



Australian Government

Productivity Commission

Financial Performance of Government Trading Enterprises 1998-99 to 2002-03

Productivity
Commission
Research Paper

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The Productivity Commission

The Productivity Commission, an independent agency, is the Australian Government's principal review and advisory body on microeconomic policy and regulation. It conducts public inquiries and research into a broad range of economic and social issues affecting the welfare of Australians.

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Foreword

This report is the second in a three-year program of research designed to provide comparable information on the financial performance of government trading enterprises (GTEs). It continues previous work by the Commission and an earlier series of broader 'Red Book' reports, under the auspices of the Steering Committee on National Performance Monitoring of Government Trading Enterprises.

Overall, the financial performance of GTEs has improved since the late 1990s. Nevertheless, in 2002-03 half of the monitored GTEs continued to earn a return on assets below the risk-free return from long-term Commonwealth bonds. A greater number earned less than a commercial rate of return. There has been some improvement, however, over the previous year's performance, with profitability declining only in the railways sector.

The current research program is also focusing on the external governance arrangements for GTEs. The first report provided contextual information; this report looks at the role and application of various accountability mechanisms.

The Commission has given priority to its ongoing research into the performance of economic infrastructure industries and the impact of microeconomic reforms. It complements other Commission work, including benchmarking studies and reviews of price and service quality, as well as public inquiries.

This study was undertaken in the Economic Infrastructure Branch under the guidance of Commissioner Michael Woods. The Commission is grateful for the continuing cooperation of state and territory governments, who furnished data collected for the Australian Bureau of Statistics Government Finance Statistics collection. Comments and suggestions by various government officials on the monitoring results and on the role of auditing in external governance have also been valuable.

Gary Banks
Chairman

July 2004

Contents

Foreword	iii
Table of contents	v
Abbreviations	ix
Key points	xvi
1 Introduction	1
1.1 Background	1
1.2 Scope	2
1.3 External governance	6
1.4 Report structure	6
2 Financial performance overview	7
2.1 Profitability	7
2.2 Financial management	12
2.3 Government transactions	15
3 Interpretation of performance measures	19
3.1 Data	19
3.2 Performance indicators	23
3A Definitions of financial performance indicators	29
Part A	External governance research
4 Auditing	35
4.1 Legislative basis	36
4.2 Office of the auditor-general	36
4.3 Financial auditing	42
4.4 Performance auditing	44
4.5 Implications for external governance	48

5	Reporting	51
5.1	Legislative and policy provisions	51
5.2	Reporting and accountability	52
5.3	Accountability documents	53
5.4	Role of reporting in external governance	60
6	Performance monitoring	61
6.1	Rationale for performance monitoring	61
6.2	Performance measures	63
6.3	Agencies undertaking external performance monitoring	68
6.4	Implications for external governance	75
Part B	GTE sector performance reports	
7	Electricity	79
7.1	Monitored GTEs	79
7.2	Market environment	83
7.3	Profitability	90
7.4	Financial management	94
7.5	Financial transactions	97
7.6	GTE performance reports	101
8	Water, sewerage, drainage and irrigation	145
8.1	Monitored GTEs	145
8.2	Market environment	149
8.3	Profitability	153
8.4	Financial management	157
8.5	Transactions with government	158
8.6	GTE performance reports	161
9	Urban transport	209
9.1	Monitored GTEs	209
9.2	Market environment	211
9.3	Profitability	214
9.4	Financial management	216
9.5	Transactions with government	218
9.6	GTE performance reports	221

10	Railways	231
10.1	Monitored GTEs	231
10.2	Market environment	234
10.3	Profitability	238
10.4	Financial management	239
10.5	Transactions with government	241
10.6	GTE performance reports	245
11	Ports	257
11.1	Monitored GTEs	257
11.2	Market environment	261
11.3	Profitability	265
11.4	Financial management	267
11.5	Transactions with government	268
11.6	GTE performance reports	271
12	Forestry	317
12.1	Monitored GTEs	318
12.2	Market environment	320
12.3	Profitability	322
12.4	Financial management	326
12.5	Transactions with government	327
12.6	GTE performance reports	331
13	Commonwealth GTEs	345
Appendix		
A	Monitored GTEs, 2002-03	353
References		357

Abbreviations and explanations

AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
ABARE	Australian Bureau of Agricultural and Resource Economics
ABS	Australian Bureau of Statistics
ACA	Australian Communications Authority
ACAG	Australian Council of Auditors-General
ACCC	Australian Competition and Consumer Commission
ACTEW	ACTEW Corporation Ltd
ACTION	Australian Capital Territory Internal Omnibus Network Authority
AGS	Auditing Guidance Statements
AIE	Australian Inland Energy
AIEWI	Australian Inland Energy and Water Infrastructure
ANAO	Australian National Audit Office
ANU	Australian National University
APA	Albany Port Authority
ARA	Australasian Reporting Awards
ARG	Australian Railroad Group
ARIF	Australian Rail Infrastructure Foundation
ARTC	Australian Rail Track Corporation
ASA	Airservices Australia

ASCPA	Australian Society of Certified Practising Accountants
AUS	Australian Auditing Standards
AUSTA Electric	Queensland Generation Corporation
BACL	Brisbane Airport Corporation Limited
BTRE	Bureau of Transport and Regional Economics
BPA	Benchmark Pricing Agreement
BPC	Burnie Port Corporation
COAG	Council of Australian Governments
CPA	Competition Principles Agreement
CPI	Consumer Price Index
CSO	Community Service Obligation
CWW	City West Water
DBCT	Dalrymple Bay Coal Terminal
DDSO	Digital Data Service Obligation
DPA	Dampier Port Authority
DPC	Darwin Port Corporation
DPI	Department of Primary Industries (QLD)
DUS	Department of Urban Services (ACT)
EBIT	Earning Before Interest and Tax
EDI	Electronic Data Interchange
ESC	Essential Services Commission
ESC Act	<i>Energy Services Corporations Act 1995</i>
ETEF	Electricity Tariff Equalisation Fund

ETF	Economic Type Framework
FPA	Fremantle Port Authority
FPCWA	Forest Products Commission of Western Australia
FTE	Full Time Equivalent
GBE	Government Business Enterprise
GFS	Government Financial Statistics
GOC	Government Owned Corporation
GPA	Gladstone Port Authority
GPFR	General Purpose Financial Report
GPOC	Government Prices Oversight Commission
GTE	Government Trading Enterprise
GWh	Giga (10^9) watt hours
HEC	Hydro-Electric Corporation
HIA	Hobart International Airport Pty Ltd
HPC	Hobart Port Corporation
HWC	Hunter Water Corporation
ICAA	Institute of Chartered Accountants in Australia
ICRC	Independent Competition and Regulatory Commission
IPART	Independent Pricing and Regulatory Tribunal
JCPA	Joint Committee of Public Accounts
JCPAA	Joint Committee of Public Accounts and Audit
kbps	Kilo (10^3) bits per second
KPI	Key Performance Indicator

kWh	Kilo (10^3) watt hours
LPT	Liverpool-Parramatta Transitway
MDBC	Murray–Darling Basin Commission
MPA	Mackay Port Authority
MPC	Melbourne Port Corporation
MW	Mega (10^6) watts
MWC	Melbourne Water Corporation
MWh	Mega (10^6) watt hours
NCC	National Competition Council
NCP	National Competition Policy
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
NFPS	National Forestry Policy Statement
NPC	Newcastle Port Corporation
NRC	National Rail Corporation
NTER	National Tax Equivalent Regime
NWWA	North West Water Authority
OPT	Office of Public Transport
ORG	Office of the Regulator-General
OTER	Office of the Tasmanian Energy Regulator
OWR	Office of Water Regulation
PAWA	Power and Water Authority
PAWC	Power and Water Corporation

PBC	Port of Brisbane Corporation
PCQ	Ports Corporation of Queensland
PDC	Port of Devonport Corporation
PEP	Port Enhancement Project
PHPA	Port Hedland Port Authority
PKCTL	Port Kembla Coal Terminal Limited
PKPC	Port Kembla Port Corporation
PoMC	Port of Melbourne Corporation
PPA	Power–Purchase Agreement
PTB	Passenger Transport Board
PTC	Public Transport Corporation
PTE	Public Trading Enterprise
QNI	Queensland–New South Wales Interconnector
QPTC	Queensland Power and Trading Corporation
QR	Queensland Rail
QTSC	Queensland Transmission and Supply Corporation
RBA	Reserve Bank of Australia
RFA	Regional Forest Agreement
RIC	Rail Infrastructure Corporation
SAFC	SA Forestry Corporation
SCA	Sydney Catchment Authority
SCI	Statement of Corporate Intent
SEW	South East Water

SFNSW	State Forests New South Wales
SGARA	Self-generating and Regenerating Assets
SHTPL	Snowy Hydro Trading Pty Ltd
SMHEA	Snowy Mountains Hydro-Electric Authority
SOC	State Owned Corporation
SOC Act	<i>State Owned Corporations Act 1989</i>
SOE	State Owned Enterprise
SPC	Sydney Ports Corporation
SRA	State Rail Authority of NSW
STA	State Transit Authority
SVA	Shareholder Value Added
SWC	Sydney Water Corporation
SWP	State Water Projects
TGT	Terra Gas Trader
TOC	Territory Owned Corporation
TPA	Townsville Port Authority
URF	Utility Regulators Forum
USO	Universal Service Obligation
VCA	Victorian Channels Authority
WAGRC	Western Australia Government Railways Commission
YVW	Yarra Valley Water

Key points

Government trading enterprises (GTEs) occupy key sectors of the economy — including electricity, water, urban transport, railways, ports and forests. In 2002-03, the 84 GTEs monitored in this report controlled assets valued at more than \$170 billion and generated \$58 billion in revenue.

The aggregate return on assets of the monitored GTEs (excluding Telstra) was largely unchanged between 2001-02 and 2002-03, following a fall in the previous year.

Profitability in the electricity, ports and forestry sectors improved in 2002-03, whereas in the railways sector it has declined. The position of the water and urban transport sectors was largely unchanged.

Over a longer period, the profitability of 52 GTEs (excluding Telstra) monitored continuously from 1998-99 until 2002-03 improved, with the aggregate return on assets rising from 5.6 per cent to 6.1 per cent.

Despite this longer term improvement, 50 per cent of the 84 currently monitored GTEs earned less than the long-term bond rate in 2002-03. An even greater number of GTEs failed to earn a commercial rate of return, which includes a margin for risk.

The overall level of debt increased among the 52 GTEs (excluding Telstra) monitored since 1998-99, with their aggregate debt to assets ratio rising from 26 per cent to 30 per cent.

The 84 currently monitored GTEs made tax-equivalent and dividend payments to their owner-governments totalling almost \$7.5 billion in 2002-03.

GTE reporting, performance monitoring and external auditing all have important roles to play in promoting accountability and enhancing GTE performance:

- Reporting by GTEs provides transparency, as well as accountability to shareholding ministers against agreed corporate objectives. Although some GTEs have received awards for their reporting, a number appear to fall short of best practice.
- Performance monitoring is useful for measuring how well a GTE meets its objectives and how its performance compares over time and across GTEs. Although there is extensive performance monitoring, the results can be difficult to interpret. The relevance of non-financial measures to sometimes conflicting objectives is often unclear. Further, there is limited consistency in these measures, which constrains comparisons across GTEs.
- External performance audits by auditors-general can enhance corporate governance by periodically evaluating the efficiency and effectiveness of GTE operations. The independence of auditors-general and their ability to report to parliament, differentiates them from private sector auditors.

1 Introduction

This is the second report in the current three-year program of work to continue monitoring the financial performance of government trading enterprises (GTEs) and to report on the arrangements for their external governance.

Financial performance monitoring of GTEs forms part of the Productivity Commission's research into the performance of Australian industries and the progress of microeconomic reform. Performance monitoring increases transparency and hence, accountability. It also facilitates 'yardstick' competition — based on a comparable set of performance indicators — which is particularly important in industries where businesses do not face vigorous competition.

The information presented in this report is suitable for making a general assessment of financial performance within and across sectors. It does not provide information suitable for a detailed analysis of the performance of individual GTEs — a thorough examination of their financial statements is required for that purpose.

1.1 Background

The program of monitoring the financial performance of GTEs continues the work undertaken by the Commission's predecessor — the Industry Commission — for the Council of Australian Governments. The approach has been to update the data annually and to use it in analysing the factors affecting financial performance over the preceding five years.

The information on external governance in last year's (2001-02) report was the first tranche in a three-year program to document external governance arrangements, and was primarily about the stated purpose and objectives of GTEs. This year the information deals with accountability arrangements.

A workshop held in September 2003 has helped guide the Commission's work on the external governance arrangements applying to GTEs. The workshop participants discussed the merits of the company versus statutory models of corporatisation and their likely sustainability. It also covered accountability to ministers and the Parliament.

Workshop participants emphasised the need for an effective performance monitoring system to ensure that GTEs were accountable. It was suggested that public reporting of performance measures that were linked to outcomes, would improve transparency and accountability.

1.2 Scope

GTEs are government-owned or government-controlled entities that are mainly engaged in the production of goods and services, with the requirement to substantially or fully cover their costs. They are outside the general government sector and are also separate from government financial enterprises (in the banking, insurance and related sectors). GTEs are also commonly referred to as:

- GBEs (government business enterprises);
- GOCs (government-owned corporations);
- PTEs (public trading enterprises);
- Public corporations;
- SOCs (state-owned corporations);
- SOEs (state-owned enterprises); or
- TOCs (territory-owned corporations).

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

This report contains a consistent set of financial performance indicators for 84 such entities — referred to generically as GTEs — for the period 1998-99 to 2002-03. In 2002-03, the GTEs monitored in this report (listed in appendix A) generated \$58 billion in revenue and controlled assets valued at \$173 billion. In aggregate, they account for around 80 per cent of the revenue generated by all government-owned businesses in Australia (ABS 2003d).

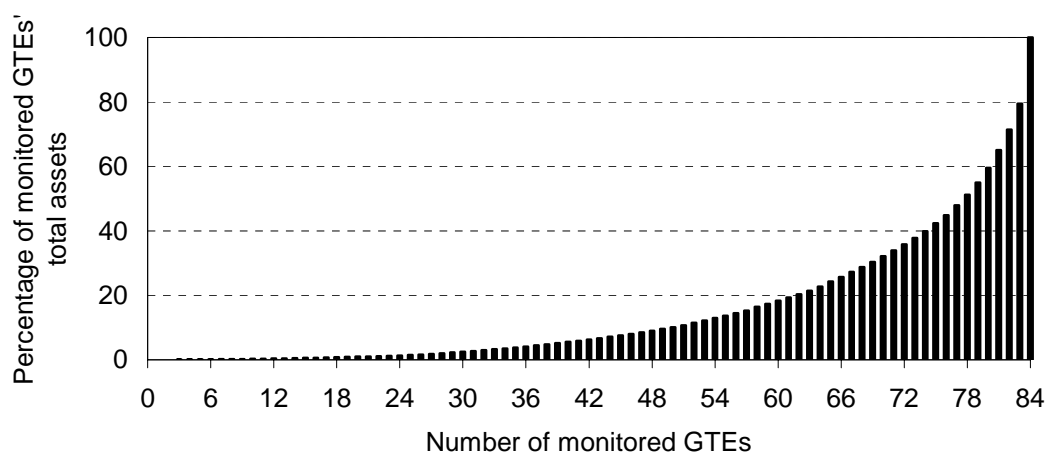
The monitored GTEs undertake a range of activities across six main sectors — electricity; water, sewerage, drainage and irrigation (hereafter referred to as

¹ The other monitored Tasmanian GTEs — Aurora Energy, Transend, Metro and the port and water GTEs — are not directly covered by the *Government Business Enterprises Act 1995* (Tas).

‘water’); urban transport; railways; ports; and forestry. Three Australian government GTEs that do not fit within these sectors — Australia Post, Airservices Australia and Telstra — are grouped together.

The size of the GTEs varies substantially across and within sectors (see figures 1.1 and 1.2). In 2002-03, the smallest in terms of asset value was the Dampier Port Authority (\$23 million) and the largest was Telstra (\$36 billion).² Telstra accounted for 21 per cent of the total assets of all monitored GTEs and the largest seven GTEs accounted for around 50 per cent of total assets.

Figure 1.1 Cumulative distribution of monitored GTEs’ assets, June 2003

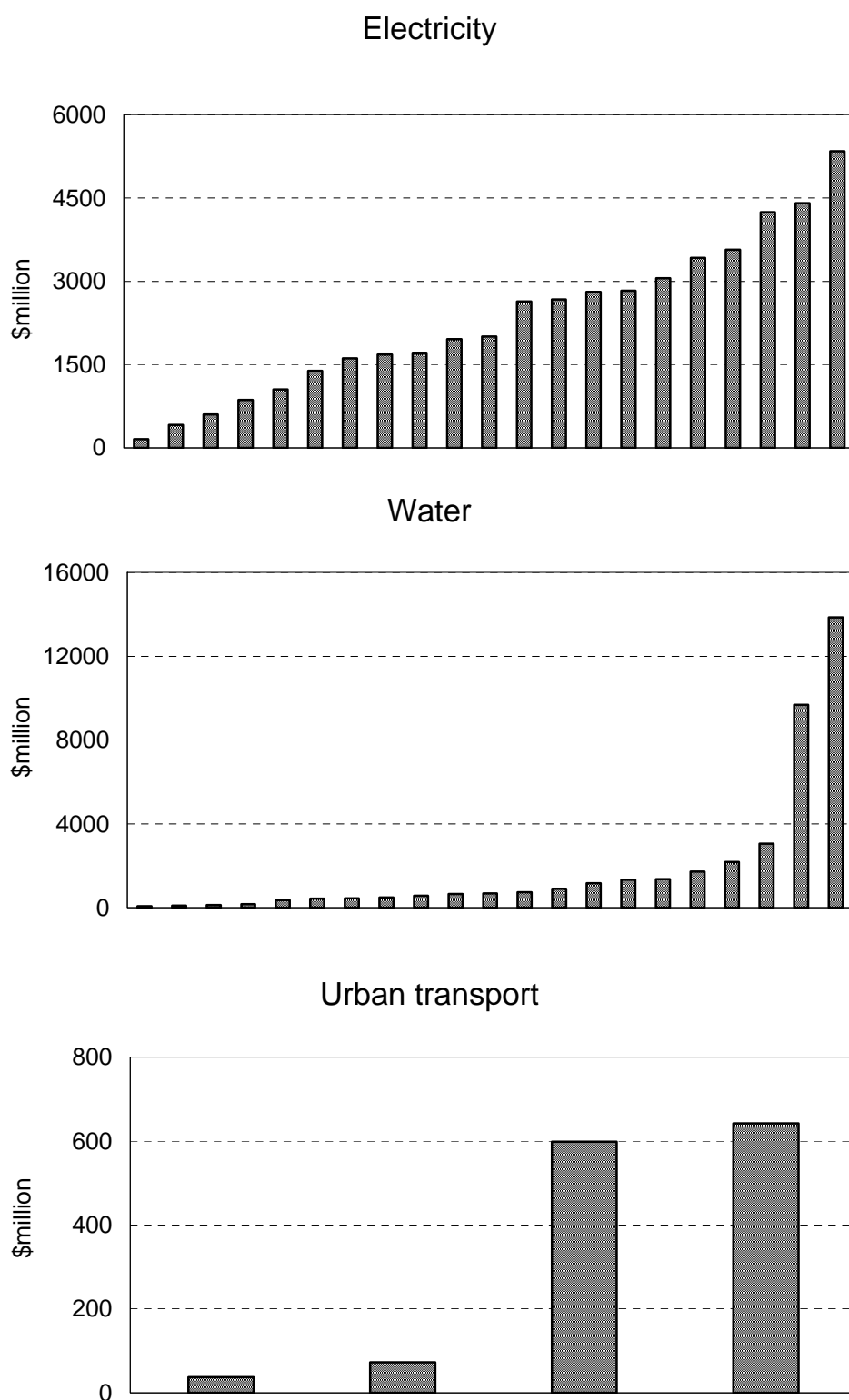


Source: Productivity Commission estimates.

The GTEs monitored represent the majority, but not all, of the GTEs currently operating in their respective sectors. Further, where GTEs operated over part of the reporting period (but not in 2002-03) they have not been included, despite being monitored in previous years. These GTEs have generally been privatised or had their assets and operations transferred to other GTEs or new entities.

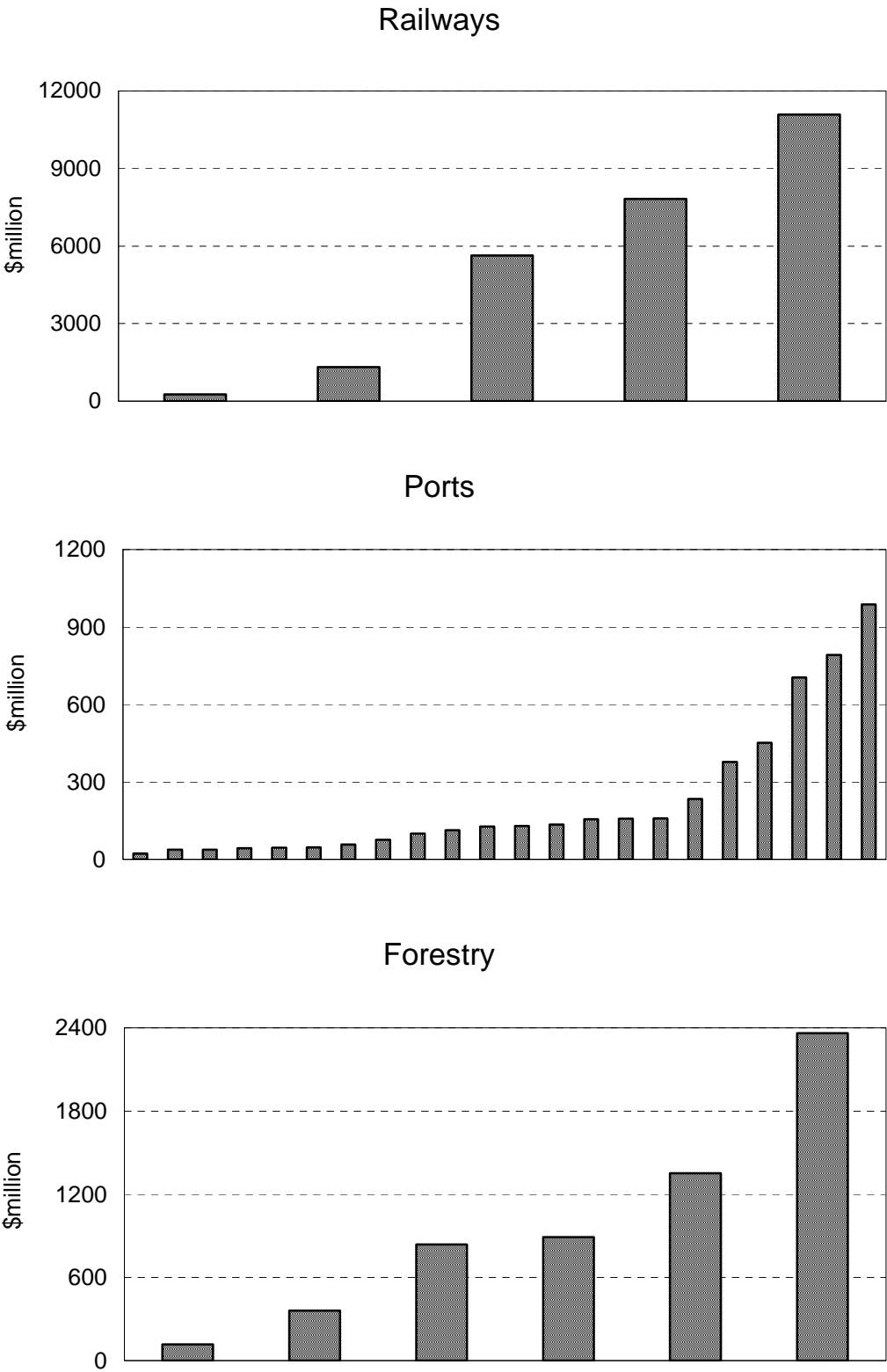
² Telstra is partly privatised. The Commonwealth Government retains 50.1 per cent of issued shares.

Figure 1.2 **Assets — monitored GTEs by sector, June 2003**



(continued next page)

Figure 1.2 (continued)



Note Three Commonwealth GTEs that do not fit within these six sectors — Australia Post (assets \$3.4 billion), Airservices Australia (\$602 million) and Telstra (\$36 billion) — are grouped together and are excluded from this figure.

Source: Productivity Commission estimates.

1.3 External governance

External governance issues were identified in a previous report as a possible factor affecting the slow progress in achieving governmental reform objectives (PC 2002a). External governance refers to the control and accountability arrangements between the enterprise and agents acting on behalf of the community. External governance is distinct from internal governance, which covers the systems of direction and control within an organisation that are the responsibility of the governing body and senior management of the organisation.

This year the subject of governance research is auditing, reporting and performance measurement. Next year, the Commission will assess the sustainability of the current model of corporatisation, in terms of performance, competitive neutrality and accountability. In doing so, the implications of price and service regulation will also be considered.

1.4 Report structure

Following this chapter is a sector-level overview of the financial performance of GTEs over time. A summary of the data and financial performance indicators used in the report is presented in chapter 3.

The remainder of the report is divided into two parts. Part A comprises three chapters, each dealing with one of the aspects of external governance referred to in section 1.3.

In part B, GTE performance reports are presented on a sector basis, with commentary on the influence of structural reforms and the market environment on performance. The Commonwealth Government GTEs that do not have peers in other jurisdictions are reported separately. State and Territory treasuries were given the opportunity to review the GTE performance reports.

2 Financial performance overview

The financial performance of 84 government trading enterprises (GTEs) over the period 1998-99 to 2002-03 is reported in part B of this report. Their financial performance was examined using a consistent set of financial indicators and ratios which cover the GTEs' operating performance, financial management and transactions with government.

In this chapter, an overview of GTE performance is presented at an industry sector level. Information on the data and measures used in assessing performance — both at a sector level and for individual GTEs — is presented in chapter 3.

2.1 Profitability

Profitability reflects a company's capacity to generate earnings from the capital invested in its activities. Increases in the retained profits (or surpluses) add value to shareholders' equity in that company. If equity holders (the community) are to obtain a full financial return on their investment in GTEs, profits have to be sufficient to generate a return similar to that available from alternative investments, having regard for differences in the level of risk.

In this report, the profitability measures reported include the level of operating profit, the return on assets (and equity), and the cost recovery ratio. For more information on these and other performance indicators used throughout the report, see chapter 3.

A full financial return would be the risk-free return on capital plus an amount reflecting the non-diversifiable market risk inherent in the investment. The 10-year Commonwealth Government bond rate is widely used as the risk-free return benchmark.

The average rate of return on 10-year Commonwealth Government bonds in 2002-03 was 5.4 per cent (RBA 2004).¹ In 2002-03, 50 per cent of monitored GTEs

¹ Based on the average daily rate over the 12 months to June 2003. The rate is usually based on the average bond rate over a specified period rather than an 'on the day' rate in order to minimise the effect of short-term volatility.

were earning nominal pre-tax returns above this level. In comparison, 36 per cent of GTEs monitored in 2001-02 achieved a return greater than the long-term bond rate in that year. At the start of the reporting period (1998-99), 52 per cent of the 53 GTEs which have been monitored over the full reporting period earned a rate of return above that year's long-term bond rate.²

Several GTEs earned negative returns on assets and equity — notably in the urban transport and rail sectors (chapters 9 and 10). In 2002-03, 15 per cent of all monitored GTEs reported a pre-tax operating loss, a similar proportion to that observed in previous years.

Given the non-diversifiable risk inherent in any business activity, it is reasonable to expect that almost all GTEs should be generating returns above the risk-free rate, assuming they are efficient and can fully recover their costs, including the cost of capital.³

In 2002-03, although the overall financial performance of the electricity, ports and forestry sectors improved, the result for the rail sector was lower overall than for the previous year. Results for the water and urban transport sectors were almost unchanged (see table 2.1).

Table 2.1 Selected profitability measures — by sector, 2002-03 (2001-02)

<i>Sector</i>	<i>Return on assets</i>		<i>Return on equity</i>		<i>Cost recovery</i>	
	per cent		per cent		per cent	
Electricity	7.0	(6.4)	6.6	(5.6)	123.3	(121.4)
Water	4.6	(4.7)	3.1	(3.0)	157.7	(159.1)
Urban transport	0.1	(0.0)	-2.5	(-2.3)	98.6	(94.7)
Railways	1.6	(3.6)	0.0	(2.8)	90.0	(96.4)
Ports	4.8	(4.7)	3.1	(2.3)	131.4	(131.0)
Forestry	7.0	(4.7)	6.8	(4.5)	154.9	(147.3)

Note Indicators are the sector-wide weighted means. Results for 2001-02 are shown in brackets.

Source: Productivity Commission estimates.

² The proportion of GTEs achieving a rate of return above the risk-free rate in 1998-99 refers to only those GTEs monitored for the entire reporting period. This can lead to problems in comparison with more recent years because of differences in the set of GTEs included. For example, eight rural water GTEs were included for the first time in 2001-02, none of which recorded a return above the risk-free rate in 2002-03. Of the GTEs included for the entire reporting period, 52 per cent also achieved a rate of return above the risk-free rate in 2002-03.

³ 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, regulators accepted a nominal post-tax return of between 6.0 per cent and 7.0 per cent for electricity distributors in NSW over the period February 2004 to June 2008 (IPART 2004b) and nominal pre-tax returns of between 8.2 per cent and 10.8 per cent for the NSW rail access business (IPART 1999b).

Profitability among GTEs varied considerably within each sector (see figure 2.1), especially in the ports sector, although this was exacerbated by the particularly poor performance of one GTE after an asset revaluation.

The financial performance of GTEs — relative to their performance in previous periods and to the performance of other GTEs operating in different parts of the economy — will be affected by cyclical variations in operating conditions. Such changes in conditions can include variations in the demand for a GTE's goods and services and changes to its costs of production.

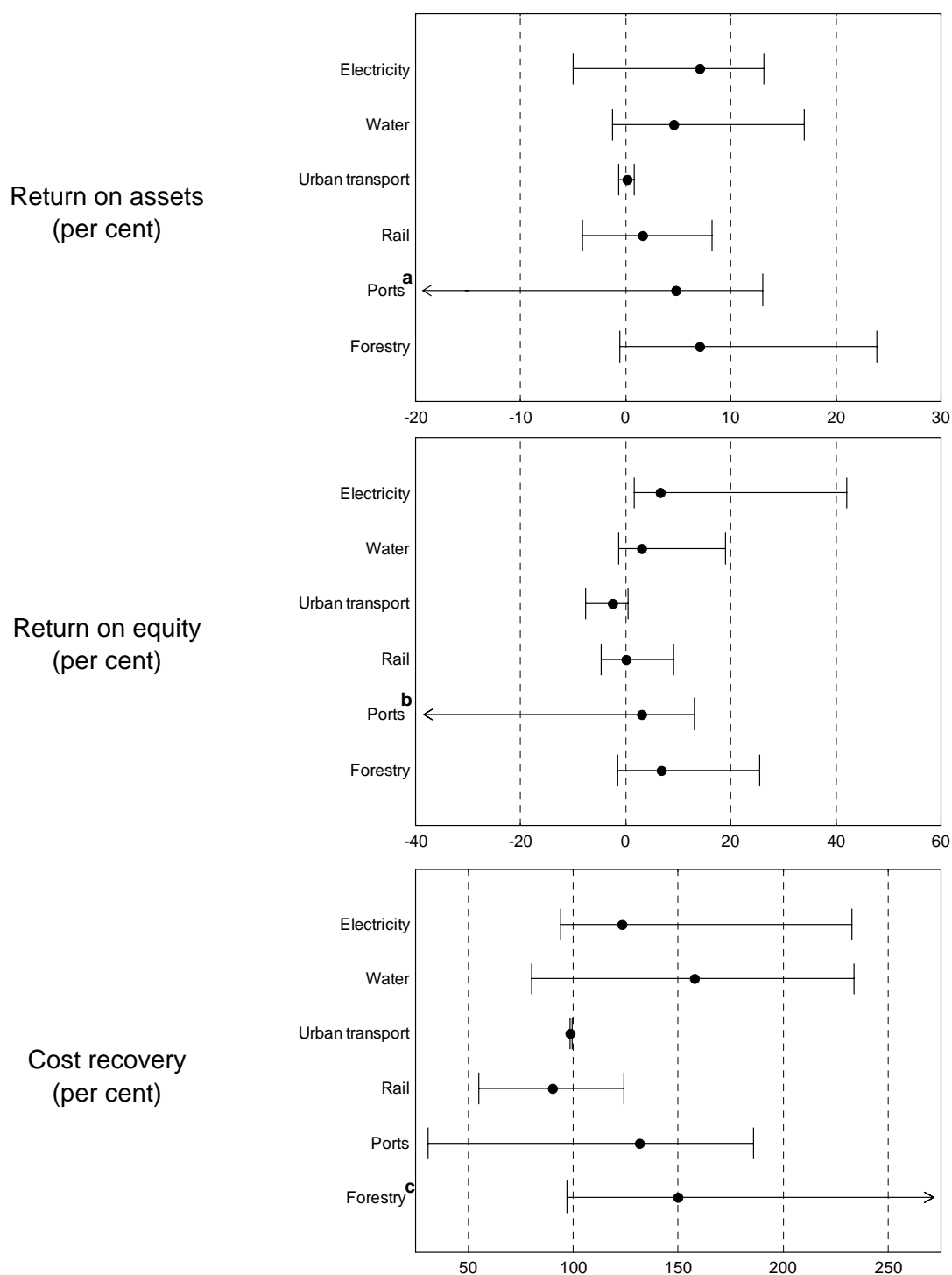
Differences in the emphasis that governments place on non-commercial objectives should also be considered when comparing the performance of GTEs across sectors and over time. The existence of non-financial objectives will affect the financial performance of a GTE if the government does not adequately fund non-commercial activities that the GTE has been directed to undertake. In such cases, financial performance will suffer — especially in sectors where community service obligation (CSO) payments contribute a significant proportion of total revenue.

The GTEs monitored in this report generally operate in regulated industries, where prices are largely determined by independent price regulators or require ministerial approval. The influence of regulators' decisions on revenues means that their decisions can affect the profitability of GTEs. For example, a poor operating result may reflect regulated prices being set too low, rather than indicate poor management on the part of the GTE.

The valuation of GTE assets affects financial performance in several ways. If a regulator, when determining the prices a GTE can charge for its services, assigns a different value to the assets than the value carried in the GTE's statement of financial position, measured financial performance will be affected. The Commission has also found, in some cases, differences between the asset valuation implicit in the regulator's final price determination and the regulator's stated asset valuation (PC 2002a).

The periodic revaluation of assets can have a significant impact on the operating results of GTEs. For example, forestry GTEs are affected annually by revaluations of growing timber assets, the effect of which is written directly into the statement of financial performance.

Figure 2.1 Selected profitability measures — by sector, 2002-03



Note The dot represents the weighted mean value and the 'whiskers' represent the range of values for a given performance indicator by sector. For example, the minimum return on assets in the electricity sector was -5.0 per cent, and the maximum value was 13.2 per cent. The weighted mean return on assets was 7.0 per cent. **a** The minimum return on assets for the ports sector was -73.2 per cent. **b** The minimum return on equity for the ports sector was -273 per cent. **c** The maximum cost recovery ratio for the forestry sector was 521 per cent.

Source: Productivity Commission estimates.

Changes in GTE performance 1998-99 to 2002-03

There are 53 GTEs that have been monitored over the entire five-year period since 1998-99. Aggregate GTE profitability of these GTEs — measured by the weighted average return on assets — fell from 9.4 per cent to 8.8 per cent between 1998-99 and 2002-03. However, this decline was entirely due to decreases in Telstra's profitability.⁴

The return on assets for all GTEs monitored over the entire reporting period, excluding Telstra, rose from 5.6 per cent in 1998-99 to 6.1 per cent in 2002-03, after reaching a maximum of 6.9 per cent in 1999-00. Aggregate profitability was largely unchanged between 2001-02 and 2002-03.

Profitability of GTEs improved in the water, urban transport and ports sectors, and declined in the railways and electricity sectors. The increases in profitability can be traced to significant improvements in 1999-00. Profitability in all sectors monitored for the whole reporting period has decreased since 1999-00 (see figure 2.2).⁵

Although the overall performance of the electricity sector did not improve during the reporting period, it had the strongest returns of all the monitored GTE sectors. The weighted average return on assets in 2002-03 for the subset of electricity GTEs monitored over the entire reporting period was 6.9 per cent, down from 8.7 per cent at its high in 1999-00.

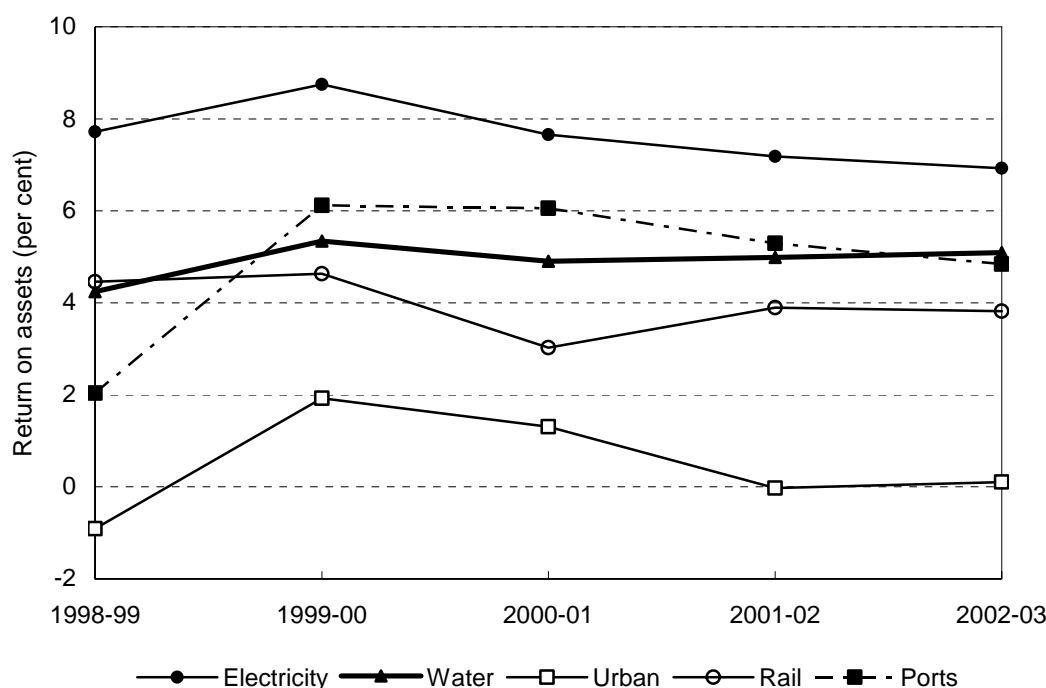
Profitability results do not necessarily infer that GTEs are being outperformed by private-sector companies operating in similar areas. A survey by the ABS suggested that, on average, monitored GTEs in the electricity and water sectors outperformed their private-sector counterparts over part of the monitoring period (ABS 2002).⁶

4 Telstra's return on assets fell from 22 per cent in 1998-99 to 16 per cent in 2002-03. Telstra accounted for 21 per cent of the total assets of monitored GTEs in 2002-03.

5 GTEs in the forestry sector were only monitored from 2001-02. This sector recorded an improvement in profitability in 2002-03 (see table 2.1).

6 The ABS' Business Operations and Industry Performance survey covers the period 1995-96 to 2000-01. GTE performance was compared, over the period 1998-99 to 2000-01, to the average return on assets and return on equity in the 'electricity, gas and water supply sector'. However, significant differences in the valuation of assets and other accounting items limits the value that can be placed on such comparisons.

Figure 2.2 Profitability of GTEs, 1998-99 to 2002-03



Note Return on assets is the sector-wide weighted mean of GTEs monitored for the entire reporting period, from 1998-99 to 2002-03. Forestry GTEs were only monitored from 2001-02.

Source: Productivity Commission estimates.

2.2 Financial management

In this report, the financial management indicators reported include the ratio of debt to assets (and debt to equity), the current ratio and the level of interest cover. For more information on these and other performance indicators used throughout the report, see chapter 3.

The average debt level of the GTEs monitored since 1998-99 increased by 37 per cent in real terms over the five-year monitoring period. Over half of this increase was in the electricity sector, around a third was from Telstra and a further 10 per cent was in the water sector. Much of the \$8 billion increase in debt in the electricity sector was due to over \$3.5 billion in equity withdrawals, mostly from NSW and Queensland GTEs. The increase in debt in the water sector was incurred by a small number of the larger water GTEs.

The increase in nominal debt led to corresponding increases in aggregate debt to assets and debt to equity ratios. For the 52 GTEs (excluding Telstra) monitored

since 1998-99, the aggregate debt to assets ratio rose from 26 per cent in 1998-99 to 30 per cent in 2002-03.

Despite debt increasing overall, more than 40 per cent of the GTEs monitored since 1998-99 decreased their nominal debt level over this period. The decline in debt levels among these GTEs is attributable to a number of factors, including debt reduction programs, debt for equity swaps with shareholder governments, reduced capital expenditure and the privatisation of parts of GTEs' businesses.

In 2002-03, 12 GTEs — mainly in the ports and water sectors — operated debt free.

Interest cover varied significantly across sectors in 2002-03. In the forestry sector, the weighted average interest cover was 33.4 times. This contrasts with the urban transport sector, where interest cover was only 0.1 times (see table 2.2). Debt to equity ratios also varied considerably between sectors, ranging from 6.1 per cent in the forestry sector to 93.3 per cent in the electricity sector.

Table 2.2 Selected financial management performance measures — by sector, 2002-03 (2001-02)

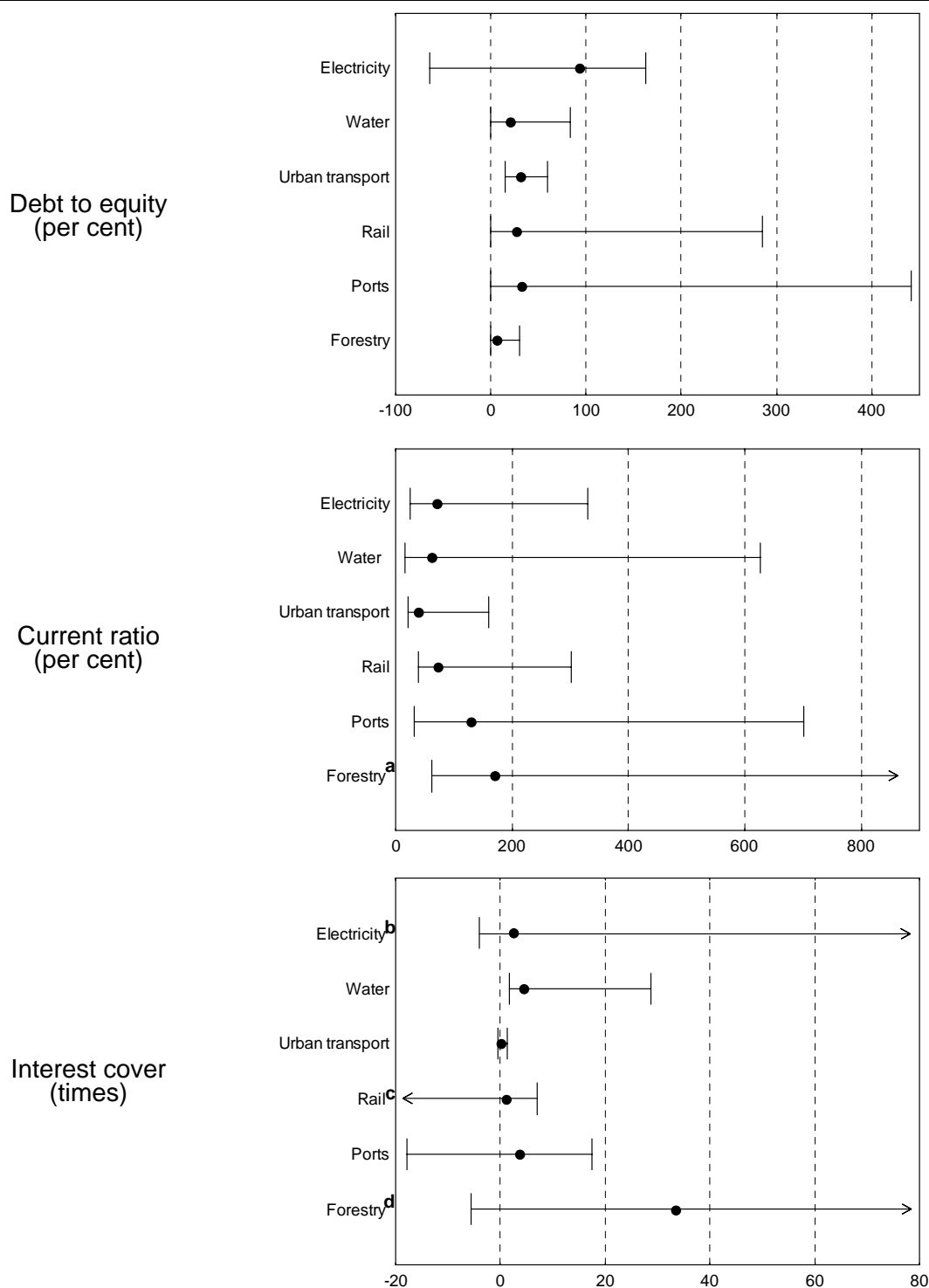
<i>Sector</i>	<i>Debt to equity</i>	<i>Current ratio</i>	<i>Interest cover</i>
	per cent	per cent	times
Electricity	93.3 (90.1)	71.7 (77.8)	2.6 (2.5)
Water	20.6 (19.7)	61.8 (67.3)	4.5 (4.4)
Urban transport	30.8 (37.2)	38.6 (46.7)	0.1 (0.0)
Railways	27.0 (61.0)	72.2 (88.0)	1.1 (1.9)
Ports	32.8 (29.9)	130.4 (136.8)	3.6 (2.7)
Forestry	6.1 (6.4)	170.3 (152.2)	33.4 (16.7)

Note Indicators are the sector-wide weighted means. Results for 2001-02 are shown in brackets.

Source: Productivity Commission estimates.

Financial management performance indicators also varied considerably within each sector (see figure 2.3).

Figure 2.3 Selected financial management indicators — by sector, 2002-03



Note The dot represents the weighted mean value and the 'whiskers' represent the range of values for a given performance indicator by sector. For example, the minimum debt to equity ratio achieved in the electricity sector was -64.0 per cent, while the maximum value was 162 per cent. The mean was 93.3 per cent. ^a The maximum current ratio for the forestry sector was 6530 per cent. ^b The maximum interest cover for the electricity sector was 232 per cent. ^c The minimum interest cover for the rail sector was -57.6 times. ^d The maximum interest cover for the forestry sector was 1440 times.

Source: Productivity Commission estimates.

2.3 Government transactions

In 1995, the Council of Australian Governments endorsed the corporatisation of GTEs, as part of a range of reforms under the Competition Principles Agreement. Under the Agreement, governments introduced tax-equivalent payments and debt guarantee fees for all significant GTEs where the benefits outweighed the costs.

In this report, the Commission has examined the tax-equivalent payments, dividend payments and CSO payments of GTEs. For more information, see chapter 3.

Tax-equivalent payments

Under a tax-equivalent payment regime, GTEs are required to pay tax on their operating 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 commercial rate of return as its competitors with lower prices or higher operating costs.

During 2002-03, 77 of the 84 GTEs monitored were subject to the National Tax Equivalent Regime (NTER). The majority of these complied with the NTER in 2001-02. The NTER unified the tax equivalent arrangements of state and territory government-owned entities that were previously subject to inconsistent 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 2001).

In 2002-03, the 84 monitored GTEs paid over \$3 billion in tax-equivalent payments to governments, of which Telstra contributed 50 per cent. The remaining GTEs each paid an average of around \$18.4 million. Total tax-equivalent payments were lower than the previous year due to a \$260 million decrease in Telstra's tax payments. Average tax-equivalent payment from the remaining GTEs increased by almost 10 per cent during 2002-03.

Dividend payment policies

Dividend payments are a return on the funds invested in GTEs. The payments are designed to bring GTEs into line with private sector businesses that typically distribute a proportion of their profits to shareholders.

In 2002-03, 58 GTEs made dividend payments to their owner governments, the same number as in the previous year. Total dividends paid or provided for were just

over \$4.3 billion. Over a third of this payment came from the Australian Government's 50.1 per cent share of Telstra's \$3.3 billion dividend.

Total dividends increased by 3.9 per cent in 2002-03, mainly because of an increased dividend payment by Telstra. Dividend payments from other GTEs remained steady, with an average of \$47 million paid or provided for by the GTEs that made dividend payments.

Dividend payments have decreased overall since 1998-99. This is a consequence of a decrease in Telstra's dividend payments since 1998-99, when a special dividend of \$2.1 billion was paid. Dividends from GTEs excluding Telstra increased by 44 per cent over the reporting period. However, the proportion of GTEs not paying, or providing for, a dividend has risen from around 20 per cent in 1998-99, to over 30 per cent in 2002-03.

The average dividend to equity ratio (among those GTEs that paid dividends) was 5.1 percent in 2002-03, up slightly from 2001-02 but down on the 7 per cent average in 2000-01. The average dividend payout ratio (among those GTEs that paid dividends) was 82 per cent in 2002-03, up from 77 per cent in 2001-02.

Several GTEs reported dividend payout ratios of over 100 per cent, especially in the ports sector. This indicates that dividends paid or provided for exceeded operating profit in that year.

Some GTEs made dividend payments after reporting operating losses, resulting in negative dividend payout ratios. This can be explained by GTEs being required by their owner governments to make pre-determined special dividends of a given amount regardless of after tax operating profits. Negative dividend payout ratios can also occur when dividend payments during the year are based on prior year operating results, as occurs for some GTEs when adhering to accounting standard AASB 1044 (see chapter 3).

Community service obligations

GTEs often provide economic and social benefits to the community over and above the direct benefits of their goods and services as paid for by consumers. For example, urban public transport GTEs provide explicit community benefits such as greater mobility and access for disadvantaged groups, as well as other positive externalities such as reduced motor vehicle pollution and urban road congestion.

Historically, governments have recognised these 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 the provision of certain CSOs, such as pensioner concession fares.

In 2002-03, governments paid monitored GTEs almost \$3 billion in disclosed CSO payments. In some cases, GTEs did not disclose CSO funding. Some GTEs also provide CSOs without reimbursement. For example, Telstra was not reimbursed for meeting their Universal Service Obligation to provide standard telephone services, which was estimated by the Minister for Communications to cost the company around \$175 million annually (chapter 13).

Rail GTEs received almost 60 per cent of the overall CSO funding, with GTEs in the water sector receiving 16 per cent and the electricity sector 14 per cent. The urban transport sector received almost all of the remaining 10 per cent of CSO funding. As a percentage of the sector's total revenue, urban transport received the largest amount of CSO funding at 37 per cent.

Total CSO payments to those GTEs monitored for the entire reporting period increased by 38 per cent from 1998-99 to 2002-03. Payments increased in each year of the reporting period, largely because of increases in CSO payments to rail GTEs. Nominal CSO payments in all sectors have increased over the five year monitoring period.

3 Interpretation of performance measures

The assessment of the financial performance of government trading enterprises (GTEs) monitored in this report is based on performance indicators derived from a data set that is broadly consistent over time and across jurisdictions. The data sources, the construction of the performance indicators and particular issues relevant to the interpretation of the results are discussed in this chapter.

3.1 Data

The data used in calculating the financial performance indicators for 1998-99 to 2002-03 were taken from two sources: the Government Finance Statistics (GFS) collection — data collected by state and territory treasuries for the Australian Bureau of Statistics (ABS); and the General Purpose Financial Report (GPFR) data extracted from audited GTE financial statements.

The GFS framework uses concepts and classifications developed by the ABS in the preparation of public finance reports. The framework is based on international standards developed by the International Monetary Fund and the United Nations.

The GFS framework is generally adopted for budget reporting by Australian governments and is used by the Australian Loan Council. The concepts used are consistent with those underlying the national accounts.

Governments also report financial information under the GPFR framework, based on accounting standards. Australian Accounting Standards are developed by the Australian Accounting Standards Board (AASB) and are based on generally accepted accounting principles. The primary purpose of the GPFR framework is financial analysis.

Differences between GFS and GPFR

Financial reports under the GFS and GPFR frameworks are generally similar in appearance, with minor measurement, labelling and presentation differences.

However, there are a number of differences in the treatment of transactions that GTEs undertake on a regular basis (see table 3.1). Other less common differences arise from the treatment of gains and losses on foreign exchange; swaps and derivatives; and superannuation expenses.

As a result of these differences, care is required when comparing the financial indicators in this publication with those obtained from GTE financial statements.

Table 3.1 Differences between GFS and GPFR — selected items

<i>Items</i>	<i>GFS</i>	<i>GPFR</i>
Gains and losses on assets	Treated as revaluations and as such are excluded from the net operating balance.	Can be treated as revenue and expenses and may therefore be included in the net operating balance.
Distributions to owners	Distributions to owners in the form of dividends are treated as operating expenses.	Distributions are disclosed after operating results and therefore do not form part of the operating statement.
Prior-period adjustments	Operating results reflect only items that represent revenue and expense transactions relevant to the current period.	Operating results may include prior-period adjustments.

Source: SA Treasury (2001).

Gains and losses

The differing treatment of gains and losses on assets may generate inconsistencies in areas such as the profit (or loss) on the sale of assets, and revenues (or expenses) from asset revaluations. These differences can affect the reported operating profit. For example, under the GFS framework, revaluations are recorded directly in equity and have no influence on operating profit. In contrast, under the GPFR framework, changes in asset valuations may be recorded in the statement of financial performance.¹

Differences in the approach to the timing of asset valuation also have the potential to generate inconsistencies. Revaluation of non-current assets prior to disposal is not required under the GPFR framework, whereas under the GFS framework it is. Consequently, the GPFR operating statements may contain gains or losses incurred in the disposal of the asset that are not recorded under the GFS framework.

¹ Under accounting standards, any increase in the value of assets must be recorded in an asset revaluation reserve. The exception is any increase that reverses a downward revaluation previously recognised as an expense in the statement of financial performance, which must be recognised as revenue. A downward revaluation must be recognised as an expense. The exception is any decrement that reverses a previous revaluation increment, which must be recorded in an asset revaluation reserve.

These discrepancies between the GFS and the GPFR treatment of asset revaluations at disposal are not expected to affect indicators substantively. The majority of GTEs value their non-current assets using current valuation methodologies, ensuring minimal gains or losses on disposal.

Distributions to owners

Distributions to owners in the form of dividends and income tax-equivalent payments are regarded as operating expenses under the GFS framework. These amounts can be separately identified and excluded from expenses.

Prior-period adjustments

Under the GFS framework, operating results reflect only items that represent revenue and expense transactions relevant to the current period, whereas operating results in the GPFR may include prior-period adjustments.² The AASB has outlined when such differences are most likely to occur (see box 3.1).

Box 3.1 GFS differences resulting from prior-period adjustments

Revision of estimates — Unlike GPFR, estimates of GFS data may be adjusted in the future. With GFS, adjustments may be made to prior-period operating results as a consequence of a revision to estimates.

Correction of errors — In GPFR, any error made in a prior-period is corrected in the period in which the error is discovered. With GFS, prior-periods are revised to take account of errors made in the relevant period.

Voluntary changes in accounting policy — In GPFR, the effects of any voluntary change in accounting policy are calculated on the basis that the new policy has always been in place. Any effects are recognised as revenues or expenses in the reporting period in which the change is made. With GFS, prior-period operating results are revised to take account of the effect of changes in the relevant period.

Change in accounting policy due to the adoption of an accounting standard — In GPFR, the adoption of accounting standards requires that a retrospective adjustment be made at the beginning of the reporting period in which the standard is first applied. With GFS, the effects of adopting a new accounting policy result in revisions to prior-period operating results.

Source: Material provided by the AASB.

² Under the GFS framework, prior-period items arising in the current period are allocated to the relevant prior-period. Under Australian accounting standards, prior-period items arising in the current period are allocated to the current period.

Effect of differences between GFS and GPFR

In almost all cases, the operating results obtained using the GFS framework match, or are almost identical to, the GPFR framework, once adjustments have been made to the GFS for tax-equivalent and dividend payments.

In a small number of cases there may be significant differences caused by the treatment of a gain or loss made on asset sales. For example, in 2001-02, TransAdelaide reported an operating loss of about \$12 million under the GPFR framework, due to a \$12 million loss on asset sales. Under the GFS framework, it achieved an operating profit of about \$6000.

Adjusting nominal values

Data presented in this report is based on nominal values — amounts denominated in terms of values at a particular point in time using ‘dollars of the day’. Where changes in ‘real’ values are reported, nominal values were adjusted to their values in 2002-03 using price changes relating to capital investment by government businesses.³ However, there are alternative measures of price change that can be used which may result in different ‘real’ values (see table 3.2).

Table 3.2 **Selected deflators, 1998-99 to 2002-03**

	<i>Implicit price deflator</i>			<i>Consumer price index</i>
	<i>Gross fixed capital formation (public corporations)</i>	<i>Final consumption expenditure (other government)</i>	<i>Gross domestic product</i>	<i>All groups (Australia)</i>
1998-99	0.999	0.895	0.883	0.862
1999-00	1.016	0.901	0.902	0.883
2000-01	0.985	0.932	0.944	0.936
2001-02	0.984	0.952	0.965	0.962
2002-03	1.000	1.000	1.000	1.000

Source: ABS (2003a; 2003c).

Real values were obtained by dividing nominal values for each year by the relevant deflator. For example, the nominal revenue in 2000-01 for the Hunter Water Corporation’s revenue of \$130.6 million is divided by 0.985 (Gross fixed capital formation — public corporations) to obtain a real value of \$132.6 million. The real value using the Consumer Price Index — All Groups (Australia) deflator (0.936) would be \$139.6 million.

³ The deflator used was the implicit price deflator for gross fixed capital formation — public corporations (ABS 2003c).

3.2 Performance indicators

The performance of GTEs is reported using a consistent set of financial indicators. These indicators are presented under three broad headings — profitability, financial management and transactions with government.

The indicators provide an overall picture of how a GTE is performing over time and relative to other GTEs. Generally, it is appropriate to make comparisons across GTEs in the same sector in Australia.

In some cases, intra-sectoral comparisons need to take into account the broad range of activities undertaken within a sector. For example, in the electricity sector, Western Power (WA) and Power and Water (NT) are vertically integrated — undertaking generation, transmission, distribution and retail activities. In contrast, other GTEs in the electricity sector generally specialise in one or two of these activities.

Analyses of privately-owned businesses operating in similar sectors in Australia and overseas may also provide useful benchmarks, against which the performance of GTEs can be compared. However, care is required because of differences in accounting standards, including those relating to asset valuation.

Profitability

Profitability indicators provide a concise and consistent way of presenting financial information. In the absence of stock market valuations, they are an important guide to the performance of a GTE.⁴ Profitability indicators provide governments and the community with a means of evaluating how well GTEs are using the assets vested in them.

Profitability can be affected by factors largely outside the control of GTEs. For example, the weather impacts on the revenue of many GTEs in the water sector. This can significantly affect profitability from year-to-year, particularly given that many GTEs have relatively high fixed costs.

⁴ If a company is listed on the stock exchange, the market assessment of the value of its equity will generally be expressed through the price of its shares. Hence, expected returns are capitalised into the value of the company through movements in its share price, consistent with the cost of capital. At any particular time, the price of a company's shares encapsulates investors' views of its current and prospective financial performance.

Listed below are the five profitability indicators used in this report. Also included is an explanation of what they represent and how they are interpreted. For derivations of these indicators, see attachment A.

Operating profit before tax — is an indicator of the operational performance of an entity, before income tax is paid. It measures the difference between total revenue and total expenses (excluding income tax).

Operating sales margin — is an indicator of the surplus (not including interest and income tax) earned on sales revenue. It measures trends in operating revenues and expenses that are independent of changes in capital structure and tax regimes.

Cost recovery — is an indicator of the ability of an entity to generate adequate revenue to meet operating expenses. Investment income, receipts from government to cover operating deficits, and gross interest expense are excluded. A cost recovery ratio of 100 per cent indicates that a GTE is able to meet its operating expenses from its operating revenue, excluding the cost of servicing debt.⁵

Return on assets — is an indicator of the rate of return earned from all assets. The ratio provides a measure of the efficiency with which an entity uses the assets vested in it to produce operating profit before tax and interest. 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 assets is affected by changes in asset values arising from asset revaluations, transfers or sales. Some GTEs use different asset valuation methodologies, depending on the type of assets. Reported asset values may vary significantly for a given GTE over time, which reduces comparability. If assets are overvalued, GTEs will not appear to earn sufficient returns. Further, inappropriate asset valuations have implications for the efficiency of prices — because it is unlikely that those prices will properly incorporate the actual cost of capital and depreciation.

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.

⁵ In 1998-99 and 1999-00, 'abnormal' revenues and expenses were also excluded from the cost recovery ratio. In 2000-01, the concept of 'abnormal items' under accounting standards was replaced by the narrower concept 'significant items'. Significant items were not excluded from the cost recovery ratio in 2000-01 because it was apparent that GTEs treated 'abnormal' and 'significant' items differently (see PC 2002a).

Financial management

Debt is a major source of funds from which GTEs finance their activities. At the end of 2002-03, the accumulated borrowings of monitored GTEs were around \$47 billion. 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 principal, irrespective of earnings. For example, a decline in operating revenue or an increase in the cost of servicing debt can result in liquidity problems if a GTE's debt is not well managed.

Financial management indicators provide information on the extent debt is used to finance a GTE's assets, and the GTE's ability to meet periodical interest payments and short-term liabilities. There are various factors — including the impact of government directives, changes in asset values and financial restructuring — that have to be taken into account when assessing financial management performance, particularly over time.

Listed below are the five financial management indicators used in this report. Also included is an explanation of what they represent and how they are interpreted. For derivations of the indicators, see attachment A.

Debt to total assets ratio — 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.

Debt to equity ratio — is an indicator of the risk of 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 GTEs). The greater the debt to equity ratio, the more geared the GTE.

Total liabilities to equity ratio — 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.

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

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.

Apart from the effect of changes in the value of assets, financial management ratios are also affected by changes in liabilities. The debt to equity ratio is affected, as equity is a residual measure obtained by deducting total liabilities from total assets. For example, 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.

The debt to equity and debt to total assets ratios are also affected by financial restructuring. Debt for equity swaps, debt transfers to governments, retirement of debt and debt revaluations will influence these ratios either directly through their impact on debt levels or indirectly through their impact on the value of equity.

Transactions with government

Transactions with government cover tax-equivalent and dividend payments made by GTEs to governments, and payments from governments to GTEs for community service obligations (CSOs).

Listed below are the five indicators used in this report to measure transactions with government. Also included is an explanation of what they represent and how they are interpreted. For derivations of the indicators, see attachment A.

Dividends — are the value of funds transferred from the present and past after-tax profits of an entity to its owners. Dividends are reported when an adjustment is made to retained earnings (equity) in the statement of financial position (previously the balance sheet).

In some cases, governments have made changes to the capital structure of a GTE by requiring the payment of ‘special’ dividends.

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

Dividend to equity ratio — is an indicator of the relative size an entity’s dividend payments to shareholders’ equity. A low dividend to equity ratio 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. Several different approaches are typically used by GTEs:

- Dividends for a financial year are provided for and paid before the end of the financial year (for example, SA Water);
- Dividends for a financial year are paid as an interim dividend and a final dividend. The final dividend is provided for in the accounts and paid in the subsequent year (for example, City West Water);⁶
- Dividends for a financial year are paid in a subsequent year, despite not being provided or being underprovided for in the previous year (for example, Cairns Port Authority in 2001-02);
- Dividends are provided for but not paid in the subsequent year (for example, the Bunbury Port Authority provided for a dividend of \$951 000 in 1999-00 but paid only \$634 000, due to the early application of a dividend policy. The difference, \$317 000, was deducted from the dividend provided for in 2000-01); and
- Dividends for a financial year are recommended by the board, but not provided for in financial statements (for example, Burnie Port Corporation in 2001-02).

Across all jurisdictions, dividends for a financial year were not adjusted or re-allocated to previous years to take account of changes in practices or policies. However, a note is included that provides guidance as to how an adjustment can be made and its effect on dividend ratios (see box 3.2).

Changes in policies and practices by GTEs and governments over the reporting period can sometimes make comparisons difficult. For example, Victorian GTEs typically paid an interim and final dividend relating to each financial year. The interim dividend was paid during the year and the final dividend was recorded as a provision (liability) at the end of the year.

In 2000-01, following a change in accounting policy, Victorian GTEs did not provide for the final dividend because they had not yet been approved by the Treasurer. Therefore, only the interim dividend was included by these GTEs in 2000-01. In 2001-02, the reported dividends for Victorian GTEs included the final dividend that was approved by the Treasurer relating to 2000-01 and the interim dividend for 2001-02.

⁶ Creating a provision for a specific final dividend does not necessarily imply that the amount will eventually be paid.

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

CSO funding — is the value of payments by government to GTEs for the specific non-commercial activities that they are directed by governments to undertake. CSO payments are reported only when separately disclosed in financial statements.

Box 3.2 **New Accounting Standard**

A number of GTEs adopted a new accounting standard — AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets* — for the first time from 1 July 2002, even though policies with similar effect had already been adopted in Victoria for example. As explained below, the timing changes resulting from the application of AASB 1044 have the potential to affect some of the year to year dividend and ratio calculations used in this report.

It has been common practice for governments to announce a dividend after the end of the financial year, but before the financial statements for that year were finalised. Previously, even though the dividends may have been announced after 30 June 2002 for example, they were nevertheless recognised or recorded as a liability or provision in the financial statements for the 2001-02 year, even though they were not actually paid until the 2002-03 year.

The effect of the new standard AASB 1044 is to record a dividend announced after 30 June 2002 in the financial statements for the year in which the dividend is announced. In the above example, such a dividend would not now be reported in 2001-02, but be included in the financial statements for the 2002-03 year. Any amount that remains undistributed at 30 June 2003, would be recorded as a liability.

Whenever an announced dividend is paid, it is deducted from retained profits. The reported net profit in the current year is unaffected, because dividends are paid after net profit is calculated. However, AASB 1044 can affect the calculated dividend payout ratio, and any other financial ratio — where its calculation varies according to the level of current liabilities associated with dividend recognition.

Source: AASB (2004)

Attachment 3A — Definitions of financial performance indicators

Table 3A.1 Published financial performance indicators

<i>Code</i>	<i>Ratio</i>	<i>Definition</i>
B.01	Operating sales margin B.17 / (B.14 - B.33)	$\frac{\text{EBIT - investment income}}{\text{Total revenue - investment income}}$
B.02	Cost recovery ratio B.24 / B.36	$\frac{\text{Revenue from operations}}{\text{Expenses from operations}}$
B.03	Return on assets B.16 / B.19	$\frac{\text{Earnings before interest \& tax and after abnormals (EBIT)}}{\text{Average total assets}}$
B.04	Return on equity (B.15 - B.31) / B.34	$\frac{\text{Operating profit after income tax}}{\text{Average total equity}}$
B.05	Debt to equity B.27 / B.26	$\frac{\text{Debt}}{\text{Total equity}}$
B.06	Debt to total assets B.27 / B.19	$\frac{\text{Debt}}{\text{Average total assets}}$
B.07	Total liabilities to equity B.22 / B.26	$\frac{\text{Total liabilities}}{\text{Total equity}}$
B.08	Interest cover B.16 / B.28	$\frac{\text{EBIT}}{\text{Gross interest expense}}$
B.09	Current ratio B.21 / B.23	$\frac{\text{Current assets}}{\text{Current liabilities}}$
B.10	Leverage ratio B.13 / B.26	$\frac{\text{Total assets}}{\text{Total equity}}$
B.11	Dividend to equity ratio B.18 / B.34	$\frac{\text{Dividends paid or provided for}}{\text{Average total equity}}$
B.12	Dividend payout ratio B.18 / (B.15 - B.31)	$\frac{\text{Dividends paid or provided for}}{\text{Operating profit after tax}}$

Table 3A.2 Non-published financial performance indicators (\$'000)

<i>Code</i>	<i>Ratio</i>	<i>GFS code</i>	<i>Definition</i>
B.13	Total Assets	ETF 81	The service potential or future economic benefits, controlled by the entity as a result of past transactions or other events (measured at the end of the reporting period).
B.14	Total Revenue	ETF 11	Includes revenue from sales and levies, revenue from asset sales, investment income, receipts from governments for specific agreed services (eg community service obligations), other revenue from operations, receipts from governments to cover deficits on operations and abnormal revenue. Excludes equity contributions from governments. GFS has a separate group for abnormals and extraordinary items, ETF 19. Adjustments are made to include abnormal revenues.
B.15	Operating profit before income tax B.14 - B.25		Total revenue less total expenses. Includes abnormal items.
B.16	Earnings before interest and tax (EBIT) B.15 + B.28		Operating profit before income tax plus gross interest expense.
B.17	EBIT from operations B.16 - B.33		Operating profit before income tax plus gross interest expense less investment income.
B.18	Dividends paid or provided for		The amount included in the profit and loss statement for dividends. Includes normal and special dividends and statutory levies on profits and revenues. Excludes returns of capital.
B.19	Average total assets		Average of the value of assets at the beginning and end of the reporting period.
B.21	Current assets	Not classified ^a	Cash and other assets that would, in the ordinary course of operations, be available for conversion into cash within 12 months after the end of the reporting period.
B.22	Total liabilities	ETF 82	The future sacrifice of service potential or future economic benefits that the entity is obliged to make to other entities as a result of past transactions or other events (measured as at the end of the reporting period). Includes provisions for employee entitlements, creditors, deferred revenue, all repayable borrowings and interest bearing non- repayable borrowings.
B.23	Current liabilities	Not classified ^a	Liabilities that would, in the ordinary course of operations, be due and payable within 12 months after the end of the reporting period.

^a The Economic Type Framework (ETF) does not differentiate between current and non-current assets.

(Continued next page)

Table 3A.2 (continued)

<i>Code</i>	<i>Ratio</i>	<i>GFS code</i>	<i>Definition</i>
B.24	Revenue from operations B.14 - B.29 - B.33 - B.35		Total revenue less abnormal revenue, investment income and receipts from governments to cover deficits on operations.
B.25	Total Expenses	ETF 12	Includes salaries and wages, purchases, interest, bad and doubtful debts, material losses from the sale of non-current assets, charges for depreciation, amortisation or diminution in the value of assets and abnormal expenses. GFS has a separate group for abnormal and extraordinary items, ETF 19. Adjustments are made to include abnormal revenues.
B.26	Total equity B13 - B.22		Total assets less total liabilities.
B.27	Debt		Includes all repayable borrowings (both interest bearing and non-interest bearing), interest bearing non-repayable borrowings, and finance leases. Excludes creditors and provisions (but not offsetting assets such as contributions to sinking funds).
B.28	Gross interest expense	ETF 1262	Amount charged to the profit and loss account. Includes finance charges on finance leases and all debt related financial expenses.
B.29	Abnormal revenue		Revenues included in operating profit (or loss) after income tax, which are considered abnormal by reason of their size and effect on the operating result. Abnormal revenue differs from extraordinary revenue in that extraordinary revenue is attributable to events or transactions of a type that are outside the ordinary operations of the entity and are not of a recurring nature.
B.30	Abnormal expenses		Same as description for B.29, except for expenses.
B.31	Income tax	ETF 1264	Income tax expense, or income tax-equivalent expense, on operating profit before tax (including abnormal items) calculated using tax effect accounting (AAS3).
B.33	Investment income	ETF 1131, ETF 1132	Income received and receivable on financial assets.
B.34	Average total equity		Average of total equity at the beginning and end of the reporting period.
B.35	Receipts from Government to cover deficits on operation		Receipts from Government to cover deficits on operations, but excludes receipts from governments for specific agreed services (for example, community service obligations).
B.36	Expenses from operations B.25 - B.30 - B.28		Total expenses less abnormal expenses and gross interest expense.

PART A

4 Auditing

Auditing can be categorised into two main types — financial and performance auditing. A third type — compliance audits — may be conducted, although they are more commonly incorporated into the other two.

External financial audit is concerned with reviewing financial reports issued by the entity to assess whether they are free from error or misrepresentation. Financial auditing provides an independent opinion on the credibility of the assertions in financial and related statements presented by management.¹

Performance auditing, which may cover a much wider range of issues, reviews the activities of an entity and provides an independent opinion on whether they have been carried out efficiently and effectively.

An auditor's opinion is not a certification, and therefore provides a reasonable rather than a complete assurance. The value of that assurance depends on the credibility of the auditor since an external party generally has no way of knowing the quality of the audit work conducted.

An independent assessment creates both a check on, and an incentive for, management to ensure that its assertions are accurate. A favourable audit opinion enhances management's credibility with the owners, and in doing so, gives the owners a level of assurance that their interests are being protected by management. Audit opinions are also relied upon by other external parties who have an interest in the governance of the agencies.

External auditing of government trading enterprises (GTEs) is undertaken primarily by the auditor-general in each jurisdiction. The legislative framework governing both the process and the auditors is contained in a number of Acts, and varies according to the nature of the GTE under consideration.

¹ The term auditing as used here refers to external auditing by an independent auditor who is employed by an outside organisation and whose audit opinion is widely communicated to the users of financial statement information such as shareholders, suppliers, customers, lenders, potential investors and regulatory authorities; it is different from internal auditing which is conducted in-house, with the objective of preventing fraud or embezzlement.

4.1 Legislative basis

GTEs can be broadly divided into company GTEs and statutory GTEs. The operation and governance of company GTEs, like private companies, is covered by the *Corporations Act 2001* (Cth), thereby ensuring that they are subject to the same legal requirements as private sector companies. In contrast, the operation of statutory GTEs is governed by their enabling legislation as well as by any umbrella legislation relating to all GTEs or specifically to statutory bodies.

Each jurisdiction in Australia has legislation covering the corporatisation of GTEs, and further legislation establishing the office of an auditor-general (see table 4.1).²

4.2 Office of the auditor-general

A significant difference between public and private sector auditors is the manner of their appointment.³ Whereas private sector companies, under the *Corporations Act 2001* (Cth), are able to select their own auditor, public entities must generally be audited by an auditor-general.

The auditor-general is typically appointed by the relevant governor. In all jurisdictions, the auditor-general's tenure is secure and they cannot be removed from office solely at the discretion of the executive. The duration of tenure is lengthy, typically seven years, although in some jurisdictions the appointment is until retirement.

In some jurisdictions the auditor-general can be reappointed. This is seen by some as making an incumbent wishing to be reappointed vulnerable to pressure for reports favourable to government (Coghill 2004).

² In each jurisdiction, auditing may also be covered in the enabling legislation of individual GTEs. This can place requirements above and beyond that of the overarching legislation. For example, Telstra's choice of auditor under s.327 of the *Corporations Act 2001* (Cth) is restricted by s.36 of the *Telstra Corporation Act 1991* (Cth).

³ Another important difference is the principle of materiality in private auditing, under which certain variations in the published accounts may be ignored based on their magnitude. In public auditing, any disclosure which is in the public interest must be made, irrespective of the amount involved.

Table 4.1 Legislation governing auditors-general

	<i>Legislation establishing the auditor-general</i>	<i>Umbrella corporatisation legislation^a</i>	<i>Requirement for audit by the auditor-general specified in:</i>	
			<i>Statutory GTEs</i>	<i>Company GTEs^b</i>
NSW	Public Finance and Audit Act 1983	State Owned Corporations Act 1989	Public Finance and Audit Act 1983	State Owned Corporations Act 1989 ^c
Vic	Constitution Act 1975/ Audit Act 1994	State Owned Enterprises Act 1992	Audit Act 1994	Audit Act 1994
Qld	Financial Administration and Audit Act 1977	Government Owned Corporations Act 1993	Financial Administration and Audit Act 1977	Government Owned Corporations Act 1993
WA	Financial Administration and Audit Act 1985	Separate enabling legislation for each GTE	Financial Administration and Audit Act 1985	Enabling legislation of individual GTEs
SA	Public Finance and Audit Act 1987	Public Corporations Act 1993	Public Corporations Act 1993	Public Corporations Act 1993
Tas	Financial Management and Audit Act 1990	Government Business Enterprises Act 1995	Government Business Enterprises Act 1995 ^d	Not legislated ^e
ACT	Auditor-General Act 1996	Territory Owned Corporations Act 1990	Financial Management Act 1996	Territory Owned Corporations Act 1990
NT	Audit Act	Government Owned Corporations Act	Financial Management Act	Government Owned Corporations Act
Cth	Auditor-General Act 1997	Commonwealth Authorities and Companies Act 1997	Auditor-General Act 1997/ Commonwealth Authorities and Companies Act 1997	Auditor-General Act 1997

^a GTEs may also be corporatised under GTE-specific or sector-specific enabling legislation. ^b The *Corporations Act 2001* (Cth) requires that all company GTEs employ a company auditor. However, the requirement for this auditor to be the auditor-general, or alternatively (for Commonwealth GTEs) to have financial statements audited by the Auditor-General, is expressed elsewhere as noted in this table. ^c As of May 2003, there were no company GTEs in NSW. ^d Audit of local government joint authorities (Cradle Coast Water, Hobart Regional Water Authority and Esk Water Authority) must be carried out by the Auditor-General in accordance with the *Financial Management and Audit Act 1990*. ^e Ministers have freedom to appoint any auditor (*Electricity Companies Act 1997*, *Port Companies Act 1997* and *Metro Tasmania Act 1997*). However, it has been government policy since these acts were passed to use the Auditor-General.

Source: Commonwealth, state and territory legislation.

Independence of the auditor-general

The principle of auditor independence, reporting to parliament, is an ancient one, having its roots in the change from monarchy to parliamentary democracy. The need for an auditor-general to be independent arises from the concept that they are

to help parliament hold the government accountable, and that parliament has a right to know of any matter relevant in that context.

Auditor-general independence springs from a combination of personal and operational independence. Personal independence encompasses the auditor-general's protection from removal by the executive, manner and term of appointment and administrative responsibility to the parliament. Operational independence is brought about by the capacity to self-initiate work and the power to undertake performance audits. The wide range of issues that may be addressed in performance audits gives the auditors-general independence to address issues as they see fit.

A manifestation of an auditor-general's operational independence is their freedom to determine the priority given to each of their audits, whether these audits are self-initiated or referred. For the Australian Government Auditor-General, this freedom is cemented by s. 8(4) of the *Auditor General Act 1997*, under which the Auditor-General is not subject to direction from anyone in relation to the priority given to any particular audit matter. However, the Auditor-General must 'have regard to the audit priorities of the Parliament as determined by the Joint Committee of Public Accounts and Audit' (*Auditor General Act 1997*, s.10).

Similar powers apply to state and territory auditors-general. For example, s.49 of the *Financial Administration and Audit Act 1997 (Qld)* states that the Auditor-General:

is not subject to direction by any person about:

- (a) the way in which the auditor-general's powers in relation to audit are to be exercised; or
- (b) the priority to be given to audit matters.

The independence of auditors-general is fundamental to the role of auditing in the accountability framework. Without this independence, the audit opinion may be susceptible to externally imposed constraints, rather than being a conclusion reached by reference to the facts alone.

Notwithstanding auditor-general independence, ministers may suggest an area for investigation. Although the suggestion would not be taken as a directive, it is unlikely to be ignored (Coghill 2004).

