cent) increase in total expenses, largely because of higher operational and service contract costs, and depreciation expenses.

Total assets increased by \$729 million (10.1 per cent) in 2006-07, mainly because of additions to infrastructure, plant and equipment. Total liabilities increased by \$246 million (12.0 per cent) because of an increase in deferred tax liabilities and the value of finance leases relating to Build Own Operate Transfer agreements.

SA Water is subject to dividend and income tax-equivalent payments. Dividends of \$208 million were paid in 2006-07, down 4.3 per cent from 2005-06. An income tax-equivalent expense of \$94.2 million was recorded for 2006-07.

SA Water receives community service obligation (CSO) payments related to the cost of water and wastewater services in country areas, the administration of a pensioner concession scheme, and the provision of water and wastewater concessions to exempt properties, such as charities. CSO payments totalled \$156 million in 2006-07, comprising 18.2 per cent of total income.

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<sup>1</sup> South Australian Water Corporation contracts out some tasks and management of systems. For example, it contracts United Water to maintain and operate its metropolitan water and waste water assets.

## SOUTH AUSTRALIAN WATER CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	7 032	7 044	7 224	7 954
Total income	\$m	775	783	832	857
Profitability					
Profit before tax	\$'000	287 699	278 388	324 402	311 833
Operating profit margin	%	47.5	46.6	49.3	46.8
Cost recovery	%	190.4	187.4	197.2	188.1
Return on assets	%	5.3	5.2	5.8	5.3
Return on total equity	%	5.0	5.5	6.0	5.6
Return on operating equity <sup>c</sup>	%	4.9	5.0	5.5	5.0
Financial management					
Debt to equity	%	23.1	23.1	22.7	21.3
Debt to assets	%	18.5	18.5	18.5	18.1
Total liabilities to equity	%	27.0	38.2	39.3	40.3
Operating liabilities to equity <sup>d</sup>	%	24.9	24.9	24.6	23.3
Interest cover	times	4.6	4.2	4.7	4.5
Current ratio	%	88.9	116.0	61.1	54.5
Leverage ratio	%	124.9	124.9	124.6	123.3
Payments to and from government					
Dividends	\$'000	155 189	155 189	217 455	208 059
Dividend to equity ratio	%	2.8	2.8	3.8	3.4
Dividend payout ratio	%	56.3	55.1	70.2	68.2
Income tax expense	\$'000	91 337	82 597	97 809	94 217
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	103 440	103 440	152 180	156 210

<sup>a</sup> South Australian Water Corporation (SA Water) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for SA Water. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Hobart Regional Water Authority, trading as Hobart Water, was established as a Joint Authority on 1 January 1997 under the *Local Government Act 1993*. Hobart Water's primary function is to supply bulk water to its owner-councils.<sup>1</sup> In addition, it provides water to some irrigators and commercial operators in outlying rural areas, as well as residential customers who cannot be serviced by their local council.

Every three years the Government Prices Oversight Commission (GPOC) conducts an investigation into pricing policy and recommends maximum charges and revenues for the following three years.<sup>2</sup> Maximum charges for bulk water are determined by the Minister for Local Government based on the GPOC recommendations. Hobart Water has a two-part tariff structure. Water charges increased by the consumer price index (2.9 per cent) in 2006-07.

Profit before tax increased by 4.1 per cent to \$5.0 million in 2006-07. Total income increased by \$1.2 million (4.2 per cent), because revenue from water sales was \$1.5 million higher than in 2005-06. Total expenses increased by \$2.1 million (9.4 per cent), due to general cost increases.

Hobart Water's assets increased by \$116 million (60.2 per cent) to \$310 million in 2006-07, almost entirely due to asset revaluations. Total liabilities increased by \$33.0 million (62.2 per cent) to \$86.1 million because of higher deferred tax liabilities.

Hobart Water paid a dividend of \$4.0 million from retained earnings from 2005-06 profit and it is expected that a dividend of \$3.4 million will be declared from the 2006-07 profit. It recorded an income tax-equivalent expense of \$1.5 million in 2006-07.

No community service obligation payments were made in 2006-07. However, Hobart Water provides recreational facilities at three sites under agreement with its owner-councils. It reported expenses of \$279 000 to provide these facilities in both 2005-06 and 2006-07.

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<sup>1</sup> The councils that comprise the Joint Authority are Brighton, Clarence City, Derwent Valley, Glenorchy City, Hobart City, Kingborough, Sorell and Southern Midlands.

<sup>2</sup> The most recent report was published in June 2007. Under the *Government Prices Oversight Act 1995*, the recommendations can take the form of maximum revenues, maximum prices, pricing principles or a combination of these.

## HOBART REGIONAL WATER AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	191	189	193	310
Total income	\$m	26	25	28	29
Profitability					
Profit before tax	\$'000	4 857	4 861	4 808	5 003
Operating profit margin	%	27.0	27.1	22.2	17.5
Cost recovery	%	137.1	137.1	128.6	121.3
Return on assets	%	4.8	4.8	4.6	3.5
Return on total equity	%	3.2	3.5	2.4	1.5
Return on operating equity <sup>c</sup>	%	3.1	3.3	2.2	1.3
Financial management					
Debt to equity	%	22.2	22.6	22.2	12.4
Debt to assets	%	17.5	17.7	17.5	13.3
Total liabilities to equity	%	31.2	35.7	37.8	38.5
Operating liabilities to equity <sup>d</sup>	%	26.6	28.1	28.1	15.7
Interest cover	times	2.2	2.2	2.2	2.3
Current ratio	%	114.1	114.1	142.0	110.3
Leverage ratio	%	126.6	128.1	128.1	115.7
Payments to and from government					
Dividends	\$'000	2 800	2 800	3 400	4 000
Dividend to equity ratio	%	1.9	1.9	2.3	1.9
Dividend payout ratio	%	59.9	57.8	103.2	146.8
Income tax expense	\$'000	1 485	1 324	1 773	1 544
Grants revenue ratio	%	—	—	—	—
CSO funding <sup>e</sup>	\$'000	—	—	—	—

<sup>a</sup> Hobart Water commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Hobart Water. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> No community service obligation (CSO) funding was specified in Hobart Water's annual reports. However, it did report a CSO administration expense of \$252 000 for 2004-05, \$279 000 for 2005-06 and \$279 000 for 2006-07. — Zero or rounded to zero.

Cradle Coast Water (CCW) was established as a Joint Authority on 10 August 1999 under the *Local Government Act 1993*. CCW collects, treats and supplies bulk drinking water to its six owner-councils — Circular Head, Waratah–Wynyard, Central Coast, Devonport, Latrobe and Kentish.

Every three years, the Government Prices Oversight Commission (GPOC) conducts an investigation into pricing policy and recommends maximum charges and revenues.<sup>1</sup> Maximum charges for bulk water are determined by the Minister for Local Government based on the GPOC recommendations. CCW has a two-part tariff structure. The average price of bulk water decreased by 2.3 per cent in 2006-07, as water consumption increased.

Profit before tax of \$1.4 million was recorded in 2006-07, 22.9 per cent higher than in 2005-06. Total income increased by \$1.1 million (12.3 per cent), mainly due to increased water sales revenue. Total expenses increased by \$1.0 million (13.7 per cent) because of higher bulk water production costs, depreciation and maintenance costs.

Total assets increased by \$6.2 million (6.3 per cent) to \$105 million in 2006-07. This is due to increased capital works, revaluations of water infrastructure and cash holdings. Total liabilities increased by \$2.2 million (6.8 per cent), mostly because of an increase in deferred tax liabilities.

In 2006-07, CCW distributed \$623 900 in dividends from 2005-06 profit to its owner-councils in various proportions. It recorded an income tax-equivalent expense of \$390 000 in 2006-07.

Cradle Coast Water did not receive community service obligation payments in 2006-07.

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<sup>1</sup> The most recent report was published in June 2007. Under the *Government Prices Oversight Act 1995*, the recommendations can take the form of maximum revenues, maximum prices, pricing principles or a combination of these.



## CRADLE COAST WATER (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	65	70	99	105
Total income	\$m	9	9	9	10
Profitability					
Profit before tax	\$'000	1 488	1 463	1 127	1 385
Operating profit margin	%	31.1	30.8	27.4	25.7
Cost recovery	%	145.1	144.5	137.8	134.6
Return on assets	%	4.4	4.3	3.1	2.8
Return on total equity	%	6.1	5.0	3.6	3.1
Return on operating equity <sup>c</sup>	%	6.2	5.7	3.6	2.9
Financial management					
Debt to equity	%	52.4	52.7	31.2	28.5
Debt to assets	%	33.2	33.2	27.7	22.3
Total liabilities to equity	%	56.9	51.8	47.3	47.6
Operating liabilities to equity <sup>d</sup>	%	57.8	58.9	34.7	32.0
Interest cover	times	2.1	2.1	1.8	2.0
Current ratio	%	48.9	49.5	127.1	90.1
Leverage ratio	%	157.8	158.9	134.7	132.0
Payments to and from government					
Dividends	\$'000	629	629	744	624
Dividend to equity ratio	%	1.5	1.6	1.3	0.8
Dividend payout ratio	%	25.1	27.2	37.0	28.8
Income tax expense	\$'000	241	403	374	390
Grants revenue ratio	%	—	—	—	0.5
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Cradle Coast Water (CCW) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for CCW. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Esk Water Authority, trading as Esk Water, was established as a Joint Authority on 25 June 1997 under the *Local Government Act 1993*. Esk Water supplies bulk water to its four owner-councils — Launceston City, George Town, Meander Valley and West Tamar.<sup>1</sup> It also supplies industrial users in the Launceston–Tamar Valley region.

Every three years, the Government Prices Oversight Commission (GPOC) conducts an investigation into pricing policy and recommends maximum charges and revenues.<sup>2</sup> Maximum charges for bulk water are determined by the Minister for Local Government based on the GPOC recommendations. Esk Water has a two-part tariff structure. Water charges increased by the consumer price index (2.9 per cent) in 2006-07.

Profit before tax increased slightly to \$3.4 million in 2006-07. Total income increased by \$1.2 million (12.5 per cent), to \$10.8 million in 2006-07, mostly due to increased revenue from bulk water sales. Total expenses increased slightly to \$7.2 million.

Total assets increased by \$7.8 million (6.6 per cent) to \$125 million, due to increased cash holdings and a revaluation of systems infrastructure. Total liabilities increased by \$2.5 million (12.7 per cent) to \$22.5 million, because of higher deferred tax liabilities.

In 2006-07, Esk Water distributed \$1.8 million in dividends. It recorded an income tax-equivalent expense of \$1.1 million in 2006-07, up 20.2 per cent from 2005-06.

Esk Water did not receive community service obligation funding in 2006-07.

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<sup>1</sup> On its inception, Esk Water received its initial equity from the State Government (88 per cent), Launceston City Council (11 per cent) and Meander Valley Council (1 per cent).

<sup>2</sup> The most recent report was published in June 2007. Under the *Government Prices Oversight Act 1995*, the recommendations can take the form of maximum revenues, maximum prices, pricing principles or a combination of these.

## ESK WATER AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	121	127	118	125
Total income	\$m	9	10	10	11
Profitability					
Profit before tax	\$'000	2 872	3 103	3 134	3 423
Operating profit margin	%	30.7	25.2	35.3	27.8
Cost recovery	%	144.2	133.6	154.6	138.5
Return on assets	%	2.5	2.7	2.8	3.0
Return on total equity	%	1.7	1.3	2.6	1.7
Return on operating equity <sup>c</sup>	%	1.6	1.2	2.4	1.5
Financial management					
Debt to equity	%	1.7	1.7	—	—
Debt to assets	%	1.7	1.7	—	—
Total liabilities to equity	%	8.8	23.7	20.4	21.8
Operating liabilities to equity <sup>d</sup>	%	3.8	4.3	2.4	2.4
Interest cover	times	15.8	26.9	27.6	..
Current ratio	%	248.2	242.0	839.2	1 267.8
Leverage ratio	%	103.8	104.3	102.4	102.4
Payments to and from government					
Dividends	\$'000	1 622	1 662	1 608	1 765
Dividend to equity ratio	%	1.4	1.4	1.4	1.6
Dividend payout ratio	%	86.7	124.2	60.5	103.6
Income tax expense	\$'000	972	995	900	1 082
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Esk Water commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Esk Water. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

ACTEW Corporation (ACTEW) was established on 1 July 1995 and operates in accordance with the *Corporations Act 2001*. It provides water and sewerage services to over 135 000 domestic and commercial customers in the ACT and Queanbeyan. ActewAGL — a joint venture with the privately-owned energy company AGL — provides gas and electricity services, and is contracted to operate and maintain ACTEW Corporation's water and sewerage networks.

ACTEW owns a 50 per cent interest in ActewAGL.<sup>1</sup> In addition, ACTEW holds a 20.1 per cent interest in TransACT Communications Pty Ltd, a broadband and telecommunications provider in the Canberra area.<sup>2</sup>

The ACT Independent Competition and Regulatory Commission (ICRC) sets prices for water and sewerage services. Price paths of CPI plus 2.5 per cent for water and CPI plus 1 per cent for wastewater were determined for the four years commencing 1 July 2004, allowing some flexibility for unforeseen cost increases. The ICRC decided to defer cost recovery until 2007-08 to limit price increases in 2006-07.

Profit before tax decreased by \$8.2 million (8.8 per cent) to \$84.9 million in 2006-07. Total income increased by \$16.6 million (7.4 per cent) to \$241 million, mainly due to an increase in the water abstraction charge collected by ACTEW on behalf of the ACT Government.<sup>3</sup> Expenses increased by \$24.8 million (18.8 per cent) to \$157 million because of the water abstraction charge increase and higher finance costs.

Total assets increased by \$357 million (25.6 per cent) to almost \$1.8 billion in 2006-07, because of a revaluation of water and sewage assets. Liabilities increased by \$120 million (19.4 per cent) to \$737 million due to higher deferred tax liabilities.

Dividends of \$64.4 million were provided for in 2006-07. ACTEW recorded an income tax-equivalent expense of \$20.5 million. ACTEW is not subject to community service obligations. However, it received \$9.4 million in Commonwealth funding to assist with water supply and sewerage services due to difficulties related to the inland location and national capital influences of the ACT.

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<sup>1</sup> ActewAGL's operations are included in ACTEW's financial results using the 'equity method'. ActewAGL reported assets of \$915 million and revenue of \$593 million in 2006-07.

<sup>2</sup> In 2006-07, ACTEW's share in TransACT Communications Pty Ltd was reduced from 24.9 per cent to 20.1 per cent following a share restructure and capital raising.

<sup>3</sup> From 1 July 2006, the water abstraction charge was increased from 25 cents per kilolitre to 55 cents per kilolitre. It covers catchment management and other government water supply expenses, as well as an element for scarcity and environmental effects.

## ACTEW CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	1 363	1 381	1 394	1 751
Total income	\$m	193	194	225	241
Profitability					
Profit before tax	\$'000	89 487	90 272	93 096	84 894
Operating profit margin	%	44.0	45.1	34.3	26.8
Cost recovery	%	178.4	182.1	152.1	136.5
Return on assets	%	8.3	8.3	8.6	7.2
Return on total equity	%	5.8	6.1	3.0	3.0
Return on operating equity <sup>c</sup>	%	4.8	5.2	2.5	2.4
Financial management					
Debt to equity	%	38.4	38.4	39.2	29.0
Debt to assets	%	26.5	26.5	27.3	24.3
Total liabilities to equity	%	74.5	73.8	79.5	72.8
Operating liabilities to equity <sup>d</sup>	%	45.0	44.9	44.9	33.2
Interest cover	times	5.0	5.0	4.8	4.1
Current ratio	%	75.9	75.9	115.0	102.5
Leverage ratio	%	145.0	144.9	144.9	133.2
Payments to and from government					
Dividends	\$'000	94 021	94 021	60 530	64 436
Dividend to equity ratio	%	10.1	10.1	6.4	5.7
Dividend payout ratio	%	208.7	194.8	258.7	240.6
Income tax expense <sup>e</sup>	\$'000	18 291	18 055	32 566	20 458
Grants revenue ratio	%	4.7	4.7	4.1	3.9
CSO funding <sup>f</sup>	\$'000	—	—	—	—

<sup>a</sup> ACTEW Corporation (ACTEW) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for ACTEW. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> In 2004-05, there was an \$8.8 million negative tax expense adjustment because of over-provision in 2003-04. <sup>f</sup> ACTEW did not receive community service obligation payments. However, it received a Commonwealth subvention, of \$9.3 million in 2005-06, to help fund water supply and sewerage services in the ACT. – Zero or rounded to zero.



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## 7 Urban transport

### Key points

- The performances of five urban transport government trading enterprises (GTEs) are presented in this chapter. Together they controlled assets valued at \$5.2 billion and generated \$1.6 billion of total income in 2006-07.
- Overall, the profit before tax of urban transport GTEs increased by \$76.3 million in real terms to \$59.6 million in 2006-07. Within the sector:
  - most of the increase in profit before tax was attributable to two GTEs — Public Transport Authority and Sydney Ferries Corporation
  - profit (in real terms) decreased for two GTEs
  - one GTE recorded a loss before tax.
- Return on assets improved from 2.4 per cent to 2.9 per cent in 2006-07. However, all of the monitored GTEs failed to earn a risk-free rate of return.
- Debt to assets for the sector decreased from 46.3 per cent to 22.4 per cent in 2006-07. All urban transport GTEs operated with debt.
- Only TransAdelaide made dividend payments to its owner-government, totalling \$5.3 million. The sector recorded an income tax-equivalent expense of \$607 000 in 2006-07.
- Two urban transport GTEs received community service obligation (CSO) funding totalling \$45.7 million in 2006-07. CSO payments comprised 2.8 per cent of sector income.

The financial performances of five urban transport government trading enterprises (GTEs) are reported in this chapter. Together they controlled \$5.2 billion in assets and generated around \$1.6 billion in income in 2006-07.

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

There are some differences between measured performance for 2004-05 and 2005-06 in this and earlier reports because of changes in accounting standards, data sources and indicators (chapter 1). Further, the set of monitored GTEs can change

over time because of restructuring and privatisation. Consequently, care should be exercised in making performance comparisons over longer time periods than that covered in this report.

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

## 7.1 Monitored GTEs

The monitored GTEs vary in their size, corporate structure, and in the range of services they provide. The primary activities of most urban transport GTEs are the provision of bus and ferry services (table 7.1). TransAdelaide and the WA Public Transport Authority (PTA) are also responsible for providing rail services.

Queensland Rail and the Victorian V/Line Passenger Corporation also provide urban transport services as part of their broader rail operations. The performance of these two GTEs is reported in chapter 8.

Total assets controlled by the monitored urban transport GTEs grew by \$278 million (5.7 per cent) in real terms between 2005-06 and 2006-07 (figure 7.1). Most of the growth was attributable to PTA, which increased its total assets by 10.0 per cent in real terms, mainly because of capital investment and revaluations of existing assets. Total assets held by Metro Tasmania (Metro) and State Transit Authority (STA) also grew by 2.1 per cent and 0.8 per cent respectively.

Table 7.1 **Activities — monitored urban transport GTEs, 2006-07**

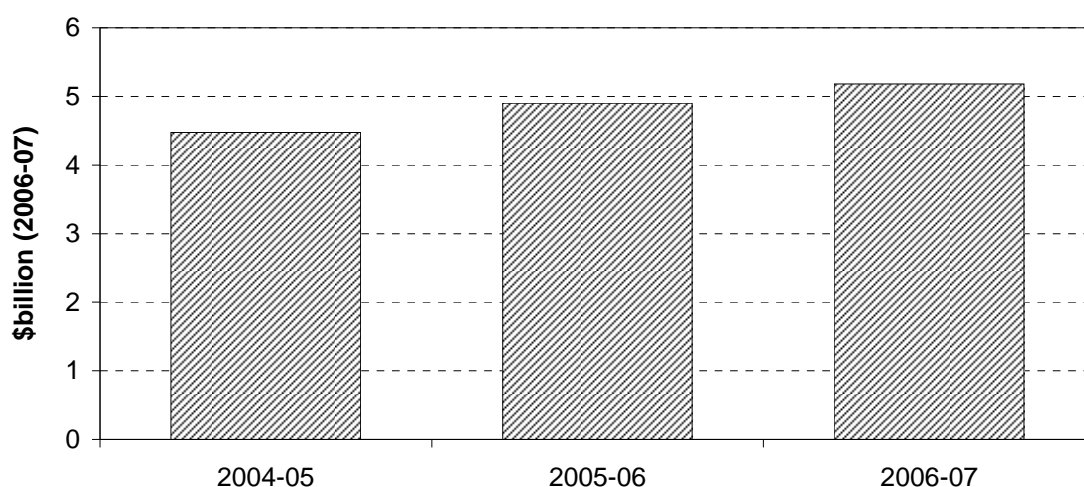
	<i>State</i>	<i>Bus</i>	<i>Ferry</i>	<i>Tram</i>	<i>Train</i>
State Transit Authority	NSW	✓	✓	x	x
Sydney Ferries Corporation	NSW	x	✓	x	x
Public Transport Authority <sup>a</sup>	WA	✓	✓	x	✓
TransAdelaide <sup>b</sup>	SA	x <sup>c</sup>	x	✓	✓
Metro Tasmania	Tas	✓	x	x	x

<sup>a</sup> In addition to its passenger transport activities, the Public Transport Authority is responsible for managing rail infrastructure in Western Australia, principally through its New MetroRail. <sup>b</sup> In addition to its passenger transport activities, TransAdelaide is the infrastructure manager for the Adelaide metropolitan rail network.

<sup>c</sup> TransAdelaide does not operate bus services in its own right. However, it has a joint-venture operation that provides bus services in the Adelaide Hills.



Figure 7.1 Sector assets — urban transport GTEs<sup>a</sup>

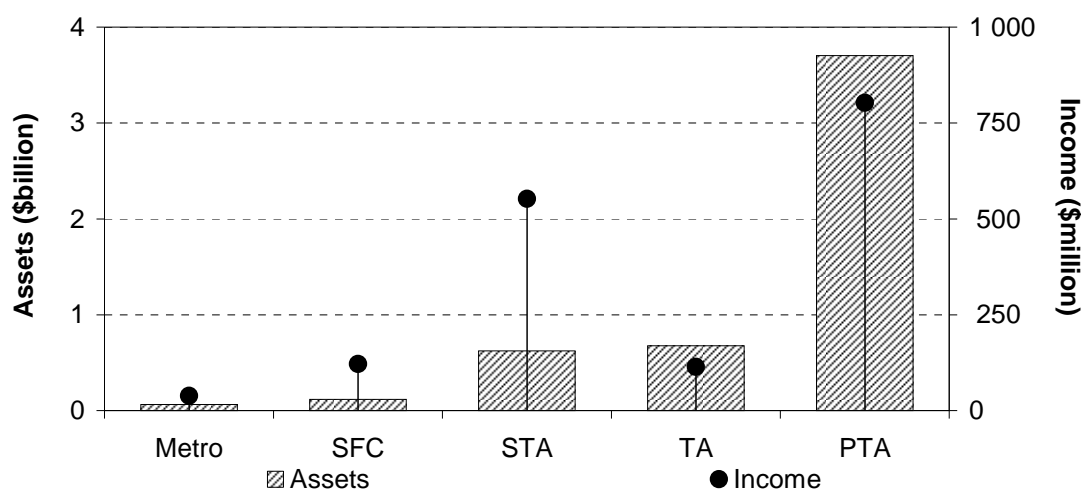


<sup>a</sup> The value of sector assets is reported in 2006-07 dollars using the ABS implicit price deflator — gross fixed capital formation for public corporations (chapter 1).

Source: Productivity Commission estimates.

The relative size of monitored urban transport GTEs (measured in terms of assets and total income) is shown in figure 7.2. PTA is the largest urban transport GTE, accounting for 71.5 per cent of total urban transport assets and 49.3 per cent of sector income in 2006-07.

Figure 7.2 Assets and total income — urban transport GTEs, 2006-07



Source: Productivity Commission estimates.

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## 7.2 Market environment

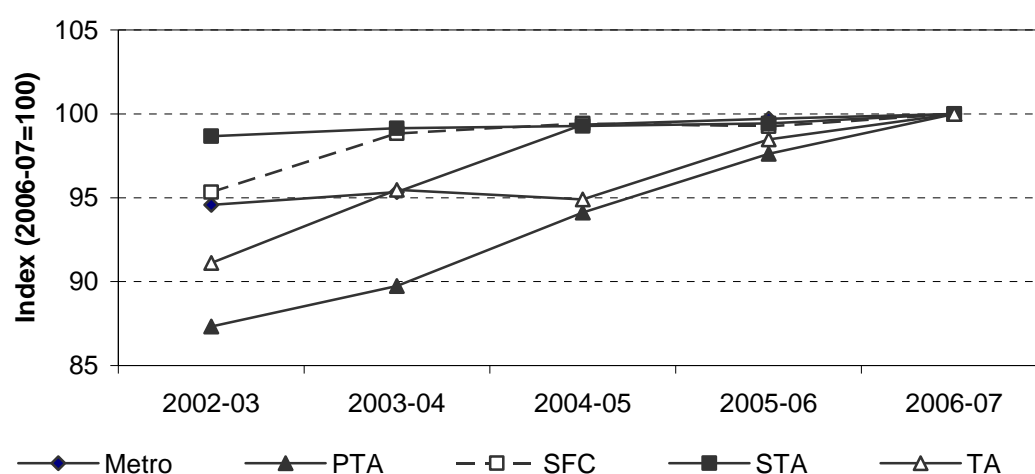
The financial performances of urban transport GTEs are affected by the market environment in which they operate. The demand for passenger services depends on a number of factors, including quality of service, competition from private operators of urban transport, consumer income, the cost of alternative methods of transport (including those associated with driving and parking privately-owned motor vehicles), as well as the level of fares and urban demographics.

### Patronage

Patronage growth was steady or increasing for urban transport in 2006-07, representing a continuation of the increasing patronage observed in 2005-06 (figure 7.3). PTA, TransAdelaide, Sydney Ferries Corporation (SFC) and STA recorded growth in patronage of 2.4 per cent, 1.5 per cent, 0.7 per cent and 0.6 per cent respectively. Metro recorded steady passenger trip numbers of 10.1 million in 2006-07.

For each GTE, patronage growth varied between passenger types and modes of travel. For example, STA reported patronage growth of 13.1 per cent on its Liverpool–Parramatta T-Way network, while patronage of its Newcastle bus and ferry services declined by 0.8 per cent. TransAdelaide noted that its tram patronage grew by 14.0 per cent, but its train passenger numbers fell by 0.7 per cent. Metro

Figure 7.3 Passenger trip trends — urban transport GTEs



Sources: Metro (2007); PTA (2007); SFC (2007); STA (2007); TA (2007); TTF (2007).

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reported a 0.5 per cent increase in urban patronage and a 2.7 per cent decrease in regional patronage (although Metro attributes this to the sale of the Richmond service in February 2007).

## **Regulatory and structural arrangements**

Institutional and regulatory reform has been aimed at reducing the reliance of service providers on government subsidies by commercialising services. It has also focused on promoting efficiency by exposing service providers to more competitive markets (PC 2005c). The principal areas of reform in urban transport have been in supplier market competition and the setting of fares.

### *Market competition*

Some aspects of the National Competition Policy reforms have had an impact on administrative and operational arrangements in the urban transport sector. These include the application of competitive neutrality principles, the contracting out of some services and, from 2005-06, the use of funding contracts to provide performance incentives.

Competitive tendering arrangements have been introduced to provide incentives for improved commercial performance. Urban transport GTEs have been required to compete with private-sector providers for the right to operate certain urban passenger services in South Australia, New South Wales and Victoria.

Since 1995-96, TransAdelaide has been required to compete with the private sector on the basis of a set of costing rules designed to ensure competitive neutrality. TransAdelaide ceased providing bus services after it was unsuccessful in tendering for service contracts with the Passenger Transport Board (PTB) on 22 April 2000. However, it continues to participate in a joint venture with Australian Transit Enterprises to operate bus services in the Adelaide Hills.

State Transit Authority expanded its bus services in Western Sydney after winning a tender to deliver high frequency services along the Liverpool–Parramatta T-Way. STA was awarded the contract in January 2002 ahead of competition from Australian and multinational companies. Services commenced under the new contract in February 2003.

State Transit Authority has made the transition to contract-based funding over the past three years. Four metropolitan bus contracts were signed in 2005-06, followed by a fifth relating to Newcastle buses in 2006-07. According to STA's annual

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report, the funding provided under the new contract will eliminate cross-subsidisation from other STA services to the Newcastle bus services.

The new system of contract-based funding includes payments for achieving certain performance and patronage levels. For example, STA received an incentive payment of \$1.5 million in 2006-07, for exceeding fare revenue benchmarks.

### *Fares*

Prices for the services provided by urban transport GTEs are determined by either the responsible minister or the regulatory authority, namely:

- South Australia — Minister for Transport, Energy and Infrastructure<sup>1</sup>
- New South Wales — Independent Pricing and Regulatory Tribunal
- Western Australia — Minister for Planning and Infrastructure
- Tasmania — Minister for Infrastructure, Energy and Resources, after considering reports by the Government Prices Oversight Commission.

Prices were increased by STA, SFC, PTA and Metro in 2006-07. Fare increases varied between GTEs and ticket types. Increases were restricted to the CPI for PTA, while SFC was allowed an increase of 3.9 per cent. Metro restructured adult fares, resulting in an increase in some fares. Student prices remained at their previous levels for both Metro and PTA.

## **7.3 Profitability**

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

Four of the five urban transport GTEs recorded a profit before tax in 2006-07. STA, PTA and Metro improved their profitability from 2005-06 to 2006-07.<sup>2</sup> On the other hand, TransAdelaide's profit before tax fell by \$16.0 million in real terms from 2005-06.<sup>3</sup> SFC made losses each year from 2004-05 to 2006-07. SFC's loss declined from \$57.2 million in 2005-06 (2006-07 dollars) to \$5.0 million in

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<sup>1</sup> Prices were determined by PTB until its abolition at the end of December 2003.

<sup>2</sup> Public Transport Authority's higher profit was due to an increase of \$100 million in funding from the WA Government in 2006-07.

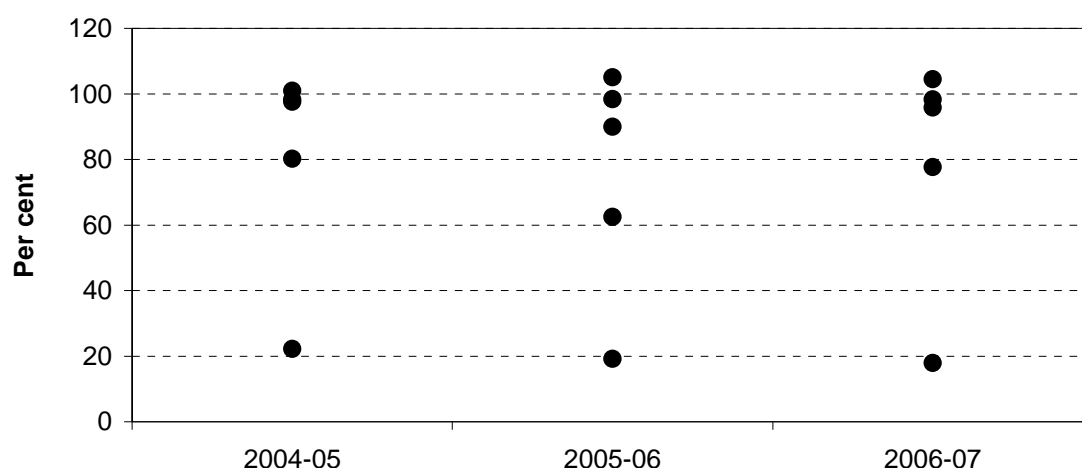
<sup>3</sup> The positive profit before tax in 2005-06 was attributed to the recognition of \$24.6 million in capital grant income related to the sale of tram infrastructure assets.

2006-07, in part due to receiving an additional \$27.0 million government grant.<sup>4</sup> This additional funding provided for safety improvements and short-term debt reduction.

Most urban transport GTEs did not fully recover their operating costs in any year in the period 2004-05 to 2006-07 (figure 7.4). That is, their revenue from operations was insufficient to meet expenses from operations.<sup>5</sup>

State Transit Authority was the only GTE in this sector to record a cost recovery ratio greater than 100 per cent in any of the three financial years. PTA had the lowest level of cost recovery, 17.9 per cent in 2006-07 (down from 19.1 per cent in 2005-06). Despite this, PTA recorded a positive profit before tax because most of its revenue comes from the WA Government in the form of grants and service appropriations. Self-generated revenue from operations contributed only 15.6 per cent of its total income in 2006-07.

Figure 7.4 **Cost recovery — urban transport GTEs<sup>a</sup>**



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

Source: Productivity Commission estimates.

<sup>4</sup> Sydney Ferries Corporation notes in its 2005-06 annual report that the operating loss was largely the result of a fleet devaluation of \$35.8 million to revalue the fleet at current depreciated replacement cost.

<sup>5</sup> With a cost recovery ratio of less than 100 per cent, GTEs can still record a profit because of revenue and expense items other than revenue and expenses from operations. Definitions of these measures are provided in chapter 1.

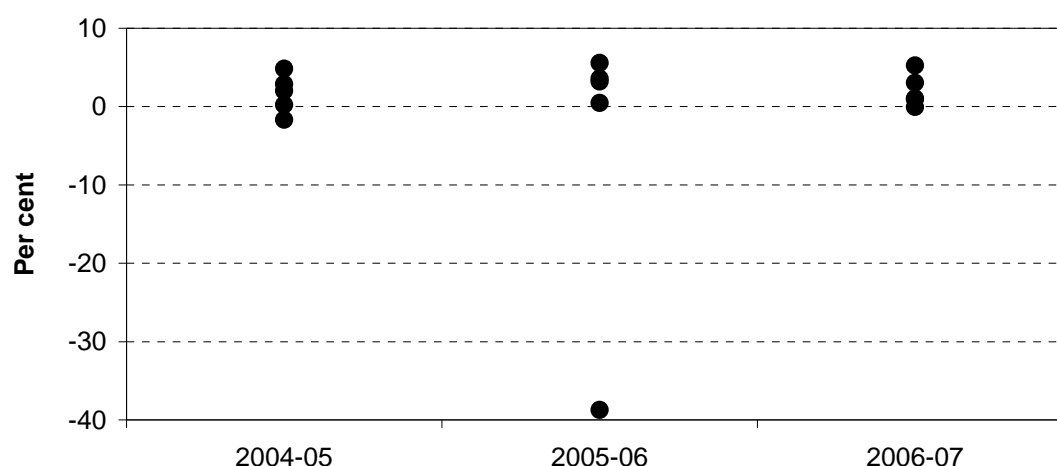
Four of the five urban transport GTEs recorded a positive return on assets in 2006-07, the same number (and the same GTEs) that did so in 2005-06 (figure 7.5).

However, all of the urban transport GTEs had a return on assets that was less than the risk-free rate of return.<sup>6</sup> The highest rate of return on assets recorded over the past three years was by STA (5.5 per cent in 2005-06). SFC had negative returns on assets in 2005-06 and 2006-07 (-38.8 per cent and -0.1 per cent respectively).

This suggests that the operations of urban transport GTEs might not be commercially sustainable at current levels of performance. For example, an urban transport GTE that does not achieve a commercial rate of return might be unable to adequately invest in, or maintain, its capital assets (chapter 4).

