



# **REGULATORY REPORT**

## **MELBOURNE AIRPORT 2001/02**

**January 2003**



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## **Reporting summary**

This section provides a brief summary of the information provided in the regulatory reports for the Phase I Airports (Melbourne, Brisbane, and Perth) and Sydney Airport.

### **Quality of service**

Quality of service results for the Phase I airports and Sydney Airport are generally satisfactory.

Brisbane Airport has again received high survey ratings, with results for 2001/02 suggesting that both airlines and passengers were satisfied with the availability and standard of facilities and services provided at the airport. Over the five year period of monitoring, airline surveys and Brisbane Airport's own passenger surveys have reported high levels of satisfaction with the availability and standard of the airport's facilities and services.

Surveys carried out by Melbourne Airport in 2001/02 also suggest that passengers had a high degree of satisfaction with the availability and standard of the services and facilities provided by the airport. These results are similar to the results received over the full period of monitoring. Additionally, over the five years of monitoring, airline survey ratings have generally been maintained, although there was a decline in airline perceptions in both 1999/00 and 2001/02 compared to previous years.

Passengers surveyed by Perth Airport indicate a high degree of satisfaction with the quality of services provided, results that have been maintained over the period of monitoring. However, airline survey ratings suggest that in 2001/02, airlines were noticeably less satisfied with the availability and standard of services and facilities than has been the case over the first four years of monitoring.

Overall, the results for 2001/02 at Sydney Airport suggest that both airlines and passengers were satisfied with the availability and standard of the airport's facilities. Over the period of monitoring, the overall ratings given by passengers surveyed by Sydney Airport have been consistently high, and some improvements in the ratings given by airlines have been noticed.

Airport operators have responded to airline comments concerning service quality and these have been incorporated within the regulatory reports.

### **Operating & financial performance**

All the Phase I airports and Sydney Airport continued to have positive earnings before interest and tax (EBIT) in 2001/02 but, with the exception of Sydney Airport, made losses after the deduction of interest and tax and amortisation of lease premiums.

Table 1 summarises the operating financial results for the Phase I airports and for Sydney Airport in 2001/02.

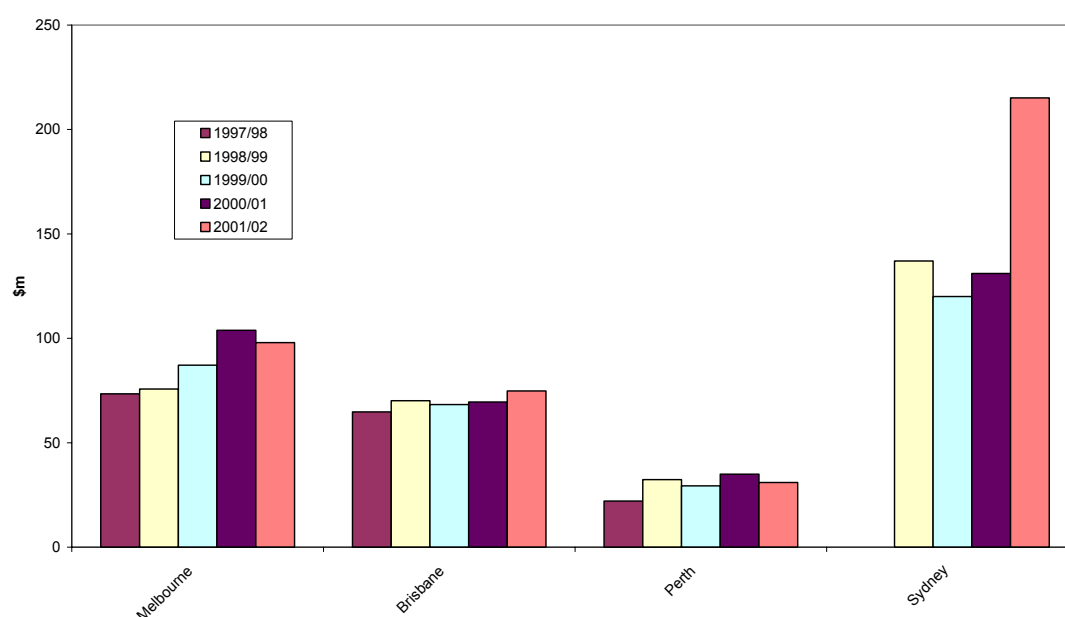
**Table A: Summary of selected financial results of the Phase I airports and Sydney Airport 2001/02.**