The auditor-general can contract out the conduct of audits, but must maintain sufficient control to be in a position to sign the audit certificate. For example, the Victorian Auditor-General contracts out many of his financial audits, but maintains a policy that a minimum of 35 per cent of audits in each key government sector

must be conducted in-house. This limit has been set to ensure that the Auditor-General's Office maintains a knowledge of emerging issues in each sector.

Political interest in the work of an auditor-general can be heightened in relation to performance audits. In addressing issues of effectiveness and efficiency, performance audits can result in questioning value for money and be perceived as a criticism of government policy. According to Taylor (1998), a former Australian Government auditor-general, this has the potential to impugn the reputation of an administration. Legislation proscribes the auditor-general from directly questioning government policy objectives in most jurisdictions.

During the mid-1990s, there were tensions between government and the Victorian Auditor-General, and the Premier repeatedly criticised the Auditor-General's performance audits (Green 1997). The government legislated to curtail the powers of the Auditor-General and open up performance audits — previously the exclusive preserve of the Auditor-General — to private sector auditors. This led to concerns about the independence of the audit process (see box 4.1).

Powers of the auditor-general

To facilitate auditing of public sector entities, the auditors-general are endowed with a number of powers of access to information sources. In most jurisdictions, for both statutory and company GTEs, the auditors-general have access rights to all the GTE's documents relevant to the audit and to the GTE's premises at all reasonable times. Also, the GTE's staff must answer any questions that are reasonably necessary for the purposes of an audit if they are put to them in writing by the auditor-general.

Another important power is the freedom to report to parliament on matters considered necessary. Although this freedom differs slightly between jurisdictions, all auditors-general can prepare a special report for tabling in parliament on matters arising out of an audit.

Consideration of auditor-general reports

On completion, reports by the auditors-general are tabled in parliament. Reports may also be given further consideration by parliamentary committees, typically the Public Accounts Committee. In some jurisdictions, the Public Accounts Committee's mandate extends to examining all reports of the auditor-general. Committees responsible for considering the auditors-general's reports and their roles in relation to the auditors-general are listed in table 4.2.

Box 4.1 **The Victorian Auditor-General's powers, 1996-2003**

In the late 1990s, there were radical changes to the Victorian Auditor-General's Office. Following a 1996 national competition policy review of the *Audit Act 1994*, changes were introduced in late 1997 to curtail many of the Auditor-General's powers, including the capacity to directly conduct audits.

The *Audit (Amendment) Bill 1997* removed the Auditor-General's power to carry out audits directly. Audits were to be tendered out by the Auditor-General to private sector auditors or to Audit Victoria, a newly formed offshoot of the Auditor-General's Office, which was to operate as a government-controlled business enterprise.

The changes were seen to create operational difficulties and to detract from the independence of public auditing. It was argued that it would be difficult to contract out generic audits such as those of ministerial portfolios and government finances, which are complicated tasks with no private sector equivalents.

Performance audits (which had never been contracted out before the change in legislation) were perceived to present similar problems because there is no private sector equivalent and it would be difficult for the Auditor-General to set suitable boundaries for such investigations. Further, in contracting out the more subjective performance audits, the contractor may be swayed by government interests:

- Audit Victoria because it would be government-controlled; and
- Private firms because they could fear jeopardising lucrative consulting work if they were too critical of the government.

Although the independence of the Auditor-General appeared to be assured, the independence of contracted out audits was less certain (Houghton and Jubb 1998).

By 1 January 2000, legislation restoring the powers and functions of the Auditor-General had come into effect. In March 2003, amendments to the *Constitution Act 1975* established that any future changes to provisions relating to the Victorian Auditor-General must be supported by a referendum.

Source: Yule (2002).

Auditing the auditors-general

The offices of the auditors-general are also subject to audit. In each jurisdiction, the audit office's financial statements must be audited by an independent auditor. Further, their performance may be subject to parliamentary committee review. For example, the NT Public Accounts Committee must undertake a strategic review of the Auditor-General's office no less than once every three years.

Table 4.2 Roles of parliamentary committees responsible for auditors-general

	<i>Committee</i>	<i>Role</i>
NSW	Public Accounts Committee	<ul style="list-style-type: none"> • Review the Audit Office's auditing practices and standards every three years. • May choose to follow-up issues raised in the Auditor-General's reports to Parliament.
Vic	Public Accounts and Estimates Committee	<ul style="list-style-type: none"> • Follow up matters raised in the reports to Parliament by the Auditor-General. • Fulfil a consultative role in scoping performance audits and determining particular objectives of the audits. • Play a consultative role in determining performance audit priorities.
Qld	Public Accounts Committee	<ul style="list-style-type: none"> • Consider reports of the Auditor-General. • Follow up on matters of concern raised in the reports of the Auditor-General.
WA	Public Accounts Committee	<ul style="list-style-type: none"> • Oversight responsibility for the Office of the Auditor General.
SA	Economic and Finance Committee	<ul style="list-style-type: none"> • May review the role and mandate of the Auditor-General. • Not responsible for examining the Auditor-General's reports.
Tas	Public Accounts Committee	<ul style="list-style-type: none"> • Performance audit reports formally lodged with the Public Accounts Committee. • Review of Auditor-General's office is not part of mandate – this is achieved through peer review.
ACT	Standing Committee on Public Accounts	<ul style="list-style-type: none"> • Examine all reports of the Auditor-General that have been presented to the Assembly. • Report to the Assembly, with such comments as it thinks fit, on any items or matters in those reports which the Committee thinks should be drawn to the attention of the Assembly.
NT	Public Accounts Committee	<ul style="list-style-type: none"> • Undertake a strategic review of the Auditor-General's Office no less than once in every three years.
Cth	Joint Committee of Public Accounts and Audit	<ul style="list-style-type: none"> • Examine all reports of the Auditor-General. • Scrutinise the use of public funds by Commonwealth agencies. • Determine and advise the Auditor-General of the audit priorities of Parliament. • May request that the Auditor-General undertake a performance audit of a GTE.

Note Committees may fill other roles not directly related to the auditor-general's office. For example, the Public Accounts and Estimates Committee in Victoria is also responsible for scrutinising budget estimates. The Public Accounts Committee in NSW must also examine the financial statements of all GTEs.

Source: Auditor-general offices/ relevant parliamentary committees.

External reviews of the auditors-general's activities can also be contracted out to other auditors. For example, in 2002-03, the ACT Auditor-General conducted a review of a sample of performance audits conducted by the Tasmanian Auditor-General's Office.

4.3 Financial auditing

Financial auditing involves a review of an entity's financial statements. In order to comply with the Australian auditing standard AUS 702, the auditor must report whether their opinion is either qualified or unqualified. A qualified audit report is issued when the financial statements do not present a fair view of the entity's financial position and/or of the results of its operations.

Audit opinions sometimes emphasise a specific matter which is considered to be of sufficient importance to users of the annual financial statements to be drawn to their attention. For example, in the financial audit of Sunwater in 2000-01, the Auditor-General drew attention to the inherent uncertainty in valuing water infrastructure assets.

A financial audit must be in accordance with the relevant GTE legislation, the enabling legislation of the GTE, or the *Corporations Act 2001* (Cth) for company GTEs. The legislative requirements depend on the type of entity.

The scope of the financial audit is dependent on the auditing standards adhered to in the various jurisdictions. The Australian Government Auditor-General has adopted the Australian Auditing Standards (AUS) and Auditing Guidance Statements (AGSs)⁴ as the Australian National Audit Office (ANAO) auditing standards (ANAO 2002). In Victoria, the use of these auditing standards is legislated and the application of any additional standards must be detailed in the Auditor-General's Annual Report (*Audit Act 1994*, s.13).⁵ Other jurisdictions also typically base their financial auditing procedures on the AUS and AGS standards.

Auditors are not responsible for detection of fraud or error (ANAO 2004), but an audit carried out in accordance with these standards should provide a reasonable assurance that the financial reporting of an entity is free from such error or misrepresentation.

The board of directors is vested with the operational autonomy of a GTE and, as such, it is responsible for proper bookkeeping. Though they cannot be held responsible for all errors, directors are required to regularly review the financial statements and to maintain familiarity with the financial status of the corporation (Doyle and Möller 1999).

⁴ As issued by the Australian Society of Certified Practising Accountants (ASCPA) and the Institute of Chartered Accountants in Australia (ICAA)

⁵ No additional standards were applied in 2002-03.

The board's responsibility for the operational autonomy of government owned corporations (GOCs) has implications for the role of shareholding ministers, namely:

Ministers are only responsible to the Parliament to the extent of their duties. Those duties include ensuring that the value of the State's investment is not diminished and that a reasonable rate of return is maintained. The Minister must also ensure that regular and accurate information is provided by the GOC and that public policy objectives are being met. However, the accountability of shareholding Ministers to Parliament is in terms of investors of the GOC rather than Heads of Department and it is therefore unlikely that Ministers would be obliged to answer questions in Parliament that relate to GOCs. (Pitkin and Farrelly 1999)

Government companies

Financial auditing of company GTEs must be undertaken by the auditor-general in all jurisdictions in Australia with two exceptions — Tasmanian company GTEs and Snowy Hydro.⁶ In Tasmania, the responsible ministers are free to choose any auditor, however it has been government policy to use the Auditor-General.

With the exception of Telstra,⁷ Australian Government company GTEs may choose any company auditor under the *Corporations Act 2001*. However, the Auditor-General must still carry out an independent audit of their financial statements (*Commonwealth Authorities and Companies Act 1997*, s.37). The two company GTEs covered in this report that operate under the *Commonwealth Authorities and Companies Act 1997* and that are not restricted by other legislation — Airservices Australia and the Australian Rail Track Corporation — have not exercised their power of choice.

Auditors-general must ensure that financial statements of company GTEs in all jurisdictions meet the requirements of the *Corporations Act 2001* (Cth). Moreover, auditors in some jurisdictions must ensure that the financial statements meet additional requirements. For example, in Queensland the financial audit must be undertaken in accordance with the requirements of the *Government Owned Corporations Act 1993* schedule 3, which applies much of the reporting and auditing requirements for statutory authorities to company GTEs.

⁶ Although Snowy Hydro is a company GTE by the definitions in this report (a GTE that is covered by the *Corporations Act 2001*), it is not subject to financial audit by an auditor-general because it is owned jointly by the Australian Government, NSW and Victoria and consequently doesn't fall within the ambit of GTE audit legislation.

⁷ Telstra is required by s.36 of the *Telstra Corporation Act 1991* to employ the Auditor-General as their company auditor.

Statutory GTEs

The auditors-general are required to act as auditor for all statutory GTEs in Australia. As part of this task, the financial statements of statutory GTEs are audited in accordance with auditing standards and the relevant legislation.

The legislative base for auditing standards of statutory GTEs is generally detailed in either the auditor-general's legislation (NSW, Victoria, Queensland, WA) or in the legislation relating directly to GTEs (Australian Government, SA, Tasmania, the NT, the ACT).

4.4 Performance auditing

An important difference between private and public sector accountability is that auditors-general can conduct performance audits of government entities.⁸ The scope of performance audits goes beyond the well-defined boundaries of financial audits. They are defined by Australian auditing standard AUS 806:

The objective of a performance audit is to enable the auditor to express an opinion whether, in all material respects, all or part of an entity's or entities' activities have been carried out economically and/or efficiently and/or effectively. In the case of a direct reporting audit, the objective also includes the provision of relevant and reliable information about performance.

It is sometimes argued that GTEs need not be subject to performance audit, since they are open to the same commercial directives as private businesses. This claim, however, ignores the inability of governments to readily divest themselves of their holdings (Barrett 1996).

Indirectly, regulators' reports justifying independent price determinations also constitute an audit of the performance claims of GTEs. Their reports provide a discipline on ministers for good governance, particularly in respect of ensuring that the GTE is operating efficiently.

⁸ There is currently no scope for company auditors to undertake performance audits of private companies, although the Joint Committee for Public Accounts and Audit (JCPAA) has recommended that the Australian Securities and Investments Commission should 'explore the cost and benefits and alternative methods of introducing performance audits in the private sector' (JCPAA 2002).

Statutory provisions

The legislation enabling the auditors-general to undertake performance audits varies somewhat with jurisdiction. Although most jurisdictions have an outcome-based mandate for performance audits, in others they are limited to audits of systems.

In all jurisdictions except Queensland and the NT, the auditor-general has a mandate to conduct outcome-based performance audits in accordance with the intent of AUS 806. For example, in NSW and Tasmania, performance audits are specifically aimed at determining whether they are carrying out their activities economically, efficiently and effectively (*Public Finance and Audit Act 1983*, s.38B; *Financial Management and Audit Act 1990*, s.44).

In Queensland and the NT, the scope of performance auditing is limited to audits of performance management systems (*Financial Administration and Audit Act 1977*, s.80; *Audit Act*, s.15). The purpose of such audits is to determine whether the systems in place provide an effective basis for the entity to assess whether its objectives are being achieved. The performance audit scope does not extend to evaluating outcomes.⁹ In Queensland, special investigations may also be undertaken when it is deemed that they are in the public interest (QAO 2003).

Performance auditing in WA is somewhat different from other jurisdictions, since it is undertaken via two distinct mechanisms. Statutory authorities are required to report performance indicators in their annual report (*Financial Administration and Audit Act 1985*, s.66) and these are to be audited by the Auditor-General each year to ensure that they are 'relevant and appropriate having regard to their purpose and fairly represent indicated performance' (s.93). This institutionalises regular checks of the veracity of performance indicators by the Auditor-General. GTEs in WA are also subject to the provisions of s.80 of the *Financial Administration and Audit Act 1985*, which allows the Auditor-General to examine the efficiency and effectiveness of GTEs from time to time.

⁹ The Queensland Public Accounts Committee recommended in 1998 that the Queensland Audit Office's mandate be extended to include full performance auditing (Public Accounts Committee (Qld) 1998). In November 2003, a further review of the Queensland Audit Office was commissioned by the Queensland Government — including consideration of the extent to which previous recommendations have been implemented. Its findings are to be reported in mid 2004.

‘Triggers’ for performance audits

An important consideration is the process that triggers performance audits. If performance audits can be initiated by the auditor-general at any time, they are likely to be a more effective accountability mechanism than if approval is required.

In most jurisdictions, performance audits are undertaken solely at the discretion of the auditor-general. This is the case for performance audits of GTEs in NSW, Victoria, WA, Tasmania and the ACT.

Similarly, the more narrowly defined audits of performance management systems in Queensland and the NT may be carried out by the auditor-general without the need for any external request.

In SA, the Auditor-General may undertake a performance audit of an entity while conducting the annual financial audit (*Public Finance and Audit Act 1987*, s.24). This can be done for any GTE under the control of the *Public Corporations Act 1993*.¹⁰

The only jurisdiction in which the Auditor-General cannot self-initiate a performance audit of a GTE is the Commonwealth, where the Auditor-General can undertake a performance audit of a GTE only at the request of the responsible Minister, the Finance Minister or the Joint Committee for Public Accounts and Audit (JCPAA).¹¹ This is in contrast to the arrangements for performance audits of Australian Government authorities and companies other than GTEs, which may be undertaken at the discretion of the Auditor-General.

Range of matters audited

The range of matters that may be addressed in performance audits is intentionally broad, potentially encompassing any aspect of an entity’s performance. However, it usually stops short of comment on government policy issues.

Guidelines for performance audits have been established by each auditor-general. These outline the range of issues that may be examined in performance audits. Although not all guidelines are published, the ANAO’s guidelines are, and include reference to audits of ‘governance issues, such as risk management and other control structures, resource use, information systems, performance measures, reporting and monitoring systems and legal compliance.’ (ANAO 2003)

¹⁰ All GTEs monitored in SA in 2002-03 were covered by the Public Corporations Act 1993.

¹¹ The Auditor-General remains free to ask the JCPAA or the relevant minister to request a performance audit (Auditor-General Act, s.17(2)).

It is generally accepted that matters of policy formulation are strictly the responsibility of executive government (see Public Accounts Committee (Qld) 1998). The proper role of performance audits is to evaluate the efficiency and effectiveness of policy implementation. In fact, in those jurisdictions that allow full performance audits, legislation proscribes the auditor-general from questioning the merits of government policy objectives.

The distinction between policy objectives and their implementation is not always clear. This has led on occasion to conflict between governments and auditors-general when performance audits have been viewed as an implicit criticism of government policy itself. For example, in 2001 the Australian Government Auditor-General found that the Government's sale and lease-back of selected properties could result in a negative financial return within the lease period. This was dismissed by the Finance Minister as beyond the role of the Auditor-General because it was government policy to dispose of the property (ABC Radio 2001).

Similarly, the NSW Auditor-General recently concluded that the State Rail Authority's performance indicators are of questionable accuracy. This was described as 'inappropriate' by the NSW Treasurer, on the grounds that the Auditor-General did not have the power to comment on this matter because it represented a review of government policy (Hepworth 2003).

An insight into the range of matters covered can be found by reviewing performance audits undertaken by auditors-general in recent years (listed in table 4.3). The number of performance audits of GTEs is limited, however this is not surprising given the small number of performance audits conducted in total across all entities. For example, the NSW Auditor-General aims to carry out only 12 to 15 performance audits each year (Sendt 2002).

In addition to direct performance audits, broader public sector performance audits can also have relevance to GTEs. These have included Year 2000 compliance audits (Australian Government, Tasmania, ACT), management of sickness absence (NSW), and the management of fraud and corruption prevention in the public service (ACT).

One of the more contentious issues that can arise from performance audits is the conflict between commercial confidentiality and the principle of public sector accountability, which requires parliament to be fully informed. Claims of commercial confidentiality are most likely to arise from government agencies — such as GTEs — that participate in a market with private competitors.

Table 4.3 Example performance audits by auditors-general since 1998-99

	<i>Title of performance audit</i>
NSW	<ul style="list-style-type: none"> • Sydney Water Corporation: Northside Storage Tunnel Project, 2003. • State Rail Authority: The Millennium Train Project, 2003. • State Rail Authority: CityRail passenger safety, 2003. • Fare Evasion on Public Transport, 2000. • Judging Performance from Annual Reports, 2000.
Vic	<ul style="list-style-type: none"> • Non-metropolitan Urban Water Authorities: Enhancing Performance and Accountability, 2000. • Automating Fare Collection: A Major Initiative in Public Transport, 1998.
Qld	<ul style="list-style-type: none"> • Auditor-General of Queensland Report No.2 for 2002-03 Results of Audits Performed as at 31 July 2002 (Incorporating a Governance and Risk Management Review of Government Owned Corporations and Local Governments), 2002.
WA	<ul style="list-style-type: none"> • None relating directly to GTEs only.
SA	<ul style="list-style-type: none"> • None relating directly to GTEs only.
Tas	<ul style="list-style-type: none"> • None relating directly to GTEs only.
NT	<ul style="list-style-type: none"> • Works Information Management System — Power & Water Authority, 2000. • Achievement of Performance Improvement Targets — Power & Water Authority, 2000. • Power and Water Authority — Performance Information in its 1998/99 Annual Report, 1999. • Darwin Port Authority (now Darwin Port Corporation) — Performance Information in its 1998/99 Annual Report, 1999.
Cth	<ul style="list-style-type: none"> • Agencies' Performance Monitoring of Government Business Enterprises, 2000.

Source: Auditor-general offices.

The Australasian Council of Auditors-General (ACAG) has concluded that if parliamentary mechanisms are to be effective, there can be no general rule proscribing against parliamentary access to commercial documents to which the government is a party. It is argued that:

The accountability requirements in the public sector cannot be equated to those in the private sector. There is a requirement in the public sector that the Government demonstrate that its use of public resources has been effective, economical, efficient and that it complies with all law and meets community standards of probity and propriety. (ACAG 1997)

4.5 Implications for external governance

Financial auditing contributes to external governance by providing assurance from an independent expert that management assertions in relation to financial and other outcomes related to their managerial performance are free from error or misrepresentation.

Financial auditing creates both a discipline and an incentive to ensure the accuracy of assertions by management. The prospect of disclosure by an independent auditor encourages management to account accurately to the owners, with the incentive that to do otherwise would jeopardise management's ongoing stewardship of the owners' interests.

Performance audits can contribute to external governance by providing expert opinion on the efficiency and effectiveness with which an enterprise's resources are being deployed.

In addition, some performance audits are directed specifically at corporate governance itself. For example, in 1997 the NSW Auditor-General reported on corporate governance across the NSW public service. The Australian Government Auditor-General also produces a number of reports and better practice guides each year under the theme of governance.

Performance audits provide incentive for good governance by shareholder ministers. Such audits can be used constructively to improve the operations of the entity. At the same time, they pose a threat that exposed performance deficiencies could reflect poorly on the performance of government itself.

5 Reporting

The purpose of external reporting by government trading enterprises (GTEs) is to communicate information by which management and boards account for their stewardship of GTEs on behalf of the community. It increases transparency and enables the performance of the GTE to be scrutinised.

In this chapter, the term ‘reporting’ refers to annual reports and associated financial statements; statements of corporate intent; corporate plans; continuous reporting; and special reports. Unlike audit reports, some of these reports remain confidential between ministers and GTE management.

The reporting obligations of GTEs and the role of reporting in external governance are discussed in this chapter. The key legislative requirements for reporting in each jurisdiction are presented in appendix B of last year’s report (PC 2003).

5.1 Legislative and policy provisions

The timing and nature of reporting vary by jurisdiction, sector and the corporate status of the GTE (company or statutory).

All company GTEs are subject to Corporations Law and its associated reporting requirements. However, in some jurisdictions, corporatisation or GTE enabling legislation prescribes reporting requirements that are *additional* to those required under Corporations Law. These include furnishing a corporate plan and reporting various other matters to the minister (see below).

Statutory GTE reporting requirements are governed by the relevant jurisdiction corporatisation act or, in some cases, their enabling legislation — which operate in conjunction with other legislation, such as financial management acts that specify the reporting requirements of government entities.

Guidelines and Treasurer’s Instructions have been established to give effect to the legislative requirements relating to the content and format of reports. However, in most cases, the responsible minister has some discretion, which is exercised after consultation with the GTE.

5.2 Reporting and accountability

A key aspect of accountability, is ‘who is accountable to whom’. This has been defined in terms of a direct line of authority:

In simple terms, this means that staff in a GBE [GTE] are accountable to management who are in turn accountable to the board of directors. The directors are accountable to the relevant portfolio minister who, in turn, is accountable to Parliament for the performance of GBEs in that portfolio. (Bottomley 2000)

At each stage in this ‘chain’ there are differences in the form of accountability, and hence the nature and the timing of the information required. The three broad forms of accountability are:

- *ex ante accountability*, for significant policy or resource decisions;
- *process accountability*, for the implementation of policies and the resources being used; and
- *ex post accountability*, for outcomes (Bottomley 2000).

In general, much of the information that is reported to enhance *ex ante* and process accountability is not published and remains confidential to the minister.

Transparency is central to effective accountability. Exposing information on the performance of management, boards and ministers to scrutiny, up the accountability chain, provides powerful incentives for good management, internal governance and external governance. These incentives are typically reinforced by performance related rewards and in the case of government ministers by public disclosure.

Transparency is also important in situations where there is a potential conflict of interest. It is for this reason that ministers’ formal instructions to boards must be made public. Further, clearly defined and understood responsibility is necessary for accountability.

Accountability is not costless. Apart from the potential damage that can be done to GTEs by forcing them to release commercial information, the collection and processing of information for reporting requires the commitment of resources for the function (Mulgan 2002).

Some company GTEs have indicated that the level of public accountability of company GTEs is excessive (JCPAA 2000). They argue that by making company GTEs subject to the additional reporting requirements set out in corporatisation legislation, they are placed at a competitive disadvantage with private companies.

However, as public entities, there is an expectation that information should be disclosed to protect the public interest:

In a private sector company, information about company affairs may need to be retained within the company in order to protect the financial interests of the members. In a public sector entity the presumption works the other way; information should be disclosed in order to protect the interests of the public. (Bottomley 2000)

Finally, accountability is not just about making information publicly available, it is also important that the information the public receives is timely, relevant and of a high standard. For these reasons, governments have established reporting frameworks in legislation and issued guidelines on report content.

5.3 Accountability documents

GTEs are subject to a number of reporting obligations designed to keep responsible ministers, parliament and the public informed. These include producing statements of corporate intent, corporate plans, and annual reports.

Some reports, such as the corporate plan, may remain confidential to the responsible minister and his or her advisers. Other documents may be required to be tabled in parliament or gazetted.

Annual report

The annual report is the primary accountability document available to the public. It summarises the achievements and financial results of a GTE for the financial year.

Many GTEs are required to report ministerial directions in their annual report or directly to parliament. This is designed to make ministers more accountable to the public. However, ministers rarely resort to issuing formal directions as a vehicle for intervening in GTE activities (PC 2002a).

Differences in the comprehensiveness of annual reports are related to the reporting requirements imposed on each GTE, as well as the ability of GTEs to convey information in a useful manner.

Differing requirements can occur at a fairly general level — such as between company and statutory GTEs in corporatisation legislation — or they can be specific to a GTE, which is the case when reporting requirements are stipulated in a GTE's enabling legislation. For example, Telstra is subject to reporting requirements under its enabling legislation that are in addition to those required under Corporations Law (JCPAA 2000).

Some factors that influence GTE reporting include:

- the status of the GTE (company versus statutory);
- state and territory corporatisation legislation;
- the existence of operating licenses with associated memoranda of understanding that include reporting;
- enabling legislation;
- state and territory legislation relating to financial management and auditing;
- instructions of the treasurer or finance minister and government policy;
- exemptions from reporting requirements; and
- the level of government ownership.

The various ‘layers’ of legislation and government policy can help to ensure that the information provided by GTEs in their annual reports is relevant to various stakeholders and other interest groups, including ministers, the general public, government agencies, industry groups and the media.

In practice, the standard of annual reports will also vary according to a GTE’s ability to convey information that is relevant and timely. Factors that influence the quality of reports include:

- the resources available (time, funds);
- the degree of familiarity with reporting requirements; and
- technical expertise in presenting information.

One mechanism used to maintain the quality of annual reports is to issue reporting guidelines which outline key items to be included in annual reports. For example, NSW Treasury has issued a checklist of annual reporting requirements for departments and statutory bodies. Similarly, the Department of Prime Minister and Cabinet has produced a comprehensive booklet detailing the annual reporting requirements for Australian Government departments, executive agencies and Financial Management Act bodies.

The quality of annual reports is subject to the scrutiny of parliamentary bodies such as public accounts committees. From time to time, these committees make recommendations to improve the quality of reports. For example, a recent report on *Annual Reporting in the Public Sector* (2001) by the Queensland Public Accounts Committee made several recommendations regarding the content and submission of annual reports. These recommendations were subsequently endorsed by cabinet and

incorporated in the *Annual Reporting Guidelines for Queensland Government Agencies*.

The quality of annual reports produced by some GTEs is very high. In 2004, four monitored GTEs received Australasian Reporting Awards for their annual reports, competing against organisations from the public and private sectors. The commendation for one of these recipients, the Port of Brisbane Corporation (PBC), is outlined in box 1.1. The annual reports produced by many other monitored GTEs, appear to fall short of the standard set by the PBC.

Box 5.1 Australasian Reporting Awards

In 2004, the Port of Brisbane Corporation (PBC) was presented with a Gold Award for 'the highest level of excellence in reporting'. In their citation, the judges noted the comprehensiveness of the PBC's annual report, and made specific mention of the section related to 'operational performance'. This section included:

- A clear statement of the Corporation's mission;
- A summary table with the objectives for the financial year clearly set out, an indication of whether the objectives were achieved, and a brief comment; and
- Commentary on outcomes against each specific objective.

The PBC's report format allows readers to verify whether or not objectives have been achieved and provides information on the link between the objectives and the Corporation's mission statement. For example:

Objective

Increase the number of port customers using PortNet services and Electronic Data Interchange (EDI).

Commentary

The process of (cargo) manifests electronically through EDI is more accurate and time *efficient* than manually keying manifested cargo.

Link to the mission statement

As a port manager, we are responsible for establishing, managing and operating effective and *efficient* facilities and services for the benefit of port users, operators and the community at large.

Source: ARA (2004), PBC (2003).

Interim reports on operations and financial performance

Many GTEs are required to prepare and submit interim reports (quarterly or half-yearly) to the responsible minister(s). Interim reports are designed to keep the minister(s) informed about the operational and financial performance of the organisation throughout the course of the year. They typically include:

- interim financial statements;
- information on capital expenditure;
- a report on operations; and
- a discussion of any strategic issues or changes in the operating environment.

The required contents of interim reports are outlined in various legislation and government policy documents. Specifically, their contents relate to objectives established at the start of the financial year in the statement of corporate intent. Generally, GTEs are required to provide commentary on their financial and non-financial performance, including any significant variations from budget and performance targets.

The public availability of interim reports varies between jurisdictions. In NSW the half-yearly reports of state owned corporations must be tabled in parliament within 14 sitting days after the date the voting shareholders received it (*State Owned Corporations Act 1989*, s.26.1.(h)).¹ However, disclosure of interim reports in WA is at the agency's discretion (Treasury Information Requirements s.7.2.3).²

Statement of corporate intent

The statement of corporate intent (SCI) is a planning and accountability document which specifies financial and non-financial performance targets for a GTE in the financial year(s) ahead.³

In most cases, SCIs are tabled in parliament, thereby increasing accountability to the public. In Queensland all GTEs — except for DPI Forestry — are required to

¹ The *State Owned Corporations Act 1989* only requires that half-yearly reports be tabled in parliament, while the NSW treasurer's instructions stipulate that agencies are required to submit quarterly reports.

² The exceptions are the interim reports of the Forest Products Commission and Western Australian Government Railways Corporation (WAGRC), which must be tabled in parliament. The WAGRC ceased operations in 30 June 2003.

³ The *Commonwealth Authorities and Companies Act 1997* (Cth) only requires wholly-owned GTEs to produce a SCI.

include a SCI in their annual report under the *Government Owned Corporations Act 1993*, which must be tabled in parliament within 14 days of being received by the shareholding minister. However, the ‘performance statements’ of SA GTEs — which include information that is typically included in the SCI under most corporatisation acts — are not required to be tabled under the *Public Corporations Act 1993* (PC 2003).

One significant benefit of furnishing SCIs is that it provides the public with *ex ante* information.⁴ In a report on Commonwealth GTEs, the Joint Committee of Public Accounts and Audit (JCPAA 2000) noted that prior to the introduction of SCIs, the public were only provided with *ex post* information contained in the annual report and were therefore limited in their ability to scrutinise the projected operations of GTEs.

Although SCIs increase the amount of information that is available to the public, the Commission identified in last year’s report a number of weaknesses relating to the content of SCIs produced by GTEs (PC 2003). These deficiencies included poorly defined objectives and performance measures, as well as a lack of transparency in the way objectives were formulated.

On occasions, GTEs have failed to meet basic reporting requirements relating to the SCI. For example, the NSW Auditor-General’s *Compliance Review of Accountability and Reporting Requirements for State Owned Corporations* (2003a) identified several key areas relating to the preparation of SCIs where some GTEs did not satisfy reporting standards. These included:

- adequately identifying departures from performance and financial targets set out in the SCI;
- submitting the SCI and related reports on time to the shareholding ministers; and
- obtaining the signatures of the shareholding ministers prior to the audit of the SCI.

⁴ For some GTEs – including those corporatised under the *Government Owned Corporations Act 1993* (Qld) and the *Port Services Act 1995* (Vic) – the SCI must be included in the annual report. In some other cases, the inclusion of an SCI in the annual report is mandated in treasurer’s instructions.

Corporate plan

Most GTEs are required to produce a corporate plan which includes a set of objectives covering a period of three to five financial years.⁵ Corporatisation Acts frequently offer broad guidelines on the type of objectives that should be included in the corporate plan. In most cases, the minister has discretion to negotiate and approve the plan as submitted by GTE boards.

The corporate plan is designed to be an accountability mechanism between GTE directors and the minister, and it is not generally tabled in parliament (JCPA 1995).⁶ The confidentiality of the corporate plan is commonly justified on the basis of the commercial sensitivity of the information provided to the minister. As discussed above however, withholding corporate plans from public scrutiny reduces *ex ante* accountability.

Progress reports on corporate plans

Some Australian Government GTEs are required to produce progress reports (half-yearly or quarterly) to shareholder minister(s) on 'progress against, and any changes to, the corporate plan' (DFA 1997). The shareholding minister(s) may then elect to comment on the report within a set time frame.

Unlike interim reports on operations and financial statements that are tabled in each house of parliament, progress reports relating to Australian Government GTEs' corporate plans remain 'confidential to the Ministers, their advisers and Departments' (DFA 1997).

Continuous reporting

Most GTEs are required to provide the relevant minister with additional reports, outside of the regular reporting requirements outlined above. This reporting can be triggered in one of two main ways. First, ministers typically have extensive powers to request any information that they require. This can lead to GTEs providing *ad hoc* reports in response to matters that can become operationally or politically important.

⁵ SA GTEs have charters instead of a Corporate Plan. The NSW, ACT and NT corporatisation acts do not mention a corporate plan.

⁶ The exception is the charters of South Australian GTEs.

Second, boards have an obligation to keep the relevant minister informed. This has been characterised as:

... appropriate recognition to the fact that the Government's investment in GBEs [GTEs] is less liquid than an equivalent shareholding in a company whose shares are listed and traded on the Stock Exchange. (Finance submission cited in JCPA 1995)

Special reports

Some GTEs are obliged to provide information on non-financial aspects of their operations, under their operating license or enabling legislation. For example:

- Sydney Catchment Authority (SCA) is obliged, under its Memoranda of Understanding, to share data and information with certain regulatory agencies. It is also required to 'furnish reports to the Minister, for presentation to Parliament, on subjects and at times specified in the operating licence' (*Sydney Water Catchment Management Act 1998*, s.39).
- In Victoria, the boards of most non-metropolitan water GTEs have 'Water Service Agreements' with the Minister for Water. The agreements formalise arrangements relating to the board's obligations and accountability, including the provision of quarterly reports to the Minister.
- The West Australian Government Railway Commission was obliged to submit quarterly reports, in addition to quarterly financial summaries, which included information on the condition of the railways and other matters specified by the Minister.

There are a number of other mechanisms by which the performance of GTEs is publicly reported. These include:

- *Appearances before parliamentary committees*: The purpose of these committees is sometimes general in scope, such as the review of government expenditure during the Senate Estimates process (Australian Government). However, in some cases, the mandate of committees may be quite specific, such as the Select Committee on Government Business Enterprises and Government Corporations in Tasmania, which looks at the financial performance and management of GTEs.
- *Regulatory reviews*: Regulators report on performance as part of consumer and access price determinations and compliance reviews undertaken for some GTEs. For instance, the Independent Pricing and Regulatory Tribunal (IPART) is responsible for monitoring the compliance of Sydney Water and the SCA with the conditions of their operating licences. Results are reported to parliament each year through annual audit reports (IPART 2004a).

5.4 Role of reporting in external governance

Reporting by the board to the minister, the parliament and the public more generally, is an essential governance input. It enables the shareholding ministers to verify that the board is operating in accordance with the agreed objectives embodied in the corporate plan and the statement of corporate intent.

Accordingly, ministers are given extensive powers to obtain information about a GTE's progress against stated goals. Moreover, the ministers must be informed about any significant events that may affect the performance of the GTE. The disciplines imposed by the obligation to furnish regular reports decrease the risk of underperformance by GTE boards, thereby protecting the community interest.

The contribution of reporting to external governance depends on how well the information in reports enables ministers to hold GTE boards to account. For this reason, auditing (chapter 4) and effective performance measurement (chapter 6) play important roles in assuring the information provided is reasonable and relevant.

The publication of comprehensive and accurate reports promote accountability by exposing processes and outcomes to public scrutiny. Making the link between performance targets and objectives transparent enhances *ex ante* accountability for the governance process. Similarly, making transparent the extent to which targets are achieved facilitates *ex post* accountability.

These accountabilities are the source of discipline on ministers and boards to implement and practice good external governance. They generate incentives for ministers and boards to identify objectives and targets that are in the best interest of the community and to ensure that GTE managers achieve them efficiently.

Prima facie, the greater the transparency the stronger the discipline for good governance. However, reporting imposes costs on the organisation. These include the time and resources required to compile reports, as well as the potential damage that can be done to GTEs by forcing them to disclose commercially sensitive information. Consequently, there is a trade off between these costs and the benefits of reducing the risk of an unsatisfactory outcome that are not in the interest of the community as ultimate owners of the GTE.

6 Performance monitoring

Performance monitoring involves recording the performance of a government trading enterprise (GTE) and comparing it against targets, both over time and against the performances of other, similar GTEs. When this information is made available for others to evaluate, it can become a powerful accountability mechanism.

6.1 Rationale for performance monitoring

Corporatisation places GTEs at ‘arms length’ from government, limiting the day-to-day influence of owner-governments. It is also intended to improve the performance of GTEs by replicating private-sector market disciplines.

Performance monitoring provides shareholder ministers with a means of evaluating the performance of a GTE against its stated objectives. The comparative nature of performance monitoring ensures that ministers can assess a GTE’s performance relative to its performance in previous periods, as well as relative to that of its peers.

- *Over time*, the consistent measurement of performance enables ministers and the public to ascertain trends in the rate of improvement of GTEs and identify any emerging performance issues.
- Consistent measurement *across* GTEs provides a basis for benchmarking performance and assessing the relative rates of improvement. As noted by the Office of the Tasmanian Energy Regulator, ‘performance data is of limited value when published in isolation’ (OTER 2001).

When performance monitoring is undertaken independently and published widely, it enables:

- customers and the wider community to assess how efficiently and effectively GTEs are using the resources vested in them in the production of goods and delivery of services; and
- parliament and others to assess the efficacy of government policies and corporatisation strategies.

The contribution that performance monitoring can make in this regard was outlined in 1991 by the National Task Force on Monitoring the Performance of GTEs.

The prime objective of performance monitoring is to assist governments in their efforts to achieve and sustain improvements in the ... efficiency and client responsiveness of GTEs. Performance monitoring can help to ensure that production costs are minimised, the right mix of goods and services is produced, consumers' preferences are responded to and that an appropriate rate of return is achieved on public assets (SCNPMGTE 1993).

Corporatised GTEs and the monitoring of objectives

GTE monitoring poses a more difficult task than just measuring financial performance. Unlike most private sector companies, GTEs typically have multiple objectives. Further, the objectives and their relative importance is often ambiguous and they are difficult to link to specific indicators (PC 2003).

Performance monitoring can nevertheless provide a powerful incentive for the managers of GTEs to improve service quality. As the Utility Regulators Forum (URF) (1999) notes:

Comparative reporting of the service performance of service providers encourages providers to maintain and improve service quality by exposing them to judgments by informed customers, media and other key stakeholders. It also facilitates informed negotiations between customers and service providers on local or generalised quality improvements.

Performance monitoring and government policy

Over the past 15 years, with the establishment of performance monitoring regimes throughout Australia, there have been several examples of where monitoring has benefited the assessment and development of government policy. For instance, Pierce and Puthuchearry (1997) acknowledged the positive role of performance measurement and GTE monitoring in relation to reform in the NSW electricity industry:

Taking up the story in the mid 1980s, State monopoly generating companies were thought to be imposing an unnecessary cost burden on Australian industry. Total factor productivity studies and international benchmarking of reserve plant margins provided firm evidence supporting this view. That evidence intensified the pressure to consider removing the State monopolies and splitting the large incumbent generating companies into smaller, competing firms. A study of scale effects in electricity generation showed that Pacific Power, in New South Wales, could be split into two or three firms without introducing scale inefficiencies. This information was used to guide the reforms that followed.

6.2 Performance measures

A major challenge in performance monitoring of GTEs is to determine appropriate measures of their performance.

In the private sector, the most objective summary indicator of a company's performance is its listed share price, which reflects many investors' expectations of a company's earning capacity. Private companies and share analysts also utilise a variety of financial data and efficiency measures to assess the performance of the business.

In the case of GTEs, for which no tradeable share data are available, agencies must rely solely on accounting data and other observable proxies of financial performance. In addition, agencies must also find measures that reflect the GTE's success in meeting any non-financial performance objectives it may have.

In choosing indicators for these performance dimensions, agencies must consider the implications for comparability and compliance costs of using certain measures. The Essential Services Commission (ESC) (2004) has outlined the following key principles that should be used to guide the development of performance measures:

- Performance indicators need to be relevant to the nature of the services provided by each business;
- Performance indicators need to be meaningful and relate to key issues of concern to both businesses and their customers;
- Performance indicators need to be defined and collected on a consistent basis across businesses to provide a valid measure of actual performance and to aid reasonable comparisons;
- The costs associated with collecting information and data need to be balanced against the benefits of collecting that information;
- The accuracy and reliability of information provided by businesses must be verifiable; and
- It is desirable to identify whether there is scope for national consistency in reporting and comparison, to facilitate national assessment of relative performance.

Ultimately, effective governance dictates that performance measures align as closely as possible with a GTE's objectives. Unclear, or tenuous, links between measures and objectives can result in perverse incentives where achieving measurement targets may, in actuality, hinder the achievement of objectives and

detract from the GTEs performance. For instance, an improvement in short-term financial performance may negatively affect a GTE's long-term financial standing.

Financial performance measures

Over the past 15 years, several types of measures and measurement techniques have been employed to assess the financial and non-financial performance of GTEs.

Partial performance measures

All GTEs report partial measures of financial performance — such as return on assets and earnings before interest and tax (EBIT). Partial measures of financial performance are widely used because they are simple to calculate and are generally derived from readily available, published accounting data. They are also generally intuitive and easy to understand.

Partial measures, by definition, only reveal part of the financial performance story, which restricts their usefulness. Even if one is only interested in financial or economic efficiency, partial measures may be misleading:

... we need to be wary of setting performance targets in terms of partial productivity measures. Managers can often meet the specified target by simply using more of one of the inputs [to production] not included in the measure (e.g. by substituting capital for labour if a labour productivity target was set). The net result overall may be a worsening of performance. (SCNPMGTE 1992)

GTEs and performance monitoring agencies typically report multiple partial measures to give a more 'complete' impression. For instance, a GTE may report on both labour productivity *and* capital productivity measures to reflect the technical efficiency of the business. That said, presenting a suite of partial measures may pose other difficulties:

Several partial productivity measures ... may be used collectively to obtain a broad picture of efficiency. However, the presentation of a large number of partial measures will typically be difficult to comprehend and interpret if some indicators move in opposite directions over a given period of time. (SCNPMGTE 1992)

Comprehensive measures

Increasingly, governments have set complex financial performance objectives for their GTEs. These objectives seek to further improve a GTE's commercial performance by more thoroughly replicating private sector benchmarks that

incorporate risk-adjusted rates of return and the opportunity cost of the government's invested capital.

Partial accounting measures generally fail to adequately reflect these complex financial objectives. As noted by the Tasmanian Treasury (1999), accounting measures do not consider the opportunity cost of capital and do not reveal whether the economic value of a government business is increasing or decreasing for its shareholders.

Table 6.1 Examples of financial performance measures

<i>Measure</i>	<i>Reflects</i>
Partial measures	
Return on assets and return on equity	<i>Accounting profit —</i> A GTE's return on assets is the ratio of Earnings Before Interest and Tax (EBIT) to the GTE's assets. It represents the return on the assets or equity employed in the business.
Leverage ratio	<i>Financial liquidity —</i> A business's leverage ratio (or gearing) is the ratio of a GTE's total assets to total equity, equity being the difference of assets and liabilities.
Real price index	<i>Relative prices charged to customers —</i> An increase in the real price index reflects a real increase in the prices charged by the GTE, relative to inflation (the general price level in the economy).
Payments to government	<i>Direct return on the government's investment —</i> Direct financial distributions to the GTE's owner-government (tax-equivalent payments and dividends).
Comprehensive measures	
Shareholder value added	<i>Economic profit —</i> Shareholder value added is an index measure of the total return operating profit after tax and a charge for debt and equity.
Total factor productivity	<i>Productivity —</i> An index formed from the ratio of outputs (weighted by revenue shares) to inputs (weighted by cost shares). TFP is a single index of productivity and is unable to determine the underlying determinants of any change.

Source: NSW Treasury (2002).

Comprehensive performance measures provide a more holistic impression of a business's accomplishments. By way of example, shareholder value added (SVA), combines operating statement and balance sheet information to 'determine the excess returns available to all capital holders' (Tasmanian Treasury 1999). Intrinsic to SVA is the notion that shareholders gain when a business increases in value:

SVA represents the economic profits generated by a business and beyond the minimum return required by all providers of capital. 'Value' is added when the overall net

economic cash flow of the business exceeds the economic cost of all the capital employed to produce the operating profits.

In practical terms, a manager can improve SVA by improving revenue and decreasing costs; undertaking investments where the return exceeds the opportunity cost of capital; and by reducing existing non-productive assets. Proponents of SVA consider that by utilising SVA, managers are encouraged to improve the underlying fundamentals of the GTE.

Although comprehensive measures may better reflect the overall performance goals of a GTE than partial measures, they also have several drawbacks. The detail and complexity of the data required to construct comprehensive measures can impose a significant compliance burden on individual GTEs. This burden may raise issues for competitive neutrality and reduce the overall benefit of the monitoring regime.

Non-financial performance measures

In addition to financial results, which typically relate to efficiency of producing goods and services, GTE managers are also assessed on their non-financial performance. Non-financial performance measures give insight into how well the GTE performs its operations, usually in terms of effectiveness in meeting outcomes. These measures can provide context to reported financial performance. They are generally partial, rather than multi-factor measures and reflect a particular aspect of the GTE's operations.

In recent years many GTEs have compiled increasingly comprehensive statistics on their operations. Selected non-financial performance measures published in the annual reports of the four urban transport GTEs monitored in this report (the State Transit Authority (STA), TransAdelaide, Metro Tasmania and ACTION Authority) are shown in table 6.2. These measures provide information on each GTE's public transport operations, fleet management and employee management.

The existence of accounting standards, established financial definitions and economic concepts means that GTEs generally report similar if not identical measures of financial performance. Consequently, the meaning of these measures is widely understood and allows for comparison across GTEs.

Table 6.2 **Non-financial performance measures — Urban transport GTEs, 2002-03**

<i>Indicator</i>	<i>STA</i>	<i>TransAdelaide</i>	<i>Metro Tasmania</i>	<i>ACTION Authority</i>
Transport operations				
Total boardings ('000s)	✓	✓	✓	✓
Adult (full fare) passengers			✓	✓
Adult (concession) passengers			✓	✓
Student and child passengers			✓	✓
Total number of services (million)			✓	
Total service kilometres	✓			
Customers per kilometre				✓
Per cent on-time running	✓			
Per cent of scheduled services operated				✓
Customer satisfaction index		✓		
Average revenue per passenger	✓			
Farebox recovery per cent				✓
Ticket use by category			✓	
Revenue per kilometre				
Fleet management				
Fleet number	✓		✓	
Ave. fleet age	✓			✓
FTE's per vehicle			✓	
Passengers per vehicle km	✓			
Cost per in service hour				✓
Cost per vehicle KM	✓			✓
Cost per passenger boarding	✓			✓
Per cent of vehicles in excess of maximum daily demand			✓	
Per cent of fleet with wheelchair access	✓			
Employee management				
Total FTE staff	✓	✓	✓	✓
Passengers per employee	✓			
Sick leave days per FTE		✓		
Number of work injuries			✓	✓
No. of new workers compensation claims		✓		
Days lost due to injuries		✓		
Days lost due to industrial disputes		✓		

Sources: GTE annual reports.

Unlike financial performance measures, there are no widely-used non-financial performance measures or third-party bodies (such as the Australian Accounting Standards Board) to standardise how this information is reported. As illustrated by table 6.2, GTEs in different jurisdictions differ in what performance data are reported and how they are presented. As such:

- Assessing the performance of GTEs is difficult as the measures are often presented in the absence of definitions or contextual information.
- Many measures appear to be solely informational (such as the number of full-time equivalent (FTE) employees or number of web-site ‘hits’) and do not reflect the organisation’s efficiency or effectiveness in using its resources.
- Comparing operating performance across GTEs is not possible as illustrated by the multiplicity of measures. Even those GTEs operating in the same sector and undertaking similar activities, may report very different and generally incomparable performance data. For example, of the 30 selected performance indicators in table 6.2, only two were reported by each of the four monitored urban transport GTEs in their annual reports. In most cases, differences in measurement techniques make it impossible to compare even basic performance measures, such as the on-time reliability of services.

6.3 Agencies undertaking external performance monitoring

Organisations that undertake significant, external performance monitoring activity can be generally categorised into two main groups — treasuries and other government departments that undertake monitoring on behalf of the GTEs’ shareholding ministers, and regulatory agencies. Other entities such as parliaments and review bodies also engage in external performance monitoring.

Treasuries and other government departments

Under the corporatisation model, the voting shares of a GTE are typically held by two government ministers. One share is typically held by the Treasurer, while the other is controlled by the minister responsible for the operations of the GTE. For instance, the shares of Energy Australia (NSW) are held by the Treasurer and the Minister for Energy and Utilities.

In most states and territories, treasuries are tasked with monitoring the financial performance of GTEs and keeping ministers and other stakeholders informed of performance, risk and issues as they relate to the government’s investment in these

businesses. In some jurisdictions, notably the Australian Government, these functions are exercised by the Department of Finance and Administration.

Usually, a designated section of the treasury has oversight of government-owned businesses, such as the Office of Government-Owned Corporations in Queensland, the Government Business Enterprise Management Branch in the ACT or the Australian Government's Government Business Advice Unit. Apart from undertaking monitoring activities, these bodies have a number of related roles including advising GTE managers and developing governance policies and guidelines.

NSW publishes an annual report on the financial performance of GTEs in that state, the *Performance of NSW Government Businesses* (see box 6.1).

Box 6.1 Performance monitoring case study: NSW Treasury

The NSW Treasury's *Performance of NSW Government Businesses* report covers the performance of all corporatised government businesses in NSW.

The report includes comments on the general progress of microeconomic reform and the state's implementation of National Competition Policy. The overall performance of Government Trading Enterprises (GTEs) in NSW is also presented relative to previous years.

A summary page is presented for each GTE, outlining its operations and highlighting its financial and operating performance over the previous financial year. The report also outlines any major changes to the business or factors that may have affected the performance of the GTE during the year.

Summary tables are presented listing financial, service (output) and efficiency measures. The tables present, where possible, comparative figures for the past five financial years.

During the past 15 years, the NSW Treasury has adopted and developed several performance measurement techniques that have been reported from time to time. These have included profit composition analysis, data envelopment analysis, stochastic frontier analysis and measures of total factor productivity and shareholder value added.

Source: NSW Treasury 2001a, 2002.

In November 1992 the then Premier and Treasurer of NSW, The Hon. John Fahey (1992), commented when tabling the first report:

[Performance monitoring] has been perceived not only for the sake of accountability but to ensure that any financial difficulties are detected as soon as possible, so that remedial steps can be taken before they become crises. ... The success of the program in identifying potential financial problems before they eventuate has contributed to the

Government's decision to develop arrangements for monitoring non dividend-paying government trading enterprises. These involve six-monthly reports by identified agencies to portfolio Ministers, with annual reports being sent to the Premier and Treasurer in time for the chief executive officer-ministerial review process, which normally takes place at the beginning of each year.

Portfolio departments often engage in monitoring the performance of aspects of a GTE's activities. For example, the Water Industry Compliance unit of the Queensland Department of Natural Resources Mines and Energy publishes reports on the business, water and sewerage performance of Queensland water utilities.

Regulatory agencies

Most GTEs are subject to some form of regulatory supervision and some operate in coordinated or cross-jurisdictional markets — such as the National Electricity Market (see table 6.3). The main aim of regulators is to improve efficiency and outcomes for the wider community. Regulators achieve this:

- directly, by regulating the operations of the GTE by means of price controls and stipulated service standards; or
- indirectly, by coordinating the operation of certain markets and the access to particular infrastructure and granting operating licenses to the GTE.

Table 6.3 Key regulators of monitored GTEs

<i>Jurisdiction</i>	<i>Regulator</i>	<i>Industries of GTEs covered^a</i>
NSW	Independent Pricing and Regulatory Tribunal	Electricity, rail, public transport, water
Vic	Essential Services Commission	Electricity, water, rail, ports
Qld	Queensland Competition Authority	Rail, ports, electricity, water
	Queensland Office of Energy	
WA	Economic Regulation Authority	Rail, water, electricity
SA	Essential Services Commission of SA	Electricity, ports, rail
Tas	Government Prices Oversight Commission	Electricity, water
	Office of the Tasmanian Energy Regulator	Electricity
ACT	Independent Competition and Regulatory Commission	Electricity, water
NT	Utilities Commission	Electricity, water
Cth	Australian Competition and Consumer Commission	Electricity, telecommunications, rail, ports, postal services
	Office of the Renewable Energy Regulator	Electricity
	National Electricity Code Administrator	Electricity
	Australian Communications Authority	Telecommunications
	National Competition Council	Electricity, water, ports, rail, telecommunications, postal services

^a The industries shown may not reflect the full extent of the organisation's activities. Only the industries relevant to the GTEs monitored in this report were included.

In order to successfully discharge these responsibilities, regulators must monitor the performance of regulated operators (for an example, see box 6.2). Regulating the prices that a GTE can charge, necessitates also monitoring service quality to ensure that financial targets are not met by reducing the standard of its service. In a competitive environment, quality performance is less of an issue because consumers generally have a choice of quality and price.

Box 6.2 Performance monitoring case study: the Australian Communication Authority

The Australian Communication Authority (ACA) seeks information against a range of key performance indicators (KPIs) and publishes it four times a year in the *Telecommunications Performance Monitoring Bulletin*. The data is typically aggregated to national and/or state and territory level. The information includes performance data on compliance with regulated standards such as the Customer Service Guarantee, and some areas where there are no regulated standards.

The ACA undertakes a separate collection of data for its annual Telecommunications Performance Report (required by s.105 of the *Telecommunications Act 1997*) which considers a greater breadth of telecommunications services and deals with issues in greater depth. This report is typically published in November following the financial year being examined.

In requiring service providers to provide information about their activities to the ACA, the ACA is required to adopt a regulatory policy which:

- promotes the greatest practicable use of industry self-regulation; and
- does not impose undue financial or administrative burdens on industry participants; but
- does not compromise the effectiveness of the regulatory objects.

The ACA also monitors consumer perceptions of service quality and awareness of telecommunications issues through annual surveys of consumer satisfaction and consumer awareness. This work informs the ACA about regulatory compliance activity and assists in targeting public information activities.

Source: ACA (1999).

The URF (1999) considers that performance monitoring (with specific regard to the GTE's quality of service) facilitates regulation by:

- enabling the establishment of enforceable service standards by assessing 'historical data on quality performance to ensure the standards are realistic and meaningful'; and

-
- establishing performance benchmarks (through a quality of service monitoring program), enabling regulators to adjust price controls in response to deviations from those benchmarks.

Regulatory agencies often report on the service performance of those GTEs under their supervision. These reports expose the GTEs to scrutiny by customers, media and other stakeholders. As the ESC (2004) explains:

The [ESC] reports publicly on the performance of Melbourne's three retail water and sewerage licensees: City West Water, South East Water and Yarra Valley Water. The aim of the report is to stimulate competition by comparison and inform customers about the service levels they receive. They focus on the key issues of quality, reliability and the affordability of water and sewerage services.

Regulators also often have responsibility for the general development of a particular sector. In performing this role, agencies undertake performance monitoring to gain an understanding of the current status of the sector and the possibilities for reform. For instance:

[the Office of the Tasmanian Energy Regulator] is of the view that industry reform must be based upon a sound understanding of industry performance. One of the Regulator's objectives under the [Electricity Supply Industry] Act (1995) is to promote efficiency and competition in the electricity supply industry and to protect the interests of consumers of electricity. To this end, the Office reports annually on the performance of the ESI. (OTER 2001)

Performance monitoring by regulators is particularly important to GTEs as it often provides a direct input into regulatory decisions — determining, in part, either the prices a GTE can charge, the maximum revenue it may earn, the amount it can charge for access to an asset, or some combination of these. That said, a GTE's operating performance may be severely prejudiced (or inadvertently advantaged) if regulators base their decisions on performance comparisons based on inaccurate data or incorrect assumptions, for example, in their valuation of assets (PC 2002a).

Other organisations

Other organisations also monitor aspects of GTEs' performance, in addition to the monitoring by owner-government departments and regulatory agencies.

Parliament

In the operations of government, parliament is a warden of the community's interests. In most areas of government service provision, parliamentarians have the opportunity to question the performance of government departments and agencies

through budget appropriation processes. However, by moving GTEs ‘off budget’ there are generally fewer opportunities for the operations of GTEs to be subject to such questioning.

Commentators such as Bottomley (2000) consider that parliamentary accountability has been further eroded by the concept of ‘commercial-in-confidence’ and its use as a rationale for withholding information from the public in general and the parliament in particular.

Unlike other jurisdictions, the Tasmanian Parliament has, since the mid-1990s, operated specific GTE scrutiny committees. Since their inception, these committees have inquired into the financial and service performance of several Tasmanian GTEs with their investigations and transcripts of evidence published in Hansard. The committees have also, on occasion, published anthology reports of their annual monitoring activities (see box 6.3).

Other parliamentary mechanisms can be involved in monitoring the performance of GTEs, but with mixed effectiveness. Bottomley (2000) notes:

In addition to Parliamentary committees, we would add question time and Parliamentary debates, although commentators are sceptical about the extent to which these mechanisms provide true or effective accountability to the public.

Productivity Commission and other review bodies

The Productivity Commission and some government bodies, such as the Bureau of Transport and Regional Economics (BTRE), are charged among other things with providing information, analysis and advice to governments and the community on aspects of GTE performance, either periodically or on an *ad hoc* basis.

These bodies are not part of GTEs’ immediate governance environment, unlike the departments of their shareholding ministers, parliament or their regulators. Their reports do not generally impinge on the day-to-day governance arrangements of GTEs. However, the detached perspective of these reports can make them a useful complement to other sources of performance monitoring.

Box 6.3 Performance monitoring case study: Government Business Enterprises and Government Corporations Scrutiny Committee 'B' 2001

Since the mid-1990s the Tasmanian Parliament has operated specialised committees to monitor the financial performance and general operations of government businesses in that state. Each committee approaches this task in a slightly different manner, focusing on particular issues and GTEs of concern.

Significantly the committees assess the government's (through its shareholder ministers) performance as well as the performance of GTE managers.

In 2001, Government Business Enterprises and Government Corporations Scrutiny Committee 'B' (the Committee) sought to determine whether the entities under scrutiny 'should have the confidence of the people of Tasmania', and committed to:

Examine the financial returns and management of [government trading enterprises] having due regard to whether financial returns to the state are sufficient to offset the risks of being in business.

In assessing the GTEs' performance the Committee had particular regard to return on equity, the quality and robustness of management practices, the risks to which the GTE was exposed, and the GTE's standing with the people of Tasmania.

The proceedings of the Committee were open to the public — other than if a witness presented commercially sensitive information, which was heard in camera. The committee expressed its concern of, 'some of the material necessary to make valid judgements to be classified as *secret* or *commercial in confidence*.'

The Committee examined the operations of three business, including Forestry Tasmania and Hydro Tasmania. In each case, the GTE was represented by its chairperson, Chief Executive Officer, and one of its shareholder ministers.

The Committee also sought information from peak bodies, industry experts and individuals who felt they had a stake in the outcomes of the GTEs under scrutiny.

Source: GBESCB (2001).

Typically, these agencies bring an industry-wide and often an economy-wide perspective. For example, the monitoring activity of the BTRE focuses on the outcomes and efficiency of an economic sector — for example rail or ports transport — rather than on the performance of particular GTEs within that sector. The Productivity Commission regularly monitors GTEs from an economy-wide perspective, analysing the performance of GTEs as a whole. In addition, it undertakes inquiries which can have direct implications for the governance of specific GTEs, such as in the telecommunications sector.

By looking at the ‘bigger picture’, the reports of these agencies provide a yardstick for jurisdictions to assess their policy performance and overall corporatisation program. They can also highlight successes and innovations in particular jurisdictions that can be implemented in other states and territories.

6.4 Implications for external governance

Performance monitoring has important, practical implications for the external governance of GTEs. Effective and transparent monitoring bears on whether shareholding ministers are fulfilling their responsibilities. As such, it can provide a powerful incentive for the initiation of good external governance arrangements.

Performance monitoring by government departments informs ministers on whether the GTEs they are responsible for are meeting their objectives and agreed outcomes. Also, independent performance monitoring by regulators, parliaments and ‘arms-length’ government organisations, provides the community with some assurance that the public interest is being served by the GTE and its shareholder ministers.

Ultimately, to be an effective input to external governance, performance monitoring relies on the setting of clear and measurable objectives and accurate, audited data. If objectives are not well-defined, transparent, and linked to measurable performance indicators, monitoring will not be fully effective. Similarly, monitoring will be limited by inaccurate or unavailable data.

PART B

7 Electricity

The financial performance of 21 electricity government trading enterprises (GTEs) is reported in this chapter. The GTEs vary significantly in their size and the range of generation, transmission and distribution services they provide.

In 2002-03, these GTEs generated \$17 billion in revenue and controlled assets valued at \$48 billion. The group also returned just over \$1.7 billion to their respective owner-governments, through income tax-equivalent payments and dividends.

The majority (16) of the monitored GTEs operated in the National Electricity Market (NEM). The five monitored GTEs not currently operating in the NEM are based in WA, Tasmania and the NT. Tasmania is due to enter the NEM in 2005, following the completion of the Basslink interconnector.

For a discussion of the data and the financial indicators used and some of the factors that should be considered when assessing performance, see chapter 3.

7.1 Monitored GTEs

The type of activities undertaken by the individual electricity GTEs and their involvement in ancillary services should be taken into account when comparing financial performance.

There are four principal activities carried out by electricity businesses: generation of electricity; the transmission of electricity at high voltages; the distribution of electricity at low voltages; and the retailing of electricity to customers. Of the 21 GTEs monitored, nine generated electricity, three transmitted electricity and seven distributed electricity and provided retail services (see table 7.1).

Western Power (WA) and Power and Water Corporation (NT) were the only fully integrated electricity utilities monitored — providing generation, transmission, distribution and retail services.

Table 7.1 Activities — electricity GTEs, 2002-03

<i>Electricity GTE</i>	<i>Jurisdiction</i>	<i>Activities</i>			
		Generation	Transmission	Distribution	Retail
Eraring Energy	NSW	✓	✗	✗	✗
Delta Electricity	NSW	✓	✗	✗	✗
Macquarie Generation	NSW	✓	✗	✗	✗
Transgrid	NSW	✗	✓	✗	✗
Australian Inland	NSW	✗	✗	✓	✓
Energy Australia	NSW	✗	✗	✓	✓
Integral Energy	NSW	✗	✗	✓	✓
Country Energy	NSW	✗	✗	✓	✓
CS Energy	Queensland	✓	✗	✗	✗
Stanwell Corporation	Queensland	✓	✗	✗	✗
Tarong Energy	Queensland	✓	✗	✗	✗
Enertrade	Queensland	✓ ^a	✗	✗	✗
Powerlink	Queensland	✗	✓	✗	✗
Ergon	Queensland	✗	✗	✓	✓
ENERGEX	Queensland	✗	✗	✓	✓
Western Power Corporation	WA	✓	✓	✓	✓
Hydro-Electric Corporation	Tasmania	✓	✗	✗	✓
Transend	Tasmania	✗	✓	✗	✗
Aurora	Tasmania	✗	✗	✓	✓
Power and Water Corporation	NT	✓	✓	✓	✓
Snowy Hydro	NSW, Victoria, Commonwealth	✓	✗	✗	✗

^a Enertrade trades power from privately-owned generators into the National Electricity Market.

In addition to providing generation, transmission, or distribution and retailing services, many electricity GTEs are involved in engineering consulting services. In 2002-03, seven of the monitored GTEs also supplied gas and two — Australian Inland, and Power and Water Corporation — were involved in supplying water.

The number of GTEs monitored has changed over the reporting period (see table 7.2). In 2002-03, the number of monitored GTEs remained the same as the previous year, however, the Snowy Mountain Hydro-Electric Authority (SMHEA) was replaced by Snowy Hydro Limited. Snowy Hydro assumed control of the Snowy Mountains Scheme after the abolition of the SMHEA in June 2002.

In the ACT, ACTEW Corporation Limited (ACTEW) is a government-owned holding company which contracts the provision of electricity to ActewAGL, a joint-venture with AGL — a private energy services company.¹

There are no electricity GTEs from Victoria or SA as the electricity supply is fully privatised in these states. In Victoria, the distribution GTEs were sold to the private sector during 1995-96. In March 1996, Yallourn Energy Limited, the generation GTE, was also sold. In SA, electricity GTEs were progressively restructured and their assets sold or transferred under long-term lease to the private sector in 1999 and 2000.

Table 7.2 Changes to monitored electricity GTEs, 1998-99 to 2002-03

<i>Period</i>	<i>Number Monitored</i>	<i>Included</i>	<i>Excluded</i>
1998-99	21	Aurora Energy, Transend	
1999-00	22	Ergon	
2000-01	23	Eraring Energy	
2001-02	21	Power and Water Authority, Country Energy ^a	Pacific Power, NorthPower, Advance Energy, Great Southern Energy
2002-03	21	Snowy Hydro	Snowy Mountain Hydro-Electric Authority

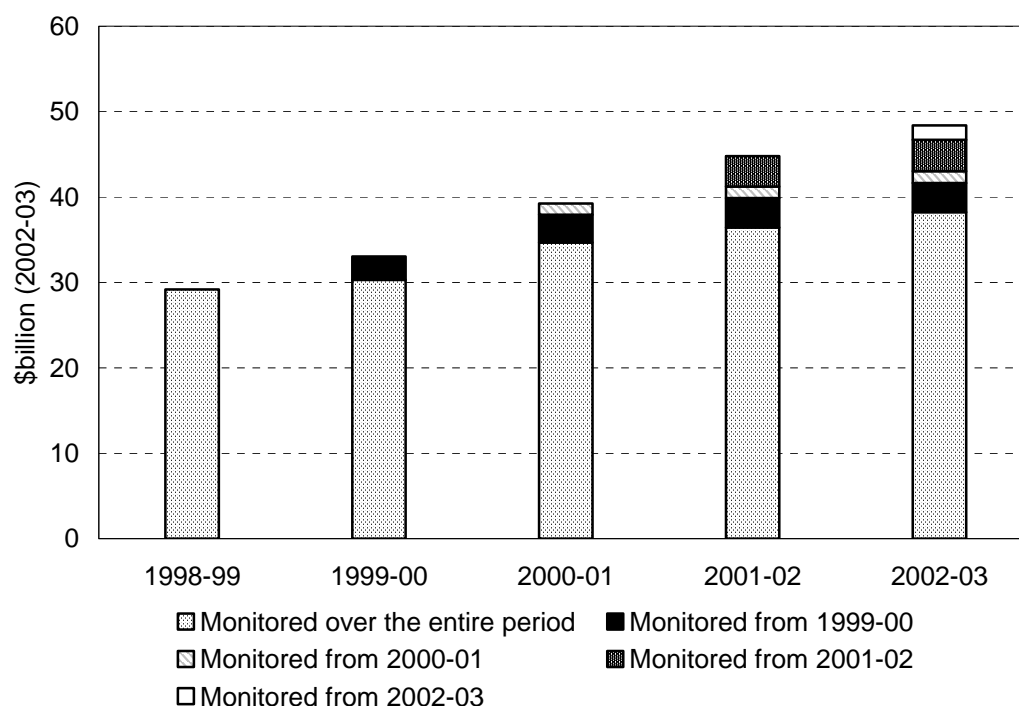
^a Country Energy was formed from a merger of NorthPower, Advance Energy and Great Southern Energy.

Over the reporting period, the total asset base for the monitored electricity GTEs has risen in real terms from \$29.2 billion in 1998-99 to over \$48 billion in 2002-03 (see figure 7.1).

¹ Most of ACTEW's assets and revenue are associated with the provision of water services. Its financial performance is discussed in chapter 8.

The asset base of distribution GTEs increased by \$9.8 billion over the reporting period, with over half of this due to the introduction of new GTEs in 1999-00 (Ergon Energy) and 2001-02 (Country Energy). The introduction of new GTEs also accounted for a significant proportion of the growth in the asset bases of generation GTEs (\$6 billion) and integrated GTEs (\$1.4 billion).

Figure 7.1 Sector assets — electricity GTEs, 1998-99 to 2002-03

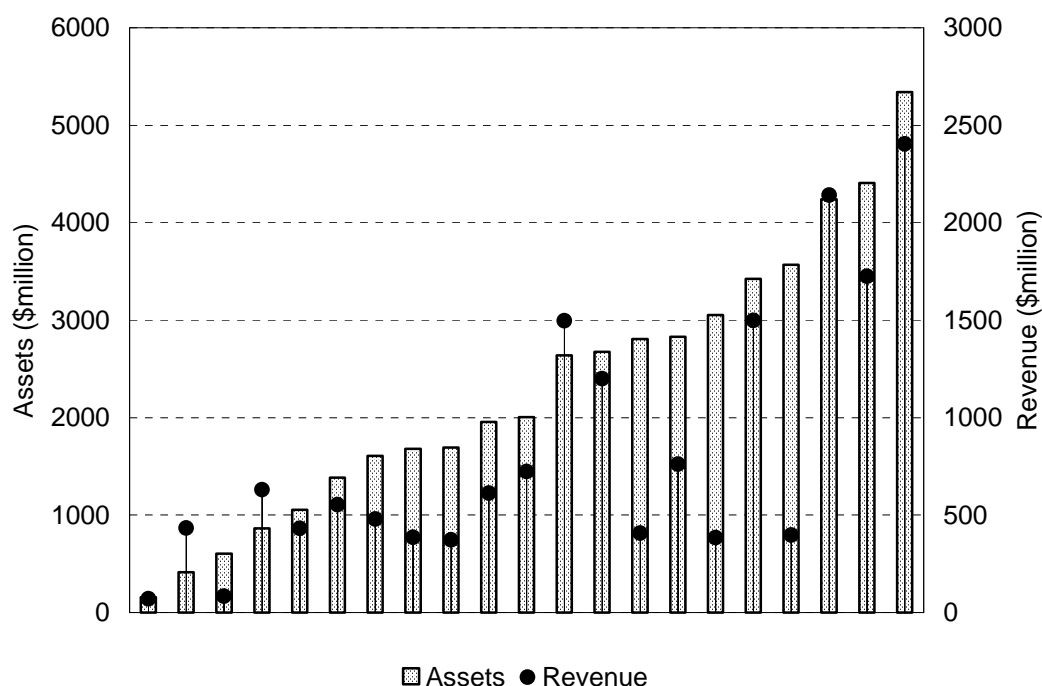


Note The value of sector assets prior to 2002-03 was converted to 2002-03 dollars using the implicit price deflator — Gross Fixed Capital Formation of Public Corporations (see chapter 3).

Sources: Productivity Commission estimates.

The size of the monitored electricity GTEs, in terms of the value of the assets controlled and revenue, is quite varied (see figure 7.2). The smallest in terms of asset value, in 2002-03, was Australian Inland (\$158 million) and the largest was EnergyAustralia (\$5.3 billion).

Figure 7.2 Assets and revenue — electricity GTEs, 2002-03



Source: Productivity Commission estimates.

7.2 Market Environment

Governments have introduced reforms aimed at improving the efficiency and financial performance of electricity GTEs. Reforms have focused on the governance of GTEs, the efficiency of the production process 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 performance over time.

The National Electricity Market

Over the reporting period, the most significant change to the market environment in which GTEs operated was the continued development of the NEM and the progressive introduction of choice of electricity supplier, beginning with larger customers and eventually extending to all customers (see table 7.3). The NEM is a wholesale market for the supply and purchase of electricity.

Table 7.3 Timetable for retail competition — by jurisdiction, 1996 to 2003

<i>Jurisdiction</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
<i>New South Wales</i>	>40 GWh (July)	>4 GWh (April) >750 MWh (July)	>160 MWh (July)			>100 MWh (January) >40 MWh (July)	All customers (January)	
<i>Victoria</i>	>750 MWh (July)		>160 MWh (July)				All customers (January)	
<i>Queensland</i>		>40 GWh (March)	>4 GWh (October)	>200 MWh (July)				
<i>South Australia</i>				>750 MWh (July)	>160 MWh (January)			All customers (January)
<i>Western Australia</i>		>88GWh (July)	>44 GWh (July)		>9 GWh (January)	>2 GWh (July)		>300 MWh (January)
<i>Northern Territory</i>					>4 GWh (April) >3 GWh (October)	>2 GWh (April)	>750 MWh (April)	
<i>Australian Capital Territory</i>		>20 GWh (October)	>4 GWh (March) >750 MWh (May) >160 MWh (July)			>100 MWh (January) >40 MWh (July)	All customers (January)	

Note 1000 KWh = 1 MWh, 1000 MWh = 1 GWh. Amounts refer to the minimum annual electricity a customer must consume to be eligible to choose their supplier.

Source: Energex (2003), Power and Water (2003).

The National Electricity Market Management Company (NEMMCO) manages the NEM, in accordance with the National Electricity Code (the Code). The Code specifies the market arrangements that govern the operation of the wholesale market, such as system security requirements, rules for bids and dispatch of generating capacity, and metering standards. The NEM officially commenced operating in December 1998, although trade between the NSW and Victorian wholesale markets commenced in May 1997.

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

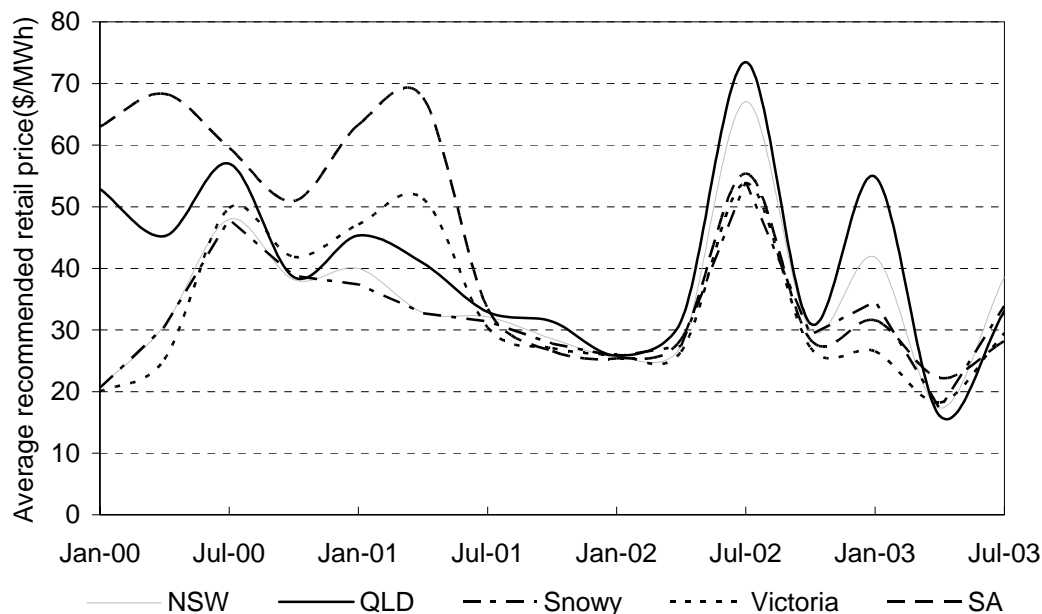
With the introduction of the NEM, electricity GTEs have had to come to terms with operating effectively in this new environment. There has been significant price volatility in some parts of the NEM. As the NSW Treasury commented in 2001:

From a financial perspective Australia's national electricity market is one of the riskiest markets in the world. The wholesale market price for electricity can rise or fall by 10 000 per cent within half an hour. No other commodity trades with such price volatility (NSW Treasury 2001b).

There have been significant price differences between sub-markets within the NEM. However, these differences have reduced since a change in market rules in 2001-02 (see figure 7.3).

The price differentials in the NEM's five market regions are due to differences in generator cost structures, regional demand and the limits of arbitrage. Arbitrage is the purchase of a commodity (electricity) in one market for immediate resale in others in order to profit from unequal prices. The physical limitations of existing interconnectors and the costs associated with transmitting electricity over large distances (including the loss of electricity) limit arbitrage between regions in the NEM.

Figure 7.3 **Average prices — National Electricity Market, January 2000 to July 2003**



Data source: NEMMCO (2004).

Although WA and the NT are not party to the NEM, (under commitments to National Competition Policy) both jurisdictions have introduced choice in electricity supplier for large users of electricity. In addition, the *Electricity Corporation Act 1994* (WA) and *Electricity Networks (Third Party Access Act* (NT) provide for third-party access to the respective electricity transmission network.²

On 30 June 2003 the WA Government endorsed an electricity reform program based on the recommendations of the Electricity Reform Task Force (ERTF 2002). The reform program recommended the disaggregation of Western Power into four separate entities — generation, networks, retail and regional power —and the establishment of a wholesale electricity market.

² Following the departure in 2001-02 of NT Power from the Territory, Power and Water Corporation is the only supplier of electricity to the vast majority of Territorians.

Price and environmental regulation

Most of the monitored electricity GTEs operate under some form of price regulation. In NSW, the Independent Pricing and Regulatory Tribunal (IPART) regulates distribution and electricity prices for small retail customers. Prices to customers who use more than 160 MWh per year are unregulated. IPART was also responsible for regulating the transmission network until July 1999, when this responsibility was transferred to the Australian Competition and Consumer Commission (ACCC).

In January 2001, the NSW Government commenced operation of the Electricity Tariff Equalisation Fund (ETEF) to reduce the market risk faced by retail suppliers of electricity (NSW Treasury 2000). According to NSW Treasury, the ETEF is designed to offer regulatory price protection to retail customers (who purchase less than 160 MWh per annum), while ensuring that suppliers are not exposed to unacceptable financial risk. Essentially the ETEF operates to insulate NSW retailers and their customers from price movements in the NEM.³

In Queensland, prices for small customers are set by the Minister for Energy.⁴ The Treasurer was responsible for regulating the prices charged for use of the transmission network, until the ACCC took over this responsibility in January 2002. The Queensland Competition Authority has had responsibility for distribution network prices since December 2000.

In June 1999, Queensland introduced the Benchmark Pricing Agreement (BPA). The BPA is a negotiation between the Queensland Treasury and the Queensland retail GTEs — Energex and Ergon. Under a BPA, a retailer will receive a negotiated payment (community service obligation (CSO) if the regulated revenue they receive from non-contestable customers is less than the cost of their energy purchases. If this revenue exceeds expenses, then the GTE must pay a franchise surplus (or negative CSO) to the Queensland Treasury (COAG 2002).

In Tasmania, the Office of the Tasmanian Electricity Regulator sets maximum charges for the generation, transmission and distribution of electricity, as well as maximum retail tariff prices.

³ When the market price of electricity is higher than the energy cost component that retailers may recover from regulated customers, retailers withdraw the difference from the ETEF, enabling them to earn a commercial return whilst selling at the regulated tariff. If the market price is lower, then retailers pay the difference into the fund. If the fund slips into deficit, then NSW government-owned generators pay into the fund, ensuring it is always in balance.

⁴ The Queensland Premier announced on 12 February 2004 that the Office of Energy would be transferred to the portfolio of Natural Resources, Mines and Energy.

In the Northern Territory, retail prices for non-contestable customers are set by the Government. The Utilities Commission sets the maximum allowable revenue that Power and Water Corporation can earn from network access tariffs and charges.