Governments might not require a commercial rate of return from urban transport GTEs because urban transport provides external benefits not captured on the balance sheet. Examples include reductions in road user cost, environmental benefits and access for the young, elderly and poor. However, the approach of not explicitly funding CSOs is inconsistent with the commercialisation model, the central focus of the reform process.

**Figure 7.5 Return on assets — urban transport GTEs<sup>a</sup>**



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

Source: Productivity Commission estimates.

<sup>6</sup> The risk-free rate of return is defined as the 2006-07 interest rate on 10-year Australian Government bonds of 5.8 per cent (RBA 2008).

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Alternatively, governments could believe that there is scope for further efficiency gains within the GTEs and set prices to reflect the efficient cost of service provision. In that case, low returns would be indicative of inefficient operations.

Return on assets is influenced by a wide range of factors, including changes in revenue and expenses, and changes in asset values — through asset transfers, sale and lease-buy-back arrangements, asset revaluations, asset disposals and depreciation.

Return on equity — the GTE's operating earnings for the year before interest and after tax expressed as a proportion of equity held in the business — tends to move broadly in line with return on assets. However, it is affected by changes in the value of liabilities as well as in the value of total assets.

Only STA achieved a positive return on equity in 2006-07 (9.0 per cent), the same outcome as in 2005-06. TransAdelaide and Metro reported returns of -0.9 per cent and -2.7 per cent respectively, while SFC and PTA reported returns of -71.1 per cent and -32.6 per cent respectively.

## **7.4 Financial management**

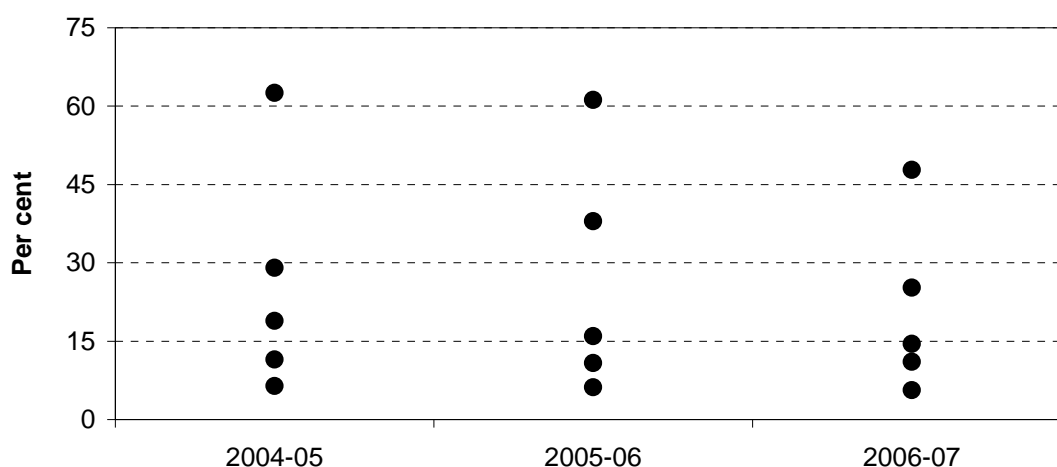
Financial management indicators provide information about the capital structure of a GTE and its ability to meet the cost of servicing debt and other liabilities as they fall due.

Most of the urban transport GTEs had a relatively low level of borrowings in 2006-07. Three out of the five had debt to assets of less than 15.0 per cent (figure 7.6).

The debt to assets of three of the five urban transport GTEs decreased in 2006-07. The exceptions were TransAdelaide (increased to 11.1 per cent in 2006-07) and SFC (increased to 47.8 per cent in 2006-07). In the case of STA, its debt to assets decreased, despite a steady level of borrowing, because of an increase in its total assets.

Sound financial management requires that profits are sufficient to ensure interest payments can be met. A high level of interest cover — the ratio of earnings before interest and tax to gross interest — indicates that a GTE can sustain a fall in profit or an increase in interest expenses and still meet the cost of servicing debt.

Figure 7.6 Debt to assets — urban transport GTEs<sup>a</sup>



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

Source: Productivity Commission estimates.

The interest cover levels reported by urban transport GTEs ranged from slightly negative to 4.9 times in 2006-07. This was an improvement from 2005-06, when interest cover levels were between -12.5 times and 4.5 times.

Sydney Ferries Corporation had negative interest cover in 2006-07, while PTA and TransAdelaide had interest cover of less than two times. This indicates that these GTEs might have to fund interest expenses from sources other than current profits. STA and Metro are likely to be able to meet their interest commitments from operating profit, particularly STA, which improved its interest cover from 4.5 times in 2005-06 to 4.9 times in 2006-07.

## 7.5 Transactions with government

As part of the reform process, governments have sought to facilitate competitive neutrality by giving GTEs a greater commercial focus and exposing them to capital market disciplines. Governments have also focused on ensuring greater competition, by implementing regulations similar to those faced by private-sector businesses.

All monitored urban transport GTEs except PTA and SFC are required to make income tax-equivalent, dividend and debt guarantee fee payments. This is designed to achieve competitive neutrality with private-sector businesses. PTA, as an on-budget agency, is exempt from making both income tax-equivalent and dividend payments to the WA Government. SFC is excluded from making dividend



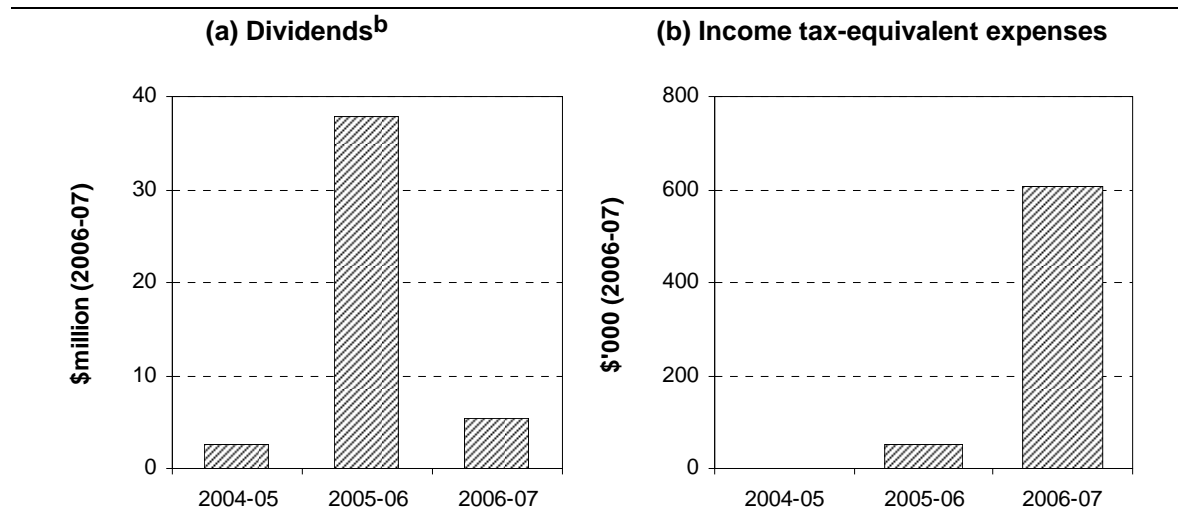
payments under the *NSW Transport Administration Act 1988*. SFC was also exempt from income tax-equivalent expenses in the reporting period.

Dividend payments and income tax-equivalent expenses recorded by urban transport GTEs have been low and infrequent compared with GTEs in other sectors, reflecting the small and volatile returns of these GTEs.

TransAdelaide was the only urban transport GTE to make dividend payments in the period 2004-05 to 2006-07 (figure 7.7). These payments were mainly special dividends, including \$2.3 million for depreciation funding in each of the three financial years. It also included payments of \$32.5 million and \$1.4 million to the SA Department of Transport, Energy and Infrastructure for the sale of tram infrastructure assets in 2005-06 and 2006-07 respectively. The 2006-07 dividend also included \$0.7 million relating to the sale of land and an ordinary dividend of \$1.0 million.

Metro and TransAdelaide recorded income tax-equivalent expenses in 2006-07 of \$0.1 million and \$0.5 million respectively. None of the other urban transport GTEs recorded an income tax-equivalent expense in the period 2004-05 to 2006-07, because of operating losses or accumulated tax losses.

**Figure 7.7 Dividends and income tax-equivalent expenses — urban transport GTEs<sup>a,b</sup>**



<sup>a</sup> The values of dividends and income tax-equivalent expenses are reported in 2006-07 dollars using the ABS implicit price deflator — gross fixed capital formation for public corporations (chapter 1). <sup>b</sup> Data relate to TransAdelaide, the only urban transport government trading enterprise to have made dividend payments in the period 2004-05 to 2006-07. The large increase in dividends in 2005-06 reflects special dividend payments of \$34.8 million. This consisted of \$32.5 million for the sale of tram infrastructure assets to the SA Department of Transport, Energy and Infrastructure and \$2.3 million for depreciation funding.

Source: Productivity Commission estimates.

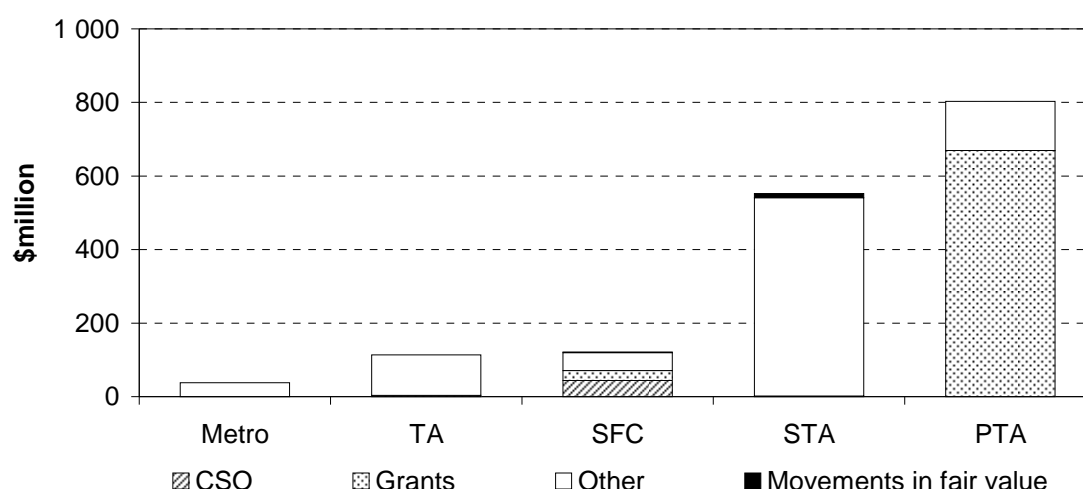
Traditionally, the social benefits associated with the provision of low-cost urban transport services were recognised implicitly by governments. They were paid for by funding operating deficits and the provision of CSOs.

Governments have entered into CSO contracts with their respective urban transport GTEs. CSO contracts across urban transport GTEs include:

- *Pricing* — to reimburse GTEs for offering fares below commercial rates. The government pays the difference between the full fare applicable for the journey and the fare paid by the traveller.
- *Service* — to reimburse GTEs for providing non-commercial services, such as off-peak services with low patronage.
- *Concessions* — to reimburse GTEs for administering government determined concessions. These include the provision of free and concession travel for school students, tertiary students, pensioners and senior citizens, people with disabilities and welfare recipients.

Metro, STA and SFC receive CSO payments. However, Metro does not reveal the value of this funding in its published financial statements. CSO funding accounted for 36.3 per cent of total income for SFC (figure 7.8). However, CSO payments accounted for less than 1.0 per cent of total income for STA in 2006-07 because of its 2005-06 transition to contract payments. These contract payments replaced most of STA's previous Pricing and Service CSO funding as well as its concession payments for free school travel. The contract payments are not disclosed in STA's published financial statements.

Figure 7.8 **Income sources — urban transport GTEs, 2006-07**



Source: Productivity Commission estimates.

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As an on-budget agency, PTA does not receive CSO funding as such. However, it receives a large proportion of its revenue from the WA Government in the form of grants and service appropriations.

Government grants account for a relatively large share of total income (figure 7.8) for some urban transport GTEs. Excluding CSOs, PTA and SFC had grants to revenue ratios of 83.3 per cent and 22.6 per cent respectively in 2006-07. TransAdelaide also receives government grants, including capital grants which are amortised over the life of the capital. TransAdelaide had a grants to revenue ratio of 2.9 per cent in 2006-07.

The urban transport sector as a whole had a grants to revenue ratio of 43.3 per cent, which is high in comparison with the other sectors discussed in this report.

## URBAN TRANSPORT

Table 7.2 Whole of sector performance indicators, 2004-05 to 2006-07<sup>a</sup>

Indicators	Units	Pre-AIFRS <sup>b,c</sup>	AIFRS <sup>b</sup>		
		2004-05 <sup>c</sup>	2004-05	2005-06	2006-07
Size					
Total assets	\$m	3 942	4 038	4 505	5 180
Total income	\$m	1 364	1 344	1 513	1 628
Profitability					
Profit before tax	\$'000	51 232	22 186	-15 318	59 649
Operating profit margin	%	-49.1	-51.6	-60.4	-65.3
Cost recovery	%	67.1	66.0	62.3	60.5
Return on assets	%	3.9	3.2	2.4	2.9
Return on total equity	%	-27.7	-29.0	-31.6	-22.2
Return on operating equity <sup>d</sup>	%	-27.9	-29.9	-32.2	-22.3
Financial management					
Debt to equity	%	125.0	128.6	104.7	31.2
Debt to assets	%	46.2	46.2	46.3	22.4
Total liabilities to equity	%	172.4	180.3	142.7	52.1
Operating liabilities to equity <sup>e</sup>	%	170.3	178.2	140.5	49.7
Interest cover	times	1.5	1.2	0.9	1.8
Current ratio	%	18.4	17.4	8.0	34.4
Leverage ratio	%	270.3	278.2	240.5	149.7
Payments to and from government					
Dividends	\$'000	2 296	2 296	34 757 <sup>f</sup>	5 296
Dividend to equity ratio	%	0.2	0.2	2.1	0.2
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	3 239	—	46	607
Grants revenue ratio	%	37.5	37.1	40.5	43.3
CSO funding	\$'000	275 342	275 342	68 021	45 655

<sup>a</sup> Figures are nominal values. <sup>b</sup> Urban transport GTEs commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for urban transport GTEs. <sup>c</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>f</sup> The large increase in dividends in 2005-06 reflected special dividend payments of \$34.8 million made by TransAdelaide. This consisted of \$32.5 million for the sale of tram infrastructure assets to the SA Department of Transport, Energy and Infrastructure and \$2.3 million for depreciation funding. .. Not applicable. – Zero or rounded to zero.

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## 7.6 GTE performance reports

State Transit Authority (NSW)

Sydney Ferries Corporation (NSW)

Public Transport Authority (WA)

TransAdelaide (SA)

Metro Tasmania

State Transit Authority (STA) was incorporated under the *Transport Administration Act 1988* and the *Passenger Transport Act 1990*. In 2006-07, it operated three metropolitan passenger transport businesses — Sydney Buses, Western Sydney Buses, and Newcastle Bus and Ferry Services.

Prices for STA services are set by the Independent Pricing and Regulatory Tribunal (IPART). In its December 2006 determinations, IPART authorised fare increases for Sydney Buses and Newcastle Bus and Ferry Services of up to \$2.00, depending on ticket type.

State Transit Authority entered into four Metropolitan Bus System Contracts with the NSW Minister of Transport on 1 July 2005. These contracts covered four separate regions of Sydney and cover the seven-year period to June 2012. Contract payments for costs, patronage and performance levels replaced the previous system of community service obligations (CSOs) and payments for free school travel. STA signed a fifth Metropolitan Bus System Contract — for the Newcastle region — on 30 June 2006.

State Transit Authority recorded total income of \$552 million in 2006-07, an increase of \$1.5 million from 2005-06. This included actuarial gains on defined benefit superannuation of \$10.9 million.

Profit before tax increased slightly, to \$21.8 million. However, return on equity declined from 12.5 per cent in 2005-06 to 9.0 per cent in 2006-07 because of higher operating assets and lower operating liabilities.

Total assets increased by \$54.7 million (9.7 per cent) to \$622 million in 2006-07. Capital expenditure was \$65.8 million, an increase of \$14.4 million from 2005-06, and included \$48.7 million for the purchase of new buses and \$4.7 million for equipment and enhancement of the new vehicles. Debt was steady at around \$76.0 million. However, because of the increased assets, debt to assets and debt to equity fell to 14.5 per cent and 26.6 per cent respectively in 2006-07.

State Transit Authority made no provision for a dividend in 2006-07.<sup>1</sup> STA also did not record an income tax-equivalent expense in 2006-07, as a result of accumulated tax losses. CSO funding amounted to \$1.5 million in 2006-07, a reduction from the \$25.1 million received in 2005-06.

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<sup>1</sup> State Transit Authority noted that an efficiency dividend was paid to the NSW Ministry of Transport in 2006-07. This dividend was deducted from revenue, and the amount was not disclosed in its 2006-07 annual report.

## STATE TRANSIT AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05 <sup>c</sup>	2004-05	2005-06	2006-07
Size					
Total assets	\$m	462	554	567	622
Total income	\$m	487	479	550	552
Profitability					
Profit before tax	\$'000	5 776	3 324	20 533	21 810
Operating profit margin	%	1.5	0.9	4.8	4.2
Cost recovery	%	101.5	100.9	105.0	104.4
Return on assets	%	2.6	2.0	5.5	5.2
Return on total equity	%	4.2	2.5	12.5	9.0
Return on operating equity <sup>c</sup>	%	4.2	3.0	13.9	9.1
Financial management					
Debt to equity	%	51.6	60.0	35.4	26.6
Debt to assets	%	18.9	18.9	16.0	14.5
Total liabilities to equity	%	173.4	217.2	149.3	126.3
Operating liabilities to equity <sup>d</sup>	%	173.4	217.5	128.7	96.1
Interest cover	times	2.0	1.6	4.5	4.9
Current ratio	%	32.1	25.8	29.3	32.1
Leverage ratio	%	273.4	317.5	228.7	196.1
Payments to and from government					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	—	—	—	—
Income tax expense	\$'000	—	—	—	—
Grants revenue ratio	%	1.0	1.0	—	—
CSO funding <sup>e</sup>	\$'000	231 975	231 975	25 099	1 480

<sup>a</sup> State Transit Authority (STA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for STA. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> The large decrease in community service obligation funding in 2005-06 was because of the replacement of such funding with contract payments under the new Metropolitan Bus System Contracts. — Zero or rounded to zero.

Sydney Ferries operated within the State Transit Authority until 1 July 2004 when it was incorporated as Sydney Ferries Corporation (SFC). It operates under the *State Owned Corporations Act 1989*. SFC provides approximately 179 000 ferry services per year, carrying more than 14 million people on Sydney Harbour and the Parramatta River.

A Special Commission of Enquiry into SFC commenced in April 2007 in response to collisions with private vessels which occurred in January and March 2007. The findings of this enquiry, released in October 2007, included consistently poor financial and safety performance by SFC.

Prices for SFC services are set by the Independent Pricing and Regulatory Tribunal (IPART). In its December 2006 determination, IPART approved a 3.9 per cent average increase to SFC's fares.

Total income increased from \$98.1 million in 2005-06 to \$122 million. The increase was largely attributable to a \$27.0 million government grant received in 2006-07. This additional funding provided for safety improvements and short-term debt reduction. The grant revenue ratio increased from 5.1 per cent in 2005-06 to 22.6 per cent in 2006-07. As a consequence of SFC's income result, the loss before tax improved from \$52.6 million in 2005-06 to \$5.0 million in 2006-07.

Total assets increased by 8.7 per cent (\$9.3 million) to \$116 million in 2006-07, with capital expenditure and increases in accounts receivable and superannuation assets. Capital expenditure amounted to \$28.8 million in 2006-07. Return on assets improved from -38.8 per cent in 2005-06 to -0.1 per cent in 2006-07.

Sydney Ferries Corporation's total debt increased from \$47.7 million in 2005-06 to \$53.3 million in 2006-07, despite the additional government grant. Debt to equity increased to 147 per cent.

Sydney Ferries Corporation is exempt from dividend payments under the *NSW Transport Administration Act 1988*, and made no income tax-equivalent payments in 2006-07. It received \$44.2 million of community service obligation payments in 2006-07.



## SYDNEY FERRIES CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	143	145	107	116
Total income	\$m	96	95	98	122
Profitability					
Profit before tax	\$'000	-2 619	-154	-52 609	-5 044
Operating profit margin	%	-5.2	-2.5	-60.0	-28.8
Cost recovery	%	95.0	97.6	62.5	77.6
Return on assets	%	1.3	2.9	-38.8	-0.1
Return on total equity	%	-5.8	-2.7	-88.8	-71.1
Return on operating equity <sup>c</sup>	%	-5.8	-2.7	-88.8	-71.1
Financial management					
Debt to equity	%	52.2	51.5	122.3	147.4
Debt to assets	%	29.4	29.1	38.0	47.8
Total liabilities to equity	%	77.5	77.1	173.6	221.0
Operating liabilities to equity <sup>d</sup>	%	77.5	77.1	173.7	221.2
Interest cover	times	0.4	1.0	..	..
Current ratio	%	60.5	42.6	36.0	42.5
Leverage ratio	%	177.5	177.1	273.7	321.2
Payments to and from government					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	..	..	..	..
Income tax expense <sup>e</sup>	\$'000	—	—	—	—
Grants revenue ratio	%	5.9	6.0	5.1	22.6
CSO funding	\$'000	43 367	43 367	42 922	44 175

<sup>a</sup> Sydney Ferries Corporation (SFC) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for SFC.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> SFC is currently exempt from income tax-equivalent payments. .. Not applicable. — Zero or rounded to zero.

Public Transport Authority (PTA) was established as a state-owned corporation on 1 July 2003 and operates under the *Public Transport Authority Act 2003*. PTA is an on-budget agency in the Planning and Infrastructure Portfolio. It replaced the WA Government Railway Commission, Transperth, School Bus Services and local regional bus services. It provides rail, bus and ferry services in Perth, school buses, public transport in regional areas, and manages public transport infrastructure throughout the State.

Prices for PTA's services are set by the WA Government. In 2006-07, fare increases were restricted to the change in CPI. Student prices were maintained at previous levels.

Public Transport Authority recorded a profit before tax of \$41.0 million in 2006-07, a \$40.4 million increase on 2005-06. This was attributable to a \$100 million increase in total revenue received from the WA Government, which amounted to \$669 million in 2006-07.<sup>1</sup> The quantity of funding maintained PTA's unusually high grants revenue ratio of 83.3 per cent in 2006-07. Finance expenses fell by \$37.3 million with a reduction in PTA's debt. However, this was offset by a \$65.3 million increase in capital user charges levied by the WA Government. These charges were related to PTA's substantial capital investment program, which commenced in 2005-06. As a result of the improved profit, PTA's return on equity improved from -59.9 per cent in 2005-06 to -32.6 per cent in 2006-07.<sup>2</sup>

Total assets increased by \$609 million to \$3.7 billion in 2006-07. This partly reflected PTA's capital expenditure of \$276 million on the New MetroRail project. There was also a \$236 million revaluation of land, buildings, rolling stock, bus infrastructure and buses. Consequently, PTA's return on assets declined to 3.1 per cent, despite the improved profit.

Total liabilities decreased by 43.0 per cent, largely the result of an \$863 million reduction in debt. PTA's leverage ratio and debt to equity decreased to 147 per cent and 34.1 per cent respectively in 2006-07.

Public Transport Authority is not required to make dividend or income tax-equivalent payments. It does not receive community service obligation funding.

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<sup>1</sup> Funding from the WA Government, in the form of grants and service appropriations, as well as school bus hire, constituted 83.0 per cent of PTA's revenue in 2006-07. This funding is treated as non-operating income under the definitions adopted for this report (chapter 1).

<sup>2</sup> Return on equity remained negative because PTA's operating expenses exceeded its operating revenue from non-government sources.

## PUBLIC TRANSPORT AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	2 566	2 566	3 094	3 702
Total income	\$m	632	632	694	803
Profitability					
Profit before tax	\$'000	37 139	37 139	571	40 962
Operating profit margin	%	-351.3	-351.3	-422.7	-459.9
Cost recovery	%	22.2	22.2	19.1	17.9
Return on assets	%	4.8	4.8	3.6	3.1
Return on total equity	%	-66.8	-66.8	-59.9	-32.6
Return on operating equity <sup>c</sup>	%	-66.8	-66.9	-60.0	-32.6
Financial management					
Debt to equity	%	267.1	267.4	170.7	34.1
Debt to assets	%	62.5	62.5	61.2	25.3
Total liabilities to equity	%	332.0	332.0	206.9	47.3
Operating liabilities to equity <sup>d</sup>	%	327.2	327.6	206.7	47.2
Interest cover	times	1.4	1.4	1.0	1.7
Current ratio	%	6.3	6.3	1.8	24.5
Leverage ratio	%	427.2	427.6	306.7	147.2
Payments to and from government					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	—	—	—	—
Grants revenue ratio	%	77.1	77.1	81.8	83.3
CSO funding <sup>e</sup>	\$'000	..	..	..	..

<sup>a</sup> Public Transport Authority (PTA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for PTA.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> As PTA is an on-budget agency, it does not receive community service obligation funding as such. However, it received funding from the WA Government — in the form of grants and service appropriations — of \$488 million in 2004-05, \$584 million in 2005-06 and \$670 million in 2006-07. .. Not applicable. — Zero or rounded to zero.

TransAdelaide was established as a Public Authority under the *TransAdelaide (Corporate Structure) Act 1998* and is subject to the provisions of the *Public Corporations Act 1993*. TransAdelaide has a 50 per cent share in TransitPlus Pty Ltd, a joint-venture entity established for the provision of bus services in the Adelaide Hills. TransAdelaide provides passenger train and tram services to the Adelaide metropolitan area under a service contract with the Department for Transport, Energy and Infrastructure (DTEI). It is also responsible for the management of train and tram infrastructure in Adelaide.

Total income decreased by \$20.0 million to \$114 million in 2006-07. This was mainly because of a once-off recognition in 2005-06 of \$24.6 million in capital grant income triggered by a tram infrastructure asset sale.<sup>1</sup> Although profit before tax declined to \$1.6 million, TransAdelaide's cost recovery performance improved in 2006-07.

Total assets decreased by \$3.4 million (0.5 per cent) in 2006-07. This was mainly due to declines of \$0.8 million in investment property and \$1.7 million in property plant and equipment, due to revaluations and depreciation of rolling stock. Total liabilities increased slightly, reflecting a \$2.1 million increase in the government grants liability.<sup>2</sup> Return on assets declined to 1.0 per cent in 2006-07, because of the decline in profit before tax.

Debt was steady at \$75.2 million in 2006-07, which was reflected in stable debt to assets and debt to equity.

TransAdelaide is subject to dividend and income tax-equivalent payments. An ordinary dividend of \$1.0 million was paid in 2006-07. Special dividend payments totalling \$4.3 million were also paid, which included \$2.3 million relating to an ongoing arrangement, \$0.7 million relating to the sale of land, and \$1.4 million relating to the sale of tram related assets to DTEI.

TransAdelaide recorded an income tax-equivalent expense of \$0.5 million in 2006-07. TransAdelaide does not receive community service obligation funding.

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<sup>1</sup> According to TransAdelaide, this amount was mainly related to the Glenelg tram line upgrade, and would have been amortised against future depreciation if the assets had not been disposed of during 2005-06.

<sup>2</sup> TransAdelaide allocates income from capital grants directly to a liability account, which is then amortised over the life of the associated capital assets.

## TRANSADELAIDE (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	726	729	681	677
Total income	\$m	115	105	134	114
Profitability					
Profit before tax	\$'000	10 889	-18 029	16 157	1 614
Operating profit margin	%	-4.3	-24.7	-11.1	-4.4
Cost recovery	%	95.9	80.2	90.0	95.8
Return on assets	%	2.4	-1.7	3.2	1.0
Return on total equity	%	-1.2	-4.0	-2.0	-0.9
Return on operating equity <sup>c</sup>	%	-1.3	-4.1	-2.0	-0.9
Financial management					
Debt to equity	%	14.1	14.5	13.6	13.7
Debt to assets	%	11.5	11.5	10.8	11.1
Total liabilities to equity	%	24.7	27.0	22.8	23.1
Operating liabilities to equity <sup>d</sup>	%	22.8	25.4	22.8	23.1
Interest cover	times	2.8	..	3.7	1.3
Current ratio	%	92.5	100.9	124.3	130.4
Leverage ratio	%	122.8	125.4	122.8	123.1
Payments to and from government					
Dividends	\$'000	2 296	2 296	34 757 <sup>e</sup>	5 296 <sup>f</sup>
Dividend to equity ratio	%	0.4	0.4	6.2	1.0
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	3 239	—	— <sup>g</sup>	484
Grants revenue ratio	%	11.6	3.3	20.3	2.9
CSO funding	\$'000	—	—	—	—

<sup>a</sup> TransAdelaide commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for TransAdelaide. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> Included special dividend payments of \$2.3 million for depreciation funding and \$32.5 million for the sale of tram infrastructure assets. No ordinary dividend was provided for or paid. <sup>f</sup> Included special dividend payments of \$2.3 million for an ongoing arrangement, \$0.7 million relating to the sale of land, and \$1.4 million for the sale of tram infrastructure assets. <sup>g</sup> TransAdelaide did not record an income tax-equivalent expense in 2005-06 because the proceeds from the tram infrastructure asset sale were excluded from net profit for income tax-equivalent payment purposes. .. Not applicable. — Zero or rounded to zero.

Metro Tasmania Pty Ltd (Metro) was incorporated on 2 February 1998 under the *Metro Tasmania Act 1997* and the *Corporations Act 2001*. Metro provides bus services within the urban areas of Hobart, Launceston and Burnie. Metro also provides services to a number of regional areas around Hobart, under the business name Hobart Coaches.

The maximum prices that Metro can charge are determined by the Tasmanian Government after considering reports by the Government Prices Oversight Commission. In January 2007, Metro's adult fares were restructured and some fares were increased. However, fares for children, students and other concession passengers remained unchanged.

Metro recorded a \$0.3 million increase in profit before tax. Total income increased by \$2.3 million, including a \$0.2 million profit on sale of assets and a \$0.2 million increase in interest income in 2006-07. Total expenses increased by \$2.0 million, including an increase in administration expenses of 19.5 per cent (\$0.8 million) from 2005-06. The improved profit caused a slight rise in the return on assets, which was 1.0 per cent in 2006-07.

Metro's total assets increased by 11.1 per cent (\$6.3 million) to \$62.8 million in 2006-07, largely due to a \$5.1 million revaluation of buses, as well as increased cash assets. Operating liabilities increased by \$2.0 million to \$28.0 million. However, because of higher operating assets, operating liabilities to equity decreased to 115 per cent in 2006-07.

Debt remained stable at \$2.8 million. However, debt to equity and debt to assets, decreased to 11.5 per cent and 5.6 per cent respectively in 2006-07, because of the increase in total assets.

Metro did not declare a dividend in 2006-07. It recorded an income tax-equivalent expense of expense of \$123 000.

Metro has a Community Service Activity Agreement with the Tasmanian Government, which enables Metro to deliver specified (quantity and quality) services while achieving a break-even operating result. Community service obligation funding is not separately identified in Metro's financial statements.

## METRO TASMANIA (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	44	44	57	63
Total income	\$m	33	33	36	38
Profitability					
Profit before tax	\$'000	47	-94	30	307
Operating profit margin	%	0.3	-1.8	-1.6	-1.7
Cost recovery	%	100.3	98.3	98.4	98.3
Return on assets	%	0.5	0.2	0.4	1.0
Return on total equity	%	0.5	-3.6	-2.9	-2.7
Return on operating equity <sup>c</sup>	%	0.5	-3.6	-3.4	-3.4
Financial management					
Debt to equity	%	13.2	17.8	13.6	11.5
Debt to assets	%	6.4	6.4	6.2	5.6
Total liabilities to equity	%	107.1	175.8	112.0	112.9
Operating liabilities to equity <sup>d</sup>	%	107.4	178.3	126.9	115.0
Interest cover	times	1.2	0.5	1.2	2.8
Current ratio	%	142.4	151.2	138.2	114.3
Leverage ratio	%	207.4	278.3	226.9	215.0
Payments to and from government					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	—	..	..	..
Income tax expense	\$'000	—	—	46	123
Grants revenue ratio	%	—	—	—	—
CSO funding <sup>e</sup>	\$'000	na	na	na	na

<sup>a</sup> Metro Tasmania Pty Ltd (Metro) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Metro.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> Although Metro receives community service obligation (CSO) funding under its Community Service Activity Agreement with the Tasmanian Government, the level of CSO funding is not reported separately in Metro's annual report. .. Not applicable. — Zero or rounded to zero. na Not available.





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## 8 Rail

### Key points

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

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

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

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

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

## 8.1 Monitored GTEs

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

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

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

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

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

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

<sup>a</sup> Rail Infrastructure Corporation owns track assets in New South Wales but does not operate or maintain them.

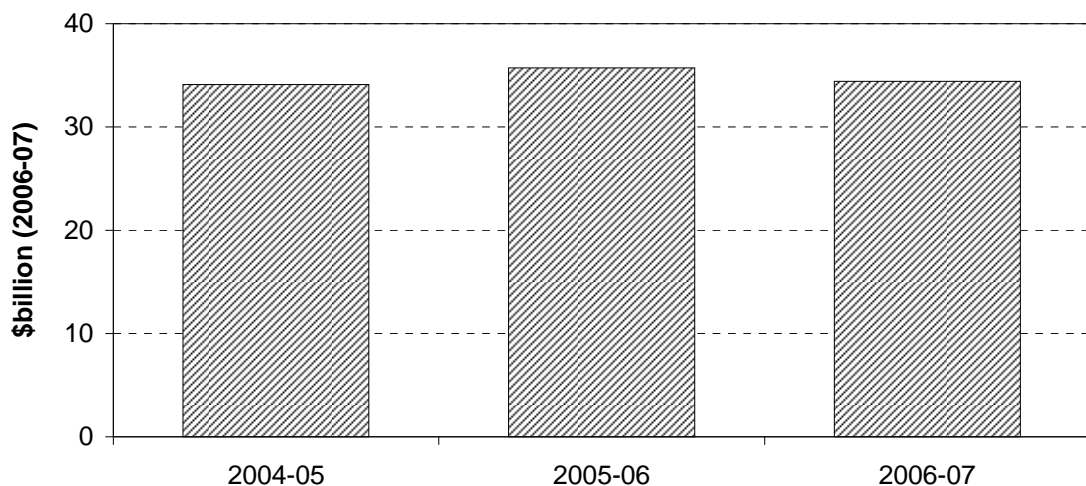
VLPC created a business unit in 2006-07 — Regional Network and Access (RNA) — to manage access arrangements with freight operators. VicTrack owns the majority of Victoria's rail land and infrastructure, including track. It leases most of these assets to the Director of Public Transport who then sub-leases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

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

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

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

**Figure 8.1 Sector assets — rail GTEs<sup>a</sup>**



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

Source: Productivity Commission estimates.