Airport	EBIT \$million	Interest \$million	Amortisation \$million	Profit/(Loss) after interest and tax \$million
Brisbane	74.8	81.4	6.8	(7.1)
Melbourne	97.9	94.7	6.2	(1.8)
Perth	30.9	39.1	7.5	(8.2)
Sydney	215.1	74.8	0	87.1

In 2001/02 Perth Airport's and Melbourne Airport's EBIT declined by 11.5% and 5.7%, respectively. In 2001/02 Brisbane Airport's and Sydney Airport's EBIT increased by 7.6% and 64.2%, respectively.

Chart A below summarises the earnings before interest and tax of the Phase I airports and Sydney Airport over the entire reporting period 1997/98-2001/02.

**Chart A: Earnings Before Interest and Tax 1997/98-2001/02**



### Price cap compliance

This is the final year in which the Commission will assess price cap compliance under the *Prices Surveillance Act 1983*. Following a review of airport regulation, in May 2002 the Federal Government accepted the Productivity Commission's recommendation to revoke prices surveillance and introduce formal prices monitoring. This new regulatory regime commenced on 1 July 2002.

The Commission conducted the final price cap reconciliations for Phase I airports as at the end of 2001/02. Sydney Airport is not subject to a price cap. Table 2 summarises the price cap reconciliations for Brisbane, Melbourne and Perth Airports for 2001/02 and sets out the net over/under recovery at the end of the price cap regime. The required reduction is the percentage reduction in prices required in 2001/02 to meet the required reduction for the year and prevent any addition or subtraction to the cumulative over/under recovery.

**Table B: Price Cap Compliance - Phase I Airports**

<b>Airport</b>	<b>CPI-X 01/02 (%)</b>	<b>Past Over / (Under) Recovery (%)</b>	<b>Required reduction in 01/02 (%)</b>	<b>Actual reduction in 01/02 (%)</b>	<b>Over/(under) recovery in 01/02 (%)</b>	<b>Over/(under) recovery Five years to 01/02 (\$'000)</b>
Brisbane Airport	-1.70%	3.31%	-5.01%	-4.56%	0.45%	2,444
Melbourne Airport	-1.20%	0.23%	-1.43%	-1.87%	-0.44%	(200)
Perth Airport	-2.70%	1.76%	-4.46%	-6.85%	-2.39%	503 <sup>1</sup>

#### *2001/02*

In 2001/02 Brisbane, Melbourne and Perth Airports reduced their charges on a revenue weighted basis by 4.6%, 1.9%, and 6.9%, respectively. In 2001/02 Brisbane Airport over recovered by 0.45% and was the only airport to over recover. In 2001/02 Melbourne Airport and Perth Airport under recovered by 0.4% and 2.4% respectively.