On 8 December 2000, the Federal Parliament passed the *Renewable Energy (Electricity) Act 2000*, which established a 2 per cent renewable energy target for electricity supply in Australia. From 1 April 2001, energy wholesalers have had to purchase increasing amounts of electricity generated from renewable sources. 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.

Structural reform

The Australian electricity supply industry developed on a state-by-state basis with vertically integrated, government-owned utilities. The major driver for structural reform in the electricity industry, during the 1990s, was a series of inter-governmental agreements, culminating in the National Competition Policy (NCP) agreements, aimed at establishing the competitive NEM.⁵ The intention behind structural change within the electricity supply industry was to introduce competition in the generation and retail sectors by separating these competitive elements from the natural monopoly elements of transmission and distribution.⁶

In NSW, Pacific Power was restructured on 1 February 1995 into a transmission network and three generator businesses. Pacific Power’s transmission activities were transferred to TransGrid and six of Pacific Power’s power stations were transferred to two new generators — Delta Electricity and Macquarie Generation. On 2 August 2000, the remaining generation assets of Pacific Power were transferred to a new generation company, Eraring Energy.

NSW’s 25 existing electricity distributors were amalgamated in October 1995, to form six new distribution businesses — Integral Energy, Advance Energy, Great

⁵ In July 1991, governments agreed to work co-operatively to improve competitiveness in the electricity industry and the National Grid Council was established. In June 1993, six governments (Commonwealth, NSW, Victoria, Queensland, South Australia and the ACT) committed to undertake reforms necessary to allow a competitive electricity market to commence from July 1995. At the April 1995 Council of Australian Governments meeting, these reforms were extended and brought within the NCP process.

⁶ An industry is considered to be a natural monopoly if total costs of production are lower when a single firm produces the entire industry output, than when two or more firms produce the same output. It is generally accepted that electricity transmission and distribution networks exhibit some natural monopoly characteristics.

Southern Energy, NorthPower, EnergyAustralia and Australian Inland Energy and Water.⁷ On 1 July 2001, the NSW Government merged three distributors — Great Southern Energy, NorthPower and Advance Energy — to form Country Energy.

In Queensland, AUSTA Electric was horizontally separated into three generators — CS Energy, Stanwell Corporation and Tarong Energy — which commenced operating on 1 July 1997. At the same time, the Queensland Transmission and Supply Corporation's (QTSC) eight subsidiaries — seven regional distributors and the Queensland Electricity Transmission Corporation, trading as Powerlink — were established as independent government-owned corporations.

Three entirely new retail corporations were established and two of these merged to form Ergon Energy Pty Ltd.⁸ Ergon Energy Pty Ltd was owned by six of the regional distribution corporations. On 30 June 1999, the six regional distributors amalgamated to form Ergon Energy Corporation, of which Ergon Energy Pty Ltd became a wholly-owned subsidiary.

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

In WA, Western Power was established in 1995 as a government-owned corporation following the disaggregation of the State Energy Commission of WA.

In Tasmania, the Hydro-Electric Corporation (HEC) was restructured into three businesses on 1 July 1998. The HEC retained responsibility for generation, while the transmission network was transferred to Transend Networks and the retailing and distribution functions were transferred to Aurora Energy.

⁷ Australian Inland Energy and Water traded as Australian Inland Energy to 15 December 2000.

⁸ Ergon Energy Pty Ltd was formed through a merger of the Northern Electricity Retail Corporation (Omega Energy) and Central Electricity Retail Corporation (Ergon Energy) in February 1998. The third electricity retailer was Energex.

7.3 Profitability

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

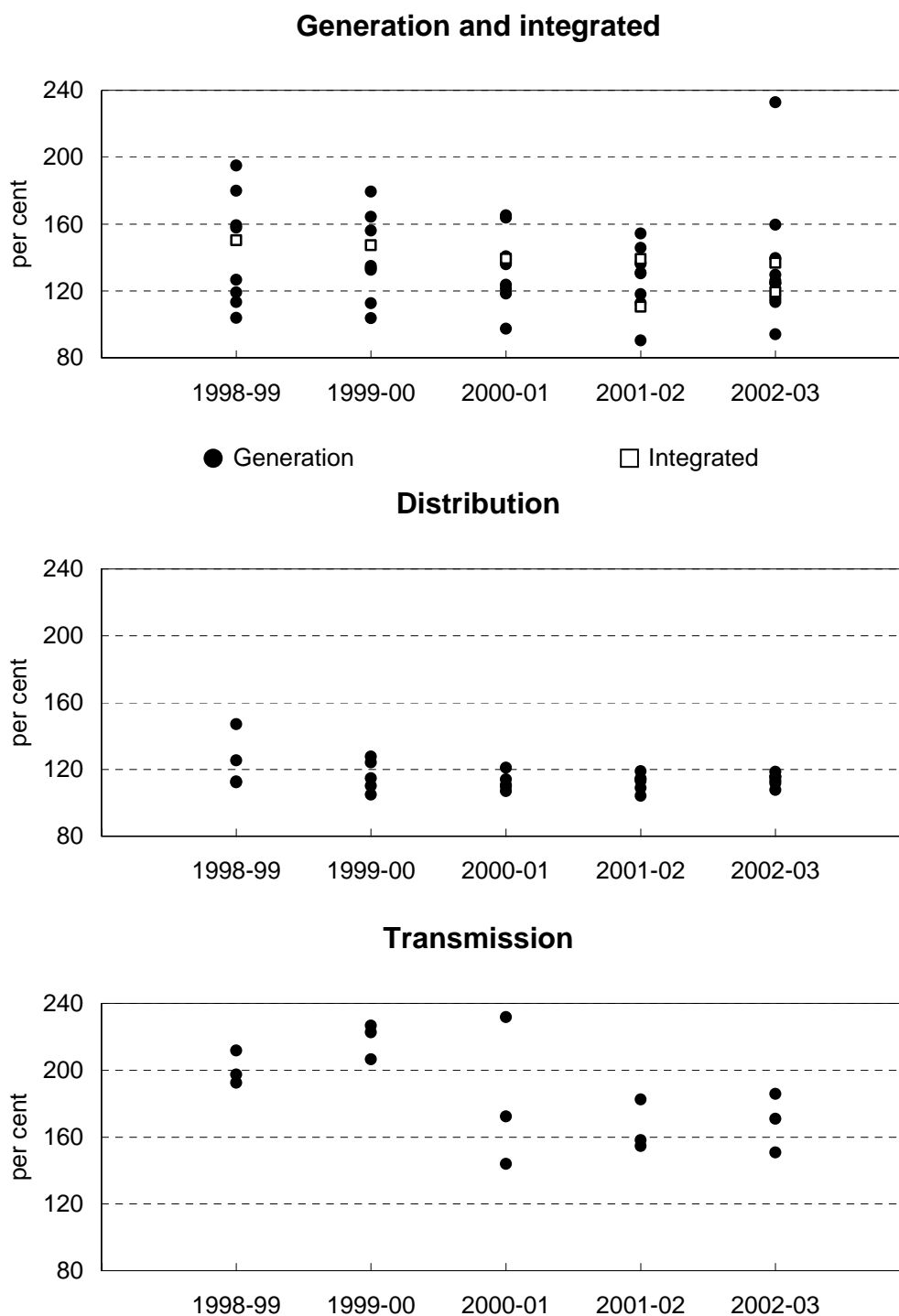
Profitability is influenced by a number of factors including prices (and therefore price regulation when applicable), business volumes and expenses. Other factors, such as changes in asset values and capital restructuring, will also influence measures of profitability through the impact of depreciation and restructuring expenses.

Most of the electricity GTEs generally made positive operating profits. Enertrade reported operating losses in 2000-01, 2001-02 and 2002-03 primarily due to contracts entered into prior to commencement of the NEM. The conditions of Enertrade's purchase contracts (power-purchase agreements) are expected to result in significant future losses (Enertrade 2002).

Over the reporting period, most electricity GTEs recovered between 100 and 150 per cent of operating costs (see figure 7.4). Cost recovery measures the ability of a GTE 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.

In 2002-03, three of the five highest cost recovery ratios were recorded by transmission GTEs, with TransGrid, Powerlink and Transend all recording cost recovery ratios of over 150 per cent. Distribution GTEs, as a group, recorded the lowest average cost recovery ratio of 113 per cent.

Figure 7.4 Cost recovery — electricity GTEs, 1998-99 to 2002-03



Note 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. Revenue from operations is calculated by subtracting investment income and receipts from governments to cover deficits from total revenue. Expenses from operations are calculated by subtracting gross interest expense from total expenses. Prior to 2000-01, abnormal items were also subtracted from operating expenses and revenue.

Source: Productivity Commission estimates.

The return on assets for electricity GTEs as a whole fell over the reporting period. However, the return on assets for individual GTEs and different types of electricity GTEs is quite diverse (see figure 7.5). To some extent, their variability reflects the influence of restructuring expenses, asset revaluations and the continuing development of the NEM. For example, the opening up of interconnectors and the introduction of retail contestability has affected the operating results of different GTEs at different times during the reporting period.

The variation in profitability within the sector is also reflected in the return on equity ratio. Most of the monitored electricity GTEs have had variable return on equity ratios over the reporting period.

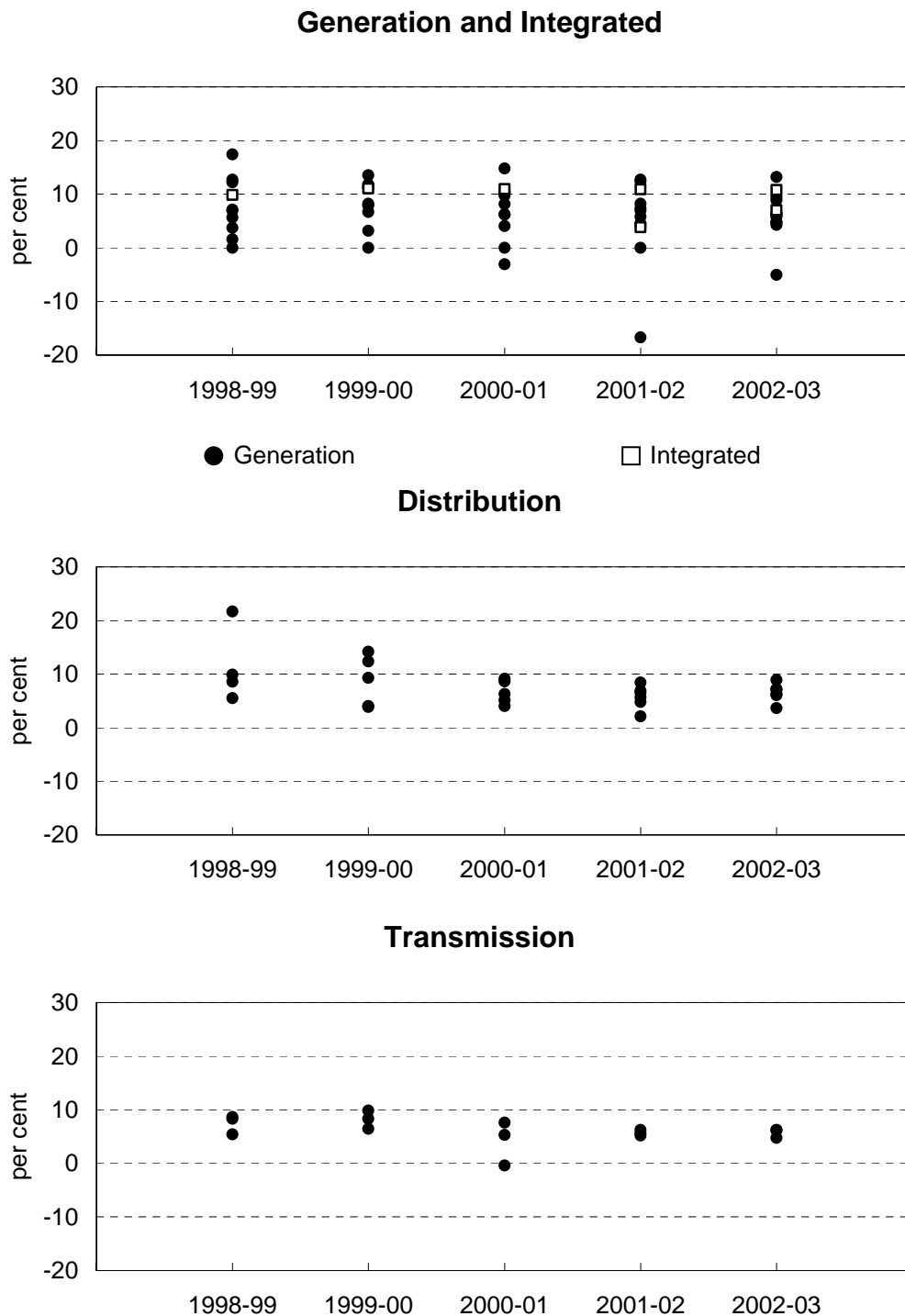
It appears that a number of electricity GTEs are not achieving a sufficient return on their assets when compared to benchmark returns recommended and applied by regulatory agencies.

IPART suggest that a nominal pre-tax return of 8.5 per cent would be a sufficient pre-tax return on assets for electricity GTEs, taking into account the risks faced by entities operating in the sector (IPART 1998). Similarly, the Queensland Competition Authority has recommended returns for its distribution GTEs of 8.1 per cent (QCA 2001).

In 2002-03, only five of the 21 monitored GTEs achieved a return on assets in excess of 8 per cent.⁹ The median rate of return was 6.3 per cent.

⁹ Of the remaining 16 electricity GTEs, six failed to achieve the risk-free rate of 5.4 per cent derived using the Ten Year Government Bond Rate.

Figure 7.5 Return on assets — electricity GTEs, 1998-99 to 2002-03



Note Return on assets is the ratio of earnings before interest and tax (EBIT) to average total assets. EBIT is calculated by subtracting total expenses from total revenue (includes abnormals) and adding back gross interest expense. Average total assets is the average of the value of assets at the beginning and end of each financial year. Where an average was not available, the value of total assets at the end of the financial year was used.

Source: Productivity Commission estimates.

7.4 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, on occasion, imposed financial restructuring on their electricity GTEs. This has generally involved the transfer of both assets and liabilities to the states and territories, and the withdrawal of equity. Financial restructuring adds to the difficulty of comparing financial performance over time.

Examples of capital restructuring by shareholder governments are described below:

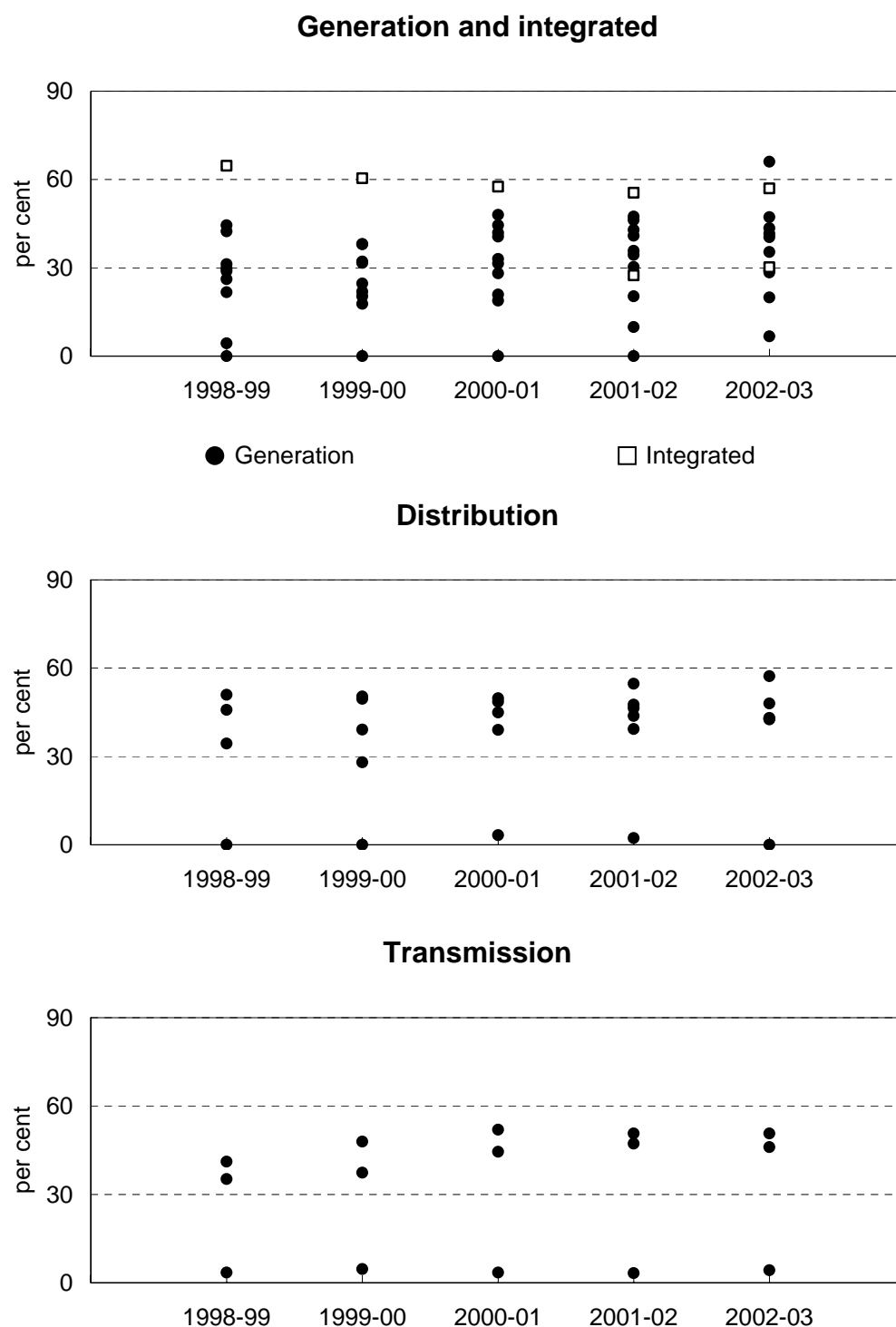
- In NSW, over \$5.2 billion in equity has been returned to the state, from electricity GTEs, since 1996 (AONSW 2003b). In 2000-01 alone, \$3 billion in equity was returned from the NSW distribution GTEs, Delta Electricity, Macquarie Generation and TransGrid. The GTEs increased their borrowings by a commensurate amount to pay for this return. This transfer affected financial management indicators, including the debt to equity, debt to total assets, interest cover and leverage ratios.
- In Queensland, Powerlink was required to make interest free loans (valued at \$249 million) to the State in 1997-98, as part of a capital restructure. This resulted in a 90 per cent increase in debt as Powerlink borrowed funds to make the payment. In 1998-99, \$249 million of contributed equity was withdrawn, which resulted in an increase in the debt to equity, debt to total assets and total liabilities to equity ratios in that year. Similar restructuring occurred during 1999-00 and 2000-01. In 1999-00, an interest free loan of \$150 million was made to the state (funded by an increase in Powerlink debt). In 2000-01, Powerlink bought back \$150 million worth of ordinary shares from the government and the share capital proceeds were used to offset the loan.
- In 2002-03, Power and Water's debt level increased due to a \$56 million debt-for-equity swap with the NT Government. The transaction resulted in an increase in Power and Water's interest bearing liabilities and a corresponding decrease in Power and Water's equity.

A number of electricity GTEs have reduced their debt levels through financial restructuring, which has allowed them to reduce repayment periods and to negotiate improved interest terms. For example, during 1999-00 and 2000-01, the HEC paid out loans with a face value of \$317 million and interest rate swaps of \$898 million prior to maturity — reducing their borrowing costs by 20 per cent from 1998-99 levels.

In 2002-03, the majority of electricity GTEs had debt to total asset ratios within the 30 to 60 per cent range (see figure 7.6). The median debt to total assets ratio was just over 34 per cent for generation GTEs, with transmission and distribution GTEs both around 45 per cent.

In 2002-03, seven electricity GTEs had an interest cover of over three times — down from nine in 2001-02. Only one GTE had negative interest cover. Six GTEs had interest cover multiples of less than two. There does not appear to be a large margin to insulate these GTEs from increases in interest rates or falling revenues, which could see these GTEs unable to meet their debt repayment commitments from current earnings.

Figure 7.6 Debt to total assets — electricity GTEs, 1998-99 to 2002-03



Note Each data point represents the debt to total assets ratio for a government trading enterprise in that financial year. Debt is defined to include all repayable borrowings (interest bearing and non-interest bearing), interest bearing non-repayable borrowings and finance leases. Average total assets is the average of the value of assets at the beginning and end of each financial year. Where an average was not available, the value of total assets at the end of the financial year was used.

Source: Productivity Commission estimates.

7.5 Financial transactions

As part of the reform process, 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.

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

Over the reporting period, an increasing number of electricity GTEs have made tax-equivalent and dividend payments. Most now make such payments.

Prior to 1999-00, tax-equivalent payments were based on a company tax rate of 36 per cent. Under tax-effect accounting, income tax-equivalent expenses for any year may differ from the actual amount of tax paid to the State and Territory governments for that year because of permanent and timing differences. Changes in the company tax rate introduced by the Commonwealth Government in December 1999 led to the restatement of deferred tax liabilities in 1999-00.¹⁰ As a result of this adjustment, tax-equivalent payments by electricity GTEs in 1999-00 were reduced by \$240 million (36 per cent).

Dividend payments represent a return on shareholder funds and their size reflects financial performance. In 2002-03, NSW electricity GTEs paid \$431 million in dividend payments, while Queensland and WA electricity GTEs returned \$505 million and \$114 million respectively. Power and Water Corporation returned \$20 million to the NT Government.¹¹

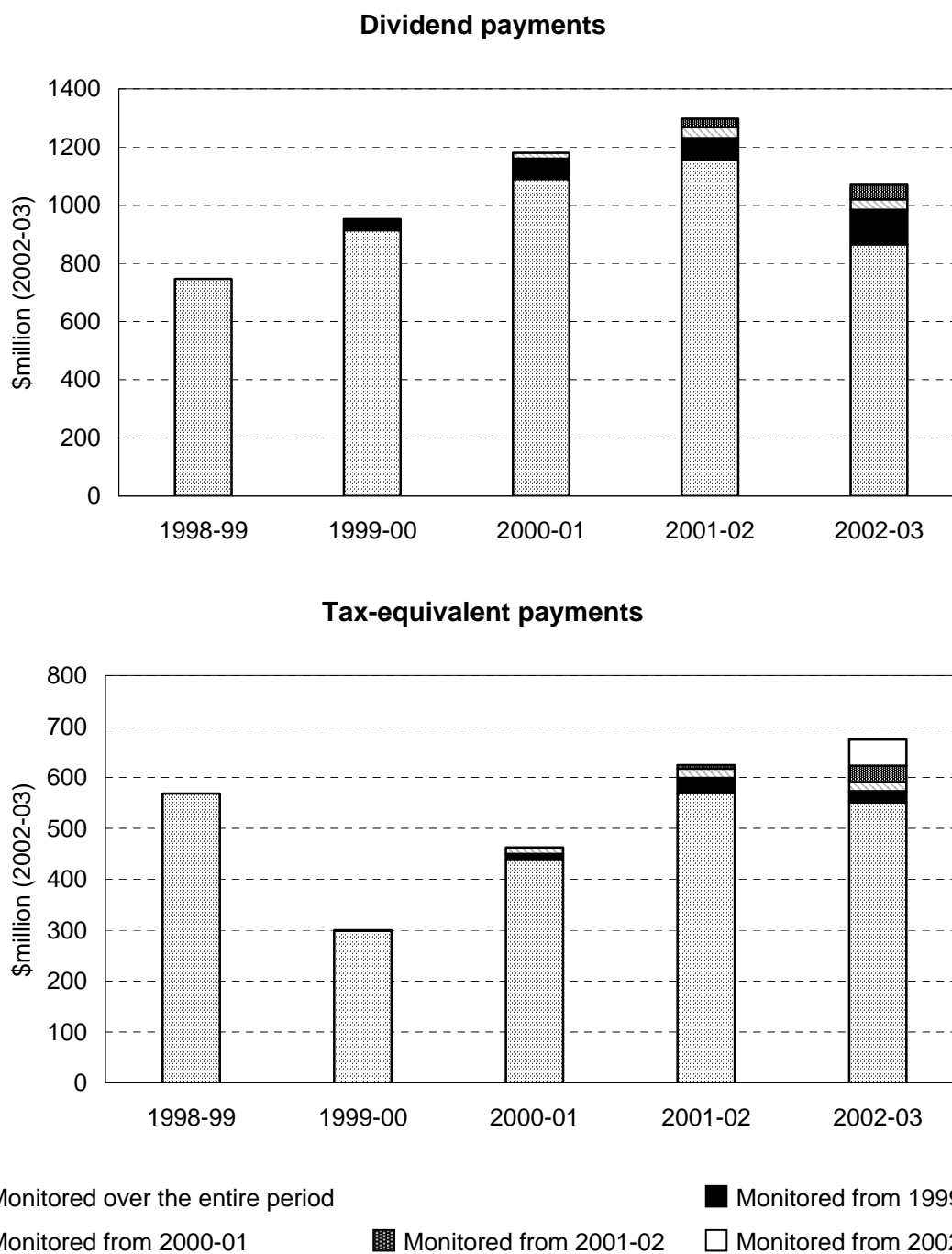
No dividend payments were reported for the Tasmanian GTEs or Snowy Hydro in 2002-03. This was due to those GTEs adopting a new accounting policy regarding dividend payments. Under the new policy dividends are recognised in the year in which they are announced, recommended or declared rather than in the year that they relate to (see chapter 3 for details).

There has been significant variation in the level of dividends paid or provided for by the monitored electricity GTEs as a whole over the reporting period (see figure 7.7).

¹⁰ The company tax rate was decreased to 34 per cent for 2000-01 and then to 30 per cent from 2001-02.

¹¹ An additional \$9 million in dividend payments was recognised in Power and Water Corporation's financial statement for 2002-03 with a change in accounting policy (see chapter 3 for details).

Figure 7.7 Dividend and income tax-equivalent payments — electricity GTEs, 1998-99 to 2002-03



Note The value of dividends and tax-equivalent payments prior to 2002-03 were converted to 2002-03 dollars using the implicit price deflator — Gross Fixed Capital Formation of Public Corporations (see chapter 3).

Source: Productivity Commission estimates.

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

Several of the electricity GTEs received CSO funding over the reporting period. Generally, retailers are subject to these obligations, although there are some examples of CSOs being placed on generation GTEs.

In 2002-03, CSO payments to electricity GTEs amounted to over \$398 million. Around 75 per cent of all CSO payments were made to distribution GTEs.¹²

¹² This figure was the amount disclosed by the GTEs in their annual reports. Some GTEs did not separately disclose the value of CSO payments made to them during 2002-03. These undisclosed payments have not been included in the total.

7.6 GTE performance reports

Delta Electricity (NSW)
Macquarie Generation (NSW)
Eraring Energy (NSW)
TransGrid (NSW)
Australian Inland (NSW)
EnergyAustralia (NSW)
Integral Energy (NSW)
Country Energy (NSW)
CS Energy (Queensland)
Stanwell Corporation (Queensland)
Tarong Energy (Queensland)
Enertrade (Queensland)
Powerlink (Queensland)
Ergon Energy (Queensland)
Energex (Queensland)
Western Power (WA)
Hydro-Electric Corporation (Tasmania)
Aurora Energy (Tasmania)
Transend Networks (Tasmania)
Power and Water Corporation (NT)
Snowy Hydro (Commonwealth)

Delta Electricity (Delta) operates under the *State Owned Corporations Act 1989* (SOC Act) and the *Energy Services Corporations Act 1995* (ESC Act). Delta's primary business is the generation of electricity, most of which is sourced from four coal-fired power stations with a combined generation capacity of 4240 MW. It also owns two small hydro-electric plants.

Delta generates electricity for sale into the National Electricity Market (NEM) — to which it contributes around 13 per cent of total supply. Although Delta does not face direct price regulation, it is subject to the rules and conditions governing the NEM.

Pre-tax operating profit was 28 per cent lower in 2002-03, due mainly to a 6 per cent increase in expenditure compared to the previous year. Despite reporting increased energy demand in New South Wales, Victoria and Queensland, Delta's sales revenue was slightly lower due to greater competition from interstate generators.

Delta returned contributed equity to the NSW Government in 2000-01 (\$380 million) and 2002-03 (\$120 million). This return was paid for with borrowings from the New South Wales Treasury Corporation, thereby increasing the level of Delta's debt.

Following the adoption of a new accounting policy regarding the valuation of physical non-current assets, in 2002-03, the value of total assets increased by \$406 million. This revaluation had a significant effect on the debt to equity, debt to total assets, and total liabilities to equity ratios.¹

Under the provisions of the SOC Act, Delta is required to make tax-equivalent and dividend payments. Dividend payments are made in accordance with the share dividend scheme, which is determined by the voting shareholders and as required by the ESC Act. In 2002-03 the dividend payment included a \$50 million special dividend.

¹ Property, plant and equipment is recognised at fair value in accordance with AASB 1041 *Revaluation of Non-Current Assets* and the *New South Wales Treasury Accounting Policy for the Valuation of Non-Current Assets at Fair Value*. Prior to 2002-03, Delta recognised property plant and equipment on a historical cost basis, except where revalued following the approval of the directors.

DELTA ELECTRICITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00^a</i>	<i>2000-01^b</i>	<i>2001-02</i>	<i>2002-03^c</i>
<i>Size</i>						
Total assets	\$m	1 361	1 492	1 555	1 600	2 006
Total revenue	\$m	574	674	757	732	725
<i>Profitability</i>						
Operating profit before tax	\$'000	60 684	158 671	188 072	142 359	102 003
Operating sales margin	%	16.0	28.0	28.9	26.8	22.9
Cost recovery	%	119.0	133.6	140.6	136.6	129.7
Return on assets	%	6.9	13.5	14.8	12.7	9.5
Return on equity	%	5.3	16.1	23.2	24.3	10.3
<i>Financial management</i>						
Debt to equity	%	57.8	46.2	190.3	183.9	98.0
Debt to total assets	%	31.2	24.6	48.0	46.2	43.5
Total liabilities to equity	%	87.0	96.1	304.8	303.9	150.5
Interest cover	times	2.9	5.7	6.1	3.4	2.5
Current ratio	%	96.4	134.3	127.1	126.7	126.7
Leverage ratio	%	187.0	196.1	404.8	403.9	250.5
<i>Payments to and from government</i>						
Dividends	\$'000	32 695	86 653	119 740	85 482	113 068
Dividend to equity ratio	%	4.5	11.6	20.9	21.9	18.9
Dividend payout ratio	%	85.0	72.4	90.0	90.0	184.3
Income tax expense	\$'000	22 218	38 966	55 028	47 379	40 653
CSO funding	\$'000	0	0	0	0	0

^a Includes an abnormal gain of \$26 million related to surpluses in superannuation funds. A fall in the future company tax rate reduced tax-equivalent payments by \$18 million. ^b Delta Electricity returned \$380 million in contributed equity to the NSW Government. This was paid for by additional borrowings, thereby increasing the level of debt by a commensurate amount. ^c In 2002-03, Delta's dividend payment included a \$50 million special dividend.

Macquarie Generation (Macquarie) operates under the *State Owned Corporations Act 1989* (SOC Act) and the *Energy Services Corporations Act 1995* (ESC Act). It currently operates two coal-fired power stations — Bayswater and Liddell — with a combined generating capacity of 4640 MW.

Macquarie generates electricity for sale into the National Electricity Market (NEM) — to which it contributes over 13 per cent of total supply. Although Macquarie does not face direct price regulation, it is subject to the rules and conditions governing the NEM.

In 2002-03, pre-tax operating profit fell by over 44 per cent (\$81 million) with a 7 per cent (\$56 million) decrease in electricity sales and a 54 per cent (\$41 million) increase in borrowing costs. A fall in the average NSW electricity spot price and increased competition from interstate generators contributed to the revenue decrease.

Macquarie returned contributed equity to the NSW Government in 2000-01 (\$240 million) and 2002-03 (\$400 million). The returns were paid for with additional borrowings, thereby increasing the level of Macquarie's debt.

Macquarie's total assets increased by \$700 million in 2002-03, attributed mainly to a revaluation of physical non-current assets.

In 2002-03, the capital restructure and asset revaluation increment significantly affected Macquarie's financial management indicators.¹ The debt to equity and total liabilities to equity ratios both fell, primarily due to the substantial increase in the valuation of Macquarie's assets.

Under the provisions of the SOC Act, Macquarie is required to make tax-equivalent and dividend payments. Dividend payments are made in accordance with the share dividend scheme, which is determined by the voting shareholders and as required by the ESC Act.

¹ The capital restructure in 2000-01 also had a significant effect on Macquarie's financial performance ratios, notably return on equity, debt to equity, debt to total assets, total liabilities to equity and leverage ratios, all of which increased.

MACQUARIE GENERATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00^a</i>	<i>2000-01^b</i>	<i>2001-02</i>	<i>2002-03^c</i>
<i>Size</i>						
Total assets	\$m	2 138	2 158	2 065	2 127	2 828
Total revenue	\$m	719	733	808	815	761
<i>Profitability</i>						
Operating profit before tax	\$'000	70 141	65 134	143 230	181 571	100 718
Operating sales margin	%	21.3	19.2	26.4	31.4	28.4
Cost recovery	%	126.5	132.5	135.9	145.8	139.6
Return on assets	%	7.1	6.7	10.3	12.3	8.8
Return on equity	%	4.7	6.3	12.7	17.5	6.1
<i>Financial management</i>						
Debt to equity	%	98.6	86.9	135.2	130.0	100.7
Debt to total assets	%	42.4	38.0	44.5	42.9	47.2
Total liabilities to equity	%	129.6	129.5	197.2	207.4	143.3
Interest cover	times	1.8	1.8	3.0	3.4	1.8
Current ratio	%	44.4	81.3	54.3	64.3	52.4
Leverage ratio	%	229.6	229.5	297.2	307.4	243.3
<i>Payments to and from government</i>						
Dividends	\$'000	40 000	50 000	100 000	125 000	56 000
Dividend to equity ratio	%	4.3	5.3	12.2	18.0	6.0
Dividend payout ratio	%	91.6	84.4	96.5	103.0	98.9
Income tax expense	\$'000	26 468	5 918	39 597	60 257	44 081
CSO funding ^d	\$'000	18 153	7 854	0	0	0

^a Abnormal revenue relating to investment returns on externally managed superannuation funds of \$19 million was reported. This was offset by an abnormal loss of \$53 million due to the termination of a long-term coal supply contract. The fall in income tax-equivalent payments reflects an \$18 million downward adjustment in the future company tax rate. ^b Macquarie returned \$240 million in contributed equity to the NSW Government. The return was paid for with additional borrowings, increasing the level of debt by a commensurate amount. ^c Macquarie returned \$400 million in contributed equity to the NSW Government. The return was paid for with additional borrowings, increasing the level of debt. ^d Until 1999-00, the NSW Government provided Macquarie Generation with funding for the provision of community service obligations. Macquarie was reimbursed for the full cost of providing rebates and subsidies to certain customers in line with NSW Government policy decisions. Community service obligations (and funding) ceased on 5 December 1999.

Eraring Energy (Eraring) operates under the *State Owned Corporations Act 1989* (SOC Act) and the *Energy Services Corporations Act 1995* (ESC Act).¹

Eraring generates and trades electricity within the National Electricity Market. Its generation assets have a capacity of 3041 MW, from coal, hydro and wind electricity plants — the largest being the Eraring coal-fired power station which provides around 87 per cent of the company's output. Eraring also has a wholly-owned subsidiary, Pacific Western, which operates the Collie Power Station in WA, under contract to Western Power.

Pre-tax operating profit was over \$58 million in 2002-03, 20 per cent higher than the previous year. The increase was mainly due to a 13 per cent rise in revenue from electricity sales, although this was partially offset by higher operating expenses related to the depreciation of non-current assets.

In 2001-02, Eraring's debt to equity and debt to total asset ratios were significantly lower than in 2000-01, due to the NSW Government re-purchasing \$150 million of Eraring's debt. In 2002-03 Eraring's debt ratios decreased further due to a reduction in debt (\$40 million) and an upward revaluation of non-current assets (\$55 million).

Under the provisions of the SOC Act, Eraring is required to make tax-equivalent and dividend payments. Dividend payments are made in accordance with the share dividend scheme, which is determined by the voting shareholders and as required by the ESC Act. In 2002-03, Eraring returned almost \$54 million to the State Government in tax-equivalent and dividend payments.

Eraring received \$110 000 in community service obligation payments from the NSW Government in 2002-03.

¹ Eraring was established on 1 July 2000 under the *Energy Services Corporations (Eraring Energy) Regulation 2000*. On 2 August 2000, it commenced operations following the transfer of generation assets, staff, rights and liabilities from Pacific Power.

ERARING ENERGY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03^b</i>
<i>Size</i>						
Total assets	\$m	n.r.	n.r.	1 319	1 327	1 385
Total revenue	\$m	n.r.	n.r.	463	533	553
<i>Profitability</i>						
Operating profit before tax	\$'000	n.r.	n.r.	36 812	48 574	58 182
Operating sales margin	%	n.r.	n.r.	17.6	11.3	11.8
Cost recovery	%	n.r.	n.r.	121.3	112.7	113.4
Return on assets	%	n.r.	n.r.	6.2	4.5	4.8
Return on equity	%	n.r.	n.r.	2.7	3.2	3.8
<i>Financial management</i>						
Debt to equity	%	n.r.	n.r.	28.1	12.6	8.3
Debt to total assets	%	n.r.	n.r.	18.9	9.9	6.7
Total liabilities to equity	%	n.r.	n.r.	49.0	27.7	26.1
Interest cover	times	n.r.	n.r.	1.8	5.2	9.2
Current ratio	%	n.r.	n.r.	72.2	104.2	74.7
Leverage ratio	%	n.r.	n.r.	149.0	127.7	126.1
<i>Payments to and from government</i>						
Dividends ^c	\$'000	n.r.	n.r.	19 479	36 471	35 828
Dividend to equity ratio	%	n.r.	n.r.	2.2	3.8	3.4
Dividend payout ratio	%	n.r.	n.r.	80.8	119.1	88.3
Income tax expense	\$'000	n.r.	n.r.	12 716	17 954	18 090
CSO funding	\$'000	n.r.	n.r.	125	59	110

^a In August 2001, the NSW Government agreed to repurchase \$150 million of Eraring's debt. ^b The figures for 2001-02 have been adjusted retrospectively to allow comparability with 2002-03 figures which recognise energy sales on a gross basis. Current assets and current liabilities were adjusted upward by \$78 million. ^c The dividend payments for 2001-02 and 2002-03 were reduced by \$4.3 million and \$4.7 million respectively. These are amounts paid for worker's compensation and dust disease court determinations for other than Eraring Energy employees. The liability was transferred from the NSW Government to Eraring Energy on corporatisation, with agreement that the matter would be treated as a Community Service Obligation (CSO) and deducted from dividends. n.r. Not relevant

TransGrid operates under the *State Owned Corporations Act 1989* (SOC Act). It was established under the *Electricity Transmission Authority Act 1994* and was corporatised on 14 December 1998 under the *Energy Services Corporations Amendment (TransGrid Corporatisation) Act 1998*.

TransGrid is responsible for the 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, SA and Queensland.¹

The Australian Competition and Consumer Commission is responsible for determining the allowable revenue applying to TransGrid's regulated transmission assets.

In 2002-03, pre-tax operating profit was over \$82 million, 55 per cent higher than the previous year. A 7 per cent (\$26 million) increase in sales revenue from electricity transmission contributed to this improvement.

TransGrid returned contributed equity to the NSW Government in 2000-01 (\$260 million) and 2002-03 (\$60 million). The returns were paid for with additional borrowings, thereby increasing the level of TransGrid's debt in those years. Debt increased by 5 per cent (\$64 million) in 2002-03 to almost \$1.4 billion.

The value of TransGrid's total assets increased by 5 per cent (\$133 million) in 2002-03, due to a significant increase in the value of property, plant and equipment. The overall impact of higher debt and increased asset value was that TransGrid's debt to total asset ratio was unchanged.²

TransGrid has made tax-equivalent and dividend payments over the reporting period. In 2002-03, TransGrid paid a dividend of over \$46 million to the NSW Government. TransGrid has not been required to meet any community service obligations by the NSW Government over the reporting period.

¹ Following the initial establishment of the NEM during 1996-97, TransGrid had the role of market and system operator for NSW, responsible for the development and operation of the NSW wholesale electricity market. This role was subsequently transferred to the National Electricity Market Management Company in December 1998.

² While the impact of the 2002-03 capital restructure was largely offset by an increase in the value of TransGrid's assets, the capital restructure in 2000-01 had a significant effect on TransGrid's financial performance ratios. In 2000-01, TransGrid's debt to equity, debt to total assets, total liabilities to equity and leverage ratios, all increased.

TRANSGRID (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02</i>	<i>2002-03^d</i>
<i>Size</i>						
Total assets	\$m	2 238	2 392	2 550	2 674	2 807
Total revenue	\$m	371	354	360	381	407
<i>Profitability</i>						
Operating profit before tax	\$'000	90 487	152 763	- 84 968	53 092	82 294
Operating sales margin	%	48.1	64.1	- 3.3	35.4	41.5
Cost recovery	%	192.5	226.8	172.4	154.7	171.0
Return on assets	%	8.3	9.8	- 0.4	5.2	6.2
Return on equity	%	4.9	10.4	- 9.6	2.3	4.2
<i>Financial management</i>						
Debt to equity	%	60.8	64.8	121.1	119.6	123.6
Debt to total assets	%	35.2	37.4	52.0	50.7	50.7
Total liabilities to equity	%	78.2	78.9	140.4	141.5	149.9
Interest cover	times	2.0	3.0	- 0.1	1.6	1.9
Current ratio	%	49.9	160.4	73.4	51.0	26.0
Leverage ratio	%	178.2	178.9	240.4	241.5	249.9
<i>Payments to and from government</i>						
Dividends	\$'000	54 105	54 623	0	0	46 199
Dividend to equity ratio	%	4.6	4.2	0.0	0.0	4.1
Dividend payout ratio	%	92.8	40.6	0.0	0.0	97.5
Income tax expense	\$'000	32 164	18 345	29 567	27 774	34 892
CSO funding	\$'000	0	0	0	0	0

^a TransGrid's transmission assets were revalued using the optimised depreciated replacement cost methodology. This resulted in a \$153 million increase. ^b Includes an abnormal gain of \$66 million due to previous overfunding of superannuation contributions. A change in accounting policy led to interest on some capital expenditure being capitalised. Income tax-equivalent payments were adjusted downwards by \$11 million due to a reduction in the future company tax rate. ^c TransGrid returned \$260 million of contributed equity to the NSW Government in 2000-01, as part of a capital restructure. Debt increased by a commensurate amount in that year. As part of the restructure, TransGrid incurred an expense of \$162 million due to the prepayment of its existing debt portfolio. ^d In 2002-03, TransGrid returned \$60 million of contributed equity to the NSW Government

Australian Inland Energy and Water Infrastructure (AIEWI) was established on 1 March 1996, as a government-owned electricity distributor and retailer, under the *State Owned Corporations Act 1989*. Up to 1999-00, AIEWI traded as Australian Inland Energy (AIE), providing energy services in the far west and south-west of NSW. On 15 December 2000, it merged with the Broken Hill Water Board and was renamed AIEWI upon receipt of the Board's infrastructure and water supply functions. In 2002-03, AIEWI ceased to exist and was replaced by a new entity, Australian Inland.

The *Electricity Supply Act 1995* (and its regulations) and the National Electricity Code govern Australian Inland's electricity operations.

Pre-tax operating profit rose 89 per cent (\$2.7 million) in 2002-03, due mainly to an increase in revenue from electricity sales and water rates. This is the only time Australian Inland, or either of its predecessors, has recorded an increase in profit during the reporting period.¹

Australian Inland operates under a revenue cap as determined by the Independent Pricing and Regulatory Tribunal (IPART).² Prices for customers using above 160 MWh of electricity per annum are not regulated.

In 2002-03, Australian Inland was debt free, with \$3.6 million of loans being paid out during the year.

Australian Inland receives community service obligation (CSO) payments from the NSW Government to compensate for the supply of electricity to sparsely populated areas. The value of this CSO was \$5.3 million in nominal terms in each year over the reporting period.

In 2002-03, Australian Inland's revenues also included \$2.3 million from the NSW Treasury to cover the costs of subsidising water supplies to mining companies in Broken Hill.

¹ The December 2000 merger was the most influential factor on AIEWI's operations and financial performance in 2000-01, with the workforce doubling and assets increasing by \$77.5 million. Total revenues and expenses were also affected, rising by 40 per cent and 75 per cent respectively on 1999-00 levels.

² In December 1999, IPART set revenue caps for each distribution GTE in NSW, covering the period from February 2000 to June 2004. The determination provides for a real price decrease equal to 16 per cent over the period, when averaged across the distribution GTEs in NSW.

AUSTRALIAN INLAND (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01^a</i>	<i>2001-02</i>	<i>2002-03^b</i>
<i>Size</i>						
Total assets	\$m	63	67	154	158	158
Total revenue	\$m	39	37	52	64	71
<i>Profitability</i>						
Operating profit before tax	\$'000	13 174	9 261	4 351	3 063	5 786
Operating sales margin	%	32.0	23.0	6.5	3.9	7.1
Cost recovery	%	147.1	124.2	107.0	104.1	107.6
Return on assets	%	21.7	14.2	4.1	2.1	3.7
Return on equity	%	21.3	13.2	3.5	1.5	3.4
<i>Financial management</i>						
Debt to equity	%	0.0	0.0	2.8	2.7	0.0
Debt to total assets	%	0.0	0.0	3.3	2.3	0.0
Total liabilities to equity	%	30.9	29.0	17.4	17.4	14.7
Interest cover	times	n.r.	n.r.	32.5	12.9	232.4
Current ratio	%	278.7	184.7	166.4	175.3	226.4
Leverage ratio	%	130.9	129.0	117.4	117.4	114.7
<i>Payments to and from government</i>						
Dividends	\$'000	5 721	2 670	1 112	549	464
Dividend to equity ratio	%	12.3	5.3	1.2	0.4	0.3
Dividend payout ratio	%	57.9	40.4	34.2	26.7	10.1
Income tax expense	\$'000	3 296	2 652	1 098	1 007	1 198
CSO funding ^c	\$'000	5 300	5 300	5 300	5 300	5 300

^a Australian Inland Energy merged with the Broken Hill Water Board in December 2000 and was renamed Australian Inland Energy and Water Infrastructure (AIEWI). Assets increased by \$78 million as a result of the merger. ^b In 2002-03, AIEWI was replaced by Australian Inland. ^c Australian Inland, (formerly AIEWI), receives community service obligation payments from the NSW Government to compensate for the supply of electricity to sparsely populated areas. **n.r.** Not relevant.

EnergyAustralia operates under the *State Owned Corporations Act 1989* (SOC Act) and the *Energy Services Corporations Act 1995*. EnergyAustralia distributes and retails electricity within the framework of the *Electricity Supply Act 1995* and the National Electricity Code. Its electricity distribution network covers over 22 275 square kilometres and stretches from Sydney to the upper Hunter Valley in NSW. It holds electricity retail licences in NSW, Victoria, Queensland and the ACT. EnergyAustralia also distributes and retails natural gas.

EnergyAustralia operates as a holding company with four subsidiary businesses — Customer Service, Retail and Marketing, Eneserve and Network. The distribution and retail businesses operate under a revenue cap determined by the Independent Pricing and Regulatory Tribunal (IPART).¹

In January 2002, full retail competition commenced in NSW and Victoria, enabling household customers to choose their electricity supplier.

In 2002-03, pre-tax operating profit increased by 11 per cent compared with the previous year. The improved operating result was mainly due to a 5 per cent rise in revenue related to an increase in metered sales of energy.

In 2000-01, EnergyAustralia returned over \$1.1 billion in contributed equity to the NSW Government as part of a capital restructure. The return was paid for with borrowings, increasing the level of EnergyAustralia's debt by over 110 per cent. Since 2000-01, the level of debt has remained relatively stable, rising less than 3 per cent.

EnergyAustralia is required to make tax-equivalent and dividend payments. The NSW Government funds EnergyAustralia for the provision of agreed community service obligations (CSOs). These include provision of rebates to pensioners and low income households, medical rebates for life support systems, and the electricity payment assistance scheme. These amounts were not disclosed by EnergyAustralia in its annual reports prior to 2001-02.

¹ In December 1999, IPART set revenue caps for each distribution GTE in NSW, covering the period from February 2000 to June 2004. The determination provides for a real price decrease equal to 16 per cent, during the period, when averaged across the distribution GTEs in NSW. On 25 January 2000, the Australian Competition and Consumer Commission also made a determination in relation to EnergyAustralia's distribution assets.

ENERGYAUSTRALIA (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	3 788	3 732	5 194	5 276	5 341
Total revenue	\$m	1 852	2 099	2 196	2 255	2 404
<i>Profitability</i>						
Operating profit before tax	\$'000	285 022	380 606	224 935	184 435	204 673
Operating sales margin	%	19.5	22.0	17.4	15.8	15.6
Cost recovery	%	125.3	127.7	121.0	118.8	118.5
Return on assets	%	9.9	12.4	8.6	6.9	7.1
Return on equity	%	11.3	19.4	8.9	5.3	5.8
<i>Financial management</i>						
Debt to equity	%	79.9	59.5	110.7	106.9	105.7
Debt to total assets	%	34.4	28.0	49.8	43.8	42.9
Total liabilities to equity	%	133.5	111.2	158.8	146.3	147.9
Interest cover	times	4.2	5.5	2.4	2.1	2.2
Current ratio	%	117.8	73.6	56.3	58.0	52.0
Leverage ratio	%	233.5	211.2	258.8	246.3	247.9
<i>Payments to and from government</i>						
Dividends	\$'000	138 800	184 300	92 500	47 500	106 400
Dividend to equity ratio	%	8.7	10.9	4.9	2.3	5.0
Dividend payout ratio	%	76.5	56.0	55.4	43.2	84.7
Income tax expense	\$'000	103 664	51 732	57 821	74 480	79 121
CSO funding ^d	\$'000	0	0	0	29 300	35 500

^a Includes abnormal expenses of \$13 million relating to unfunded superannuation contributions. ^b An abnormal gain of \$24 million was reported relating to revised superannuation provisions. This was partly offset by abnormal expenses incurred due to year 2000 costs (\$11 million). Accounting policy changed to treat tax on superannuation and capital contributions as a permanent difference, rather than a timing difference. This change reduced the tax-equivalent expense by \$39 million. A fall in the future company tax rate also reduced tax payable by \$13 million. ^c EnergyAustralia returned over \$1.1 billion in contributed equity to the State. The return was paid for with borrowings, increasing the level of EnergyAustralia's debt by a commensurate amount. Assets increased by \$1.5 billion, largely due to a revaluation of non-current, physical assets. ^d The NSW Government funds EnergyAustralia for the provision of agreed community service obligations relating to rebates to pensioners and low income households, medical rebates for life support systems and the electricity payment assistance scheme. These amounts were not disclosed by EnergyAustralia in its annual reports prior to 2001-02.

Integral Energy (Integral) operates under the *State Owned Corporations Act 1989* and the *Energy Services Corporations Act 1995*. Integral distributes and retails electricity within the framework of the *Electricity Supply Act 1995* and the National Electricity Code. Integral holds licences to retail electricity in NSW, Victoria, Queensland, SA and the ACT, through the National Electricity Market (NEM).

Revenue from the distribution network is capped by the Independent Pricing and Regulatory Tribunal (IPART).¹

In 2002-03, pre-tax operating profit was 22 per cent (\$22.1 million) lower than the previous year, largely due to a 8 per cent increase in expenditure.

Integral returned contributed equity to the NSW Government in 2000-01 (\$200 million) and 2001-02 (\$150 million). The returns were paid for with borrowings, increasing the level of debt by a commensurate amount in those years. However, in 2000-01 the value of assets increased by over \$640 million, mainly due to an asset revaluation, leading to an overall decrease in the debt to equity and debt to total asset ratios. In 2002-03, the level of Integral's debt was stable.

Integral Energy is required to make tax-equivalent and dividend payments to the NSW Government. In 1999-00, a change in the accounting treatment for tax purposes of capital and superannuation contributions, and a fall in the future company tax rate reduced tax payable by over \$40 million — resulting in a negative tax bill for that year. In 2002-03, Integral paid a dividend of over \$43 million to the NSW Government.

Integral Energy receives funding for the provision of community service obligations (CSOs) related primarily to rebates for pensioners. In 2000-01, the amount of CSO payments received by Integral was not disclosed in its annual report.

¹ In December 1999, IPART set revenue caps for each distribution GTE in NSW, covering the period from February 2000 to June 2004. The determination provides for a real price decrease equal to 16 per cent, during the period, when averaged across the distribution GTEs in NSW.

INTEGRAL ENERGY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02^d</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	1 844	1 917	2 559	2 669	2 674
Total revenue	\$m	1 177	1 122	1 142	1 135	1 199
<i>Profitability</i>						
Operating profit before tax	\$'000	37 713	83 422	104 242	99 066	76 941
Operating sales margin	%	8.6	13.1	15.5	15.3	13.1
Cost recovery	%	113.3	112.6	118.3	118.0	115.1
Return on assets	%	5.6	7.9	8.2	6.9	6.1
Return on equity	%	2.8	15.6	8.8	5.9	4.2
<i>Financial management</i>						
Debt to equity	%	119.3	93.2	78.3	105.9	105.2
Debt to total assets	%	44.5	38.0	40.6	40.9	40.4
Total liabilities to equity	%	169.3	149.9	120.6	164.3	160.9
Interest cover	times	1.6	2.3	2.3	2.2	1.9
Current ratio	%	94.7	104.0	74.7	66.4	51.6
Leverage ratio	%	269.3	249.9	220.6	264.3	260.9
<i>Payments to and from customers</i>						
Dividends	\$'000	45 918	29 743	52 776	88 764	43 783
Dividend to equity ratio	%	6.8	4.1	6.3	9.3	4.3
Dividend payout ratio	%	242.0	26.1	71.8	157.7	101.9
Income tax expense	\$'000	18 738	-30 648	30 721	42 793	33 986
CSO funding	\$'000	13 069	13 399	0	17 025	19 417

^a Integral Energy incurred abnormal expenses (\$37 million). In particular, there were abnormal expenses associated with a debt restructure (\$9.4 million), prepaid superannuation contributions (\$8 million) and year 2000 compliance costs (\$10 million). ^b Includes an abnormal gain of \$24 million related to superannuation provisions. NSW Treasury changed the basis of dividend payments from available cash, to 90 per cent of net profit before tax (excluding abnormals). A change in the accounting treatment for tax purposes of capital and superannuation contributions reduced tax payable by \$32 million. The fall in the future company tax rate also reduced tax payable by \$10.2 million. ^c Integral Energy returned \$200 million in contributed equity to the NSW Government. The return was paid for with borrowings, increasing the level of debt by a commensurate amount. Assets were revalued upwards on 1 January 2001. The amount of community service obligation funding received by Integral Energy was not disclosed in its 2000-01 annual report. ^d Integral Energy returned \$150 million in contributed equity to the NSW Government in 2001-02. The return was paid for with borrowings, increasing the level of debt by a commensurate amount.

Country Energy was established on 1 July 2001, from the merger of three regional energy businesses: NorthPower, Advance Energy and Great Southern Energy.¹ Country Energy operates under the *State Owned Corporations Act 1989* (SOC Act) and the *Energy Services Corporations Act 1995*.

Country Energy is the largest regionally-based energy business in Australia. Its distribution network covers 72 per cent of NSW. Country Energy holds distribution and retail licenses in NSW and Victoria (for electricity and gas) and holds retail licenses in Queensland, SA and the ACT.²

Country Energy's distribution and retail businesses operate under a revenue cap determined by the Independent Pricing and Regulatory Tribunal (IPART).³

Country Energy reported strong profitability for its first year of operation. In 2001-02, Country Energy earned over \$1.4 billion in revenue, 2 per cent more than the combined earnings of its parent entities the previous year. In 2002-03, Country Energy's operating profit (before tax) more than doubled, increasing by over \$30 million, mainly due to a 5 per cent increase in revenue from energy sales.

In 2002-03, total assets increased by 8 per cent (\$188 million), largely due to an increase in the value of property, plant and equipment.

Country Energy is required to make tax-equivalent and dividend payments. Country Energy receives funding for community service obligations from the NSW Government for pensioners, customers in caravan parks and people who rely on life support machines.

¹ On 1 June 2001, NorthPower changed its name to Country Energy. On 1 July 2001, the net assets and equity of Advance Energy and Great Southern Energy were merged with the net assets and equity of Country Energy.

² Country Energy also has special approval for the distribution and retailing of electricity in parts of south-west Queensland.

³ In December 1999, IPART set revenue caps for each distribution GTE in NSW, covering the period from February 2000 to June 2004. The determination provides for a real price decrease equal to 16 per cent, during the period, when averaged across the distribution GTEs in NSW.

COUNTRY ENERGY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	n.r.	n.r.	n.r.	2 450	2 639
Total revenue	\$m	n.r.	n.r.	n.r.	1 417	1 497
<i>Profitability</i>						
Operating profit before tax	\$'000	n.r.	n.r.	n.r.	25 112	55 439
Operating sales margin	%	n.r.	n.r.	n.r.	8.2	10.6
Cost recovery	%	n.r.	n.r.	n.r.	109.0	111.8
Return on assets	%	n.r.	n.r.	n.r.	4.8	6.3
Return on equity	%	n.r.	n.r.	n.r.	2.6	5.5
<i>Financial management</i>						
Debt to equity	%	n.r.	n.r.	n.r.	199.5	215.7
Debt to total assets	%	n.r.	n.r.	n.r.	54.7	57.3
Total liabilities to equity	%	n.r.	n.r.	n.r.	264.8	290.7
Interest cover	times	n.r.	n.r.	n.r.	1.3	1.5
Current ratio	%	n.r.	n.r.	n.r.	42.9	51.4
Leverage ratio	%	n.r.	n.r.	n.r.	364.8	390.7
<i>Payments to and from government</i>						
Dividends	\$'000	n.r.	n.r.	n.r.	19 827	29 557
Dividend to equity ratio	%	n.r.	n.r.	n.r.	3.0	4.4
Dividend payout ratio	%	n.r.	n.r.	n.r.	111.5	80.1
Income tax expense	\$'000	n.r.	n.r.	n.r.	7 335	18 550
CSO funding	\$'000	n.r.	n.r.	n.r.	18 508	21 962

^a Country Energy was established on 1 July 2001, from the merger of NorthPower, Advance Energy and Great Southern Energy n.r. Not relevant.

CS Energy was established on 1 July 1997, as part of the restructure of the Queensland electricity industry.¹ It is subject to the provisions of the *Government Owned Corporations Act 1993* (GOC Act) and the *Corporations Act 2001* (Cth). CS Energy operates power stations with a combined generating capacity of 3000 MW at three locations around Queensland.² CS Energy generates electricity within the National Electricity Market (NEM).³

In 2002-03, pre-tax operating profit was \$30 million less than in 2001-02, partly due to a 3 per cent decrease in revenue from electricity sales, while the cost of sales rose by 2 per cent.

Debt to equity and debt to total assets ratios decreased in 2002-03, improved by an 8 per cent fall in the level of debt. The level of debt increased by 93 per cent between 1999-00 and 2001-02 — most of which was related to the construction of additional generating capacity. The liquidity of CS Energy, as measured by the current ratio, worsened in 2002-03, with a decrease in current assets.

CS Energy is required to make tax-equivalent and dividend payments. CS Energy's dividend payment is determined in accordance with the provisions of the GOC Act. Under the Act, the board makes a recommendation to the shareholding ministers on its proposed dividend payment. Shareholding ministers may either approve the recommendation or direct the board to pay a specified dividend.

CS Energy has not been required to perform any community service obligations by the Queensland Government over the reporting period.

¹ Prior to 1997, the assets of CS Energy formed part of Queensland's largest generator AUSTA Electric. On 1 July 1997, AUSTA Electric was separated into three generators — CS Energy, Stanwell Corporation, and Tarong Energy. An engineering services corporation was also established through the restructure.

² Swanbank E combined-cycle gas turbine came on-line in 2002-03 increasing the total generating capacity by 385 MW. CS Energy also owns the 750 MW Kogan Creek Power Project.

³ The Queensland–NSW Interconnector (QNI) commenced operation in February 2001. This improved the integration of the Queensland wholesale electricity market into the NEM. The NEM connects generation and transmission assets in NSW, Victoria, Queensland and SA.

CS ENERGY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00^a</i>	<i>2000-01^b</i>	<i>2001-02^c</i>	<i>2002-03^d</i>
<i>Size</i>						
Total assets	\$m	1 100	1 323	1 458	1 663	1 610
Total revenue	\$m	478	480	452	494	479
<i>Profitability</i>						
Operating profit before tax	\$'000	161 826	113 047	48 734	88 045	57 608
Operating sales margin	%	36.6	28.3	19.2	23.4	19.6
Cost recovery	%	157.8	134.8	123.7	130.5	124.4
Return on assets	%	17.4	11.2	6.2	7.4	5.7
Return on equity	%	17.6	13.9	4.8	10.0	6.6
<i>Financial management</i>						
Debt to equity	%	44.6	60.4	95.6	122.8	111.6
Debt to total assets	%	26.1	31.7	41.9	47.4	41.6
Total liabilities to equity	%	85.4	108.0	139.6	175.7	164.3
Interest cover	times	12.3	5.9	2.3	4.2	2.6
Current ratio	%	81.4	79.2	81.3	113.3	81.8
Leverage ratio	%	185.4	208.0	239.6	275.7	264.3
<i>Payments to and from government</i>						
Dividends	\$'000	75 800	57 111	74 934	72 652	37 730
Dividend to equity ratio	%	13.1	9.3	12.0	12.0	6.2
Dividend payout ratio	%	74.3	66.7	251.3	119.7	95.0
Income tax expense	\$'000	59 825	27 381	18 916	27 353	17 892
CSO funding	\$'000	0	0	0	0	0

^a Dividend includes \$20.7 million attributed to 1998-99, but not provided for in that year. ^b Dividend includes \$45.9 million attributed to 1999-00, but not provided for in that year. ^c Dividend includes \$21 million attributed to 2000-01, but not provided for in that year. ^d In 2002-03, CS Energy adopted a new accounting policy whereby provision is made for a dividend if the dividend is declared prior to the end of the financial year. Previously provision could be made for a dividend if it was declared after the end of the financial year but before the completion of the financial report. The effect of adopting the new accounting standard is that \$51 million in dividends previously attributed to 2001-02, have been recognised in the 2002-03 financial statement. This adjustment is not included in the figure recorded in this year's report to avoid double counting.

Stanwell Corporation (Stanwell) was established on 1 July 1997, as part of the restructure of the Queensland electricity industry. It is subject to the provisions of the *Government Owned Corporations Act 1993* (GOC Act) and the *Corporations Act 2001* (Cth).¹ Stanwell generates electricity for sale into the National Electricity Market (NEM).²

Stanwell operates the Stanwell coal-fired station and several gas, bio-mass, hydro and wind generation plants with a combined generating capacity in excess of 1640 MW.

Pre-tax operating profit has decreased each year since 1998-99. Prior to 2002-03, the decline in operating profit (after tax) was mainly due to decreases in electricity sales. In 2002-03, the decline in operating profit is attributable mainly to a 11 per cent increase in expenditure.

The debt to equity and debt to total asset ratios fell marginally in 2002-03, following a reduction in the level of debt held by Stanwell. Debt levels declined throughout the reporting period. The current ratio, which reflects the liquidity of Stanwell, improved in 2002-03 due to an increase in current assets.

Stanwell is required to make tax-equivalent and dividend payments. Stanwell's dividend payments are determined in accordance with the provisions of the GOC Act.³

Stanwell has not been required to perform any community service obligations by the Queensland Government over the reporting period.

¹ Prior to 1997, the assets of Stanwell formed part of Queensland's largest generator AUSTA Electric. On 1 July 1997, AUSTA Electric was separated into three generators — CS Energy, Stanwell and Tarong Energy. An engineering services corporation was also established through the restructure.

² The Queensland–NSW Interconnector commenced operation in February 2001. This integrated the Queensland wholesale electricity market into the NEM. The NEM is serviced by generation and transmission assets in NSW, Victoria, Queensland and SA.

³ Under the Act, the board makes a recommendation to the shareholding ministers on its proposed dividend payment. Shareholding ministers may either approve the recommendation or direct the board to pay a specified dividend.

STANWELL CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02^d</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	1 715	1 693	1 660	1 666	1 693
Total revenue	\$m	450	431	416	361	373
<i>Profitability</i>						
Operating profit before tax	\$'000	179 538	162 454	138 608	77 864	59 430
Operating sales margin	%	48.7	44.3	38.9	26.5	20.7
Cost recovery	%	194.9	179.4	163.8	136.0	126.1
Return on assets	%	12.7	11.3	9.7	5.8	4.7
Return on equity	%	11.6	13.0	9.4	5.3	4.1
<i>Financial management</i>						
Debt to equity	%	51.0	36.1	34.0	33.6	33.1
Debt to total assets	%	29.9	21.8	20.9	20.3	19.9
Total liabilities to equity	%	68.0	64.1	61.0	65.7	68.0
Interest cover	times	5.3	6.4	6.7	5.2	4.1
Current ratio	%	204.4	74.2	65.1	85.8	116.3
Leverage ratio	%	168.0	164.1	161.0	165.7	168.0
<i>Payments to and from government</i>						
Dividends	\$'000	107 808	123 591	98 097	71 020	39 479
Dividend to equity ratio	%	10.6	12.0	9.5	7.0	3.9
Dividend payout ratio	%	91.5	92.8	101.4	130.6	95.0
Income tax expense	\$'000	61 752	29 218	41 831	23 477	17 866
CSO funding	\$'000	0	0	0	0	0

^a Dividend includes \$30.9 million attributed to 1997-98 but not provided for in that year, and an interim dividend of \$43 million attributed to 1998-99. Also included is a proposed final dividend of \$34 million attributed to 1998-99. ^b Dividend includes \$27.8 million attributed to 1998-99 but not provided for in that year. Dividend also includes a proposed final dividend attributed to 1999-00 of \$96 million. ^c Dividend includes \$25.5 million attributed to 1999-00 but not provided for in that year. ^d Dividend includes \$19.4 million attributed to 2000-01 but not provided for in that year. Also includes a final dividend of \$52 million attributed to 2001-02.

Tarong Energy (Tarong) was established on 1 July 1997, as part of the restructure of the Queensland electricity industry. It is subject to the provisions of the *Government Owned Corporations Act 1993* (GOC Act) and the *Corporations Act 2001* (Cth).¹ Tarong generates electricity for sale into the National Electricity Market (NEM).² Tarong also owns and operates the SA gas supplier, Terra Gas Trader (TGT).

Tarong operates power stations (two coal-fired, one gas turbine, one hydro and one wind) with a combined generating capacity of 2395 MW.³

Pre-tax operating profit fell in 2002-03. This was primarily due to higher costs associated with the production of electricity and the distribution of gas.

The debt to equity and debt to total assets ratios increased in 2002-03, continuing an upward trend evident since 2000-01. Increased capital expenditure — mainly on generation assets — and the purchase of TGT were funded largely from a rise in the level of borrowings.

Tarong Energy is required to make tax-equivalent and dividend payments. Its dividend payment is determined in accordance with the provisions of the GOC Act. Under the Act, the board makes a recommendation to the shareholding ministers on its proposed dividend payment. Shareholding ministers may either approve the recommendation or direct the board to pay a specified dividend.

Tarong Energy has not been required to perform any community service obligations by the Queensland Government over the reporting period.

¹ Prior to 1997, the assets of Tarong Energy formed part of Queensland's largest generator AUSTA Electric. On 1 July 1997, AUSTA Electric was separated into three generators — CS Energy, Stanwell Corporation and Tarong Energy. An engineering services corporation was also established through the restructure.

² The Queensland–NSW Interconnector commenced operation in February 2001. This integrated the Queensland wholesale electricity market into the NEM. The NEM is serviced by generation and transmission assets in NSW, Victoria, Queensland and SA.

³ In 2002-03 Tarong Energy entered into a joint-venture with two Japanese companies TEPCO and Mitsui. Under the joint-venture agreement, TEPCO and Mitsui have acquired a 50 per cent interest in Tarong North Power Station. The joint-venture came into effect on 6 August 2003.

TARONG ENERGY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02^d</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	1 263	1 418	1 604	1 874	1 957
Total revenue	\$m	433	440	562	602	611
<i>Profitability</i>						
Operating profit before tax	\$'000	135 949	142 633	136 186	137 702	115 643
Operating sales margin	%	37.2	35.9	27.9	23.6	19.8
Cost recovery	%	159.3	156.1	138.8	130.9	124.7
Return on assets	%	12.2	11.8	10.5	8.2	6.4
Return on equity	%	10.7	13.2	10.7	11.3	9.5
<i>Financial management</i>						
Debt to equity	%	34.2	27.1	48.7	70.5	79.5
Debt to total assets	%	21.7	17.8	28.1	34.4	35.4
Total liabilities to equity	%	50.4	61.2	84.3	121.0	129.6
Interest cover	times	6.2	9.9	7.0	27.1	18.1
Current ratio	%	92.9	56.6	57.0	67.2	24.9
Leverage ratio	%	150.4	161.2	184.3	221.0	229.6
<i>Payments to and from government</i>						
Dividends	\$'000	52 582	96 330	102 515	129 711	76 562
Dividend to equity ratio	%	6.4	11.2	11.7	15.1	9.0
Dividend payout ratio	%	60.0	84.7	109.7	133.7	95.0
Income tax expense	\$'000	48 313	28 946	42 759	40 715	35 052
CSO funding	\$'000	0	0	0	0	0

^a Dividend includes an interim payment of \$36 million attributed to 1998-99 and a proposed final payment of \$16.6 million attributed to 1998-99. ^b Some non-current assets were revalued downwards by \$9.9 million. Dividend includes \$31 million that was attributed to 1998-99 but not provided for in that year. Also includes a proposed final dividend of \$65 million attributed to 1999-00. ^c Tarong Energy acquired South Australian-based Terra Gas Trader on 31 October 2000, increasing Tarong Energy's asset base, revenue and expenses. Dividend includes \$38 million that was attributed to 1999-00 but not provided for in that year. Also includes a proposed final dividend of \$64 million attributed to 2000-01. ^d Dividend includes \$37.5 million that was attributed to 2000-01 but was not provided for in that year.

The Queensland Power Trading Corporation (QPTC) commenced trading as Enertrade in October 2000. The QPTC was established on 1 July 1997, following a restructure of Queensland's electricity supply industry. Enertrade is subject to the provisions of the *Government Owned Corporations Act 1993* (GOC Act). It trades electricity — purchased under fixed contracts from privately-owned power stations — into the National Electricity Market (NEM).

A number of Enertrade's long-term, power-purchase agreements (PPAs) constitute onerous contracts and are expected to result in significant future losses. The agreements commit Enertrade to purchasing power at fixed prices over their term and selling it into the NEM at prevailing (currently lower) pool prices.¹

On 1 July 2002, Enertrade applied accounting standard AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets*, for the first time. As a result, Enertrade made provision for estimated future losses related to its PPAs, totalling \$485.6 million. Under this standard the carrying amount of the provision must be revised annually to the best estimate as at the reporting date, which will depend on future changes in the market prices for electricity.²

The value of Enertrade's assets increased substantially in 2002-03, due partly to a \$300 million injection of equity by the State Government.

In 2002-03, Enertrade recorded a pre-tax operating loss of \$21 million — a loss less than half the amount recorded the previous year. The improvement was mainly due a 12 per cent decrease in expenses associated with the annual adjustment to the provision for onerous contracts (\$67 million). Revenue declined by 8 per cent (\$49 million), continuing a trend evident over the reporting period.

The provision for onerous contracts had a significant effect on Enertrade's financial indicators. In particular, the provision caused liabilities to exceed assets, resulting in negative values for ratios that are related to equity.

Enertrade is required to make tax-equivalent and dividend payments.

¹ The longest of these contracts is for a term of 35 years, which extends to 2029.

² The provision is recorded as a liability in the Statement of Financial Position and the annual revision is recognised as an increase or decrease in expenses in the Statement of Financial Performance.

ENERTRADE (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03^c</i>
<i>Size</i>						
Total assets	\$m	553	310	273	265	413
Total revenue	\$m	737	680	625	472	434
<i>Profitability</i>						
Operating profit before tax	\$'000	28 067	30 602	- 14 332	- 48 997	- 21 350
Operating sales margin	%	3.8	4.3	- 2.7	- 10.7	- 6.3
Cost recovery	%	103.8	103.7	97.4	90.4	94.1
Return on assets	%	1.6	8.2	- 3.1	- 16.7	- 5.0
Return on equity	%	1.1	7.4	- 16.5	- 65.2	n.r. ^d
<i>Financial management</i>						
Debt to equity	%	21.7	88.7	95.1	196.5	-64.0
Debt to total assets	%	4.3	20.3	33.0	35.8	28.4
Total liabilities to equity	%	37.3	214.2	169.8	440.1	- 374.8
Interest cover	times	7.3	7.3	- 1.7	- 11.1	- 4.0
Current ratio	%	289.8	201.5	269.9	164.6	330.2
Leverage ratio	%	137.3	314.2	269.8	540.1	- 274.8
<i>Payments to and from government</i>						
Dividends	\$'000	0	15 444	0	0	0
Dividend to equity ratio	%	0.0	6.2	0.0	0.0	0.0
Dividend payout ratio	%	0.0	83.5	0.0	0.0	0.0
Income tax expense	\$'000	7 449	12 114	2 123	0	0
CSO funding	\$'000	0	0	0	0	0

^a Enertrade was required to transfer its shares in subsidiary corporations to the Shareholding Ministers and in return the Shareholding Ministers owed a debt (valued at \$3.3 billion) to Enertrade. On 1 April 1999, the net assets of AUSTA Electric were transferred to Enertrade and the Government's debt was reduced by \$25 million. On 30 June 1999, 3 billion ordinary shares were cancelled and offset against the loan receivable from the Shareholding Ministers. ^b On 29 June 2000, 307 million ordinary shares were cancelled and offset against a loan receivable from the Shareholding Ministers (see footnote a). Includes an abnormal gain of \$5.7 million related to the write-back of provision for settlement of disputes. ^c In 2002-03, the Queensland Government injected \$300 million of contributed equity into Enertrade. In 2002-03, Enertrade had negative equity, largely as a result of a provision for onerous contracts related to power purchasing agreements.

^d Liabilities exceeded assets in 2002-03. n.r. Not relevant.

Powerlink was established on 1 July 1997 as part of a restructure of the Queensland electricity industry. It is subject to the provisions of the *Government Owned Corporations Act 1993* (GOC Act) and the *Corporations Act 2001* (Cth). Powerlink owns and controls the Queensland high voltage transmission network and operates in the National Electricity Market (NEM).¹

Powerlink has minority equity interests in ElectraNet, a provider of electricity transmission services in SA, and Electranet Transmission Services — a provider of asset management services.

From 1 January 2002, the Australian Competition and Consumer Commission became responsible for determining the allowable revenue applying to Powerlink's regulated transmission assets.²

Assets increased by 8 per cent (or \$231 million) in 2002-03, due mainly to an increase in the value of property, plant and equipment. Asset acquisitions of \$189 million and upward revaluations totalling \$92 million, more than offset depreciation (\$102 million). The increase in total assets was also partly due to additional cash assets (\$43 million) and investments (\$12 million).

Pre-tax operating profit rose by 11 per cent in 2002-03, due to an increase in grid sales revenue. Expenditure increased slightly owing to higher network maintenance costs and depreciation.

Under the provisions of the GOC Act, Powerlink is required to make tax-equivalent and dividend payments. In 2000-01, an income tax benefit of almost \$67 million was recorded — primarily due to a Cross-Border Lease, which reduced tax-equivalent payments in that year by \$113 million.³

¹ The Queensland–NSW Interconnector commenced operation in February 2001, integrating the Queensland wholesale electricity market into the NEM. The NEM is serviced by generation and transmission assets in NSW, Victoria, Queensland and SA.

² Transmission prices were previously regulated by the Queensland Office of Energy.

³ A Cross-Border Lease involves the leasing of equipment or assets between entities in different countries — in this case, the lessor is from overseas and the lessee is in Australia. The lease is structured so that tax savings may be passed on from the overseas lessor to the local lessee, thereby lowering leasing costs. There was no revenue from the Cross-Border Lease in 2002-03.

POWERLINK (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	1 737	2 554	2 588	2 821	3 052
Total revenue	\$m	259	300	339	362	385
<i>Profitability</i>						
Operating profit before tax	\$'000	58 515	89 254	112 611	101 271	112 016
Operating sales margin	%	37.2	46.0	56.9	45.2	46.2
Cost recovery	%	197.5	222.7	231.8	182.5	185.9
Return on assets	%	5.4	6.4	7.6	6.2	6.3
Return on equity	%	4.1	7.1	15.4	6.2	5.7
<i>Financial management</i>						
Debt to equity	%	95.5	86.1	101.1	99.9	97.1
Debt to total assets	%	41.1	48.0	44.5	47.2	46.0
Total liabilities to equity	%	125.7	113.8	128.9	120.6	119.3
Interest cover	times	2.5	2.8	2.3	2.5	2.6
Current ratio	%	50.7	142.3	42.0	67.8	73.0
Leverage ratio	%	225.7	213.8	228.9	220.6	219.3
<i>Payments to and from government</i>						
Dividends	\$'000	27 253	72 441	165 644	70 545	72 855
Dividend to equity ratio	%	3.1	7.4	14.2	5.9	5.5
Dividend payout ratio	%	75.0	104.4	92.3	95.0	95.0
Income tax expense	\$'000	22 178	19 846	- 66 940	27 012	35 330
CSO funding	\$'000	0	0	0	0	0

^a Powerlink incurred abnormal expenses of \$9.8 million related to the refund of capital contributions to contestable customers and \$1.5 million related to year 2000 compliance costs. ^b Includes abnormal expenses of \$28 million relating to sales tax-equivalent payments (\$27 million) and year 2000 compliance costs (\$1.4 million). The growth in assets reflects capital expenditure of \$245 million and an increase in asset values of \$774 million following a revaluation of supply system assets, freehold land and buildings. Powerlink made a \$150 million loan to the Queensland Government. Income tax-equivalent payments were reduced by \$18 million due to a fall in the future company tax rate. ^c Powerlink received an income tax benefit of almost \$67 million. This was primarily due to the Cross-Border Lease entered into during the year, which reduced tax-equivalent payments by \$113 million. The Queensland Government reduced its equity stake by \$150 million, completing a debt for equity swap which commenced in 1999-00.

The Ergon Energy Group (Ergon) comprises Ergon Energy Corporation Ltd, a regulated electricity distributor, and Ergon Energy Pty Ltd, an energy retailer. Ergon was established on 30 June 1999, through the amalgamation of six regional distribution corporations and their retail subsidiary, Ergon Energy Pty Ltd.¹ Ergon is subject to the provisions of the *Government Owned Corporations Act 1993* (GOC Act) and the *Corporations Act 2001* (Cth).

Ergon's distribution network is regulated by the Queensland Competition Authority, which sets the maximum allowable revenue that it can earn through network access tariffs and charges. The prices that it can charge non-contestable customers for electricity are set by the Treasurer under the *Electricity Act 1994*.²

Ergon's distribution business which covers almost 97 per cent of Queensland, accounts for about 83 per cent of Ergon's total asset base.

Pre-tax operating profit increased by 9 per cent in 2002-03, due mainly to increased revenue in both distribution and retail businesses.