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

## 8.2 Market environment

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

### Service demand

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

#### *Freight*

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

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

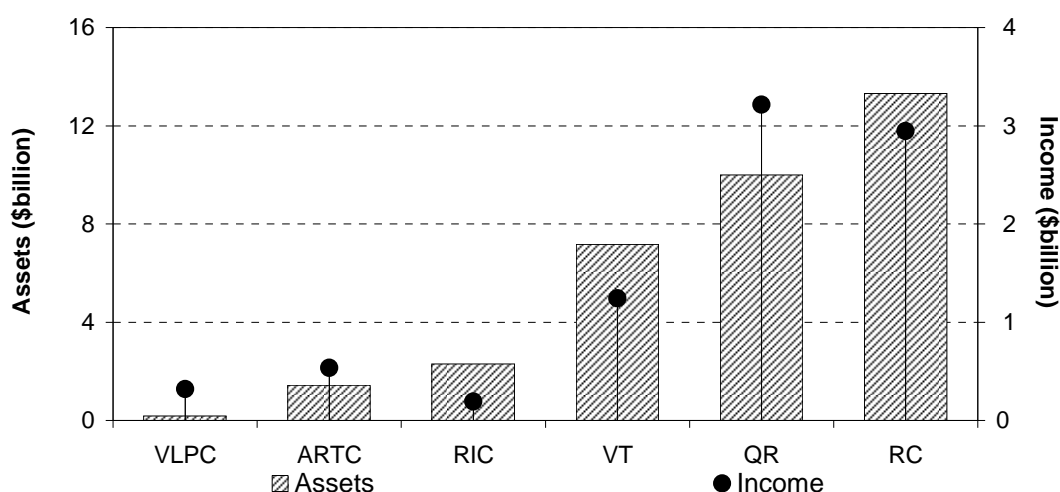
Over the same period, rail increased its share of medium- to long-distance markets such as New South Wales–Western Australia (from 34 per cent to 53 per cent), Victoria–Western Australia (from 42 per cent to 68 per cent) and Queensland–Western Australia (from 12 per cent to 47 per cent). Further, rail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

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

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

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



Source: Productivity Commission estimates.

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

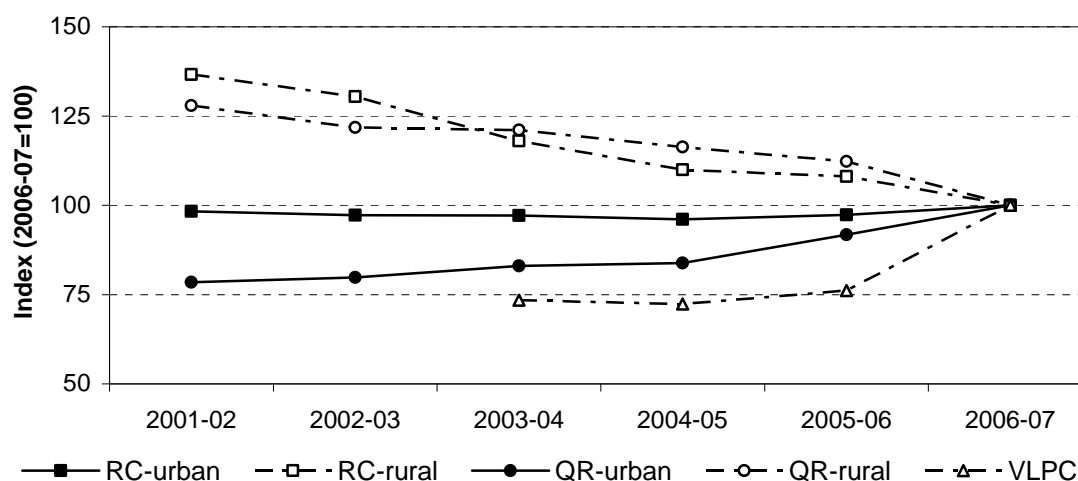
Reduced grain traffic was cited by ARTC as causing lower than expected freight haulage across its networks. Further, drought conditions across much of New South Wales reduced grain tonnage. In Victoria, a number of freight lines were unused for several weeks as the grain harvest had been reduced by the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

### *Passenger services*

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

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

Figure 8.3 Passenger trends — selected rail GTEs<sup>a,b,c</sup>



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

Sources: GTE annual reports.

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

## Structural reform

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

A feature of structural reform in some jurisdictions has been the separation and sale to the private sector of rail freight operations. In New South Wales, the Freight Rail Corporation, together with the government-owned National Rail Corporation (NRC), was sold to the private sector in January 2002.<sup>3</sup> In contrast, the Victorian rural passenger rail provider — V/Line Passenger Pty Ltd — was purchased from the private sector in 2003 and now operates as a GTE.<sup>4</sup> Further, following a

<sup>3</sup> The Australian, NSW and Victorian Governments were co-owners of NRC.

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

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

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

### *Access regimes*

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

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

#### **Box 8.1      Access regimes**

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

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

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

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

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

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

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

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

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

### *Pricing*

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

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

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

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

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



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department. These charges are subject to contractual obligations with the service provider.<sup>7</sup>

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

## 8.3 Profitability

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

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

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

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

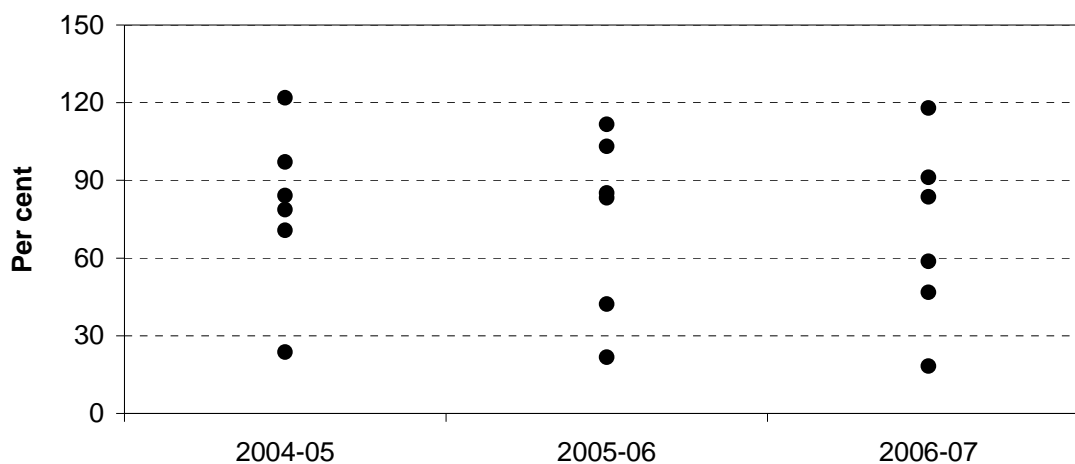
Most rail GTEs did not fully recover their operating costs, with QR the only rail GTE to record a cost recovery ratio over 100 per cent in 2006-07 (figure 8.4). The sector’s cost recovery ratio remained relatively stable at 90.7 per cent in 2006-07, below the level necessary to fully meet operating expenses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

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<sup>7</sup> On 30 April 2008, the Department of Infrastructure became the Department of Transport.

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

Figure 8.4 Cost recovery — rail GTEs<sup>a</sup>



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

Source: Productivity Commission estimates.

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

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

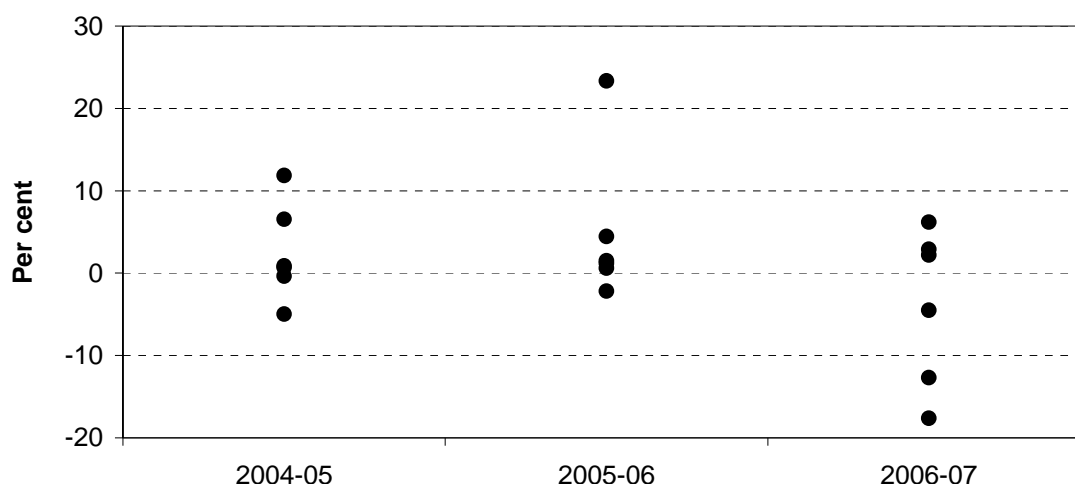
Queensland Rail was the only rail GTE to report a return on assets (6.2 per cent) above the risk-free rate. Three rail GTEs recorded negative returns on assets in 2006-07 — RIC (-4.5 per cent), VLPC (-12.7 per cent) and ARTC (-17.6 per cent).

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

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

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

Figure 8.5 Return on assets — rail GTEs<sup>a</sup>



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

Source: Productivity Commission estimates.

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

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

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

## 8.4 Financial management

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

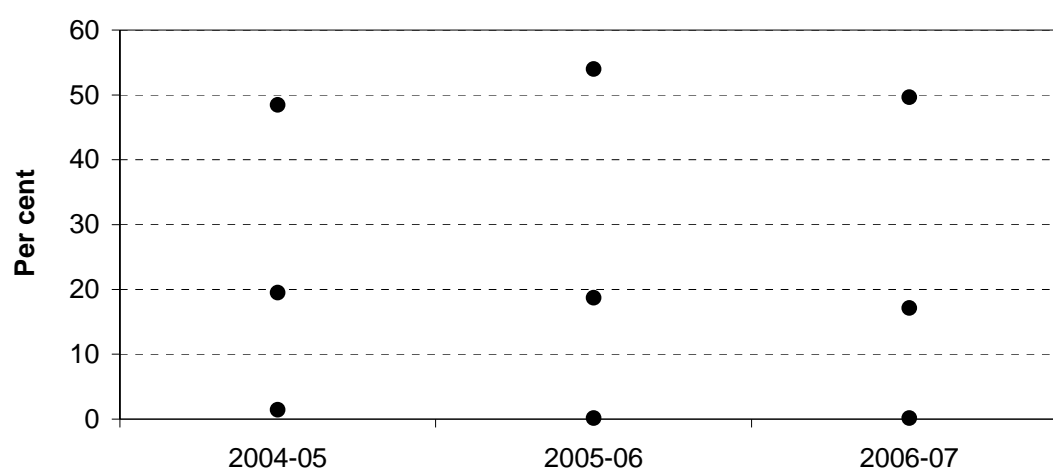
timely manner. Over the past three years, debt to assets for rail GTEs has been influenced by the acquisition and retirement of debt, and through changes in the total value of assets.

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

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

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

**Figure 8.6 Debt to operating assets — rail GTEs<sup>a</sup>**



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

Source: Productivity Commission estimates.

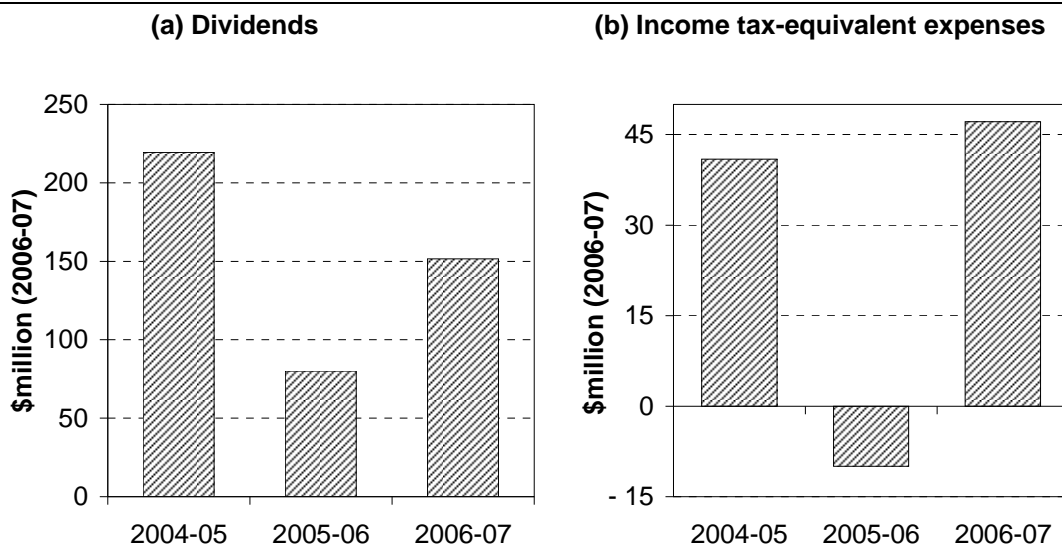
All rail GTEs (with the exception of RailCorp) experienced a decline in their current ratios to 2006-07. VicTrack recorded a current ratio of 230 per cent in 2004-05. It decreased to 83.5 per cent in 2005-06 and again to 63.6 per cent in 2006-07. However, RailCorp's current ratio was essentially stable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

## 8.5 Transactions with government

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

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

Figure 8.7 **Dividends and income tax-equivalent expenses — rail GTEs<sup>a</sup>**



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

Source: Productivity Commission estimates.

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

Total income tax-equivalent expense in the sector for 2005-06 was negative as ARTC recorded an income tax-equivalent benefit that outweighed the expenses incurred by VicTrack and QR. ARTC recorded income tax-equivalent benefits for the past three financial years — increasing by 138 per cent in real terms to \$50.3 million in 2006-07.<sup>10</sup>

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

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

Community service obligation funding forms the main source of revenue for some rail GTEs. For example, CSO funding received by RIC to meet the cost of maintaining non-commercial rail lines accounted for 67.9 per cent of its income in 2006-07.<sup>11</sup> RailCorp received CSO payments of \$1.5 billion in 2006-07, for the provision of concessions and services not covered by passenger revenue. These payments represented 50.3 per cent of RailCorp's income in 2006-07 (figure 8.8).

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

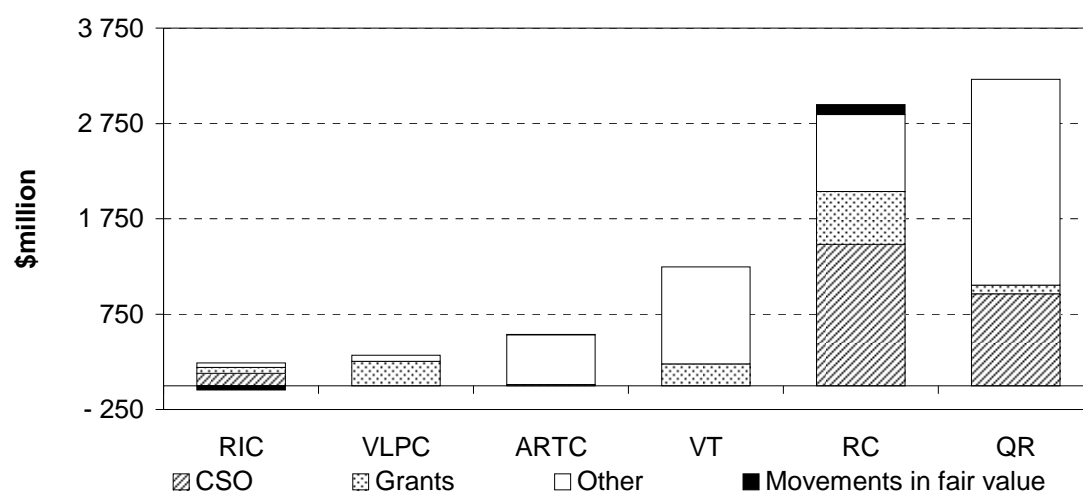
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<sup>10</sup> The income tax-equivalent benefits received by ARTC represent increases in deferred tax assets.

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

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

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



Source: Productivity Commission estimates.

## RAIL

Table 8.2 Whole of sector performance indicators 2004-05 to 2006-07<sup>a</sup>

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

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



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## 8.6 GTE performance reports

Rail Infrastructure Corporation (NSW)

Rail Corporation NSW

V/Line Passenger Corporation (Victoria)

Victorian Rail Track

Queensland Rail

Australian Rail Track Corporation (Australian Government)

Rail Infrastructure Corporation (RIC) operates under the *Transport Administration Act 1988* and the *State Owned Corporations Act 1989*. The NSW rail network was restructured beginning in 2003. RIC's role is to manage five core agreements concerning rail network management, funding and employment. RIC also operates Career Transition Services to assist staff displaced by the rail network restructure, and assists with worker's compensation and injury management.

Rail Infrastructure Corporation manages three agreements between the NSW Government and the Australian Rail Track Corporation (ARTC) — the Country Regional Network Management Agreement, the Lease Agreement for the Interstate and Hunter Valley Networks, and the Labour Services Agreement.<sup>1</sup> It also manages the Country Regional Network Funding Agreement between itself and the Ministry of Transport, and the Enterprise Agreement covering RIC staff seconded to ARTC.

Rail Infrastructure Corporation recorded a loss before tax of \$105 million in 2006-07, compared with a profit of \$8.9 million in 2005-06. Total income also decreased by \$286 million (59.9 per cent), mainly because of a \$212 million reduction in government grants. This followed from a \$90 million contribution in 2005-06 for debt reduction and working capital. There was also a 73.2 per cent fall in revenue from services rendered to external agencies. Expenses decreased by 25.0 per cent because of lower employment and external maintenance costs, and because finance costs were reduced to zero in 2006-07.

There was a slight reduction in both assets and liabilities in 2006-07 (1.6 per cent and 1.2 per cent respectively). The current ratio decreased by 27.9 percentage points to 57.8 per cent, mainly reflecting a \$56.2 million reduction in cash holdings. RIC had no debt at the end of 2005-06 and 2006-07.

According to its annual report, RIC received an ongoing exemption from income tax-equivalent payments from the NSW Treasury commencing in 2005-06. RIC does not make dividend payments.

Community service obligation funding of \$130 million was received in 2006-07, to underwrite losses on non-commercial rail lines.

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<sup>1</sup> Rail Infrastructure Corporation retains ownership of the Country Regional Network and ARTC is the infrastructure manager.

## RAIL INFRASTRUCTURE CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		<i>Pre-AIFRS<sup>a,b</sup></i>	<i>AIFRS<sup>a</sup></i>		
<i>Indicators</i>	<i>Units</i>	<i>2004-05<sup>c</sup></i>	<i>2004-05<sup>c</sup></i>	<i>2005-06</i>	<i>2006-07</i>
<i>Size</i>					
Total assets	\$m	2 379	2 380	2 342	2 303
Total income	\$m	546	526	477	192
<i>Profitability</i>					
Profit before tax	\$'000	-145 790	-123 555	8 945	-105 474
Operating profit margin	%	-46.7	-41.5	-136.8	-113.8
Cost recovery	%	68.2	70.7	42.2	46.8
Return on assets	%	-6.0	-5.0	0.6	-4.5
Return on total equity	%	-10.4	-9.4	-12.6	-9.0
Return on operating equity <sup>d</sup>	%	-10.4	-9.4	-12.6	-9.0
<i>Financial management</i>					
Debt to equity	%	1.6	1.6	—	—
Debt to assets	%	1.4	1.4	—	—
Total liabilities to equity	%	13.0	14.7	14.4	14.5
Operating liabilities to equity <sup>e</sup>	%	12.9	14.7	14.4	14.5
Interest cover	times	..	..	2.6	..
Current ratio	%	41.8	32.5	85.8	57.8
Leverage ratio	%	112.9	114.7	114.4	114.5
<i>Payments to and from government</i>					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	—	—	—	—
Grants revenue ratio	%	14.3	14.4	58.4	25.2
CSO funding	\$'000	133 000	133 000	121 500	130 000

<sup>a</sup> Rail Infrastructure Corporation (RIC) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for RIC.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> On 5 September 2004, RIC leased the NSW Interstate and Hunter Valley rail corridors, and dedicated metropolitan freight lines to the Sydney ports, to the Australian Rail Track Corporation, for 60 years. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Rail Corporation NSW (RailCorp) was established on 1 January 2004 under the *Transport Administration Amendment (Rail Agencies) Act 2003*. RailCorp absorbed the functions of the State Rail Authority NSW and the metropolitan operations of the Rail Infrastructure Corporation. RailCorp is responsible for the control and operation of CityRail and CountryLink in providing passenger rail transport. Additionally, RailCorp controls the metropolitan rail network and provides access to freight operators.

Charges for RailCorp's CityRail services are regulated by the NSW Independent Pricing and Regulatory Tribunal (IPART). In June 2006, IPART authorised fare increases for most standard ticket fares of 2.9 per cent. In addition, the discount on off-peak fares was reduced to an average of 30 per cent (previously 39 per cent). Charges for CountryLink services are determined by the Minister for Transport after a recommendation from the RailCorp Board.

Profit before tax was \$369 million for 2006-07, an increase of \$225 million (156 per cent) from 2005-06. RailCorp's income rose 11.5 per cent to over \$2.9 billion, mainly attributable to a \$166 million increase in community service obligation (CSO) payments. Government grants were \$81.4 million (17.2 per cent) higher, which is reflected in an increase in the grants revenue ratio to 19.5 per cent. There was also a \$41.8 million increase in passenger service revenue. Higher payroll and other employee benefits contributed to a 3.1 per cent increase in expenses.

Total assets increased by \$766 million (6.1 per cent) to \$13.3 billion in 2006-07 because of capital works, trackwork and infrastructure additions. Higher capital works accruals and provisions caused liabilities to increase by \$122 million (14.8 per cent).

No dividend payment was made in 2006-07. According to its annual reports, RailCorp is exempt from making income tax-equivalent payments to the NSW Government.

Rail Corporation received CSO payments of \$1.5 billion, relating to the provision of certain services and concessions. Passenger revenue is insufficient to cover the cost of these activities so the revenue shortfall is met by government contributions. These payments represented 50.3 per cent of total revenue in 2006-07.

## RAIL CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		<i>Pre-AIFRS<sup>a,b</sup></i>	<i>AIFRS<sup>a</sup></i>		
<i>Indicators</i>	<i>Units</i>	<i>2004-05</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>
<i>Size</i>					
Total assets	\$m	12 188	12 125	12 547	13 313
Total income	\$m	2 339	2 281	2 642	2 946
<i>Profitability</i>					
Profit before tax	\$'000	92 581	80 658	144 163	368 976
Operating profit margin	%	-30.2	-18.8	-17.5	-9.7
Cost recovery	%	76.8	84.2	85.1	91.1
Return on assets	%	0.8	0.7	1.2	2.9
Return on total equity	%	-4.5	-3.2	-3.1	-1.8
Return on operating equity <sup>c</sup>	%	-4.5	-3.2	-3.1	-1.8
<i>Financial management</i>					
Debt to equity	%	—	—	0.1	0.1
Debt to assets	%	—	—	0.1	0.1
Total liabilities to equity	%	6.4	7.3	7.1	7.7
Operating liabilities to equity <sup>d</sup>	%	6.2	7.3	7.1	7.7
Interest cover	times	..	322.3	63.0	102.6
Current ratio	%	83.1	71.7	66.2	66.4
Leverage ratio	%	106.2	107.3	107.1	107.7
<i>Payments to and from government</i>					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	—	—	—	—
Grants revenue ratio	%	25.6	18.1	18.6	19.5
CSO funding	\$m	1 042	1 216	1 315	1 481

<sup>a</sup> Rail Corporation NSW (RailCorp) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for RailCorp. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports.

<sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

V/Line Passenger Corporation (VLPC) was established on 15 July 2003 as a statutory rail corporation under the *Rail Corporations Act 1996*. VLPC provides public coach and rail passenger services to regional Victoria. It is also responsible for maintaining regional train stations and providing a network of V/Line ticket and service agents. On 4 May 2007, VLPC assumed responsibility for Victoria's regional rail network. This led to the establishment of a Regional Network and Access branch to provide rail access to regional freight operators in addition to passenger services.

The VLPC Board and the Government consider VLPC to be a not-for-profit business entity:

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

Consequently it reports on a 'not-for-profit' basis under AIFRS.

A loss before tax of \$23.4 million was recorded for 2006-07 (\$19.3 million greater than that recorded for the previous financial year) because expenses increased by more than income. Total income increased by \$72.2 million, the largest component of which was a \$64.2 million increase in government grants. Fare box revenue increased by \$3.6 million (7.3 per cent). Expenses increased by \$91.6 million (36.5 per cent), largely because of higher operational expenses, including labour costs, fleet maintenance and access charges. The loss resulted in a return on assets and a return on equity of -12.7 per cent and -256 per cent respectively.

Total assets decreased by 1.2 per cent to \$183 million in 2006-07, while total liabilities increased by 33.1 per cent to \$85.3 million. Higher provisions for employee benefits accounted for most of the increase in liabilities. No debt is recorded for the three-year period reported.

V/Line Passenger Corporation has made neither dividend nor income tax-equivalent payments since commencing operation.

No community service obligation payments were received in 2006-07. However, 80.2 per cent of revenue was derived from government contributions.

## V/LINE PASSENGER CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

Indicators	Units	Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
		2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	183	183	185	183
Total income	\$m	215	215	247	319
Profitability					
Profit before tax	\$'000	-650	- 650	-4 061	-23 373
Operating profit margin	%	-321.6	-321.6	-361.5	-447.9
Cost recovery	%	23.7	23.7	21.7	18.3
Return on assets	%	-0.4	-0.4	-2.2	-12.7
Return on total equity	%	-131.0	-131.0	-159.3	-255.9
Return on operating equity <sup>c</sup>	%	-131.0	-131.0	-159.3	-255.9
Financial management					
Debt to equity	%	—	—	—	—
Debt to assets	%	—	—	—	—
Total liabilities to equity	%	46.2	46.2	52.9	87.3
Operating liabilities to equity <sup>d</sup>	%	46.2	46.2	52.9	87.3
Interest cover	times	..	..	..	..
Current ratio	%	36.2	20.0	24.0	21.8
Leverage ratio	%	146.2	146.2	152.9	187.3
Payments to and from government					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	—	—	—	—
Grants revenue ratio	%	72.4	72.4	77.7	80.2
CSO funding	\$'000	—	—	—	—

<sup>a</sup> V/Line Passenger (VLPC) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for VLPC. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Victorian Rail Track (VicTrack) was established on 1 April 1997 as a statutory corporation under the *Rail Corporations Act 1996*.<sup>1</sup> VicTrack is responsible for Victoria's rail assets, which it leases to the Director of Public Transport. These assets comprise track, rolling stock, land, overhead wiring, power substations, signals, buildings and structures, communications networks and base stations. It also operates commercially in telecommunications, property leasing and licensing, outdoor advertising and commercial property development.

The Essential Services Commission must approve an access arrangement to establish conditions for third-party access to VicTrack's rail infrastructure and network. The arrangement covers pricing, access and dispute resolution conditions. However, it does not apply to those parts of the rail network leased to other parties, such as the Director of Public Transport.

VicTrack reported a profit before tax of \$51.3 million for 2006-07, after a loss of \$3.3 million the previous year. Total income increased by 13.7 per cent to over \$1.2 billion. Expenses increased by 8.7 per cent to just under \$1.2 billion. Part of both these increases was due to capital assets charges (recorded as both revenue and expense) growing by \$65.0 million. There was a \$63.5 million rise in government contributions. Correspondingly, the grants revenue ratio increased 3.3 percentage points to 18.2 per cent. Expenses increased across most cost items.

Total assets increased by 4.9 per cent to almost \$7.2 billion in 2006-07, while total liabilities fell 2.0 per cent to just over \$1.4 billion. The increase in assets primarily comprised additions to infrastructure, particularly track. Reduced debt contributed to lower total liabilities. Increased total equity and assets combined with lower debt was reflected in improved debt to equity and debt to assets, which fell by 2.4 and 1.6 percentage points respectively.

An income tax-equivalent expense of \$18.6 million was recorded for 2006-07, a substantial increase on 2005-06. No dividend was paid or provided for in 2006-07 as no determination was received from the Treasurer.

No community service obligation payments were made to VicTrack in 2006-07.

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1 VicTrack was declared a Government Business Corporation, effective from 24 July 2007.



## VICTORIAN RAIL TRACK (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	6 315	6 583	6 834	7 170
Total income	\$m	861	856	1 095	1 244
Profitability					
Profit before tax	\$'000	-39 198	-37 094	-3 293	51 344
Operating profit margin	%	-31.6	-27.1	-20.0	-19.6
Cost recovery	%	76.0	78.7	83.3	83.6
Return on assets	%	0.5	0.9	1.5	2.2
Return on total equity	%	-3.7	-3.2	-3.2	-3.5
Return on operating equity <sup>b</sup>	%	-3.8	-3.1	-3.1	-3.5
Financial management					
Debt to equity	%	18.7	24.3	22.6	20.2
Debt to assets	%	15.7	19.5	18.7	17.1
Total liabilities to equity	%	18.9	28.7	26.8	24.6
Operating liabilities to equity <sup>c</sup>	%	19.1	24.7	23.0	20.7
Interest cover	times	0.5	0.6	1.0	1.5
Current ratio	%	342.4	229.6	83.5	63.6
Leverage ratio	%	119.1	124.7	123.0	120.7
Payments to and from government					
Dividends	\$'000	5 000	5 000	5 000	—
Dividend to equity ratio	%	0.1	0.1	0.1	—
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	—	-8 053	2 761	18 601
Grants revenue ratio	%	16.9	16.4	14.9	18.2
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Victorian Rail Track (VicTrack) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for VicTrack. <sup>b</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>c</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Queensland Rail (QR) is subject to the *Transport Infrastructure Act 1994* and the *Government Owned Corporations Act 1993*.<sup>1</sup> QR manages Queensland's rail infrastructure, provides freight services in regional Queensland, and provides passenger rail services in the Brisbane metropolitan area and between key regional centres. It is also involved in freight transport in NSW, Victoria, WA and SA.

Queensland Rail is obliged to allow third-party operators to access its rail network. An access undertaking was adopted on 30 June 2006 and applies until 30 June 2009. Service charges are set by QR's Network Access Unit subject to floor and ceiling prices determined by the Queensland Competition Authority. The Network Access Unit is independent of QR's other business units.

Profit before tax was \$262 million in 2006-07, an improvement of \$172 million from 2005-06. Income increased by 24.7 per cent to over \$3.2 billion, largely because of a \$644 million increase in service revenue, which included an additional \$136 million in community service obligation (CSO) funding. Expenses also increased by 18.7 per cent, because of higher consumables and employee benefit costs. Higher profitability increased QR's return on assets and return on total equity to 6.2 per cent and 13.5 per cent respectively in 2006-07.

Assets increased by \$697 million (7.5 per cent) in 2006-07, to total almost \$10.0 billion, while total liabilities increased by \$362 million (5.5 per cent). The increase in assets was due to additions to assets under construction. Debt increased by \$62.8 million, however higher equity and assets led to a fall in debt to equity and debt to assets.

Provision was made for a dividend payment of \$151 million in 2006-07, considerably higher than in 2005-06. QR recorded an income tax-equivalent expense of \$78.8 million.

Queensland Rail received CSO payments totalling \$964 million in 2006-07. Of this, \$929 million was for the provision of infrastructure, urban and intercity passenger services, low volume freight services, and concession fares. QR also received \$35.1 million of 'shareholder agreement revenue' in 2006-07.<sup>2</sup> Together these CSO payments accounted for 30.0 per cent of total income.

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<sup>1</sup> Queensland Rail operated as a statutory Government Owned Corporation in 2006-07. It became a company Government Owned Corporation on 1 July 2007 and was renamed QR Limited.

<sup>2</sup> Under the shareholder agreement QR receives funding for costs incurred as a result of the Queensland Government's (shareholder) request to carry out activities or adopt policies that QR would not do on a commercial basis.

## QUEENSLAND RAIL (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	8 557	8 299	9 302	9 999
Total income	\$m	2 489	2 549	2 576	3 213
Profitability					
Profit before tax	\$'000	287 358	247 991	89 739	262 054
Operating profit margin	%	22.1	17.9	10.4	15.2
Cost recovery	%	128.4	121.8	111.7	117.9
Return on assets	%	6.7	6.5	4.4	6.2
Return on total equity	%	16.8	14.3	9.4	13.5
Return on operating equity <sup>c</sup>	%	14.5	12.0	8.0	11.6
Financial management					
Debt to equity	%	112.9	123.7	142.4	125.0
Debt to assets	%	46.4	48.4	54.0	49.6
Total liabilities to equity	%	193.9	221.0	238.7	224.5
Operating liabilities to equity <sup>d</sup>	%	143.6	155.3	178.3	162.8
Interest cover	times	2.1	1.9	1.3	1.9
Current ratio	%	64.1	66.9	65.4	57.1
Leverage ratio	%	243.6	255.3	278.3	262.8
Payments to and from government					
Dividends	\$'000	193 100	193 100	68 530	151 493
Dividend to equity ratio	%	5.7	6.3	2.2	4.4
Dividend payout ratio	%	39.4	52.2	27.4	38.4
Income tax expense	\$'000	60 238	74 721	7 535	78 830
Grants revenue ratio	%	—	2.3	2.6	2.8
CSO funding	\$'000	853 614	853 600	828 100	963 700

<sup>a</sup> Queensland Rail (QR) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for QR. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Australian Rail Track Corporation Ltd (ARTC) was established on 28 February 1998 and is bound by the *Corporations Act 2001*. It operates as an access provider and infrastructure manager. ARTC owns track, principally in WA and SA, and manages interstate track in NSW and Victoria under long-term lease arrangements. ARTC also manages the NSW Country Regional Network under a management agreement with the Rail Infrastructure Corporation.

Rail access prices are set by the ARTC Board. Price guidelines are contained in the Rail Access Undertaking, a binding agreement between the Australian Competition and Consumer Commission (ACCC) and the ARTC.<sup>1</sup> These guidelines specify floor and ceiling access prices based on ARTC's costs and risk profile.

A loss before tax of \$262 million was recorded for 2006-07, compared with a profit of \$328 million in 2005-06. Total income decreased by \$232 million (30.3 per cent) in 2006-07, despite a \$15.4 million increase in sales revenue. The grants revenue ratio decreased, largely because of the absence of a \$270 million once-off special government grant received in 2005-06. Expenses increased by 81.5 per cent (\$357 million) due to an impairment loss of \$334 million. Decreased profitability was reflected in a return on assets of -17.6 per cent in 2006-07, down from 23.3 per cent in 2005-06.

Assets decreased by \$175 million (10.8 per cent) to around \$1.4 billion in 2006-07, largely because of reduced cash holdings. The impairment loss was offset by capital work in progress. Liabilities increased by \$33.1 million (18.3 per cent) due to a rise in trade payables. Both total liabilities to equity and operating liabilities to equity increased. ARTC has no debt.

No dividend payment was made in the reporting period. ARTC recorded an income tax-equivalent benefit of \$50.3 million in 2006-07.<sup>2</sup>

No community service obligation funding was received in 2006-07.

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<sup>1</sup> A voluntary access undertaking, approved by the ACCC in May 2002, bound the ARTC for five years effective from 1 June 2002. A new access undertaking was submitted to the ACCC for approval on 8 June 2007. However, this was subsequently withdrawn and a revised access undertaking was submitted on 20 December 2007. The ACCC released a draft decision on the revised access undertaking on 29 April 2008, and a final decision is expected in July 2008.