#### *1997/98-2001/02*

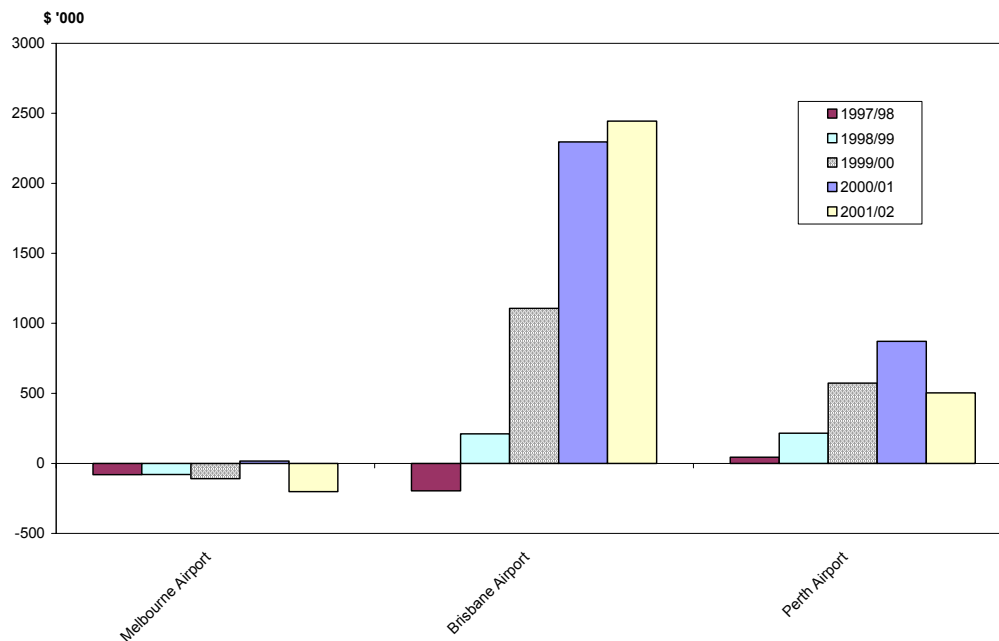
Brisbane Airport over recovered revenue in each of the past three financial years and had a significant over recovery in dollar terms as at the end of the five year price cap period in June 2002. Although Perth Airport complied with the CPI-X price cap in 2001/02 it had a net over recovery in revenue at the end of the regulatory period, because the under-recovery this period was not large enough to fully eliminate the previously accumulated over-recovery. Melbourne Airport was the only Phase I airport to have a net under recovery in revenue at the end of the regulatory period.

Chart B below summarises the cumulative over/under recovery of revenue for the period (1997/98-2001/02).

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<sup>1</sup> Perth Airport's under-recovery in 2001/02 reduced the previously accumulated over-recovery.

**Chart B: Price cap compliance - cumulative revenue over/under recovery  
1997/98-2001/02**



### **Aeronautical-related services**

Aeronautical-related services are the subject of formal price monitoring pursuant to section 27A of the PS Act. The monitoring covers the costs, revenues and prices of these services. The rationale for monitoring is that airport operators may exert significant market power in relation to the monitored services at individual airports.

Aeronautical-related services include aircraft refuelling, aircraft maintenance sites and buildings, freight facilities, and car parking.

In exercising its role, the Commission may investigate particular pricing issues where users have raised concerns and it appears that the airport operator may have taken advantage of its market power. To date this has included the imposition of fuel throughput levies at Brisbane and Perth airports.

The Phase I airports and Sydney Airport provided data to the Commission for the year ending 30 June 2002. This includes revenues and costs for services related to:

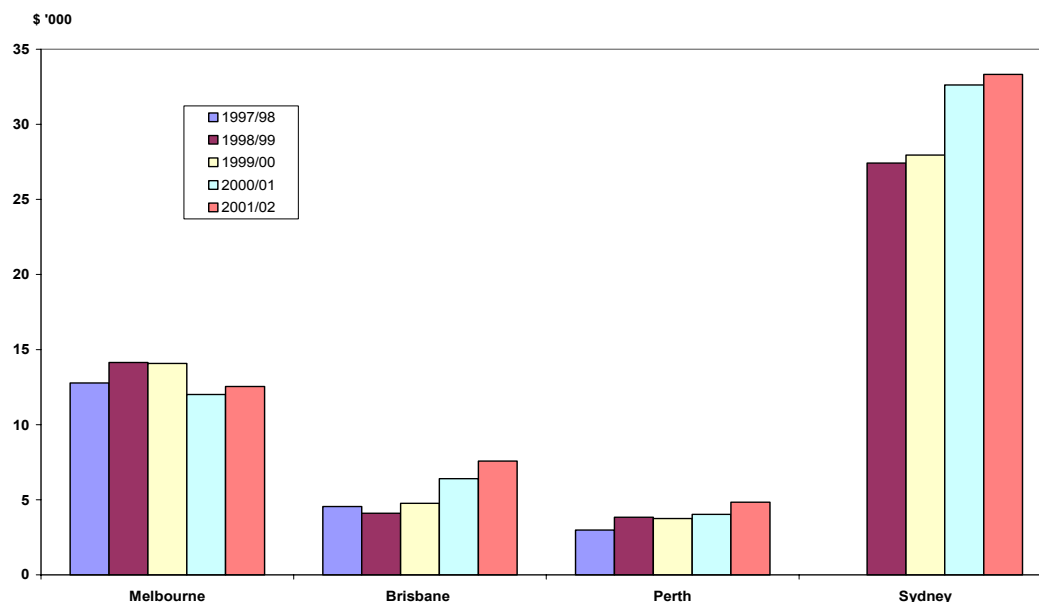
- aircraft refuelling;
- aircraft maintenance sites and buildings;
- freight equipment storage sites;
- freight facility sites and buildings;
- ground support equipment sites;
- check-in counters and related facilities; and
- public and staff car parks.

Charts C and D show the total revenue and total costs of aeronautical-related services over the monitoring period. For all airports, revenue from these services exceeded

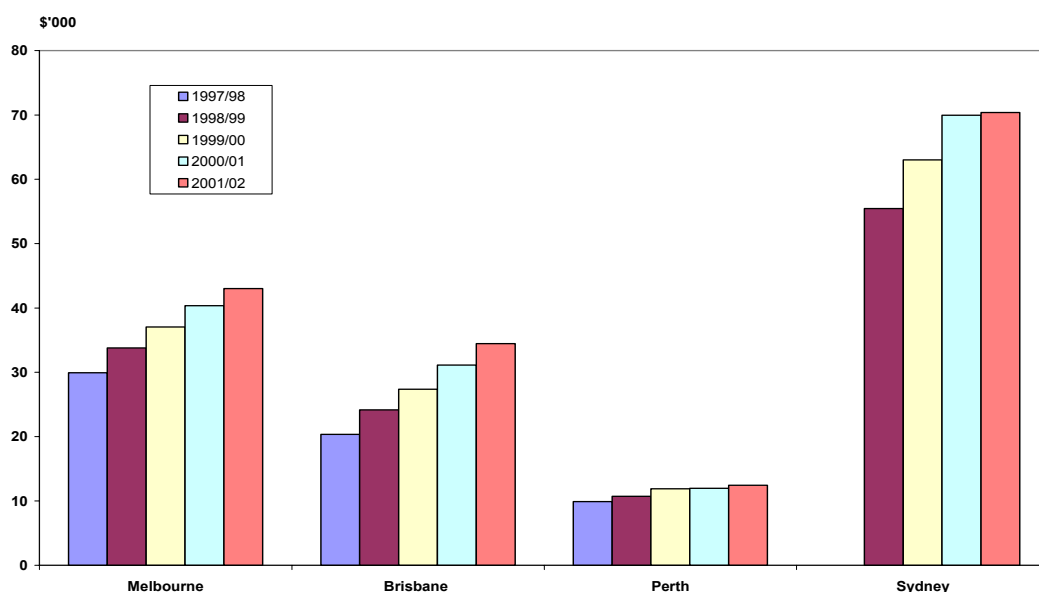


costs over the monitoring period. It is important to note, however, that the costs do not include amortisation of intangible assets or interest, which were particularly significant at Melbourne, Brisbane and Perth Airports.