Ergon is required to make tax-equivalent and dividend payments. Its dividend payment is determined in accordance with the provisions of the GOC Act. In 2002-03, Ergon paid over \$119 million in dividend payments, including a \$20 million special dividend.

Ergon receives community service obligation payments to cover any shortfall incurred in supplying electricity to non-contestable customers at gazetted tariffs.

¹ The six regional distribution corporations were the Far North Queensland Electricity Corporation, North Queensland Electricity Corporation, Mackay Electricity Corporation, Capricornia Electricity Corporation, Wide Bay-Burnett Electricity Corporation and South West Queensland Electricity Corporation. The retail subsidiary, Ergon Energy Pty Ltd, was formed in February 1998, following the merger of Northern Electricity Retail Corporation and Central Electricity Retail Corporation.

² Unlike Victoria and NSW, Queensland does not have full retail contestability. Customers who use no more than 200 MWh a year cannot choose between electricity retailers. The Queensland Government is committed to uniform state-wide retail tariffs for non-contestable customers, regardless of the cost of supply.

ERGON ENERGY CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00^a</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03^b</i>
<i>Size</i>						
Total assets	\$m	n.r.	2 786	3 211	3 392	3 423
Total revenue	\$m	n.r.	1 323	1 418	1 442	1 499
<i>Profitability</i>						
Operating profit before tax	\$'000	n.r.	45 779	89 262	116 155	126 913
Operating sales margin	%	n.r.	7.6	10.5	12.7	13.5
Cost recovery	%	n.r.	110.1	110.6	114.6	115.5
Return on assets	%	n.r.	3.9	5.1	5.7	6.0
Return on equity	%	n.r.	4.1	6.2	6.0	7.1
<i>Financial management</i>						
Debt to equity	%	n.r.	100.4	81.6	88.2	98.1
Debt to total assets	%	n.r.	39.1	39.0	39.4	42.6
Total liabilities to equity	%	n.r.	156.4	124.2	130.3	131.5
Interest cover	times	n.r.	1.7	2.4	2.6	2.6
Current ratio	%	n.r.	111.3	112.9	139.6	136.5
Leverage ratio	%	n.r.	256.4	224.2	230.3	231.5
<i>Payments to and from government</i>						
Dividends	\$'000	n.r.	38 928	69 305	73 702	119 311
Dividend to equity ratio	%	n.r.	3.6	5.5	5.1	8.1
Dividend payout ratio	%	n.r.	86.8	89.1	85.1	113.4
Income tax expense	\$'000	n.r.	917	11 505	29 506	21 736
CSO funding	\$'000	n.r.	244 768	232 354	188 456	191 798

^a Includes an abnormal expense of \$20 million relating to sales tax. ^b Dividend includes \$20 million special dividend payment. If the special dividend is excluded the dividend payout ratio is 94.4 and the dividend to equity ratio is 6.7. n.r. Not relevant.

ENERGEX was formed on 1 July 1997, following the incorporation of the South East Queensland Electricity Corporation and its wholly-owned subsidiary, Southern Electricity Retail Corporation. On 30 October 1997, the company changed its trading name to ENERGEX. It is subject to the provisions of the *Government Owned Corporations Act 1993* and the *Corporations Act 2001* (Cth).

ENERGEX distributes electricity in Queensland and retails natural gas and liquefied petroleum gas. The company includes two wholly-owned subsidiary companies, ENERGEX Retail — which sells electricity to contestable customers throughout the National Electricity Market — and Allgas Energy.

ENERGEX's electricity distribution network is regulated by the Queensland Competition Authority, which sets the maximum allowable revenue that it can earn through network access tariffs and charges. Non-contestable customer prices are determined by the Treasurer under the *Electricity Act 1994*.¹

The value of total assets increased by 8 per cent in 2002-03. This was mainly due to around \$327 million in capital expenditure on additional property, plant and equipment for the electricity and gas supply networks.

Operating profit (before tax) rose by around 9 per cent (or \$16 million) in 2002-03. This was due in part to a 9 per cent increase in revenue associated with sales growth in electricity and natural gas.

ENERGEX is required to make tax-equivalent and dividend payments. Under direction of the shareholding ministers, the 2002-03 dividend was provided on the basis of 95 per cent of its after-tax profit (\$128.9 million). An additional \$30 million special dividend was also paid, sourced from the asset revaluation reserve.

ENERGEX receives community service obligation payments to cover any shortfall incurred in supplying electricity to its non-contestable customers at gazetted tariffs, as well as for the payment and administration of pensioner rebates.

¹ Unlike Victoria and NSW, Queensland does not have full retail contestability. Customers who use no more than 200 MWh a year are not permitted to choose between electricity retailers. The Queensland Government is committed to uniform state-wide retail tariffs for non-contestable customers, regardless of the cost of supply.

ENERGEX (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02^d</i>	<i>2002-03^e</i>
<i>Size</i>						
Total assets	\$m	2 962	3 237	3 708	3 902	4 241
Total revenue	\$m	1 560	1 736	1 908	1 950	2 142
<i>Profitability</i>						
Operating profit before tax	\$'000	87 171	41 121	116 096	170 443	186 469
Operating sales margin	%	10.0	6.9	11.0	12.4	13.4
Cost recovery	%	112.2	104.9	109.7	114.2	115.5
Return on assets	%	5.5	4.0	6.3	6.6	7.2
Return on equity	%	4.5	3.3	6.8	6.5	8.8
<i>Financial management</i>						
Debt to equity	%	110.0	128.2	97.2	119.4	123.6
Debt to total assets	%	45.9	50.3	44.9	47.6	48.0
Total liabilities to equity	%	141.4	166.1	131.1	157.2	168.1
Interest cover	times	2.2	1.5	2.1	3.2	2.7
Current ratio	%	132.1	197.6	125.8	137.8	147.3
Leverage ratio	%	241.4	266.1	231.1	257.2	268.1
<i>Payments to and from government</i>						
Dividends	\$'000	63 607	43 051	102 520	246 319	158 909
Dividend to equity ratio	%	4.6	3.5	7.3	15.8	10.3
Dividend payout ratio	%	104.1	105.2	107.1	243.0	117.1
Income tax expense	\$'000	26 073	209	20 381	69 060	50 780
CSO funding	\$'000	22 625	23 597	24 626	27 419	29 600

^a Includes abnormal expenses related to redundancy payments (\$5.8 million), year 2000 compliance costs (\$4.7 million) and a write-off expense (\$3 million). Dividend includes a \$17.8 million payment attributed to 1997-98 but not provided for in that year. Also includes a proposed final payment of \$46 million attributed to 1998-99. ^b Includes abnormal expenses related to a write-down in the value of land and buildings (\$4.7 million), a change in sales tax exemption status (\$1.7 million), loss on disposal of assets from a discontinued project (\$1.8 million) and year 2000 compliance costs (\$1.8 million). Dividend includes a \$12.5 million payment attributed to 1998-99 but not provided for in that year. Also includes a proposed final payment of \$31 million attributed to 1999-00. ^c ENERGETX revalued its supply system, upon adoption of AASB 1041, resulting in a revaluation increment of \$495 million to non-current assets. Includes expenses of \$12 million relating to redundancy restructuring and development costs. Dividend includes an \$8.2 million payment attributed to 1999-00 but not provided for in that year. Also includes a proposed final dividend of \$94 million attributed to 2000-01. ^d Includes expenses of \$27 million relating to a write-down of investments, and redundancy and restructuring costs. Dividends include a \$150 million special dividend ^e Dividends include a \$30 million special dividend. If the special dividend is excluded the dividend to equity ratio is 8.3 and the dividend payout ratio is 95.

Western Power is a government-owned corporation established under the *Electricity Corporation Act 1994*. Western Power owns four major and 32 smaller power stations with a total capacity of 3273 MW — 56 per cent of WA's total generation capacity.¹ Western Power is also involved in the transmission and retailing of electricity.² During 2000-01, six business units were established within Western Power — Office of the Managing Director, Commercial Services, Emerging Business, Networks, Retail, and Generation. In August 2000, the company engaged in a wind farm joint venture with Enercon Power.

In 2002-03, the state government announced plans to divide Western Power into four separate entities, responsible for generation, networks, retail and regional businesses, as part of a broader electricity reform program in Western Australia. Other key elements of the proposal included the introduction of a third party access code and the establishment of a wholesale electricity market.

Capital expenditure was almost \$473 million in 2002-03, directed mainly at new generation and network infrastructure.

In 2002-03, pre-tax operating profit increased by 6 per cent, reflecting increased revenue from electricity sales and assets contributed by developers that were treated as revenue.

Over the reporting period, Western Power has carried a high level of debt, as reflected in its debt to equity and debt to total assets ratios. Debt restructuring in 1998-99 contributed to a fall in the debt to equity ratio. Further refinancing of a portion of long-term debt during 1999-00, contributed to an additional decrease in the debt to equity ratio in 2000-01.

Western Power makes dividend and income tax-equivalent payments to the State Government. Western Power is also required to offer residential and small to medium business customers in remote areas, the same tariff as customers in metropolitan areas, despite any differences in the cost of providing the service. The losses incurred by Western Power in providing uniform tariffs are met internally.

¹ Western Power operates and maintains all but one of the major power stations, the exception being Collie Power station, which is operated and maintained by a private operator.

² Western Power's customers are supplied through two major interconnected systems — one in the south-west corner of WA and the other in the pilbara in the north. Western Power also operates 28 separate systems in remote parts of the State.

WESTERN POWER (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	4 018	4 038	4 180	4 231	4 407
Total revenue	\$m	1 604	1 575	1 597	1 623	1 725
<i>Profitability</i>						
Operating profit before tax	\$'000	223 369	230 294	289 138	302 697	319 979
Operating sales margin	%	24.4	28.1	28.1	28.1	26.9
Cost recovery	%	150.2	147.2	139.2	139.1	136.8
Return on assets	%	9.9	11.0	11.0	10.9	10.8
Return on equity	%	15.1	12.9	15.3	15.6	15.0
<i>Financial management</i>						
Debt to equity	%	251.2	195.9	188.7	160.3	162.2
Debt to total assets	%	64.7	60.4	57.5	55.5	57.0
Total liabilities to equity	%	289.8	224.9	233.7	190.8	190.5
Interest cover	times	2.3	2.1	2.8	3.0	3.2
Current ratio	%	31.5	41.9	133.5	117.6	112.4
Leverage ratio	%	389.8	324.9	333.7	290.8	290.5
<i>Payments to and from government</i>						
Dividends	\$'000	42 332	46 209	94 100	116 972	114 050
Dividend to equity ratio	%	4.5	4.1	7.5	8.6	7.7
Dividend payout ratio	%	30.0	31.5	49.3	55.3	51.1
Income tax expense	\$'000	82 273	83 828	98 121	91 342	96 901
CSO funding	\$'000	29 300	27 000	28 700	31 400	33 500

^a Includes abnormal revenue relating to fuel back payments following the resolution of the gas price determination (\$32 million), a reduction in a gas turbine operating lease provision following the purchase of five gas turbines (\$38 million) and a payment from the WA Government relating to future gas royalties from the North West Shelf (\$57 million). Western Power also incurred abnormal expenses relating to debt refinancing (\$108 million) and the write-down of prepaid gas following the agreement reached regarding the North West Shelf gas royalties (\$57 million). Western Power changed its accounting policy for developer and customer contributions effective from 1 July 1998. Previously, these contributions were treated as deferred income and amortised over the life of the assets that the contribution funded. Contributions are now treated as revenue in the year in which they are received. ^b Includes abnormal revenue relating to adjustments for debtors with unread meters (\$28 million). This was offset by abnormal expenses relating to refinancing costs (\$47 million), redundancy costs (\$27 million) and decommissioning costs (\$8 million). A fall in the future company tax rate reduced income tax-equivalent payments by \$7.8 million. ^c The dividend payment in 2000-01 comprised a \$47 million interim dividend, paid on 29 June 2001 and provision for a \$47 million dividend, to be paid during December 2001.

The Hydro-Electric Corporation (HEC) operates under the *Hydro-Electric Corporation Act 1995* and is subject to the provisions of the *Government Business Enterprises Act 1995*. On 1 July 1998, the HEC was disaggregated into three separate businesses — the HEC, Aurora Energy and Transend Networks.¹

The HEC retained responsibility for electricity generation on mainland Tasmania and for generation, distribution and retailing on the Bass Strait Islands.² Maximum prices that the HEC can charge are determined by the Office of the Tasmanian Energy Regulator (OTER).³

Pre-tax operating profit rose by 13 per cent (\$8 million) in 2002-03, mainly due to a 12 per cent increase in energy sales.

The HEC's debt to equity and debt to total asset ratios have generally declined over the reporting period, due mainly to a steady increase in the value of total assets. The HEC's debt has remained largely unchanged since 1998-99.

The HEC is required to make dividend payments to the Tasmanian Government. Due to a change in the HEC's accounting policy regarding dividend recognition, no provision was reported for 2002-03.⁴

Since 1998-99, the HEC has received community service obligation (CSO) payments for the provision of electricity to customers on the Bass Strait Islands. In 2002-03, CSO payments amounted to \$5.2 million.

¹ Prior to disaggregation, the HEC had sole responsibility for the generation, transmission and sale of electricity in Tasmania. Transend Networks is responsible for electricity transmission and Aurora Energy is responsible for electricity distribution and retailing.

² Delivery of services to the Bass Strait Islands has been contracted to Aurora Energy.

³ OTER has assumed the price oversight regulation role formerly discharged by the Government Prices Oversight Commission. In 1999-00, OTER determined maximum prices that HEC could charge from 1 January 2000 to 31 December 2002. This price determination was later extended to December 2003.

⁴ The Hydro-Electric Corporation has applied the accounting standard AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets* (see chapter 3). Under this standard, dividends are recognised at the time they are declared, determined or publicly recommended. In August 2003, the HEC board proposed a dividend payment of \$43 million, including a \$26 million special dividend. These dividend payments will be reported as per the new standard in 2003-04.

HYDRO-ELECTRIC CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	3 199	3 250	3 342	3 515	3 568
Total revenue	\$m	323	323	332	371	397
<i>Profitability</i>						
Operating profit before tax	\$'000	26 792	1 676	46 284	60 056	68 100
Operating sales margin	%	41.5	31.5	40.2	36.0	38.0
Cost recovery	%	179.9	164.3	165.2	154.3	159.6
Return on assets	%	3.7	3.2	4.1	3.9	4.3
Return on equity	%	0.1	0.4	0.8	1.4	1.7
<i>Financial management</i>						
Debt to equity	%	61.2	57.5	55.0	52.1	50.2
Debt to total assets	%	28.9	32.1	31.5	30.2	29.3
Total liabilities to equity	%	87.0	80.4	77.2	76.8	72.9
Interest cover	times	1.2	1.0	1.5	1.8	1.8
Current ratio	%	17.9	25.2	27.6	32.5	25.9
Leverage ratio	%	187.0	180.4	177.2	176.8	172.9
<i>Payments to and from government</i>						
Dividends ^d	\$'000	42 591	45 062	49 230	60 503	0
Dividend to equity ratio	%	2.3	2.6	2.7	3.1	0.0
Dividend payout ratio ^e	%	1 643.8	623.9	323.4	217.6	0.0
Income tax expense	\$'000	24 201	- 5 547	31 060	32 252	34 453
CSO funding	\$'000	4 390	4 551	4 914	5 356	5 238

^a On 1 July 1998, the HEC was structurally separated into three businesses. This involved the transfer of assets (valued at \$1 billion) and liabilities (valued at \$473 million) relating to transmission, distribution and retailing to Transend Networks and Aurora Energy respectively. The data from 1998-99 relates only to the restructured HEC. The HEC incurred abnormal expenses relating to maintenance on one power station and the refurbishment of another to meet peak demand as a consequence of the maintenance being undertaken on the first. Includes an asset revaluation increase of \$209 million. ^b The HEC reported an abnormal expense of \$27 million related to debt restructuring. Includes an asset valuation increase of \$129 million. ^c Includes debt restructuring expenses relating to the repurchase of loans (\$6.8 million) and the termination of interest rate swaps (\$670 000). Includes an abnormal income tax item (\$22.5 million) relating to the restatement of deferred tax balances due to a change in the income tax rate. Includes an asset revaluation increase of \$74 million. ^d In 2002-03 the Hydro-Electric Corporation changed its policy regarding dividend payments in accordance with accounting standard AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets*. Under this standard, dividends are recognised at the time they are declared, determined or publicly recommended. In August 2003 the HEC board proposed a dividend payment of \$43 million, including a \$26 million special dividend. These dividend payments will be reported in 2003-04. Dividend payments reported for the years from 1998-99 to 2001-02 include a special dividend component of \$40 million (annual), paid to the Government of Tasmania. ^e The high dividend payout ratios are partly due to the combination of the special dividend payments of \$40 million, paid in each year between 1998-99 and 2001-02, and the level of income tax expense.

Aurora Energy Pty Ltd (Aurora) was established on 1 July 1998, following the disaggregation of the Hydro-Electric Corporation (HEC).¹ Aurora is incorporated under the *Corporations Act 2001* (Cth), pursuant to the *Electricity Companies Act 1997*.

Aurora is mainland Tasmania's only electricity distribution and retail company. It also holds retail licences for electricity in NSW and Victoria.² Aurora's charges are regulated by the Office of the Tasmanian Energy Regulator (OTER).³

Pre-tax operating profit has improved throughout the reporting period and was 17 per cent higher in 2002-03 than for the previous year. This rise was due mainly to increased revenue from electricity sales.

Aurora's debt to equity and debt to total assets ratios have declined over the reporting period, due mainly to increases in the value of total assets. Aurora's debt level declined by 3 per cent in 2002-03, after remaining relatively stable since 1999-00.

Aurora is required to make dividend payments to the Tasmanian Government. Due to a change in Aurora's accounting policy regarding dividend recognition in 2002-03, no dividend payment was reported for that year.⁴

Aurora receives community service payments for providing pensioners with discounted electricity.

¹ Prior to disaggregation, the HEC had sole responsibility for the generation, transmission and sale of electricity in Tasmania. Transend Networks is responsible for electricity transmission and Aurora is responsible for electricity distribution and retailing. Aurora also delivers services on Bass Strait Islands for the HEC.

² Since disaggregation, Aurora has broadened its range of products and services. In 2001-02, it entered an alliance with Signature Security Group for the purpose of marketing security products. This follows the establishment of a telecommunications joint-venture (TasTel) in 2000-01, and the formation of a subsidiary company — EziKey — to market its bill paying system. In February 2004, Aurora was granted a licence to sell natural gas.

³ The OTER determined a 7 per cent per year average reduction to charges for high voltage customers, a 1.3 per cent reduction for low voltage customers and a 1 per cent rise for domestic customers (all in real terms) over the period January 2000 to January 2003.

⁴ Aurora has applied the accounting standard AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets*. Under this standard dividends are recognised at the time they are declared, determined or publicly recommended (see chapter 3).

AURORA ENERGY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	762	765	792	836	864
Total revenue	\$m	543	551	572	587	631
<i>Profitability</i>						
Operating profit before tax	\$'000	26 596	29 105	37 002	40 139	46 761
Operating sales margin	%	11.9	12.7	12.3	11.6	11.8
Cost recovery	%	112.7	114.7	114.0	113.1	113.4
Return on assets	%	8.6	9.3	9.2	8.4	8.9
Return on equity	%	5.5	8.6	8.0	11.1	9.0
<i>Financial management</i>						
Debt to equity	%	171.2	158.8	143.9	127.0	107.9
Debt to total assets	%	51.0	49.5	48.6	46.4	43.1
Total liabilities to equity	%	235.7	221.2	201.0	180.8	154.7
Interest cover	times	1.7	1.7	2.1	2.4	2.6
Current ratio	%	72.2	76.7	55.2	80.3	88.6
Leverage ratio	%	335.7	321.2	301.0	280.8	254.7
<i>Payments to and from government</i>						
Dividends ^c	\$'000	6 200	10 052	10 244	12 567	0
Dividend to equity ratio	%	2.7	4.3	4.1	4.5	0.0
Dividend payout ratio	%	50.0	50.0	50.8	40.5	0.0
Income tax expense	\$'000	14 196	9 002	16 856	9 082	17 995
CSO funding	\$'000	9 826	9 797	9 727	9 745	13 005

^a Aurora Energy commenced operations on 1 July 1998 following the restructure of the Hydro-Electric Corporation. Aurora Energy is responsible for the low voltage distribution and retailing of electricity and has an exclusive retail licence for all of Tasmania, excluding the Bass Strait Islands. Aurora Energy incurred abnormal expenses (\$3.8 million) relating to payments made to staff under redundancy and voluntary advanced retirement programs, and rebranding costs. ^b Aurora Energy reported abnormal expenses of \$2.9 million relating to redundancy and retirement payments, rebranding costs, costs associated with year 2000 compliance and the Goods and Services Tax implementation. This was offset by abnormal revenue of \$2.3 million for a reversal of superannuation provisions. ^c In 2002-03, Aurora changed its policy regarding dividend recognition in accordance with accounting standard AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets*. Under this standard dividends are recognised at the time they are declared, determined or publicly recommended (see chapter 3 for details).

Transend Networks (Transend) was established on 1 July 1998, following the disaggregation of the Hydro-Electric Corporation (HEC).¹ Transend is incorporated under the *Corporations Act 2001* (Cth), pursuant to the *Electricity Companies Act 1997*.

Transend owns and operates the high voltage electricity transmission system in Tasmania, which includes almost 3500 km of overhead transmission lines, 45 substations and 8 switching stations.

On 1 July 2000, Transend assumed the role of system controller for the Tasmanian electricity network from the HEC, making it responsible for maintaining power system security and assisting with power system planning. Transend's charges are regulated by the Office of the Tasmanian Energy Regulator (OTER).²

In 2002-03, Transend's assets increased by less than 2 per cent (\$10 million), after a \$15.7 million downward revaluation of transmission lines. In the previous year, Transend's assets increased by \$129 million, mainly due to a \$118 million upward revaluation of property plant and equipment.

Pre-tax operating profit was 5 per cent lower in 2002-03, compared to the previous year. The decrease in operating profit reflected a 7 per cent rise in operating expenses and the extension of an existing pricing determination by an additional 12 months.

Transend's debt to equity and debt to total asset ratios both increased in 2002-03, due mainly to a 46 per cent (\$8 million) increase in the level of debt. However, Transend's level of debt remains very low compared to other electricity GTEs.

Transend is required to make dividend payments to the Tasmanian Government. Due to a change in Transend's accounting policy regarding dividend recognition in 2002-03, no dividend payment is reported for that year.³

¹ Prior to disaggregation, the HEC had sole responsibility for the generation, transmission and sale of electricity in Tasmania. Transend Networks is responsible for electricity transmission and Aurora Energy is responsible for electricity distribution and retailing.

² In November 1999, OTER increased the revenue cap by 4.3 per cent in real terms for Transend's regulated activities, covering the period January 2000 to January 2003. The OTER subsequently extended the 1999 price determination until December 2003.

³ Transend has applied the accounting standard AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets* (see chapter 3).

TRANSEND NETWORKS (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03^b</i>
<i>Size</i>						
Total assets	\$m	406	437	464	593	604
Total revenue	\$m	66	68	78	81	83
<i>Profitability</i>						
Operating profit before tax	\$'000	34 656	34 220	22 407	28 637	27 155
Operating sales margin	%	52.8	51.6	30.6	36.7	33.7
Cost recovery	%	211.7	206.5	144.0	158.1	150.8
Return on assets	%	8.6	8.3	5.3	5.6	4.7
Return on equity	%	5.7	6.2	2.6	4.3	3.1
<i>Financial management</i>						
Debt to equity	%	4.0	5.2	3.9	3.3	4.9
Debt to total assets	%	3.5	4.6	3.5	3.3	4.3
Total liabilities to equity	%	15.7	16.8	17.4	13.3	15.6
Interest cover	times	91.7	41.4	16.4	25.8	28.7
Current ratio	%	27.1	27.3	35.8	39.8	62.9
Leverage ratio	%	115.7	116.8	117.4	113.3	115.6
<i>Payments to and from government</i>						
Dividends	\$'000	9 994	11 199	10 091	9 837	0
Dividend to equity ratio	%	2.8	3.1	2.6	2.1	0.0
Dividend payout ratio	%	50.0	50.0	100.2	50.0	0.0
Income tax expense	\$'000	14 668	11 821	12 341	8 963	10 789
CSO funding	\$'000	0	0	0	0	0

^a Includes an asset revaluation increase of \$118 million. ^b In 2002-03 Transend changed its policy regarding dividend recognition in accordance with accounting standard AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets*. Under this standard, dividends are recognised at the time they are declared, determined or publicly recommended (see chapter 3 for details).

Power and Water Corporation (PAWC) was established on 1 July 2002, following the corporatisation of the Power and Water Authority (PAWA).¹ PAWC is the NT's first Government Owned Corporation and operates under the *Government Owned Corporations Act 2001*. PAWC generates, transmits and retails electricity throughout the NT, as well as providing water and sewerage services.

PAWC's electricity operations are regulated by the *Electricity Reform Act 2001*. Three separate grid systems operate in the NT: Darwin–Katherine, Alice Springs and Tenant Creek. The generation, transmission, distribution and sale of electricity accounted for 71 per cent of all revenue and 53 per cent of all of PAWC's assets in 2002-03.

Under the *Electricity Reform Act*, the NT Government regulates electricity retail charges to non-contestable customers via an Electricity Pricing Order.² Under the *Network Access Code* (a schedule to the *Electricity Networks (Third Party) Access Act*), the maximum allowable revenue that PAWC can earn from its transmission network (through network access tariffs and charges) is set by the Utilities Commission. In 2002-03, the *Network Access Code* was under review.

Pre-tax operating profit rose by almost \$29 million in 2002-03, mainly due to an increase in revenue.

PAWC is required to make dividend payments to the NT Government. In 2002-03, \$20 million in dividend payments were provided for.

PAWC receives CSO payments from the NT Government. From July 2002, a former CSO — Remote Services — was changed to a fee for service arrangement.

¹ PAWA was established under the Power and Water Authority Act in 1987.

² The NT does not have full retail contestability. Customers using less than 750 MWh per annum cannot choose their electricity supplier. Although larger customers are entitled to choose their electricity supplier, PAWC is the sole licensed retailer operating in the contestable segments of the NT electricity market, following the withdrawal of a competitor in September 2002.

POWER AND WATER CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				1 023	1 052
Total revenue	\$m				390	432
<i>Profitability</i>						
Operating profit before tax	\$'000				16 208	45 091
Operating sales margin	%				9.5	16.1
Cost recovery	%				110.5	119.2
Return on assets	%				3.8	7.0
Return on equity	%				2.5	4.9
<i>Financial management</i>						
Debt to equity	%				42.5	52.1
Debt to total assets	%				27.5	30.6
Total liabilities to equity	%				54.9	72.7
Interest cover	times				1.7	2.6
Current ratio	%				138.9	133.1
Leverage ratio	%				154.9	172.7
<i>Payments to and from government</i>						
Dividends ^b	\$'000				9 227	20 000
Dividend to equity ratio	%				1.4	3.3
Dividend payout ratio	%				55.6	64.0
Income tax expense	\$'000				- 401	13 850
CSO funding	\$'000				58 814	42 241

^a The Power and Water Authority was included in this report for the first time in 2001-02. It was established in 1987 under the *Power and Water Authority Act*. ^b In 2002-03, the PAWC changed its accounting policy to comply with accounting standard AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets*. Under the standard, dividends are recognised at the time they are declared, determined or publicly recommended (see chapter 3 for details). The dividend payment reported for the PAWC in 2002-03 does not include a dividend payment of \$9.3 million that relates to 2001-02, but was restated in the 2002-03 financial statements following the change in accounting policy. In 2002-03, the PAWC was involved in a \$56 million debt for equity swap with the NT Government. The transaction increased interest-bearing liabilities and decreased equity by a commensurate amount.

Snowy Hydro Limited (Snowy Hydro) commenced formal operations on 28 June 2002, when it assumed responsibility for the assets and liabilities of the Snowy Mountains Hydro-electric Authority (SMHEA), under the *Snowy Corporatisation Act 1997*.¹ Snowy Hydro operates under the *Corporations Act 2001* (Cth) and is jointly owned by the Commonwealth, NSW and Victorian Governments.²

Snowy Hydro controls the Snowy Mountains Scheme — a dual-purpose hydro-electric and irrigation development — which consists of seven power stations and 16 dams in the Kosciusko National Park. The company generates electricity for sale into the National Electricity Market (NEM) and includes the wholly-owned subsidiary, Snowy Hydro Trading Pty Ltd (SHTPL). In 2002-03, the scheme generated 4749 GWh of power.

From 1 July 2002, Snowy Hydro and its wholly-owned entities elected to be treated as a single entity for income tax purposes. No dividend was recommended, declared or paid during the financial year.³

¹ The SMHEA was abolished on 27 June 2002. Prior to its abolition, the SMHEA sold its transmission assets to TransGrid and paid the balance owing for Commonwealth Government advances it received to construct the Scheme. The Commonwealth Government assumed any future liability in respect of Inscribed Stock, previously issued by the Authority.

² Shareholdings in Snowy Hydro are: NSW(58 per cent), Victoria (29 per cent) and Commonwealth (13 per cent).

³ An unfranked dividend payment of \$70 million was declared on 12 September 2003.

SNOWY HYDRO (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03^a</i>
<i>Size</i>						
Total assets	\$m					1 680
Total revenue	\$m					386
<i>Profitability</i>						
Operating profit before tax	\$'000					182 546
Operating sales margin	%					57.0
Cost recovery	%					232.7
Return on assets	%					13.2
Return on equity	%					13.9
<i>Financial management</i>						
Debt to equity	%					58.5
Debt to total assets	%					33.0
Total liabilities to equity	%					77.2
Interest cover	times					5.7
Current ratio	%					66.0
Leverage ratio	%					177.2
<i>Payments to and from government</i>						
Dividends	\$'000					0
Dividend to equity ratio	%					0.0
Dividend payout ratio	%					0.0
Income tax expense	\$'000					50 875
CSO funding	\$'000					0

^a 2002-03 is the first year that Snowy Hydro was included in this report. It was established under the *Snowy Corporatisation Act 1997*. An unfranked dividend payment of \$70 million was declared on 12 September 2003.

8 Water, sewerage, drainage and irrigation

The financial performance of 23 water, sewerage, drainage and irrigation (referred to hereafter as water) government trading enterprises (GTEs) is reported in this chapter. In 2002-03, these GTEs generated almost \$6 billion in revenue and controlled assets valued at more than \$45 billion.

The monitored water GTEs vary in size and the range of services they provide. Several are vertically integrated, carrying out all activities involved in the supply and treatment of water and sewage including water treatment, bulk water supply, reticulation and retail supply, sewage collection and treatment, drainage, and irrigation supply. Others provide only a limited range of these services.

The GTEs monitored include those that provide services to major urban areas as well as several that provide services in regional areas.

Financial performance summaries, including performance indicators for each GTE, are presented after this introduction. The performance indicators are consistent across individual GTEs. However, when making comparisons, care should be taken to consider differences in market environments and issues relating to the valuation of assets.

For a discussion of the data and the performance indicators used and some of the factors that should be considered when assessing performance, see chapter 3.

8.1 Monitored GTEs

The activities of the monitored water GTEs are shown in table 8.1. Some also have interests in other areas. For example, ACTEW Corporation (ACT) has a joint venture interest with the private sector for the supply of gas and electricity.

Table 8.1 Activities — water GTEs, 2002-03

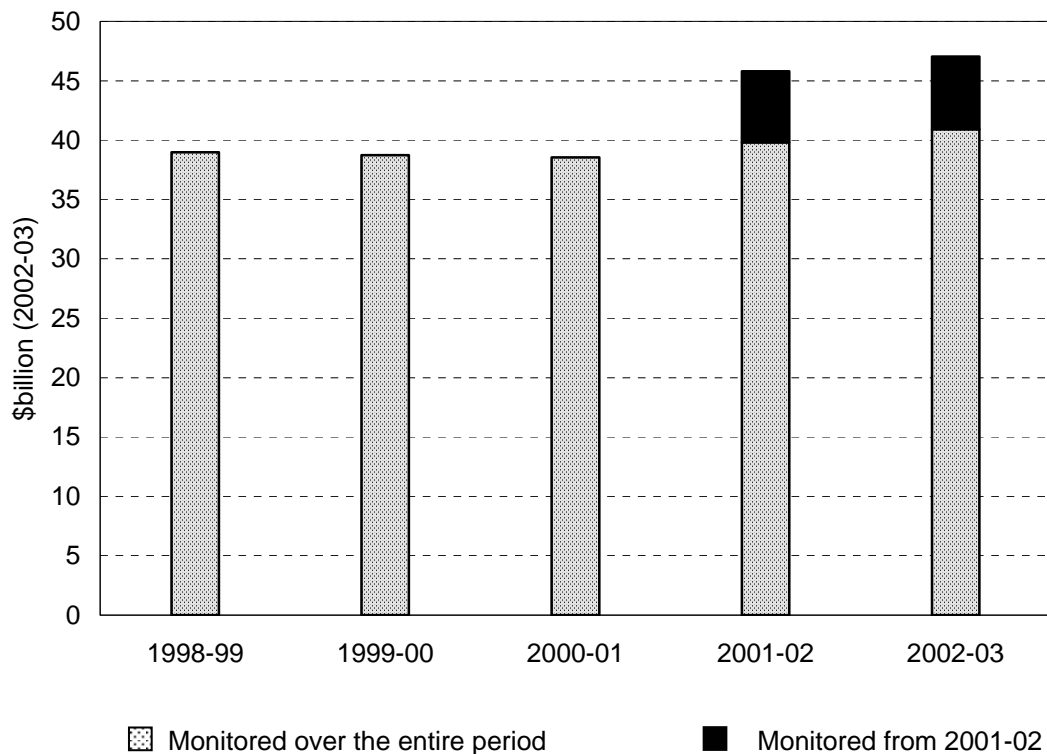
Water GTE	Jurisdiction	Activity				
		Catchment management	Bulk water	Reticulation	Wastewater treatment	Irrigation supply ^a
Sydney Catchment Authority	NSW	✓	✓	✗	✗	✗
Sydney Water	NSW	✗	✗	✓	✓	✗
Hunter Water	NSW	✓	✓	✓	✓	✗
Melbourne Water	Victoria	✓	✓	✓	✓	✓
City West Water	Victoria	✗	✗	✓	✗	✗
South East Water	Victoria	✗	✗	✓	✗	✗
Yarra Valley Water	Victoria	✗	✗	✓	✗	✗
Barwon Water	Victoria	✓	✓	✓	✓	✗
Coliban Water	Victoria	✗	✓	✓	✓	✗
Goulburn Valley Water	Victoria	✗	✓	✓	✓	✗
Gippsland Water	Victoria	✗	✓	✓	✓	✗
Central Highlands Water	Victoria	✗	✓	✓	✓	✗
Southern Rural Water	Victoria	✗	✓	✗	✗	✓
Sunraysia Rural Water	Victoria	✗	✓	✗	✗	✓
Wimmera Mallee Water	Victoria	✗	✓	✗	✗	✓
Goulburn–Murray Water	Victoria	✗	✓	✗	✗	✓
Sunwater	Queensland	✗	✓	✗	✗	✓
SA Water	SA	✗	✓	✓	✓	✓
Water Corporation	WA	✓	✓	✓	✓	✓
Hobart Water	Tasmania	✗	✓	✗	✗	✓
Cradle Coast Water	Tasmania	✗	✓	✗	✗	✓
Esk Water	Tasmania	✗	✓	✗	✗	✓
ACTEW Corporation	ACT	✓	✓	✓	✓	✗

^a Not including wastewater sales for irrigation purposes.

The set of monitored water GTEs does not generally include local government service providers. In some cases, the value of assets involved in providing these services are substantial. For example, the water operations of the Brisbane City Council and Gold Coast City Council generated revenues of over \$500 million and \$200 million respectively in 2002-03 (BCC 2003, GCCC 2003).

The Commission has expanded the number of monitored water GTEs over the reporting period (see figure 8.1). Nine GTEs — eight from regional Victoria — were included for the first time in 2001-02.

Figure 8.1 Sector assets — water GTEs, 1998-99 to 2002-03



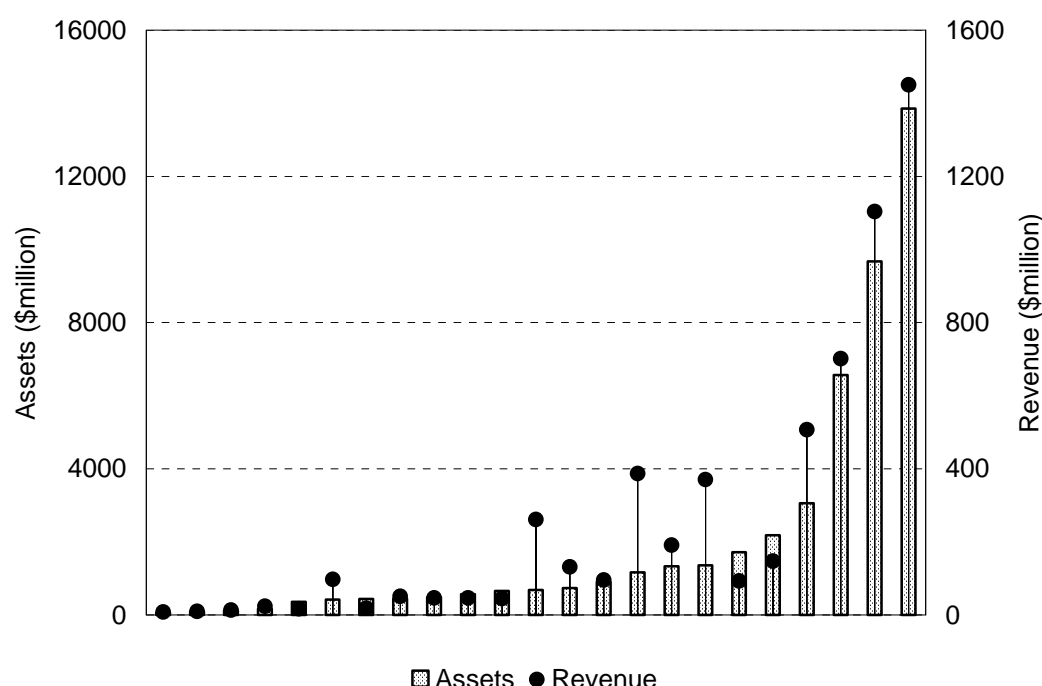
Note An additional nine water GTEs were included in 2001-02. The value of sector assets prior to 2002-03 was converted to 2002-03 dollars using the implicit price deflator — Gross Fixed Capital Formation for Public Corporations (see chapter 3).

Source: Productivity Commission estimates.

Four of the newly included Victorian water GTEs provide water and sewerage services to households and businesses in regional Victoria.¹ Another four are mainly involved in the storage of bulk water and its sale to irrigators in regional Victoria. ACTEW Corporation, a vertically integrated water GTE operating predominantly in the ACT, was the other water GTE included for the first time in 2001-02.

The size of the water GTEs — in terms of the value of the assets controlled and revenue earned — varies substantially (see figure 8.2). In 2002-03, the smallest water GTE monitored in terms of asset value was Cradle Coast Water (\$64 million) and the largest was the Sydney Water Corporation (SWC) (\$13.9 billion).²

Figure 8.2 Assets and revenue — water GTEs, 2002-03



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

There are also differences between jurisdictions in the operating principles established for water GTEs. These differences include the emphasis on commercial objectives by boards and governments compared to other objectives such as compliance with the principles of ecologically sustainable development.

Most monitored water GTEs set their prices independently, subject to ministerial approval. The prices charged by four GTEs — the Sydney Catchment Authority (SCA), Hunter Water Corporation, the SWC and ACTEW Corporation — were regulated by independent bodies.³ Prices for a small number of the remaining monitored water GTEs were set directly by government.

8.2 Market environment

The financial performance of water GTEs is linked to the variable nature of water demand and availability resulting from the weather and the structure of charges. Changes in health and environmental standards may have also affected the financial performance of water GTEs.

Water demand and supply

Since all water GTEs charge volumetric rates for water use, their financial performance is directly related to the amount of water they distribute. This depends on both the demand for water and the GTEs' ability to supply enough water to meet this demand.

The demand for water (and revenue earned) depends primarily on underlying factors such as population or industry composition and activity. Demand is also directly affected by weather conditions. For example, the SWC supplied 2404 million litres of water per day in March 1998 (a dry summer) compared to 1700 million litres per day at the same time in 1997 (SWC 1999). Drought conditions in much of south-east Australia during 2002-03 led to greater demand for water in many areas. City West Water, SA Water and Hobart Water all

³ The Independent Pricing and Regulatory Tribunal regulated prices for the NSW water GTEs and the Independent Competition and Regulatory Commission regulated ACTEW Corporation's prices.

experienced greater demand and recorded strong operating results due to the prevailing dry conditions.

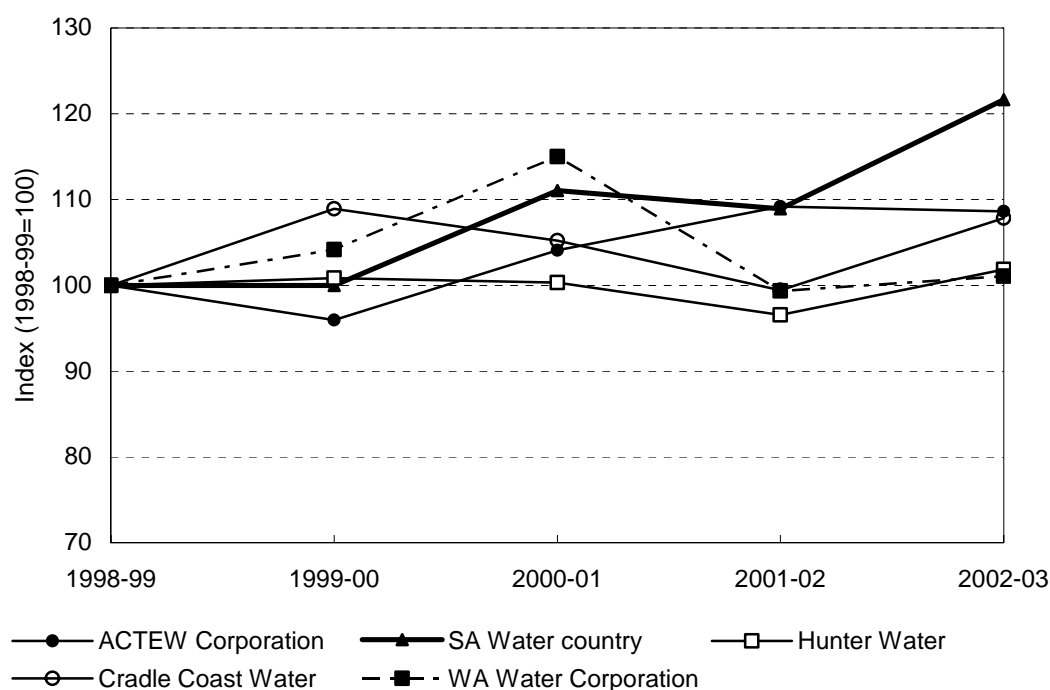
For many GTEs, the amount of water they are able to supply is strictly limited and may also be affected by weather conditions. As a consequence, the performance of several GTEs, including Wimmera Mallee Water and Southern Rural Water, was adversely affected by the drought in 2002-03 because of limited water availability.

Responses by governments and GTEs to reduced water availability include, restrictions on consumption by specific customers and general restrictions applying to specific activities. For example, in September 2001, the WA Government restricted the use of sprinklers by households and businesses to two days per week (Water Corporation 2002).

Many GTEs have environmental objectives included in their governing legislation. Therefore, demand management measures can also be useful in meeting non-financial objectives, such as improving environmental flows or deferring the construction of additional water storages.

Over the reporting period the volume of water supplied by monitored water GTEs varied by up to 14 per cent from year-to-year (see figure 8.3).

Figure 8.3 Water sales — selected water GTEs, 1998-99 to 2002-03



Note WA Water Corporation water sales excludes irrigation services.

Data sources: ACTEW (2003); SA Water (2003); Hunter Water (2003); Cradle Coast Water (2003); Water Corporation (2003).

Customer charges

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

All monitored water GTEs now have usage-based charges, typically comprising a fixed access charge and a volumetric charge based on water use.⁴ The access charge is intended to reflect the fixed costs of supplying a customer including billing, system maintenance and environmental costs. Volumetric charges reflect the variable cost of supplying water. In some cases, the introduction of usage-based charges was implemented partly as a demand management initiative.

Those GTEs that earn a significant share of total revenue from the volumetric component of usage-based charges have a greater exposure to changes in the demand for water, compared to those that earn a larger share of revenue from the fixed service component.

Most water GTEs were required to comply with standards relating to the quality of treated water and sewage. Changes in the stringency of standards may affect financial performance, depending on whether additional treatment processes or facilities are required. For example, in May 2003, SA Water commenced a two-year implementation plan to comply with the Australian Drinking Water Guidelines Framework, launching initiatives such as training over 300 staff in water quality management practices.

Customer growth

Revenue volatility is also affected by the inclusion of developer and customer contributions as revenue. Developer and customer contributions entail payments to GTEs to contribute capital to finance new infrastructure. Alternatively, developers may be required to construct or install infrastructure assets themselves, which are then transferred to the responsible GTE at no cost.

During 1999-00, the building sector experienced considerable growth, with the value of work done on residential buildings increasing by 17 per cent as a result of

⁴ Usage-based charges were first introduced in 1982 by the late Dr John Paterson, AO — President of the Hunter District Water Board (now the Hunter Water Corporation) between 1982 and 1984.

this increased activity, contributions to monitored water GTEs grew by over 30 per cent. In subsequent years, the level of building activity changed markedly from year-to-year, declining by 27 per cent in 2000-01 and then increasing by around 23 per cent and 17 per cent in 2001-02 and 2002-03 respectively (ABS 2004).

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 over 30 per cent of its total revenue in 2002-03. In contrast, developer charges and contributions accounted for less than 6 per cent of ACTEW Corporation's total revenue and were not received at all by Tasmanian GTEs.

Corporate reforms

Water industry reforms have been aimed at improving efficiency and financial performance by making the GTEs more commercially focused.

In February 1994, the Council of Australian Governments (COAG) agreed to develop a 'strategic framework' for water reform. Governments decided to bring this framework within the ambit of the National Competition Policy (NCP) process in April 1995. Under the framework, governments agreed to introduce:

- consumption-based two-part tariffs, full cost recovery, and to remove or make transparent subsidies and cross-subsidies;
- explicit identification and funding of community service obligations (CSOs);
- structural separation of water resource management, standard setting and regulatory enforcement from water provision;
- trading in rural water entitlements; and
- the allocation of water for the environment.

Most jurisdictions have implemented two-part tariffs for water and sewerage services in urban areas and removed cross-subsidies between customers. However, WA and SA retain property-based charges for sewerage services.

About 40 per cent of the monitored GTEs received funding for CSOs over the reporting period. These were mainly for the provision of water to country areas and

pensioner concessions.⁵ Most of these GTEs received CSOs over the entire reporting period. The exception was Cradle Coast Water, which received CSO payments for fluoridation up until 2000-01 but did not receive CSO payments in 2001-02 or 2002-03.

Regulatory, standard setting and resource management functions have been removed from service providers in most jurisdictions. The establishment of the SCA, which began operations in 1999, is one such consequence of this policy.

The SCA was established as a result of a 1998 review of the detection of the parasites *Cryptosporidium* and *Giardia* in Sydney's drinking water. The SCA was made responsible for the management and protection of Sydney's water supply catchments, dams, raw water transfer pipelines and canals, and associated infrastructure. These assets, valued at \$647 million, were transferred from the SWC to the SCA. The SWC continued to supply water, drainage and sewerage services.

Some activities have been privatised or outsourced. For example, SA Water contracted out the management and operation of the water supply for the Adelaide metropolitan area to a private company for a period of 15 years in 1996. Coliban Water contracts out a range of activities to the private sector including operations and maintenance, revenue collection, technical and laboratory operations, and information technology management. Coliban Water also has several water treatment plants constructed under public-private sector partnerships.

8.3 Profitability

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

The cost recovery ratio indicates a GTE's ability to generate adequate revenue to cover expenses. Most water GTEs achieved cost recovery ratios of between 100 and 250 per cent over the reporting period. In 2002-03, five water GTEs recorded cost recovery ratios of less than 100 per cent.

The charges of Victorian rural water GTEs in 2002-03 — Southern Rural Water, Sunraysia Rural Water, Wimmera Mallee Water and Goulburn-Murray Water —

⁵ Most Victorian water GTEs are reimbursed by the Government for the provision of concessions to pensioners and other eligible customers. However, in many cases these reimbursements have not been separately disclosed in financial statements.

were based on a renewals annuity concept which involved setting aside funds for known future asset replacement and rehabilitation in the form of an annuity (see box 8.1). This typically resulted in them reporting low or negative operating results using accounting depreciation — despite generating sufficient cashflows to maintain the operating condition of existing infrastructure.

One implication of the renewals annuity approach to setting charges is that returns to government in the form of dividends and tax-equivalent payments are lower because these are assessed on profitability, which uses an accounting measure of depreciation.

The operating profit of most water GTEs improved over the reporting period. Total sector nominal pre-tax operating profit increased from \$1.2 billion in 1998-99 to \$1.7 billion in 2001-02. This increase was comparable to the growth in the value of assets. As a result, the return on assets for the sector overall remained stable at about 4.5 per cent.

There were large differences in the return on assets for some GTEs over the reporting period (see figure 8.4). In 2002-03, around 65 per cent of water GTEs had a rate of return on assets less than the risk free rate of 5.4 per cent for 10-year Commonwealth Government bonds (RBA 2004).

The return on assets is also affected by asset revaluations. For example, the value of Sunwater's assets decreased by almost 90 per cent in 1999-00, as a result of the revaluation of non-current physical assets and a move from deprival valuation methodology to fair value methodology. Subsequently, the return on assets and return on equity improved.

Box 8.1 **Renewal annuity pricing**

Charges for rural water GTEs in Victoria during 2002-03 were based on providing adequate funding to maintain the condition of existing channels, pipelines and structures using the renewals annuity concept. This involved 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.

A renewals-based pricing approach is consistent with the minimum full cost recovery requirements of National Competition Policy agreements for the water sector — ‘to recover the operational, maintenance and administrative costs, externalities, taxes or tax-equivalents (not including income tax), the interest cost on debt, dividends (if any) and provision for future asset refurbishment and replacement’ (NCC 2003b).

To calculate a renewals annuity, a GTE identifies those assets that will reach the end of their life in the renewals period. It estimates the costs of replacing these assets and calculates the annual cash requirement to meet these costs.

The effect on the operating result using this approach can be derived by substituting accounting depreciation with a renewals charge (see table B.1).

Table B.1 Renewals reconciliation — Sunraysia Rural Water, 2002-03

	(\$'000)
Net operating result (accounting depreciation based)	1 414
Add back accounting depreciation	2 500
Less renewals annuity	2 471
Net operating result (renewals-based)	1 443

As in table B.1, the renewals annuity charge is typically less than the equivalent accounting depreciation expense. Thus, other things being equal, a GTE's net operating result measured using a renewals-based approach is generally better than that measured using a depreciation approach (see table B.2). Rural water GTEs use a renewals-based operating target to set charges, leading to lower charges and decreased profitability than would have been the case had the charges been set based on a depreciation-based target.

Table B.2 Renewals reconciliation — Southern Rural Water, 1998-99 to 2002-03

Year	Net operating result (\$'000)	Net operating result (renewals-based) (\$'000)
1998-99	1 033	2 306
1999-00	90	1 434
2000-01	528	3 409
2001-02	-5 536	167
2002-03	-3 234	944

Sources: Sunraysia (2003); SRW (2003).

Figure 8.4 Return on assets — water GTEs, 1998-99 to 2002-03



Note Nine GTEs were included for the first time in 2001-02. Return on assets is the ratio of earnings before interest and tax (EBIT) to average total assets. EBIT is calculated by subtracting total expenses from total revenue (includes abnormals) and adding back gross interest expense. Average total assets is the average of the value of assets at the beginning and end of each financial year. Where an average was not available, the value of total assets at the end of the financial year was used.

Source: Productivity Commission estimates.

There are distinct differences in the profitability of water GTEs operating in metropolitan and non-metropolitan areas in Victoria.⁶ The aggregated return on assets for metropolitan water GTEs in 2002-03 was 11.2 per cent, compared to the return on assets of around 1.5 per cent for regional water GTEs. Victorian rural water GTEs used the renewal annuity approach (see box 8.1) to determine water charges but use accounting depreciation in reporting operating results. As noted in box 8.1, using the renewal annuity approach to set prices results in lower prices and decreased profitability, contributing to the Victorian rural GTEs reporting a negative return on assets in 2002-03.

⁶ The metropolitan water GTEs are City West Water, Yarra Valley Water, South East Water and the Melbourne Water Corporation. The regional water GTEs are Barwon Water, Coliban Water, Goulburn Valley Water, Gippsland Water and Central Highlands Water. The rural water GTEs are Southern Rural Water, Sunraysia Rural Water, Wimmera Mallee Water and Goulburn-Murray Water.

Another ratio used to measure profitability is return on equity — the rate of earnings on the capital provided by shareholder governments. The return on equity for most water GTEs improved over the reporting period. Return on equity largely reflects a GTEs operating profit, but can also be affected by tax-equivalent payments since it is calculated using after tax profit. For example, return on equity for City West Water decreased between 1998-99 and 2002-03 despite increased operating profits because there was a 130 per cent increase in tax-equivalent payments over this time.

8.4 Financial management

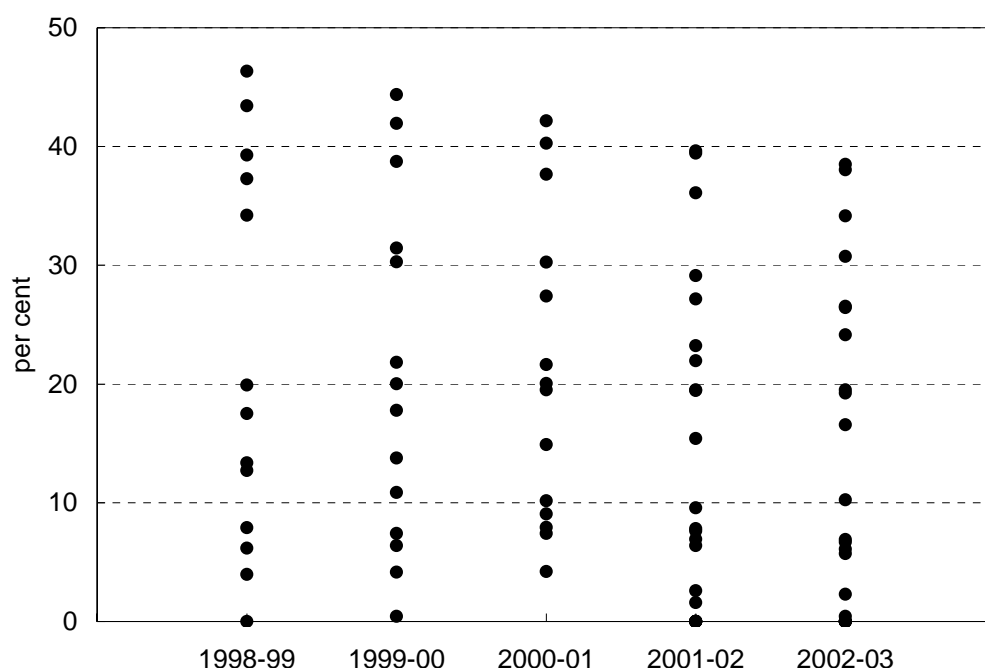
Financial management indicators provide information about the capital structure of GTEs and their ability to meet the cost of servicing debt and other liabilities as they fall due.

Debt levels for monitored water GTEs increased in nominal terms from \$6 billion in 1998-99 to \$7.5 billion in 2002-03, mainly due to increased borrowings by a small number of the large water GTEs. Debt levels for the majority of GTEs that carried debt declined over the reporting period, contributing to falls in their debt to total assets ratio (see figure 8.5). Six of the smaller monitored GTEs operated debt free in 2002-03.

Asset revaluations affected the debt to total assets ratios of some water GTEs over the reporting period. For example, SWC's assets decreased by \$698 million in 2001-02 following a revaluation of systems assets and easements. The revaluation contributed to an increase in the debt to total assets ratio from 15.4 per cent in 2001-02 to 16.6 per cent in 2002-03.

Interest cover — which measures the capacity of a GTE to meet periodic interest payments out of current earnings — for the sector in 2002-03 was 4.5 times. This was higher than the average at the beginning of the reporting period (3.6 times), although interest cover has remained largely unchanged after 1999-00.

Figure 8.5 Debt to total assets — water GTEs, 1998-99 to 2002-03



Note Nine GTEs were included for the first time in 2001-02. Six of these GTEs operated debt free in both 2001-02 and 2002-03. Debt is defined to include all repayable borrowings (interest bearing and non-interest bearing), interest bearing non-repayable borrowings and finance leases. Average total assets is the average of the value of assets at the beginning and end of each financial year. Where an average was not available, the value of total assets at the end of the financial year was used.

Source: Productivity Commission estimates.

The ability of water GTEs to meet short-term liabilities, as indicated by the current ratio, has remained largely unchanged since 1998-99. Although most water GTEs had current ratios below 100 per cent for most of the reporting period, the reasonably stable cash flows that are generally a feature of the water sector suggest that low current ratios can be sustained.

8.5 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 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 (see PC 2001). In 2002-03, about 50 per cent of monitored water GTEs

had dividend payout ratios above 50 per cent. Two GTEs had a dividend payout ratio of over 300 per cent.

Six GTEs did not record a dividend in 2002-03. Two of these were Tasmanian GTEs, which had recorded dividends in every other year during the reporting period, but did not recognize a dividend during 2002-03 because of a change in accounting policy to meet the requirements of AASB 1044 (see chapter 3). The third Tasmanian GTE, Esk Water, recorded only an interim dividend during 2002-03 because of the change in accounting policy. It is anticipated that these GTEs will pay dividends in accordance with AASB 1044 from 2003-04.

The introduction of tax-equivalent regimes varied across GTEs. However, by the end of the five-year reporting period, all water GTEs were required to make tax-equivalent payments under the National Tax Equivalent Regime.

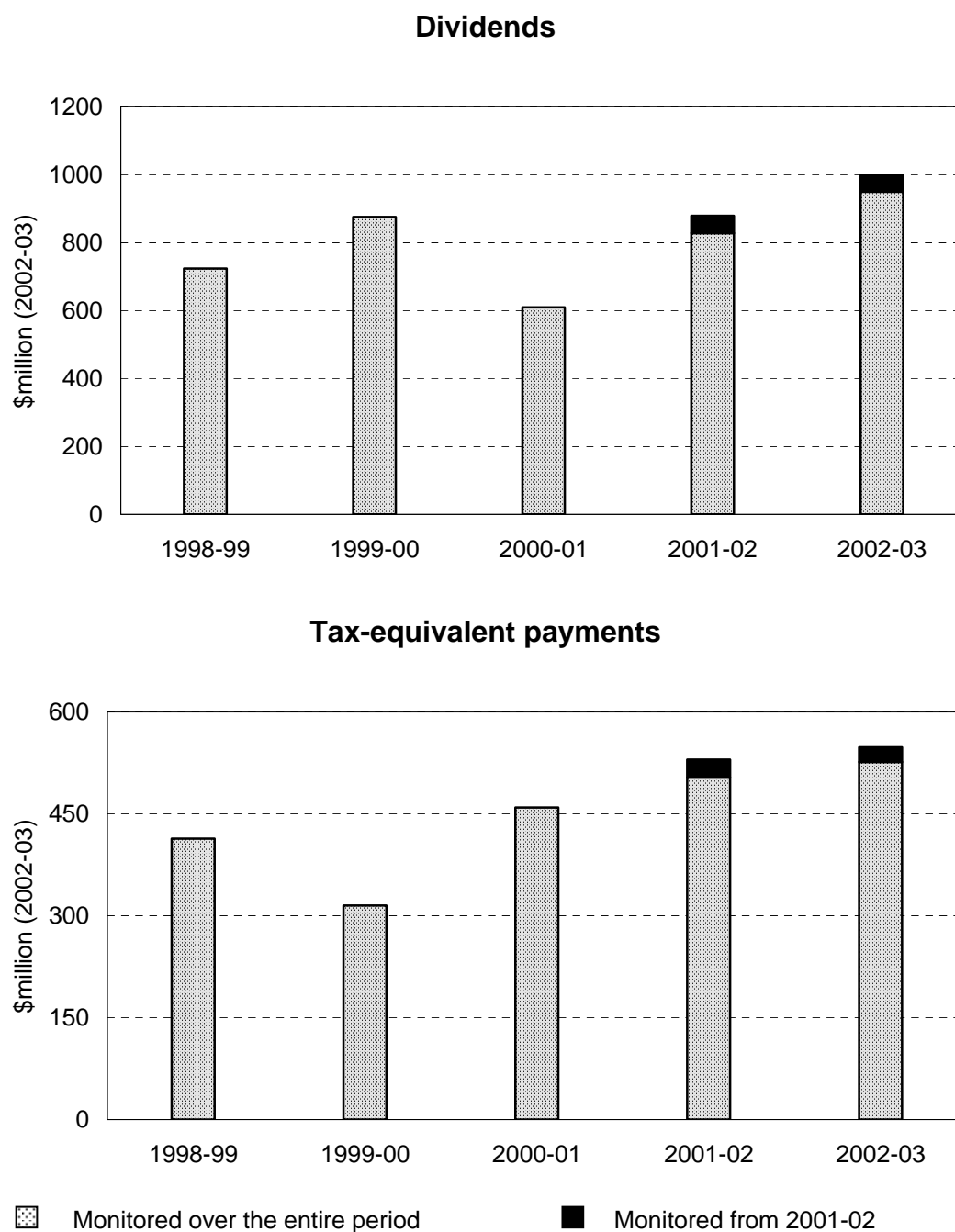
The level of tax-equivalent and dividend payments varied from year-to-year (see figure 8.6). Income tax expenses decreased in 1999-00 as a result of a reduction in the future company tax rate.⁷ Across the sector, this led to a downward adjustment in tax-equivalent payments by around \$150 million. In 2002-03, water GTEs made around \$550 million in income tax-equivalent payments to owner governments. The Victorian and NSW governments were the major recipients, receiving 33 per cent and 23 per cent of all income tax-equivalent payments made by water GTEs respectively.

Under COAG reforms, the amount by which services are provided at prices that do not fully recover costs must be disclosed. Full cost recovery under this framework requires that prices should be set to cover a range of costs such as operational, maintenance and administrative costs, externalities, taxes or tax-equivalent payments, provisions for the cost of asset consumption, interest costs on debt and cost of capital (NCC 2003b). Further, governments are required to make transparent any payments to GTEs for non-commercial services requested by governments.

CSOs provided by some water GTEs include concessions, the supply of services below the cost of provision and upgrading sewerage infrastructure. In 2002-03, ten water GTEs received funding for CSOs totalling around \$470 million. Several other water GTEs were reimbursed funds by governments for pensioner and other concessions but these amounts were not disclosed in financial statements.

⁷ The company tax rate was reduced from 36 per cent in 1999-00 to 34 per cent for 2000-01. It was further reduced to 30 per cent from 2001-02.

Figure 8.6 Dividend and income tax-equivalent payments — water GTEs, 1998-99 to 2002-03



Note Nine GTEs were included for the first time in 2001-02. The value of dividends and tax-equivalent payments prior to 2002-03 were converted to 2002-03 dollars using the using the implicit price deflator — Gross Fixed Capital Formation of Public Corporations (see chapter 3).

Source: Productivity Commission estimates.

8.6 GTE performance reports

Sydney Catchment Authority (NSW)
Sydney Water Corporation (NSW)
Hunter Water Corporation (NSW)
Melbourne Water Corporation (Victoria)
City West Water (Victoria)
South East Water (Victoria)
Yarra Valley Water (Victoria)
Barwon Regional Water Authority (Victoria)
Coliban Water (Victoria)
Goulburn Valley Water (Victoria)
Central Gippsland Water (Victoria)
Central Highlands Water (Victoria)
Southern Rural Water (Victoria)
Sunraysia Rural Water (Victoria)
Wimmera Mallee Water (Victoria)
Goulburn–Murray Water (Victoria)
Sunwater (Queensland)
SA Water Corporation (SA)
Water Corporation (WA)
Hobart Regional Water Authority (Tasmania)
Cradle Coast Water (Tasmania)
Esk Water Authority (Tasmania)
ACTEW Corporation (ACT)

The Sydney Catchment Authority (SCA) was established by the *Sydney Water Catchment Management Act 1998* to provide, construct, operate, manage and maintain efficient systems for the supply of bulk water. The SCA's activities are carried out under an Operating Licence granted by the Governor and a Water Management Licence with the Department of Land and Water Conservation. Bulk water sales to Sydney Water Corporation (SWC) account for around 97 per cent of total revenue.¹

Charges for bulk water and other services are determined by the Independent Pricing and Regulatory Tribunal (IPART). Under a determination made in September 2000, real charges did not change in 2002-03.²

Catchment management and protection is a key function of the SCA and it has regulatory enforcement powers aimed at reducing threats to water quality. Following the mid-term review by IPART, the SCA foreshadowed its intention to develop an auditable suite of catchment indicators prior to the scheduled 2005 IPART review.

In 2002-03, operating profit before tax rose slightly to \$28 million. Capital expenditure was around \$13 million or \$10 million less than budgeted, largely due to the need to review some aspects of the upgrade of the Warragamba dam spillway. The SCA has had difficulty in fully delivering its capital expenditure program over the last 3 years and has identified this as an area for improvement.

The SCA is required to make tax-equivalent and dividend payments, with a \$12 million reduction in the dividend in 2002-03. The funding of some non-commercial activities is not explicitly reported in the financial statements.³

¹ Responsibility for managing catchments, dams and their associated infrastructure was transferred from SWC to the SCA in July 1999. There was a transfer of \$492 million in net assets, comprising among other things \$619 million in system assets, property and equipment and \$162 million of debt.

² Under the determination, charges were to remain fixed in real terms over the period 2000-01 to 2004-05, subject to a mid-term review by IPART. In May 2002-03, IPART opted to continue the existing price path to 30 June 2005.

³ Under its Operating Licence, the SCA is also required to manage a range of heritage items including old dams and weirs, walking tracks and bridges.

SYDNEY CATCHMENT AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00^a</i>	<i>2000-01</i>	<i>2001-02^b</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	n.r.	736	746	711	736
Total revenue	\$m	n.r.	123	124	120	131
<i>Profitability</i>						
Operating profit before tax	\$'000	n.r.	59 880	47 436	26 650	28 266
Operating sales margin	%	n.r.	56.5	46.6	31.8	30.9
Cost recovery	%	n.r.	230.0	187.3	146.7	144.7
Return on assets	%	n.r.	9.5	8.0	5.3	5.7
Return on equity	%	n.r.	7.5	5.9	3.1	3.9
<i>Financial management</i>						
Debt to equity	%	n.r.	30.9	30.1	32.0	34.9
Debt to total assets	%	n.r.	21.8	21.6	21.9	24.1
Total liabilities to equity	%	n.r.	41.5	40.0	42.2	47.3
Interest cover	times	n.r.	6.8	5.1	3.2	3.2
Current ratio	%	n.r.	92.7	70.4	40.0	55.8
Leverage ratio	%	n.r.	141.5	140.0	142.2	147.2
<i>Payments to and from government</i>						
Dividends	\$'000	n.r.	10 600	17 600	30 500	18 877
Dividend to equity ratio	%	n.r.	2.0	3.3	5.9	3.8
Dividend payout ratio	%	n.r.	27.3	56.5	189.5	97.0
Income tax expense	\$'000	n.r.	21 100	16 278	10 555	8 805
CSO funding	\$'000	n.r.	0	0	0	0

^a The *Sydney Water Catchment Management Act 1998* received assent on 14 December 1998. On 2 July 1999 the Sydney Catchment Authority (SCA) commenced operations. On this date, \$492 million in net assets were transferred from Sydney Water Corporation to the SCA. ^b Includes a downward revaluation of some land (\$6.9 million), and land transfers to the Sydney Water Corporation (\$11.7 million) and the National Parks and Wildlife Service (\$5.6 million). **n.r.** Not relevant.

Sydney Water Corporation (SWC) operates under the *State Owned Corporations Act 1991* and the *Sydney Water Act 1994*.¹ SWC supplies drinking water and provides wastewater services and some stormwater services to a population of around 4.2 million in Sydney, the Blue Mountains and the Illawarra under an Operating Licence granted by the Governor.

About 90 per cent of SWC's revenue, including water and wastewater charges, is regulated by the NSW Independent Pricing and Regulatory Tribunal (IPART).²

Despite a 1.7 per cent rise in capital expenditure, total assets decreased over 2002-03. This was largely due to a revaluation decrement of \$698 million to system assets and easements.

During 2002-03, pre-tax operating profit was \$219 million. This represented a 35 per cent decrease from the previous year and led to a corresponding decrease in the return on assets and return on equity. Revenue decreased by less than 3 per cent, with the drop in profits largely a result of one-off costs. These costs included increased operational expenses due to drought conditions, an expense of \$51 million for the write-off of the failed Customer Information Billing System, the expensing of \$30 million of previously capitalised de-silting work in the South Western Suburbs Ocean Outfall Scheme, and continued poor superannuation investment returns.

Although operating profit fell, SWC's dividend increased to \$115 million, representing a dividend payout ratio of 91.5 per cent.

Debt increased in nominal terms by just under \$200 million. Increased debt combined with a decreased asset base led to increases in both debt to equity and debt to total assets ratios, a continuation of the trend since 1998-99.

SWC is required to make tax-equivalent and dividend payments. It receives funding for the provision of community service obligations (CSOs), including rebates for pensioners and low income households.

¹ The enactment of the *Water Legislation Amendment (Drinking Water and Corporate Structure) Act 1998* changed the status of SWC from a 'company' State Owned Corporation (SOC) to a 'statutory' SOC. The change gave the responsible Minister greater power to make directions and access information, among other things.

² IPART's determination covering the period October 2000 to June 2003 set charges for all services up to May 2003. At this time new prices were set, designed to signal to consumers the true price of water.

SYDNEY WATER CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02^d</i>	<i>2002-03^e</i>
<i>Size</i>						
Total assets	\$m	13 278	13 053	13 471	14 253	13 856
Total revenue	\$m	1 272	1 467	1 431	1 492	1 450
<i>Profitability</i>						
Operating profit before tax	\$'000	183 918	385 296	283 510	334 548	218 761
Operating sales margin	%	27.0	35.3	29.4	31.6	24.8
Cost recovery	%	145.1	153.4	145.3	146.2	132.9
Return on assets	%	2.6	4.0	3.2	3.4	2.6
Return on equity	%	0.9	3.0	1.5	1.6	1.1
<i>Financial management</i>						
Debt to equity	%	16.9	17.0	18.1	18.8	21.8
Debt to total assets	%	13.3	13.8	14.9	15.4	16.6
Total liabilities to equity	%	22.8	22.6	23.2	25.7	29.6
Interest cover	times	2.0	3.8	3.0	3.4	2.5
Current ratio	%	24.5	41.0	59.5	51.2	43.7
Leverage ratio	%	122.8	122.6	123.2	125.7	129.6
<i>Payments to and from government</i>						
Dividends	\$'000	91 683	129 271	53 353	110 000	115 000
Dividend to equity ratio	%	0.8	1.2	0.5	1.0	1.0
Dividend payout ratio	%	89.2	40.3	32.7	60.1	91.5
Income tax expense	\$'000	81 160	64 253	120 292	151 460	93 110
CSO funding	\$'000	105 200	87 686	73 300	78 343	79 661

^a Sydney Water Corporation (SWC) recorded an abnormal expense of \$55.4 million due to water contamination incidents that occurred in July, August and September 1998. SWC was required over a three year period commencing 1997-98, to pay 100 per cent of its profit after tax and developer contributions as a dividend to the NSW Government. In 1998-99, the dividend declared excludes capital contributions in respect of the Rouse Hill Development and specific sewer backlog projects. ^b Responsibility for managing catchments, dams and their associated infrastructure were transferred to the Sydney Catchment Authority. The transfer included \$492 million in net assets, comprising mainly \$619 million in system assets, property and equipment and \$162 million of debt. ^c Includes expenses of \$56 million relating to superannuation adjustments, \$8.1 million relating to redundancy and \$36 million relating to the repayment of excess government contributions for sewerage backlog projects. Includes a revaluation increment of \$168 million relating to system and property assets. ^d Includes a \$101 million expense relating to superannuation adjustments and a revaluation increment of \$334 million to system assets. ^e Includes expenses of \$82 million relating to superannuation adjustments, \$51 million relating to the write-off of the Customer Information Billing System project costs, \$30 relating to the South Western Suburbs Ocean Outfall Scheme and a revaluation decrement of \$698 million to system assets and easements.

HUNTER WATER CORPORATION

New South Wales

Hunter Water Corporation (HWC) operates under the *State Owned Corporations Act 1989* and the *Hunter Water Act 1991*.¹ HWC provides water, wastewater and drainage services to almost half a million people, living in the Newcastle, Lake Macquarie, Maitland, Cessnock and Port Stephens council areas, under an Operating Licence granted by the Governor.² Hunter Water Australia Pty Ltd., a wholly-owned subsidiary of HWC, provides water treatment, engineering, surveying and laboratory services to HWC and external clients.

HWC's charges are regulated by the NSW Independent Pricing and Regulatory Tribunal (IPART) using a CPI-X pricing regime, which has resulted in a real charge decrease over the last two years.³ IPART is also responsible for conducting annual audits of HWC's compliance with its licence.

An increase in revenue in 2002-03 more than offset expense growth and resulted in a \$8 million increase in pre-tax operating profit to \$34 million. The increase in revenue was mainly attributed to customer growth and higher water sales. Revenue also included contributions of \$48 million for capital works. Expenses included a \$13 million adjustment to future superannuation liabilities.

HWC is required to make tax-equivalent and dividend payments. In 2002-03, it paid a \$38 million dividend, up from \$31 million in 2001-02.

Community service obligations (CSOs) provided by HWC are funded by the NSW Government to cover tariff rebates to pensioners and for exempt properties such as churches. HWC received \$9 million to fund these CSOs in 2002-03.

¹ The enactment of the *Water Legislation Amendment (Drinking Water and Corporate Structure) Act 1998* changed the status of HWC from a 'company' State Owned Corporation (SOC) to a 'statutory' SOC. The change gave the responsible Minister greater power to make directions and access information, among other things.

² The Operating Licence sets minimum performance standards for, and places obligations on, HWC with respect to customer service, system and environmental performance.

³ Under the price determination covering the period 2000-01 to 2002-03, average charges fell by 1.5 per cent in real terms per year. IPART issued a new determination in May 2003, which sets prices for the next two years and provides an overall price adjustment marginally above the Consumer Price Index (CPI) for each of those years.

HUNTER WATER CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00^a</i>	<i>2000-01^b</i>	<i>2001-02^c</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	2 064	1 970	2 017	2 095	2 179
Total revenue	\$m	139	136	131	133	147
<i>Profitability</i>						
Operating profit before tax	\$'000	50 548	50 123	36 420	26 254	34 026
Operating sales margin	%	39.0	39.5	32.4	24.4	27.9
Cost recovery	%	153.9	142.9	140.9	125.8	132.0
Return on assets	%	2.8	2.8	2.2	1.7	2.0
Return on equity	%	1.7	1.9	1.3	0.4	0.5
<i>Financial management</i>						
Debt to equity	%	4.3	4.6	4.5	7.1	6.8
Debt to total assets	%	4.0	4.1	4.2	6.4	6.1
Total liabilities to equity	%	9.9	8.9	9.0	12.8	13.6
Interest cover	times	8.2	9.0	5.8	4.2	4.8
Current ratio	%	91.5	107.7	116.5	151.6	75.0
Leverage ratio	%	109.9	108.9	109.0	112.8	113.6
<i>Payments to and from government</i>						
Dividends	\$'000	45 000	28 000	30 000	31 110	38 000
Dividend to equity ratio	%	2.4	1.5	1.6	1.7	2.0
Dividend payout ratio	%	144.0	80.1	126.4	452.7	386.4
Income tax expense	\$'000	19 295	15 185	12 677	19 382	2 4191
CSO funding	\$'000	8 200	8 277	8 463	8 550	9 182

^a Includes contributions for capital works and abnormal revenue of \$11.6 million resulting from a reduction in superannuation liability. The value of assets was written down over a range of asset classes by \$105 million following a recoverable amounts test. ^b Includes an asset revaluation increment of \$54.3 million relating to water and sewerage assets and an expense of \$1.6 million resulting from an increase in superannuation liability. ^c Includes an expense of \$13.4 million as a result of an adjustment to superannuation liabilities and a revaluation increment of \$26.8 million relating to sewers.

Melbourne Water Corporation (MWC) operates under the *Melbourne Water Corporation Act 1992* and the *State Owned Enterprises Act 1992*. MWC's activities include water catchment management, wholesale water supply, sewerage services such as major sewers and sewage pump stations, sewage treatment and stormwater management. Its main customers are the three retail water Government Trading Enterprises (GTEs) in Melbourne, however services are also provided to other water authorities, local councils and land developers.

MWC's trading activities are dependent to a significant extent on the sale of bulk water and sewage services to the metropolitan retail water GTEs. It also depends on these GTEs for billing and payment collection for its drainage services.

Charges over the period 2001-02 to 2003-04 were set by the Victorian Government under the *Melbourne Metropolitan Water, Wastewater and Drainage Services Pricing Order 2001*.¹ Responsibility for price setting transferred to the Essential Services Commission from 1 January 2004.

Revenue increased by 6.2 per cent in 2002-03, due to increases in all major revenue sources; water usage, sewage disposal, drainage, and contributions from developers. Expenses fell and operating profit increased by 18 per cent.

Assets increased by 1.9 per cent over 2002-03, driven by \$118 million of capital expenditure, representing a 14 per cent increase from the previous year. Sustained asset growth and a reduction in the level of borrowings in each year over the reporting period have resulted in a continued decline in the debt to equity and debt to assets ratios.

MWC is required to make tax-equivalent and dividend payments. Both tax-equivalent payments and dividends rose in 2002-03 as a consequence of rising profits.

MWC is not subject to community service obligations.

¹ Under the Order, charges for water, wastewater and drainage increased by around the rate of inflation plus 2 per cent in 2001-02, inflation plus 1 per cent in 2002-03 and the rate of inflation in 2003-04.