<sup>2</sup> Division 58 of the Income Tax Assessment Act 1997 entitles ARTC to value its assets for tax purposes at the book value recorded in the accounts of its precursor, the Australian National Railways Corporation. This is a higher value than that used by ARTC for accounting purposes and generates higher depreciation for taxation purposes, leading to significant tax benefits.

## AUSTRALIAN RAIL TRACK CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	1 216	1 218	1 616	1 442
Total income	\$m	490	486	768	535
Profitability					
Profit before tax	\$'000	147 850	144 314	328 142	-261 570
Operating profit margin	%	-3.3	-3.0	3.0	-70.3
Cost recovery	%	96.8	97.1	103.1	58.7
Return on assets	%	12.2	11.9	23.3	-17.6
Return on total equity	%	-1.0	1.8	2.6	-20.9
Return on operating equity <sup>c</sup>	%	-1.0	1.8	2.6	-21.6
Financial management					
Debt to equity	%	—	—	—	—
Debt to assets	%	—	—	—	—
Total liabilities to equity	%	11.5	12.2	12.6	17.4
Operating liabilities to equity <sup>d</sup>	%	11.5	12.2	12.8	18.4
Interest cover	times	..	..	..	..
Current ratio	%	734.2	797.3	752.7	475.5
Leverage ratio	%	111.5	112.2	112.8	118.4
Payments to and from government					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	..	—	—	..
Income tax expense <sup>e</sup>	\$'000	—	-29 718	-19 427	-50 303
Grants revenue ratio	%	24.6	24.1	35.2	2.3
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Australian Rail Track Corporation (ARTC) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for ARTC. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> ARTC incurred an income tax-equivalent benefit because of deferred tax assets. It reported a current income tax-equivalent expense of zero in 2004-05 and 2005-06, and \$729 000 in 2006-07. .. Not applicable. — Zero or rounded to zero.



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## 9 Ports

### Key points

- The performances of 19 port government trading enterprises (GTEs) are presented in this chapter. Together these GTEs controlled assets valued at \$8.8 billion and generated \$1.5 billion of income in 2006-07.
- Overall, the profit before tax of port GTEs increased by \$28.2 million in real terms to \$462 million in 2006-07. Within the sector:
  - most of the increase in profit before tax was attributable to two GTEs (Central Queensland Ports Authority and Tasmanian Ports Corporation (TPC))
  - one GTE recorded a loss before tax
  - profits (in real terms) declined for six GTEs.
- Return on assets declined from 7.1 per cent to 6.9 per cent in 2006-07 (excluding TPC). Of the monitored GTEs, seven failed to earn a risk-free rate of return.
- Debt to assets for the sector increased from 22.9 per cent to 23.1 per cent in 2006-07. Three port GTEs operated without debt.
- Thirteen port GTEs made dividend payments to their owner-governments, totalling \$137 million in 2006-07. The sector recorded an income tax-equivalent expense of \$149 million.
- Only Darwin Port Corporation disclosed community service obligation (CSO) funding, totalling \$5.0 million in 2006-07. CSO payments comprised 0.3 per cent of sector income.

The financial performances of 19 port government trading enterprises (GTEs) are reported in this chapter. Together they controlled \$8.8 billion in assets and generated around \$1.5 billion in income in 2006-07.

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

There are some differences between measured performance for 2004-05 and 2005-06 in this and earlier reports because of changes in accounting standards, data

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sources and indicators (chapter 1). Further, the set of monitored GTEs can change over time because of restructuring and privatisation. Consequently, care should be exercised in making performance comparisons over longer time periods than that covered in this report.

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

## 9.1 Monitored GTEs

All port GTEs monitored in this report undertake the management of port facilities (table 9.1). The nature of their involvement in other activities — such as pilotage, stevedoring and cold storage facilities — varied across GTEs.

A number of port GTEs also have interests in other areas of business, such as airports. For example, Hobart International Airport is a wholly-owned subsidiary of Tasmanian Ports Corporation (TPC), and Port of Brisbane Corporation (PBC) has a substantial interest in Brisbane Airport.<sup>1</sup> Cairns Port Authority (CPA) and Mackay Port Authority also own and operate airports.

Changes to the range of services should be taken into account when comparing financial performances over time. The financial performances of some port GTEs have been affected by the franchising of some activities. For example, some ports have issued exclusive or non-exclusive licences to operate or provide services, such as stevedoring, pilotage and towage.

Between 2005-06 and 2006-07, total assets controlled by port GTEs grew by \$449 million (5.4 per cent) in real terms (figure 9.1). This was mainly attributable to capital works and revaluations of infrastructure. Real increases of \$264 million, \$215 million and \$107 million were recorded for the Ports Corporation of Queensland (PCQ), PBC and Central Queensland Ports Authority (CQPA) respectively. The asset values of most other port GTEs decreased.

The size of the monitored port GTEs — in terms of revenue and the value of assets controlled — varied substantially in 2006-07 (figure 9.2). The largest four port GTEs (PBC, CQPA, Sydney Ports Corporation and Port of Melbourne Corporation

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<sup>1</sup> Port of Brisbane Corporation owned 37.4 per cent of Brisbane Airport Corporation Holdings in 2006-07. These airport investments are not consolidated in PBC's financial accounts as it does not own a controlling interest in the airport.



**Table 9.1 Activities — port GTEs, 2006-07**

<i>Port GTE</i>	<i>Activities</i>				
	<i>Port facilities management</i>	<i>Pilotage</i>	<i>Stevedoring</i>	<i>Cold storage</i>	<i>Airport operations</i>
<i>New South Wales</i>					
Newcastle Port Corporation	✓	✓	x	x	x
Port Kembla Port Corporation	✓	✓	x	x	x
Sydney Ports Corporation	✓	✓	x	x	x
<i>Victoria</i>					
Port of Melbourne Corporation	✓	x	x	x	x
Victorian Regional Channels Authority <sup>a</sup>	✓	x	x	x	x
<i>Queensland</i>					
Central Queensland Ports Authority	✓	x	✓	x	x
Port of Brisbane Corporation	✓	x	x	x	x <sup>b</sup>
Cairns Port Authority	✓	x	x	x	✓
Townsville Port Authority	✓	x	x	x	x
Ports Corporation of Queensland	✓	x	x	x	x
Mackay Port Authority	✓	x	x	x	✓
<i>Western Australia</i>					
Fremantle Port Authority	✓	x	x	x	x
Bunbury Port Authority	✓	✓	x	x	x
Port Hedland Port Authority	✓	✓	x	x	x
Dampier Port Authority	✓	x	x	x	x
Geraldton Port Authority	✓	✓	x	x	x
Albany Port Authority	✓	✓	x	✓	x
<i>Tasmania</i>					
Tasmanian Ports Corporation	✓	✓	✓	✓	✓
<i>Northern Territory</i>					
Darwin Port Corporation	✓	✓	x	x	x

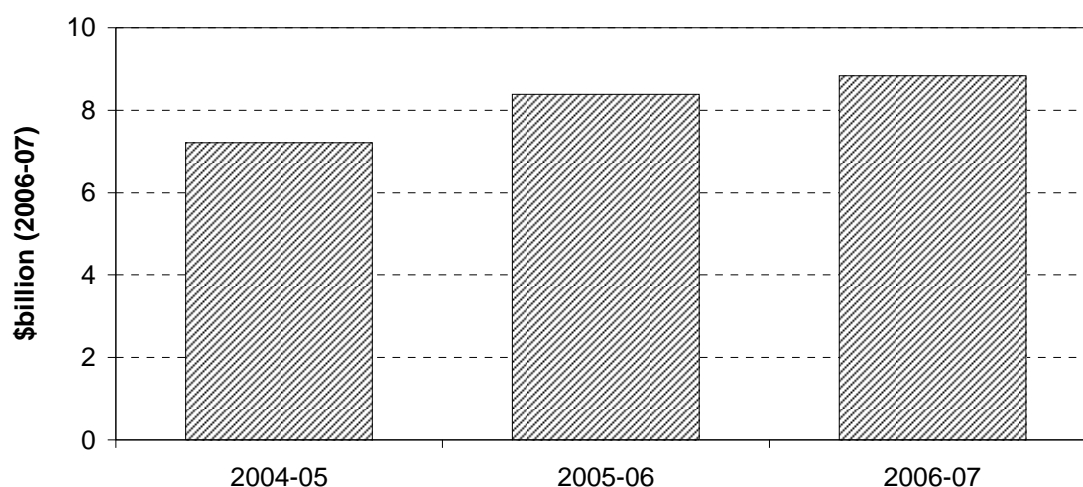
<sup>a</sup> Victorian Regional Channels Authority manages channels in the port waters of Geelong and oversees channel operations in the ports of Hastings and Portland. <sup>b</sup> Port of Brisbane Corporation holds a 37.4 per cent interest in Brisbane Airport Corporation Holdings. It is not directly involved in the operation of the airport.

(PoMC)), accounted for 63.8 per cent of sector assets and 57.4 per cent of sector income in 2006-07. PBC was the largest overall, contributing 25.7 per cent (\$2.3 billion) of assets and 20.6 per cent (\$313 million) of sector income.

## 9.2 Market environment

The financial performances of port GTEs are affected by the level and composition of trade throughput. Port reforms over the past decade have also affected performance by changing the scope and nature of activities carried out by some port GTEs and by increasing their commercial focus.

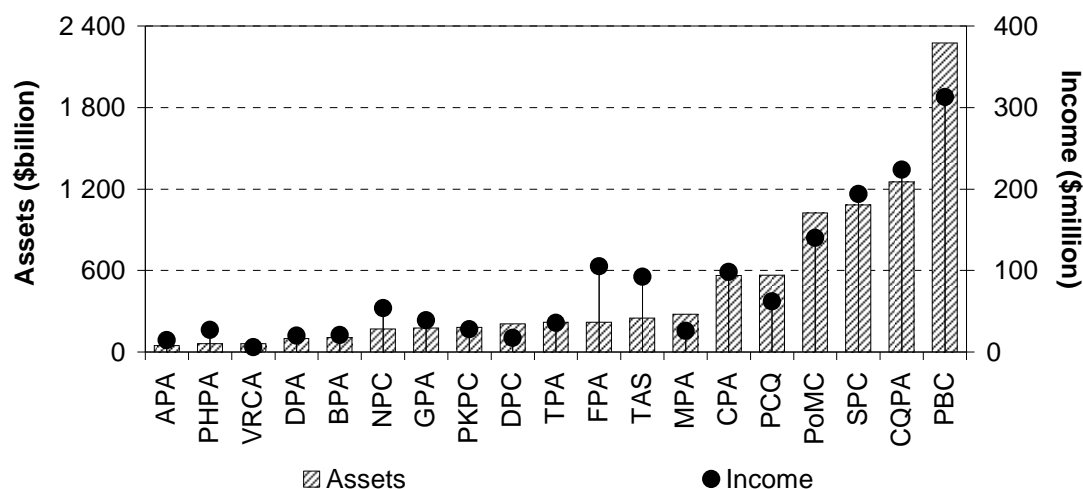
Figure 9.1 **Sector assets — port GTEs<sup>a</sup>**



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

Source: Productivity Commission estimates.

Figure 9.2 **Assets and total income — port GTEs, 2006-07**



Source: Productivity Commission estimates.

## Trade throughput

Trade throughput is susceptible to both domestic and international markets, particularly shifts in demand for key traded commodities. The composition of throughput and the size of the markets served differ significantly across ports. Consequently, changes in domestic and international markets affect some port GTEs more than others.

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Changes in supply conditions for traded commodities also impact on trade throughput. The agricultural throughput of many port GTEs decreased in 2006-07, because of persistent drought and other climate conditions. For example, Port Kembla Port Corporation recorded a 76.3 per cent decline in grain exports in 2006-07. Similarly, CPA's throughput decline of 67 000 tonnes was mainly attributable to reduced sugar exports caused by Cyclone Larry.

Port GTEs with a diversified range of cargoes are less affected by market trends in key commodities, but usually retain an exposure to changes in the overall level of economic activity. Port GTEs relying on a single commodity for a large share of total throughput — such as the Newcastle Port Corporation, where coal accounted for 94 per cent of throughput in 2006-07 — can be substantially affected by changes in market conditions for that commodity.

### **Infrastructure compatibility**

As elements of a global transport network, port GTEs must maintain infrastructure that is compatible with changing global standards. With the global trend of increasing ship sizes, inadequate channel depth in some ports was identified in the Exports and Infrastructure Taskforce report (Fisher Report 2005). The Taskforce argued that without additional deepening, the Port of Melbourne, Port of Newcastle, Port of Gladstone and Fremantle Port could be unable to accept larger ships at full capacity. Moreover, this could have adverse implications for congestion and the size of vessels arriving at other Australian ports.

### **Corporate reforms**

Government reforms in the ports sector over the past decade or so were aimed at improving the efficiency and financial performance of GTEs by making them more commercially focused. In general, the reforms were consistent with those recommended in the 1993 Industry Commission report *Port Authority Services and Activities* (IC 1993). Some of the major recommendations of this report were:

- ports should be constituted as statutory bodies, which are separate from the departmental structure of government
- ports should be exposed to an income tax-equivalent regime, be reimbursed for any CSOs and pay dividends from profits after tax
- the adoption, where cost efficient, of a landlord model of operation. This involves the port authority concentrating on the supply of core activities only, with the more contestable waterfront services, such as stevedoring and pilotage, contracted out to the private sector.

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The primary aim of these reforms was to establish clear objectives that eliminate any conflicts arising out of the commercial and non-commercial activities of port GTEs, as well as replicating market disciplines. Competition in the provision of port services has increased, mainly through the competitive tendering and franchising to private operators of activities such as stevedoring, pilotage, mooring, general maintenance and ship cleaning.

Heads of government signed the Council of Australian Governments (COAG) Competition and Infrastructure Reform Agreement on 10 February 2006, which includes a commitment to undertake reviews of port regulation and competition by the end of 2007. The NSW report was submitted to COAG in late 2007, with reports from Victoria, Queensland, Western Australia, South Australia, and the Northern Territory due in 2008 (CRC 2008).

### 9.3 Profitability

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

The monitored port GTEs recorded a total profit before tax of \$462 million in 2006-07. Excluding TPC, total profit increased by \$10.8 million (2.5 per cent) in real terms from 2005-06.<sup>2</sup> All port GTEs except Darwin Port Corporation (DPC) achieved a profit in 2006-07, an improvement on 2005-06 when TPC also reported a loss.

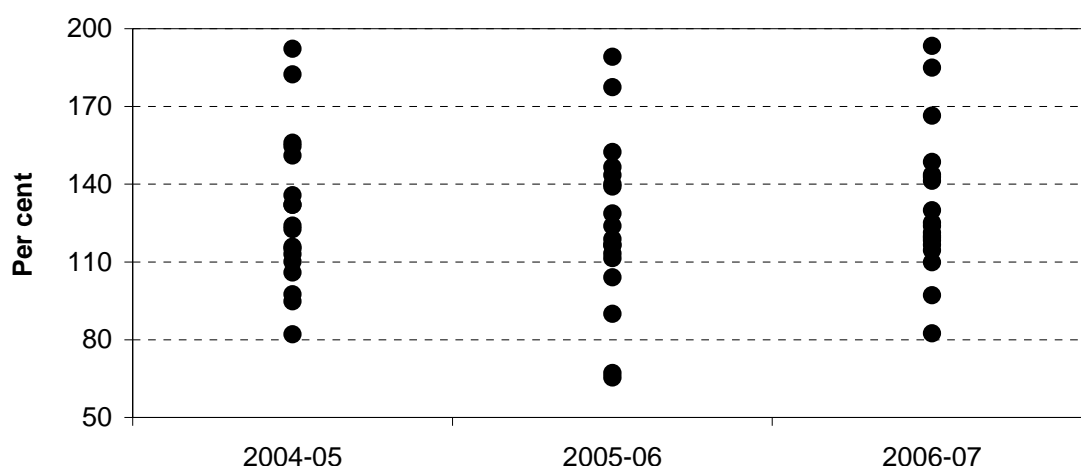
The cost recovery ratio for the port sector was 137 per cent in 2006-07, with most port GTEs able to fully recover their costs (figure 9.3). Only Dampier Port Authority (DPA) and DPC had cost recovery ratios below 100 per cent. The median cost recovery rate was 124 per cent, with the highest at 193 per cent (PBC) and lowest at 82.5 per cent (DPC). Excluding TPC, cost recovery improved by 2.4 percentage points from 2005-06.

The cost recovery ratio for port GTEs was higher than for most other sectors. However, given the capital intensity of port GTE businesses and the long-lived nature of their assets, this might not be excessive.

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<sup>2</sup> Tasmanian Ports Corporation was incorporated on 1 July 2005 and began trading as TasPorts on 1 January 2006, when it took over the assets and infrastructure of Burnie Port Corporation, Hobart Ports Corporation, Port of Devonport Corporation and Port of Launceston Pty Ltd. The change in profit does not include TPC, as it operated for only six months in 2005-06. TPC has also been excluded from the 2005-06 sector-wide calculations of cost recovery, return on assets, return on equity and interest cover.

Figure 9.3 Cost recovery — port GTEs<sup>a,b</sup>



<sup>a</sup> Each data point represents the cost recovery ratio for a government trading enterprise in that financial year. Cost recovery is the ratio of revenue from operations to expenses from operations (chapter 1). <sup>b</sup> Cost recovery for Tasmanian Ports Corporation has been included in 2006-07 only.

Source: Productivity Commission estimates.

The overall sector return on assets was approximately steady at 6.9 per cent in 2006-07. All port GTEs except DPC reported positive returns (up to 21.7 per cent for Albany Port Authority (APA)) in 2006-07 (figure 9.4). DPC recorded a return of -1.7 per cent.

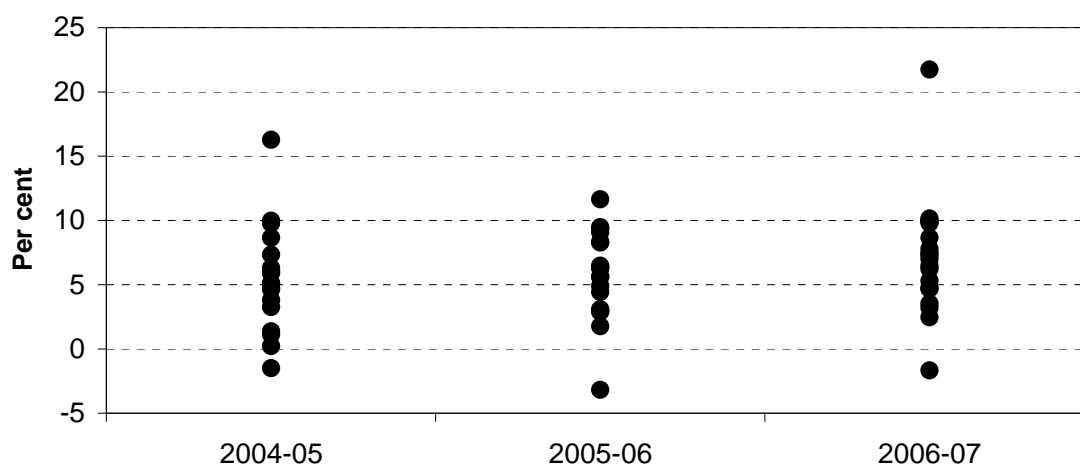
The aggregate sector rate of return on assets of 6.9 per cent in 2006-07 was greater than the risk-free rate of return.<sup>3</sup> The median rate of return on assets for the monitored port GTEs, at 7.0 per cent in 2006-07, was also above the risk-free rate.

The rates of return in 2006-07 are not indicative of excessive profit taking. APA recorded the highest return on assets for the sector, of 21.7 per cent in 2006-07. However, this was due to a once-off compensation payment equal to more than three-quarters of its operating revenue. The next highest returns were in the order of 10 per cent. Indeed, seven of the 19 monitored port GTEs failed to achieve a return on assets equal to or greater than the risk-free rate.

The return on equity — the GTE's operating earnings before interest and after tax for the year expressed as a proportion of equity held in the business — also held approximately steady in 2006-07. The sector return on total equity was 3.9 per cent in 2006-07.

<sup>3</sup> The risk-free rate of return is defined as the 2006-07 interest rate on 10-year Australian Government bonds of 5.8 per cent (RBA 2008).

Figure 9.4 Return on assets — port GTEs<sup>a,b</sup>



<sup>a</sup> Each data point represents return on assets for a government trading enterprise in that financial year. Return on assets is the ratio of earnings before interest and tax to average operating assets (chapter 1). Average operating assets is the average of the value of operating assets at the beginning and end of each financial year. Where an average could not be calculated, the value of operating assets at the end of the financial year was used. <sup>b</sup> Return on assets for Tasmanian Ports Corporation has been included in 2006-07 only.

Source: Productivity Commission estimates.

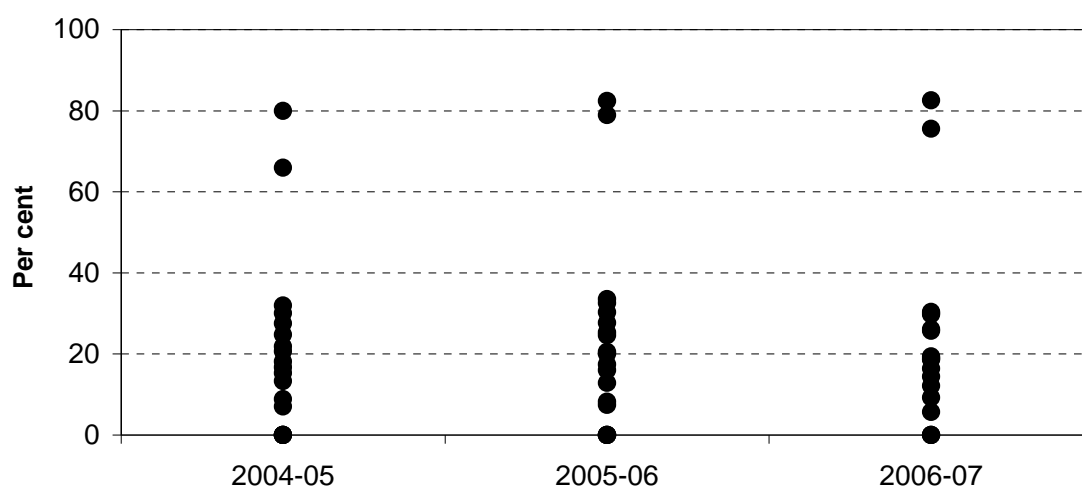
## 9.4 Financial management

Financial management indicators provide information about the capital structure of GTEs and their ability to meet the cost of servicing debt and other liabilities as they fall due.

There is considerable diversity in the capital structure of port GTEs, as measured by debt to assets (figure 9.5). Most port GTEs operate with a relatively low level of leverage, indeed three port GTEs operated debt free at the end of 2006-07. The median debt to assets of port GTEs was 18.8 per cent in 2006-07, and sector-wide debt to assets increased from 22.9 per cent in 2005-06 to 23.1 per cent in 2006-07. This increase was mainly the result of borrowing by two GTEs — CQPA and PCQ, with real additions to debt of \$121 million and \$109 million respectively.

In most cases, a decline in debt to assets of port GTEs was achieved through retirement of debt. For example, TPC reduced its debt by 53.1 per cent (in real terms) from 2005-06 to 2006-07. This contributed to a fall in its debt to assets from 30.3 per cent to 14.4 per cent.

Figure 9.5 Debt to assets — port GTEs<sup>a,b</sup>



<sup>a</sup> Each data point represents debt to assets for a government trading enterprise in that financial year. Debt is defined to include all interest bearing liabilities (chapter 1). <sup>b</sup> The Victorian Regional Channels Authority, Mackay Port Authority and Port Hedland Port Authority operated debt free in the period 2004-05 to 2006-07. The Ports Corporation of Queensland operated debt free in 2004-05 and 2005-06.

Source: Productivity Commission estimates.

Interest cover, a measure of the capacity to meet periodic interest payments out of current earnings, was 5.4 times for the port sector in 2006-07. Excluding TPC, this represents a decrease of 0.2 percentage points from 2005-06. Given their (generally) low levels of debt, port GTEs would be well placed to continue meeting borrowing costs in the event of interest rate increases or a downturn in trade throughput.

The ability of port GTEs to meet short-term liabilities from short-term assets declined in 2006-07, with the current ratio for the port sector falling to 133 per cent from 194 per cent in 2005-06. Four GTEs recorded a current ratio of less than 100 per cent in 2006-07. Consequently, the short-term obligations of these GTEs would need to be met from sources of funds other than current assets.<sup>4</sup>

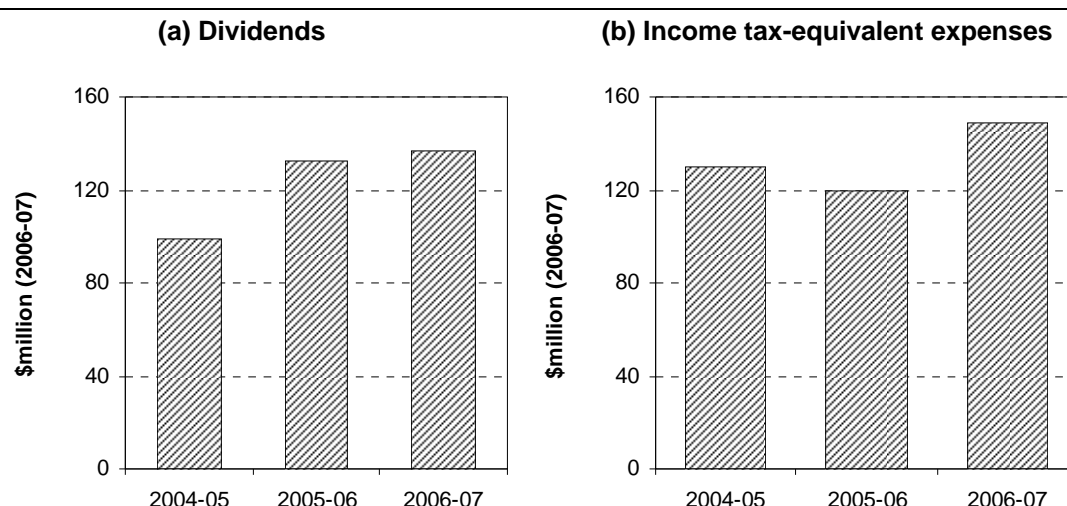
## 9.5 Transactions with government

Governments have sought to give GTEs a greater commercial focus and facilitate competitive neutrality by exposing them to market disciplines and regulations similar to those faced by private-sector businesses. Owner-governments generally require their port GTEs to make dividend and income tax-equivalent payments, as well as pay debt guarantee fees.

<sup>4</sup> Current assets comprise cash and other assets that, in the ordinary course of operations, would be available for conversion into cash within 12 months after the end of the reporting period.

The level of dividends and income tax-equivalent expenses varies from year to year (figure 9.6). Port GTEs declared dividends totalling \$137 million in 2006-07, representing an increase of 3.3 per cent in real terms from 2005-06 to 2006-07.<sup>5</sup> The dividend payout ratio of 67.4 per cent was neither particularly high nor particularly low in comparison with other sectors. This suggests that governments have not been excessive in making profit withdrawals from port GTEs.

**Figure 9.6 Dividends and income tax-equivalent expenses — port GTEs<sup>a</sup>**



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

Source: Productivity Commission estimates.

Port GTEs recorded total income tax-equivalent expenses of \$149 million in 2006-07. Excluding TPC, total income tax-equivalent expenses increased by 20.2 per cent.<sup>6</sup>

Port GTEs required to undertake non-commercial activities should receive CSO funding equivalent to the net cost incurred through these non-commercial activities. Only DPA and DPC received CSO payments. DPA does not reveal the value of this funding in its published financial statements. In real terms, DPC received CSO funding of \$5.0 million in 2006-07, an increase from \$2.5 million in 2005-06. This funding was for costs associated with small craft services, tourism and real estate,

<sup>5</sup> Tasmanian Port Corporation did not pay a dividend in either 2005-06 or 2006-07.

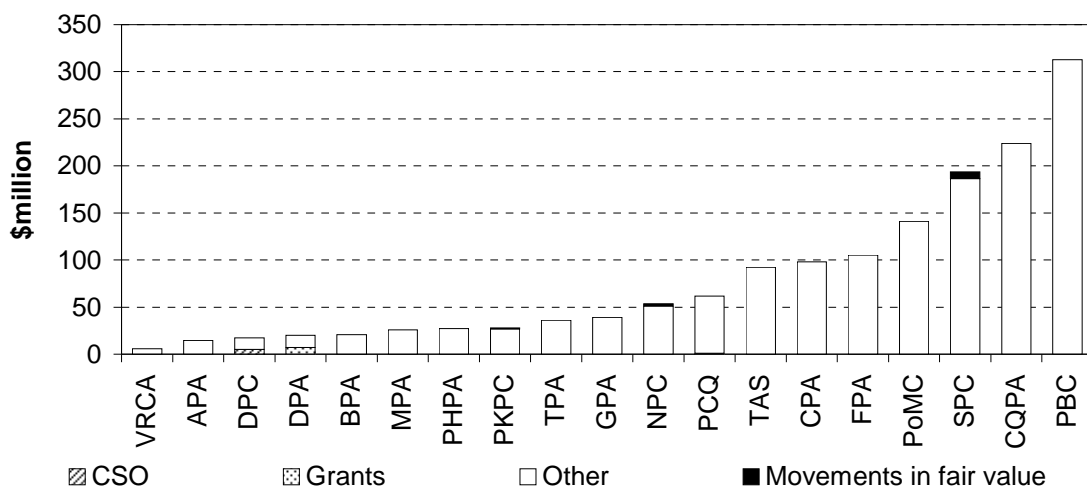
<sup>6</sup> This result was partly due to tax adjustments by DPC and PoMC in 2005-06 and 2006-07. For example, DPC's income tax-equivalent expense was \$9.7 million in 2006-07, despite recording a loss for that year. This was because of written-off income tax benefits. On the other hand, PoMC recorded (in real terms) an income tax-equivalent benefit of \$6.8 million in 2005-06, despite a profit of \$43.7 million. This represented the net effect of an \$18.9 million tax concession adjustment associated with its channel deepening project.



cruise and defence facilities, security of the City Wharves, a roll-on roll-off facility and dredging at Fort Hill Wharf, and the Fisherman's Wharf facility.

A small number of port GTEs received government grants (figure 9.7). For example, DPA received \$7.0 million in grants from the WA Government in 2006-07, to prevent a financial loss from operating and finance expenses associated with the Bulk Liquids Berth (DPA 2007). This amount represented 34.8 per cent of DPA's revenue in 2006-07.

Figure 9.7 **Income sources — Port GTEs, 2006-07**



Source: Productivity Commission estimates.

## PORTS

Table 9.2 Whole of sector performance indicators, 2004-05 to 2006-07<sup>a</sup>

		Pre-AIFRS <sup>b,c</sup>		AIFRS <sup>b</sup>	
Indicators	Units	2004-05	2004-05	2005-06 <sup>d</sup>	2006-07
Size					
Total assets	\$m	6 415	6 505	7 709	8 838
Total income	\$m	986	1 131	1 315	1 516
Profitability					
Profit before tax	\$'000	247 166	363 188	398 550	461 867
Operating profit margin	%	29.1	26.8	26.8	27.2
Cost recovery	%	141.0	136.6	136.6	137.4
Return on assets	%	5.1	6.9	7.1	6.9
Return on total equity	%	4.0	3.3	3.8	3.9
Return on operating equity <sup>e</sup>	%	3.9	2.9	3.3	3.4
Financial management					
Debt to equity	%	27.6	27.4	29.1	29.7
Debt to assets	%	20.5	20.4	22.9	23.1
Total liabilities to equity	%	38.9	55.5	58.0	61.9
Operating liabilities to equity <sup>f</sup>	%	34.9	34.4	37.8	38.1
Interest cover	times	4.2	5.7	5.7	5.4
Current ratio	%	186.8	187.8	193.7	132.6
Leverage ratio	%	134.9	134.4	137.8	138.1
Payments to and from government					
Dividends	\$'000	88 986	88 986	121 685	136 758
Dividend to equity ratio	%	1.9	1.9	2.4	2.3
Dividend payout ratio	%	47.8	65.2	72.2	67.4
Income tax expense	\$'000	85 690	116 981	109 616	149 041
Grants revenue ratio	%	0.2	0.2	0.8	0.5
CSO funding	\$'000	2 993	2 993	2 284	4 981

<sup>a</sup> Figures are nominal values. <sup>b</sup> Port GTEs commenced reporting under Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for port GTEs. <sup>c</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>d</sup> Tasmanian Port Corporation commenced reporting on 1 January 2006. As a result, it is excluded from the calculation of dividend and grants ratios, interest cover, and all profitability indicators except profit before tax, for 2005-06. <sup>e</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>f</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'.

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## 9.6 GTE performance reports

Newcastle Port Corporation (NSW)  
Port Kembla Port Corporation (NSW)  
Sydney Ports Corporation (NSW)  
Port of Melbourne Corporation (Victoria)  
Victorian Regional Channels Authority (Victoria)  
Central Queensland Ports Authority (Queensland)  
Port of Brisbane Corporation (Queensland)  
Cairns Port Authority (Queensland)  
Ports Corporation of Queensland (Queensland)  
Mackay Port Authority (Queensland)  
Townsville Port Authority (Queensland)  
Fremantle Port Authority (WA)  
Bunbury Port Authority (WA)  
Port Hedland Port Authority (WA)  
Albany Port Authority (WA)  
Dampier Port Authority (WA)  
Geraldton Port Authority (WA)  
Tasmanian Ports Corporation (Tasmania)  
Darwin Port Corporation (NT)

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## NEWCASTLE PORT CORPORATION

## New South Wales

Newcastle Port Corporation (NPC) operates under the *State Owned Corporations Act 1989* and the *Ports Corporatisation and Waterways Management Act 1995*. NPC has responsibility for the management of port facilities and provides pilotage services.

Newcastle Port Corporation recorded a total throughput of 85.6 million tonnes in 2006-07. Coal accounted for around 94.0 per cent of this throughput.

Total income held steady at almost \$53.7 million in 2006-07. Of this, income from actuarial gains on defined benefit superannuation accounted for \$2.3 million — a \$2.4 million decline from 2005-06. Before fair value movements, profit before tax increased by 15.9 per cent (\$2.0 million) to \$14.3 million in 2006-07. This was largely attributable to a \$2.7 million increase in gains from revaluations of investment property and a \$1.0 million increase in sundry income. Total expenses increased slightly to \$37.1 million.

Total assets were \$170 million in 2006-07, an increase of 6.7 per cent (\$10.7 million) from 2005-06. This was mostly due to a \$5.0 million increase in cash assets and a \$5.7 million fair value adjustment to investment property. As a result of increases in cash assets, the current ratio increased from 327 per cent in 2005-06 to 341 per cent in 2006-07. Property, plant and equipment declined in value by \$540 000 because depreciation and disposals more than offset \$2.1 million of capital works expenditure. Total liabilities grew by 4.9 per cent (\$3.0 million) in 2006-07, primarily through increases to deferred tax liabilities, and trade and other payables. The higher profit resulted in slight improvements in return on assets and on equity, which were 10.0 per cent and 0.7 per cent respectively in 2006-07.

The level of debt remained steady at \$30.8 million, which was reflected in correspondingly steady finance costs of \$2.1 million. Debt to equity and debt to assets improved to 24.8 per cent and 18.8 per cent respectively in 2006-07. The improvement was largely attributable to the combined effect of the stable debt levels and increased total assets.

Newcastle Port Corporation is required to make dividend and income tax-equivalent payments to the NSW Government. NPC provided for a \$3.8 million dividend payment and recorded an income tax-equivalent expense of \$5.1 million in 2006-07.

Newcastle Port Corporation does not receive community service obligation funding.

## NEWCASTLE PORT CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	161	150	160	170
Total income	\$m	43	42	54	54
Profitability					
Profit before tax	\$'000	10 994	10 735	12 341	14 309
Operating profit margin	%	24.9	24.3	14.3	14.2
Cost recovery	%	133.2	132.1	116.7	116.6
Return on assets	%	8.3	8.7	9.4	10.0
Return on total equity	%	6.0	6.7	0.3	0.7
Return on operating equity <sup>c</sup>	%	5.8	5.8	0.2	0.6
Financial management					
Debt to equity	%	26.5	28.7	26.9	24.8
Debt to assets	%	19.4	20.6	20.0	18.8
Total liabilities to equity	%	42.8	59.7	60.4	58.8
Operating liabilities to equity <sup>d</sup>	%	36.4	39.1	38.5	36.4
Interest cover	times	6.0	5.9	6.8	7.8
Current ratio	%	427.0	318.3	326.6	341.2
Leverage ratio	%	136.4	139.1	138.5	136.4
Payments to and from government					
Dividends	\$'000	3 057	3 057	6 024	3 808
Dividend to equity ratio	%	2.6	2.8	5.4	3.2
Dividend payout ratio	%	45.3	48.9	2 489.3	540.1
Income tax expense	\$'000	2 998	3 236	5 509	5 094
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Newcastle Port Corporation (NPC) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for NPC.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Port Kembla Port Corporation (PKPC) operates under the *State Owned Corporations Act 1989* and the *Ports Corporatisation and Waterways Management Act 1995*. As well as managing the port, PKPC offers pilotage services and provides berths and equipment for private-sector lease or common use.

Total throughput recorded by PKPC was 25.4 million revenue tonnes in 2006-07, a 2.0 per cent decrease on 2005-06.<sup>1</sup> According to PKPC, the decline was due to a fall in grain exports because of the drought. The fall in grain exports outweighed growth of 10.0 per cent in coal exports. The other major cargoes that move through Port Kembla are steel products, copper ore and copper concentrates.

Total income fell by 14.5 per cent (\$4.7 million) in 2006-07. However, this included a \$0.9 million decrease in income from actuarial gains on defined benefit superannuation. PKPC more than doubled its profit before tax from \$4.6 million in 2005-06 to \$9.4 million in 2006-07. Revenue fell by \$3.8 million, primarily because of reduced revenue from berth services and finance leases. However, the \$8.5 million fall in total expenditure — mostly due to the absence of an \$8.7 million impairment incurred in 2005-06 — outweighed the fall in revenue.

Total assets increased by 15.2 per cent (\$24.0 million) to \$182 million in 2006-07. This included \$48.8 million of capital works expenditure and an increase of \$27.6 million in investment property. The capital works program included expansion of the port's infrastructure to facilitate the 2006-07 relocation to Port Kembla of bulk cargo shipping from Sydney Ports Corporation's Darling Harbour. Total debt was steady at \$49.3 million. Return on assets increased to 7.8 per cent in 2006-07, due to the higher profit before tax.

Current operating assets declined by 42.0 per cent, mainly due to a fall in cash assets. Current operating liabilities increased by 49.2 per cent, reflecting higher trade payables and short-term debt. As a result, PKPC's current ratio decreased from 495 per cent in 2005-06 to 192 per cent in 2006-07.

Port Kembla Port Corporation is required to make dividend and income tax-equivalent payments to the NSW Government. PKPC made no dividend provision, but recorded an income tax-equivalent expense of \$2.8 million in 2006-07. PKPC does not receive community service obligation funding.

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<sup>1</sup> A revenue tonne is a mass of 1000 kg or a volume of one cubic metre, whichever gives the largest number of units of cargo.

## PORT KEMBLA PORT CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	163	166	158	182
Total income	\$m	38	28	33	28
Profitability					
Profit before tax	\$'000	18 244	3 391	4 649	9 353
Operating profit margin	%	56.7	-5.5	-11.1	19.3
Cost recovery	%	231.1	94.8	90.0	123.9
Return on assets	%	13.8	4.8	5.6	7.8
Return on total equity	%	16.8	-3.0	-5.0	0.5
Return on operating equity <sup>c</sup>	%	15.2	-2.7	-4.6	0.4
Financial management					
Debt to equity	%	51.4	54.1	53.0	41.3
Debt to assets	%	30.6	31.9	32.6	30.0
Total liabilities to equity	%	88.5	103.1	80.9	63.6
Operating liabilities to equity <sup>d</sup>	%	68.0	69.4	59.4	50.7
Interest cover	times	5.6	1.9	2.2	3.7
Current ratio	%	173.9	248.1	494.9	192.3
Leverage ratio	%	168.0	169.4	159.4	150.7
Payments to and from government					
Dividends	\$'000	6 233	6 233	—	—
Dividend to equity ratio	%	6.5	6.8	—	—
Dividend payout ratio	%	43.0	..	..	—
Income tax expense	\$'000	5 779	1 382	2 050	2 844
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Port Kembla Port Corporation (PKPC) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for PKPC.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Sydney Ports Corporation (SPC) was established in 1995 and operates under the *State Owned Corporations Act 1989* and the *Ports Corporatisation and Waterways Management Act 1995*. SPC manages the commercial ports of Sydney Harbour and Botany Bay, and leases land to private stevedores. SPC also owns Sydney Pilot Service Pty Ltd, which provides pilot services for Sydney Harbour and Port Botany.

Sydney Ports Corporation handled container throughput of 1.6 million twenty-foot equivalent units in 2006-07, a 12.1 per cent increase on 2005-06. Total throughput increased by 4.0 per cent to 27.8 million tonnes in 2006-07. SPC's major cargoes are chemicals, paper, manufactures and machinery. Sydney Harbour is also regularly visited by cruise ships. Darling Harbour ceased trading bulk cargo in 2006-07.

Total income increased by \$5.3 million in 2006-07, despite a \$3.9 million decline in actuarial gains from defined benefit superannuation. SPC recorded a profit before tax of \$78.5 million in 2006-07, a 3.2 per cent (\$2.6 million) decrease on 2005-06. Increases in port revenue and other revenue of \$8.8 million and \$12.2 million respectively were outweighed by a \$9.9 million decrease in investment property revaluation gains, and an \$11.8 million increase in total expenses. The higher expenses included increased service contractors, indirect taxes, and other expenses.

Total assets grew by 5.6 per cent (\$57.5 million) to \$1.1 billion in 2006-07, partly because of asset revaluations (\$14.4 million) and capital works (19.2 million). Combined with the lower profit, the increased total assets caused return on assets to decline to 8.7 per cent in 2006-07.

Debt was steady at \$172 million. When combined with increased total assets, the steady debt was reflected in a decline in debt to assets to 16.4 per cent in 2006-07.

Sydney Ports Corporation is required to make dividend and income tax-equivalent payments to the NSW Government. It made a provision for a \$29.0 million dividend and recorded an income tax-equivalent expense of \$25.6 million in 2006-07. SPC does not receive community service obligation funding.



## SYDNEY PORTS CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	965	953	1 026	1 084
Total income	\$m	152	229	188	194
Profitability					
Profit before tax	\$'000	61 415	140 380	81 095	78 504
Operating profit margin	%	48.1	48.0	47.1	45.9
Cost recovery	%	192.8	192.3	189.1	185.0
Return on assets	%	7.8	16.3	9.5	8.7
Return on total equity	%	7.2	4.9	7.6	8.5
Return on operating equity <sup>c</sup>	%	7.1	4.0	6.2	6.9
Financial management					
Debt to equity	%	23.2	23.5	21.9	20.7
Debt to assets	%	17.9	18.1	17.5	16.4
Total liabilities to equity	%	31.1	61.4	61.3	60.0
Operating liabilities to equity <sup>d</sup>	%	29.5	30.0	29.9	29.6
Interest cover	times	5.5	11.4	7.8	7.5
Current ratio	%	238.3	206.8	148.3	172.2
Leverage ratio	%	129.5	130.0	129.9	129.6
Payments to and from government					
Dividends	\$'000	18 910	18 910	22 160	28 964
Dividend to equity ratio	%	2.6	2.6	2.9	3.6
Dividend payout ratio	%	35.9	65.6	47.4	51.8
Income tax expense	\$'000	18 864	42 480	28 308	25 644
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Sydney Ports Corporation (SPC) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for SPC.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Port of Melbourne Corporation (PoMC) commenced operations on 1 July 2003, and operates under the *Ports Services Act 1995*. PoMC is responsible for managing and developing the Port of Melbourne, ensuring the availability of essential port services and managing channels. Total trade was 70.9 million revenue tonnes in 2006-07, a 10.4 per cent increase on 2005-06.<sup>1</sup> PoMC is subject to price regulation by the Essential Services Commission.

Total income increased by 2.7 per cent (\$3.7 million) in 2006-07, despite a \$3.0 million decline in income from actuarial gains on defined benefit superannuation. PoMC recorded a profit before tax of \$31.8 million in 2006-07, a decrease of 20.9 per cent (\$8.4 million) from 2005-06. This was mainly the result of a 16.0 per cent (\$15.1 million) increase in total expenses, reflecting higher contractor, consultant and salaries expenses. Total revenue increased by a comparatively small 5.0 per cent (\$6.7 million) from 2005-06.

Total assets were \$1.0 billion in 2006-07, a 3.3 per cent (\$32.6 million) increase on 2005-06, mainly due to \$60.1 million of infrastructure investment. The lower profit was reflected in a decline in PoMC's return on assets and on equity, to 3.5 per cent and 3.0 per cent respectively in 2006-07.

Total debt increased by 16.9 per cent (\$13.3 million) to \$91.9 million in 2006-07. As a result, finance costs were 66.4 per cent (\$1.4 million) higher than in 2005-06, despite fair value adjustments to borrowings, which reduced total finance expenses by \$2.4 million in 2006-07. The higher level of debt caused debt to assets and debt to equity to rise to 9.2 per cent and 10.7 per cent respectively in 2006-07.

Port of Melbourne Corporation made dividend payments of \$20.4 million in 2006-07.<sup>2</sup> It also recorded income tax-equivalent payments of \$9.0 million. PoMC does not receive community service obligation funding.

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<sup>1</sup> A revenue tonne is a mass of 1000 kg or a volume of one cubic metre, whichever gives the largest number of units of cargo.

<sup>2</sup> Dividend payments included a final dividend of \$17.1 million for 2005-06, and an interim dividend of \$3.3 million for 2006-07.

## PORT OF MELBOURNE CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	958	943	992	1 024
Total income	\$m	124	125	137	140
Profitability					
Profit before tax	\$'000	32 746	30 103	40 205	31 819
Operating profit margin	%	28.4	26.3	28.6	23.0
Cost recovery	%	139.7	135.7	140.0	129.9
Return on assets	%	3.9	3.8	4.4	3.5
Return on total equity	%	2.8	2.8	5.8	3.0
Return on operating equity <sup>c</sup>	%	2.7	2.5	5.1	2.7
Financial management					
Debt to equity	%	7.3	7.9	9.3	10.7
Debt to assets	%	6.6	7.0	8.2	9.2
Total liabilities to equity	%	13.9	30.1	30.8	33.8
Operating liabilities to equity <sup>d</sup>	%	11.4	12.6	16.0	18.3
Interest cover <sup>e,f</sup>	times	8.7	6.7	20.3	10.2
Current ratio	%	103.7	89.3	34.8	29.1
Leverage ratio	%	111.4	112.6	116.0	118.3
Payments to and from government					
Dividends	\$'000	—	—	18 800	20 400
Dividend to equity ratio	%	—	—	2.2	2.4
Dividend payout ratio	%	—	—	43.6	89.7
Income tax expense	\$'000	11 169	11 169	-6 206 <sup>g</sup>	8 968
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Port of Melbourne Corporation (PoMC) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for PoMC.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> Net interest expense included a gain from amortisation of discount or premium on borrowings. This gain was \$37 000 in 2004-05, \$41 000 in 2005-06 and \$15 000 in 2006-07.

<sup>f</sup> Under AIFRS, net interest expense included a fair value adjustment to borrowings expense. This expense was \$1.1 million in 2004-05, -\$1.9 million in 2005-06 and -\$2.4 million in 2006-07. <sup>g</sup> PoMC recorded a net income tax-equivalent benefit of \$6.2 million in 2005-06. The initial income tax-equivalent expense of \$12.7 million was adjusted for \$18.9 million in research and development tax concessions, including \$6.6 million for 2004-05 and \$12.4 million for 2005-06. — Zero or rounded to zero.

Victorian Regional Channels Authority (VRCA) was established under the *Port Services Act 1995*, and commenced operations on 1 April 2004. It manages channels in the port waters of Geelong and oversees channel operations in the ports of Hastings and Portland.

Victorian Regional Channels Authority is directly responsible for shipping control in the port waters of Geelong and contracts out the shipping control and navigation services for the ports of Hastings and Portland. Geelong Port handled cargo throughput of 12.9 million tonnes in 2006-07, a 4.9 per cent increase on 2005-06. The major cargoes passing through Geelong Port were petroleum products, fertiliser, woodchips and grain.

Profit before tax was \$1.9 million in 2006-07, an 11.5 per cent increase on 2005-06. According to VRCA, the increased profit was primarily attributable to the lack of need for maintenance dredging. Total expenditure fell by \$286 000, with reductions in maintenance dredging, consultancies and contractors, insurance and special projects. Total revenue fell by \$88 000 to \$5.9 million in 2006-07, which included a \$287 000 net loss on sale of fixed assets.

Despite additions to navigation aids and plant and equipment of \$4.8 million and \$243 000 respectively, total assets increased by only \$739 000 to \$60.6 million in 2006-07. This was due in part to a \$2.5 million decline in cash assets. The improved profit was reflected in a slight increase in return on assets to 3.2 per cent in 2006-07.

Victorian Regional Channels Authority had no debt in 2006-07.

Current operating assets fell by 21.5 per cent (\$2.2 million) in 2006-07, due to a \$2.5 million reduction in cash assets. This was reflected in VRCA's current ratio, which fell from 3453 per cent in 2005-06 to 1378 per cent in 2006-07.

Victorian Regional Channels Authority is required to make income tax-equivalent payments under the *State Owned Enterprises Act 1992*. It is also required to pay dividends to the Victorian Government. VRCA distributed dividends totalling \$454 000 and recorded an income tax-equivalent expense of \$665 000 in 2006-07.

Victorian Regional Channels Authority does not receive community service obligation funding.

## VICTORIAN REGIONAL CHANNELS AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	59	59	60	61
Total income	\$m	6	6	6	6
Profitability					
Profit before tax	\$'000	797	805	1 725	1 923
Operating profit margin	%	8.9	9.1	22.3	29.2
Cost recovery	%	109.8	110.0	128.8	141.3
Return on assets	%	1.3	1.4	2.9	3.2
Return on total equity	%	1.0	0.3	1.1	1.7
Return on operating equity <sup>c</sup>	%	1.0	0.3	1.1	1.7
Financial management					
Debt to equity	%	—	—	—	—
Debt to assets	%	—	—	—	—
Total liabilities to equity	%	1.2	5.7	4.0	3.8
Operating liabilities to equity <sup>d</sup>	%	0.5	0.5	0.5	1.0
Interest cover	times	..	..	..	..
Current ratio	%	4 210.5	3 071.5	3 452.7	1 377.9
Leverage ratio	%	100.5	100.5	100.5	101.0
Payments to and from government					
Dividends	\$'000	100	100	542	454
Dividend to equity ratio	%	0.2	0.2	0.9	0.8
Dividend payout ratio	%	17.5	57.1	86.1	46.0
Income tax expense	\$'000	-82	324	603	665
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Victorian Regional Channels Authority (VRCA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for VRCA. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Central Queensland Ports Authority (CQPA) commenced operations on 1 July 2004 following the merger of the Rockhampton Port Authority with the Gladstone Port Authority. CQPA operates under the *Government Owned Corporations Act 1993* and the *Transport Infrastructure Act 1994*. It is responsible for the provision of infrastructure for bulk operations as well as pilotage and stevedoring services.

Central Queensland Ports Authority recorded total combined throughput of 74.4 million tonnes in 2006-07, comprising 74.2 million tonnes at the Port of Gladstone and 167 000 tonnes at Port Alma (formerly Rockhampton).

Profit before tax grew by \$24.6 million to \$39.1 million in 2006-07. Revenue grew by 47.4 per cent (\$72.0 million) to \$224 million in 2006-07, which CQPA attributed primarily to asset revaluations. Of this increase, \$29.2 million was attributable to revaluations of investment property, and \$39.4 million was due to an increase in operating revenue. Total expenditure increased by 34.5 per cent (\$47.3 million), which was mostly due to \$26.2 million of asset revaluations and impairment.

The value of CQPA's assets increased by 19.0 per cent (\$200 million) to \$1.3 billion in 2006-07. This was largely attributable to capital expenditure of \$408 million, which was mainly allocated to the RG Tanna Coal Terminal Expansion Project. Strong growth in profit was reflected in an improved return on assets, which increased from 3.0 per cent in 2005-06 to 4.7 per cent in 2006-07.

Total debt grew by 67.1 per cent (\$139 million) to \$347 million as CQPA increased its borrowings to fund its capital works program. As a result of this increase, borrowing costs rose by 38.4 per cent in 2006-07, and debt to equity increased from 27.3 per cent in 2005-06 to 42.6 per cent in 2006-07. The higher level of debt, as well as increases in trade payables, led to an overall increase in operating liabilities of 51.0 per cent (\$144 million).

Central Queensland Ports Authority is required to make dividend and income tax-equivalent payments to the Queensland Government. The Authority provided for a \$5.0 million dividend payment and recorded an income tax-equivalent expense of \$11.7 million in 2006-07.

Central Queensland Ports Authority does not receive community service obligation funding.

## CENTRAL QUEENSLAND PORTS AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	652	652	1 052	1 252
Total income	\$m	135	135	152	224
Profitability					
Profit before tax	\$'000	11 432	11 432	14 489	39 133
Operating profit margin	%	13.1	13.2	14.1	9.0
Cost recovery	%	115.1	115.1	116.4	109.9
Return on assets	%	3.3	3.3	3.0	4.7
Return on total equity	%	3.0	3.4	2.9	0.7
Return on operating equity <sup>c</sup>	%	2.9	3.1	2.7	0.6
Financial management					
Debt to equity	%	31.1	31.1	27.3	42.6
Debt to assets	%	21.8	21.8	24.6	30.4
Total liabilities to equity	%	50.4	55.5	45.7	65.0
Operating liabilities to equity <sup>d</sup>	%	42.2	42.2	37.3	52.5
Interest cover	times	2.2	2.2	2.4	3.7
Current ratio	%	330.4	330.4	461.1	136.0
Leverage ratio	%	142.2	142.2	137.3	152.5
Payments to and from government					
Dividends	\$'000	5 619	5 619	7 023	4 980
Dividend to equity ratio	%	1.2	1.2	1.2	0.6
Dividend payout ratio	%	43.5	39.9	42.5	97.9
Income tax expense	\$'000	4 408	3 268	4 290	11 735
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Central Queensland Ports Authority (CQPA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for CQPA. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports.

<sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Port of Brisbane Corporation (PBC) was established on 1 July 1994 and operates under the *Government Owned Corporations Act 1993* and the *Transport Infrastructure Act 1994*.<sup>1</sup> PBC manages the Port of Brisbane, the Brisbane Multimodal Terminal, and the boat harbours of Manly, Scarborough, Cabbage Tree Creek and Gardens Point. It also has a 37 per cent interest in Brisbane Airport Corporation Holdings. The Queensland Government announced in 2006-07 the decision to merge PBC and the Bundaberg Port Authority. The decision was due to come into effect in October 2007.

Port of Brisbane Corporation's container throughput was 875 000 twenty-foot equivalent units in 2006-07, an increase of 14.2 per cent on 2005-06. The Corporation's major traded commodities include oil, coal and cement.

Profit before tax was \$170 million in 2006-07, a slight decrease on 2005-06. Revenue increased by only 5.2 per cent (15.5 million), as significant increases in rental income and revenue from inventory sales were offset by a \$31.4 million decline in gains from revaluation of investment properties. The decline in profit was attributable to a 13.2 per cent (\$16.6 million) increase in total expenses, which reflected increases in cost of goods sold, repairs and maintenance, asset disposal costs and depreciation.

The value of PBC's total assets grew by 20.2 per cent (\$382 million) to \$2.3 billion in 2006-07. According to PBC, the major contributors to this growth were investment in infrastructure and revaluation of assets, each totalling \$171 million. The decline in profit was reflected in a fall in return on assets from 11.7 per cent in 2005-06 to 9.8 per cent in 2006-07.

Total debt increased by 5.9 per cent (\$34.4 million) to \$618 million. However, this growth was outweighed by increased assets, which led to a fall in debt to assets to 29.7 per cent in 2006-07.

Port of Brisbane Corporation declared a \$49.6 million dividend payment and recorded an income tax-equivalent expense of \$54.5 million in 2006-07. This maintained PBC's dividend payout ratio at over 100 per cent, indicating that profits are insufficient to cover dividend payments. PBC does not receive community service obligation funding.

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<sup>1</sup> Port of Brisbane Corporation was a statutory authority until 1 July 2007, after which it became a company Government Owned Corporation.



## PORT OF BRISBANE CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	1 609	1 609	1 893	2 276
Total income	\$m	141	213	297	313
Profitability					
Profit before tax	\$'000	52 135	91 984	171 150	170 068
Operating profit margin	%	45.9	35.3	43.6	48.3
Cost recovery	%	184.9	154.6	177.4	193.3
Return on assets	%	4.8	7.3	11.7	9.8
Return on total equity	%	3.5	2.8	2.4	4.4
Return on operating equity <sup>c</sup>	%	3.4	2.3	1.9	3.4
Financial management					
Debt to equity	%	45.3	45.3	48.2	39.6
Debt to assets	%	30.0	30.1	33.5	29.7
Total liabilities to equity	%	53.5	84.9	95.5	90.2
Operating liabilities to equity <sup>d</sup>	%	50.8	50.8	55.9	45.5
Interest cover	times	3.1	4.6	6.4	6.1
Current ratio	%	121.1	121.1	132.6	119.3
Leverage ratio	%	150.8	150.8	155.9	145.5
Payments to and from government					
Dividends	\$'000	27 977	27 977	35 811	49 586
Dividend to equity ratio	%	2.6	2.6	3.2	3.6
Dividend payout ratio	%	76.5	116.5	162.3	104.7
Income tax expense	\$'000	17 164	28 002	50 756	54 468
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Port of Brisbane Corporation (PBC) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for PBC.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Cairns Port Authority (CPA) operates under the *Government Owned Corporations Act 1993* and the *Transport Infrastructure Act 1994*. It has responsibility for the management and operation of the Cairns International Airport, the Port of Cairns, and associated land and property. Most port activities, including towage and stevedoring, are conducted by private operators.

Total passenger movements through the airport was steady at approximately 3.8 million in 2006-07. This was despite significant growth in domestic air travel, which increased by 6.4 per cent to 2.9 million passenger movements. International passenger movements fell by 12.3 per cent to 0.9 million. According to CPA, the decline in international passenger movements was due to a fall in demand from the Japanese market. Total trade through CPA's seaport declined by 67 000 tonnes in 2006-07 — falling to 1.1 million tonnes. According to CPA, the decline was due to reduced sugar exports as a result of cyclone Larry. The major cargoes moving through the seaport are sugar, molasses and petroleum products.

Profit before tax was \$31.1 million in 2006-07, an increase of \$3.6 million on the 2005-06 result. However, this increase reflected a \$9.9 million adjustment of fair value to investment property, an increase of \$4.5 million on revenue recognised from the same source in 2005-06. Over \$7.5 million of additional revenue was due to investment property value increases at the seaport. Revenue from airport activities declined by 0.7 per cent, while revenue from seaport activities increased by 38.9 per cent. Total expenses increased by \$3.4 million in 2006-07.

Cairns Port Authority invested \$43.9 million in capital works in 2006-07, of which \$39.6 million was spent on the airport. The capital expenditure contributed to a 1.3 per cent (\$7.3 million) increase in the value of CPA's assets. Both return on assets and on equity increased from 2005-06 to 2006-07, to 7.0 per cent and 5.1 per cent respectively.

According to CPA, \$33 million was borrowed to fund capital expenditure in 2006-07. However, debt fell by 2.3 per cent to \$107 million during the financial year. The decline in debt was due to repayments and the sale of Cityport land. The lower debt resulted in lower debt to equity and debt to assets in 2006-07.

Cairns Port Authority is required to make dividend and income tax-equivalent payments to the Queensland Government. It provided for an \$11.9 million dividend payment and recorded an income tax-equivalent expense of \$9.8 million in 2006-07. CPA does not receive community service obligation funding.

## CAIRNS PORT AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	534	514	557	564
Total income	\$m	80	83	91	98
Profitability					
Profit before tax	\$'000	20 618	25 986	27 547	31 132
Operating profit margin	%	31.0	33.8	31.8	32.7
Cost recovery	%	144.9	151.0	146.6	148.6
Return on assets	%	4.6	5.9	6.3	7.0
Return on total equity	%	3.5	4.4	4.9	5.1
Return on operating equity <sup>c</sup>	%	3.4	3.9	4.4	4.5
Financial management					
Debt to equity	%	18.5	19.4	26.3	25.0
Debt to assets	%	14.7	15.3	20.5	19.1
Total liabilities to equity	%	32.0	43.0	51.1	49.2
Operating liabilities to equity <sup>d</sup>	%	25.4	26.6	33.7	31.7
Interest cover	times	6.2	7.1	5.4	4.9
Current ratio	%	44.0	44.0	129.0	50.1
Leverage ratio	%	125.4	126.6	133.7	131.7
Payments to and from government					
Dividends	\$'000	8 030	8 030	10 232	11 876
Dividend to equity ratio	%	1.9	2.0	2.5	2.8
Dividend payout ratio	%	56.1	51.1	56.9	63.0
Income tax expense	\$'000	10 580	11 080	8 680	9 759
Grants revenue ratio	%	—	—	1.7	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Cairns Port Authority (CPA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for CPA. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

Ports Corporation of Queensland (PCQ) operates under the *Government Owned Corporations Act 1993* and the *Transport Infrastructure Act 1994*. PCQ manages the commercial ports of Hay Point, Abbot Point, Lucinda, Mourilyan, Cape Flattery, Weipa, Karumba and Skardon River as well as five other non-trading ports. Pilotage services at the ports are provided by Maritime Safety Queensland, an agency of the Queensland Department of Transport. Stevedoring and towage are generally franchised to the private sector.

Ports Corporation of Queensland handled total throughput of 121 million tonnes, a 4.0 per cent increase on 2005-06. The Corporation's trading ports handle bulk cargo including coal, silica, sugar and bauxite.

Profit before tax was \$15.7 million in 2006-07, representing a decrease of 24.8 per cent (\$5.2 million) from 2005-06. The decline in profit was attributable to growth in expenses of 33.4 per cent (\$11.6 million). This reflected higher repairs and maintenance costs, finance costs and depreciation, as well as navigation beacons purchased for Maritime Safety Queensland at a cost of \$4.2 million. Total revenue increased by \$6.4 million (11.5 per cent) through higher port charges and other revenue.

Total assets increased by 104 per cent (\$289 million) in 2006-07. This was mainly because of revaluations to land, channels and infrastructure of \$202 million and capital expenditure of \$107 million. Capital expenditure included dredging at Hay Point and Weipa, and stockyard expansion at Abbot Point. The smaller profit and higher total assets caused return on assets to fall from 8.3 per cent in 2005-06 to 4.7 per cent in 2006-07.

Total borrowings were \$109 million at the end of 2006-07, compared with no debt in 2005-06. The 2006-07 borrowings resulted in debt to asset and debt to equity of 26.1 per cent and 25.6 per cent respectively. The higher debt caused total operating liabilities to rise by 168 per cent to \$140 million, although trade and other payables, and provisions declined. Non-operating liabilities increased by 128 per cent, due to an increase in deferred tax liabilities. However, PCQ had no derivative financial instruments at 30 June 2007, compared with \$6.2 million recorded on 30 June 2006.

Ports Corporation of Queensland declared a dividend of \$5.6 million and recorded an income tax-equivalent expense of \$4.6 million in 2006-07. PCQ does not receive community service obligation funding.

## PORTS CORPORATION OF QUEENSLAND (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	235	235	277	566
Total income	\$m	41	41	56	62
Profitability					
Profit before tax	\$'000	14 181	10 811	20 909	15 717
Operating profit margin	%	27.5	18.5	34.4	30.3
Cost recovery	%	137.9	122.7	152.3	143.6
Return on assets	%	6.1	4.6	8.3	4.7
Return on total equity	%	5.2	0.8	6.7	5.4
Return on operating equity <sup>c</sup>	%	5.0	0.6	5.6	4.3
Financial management					
Debt to equity	%	—	—	—	25.6
Debt to assets	%	—	—	—	26.1
Total liabilities to equity	%	19.6	34.8	51.7	71.6
Operating liabilities to equity <sup>d</sup>	%	13.8	13.8	24.1	33.0
Interest cover	times	..	..	..	5.0
Current ratio	%	175.8	175.8	54.8	58.4
Leverage ratio	%	113.8	113.8	124.1	133.0
Payments to and from government					
Dividends	\$'000	10 259	10 259	11 445	5 610
Dividend to equity ratio	%	5.0	5.0	5.4	1.8
Dividend payout ratio	%	99.5	775.4	96.3	40.6
Income tax expense	\$'000	-31	5 590	6 223	4 584
Grants revenue ratio	%	4.2	4.2	1.3	1.7
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Ports Corporation of Queensland (PCQ) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for PCQ.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Mackay Port Authority (MPA) operates under the *Government Owned Corporations Act 1993* and the *Transport Infrastructure Act 1994*. MPA manages the Port of Mackay and Mackay Airport, and franchises pilotage, towage and stevedoring activities.

Mackay Port Authority recorded passenger numbers of 741 000 through the Mackay Airport in 2006-07, representing a 13.0 per cent increase on 2005-06. The seaport recorded cargo throughput of 2.3 million tonnes in 2006-07, a decrease of 1.7 per cent from 2005-06. According to MPA, this result was due to persistent drought conditions, which led to lower than expected sugar, grain and fertiliser throughputs. The seaport also handles other bulk commodities, including petroleum.

Profit before tax was \$6.3 million in 2006-07, an increase of 57.7 per cent on the previous financial year. Total revenue grew by 14.7 per cent (\$3.3 million) to \$25.8 million, following a 12.1 per cent (\$2.0 million) rise in operational revenue and a 39.7 per cent (\$1.6 million) increase in property revenue. The improved profit resulted in higher return on assets and on equity, which rose to 2.5 per cent and 1.4 per cent respectively in 2006-07.

The value of MPA's assets grew by 17.3 per cent (\$40.8 million) to \$277 million in 2006-07, mainly because of a \$39.5 million revaluation of aeronautical and nautical assets. Capital expenditure of \$11.8 million — which included a \$5.5 million investment in airport expansion — also contributed to the asset growth. Operating liabilities increased by 15.5 per cent (\$908 000), while non-operating liabilities rose by 29.1 per cent (\$10.5 million), largely due to an increase in deferred tax liabilities. MPA had no outstanding borrowings at the end of 2006-07.

Current operating assets fell by 8.4 per cent (\$2.6 million) in 2006-07, with a \$2.7 million reduction in cash assets. As a result, MPA's current ratio fell from 531 per cent in 2005-06 to 422 per cent in 2006-07.

Mackay Port Authority is required to make income tax-equivalent and dividend payments to the Queensland Government. MPA provided for a dividend of \$3.4 million and recorded an income tax-equivalent expense of \$2.1 million in 2006-07. MPA does not receive community service obligation funding.

## MACKAY PORT AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	218	218	237	277
Total income	\$m	19	19	22	26
Profitability					
Profit before tax	\$'000	2 419	2 419	3 973	6 266
Operating profit margin	%	5.4	5.5	10.2	20.1
Cost recovery	%	105.7	105.9	111.4	125.1
Return on assets	%	1.1	1.1	1.8	2.5
Return on total equity	%	-0.1	-0.2	0.6	1.4
Return on operating equity <sup>c</sup>	%	-0.1	-0.1	0.5	1.1
Financial management					
Debt to equity	%	—	—	—	—
Debt to assets	%	—	—	—	—
Total liabilities to equity	%	5.5	19.7	21.4	23.7
Operating liabilities to equity <sup>d</sup>	%	2.2	2.2	2.6	2.5
Interest cover	times	..	..	..	..
Current ratio	%	594.5	594.5	530.8	422.2
Leverage ratio	%	102.2	102.2	102.6	102.5
Payments to and from government					
Dividends	\$'000	952	952	2 387	3 373
Dividend to equity ratio	%	0.4	0.4	1.1	1.4
Dividend payout ratio	%	..	..	214.9	118.9
Income tax expense	\$'000	1 229	1 229	993	2 050
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Mackay Port Authority (MPA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for MPA. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Townsville Port Authority (TPA) was established on 1 July 1995 and operates under the *Government Owned Corporations Act 1993* and the *Transport Infrastructure Act 1994*. TPA is responsible for the management of the Port of Townsville.

Townsville Port Authority handled total cargo throughput of 9.6 million tonnes in 2006-07, representing a 3.8 per cent decline from 2005-06. The major cargoes passing through the port include nickel ore, minerals and sugar.

Profit before tax was \$9.6 million in 2006-07, more than double the result in 2005-06. This outcome was partly attributable to an 11.5 per cent (\$3.4 million) reduction in total expenses, which reflected lower asset writedowns and other expenses. TPA's interest expense also fell by \$146 000, which, combined with the higher profit, caused the interest cover to substantially increase from 6.6 per cent in 2005-06 to 14.6 per cent in 2006-07. Revenue increased by 4.1 per cent (\$1.4 million).

The value of TPA's assets rose by 8.4 per cent (\$16.9 million) to \$218 million in 2006-07. The growth in assets included \$4.3 million of investment in capital works and a \$4.8 million revaluation of investment properties. As a result of the higher profit, return on assets and on equity rose to 5.3 per cent and 1.3 per cent respectively in 2006-07.

Current operating liabilities fell by \$1.4 million, mainly due to a decline in payables. With current operating assets increasing slightly (by \$104 000) from 2005-06 to 2006-07, the current ratio increased from 277 per cent to 359 per cent.

Total debt fell by 17.5 per cent to \$11.1 million, which was reflected in lower debt to assets and debt to equity of 5.7 per cent and 5.9 per cent respectively in 2006-07.

Townsville Port Authority is required to make dividend and income tax-equivalent payments to the Queensland Government. TPA made no dividend provision, but recorded an income tax-equivalent expense of \$2.4 million in 2006-07.<sup>1</sup> TPA does not receive community service obligation funding.

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<sup>1</sup> This followed the acceptance of TPA's recommendation to the shareholding Ministers that no dividend be payable in 2006-07.