MELBOURNE WATER CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01^a</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	2 751	2 852	2 954	2 995	3 051
Total revenue	\$m	443	477	461	477	506
<i>Profitability</i>						
Operating profit before tax	\$'000	176 664	204 234	178 094	185 811	218 425
Operating sales margin	%	57.2	59.1	56.0	54.9	57.8
Cost recovery	%	233.5	243.4	226.5	221.8	236.8
Return on assets	%	9.3	10.1	8.9	8.8	9.7
Return on equity	%	11.6	17.7	10.4	9.9	11.1
<i>Financial management</i>						
Debt to equity	%	119.4	106.5	93.0	88.3	83.2
Debt to total assets	%	46.3	44.4	42.1	39.4	38.0
Total liabilities to equity	%	159.1	144.4	124.4	125.5	120.9
Interest cover	times	3.3	3.6	3.2	3.4	3.9
Current ratio ^b	%	8.4	10.3	16.9	19.0	16.6
Leverage ratio	%	259.1	244.4	224.4	225.5	220.9
<i>Payments to and from government</i>						
Dividends ^b	\$'000	106 175	126 246	58 300	98 942	99 400
Dividend to equity ratio ^b	%	10.0	11.3	4.7	7.5	7.3
Dividend payout ratio ^b	%	86.6	64.1	45.2	76.0	66.3
Income tax expense	\$'000	54 090	7 348 ^c	49 066	55 555	68 472
CSO funding	\$'000	0	0	0	0	0

^a Includes a \$59.1 million increase in the value of Crown land assets that was previously unrecognised. ^b A change in accounting policy in 2000-01 resulted in a final dividend not being provided for because it was not yet announced by the shareholding ministers. In 2001-02 and 2002-03, the dividend included the final dividend from the previous year's operating results and the current year's interim dividend. This change in accounting standard affected the current ratio and the comparability of the dividend to equity ratio and dividend payout ratio with those from before 2000-01. Under AASB 1044 (see chapter 3), dividends are now recognised in the financial year in which they are announced. ^c Income tax expense decreased by \$49.8 million with a reduction in the future company tax rate from 36 per cent to 34 per cent in respect of 2000-01 and then to 30 per cent from 2001-02.

City West Water (CWW) commenced operations on 1 January 1995. CWW is incorporated under the *Corporations Act 2001* (Cth) and operates subject to a licence issued under the *Water Industry Act 1994*. It provides water, sewerage and trade waste services to approximately 280 000 residential, commercial and industrial customers in Melbourne's central business district, and its inner and western suburbs.

CWW's charges over the period 2001-02 to 2003-04 were set by the Victorian Government under the *Melbourne Metropolitan Water, Wastewater and Drainage Services Pricing Order 2001*.¹ Responsibility for price setting transferred to the Essential Services Commission (ESC) from 1 January 2004.²

Revenue grew by 7.3 per cent in 2002-03, the result of increases in all operating revenue items. Contributing to this revenue growth was increased demand for water during the drought, an increased number of connected properties (3.9 per cent) and a price rise (4.1 per cent). Expenses also grew during 2002-03, rising by 9 per cent, largely as a result of a 21 per cent increase in operating expenses due to dry conditions. This led to a decline in the operating sales margin, though profit still rose by 4.7 per cent.

CWW is required to make dividend payments to the State Government. In 2002-03, the dividend rose by 66 per cent to \$90.8 million, representing a dividend payout ratio of over 120 per cent. This led to a fall in equity.

The fall in equity, combined with an 18 per cent increase in debt over the reporting period, resulted in an increase in the debt to equity ratio. The debt to assets ratio also rose in 2002-03.

CWW is required to make tax-equivalent payments. Income tax expense decreased in 1999-00 due to a reduction of the future company tax rate and deferred tax balances. CWW is reimbursed for the value of concessions provided to pensioners and others and for the administration of the concession schemes. However, these amounts were not disclosed in CWW's financial statements.

¹ Under the Order, charges for water, wastewater and drainage increased by around the rate of inflation plus 2 per cent in 2001-02, inflation plus 1 per cent in 2002-03 and the rate of inflation in 2003-04.

² Prior to 1 January 2004, the ESC's role was limited to monitoring and enforcing service standard obligations contained in CWW's retail licence, and addressing other non-pricing issues.

CITY WEST WATER (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00</i>	<i>2000-01^b</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	606	625	641	660	686
Total revenue	\$m	228	255	228	243	261
<i>Profitability</i>						
Operating profit before tax	\$'000	83 495	110 147	82 340	100 070	104 800
Operating sales margin	%	42.2	48.0	41.2	45.4	43.7
Cost recovery	%	172.9	192.2	170.2	183.1	177.7
Return on assets	%	16.3	19.9	14.8	17.0	17.0
Return on equity	%	26.1	34.0	19.4	19.4	19.0
<i>Financial management</i>						
Debt to equity	%	78.6	57.1	46.7	38.6	47.9
Debt to total assets	%	37.3	30.3	27.4	23.2	26.5
Total liabilities to equity	%	116.0	91.6	72.3	68.8	84.0
Interest cover	times	7.4	9.7	8.1	10.5	12.0
Current ratio ^b	%	26.6	32.7	56.1	69.7	55.7
Leverage ratio	%	216.0	191.6	172.3	168.8	184.0
<i>Payments to and from government</i>						
Dividends ^b	\$'000	39 939	57 400	22 350	54 750	90 800
Dividend to equity ratio ^b	%	15.0	18.9	6.4	14.4	23.8
Dividend payout ratio ^b	%	57.5	55.6	33.0	74.0	124.8
Income tax expense	\$'000	13 981	6 915 ^c	14 574	26 036	32 072
CSO funding	\$'000	n.p.	n.p.	n.p.	n.p.	n.p.

^a 1998-99 was the first full year of operation under usage-based charges. Charges were previously billed based on property rates. The usage-based charges changed the timing of cashflows such that customers are now billed in arrears. ^b A change in accounting policy in 2000-01 resulted in a final dividend not being provided for because it was not yet announced by the shareholding ministers. In 2001-02 and 2002-03, the dividend included the final dividend from the previous year's operating results and the current year's interim dividend. This change in accounting standard affected the current ratio and the comparability of the dividend to equity ratio and dividend payout ratio with those from before 2000-01. Under AASB 1044 (see chapter 3), dividends are now recognised in the financial year in which they are announced. ^c Income tax expense decreased due to a reduction in the future company tax rate and the effect of deferred tax balances. **n.p.** Not published.

South East Water (SEW) is incorporated under the *Corporations Act 2001* (Cth) and operates subject to a licence issued under the *Water Industry Act 1994*. SEW provides water supply and sewerage services to 1.3 million customers in the southern and eastern suburbs of Melbourne.

SEW's charges over the period 2001-02 to 2003-04 were set by the Victorian Government under the *Melbourne Metropolitan Water, Wastewater and Drainage Services Pricing Order 2001*.¹ Responsibility for price setting transferred to the Essential Services Commission (ESC) from 1 January 2004.²

The value of SEW's assets has increased in each year over the reporting period. In 2002-03, the increase was due to asset contributions by developers of \$38.5 million — up 160 per cent from 2001-02 — and capital expenditure of \$53.6 million, also up from the previous year. Debt fell in nominal terms for each year of the reporting period except during 2002-03, when debt increased by \$31.3 million to fund the capital works program. This led to increases in debt to equity and debt to assets ratios, though they remained below the levels reached in 1998-99 and 1999-00.

Profitability increased by 25 per cent in 2002-03, continuing a trend evident for much of the reporting period. This was largely due to increases in water service charges (mainly as a result of increased prices), sewerage service charges and the increase in developer contributed assets.

SEW is required to make tax-equivalent and dividend payments. The decrease in income tax expenses during 1999-00 was attributed to the restatement of deferred tax balances resulting from the change in the future company tax rate from 36 per cent to 34 per cent in 2000-01 and 30 per cent thereafter. Both tax-equivalent and dividend payments have been increasing since 2000-01, in line with increasing profits.

SEW is reimbursed for the value of concessions provided to pensioners and others and for the administration of the concession schemes. However, these amounts are not disclosed in SEW's financial statements.

¹ Under the Order, charges for water, wastewater and drainage increased by around the rate of inflation plus 2 per cent in 2001-02, inflation plus 1 per cent in 2002-03 and the rate of inflation in 2003-04.

² Prior to 1 January 2004, the ESC's role was limited to monitoring and enforcing service standard obligations contained in SEW's retail licence, and addressing other non-pricing issues.

SOUTH EAST WATER (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	1 031	1 048	1 070	1 105	1 160
Total revenue	\$m	305	331	329	343	387
<i>Profitability</i>						
Operating profit before tax	\$'000	75 398	104 883	103 587	111 989	139 545
Operating sales margin	%	31.3	37.9	37.7	38.4	41.2
Cost recovery	%	148.2	161.6	160.6	162.4	170.2
Return on assets	%	9.4	12.1	11.7	12.1	14.1
Return on equity	%	12.4	19.3	14.7	12.7	15.7
<i>Financial management</i>						
Debt to equity	%	67.5	59.5	53.2	51.2	56.7
Debt to total assets	%	34.2	31.4	30.2	29.1	30.7
Total liabilities to equity	%	100.4	90.9	77.6	78.6	88.9
Interest cover	times	4.7	6.0	6.0	6.7	8.1
Current ratio ^a	%	41.7	36.2	64.4	77.7	42.8
Leverage ratio	%	200.4	190.9	177.6	178.6	188.9
<i>Payments to and from government</i>						
Dividends ^a	\$'000	49 730	68 175	33 000	62 300	102 200
Dividend to equity ratio ^a	%	9.8	12.8	5.7	10.2	16.6
Dividend payout ratio ^a	%	79.0	66.6	39.1	80.3	105.5
Income tax expense	\$'000	12 459	2 488 ^b	19 169	34 434	42 636
CSO funding	\$'000	n.p.	n.p.	n.p.	n.p.	n.p.

^a A change in accounting policy in 2000-01 resulted in a final dividend not being provided for because it was not yet announced by the shareholding ministers. In 2001-02 and 2002-03, the dividend included the final dividend from the previous year's operating results and the current year's interim dividend. This change in accounting standard affected the current ratio and the comparability of the dividend to equity ratio and dividend payout ratio with those from before 2000-01. Under AASB 1044 (see chapter 3), dividends are now recognised in the financial year in which they are announced. ^b Income tax expense decreased by \$18.4 million due to a reduction in the future company tax rate from 36 per cent to 34 per cent in respect of 2000-01 and then to 30 per cent from 2001-02. **n.p.** Not published.

YARRA VALLEY WATER

Victoria

Yarra Valley Water (YVW) is incorporated under the *Corporations Act 2001* (Cth) and operates subject to a licence issued under the *Water Industry Act 1994*. It provides retail water supply and sewerage services as well as the collection of tradewaste to more than 1.5 million people in the eastern and northern suburbs of Melbourne.

YVW's charges over the period 2001-02 to 2003-04 were set by the Victorian Government under the *Melbourne Metropolitan Water, Wastewater and Drainage Services Pricing Order 2001*.¹ Responsibility for price setting transferred to the Essential Services Commission from 1 January 2004.²

Operating profit rose by 17 per cent in 2002-03, due mainly to a rise in revenue. This was partly the result of increases in water usage and sewage disposal charges, but a 41 per cent increase in developer contributed assets treated as revenue was the major contributing factor.

The value of YVW's assets has increased in each year over the reporting period. In 2002-03, this was a result of capital expenditure of \$59.9 million and the high value of developer contributed assets. Capital expenditure was largely funded by retained earnings, with the level of borrowings increasing by just \$3.4 million. The debt to equity ratio decreased over the year, but remained at over 80 per cent.

YVW is required to make tax-equivalent and dividend payments. Income tax expense was a negative figure in 1999-00, reflecting benefits generated from the restatement of deferred tax balances due to a change in the future company tax rate and an over-provision of tax for developer contributions in prior years. Tax and dividend payments have increased over the past two years as a result of improving profitability.

YVW is reimbursed for the value of concessions provided to pensioners and others and for the administration of the concession schemes. These figures were not reported separately prior to 2001-02.

¹ Under the Order, charges for water, wastewater and drainage increased by around the rate of inflation plus 2 per cent in 2001-02, inflation plus 1 per cent in 2002-03 and the rate of inflation in 2003-04.

² Prior to 1 January 2004, the ESC's role was limited to monitoring and enforcing service standard obligations contained in YVW's retail licence, and addressing other non-pricing issues.

YARRA VALLEY WATER (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	1 185	1 230	1 263	1 296	1 356
Total revenue	\$m	332	353	342	336	370
<i>Profitability</i>						
Operating profit before tax	\$'000	75 913	96 471	86 165	78 988	94 724
Operating sales margin	%	32.1	36.3	34.7	33.2	34.4
Cost recovery	%	148.0	157.2	153.0	149.7	152.5
Return on assets	%	9.1	10.6	9.5	8.7	9.6
Return on equity	%	11.3	18.7	11.9	9.6	10.3
<i>Financial management</i>						
Debt to equity	%	98.4	91.5	82.6	82.6	80.3
Debt to total assets	%	43.4	42.0	40.3	39.6	38.5
Total liabilities to equity	%	129.5	122.2	107.7	111.1	113.3
Interest cover	times	3.5	4.0	3.6	3.4	4.0
Current ratio ^a	%	34.0	41.1	37.0	46.6	45.3
Leverage ratio	%	229.5	222.2	207.7	211.1	213.3
<i>Payments to and from government</i>						
Dividends ^a	\$'000	48 738	62 707	23 614	52 693	60 400
Dividend to equity ratio ^a	%	9.5	11.7	4.1	8.6	9.7
Dividend payout ratio ^a	%	84.0	62.8	34.3	89.5	93.7
Income tax expense	\$'000	17 885	-3 417 ^b	17 285	20 136	30 290
CSO funding	\$'000	n.p.	n.p.	n.p.	18 726	19 227

^a A change in accounting policy in 2000-01 resulted in a final dividend not being provided for because it was not yet announced by the shareholding ministers. In 2001-02 and 2002-03, the dividend included the final dividend from the previous year's operating results and the current year's interim dividend. This change in accounting standard affected the current ratio and the comparability of the dividend to equity ratio and dividend payout ratio with those from before 2000-01. Under AASB 1044 (see chapter 3), dividends are now recognised in the financial year in which they are announced. ^b Income tax expense decreased due to a reduction in the future company tax rate from 36 per cent to 34 per cent in respect of 2000-01 and then to 30 per cent from 2001-02. Consequently, deferred tax balances have been remeasured using the appropriate new rates, resulting in a decrease in tax-equivalent payments of \$16.6 million. **n.p.** Not published.

Barwon Regional Water Authority (Barwon Water) was established under the *Water Act 1989*. Barwon Water provides water and sewerage services to more than 250 000 residents in Geelong and surrounding areas, making it Victoria's largest regional urban water authority.

Prior to 2004, Barwon Water's board set charges subject to approval by the Minister for Water. From 1 January 2004, pricing became the responsibility of the Essential Services Commission.

Charges increased by around 4 per cent in July 2002 following a similar rise in 2001-02. In 2002-03, around 40 per cent of Barwon Water's revenue was from usage-based water and sewage charges, with around 27 per cent from property-based charges.

Revenues rose by 17 per cent in 2002-03 with higher water consumption, an increase in charges, and growth in the number of customers served. There was also strong growth in revenue from developer contributed assets and cash for future capital works. Profit increased by 100 per cent, or \$11.1 million, with expenses rising by less than 4 per cent.

Capital expenditure of \$37.7 million — up 54 per cent from 2001-02 — contributed to a 2.7 per cent increase in assets in 2002-03. Debt levels fell in each year over the reporting period, resulting in a decline in the debt to equity and debt to total assets ratios.

Barwon Water pays dividends as determined by the Treasurer. No dividend was payable between 1998-99 and 2002-03. Barwon Water entered the State Tax Equivalent Regime for the first time in 2001-02. While no payment was made in that year due to permanent and timing differences between accounting and taxable income, almost \$6.7 million of income tax was paid in 2002-03.

Barwon Water has not identified any payments for community service obligations in its accounts.¹

¹ Barwon Water is reimbursed for the value of concessions provided to pensioners and others and for the administration of the concession schemes. However, these amounts are not disclosed in Barwon Water's financial statements.

BARWON WATER (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01^a</i>	<i>2001-02^b</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	841	841	847	880	904
Total revenue	\$m	68	73	71	81	95
<i>Profitability</i>						
Operating profit before tax	\$'000	6 049	4 080	4 359	10 841	22 030
Operating sales margin	%	18.3	11.3	12.7	18.7	27.4
Cost recovery	%	124.8	118.7	114.3	123.0	137.7
Return on assets	%	1.6	1.0	1.1	1.8	2.9
Return on equity	%	0.8	0.5	0.6	1.4	1.9
<i>Financial management</i>						
Debt to equity	%	8.8	8.2	8.1	7.5	7.3
Debt to total assets	%	7.9	7.4	7.4	6.9	6.7
Total liabilities to equity	%	10.9	10.3	10.2	9.6	10.5
Interest cover	times	1.8	1.9	1.9	3.5	6.4
Current ratio	%	91.4	94.6	111.9	122.1	119.2
Leverage ratio	%	110.9	110.3	110.2	109.6	110.5
<i>Payments to and from government</i>						
Dividends	\$'000	0	0	0	0	0
Dividend to equity ratio	%	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio	%	0.0	0.0	0.0	0.0	0.0
Income tax expense	\$'000	0	0	0	0	6 679
CSO funding	\$'000	0	0	0	0	0

^a Water restrictions were lifted in full in November 2000 after being in operation for 41 months. ^b Includes a revaluation increment of \$25.4 million relating mainly to water distribution assets.

Coliban Regional Water Authority (Coliban Water) was established in July 1992 under the *Water Act 1989*. It provides water and sewerage services to around 130 000 people in northern central Victoria.

Prior to 2004, customer charges were set by Coliban Water's board subject to approval by the Minister for Water. From 1 January 2004, pricing became the responsibility of the Essential Services Commission.

Coliban Water contracts out a range of activities to the private sector and has several water treatment plants constructed under public-private sector partnerships.

Contract payments for assets under public-private sector partnerships comprise fixed and variable components to be made by Coliban Water over a 25 year contract period.¹ 2002-03 was the first full year of payments and the cost in this year was \$12.1 million, accounting for around 26 per cent of total expenses and up by almost 200 per cent from 2001-02.

An operating loss was recorded in 2001-02 and also in 2002-03, although its magnitude was reduced by \$2.9 million from the previous year. Factors that affected profitability in 2002-03 were decreased revenue and increased expenditure as a result of drought conditions and the increase in contract payments for public-private assets.

Coliban Water operates debt free. In 2002-03, capital expenditure was around \$28 million and largely funded from retained earnings. The Victorian Government contributed around \$2.5 million for sewerage scheme projects.

Coliban Water is required to make tax-equivalent and dividend payments.² No tax equivalent payment was made in 2002-03, and a decision was yet to be reached regarding dividend payments.³

The State Government reimbursed Coliban Water around \$2.25 million for concessions provided to pensioners and for rebates to not-for-profit organisations. This amount was not separately identified in Coliban Water's financial statements.

¹ Coliban Water estimated that the present value in June 2003 of future contract payments over the life of the contract was \$199 million.

² Coliban Water was subject to the Victorian Tax Equivalent Regime in 2001-02. It became subject to the National Tax Equivalent Regime in 2002-03.

³ Coliban Water expects to remain in a tax loss position for some time and thus is unlikely to incur tax-equivalent payments in the near future.

COLIBAN WATER (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				640	652
Total revenue	\$m				44	44
<i>Profitability</i>						
Operating profit before tax	\$'000				-4 913	-2 041
Operating sales margin	%				-21.9	-13.5
Cost recovery	%				82.0	88.1
Return on assets	%				-0.8	-0.3
Return on equity	%				-0.8	-0.3
<i>Financial management</i>						
Debt to equity	%				0.0	0.0
Debt to total assets	%				0.0	0.0
Total liabilities to equity	%				1.4	2.1
Interest cover	times				n.r.	n.r.
Current ratio	%				1 021.0	595.3
Leverage ratio	%				101.4	102.1
<i>Payments to and from government</i>						
Dividends	\$'000				3 760	0
Dividend to equity ratio	%				0.6	0
Dividend payout ratio	%				-76.5	0
Income tax expense	\$'000				0	0
CSO funding	\$'000				n.p.	n.p.

^a 2001-02 was the first year that Coliban Water was included in this report. It was established in July 1992 under the *Water Act 1989*. Coliban Water's relatively high current ratio reflects its large holdings of liquid investments. The operating results for Coliban Water in 2001-02 under the government finance statistics (GFS) framework are significantly different to those under the general purpose financial reporting framework (GPFR). Coliban Water's operating loss of \$27 million under the GPFR framework largely reflects a loss on asset transfers of \$34 million. Under the GFS framework (as presented in this report), the loss on asset transfers was reported as \$14 million. **n.r.** Not relevant. **n.p.** Not published.

Goulburn Valley Regional Water Authority (Goulburn Valley Water) was established in March 1994 under the *Water Act 1989*. It provides water and sewerage services to a population of more than 100 000 in northern central Victoria, including the major towns of Seymour, Euroa and Shepparton.

Prior to 2004, the board of Goulburn Valley Water set charges subject to approval by the Minister for Water. From 1 January 2004, pricing became the responsibility of the Essential Services Commission.

Goulburn Valley Water's revenue from user fees and charges amounted to 61 per cent of total revenue in 2002-03. Developer contributions accounted for 31 per cent of revenue.

During 2002-03, revenue rose by 25 per cent, largely as a result of an 83 per cent increase in developer contributions. Despite a rise in expenses, profit for the year was up by 71 per cent to \$15 million.

Goulburn Valley Water is embarking on an extensive capital works program over the next three years, which is forecast to increase borrowings to \$55 million by 2006. During 2002-03, \$27 million was spent on capital works. However, this was financed largely from retained profits and debt decreased over the year, which resulted in the debt to assets and debt to equity ratios improving slightly.

Goulburn Valley Water was required to make tax-equivalent payments for the first time in 2001-02, under the state-based, tax-equivalent regime. It entered the National Tax Equivalent Regime in 2002-03. However, no tax was paid by Goulburn Valley Water during either of these years.¹

¹ Although income tax was payable, the payment has been deferred because of timing differences. The provision for deferred income tax has not been brought to account in the annual reports since it is considered unlikely that any taxation will occur in the foreseeable future.

GOULBURN VALLEY WATER (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				430	448
Total revenue	\$m				40	50
<i>Profitability</i>						
Operating profit before tax	\$'000				8 751	15 000
Operating sales margin	%				21.1	29.6
Cost recovery	%				126.8	142.1
Return on assets	%				2.3	3.6
Return on equity	%				2.1	3.6
<i>Financial management</i>						
Debt to equity	%				2.7	2.3
Debt to total assets	%				2.6	2.3
Total liabilities to equity	%				4.3	4.6
Interest cover	times				10.0	19.3
Current ratio	%				441.4	125.3
Leverage ratio	%				104.3	104.6
<i>Payments to and from government</i>						
Dividends	\$'000				0	0
Dividend to equity ratio	%				0.0	0.0
Dividend payout ratio	%				0.0	0.0
Income tax expense	\$'000				0	0
CSO funding	\$'000				0	0

^a 2001-02 was the first year that Goulburn Valley Water was included in this report. It was established in March 1994 under the *Water Act 1989*.

Central Gippsland Water Authority (Gippsland Water) operates under the *Water Act 1989*. It provides water and sewerage services to over 130,000 people in 41 towns in the Traralgon area.

Prior to 2004, the board of Gippsland Water set charges subject to approval by the Minister for Water. From 1 January 2004, pricing became the responsibility of the Essential Services Commission. Residential charges increased by 1 per cent plus the inflation rate in 2002-03. From 1 January 2004, the Essential Services Commission commences responsibility for approving any price changes.

In 2002-03, sales revenue from domestic customers and businesses each accounted for around 41 per cent of total revenue. Of this sales revenue, around 67 per cent was from property-based charges with the remainder from usage-based charges.

Gippsland Water's profitability deteriorated during 2002-03 and an operating loss of over \$1.4 million was recorded. Although revenue increased by 2.1 per cent in 2002-03, supply costs and depreciation also increased. Further, there was a \$1.2 million unfunded superannuation expense following an actuarial assessment of the Local Authorities Superannuation Fund in 2003.

Gippsland Water operates free of debt, with capital expenditure funded from retained earnings.

Gippsland Water is required to pay dividends but no dividend was paid in 2002-03.¹ It is also required to make tax-equivalent payments and became subject to the National Tax Equivalent Regime in 2002-03, though no tax was payable in this year because a net loss was recorded.

Gippsland Water was reimbursed \$1.97 million in 2002-03 by the State Government for concessions including pensioner rebate and health care card schemes, free water for fire-fighting purposes, and student education programs.

¹ Under Gippsland Water's dividend policy, the dividend payable to the State Government is based on the previous year's after-tax profit and calculated after consultation with the portfolio Minister and the Treasurer. Despite recording a profit in 2001-02, Gippsland Water was not required to pay a dividend during 2002-03.

CENTRAL GIPPSLAND WATER AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				480	479
Total revenue	\$m				45	46
<i>Profitability</i>						
Operating profit before tax	\$'000				1 062	-1 404
Operating sales margin	%				0.7	-5.0
Cost recovery	%				100.7	95.2
Return on assets	%				0.2	-0.3
Return on equity	%				0.2	-0.3
<i>Financial management</i>						
Debt to equity	%				0.0	0.0
Debt to total assets	%				0.0	0.0
Total liabilities to equity	%				1.1	1.3
Interest cover	times				n.r.	n.r.
Current ratio ^b	%				547.4	541.7
Leverage ratio	%				101.1	101.3
<i>Payments to and from government</i>						
Dividends	\$'000				0	0
Dividend to equity ratio	%				0.0	0.0
Dividend payout ratio	%				0.0	0.0
Income tax expense	\$'000				0	0
CSO funding	\$'000				1 912 ^c	1 968

^a 2001-02 was the first year that the Central Gippsland Water Authority was included in this report. It was established in July 1994 under the *Water Act 1989*. ^b The Central Gippsland Water Authority's relatively high current ratio reflects its large holdings of liquid investments. ^c CSO payments were not disclosed separately in Gippsland Water's financial reports in 2001-02. This figure was obtained from the 2002-03 annual report. **n.r.** Not relevant.

Central Highlands Water Authority (Central Highlands Water) operates under the *Water Act 1989*. It provides water and sewerage services to a population of 112,000 in Ballarat and surrounding areas.

Central Highlands Water entered into a public–private sector agreement with Thames Water Ballarat on April 12 1999. The contract requires Central Highlands Water to pay an annual charge comprising both fixed and variable components for 25 years, after which ownership of the water treatment facility will transfer to Central Highlands Water.¹

Prior to 2004, the board of Central Highlands Water set charges subject to approval by the Minister for Water. From 1 January 2004, pricing became the responsibility of the Essential Services Commission. Nominal charges for residential customers increased by 1 per cent plus the inflation rate in 2001-02 — the first nominal increase since 1998. There was a further price increase in July 2002.

Central Highlands Water's total revenue rose by 17 per cent for 2002-03, due mainly to an increase in developer contributed assets and the July 2002 price rise. In the same year, expenses increased by only 8 per cent, leading to a significant improvement in profitability.

Total assets remained fairly steady over 2002-03, down by just under \$200 000. This was despite \$13.1 million in capital expenditure, funded largely from retained earnings. Liabilities were reduced significantly over the year, down by over 25 per cent, while debt was reduced by 73 per cent, resulting in very low debt to equity and debt to assets ratios.

Central Highlands Water was required to make tax-equivalent payments for the first time in 2001-02 under the state-based, tax-equivalent regime. It became subject to the National Tax Equivalent Regime in 2002-03. Although an income tax expense was recorded in both these years, this expense was deferred and no income tax payment made.² Central Highlands Water expects to be in a tax loss position and therefore not pay income tax for the foreseeable future.

¹ At 30 June 2003, Central Highlands Water estimated that the present value of the contract payments was \$61.4 million, using a discount rate of 10 per cent. The obligation of payment is subject to the future performance of Thames Water and, as such, is an Agreement Equally Proportionally Underperformed (AEPU) under accounting standard AASB 1044. AEPUs are not required to be recognised in the statement of financial position.

² A deferred tax liability of \$2.8 million has been brought to account in the statement of financial position as at 30 June 2003.

CENTRAL HIGHLANDS WATER AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				570	569
Total revenue	\$m				40	46
<i>Profitability</i>						
Operating profit before tax	\$'000				1 230	4 806
Operating sales margin	%				2.6	9.1
Cost recovery	%				102.7	110.0
Return on assets	%				0.4	1.0
Return on equity	%				0.1	0.6
<i>Financial management</i>						
Debt to equity	%				1.6	0.4
Debt to total assets	%				1.6	0.4
Total liabilities to equity	%				3.0	2.2
Interest cover	times				2.1	7.2
Current ratio	%				529.1	529.1
Leverage ratio	%				103.0	102.2
<i>Payments to and from government</i>						
Dividends	\$'000				516	0
Dividend to equity ratio	%				0.1	0.0
Dividend payout ratio	%				126.2	0.0
Income tax expense	\$'000				821	1 284
CSO funding	\$'000				2 025	2 010

^a 2001-02 was the first year that the Central Highlands Water Authority was included in this report. It was established in July 1994 under the *Water Act 1989*.

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*.

Southern Rural Water provides irrigation water to over 10 000 customers in three irrigation districts and administers over 8000 licences, managing the taking and use of water from rivers, streams and groundwater sources in southern Victoria. It also manages several water storage dams that provide water to irrigators, urban water authorities and several power generators.

Prior to 2004, the Southern Rural Water's board set charges for irrigation water in consultation with customer committees that are subject to Ministerial approval. From 1 January 2004, pricing became the responsibility of the Essential Services Commission.

Prices rose by between 3 per cent and 5.5 per cent during 2002-03. Charges were based on providing adequate funding to maintain the condition of channels, pipelines and structures using the renewals annuity concept (see box 8.1). Irrigation customers may purchase additional water above their entitlement when supply conditions permit.

In 2002-03, around 54 per cent of Southern Rural Water's revenue was from water sales, with a further 37 per cent from charges associated with the management of water storages. Revenue increased from the previous year, but remained affected by ongoing drought conditions. Expenses also rose and Southern Rural Water recorded a net loss for the second consecutive year.

Southern Rural Water operates debt free.

Southern Rural Water was required to make tax-equivalent payments under the state-based, tax-equivalent regime during 2001-02. It became subject to the National Tax Equivalent Regime from 1 July 2002. No tax was payable in either of these years, however, because of negative taxable income. Southern Rural Water is also required to make dividend payments to the Victorian Government.

Southern Rural Water receives community service obligation payments for programs including salinity projects, state water assessment, groundwater investigations and water resource management.¹

¹ Southern Rural Water also manages recreation facilities at Blue Rock, Cowwarr, Glenmaggie, Melton, Merrimu and Pykes Creek Reservoir. It is not reimbursed by the Government for the associated expenses.

GIPPSLAND AND SOUTHERN RURAL WATER AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				440	435
Total revenue	\$m				14	18
<i>Profitability</i>						
Operating profit before tax	\$'000				-5 536	-3 234
Operating sales margin	%				-43.2	-19.6
Cost recovery	%				69.8	83.6
Return on assets	%				-1.3	-0.7
Return on equity	%				-1.3	-0.7
<i>Financial management</i>						
Debt to equity	%				0.0	0.0
Debt to total assets	%				0.0	0.0
Total liabilities to equity	%				1.1	0.9
Interest cover	times				n.r.	n.r.
Current ratio	%				309.1	257.0
Leverage ratio	%				101.1	100.9
<i>Payments to and from government</i>						
Dividends	\$'000				418	418
Dividend to equity ratio	%				0.1	0.1
Dividend payout ratio	%				-7.6	-12.9
Income tax expense	\$'000				0	0
CSO funding	\$'000				957	882

^a 2001-02 was the first year that the Gippsland and Southern Rural Water Authority was included in this report. It was established in July 1995 under the *Water Act 1989*. **n.r.** Not relevant.

Sunraysia Rural Water Authority (Sunraysia) was established on 1 July 1994 under the *Water Act 1989*.

Sunraysia provides irrigation water to growers in the irrigation districts of Merbein, Red Cliffs and Robinvale. It also delivers water for stock and garden purposes to residents of Millewa Rural District and the Waterworks District of Carwarp–Yelta and manages private water diversion activities from the Murray River between the Nyah pumps and the SA border.

Prior to 2004, charges were set by Sunraysia's board and were subject to Ministerial approval. From 1 January 2004, pricing became the responsibility of the Essential Services Commission.

Charges are based on providing adequate funding to maintain the condition of channels, pipelines and structures using the renewals annuity concept (see box 8.1). Sunraysia is part of a water trading scheme whereby its customers can trade water entitlements on a permanent or temporary basis.

The vast majority of Sunraysia's revenue comes directly from supplying water. During 2002-03, 60 per cent of Sunraysia's revenue came from fixed water charges, while a further 28 per cent of revenue was from variable water charges. Revenue rose slightly in 2002-03, but profitability declined, leading the return on assets to fall to 1.1 per cent.

Sunraysia operates debt free, with capital expenditure funded from retained earnings and government grants.

Sunraysia was required to make tax-equivalent payments under the state-based, tax-equivalent regime in 2001-02 and became subject to the National Tax Equivalent Regime from 1 July 2002. Tax expenses incurred during 2001-02 and 2002-03 have been deferred because of timing differences between accounting and taxable incomes. Sunraysia is also required to make dividend payments, which remained constant at \$88 000 per year in 2001-02 and 2002-03.

During 2002-03, the State Government reimbursed Sunraysia \$186 000 for community service obligation programs, including pensioner concessions (\$12 000), salinity management, and the construction of drainage schemes.

SUNRAYSIA RURAL WATER AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				118	121
Total revenue	\$m				13	14
<i>Profitability</i>						
Operating profit before tax	\$'000				1 425	1 362
Operating sales margin	%				7.4	6.5
Cost recovery	%				108.0	107.0
Return on assets	%				1.2	1.1
Return on equity	%				1.0	0.8
<i>Financial management</i>						
Debt to equity	%				0.0	0.0
Debt to total assets	%				0.0	0.0
Total liabilities to equity	%				4.6	5.1
Interest cover	times				n.r.	n.r.
Current ratio	%				250.4	294.0
Leverage ratio	%				104.6	105.1
<i>Payments to and from government</i>						
Dividends	\$'000				88	88
Dividend to equity ratio	%				0.1	0.1
Dividend payout ratio	%				8.1	9.5
Income tax expense ^b	\$'000				339	432
CSO funding	\$'000				197	186

^a 2001-02 was the first year that the Sunraysia Rural Water Authority was included in this report. It was established in July 1994 under the *Water Act 1989*. ^b Income tax expenses sourced from annual report financial statements. n.r. Not relevant.

Wimmera Mallee Rural Water Authority (Wimmera Mallee Water) was established on 1 July 1994 under the *Water Act 1989*. Wimmera Mallee Water supplies water in central western Victoria to farm dams and irrigators, through pipelines or open channel systems. It also provides bulk water to regional urban water suppliers, and manages water storages.

Prior to 2004, the board of Wimmera Mallee Water set charges subject to approval by the Minister for Water. Prices were set to provide adequate funding to maintain the condition of channels, pipelines and structures using the renewals annuity concept (see box 8.1). In 2002-03, prices did not increase for most customers. From 1 January 2004, pricing became the responsibility of the Essential Services Commission.

The dry conditions experienced in 2002-03 were the sixth year of extreme water shortages in the Wimmera Mallee region, representing the worst sequence on record. Revenue in 2002-03 was reduced by an estimated \$870,000 as a direct result of the drought. Despite this, total revenue for the year was up by 36 per cent from 2001-02, almost entirely due to a one-off contribution of \$5 million for capital works. This abnormal revenue item led to a \$4.9 million improvement in profitability from the previous year.

Wimmera Mallee Water did not have any debt during 2002-03. The Victorian Government made a total capital contribution of \$5.2 million for two major pipeline projects — the Northern Mallee Pipeline (completed during the year) and the Wimmera Mallee Pipeline. The funds were recorded as a direct increase in accumulated contributions by the Victorian Government to Wimmera Mallee Water.

Wimmera Mallee Water is required to make tax-equivalent payments under the National Tax Equivalent regime.¹ No payments were made in 2002-03 because the taxable income was negative. Wimmera Mallee Water is also required to make dividend payments.

Wimmera Mallee Water was reimbursed around \$9000 for concessions provided to pensioners in 2002-03. Compensation for further community service obligations such as catchment management, monitoring environmental flows, and maintaining public amenities, was not disclosed in its financial statements.

¹ Wimmera Mallee Water was subject to the Victorian state-based tax-equivalent regime prior to 1 July 2002.

WIMMERA MALLEE RURAL WATER AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				352	357
Total revenue	\$m				14	19
<i>Profitability</i>						
Operating profit before tax	\$'000				-5 067	-153
Operating sales margin	%				-38.7	-2.5
Cost recovery	%				72.1	97.5
Return on assets	%				-1.4	0.0
Return on equity	%				-1.5	0.0
<i>Financial management</i>						
Debt to equity	%				0.0	0.0
Debt to total assets	%				0.0	0.0
Total liabilities to equity	%				1.1	1.1
Interest cover	times				-1 265.8	n.r.
Current ratio	%				356.1	627.3
Leverage ratio	%				101.1	101.1
<i>Payments to and from government</i>						
Dividends	\$'000				209	209
Dividend to equity ratio	%				0.1	0.1
Dividend payout ratio	%				-4.1	-136.8
Income tax expense	\$'000				0	0
CSO funding	\$'000				n.p.	n.p.

^a 2001-02 was the first year that the Wimmera Mallee Rural Water Authority was included in this report. It was established in July 1994 under the *Water Act 1989*. **n.r.** Not relevant. **n.p.** Not published.

Goulburn–Murray Rural Water Authority (Goulburn–Murray Water) was established on 1 July 1994 under the *Water Act 1989*. Goulburn–Murray Water 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 the management and operation of several facilities for the Murray–Darling Basin Commission (MDBC) and operates a water trading scheme whereby its customers can trade water entitlements on a permanent or temporary basis.

Prior to 2004, Goulburn–Murray Water’s board set charges for water entitlements subject to Ministerial approval. Charges were based on providing adequate funding to maintain the condition of the required network of channels, pipelines and structures using the renewals annuity concept (see box 8.1). From 1 January 2004, pricing became the responsibility of the Essential Services Commission.

Water rates and drainage accounted for the majority of Goulburn–Murray Water’s revenue in 2002-03, totalling \$53.6 million. Total revenue was down from the previous year because of extreme drought conditions in the region. Expenses for the year were up, and the Authority recorded an operating loss of \$21.6 million.

Goulburn–Murray Water operates debt free. In 2002-03, capital expenditure of around \$43 million was funded from retained earnings. However, assets decreased over the period as a result of a fall in current assets, most notably a \$15 million decrease in cash balances. This led to a significant fall in the current ratio.

Goulburn–Murray Water became subject to the National Tax Equivalent Regime from 1 July 2002, although no tax was payable in 2002-03. Goulburn–Murray Water expects to remain in a tax loss position and thus not be subject to income tax in the near future. Goulburn–Murray Water is also required to make dividend payments, although no dividend payments were made in 2001-02 or 2002-03.

During 2002-03, Goulburn–Murray Water received just over \$30,000 for community service obligations relating to provisions of concessions to pensioners, but this amount was not disclosed separately in financial statements. Goulburn–Murray Water also received just over \$6.4 million from the Victorian Government for specific environmental programs.

GOULBURN–MURRAY RURAL WATER AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				1 738	1 719
Total revenue	\$m				103	93
<i>Profitability</i>						
Operating profit before tax	\$'000				-7 526	- 21 608
Operating sales margin	%				-8.7	-24.5
Cost recovery	%				92.0	80.3
Return on assets	%				-0.4	-1.3
Return on equity	%				-0.4	-1.3
<i>Financial management</i>						
Debt to equity	%				0.0	0.0
Debt to total assets	%				0.0	0.0
Total liabilities to equity	%				2.0	2.2
Interest cover	times				n.r.	n.r.
Current ratio	%				200.1	83.0
Leverage ratio	%				102.0	102.2
<i>Payments to and from government</i>						
Dividends	\$'000				0	0
Dividend to equity ratio	%				0.0	0.0
Dividend payout ratio	%				0.0	0.0
Income tax expense	\$'000				0	0
CSO funding	\$'000				n.p.	n.p.

^a 2001-02 was the first year that the Goulburn–Murray Water Authority was included in this report. It was established in July 1994 under the *Water Act 1989*. **n.r.** Not relevant. **n.p.** Not published.

Sunwater was established under the *Government Owned Corporations Act 1993* on 1 October 2000, assuming the roles and responsibilities of State Water Projects (SWP).¹ Sunwater owns and operates bulk water storage and distribution infrastructure and supplies irrigators, industrial and urban bulk water customers.

Charges for rural customers are determined by Sunwater's shareholding Ministers. A price direction in October 2000 set a price path of between five and seven years for most of Sunwater's supply schemes. A three phase process to set irrigation price paths beyond 2005 commenced in 2002-03.

Although prices increased during 2002-03, a reduction in the volume of water delivered led operating revenue to fall by over \$3 million. This led to a 14 per cent fall in profits for the year.

The fall in the value of total assets in 1999-00 was attributable to a revaluation of water infrastructure because of a move from deprival valuation to fair value methodology. The resulting large fall in the value of assets — from \$2.1 billion to \$235 million — led to \$1.9 billion being written-down against accumulated funds, thereby affecting Sunwater's return on assets and return on equity.

Water infrastructure assets were subsequently revalued upward, by \$23.3 million in 2000-01, \$33.8 million in 2001-02 and \$82.5 million in 2002-03. In 2002-03, this and other factors led assets to rise by \$97 million, exacerbating falls in return on assets and return on equity.

Prior to 1999-00, SWP (Sunwater's predecessor) operated debt free. The value of outstanding debt at the end of 2002-03 was just over \$23 million.

Sunwater is required to make income tax-equivalent and dividend payments. During 2002-03, Sunwater reached agreement with its shareholding ministers on the basis for the calculation of dividends and made its first dividend payments based on results in 2001-02 and 2002-03. It receives community service obligation (CSO) funding from the State Government to meet shortfalls in revenue from providing water to rural water users, costs to comply with new governing legislation, and payment for new rural water assets or extensions to existing schemes built for reasons other than commercial return.²

¹ Eungella Water Pipeline Pty Ltd and North-West Queensland Water Pipeline Pty Ltd are wholly-owned subsidiaries of Sunwater.

² Sunwater is also responsible for the provision and maintenance of recreational facilities for which it receives no CSO payments.

SUNWATER (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00^a</i>	<i>2000-01^b</i>	<i>2001-02^c</i>	<i>2002-03^d</i>
<i>Size</i>						
Total assets	\$m	2 102	235	312	360	457
Total revenue	\$m	82	99	92	113	110
<i>Profitability</i>						
Operating profit before tax	\$'000	-14 416	4 706	4 656	30 359	26 102
Operating sales margin	%	-20.1	2.5	4.5	27.1	23.2
Cost recovery	%	89.2	101.4	104.8	137.2	130.2
Return on assets	%	-0.7	0.4	2.2	9.7	6.9
Return on equity	%	-0.7	0.4	1.9	11.1	7.5
<i>Financial management</i>						
Debt to equity	%	0.0	2.2	11.1	8.6	5.9
Debt to total assets	%	0.0	0.4	10.2	7.6	5.7
Total liabilities to equity	%	0.8	2.5	25.0	20.3	16.0
Interest cover	times	n.r.	4 707.0	4.2	15.0	14.6
Current ratio	%	630.2	309.9	268.2	344.8	407.9
Leverage ratio	%	100.8	102.5	125.0	120.3	116.0
<i>Payments to and from government</i>						
Dividends	\$'000	0	0	0	0	4127 ^e
Dividend to equity ratio	%	0.0	0.0	0.0	0.0	1.2
Dividend payout ratio	%	0.0	0.0	0.0	0.0	19.5
Income tax expense	\$'000	0	0	1 869	4 219	4 890
CSO funding	\$'000	27 792	25 681	15 368	15 368	9 494

^a A revaluation to water infrastructure assets in 1999-00 resulted in \$1.9 billion being written down directly against accumulated funds. ^b Includes the operations of Sunwater from October 2000 to June 2001. State Water Projects' revenues and expenses for the period July to September were combined with Sunwater to obtain results for the full financial year. Results include a \$23.3 million revaluation increment to water infrastructure assets. ^c Includes a revaluation increment of \$33.8 million relating to water infrastructure assets. ^d Includes a revaluation increment of \$82.5 million relating to water infrastructure assets. ^e Includes \$0.6 million based on 2001-02 results and \$3.6 million based on 2002-03 results. **n.r.** Not relevant.

SA 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 for almost 640 000 customers in both the metropolitan and country areas of SA.

SA Water's metropolitan water and sewerage operations accounted for around 66 per cent of revenue and 62 per cent of assets in 2002-03. Country operations accounted for around 30 per cent of revenue and 38 per cent of assets. Charges for water and sewerage services are set by the Minister for Government Enterprises after consultation with SA Water.

The management, operation and maintenance of SA Water's metropolitan water and sewerage operations was contracted out to a private firm in 1996 for a period of 15 years. The contract requires the private firm to meet performance targets under a fee-for-service arrangement.

The financial data for the years 1999-00 to 2002-03 is predominantly based on Government Finance Statistics (GFS) data. The concepts underlying GFS and accounting standards may lead to different reported statistics (see chapter 3).¹

In 2002-03, revenue increased by 11 per cent, as drought conditions drove water consumption to record highs. Water restrictions were not introduced until 1 July 2003, so their effect on the trading performance of SA Water will not be seen until 2003-04. The increase in revenue served to raise operating profits to a record \$264 million. This result came despite increases in most expense items.

Assets increased by 5.6 per cent in 2002-03 due to capital expenditure of \$131 million and an asset revaluation increment of \$313 million relating mainly to water and sewer infrastructure. Debt increased in nominal terms by 2.9 per cent, but debt to equity and debt to assets ratios both fell.

SA Water is subject to the National Tax Equivalent Regime and is required to make dividend payments. It receives community service obligation payments relating to the provision 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.

¹ For example, the pre-tax operating profit reported in SA Water's audited financial statements for 2002-03 was \$258 million, whereas under GFS the profit was \$264 million.

SOUTH AUSTRALIAN WATER CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets ^a	\$m	5 897	6 026	6 059	6 212	6 562
Total revenue	\$m	566	598	604	629	701
<i>Profitability</i>						
Operating profit before tax	\$'000	179 802	196 445	200 539	215 368	264 081
Operating sales margin	%	47.9	48.0	47.9	48.2	49.5
Cost recovery	%	193.0	197.3	190.5	191.5	196.2
Return on assets	%	4.7	4.8	4.8	4.9	5.4
Return on equity	%	2.7	3.0	2.9	3.2	3.8
<i>Financial management</i>						
Debt to equity	%	22.0	22.6	25.9	24.7	23.9
Debt to total assets	%	17.5	17.8	20.0	19.5	19.2
Total liabilities to equity	%	27.0	28.4	29.5	28.8	27.7
Interest cover	times	3.0	3.2	3.2	3.5	4.2
Current ratio	%	86.9	62.2	97.3	97.0	75.3
Leverage ratio	%	127.0	128.4	129.5	128.8	127.7
<i>Payments to and from government</i>						
Dividends	\$'000	144 400	175 200	135 470	137 175	164 845
Dividend to equity ratio	%	3.1	3.8	2.9	2.9	3.3
Dividend payout ratio	%	116.4	123.6	100.6	89.0	86.8
Income tax expense	\$'000	55 762	54 706	65 827	61 161	74 233
CSO funding	\$'000	77 135	85 259	86 104	90 358	91 706

Note The financial data for the years 1999-00 to 2001-02 are predominantly based on Government Finance Statistics (GFS) data. The concepts underlying GFS and accounting standards may lead to different reported statistics (see chapter 3). Pre-tax operating profit reported in SA Water's financial statements (based on general performance reporting data) for 1999-00, 2000-01, 2001-02 and to 2002-03 was \$197 million, \$208 million, \$223 million and \$258 million respectively. The value of total assets for these years was \$6026 million, \$6060 million, \$6212 million and \$6562 million respectively. ^a Asset revaluations in each year of the reporting period resulted in an increase in the value of assets by \$64.1 million in 1998-99, \$87.2 million in 1999-00, \$9.5 million in 2000-01, \$130 million in 2001-02 and \$313 million in 2002-03.

WATER CORPORATION

Western Australia

The Water Corporation was established on 1 January 1996 under the *Water Corporation Act 1995*. It operates under a 25 year licence issued by the then Office of Water Regulation (OWR). As of 1 January 2004, the licensing activities of the OWR were taken over by the Economic Regulation Authority. The Water Corporation provides public water supply, sewerage and drainage services, and bulkwater to more than 1.8 million people in 255 towns and communities throughout WA.

Charges are set by the Water Corporation board and are subject to approval by the water industry Minister. Nominal charges increased by 2.9 per cent in 2002-03 and a 3.3 per cent price increase has been approved for 2003-04.

Revenue increased by 6 per cent in 2002-03, or \$62 million in nominal terms. This rise was largely due to a \$21.5 million increase in service charges and an \$18.2 million increase in community service obligation (CSO) contributions. This led to an 11 per cent increase in profit and to improved returns on assets and equity.

Debt levels increased in each year over the reporting period, leading to increases in debt to equity and debt to asset ratios over this time. Capital expenditure of \$361 million in 2002-03 was partly funded by an 8.6 per cent (\$78 million) increase in the level of borrowings.

The Water Corporation is required to make tax-equivalent and dividend payments. Income tax expense was reduced in 1999-00 as a consequence of a restatement of deferred tax balances with the implementation of lower company tax rates. Taxation rose in 2002-03 with increased profits. The dividend payment decreased slightly from 2001-02.

Over the reporting period, the Water Corporation received CSO payments for costs incurred in relation to country services, a program to eliminate septic tanks to protect groundwater, waterways and public health, and pensioner concessions.

WATER CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	8 919	9 174	9 457	9 579	9 713
Total revenue	\$m	926	987	1 012	1 042	1 104
<i>Profitability</i>						
Operating profit before tax	\$'000	375 548	452 238	445 083	422 851	469 015
Operating sales margin	%	44.3	49.4	47.0	45.1	48.0
Cost recovery	%	179.2	197.5	188.8	182.1	192.3
Return on assets	%	4.7	5.4	5.1	5.0	5.5
Return on equity	%	2.7	3.9	3.6	3.6	4.0
<i>Financial management</i>						
Debt to equity	%	6.8	7.1	10.4	11.1	12.0
Debt to total assets	%	6.2	6.4	9.1	9.6	10.2
Total liabilities to equity	%	12.1	13.7	16.3	17.2	17.7
Interest cover	times	11.2	13.2	14.5	9.5	8.5
Current ratio	%	47.9	47.8	51.2	33.9	46.1
Leverage ratio	%	112.1	113.7	116.3	117.2	117.7
<i>Payments to and from government</i>						
Dividends	\$'000	196 111	201 215	240 753	259 811	255 293
Dividend to equity ratio	%	2.5	2.5	3.0	3.2	3.1
Dividend payout ratio	%	90.4	64.4	82.0	87.9	77.8
Income tax expense ^a	\$'000	158 570	139 894	151 575	127 260	140 971
CSO funding	\$'000	192 124	205 617	225 890	240 197	258 403

^a Income tax expense decreased in 1999-00 due to a reduction in the future company tax rate from 36 per cent to 34 per cent in respect of 2000-01 and then to 30 per cent from 2001-02.

The Hobart Regional Water Authority, trading as Hobart Water, was established as a Joint Authority under the *Local Government Act 1993*. Hobart Water commenced operations on 1 January 1997, following the transfer of assets, property rights and liabilities from its predecessor, the Hobart Regional Water board. Hobart Water provides bulk water supplies to its owner-councils.¹

The majority of Hobart Water's revenue comes from bulk water sales. In 2002-03, 86 per cent of its revenue came from bulk water, with a further 12 per cent sourced from investments and debt management.

Maximum charges for bulk water are determined by the Minister for Local Government, drawing on recommendations by the Government Prices Oversight Commission.² In 2002-03, nominal charges increased by 5.3 per cent.

Bulk water charges were maintained in real terms between 1998-99 and 2000-01. The increase in revenue in 1999-00 and 2000-01 was largely due to higher water consumption during a period of prolonged dry weather conditions. A further significant increase in revenue came during 2002-03, from increased water sales during a warm and dry summer and price rises. This revenue increase was offset to some degree by increased expenses. Overall, Hobart Water recorded a 4.5 per cent increase in operating profit for the year.

No additional debt was incurred during 2002-03.

Hobart Water has been required to pay tax-equivalent and dividend payments over the reporting period. No dividend was recognized for 2002-03 because of a change in accounting policy during the year. In accordance with AASB 1044 (see chapter 3), the proposed dividend for 2002-03 has not yet been accounted for and will be recognized in the 2003-04 financial statements.

Hobart Water does not receive funding for community service obligations.³

¹ The councils that comprise the Joint Authority are Brighton Council, Clarence City Council, Derwent Valley Council, Glenorchy City Council, Hobart City Council, Kingborough Council, Sorell Council and Southern Midlands Council.

² Under the *Government Prices Oversight Act 1995*, the recommendations may take the form of maximum revenues, maximum prices, pricing principles or a combination of these.

³ In 2002-03, Hobart Water identified expenses of \$242 000 relating to the maintenance of recreation facilities.

HOBART REGIONAL WATER AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03^a</i>
<i>Size</i>						
Total assets	\$m	171	171	169	171	169
Total revenue	\$m	17	19	20	20	24
<i>Profitability</i>						
Operating profit before tax	\$'000	2 862	2 757	2 535	3 272	3 420
Operating sales margin	%	25.8	24.0	23.5	26.6	27.7
Cost recovery	%	134.7	131.6	130.7	136.3	138.3
Return on assets	%	2.6	2.8	2.8	3.8	4.9
Return on equity	%	2.6	1.4	1.5	1.9	2.4
<i>Financial management</i>						
Debt to equity	%	27.7	27.1	26.3	26.2	26.2
Debt to total assets	%	19.9	20.0	19.5	19.5	19.5
Total liabilities to equity	%	34.3	35.0	34.1	35.2	33.5
Interest cover	times	2.7	2.4	2.2	2.0	1.7
Current ratio	%	52.4	34.4	26.9	51.6	60.4
Leverage ratio	%	134.3	135.0	134.1	135.2	133.5
<i>Payments to and from government</i>						
Dividends	\$'000	2 200	2 500	2 400	2 100	0
Dividend to equity ratio	%	1.7	2.0	1.9	1.7	0.0
Dividend payout ratio	%	64.8	137.9	129.0	88.2	0.0
Income tax expense	\$'000	-533	944	675	892	407
CSO funding	\$'000	0	0	0	0	0

Note All results taken from General Purpose Financial Report data because of the unavailability of Government Financial Statistics data (see chapter 3). ^a A change in accounting policy to meet the requirements of AASB 1044 meant that no dividend was recognised in 2002-03 (see chapter 3).

Cradle Coast Water was established as a Joint Authority on 10 August 1999 under the *Local Government Act 1993*.¹ Cradle Coast Water collects, treats and supplies bulk drinking water to its joint owning councils — Circular Head, Central Coast, Waratah-Wynyard, Devonport City, Latrobe and Kentish.

Maximum charges for bulk water are determined by the Minister for Local Government, following recommendations by the Government Prices Oversight Commission.² During 2002-03, the variable charge component for water fell in real terms, however fixed charges rose by 7.7 per cent.

Pre-tax operating profit in 2002-03 rose by 39 per cent, primarily due to increased water sales. Expenses were largely unchanged from the previous year.

The value of assets in 2002-03 increased by almost 5 per cent as a result of capital expenditure of \$1.6 million and an asset revaluation increment of \$2.6 million relating mainly to water treatment plants and pipelines. Debt declined in nominal terms every year of the reporting period, contributing to a decline in the debt to equity and debt to assets ratios, and a rise in interest cover.

Cradle Coast Water is required to make income tax-equivalent and dividend payments.³ During 2002-03, Cradle Water did not pay tax despite recording a profit, since the tax expense was offset against previous losses carried forward. A change in accounting policies to meet the requirements of AASB 1044 affected the dividend recorded in 2002-03 (see chapter 3).

Cradle Coast did not receive any community service obligation (CSO) payments in 2001-02 or 2002-03. Prior to 2001-02, fluoridation was identified as a CSO and reimbursed by the Government.

¹ Cradle Coast Water was the trading name of the North West Water Authority (NWWA) over the period July 2000 to December 2001. On 12 December 2001, the NWWA adopted the trading name as its legal title.

² Under the *Government Prices Oversight Act 1995*, the recommendations may take the form of maximum revenues, maximum prices, pricing principles or a combination of these.

³ No dividend was paid in 1998-99 due to after-tax losses. In 2002-03, Cradle Coast Water was subject to the National Tax Equivalent Regime.

CRADLE COAST WATER (continued)

Performance indicators 1998-99 to 2002-03

	Units	1998-99 ^a	1999-00	2000-01 ^b	2001-02	2002-03 ^c
<i>Size</i>						
Total assets	\$m	61	59	61	61	64
Total revenue	\$m	7	7	8	8	8
<i>Profitability</i>						
Operating profit before tax	\$'000	1 311	838	1 390	856	1 190
Operating sales margin	%	39.3	29.9	34.7	28.3	30.9
Cost recovery	%	170.8	151.1	153.3	139.5	144.8
Return on assets	%	4.9	3.6	4.7	3.7	4.1
Return on equity	%	0.6	1.9	3.7	2.2	3.0
<i>Financial management</i>						
Debt to equity	%	70.1	68.2	63.0	60.2	53.2
Debt to total assets	%	39.3	38.7	37.7	36.1	34.2
Total liabilities to equity	%	78.5	74.5	69.6	66.8	59.4
Interest cover	times	1.8	1.6	2.0	1.6	1.9
Current ratio	%	67.1	90.0	121.4	97.8	92.6
Leverage ratio	%	178.5	174.5	169.6	166.8	159.4
<i>Payments to and from government</i>						
Dividends	\$'000	0	345	514	428	0
Dividend to equity ratio	%	0.0	1.0	1.5	1.2	0.0
Dividend payout ratio	%	0.0	53.9	40.0	53.1	0.0
Income tax expense	\$'000	1 100	197	104	49	39
CSO funding	\$'000	26	27	31	0	0

Note All results taken from General Purpose Financial Report data because of the unavailability of Government Financial Statistics data (see chapter 3). ^a Includes an abnormal expense of \$155 000 due to an adjustment of the superannuation provision. ^b The value of assets increased by \$2 million resulting from a revaluation of infrastructure assets. ^c A change in accounting policy to meet the requirements of AASB 1044 meant that no dividend was recognised in 2002-03 (see chapter 3).

The Esk Water Authority, trading as Esk Water, was established as a Joint Authority under the *Local Government Act 1993*. Esk Water commenced operations in July 1997, following the transfer of assets from its predecessors, the North Esk Scheme, West Tamar Scheme and the Launceston City Council. Esk Water provides bulk water supply to councils and industrial users in the Launceston–Tamar Valley region.¹

Maximum charges for bulk water are determined by the Minister for Local Government, drawing on recommendations by the Government Prices Oversight Commission.² Esk Water and its member councils were directed to implement a two-part tariff structure in 2001-02. This led to an increase in revenue during this year despite a fall in sales volume. Real prices did not rise during 2002-03.

Almost all of Esk Water's revenue comes from water sales, with 96 per cent of total revenue coming from this source in 2002-03. Revenue rose by 6 per cent during the year, largely the result of increased sales volume. Pre-tax operating profit also rose from the previous year, with only a slight increase in expenses.

Esk Water's debt — secured against future revenues — has fallen by almost 40 per cent over the reporting period, resulting in a fall in the debt to equity, debt to total assets and total liabilities to equity ratios. It is anticipated that all outstanding debt will be repaid by June 2006.

Capital expenditure of around \$534 000 in 2002-03 was funded internally. Some of the variability in the current ratio in 1999-00 and 2000-01 was due to changes in the maturity of debt.

Esk Water is required to make tax-equivalent and dividend payments. A change in accounting policy to meet the requirements of AASB 1044 has affected the comparability of the dividend payment in 2002-03 to that of other years, since the final dividend payment will not be brought to account until 2003-04 (see chapter 3).

Esk Water does not receive any funding for community service obligations.

¹ The participating councils in the Joint Authority are Launceston City, George Town, Meander Valley and West Tamar. On its inception, Esk Water's equity was contributed by the State Government (88 per cent), Launceston City Council (11 per cent) and Meander Valley Council (0.6 per cent).

² Under the *Government Prices Oversight Act 1995*, the recommendations may take the form of maximum revenues, maximum prices, pricing principles or a combination of these.

ESK WATER AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02</i>	<i>2002-03^d</i>
<i>Size</i>						
Total assets	\$m	102	100	102	103	100
Total revenue	\$m	7	8	8	9	9
<i>Profitability</i>						
Operating profit before tax	\$'000	824	1 209	1 950	2 546	2 926
Operating sales margin	%	21.9	25.0	30.5	34.9	35.5
Cost recovery	%	174.6	130.5	144.0	153.5	155.1
Return on assets	%	1.7	2.0	2.5	3.1	3.4
Return on equity	%	0.6	1.0	1.5	1.9	2.3
<i>Financial management</i>						
Debt to equity	%	15.2	12.8	8.9	8.9	8.0
Debt to total assets	%	12.7	10.8	7.9	7.8	6.9
Total liabilities to equity	%	19.6	16.6	13.9	14.9	14.4
Interest cover	times	1.9	2.4	4.2	5.2	6.3
Current ratio	%	174.2	83.2	175.6	205.0	124.4
Leverage ratio	%	119.6	116.6	113.9	114.9	114.4
<i>Payments to and from government</i>						
Dividends	\$'000	198	594	1 337	1 683	897
Dividend to equity ratio	%	0.2	0.7	1.5	1.9	1.0
Dividend payout ratio	%	40.8	68.8	100.0	100.7	44.6
Income tax expense	\$'000	339	345	613	875	914
CSO funding	\$'000	0	0	0	0	0

Note All results taken from General Purpose Financial Report data because of the unavailability of Government Financial Statistics data (see chapter 3). ^a Includes extraordinary expense of \$1.4 million relating to asset transfers. ^b Includes abnormal revenue of \$156 000 from the revaluation of superannuation liability. ^c A revaluation resulted in an increase of \$3.3 million in the value of pipes and other fixed assets. ^d A change in accounting policy to meet the requirements of AASB 1044 meant that no final dividend was recorded in 2002-03, only the interim dividend of \$897 000. This leads to difficulties in comparing dividend to equity and dividend to payout ratios across the reporting period (see chapter 3).

ACTEW Corporation provides water and sewerage services to around 125 000 domestic and commercial customers in the ACT and Queanbeyan. ACTEW Corporation was established under the *Corporations Act 2001* (Cth) and has reporting and compliance obligations under the *Territory Owned Corporations Act 1990*. ActewAGL — a joint venture with privately-owned energy company AGL — provides gas and electricity services and manages ACTEW Corporation's water and sewerage assets under contract.¹ ACTEW also has a 25 per cent investment in TransACT Communications Pty Limited, a broadband communications provider in the Canberra area.

Water, sewerage and electricity charges are determined by ACTEW Corporation and ActewAGL within a revenue cap set by the ACT Independent Competition and Regulatory Commission (ICRC). The ICRC sets maximum charges for gas.

In 2002-03, revenue from water sales and sewerage services accounted for around 67 per cent of total revenue. ACTEW Corporation's share of operating profit in ActewAGL contributed a further 22 per cent of revenue, whilst assets contributed by developers accounted for just over 4 per cent.

Revenue was up slightly in 2002-03, but an increase in expenses led to a 14 per cent decrease in operating profit for the year. The increase in expenses was largely due to a \$13.8 million provision for diminution of ACTEW's investment in TransACT.

Water and sewerage assets accounted for around 68 per cent of total assets in 2002-03. ACTEW Corporation's ownership interest in ActewAGL represented almost 26 per cent. Assets increased by just under \$8 million in 2002-03, as a result of an increase in short-term securities held and around \$11 million in capital expenditure over the year. Capital expenditure was funded from cash reserves, with debt reduced by \$8.7 million from the previous year.

ACTEW Corporation is required to make tax-equivalent and dividend payments to the ACT Government. It does not separately identify any community service obligation payments in its financial statements.

¹ ActewAGL's operations are included in ACTEW Corporation's financial results using the 'equity accounting' method. Under this method, ACTEW Corporation's initial investment in ActewAGL is recognised as an asset. Adjustments are made to the value of the investment to reflect ACTEW Corporation's share of profits or losses in ActewAGL each year. In 2002-03, ActewAGL's assets were valued at around \$853 million with revenue of \$487 million. ACTEW holds a 50 per cent share in ActewAGL.

ACTEW CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				1 326	1 334
Total revenue	\$m				185	191
<i>Profitability</i>						
Operating profit before tax	\$'000				72 862	62 942
Operating sales margin	%				53.2	45.3
Cost recovery	%				203.8	174.6
Return on assets	%				7.5	6.6
Return on equity	%				5.9	5.5
<i>Financial management</i>						
Debt to equity	%				45.2	44.4
Debt to total assets	%				27.2	26.4
Total liabilities to equity	%				66.5	68.5
Interest cover	times				3.8	3.5
Current ratio	%				104.7	136.7
Leverage ratio	%				166.5	168.5
<i>Payments to and from government</i>						
Dividends	\$'000				46 887	47 700
Dividend to equity ratio	%				5.9	6.0
Dividend payout ratio	%				100.1	110.0
Income tax expense	\$'000				26 034	19 561
CSO funding	\$'000				n.p.	n.p.

^a 2001-02 was the first year that ACTEW Corporation was included in this report. It commenced operations in July 1995. **n.p.** Not published.

9 Urban transport

The financial performance of four urban transport government trading enterprises (GTEs) is covered in this chapter. At the end of 2002-03, they controlled \$1.4 billion in assets and generated around \$720 million in revenue. The urban transport GTEs vary in size and the range of services they provide.

Financial performance summaries, including performance indicators for each GTE, are presented after this introduction. The performance indicators are consistent across individual GTEs. However, when making comparisons, care should be taken to consider differences in the nature and scale of the businesses, their market environments and issues relating to the valuation of their assets.

For a discussion of the data and the financial indicators used and some of the factors that should be considered when assessing performance, see chapter 3.

9.1 Monitored GTEs

The selected GTEs vary in the range of services they provide, their size and their corporate structure. The primary activity of most of the urban transport GTEs is the provision of bus services (see table 9.1). However, the State Transit Authority (STA) in NSW and TransAdelaide, operate other modes of transport. TransAdelaide operates passenger rail and tram services and is also responsible for the management of the metropolitan rail network. In addition to its bus services, the STA also operates passenger ferries.

Table 9.1 **Activities — urban transport GTEs, 2002-03**

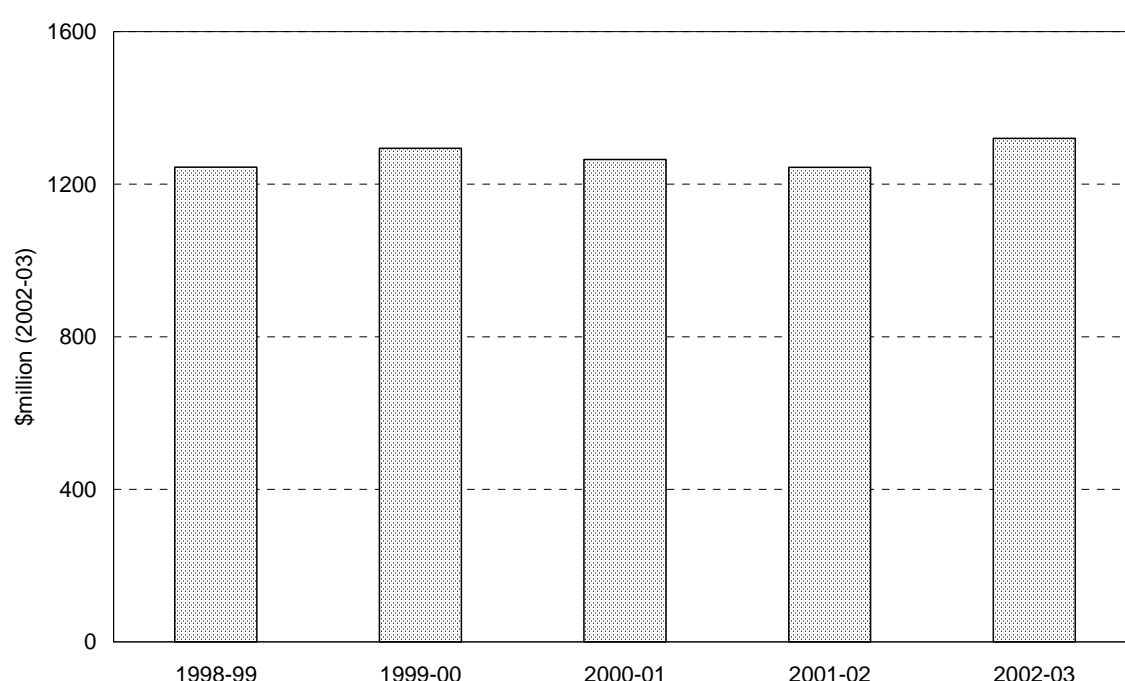
	<i>Bus</i>	<i>Ferry</i>	<i>Tram</i>	<i>Train</i>
State Transit Authority	✓	✓	✗	✗
TransAdelaide ^a	✗ ^b	✗	✓	✓
Metro Tasmania	✓	✗	✗	✗
ACTION	✓	✗	✗	✗

^a In addition to its passenger transport activities, TransAdelaide is the infrastructure manager for the Adelaide metropolitan rail network. ^b 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.

Urban transport services are also provided by Queensland Rail, the Western Australian Government Railways Commission and the State Rail Authority (NSW), as a part of their broader rail operations. The performance of these GTEs is reported in chapter 10.

Total assets have grown by \$74 million (6 per cent) in real terms over the reporting period (see figure 9.1). The increase was mainly due to a significant revaluation by STA of its land and buildings.

Figure 9.1 Sector assets — urban transport GTEs, 1998-99 to 2002-03

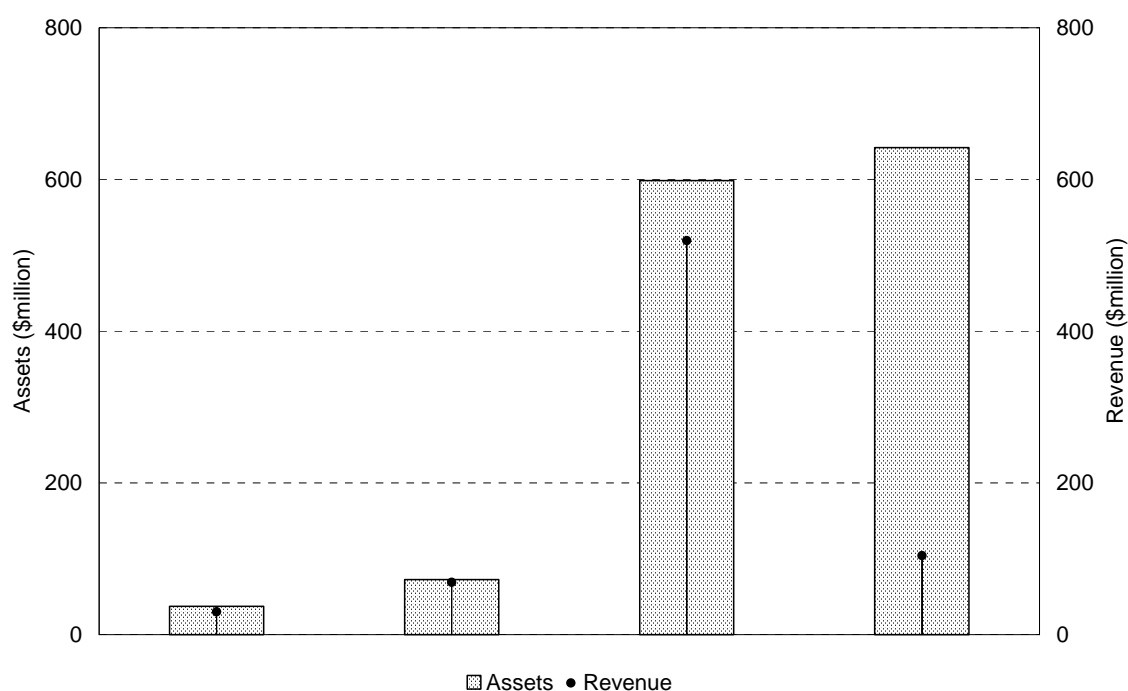


Note The value of sector assets prior to 2002-03 was converted to 2002-03 dollars using the implicit price deflator — Gross Fixed Capital Formation for Public Corporations (see chapter 3).

Source: Productivity Commission estimates.

In 2002-03, TransAdelaide controlled 48 per cent of the monitored urban transport GTEs' assets while the STA accounted for a further 44 per cent. The four GTEs generated over \$720 million of revenue in 2002-03, with the STA accounting for approximately 72 per cent of this total (see figure 9.2). The large size of TransAdelaide's asset base relative to its revenue, reflects the relatively high value of rail infrastructure assets *vis a vis* buses and ferries for the other urban transport GTEs.

Figure 9.2 **Assets and revenue — urban transport GTEs, 2002-03**



Source: Productivity Commission estimates.

9.2 **Market environment**

The market environment in which urban transport GTEs operate can have a significant impact on their patronage and financial performance. Travel demand and revenue depend on a number of factors, including competition from private operators of urban transport, competition from privately-owned motor vehicles, and changes in fares and urban demographics.

In 2002-03, patronage was higher for the sector as a whole (represented by the four monitored GTEs), mainly because of a 4.1 per cent increase for TransAdelaide. The increased patronage in Adelaide was the result of strong growth in rail travel.

Patronage was largely unchanged in Sydney, although STA noted a turnaround in the previous decline in patronage, with some evidence of patronage growth in the latter part of 2002-03. ACTION recorded a 3.5 per cent increase in patronage over the period. Metro Tasmania was the only monitored GTE to record a (small) patronage decline of 0.4 per cent.

Many governments have intervened in the provision of urban transport services — through ownership, funding support, the regulation of fares and quality of service

(IC 1994). They claim that their involvement and intervention are warranted by the benefits of service coordination, system-wide ticketing, limited competition and the existence of positive externalities.

Urban transport is not subject to a specific agreement under the National Competition Policy (NCP) package of reforms. However, some aspects of the NCP agreements have had a noticeable impact on administrative and operational arrangements. These include the application of competitive neutrality principles, prices oversight of public monopolies and the contracting out of service provision.

A general aim of microeconomic reform has been to increase the commercial focus of publicly-owned service providers and reduce their reliance on government funding support. In urban transport, the principal areas of reform have been governance, the supplier market and setting tariffs.

Governance reform

The legal relationships between urban transport GTEs and their owner-governments have been reformed to increase the GTEs' commercial focus. The implementation of these reforms has varied across jurisdictions. However, there has been a consistent trend to separate urban transport policy, planning and regulatory functions from operational functions.

There has been no significant change in the governance structure of the STA since the passing of the *Transport Administration Act* in 1988.

In SA, the former State Transport Authority was restructured in 1994-95. As a part of the restructure:

- TransAdelaide was corporatised and assumed the operating functions of the former State Transport Authority; and
- the planning and regulatory functions, including the responsibility for setting urban transport prices, were transferred to a new organisation — the Passenger Transport Board (PTB), a statutory authority within the Department for Transport, Urban Planning and the Arts.¹

In 1997-98, the Metropolitan Transport Trust of Tasmania became a government-owned company (Metro Tasmania) subject to corporations law. Similarly, on 1 January 2002, the status of ACTION changed from a division of the Department

¹ The PTB was abolished on 31 December 2003 and a number of its powers given to the Minister.

of Urban Services, to a statutory authority after legislation passed by the ACT Legislative Assembly came into force.

In 1989, Victoria corporatised its principal government-owned urban transport provider, the Public Transport Corporation (PTC), tendering out all bus services to private enterprise in 1993. In 1997-98, the Government restructured the PTC's remaining passenger services into five corporations (two train corporations, two tram corporations and an intra-state country passenger service provider). After a tendering process, the corporatised passenger transport businesses were sold as individual franchises in August 1999.

Market reforms

Competitive tendering arrangements have been introduced to improve the commercial performance of GTEs. Urban transport GTEs have been required to compete with private sector providers for the right to operate certain urban passenger services in WA, NSW, SA and Victoria.

For example, the tendering process was introduced in SA in 1995-96, and required TransAdelaide to compete with the private sector on the basis of a set of costing rules that ensured competitive neutrality. On 22 April 2000, TransAdelaide ceased providing bus services after it was unsuccessful in tendering for service contracts with the PTB. It does however continue to participate in a joint-venture with Australian Transit Enterprises, to operate bus services in the Adelaide Hills.

Competitive tendering is also planned for the ACT. In January 2002, ACTION entered into an exclusive contract with the ACT Government for the provision of urban transport services. It is intended that on the expiration of this contract in December 2006, ACTION will be required to compete with the private sector to secure new service contracts.

STA expanded its bus services in Western Sydney after winning a tender to deliver high frequency services along the Liverpool-Parramatta Transitway (LPT). STA was awarded the contract in January 2002 ahead of strong competition from local and multinational companies, and services commenced operation in February 2003.

STA established a subsidiary corporation to operate services on the Transitway. This was to ensure competitive neutrality and to enable a new industrial agreement, which contained different conditions from those that apply in the current Enterprise Agreements with State Transit.

Tariff reforms

Over the reporting period, the pricing of urban transport services was determined by independent pricing regulatory bodies in NSW and the ACT. In Tasmania, they are set by the Minister after considering reports by the Government Prices Oversight Commission (GPOC). In SA, prices were determined by the PTB until its abolition in December 2003.

Public transport prices in South Australia are now determined by the Government. TransAdelaide's 2002-03 Annual Report does not mention prices, and nor is that part of total income comprising government funding support, separately identified.

9.3 Profitability

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

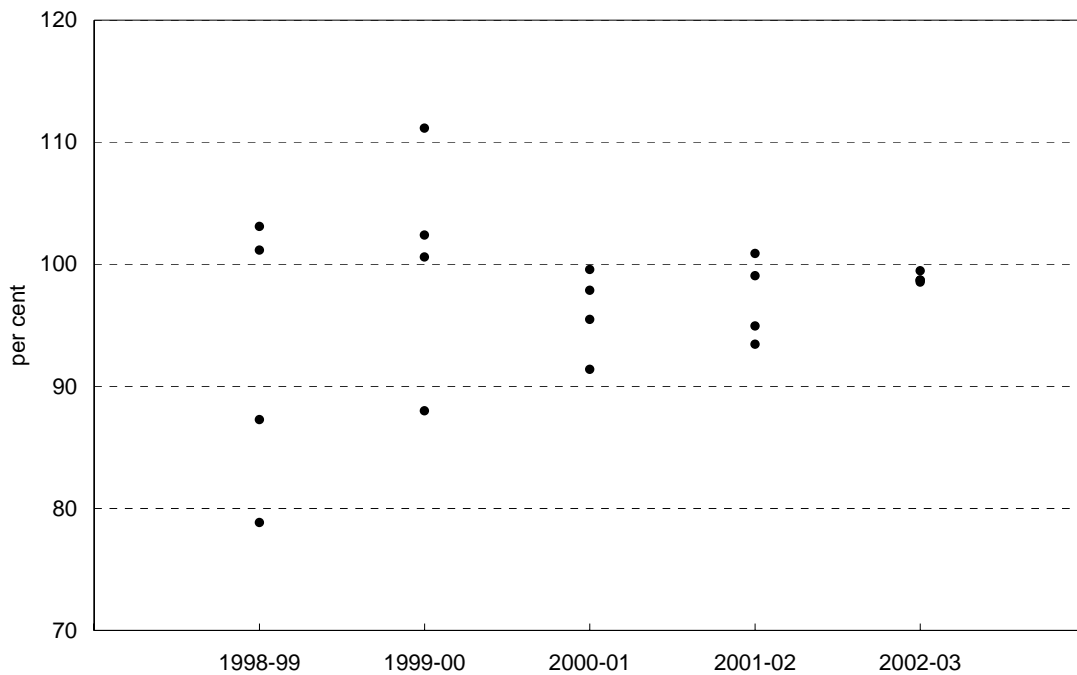
In 2002-03, Metro Tasmania was the only urban transport GTE reviewed to return a positive, pre-tax operating profit after receiving community service obligation (CSO) payments from the Tasmanian government. The trend over the reporting period, of negative or small positive operating results, is mainly due to expenses growing faster than revenues. The increase in total expenses reflects higher labour and general maintenance costs, increased depreciation expenses and the introduction of accrual accounting for superannuation liabilities, among other things.