## TOWNSVILLE PORT AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	178	191	201	218
Total income	\$m	29	32	34	36
Profitability					
Profit before tax	\$'000	2 173	9 635	4 768	9 584
Operating profit margin	%	9.3	24.3	3.9	15.5
Cost recovery	%	110.3	132.1	104.1	118.3
Return on assets	%	1.8	6.0	3.1	5.3
Return on total equity	%	0.8	3.2	-0.9 <sup>c</sup>	1.3
Return on operating equity <sup>d</sup>	%	0.8	3.0	-0.9 <sup>c</sup>	1.3
Financial management					
Debt to equity	%	10.0	10.0	8.0	5.9
Debt to assets	%	8.9	8.9	7.4	5.7
Total liabilities to equity	%	14.6	26.7	26.3	24.5
Operating liabilities to equity <sup>e</sup>	%	13.0	13.1	10.7	7.5
Interest cover	times	3.2	10.6	6.6	14.6
Current ratio	%	198.9	198.9	276.6	359.0
Leverage ratio	%	113.0	113.1	110.7	107.5
Payments to and from government					
Dividends	\$'000	577	577	—	—
Dividend to equity ratio	%	0.4	0.4	—	—
Dividend payout ratio	%	48.8	12.1	..	—
Income tax expense	\$'000	1 452	2 087	2 590	2 419
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Townsville Port Authority (TPA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for TPA.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Both return on total equity and return on operating equity were negative in 2005-06, because the income tax-equivalent expense for the year exceeded earnings before interest and tax. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Fremantle Port Authority (FPA) operates under the *Port Authorities Act 1999*. It manages port infrastructure and provides port services, including ship scheduling, port communications and mooring. FPA has contractual agreements for pilotage, towage and stevedoring with the private sector.

Fremantle Port Authority handled total port trade of 25.0 million tonnes in 2006-07, 32 000 tonnes less than in 2005-06. The major cargoes moving through the port are petroleum products, grain and alumina.

Profit before tax was \$17.3 million in 2006-07, representing an increase of 34.7 per cent (\$4.4 million) on 2005-06. Revenue increased by 17.5 per cent (\$15.7 million), reflecting increased charges on cargo, income from rentals and leases, and miscellaneous revenue. Expenditure increased by 14.6 per cent (\$11.2 million), as a result of higher operational and commercial management expenses.

The value of FPA's total assets increased by 6.3 per cent (\$12.9 million) to \$219 million in 2006-07. This was mainly the result of a \$6.5 million increase in cash assets, and investment in capital works of \$9.2 million. The improved profit was reflected in a rise in FPA's return on assets from 8.3 per cent in 2005-06 to 10.1 per cent in 2006-07.

Total debt fell by 2.2 per cent (\$1.1 million) in 2006-07. As a result, debt to equity and debt to total assets fell to 41.1 per cent and 25.7 per cent respectively. Despite the fall in debt, total operating liabilities increased by 5.5 per cent (\$4.2 million), as the increase in trade and other payables offset the decrease associated with the expansion in borrowings.

Fremantle Port Authority is required to make income tax-equivalent and dividend payments to the WA Government. It distributed dividends of \$4.9 million and recorded an income tax-equivalent expense of \$5.3 million in 2006-07.

Fremantle Port Authority does not receive community service obligation funding.

## FREMANTLE PORT AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

Indicators	Units	Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
		2004-05 <sup>c</sup>	2004-05 <sup>c</sup>	2005-06	2006-07
Size					
Total assets	\$m	196	195	206	219
Total income	\$m	83	83	90	105
Profitability					
Profit before tax	\$'000	17 445	16 199	12 817	17 259
Operating profit margin	%	20.9	19.3	15.8	17.5
Cost recovery	%	126.3	124.0	118.8	121.3
Return on assets	%	10.5	9.8	8.3	10.1
Return on total equity	%	10.9	10.1	8.3	9.7
Return on operating equity <sup>d</sup>	%	11.8	10.8	8.9	10.4
Financial management					
Debt to equity	%	42.4	40.6	44.5	41.1
Debt to assets	%	24.8	24.8	27.7	25.7
Total liabilities to equity	%	66.0	59.8	60.6	61.3
Operating liabilities to equity <sup>e</sup>	%	71.3	64.0	64.7	64.4
Interest cover	times	9.5	8.9	5.3	6.5
Current ratio	%	136.6	177.7	201.8	190.8
Leverage ratio	%	171.3	164.0	164.7	164.4
Payments to and from government					
Dividends	\$'000	5 760	5 760	4 929	4 891
Dividend to equity ratio	%	5.3	5.1	4.2	4.0
Dividend payout ratio	%	44.7	46.9	47.6	38.4
Income tax expense	\$'000	4 161	3 513	3 498	5 298
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Fremantle Port Authority (FPA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for FPA. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Performance indicator calculations for 2004-05 do not include investment income. Although investment income was received in 2004-05, this information was not disclosed separately using the accruals method in the financial statements. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. — Zero or rounded to zero.

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## BUNBURY PORT AUTHORITY

## Western Australia

Bunbury Port Authority (BPA) operates under the *Port Authorities Act 1999*. It owns and manages port facilities and provides pilotage services. Stevedoring and towage services are franchised to the private sector.

Bunbury Port Authority handled 13.5 million tonnes of cargo in 2006-07, representing a 10.8 per cent increase from 2005-06. Alumina accounted for 67.0 per cent of total port throughput by tonnage in 2006-07. Other major cargoes handled include caustic soda, woodchips and mineral sands.

Profit before tax was \$5.9 million in 2006-07, a 6.0 per cent (\$0.3 million) increase on 2005-06. This improvement was assisted by a 6.4 per cent (\$1.2 million) increase in total revenue, primarily the result of increased revenues from navigation and pilotage.

The value of BPA's assets increased by \$3.5 million to \$105 million in 2006-07, due to an increase in cash assets. The higher profit resulted in a slight increase in return on assets.

Bunbury Port Authority recorded a slight fall in total debt in 2006-07 (from \$13.1 million to \$12.6 million). This is reflected in lower debt to assets and debt to equity, which were 12.2 per cent and 13.9 per cent respectively in 2006-07.

Bunbury Port Authority is required to make income tax-equivalent payments and dividend payments of 50 per cent of after-tax profit to the WA Government. Although no dividends were distributed or declared for 2006-07, a \$1.9 million dividend was recommended by the Board. However, this had not been approved by the WA Government by the reporting date. BPA recorded an income tax-equivalent expense of \$1.7 million in 2006-07.

Bunbury Port Authority does not receive community service obligation funding.

## BUNBURY PORT AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	102	102	102	105
Total income	\$m	18	18	19	21
Profitability					
Profit before tax	\$'000	4 351	4 351	5 548	5 883
Operating profit margin	%	13.7	13.7	11.7	16.2
Cost recovery	%	115.9	115.9	113.3	119.3
Return on assets	%	5.1	5.1	6.3	6.5
Return on total equity	%	0.6	0.8	0.1	1.2
Return on operating equity <sup>c</sup>	%	0.6	0.7	0.1	1.1
Financial management					
Debt to equity	%	16.2	15.9	15.1	13.9
Debt to assets	%	13.4	13.4	12.9	12.2
Total liabilities to equity	%	27.2	23.6	19.9	18.2
Operating liabilities to equity <sup>d</sup>	%	21.5	19.4	17.2	16.2
Interest cover	times	6.0	6.0	7.6	8.2
Current ratio	%	475.0	702.7	1 172.5	1 218.0
Leverage ratio	%	121.5	119.4	117.2	116.2
Payments to and from government					
Dividends	\$'000	—	—	1 480 <sup>e</sup>	—
Dividend to equity ratio	%	—	—	1.7	—
Dividend payout ratio	%	—	—	1 947.4	—
Income tax expense	\$'000	1 478	1 348	1 655	1 676
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Bunbury Port Authority (BPA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for BPA. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> The dividend included \$43 000 for a 'Government efficiency dividend' unrelated to profit. — Zero or rounded to zero.

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## PORT HEDLAND PORT AUTHORITY

## Western Australia

Port Hedland Port Authority (PHPA) operates under the *Port Authorities Act 1999*. It manages port facilities including wharves and storage areas, and provides pilotage services. Stevedoring, towage and lineboat services are franchised to the private sector.

Port Hedland Port Authority handled total cargo throughput of 112 million tonnes in 2006-07, a 1.1 per cent increase from 2005-06. It is Australia's largest port by tonnage throughput. Iron ore accounted for 95.0 per cent of the throughput. Other main cargoes included salt and bulk minerals.

Profit before tax was \$3.6 million in 2006-07, a decrease of 23.7 per cent (\$1.1 million) from the 2005-06 result. The lower profit resulted from a 20.9 per cent (\$4.1 million) increase in total expenses, mostly due to higher port maintenance, amortisation, pilotage services and employee expenses. Revenue increased by a comparatively small 12.2 per cent (\$2.9 million), the result of increased cargo and ship charges.

The value of PHPA's total assets increased by 5.6 per cent (\$3.2 million) to \$60.3 million in 2006-07. This was mainly because of \$8.3 million of capital dredging, \$3.1 million construction of wharves and other utilities and \$1.9 million of buildings and port improvements. Cash holdings decreased by 83.8 per cent (\$6.9 million) in 2006-07. This decline contributed to the 54.9 per cent decrease in PHPA's current operating assets. As a result, PHPA's current ratio declined from 158 per cent in 2005-06 to 50.8 per cent in 2006-07. The decreased profit led to corresponding declines in PHPA's return on assets and on equity to 6.2 per cent and 5.0 per cent respectively in 2006-07.

Port Hedland Port Authority had no outstanding borrowings at the end of 2006-07.

Port Hedland Port Authority is required to make income tax-equivalent and dividend payments to the WA Government. It recorded an income tax-equivalent expense of \$1.1 million, and declared a dividend of \$1.6 million in 2006-07. PHPA does not receive community service obligation funding.

## PORT HEDLAND PORT AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	48	48	57	60
Total income	\$m	20	20	24	27
Profitability					
Profit before tax	\$'000	2 403	2 392	4 732	3 610
Operating profit margin	%	11.6	11.5	19.3	12.6
Cost recovery	%	113.1	113.0	123.9	114.5
Return on assets	%	5.0	5.0	9.1	6.2
Return on total equity	%	3.5	3.5	7.1	5.0
Return on operating equity <sup>c</sup>	%	3.4	3.5	6.9	4.9
Financial management					
Debt to equity	%	—	—	—	—
Debt to assets	%	—	—	—	—
Total liabilities to equity	%	12.7	12.5	24.5	28.9
Operating liabilities to equity <sup>d</sup>	%	10.5	10.4	18.4	25.7
Interest cover	times	..	..	..	..
Current ratio	%	100.0	100.1	158.3	50.8
Leverage ratio	%	110.5	110.4	118.4	125.7
Payments to and from government					
Dividends	\$'000	810	810	— <sup>e</sup>	1 605
Dividend to equity ratio	%	1.9	1.9	—	3.4
Dividend payout ratio	%	55.0	53.6	—	69.3
Income tax expense	\$'000	783	732	1 497	1 089
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Port Hedland Port Authority (PHPA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for PHPA.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> No dividend was declared in 2005-06. .. Not applicable. — Zero or rounded to zero.

Albany Port Authority (APA) operates under the *Port Authorities Act 1999*. APA manages port facilities and provides pilotage services. Stevedoring, mooring and cold storage services are contracted to the private sector.

Albany Port Authority had a cargo throughput of over 3.5 million tonnes in 2006-07, representing a 31.6 per cent increase on 2005-06. According to APA, the increase was primarily due to growth in grain and woodchip exports of 50 per cent and 30 per cent respectively. Fertiliser imports declined by 34 per cent.

Profit before tax was \$8.4 million in 2006-07, a \$6.7 million increase on 2005-06. This was mostly due to a \$6.3 million compensation payment, resulting from a dispute with the Department of Defence. Total expenditure grew by 15.2 per cent (\$821 000), as a result of increased spending on administration, maintenance, security and environmental protection.

Total assets grew by 29.2 per cent (\$10.5 million) to \$46.6 million in 2006-07, due to increases in receivables (\$6.3 million), cash assets (\$1.6 million) and capitalised dredging (\$3.9 million). The inclusion of the compensation payment as a receivable was reflected in the increase in the current ratio from 46.7 per cent in 2005-06 to 108 per cent in 2006-07, despite the addition of a \$3.2 million provision for dredging to APA's current liabilities. The increased profit led to a substantial improvement in APA's return on assets, which increased from 6.5 per cent in 2005-06 to 21.7 per cent in 2006-07.

Total debt fell by 13.1 per cent to \$7.9 million. APA's debt to assets and debt to equity fell to 19.4 per cent and 24.5 per cent respectively in 2006-07.

Albany Port Authority is required to make income tax-equivalent payments and dividend payments of 50 per cent of after-tax profit to the WA Government. No dividend was declared in 2006-07. However, dividends of \$990 000 and \$546 000 have been recommended by the Board in respect of the after-tax profits obtained in 2004-05 and 2005-06 respectively. As at 30 June 2007, these dividends had not been approved by the Minister. APA recorded an income tax-equivalent expense of \$1.7 million in 2006-07.

Albany Port Authority does not receive community service obligation funding.



## ALBANY PORT AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	38	37	36	47
Total income	\$m	8	8	7	15
Profitability					
Profit before tax	\$'000	2 985	2 995	1 737	8 390
Operating profit margin	%	45.0	45.2	30.3	29.9
Cost recovery	%	181.7	182.4	143.5	142.7
Return on assets	%	10.0	10.0	6.5	21.7
Return on total equity	%	9.8	9.3	5.7	2.6
Return on operating equity <sup>c</sup>	%	9.8	9.3	5.8	2.6
Financial management					
Debt to equity	%	41.4	40.1	36.9	24.5
Debt to assets	%	27.5	27.5	25.3	19.4
Total liabilities to equity	%	53.4	48.9	42.1	45.3
Operating liabilities to equity <sup>d</sup>	%	50.6	45.6	43.1	43.5
Interest cover	times	5.4	5.5	3.9	17.1
Current ratio	%	49.6	59.0	46.7	108.0
Leverage ratio	%	150.6	145.6	143.1	143.5
Payments to and from government					
Dividends	\$'000	—	—	826 <sup>e</sup>	—
Dividend to equity ratio	%	—	—	3.3	—
Dividend payout ratio	%	—	—	57.4	—
Income tax expense	\$'000	958	1 021	648	1 687
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Albany Port Authority (APA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for APA. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> Dividend declared in 2005-06 was in respect to profits earned in the year 2003-04. — Zero or rounded to zero.

Dampier Port Authority (DPA) operates under the *Port Authorities Act 1999*. DPA manages port facilities including wharves and storage areas. Stevedoring, pilotage and towage services are franchised to the private sector.

Dampier Port Authority handled total cargo throughput of 126 million tonnes in 2006-07, a 14.6 per cent increase on 2005-06. It is Australia's second largest port by tonnage throughput, after the Port Hedland Port Authority. The main cargoes moving through the port include iron ore, liquefied natural gas, gas condensates and salt.

Profit before tax was \$2.9 million in 2006-07, a \$1.6 million improvement over the \$1.3 million profit in 2005-06. The increase in profit was due to a \$4.6 million increase in revenue, of which \$2.8 million was the result of increased port dues. Revenue of \$7.8 million was derived from the bulk liquids berth, \$7.0 million of which comprised contributions from the WA Government.<sup>1</sup> The grants revenue ratio fell from 50.0 per cent in 2005-06 to 34.8 per cent in 2006-07. Expenses increased by 20.8 per cent (\$3.0 million), of which \$1.3 million was due to an increase in borrowing costs.

The value of DPA's assets increased by 6.1 per cent to \$99.1 million in 2006-07, partly due to capital works expenditure of \$10.2 million. Total borrowings grew by 4.9 per cent to \$72.4 million. Debt to equity decreased from 314 per cent in 2005-06 to 298 per cent in 2006-07. Debt to assets also declined from 82.4 per cent in 2005-06 to 75.5 per cent in 2006-07.

Dampier Port Authority is required to make income tax-equivalent payments and dividend payments of 50 per cent of after-tax profit to the WA Government. It paid a dividend of \$478 000 and recorded an income tax-equivalent expense of \$949 000 in 2006-07. DPA receives a subsidy from the WA Government for the Bulk Liquids Berth, of which a proportion is community service obligation funding. However, this proportion was not separately identified in DPA's annual report.

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<sup>1</sup> Since 2005-06, the WA Government has provided an annual state subsidy, which will continue for the life of the loan associated with the Bulk Liquids Berth. In addition, the WA Government has committed to providing a community service obligation payment to DPA for a period of 30 years. According to DPA, these payments are required to prevent a financial loss from operating and finance expenses associated with the Bulk Liquids Berth.

## DAMPIER PORT AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	75	75	93	99
Total income	\$m	5	5	16	20
Profitability					
Profit before tax	\$'000	-1 108	-1 108	1 275	2 886
Operating profit margin	%	-22.7	-21.9	-53.0	-3.0
Cost recovery	%	82.0	82.0	65.4	97.1
Return on assets	%	-1.5	-1.5	4.9	7.4
Return on total equity	%	-3.9	-3.7	-19.7	-5.8
Return on operating equity <sup>c</sup>	%	-4.0	-3.8	-20.1	-5.7
Financial management					
Debt to equity	%	238.1	237.8	314.4	297.5
Debt to assets	%	66.0	66.0	82.4	75.5
Total liabilities to equity	%	254.6	253.2	320.8	318.9
Operating liabilities to equity <sup>d</sup>	%	261.0	260.6	324.1	305.3
Interest cover	times	..	..	1.5	1.7
Current ratio	%	39.8	39.6	285.4	240.4
Leverage ratio	%	361.0	360.6	424.1	405.3
Payments to and from government					
Dividends	\$'000	230	230	24 <sup>e</sup>	478
Dividend to equity ratio	%	1.1	1.1	0.1	2.1
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	-322	-377	319	949
Grants revenue ratio	%	—	—	50.0	34.8
CSO funding <sup>f</sup>	\$'000	—	—	na	na

<sup>a</sup> Dampier Port Authority (DPA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for DPA. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> The dividend of \$24 000 in 2005-06 was an 'efficiency dividend' unrelated to profit. <sup>f</sup> Notes to the accounts indicate that since 2005-06, DPA has received an annual government subsidy which includes a community services obligation (CSO). The amount of the CSO, however, is not separately disclosed. Government subsidies totalled \$7.7 million in 2005-06 and \$7.0 million in 2006-07. .. Not applicable. — Zero or rounded to zero. na Not available.

Geraldton Port Authority (GPA) operates under the *Port Authorities Act 1999*. It manages port facilities, including wharves and storage areas, and provides pilotage and mooring services. Stevedoring and towage services are franchised to the private sector.<sup>1</sup>

Geraldton Port Authority handled total port throughput of 6.4 million tonnes in 2006-07, representing a 23.3 per cent increase from 2005-06. The main cargoes moved through the port are wheat, iron ore and mineral sands.

Profit before tax was \$8.6 million in 2006-07, more than five times the 2005-06 result. Total income increased by 32.2 per cent (\$9.4 million) to \$38.8 million, largely because of increases in revenue from shipping charges and from the port enhancement charge. This was partially offset by an 11.9 per cent (\$3.2 million) rise in total expenditure, mainly attributable to increased operational and commercial management expenses.

The value of GPA's assets increased by 16.4 per cent (\$25.0 million), to \$177 million in 2006-07. This increase was partly due to a \$19.6 million upgrade to one of GPA's berths, which commenced in 2006-07. The improved profit was reflected in an increase in return on assets and on equity to 9.9 per cent and 75.3 per cent respectively in 2006-07.

Debt increased by 12.3 per cent (\$14.8 million) to \$135 million in 2006-07. This contributed to an increase in debt to assets to 82.6 per cent, which remained relatively high in comparison with other monitored port corporations. Debt to equity decreased from 491 per cent in 2005-06 to 460 per cent in 2006-07.

Geraldton Port Authority is required to make income tax-equivalent payments and dividend payments of 50 per cent of after-tax profit to the WA Government. GPA made a dividend payment of \$733 000 and recorded an income tax-equivalent benefit of \$3.9 million in 2006-07. GPA does not receive community service obligation funding.

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<sup>1</sup> Geraldton Port Authority issues non-exclusive licences to stevedores operating in the port. Under these licences, GPA monitors tariffs, staffing levels, operational procedures, continuity of service, customer satisfaction and improvement in working practices.

## GERALDTON PORT AUTHORITY (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	154	155	152	177
Total income	\$m	26	26	29	39
Profitability					
Profit before tax	\$'000	2 891	2 092	1 631	8 561
Operating profit margin	%	39.1	35.9	28.1	39.9
Cost recovery	%	164.1	156.0	139.1	166.5
Return on assets	%	6.8	6.3	5.6	9.9
Return on total equity	%	23.5	45.4	38.8	75.3
Return on operating equity <sup>c</sup>	%	18.7	34.4	30.2	70.5
Financial management					
Debt to equity	%	499.4	516.2	490.7	459.9
Debt to assets	%	80.0	80.0	78.9	82.6
Total liabilities to equity	%	688.8	756.8	680.2	472.8
Operating liabilities to equity <sup>d</sup>	%	524.4	545.3	517.1	499.0
Interest cover	times	1.4	1.3	1.2	2.1
Current ratio	%	250.1	250.2	276.9	196.8
Leverage ratio	%	624.4	645.3	617.1	599.0
Payments to and from government					
Dividends	\$'000	472 <sup>e</sup>	472 <sup>e</sup>	2 <sup>f</sup>	733
Dividend to equity ratio	%	1.9	2.0	— <sup>f</sup>	2.7
Dividend payout ratio	%	10.3	5.8	— <sup>f</sup>	3.9
Income tax expense	\$'000	5 277	877	628	-3 866
Grants revenue ratio	%	—	—	—	—
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Geraldton Port Authority (GPA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for GPA. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> The dividend was comprised of a \$126 000 efficiency dividend, and a \$345 778 ordinary dividend. <sup>f</sup> An ordinary dividend of \$2023. The actual dividend to equity ratio was 0.01 per cent. The actual dividend payout ratio was 0.03 per cent. — Zero or rounded to zero.

Tasmanian Ports Corporation (TPC) was incorporated on 1 July 2005 and commenced trading as TasPorts from 1 January 2006.<sup>1</sup> TPC operates subject to the provisions of the *Tasmanian Ports Corporation Act 2005* and the *Corporations Act 2001*. It manages port facilities in 14 locations across Tasmania, where it provides pilotage, security and navigation services. Its subsidiary, Port Logistics and Services Pty Ltd, offers stevedoring and cold storage facilities. TPC has three other wholly-owned subsidiaries — King Island Ports Corporation, Flinders Island Ports Company and Hobart International Airport (HIA).

Tasmanian Ports Corporation handled 15.9 million tonnes of cargo in 2006-07, a 7.7 per cent increase on 2005-06.<sup>2</sup> Cruise ships also regularly visit the ports. HIA recorded steady passenger numbers of 1.6 million in 2006-07.

Profit before tax was \$12.9 million in 2006-07. Total revenue for 2006-07 was \$92.1 million, almost half of which was attributable to its seaport operations. Total expenditure was \$79.2 million, of which the largest expense was salaries and employee expenses.

Total assets increased by 2.6 per cent (\$6.3 million) to \$250 million in 2006-07. Non-current operating assets decreased by \$50.3 million, while current operating assets increased by \$80.7 million with a reclassification of \$85.1 million of non-current assets to assets held for sale. This movement was the outcome of the Tasmanian Government's decision to sell the Hobart Airport in 2007-08. Consequently, TPC's current ratio increased to 190 per cent in 2006-07. Return on assets was 7.4 per cent in 2006-07.

Debt fell by 49.0 per cent (\$31.9 million) to \$33.2 million in 2006-07. This contributed to a decrease in debt to total assets and debt to equity to 14.4 per cent and 21.6 per cent respectively.

Tasmanian Ports Corporation is required to make income tax-equivalent and dividend payments. It made no provision for a dividend, but recorded an income tax-equivalent expense of \$4.3 million in 2006-07. TPC does not receive community service obligation funding.

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<sup>1</sup> The assets and infrastructure of Burnie Port Corporation, Hobart Ports Corporation, Port of Devonport Corporation and Port of Launceston Pty Ltd were administered by their former owners until 1 January 2006, when they were handed over to TPC.

<sup>2</sup> The 2005-06 data included aggregate trade throughput of the former port corporations for the period June 2005 to December 2005.

## TASMANIAN PORTS CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06 <sup>b</sup>	2006-07
Size					
Total assets	\$m	..	..	244	250
Total income	\$m	..	..	46	92
Profitability					
Profit before tax	\$'000	..	..	-4 159	12 898
Operating profit margin	%	..	..	-6.7	16.7
Cost recovery	%	..	..	93.7	120.1
Return on assets	%	..	..	-0.9	7.4
Return on total equity	%	..	..	-1.3	7.2
Return on operating equity <sup>c</sup>	%	..	..	-1.5	7.7
Financial management					
Debt to equity	%	..	..	51.9	21.6
Debt to assets	%	..	..	30.3	14.4
Total liabilities to equity	%	..	..	66.8	61.6
Operating liabilities to equity <sup>d</sup>	%	..	..	71.2	59.6
Interest cover	times	..	..	..	4.1
Current ratio	%	..	..	164.5	190.1
Leverage ratio	%	..	..	171.2	159.6
Payments to and from government					
Dividends	\$'000	..	..	—	—
Dividend to equity ratio	%	..	..	—	—
Dividend payout ratio	%	..	..	..	—
Income tax expense	\$'000	..	..	-1 075	4 283
Grants revenue ratio	%	..	..	—	—
CSO funding	\$'000	..	..	—	—

<sup>a</sup> Tasmanian Ports Corporation (TPC) was incorporated on 1 July 2005 and began trading as TasPorts on 1 January 2006, following the amalgamation of the Burnie Port Corporation, the Hobart Ports Corporation, the Port of Devonport Corporation and the Port of Launceston Pty Ltd. Pre-AIFRS data for the former merged entities up to 2004-05 are available in previous *Financial Performance of Government Trading Enterprise* reports. <sup>b</sup> Data for 2005-06 are for the period 1 January 2006 to 30 June 2006. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

Darwin Port Corporation (DPC) was established under the *Darwin Port Corporation Act 1999*. It manages the East Arm and City Wharves in the Port of Darwin and offers facilities and services to commercial shipping, including pilotage and navigation services. DPC also operates facilities for non-trading vessels, including those engaged in research, fishing and pearling.

Darwin Port Corporation throughput was 1.4 million tonnes in 2006-07. Although this represented a 36.0 per cent increase on the 2005-06 throughput, it was still below the 2004-05 result. DPC stated that the lower than anticipated throughput was due to delays at the mines, which led to lower than expected metal exports. Major cargoes passing through the port include petroleum products, metal products and livestock.

Darwin Port Corporation recorded a loss before tax of \$5.4 million in 2006-07, a 31.1 per cent improvement on the \$7.9 million loss in 2005-06. Revenue increased by 23.9 per cent (\$3.4 million), including a \$2.7 million increase in community service obligation (CSO) funding. Revenue from services rendered also increased by 7.7 per cent. Total expenses increased by 4.1 per cent (\$906 000), due to higher maintenance, employment benefits, borrowing and other operating costs.

The value of DPC's assets held steady at \$206 million in 2006-07. This was the net effect of \$9.7 million of capital expenditure, a \$10.0 million upwards revaluation of land, and a 90.4 per cent (\$11.5 million) decline in deferred income tax assets. Cash and receivables also declined. Total liabilities increased by 20.4 per cent, mostly because of increased debt. The low profit combined with steady total assets and higher total liabilities to decrease DPC's return on equity from -3.1 per cent to -7.9 per cent. Debt increased by 20.5 per cent to \$37.1 million, which was reflected in an increase in debt to equity, from 19.4 per cent in 2005-06 to 22.5 per cent in 2006-07.

Darwin Port Corporation is required to make income tax-equivalent and dividend payments to the NT Government. DPC made no provision for a dividend in 2006-07. As DPC made an operating loss in 2006-07, an income tax-equivalent payment was not required. However, an income tax-equivalent expense of \$9.7 million was recorded because of written-off income tax benefits.

Darwin Port Corporation received \$5.0 million in CSO funding in 2006-07. This funding was to cover costs associated with small craft services, tourism and real estate, cruise and defence facilities, security of City Wharves, a roll-on roll-off facility and dredging at Fort Hill Wharf, and the Fisherman's Wharf facility.



## DARWIN PORT CORPORATION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	71	202	206	206
Total income	\$m	19	19	14	17
Profitability					
Profit before tax	\$'000	-8 955	-1 414	-7 882	-5 429
Operating profit margin	%	-43.3	-2.6	-48.9	-21.2
Cost recovery	%	69.8	97.5	67.2	82.5
Return on assets	%	-10.1	0.2	-3.2	-1.7
Return on total equity	%	-23.9	-0.3	-3.1	-7.9
Return on operating equity <sup>c</sup>	%	-22.4	-0.3	-3.4	-8.2
Financial management					
Debt to equity	%	91.1	20.6	19.4	22.5
Debt to assets	%	45.4	16.8	16.0	18.6
Total liabilities to equity	%	115.7	21.1	20.2	25.4
Operating liabilities to equity <sup>d</sup>	%	100.5	22.7	21.8	24.6
Interest cover	times	..	0.2	..	..
Current ratio	%	400.1	425.6	159.8	127.4
Leverage ratio	%	200.5	122.7	121.8	124.6
Payments to and from government					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	..	..	..	..
Income tax expense	\$'000	-174	20	-1 350	9 694
Grants revenue ratio	%	0.2	0.2	0.1	—
CSO funding	\$'000	2 993	2 993	2 284	4 981

<sup>a</sup> Darwin Port Corporation (DPC) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for DPC. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. – Zero or rounded to zero.



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## 10 Forestry

### Key points

- The performances of six forestry government trading enterprises (GTEs) are presented in this report. Together they controlled assets valued at \$6.5 billion and generated \$685 million of total income in 2006-07.
- Overall, the profit before tax (and before self-generating and regenerating asset revaluations) of forestry GTEs decreased by 35.9 per cent in real terms to \$111 million in 2006-07 (excluding Forestry Plantations Queensland (FPQ)). Within the sector:
  - most of the decrease in profit before tax was attributable to two GTEs (Forests NSW and FPQ)
  - profits decreased (in real terms) for five GTEs
  - one GTE recorded a loss before tax.
- Return on assets (excluding FPQ) declined from 8.5 per cent to 5.4 per cent in 2006-07. Of the monitored GTEs, four earned less than the risk-free rate of return.
- Debt to assets for the sector decreased from 17.1 per cent to 16.6 per cent in 2006-07.
- All six forestry GTEs made dividend payments to owner-governments, totalling \$57.3 million in 2006-07. The sector recorded an income tax-equivalent benefit of \$34.8 million in 2006-07.
- Three forestry GTEs received community service obligation (CSO) funding totalling \$14.6 million. CSO payments comprised 2.1 per cent of total sector income in 2006-07.

The financial performances of six forestry government trading enterprises (GTEs) are reported in this chapter. Together they controlled \$6.5 billion in assets and generated around \$685 million in total income in 2006-07.

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

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

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

Particular care should be given to issues relating to the valuation of self-generating and regenerating assets (SGARAs). Given the volatile nature of changes in the valuation of standing timber assets, profits are reported both before and after movements in forest valuations.

## 10.1 Monitored GTEs

Forestry GTEs from six States were monitored — Forests NSW (FNSW), VicForests, Forestry Plantations Queensland (FPQ), the Forest Products Commission of Western Australia (FPCWA), ForestrySA and Forestry Tasmania.<sup>1</sup>

The financial performance of FPQ was reported for the first time in 2005-06. FPQ was established on 1 May 2006, replacing DPI Forestry as the manager of Queensland's state-controlled softwood and hardwood plantation lands. The Forestry Plantations Queensland Office (FPQO) was also established to support and complement FPQ's operations by providing administrative services and by having custodial responsibility for the new State Plantation Forest lands.

The monitored forestry GTEs provide a broad range of services (table 10.1) including:

- management of plantation and native forests
- supply of forest products to the timber industry
- research and development of new forestry techniques and processes

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<sup>1</sup> ACT Forests operates within the Department of Urban Services and is not reported because of substantial restructuring following the catastrophic bushfire in 2002-03. The Northern Territory does not have a forestry GTE.

- contributions to marketing forest products and
- management of activities unrelated to timber production, which occur in state-managed native forests and plantations — including beekeeping, recreation facilities, grazing and quarrying.

Forestry GTEs also generally have responsibility for fire-fighting and other ancillary forest-management activities.

The total assets of forestry GTEs decreased by 4.4 per cent in real terms to \$6.5 billion in 2006-07 (figure 10.1). The assets of all GTEs decreased in real terms, despite nominal increases for five of them. FPQ experienced a real fall in assets of 11.7 per cent, due mostly to a reduction in SGARAs.

The size of monitored forestry GTEs varies substantially in terms of the value of their assets and total income (figure 10.2). In 2006-07, the largest was FNSW (\$2.7 billion) and the smallest was VicForests (\$38.0 million). In terms of income, the largest was Forestry Tasmania (\$201 million) and the smallest was FPQ (\$38.6 million).

## 10.2 Market environment

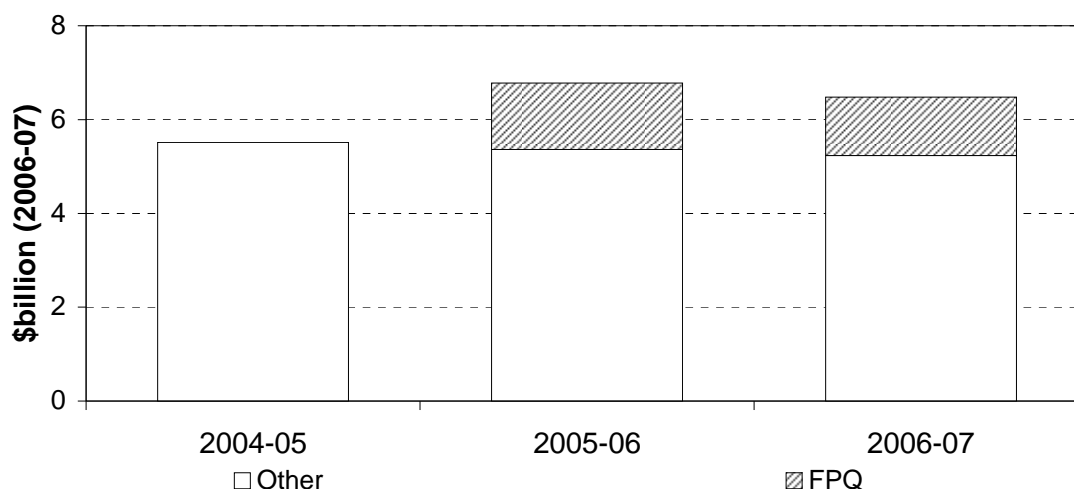
The financial performance of forestry GTEs is affected by the demand for timber products, industry reforms, accounting standards and environmental conditions (including drought and fire).

**Table 10.1 Activities — forestry GTEs, 2006-07**

<i>Forestry GTE</i>	<i>Activities</i>			
	<i>Tourism and recreation activities</i>	<i>Plantation management</i>	<i>Native-forest management</i>	<i>Research and marketing</i>
Forests NSW	✓ <sup>a</sup>	✓	✓	✓
VicForests	✗	✗	✓	✓
Forestry Plantations Queensland	✗	✓	✗	✓
Forest Products Commission WA	✗	✓	✓	✓
ForestrySA	✓ <sup>a</sup>	✓	✓ <sup>b</sup>	✓
Forestry Tasmania	✓	✓	✓	✓

<sup>a</sup> Forests NSW and ForestrySA provide services and infrastructure for tourism activities, such as scenic drives, picnic areas and hiking trails. However, these activities generate negligible revenue. Forests NSW receives community service obligation (CSO) funding for providing recreation facilities. <sup>b</sup> ForestrySA receives CSO funding for specific native forest management activities.

Figure 10.1 **Sector assets — forestry GTEs<sup>a</sup>**



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

Source: Productivity Commission estimates

## Demand for forest products

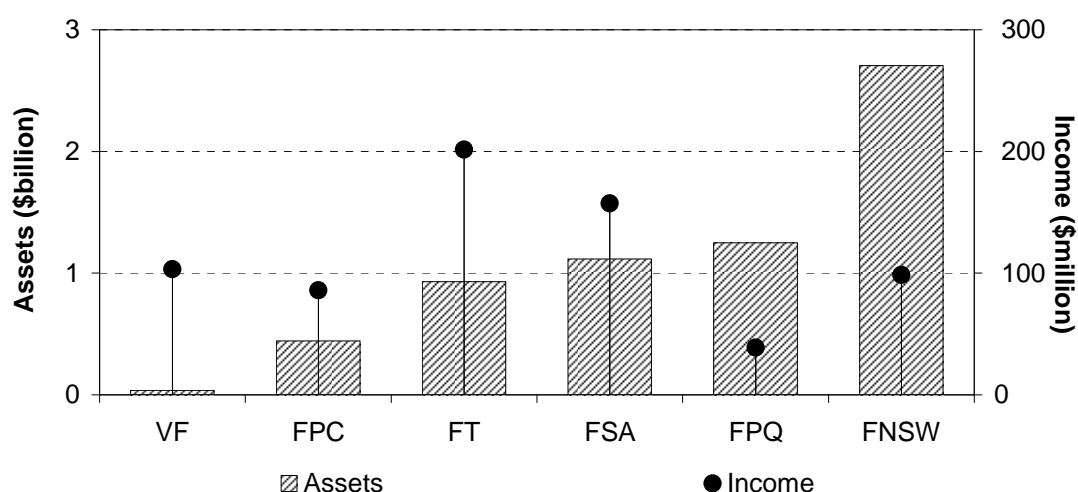
The major traded output of forestry GTEs is logs. These are either harvested by the GTEs themselves or by private loggers operating as sub-contractors. Logs can be harvested as either:

- sawlogs — for conversion into sawn-timber, plywood, or veneer products that are mainly used in the construction and furniture industries or
- pulp logs — for conversion into woodchips, fibreboard, particleboard or pulp (for subsequent conversion into paper and paperboard products).

Sawlogs are used domestically, with 93 per cent of sawn-timber needs produced locally in 2005-06 (ABS 2008c). The demand for sawlogs is influenced by local economic conditions and government policies. Buoyant building activity had increased demand for sawlogs earlier in the decade. However, new residential building has slowed since 2003 (ABS 2008a). Some forestry GTEs noted that this slowdown had caused a reduction in demand for sawlogs in 2005-06 and 2006-07. However, FPQ cited strengthening building activity in Queensland despite a decline in other States.

Approximately 40 per cent of pulpwood harvested in Australia is sold domestically for pulp and paper products, while the balance is exported — mainly as woodchips (ABARE 2000). Forest product exports totalled \$2.4 billion in 2006-07, an increase

Figure 10.2 **Assets and total income — forestry GTEs, 2006-07**



Source: Productivity Commission estimates.

of around 10 per cent on 2005-06. Woodchips represented just over 40 per cent of total exports by value, while paper and paperboard represented just under 28 per cent in 2006-07.

The top three destinations of Australian forestry exports in 2006-07 were Japan (\$885 million), New Zealand (\$363 million) and China (\$250 million) (ABARE 2007). Some forestry GTEs cited the appreciation of the Australian dollar and increased freight costs associated with higher fuel prices as impediments to international trade.

## Industry reforms

The key forestry GTE reforms since the early 1990s have been the National Forest Policy Statement (NFPS), Regional Forest Agreements (RFAs), the Plantations 2020 Vision and the application of National Competition Policy.

### *National Forest Policy Statement*

The Australian, State and Territory Governments signed the NFPS in 1992. The NFPS was a comprehensive agreement on a 'blueprint' for the future management of Australia's forests for the next 20 years, particularly for native forests. Aspects of the statement that were of particular significance to forestry GTE performance were:

- the establishment of market-based pricing principles for forest resources

- 
- the use of RFAs as a means of providing integrated management of forest resources
  - the expansion of Australia's commercial plantations of softwoods and hardwoods.

### *Regional Forest Agreements*

Regional Forest Agreements are 20-year plans for the conservation and sustainable management of Australia's native forests. Four States currently have RFAs — New South Wales, Victoria, Western Australia and Tasmania. They are intended to provide greater certainty and security in relation to forest conservation and timber resource supply. More specifically, RFAs are intended to:

- reduce uncertainty for industry and duplication of government processes for land-use decision making
- produce long-term solutions that meet the requirements of governments, the community and industry, while also being consistent with the principles of ecologically sustainable development
- equitably balance competing objectives and coordinate the policies and activities of governments
- maintain regional, environmental, heritage and social values
- provide secure access to resources for the forestry industry.

Since 2000, hardwood woodchips from native forests can only be exported from forest regions in which RFAs have been successfully negotiated under the *Export Control Act 1982*.

The Tasmanian Community Forest Agreement was negotiated under the Tasmanian RFA and announced in May 2005. It is a joint commitment of the Australian and Tasmanian Governments. The agreement extends the area of protected forest as well as increasing assistance to the forestry industry.

### *Plantations 2020 Vision*

Plantations 2020 is a strategic partnership between governments and industry aimed at reducing impediments to the development of plantations. The Plantations 2020 Vision statement included a proposal to treble the area of Australia's plantation forests to around 3 million hectares by 2020, in line with previous proposals in the NFPS. This initiative was endorsed by the Ministerial Council on Forestry,



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Fisheries and Aquaculture in July 1996. The Plantations 2020 vision was revised in 2001 to take account of developments grouped around five strategic elements:

1. encouraging a comprehensive policy approach
2. establishing the right legislative environment
3. promoting investor confidence, research and development and skills development
4. improving stakeholder engagement and identifying environmental benefits and services
5. monitoring future developments and opportunities to maintain investment.

### *National Competition Policy*

As part of National Competition Policy, governments have agreed to minimise resource allocation distortions relating to any competitive advantage derived by forestry GTEs as a result of their public-sector ownership. To the extent that the benefits outweigh the costs, under clause 3 of the Competition Principles Agreement, governments are obliged to:

- adopt a corporatisation model where appropriate and
- impose income taxes or income tax-equivalent payments, debt guarantee fees and regulations equivalent to those of private-sector competitors.

### **Self-generating and regenerating assets**

Self-generating and regenerating assets represented 58.9 per cent of the monitored forestry GTEs' assets in 2006-07. FPQ had the largest proportion of SGARAs at 86.7 per cent. VicForests only includes the allocation of timber it receives for harvest over a five-year period in SGARA valuations. Its SGARA assets were valued at zero in 2006-07, as it was the final year of a period.

The value of SGARAs is influenced by changes in the following:

- *The volume of timber* — can be affected by changes in the area of commercial forests (natural or plantation) controlled by a GTE, or changes in the commercial timber available within the existing forest areas.
- *Age and quality of timber* — the value per cubic metre varies for trees of different ages. Older, larger trees generally have higher use values — such as building materials and furniture — than younger, smaller trees. Different species of trees also have different use values and attract different market prices.

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- *Market prices* — the prevailing market prices for the sawlogs and pulp logs harvested from SGARA assets.

Fluctuations in demand largely determine movement in the overall value of forest products from year to year. Forestry GTEs are able to model the expected physical changes in their SGARA assets with some precision. However, the market price received for forestry products is outside the control of forestry GTEs and can be highly variable. The primary factor influencing market prices is changes in demand conditions because supply is relatively constant.

#### *The effect of SGARA revaluations on performance measures*

The value of SGARAs can fluctuate significantly each year because of revaluations, affecting measures of profitability and financial management. SGARA valuation adjustments are reported in the income statement and balance sheet of forestry GTEs' annual reports. As a result, the method of valuing SGARAs is important to monitoring the operation and performance of forestry GTEs.

The accounting standard for valuing SGARAs under the Australian International Financial Reporting Standards is AASB 141 *Agriculture*. SGARAs held primarily for profit are valued at fair value less estimated point-of-sale costs. When fair value cannot be reliably measured, SGARAs are measured at cost less any accumulated depreciation and impairment losses. Increments and decrements to SGARA valuations are recognised directly in the income statement.

Although the forestry GTEs follow the accounting standard, there remains some variation in its implementation. For example, VicForests and Forestry Tasmania use a discounted cash flow method to derive a net present 'market' value for most of their forest assets. FNSW uses three separate net market value models to value its softwood and hardwood plantations, and native forest timber.

Over the reporting period, each monitored forestry GTE adjusted the value of their SGARAs (table 10.2), which in some cases had a significant impact on reported income. For example, FNSW's SGARA revaluation in 2006-07 resulted in a \$173 million decrement, representing 63.8 per cent of revenue.

## **10.3 Profitability**

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

**Table 10.2 Net SGARA revaluations — forestry GTEs (\$million)**

<i>Forestry GTE</i>	<i>SGARA revaluation</i>		
	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>
Forests NSW	-40.0	-62.8	-172.6
VicForests	2.2	-2.0	-0.1
Forestry Plantations Queensland	..	16.0 <sup>a</sup>	27.8
Forest Products Commission WA	-0.5	13.1	-45.8
ForestrySA	-24.5	-18.6	23.0
Forestry Tasmania	-12.6	6.7	37.8
<b>All</b>	<b>-75.4</b>	<b>-47.6</b>	<b>-129.9</b>

<sup>a</sup> Revaluation from 1 May 2006 to 30 June 2006. .. Not available.

Sources: GTE annual reports.

The measure of profitability for forestry GTEs can be significantly affected by the valuation of SGARAs (section 10.2). SGARA revaluations are classified as movements in fair value in this report (chapter 1). They are included in total income, but not measures of profit used to estimate indicators such as cost recovery, return on assets or return on equity.

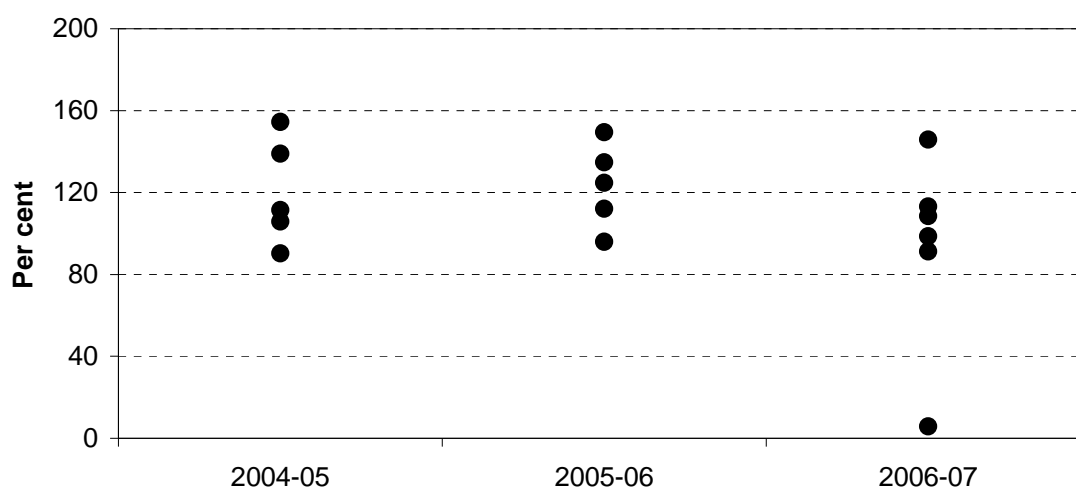
All forestry GTEs except FPQ recorded a profit before tax in 2006-07. FPQ recorded a loss before tax of \$68.8 million. Excluding FPQ, forestry sector profits before SGARA revaluations (and before tax) were \$111 million in 2006-07, a decrease of 35.9 per cent in real terms from 2005-06.<sup>2,3</sup>

The cost recovery ratio indicates the ability of an entity to generate adequate revenue to meet expenses. The cost recovery ratio exceeded 100 per cent for three forestry GTEs in 2006-07 — Forests NSW, FPCWA and ForestrySA — indicating they are able to meet operating expenses from operating revenue (figure 10.3). For the forestry sector (excluding FPQ), the cost recovery ratio decreased from 124 per cent in 2005-06 to 109 per cent in 2006-07. FPQ recorded a cost recovery ratio of 5.8 per cent in 2006-07, as only 11.1 per cent of its income was operating revenue.

<sup>2</sup> Forestry Plantations Queensland is excluded because 2005-06 financial data are for the period 1 May 2006 to 30 June 2006 only. Therefore profit before tax for 2005-06 and 2006-07 are not directly comparable. FPQ has been excluded from the 2005-06 calculations of cost recovery, return on assets, return on equity and interest cover.

<sup>3</sup> After SGARA revaluations, the sector recorded a loss before tax of \$46.9 million in 2006-07. This excludes FPQ.

Figure 10.3 Cost recovery — forestry GTEs<sup>a,b</sup>



<sup>a</sup> Each data point represents the cost recovery ratio for a government trading enterprise in that financial year. Cost recovery is the ratio of revenue from operations to expenses from operations (chapter 1). <sup>b</sup> Forestry Plantations Queensland's cost recovery is only reported for 2006-07.

Source: Productivity Commission estimates.

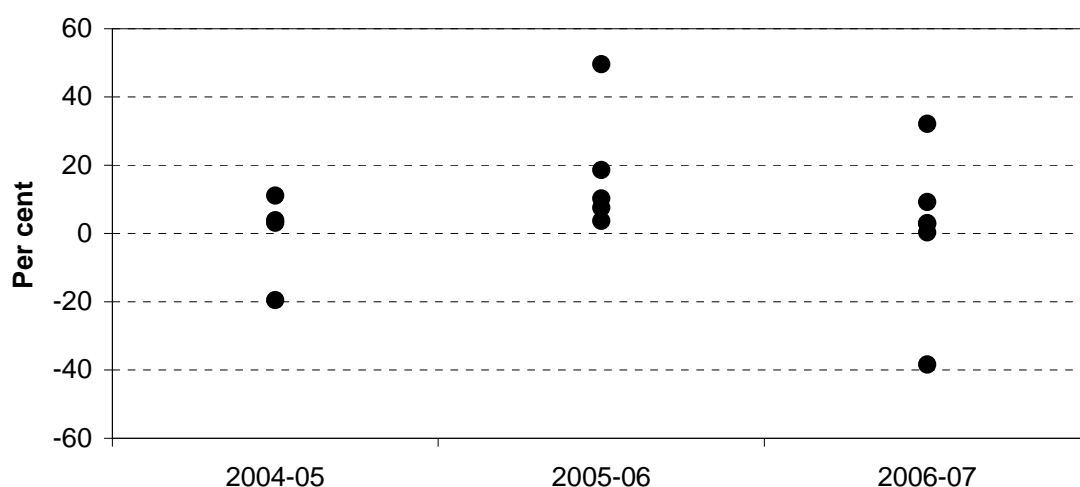
Five forestry GTEs reported a positive return on assets in 2006-07 (figure 10.4), ranging from 0.3 per cent for VicForests to 32.1 per cent for FPCWA. The only GTE to report a negative return on assets was FPQ (-38.4 per cent). Every GTE reported a decline in performance from 2005-06 to 2006-07. Overall, return on assets for the forestry sector (excluding FPQ) was 5.4 per cent in 2006-07, down from 8.5 per cent in 2005-06.

Only two of the six forestry GTEs achieved a return that exceeded the risk-free rate of return on assets — FPCWA and ForestrySA.<sup>4</sup> This suggests that the remaining forestry GTEs are not operating on a commercially sustainable basis.

Return on total equity for the sector (excluding FPQ) was 2.2 per cent in 2006-07, down from 2.4 per cent in 2005-06. The change in return on equity for the forestry GTEs generally mirrored the change in their return on assets. The exceptions were FNSW and FPCWA, with slight increases in return on total equity and decrease in return on assets and on operating equity.

<sup>4</sup> The risk-free rate of return is defined as the 2006-07 interest rate on 10-year Australian Government bonds (5.8 per cent) (RBA 2008).

Figure 10.4 Return on assets — forestry GTEs<sup>a,b,c</sup>



<sup>a</sup> Each data point represents return on assets for a government trading enterprise in that financial year. Return on assets is the ratio of earnings before interest and tax to average operating assets (chapter 1). Average operating assets is the average of the value of operating assets at the beginning and end of each financial year. Where an average could not be calculated, the value of operating assets at the end of the financial year was used. <sup>b</sup> VicForests' return on assets (45.5 per cent) in 2004-05 is not shown in the figure. The high value results from VicForests operating for less than 12 months in 2004-05. It received almost 12 months of revenue but incurred only 11 months of expenses, contributing to a strong operating profit. <sup>c</sup> Forestry Plantations Queensland's return on assets is only reported for 2006-07.

Source: Productivity Commission estimates.

## 10.4 Financial management

Financial management indicators provide information about the capital structure of GTEs and their ability to meet the cost of servicing debt and other liabilities as they fall due.

All forestry GTEs operated with debt for the past three years (excluding FPQ which has operated with debt since commencing operations in 2005-06). The total level of debt for the forestry sector was \$398 million in 2006-07, up 4.3 per cent in real terms from 2005-06. The increase in debt was mostly attributable to FNSW and Forestry SA.

Debt to equity and debt to operating assets both decreased for the sector as a whole in 2006-07, despite the rise in debt levels. Operating assets increased by more than operating liabilities for the sector in real terms, outweighing the higher debt. However, both measures increased for ForestrySA and Forestry Tasmania. Debt to total assets is shown for each forestry GTE over the past three years (only the past two years are included for FPQ) in figure 10.5.

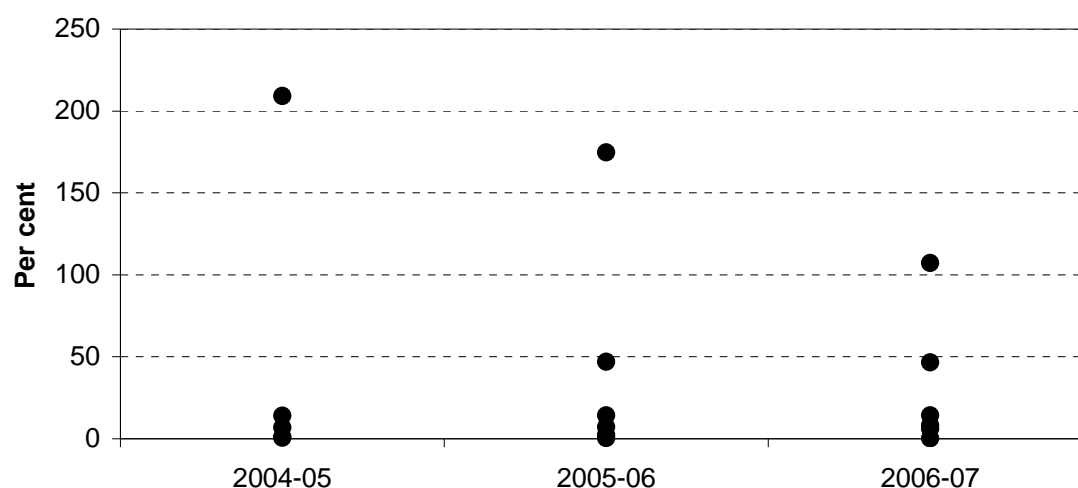
Overall, debt to operating assets for forestry GTEs was 16.6 per cent in 2006-07. GTEs in the other monitored sectors had significantly higher ratios — electricity (42.2 per cent), ports (23.1 per cent), urban transport (22.4 per cent), water (21.9 per cent) and rail (17.5 per cent).

Under sound financial management, profits are sufficient to ensure that interest payments can be met. A high interest cover ratio indicates that the entity can sustain a fall in profit or an increase in interest expense, and still meet the cost of servicing debt.

Excluding FPQ and FNSW, interest cover for the forestry sector was 9.6 times in 2006-07, down from 11.2 times in 2005-06.<sup>5</sup> This was due to an increase in total debt combined with steady earnings before interest and tax. However, interest cover increased slightly for FPCWA in 2006-07. FPQ recorded interest cover of -11.1 times due to negative earnings before interest and tax.

A current ratio of less than 100 per cent indicates that the short-term operating obligations of a GTE might need to be met using sources of funds other than current

Figure 10.5 Debt to operating assets — forestry GTEs<sup>a,b</sup>



<sup>a</sup> Each data point represents debt to assets for a government trading enterprise in that financial year. Debt is defined to include all interest bearing liabilities (chapter 1). <sup>b</sup> Forestry Plantations Queensland's debt to assets is only reported for 2005-06 and 2006-07.

Source: Productivity Commission estimates.

<sup>5</sup> Forests NSW was excluded from the calculation of interest cover for the sector because its reported interest expenses were capitalised.

operating assets. All but two forestry GTEs recorded a current ratio of more than 100 per cent in 2006-07 — the exceptions being Forests NSW (67.1 per cent) and Forestry Tasmania (72.6 per cent). The current ratio for the sector overall was 134 per cent in 2006-07, up from 127 per cent in 2005-06.

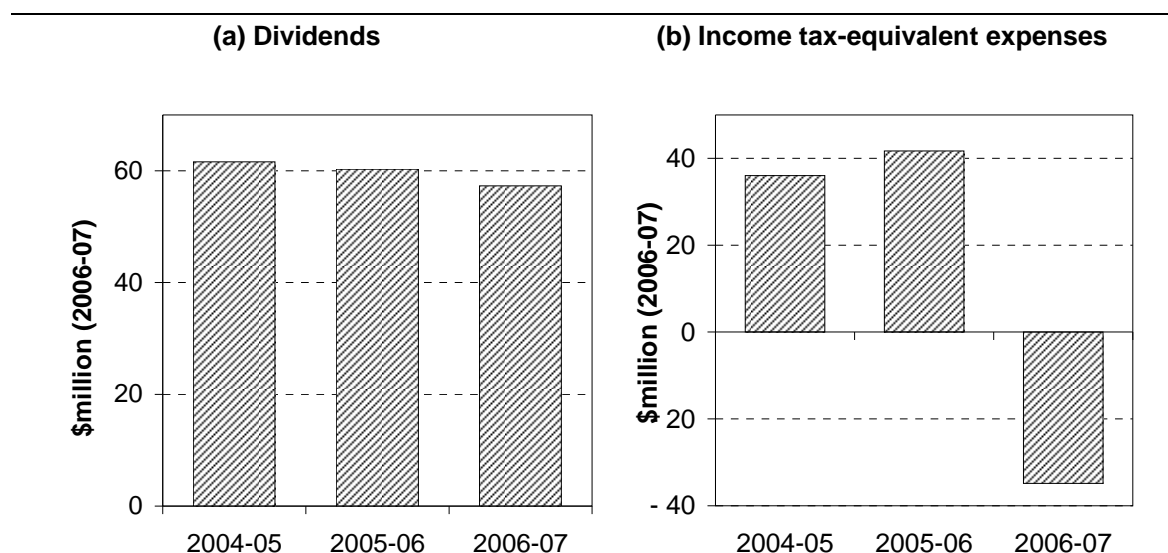
## 10.5 Transactions with government

As a part of the reform process, governments have sought to give GTEs a greater commercial focus and facilitate competitive neutrality by exposing them to financial disciplines and regulations similar to those faced by privately-owned businesses.

Dividend payments from GTEs are a return on shareholder funds that impose capital disciplines and are consistent with competitive neutrality. All six of the forestry GTEs distributed dividends in 2006-07.

Forestry GTEs distributed dividends totalling \$57.3 million in 2006-07 (figure 10.6a). Excluding FPQ, dividends decreased by 19.4 per cent in real terms to \$51.9 million in 2006-07. This was because FNSW, VicForests, ForestrySA and

Figure 10.6 **Dividends and income tax-equivalent expenses — forestry GTEs<sup>a</sup>**



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

Source: Productivity Commission estimates.

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Forestry Tasmania all decreased their dividend payments.<sup>6</sup> FPCWA distributed dividends of \$2.7 million in 2006-07, but it did not distribute any dividends in relation to the 2005-06 financial year because of its poor operating performance.

Forestry Plantations Queensland recorded a negative dividend for 2005-06 (due to the loss recorded for its two months of operation), but provided for a \$5.4 million dividend in 2006-07.

The dividend to equity ratio (excluding FPQ) decreased from 4.3 per cent in 2005-06 to 3.3 per cent in 2006-07. The dividend payout ratio (excluding FPQ) also decreased, from 66.8 per cent in 2005-06 to 63.6 per cent in 2006-07, because the decrease in dividends outweighed the fall in profits.

All forestry GTEs are subject to the National Tax Equivalent Regime and record income tax-equivalent expenses. The sector received an income tax-equivalent benefit of \$34.8 million in 2006-07. Excluding FPQ, there was an income tax-equivalent benefit of \$22.0 million in 2006-07 compared with a real income tax-equivalent expense of \$43.9 million in 2005-06 (figure 10.6b). This reflected an increase in changes to deferred tax liabilities as well as the decrease in profits. For example, Forests NSW received an income tax-equivalent benefit of \$40.0 million despite recording a profit. ForestrySA and Forestry Tasmania were the only two forestry GTEs to record income tax-equivalent expenses in 2006-07.

Three of the monitored forestry GTEs — FNSW, FPCWA and ForestrySA — received CSO funding in 2006-07. CSO payments to the forestry sector totalled \$14.6 million in 2006-07, a 13.1 per cent decrease in real terms from 2005-06. CSO payments accounted for 2.1 per cent of total income in 2006-07 (figure 10.7). In addition, Forestry Tasmania undertakes non-commercial community service activities that are not separately funded.

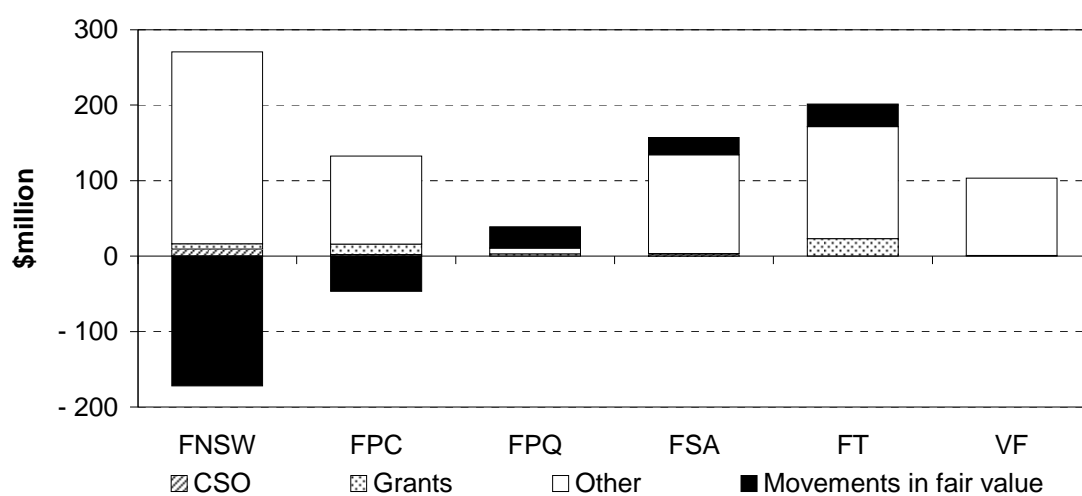
All forestry GTEs received government grants in 2006-07. For three, grants constituted at least ten per cent of revenue — FPQ (29.2 per cent), Forestry Tasmania (13.3 per cent) and FPCWA (10.0 per cent).

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<sup>6</sup> VicForests distributed dividends for the first time in 2005-06.



Figure 10.7 **Income sources — forestry GTEs, 2006-07<sup>a</sup>**



<sup>a</sup> Movements in fair value include self-generating and regenerating asset revaluations.

Source: Productivity Commission estimates.

## FORESTRY

Table 10.1 Whole of sector performance indicators 2004-05 to 2006-07<sup>a</sup>

Indicators	Units	Published in 2008 Report		Revised numbers	
		2005-06 <sup>a</sup>	2006-07	2005-06 <sup>a</sup>	2006-07
Size					
Total assets	\$m	6 229	6 479	6 229	6 479
Total income	\$m	666	685	666	685
Profitability					
Profit before tax	\$'000	135 519	42 067	151 606	124 442
Operating profit margin	%	19.4	-1.3	19.4	8.6
Cost recovery	%	124.1	98.7	124.1	109.4
Return on assets	%	8.5	2.4	8.5	5.8
Return on total equity	%	2.4	0.5	2.4	2.2
Return on operating equity <sup>b</sup>	%	6.5	1.5	6.5	6.5
Financial management					
Debt to equity	%	24.0	22.0	24.0	22.0
Debt to assets	%	17.1	16.6	17.1	16.6
Total liabilities to equity	%	30.0	32.1	30.0	32.1
Operating liabilities to equity <sup>c</sup>	%	48.4	44.4	48.4	44.4
Interest cover	times	11.2	9.6	17.2	9.4
Current ratio	%	126.5	133.7	126.5	133.7
Leverage ratio	%	148.4	144.4	148.4	144.4
Payments to and from government					
Dividends <sup>d</sup>	\$'000	55 380	57 311	55 380	57 311
Dividend to equity ratio	%	4.3	3.5	4.0	3.5
Dividend payout ratio	%	66.8	232.2	66.4	53.5
Income tax expense	\$'000	38 301	-34 823	38 301	-34 823
Grants revenue ratio	%	4.0	5.8	4.0	5.3
CSO funding	\$'000	15 425	14 592	15 425	14 592
Performance indicators after SGARAs					
Profit before tax	\$'000	87 987	-87 937	87 987	-87 937
Return on assets	%	—	—	—	—
Return on operating equity	%	—	—	—	—

<sup>a</sup> Figures are nominal values. <sup>b</sup> Forestry GTEs commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for forestry GTEs. <sup>c</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>d</sup> Data for Forestry Plantations Queensland (FPQ) in 2005-06 are available only for the period 1 May 2006 to 30 June 2006. FPQ was excluded from the calculation of dividend and grants ratios, interest cover and all profitability indicators except profit before tax for 2005-06. <sup>e</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>f</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>g</sup> Forests NSW was excluded because its finance costs were capitalised. — Zero or rounded to zero.

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## 10.6 GTE performance reports

Forests NSW

VicForests (Victoria)

Forestry Plantations Queensland

Forest Products Commission Western Australia

ForestrySA

Forestry Tasmania

Forests NSW (FNSW) operates under the *Forestry Act 1916* and is responsible for managing more than 2 million hectares of native and planted forests throughout NSW. A large proportion of assets owned by forestry GTEs are self-generating and regenerating assets (SGARAs). Their value can fluctuate significantly each year because of revaluations, affecting measures of profitability and financial management. In December 2006, fire destroyed around 8500 hectares of FNSW's pine plantations and 100 000 hectares of native forest.

Total income was \$98.6 million in 2006-07, down \$99.4 million (50.2 per cent) from the previous financial year. This included a downward SGARA revaluation of \$173 million (there was a downward revaluation of \$62.8 million in 2005-06).

Profit before tax (before SGARAs) fell by \$39.6 million (54.1 per cent) to \$33.6 million in 2006-07. This is attributable to the combined effect of comparatively steady timber sales revenue and a \$50.4 million (27.0 per cent) increase in expenses, mainly related to defined benefit superannuation, personnel services and materials costs. After SGARA revaluations are included, FNSW recorded a loss before tax of \$139 million, in contrast with a profit before tax of \$10.4 million in 2005-06.

Self-generating and regenerating assets accounted for approximately \$1.4 billion (51.9 per cent) of FNSW's assets in 2006-07. Total assets increased by \$175 million (6.9 per cent), the net result of reduced SGARAs (\$155 million) and a \$311 million upwards revaluation of land. Total liabilities increased by \$70.7 million (9.9 per cent) because of higher deferred tax liabilities (\$50.3 million) and debt (\$21.5 million). Reduced profitability and increased assets led to the return on assets falling from 7.5 per cent to 3.0 per cent in 2006-07.

Provision was made for \$16.0 million in dividends in 2006-07, a decrease of \$8.0 million from 2005-06. FNSW recorded an income tax-equivalent benefit of \$40.0 million in 2006-07.

Community service obligation (CSO) payments of \$9.6 million were received in 2006-07, accounting for 9.7 per cent of total income. FNSW reported that the costs of supplying CSOs, which included recreational facilities and community fire protection, was \$11.1 million in 2006-07.

## FORESTS NSW (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	2 592	2 643	2 529	2 704
Total income	\$m	208	199	198	99
Profitability					
Profit before tax	\$'000	47 648	37 310	73 150	33 599
Operating profit margin	%	14.7	10.2	25.8	7.7
Cost recovery	%	117.2	111.4	134.7	108.4
Return on assets	%	4.8	3.8	7.5	3.0
Return on total equity	%	1.4	0.6	3.1	3.2
Return on operating equity <sup>c</sup>	%	3.9	1.6	8.0	6.9
Financial management					
Debt to equity	%	18.4	19.7	19.4	15.6
Debt to assets	%	14.0	14.1	14.3	14.2
Total liabilities to equity	%	23.2	43.5	39.2	40.7
Operating liabilities to equity <sup>d</sup>	%	30.8	39.7	35.1	26.3
Interest cover <sup>e</sup>	times	..	..	..	..
Current ratio	%	79.5	49.9	64.0	67.1
Leverage ratio	%	130.8	139.7	135.1	126.3
Payments to and from government					
Dividends	\$'000	27 254	27 254	24 000	16 000
Dividend to equity ratio	%	3.6	3.9	3.4	1.8
Dividend payout ratio	%	92.2	246.9	42.7	26.7
Income tax expense	\$'000	4 753	12 937	8 584	-39 965
Grants revenue ratio	%	2.7	2.7	2.5	2.5
CSO funding	\$'000	9 557	9 557	9 557	9 557
Performance indicators after SGARAs					
Profit before tax	\$'000	7 656	-2 682	10 391	-139 042
Return on assets	%	—	—	—	-0.1
Return on operating equity	%	—	—	—	-0.1

<sup>a</sup> Forests NSW (FNSW) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for FNSW. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> Interest cover was not calculated, because borrowing costs relating to assets that take a considerable period to become commercially productive were capitalised. .. Not applicable. — Zero or rounded to zero.

VicForests commenced operation on 1 August 2004 and is responsible for the harvest and sale of timber resources from Victoria's state forests.<sup>1</sup> Its activities are regulated by the *Sustainable Forests (Timber) Act 2004* and the *State Owned Enterprises Act 1992*. A large proportion of assets owned by forestry GTEs are self-generating and regenerating assets (SGARAs). Their value can fluctuate significantly each year because of revaluations, affecting measures of profitability and financial management. Around 1.1 million hectares of national park and state forest were damaged by fire in Victoria in 2006-07. VicForests began including harvest and haulage activities in its production process on 1 July 2006.

Total income was \$103 million in 2006-07, up \$66.3 million from 2005-06. This included a downward SGARA revaluation of \$111 000 (there was a downward revaluation of \$2.0 million in 2005-06). Revenue from sale of sawlogs and pulpwood logs increased by \$61.6 million (176 per cent) because of higher prices.