The average level of cost recovery for urban transport GTEs overall has converged on 100 per cent over the reporting period (see figure 9.3). The introduction of CSO payments to ACTION in 1996-97 and Metro Tasmania in 1997-98 — to reflect the value of concessions and other non-commercial benefits of public transport — significantly improved their cost recovery.

Over the reporting period, the return on assets varied across urban transport GTEs (see figure 9.4), with significant convergence in recent years. The major factors affecting urban transport GTEs' returns on assets, are changes in total revenues and total expenses. However, return on assets is also influenced by changes in asset values — through asset transfers, sale and lease-buy-back arrangements, asset revaluations, asset disposals and depreciation.

Overall, returns are well below those required by private operators, indicating that urban transport GTEs are not being required to operate on a commercially viable basis.²

Figure 9.3 Cost recovery — urban transport GTEs, 1998-99 to 2002-03



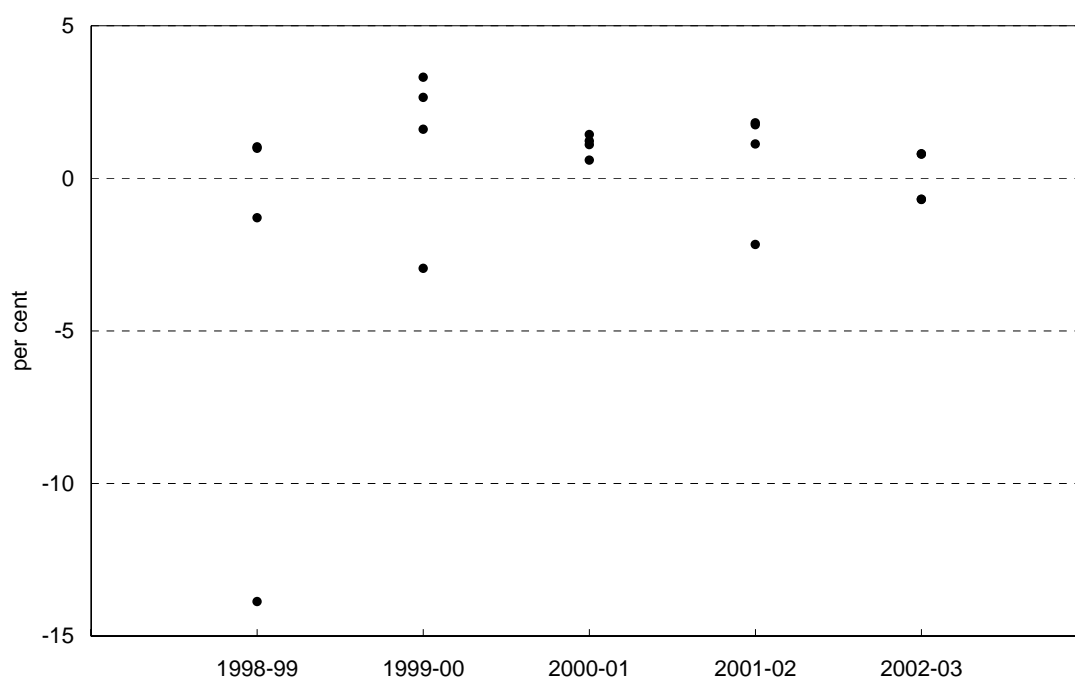
Note Each data point represents the cost recovery ratio for a government trading enterprise in that financial year. Cost recovery is the ratio of revenue from operations to expenses from operations. Revenue from operations is calculated by subtracting from total revenue, investment income and receipts from governments to cover deficits on operations. Expenses from operations are calculated by subtracting gross interest expense from total expenses. Prior to 2000-01, abnormal items were also subtracted from operating expenses and revenue. A number of GTEs had virtually identical cost recovery ratios in 2002-03, which is why only two dots appear in figure 9.3 for 2002-03.

Source: Productivity Commission estimates.

Like return on assets, the return on equity achieved by urban transport GTEs has varied substantially over the reporting period. Metro Tasmania was the only GTE to report a positive return on equity of 0.5 per cent in 2002-03.

² Governments may not require a commercial rate of return from urban transport GTEs because urban transport provides external benefits that are not captured on the balance sheet — such as reductions in road user cost. Urban transport also provides access for the young, elderly and poor. Governments may also feel that there is scope for further efficiency gains within the GTEs. If this is the case and prices have been set to reflect the efficient cost of service provision, low returns would be indicative of inefficient operations.

Figure 9.4 Return on assets — urban transport GTEs, 1998-99 to 2002-03



Note Each data point represents the return on assets ratio for a government trading enterprise in that financial year. Return on assets is the ratio of earnings before interest and tax (EBIT) to average total assets. EBIT is calculated by subtracting total expenses from total revenue and adding back gross interest expense. Average total assets is the average of the value of assets at the beginning and end of each financial year.

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.

Most urban transport GTEs have restructured their capital over the reporting period and reduced debt levels. This restructuring includes debt for equity swaps, debt transfers to government and debt repayments.

Changes in the capital structure of the GTEs makes it difficult to assess financial management performance over time. Asset revaluations also have an impact on inter-temporal performance comparisons.

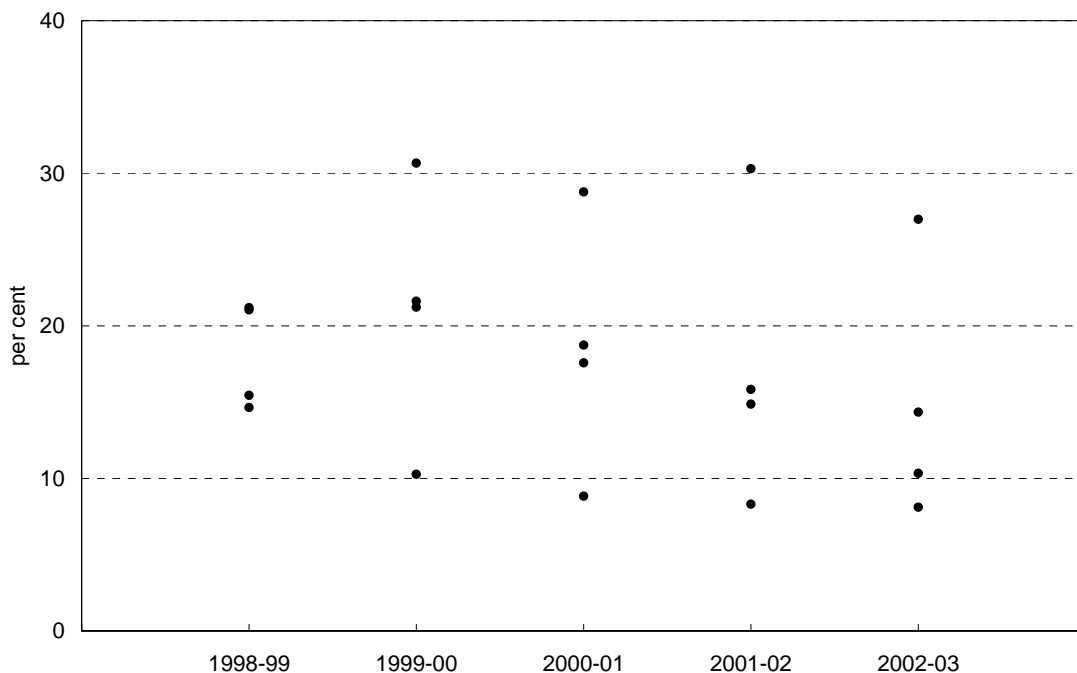
Over the reporting period, the debt to total assets ratio has generally declined across the monitored GTEs (see figure 9.5). *Prima facie*, this may suggest a decrease in the proportion of total assets obtained through the use of borrowings. However, a

decline in this ratio can also occur with debt restructuring and the transfer of liabilities to government departments.

The STA is the only urban transport GTE to have increased its level of debt over the reporting period (by over \$80 million, or 150 per cent, since 1998-99). Borrowing for the purchase of new buses in 1999-00 and 2000-01 accounted for most of this increase.

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 expenses to gross interest expenses — indicates that the entity can sustain a fall in profit or increased interest expense and still meet the cost of servicing debt.

Figure 9.5 Debt to total assets — urban transport GTEs, 1998-99 to 2002-03



Note Each data point represents the debt to total assets ratio for a government trading enterprise in that financial year. Debt is defined to include all repayable borrowings (interest bearing and non-interest bearing), interest bearing non-repayable borrowings and finance leases. Average total assets is the average of the value of assets at the beginning and end of each financial year.

Source: Productivity Commission estimates.

In 2002-03, the interest cover levels reported by the urban transport GTEs ranged from -0.4 times to 1.4 times. This was a narrower range than the previous year, when each GTE reported an interest cover level of between -1.0 times and

2.8 times. With the current increase in interest cover, the majority of GTEs are likely to be able to meet their interest commitments from operating profit. However, those with the lowest interest cover may be significantly affected by increases in interest rates or falling revenues.

9.5 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 factor market disciplines and regulations similar to those faced by private sector businesses. For a more detailed discussion of competitive neutrality principles, see chapter 3.

Most urban transport GTEs are required to make tax-equivalent and dividend payments, along with debt guarantee fee payments, to achieve competitive neutrality with private sector businesses.

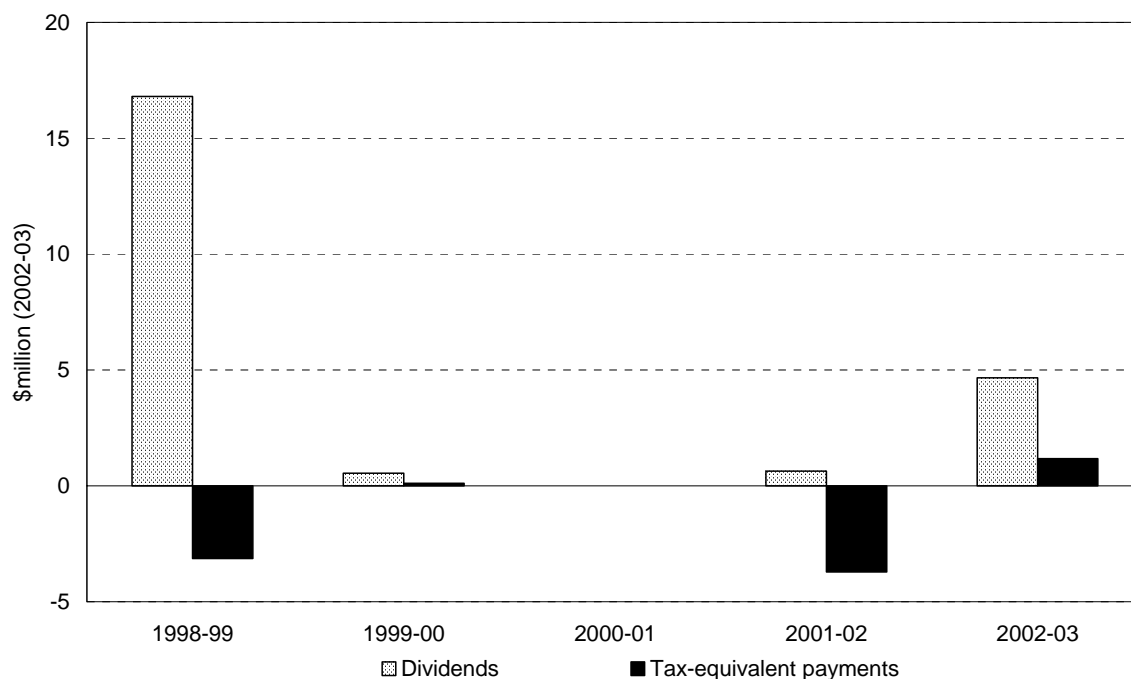
The amount of income tax and dividends paid by the urban transport GTEs has been low in comparison to payments made by GTEs in other industry sectors and have varied considerably over the reporting period (see figure 9.6). This reflects the small and volatile returns of urban transport GTEs over the reporting period.

TransAdelaide was the only urban transport GTE to make tax-equivalent payments over the reporting period. Tax-equivalent payments were generally not required because of negative operating results; accumulated tax losses; the impact of the introduction of the Goods and Services Tax; and the reduction in the company tax rate from 1999-00.

Since 1998-99, the STA, Metro Tasmania and TransAdelaide have each made at least one dividend payment.

Traditionally, the social benefits associated with the provision of low cost urban transport services were recognised implicitly by governments and paid for by funding operating deficits.

Figure 9.6 Dividend and income tax-equivalent payments — urban transport GTEs, 1998-99 to 2002-03



Note The value of dividends and tax-equivalent payments were converted to 2002-03 dollars using the implicit price deflator — Gross Fixed Capital Formation for Public Corporations (see chapter 3). No dividends or tax-equivalent payments were made in 2000-01.

Source: Productivity Commission estimates.

Some governments have entered into CSO contracts with their GTEs. The STA, Metro Tasmania and ACTION receive explicit CSO payments, although Metro Tasmania does not reveal the value of this funding in its accounts. TransAdelaide also receives government payments, but these payments are included as part of the figure for total income, and are not separately identified in its accounts.

For most urban transport GTEs, CSOs account for a relatively large share of total revenue. In 2002-03, CSO funding accounted for 77 per cent of ACTION's total revenue and 46 per cent for the STA.

CSO contracts across urban transport GTEs include:

- *Pricing* — to reimburse GTEs for offering fares at below a commercial level. 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 late night services when patronage is low.

-
- *Concessions* — to reimburse GTEs for offering government determined concessions. This includes the provision of free and concession travel for school students, tertiary students, pensioners and senior citizens, people with disabilities, and welfare recipients.

9.6 GTE performance reports

State Transit Authority (NSW)

TransAdelaide (SA)

Metro Tasmania (Tasmania)

ACTION Authority (ACT)

The State Transit Authority (STA) is incorporated under the *Transport Administration Act 1988*. In 2002-03, it operated four metropolitan passenger transport businesses — Sydney Buses; Sydney Ferries; Newcastle Bus and Ferry Services and Western Sydney Buses. The STA operates within the regulatory framework of the *Passenger Transport Act 1990*.

Capital expenditure in 2002-03 was \$48 million compared with \$69 million in 2001-02. Despite this reduction, the value of total assets increased by \$132 million, mainly due to a revaluation of land and buildings.

The capital works program in 2002-03 mainly comprised the upgrade of the bus and ferry fleet, with \$17 million spent on the purchase of low floor, air-conditioned buses and \$22 million spent on ferry refits.

Prices for STA's services are set by the Independent Pricing and Regulatory Tribunal of NSW. In accordance with the *Public Transport Fares Determination*, single journey ticket prices rose by 3 per cent in 2002-03.

In 2002-03 total revenue rose by 6 per cent to \$519 million, even though patronage was almost unchanged. This growth was largely attributable to increased community service obligation (CSO) funding to \$239 million, more than offsetting a reduction in capital grants that are treated as revenue.

Cost recovery is a combination of fare box revenue and fares paid by government as part of its social policy programs. Of the \$239 million CSO funding in 2002-03, \$144 million was payment of fares by government for pensioners, school children and other eligible groups. The remaining \$95 million was for two general reimbursements: the Pricing CSO, to cover the gap between State Transit's fares and those generally prevailing in the private bus sector, and the Service CSO, which is a payment to cover losses on non-commercial services.

The 6 per cent increase in revenue was largely offset by a 5 per cent increase in expenses, with a net \$6 million reduction in the 2002-03 operating loss to \$14 million.

The STA has not made tax-equivalent payments during the reporting period, due to accumulated tax losses.

STATE TRANSIT AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	369	434	439	467	599
Total revenue	\$m	394	424	479	490	519
<i>Profitability</i>						
Operating profit before tax	\$'000	- 9 635	699	- 4 313	- 19 580	- 13 968
Operating sales margin	%	- 1.5	1.3	0.9	- 2.0	- 0.8
Cost recovery	%	87.3	100.6	97.9	93.4	98.5
Return on assets	%	- 1.3	1.6	1.2	- 2.2	- 0.7
Return on equity	%	- 6.4	0.5	- 3.0	- 15.0	7.7
<i>Financial management</i>						
Debt to equity	%	38.4	85.5	89.9	112.4	59.2
Debt to total assets	%	14.6	30.7	28.8	30.3	27.0
Total liabilities to equity	%	157.3	201.5	214.5	282.3	146.5
Interest cover	times	- 1.0	1.1	0.6	- 1.0	- 0.4
Current ratio	%	35.0	42.8	44.9	30.5	20.9
Leverage ratio	%	257.3	301.5	314.5	382.3	246.5
<i>Payments to and from government</i>						
Dividends	\$'000	16 560	0	0	0	0
Dividend to equity ratio	%	11.0	0.0	0.0	0.0	0.0
Dividend payout ratio	%	- 171.9	0.0	0.0	0.0	0.0
Income tax expense	\$'000	0	0	0	0	0
CSO funding	\$'000	167 837	178 297	193 675	208 860	239 430

^a During 1998-99, the State Transit Authority (STA) sold \$20 million of property. The net sale proceeds of \$17 million were paid to the NSW Treasury as a special dividend on 30 June 1999. ^b The increase in the value of assets is due to \$56 million in capital expenditure for bus replacement and a \$27 million upward revaluation of non-current assets. In 1999-00, the STA reported an abnormal gain of over \$3 million from the profit on property sales, which contributed to the reported pre-tax operating profit. ^c Return on assets was positive, despite the STA recording a negative operating result. Return on assets is the ratio of Earnings Before Interest and Tax (EBIT) to total assets. The discrepancy between pre-tax operating profit and return on assets reflects an increase in borrowing costs (which are excluded from EBIT) as a percentage of total costs.

TransAdelaide provides passenger rail services to the Adelaide metropolitan area under contract to the Office of Public Transport (OPT).¹ It is also responsible for the management of train and tram infrastructure. With the proclamation in January 1999 of the *TransAdelaide (Corporate Structure) Act 1998*, TransAdelaide became subject to the provisions of the *Public Corporations Act 1993*. It is engaged in a joint-venture to provide bus services in the Adelaide Hills.²

TransAdelaide obtains the majority of its revenue from the OPT. In 2002-03, all ticket revenue received was remitted to the OPT, which set fares for metropolitan public transport. The OPT then paid TransAdelaide in line with its passenger rail service contract. TransAdelaide also currently receives annual funding from the SA Government and is required to make tax-equivalent and dividend payments.

The financial data for the years 1999-00 to 2001-02 are predominantly based on Government Finance Statistics (GFS) data — in contrast with the General Purpose Financial Report (GPFR) data on which the Annual Report is based. The concepts underlying GFS and GPFR may lead to different reported statistics (see chapter 3).

The small profit shown for 2001-02 is based on GFS data and did not take into account the loss on sale of assets, which resulted in a \$12 million loss in 2001-02 based on the GPFR framework. This loss on sale of assets in 2001-02 was primarily due to the transfer of TransAdelaide's interest in the Belair rail line to the Australian Railways Track Corporation for nil consideration, pursuant to an agreement reached in 1999 between State and Federal ministers.

TransAdelaide is required to make tax-equivalent and dividend payments. In 2002-03, TransAdelaide made a loss of \$1.225 million before tax, largely offset by a \$1.152 million income tax benefit.

Government funding for community service obligations is not separately identified in TransAdelaide's financial statements.

¹ On 1 January 2004, the Passenger Transport Board was dissolved and replaced by the Office of Public Transport (OPT). TransAdelaide is required to compete with the private sector to secure OPT service contracts. On 22 April 2000, TransAdelaide ceased the provision of bus services in its own right after unsuccessful bids to the OPT. In December 2000, TransAdelaide secured the contract for the provision of rail transport services until 2005.

² In April 2000, the joint-venture operation was awarded a five year contract to provide passenger transport to the Algate and Mount Barker area. Previously, this service was provided by a former TransAdelaide subsidiary, Hills Transit, which was dissolved by regulation on 30 June 2000.

TRANSADELAIDE (continued)

Performance indicators 1998-99 to 2002-03

	Units	1998-99 ^a	1999-00 ^b	2000-01 ^c	2001-02	2002-03
<i>Size</i>						
Total assets	\$m	617	609	685	670	642
Total revenue	\$m	249	227	107	104	104
<i>Profitability</i>						
Operating profit before tax	\$'000	- 7 379	3 848	- 1 755	6	- 1 225
Operating sales margin	%	2.3	6.6	7.2	6.2	2.7
Cost recovery	%	103.1	111.1	91.4	99.0	99.6
Return on assets	%	1.0	2.6	1.4	1.1	0.9
Return on equity	%	- 1.0	0.9	- 0.4	0.7	0.0
<i>Financial management</i>						
Debt to equity	%	31.6	30.4	22.0	21.1	19.0
Debt to total assets	%	21.0	21.2	17.6	15.8	14.3
Total liabilities to equity	%	45.5	42.4	32.6	31.9	29.5
Interest cover	times	0.5	1.3	0.8	1.0	0.8
Current ratio	%	93.0	127.6	89.5	76.1	61.0
Leverage ratio	%	145.5	142.4	132.6	131.9	129.5
<i>Payments to and from government</i>						
Dividends ^d	\$'000	0	0	0	353	4592
Dividend to equity ratio	%	0.0	0.0	0.0	0.1	0.9
Dividend payout ratio	%	0.0	0.0	0.0	9.5	- 193.2
Income tax expense	\$'000	-3 089	107	0	-3 711	- 1 152
CSO funding ^e	\$'000	0	0	0	0	0

^a As part of the SA Government's asset management plan TransAdelaide's bus fleet was transferred to Transport SA, resulting in a fall in total assets. Half of the debt associated with bus fleet assets was transferred to Transport SA. Operating profit (before tax) also declined due to a net increase in abnormal expenses associated with the asset transfer. ^b Includes abnormal revenue relating to the withdrawal of bus services (\$11 million) and abnormal expenses relating to loss on disposal of assets (\$7.8 million), expenses associated with the withdrawal of bus services (\$3.1 million), fleet and depot restoration costs (\$5.9 million), Hills Transit termination payments (\$0.6 million) and the write-off of tax losses associated with the bus business (\$7.6 million). Includes an upward revaluation of land, buildings and rollingstock of \$6.7 million. ^c An independent revaluation increased the value of TransAdelaide's assets by almost \$90 million. The reduced total revenue reflects the first full year of operations after losing the Office of Public Transport bus service contract. ^d A special dividend was paid as directed by the Treasurer from retained earnings for depreciation funding in 2001-02 and 2002-03. ^e Community service obligation funding is not separately identified in TransAdelaide's accounts.

Metro Tasmania Pty Ltd (Metro) was incorporated on 2 February 1998, under the *Metro Tasmania Act 1997*. Upon incorporation, the assets and liabilities of the Metropolitan Transport Trust were transferred to Metro, which provides passenger bus services to Hobart, Launceston and Burnie. In May 1999, Metro formed a subsidiary company, Metro Coaches (Tas) Pty Ltd to operate bus services from Hobart to Blackman's Bay, the Channel, Campania and New Norfolk.

The maximum prices that Metro can charge are determined by the Government after considering reports by the Government Prices Oversight Commission (GPOC).

In 2002-03, patronage and total revenues declined slightly compared with the previous year. Expenses rose slightly and Metro returned a profit of \$80 000, which was down compared with the preceding year. With values in the Statement of Financial Position largely unchanged, return on assets and return on equity both declined.

The *Metro Tasmania Act 1997* and the *Government Business Enterprises Act 1995* require Metro to make income tax-equivalent payments to the Tasmanian Government. However, Metro has not made tax-equivalent payments since 1997-98, due to accumulated tax losses.

Metro made provision for a \$286 000 dividend payment in 2001-02, but adopted a new accounting standard (AASB 1044) from 1 July 2002 under which dividends are recognised in the year they are announced (see chapter 3). This dividend was provided for and therefore included in last year's monitoring report as applying to 200102, whereas under the new accounting standard, it would be identified as applying to 200203. As explained in chapter 3, this change affects certain year to year comparisons.

Metro entered into a new three-year Community Service Agreement with the Tasmanian Government on 1 July 2001. The funding provided under the agreement is designed to enable Metro to achieve a break-even operating result. It includes provision for concession travel for specified categories of passengers and for the provision of non-commercial services. However, community service obligation funding is not separately identified in Metro's accounts.

METRO TASMANIA (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01</i>	<i>2001-02^c</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	37	35	36	37	37
Total revenue	\$m	28	30	29	30	30
<i>Profitability</i>						
Operating profit before tax	\$'000	- 69	763	- 53	413	80
Operating sales margin	%	- 0.7	2.9	- 0.4	0.9	- 0.6
Cost recovery	%	101.1	102.4	99.6	100.9	99.5
Return on assets	%	1.0	3.3	0.6	1.8	0.8
Return on equity	%	- 0.4	4.8	- 0.3	2.4	0.5
<i>Financial management</i>						
Debt to equity	%	43.5	23.2	18.2	17.7	17.9
Debt to total assets	%	15.4	10.3	8.8	8.3	8.1
Total liabilities to equity	%	137.2	118.3	108.5	118.0	119.6
Interest cover	times	0.9	2.8	0.8	2.8	1.4
Current ratio	%	30.8	71.7	109.5	118.0	159.7
Leverage ratio	%	237.2	218.3	208.5	218.0	219.6
<i>Payments to and from government</i>						
Dividends ^d	\$'000	0	533	0	0	286
Dividend to equity ratio	%	0.0	3.4	0.0	0	1.7
Dividend payout ratio	%	0.0	69.9	0.0	0	357.5
Income tax expense	\$'000	0	0	0	0	0
CSO funding ^e	\$'000	0	0	0	0	0

^a Includes an abnormal expense of \$0.5 million relating to a change in assumptions for superannuation liabilities and an extraordinary expense of \$2.2 million relating to underprovision for superannuation.

^b Includes abnormal revenue of \$0.6 million relating to a reduction in superannuation provisions. Metro also reported abnormal expenses relating to workers' compensation (\$250 000), a wholesale sales tax adjustment (\$90 000) and costs incurred during a price regulation investigation by the Government Prices Oversight Commission (\$130 000). ^c Includes a one-off receipt of \$336 000 from the Tasmanian Government for prior year increases in superannuation provisions. ^d A change in accounting policy adopted by Metro from 1 July 2002 means that dividends will now be recognised in the financial statements for the year in which they are announced (see chapter 3). ^e Metro receives community service obligation (CSO) payments under its Community Service Agreement with the Tasmanian Government. The level of CSO funding under this contract is not reported separately.

The Australian Capital Territory Internal Omnibus Network Authority (ACTION) provides urban and school bus services to the Canberra metropolitan area. ACTION operates pursuant to the *Road Transport (Public Passenger Services) Act 2001*, which came into force on 1 December 2001.

On 1 January 2002, the *ACTION Authority Act 2001* came into effect, changing the status of ACTION from a division of the ACT Government's Department of Urban Services, to a statutory authority.

Prices for ACTION's services are set by the ACT's Independent Pricing and Regulatory Commission, which has determined that there should be no increase in the weighted average fare level over the next two years. Such regulatory decisions have implications for patronage and the level of financial support provided to ACTION by the ACT government.

In 2002-03, ACTION reported a 3.5 per cent patronage increase compared with the previous year. In particular, a 9.2 per cent increase in adult passenger numbers was a major contributor to the improved fares revenue performance, even though cost increases contributed to an increase in the operating loss.

Total revenue increased in 2002-03, due to higher patronage and passenger revenue, and an increase in community service obligation (CSO) funding. ACTION receives CSO payments for: offering fares below a commercial level, general route off-peak services, concession travel for students, and school services and special needs transport. In 2002-03, CSO funding comprised 77 per cent of ACTION's total revenue, with most of the remainder coming from fare revenue.

In order to fund its operating losses (\$1.8 million in 2002-03), ACTION receives annual subsidies from the ACT Government. It also receives capital grants to fund its capital expenditure on plant and equipment — mainly its bus replacement program.

ACTION reduced its debt in 2001-02 by \$2.9 million, continuing the general decline in debt to equity and debt to total assets ratios over the reporting period.

ACTION did not make tax-equivalent or dividend payments over the reporting period.

ACTION AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	76	72	68	70	73
Total revenue	\$m	57	67	65	67	69
<i>Profitability</i>						
Operating profit before tax	\$'000	- 14 733	- 4 342	- 1 176	- 343	- 1 764
Operating sales margin	%	- 21.7	- 3.3	1.1	1.6	- 1.3
Cost recovery	%	78.8	88.0	95.5	94.9	98.7
Return on assets	%	- 13.9	- 3.0	1.1	1.8	- 0.7
Return on equity	%	- 28.7	- 10.2	- 2.9	- 0.8	- 3.7
<i>Financial management</i>						
Debt to equity	%	43.4	38.3	32.4	22.6	15.0
Debt to total assets	%	21.2	21.6	18.7	14.9	10.3
Total liabilities to equity	%	75.4	72.5	68.5	53.4	48.0
Interest cover	times	- 5.1	- 1.0	0.4	0.8	- 0.4
Current ratio	%	27.0	46.2	60.3	123.9	134.1
Leverage ratio	%	175.4	172.5	168.5	153.4	148.0
<i>Payments to and from government</i>						
Dividends	\$'000	0	0	0	0	0
Dividend to equity ratio	%	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio	%	0.0	0.0	0.0	0.0	0.0
Income tax expense	\$'000	0	0	0	0	0
CSO funding	\$'000	39 295	42 631	42 731	46 538	53 240

^a ACTION became liable for the payment of state and federal taxes and charges in 1998-99. On 1 July 1998, most of ACTION's property, including bus shelters and interchanges, were transferred to the Department of Urban Services as part of purchaser-provider governance reform. ACTION retained its Belconnen and Tuggeranong depots and associated offices, including ACTION's head office. ^b Includes an abnormal gain of \$1.1 million relating to participation in a Commonwealth Government program. An abnormal expense of \$0.3 million was incurred relating to a loss from the sale of obsolete stores.

10 Railways

The financial performance of five rail government trading enterprises (GTEs) is covered in this chapter. At the end of 2002-03, they controlled \$26.1 billion in assets and generated over \$5.5 billion in revenues.

Financial performance summaries, including performance indicators for each GTE, are presented after this introduction. The performance indicators are consistent across individual GTEs. However, consideration should be given to differences in the nature and scale of the businesses, their market environments and issues relating to the valuation of their assets when making comparisons.

For a discussion of the data and the financial indicators used and some of the factors that should be considered when assessing performance, see chapter 3.

10.1 Monitored GTEs

The activities of the five monitored rail GTEs are shown in table 10.1. 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 four have fewer activities. The State Rail Authority of NSW (SRA) and the Western Australian Government Railways Commission (WAGRC) operate urban and regional rail passenger transport services. The WAGRC is also responsible for managing rail infrastructure. The Australian Rail Track Corporation (ARTC) and NSW Rail Infrastructure Corporation (RIC) provide track management services, including the administration of rail access regimes.

The financial performance of some rail GTEs has been affected by the transfer of some of their activities — to another GTE or to the private sector. For example, in 2000-01, the WAGRC incurred an extraordinary loss of \$116 million following the sale of freight operations to the private sector in December 2000.

Table 10.1 **Activities — rail GTEs, 2002-03**

Rail GTE	Jurisdiction	Activities			
		Track ^a	Freight transport	Urban passenger transport	Regional passenger transport
State Rail Authority of NSW	NSW	x	x	✓	✓
Rail Infrastructure Corporation	NSW	✓	x	x	x
Queensland Rail	Queensland	✓	✓	✓	✓
Western Australian Government Railways Commission	WA	✓	x	✓	✓ ^b
Australian Rail Track Corporation	Commonwealth	✓	x	x	x

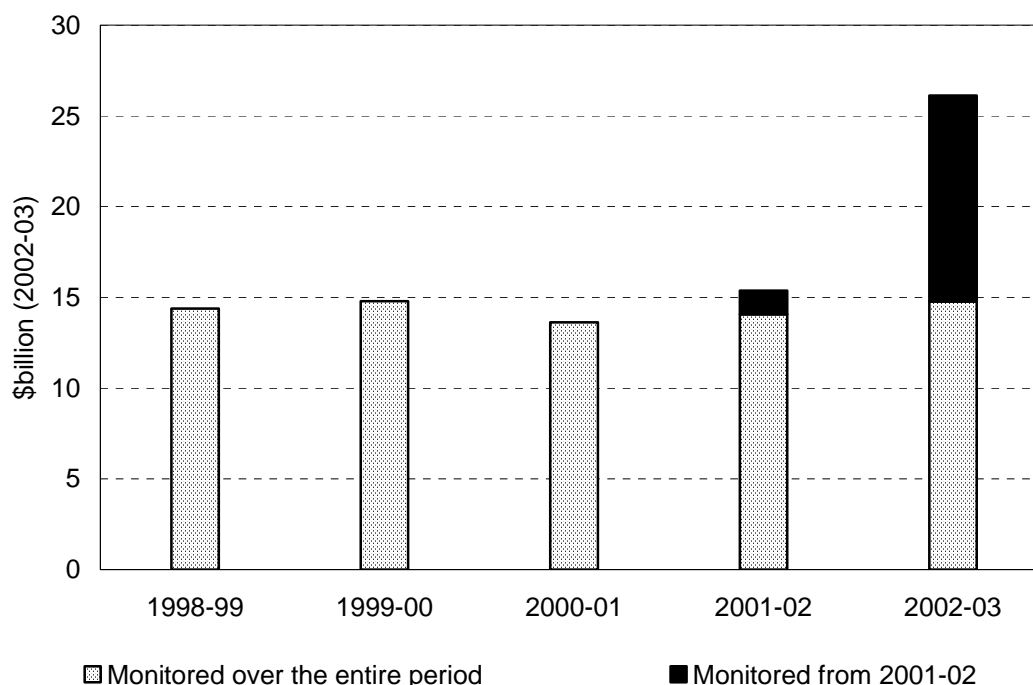
^a Refers to the ownership of mainline tracks, and does not include ownership of sidings, terminals and other 'below track' infrastructure. ^b The WAGRC also operated regional bus services.

Victoria's rail services are not included as they have been contracted to the private sector. TransAdelaide — the SA Government's rail GTE — is included in chapter 9 because it provides urban passenger services only.

The set of monitored GTEs included in the rail sector has changed over the reporting period. The RIC and the ARTC were included in this report for the first time in 2001-02 (see figure 10.1). In 2002-03, they generated revenue of over \$1 billion and had assets of around \$11.3 billion, of which over \$11 billion belonged to the RIC following a large asset revaluation in 2002-03. These two rail GTEs are mainly infrastructure managers, responsible for the maintenance of rail track networks and administering access.

Two rail GTEs monitored in previous reports — the National Rail Corporation (NRC) and the NSW Freight Rail Corporation — were not monitored in 2001-02 or 2002-03 following their privatisation in January 2002. Their financial performance over the period 1996-97 to 2000-01 is covered in PC (2002).

Figure 10.1 Sector assets — rail GTEs, 1998-99 to 2002-03

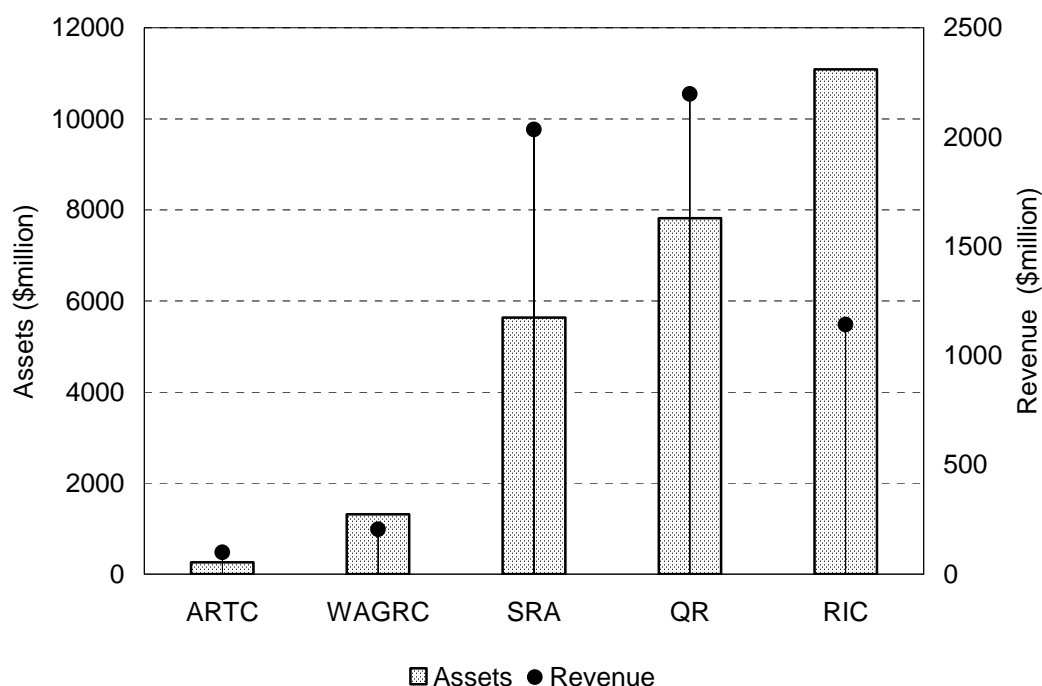


Note Two rail GTEs — the Rail Infrastructure Corporation and the Australian Rail Track Corporation — were monitored for the first time in 2001-02. A change in accounting policy led to a large, \$10 billion revaluation increment to the Rail Infrastructure Corporation's assets in 2002-03. The value of sector assets prior to 2002-03 were converted to 2002-03 dollars using the implicit price deflator — Gross Fixed Capital Formation of Public Corporations (see chapter 3).

Source: Productivity Commission estimates.

The total assets controlled by rail GTEs remained close to \$15 billion between 1998-99 and 2001-02 (see Figure 10.1). However, the asset base of GTEs is highly dependent on the accounting policies used for their valuation. A change in policy, from fair value to depreciated optimised replacement cost valuation, led to a revaluation of the RIC's community service infrastructure assets in 2002-03. This saw the value of its assets rise by over \$10 billion — or over 900 per cent — and was the major contributing factor to an increase in total rail GTE assets to over \$26 billion in 2002-03. The revaluation brought the value of the RIC's assets to \$11.1 billion, compared with the \$262 million asset value of the ARTC (see figure 10.2).

Figure 10.2 Assets and revenue — rail GTEs, 2002-03



Source: Productivity Commission estimates.

10.2 Market environment

Rail transport has been largely displaced in many of its traditional markets by road transport, causing rail's share of the transport market to decline over the last 30 years.¹ However, rail has maintained a dominant role in the transport of bulk commodities such as coal, grain and iron ore, for which it is well suited. The demand for rail transport is dependent on intermodal competition and demand and supply conditions in the relevant commodity markets. For example, QR has increased revenue in each year over the reporting period as the volume of coal transported rose.

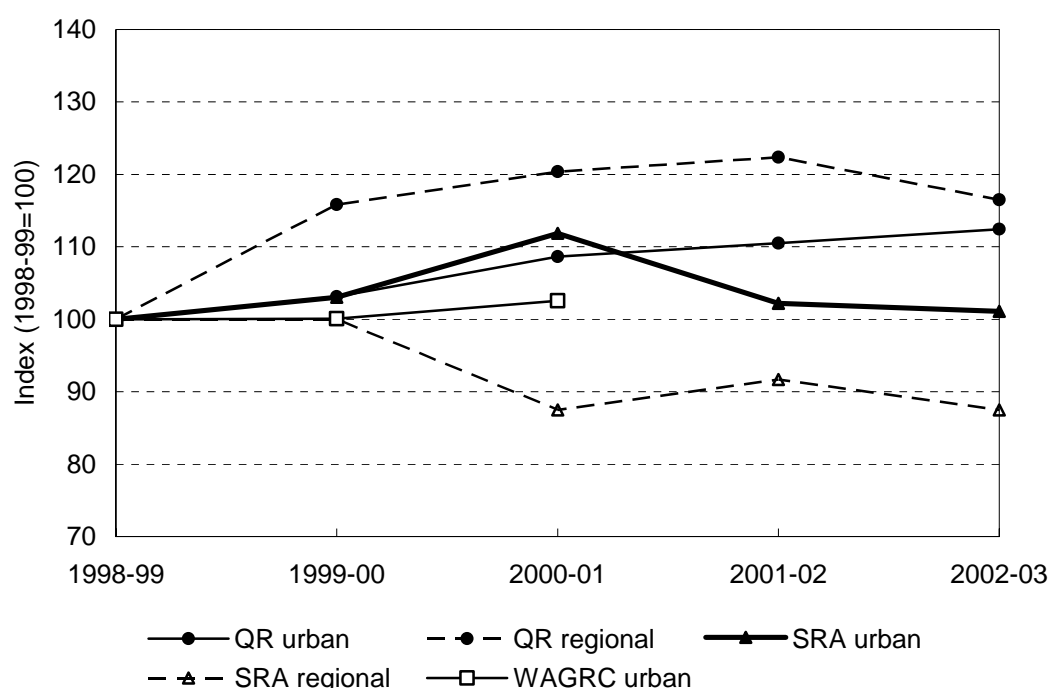
Rail GTEs providing passenger transport services — QR, the SRA and the WAGRC — have faced differing trends in the demand for urban and regional passenger services over the reporting period (see figure 10.3).

¹ In spite this longer-term trend, the 'rail, pipeline and other transport' share of the transport and storage industry's gross value added increased in 2002-03 (ABS 2003b).

Charges for the SRA'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 the SRA's board. Charges for QR and WAGRC passenger services are determined by their respective boards but are subject to the approval of the relevant Minister.

Rail access charges are typically set by negotiation between the track owners and rail operators or under the relevant access regime. Disputes may be settled by arbitration.²

Figure 10.3 Passenger trends — selected rail GTEs, 1998-99 to 2002-03



Note QR urban refers to passenger trips on Queensland Rail's Citytrain services. QR regional refers to passenger trips on Traveltrain services. SRA urban refers to passenger journeys on the State Rail Authority of NSW's CityRail services. SRA regional refers to passenger journeys on CountryLink services. WAGRC urban refers to railcar passenger kilometres on the Western Australian Government Railways Commission Urban Passenger Service. Railcar passenger kilometres for WAGRC were not available for 2001-02 or 2002-03.

Sources: QR (2003); SRA (2003); WAGRC (2003).

² In NSW, IPART may arbitrate access disputes. Access to the ARTC's network may be arbitrated by a nominated party or by the Australian Competition and Consumer Commission. In Queensland, a nominated party may act as arbitrator or, if no agreement can be reached on who is to be the nominated party, by the Queensland Competition Authority.

Structural reforms

Reforms within the rail sector have been aimed at improving performance by subjecting operators to stronger financial disciplines and greater competitive pressures. The main processes undertaken to encourage these reforms have been the vertical and horizontal separation of rail GTEs and the introduction of rail access regimes to promote improved performance through increased competition in operations.

Access regimes seek to encourage competition in the market for rail infrastructure by stipulating the methods by which a third party may gain access to rail track. They are covered by Part IIIA of the *Trade Practices Act 1974*, which provides three ways for a firm to gain access: using an existing, state-based access regime; by seeking access under the terms and conditions specified in an undertaking given by the service provider; or, by having a service declared under the provisions of the National Access Regime.

Applications for declaration are made to the National Competition Council (NCC) and initiate 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 Australian Competition and Consumer Commission (ACCC), access seekers are unable to use the declaration process.

The RIC is responsible for managing NSW rail infrastructure and for providing rail operators with access to the network.³ The access regime was established by the NSW Government in 1996 and was certified in November 1999 under the *Trade Practices Act 1974* by the Commonwealth Minister for Financial Services and Regulation. However, the access regime is no longer certified.⁴

The ARTC manages parts of the interstate rail network, mainly in Victoria, SA, WA and NSW.⁵ The ARTC has a registered undertaking with the ACCC with respect to the terms and conditions by which it provides access to the network.

³ The RIC was established on 1 January 2001 by a merger between the Rail Access Corporation and Rail Services Australia.

⁴ The certification, issued 15 November 1999, remained valid until 31 December 2000, pending finalisation of the national access arrangements for rail. Certification by the relevant Commonwealth Minister is not essential for rail access regimes to operate effectively, but without certification the declaration process remains open.

⁵ The Commonwealth and NSW governments agreed on 5 December 2003 to lease the NSW interstate and Hunter Valley networks to the ARTC for 60 years.

In Queensland, the Network Access Unit — a division of QR — is responsible for negotiating access with third-party operators and the development of network access provisions. QR has put in place accounting arrangements to separately identify network infrastructure and operating costs. These arrangements are designed to treat third-party operators and internal business groups equally for the purposes of access pricing. Queensland's draft access undertaking was approved by the Queensland Competition Authority in December 2001. However, the regime has not yet been certified under the *Trade Practices Act 1974*.

In WA, the Office of the Independent Rail Access Regulator was established during 2000 to oversee the implementation of a rail access regime under the *Railways (Access) Act 1998*. The regime covers track controlled by the WAGRC and WestNet Rail, a subsidiary of the Australian Railroad Group (ARG).⁶ Like the NSW and Queensland access regimes, the WA regime is not certified.⁷

A feature of structural reform in some jurisdictions has been the separation and sale to the private sector of rail freight operations. In NSW, the freight operations of the SRA were transferred to the Freight Rail Corporation in 1996-97. The Freight Rail Corporation was sold to the private sector together with the government-owned NRC in January 2002. In WA, the freight operations of the WAGRC were sold to the ARG in December 2000.

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 any redundancy payments that accompany such reforms, affect the financial ratios presented in the individual GTE performance reports. Over the reporting period, financial reforms included capital restructuring, the revaluation of assets, the identification and direct funding of community service obligations (CSOs) and the development of dividend policies.

For example, the sale of the WAGRC's freight operations in December 2000 accounted for almost all of the 65 per cent decline in the WAGRC's revenue in 2001-02. As a result of the sale, the Treasurer determined that the WAGRC no longer earned a commercial return and was no longer liable to make dividend payments to the WA Government (WAGRC 2001). The RIC's revaluation of property, plant and equipment assets in 2002-03 increased the asset base by over

⁶ The sale of the WAGRC's freight business on 18 December 2000 incorporated a 49 year lease of track infrastructure to the privately-owned ARG.

⁷ The only regime certified under the Trade Practices Act 1974, as of May 2003, was the AustralAsia Railway (Third Party Access) Code, which applies to the Tarcoola–Darwin corridor.

1000 per cent and directly caused expenses to rise by around 45 per cent due to increased depreciation.

10.3 Profitability

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

In 2002-03, three rail GTEs reported a cost recovery ratio of less than 100 per cent. This has been the case for the SRA over the entire reporting period, maintaining a cost recovery ratio between 65 per cent and 80 per cent since 1998-99.

Profitability, in terms of return on assets, has varied across railway GTEs (see figure 10.4).⁸ QR has consistently earned returns around 6 per cent over the reporting period. The WAGRC achieved returns of around 10 per cent in 1998-99 and 1999-00. However, extraordinary losses relating to the sale of the freight business resulted in the return on assets falling to -4.5 per cent in 2000-01 before recovering to around 4 per cent in 2001-02 and 2002-03. The SRA has recorded positive returns on assets since 1998-99. However, the RIC has recorded negative returns on assets since first being included in this report in 2001-02, with the return worsening in 2002-03 because of increased depreciation expense following its asset revaluation.

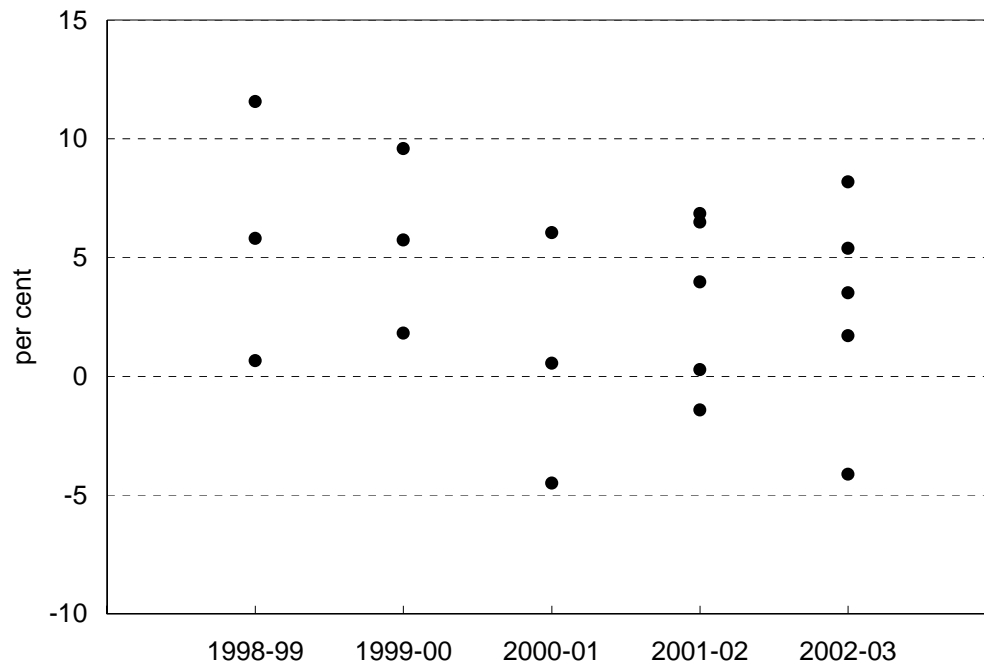
Trends in the return on equity for each rail GTE have generally reflected trends in the return on assets. The exception was a 99 per cent drop in return on equity recorded by the WAGRC in 2002-03 while its return on assets remained relatively steady. This occurred because of increases in contributed equity — largely related to New MetroRail Development assets transferred from the Department of Planning and Infrastructure — and because of a negative income tax expense recorded in 2001-02.

In some cases, the returns on assets and on equity reflect the impact of abnormal or extraordinary items on operating profit. For example, the SRAs profitability in 1998-99 was improved by a donation of assets (recorded as abnormal revenue) from the NSW Department of Transport. By contrast, the WAGRC's returns on assets

⁸ Asset revaluations may have a significant influence on the return on assets ratio because of their impact on asset values and operating profit (through depreciation expense). In addition to the RIC's major revaluation, the WAGRC and QR have both revalued assets at some stage over the reporting period.

and equity both fell in 2000-01 when extraordinary losses arising from the sale of its freight business were incurred.

Figure 10.4 Return on assets — rail GTEs, 1998-99 to 2002-03



Note Two GTEs were included for the first time in 2001-02. Return on assets is the ratio of earnings before interest and tax (EBIT) to average total assets. EBIT is calculated by subtracting total expenses from total revenue and adding back gross interest expense. Average total assets is the average of the value of assets at the beginning and end of each financial year. Where an average was not available, the value of total assets at the end of the financial year was used.

Source: Productivity Commission estimates.

10.4 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.

At the end of 2002-03, QR and the WAGRC were carrying debt levels equivalent to around 50 and 60 per cent respectively of their total assets (see figure 10.5). The SRA, ARTC and RIC had debt to total assets ratios of below 5 per cent. One rail GTE, the ARTC, operated debt free.

Figure 10.5 Debt to total assets — rail GTEs, 1998-99 to 2002-03



Note Two GTEs were included for the first time in 2001-02. One of these — the Australian Rail Track Corporation — operated debt free in 2001-02 and 2002-03. Debt is defined to include all repayable borrowings (interest bearing and non-interest bearing), interest bearing non-repayable borrowings and finance leases. Average total assets is the average of the value of assets at the beginning and end of each financial year. Where an average was not available, the value of total assets at the end of the financial year was used.

Source: Productivity Commission estimates.

The WAGRC maintained a debt to total assets ratio of around 80 per cent in 1998-99 and 1999-00. In 2000-01, WA Treasury used the net proceeds of the sale of the WAGRC's freight division to retire a significant proportion of the WAGRC's accumulated debt.

Over the reporting period, debt to total assets ratios for rail GTEs have not only been influenced by the acquisition and retirement of debt, but also through changes in the total value of assets. Asset revaluations can affect this ratio. For example, RIC's debt level increased by almost 120 per cent during 2002-03, but its debt to assets ratio fell because the increase in debt was not proportionally as large as the increase in asset values.

Under sound financial management, profits will be sufficient to ensure interest payments can be met. A high interest cover ratio indicates that the entity can sustain

a fall in profit or increased interest expense and still meet the cost of servicing debt. A current ratio of less than 100 per cent indicates that the short-term obligations of the GTE may need to be met using sources of funds other than current assets.⁹

In 2002-03, three of the four rail GTEs with debt reported positive interest cover ratios. However — with the exception of the SRA — there does not generally appear to be a significant margin to insulate these GTEs from increases in interest rates or falling revenues.

The RIC's interest cover was less than zero in 2002-03, indicating that interest expenses could have to be funded from sources other than current operating profits.

The ability of rail GTEs to meet short-term liabilities has remained largely unchanged over the reporting period. The current ratio for the sector overall decreased from around 76 per cent in 1998-99 to 72 per cent in 2002-03. Four of the five GTEs recorded a current ratio of less than 100 per cent in 2002-03.

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 capital market 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. In 2002-03, QR and the ARTC were the only rail GTEs required to make dividend payments and they paid around \$147 million to owner-governments.

All rail GTEs, except the SRA, are required to make tax-equivalent payments. The SRA has not been subject to a tax-equivalent regime over the reporting period. The ARTC did not make tax-equivalent payments in 2002-03 due to permanent differences between taxable and accounting incomes, whilst the WAGRC did not make tax-equivalent payments because of timing differences.

The level of income tax-equivalent payments has displayed more year-to-year variability than the level of dividends over the reporting period (see figure 10.6).

⁹ Current assets comprise cash and other assets that would, in the ordinary course of operations, be available for conversion into cash within 12 months after the end of the reporting period.

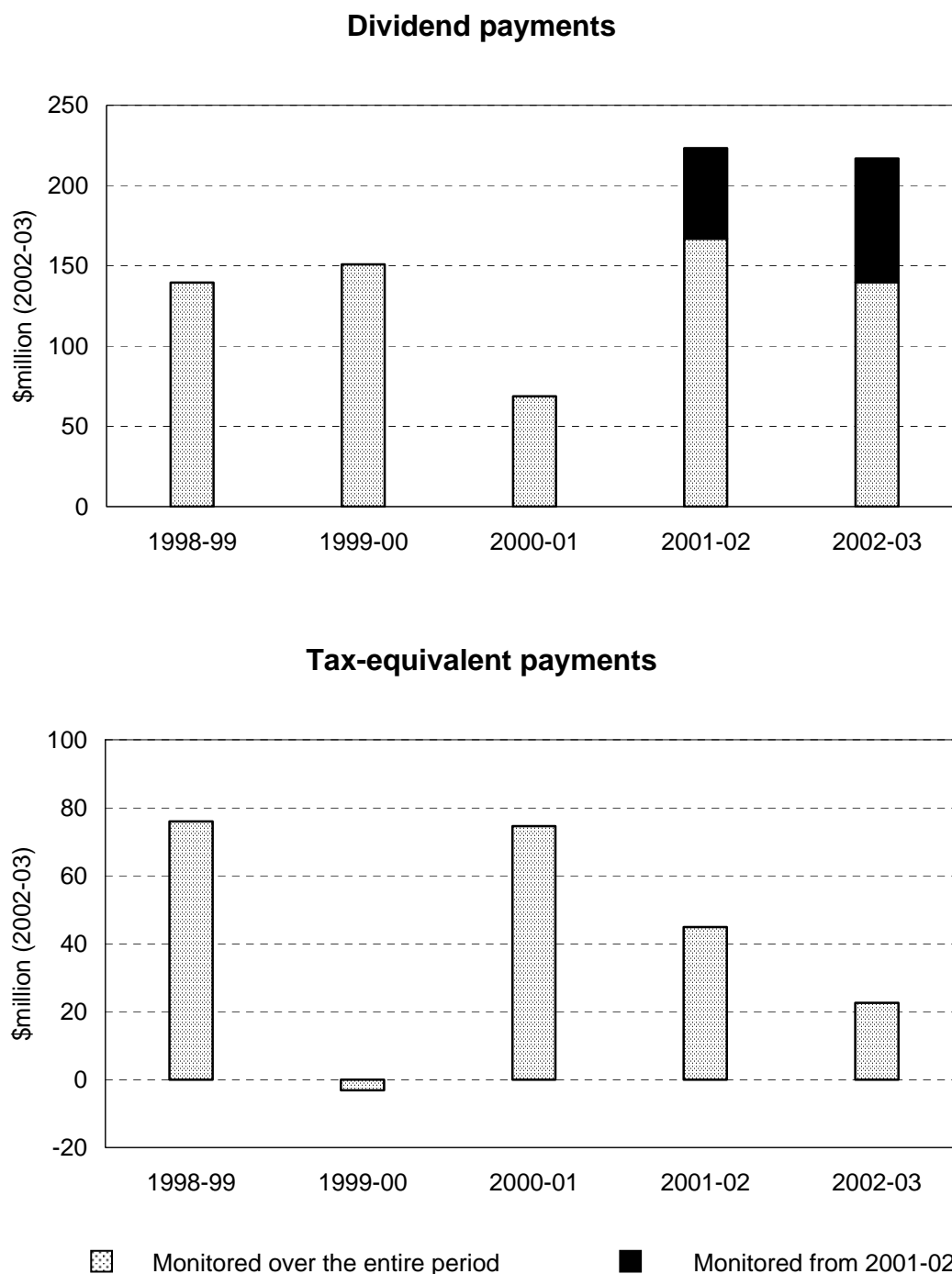
The level of tax-equivalent payments for the sector was negative in 1999-00 due to adjustments made to reflect changes in the company tax rate. The value of this adjustment, which reduced future tax payable by around \$55 million for GTEs in the rail sector, was offset against the value of tax that applied to taxable income in 1999-00.

Tax-equivalent payments made by rail GTEs decreased in 2001-02 and 2002-03. In 2001-02 this was a result of the WAGRC recording a negative tax expense, whilst in 2002-03 it was caused by QR — the only rail GTE to pay tax between 2000-01 and 2002-03 — reducing their tax bill largely because of over provision in the previous year.

Governments have moved towards identifying, costing and explicitly funding CSOs provided by rail GTEs. All of the monitored rail GTEs, except the ARTC, had agreements to provide CSOs over the reporting period.

CSOs form a significant part of revenue for some GTEs. For example, CSO funding received by the SRA for concessional fares and the provision of low volume freight and regional services accounted for 37 per cent of total revenue in 2002-03.

Figure 10.6 **Dividend and income tax-equivalent payments — rail GTEs, 1998-99 to 2002-03**



Note Two rail GTEs — the Rail Infrastructure Corporation and the Australian Rail Track Corporation — were included for the first time in 2001-02. The value of dividends and tax-equivalent payments prior to 2002-03 were converted to 2002-03 dollars using the implicit price deflator — Gross Fixed Capital Formation of Public Corporations (see chapter 3).

Source: Productivity Commission estimates.

10.6 GTE performance reports

State Rail Authority of NSW (NSW)

Rail Infrastructure Corporation (NSW)

Queensland Rail (Queensland)

Western Australian Government Railways Commission (WA)

Australian Rail Track Corporation (Commonwealth)

The State Rail Authority of NSW (SRA) operates under the *Transport Administration Act 1988*. It provides urban and regional passenger services through its CityRail and CountryLink divisions. Its first full year of operation as a specialised passenger service was 1996-97.

The Independent Pricing and Regulatory Tribunal determines the price structure and level of CityRail passenger fares. The latest price determination came into force on 1 July 2002, increasing prices for CityRail services by a weighted average of 2 per cent. CountryLink fares are determined by the Minister for Transport after a recommendation from the SRA board.

Total revenue increased each year over the reporting period, with an 11 per cent increase in 2002-03. Passenger revenue fell over the year — a \$3.4 million increase in CityRail revenue was more than offset by a \$5.4 million decrease in CountryLink revenue. However, total revenue rose because of a \$135 million increase in community service obligation (CSO) funding and a \$94.5 million increase in capital and other government contributions. Expenses increased by only 6.3 per cent, and an \$80.8 million operating profit was recorded, up by almost \$79 million from 2001-02.

Assets increased by 4.2 per cent in 2002-03, due largely to over \$580 million in capital expenditure — up by over 50 per cent from the previous year. The majority of this spending was funded by government grants, with borrowings decreasing by 1.8 per cent. This decrease in borrowings and the increase in assets led to a decrease in debt to equity and debt to total assets ratios.

The SRA is not required to make dividend or tax-equivalent payments. CSO funding is provided for concession fares to specified classes of passengers and to meet revenue shortfalls resulting from the provision of services that are not commercially viable. This funding constitutes 37 per cent of the SRA's total revenue. In addition to these payments, the SRA obtains operating subsidies and capital grants from the NSW Government. In 2002-03, the SRA received \$201 million in operating subsidies, primarily for maintenance, and \$456 million in capital grants. Together these items constituted a further 31 per cent of total revenue. Total revenue excluding government funding has decreased each year since 1999-00.¹

¹ Total revenue excluding government funding decreased from \$798 million in 1999-00 to \$672 million in 2002-03, while passenger revenue decreased from \$583 million in 1999-00 to \$517 million in 2002-03.

STATE RAIL AUTHORITY OF NSW (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	5 450	5 356	5 361	5 411	5 636
Total revenue	\$m	1 590	1 613	1 727	1 840	2 035
<i>Profitability</i>						
Operating profit before tax	\$'000	13 530	84 134	14 055	1 848	80 840
Operating sales margin	%	1.8	6.0	1.6	0.7	4.5
Cost recovery	%	69.0	78.8	73.6	71.4	73.3
Return on assets	%	0.6	1.8	0.5	0.3	1.7
Return on equity	%	0.4	2.0	0.3	0.0 ^c	2.0
<i>Financial management</i>						
Debt to equity	%	4.5	4.8	4.8	4.8	4.6
Debt to total assets	%	3.8	3.7	3.7	3.6	3.5
Total liabilities to equity	%	29.3	30.5	30.0	32.4	34.7
Interest cover	times	1.7	7.1	1.9	1.1	7.1
Current ratio	%	37.0	31.5	65.7	79.6	49.5
Leverage ratio	%	129.3	130.5	130.0	132.4	134.7
<i>Payments to and from government</i>						
Dividends	\$'000	0	0	0	0	0
Dividend to equity ratio	%	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio	%	0.0	0.0	0.0	0.0	0.0
Income tax expense	\$'000	0	0	0	0	0
CSO funding	\$'000	483 650	478 900	593 116	634 083	769 472

^a Operating profit includes \$51.6 million in abnormal revenue, comprised of a capital grant from the NSW Government for car parks, and bus and rail interchanges transferred from the Department of Transport.

^b Land was revalued upwards by \$147 million and buildings by \$304 million. Net assets to the value of \$564 million were transferred to the Rail Access Corporation. ^c The return on equity was 0.04 per cent.

The Rail Infrastructure Corporation (RIC) operates under the *Transport Administration Act 1988* and the *State Owned Corporations Act 1989*. It was formed by merging the assets, rights and liabilities of two NSW Government owned corporations — the Rail Access Corporation, which was responsible for rail network management and access, and Rail Services Australia, which operated principally as a maintenance contractor.

The RIC operates the NSW rail network on behalf of the State Government and provides access to passenger and freight operators. The NSW Rail Access Regime establishes floor and ceiling prices based upon the RIC's costs and the maximum allowable rate of return on assets.¹ The Independent Pricing and Regulatory Tribunal arbitrates disputes under the access regime.

Access fees paid by rail service operators make up just over 50 per cent of the RIC's revenue. Other major sources of revenue in 2002-03 included community service obligation funding from the NSW Government (25 per cent of total revenue) and capital grants from the Department of Transport (6 per cent).

Prior to 2002-03, the RIC divided its assets into two categories for valuation purposes — commercial and community service assets. The community service infrastructure assets were valued by assuming that future access fees and government funding will exactly meet the costs of the network. This results in zero future net cash flows and a nil book value for these assets.

From 2002-03 however, NSW Treasury required that community service infrastructure assets be valued according to their depreciated optimised replacement cost. This saw the value of plant, property and equipment rise by almost \$10 billion, leading to a similar increase in total assets. Profitability worsened as the depreciation expense rose by over \$430 million from the previous year.

The RIC is required to make tax-equivalent and dividend payments to the NSW Government. However, it has significant accumulated tax losses and is unlikely to pay tax in the foreseeable future. No dividend was paid in either 2001-02 or 2002-03.

¹ The maximum real pre-tax return on assets used to establish ceiling prices was 8 per cent (IPART 1999).

RAIL INFRASTRUCTURE CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03^b</i>
<i>Size</i>						
Total assets	\$m				1 085	11 086
Total revenue	\$m				1 184	1 141
<i>Profitability</i>						
Operating profit before tax	\$'000				- 20 414	- 255 637
Operating sales margin	%				- 1.8	- 22.7
Cost recovery	%				81.8	76.2
Return on assets	%				- 1.4	- 4.1
Return on equity	%				- 3.1	- 4.6
<i>Financial management</i>						
Debt to equity	%				12.3	1.7
Debt to total assets	%				7.4	2.9
Total liabilities to equity	%				66.3	6.5
Interest cover	times				- 3.1	- 57.6
Current ratio	%				98.4	69.6
Leverage ratio	%				166.3	106.5
<i>Payments to and from government</i>						
Dividends	\$'000				0	0
Dividend to equity ratio	%				0.0	0.0
Dividend payout ratio	%				0.0	0.0
Income tax expense	\$'000				0	0
CSO funding	\$'000				246 625	285 813

^a 2001-02 was the first year that the Rail Infrastructure Corporation (RIC) was included in this report. It was established on 1 January 2001 from a merger of the Rail Access Corporation and Rail Services Australia by the *Transport Administration Amendment (Rail Management) Act 2000*. ^b From 2002-03, the NSW Treasury Accounting Policy on Valuation of Physical Non-Current Assets at Fair Value required the RIC to value assets at depreciated optimised replacement cost. This necessitated the revaluation of community service infrastructure assets — previously valued at zero to represent the net present value of their future cash flows — and increased the balance sheet value of property, plant and equipment by almost \$10 billion. Total depreciation rose from \$46.7 million in 2001-02 to \$479 million in 2002-03.

Queensland Rail (QR) is subject to the *Transport Infrastructure Act 1994* and the *Government Owned Corporations Act 1993*. QR provides freight services throughout regional Queensland, and operates passenger rail services in the Brisbane metropolitan area and between key regional centres.¹ It also manages Queensland's rail infrastructure.

In December 2001, the Queensland Competition Authority approved QR's Access Undertaking. This binding agreement determines floor and ceiling prices for access to rail infrastructure, to be paid by third-party operators and QR's freight and passenger services. In accordance with the Undertaking, prices are determined by QR's network access unit, which operates separately from their other business units.

Since 1998-99, total assets have increased slightly. In July 2000, QR moved from the deprival value to either the cost or fair value method (depending on the asset class) of accounting for non-current assets.²

Increased coal and freight revenues have underpinned a rise in total revenue in each year of the reporting period. Revenue in 2002-03 was up by 3.1 per cent as a result of sales growth in metropolitan rail services and increased Transport Service Contract payments for concessions provided to senior citizens, pensioners and students. However, profit for the year was down by 33 per cent due to increased expenses.

Debt levels have remained relatively steady since 1999-00, with minor changes in the debt to equity and debt to assets ratios. Debt increased by just 0.4 per cent in 2002-03, with \$445 million in capital expenditure funded largely from capital grants.

QR makes tax-equivalent and dividend payments to the Queensland Government. QR has community service obligation (CSO) contracts with the Queensland Department of Transport for urban and intercity passenger services, low volume freight services and infrastructure. QR also receives reimbursements from various state government departments for concessions provided to senior citizens, pensioners and students. In 2002-03, CSO payments — in the form of Transport Service Contract payments — accounted for around 30 per cent of total revenue.

¹ QR is the sole government-owned rail freight operator in Australia, following the sale of the Western Australian Government Railway Commission's freight division in December 2000 and the joint sale of the National Rail Corporation and FreightCorp in January 2002.

² This was the first stage of a progressive revaluation to be completed by 30 June 2005, and led to revaluations of most non-current asset classes between 2000-01 and 2002-03.

QUEENSLAND RAIL (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00^a</i>	<i>2000-01^b</i>	<i>2001-02^c</i>	<i>2002-03^d</i>
<i>Size</i>						
Total assets	\$m	7 609	7 796	7 353	7 649	7 818
Total revenue	\$m	1 902	2 083	2 091	2 151	2 218
<i>Profitability</i>						
Operating profit before tax	\$'000	167 886	176 817	185 531	252 373	169 612
Operating sales margin	%	22.2	21.1	21.8	22.5	18.7
Cost recovery	%	128.6	122.8	124.5	125.8	120.1
Return on assets	%	5.8	5.7	6.0	6.5	5.4
Return on equity	%	4.1	7.4	4.8	7.5	5.6
<i>Financial management</i>						
Debt to equity	%	126.9	159.9	174.8	142.1	138.7
Debt to total assets	%	44.6	48.4	50.7	48.7	47.5
Total liabilities to equity	%	195.6	234.6	234.5	197.3	195.5
Interest cover	times	1.7	1.7	1.7	2.1	1.7
Current ratio	%	134.0	87.1	117.3	86.9	90.3
Leverage ratio	%	295.6	334.6	334.5	297.3	295.5
<i>Payments to and from government</i>						
Dividends	\$'000	95 000	101 000	69 736	169 741	139 639
Dividend to equity ratio	%	3.7	4.1	3.1	7.1	5.4
Dividend payout ratio	%	91.1	55.8	63.5	95.0	95.0
Income tax expense	\$'000	63 656	-4 301	75 722	73 698	22 622
CSO funding	\$'000	533 417	670 826	637 269	605 395	655 864

^a Future tax benefits and liabilities were adjusted, causing a negative tax expense. This followed the announcement by the Commonwealth Government of a reduction in the company tax rate from 36 per cent in 1999-00, to 34 per cent for 2000-01 and then to 30 per cent from 2001-02. A Cross-Border Lease transaction resulted in assets being written-down by \$232 million. A Cross-Border Lease involves the leasing of equipment or assets between entities in different jurisdictions — that is, where the lessor is from overseas and the lessee is in Australia. The lease is structured so that tax savings may be passed on from the overseas lessor to the local lessee, thereby lowering leasing costs. ^b In 2000-01, further lease transactions from previous years were written down by \$376 million, contributing to a \$540 million asset devaluation. ^c A revaluation in 2001-02 led to a \$253 million increment to infrastructure assets. ^d Revaluation of assets during 2002-03 led to a net increase of \$53.5 million in asset values.

The Western Australian Government Railways Commission (WAGRC) ceased operations on 30 June 2003. The WAGRC was a rail passenger transport provider and infrastructure manager which operated urban and regional passenger services, including country bus services, under the *Government Railways Act 1904*.¹

On 18 December 2000, the WAGRC's freight business was sold to a private consortium — the Australian Railroad Group (ARG). As part of the sale, ARG was granted a 49 year lease of the freight rail infrastructure, assuming responsibility for third-party access to the freight rail network under the *Railways (Access) Act 1998*. The WAGRC retained control of the passenger rail network and manages the track lease arrangements with ARG through its Network and Corridor Division.

The changes in performance indicators in 2000-01 can be primarily attributed to the December 2000 sale of the freight business, which had accounted for over 60 per cent of total revenue in 1999-00. An extraordinary loss was recorded because of the sale, leading to an operating loss of \$122 million in 2000-01. WAGRC returned to profitability in 2001-02 and recorded a profit again in 2002-03. However, return on equity fell significantly in 2002-03.²

The net proceeds of the sale of the freight business were used to retire a portion of the WAGRC's debt. Debt was further reduced in 2002-03 (by 1.5 per cent), with capital expenditure of \$140 million funded from retained profits. The capital expenditure program contributed to a 7 per cent increase in assets during 2002-03.

From 1997-98 to 1999-00, the WAGRC was required to make dividend payments. In 2000-01, following the sale of the freight business, the Treasurer determined that dividend payments were no longer appropriate because it no longer earned a commercial return. The WAGRC is subject to tax-equivalent payments.

The WAGRC receives funding for community service obligations relating to the provision of country rail and coach services and pensioner concessions. Payments have increased significantly since 1999-00.

¹ Prior to December 2000, the WAGRC traded under the name Westrail and provided freight transport services in addition to its passenger transport business.

² Return on equity fell in 2002-03 as a consequence of reduced operating profit, increases in contributed equity — largely related to New MetroRail Development assets transferred from the Department for Planning and Infrastructure — and the negative income tax expense recorded in 2001-02.

WESTERN AUSTRALIAN GOVERNMENT RAILWAYS COMMISSION

(continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02^d</i>	<i>2002-03^e</i>
<i>Size</i>						
Total assets	\$m	1 337	1 407	1 124	1 229	1 315
Total revenue	\$m	452	456	211	193	198
<i>Profitability</i>						
Operating profit before tax	\$'000	69 023	49 020	- 122 000	6 323	1 044
Operating sales margin	%	33.0	28.8	- 27.2	23.8	22.3
Cost recovery	%	90.9	105.4	66.0	56.8	55.1
Return on assets	%	11.6	9.6	- 4.5	4.0	3.5
Return on equity	%	37.7	29.1	- 129.0	38.0	0.5
<i>Financial management</i>						
Debt to equity	%	626.9	667.9	3 057.6	481.7	285.4
Debt to total assets	%	79.9	80.2	59.0	64.3	58.5
Total liabilities to equity	%	712.7	754.0	4 505.2	683.1	404.1
Interest cover	times	1.9	1.6	- 0.9	1.2	1.0
Current ratio	%	28.5	39.3	45.9	65.3	39.3
Leverage ratio	%	812.7	854.0	4 605.2	783.1	504.1
<i>Payments to and from government</i>						
Dividends	\$'000	44 744	47 569	0	0	0
Dividend to equity ratio	%	29.8	28.9	0.0	0.0	0.0
Dividend payout ratio	%	79.1	99.4	0.0	0.0	0.0
Income tax expense	\$'000	12 437	1 180	0	- 28 099	0
CSO funding	\$'000	19 547	21 116	35 743	41 768	46 297

^a Includes abnormal revenue of \$48 million. ^b Includes abnormal revenue relating to land rationalisation (\$25.9 million) and asset contributions (\$16.1 million). This was partly offset by abnormal expenses relating to depreciation on a written-off asset (\$7.2 million), freight rate adjustment (\$0.9 million) and legal settlements (\$0.5 million). Future tax benefits and liabilities were adjusted downwards by \$1.7 million following the announcement by the Commonwealth Government in 1999 of a reduction in the company tax rate from 36 per cent in 1999-00, to 34 per cent for 2000-01 and then to 30 per cent from 2001-02. ^c The December 2000 sale of the freight division reduced the group's assets, debt, revenues and expenditures. The Western Australian Government Railways Commission (WAGRC) incurred an extraordinary loss of \$116 million due to the sale. Community service obligation revenue includes funds to compensate for expenses brought about by the freight division sale. The WA Treasury decided that the WAGRC would not be required to pay dividends from 2000-01 onwards. ^d Revenue includes payments for the intrastate track transferred under a 49 year operating lease to the purchaser of the WAGRC's freight business. A negative income tax expense was recorded as WAGRC abandoned its policy of providing for a deferred tax liability. ^e All data for 2002-03 taken from general purpose financial reporting framework (GPFR) results published by the WAGRC.

The Australian Rail Track Corporation Ltd (ARTC) was established on 28 February 1998 as part of the corporatisation of the former Commonwealth owned Australian National Railways Commission (ANRC). It operates as an access provider and infrastructure manager. The ARTC owns interstate track, principally in SA and WA, and manages interstate track in Victoria and NSW under long-term lease arrangements.¹ It is bound by the *Corporations Act 2001*.

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.² These guidelines specify floor and ceiling access prices based on the ARTC's costs and risk profile.

In 2002-03, over 90 per cent of the ARTC's revenue was derived from access fees. Its major expense was infrastructure maintenance, which accounted for about 47 per cent of its total expenses. Revenue was up by 5.1 per cent in 2002-03 as a consequence of a 5.3 per cent increase in total volume transported for the year. Expenses were largely unchanged, leading to a 22 per cent rise in profitability.

In addition to the ARTC's own capital investment programs, it is Trustee of the Commonwealth Government's Australian Rail Infrastructure Foundation (ARIF). The ARIF was established in 1998 to fund a four year \$250 million national interstate rail network investment program. Disbursements by the ARIF do not directly appear in the ARTC's financial statements.³

Division 58 of the *Income Tax Assessment Act 1997*, entitles the ARTC to value its assets for tax purposes at the book value recorded in the accounts of its precursor, the ANRC. This is a higher value than that used by the ARTC for accounting purposes and generates higher depreciation for taxation purposes, leading to significant tax losses. As a result, the ARTC did not pay income tax in 2001-02 or 2002-03. It is, however, required to make dividend payments. The ARTC does not receive community service obligation (CSO) funding.

¹ The Commonwealth and NSW governments agreed on 5 December 2003 to lease the NSW interstate and Hunter Valley networks to ARTC for 60 years.

² The ARTC's voluntary access undertaking was approved by the ACCC in May 2002. The undertaking binds the ARTC for five years and establishes processes for determining rail access terms and conditions, as well as pricing principles.

³ Projects funded by the ARIF are not recognised as revenue and are progressively recognised as assets when the ARTC revalues rail infrastructure assets. The last revaluation was undertaken in June 2000.

AUSTRALIAN RAIL TRACK CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				250.5	262.0
Total revenue	\$m				94.2	99.0
<i>Profitability</i>						
Operating profit before tax	\$'000				17 175	20 971
Operating sales margin	%				16.9	19.4
Cost recovery	%				120.3	124.1
Return on assets	%				6.9	8.2
Return on equity	%				7.9	9.2
<i>Financial management</i>						
Debt to equity	%				0.0	0.0
Debt to total assets	%				0.0	0.0
Total liabilities to equity	%				14.8	10.5
Interest cover	times				n.r.	n.r.
Current ratio	%				187.2	301.8
Leverage ratio	%				114.8	110.5
<i>Payments to and from government</i>						
Dividends	\$'000				5 725	7 725
Dividend to equity ratio	%				2.6	1.7
Dividend payout ratio	%				33.3	36.8
Income tax expense	\$'000				0	0
CSO funding	\$'000				0	0

^a 2001-02 was the first year that the Australian Rail Track Corporation was included in this report. It was established on 28 February 1998. **n.r.** Not relevant.

11 Ports

The financial performance of 22 port government trading enterprises (GTEs) is covered in this chapter. In 2002-03, these GTEs were responsible for assets valued at over \$5 billion and earned around \$890 million in revenue.

These GTEs vary in size and the range of services they provide. The principal activities undertaken include the provision and maintenance of port infrastructure and, in some cases, port services such as mooring, stevedoring and pilotage. A small number of port GTEs are also involved in airport operations.

Financial performance summaries, including performance indicators for each GTE, are presented after this introduction. The performance indicators are consistent across individual GTEs. For a discussion of the data and the performance indicators used, and some of the factors that should be considered when assessing performance, see chapter 3. In particular, care should be taken to consider differences in market environments and issues relating to the valuation of assets.

11.1 Monitored GTEs

The port GTEs monitored in this report do not all undertake the same activities, although the management of port land and channels is common to most monitored port GTEs (see table 11.1). The nature of involvement (if at all) in other port activities — such as pilotage, stevedoring, towage and cold storage facilities — varies across GTEs.

Table 11.1 **Activities — port GTEs, 2002-03**

Port GTE	Jurisdiction	Activities				
		Port facilities management	Pilotage	Stevedoring	Cold storage	Airport operations
Newcastle Port Corporation	NSW	✓	✓	X	X	X
Port Kembla Port Corporation	NSW	✓	✓	X	X	X
Sydney Ports Corporation	NSW	✓	✓	X	X	X
Melbourne Port Corporation	Victoria	✓	X	X	X	X
Victorian Channels Authority ^a	Victoria	X	X	X	X	X
Gladstone Port Authority	Queensland	✓	✓	✓	X	X
Port of Brisbane Corporation	Queensland	✓	X	X	X	X ^b
Cairns Port Authority	Queensland	✓	X	X	X	✓
Townsville Port Authority	Queensland	✓	✓	X	X	X
Ports Corporation of Queensland	Queensland	✓	✓	X	X	X
Mackay Port Authority	Queensland	✓	X	X	X	✓
Fremantle Port Authority	WA	✓	X	X	X	X
Bunbury Port Authority	WA	✓	✓	X	X	X
Port Hedland Port Authority	WA	✓	✓	X	X	X
Dampier Port Authority	WA	✓	X	X	X	X
Geraldton Port Authority	WA	✓	✓	X	X	X
Albany Port Authority	WA	✓	✓	X	X ^c	X
Burnie Port Corporation	Tasmania	✓	✓	X	✓	X
Hobart Ports Corporation	Tasmania	✓	✓	✓ ^d	✓	X ^b
Port of Devonport Corporation	Tasmania	✓	✓	X	✓	✓
Port of Launceston Pty Ltd	Tasmania	✓	✓	X	X	X
Darwin Port Corporation	NT	✓	✓	X	X	X

^a The Victorian Channels Authority's main activity is the provision and maintenance of shipping channels. ^b Investment only — Not direct operation. ^c In July 2002, the Albany Port Authority entered into a leasing arrangement with the private sector to operate the cold storage facility. ^d Subsidiaries of the Hobart Ports Corporation provide stevedoring services in several SA ports and in Tasmania.

A number of port GTEs also have interests in other areas of business, including airports. For example, the Port of Brisbane Corporation (PBC) and the Hobart Ports Corporation (HPC) each have a substantial interest in their local airport.¹ Regional port GTEs — including the Cairns Port Authority, Mackay Port Authority and the Port of Devonport Corporation — also own and operate airports.²

Any changes to the range of services should be taken into account when assessing and comparing financial performance. The financial performance of some port GTEs has been affected when activities provided by the GTE are franchised — the issuing of exclusive or non-exclusive licences to operate or provide services within the port, such as stevedoring, pilotage and towage.

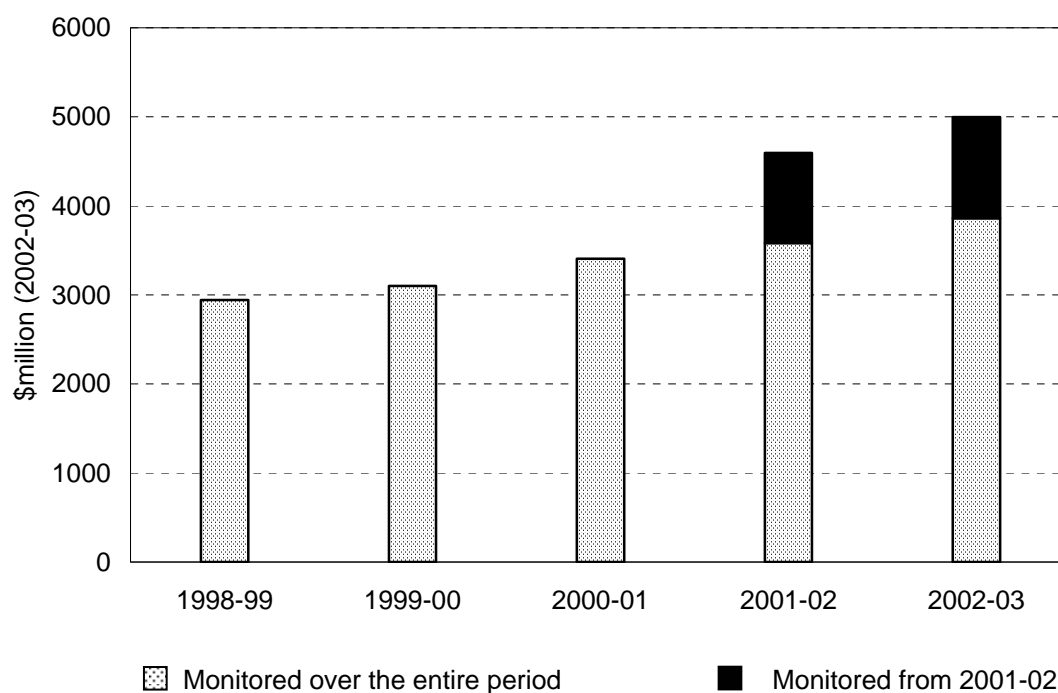
The number of monitored port GTEs has changed over the reporting period (see chapter 1). In 2002-03, the set of monitored GTEs was the same as the previous year, when eight GTEs — with combined assets of around \$1.1 billion and revenue of over \$180 million — were included for the first time. The eight additional GTEs are mainly regional ports specialising in handling a small number of bulk cargoes. For example, iron ore exports accounted for around 80 per cent of the Dampier Port Authority's throughput in 2002-03 (DPA 2003).

The South Australian Ports Corporation was sold to the private sector in late 2001. In 2000-01, it controlled assets valued at \$92 million and earned revenue of around \$43 million. Its financial performance over the period 1996-97 to 2000-01 is covered in PC (2002a).

¹ In 2002-03, the BPC owned 38 per cent of the Brisbane Airport Corporation Limited and the HPC owned 98 per cent of Hobart International Airport Pty Ltd. These airport investments are not consolidated in either GTE's financial accounts because neither have a controlling interest in the airport in which they have an ownership interest. The HPC — despite its substantial ownership interest — does not control its airport investment because a joint-venture agreement limits its capacity to make decisions over financial and operating policies.

² The Burnie Port Corporation sold its airport to a joint venture between the Burnie City Council and Australian Regional Airports Pty Ltd in January 2002. In 2000-01, the Burnie Port Corporation's airport operations accounted for 8 per cent of its revenue and around 16 per cent of its assets.

Figure 11.1 Sector assets — port GTEs, 1998-99 to 2002-03

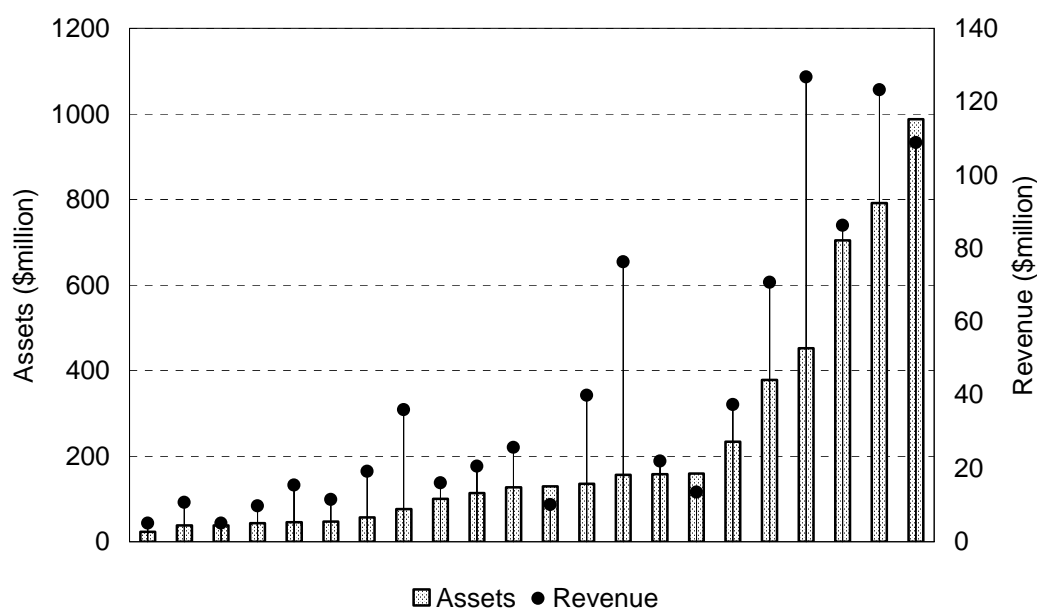


Note An additional eight regional port GTEs (four in Queensland and four in WA) were monitored for the first time in 2001-02. The value of sector assets prior to 2002-03 was converted to 2002-03 dollars using the implicit price deflator — Gross Fixed Capital Formation for Public Corporations (see chapter 3).

Source: Productivity Commission estimates.

The size of the monitored port GTEs — in terms of the value of the assets controlled and revenue — varies substantially (see figure 11.2). In 2002-03, the smallest in terms of asset value was the Dampier Port Authority (\$23 million) and the largest was the PBC (\$988 million).

Figure 11.2 Assets and revenue — port GTEs, 2002-03



Source: Productivity Commission estimates.

There are also differences between jurisdictions in the operating principles established for port GTEs. These differences include the emphasis on commercial objectives by boards and governments — compared to the importance of other objectives such as trade facilitation and regional development.

In most jurisdictions, port GTEs operate under a jurisdiction-specific, GTE-wide corporatisation framework. Differences between the corporatisation frameworks are examined in chapters 4, 5 and 6.

11.2 Market environment

The financial performance of port GTEs is affected by changes in the level and composition of trade throughput. Port reforms over the last decade have also affected performance by changing the scope and nature of activities performed by some port GTEs and by increasing their commercial focus.

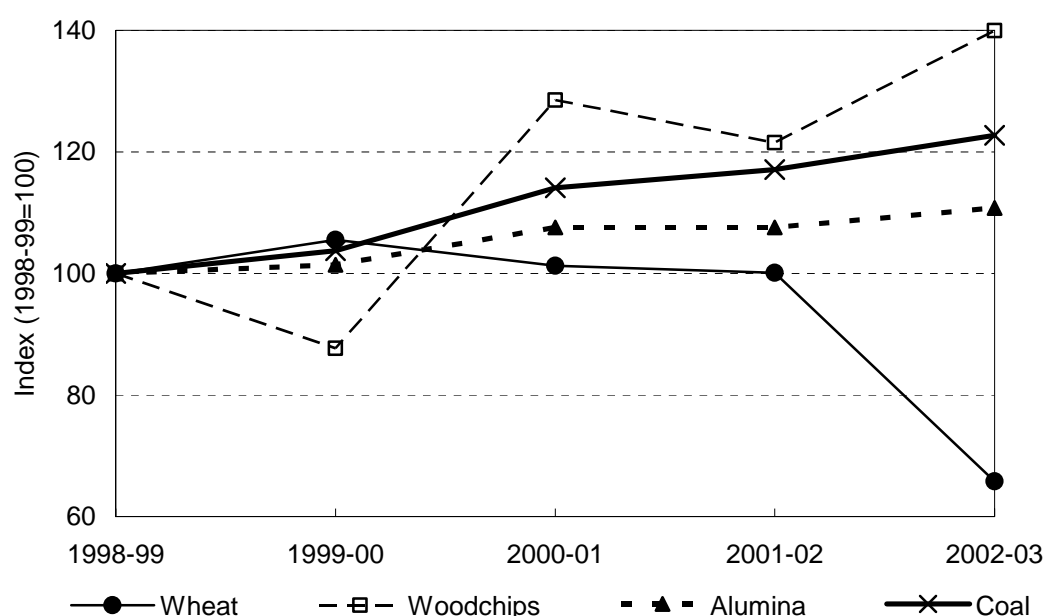
Trade throughput

Trade throughput is susceptible to changes in both domestic and international markets, particularly shifts in demand for key trade commodities. However,

changing market environments do not impact on all GTEs uniformly because of differences in the composition and size of the markets served.

Port GTEs with a diversified range of cargoes are less affected by market trends in key commodities, but may retain an exposure to changes in the overall level of economic activity. For port GTEs where a single commodity accounts for a dominant share of total port throughput, changes in market conditions for that commodity can markedly affect the GTE's financial performance. For example, the recent drought conditions contributed to a significant decline in wheat exports (see figure 11.3).

Figure 11.3 Australian port exports — selected commodities, 1998-99 to 2002-03



Data source: ABS (2003), *International Merchandise Exports — Australia*, ABS Cat. No. 5432.0

Over the reporting period, some monitored port GTEs have experienced extraordinary changes in the market environment specific to a particular port or activity. Events of this nature usually have a significant effect on financial performance and make comparisons with previous years difficult. For example:

- the closure of BHP–Billiton steel making facilities in Newcastle in 1999-00; and
- an increase in the frequency and capacity of services by a major customer of the Burnie Port Corporation (Brambles Shipping) in 1998-99.

Generally, charges for port GTEs in selected capital cities have declined in real terms over the last decade. For example, real charges for container vessels fell by

more than 50 per cent in Sydney and Melbourne between 1990-91 and 2000-01 (PC 2002b). This fall in capital city port charges is also likely to be reflected at some regional ports. For example, the Port Hedland Port Authority's charges remained unchanged, in nominal terms, between 1987-88 and 2001-02. In real terms, this equates to a decline of around 33 per cent (PC 2002a).

Corporate reforms

Industry reforms within the ports sector over the last 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 the Industry Commission's report were:

- ports should be constituted as statutory bodies, which are separate from the departmental structure of government;
- ports should be exposed to a tax-equivalent regime, be reimbursed for any community service obligations (CSOs) and pay dividends from after-tax profits;
- the adoption, where cost efficient, of a landlord model of operation;³ and
- where the landlord model is adopted, governments should identify and divest non-core activities and contract out, where cost effective, core activities.

The primary aim of these reforms was the establishment of clear objectives that eliminate any conflicts arising out of the commercial and non-commercial activities of the GTE as well as replicating factor market disciplines. With reform, 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.

³ The landlord model is characterised by the port authority concentrating on the supply of core activities only, with the more contestable waterfront services, such as stevedoring and pilotage, supplied privately.

Most restructuring and rationalisation occurred prior to the reporting period. For example, three independent port corporations replaced the former Maritime Services Board of NSW in 1995-96.⁴ In the same year, the Port of Melbourne Authority was divided into three separate entities.⁵

During the reporting period, there were changes to the legislative framework governing some port GTEs. In WA, separate legislation covering several individual port authorities was repealed and replaced by the *Port Authorities Act 1999*. This provided for the commercialisation of port authorities and included provisions relating to the establishment of boards of directors, financial arrangements and dividend payments.

In the NT, the *Darwin Port Authority Act 1983* was replaced by the *Darwin Port Corporation Act 1999*. Included in the new Act were provisions relating to the establishment of a commercial charter, a board of directors and ministerial directions.

In Victoria, the *Port Services Act 1995* was amended in 2003 as part of the Victorian Government's port reform process. As a result, the Melbourne Port Corporation (MPC) was abolished on 1 July 2003 and replaced by the Port of Melbourne Corporation (PoMC). The PoMC also assumed responsibility for the management of the Melbourne channels, which were formerly managed by the Victorian Channels Authority.

Port charges

A number of reforms have led to improved pricing and allocative mechanisms over the reporting period. Consumption-based charging has been progressively introduced, resulting in port users incurring charges that relate to their individual service requirements, rather than the value of their cargo (PC 2002b).

In most jurisdictions, port charges are determined by the board of each GTE, but are subject to the approval of the relevant minister. In contrast, port charges in Victoria are regulated by the Essential Services Commission.⁶

⁴ Newcastle Port Corporation, Port Kembla Port Corporation and Sydney Port Corporation were established.

⁵ Two of these entities — the Melbourne Port Corporation and the Victorian Channels Authority — are included in this report. On 30 June 2003, the Melbourne Port Corporation was replaced by a new entity, the Port of Melbourne Corporation. The Port of Melbourne Corporation also assumed control of the Melbourne operations of the Victorian Channels Authority.

⁶ Formerly the Office of the Regulator-General.

11.3 Profitability

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

Port GTEs experienced substantial variation in their profitability over the reporting period. Some of this variation can largely be explained by restructuring related to the reform process. For example, expenses and revenue related to restructuring — asset consolidation and disposal, superannuation adjustments and asset revaluations — added \$41 million to the overall revenue of port GTEs and \$96 million to expenses in 1999-00.

The cost recovery ratio for the sector as a whole remained at around 165 per cent until 2000-01, despite a general reduction in port charges (PC 2002b). However, in 2001-02, the cost recovery ratio for the ports sector declined to around 130 per cent. This partly reflects the inclusion of the eight additional port GTEs, which as a group had an overall cost recovery ratio of around 110 per cent.

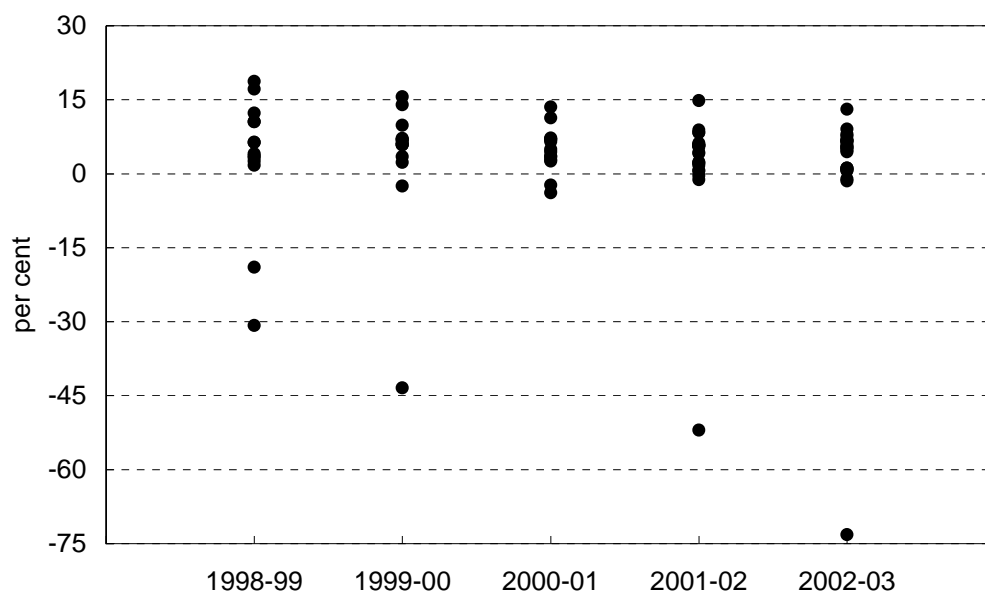
The return on assets for the sector as a whole ranged from 4.7 to 6.1 per cent since 1999-00. In 1998-99, the sector-wide return of 2 per cent reflected the impact of a number of significant downward asset revaluations. Returns by some of the monitored port GTEs have on occasion been substantially negative, although the majority have reported returns in the range of zero to 15 per cent (see figure 11.4).

Downward asset revaluations have contributed to negative returns on assets in each year that a port GTE recorded an operating loss.⁷ For example, downward asset revaluations at the Burnie Port Corporation resulted in a negative return on assets in 1999-00 and 2000-01. The lowest return on assets over the reporting period occurred in 2002-03 for the Darwin Port Corporation, where assets were revalued downward by \$44 million.

Significant upward revaluations have also occurred. For example, the Port of Brisbane Corporation's assets were revalued upward by a total of around \$150 million during the reporting period. The largest single year increase in asset value, due to a revaluation, occurred in 1999-00, when the value of the Victorian Channels Authority's assets increased by \$78 million (175 per cent) due to channels being recognised as assets.

⁷ Profitability is reduced by downward asset revaluations, because the reduction is recognised as an expense against revenue earned in that year. However, downward asset revaluations tend to improve profitability in future years because depreciation expenses will generally fall in line with the reduction in asset values.

Figure 11.4 Return on assets — port GTEs, 1998-99 to 2002-03



Note The figure includes eight GTEs (4 from Queensland and 4 from WA) that were included for the first time in 2001-02. Return on assets is the ratio of earnings before interest and tax (EBIT) to average total assets. EBIT is calculated by subtracting total expenses from total revenue and adding back gross interest expense. Average total assets is the average of the value of assets at the beginning and end of each financial year. Where an average was not available, the value of total assets at the end of the financial year was used.

In 2002-03, there was no clear difference between the return on assets by capital city ports and those by regional ports. The median rates of return for each group were both close to the risk free rate for 10-year Commonwealth Government bonds of 5.4 per cent (RBA 2004).

The return on equity — the ratio of a GTE's earnings to equity provided by the shareholder government — closely followed the trend in return on assets. The Office of the Regulator-General (now the Essential Services Commission) proposed a benchmark return on equity of 7.3 per cent for the Melbourne Port Corporation and 6.7 per cent for the Victorian Channels Authority (ORG 2000). In 2002-03, only four port GTEs out of 22 had a return on equity ratio of above 7 per cent, with Melbourne Port Corporation achieving 3.5 per cent and the Victorian Channels Authority -0.9 per cent.

11.4 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.

Over the reporting period there was considerable diversity in port GTEs' capital structure (see figure 11.5). In 2002-03, five port GTEs operated debt free.

The debt to total asset ratios for port GTEs have not only been influenced by the acquisition and retirement of debt, but also through changes in the total value of port assets. Asset revaluations in particular have a large impact on this ratio. For example, the Darwin Port Corporation's debt to total assets ratio increased from 42 per cent in 1998-99 to 60 per cent in 2002-03, despite borrowings declining by 41 per cent in nominal terms. The rise in the debt to total assets ratio was mostly due to downward asset revaluations of around \$146 million made between 1999-00 and 2002-03.

A decline in the debt position of some GTEs was achieved through the retirement of debt. For example, the Burnie Port Corporation reduced nominal debt levels by 53 per cent over the reporting period, contributing to the fall in the debt to total assets from 47 per cent in 1998-99 to 25 per cent in 2002-03.

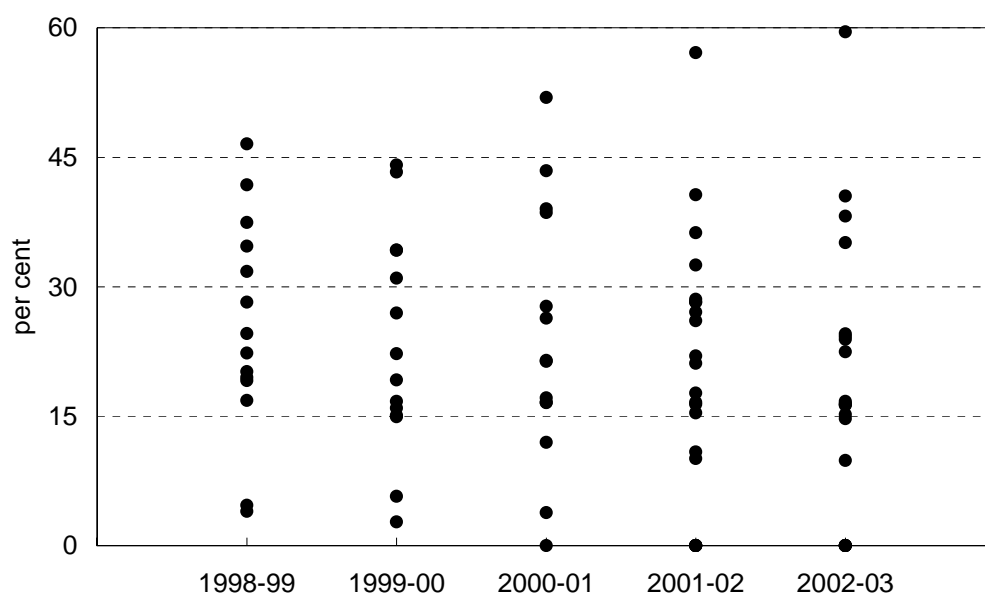
In 2002-03, interest cover — which measures the capacity of GTEs to meet periodic interest payments out of current earnings — was 3.6 times for the sector. This was higher than the previous year (2.7), and higher than the sector-wide interest cover at the beginning of the reporting period (1.0).

Changes in interest cover from year-to-year for some GTEs were related to restructuring. For example, the Cairns Port Authority's interest cover increased from 9.7 times in 2001-02 to 17.6 times in 2002-03, due to a \$14.6 million increase in revenue, resulting from the reversal of a previous asset revaluation decrement.

The ability of port GTEs to meet short-term liabilities from short-term assets has improved over the reporting period, with the current ratio for the sector overall increasing from 100 per cent in 1998-99 to 130 per cent in 2002-03. However, six GTEs recorded a current ratio of less than 100 per cent in 2002-03. This indicates that the short-term obligations of these GTEs may need to be met from sources of funds other than current assets.⁸

⁸ Current assets comprise cash and other assets that would, in the ordinary course of operations, be available for conversion into cash within 12 months after the end of the reporting period.

Figure 11.5 Debt to total assets — port GTEs, 1998-99 to 2002-03



Note The figure includes eight GTEs (4 in Queensland and 4 in WA) that were included for the first time in 2001-02. Five port GTEs did not have any debt in 2001-02 or 2002-03. Debt is defined to include all repayable borrowings (interest bearing and non-interest bearing), interest bearing non-repayable borrowings and finance leases. Average total assets is the average of the value of assets at the beginning and end of each financial year. Where an average was not available, the value of total assets at the end of the financial year was used.

11.5 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 factor market disciplines and regulations similar to those faced by private sector businesses. For a more detailed discussion of competitive neutrality principles, see chapter 3.

Owner-governments generally require their GTEs to make tax-equivalent and dividend payments along with debt guarantee fees. The introduction of these measures resulted in an increase in payments to governments.

The dividend required to be paid by each GTE depends on the dividend policy of its state or territory government (see PC 2001). In 2002-03, nine of the port GTEs had

dividend payout ratios above 50 per cent. Six port GTEs did not pay, or propose to pay, a dividend for 2002-03.⁹

The level of income tax-equivalent and dividend payments varies from year-to-year (see figure 11.6). In 2002-03, port GTEs made around \$154 million in income tax-equivalent and dividend payments to owner governments. The Queensland and NSW governments were the major beneficiaries, receiving 50 per cent and 23 per cent of the total payments respectively.

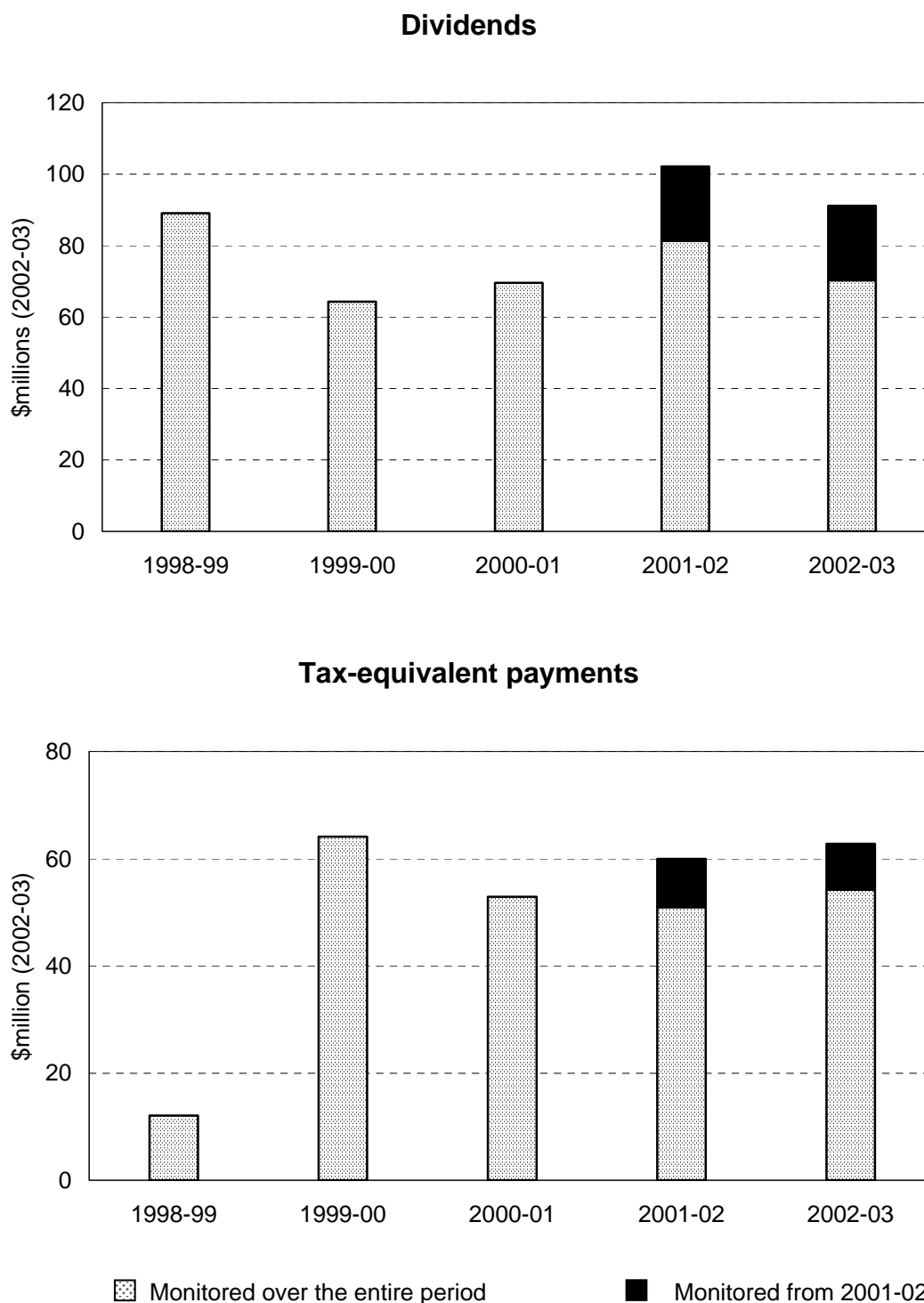
Under agreed reforms, port GTEs required to undertake non-commercial activities should receive, from shareholder governments, CSO payments equivalent to their net cost.

Two port GTEs received CSO payments during the reporting period. Port Kembla Port Corporation has received payments since 1999-00 and the Darwin Port Corporation received CSO payments over the entire reporting period.

In 2002-03, Port Kembla Port Corporation received CSO funding of \$8.5 million. The payment was provided as compensation for the shortfall in income generated by the NSW Rental Relief Scheme for the Port Kembla Coal Terminal. The Darwin Port Corporation received \$6.8 million for costs associated with the operation and management of the Stokes Hill wharf and precinct, the fishing harbour mooring basin and other wharf facilities. CSO funding was also received for the East Arm Port development.

⁹ In 2002-03, the Hobart Port Corporation adopted a new accounting policy regarding dividend recognition. As a result no provision for dividends has been recognised for the year ending 30 June 2003 (see chapter 3).

Figure 11.6 Dividend and income tax-equivalent payments — port GTEs, 1998-99 to 2002-03



Note The figure includes eight GTEs (four in Queensland and four in WA) that were included for the first time in 2001-02. The value of dividends and tax-equivalent payments prior to 2002-03 were converted to 2002-03 dollars using the implicit price deflator — Gross Fixed Capital Formation for Public Corporations (see chapter 3).

Source: Productivity Commission estimates.

11.6 GTE performance reports

Newcastle Port Corporation (NSW)
Port Kembla Port Corporation (NSW)
Sydney Ports Corporation (NSW)
Melbourne Port Corporation (Victoria)
Victorian Channels Authority (Victoria)
Gladstone Port 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)
Burnie Port Corporation (Tasmania)
Hobart Ports Corporation (Tasmania)
Port of Devonport Corporation (Tasmania)
Port of Launceston Pty Ltd (Tasmania)
Darwin Port Corporation (NT)

Newcastle Port Corporation (NPC) operates under the *State Owned Corporations Act 1989* and the *Ports Corporatisation and Waterways Management Act 1995*. The NPC has responsibility for the management of port facilities and provides pilotage services.

Charges for most port services are set by the NPC's board and are subject to approval by the Minister for Transport.¹ Newcastle is one of Australia's largest ports by tonnage, with a total throughput of almost 77 million tonnes in 2002-03. Coal accounts for around 93 per cent of throughput.

Pre-tax operating profit decreased by 6 per cent in 2002-03, with a 7 per cent (\$2 million) increase in expenses. Although trade throughput increased by 2 per cent, NPC recorded a lower operating profit than the previous year.

The NPC's current ratio increased substantially in 2002-03, compared to the previous year. This was mainly due to a decrease in current liabilities related to a reduction of \$6 million in provision for dividends, which is negotiated between the Corporation's board of directors and the voting shareholders.

The NPC is required to make both tax-equivalent and dividend payments. The reporting of a negative tax-equivalent payment in 2000-01 reflects the write-back of an adjustment to superannuation payments.

¹ Under the *Ports Corporatisation and Waterways Management Act 1995*, charges for navigation, pilotage, site occupation and wharfage are set by the board subject to approval by the Minister (ss. 51, 54, 62). Port cargo access charges are set by the Minister (s. 57) and berthing charges are set by the board (s. 66). On December 2002, minor amendments were made to the regulations associated with the *Ports Corporatisation and Waterways Management Act 1999*, including the calculation of port charges among other things.

NEWCASTLE PORT CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	132	144	141	138	135
Total revenue	\$m	40	38	38	39	40
<i>Profitability</i>						
Operating profit before tax	\$'000	12 881	16 774	6 737	9 251	8 650
Operating sales margin	%	36.8	49.8	23.1	29.0	26.1
Cost recovery	%	158.2	177.4	130.1	140.8	135.3
Return on assets	%	12.3	14.0	6.6	8.3	8.0
Return on equity	%	10.8	14.1	8.9	6.7	6.4
<i>Financial management</i>						
Debt to equity	%	36.3	35.6	34.9	36.5	35.2
Debt to total assets	%	24.6	22.3	21.5	22.0	22.5
Total liabilities to equity	%	58.0	67.2	60.5	64.5	54.8
Interest cover	times	6.8	7.7	3.6	4.9	4.7
Current ratio	%	72.9	82.2	94.8	117.6	240.8
Leverage ratio	%	158.0	167.2	160.5	164.5	154.8
<i>Payments to and from government</i>						
Dividends	\$'000	9 000	9 000	9 000	9 000	3 012
Dividend to equity ratio	%	12.0	10.6	10.4	10.5	3.5
Dividend payout ratio	%	111.3	75.3	116.0	156.3	55.0
Income tax expense	\$'000	4 796	4 827	-1 023	3 494	3 176
CSO funding	\$'000	0	0	0	0	0

^a A revaluation of property, plant and equipment was brought to account as at 30 June 1999. This resulted in an increase in the value of total assets. ^b Includes abnormal revenue of \$4.1 million relating to superannuation interest earnings and a reduction in member liability. A restatement of deferred tax balances following a change in the future company tax rate resulted in a decline in income tax payments of \$1.4 million. ^c Includes a \$3.6 million expense relating to an adjustment to superannuation payments. An asset revaluation resulted in a \$2.5 million increase in the value of plant and breakwater assets. Income tax expense is negative due to a write-back of the tax effect on the superannuation adjustment expense.

Port Kembla Port Corporation (PKPC) operates under the *State Owned Corporations Act 1989* and the *Ports Corporatisation and Waterways Management Act 1995*. The PKPC provides pilotage services, and berths and equipment for private sector lease or common use, as well as managing the port.

Charges for most port services are set by the PKPC board and are subject to the approval of the Minister for Transport.¹ In 2002-03, the major cargoes moving through the port were coal, iron ore and steel products.

Pre-tax operating profit decreased by almost \$10 million in 2002-03, resulting in a loss of \$2.7 million. This was mainly due to a downward revaluation of non-current assets.² Excluding the effect of the asset revaluation, operating profit declined by only \$400 000.

The PKPC's debt level was reduced by 10 per cent in 2002-03. It is the second successive year that the PKPC's debt level has fallen by a significant amount, after remaining stable for several years.

The PKPC is required to make both income tax-equivalent and dividend payments. Despite recording an operating loss in 2002-03, PKPC incurred an income tax expense, due to permanent differences in tax and accounting profits.

In 2002-03, the PKPC received \$8.5 million in community service obligation (CSO) funding. The CSO is related to a rental relief package negotiated between the PKPC, NSW Treasury and Port Kembla Coal Terminal Limited (PKCTL). The PKPC is paid the difference between the commercial rate for coal per tonne and a rate negotiated between PKCTL and the Government.³

¹ Under the *Ports Corporatisation and Waterways Management Act 1995*, charges for navigation, pilotage, site occupation and wharfage are set by the board subject to approval by the Minister (ss. 51, 54, 62). Port cargo access charges are set by the Minister (s. 57) and berthing charges are set by the board (s. 66).

² The revaluation was arrived at after applying accounting standard AASB 1041 *Revaluation of Non-current Assets* and NSW Treasury Policy & Guidelines Paper TPP 02-02 *Valuation of Physical Non-Current Assets at Fair Value*.

³ Prior to 1999-00, the PKPC provided rental relief to the lessee of the Port Kembla Coal Terminal but did not receive funding from the NSW Government.

PORT KEMBLA PORT CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01</i>	<i>2001-02^c</i>	<i>2002-03^d</i>
<i>Size</i>						
Total assets	\$m	134	135	139	127	114
Total revenue	\$m	28	32	33	30	21
<i>Profitability</i>						
Operating profit before tax	\$'000	- 34 633	8 302	10 588	7 226	- 2 731
Operating sales margin	%	- 115.7	40.6	45.4	39.0	1.4
Cost recovery	%	172.5	201.4	183.2	164.0	101.4
Return on assets	%	- 18.9	9.8	11.3	8.8	1.2
Return on equity	%	- 49.1	23.7	11.3	7.0	- 6.4
<i>Financial management</i>						
Debt to equity	%	110.1	100.2	90.1	91.1	87.7
Debt to total assets	%	37.4	44.1	43.4	40.7	40.5
Total liabilities to equity	%	149.2	127.8	110.4	114.5	104.4
Interest cover	times	- 6.4	2.7	3.2	2.6	0.3
Current ratio	%	51.4	91.9	137.4	193.1	182.1
Leverage ratio	%	249.2	227.8	210.4	214.5	204.4
<i>Payments to and from government</i>						
Dividends	\$'000	9 482	7 988	8 200	3 928	0
Dividend to equity ratio	%	12.4	14.2	13.1	6.3	0.0
Dividend payout ratio	%	- 25.2	59.7	116.0	90.0	0.0
Income tax expense	\$'000	2 995	-5 077	3 516	2 862	956
CSO funding	\$'000	0	4 490	8 784	9 251	8 510

^a In June 1999, Port Kembla Port Corporation undertook a recoverable amounts test that resulted in a \$42 million downward asset revaluation. ^b Includes an abnormal expense of \$4.1 million relating to asset transfers and abnormal revenue of \$2.2 million after a reassessment of superannuation liabilities. Includes a \$700 000 adjustment to superannuation payments and a \$700 000 expense relating to redundancy provisions. Income tax expense is reported as a negative amount largely due to a reduction in tax liability of \$9 million following the recoverable amounts test undertaken in 1998-99. ^c Includes \$500 000 in revenue related to a redundancy provision write-back and a \$900 000 adjustment to superannuation payments. A recoverable amounts test resulted in an expense and downward asset revaluation of \$2.8 million. ^d Includes a net revaluation decrement of property, plant and equipment equal to \$9.5 million. Port Kembla Corporation incurred a tax expense in 2002-03 from permanent differences in accounting and tax profit.

Sydney Ports Corporation (SPC) operates under the *State Owned Corporations Act 1989* and the *Ports Corporatisation and Waterways Management Act 1995*. The SPC manages the commercial ports of Sydney Harbour and Botany Bay, and leases land to private stevedores. In 2002-03, Sydney Pilot Service, a wholly-owned subsidiary of SPC, commenced operation as the pilot service provider for Sydney Harbour and Port Botany.¹

Charges for most port services are set by the SPC board and are subject to the approval of the Minister for Transport.² The SPC handled a record container throughput of around 1.16 million twenty-foot equivalent units in 2002-03. The major cargoes moving through Sydney Harbour and Botany Bay included oil, motor vehicles and paper. Sydney Harbour was also visited by 88 cruise ships.

The SPC's revenue and profitability increased in 2002-03, despite a decrease in total throughput. The decline in overall trade was due partly to a general decline in export cargoes. However, container and motor vehicle trade both reached record levels, driven by import growth.

Total assets increased by \$186 million in 2002-03, due mainly to an upward revaluation of non-current assets.³ This had a significant effect on the SPC's financial indicators, with debt to equity, debt to total assets and total liabilities to equity ratios all decreasing.

The SPC is required to make both tax-equivalent and dividend payments to the NSW Government.

¹ Prior to 2002-03, pilotage services were carried out by private operators.

² Under the *Ports Corporatisation and Waterways Management Act 1995*, charges for navigation, pilotage, site occupation and wharfage are set by the board subject to approval by the Minister (ss. 51, 54, 62). Port cargo access charges are set by the Minister (s. 57) and berthing charges are set by the board (s. 66).

³ Land accounted for \$139.5 million of the revaluation increment.

SYDNEY PORTS CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	544	581	576	606	792
Total revenue	\$m	109	108	109	106	123
<i>Profitability</i>						
Operating profit before tax	\$'000	49 469	45 059	33 044	28 825	41 230
Operating sales margin	%	55.2	52.2	41.0	38.2	44.1
Cost recovery	%	208.4	222.6	169.4	161.9	178.8
Return on assets	%	11.5	10.2	7.9	7.0	7.9
Return on equity	%	9.3	7.1	6.5	4.3	5.5
<i>Financial management</i>						
Debt to equity	%	42.1	40.9	39.7	42.9	29.8
Debt to total assets	%	28.2	27.0	26.4	28.5	24.2
Total liabilities to equity	%	52.0	56.6	49.8	54.0	39.3
Interest cover	%	5.2	4.6	3.6	3.3	4.0
Current ratio	%	99.5	124.7	95.8	51.0	65.4
Leverage ratio	%	152.0	156.6	149.8	154.0	139.3
<i>Payments to and from government</i>						
Dividends	\$'000	13 639	13 030	10 994	8 540	13 157
Dividend to equity ratio	%	3.9	3.6	2.9	2.2	2.7
Dividend payout ratio	%	42.2	50.0	44.8	50.9	50.0
Income tax expense	\$'000	17 177	19 001	8 478	12 049	14 915
CSO funding	\$'000	0	0	0	0	0

Melbourne Port Corporation (MPC) commenced operations on 1 March 1996 under the *Ports Services Act 1995*. Under the Act, the MPC was required to manage the land within the Melbourne port area in a manner that is economically efficient and that encourages competition among port service providers. The MPC was also responsible for co-ordinating future developments and ensuring the availability of land and infrastructure to port service providers.

The MPC ceased operations on 30 June 2003 and was replaced by the Port of Melbourne Corporation (PoMC). The PoMC has taken over the role and responsibilities of the MPC and is progressively taking over the roles and responsibilities from the Victorian Channels Authority for the channels and port waters of the Port of Melbourne.

Charges for prescribed services, including the provision of berths and cargo marshalling facilities are subject to regulation by the Essential Services Commission (previously the Office of the Regulator-General (ORG)).

The MPC handled around 37 per cent of Australia's total container trade in 2002-03, with throughput of around 1.6 million twenty-foot equivalent units. Major non-containerised cargoes included crude oil and motor vehicles.

Pre-tax operating profit was stable in 2002-03. Despite an increase in trade, there were a number of offsetting factors. These included the reduction in the prices of prescribed services, a write off of assets sold and the recognition of costs associated with the restoration of contaminated land.¹

In 2002-03, total assets increased by \$35 million due to an upward revaluation of property, plant and equipment (\$23 million) and almost \$17 million in capital expenditure. The liquidity of MPC, as measured by the current ratio, decreased substantially because of an increase in current liabilities as \$28 million of long-term debt was replaced by short-term debt.

The MPC is required to make both tax-equivalent and dividend payments to the Victorian Government.

¹ In June 2000, the ORG determined that charges should be reduced by an average of 5.2 per cent per annum in real terms over the period 2000-01 to 2004-05. The MPC estimated that reductions in charges in 2002-03 led to foregone revenue of \$2.7 million in that year.

MELBOURNE PORT CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	1998-99 ^a	1999-00 ^b	2000-01 ^c	2001-02 ^d	2002-03 ^e
<i>Size</i>						
Total assets	\$m	513	568	596	670	705
Total revenue	\$m	83	75	82	83	86
<i>Profitability</i>						
Operating profit before tax	\$'000	46 496	30 002	34 226	31 089	30 999
Operating sales margin	%	65.8	49.2	49.0	43.7	40.9
Cost recovery	%	291.8	209.9	196.0	177.7	169.1
Return on assets	%	10.5	6.9	7.0	5.8	5.3
Return on equity	%	8.2	4.1	4.5	4.0	3.5
<i>Financial management</i>						
Debt to equity	%	26.1	17.7	14.0	12.1	11.3
Debt to total assets	%	19.1	15.0	12.0	10.9	9.9
Total liabilities to equity	%	33.7	24.7	19.5	17.5	17.3
Interest cover	times	6.4	5.1	6.4	6.8	6.9
Current ratio	%	85.2	40.8	160.1	90.9	42.0
Leverage ratio	%	133.7	124.7	119.5	117.5	117.3
<i>Payments to and from government</i>						
Dividends	\$'000	34 074	8 644	9 300	10 350	10 450
Dividend to equity ratio	%	8.7	2.1	1.9	1.9	1.8
Dividend payout ratio	%	105.6	50.0	42.8	48.1	51.2
Income tax expense	\$'000	14 224	12 713	12 512	9 567	10 577
CSO funding	\$'000	0	0	0	0	0

^a Total assets fell as a result of a dividend payout from cash reserves and the transfer of Station Pier to the Department of Infrastructure. Dividends included a special dividend of \$26 million. ^b An abnormal expense of \$2.3 million was incurred, with the write-off of assets. ^c Total assets increased by \$26 million with a revaluation of buildings, improvements and land. Does not include a provision for a final dividend because of a change in accounting policy. ^d Includes an asset revaluation increment of \$60 million for land. Includes a final dividend of \$4.5 million relating to 2000-01 and an interim dividend of \$5.9 million for 2001-02. Does not include the board's estimated final dividend of \$4.9 million for 2001-02. ^e Includes a final dividend of \$4.9 million relating to 2001-02 and an interim dividend of \$5.6 million relating to 2001-02. Does not include the board's estimated final dividend of \$4.9 million for 2002-03.

The Victorian Channels Authority (VCA) is a statutory authority established under the *Port Services Act 1995*, with the objective of managing channels and port waters for use on a fair, reasonable and commercial basis. The VCA commenced operations on 1 March 1996. It is responsible for the safe navigation of shipping in Port Phillip and for the provision and maintenance of navigational aids and commercial navigation channels. The VCA is also required to co-ordinate pollution control and emergency response.

In July 2003, legislation was passed to create the Port of Melbourne Corporation (PoMC). The PoMC will take over the land and waterside functions of the Port of Melbourne, including the Melbourne operations of the VCA, with the VCA retaining responsibility for the Geelong channels until a new authority is established.

The VCA is subject to pricing regulation, administered by the Essential Services Commission. The pricing regulation is aimed at progressively reducing the channel fees charged by the VCA, in real terms.¹

In 2002-03, growth in the number of ships using Port Phillip and a 1 per cent rise in the VCA's nominal unit charges contributed to an increase in revenue of 4 per cent. However, higher expenses, associated with the VCA's Port Phillip Channel deepening study, resulted in the first loss since the start of the reporting period.

In 2002-03, the debt to equity and debt to total assets ratios were zero. The current ratio fell in 2002-03, mainly due to an increase in current liabilities relating to employee entitlements and non-trade creditors.

The VCA is required to make tax-equivalent payments under the *State Owned Enterprises Act 1992*. In addition, the VCA is required to pay dividends to the Victorian Government, as determined by the Treasurer. No dividend has been paid for the past 3 years.

¹ A pricing order covering the period 1997-98 to 1999-00 required the VCA to reduce the standard channel fees by 12 per cent annually in real terms. In December 1999, a price determination by the Office of the Regulator-General (now the Essential Services Commission) for the period 2000-01 to 2004-05 required the VCA to reduce average charges by 2.1 per cent annually in real terms.

VICTORIAN CHANNELS AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	1998-99 ^a	1999-00 ^b	2000-01 ^c	2001-02 ^d	2002-03
<i>Size</i>						
Total assets	\$m	61	138	158	155	158
Total revenue	\$m	25	19	20	21	22
<i>Profitability</i>						
Operating profit before tax	\$'000	10 542	3 466	3 789	837	- 1 631
Operating sales margin	%	41.8	15.9	15.7	1.8	- 10.6
Cost recovery	%	148.0	118.9	118.6	101.8	90.5
Return on assets	%	18.7	3.5	2.6	0.5	- 1.0
Return on equity	%	8.2	1.0	0.3	2.8	- 0.9
<i>Financial management</i>						
Debt to equity	%	6.7	2.2	0.0	0.0	0.0
Debt to total assets	%	4.7	2.7	0.0	0.0	0.0
Total liabilities to equity	%	57.2	11.0	8.5	3.7	6.4
Interest cover	times	n.r.	n.r.	n.r.	n.r.	n.r.
Current ratio ^e	%	174.6	244.9	175.4	668.7	303.4
Leverage ratio	%	157.2	111.0	108.5	103.7	106.4
<i>Payments to and from government</i>						
Dividends	\$'000	3 271	1 000	0	0	0
Dividend to equity ratio	%	8.1	1.2	0.0	0.0	0.0
Dividend payout ratio	%	98.6	122.5	0.0	0.0	0.0
Income tax expense	\$'000	7 225	2 650	3 410	-3 349	-242
CSO funding	\$'000	0	0	0	0	0

^a Non-current assets increased from additional costs associated with the dredging of the Port of Geelong (\$4.3 million) and work in progress (\$5.4 million). A change in accounting policy on provisions for channel dredging resulted in a \$3.4 million provision in 1997-98 being added back as abnormal revenue in 1998-99.

^b Includes the value of channels transferred to the Victorian Channels Authority from predecessor bodies (\$78 million). ^c Asset revaluations resulted in an increase in the value of assets of \$13 million, most of which related to channel assets (\$11 million).

^d The negative income tax expense reflects an over-provision of \$3.5 million for income tax expenses in previous years. ^e The Victorian Channel Authority's current ratio increased significantly in 2001-02, mainly from a reduction in current liabilities relating to trade creditors. In 2002-03, the current ratio fell, with an increase in current liabilities relating to employee entitlements and non-trade creditors. **n.r.** Not relevant.

The Gladstone Port Authority (GPA) operates under the *Government Owned Corporations Act 1993* and the *Transport Infrastructure Act 1994*. The GPA is responsible for the provision of infrastructure for bulk operations as well as pilotage and stevedoring services.

Charges for the GPA's port services are set by the board, subject to Ministerial approval. In 2002-03, coal exports accounted for around 70 per cent of port throughput. Other major cargoes included alumina and cement.

Total revenue has increased steadily over the reporting period. In 2002-03, total revenue rose by 17 per cent, mainly from contract dredging works. Despite this increase, pre-tax operating profit was similar to the previous year because of higher expenses, including the costs associated with the dredging.

The GPA's assets were written down by \$139 million in 1998-99 following a recoverable amounts test.¹ Since 1998-99, GPA's total assets have grown steadily, owing to a revaluation increment of \$16 million in 2000-01 and ongoing capital works programs.

In 2001-02, debt ratios increased with additional borrowings of \$94 million. This partially offset a \$90 million return of equity to the Queensland Government and capital expenditure of \$46 million. In 2002-03, GPA borrowed an additional \$43 million to fund capital works, resulting in further increases in its debt ratios.

The GPA is required to make both tax-equivalent and dividend payments to the Queensland Government.

¹ A recoverable amounts test is undertaken under accounting standards to ensure that the carrying value of non-current assets does not exceed their recoverable amount — the net amount that is expected to be recovered through the cash inflows and outflows arising from their continued use and subsequent disposal (AASB 1010).

GLADSTONE PORT AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00</i>	<i>2000-01^b</i>	<i>2001-02^c</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	358	369	389	410	452
Total revenue	\$m	82	86	98	108	127
<i>Profitability</i>						
Operating profit before tax	\$'000	- 127 700	25 486	16 071	20 801	18 774
Operating sales margin	%	- 156.9	29.6	15.7	22.1	19.7
Cost recovery	%	117.4	142.0	118.6	128.4	124.6
Return on assets	%	- 30.8	7.2	4.4	6.2	5.9
Return on equity	%	- 21.8	3.8	2.9	4.8	5.1
<i>Financial management</i>						
Debt to equity	%	5.2	6.5	4.3	43.3	60.5
Debt to total assets	%	4.0	5.7	3.8	27.1	35.1
Total liabilities to equity	%	14.9	15.5	15.7	64.0	80.9
Interest cover	times	- 108.8	43.5	25.0	6.2	3.7
Current ratio	%	118.2	141.5	124.5	85.0	89.1
Leverage ratio	%	114.9	115.5	115.7	164.0	180.9
<i>Payments to and from government</i>						
Dividends	\$'000	0	3 938	13 085	16 874	12 200
Dividend to equity ratio	%	0.0	1.2	4.0	5.8	4.9
Dividend payout ratio	%	0.0	32.5	135.8	119.0	95.0
Income tax expense	\$'000	- 49 901	13 354	6 434	6 625	5 932
CSO funding	\$'000	0	0	0	0	0

^a The Gladstone Port Authority undertook a recoverable amounts test on 30 June 1999. This resulted in a \$139 million write-down of non-current assets, and a commensurate fall in pre-tax operating profit. ^b An asset revaluation in January 2001 resulted in a net increase of \$16 million in the value of assets, mainly relating to channels, plant and equipment. Dividend includes \$3.5 million that was attributed to 1999-00 but not provided for. ^c Dividend includes \$3.4 million that was attributed to 2000-01 but not provided for.

The Port of Brisbane Corporation (PBC) operates under the *Government Owned Corporations Act 1993* and the *Transport Infrastructure Act 1994*. The PBC manages the Port of Brisbane, Brisbane Multimodal Terminal, and the boat harbours of Manly, Scarborough, Cabbage Tree Creek and Gardens Point. It is also a major shareholder in Brisbane Airport Corporation Limited (BACL).

Charges for the PBC's port services are set by the board, subject to Ministerial approval. In 2002-03, the PBC's major bulk cargoes included oil and coal. Container throughput was over 570 000 twenty-foot equivalent units.

Pre-tax operating profit increased by 6 per cent in 2002-03, due mainly to an 8 per cent increase in revenue. Contributing to the increase were trade growth, improved rental and services revenue, and the proceeds from the sale of land not used for core activities.

The PBC's total assets have increased over the reporting period by over 50 per cent in nominal terms. The major contributors to this growth were investment in the BACL¹ and a number of upward revaluations over the reporting period totalling \$154 million.²

In 2002-03, the PBC's debt to equity, debt to total assets and total liabilities to equity ratios increased. An upward revaluation of its investment in BACL, was insufficient to offset the effect of increased debt.

The PBC is required to make both tax-equivalent and dividend payments.

¹ The PBC invested in BACL in 1996-97. The initial investment was entirely funded through borrowings from the Queensland Treasury Corporation. In 1999-00, the PBC increased its shareholding in the BACL to 38 per cent.

² Over the reporting period, increases in the value of assets attributable to revaluations include \$5.3 million in 1998-99, \$36 million in 1999-00, \$63 million in 2000-01, \$17 million in 2001-02 and \$33 million in 2002-03.

PORT OF BRISBANE CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01^a</i>	<i>2001-02^b</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	658	737	868	912	988
Total revenue	\$m	78	84	88	96	109
<i>Profitability</i>						
Operating profit before tax	\$'000	26 341	26 205	19 535	31 806	33 636
Operating sales margin	%	52.2	51.6	44.3	49.7	46.2
Cost recovery	%	200.8	206.6	186.4	198.6	185.9
Return on assets	%	6.4	6.3	5.0	5.4	5.5
Return on equity	%	4.2	4.2	2.1	4.4	4.6
<i>Financial management</i>						
Debt to equity	%	48.9	52.2	60.2	60.8	64.1
Debt to total assets	%	31.8	34.2	38.6	36.3	38.2
Total liabilities to equity	%	57.8	61.0	68.8	71.7	74.6
Interest cover	times	2.8	2.5	2.0	2.9	2.8
Current ratio	%	81.0	94.0	73.9	79.1	186.0
Leverage ratio	%	157.8	161.0	168.8	171.7	174.6
<i>Payments to and from government</i>						
Dividends	\$'000	15 805	17 580	13 184	21 980	23 396
Dividend to equity ratio	%	3.8	4.0	2.7	4.2	4.3
Dividend payout ratio	%	90.5	94.8	130.5	95.0	91.8
Income tax expense	\$'000	8 884	7 667	9 429	8 669	8 158
CSO funding	\$'000	0	0	0	0	0

^a An asset revaluation resulted in an increase in the value of assets by \$63 million, mainly relating to the Port of Brisbane Corporation's investment in Brisbane Airport Corporation Ltd. Includes \$1.8 million expense relating to redundancy payments. ^b An asset revaluation resulted in an increase in the value of assets by \$17 million, mainly relating to land improvements. Revenue includes a profit on the sale of assets of \$3.3 million.

Cairns Port Authority operates under the *Government Owned Corporations Act 1993* and the *Transport Infrastructure Act 1994*. It has responsibility for the management of the port of Cairns, Cairns International Airport, and associated land and property. Most port activities such as towage and stevedoring are conducted by private operators.¹

The Cairns Port Authority's board sets charges for port services (harbour dues, plant hire and berthage charges), subject to Ministerial approval. In 2002-03, the major cargoes moving through the port were petroleum products, LP gas and sugar.

In 2002-03, pre-tax operating profit increased by \$13 million, with an upward revaluation of non-current assets. Excluding the effect of the revaluation, the Cairns Port Authority's profit decreased by \$1.6 million. Revenues from airport and port operations were steady in 2002-03. Operating expenditure increased because of higher labour and maintenance costs related to port operations.

The Cairns Port Authority made a capital repayment of \$30 million in 2001-02 to the Queensland Government as part of a capital restructure. The repayment and capital works expenditure of \$8.3 million, were partly funded by borrowings of \$27 million. In 2002-03, the Cairns Port Authority borrowed an additional \$25 million to finance capital expenditure.

The Cairns Port Authority is required to make tax-equivalent and dividend payments to the Queensland Government. In 2001-02, dividend payments included \$6.5 million for a dividend under-provision in 2000-01.

¹ Pilotage services are provided by North Queensland Port Pilots, a wholly-owned subsidiary of the Ports Corporation of Queensland.

CAIRNS PORT AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				325	378
Total revenue	\$m				57	71
<i>Profitability</i>						
Operating profit before tax	\$'000				12 014	25 218
Operating sales margin	%				22.4	37.6
Cost recovery	%				128.9	160.1
Return on assets	%				4.1	7.6
Return on equity	%				3.1	7.7
<i>Financial management</i>						
Debt to equity	%				12.7	20.0
Debt to total assets	%				10.1	16.4
Total liabilities to equity	%				26.0	31.4
Interest cover	times				9.7	17.6
Current ratio	%				84.9	71.3
Leverage ratio	%				126.0	131.4
<i>Payments to and from government</i>						
Dividends	\$'000				13 986	6 096
Dividend to equity ratio	%				5.4	1.1
Dividend payout ratio	%				176.5	29.0
Income tax expense	\$'000				4 089	4 214
CSO funding	\$'000				0	0

^a 2001-02 was the first year that the Cairns Port Authority was included in this report. It was established in July 1995 under the *Government Owned Corporations Act 1993*. Dividends include \$6.6 million for a dividend under-provision in 2000-01.

Ports Corporation of Queensland (PCQ) operates under the *Government Owned Corporations Act 1993* and the *Transport Infrastructure Act 1994*. The PCQ manages the commercial ports of Hay Point, Abbot Point, Lucinda, Mourilyan, Cape Flattery, Weipa, Karumba and Skardon River.¹ It is responsible for maintaining navigable channels and providing pilotage services. Stevedoring and towage are generally franchised.

Charges for port services are determined by the PCQ board, subject to ministerial approval. Most of the PCQ's ports specialise in handling a single bulk cargo such as coal, sugar or bauxite — although several also handle general cargo and livestock.

Pre-tax operating profit was \$16 million in 2002-03, after a substantial loss was recorded in the previous year. In 2001-02, the PCQ's revenue and expenses were affected by the sale and lease of assets associated with the Dalrymple Bay Coal Terminal (DBCT), including an asset write-down of \$15 million.² The transaction resulted in a decrease of port assets of over \$500 million and enabled the repayment of loans of around \$250 million.

The PCQ did not have any outstanding borrowings at the end of 2002-03.

The PCQ is required to make both tax-equivalent and dividend payments. In addition to the dividend payment of \$13 million in 2002-03, the PCQ made a capital repayment of \$15 million to the Queensland Government.³

¹ The PCQ also manages five other non-trading ports and provides pilotage services to the Cairns Port Authority through North Queensland Port Pilots — a wholly-owned subsidiary.

² The PCQ sold assets associated with the DBCT on 31 August 2001 to DBCT Holdings Pty Ltd, which is wholly-owned by the Queensland Government. DBCT Holdings subsequently entered into a 100 year lease of DBCT land and facilities to private operators.

³ The capital repayment is the first of three instalments, totalling \$45 million, to be returned in 2002-03, 2003-04 and 2004-2005 in return for cancellation of shares.

PORTS CORPORATION OF QUEENSLAND (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	1998-99	1999-00	2000-01	2001-02 ^a	2002-03
<i>Size</i>						
Total assets	\$m				237	234
Total revenue	\$m				57	37
<i>Profitability</i>						
Operating profit before tax	\$'000				- 13 544	16 019
Operating sales margin	%				0.4	37.5
Cost recovery	%				100.4	159.9
Return on assets	%				2.4	6.8
Return on equity	%				- 8.2	7.2
<i>Financial management</i>						
Debt to equity	%				0.0	0.0
Debt to total assets	%				0.0	0.0
Total liabilities to equity	%				16.7	19.2
Interest cover ^b	times				0.3	n.r.
Current ratio	%				309.5	245.7
Leverage ratio	%				116.7	119.2
<i>Payments to and from government</i>						
Dividends	\$'000				5 780	13 000
Dividend to equity ratio	%				2.8	3.3
Dividend payout ratio	%				- 34.5	90.6
Income tax expense	\$'000				3 231	1 675
CSO funding	\$'000				0	0

^a 2001-02 was the first year that the Ports Corporation of Queensland was monitored. It was established in July 1994 under the *Government Owned Corporations Act 1993*. The dividend of \$5.8 million relates to a dividend under-provision in 2000-01. ^b An interest cover ratio is reported in 2001-02 despite the fact the Port Corporation of Queensland had no outstanding debt at the end of that financial year. This is because the Corporation incurred borrowing costs during the year, prior to paying off the debt. **n.r.** Not relevant.

Mackay Port Authority (MPA) operates under the *Government Owned Corporations Act 1993* and the *Transport Infrastructure Act 1994*. The MPA has responsibility for the management of the port of Mackay and Mackay Airport. The MPA franchises pilotage, towage and stevedoring activities.

Charges for port services are set by the MPA board and are subject to Ministerial approval. In 2002-03, the major cargoes moving through the port included sugar and grain.

In 2002-03, port operations accounted for around 65 per cent of revenue and 67 per cent of assets. Port throughput decreased slightly, mainly due to the impact of adverse seasonal conditions on the volume of grain traded. Port operations contributed a pre-tax operating deficit of \$347 000, including a \$354 000 write down of property, plant and equipment. Airport operations contributed a \$1.3 million surplus to the MPA's overall operating profit of \$960 000.

Several bulk loading terminals in the port are under long-term lease to users and are not included in the MPA's assets. The construction of these facilities was originally financed by the MPA, but the costs were reimbursed by users.

The MPA has not carried any debt over the reporting period.

The MPA is required to make tax-equivalent and dividend payments to the Queensland Government. In 2002-03, \$459 000 in dividend payments were made.

MACKAY PORT AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				158	159
Total revenue	\$m				12	14
<i>Profitability</i>						
Operating profit before tax	\$'000				- 513	960
Operating sales margin	%				- 16.6	- 0.3
Cost recovery	%				85.8	99.7
Return on assets	%				- 0.3	0.6
Return on equity	%				- 0.4	0.3
<i>Financial management</i>						
Debt to equity	%				0.0	0.0
Debt to total assets	%				0.0	0.0
Total liabilities to equity	%				4.6	5.8
Interest cover	times				n.r.	n.r.
Current ratio	%				784.5	702.1
Leverage ratio	%				104.6	105.8
<i>Payments to and from government</i>						
Dividends	\$'000				0	459
Dividend to equity ratio	%				0.0	0.2
Dividend payout ratio	%				0.0	94.3
Income tax expense	\$'000				84	473
CSO funding	\$'000				0	0

^a 2001-02 was the first year that the Mackay Port Authority was monitored. It was established in July 1995 under the *Government Owned Corporations Act 1993*. **n.r.** Not relevant.

Townsville Port Authority (TPA) operates under the *Government Owned Corporations Act 1993* and the *Transport Infrastructure Act 1994*. The TPA is responsible for the management of Townsville port.

Charges for the TPA's port services are determined by the board and are subject to Ministerial approval. In 2002-03, the major cargoes passing through the port included nickel ore, minerals and sugar.

In 2002-03, the TPA recorded a pre-tax operating loss of \$236 000. The loss was mainly due to an 8 per cent (\$1.9 million) increase in operating expenses, including a \$450 000 lease surrender payment. Revenues increased slightly, despite the reduction in pilotage revenue following the devolution of this activity back to Queensland Transport.

Total assets decreased by \$3.8 million in 2002-03, due to a combination of asset disposals, depreciation and the revaluation of non-current assets.

In 2001-02, the TPA made a capital repayment of \$23 million to the Queensland Government as part of a capital restructure. The repayment was financed by a loan from the Queensland Treasury Corporation. In 2002-03, the balance of this loan was \$19.7 million. The TPA did not have any debt prior to 2001-02.

The TPA is required to make tax-equivalent and dividend payments to the Queensland Government. It did not make a dividend payment for either 2001-02 or 2002-03.

TOWNSVILLE PORT AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				131	127
Total revenue	\$m				25	26
<i>Profitability</i>						
Operating profit before tax	\$'000				1 156	- 236
Operating sales margin	%				8.4	3.1
Cost recovery	%				109.2	103.2
Return on assets	%				1.7	0.8
Return on equity	%				0.1	- 0.8
<i>Financial management</i>						
Debt to equity	%				20.7	19.3
Debt to total assets	%				16.4	15.2
Total liabilities to equity	%				26.7	25.0
Interest cover	times				2.0	0.8
Current ratio	%				147.5	104.3
Leverage ratio	%				126.7	125.0
<i>Payments to and from government</i>						
Dividends	\$'000				0	0
Dividend to equity ratio	%				0.0	0.0
Dividend payout ratio	%				0.0	0.0
Income tax expense	\$'000				1 065	585
CSO funding	\$'000				0	0

^a 2001-02 was the first year that the Townsville Port Authority was monitored. It was established in July 1995 under the *Government Owned Corporations Act 1993*.

Fremantle Port Authority (FPA) operates under the *Port Authorities Act 1999*. It provides and maintains port infrastructure and port services including ship scheduling, port communications and mooring. The FPA franchises pilotage, towage and stevedoring to the private sector.

Charges are set by the FPA board and are subject to approval by the Minister. In 2002-03, container throughput was around 432 000 twenty-foot equivalent units. The major cargoes moving through the port were petroleum products and grain.

There was no change in nominal charges in 2002-03. The 21 per cent rise in revenue was partly due to a 13 per cent increase in container throughput. The rise in revenue was more than offset by an increase in expenses associated with operations and commercial management, thereby reducing profitability.

Total assets increased in value by \$6 million in 2002-03, with the acquisition of property, plant and equipment. The purchase was largely funded through cash and other current assets, leading to a decrease in the FPA's current ratio.

The FPA's debt was decreased by 14 per cent in 2002-03. As a consequence, debt to equity and debt to total assets ratios decreased.

The FPA is required to make both income tax-equivalent and dividend payments to the WA Government. The dividends in 2001-02 and 2002-03 include amounts for 'Government Efficiency Dividends' that are not related to profit.

FREMANTLE PORT AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00^a</i>	<i>2000-01</i>	<i>2001-02^b</i>	<i>2002-03^c</i>
<i>Size</i>						
Total assets	\$m	114	120	132	150	156
Total revenue	\$m	55	60	54	63	76
<i>Profitability</i>						
Operating profit before tax	\$'000	13 824	14 768	15 637	19 462	17 779
Operating sales margin	%	34.3	29.2	29.7	32.1	25.1
Cost recovery	%	152.3	149.9	142.2	147.2	133.6
Return on assets	%	17.1	15.6	13.5	14.9	13.0
Return on equity	%	14.5	12.4	12.1	16.3	13.1
<i>Financial management</i>						
Debt to equity	%	38.8	22.9	26.8	32.6	25.9
Debt to total assets	%	22.3	15.1	17.1	21.1	16.7
Total liabilities to equity	%	75.5	55.8	63.5	64.3	58.4
Interest cover	times	3.5	5.2	12.5	14.4	9.1
Current ratio	%	119.6	105.5	150.0	160.4	107.9
Leverage ratio	%	175.5	155.8	163.5	164.3	158.4
<i>Payments to and from government</i>						
Dividends	\$'000	845	1 750	1 907	6 798	5 155
Dividend to equity ratio	%	1.5	2.5	2.4	7.9	5.4
Dividend payout ratio	%	10.0	19.9	20.0	48.7	41.5
Income tax expense	\$'000	5 377	5 989	6 102	5 496	5 358
CSO funding	\$'000	0	0	0	0	0

^a Includes abnormal revenue of \$4.3 million relating to land transfers and an abnormal expense of \$5.2 million as a result of a revaluation of non-current assets using deprival methodology. ^b The dividend includes \$413 000 for a 'Government Efficiency Dividend' that is not related to profit. ^c The dividend includes \$438 000 for a 'Government Efficiency Dividend' that is not related to profit.

Bunbury Port Authority operates under the *Port Authorities Act 1999*. It owns and manages port facilities and provides pilotage services. Stevedoring and towage services are franchised.

Charges are set by the board and are subject to approval by the Minister. In 2002-03, alumina accounted for over 68 per cent of total port throughput by tonnage. Other major cargoes included caustic soda, woodchips and mineral sands.

Pre-tax operating profit rose by 18 per cent (\$0.9 million) in 2002-03, with a 12 percent (\$1.7 million) increase in revenue. The improvement in profitability was assisted by a record trade throughput.

The Bunbury Port Authority franchised the provision of a range of port services in 1998-99, resulting in \$1.4 million in redundancy payments. Profitability improved in subsequent years due to the reductions in labour costs and lower borrowing costs because of debt restructuring.¹

The Bunbury Port Authority's debt to equity and debt to total asset ratios have declined since 1999-00. This is attributable to a steady decrease in the level of debt over the same period.

The Bunbury Port Authority is required to make dividend payments to the WA Government. In addition, the Bunbury Port Authority was required to pay income tax equivalents from 1 July 1999.²

¹ In July 1999, the Bunbury Port Authority refinanced its outstanding capital works debt facility. It transferred \$13.6 million of debt to the WA Treasury Corporation in order to receive benefits from more competitive interest rates and principal repayment arrangements.

² The Bunbury Port Authority was not liable to make tax-equivalent payments from 1 July 1996 to 30 June 1999.

BUNBURY PORT AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	91	94	99	99	100
Total revenue	\$m	14	14	15	14	16
<i>Profitability</i>						
Operating profit before tax	\$'000	1 870	4 889	6 076	4 768	5 623
Operating sales margin	%	22.8	41.0	45.5	35.7	37.5
Cost recovery	%	155.2	176.8	186.7	164.2	168.9
Return on assets	%	4.1	6.4	7.4	5.7	6.6
Return on equity	%	3.1	4.5	5.8	4.2	4.8
<i>Financial management</i>						
Debt to equity	%	24.5	24.1	21.8	20.2	18.2
Debt to total assets	%	20.2	19.2	16.6	15.4	14.7
Total liabilities to equity	%	33.6	27.1	34.7	31.3	24.6
Interest cover	times	2.2	5.8	6.5	6.6	7.0
Current ratio	%	239.1	470.6	391.4	354.4	428.2
Leverage ratio	%	133.6	127.1	134.7	131.3	124.6
<i>Payments to and from government</i>						
Dividends	\$'000	190	951	1 276	1 582	1 882
Dividend to equity ratio	%	0.3	1.3	1.7	2.1	2.4
Dividend payout ratio	%	10.2	30.0	30.0	50.0	50.0
Income tax expense	\$'000	0	1 720	1 823	1 604	1 859
CSO funding	\$'000	0	0	0	0	0

^a The increase in total assets resulted from the valuation of Crown land controlled by the Bunbury Port Authority that was previously valued at zero in the financial statements. Includes \$1.4 million in redundancy payments to workers as part of the restructuring process associated with franchising some operations. ^b The dividend of \$951 000 in 1999-00 was later revised to \$633 719 to reflect the premature application of a dividend policy in 1999-00 applying to WA port government trading enterprises for 2000-01. If the revised dividend was applied to 1999-00, the dividend to equity and dividend payout ratios for 1999-00 would have been 0.9 per cent and 23.6 per cent respectively.

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.

Charges are set by the PHPA board and are subject to approval by the Minister. In 2002-03, iron ore accounted for around 95 per cent of port throughput by tonnage. The other main cargoes were salt and hot briquetted iron.

Pre-tax operating profit increased 13 per cent (\$335 000) in 2002-03, due to a 19 per cent (\$2.4 million) increase in revenue. The improvement in the PHPA's profitability was related to a record annual trade volume and a 12 per cent increase in pilotage and tonnage charges, the first significant fee increase in 15 years.

In 2002-03, ship-based charges accounted for around 52 per cent of revenue, with most of the remainder derived from cargo-based charges (30 per cent) and lease rentals (10 per cent). The major expenses for the PHPA were maintenance (16 per cent), pilotage transit and hydrology services (31 per cent), and depreciation (15 per cent).

The PHPA operates debt free. The PHPA's liquidity, as measured by the current ratio, worsened in 2002-03, with an increase in current liabilities relating to trade creditors.

The PHPA is required to make tax-equivalent and dividend payments to the WA Government.

PORT HEDLAND PORT AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				44	46
Total revenue	\$m				13	15
<i>Profitability</i>						
Operating profit before tax	\$'000				2 617	2 952
Operating sales margin	%				17.5	16.1
Cost recovery	%				121.1	119.2
Return on assets	%				6.0	6.6
Return on equity	%				4.8	5.3
<i>Financial management</i>						
Debt to equity	%				0.0	0.0
Debt to total assets	%				0.0	0.0
Total liabilities to equity	%				9.9	14.6
Interest cover	times				n.r.	n.r.
Current ratio	%				378.5	285.7
Leverage ratio	%				109.9	114.6
<i>Payments to and from government</i>						
Dividends	\$'000				949	1 043
Dividend to equity ratio	%				2.4	1.3
Dividend payout ratio	%				50.0	50.0
Income tax expense	\$'000				718	865
CSO funding	\$'000				0	0

^a 2001-02 was the first year that the Port Hedland Port Authority was monitored. It was established under the *Port Authorities Act 1999*. **n.r.** Not relevant.

Albany Port Authority (APA) operates under the *Port Authorities Act 1999*. The APA manages port facilities including wharves, and provides pilotage services. Stevedoring, mooring and cold storage services are franchised.¹

Charges are set by the APA board and are subject to approval by the Minister. In 2002-03, the main cargoes moving through the port included grain, silica sand and woodchips. Port throughput increased for the first time since 1997-98, assisted by an improved grain season and the first exports of plantation woodchips from the port.

In 2002-03, the APA recorded a pre-tax loss of over \$1.4 million, mainly because of an extraordinary write-down of assets totalling \$1.8 million for unexpected costs incurred after the discovery of dumped WWII munitions inside the harbour. If this extraordinary item had not been incurred, the APA would have made a pre-tax profit of around \$0.4 million.

The APA's debt to equity ratio increased in 2002-03, from a combination of an increase in debt to cover dredging costs and a decrease in total assets from an asset write-down.

The APA is required to make tax-equivalent and dividend payments to the WA Government.

¹ In July 2002, the APA entered into a leasing arrangement with Southern Regional Transport to operate a cold storage facility.

ALBANY PORT AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03^b</i>
<i>Size</i>						
Total assets	\$m				42	38
Total revenue	\$m				4	5
<i>Profitability</i>						
Operating profit before tax	\$'000				- 36	- 1 463
Operating sales margin	%				1.4	- 17.7
Cost recovery	%				101.4	84.9
Return on assets	%				0.7	- 1.4
Return on equity	%				0.3	- 9.8
<i>Financial management</i>						
Debt to equity	%				59.2	72.6
Debt to total assets	%				31.8	37.3
Total liabilities to equity	%				86.0	86.7
Interest cover	times				0.9	- 0.6
Current ratio	%				43.6	32.1
Leverage ratio	%				186.0	186.7
<i>Payments to and from government</i>						
Dividends	\$'000				0	0
Dividend to equity ratio	%				0.0	0.0
Dividend payout ratio	%				0.0	0.0
Income tax expense	\$'000				- 99	643
CSO funding	\$'000				0	0

^a 2001-02 was the first year that the Albany Port Authority was monitored. It was established under the *Port Authorities Act 1999*. ^b Includes an extraordinary write-down of assets totalling \$1.8 million

Dampier Port Authority (DPA) operates under the *Port Authorities Act 1999*. The DPA manages port facilities including wharves and storage areas. Stevedoring, pilotage and towage services are franchised.

Charges are set by the DPA board and are subject to approval by the Minister. In 2002-03, iron ore accounted for around 80 per cent of port throughput by tonnage. The other main cargoes moving through the port were liquefied natural gas and salt.

Pre-tax operating profit increased by around \$629 000 in 2002-03, despite a \$1.1 million increase in operating expenses. The improvement in the DPA's profitability was mainly due to increased revenue from rendering services (\$667 000) and the sale of non-current assets (\$888 000).

The DPA operated debt free in 2002-03, but will be borrowing up to \$75.6 million over 2003-04 and 2004-05 to invest in a new bulk liquids jetty and access channel to meet the needs of the gas to liquids industry on the Burrup Peninsula. The DPA's liquidity, as measured by the current ratio, decreased substantially in 2002-03 with an increase in current liabilities related to trade creditors. However, the DPA's current ratio remains high, relative to other ports in WA.

The DPA is required to make tax-equivalent and dividend payments to the WA Government. In 2002-03, the dividend included a \$24 000 'efficiency dividend' that was not related to the DPA's profitability.