Profit before tax (before SGARAs) fell by \$4.9 million (98.2 per cent) to \$88 000 in 2006-07. This was attributable to a \$69.3 million (204 per cent) rise in expenses outweighing the increase in income. Harvesting and haulage expenses were \$68.4 million, compared with \$294 000 in 2005-06. After SGARA revaluations are included, VicForests recorded a loss before tax of \$23 000.

VicForests' SGARAs were valued at zero in 2006-07, down from \$4.2 million in 2005-06.<sup>2</sup> Total assets increased by \$3.0 million and liabilities increased by \$5.1 million (43.3 per cent) to \$16.9 million, largely due to accrued expenses. Return on assets fell from 18.6 per cent to 0.3 per cent due to reduced profitability.

Dividends are determined by the Victorian Treasurer following consultation with the VicForests Board. A \$2.1 million dividend was distributed in 2006-07 relating to the financial performance in 2005-06. An income tax-equivalent benefit of \$6000 was recorded for 2006-07. No community service obligation funding was received.

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<sup>1</sup> The Department of Sustainability and Environment is responsible for the stewardship (policy and regulation) of Victorian state forests.

<sup>2</sup> Under the *Sustainable Forests (Timber) Act 2004*, the Minister for the Environment made an Allocation Order that allows VicForests to harvest in three 5-year tranches over the following 15 years. Only timber remaining to be harvested in the 5-year Timber Release Plan (TRP) is valued as SGARAs. The effects of bushfires in 2006-07 required amendments to TRPs in order to meet short-term supply commitments and to enable salvage operations in fire-affected areas. Consequently, VicForests could only reliably value the standing timber available during the 12 months to 30 June 2007. It was considered that the sale of this timber would not give rise to positive returns to VicForests, and thus has been valued at zero.

## VICFORESTS (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05 <sup>b</sup>	2004-05 <sup>b</sup>	2005-06	2006-07
Size					
Total assets	\$m	37	37	35	38
Total income	\$m	41	41	37	103
Profitability					
Profit before tax	\$'000	10 985	10 985	5 019	88
Operating profit margin	%	28.1	28.1	10.8	-1.4
Cost recovery	%	139.0	139.0	112.0	98.6
Return on assets	%	45.5	45.5	18.6	0.3
Return on total equity	%	25.4	25.3	14.0	-6.5
Return on operating equity <sup>c</sup>	%	35.2	35.1	18.7	-7.8
Financial management					
Debt to equity	%	0.9	0.9	0.7	0.4
Debt to assets	%	0.6	0.6	0.5	0.2
Total liabilities to equity	%	62.9	66.0	50.8	80.0
Operating liabilities to equity <sup>d</sup>	%	53.9	53.9	63.2	88.9
Interest cover	times	29.4	29.4	279.8	7.8
Current ratio	%	362.1	288.4	233.2	188.6
Leverage ratio	%	153.9	153.9	163.2	188.9
Payments to and from government					
Dividends	\$'000	—	—	3 024	2 062
Dividend to equity ratio	%	—	—	17.7	11.2
Dividend payout ratio	%	..	..	94.7	..
Income tax expense	\$'000	4 937	4 955	895	-6
Grants revenue ratio	%	—	—	—	0.8
CSO funding	\$'000	—	—	—	—
Performance indicators after SGARAs					
Profit before tax	\$'000	13 135	13 135	2 980	-23
Return on assets	%	0.4	0.4	0.1	—
Return on operating equity	%	0.5	0.5	0.1	—

<sup>a</sup> VicForests commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for VicForests. <sup>b</sup> VicForests commenced operations on 1 August 2004. Data for 2004-05 reflect 11 months of operation. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

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## FORESTRY PLANTATIONS QUEENSLAND

## Queensland

Forestry Plantations Queensland (FPQ) was established on 1 May 2006 under the *Forestry Plantations Queensland Act 2006*.<sup>1</sup> FPQ manages 199 000 hectares of state-controlled softwood and hardwood plantations. A large proportion of assets owned by forestry GTEs are self-generating and regenerating assets (SGARAs). Their value can fluctuate significantly each year because of revaluations, affecting measures of profitability and financial management. Although fire burnt 460 hectares of plantation in 2006-07, only 50 hectares were lost.

Total income was \$38.6 million in 2006-07, **of which \$82 million was gains on disposal of biological assets which offset a -\$55 million downward SGARA revaluation.** Revenue from timber sales was \$1.1 million. Financial data on FPQ's 2005-06 performance are for the period 1 May 2006 to 30 June 2006, and therefore 2005-06 revenue and expenses data are not directly comparable with 2006-07 data.

A **profit** before tax (before SGARAs) of **\$13.5 million** was recorded in 2006-07. Total expenses were \$79.7 million. After SGARA revaluations are included, FPQ recorded a loss of \$41.1 million.

Around \$1.1 billion (86.7 per cent) of FPQ's assets are SGARAs. Total assets decreased by \$51.3 million (3.9 per cent) to \$1.2 billion, largely because of a \$54.9 million reduction in SGARAs. Total liabilities decreased by \$19.2 million (9.2 per cent) to \$190 million, mainly because of reduced deferred tax liabilities. The decline in the value of assets combined with the loss before tax resulted in a return on assets of -38.4 per cent.

A dividend of \$5.4 million was declared for 2006-07.<sup>2</sup> As a result of its **loss after SGARAs**, FPQ recorded an income tax-equivalent benefit of \$12.8 million in 2006-07.

Forestry Plantations Queensland did not receive community service obligation payments in 2006-07.

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<sup>1</sup> The Queensland Government reformed the commercial forest management activities previously undertaken by DPI Forestry in 2006. DPI Forestry was replaced by two new entities, FPQ and Forestry Plantations Queensland Office (FPQO). FPQO was established on 1 May 2006 to support and complement FPQ's operations by providing administrative services and by having the custodial responsibility for the new State Plantation Forest lands. Native forest harvesting, formerly managed by DPI Forestry, is now managed by the Department of Natural Resources and Water.

<sup>2</sup> Forestry Plantations Queensland paid dividends of \$11.3 million in 2006-07 relating to 2005-06. This comprises the net effect of a -\$3.7 million dividend declared by FPQ for operations after 1 May 2006 and \$15.0 million of unpaid dividends assumed from DPI Forestry.



## Performance indicators 2004-05 to 2006-07

Indicators	Units	Published in 2008 Report		Revised numbers	
		2005-06 <sup>a</sup>	2006-07	2005-06 <sup>a</sup>	2006-07
Size					
Total assets	\$m	1 300	1 249	1 300	1 249
Total income	\$m	17	39	17	39
Profitability					
Profit before tax	\$'000	-23 376	-68 832	-7 289	13 543
Operating profit margin	%	-4 739.3	-1 630.2	-42.5	14.6
Cost recovery	%	2.1	5.8	70.2	117.1
Return on assets	%	-13.8	-38.4	-3.9	11.7
Return on total equity	%	-1.9	-5.3	-0.5	2.4
Return on operating equity <sup>b</sup>	%	-30.4	-76.1	-7.2	34.1
Financial management					
Debt to equity	%	110.2	95.4	110.2	95.4
Debt to assets	%	47.0	46.5	47.0	46.5
Total liabilities to equity	%	19.2	18.0	19.2	18.0
Operating liabilities to equity <sup>c</sup>	%	134.3	107.5	134.3	107.5
Interest cover	times	..	..	-6.6	3.4
Current ratio	%	440.7	702.7	440.7	702.7
Leverage ratio	%	234.3	207.5	234.3	207.5
Payments to and from government					
Dividends <sup>d</sup>	\$'000	-3 741	5 435	-3 741	5 435
Dividend to equity ratio	%	-5.4	7.3	-5.4	7.3
Dividend payout ratio	%	..	..	74.6	21.3
Income tax expense	\$'000	-2 028	-12 824	-2 028	-12 824
Grants revenue ratio	%	15.1	29.2	1.0	3.4
CSO funding	\$'000	—	—	—	—
Performance indicators after SGARAs					
Profit before tax	\$'000	-7 353	-41 065	-7 353	-41 065
Return on assets	%	—	—	—	—
Return on operating equity	%	—	—	—	—

<sup>a</sup> Forestry Plantations Queensland (FPQ) was created when DPI Forestry was split into FPQ and Forestry Plantations Queensland Office (FPQO) on 1 May 2006. FPQ data for 2005-06 relate to the period 1 May 2006 to 30 June 2006. Although earlier data are not available for FPQ, data for FPQ's predecessor (DPI Forestry) are available in previous *Financial Performance of Government Trading Enterprises* reports. These data are not directly comparable for a number of reasons. First, DPI Forestry had additional responsibilities to the FPQ which were transferred to FPQO and the Department of Natural Resources and Water. Second, DPI Forestry did not report under AIFRS prior to 2005-06. Third, DPI Forestry data were based on the Government Financial Statistics framework, whereas the data in this table are based on the FPQ's annual report. <sup>b</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>c</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>d</sup> A negative dividend was declared for 2005-06, as this formed 50 per cent of the operating loss for the two months included for 2005-06. .. Not applicable. – Zero or rounded to zero.

The Forest Products Commission Western Australia (FPCWA) was established under the *Forest Products Act 2000* and is responsible for the commercial production, allocation and sale of forest products from WA native forests and state-owned and state-managed plantations. FPCWA manages tree farms on public and private land. A large proportion of assets owned by forestry GTEs are self-generating and regenerating assets (SGARAs). Their value can fluctuate significantly each year because of revaluations, affecting measures of profitability and financial management.

Total income was \$85.9 million in 2006-07, down \$44.9 million (34.4 per cent) from 2005-06. This included a downward SGARA revaluation of \$45.8 million (there was an upward revaluation of \$13.1 million in 2005-06).

Profit before tax (before SGARAs) increased by \$1.9 million (9.8 per cent) to \$21.7 million in 2006-07. Sales revenue increased slightly and there was a \$10.4 million increase in Commonwealth Government funding for the National Action Plan (NAP) for Salinity and Water Control. Total expenses increased by \$13.2 million, largely attributable to a \$10.0 million negative expense recorded in 2005-06 for the reversal of provisions made in 2004-05.<sup>1</sup> After SGARA revaluations are included, FPCWA recorded a loss before tax of \$24.0 million, in contrast with a profit before tax of \$32.9 million in 2005-06.

Self-generating and regenerating assets accounted for \$331 million (74.8 per cent) of the FPCWA's assets in 2006-07. Total assets increased by \$16.1 million (3.8 per cent), mostly due to NAP payments to be received (\$41.4 million). Total liabilities increased by \$33.9 million (21.0 per cent) because of deferred income. Reduced profitability offset higher assets, leading to return on assets falling 17.5 percentage points to 32.1 per cent.

A dividend of \$2.7 million was paid in 2006-07 for the 2005-06 financial year. As a result of its financial performance, FPCWA recorded an income tax-equivalent benefit of \$6.4 million in 2006-07.

Community service obligation payments of \$2.4 million were received in 2006-07, for FPCWA's forest enhancement program. In addition, it received funding for the NAP and for the Rural Industries Research and Development Corporation from the Commonwealth Government, totalling \$13.3 million.

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<sup>1</sup> A provision raised for claims against FPCWA, arising out of the WA Government's *Protecting Our Old Growth Forests* policy, was reversed as FPCWA was cleared of liability. The amount of this provision was reported as a negative expense in 2005-06.

## FOREST PRODUCTS COMMISSION (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	399	389	426	442
Total income	\$m	102	102	131	86
Profitability					
Profit before tax	\$'000	-12 822	-14 603	19 788	21 732
Operating profit margin	%	-9.0	-10.7	19.8	11.6
Cost recovery	%	91.8	90.4	124.7	113.2
Return on assets	%	-11.9	-19.6	49.6	32.1
Return on total equity	%	-1.8	-6.5	5.1	7.9
Return on operating equity <sup>c,d</sup>	%	..	..	..	..
Financial management					
Debt to equity	%	..	..	..	..
Debt to assets	%	159.7	209.2	174.6	107.2
Total liabilities to equity	%	56.3	61.7	60.9	79.0
Operating liabilities to equity <sup>e</sup>	%	..	..	..	..
Interest cover	times	..	..	4.3	4.8
Current ratio	%	85.4	67.9	121.5	211.4
Leverage ratio	%	..	..	..	..
Payments to and from government					
Dividends	\$'000	1 470	1 470	—	2 700
Dividend to equity ratio	%	..	..	..	..
Dividend payout ratio	%	..	..	—	13.3
Income tax expense	\$'000	-4 399	4 938	9 761	-6 418
Grants revenue ratio	%	2.0	2.0	2.5	10.0
CSO funding	\$'000	1 100	1 100	1 070	2 370
Performance indicators after SGARAs					
Profit before tax	\$'000	-13 319	-15 100	32 868	-24 025
Return on assets	%	—	—	0.1	—
Return on operating equity	%	—	—	0.1	-0.1

<sup>a</sup> Forest Products Commission Western Australia (FPCWA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for FPCWA. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Equity based on operating assets and liabilities (before SGARA) was negative for FPCWA during the period 2004-05 to 2006-07. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.

ForestrySA operates under the *South Australian Forestry Corporation Act 2000* and is responsible for managing over 83 000 hectares of plantation. A large proportion of assets owned by forestry GTEs are self-generating and regenerating assets (SGARAs). Their value can fluctuate significantly each year because of revaluations, affecting measures of profitability and financial management. Drought conditions caused the survival rate of new plantings of over 2700 hectares to be lower than previous years. Fires burnt 345 hectares of plantation in 2006-07.

Total income was \$157 million in 2006-07, up \$43.3 million (38.0 per cent) from 2005-06. This included an upward SGARA revaluation of \$23.0 million (there was a downward revaluation of \$18.6 million in 2005-06).

Profit before tax (before SGARAs) fell by \$1.5 million (3.3 per cent) to \$43.8 million in 2006-07. Revenue from the sale of timber products increased slightly (\$4.6 million). However, this was outweighed by a decline in community service obligation (CSO) funding and a \$3.3 million increase in total expenses. After SGARA revaluations are included, ForestrySA recorded a profit before tax of \$66.8 million, 150 per cent higher than in 2005-06.

Around \$613 million (54.9 per cent) of ForestrySA's assets were SGARAs in 2006-07. Total assets increased by \$57.7 million (5.5 per cent) because of increased SGARAs (\$22.5 million), additions to infrastructure assets and revaluation of land. There was a \$15.0 million (48.4 per cent) rise in total liabilities because debt was increased by \$18.9 million (186 per cent). Reduced profitability led to a lower return on assets of 9.2 per cent.

Dividends totalling \$29.8 million were paid or provided for in 2006-07.<sup>1</sup> An income tax-equivalent expense of \$12.3 million was recorded.

ForestrySA received CSO funding of \$2.7 million in 2006-07, to undertake activities including native forest management, community use of forests and community protection (including fire protection).

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<sup>1</sup> This included a dividend of \$27.1 million declared for the 2006-07 year, plus additional dividends for the 2004-05 and 2005-06 financial years of \$76 000 and \$2.6 million respectively.

## FORESTRYSA (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	1 032	1 035	1 059	1 116
Total income	\$m	104	104	114	157
Profitability					
Profit before tax	\$'000	46 862	46 856	45 317	43 835
Operating profit margin	%	35.3	35.3	33.1	31.5
Cost recovery	%	154.5	154.5	149.4	145.9
Return on assets	%	11.1	11.1	10.3	9.2
Return on total equity	%	3.0	3.0	3.0	2.7
Return on operating equity <sup>c</sup>	%	7.7	7.6	7.2	6.4
Financial management					
Debt to equity	%	1.2	1.2	2.3	6.3
Debt to assets	%	1.2	1.2	2.3	6.0
Total liabilities to equity	%	3.5	3.5	3.0	4.3
Operating liabilities to equity <sup>d</sup>	%	6.7	6.6	6.5	9.4
Interest cover	times	292.1	292.0	113.7	50.6
Current ratio	%	271.6	271.4	312.9	398.7
Leverage ratio	%	106.7	106.6	106.5	109.4
Payments to and from government					
Dividends <sup>e</sup>	\$'000	21 666	21 666	29 650	29 817
Dividend to equity ratio	%	5.5	5.4	7.1	6.6
Dividend payout ratio	%	71.6	71.6	97.8	103.4
Income tax expense	\$'000	14 105	14 105	12 563	12 282
Grants revenue ratio	%	0.4	0.4	0.4	0.5
CSO funding	\$'000	3 600	3 600	4 798	2 665
Performance indicators after SGARAs					
Profit before tax	\$'000	22 343	22 337	26 735	66 820
Return on assets	%	—	—	—	0.1
Return on operating equity	%	—	—	—	0.1

<sup>a</sup> ForestrySA commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for ForestrySA. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> Dividends in 2005-06 included \$24.6 million declared, plus a \$5.1 million extra dividend declared for 2004-05. Dividends in 2006-07 included \$27.1 million declared, plus additional dividends for 2004-05 and 2005-06 of \$76 000 and \$2.6 million respectively. — Zero or rounded to zero.

Forestry Tasmania was established by the *Forestry Act 1920* and is subject to the *Government Business Enterprises Act 1995*. It is responsible for managing approximately 1.6 million hectares of state forests and plantations. A large proportion of assets owned by forestry GTEs are self-generating and regenerating assets (SGARAs). Their value can fluctuate significantly each year because of revaluations, affecting measures of profitability and financial management. Around 5200 hectares of hardwood and softwood plantations were established in 2006-07. However, fires burnt 3400 hectares of state forest.

Total income was \$201 million in 2006-07, up \$32.2 million (19.0 per cent) from 2005-06. This included an upward SGARA revaluation of \$37.8 million (there was an upward revaluation of \$6.7 million in 2005-06). It also included superannuation actuarial losses of \$8.2 million.

Profit before tax (before SGARAs) fell by \$4.0 million (25.5 per cent) to \$11.6 million in 2006-07. There was a \$19.7 million increase in revenue from the sale of forest products and a \$4.6 million rise in income from the Tasmanian Community Forest Agreement (TCFA).<sup>1</sup> This outweighed an increase in total expenses of \$22.2 million, mainly due expenses from operations rising by \$22.7 million. After SGARA revaluations are included, Forestry Tasmania recorded a profit before tax of \$49.4 million, 121 per cent higher than in 2005-06.

Self-generating and regenerating assets accounted for \$389 million (41.8 per cent) of Forestry Tasmania's assets in 2006-07. Total assets increased by \$49.1 million (5.6 per cent) mainly because of increased SGARAs (\$28.2 million), and additions to buildings and forest estate assets. Total liabilities increased by \$32.0 million (10.3 per cent), mainly because of growth in payables, debt and deferred tax liabilities. Return on assets fell to 2.8 per cent in 2006-07.

Forestry Tasmania distributed \$1.3 million in dividends and recorded a \$12.1 million income tax-equivalent expense in 2006-07.

Although Forestry Tasmania does not receive funding for community service obligations, its annual report states that it was required to undertake non-commercial activities costing \$5.3 million in 2006-07.

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<sup>1</sup> The TCFA was established between the Australian and Tasmanian Governments in 2004-05. Projects qualifying for funding under the TCFA include the establishment of hardwood plantations, forestry management activities, road construction for Special Timber Management Units and various other research related tasks.

## FORESTRY TASMANIA (continued)

### Performance indicators 2004-05 to 2006-07

Indicators	Units	Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
		2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	863	873	881	930
Total income	\$m	151	139	169	201
Profitability					
Profit before tax	\$'000	13 506	12 777	15 621	11 645
Operating profit margin	%	8.0	5.5	-4.3	-9.6
Cost recovery	%	108.6	105.8	95.9	91.2
Return on assets	%	3.2	3.1	3.7	2.8
Return on total equity	%	1.9	2.3	-2.5	-4.5
Return on operating equity <sup>c</sup>	%	4.1	4.4	-4.6	-8.4
Financial management					
Debt to equity	%	9.8	10.8	11.2	13.3
Debt to assets	%	6.8	6.8	7.3	8.2
Total liabilities to equity	%	23.9	55.2	54.7	58.5
Operating liabilities to equity <sup>d</sup>	%	43.0	58.4	55.6	64.8
Interest cover	times	9.5	8.5	8.6	5.8
Current ratio	%	101.9	102.4	88.4	72.6
Leverage ratio	%	143.0	158.4	155.6	164.8
Payments to and from government					
Dividends	\$'000	5 232	5 232	2 447	1 297
Dividend to equity ratio	%	1.6	1.8	0.8	0.4
Dividend payout ratio	%	38.8	40.1	..	..
Income tax expense	\$'000	-695	-4 392	8 526	12 108
Grants revenue ratio	%	—	0.9	12.0	13.3
CSO funding	\$'000	—	—	—	—
Performance indicators after SGARAs					
Profit before tax	\$'000	861	132	22 366	49 398
Return on assets	%	—	—	—	0.1
Return on operating equity	%	—	—	—	0.1

<sup>a</sup> Forestry Tasmania commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Forestry Tasmania.

<sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.





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## 11 Other government trading enterprises

Two government trading enterprises (GTEs) owned by the Australian Government are covered in this chapter — Airservices Australia and Australia Post. TT-Line, a GTE owned by the Tasmanian Government, is included in this report for the first time. These GTEs vary significantly in size and in the range of services they provide.

For a discussion of the data, the performance indicators used and some of the factors that should be considered when assessing performance, see chapter 1.

Airservices Australia (ASA) was established in July 1995 under the *Air Services Act 1995*. It is responsible for providing and managing air navigation and air traffic services infrastructure in Australia. The regulatory functions of ASA were separated from its commercial activities on 1 July 2004, through the creation of the Airspace and Environment Regulatory Unit (AERU). AERU was transferred to the Office of Airspace Regulation in the Civil Aviation Safety Authority on 1 July 2007.

Airservices Australia's profit before tax increased by 13.0 per cent (\$17.6 million) to \$153 million in 2006-07. This reflected a 5.2 per cent (\$35.4 million) increase in total income, mainly attributable to increases in airways revenue (\$33.3 million) and miscellaneous income (\$4.0 million). Total expenses increased by 3.3 per cent (\$17.8 million).

Total assets increased by 11.1 per cent (\$78.4 million) to \$785 million in 2006-07. This was mainly attributable to capital investment (\$104 million) and increases in superannuation assets (\$33.2 million), while deferred tax assets declined by \$22.2 million. The increase in total assets outweighed the increase in profitability, and as a result return on assets and on equity declined to 24.2 per cent and 32.9 per cent respectively in 2006-07.

Airservices Australia is subject to dividend and income tax payments. ASA made dividend payments of \$65.3 million and recorded an income tax expense of \$46.6 million in 2006-07.

Airservices Australia received community service obligation (CSO) payments of \$7.0 million per year to cap prices at regional and general aviation airports until 2004-05. Pricing arrangements introduced from 1 July 2005 provided for full cost recovery at these airports and ASA no longer receives CSO payments.<sup>1</sup>

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<sup>1</sup> The ASA Board argues that ASA engages in a number of activities that are non-commercial in nature — such as aircraft noise and flight path monitoring, and noise inquiry services to handle questions and complaints — for which funding is not provided. The cost of these activities was estimated at \$3.8 million in 2006-07.

## AIRSERVICES AUSTRALIA (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	601	591	707	785
Total income	\$m	652	652	681	716
Profitability					
Profit before tax	\$'000	82 548	88 155	135 696	153 308
Operating profit margin	%	13.4	14.3	20.6	22.7
Cost recovery	%	115.5	116.7	126.0	129.3
Return on assets	%	16.9	19.8	25.9	24.2
Return on total equity	%	28.8	29.5	37.2	32.9
Return on operating equity <sup>c</sup>	%	40.0	56.4	55.4	40.5
Financial management					
Debt to equity	%	63.5	91.8	40.8	44.2
Debt to assets	%	19.1	21.0	18.2	21.6
Total liabilities to equity	%	174.5	183.1	122.3	104.0
Operating liabilities to equity <sup>d</sup>	%	233.5	337.1	153.3	120.2
Interest cover	times	14.1	15.0	22.3	18.2
Current ratio	%	99.5	57.9	32.1	39.0
Leverage ratio	%	333.5	437.1	253.3	220.2
Payments to and from government					
Dividends	\$'000	30 300	30 300	43 100	65 300
Dividend to equity ratio	%	19.2	27.8	24.4	22.9
Dividend payout ratio	%	48.1	49.2	44.0	56.5
Income tax expense	\$'000	24 313	31 377	42 100	46 554
Grants revenue ratio	%	—	—	—	—
CSO funding <sup>e</sup>	\$'000	7 000	7 000	—	—

<sup>a</sup> Airservices Australia (ASA) commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for ASA. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. <sup>e</sup> The community service obligation payment arrangements expired on 30 June 2005. — Zero or rounded to zero.

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## AUSTRALIA POST

## Australian Government

Australia Post was established in 1975 and was corporatised in 1989 under the *Australian Postal Corporation Act 1989*. Its principal activities include letter delivery, parcel delivery and logistics, third-party agency services (receiving payments for company and government services and charges), and the sale of postal products and merchandise. Australia Post holds a statutory monopoly for the processing and distribution of letters weighing 250 grams or less, or priced at less than two dollars.

Australia Post's profit before tax was \$562 million in 2006-07, an increase of \$46.1 million (8.9 per cent) on 2005-06. The higher profit mainly reflects a \$150 million increase in revenue from services, which outweighed a \$134 million increase in total expenses.

Australia Post's total assets increased by 14.2 per cent (\$682 million) to \$5.5 billion in 2006-07. The asset growth was largely attributable to increases in cash assets (\$124 million) and superannuation assets (\$427 million). The growth in cash assets was the main driver of a 9.8 per cent (\$115 million) increase in current operating assets. Current liabilities declined by 9.4 per cent (\$133 million) due to decreased payables (\$72.7 million) and short-term debt (\$231 million). As a result, the current ratio increased to 101 per cent in 2006-07. The increase in total assets outweighed the increase in profit, and consequently the return on assets and on equity declined to 12.6 per cent and 12.1 per cent respectively.

Total debt declined by 0.5 per cent (\$2.8 million) in 2006-07. With the increase in total assets, debt to assets and debt to equity fell to 11.2 per cent and 17.3 per cent respectively.

Australia Post pays dividends to the Australian Government and is subject to income tax payments. It made dividend payments of \$279 million and recorded an income tax expense of \$161 million in 2006-07.

Australia Post does not receive community service obligation payments. However, it is required to provide letter services that meet (or exceed) specified standards to all parts of Australia at a uniform price. Australia Post estimated that meeting this obligation imposed additional costs of approximately \$97.3 million in 2006-07.

## AUSTRALIA POST (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a,b</sup>	AIFRS <sup>a</sup>		
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	3 762	4 193	4 808	5 491
Total income	\$m	4 293	4 323	4 528	4 708
Profitability					
Profit before tax	\$'000	524 500	469 800	515 600	561 700
Operating profit margin	%	11.0	9.0	10.3	10.4
Cost recovery	%	112.3	109.8	111.5	111.6
Return on assets	%	16.2	13.1	13.3	12.6
Return on total equity	%	17.1	12.6	14.1	12.1
Return on operating equity <sup>c</sup>	%	18.7	12.4	13.7	11.3
Financial management					
Debt to equity	%	32.1	26.8	21.3	17.3
Debt to assets	%	15.5	13.9	13.0	11.2
Total liabilities to equity	%	107.4	112.7	101.4	95.2
Operating liabilities to equity <sup>d</sup>	%	106.8	92.4	75.6	64.9
Interest cover	times	17.2	15.1	17.2	17.6
Current ratio	%	123.8	121.4	83.3	100.9
Leverage ratio	%	206.8	192.4	175.6	164.9
Payments to and from government					
Dividends	\$'000	241 700	241 700	282 500	279 400
Dividend to equity ratio	%	14.6	12.1	12.6	10.0
Dividend payout ratio	%	77.8	97.6	91.6	89.0
Income tax expense	\$'000	149 600	128 500	147 500	161 100
Grants revenue ratio	%	0.3	0.2	0.1	0.1
CSO funding	\$'000	—	—	—	—

<sup>a</sup> Australia Post commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for Australia Post. <sup>b</sup> Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>c</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>d</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. – Zero or rounded to zero.

TT-Line Company Pty Ltd (TT-Line) was established under the *TT-Line Arrangements Act 1993* and operates under the *Corporations Act 2001*. The *Spirit of Tasmania I and II* provide passenger, vehicle and freight services across the Bass Strait between Melbourne and Devonport.

TT-Line offered the *Spirit of Tasmania III* for sale on 5 June 2006, following a decision to discontinue the service between Sydney and Devonport. It completed 12 journeys in the 2006-07 financial year before being handed over to new owners — Corsica Ferries — on 6 September 2006.

Profit before tax was \$5.1 million in 2006-07, up \$2.9 million from the previous financial year. Total income increased by \$3.9 million (2.5 per cent), despite a \$5.5 million fall in service revenue. The increase was mostly due to an \$8.2 million change in the recovery of costs attributable to the sale of *Spirit of Tasmania III*. There was a general decrease in core business expense items, with sales costs decreasing by \$27.6 million, hotel services expenses by \$7.9 million and finance costs by \$5.4 million. However, there was a \$43.2 million negative expense in 2005-06 because of impairment reversals. Consequently, total expenses increased slightly, by \$1.8 million (1.2 per cent).

Total assets decreased by \$72.2 million (17.5 per cent) in 2006-07. This was partly due to the sale of the *Spirit of Tasmania III*, which was recorded as a \$110 million 'held for sale' asset in 2005-06. Cash holdings increased by \$24.1 million and there was a \$10.9 million upward revaluation of ships in 2006-07. Total liabilities decreased by \$119 million (53.1 per cent), mostly because debt was reduced by \$111 million (59.6 per cent). Combined with increased equity, the decline in liabilities caused total liabilities to equity to fall from 119 per cent in 2005-06 to 44.7 per cent in 2006-07. The increased equity also caused the return on total equity to fall 9.8 percentage points to 5.7 per cent in 2006-07.

Debt reduction was assisted by an equity contribution of \$22.5 million from the Tasmanian Government. Debt to equity and debt to assets reduced to 31.9 per cent and 19.9 per cent respectively.

No dividends were paid or provided for in 2006-07. Despite the profit, TT-Line recorded an income tax-equivalent benefit of \$5.9 million because of deferred tax expenses.

TT-Line did not receive community service obligation funding in 2006-07.

## TT-LINE (continued)

### Performance indicators 2004-05 to 2006-07

		Pre-AIFRS <sup>a</sup>		AIFRS <sup>a</sup>	
Indicators	Units	2004-05	2004-05	2005-06	2006-07
Size					
Total assets	\$m	370	369	413	341
Total income	\$m	155	156	152	156
Profitability					
Profit before tax	\$'000	-79 279	-79 627	2 237	5 103
Operating profit margin	%	-43.7	-45.4	11.9	4.0
Cost recovery	%	69.6	68.8	113.5	104.2
Return on assets	%	-17.1	-17.2	3.7	3.2
Return on total equity	%	-60.2	-63.2	15.5	5.7
Return on operating equity <sup>b</sup>	%	-60.2	-63.2	15.5	5.7
Financial management					
Debt to equity	%	203.8	206.6	98.5	31.9
Debt to assets	%	60.7	60.8	47.5	19.9
Total liabilities to equity	%	235.7	239.9	119.1	44.7
Operating liabilities to equity <sup>c</sup>	%	235.7	239.9	119.1	44.7
Interest cover	times	..	..	1.2	1.7
Current ratio	%	20.5	7.5	212.6	168.6
Leverage ratio	%	335.7	339.9	219.1	144.7
Payments to and from government					
Dividends	\$'000	—	—	—	—
Dividend to equity ratio	%	—	—	—	—
Dividend payout ratio	%	..	..	—	—
Income tax expense	\$'000	—	—	-4 459	-5 928
Grants revenue ratio	%	1.6	2.9	1.5	1.9
CSO funding	\$'000	—	—	—	—

<sup>a</sup> TT-Line commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for TT-Line. <sup>b</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>c</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'. .. Not applicable. — Zero or rounded to zero.





# A Monitored GTEs

Table A.1 **Monitored GTEs — by jurisdiction, 2006-07**

<i>GTE</i>	<i>Sector</i>
New South Wales	
Country Energy	Electricity
Delta Electricity	Electricity
EnergyAustralia	Electricity
Eraring Energy	Electricity
Integral Energy	Electricity
Macquarie Generation	Electricity
TransGrid	Electricity
Hunter Water Corporation	Water
State Water Corporation	Water
Sydney Catchment Authority	Water
Sydney Water Corporation	Water
State Transit Authority	Urban Transport
Sydney Ferries Corporation	Urban Transport
Rail Corporation New South Wales	Rail
Rail Infrastructure Corporation	Rail
Newcastle Port Corporation	Ports
Port Kembla Port Corporation	Ports
Sydney Ports Corporation	Ports
Forests New South Wales	Forestry
Victoria	
Barwon Region Water Authority	Water
Central Gippsland Region Water Authority	Water
Central Highlands Region Water Authority	Water
City West Water	Water
Coliban Region Water Authority	Water
Gippsland and Southern Rural Water Authority	Water
Goulburn Valley Region Water Authority	Water
Goulburn–Murray Rural Water Authority	Water
Grampians Wimmera Mallee Water	Water
Lower Murray Water	Water
Melbourne Water Corporation	Water

(Continued next page.)

Table A.1 (continued)

<i>GTE</i>	<i>Sector</i>
South East Water	Water
Yarra Valley Water	Water
VicTrack	Rail
V/Line Passenger Corporation	Rail
Port of Melbourne Corporation	Ports
Victorian Regional Channels Authority	Ports
VicForests	Forestry
Queensland	
CS Energy	Electricity
ENERGEX	Electricity
Enertrade	Electricity
Ergon Energy Group	Electricity
Powerlink	Electricity
Stanwell Corporation	Electricity
Tarong Energy	Electricity
SunWater	Water
Queensland Rail	Rail
Cairns Port Authority	Ports
Central Queensland Ports Authority	Ports
Mackay Port Authority	Ports
Port of Brisbane Corporation	Ports
Ports Corporation of Queensland	Ports
Townsville Port Authority	Ports
Forestry Plantations Queensland	Forestry
Western Australia	
Horizon Power	Electricity
Synergy	Electricity
Verve Energy	Electricity
Western Power	Electricity
Water Corporation	Water
Public Transport Authority	Urban Transport
Albany Port Authority	Ports
Bunbury Port Authority	Ports
Dampier Port Authority	Ports
Fremantle Port Authority	Ports
Geraldton Port Authority	Ports
Port Hedland Port Authority	Ports
Forest Products Commission	Forestry

(Continued next page.)

Table A.1 (continued)

<i>GTE</i>	<i>Sector</i>
South Australia	
SA Water Corporation	Water
TransAdelaide	Urban Transport
ForestrySA	Forestry
Tasmania	
Aurora Energy	Electricity
Hydro-Electric Corporation	Electricity
Transend Networks	Electricity
Cradle Coast Water	Water
Esk Water Authority	Water
Hobart Regional Water Authority	Water
Metro Tasmania	Urban Transport
Tasmanian Ports Corporation	Ports
Forestry Tasmania	Forestry
TT-Line	Other
Australian Capital Territory	
ACTEW Corporation	Water/Electricity
Northern Territory	
Power and Water Corporation	Electricity/Water
Darwin Port Corporation	Ports
Australian Government	
Snowy Hydro <sup>a</sup>	Electricity
Australian Rail Track Corporation	Rail
Airservices Australia	Other
Australia Post	Other

<sup>a</sup> Jointly owned by the Australian, NSW and Victorian Governments.



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