DAMPIER PORT AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03^b</i>
<i>Size</i>						
Total assets	\$m				22	23
Total revenue	\$m				3	5
<i>Profitability</i>						
Operating profit before tax	\$'000				- 269	360
Operating sales margin	%				- 13.4	3.4
Cost recovery	%				88.2	103.5
Return on assets	%				- 1.2	1.6
Return on equity	%				- 0.9	1.2
<i>Financial management</i>						
Debt to equity	%				0.0	0.0
Debt to total assets	%				0.0	0.0
Total liabilities to equity	%				3.5	8.1
Interest cover	times				n.r.	n.r.
Current ratio	%				692.2	368.5
Leverage ratio	%				103.5	108.1
<i>Payments to and from government</i>						
Dividends	\$'000				96	150
Dividend to equity ratio	%				0.4	0.7
Dividend payout ratio	%				- 48.5	59.8
Income tax expense	\$'000				- 71	109
CSO funding	\$'000				0	0

^a 2001-02 was the first year that the Dampier Port Authority was monitored. It was established under the *Port Authorities Act 1999*. ^b In 2002-03, the dividend included a \$24 000 'efficiency dividend'. **n.r.** Not relevant.

Geraldton Port Authority 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.¹

Charges are set by the board and are subject to approval by the Minister. In 2002-03, the main cargoes moving through the port included grain, mineral sands, and petroleum products. Port throughput was at its lowest level since 1997-98, and was 5.2 per cent lower than in 2001-02, partly due to lower grain exports.

Pre-tax operating profit improved slightly in 2002-03, due to an increase in revenue, mainly related to higher returns from non-operating activities such as rentals, leases, fishing industry facilities and the sale of assets.

In 2002-03, total assets increased by more than \$93 million, following the commencement of the Port Enhancement Project (PEP). The PEP involves deepening the harbour basin and deepening and widening shipping access channels to allow deeper draft access to the port.

Debt increased substantially in 2002-03, reflecting increased borrowing to fund the PEP. The PEP had a significant effect on the Geraldton Port Authority's financial management indicators.

The Geraldton Port Authority is required to make tax-equivalent and dividend payments to the WA Government. No dividend was recommended by the board for 2001-02.

¹ The Geraldton Port Authority issues non-exclusive licences to stevedores operating in the port. Under the licences, the Geraldton Port Authority monitors tariffs, manning levels, operational procedures, continuity of service, customer satisfaction and improvement in working practices.

GERALDTON PORT AUTHORITY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				36	130
Total revenue	\$m				10	10
<i>Profitability</i>						
Operating profit before tax	\$'000				25	103
Operating sales margin	%				5.4	6.3
Cost recovery	%				105.7	106.7
Return on assets	%				2.1	0.9
Return on equity	%				0.0	0.5
<i>Financial management</i>						
Debt to equity	%				46.2	441.2
Debt to total assets	%				28.2	114.1
Total liabilities to equity	%				63.6	505.6
Interest cover	times				1.0	1.2
Current ratio	%				131.2	76.0
Leverage ratio	%				163.6	605.7
<i>Payments to and from government</i>						
Dividends	\$'000				0	126
Dividend to equity ratio	%				0.0	0.3
Dividend payout ratio	%				0.0	117.8
Income tax expense	\$'000				19	- 4
CSO funding	\$'000				0	0

^a 2001-02 was the first year that the Geraldton Port Authority was monitored. It was established under the *Port Authorities Act 1999*. Actual return on equity was 0.03 per cent.

Burnie Port Corporation (BPC) was established on 30 July 1997 under the *Port Companies Act 1997* and is subject to the *Corporations Act 2001* (Cth). The BPC owns and manages port and cold storage facilities, and provides pilotage services. Prior to January 2002, it also owned and managed Burnie airport.¹

Charges are set by the BPC board. In 2002-03, the main cargoes passing through the port were woodchips, mineral concentrates and paper. Container throughput was around 153 000 twenty-foot equivalent units.

Pre-tax operating profit fell by 18 per cent (\$251 000) in 2002-03, mainly due to a decrease in revenue following the sale of airport assets in January 2002.² The BPC's expenditure was similar to that of the previous year.

Total assets decreased in 2002-03, due to a fall in investments (\$1.7 million) and a reduction in the value of property, plant and equipment as a result of depreciation and amortisation (\$1.9 million). Total assets decreased previously, with downward revaluations in 1999-00 (\$5.1 million) and 2000-01 (\$2.6 million).

Debt levels have fallen each year since 1998-99. The decline in debt has contributed to a fall in the debt to equity ratio and a rise in interest cover.

The BPC is required to make both tax-equivalent and dividend payments to the Tasmanian Government. There was no income tax expense or provision for income tax over the reporting period because of carried forward tax losses. In 2002-03, an ex-gratia \$270 000 dividend payment was made.³

¹ The airport was purchased in January 2002 by Burnie Airport Corporation Pty Ltd — a joint-venture between the Burnie City Council and Australian Regional Airports Pty Ltd. In 2000-01, the BPC's airport operations accounted for 8 per cent of its revenue and around 16 per cent of its assets.

² The BPC reported an increase of profit for 2002-03 because under accounting standards the pre-tax operating profit for 2001-02 was \$897 000, whereas under GFS the profit was \$1.377 million. The concepts underlying GFS and accounting standards lead to different outcomes in this case (see chapter 3). The difference relates to the treatment of a \$480 000 loss incurred on the sale of airport assets.

³ Dividend recommendations are made after the end of the financial year and are not provided for in that year. In August 2002, the BPC board recommended an ex-gratia payment in the form of a dividend of \$225 000 in relation to 2001-02. In 2002-03, a revised dividend payment of \$270 000 was paid out of retained profits.

BURNIE PORT CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00^a</i>	<i>2000-01^b</i>	<i>2001-02^c</i>	<i>2002-03^d</i>
<i>Size</i>						
Total assets	\$m	46	41	38	41	38
Total revenue	\$m	13	15	12	11	11
<i>Profitability</i>						
Operating profit before tax	\$'000	948	- 2 584	- 2 536	1 377	1 126
Operating sales margin	%	19.7	- 10.4	- 12.0	16.8	11.8
Cost recovery	%	124.3	130.2	107.2	120.1	113.4
Return on assets	%	6.3	- 2.5	- 2.3	5.8	4.7
Return on equity	%	4.8	- 12.8	- 14.4	8.2	6.4
<i>Financial management</i>						
Debt to equity	%	97.2	99.7	95.1	75.3	53.8
Debt to total assets	%	46.5	43.3	39.0	32.5	24.5
Total liabilities to equity	%	113.3	118.4	135.0	140.2	109.8
Interest cover	times	1.5	- 0.7	- 0.6	2.5	2.5
Current ratio	%	195.6	101.5	206.6	353.7	352.5
Leverage ratio	%	213.3	218.4	235.0	240.2	209.8
<i>Payments to and from government</i>						
Dividends	\$'000	0	0	0	0	270
Dividend to equity ratio	%	0.0	0.0	0.0	0.0	1.5
Dividend payout ratio	%	0.0	0.0	0.0	0.0	24.0
Income tax expense	\$'000	0	0	0	0	0
CSO funding	\$'000	0	0	0	0	0

^a Includes an abnormal expense of \$5.1 million due to an asset devaluation. ^b Includes an abnormal expense of \$2.6 million due to an asset devaluation. ^c The Burnie Port Corporation board recommended a dividend payment of \$225 000. However, it was not provided for in the financial statements. If this amount had been provided for, the dividend to equity ratio would have been 1.3 per cent and the dividend payout ratio would have been 16.3 per cent. ^d In 2002-03, an ex-gratia dividend payment of \$270 000 (revised from \$225 000), was paid out of retained profits. This payment relates to 2001-02, but was not provided for in the financial statements for that year.

Hobart Ports Corporation (HPC) was established on 30 July 1997 under the *Port Companies Act 1997* and is subject to the *Corporations Act 2001* (Cth). The HPC owns and operates port facilities in Hobart, Triabunna, Port Huon, Strahan, Stanley and King Island. It also provides stevedoring and plant hire services in several other Tasmanian and South Australian ports.¹ The HPC owns 98 per cent of the Hobart International Airport Pty Ltd (HIA) and 100 per cent of King Island Ports Corporation.²

Charges are set by the HPC's board. In 2002-03, total port trade was over 3 million mass tonnes. The main bulk cargoes were zinc and petroleum products.

In 2002-03 the HPC's profit rose by \$837 000, with significant increases in revenue from port operation and distributions (\$3 million) and goods for resale (\$450 000).

The HPC's debt has increased by 19 per cent over the reporting period. Despite this, interest cover has continued to rise, largely because a significant portion of the HPC's borrowings are interest free. In 2002-03, 23 per cent of the HPC's outstanding debt was interest free.³

The HPC is required to make tax-equivalent and dividend payments. In 1999-00, the negative tax-equivalent payment was mainly the result of the restatement of deferred tax balances following a reduction in the company tax rate for future years.

¹ During 2001-02, the HPC formed a wholly-owned subsidiary — Risdon Port Services Pty Ltd — to provide stevedoring and maintenance services to Pasminco Limited.

² Despite having a 98 per cent ownership share in the HIA, it's operations are not consolidated in the HPC's accounts because a joint venture agreement limits its capacity to make decisions over financial and operating policies. HPC's interest in the HIA is accounted for using the 'equity method', whereby the initial investment in the HIA is recognised as an asset and adjustments are made its value to reflect the HPC's share of profits or losses in each subsequent year. In 2002-03, the HPC's share of operating profit after tax was around \$1.2 million.

³ In 2001-02, the HPC was given a \$4.6 million, interest free loan by the HIA. In 2002-03, \$2.7 million was outstanding on the loan.

HOBART PORTS CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03^a</i>
<i>Size</i>						
Total assets	\$m	61	64	70	73	76
Total revenue	\$m	16	17	22	31	36
<i>Profitability</i>						
Operating profit before tax	\$'000	371	765	1 220	5 285	6 122
Operating sales margin	%	6.0	7.8	7.9	18.5	18.3
Cost recovery	%	103.5	108.5	108.6	122.8	122.4
Return on assets	%	1.7	2.3	2.8	8.4	9.1
Return on equity	%	1.0	1.7	1.5	7.5	8.8
<i>Financial management</i>						
Debt to equity	%	22.7	20.8	29.8	24.9	22.2
Debt to total assets	%	16.8	15.9	21.4	17.7	16.4
Total liabilities to equity	%	35.0	33.5	45.6	43.9	37.8
Interest cover	times	1.5	2.1	2.8	8.8	10.3
Current ratio	%	136.0	146.9	100.7	128.4	186.1
Leverage ratio	%	135.0	133.5	145.6	143.9	137.8
<i>Payments to and from government</i>						
Dividends	\$'000	700	540	540	975	0
Dividend to equity ratio	%	1.5	1.2	1.1	2.0	0.0
Dividend payout ratio	%	148.1	67.4	76.9	26.4	0.0
Income tax expense	\$'000	- 102	- 37	518	1 590	1 452
CSO funding	\$'000	0	0	0	0	0

^a In 2002-03, the Hobart Ports Corporation adopted accounting standard AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets*. Under this standard dividends are recognised at the time they are declared, determined or publicly recommended. In previous years, dividend payments were recognised in the financial year to which they related. As a result no provision for dividend has been recognised for 2002-03 (see chapter 3).

Port of Devonport Corporation (PDC), formerly the Port of Devonport Authority, was established on 30 July 1997 under the *Port Companies Act 1997* and is subject to the *Corporations Act 2001* (Cth). The PDC's activities cover the management of port facilities, cold storage operations and the ownership and management of an airport. In 2002-03, port operations accounted for 68 per cent of total revenue. Cold storage and airport operations accounted for around 15 per cent and 10 per cent of total revenue respectively.

Charges are set by the PDC board. In 2002-03, major contributions to port revenue came from visits by passenger and vehicle ferries and trade in cement, food and general cargoes.

Pre-tax operating profit increased by over \$2 million in 2002-03, mainly because of revenue growth across the PDC's core businesses. Port revenue increased by \$1.6 million, with a record cargo throughput and the introduction of a second 'TT-line' ferry to the Melbourne-Devonport route.

The value of assets has remained largely unchanged over the reporting period. Capital expenditure of \$4.8 million in 2002-03 was mainly related to the construction of additional cold storage capacity and infrastructure required for the new 'TT-line' ferries.

Debt levels have remained stable since 1998-99.

The PDC is required to make tax-equivalent and dividend payments to the Tasmanian Government. A dividend of almost \$78 000 was paid during 2002-03. This payment related to 2001-02, however, due to a change in accounting policy the dividend was recognised in 2002-03 (see chapter 3).

PORT OF DEVONPORT CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00^a</i>	<i>2000-01^b</i>	<i>2001-02^c</i>	<i>2002-03^d</i>
<i>Size</i>						
Total assets	\$m	45	46	45	45	47
Total revenue	\$m	10	10	11	10	11
<i>Profitability</i>						
Operating profit before tax	\$'000	453	2 069	1 068	499	2 530
Operating sales margin	%	6.5	21.8	9.0	5.2	23.7
Cost recovery	%	118.6	127.8	109.9	105.4	131.0
Return on assets	%	2.6	5.9	3.5	2.3	6.6
Return on equity	%	0.2	3.6	0.6	0.5	4.7
<i>Financial management</i>						
Debt to equity	%	25.3	22.2	22.0	21.7	20.9
Debt to total assets	%	19.5	16.7	16.6	16.6	16.3
Total liabilities to equity	%	33.4	33.5	32.0	30.4	31.4
Interest cover	times	1.7	4.3	3.0	2.0	6.0
Current ratio	%	454.6	322.7	336.0	675.4	436.4
Leverage ratio	%	133.4	133.5	132.0	130.4	131.4
<i>Payments to and from government</i>						
Dividends	\$'000	440	925	108	0	78
Dividend to equity ratio	%	1.3	2.7	0.3	0.0	0.2
Dividend payout ratio	%	657.1	75.8	50.0	0.0	4.7
Income tax expense	\$'000	386	849	852	343	869
CSO funding	\$'000	0	0	0	0	0

^a Dividend includes \$304 000 paid in relation to the previous year. ^b Includes a net loss of \$1.6 million on the sale of assets. ^c A dividend of \$77 867 was declared by the board subsequent to the end of the financial year but not included in the financial accounts. If this had been provided for in the accounts for 2001-02, the dividend to equity ratio would have been 0.2 per cent and the dividend payout ratio would have been 49.3 per cent. ^d In 2001-02, the PDC adopted accounting standard AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets*. Under this standard, dividends are recognised at the time they are declared, determined or publicly recommended. In previous years, dividend payments were recognised in the financial year to which they related. A dividend of \$901 640 was declared by the board subsequent to the end of the 2002-03 financial year and therefore not included in the 2002-03 financial accounts.

Port of Launceston Pty Ltd was established on 30 July 1997 under the *Port Companies Act 1997* and is subject to the *Corporations Act 2001* (Cth). Upon commencing operations, Flinders Island Ports Company (formerly the Flinders Marine Board) was acquired. Port of Launceston provides pilotage services and port facilities, including wharves and unloading equipment.

Charges are set by the Port of Launceston board. In 2002-03, the main types of goods traded through the port were woodchips, metals, minerals and containerised cargoes.

Pre-tax operating profit rose by 17 per cent (\$155 000) in 2002-03, with revenue from services increasing by \$727 000. The improvement in operating revenue was partially offset by a rise in costs, including a \$600 000 increase in expenses relating to employee benefits.

Port of Launceston's debt to total asset ratio has declined over the reporting period. This resulted from a decline in debt while total assets remained largely unchanged.

The Port of Launceston is required to make tax-equivalent and dividend payments to the Tasmanian Government.

PORT OF LAUNCESTON PTY LTD (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02^d</i>	<i>2002-03^e</i>
<i>Size</i>						
Total assets	\$m	45	45	43	44	44
Total revenue	\$m	8	10	9	9	10
<i>Profitability</i>						
Operating profit before tax	\$'000	188	1 432	462	942	1 097
Operating sales margin	%	18.9	24.1	14.8	19.7	19.2
Cost recovery	%	123.9	105.6	117.4	124.5	123.8
Return on assets	%	3.6	5.8	3.5	4.3	4.5
Return on equity	%	1.8	4.6	0.8	1.9	2.7
<i>Financial management</i>						
Debt to equity	%	60.9	52.9	29.3	43.3	39.4
Debt to total assets	%	34.7	31.0	27.7	26.1	23.9
Total liabilities to equity	%	80.2	69.3	4.1	67.6	64.2
Interest cover	times	1.1	2.2	1.4	2.0	2.3
Current ratio	%	102.9	185.5	161.9	170.7	147.6
Leverage ratio	%	180.2	169.3	104.1	167.6	164.2
<i>Payments to and from government</i>						
Dividends	\$'000	150	0	939	0	662
Dividend to equity ratio	%	0.6	0.0	2.8	0.0	2.5
Dividend payout ratio	%	31.7	0.0	333.6	0.0	90.8
Income tax expense	\$'000	-285	259	180	298	370
CSO funding	\$'000	0	0	0	0	0

^a Both assets and liabilities increased with a change in the reporting treatment of future income tax benefit and the provision of deferred tax. Both total assets and total liabilities increased by \$3.5 million. ^b Includes abnormal revenue of \$2 million, mainly the result of the settlement of a writ issued by the port against Coastal Express Line for the termination of a lease. ^c The dividend includes \$604 000 that was attributed to 1999-00 but not provided for in that year. ^d Dividend payments totalling \$335 000 relating to 2001-02 were provided for in 2000-01. ^e In 2001-02, the Port of Launceston adopted accounting standard AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets*. Under this standard dividends are recognised at the time they are declared, determined or publicly recommended. There was no financial impact of this standard for 2002-03 (see chapter 3 for details).

Darwin Port Corporation (DPC) was established under the *Darwin Port Corporation Act 1999*.¹ The DPC is responsible for the management of a portfolio of marine facilities, pilotage services and the provision of services such as reception facilities for cruise and naval vessels.

Charges for port services are set by the DPC board and are subject to approval by the Minister. In 2002-03, the major cargoes passing through the port included petroleum products, cement clinker and livestock.

The DPC has made several downward revaluations of its assets during the reporting period, which have adversely affected profitability. The adjustments were \$2 million, \$61 million, \$7 million, \$35 million, and most recently in 2002-03, \$44 million.

The construction of new facilities at East Arm Wharf are being funded by the NT Department of Infrastructure, Planning and Environment with work in progress transferred to the DPC annually and treated by the DPC as an equity injection. In 2001-02 and 2002-03 the values of assets transferred in each year to DPC were written down to zero to reflect the fact that no extra income is expected to accrue to the DPC from these assets.

Total revenue has remained stable over most of the reporting period. The significant increase in revenue in 1999-00 was mainly due to \$21 million in proceeds from the sale of non-current assets.

During 1999-00, the DPC undertook debt restructuring. The DPC was able to reduce its debt levels by transferring land and buildings valued at \$21 million to the NT Government in exchange for the retirement of an equivalent level of debt.

The DPC is required to make tax-equivalent and dividend payments. Dividend payments are set at 50 per cent of operating profit after tax. No dividend has been paid since 1998-99.

The DPC receives community service obligation (CSO) funding to cover costs associated with the operation and management of the Stokes Hill wharf and precinct, the fishing harbour mooring basin and other wharf facilities. CSO funding was also received for the East Arm Port development.²

¹ Prior to September 1999, the DPC's operations were carried out by the Darwin Port Authority.

² This CSO addressed debt servicing and costs incurred in the duplication of services. Funding associated with the East Arm Port development accounts for the largest share of the DPC's CSO payments.

DARWIN PORT CORPORATION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01^c</i>	<i>2001-02^d</i>	<i>2002-03^e</i>
<i>Size</i>						
Total assets	\$m	136	68	62	55	57
Total revenue	\$m	17	38	15	17	19
<i>Profitability</i>						
Operating profit before tax	\$'000	495	- 47 685	- 5 202	- 33 072	- 43 458
Operating sales margin	%	24.3	- 117.5	- 20.5	- 188.7	- 221.6
Cost recovery	%	159.9	174.4	83.0	34.6	31.1
Return on assets	%	3.3	- 43.4	- 3.8	- 52.0	- 73.2
Return on equity	%	- 1.0	- 97.7	- 21.1	- 198.6	- 272.5
<i>Financial management</i>						
Debt to equity	%	76.6	132.4	173.1	227.5	187.7
Debt to total assets	%	41.8	34.2	51.9	57.1	59.5
Total liabilities to equity	%	83.6	158.3	218.0	275.8	220.7
Interest cover	times	1.1	- 12.5	- 0.9	- 11.6	- 17.8
Current ratio	%	170.6	244.2	180.9	201.6	429.4
Leverage ratio	%	183.6	258.3	318.0	375.8	320.7
<i>Payments to and from government</i>						
Dividends	\$'000	1 374	0	0	0	0
Dividend to equity ratio	%	1.9	0.0	0.0	0.0	0.0
Dividend payout ratio	%	- 178.2	0.0	0.0	0.0	0.0
Income tax expense	\$'000	1 266	1 234	-362	879	- 865
CSO funding	\$'000	5 273	5 436	3 400	4 743	6 844

^a Operating profit decreased due to a \$2.2 million downward revaluation of assets. ^b Operating profit decreased by \$61 million due to the revaluation of assets. Revenue includes \$21 million from asset sales.

^c Includes a \$15 million revaluation decrement resulting from a revaluation of harbour improvements using deprival methodology. ^d Includes a revaluation decrement of \$4.8 million relating to assets that are used to fulfil community service obligations rather than to generate profits. Includes a decrement of \$30 million relating to assets that were written down to zero to reflect that they will result in no extra income to the Darwin Port Corporation, after being transferred from the NT Department of Infrastructure, Planning and Environment.

^e Includes a decrement of \$43 million relating to assets that were written down to zero to reflect that they will result in no extra income to the Darwin Port Corporation, after being transferred from the NT Department of Infrastructure, Planning and Environment.

12 Forestry

The financial performances of six forestry government trading enterprises (GTEs) are covered in this chapter. The forestry sector was first included in this series of reports on financial performance monitoring in 2001-02, expanding the coverage of the report to include a sector of the economy that contributes around 0.2 per cent of Australia's gross domestic product (ABS 2003a, ABARE 2003a).

Forestry GTEs from five states and the ACT are monitored: State Forests of NSW (SFNSW), DPI Forestry Queensland (DPI Forestry), Forests Products Commission of WA (FPCWA), ForestrySA, Forestry Tasmania and ACT Forests.

These forestry GTEs have undergone significant restructuring, which has improved their commercial focus. In some jurisdictions, forestry GTEs operate under the same framework that applies to GTEs in other sectors.

Financial data is only presented for 2001-02 and 2002-03. In 2002-03, the six monitored forestry GTEs had a combined asset value of almost \$6 billion and generated over \$1 billion in revenues.

No GTEs are included from Victoria or the NT. In Victoria, VicForests undertakes comparable activities to the monitored forestry GTEs, however it is not possible to compare its financial performance. As a service unit with the Department of Sustainability and the Environment (formerly the Department of Natural Resources and the Environment), it did not produce separate financial statements or Government Financial Statistics (see chapter 3). The NT does not have a government-owned forestry GTE.

Financial performance summaries, including performance indicators for each GTE, are presented after this introduction. The performance indicators are consistent across individual GTEs. For a discussion of the data and the financial indicators used and some of the factors that should be considered when assessing performance, see chapter 3. Specifically, care should be taken to consider differences in market environments and issues relating to the valuation of assets — particularly commercial forest assets.

12.1 Monitored GTEs

The monitored forestry GTEs provided a broad range of services (see table 12.1) including:

- plantation and native forest management;
- the supply of forest products to the timber industry;
- the research and development of new forestry techniques and processes;
- contributions to the marketing of forest products; and
- the management of activities not related to timber production, which occur in state-managed native forests and plantations, including beekeeping, recreation facilities, grazing and quarrying.

In addition, forestry GTEs generally have responsibility for fire-fighting and other ancillary forest management activities.

Four of the monitored GTEs have responsibility for managing commercial native forests. ForestrySA and ACT Forests only operate plantation forests. The forestry GTEs monitored in this report manage over 750 000 hectares of plantation forests. SFNSW was the largest plantation owner, controlling around 238 000 hectares of predominantly softwood (radiata pine) plantations in 2002-03.

The size of monitored forestry GTEs — in terms of the value of their assets controlled and revenue — varies substantially (see figure 12.1). In 2002-03, the smallest GTE, in terms of asset value, was ACT Forests (\$119 million) and the largest was SFNSW (\$2.4 billion). The amount of revenue earned by each GTE in 2002-03 was similarly diverse.

The governance framework for forestry GTEs differs between jurisdictions. Differences include the degree of emphasis on commercial objectives by boards and governments — compared to other objectives such as environmental management and community education.

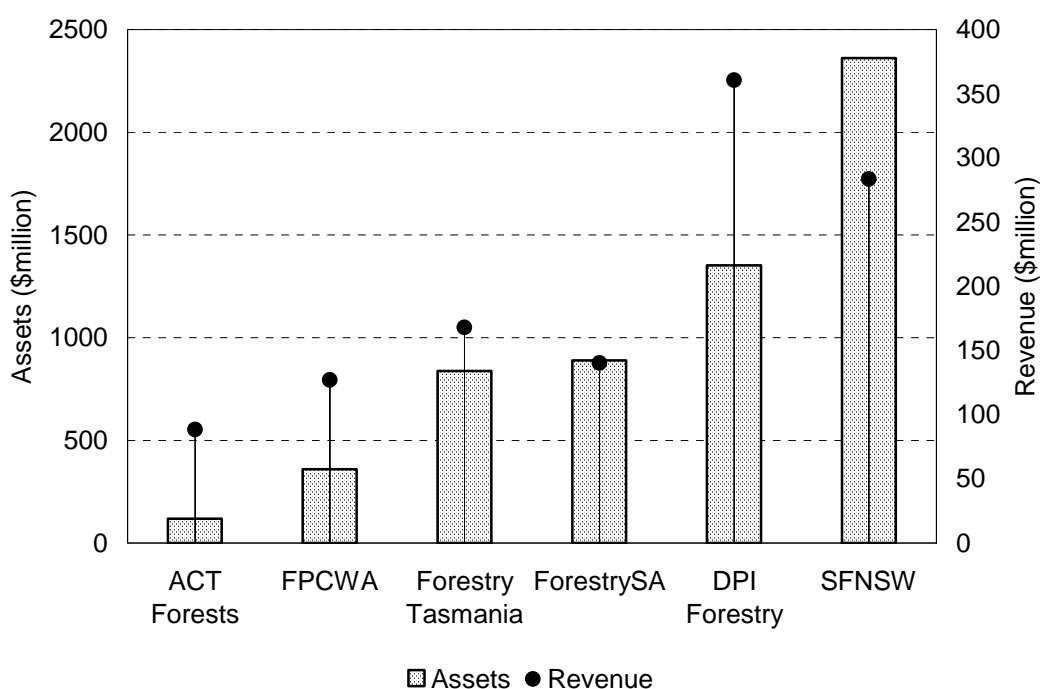
SFNSW, ForestrySA, the FPCWA and Forestry Tasmania are corporatised GTEs. DPI Forestry and ACT Forests are commercialised business units within government departments.

Table 12.1 **Activities — forestry GTEs, 2002-03**

Forestry GTE	Activities			
	Plantation management	Native forest management	Research and marketing	Tourism and recreation activities
SFNSW	✓	✓	✓	a
DPI Forestry	✓	✓	✗	a
FPCWA	✓	✓	✓	✗
ForestrySA	✓	✓ ^b	✓	a
Forestry Tasmania	✓	✓	✓	✓
ACT Forests	✓	✗	✓	a

a Most of the monitored forestry GTEs provided various tourism activities, such as scenic drives, picnic areas and hiking trails. Except for ForestryTasmania, these activities generated negligible revenues for the GTEs in 2001-02 and 2002-03. **b** ForestrySA receives community service obligation funding for specific native forest management activities.

Figure 12.1 **Assets and revenue — forestry GTEs, 2002-03**



Source: Productivity Commission estimates.

12.2 Market environment

The financial performance of forestry GTEs is linked to the volatility of demand for timber products, changes to industry regulations and to accounting standards.

Demand for forest products

The major traded output of forestry GTEs are logs. These are either harvested by the GTEs themselves or by private loggers operating as sub-contractors to privately-owned sawmills and pulp mills. 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
- pulplogs — for conversion into woodchips (mainly for export) and fibreboard, particleboard or pulp (for subsequent conversion into paper and paperboard products).

Sawlogs are generally not exported and the demand for them is influenced by local economic conditions and government policies. For example, the introduction of the Goods and Services Tax (in July 2000) negatively affected the building industry. However, with a return to more buoyant building industry, demand for sawn timber and ultimately sawlogs rose strongly during 2001-02 and 2002-03 (ABS 2004).

According to ABARE (2000), 40 per cent of pulpwood harvested in Australia each year is sold domestically for making pulp and paper products, while the majority (60 per cent) is exported — mainly as woodchips. Almost 90 per cent of Australia's woodchip exports go to Japan. Researchers from the Forestry Department at the Australian National University (ANU) considered that factors such as the accumulation of paper stocks in Japan and a depressed Japanese economy contributed to the decline in export demand for pulpwood during the late 1990s, causing the world price of woodchips to steadily decrease from 1995 (ANU 1999, ABARE 2003b).

Industry reforms

During the 1990s, forestry GTEs were reformed. The reforms arose out of the National Forest Policy Statement (NFPS), Regional Forest Agreements (RFAs), the Plantations 2020 Strategy and the application of National Competition Policy.

National Forest Policy Statement

The Commonwealth and all State and Territory governments signed the NFPS in 1992. The NFPS was a comprehensive agreement that sought to provide a 'blueprint' for the future management of Australia's forests, particularly its native forests. Aspects of the statement that were of particular significance to forestry GTEs 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; and
- the expansion of Australia's commercial plantations of softwoods and hardwoods.

Regional Forest Agreements

RFAs are intended to provide greater certainty and more security about forest conservation and timber resource supply. More specifically, RFAs are intended to:

- reduce uncertainty for industry and duplication in 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; and
- provide secure access to resources for the forestry industry.

Since 2000, hardwood woodchips from native forests could only be exported from forest regions in which RFAs had been successfully negotiated in NSW, Victoria, WA and Tasmania. Queensland did not enter into an RFA. An alternative, state-developed South-East Queensland Forests Agreement was agreed to in September 1999.

SA, NT and the ACT do not have government-owned commercial native forest operations, and therefore do not have to enter into RFAs.

Plantations 2020

The Plantations 2020 strategy included a proposal to treble the area of Australia's plantation forests by 2020, in line with previous proposals in the NFPS. In July 1996, this initiative was endorsed by the Ministerial Council on Forestry, Fisheries and Aquaculture. In addition to providing timber assets, plantations can provide salinity controls, biomass energy and carbon sequestration.

The Australian Bureau of Agricultural and Resource Economics (ABARE) forecast that by 2010 forest plantations could be providing 75 per cent of domestic wood supplies, compared with earlier expectations of only 62 per cent (ABARE 2002).

National Competition Policy

Under National Competition Policy (NCP), governments have agreed, among other things, to minimise resource allocation distortions caused by forestry GTEs enjoying a net competitive advantage derived from their public sector ownership. In the 2003 NCP assessment, the National Competition Council stated that under clause 3 of the Competition Principles Agreement (CPA), governments are obliged to either:

- corporatise the business activities of these agencies, and impose taxes or tax-equivalents, debt guarantee fees and regulations equivalent to those of private sector competitors; or
- ensure that the goods and services they supply are priced to cover their full costs of production, including, where appropriate, taxes or tax-equivalents, debt guarantee fees and costs arising from regulations to which private businesses are normally subject (NCC 2003a).

Under the CPA, governments are obliged to also separate regulatory and commercial functions. This is to prevent GTEs gaining an advantage over their rivals by the way they regulate the industry (NCC 2003a).

12.3 Profitability

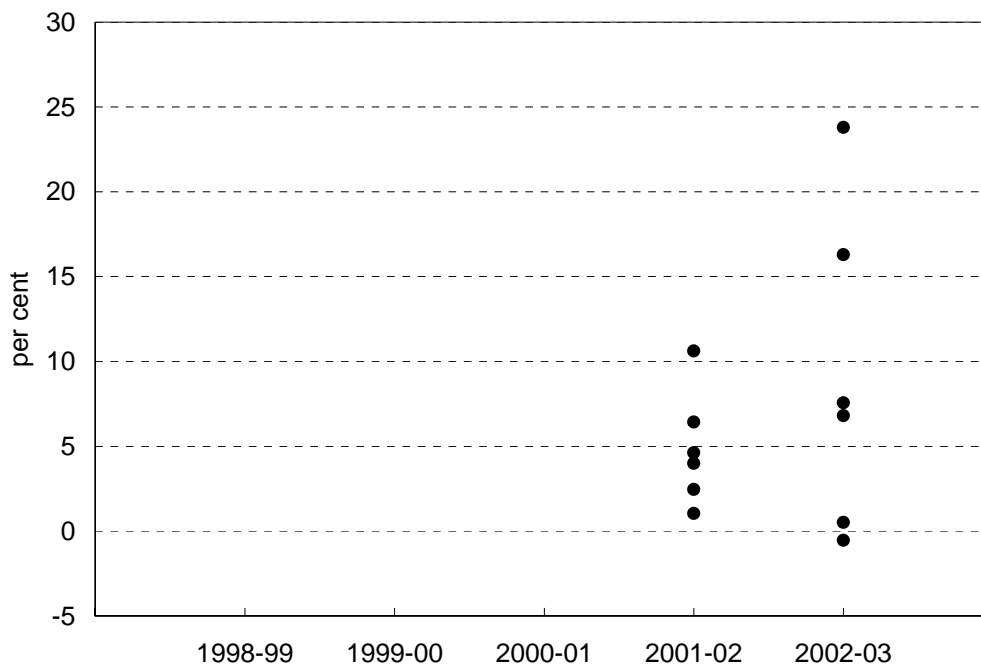
Profitability indicators provide information on how GTEs are using the assets vested in them by shareholder governments to generate earnings. Each monitored forestry GTE reported a positive return on assets in 2001-02. However Forestry Tasmania recorded a negative return on assets in 2002-03 (see figure 12.2). Four of the forestry GTEs improved their return on assets in 2002-03, and return on assets

for the sector as a whole increased from 4.4 per cent in 2001-02 to 7 per cent in 2002-03.

Following the introduction of Australian Accounting Standard AAS 35 in June 2000, self generating and regenerating assets (SGARAs), which are held primarily for profit, have been valued at their net market value at each reporting date. Increments and decrements to SGARAs are recognised directly in the statement of financial performance.

From year-to-year, the profitability indicators of forestry GTEs can vary dramatically, due to the recognition of movements in the market value of SGARAs. Even small changes to the asset's total value are likely to have a significant impact on operating performance.

Figure 12.2 Return on assets — forestry GTEs, 1998-99 to 2002-03^a



Note Return on assets is the ratio of earnings before interest and tax (EBIT) to average total assets. EBIT is calculated by subtracting total expenses from total revenue and adding back gross interest expense. Average total assets is the average of the value of assets at the beginning and end of each financial year. Where an average was not available, the value of total assets at the end of the financial year was used. The Commission commenced monitoring the forestry sector in 2001-02.

Source: Productivity Commission estimates.

The value of SGARAs will be influenced primarily by changes in the following:

- *The volume of timber*: The volume of timber is affected by changes in the area of commercial forests (natural or plantation) controlled by a GTE, or by changes in the commercial timber available within the existing commercial forest areas.
- *Age and quality of timber*: Trees of different ages attract a different value per cubic metre. Older, larger trees generally have higher value uses — such as building materials and furniture — than younger, smaller trees. Different species of trees also have different use values and attract different prices in the market.
- *Market prices*: The prevailing market prices for the sawlogs and puplogs harvested from SGARA assets.

Other things being equal, forestry GTEs can model with some precision the expected physical changes in their SGARA asset base resulting from the first two items. However, changes in the demand for SGARAs can be highly variable and are outside the control of forestry GTEs.

Importantly, changes in demand conditions are generally the predominant factor influencing market prices because supply is generally constant. Therefore, fluctuations in demand largely determine movement in the overall value of SGARAs from year-to-year. During both 2001-02 and 2002-03, each monitored forestry GTE adjusted the value of their SGARAs (see table 12.2). Highlighting the potential significance of SGARA revaluations, DPI Forestry's SGARA revaluation increment of \$255 million in 2002-03 accounted for 89 per cent of its pre-tax operating profit.

Table 12.2 Size of SGARA revaluations — forestry GTEs, 2001-02 and 2002-03

GTE	SGARA revaluation (\$million)	
	2001-02	2002-03
SNFSW	34.3	57.1
DPI Forestry	84.5	255.0
ForestrySA	3.8	21.0
FPCWA	-1.2	13.7
Forestry Tasmania	9.6	-25.3
ACT Forests	2.2	3.6

Source: Annual reports.

SGARAs are typically valued using their net present value (NPV). Under AAS 35, forest assets may be valued at either the *in situ* market price of the timber asset, or at the NPV. Using *in situ* market prices is problematic since there are few transactions on which to value forest-lots of *in situ* timber. Consequently, the

alternate approach of valuing forest at their NPV — the net present value of expected future profits — is typically used.

When assets are valued using an NPV approach, this creates a link between asset values and rates of return. This arises because there is an implicit assumption of a required rate of return in determining the NPV, linking the asset value to the rate of return. Since rates of return themselves depend on asset values, this creates a circularity between asset values and rates of return.

This ‘circularity’, coupled with the sensitivity of rate of return measures to factors unrelated to the performance of the forestry agency (for example, changes in market conditions), suggests that, for performance monitoring purposes, annual rates of return need to be assessed in the context of longer-term trends and other relevant information (CCNCO 2001).

In 2001-02 and 2002-03, DPI Forestry, the FPCWA and Forestry Tasmania used estimates of NPV to calculate their SGARA valuations. ForestrySA and ACT Forests used current market prices, though ForestrySA valued ‘pre-commercial’ stands of timber (those aged less than 15 years) at historical cost. SFNSW used market price to assess softwood plantation and native forest timber, but valued hardwood plantations on the basis of historical cost, due to difficulties in determining market prices for this asset.

Profitability measures in 2001-02 were, in some cases, also affected by the correction of modelling errors relating to the previous financial year. For example, Forestry Tasmania reported that the net market value of standing timber in 2000-01 was overstated by \$12.5 million. If the error had not been discovered, Forestry Tasmania’s pre-tax operating profit would have been \$21.7 million (or 236 per cent) higher in 2001-02. The FPCWA also reported around \$10 million in corrections for errors in their inventory and standing timber valuations.

In 2002-03, the performance of ACT forests was largely dictated by extraordinary items relating to a catastrophic bushfire, which destroyed much of its plantation forest assets. Revenue from insurance recoveries made up 83 per cent of ACT Forest’s total revenue for the year, while expenses relating to the fire contributed over 85 per cent of total expenses, making it difficult to compare performance in 2002-03 with that of 2001-02.

The cost recovery ratio indicates a GTE’s ability to generate adequate revenue to cover expenses. In 2001-02, every forestry GTE reported a cost recovery ratio of over 100 per cent. In 2002-03, SFNSW and Forestry Tasmania reported cost recovery ratios of just under 100 per cent.

12.4 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.

The total level of debt for the forestry sector overall in 2002-03 was around \$313 million. No forestry GTE operated debt-free. The only GTE to operate debt-free in 2001-02, ForestrySA, accumulated around \$2 million in new debt during 2002-03. Three of the five GTEs that did carry debt in 2001-02 decreased their ratio of debt to total assets during 2002-03 (see figure 12.3).

Figure 12.3 **Debt to total assets — forestry GTEs, 1998-99 to 2002-03**



Note Debt is defined to include all repayable borrowings (interest bearing and non-interest bearing), interest bearing non-repayable borrowings and finance leases. Average total assets is the average of the value of assets at the beginning and end of each financial year. Where an average was not available, the value of total assets at the end of the financial year was used. One forestry GTE — ForestrySA — operated debt free in 2001-02. None operated debt free in 2002-03. The Commission commenced monitoring the forestry sector in 2001-02.

Source: Productivity Commission estimates.

The ratio of debt to total assets of the forestry GTEs as a whole was 5.4 per cent in 2002-03, marginally less than in 2001-02. As a whole, the monitored forestry GTEs had far lower debt to assets ratios than those reported in other industry sectors. GTEs in the electricity (42 per cent), ports (24 per cent), water (16 per cent), rail

(23 per cent) and urban transport (19 per cent) sectors, all reported significantly higher debt to assets ratios.

Sound financial management requires that profits are sufficient to ensure interest payments can be met. A high interest cover ratio indicates that the entity can sustain a fall in profit or increased interest expense and still meet the cost of servicing debt.

Four forestry GTEs reported positive interest cover ratios in 2002-03. This indicates that these GTEs can currently meet their interest commitments from operating profit. It was not possible to calculate an interest cover ratio for SFNSW because their reported interest expenses were capitalised. Forestry Tasmania's interest cover was negative in 2002-03, indicating that it may have to fund interest expenses from sources other than current operating profits.

A current ratio of less than 100 per cent indicates that the short-term obligations of the GTE may need to be met using sources of funds other than current assets.¹ Five of the six GTEs recorded a current ratio of over 100 per cent in 2002-03.

12.5 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 capital market disciplines and regulations similar to those faced by private sector businesses. For a more detailed discussion of competitive neutrality principles, see chapter 3.

Governments act as the shareholder of forestry GTEs on behalf of the community. Dividend payments from GTEs are generally justified as a return on shareholder funds. In 2002-03, four of the six forestry GTEs — SFNSW, DPI Forestry, ForestrySA and the FPCWA — reported dividend payments to their respective owner governments (see figure 12.4). Forestry Tasmania reported a dividend during 2001-02, but did not recognize a dividend during 2002-03 because of a change in accounting policy to meet the requirements of AASB 1044 (see chapter 3 for details). It is anticipated that Forestry Tasmania will pay dividends in accordance with AASB 1044 from 2003-04.

All forestry GTEs fall within the National Tax Equivalent Regime and are required to make income tax-equivalent payments. All except DPI Forestry and ACT Forests

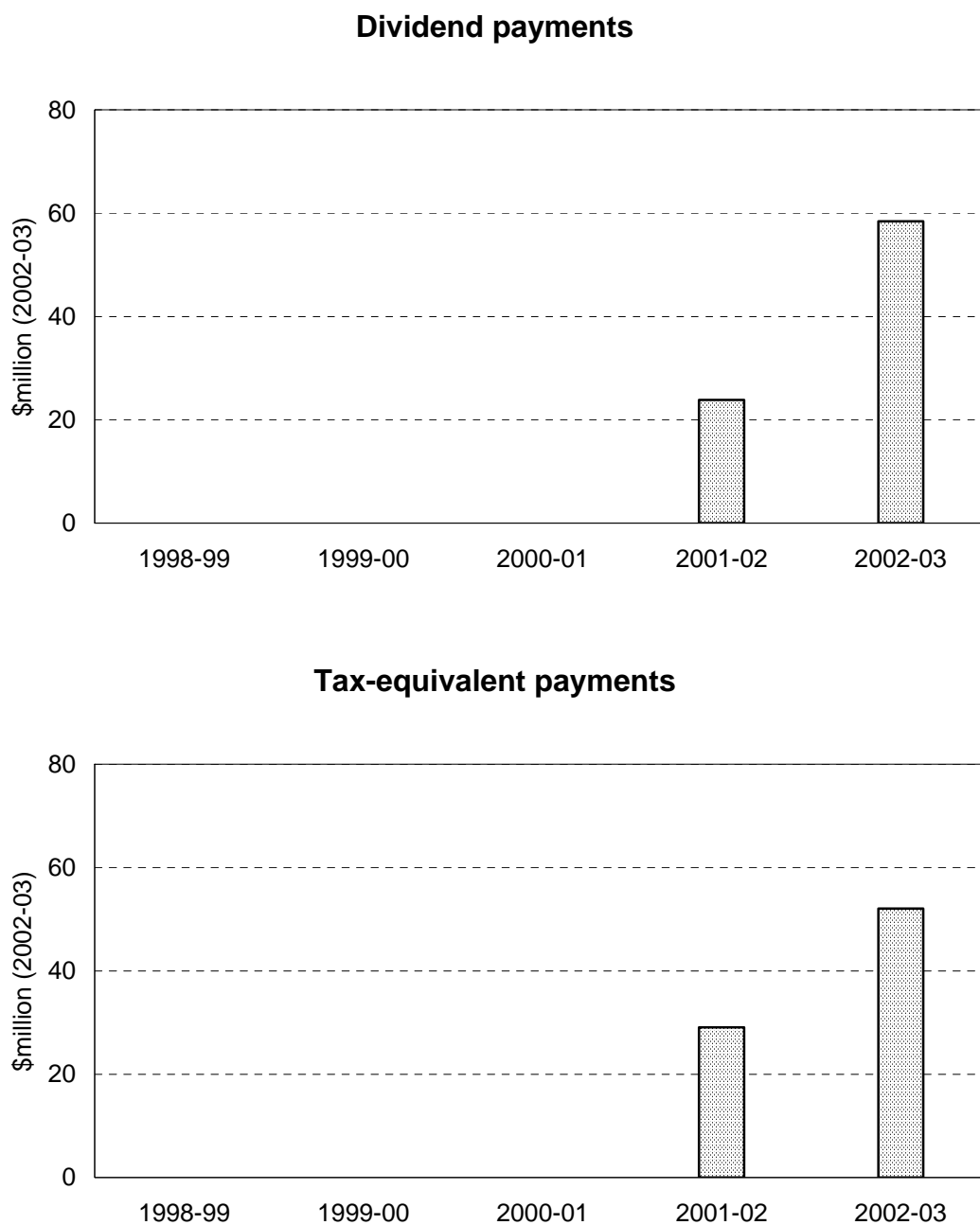
¹ Current assets comprise cash and other assets that would, in the ordinary course of operations, be available for conversion into cash within 12 months of the end of the reporting period.

made tax-equivalent payments in 2001-02 and 2002-03. DPI Forestry did not make payments in either of these years because of permanent differences between accounting and taxable incomes. ACT Forests had significant tax deductible losses and did not employ tax effect accounting as it did not have a known probability of recovering unused tax losses.

Dividend and tax-equivalent payments from the forestry GTEs increased in 2002-03 (see figure 12.4). The majority of the increase in tax was paid by SFNSW, which contributed over 55 per cent of the total tax payment from forestry GTEs. The increase in dividends during 2002-03 was largely caused by significant increases in dividend payments from DPI Forestry and ForestrySA, both of which paid special dividends during the year.

Four of the monitored forestry GTEs, SFNSW, ForestrySA, the FPCWA and ACT Forests, had agreements to provide community service obligations in 2002-03.

Figure 12.4 **Dividend and income tax-equivalent payments — forestry GTEs, 1998-99 to 2002-03**



Note One forestry GTE — ACT Forests — did not make provide for any dividend payments or make any tax-equivalent payments in 2001-02 or 2002-03. The Commission commenced monitoring the forestry sector in 2001-02.

Source: Productivity Commission estimates.

12.6 GTE performance reports

State Forests (NSW)

DPI Forestry (Queensland)

ForestrySA (SA)

Forest Products Commission (WA)

Forestry Tasmania

ACT Forests

The Forestry Commission of NSW — trading under the name State Forests (SFNSW) — operates under the *Forestry Act 1916*. SFNSW is responsible for managing almost 3 million hectares of plantation and native forests throughout NSW. During 2002-03, 1800 hectares of new hardwood plantations were established, as well as an additional 2590 hectares of softwood plantations.

SFNSW earns almost all its revenue from trading hardwood and softwood timber products — most of which are utilised within the Australian building industries. The prices it faces largely depend on the level of activity in these industries.¹

More than 66 per cent (over \$1.5 billion) of SFNSW's assets are self-generating and regenerating assets (SGARAs). Their value can fluctuate significantly each year, affecting measures of profitability and financial management.²

Pre-tax operating profits in 2001-02 and 2002-03 were favourably influenced by \$34.3 million and \$57.1 million respective increases in the market value of SFNSW's standing timber assets. Revenue in 2002-03 was up by 23 per cent from 2001-02. There was a 56 per cent rise in expenses in 2002-03, largely due to a number of one-off expenses and high firefighting costs during a severe fire season.

Acquisitions of land and the establishment and development of new plantations were financed with borrowings. All interest expenses related to this debt have been capitalised, because these assets take a considerable period to become commercially productive. Consequently, interest cover cannot be calculated. Capital expenditure during 2002-03 of \$32.2 million was down 9 per cent from 2001-02.

SFNSW is required to make tax-equivalent and dividend payments. Tax-equivalent payments are made in accordance with the National Tax Equivalent Regime.

SFNSW is funded for the provision of community service obligations, including the provision of recreational facilities, education and advisory services, community fire protection, research, and regulatory services.

¹ Residential building activity increased significantly in 2001-02, due mainly to a combination of low interest rates and the First Home Owners Grant. The market remained buoyant during 2002-03.

² Under AAS 35, SGARAs are reported at their net market value. SFNSW uses three separate net market value models to determine the value of their softwood plantation, hardwood plantation and native forest timber. Increments and decrements to SGARAs resulting from market value movements are recognised directly in the statement of financial performance.

STATE FORESTS (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				2 365	2 362
Total revenue	\$m				232	284
<i>Profitability</i>						
Operating profit before tax	\$'000				57 903	12 154
Operating sales margin	%				24.7	4.2
Cost recovery	%				117.3	99.8
Return on assets	%				2.4	0.5
Return on equity	%				2.2	-0.9
<i>Financial management</i>						
Debt to equity	%				6.8	7.1
Debt to total assets	%				5.6	5.7
Total liabilities to equity	%				20.9	24.0
Interest cover ^b	times				n.r.	n.r.
Current ratio	%				80.1	62.8
Leverage ratio	%				120.9	124.0
<i>Payments to and from government</i>						
Dividends	\$'000				4 717	4 162
Dividend to equity ratio	%				0.2	0.2
Dividend payout ratio	%				11.0	-24.6
Income tax expense	\$'000				15 014	29 071
CSO funding	\$'000				9 557	9 557

^a 2001-02 was the first year that State Forests was included in this report. ^b Interest cover cannot be calculated because of the capitalisation of interest expenses. **n.r.** Not relevant.

DPI Forestry Queensland (DPI Forestry) was established on 1 July 1995, as a commercial business unit within the Queensland Department of Primary Industries (DPI).¹ It is responsible for 82 per cent of Queensland's domestic timber production. DPI Forestry's plantation estates cover 191 000 hectares.

Around 90 per cent (more than \$1.2 billion) of DPI Forestry's assets are self-generating and regenerating assets (SGARAs). Their value can fluctuate significantly each year, affecting measures of profitability and financial management.²

Pre-tax operating profit in 2001-02 was favourably affected by an \$84.5 million upwards adjustment in the market value of DPI Forestry's plantation assets. Again, an upward adjustment of \$255 million was recorded in 2002-03. Although profits would have been recorded in each year without these revaluations, they would have been significantly lower. The larger revaluation in 2002-03 accounted for over 95 per cent of the increase in profit from 2001-02.

Several classes of non-current assets were revalued in 2001-02, following the application of AASB 1041 from 1 July 2001. Under this standard, assets are valued on either a cost or fair value basis. Previously, DPI Forestry reported these assets at their deprival value.

DPI Forestry is required to pay dividends to the Queensland Government. The dividend payable is declared at a negotiated percentage (currently 50 per cent) of profit from ordinary activities after tax and adjustments for plantation timber valuation increments. Under this system, a dividend of \$14.8 million was payable in 2002-03, however, an additional \$10 million was also paid.

DPI Forestry is subject to the payment of income tax equivalents in accordance with the requirements of the National Tax Equivalent Regime. No tax was payable during 2001-02 or 2002-03 because of permanent differences between accounting and taxable incomes.

1 DPI Forestry was established as a commercial business group on 15 May 1995.

2 Under AAS 35, SGARAs are reported at their net market value. DPI Forestry determine net market value by calculating the net present value of future cash flows it expects to realise from the timber. Increments and decrements to SGARAs resulting from market value movements are recognised directly in the statement of financial performance.

DPI FORESTRY (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				1 087	1 352
Total revenue	\$m				187	361
<i>Profitability</i>						
Operating profit before tax	\$'000				110 630	285 348
Operating sales margin	%				61.6	80.3
Cost recovery	%				260.5	508.3
Return on assets	%				10.6	23.8
Return on equity	%				11.2	25.4
<i>Financial management</i>						
Debt to equity	%				7.7	6.1
Debt to total assets	%				7.0	6.3
Total liabilities to equity	%				9.7	7.9
Interest cover	times				24.6	61.8
Current ratio	%				276.9	251.9
Leverage ratio	%				109.7	107.9
<i>Payments to and from government</i>						
Dividends	\$'000				10 979	24 795 ^c
Dividend to equity ratio	%				1.1	2.2
Dividend payout ratio	%				9.9	8.7
Income tax expense ^b	\$'000				0	0
CSO funding	\$'000				0	0

^a DPI Forestry, established in 1995, was monitored for the first time in 2001-02. ^b DPI Forestry did not make income tax equivalent payments in 2001-02 or 2002-03, because of permanent differences between accounting and taxable incomes. ^c Includes dividend payable of \$14.8 million as well as a special dividend of \$10 million. Without the special dividend, dividend to equity and dividend payout ratios would have been 1.3 per cent and 5.2 per cent respectively.

The SA Forestry Corporation (SAFC), trading under the name ForestrySA, was incorporated under the *SA Forestry Corporation Act 2000*, on 1 January 2001.¹ It is also subject to the provisions of the *Public Corporations Act 1993* and the *Forestry Act 1950*. ForestrySA is responsible for managing over 82 000 hectares of plantation forests. During 2002-03, 2500 hectares of new trees were planted.

Around 70 per cent (more than \$618 million) of ForestrySA's assets are self-generating and regenerating assets (SGARAs). Their value can fluctuate significantly each year, affecting measures of profitability and financial management.²

ForestrySA earns almost all its revenue from trading softwood timber products — most of which are utilised by the Australian building industries. In 2002-03, approximately 1.9 million cubic metres of log and pulp products were sold, 56 percent of which were log products. This included a record harvest of almost 1.7 million cubic metres from ForestrySA forests. The balance of sales was made up of logs harvested by ForestrySA for private forest owners.

The record sales volume came largely because of the continuing strength of the domestic housing construction market and was further enhanced by a low exchange rate, which improved the competitiveness of ForestrySA's pulp and low quality log exports. It enabled ForestrySA to record an operating profit for 2002-03 of \$58.8 million, up by 50 per cent from 2001-02, \$21 million of which was from a revaluation of growing timber. Profit before the adjustment of asset values was up by 7 per cent.

ForestrySA is required to make tax-equivalent and dividend payments to the SA Government. In addition to a \$3.2 million dividend paid during 2001-02, \$20 million in contributed equity was returned to the SA Government during the year. The dividend payment of \$27.9 million in 2002-03 included a special dividend of \$7.8 million sourced from 2001-02 earnings.

ForestrySA is funded for the provision of community service obligations, including forest industry development, policy and legislative support, community use of forests and native forest management.

¹ Prior to the creation of the SAFC, its functions were carried out by the ForestrySA business unit within the Department for Administrative and Information Services.

² Under AAS 35, SGARAs are reported at their net market value. Increments and decrements to SGARAs resulting from market value movements are recognised directly in the statement of financial performance.

FORESTRYSA (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				842	890
Total revenue	\$m				115	140
<i>Profitability</i>						
Operating profit before tax	\$'000				39 266	58 822
Operating sales margin	%				33.4	41.5
Cost recovery	%				149.1	170.1
Return on assets	%				4.6	6.8
Return on equity	%				3.4	5.6
<i>Financial management</i>						
Debt to equity	%				0.0	0.2
Debt to total assets	%				0.0	0.2
Total liabilities to equity	%				1.8	2.0
Interest cover	times				n.r.	1 436.6
Current ratio	%				285.3	259.0
Leverage ratio	%				101.8	102.0
<i>Payments to and from government</i>						
Dividends	\$'000				3 216	27 901 ^b
Dividend to equity ratio	%				0.4	3.3
Dividend payout ratio	%				11.4	59.0
Income tax expense	\$'000				10 653	11 593
CSO funding	\$'000				3 547	3 512

Note The financial data for 2001-02 and 2002-03 is predominantly based on Government Finance Statistics (GFS) data. This data does not include revaluation adjustments to the value of growing timber in the profit and loss calculation, so an adjustment has been made using general purpose financial reporting (GPFR) data to account for any revaluation adjustments. ^a ForestrySA, established on 1 January 2001, was monitored for the first time in 2001-02. ^b Includes a \$7.8 million special dividend resulting from 2001-02 trading operations.
n.r. Not relevant.

The Forest Products Commission of WA (FPCWA) was established in November 2000 under the *Forest Products Act 2000*. The FPCWA is responsible for the commercial production, allocation and sale of forest products from WA's native forests and state-owned and state-managed plantations. It controls approximately 2.5 million hectares of native forests and over 130 000 hectares of plantations.

Over 80 per cent (more than \$290 million) of the FPCWA's assets are self-generating and regenerating assets (SGARAs). Their value can fluctuate significantly each year, affecting measures of profitability and financial management.¹

During 2002-03, pre-tax operating profit was favourably affected by a \$13.7 million increment in the value of natural resource assets. This led to a 30 per cent increase in profit compared with 2001-02. However, profit before natural asset revaluation was down by over 60 per cent from 2001-02.

The decline in profit before SGARA revaluation is partly due to the continued implementation of the government's 'protecting our old growth forests' policy and the associated decline in revenue. The policy has seen the quantity of native forest sawlogs harvested fall from over 600 000 cubic metres in 1997-98 to around 350 000 cubic metres in 2002-03. In response, the FPCWA has placed an increased emphasis on plantation sawlog harvesting. The FPCWA aims to increase the rate of planting to 20 000 hectares per annum during the next five years.

The FPCWA is subject to the payment of income tax equivalents in accordance with the requirements of the Western Australian Income Tax Equivalent Regime. It decreased its nominal debt position over 2002-03, reducing both debt to equity and debt to total assets ratios.

In 2002-03, the FPCWA received \$55 000 in Commonwealth research grants from the Rural Industry Research and Development Corporation, down from \$185 000 in 2001-02. The FPCWA receives community service obligation payments for its forest enhancement program.

¹ Under AAS 35, SGARAs are reported at their net market value. FPCWA determines net market value by calculating the net present value of future cash flows it expects to realise from the timber. Increments and decrements to SGARAs resulting from market value movements are recognised directly in the statement of financial performance.

FOREST PRODUCTS COMMISSION (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m				340	360
Total revenue	\$m				125	127
<i>Profitability</i>						
Operating profit before tax	\$'000				15 468	20 122
Operating sales margin	%				17.5	20.8
Cost recovery	%				121.1	126.2
Return on assets	%				6.4	7.6
Return on equity	%				5.6	5.9
<i>Financial management</i>						
Debt to equity	%				34.4	29.7
Debt to total assets	%				24.2	21.6
Total liabilities to equity	%				41.8	41.8
Interest cover	times				3.4	4.2
Current ratio	%				155.7	122.5
Leverage ratio	%				141.8	141.8
<i>Payments to and from government</i>						
Dividends	\$'000				0	1 557
Dividend to equity ratio	%				0.0	0.6
Dividend payout ratio	%				0.0	10.7
Income tax expense	\$'000				2 158	5 622
CSO funding	\$'000				500	1 570

Note All data is taken from General Purpose Financial Report results published by FPCWA. ^a The Forest Products Commission, established in November 2000, was included in this report for the first time in 2001-02.

Forestry Tasmania was established by the *Forestry Act 1920* and is subject to the *Government Business Enterprises Act 1995*. Forestry Tasmania is responsible for managing around 1.5 million hectares of state forests and plantations. During 2002-03, just over 3500 hectares of new hardwood and softwood plantations were established.

Over 87 per cent (more than \$730 million) of Forestry Tasmania's assets are self-generating and regenerating assets (SGARAs). Their value can fluctuate significantly each year, affecting measures of profitability and financial management.¹

During 2002-03, profit was adversely affected by a \$25.3 million decrement in the value of SGARA assets. This contrasted to 2001-02, when there was a \$9.6 million upward revaluation of forest assets. The increase in profit from SGARA revaluation in 2001-02 was more than offset by a \$12.3 million correction of a fundamental accounting error.²

The decrease in SGARA asset valuation in 2002-03 led Forestry Tasmania to record a loss of \$5.5 million. This loss came despite record production volumes. Both return on assets and return on equity were negative in 2002-03.

Changes in accounting policies and a capital restructure had significant effects on Forestry Tasmania's equity structure in 2001-02. Previously debt free, \$14 million in new borrowings were acquired to finance investment in roads, plantations and other revenue-generating capital items. During 2002-03, a further \$7 million of new debt was established to assist in expansion of the forest estate.

Forestry Tasmania makes dividend and income tax-equivalent payments to the Tasmanian Government. It made a dividend payment of \$4.9 million in 2001-02. No dividend payment was recorded in 2002-03 because of a change in accounting policy to meet the requirements of AASB 1044 (see chapter 3). Any dividend subsequently declared based on 2002-03 results should reflect the operating loss recorded for the year.

¹ Under AAS 35, SGARAs are required to be reported at their net market value. Forestry Tasmania determines net market value by calculating the net present value of cash flows it expects to realise from the timber. Increments and decrements to SGARAs resulting from market value movements are recognised directly in the statement of financial performance.

² In 2000-01, the value of Forestry Tasmania's standing timber asset was overstated by \$12.3 million, because of an error in the forest valuation model used.

FORESTRY TASMANIA (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03^b</i>
<i>Size</i>						
Total assets	\$m				837	838
Total revenue	\$m				154 ^c	168
<i>Profitability</i>						
Operating profit before tax	\$'000				7 942	-5 468
Operating sales margin	%				5.3	-3.1
Cost recovery	%				115.4	97.0
Return on assets	%				1.0	-0.6
Return on equity	%				0.9	-1.6
<i>Financial management</i>						
Debt to equity	%				2.0	3.0
Debt to total assets	%				1.7	2.5
Total liabilities to equity	%				16.2	18.2
Interest cover	times				11.5	-5.6
Current ratio	%				138.9	155.5
Leverage ratio	%				116.2	118.2
<i>Payments to and from government</i>						
Dividends	\$'000				4 961	0
Dividend to equity ratio	%				0.7	0.0
Dividend payout ratio	%				74.0	0.0
Income tax expense	\$'000				1 240	5 765
CSO funding	\$'000				0	0

Note All data is taken from General Purpose Financial Report data published by Forestry Tasmania.

^a Forestry Tasmania, established in 1995, was monitored for the first time in 2001-02. ^b A change in accounting policy to meet the requirements of AASB 1044 meant that no dividend was recognised in 2002-03 (see chapter 3). ^c Includes \$9.6 million increment to self generating and regenerating assets as per AAS 35.

ACT Forests operates within the Department of Urban Services (DUS), providing commercial forest industry products. During 2002-03, ACT Forests managed 26 900 hectares of land, including 16 200 hectares of commercial pine plantations. It also managed non-plantation areas for conservation purposes and was responsible for protecting natural and cultural heritage sites.¹

The 2003 bushfire destroyed over 10 500 hectares of ACT Forest's commercial pine plantation, most of its recreational and heritage sites, as well as its offices, equipment and records. Reflecting the extreme nature of the bushfire, revenue and expense transactions related to the fire are recorded as extraordinary items.

ACT Forest's performance in 2002-03 was largely dictated by the 2003 bushfire. An extraordinary expense item relating to expenditure incurred responding to the fire contributed over 85 per cent of total expenses for the year, whilst extraordinary revenue from insurance recoveries made up around 83 per cent of total revenue. Consequently, it is difficult to draw any conclusions from comparisons between ACT Forest's profitability in 2002-03 and that in 2001-02.²

A large part of ACT Forest's assets are self-generating and regenerating assets (SGARAs). These assets can fluctuate in value significantly each year and affect measures of profitability and financial management.³ Because of the January 2003 bushfires, SGARA assets fell from 83 per cent of total assets on 30 June 2002 to just over 25 per cent of total assets on 30 June 2003. Total assets rose for the year because receivables from insurance recovery more than offset the decrease in SGARA assets.

ACT Forests has a community service obligation contract with the ACT Government. In 2001-02, almost \$1.3 million was received for the provision of recreational facilities, education and advisory services. In 2002-03, this figure was cut to just \$90 000. No dividends or income tax equivalents are required to be paid by ACT Forests.

¹ As a consequence of the 2003 bushfire and the McLeod Inquiry into the fire (released August 2003), ACT Forests' priorities were refocussed on reforestation, protection of water quality, fire protection, recreation and maintenance of the forest estate. Commercial forestry is no longer the primary focus of ACT Forests.

² Profit excluding extraordinary items in 2002-03 was \$4.9 million, up by almost 25 per cent.

³ Under AAS 35, SGARAs are reported at their net market value. Increments and decrements to SGARAs resulting from market value movements are recognised directly in the statement of financial performance.

ACT FORESTS (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02^a</i>	<i>2002-03^b</i>
<i>Size</i>						
Total assets	\$m				102	119
Total revenue	\$m				17	88
<i>Profitability</i>						
Operating profit before tax	\$'000				3 943	17 820
Operating sales margin	%				23.5	20.3
Cost recovery	%				130.8	125.5
Return on assets	%				4.0	16.3
Return on equity	%				4.0	16.7
<i>Financial management</i>						
Debt to equity	%				2.1	1.8
Debt to total assets	%				2.1	1.9
Total liabilities to equity	%				4.4	2.9
Interest cover	times				28.0	120.3
Current ratio	%				375.5	6 528.3 ^c
Leverage ratio	%				104.4	102.9
<i>Payments to and from government</i>						
Dividends	\$'000				0	0
Dividend to equity ratio	%				0.0	0.0
Dividend payout ratio	%				0.0	0.0
Income tax expense	\$'000				0	0
CSO funding	\$'000				1 350	90

^a ACT Forests was monitored for the first time in 2001-02. ^b The results for 2002-03 include extraordinary revenue and expense items of \$73 million and \$60 million respectively relating to the January 2003 bushfire.

^c The current ratio for 2002-03 was affected by the high level of current assets, as a result of \$72 million from insurance recoveries.

13 Commonwealth GTEs

Three Commonwealth government trading enterprises (GTEs) are covered in this chapter — Airservices Australia, Australia Post and Telstra. These GTEs vary significantly in size and in the range of services that they provide.

For a discussion of the data and the performance indicators used and some of the factors that should be considered when assessing performance, see chapter 3.

Airservices Australia (ASA) was established in July 1995 under the *Air Services Act 1995*, and is responsible for providing and managing Australia's air navigation and air traffic services infrastructure.

Terminal navigation charges are levied for the use of terminal navigation facilities and services for each landing or practice instrument approach. These charges vary with maximum take-off weight of the aircraft, the time services are used, and whether the aerodrome is located in a capital city.

Location-specific pricing was introduced for airport fire fighting and rescue services in July 1997 and for terminal navigation in July 1998. The aim of these pricing reforms was to reflect the cost of providing services at individual airports. Since then, average real prices to users have fallen by more than 20 per cent.

ASA's operating profit declined by \$50 million in 2001-02 and revenues fell by \$70 million, mainly as a result of the downturn in the aviation industry (post September 11) and the collapse of Ansett and its subsidiaries. In 2002-03, recovery from these impacts contributed to a \$106 million increase in total revenue and operating profit increased by nearly \$30 million. In comparison with these large changes in revenue, operating costs were relatively unchanged.

ASA received a \$7 million Commonwealth Government community service obligation (CSO) payment in 2002-03, aimed at enabling it to continue to cap prices at regional and General Aviation Airport Procedures airports. ASA also internally funds a number of other non-commercial community service activities, including rescue and fire fighting services at Port Hedland and Karratha airports, a telephone complaints service regarding aircraft noise, plus aircraft noise and flight path monitoring.¹

ASA is required to make both tax-equivalent and dividend payments. The significant increase in income tax paid in 2002-03 was due to the increase in profit and under provision of income tax applicable to prior years.

¹ In 2002-03, ASA estimated that for non-commercial community service activities, expenses exceeded reimbursement by \$15 million.

AIRSERVICES AUSTRALIA (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99^a</i>	<i>1999-00^b</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	671	619	592	585	602
Total revenue	\$m	605	636	583	511	617
<i>Profitability</i>						
Operating profit before tax	\$'000	- 173 178	78 291	86 695	36 118	65 871
Operating sales margin	%	- 27.2	13.4	15.4	7.3	10.8
Cost recovery	%	108.0	110.0	116.7	106.4	110.8
Return on assets	%	- 23.1	13.3	15.5	7.2	12.3
Return on equity	%	- 44.8	15.9	23.2	9.9	13.5
<i>Financial management</i>						
Debt to equity	%	48.3	42.3	40.7	38.8	44.2
Debt to total assets	%	14.5	15.5	16.5	17.0	16.9
Total liabilities to equity	%	214.3	162.0	140.9	126.2	166.1
Interest cover	times	- 17.9	11.0	13.0	6.7	10.6
Current ratio	%	46.8	85.5	76.5	194.3	135.4
Leverage ratio	%	314.3	262.0	240.9	226.2	266.1
<i>Payments to and from government</i>						
Dividends	\$'000	0	13 000	22 100	11 400	14 900
Dividend to equity ratio	%	0.0	5.8	9.2	4.5	6.1
Dividend payout ratio	%	0.0	36.4	39.5	45.9	45.6
Income tax expense	\$'000	- 49 815	42 544	30 744	11 269	33 187
CSO funding	\$'000	11 000	11 000	7 000	7 000	7 000

^a Includes abnormal expenses of \$228 million from: separation and redundancy payments; devaluation of property, plant and equipment; Business Transformation Program costs; year 2000 direct project costs; Avgas refund; and provisions for litigation. ^b Includes abnormal revenue of \$21.1 million generated by the write-back of legal provisions and asset sales. Successful outcomes in litigation enabled the write-back of legal provisions totalling \$31 million.

Australia Post was established in 1975 and corporatised in 1989 under the *Australian Postal Corporation Act 1989*. Its principal activities are letter delivery, parcel delivery, third party agency services (receiving bill payments for other companies) and the sale of postal products and merchandise. Australia Post holds a legislative monopoly for the processing and distribution of letters under 250 grams.

In 2002-03, pre-tax operating profit was 13 per cent higher than that reported in 2001-02, due mainly to volume growth in non-mail products and services, and the first increase in the basic postage rate in 11 years. Debt to equity declined in 2002-03 because although the debt level was unchanged compared with the previous year, equity increased — mainly as a result of an increase in cash on hand.

Australia Post is subject to all taxes and pays dividends to the Commonwealth Government. In 2002-03, \$314 million was paid to the government by way of dividends.

Australia Post is required to internally fund two community service obligations, estimated by Australia Post to have ‘cost’, on an avoidable cost basis, \$90.5 million in 2002-03. It must provide a standard letter service to all parts of Australia at a uniform price, which increased from 45 cents to 50 cents in January 2003. In addition, Australia Post must ensure that performance standards for the letter service reasonably meet the social, industrial and commercial needs of the Australian community, with regulations detailing the particular standards to be achieved to meet these obligations.

Achievement of the prescribed standards — mainly relating to service frequency, on-time delivery, and geographical access to postal facilities — is audited by the Australian National Audit Office. All of the prescribed standards were met or exceeded in 2002-03.

AUSTRALIA POST (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01^a</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	2 854	3 037	3 199	3 229	3 365
Total revenue	\$m	3 468	3 743	3 733	3 758	3 972
<i>Profitability</i>						
Operating profit before tax	\$'000	373 000	391 900	402 100	407 200	462 000
Operating sales margin	%	11.0	10.9	11.2	10.7	11.7
Cost recovery	%	112.5	113.5	112.7	112.0	113.2
Return on assets	%	14.2	14.4	14.0	13.1	14.9
Return on equity	%	27.1	25.0	24.7	25.0	26.9
<i>Financial management</i>						
Debt to equity	%	54.7	47.8	47.5	46.5	40.2
Debt to total assets	%	19.0	18.0	17.0	16.5	16.1
Total liabilities to equity	%	194.3	173.8	186.6	183.3	155.2
Interest cover	times	15.8	13.3	13.1	14.8	16.7
Current ratio	%	87.9	93.8	100.2	108.8	106.7
Leverage ratio	%	294.3	273.8	286.6	283.3	255.2
<i>Payments to and from government</i>						
Dividends	\$'000	148 700	155 700	274 500	291 800	314 000
Dividend to equity ratio	%	16.3	15.0	24.7	25.9	25.5
Dividend payout ratio	%	60.0	60.0	100.0	103.6	94.9
Income tax expense	\$'000	125 200	132 400	127 600	110 200	131 200
CSO funding	\$'000	0	0	0	0	0

^a Net abnormal expenses of \$34 million incurred for year 2000 compliance and GST implementation costs.

Telstra Corporation Limited was established in April 1993 and operates under the *Telecommunications Act 1997*. Telstra's principal activities include providing telephone exchange lines, local and long-distance phone services, international services, mobile services, and a range of data, Internet and on-line services.

In 2002-03, revenue rose by 4 per cent but pre-tax operating profit fell by 10 per cent compared with 2001-02. This decline was mainly due to a \$965 million write off of the investment in Telstra's 50 per cent owned overseas joint venture, Reach Ltd.

Telstra reduced its level of debt by \$1822 million (13 per cent) in 2002-03. The reduction in debt had the effect of lowering the debt to equity, liabilities to equity and leverage ratios.

Telstra is subject to all taxes and pays dividends to its shareholders.¹ Some of the variability in the dividend payout ratio over the reporting period can be explained by a 'special' dividend payment of \$2.1 billion in 1998-99.

Telstra's Universal Service Obligation (USO) requires that standard telephone services, including services for the disabled, public payphones and prescribed carriage services, are reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business. Telstra is also subject to the Digital Data Service Obligation (DDSO), and must provide reasonable and equitable access — on a 64 kbps ISDN service or a broadly comparable satellite downlink service — to at least 96 per cent of the Australian population.

Telstra does not receive government funding for the USO or DDSO.²

¹ Telstra was first partially privatised in November 1997, when 33 per cent of the Corporation was floated. The second sell-off of 16 per cent occurred in October 1999. The Commonwealth Government retains 50.1 per cent of issued shares.

² The net cost of universal service provision in 2002-03 was shared among carriers based on the proportion of eligible telecommunications revenue (of which Telstra accounts for about 75 per cent). The Communications Minister determines USO costs (\$234.1 million in 2002-03), although Telstra claims that this amount is significantly less than its own assessment of the USO costs.

TELSTRA (continued)

Performance indicators 1998-99 to 2002-03

	<i>Units</i>	<i>1998-99</i>	<i>1999-00^a</i>	<i>2000-01^b</i>	<i>2001-02</i>	<i>2002-03</i>
<i>Size</i>						
Total assets	\$m	27 682	30 339	37 473	38 219	35 599
Total revenue	\$m	18 218	19 840	23 086	20 928	21 700
<i>Profitability</i>						
Operating profit before tax	\$'000	5 320 000	5 349 000	6 297 000	5 446 000	4 928 000
Operating sales margin	%	32.1	29.9	30.2	26.3	22.6
Cost recovery	%	147.4	148.7	143.4	142.6	136.0
Return on assets	%	21.8	20.6	20.8	16.8	15.7
Return on equity	%	32.6	33.5	32.1	26.2	23.0
<i>Financial management</i>						
Debt to equity	%	70.1	84.6	102.0	101.9	81.4
Debt to total assets	%	26.6	33.9	41.3	38.0	34.0
Total liabilities to equity	%	168.9	161.5	173.1	170.9	130.8
Interest cover	times	10.2	9.5	9.2	7.1	6.6
Current ratio	%	44.8	51.9	67.4	77.5	98.7
Leverage ratio	%	268.9	261.5	273.1	270.9	230.8
<i>Payments to and from government</i>						
Dividends ^c	\$'000	4 247 000	2 316 000	2 445 000	2 830 000	3 345 000
Dividend to equity ratio	%	39.7	21.2	19.3	20.8	26.8
Dividend payout ratio	%	121.8	63.1	60.2	77.5	98.6
Income tax expense	\$'000	1 832 000	1 676 000	2 236 000	1 796 000	1 534 000
CSO funding	\$'000	0	0	0	0	0

^a Includes abnormal expense of \$574 million for planned and actual redundancies. ^b Includes net unusual revenues of \$600 million, mainly relating to the sale of a global wholesale business, acquisition costs and superannuation adjustments. ^c A 'special' dividend of \$2.1 billion was paid in 1998-99. Part of Telstra's dividend payments are now made to private shareholders.

A Monitored GTEs

Table A.1 **Monitored GTEs — by jurisdiction, 2002-03**

<i>GTE</i>	<i>Sector</i>
New South Wales	
Delta Electricity	Electricity
Macquarie Generation	Electricity
Eraring Energy	Electricity
TransGrid	Electricity
Country Energy	Electricity
Australian Inland	Electricity
EnergyAustralia	Electricity
Integral Energy	Electricity
Hunter Water Corporation	Water
Sydney Water Corporation	Water
Sydney Catchment Authority	Water
State Transit Authority	Urban Transport
State Rail Authority of NSW	Railways
Rail Infrastructure Corporation	Railways
Newcastle Port Corporation	Ports
Port Kembla Port Corporation	Ports
Sydney Ports Corporation	Ports
State Forests	Forestry
Victoria	
Barwon Water	Water
City West Water	Water
Melbourne Water Corporation	Water
South East Water	Water
Yarra Valley Water	Water
Coliban Water	Water
Goulburn Valley Water	Water
Central Gippsland Water	Water
Central Highlands Water	Water
Southern Rural Water	Water

(Continued next page)

Table A.1 (continued)

<i>GTE</i>	<i>Sector</i>
Wimmera Mallee Water	Water
Goulburn–Murray Water	Water
Sunraysia Rural Water	Water
Melbourne Port Corporation	Ports
Victorian Channels Authority	Ports
Queensland	
CS Energy	Electricity
Stanwell Corporation	Electricity
Tarong Energy	Electricity
Enertrade	Electricity
Powerlink	Electricity
Ergon Energy	Electricity
Energex	Electricity
Sunwater	Water
Queensland Rail	Railways
Gladstone Port Authority	Ports
Port of Brisbane Corporation	Ports
Cairns Port Authority	Ports
Townsville Port Authority	Ports
Ports Corporation of Queensland	Ports
Mackay Port Authority	Ports
DPI Forestry	Forestry
South Australia	
SA Water Corporation	Water
TransAdelaide	Urban Transport
ForestrySA	Forestry
Western Australia	
Western Power	Electricity
Water Corporation	Water
Western Australian Government Railways Commission	Railways
Bunbury Port Authority	Ports
Fremantle Port Authority	Ports
Port Hedland Port Authority	Ports
Dampier Port Authority	Ports
Geraldton Port Authority	Ports
Albany Port Authority	Ports
Forest Products Commission	Forestry

(Continued next page)

Table A.1 (continued)

<i>GTE</i>	<i>Sector</i>
Tasmania	
Hydro-Electric Corporation	Electricity
Aurora Energy	Electricity
Transend Networks	Electricity
Hobart Regional Water Authority	Water
Cradle Coast Water	Water
Esk Water Authority	Water
Metro Tasmania Pty Ltd	Urban Transport
Burnie Port Corporation	Ports
Hobart Ports Corporation	Ports
Port of Devonport Corporation	Ports
Port of Launceston Pty Ltd	Ports
Forestry Tasmania	Forestry
Australian Capital Territory	
ACTEW Corporation	Water/Electricity
ACTION Authority	Urban Transport
ACT Forests	Forestry
Northern Territory	
Power and Water Corporation	Electricity/Water
Darwin Port Corporation	Ports
Commonwealth	
Snowy Hydro	Electricity
Australian Rail Track Corporation	Railways
Airservices Australia	Other Commonwealth
Australia Post	Other Commonwealth
Telstra Corporation	Other Commonwealth

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