**Chart C: Total costs of aeronautical-related services 1997/98-2001/02**



**Chart D: Total revenue from aeronautical-related services 1997/98-2001/02**



Monitoring of aero-related services also includes monitoring of car parking rates. Short-term parking prices have increased steadily for the period 1997/98-2001/02 at Brisbane Airport and Melbourne Airport. At Sydney Airport, car parking rates increased in 2000/01 and have remained reasonably constant since that time, while at Perth Airport short-term prices have been fairly steady, although longer term rates decreased slightly in 2001/02 after being increased in 1999/2000.



## Introduction

Until 1 July 2002, the Australian Competition and Consumer Commission (the Commission) has had the primary responsibility for implementing and administering the economic regulatory measures applying to ‘core regulated’ airports. ‘Core regulated’ airports include the Phase I airports sold in May 1996, the Phase II airports sold in May/June 1997, and Sydney (Kingsford-Smith) Airport.

The regulatory regime for ‘core regulated’ airports has comprised measures under the *Trade Practices Act 1974* (TPA), the *Prices Surveillance Act 1983* (PS Act) and the *Airports Act 1996* (Airports Act). It includes access arrangements, and a price cap on aeronautical services for the privatised Phase I and II airports. The framework also includes a range of measures designed to complement the price cap and increase transparency of certain aspects of the airport business.

In order to meet the transparency requirements under the regulatory framework, the Commission has reported annually on airport accounts, quality of service, prices monitoring, and price cap compliance for the ‘core regulated’ airports.

This is the final year in which the Commission will assess price cap compliance. Following a review of airport regulation, in May 2002 the Federal Government accepted the Productivity Commission’s recommendation to revoke prices surveillance and introduce formal prices monitoring. This new regulatory regime commenced on 1 July 2002.

From 2002/03 on, the Commission will be required to formally monitor prices, costs and profits at Adelaide, Brisbane, Canberra, Darwin, Melbourne, Perth and Sydney airports. Alice Springs, Coolangatta, Hobart, Launceston and Townsville airports, which were previously subject to price caps, will no longer be included in the formal prices oversight arrangements.

However, at the time of writing, the provisions of Parts 7 and 8 of the *Airports Act* continue to apply to all “core regulated” airports, including Alice Springs, Coolangatta, Hobart, Launceston and Townsville<sup>2</sup>.

## The report

This report relates to Melbourne Airport and is divided into four sections. The first section addresses quality of service at Melbourne Airport and provides a summary of results. The second section provides information on Melbourne Airport’s financial accounts. The third section provides details on Melbourne Airport’s price cap compliance, and the fourth section addresses the formal monitoring requirements under section 27A of the PS Act.

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<sup>2</sup> In November 2002, the Commonwealth Government announced a review of the *Airports Act 1996*, including Parts 7 & 8.

## **Melbourne Airport**

Melbourne Airport is owned and operated by Australia Pacific Airports (Melbourne) Pty Ltd (APAM), which took over its operation from the Federal Airports Corporation (FAC) in July 1997. APAM is a wholly owned subsidiary of Australia Pacific Airports Corporation (APAC). AMP Henderson Global Investors Limited, DB Capital Partners, BAA plc and Hastings Funds Management Limited are shareholders of APAC. APAC paid \$1.3 billion for a 50-year lease of the airport, with an option for a further 49-year lease at the end of this period.

This is the fifth regulatory report for Melbourne Airport. The Commission would like to acknowledge the cooperation received from APAM in providing data and responding to queries that assisted in the preparation of this report.

# **1 Quality of service monitoring**

This section details quality of service monitoring at Melbourne Airport. It begins by providing an overview of the Commission's role in quality of service monitoring. Following this is a summary of the 2001/02 quality of service results for Melbourne Airport and a review of results over the period of monitoring since 1997/98.

## **1.1 The Commission's role and approach to quality of service monitoring**

### **Regulations**

The Commission is required to conduct quality of service monitoring pursuant to Part 8 of the Airports Act.<sup>3</sup> Under the regulations to the Airports Act, airport operators are required to provide the Commission with information on a range of indicators. These indicators cover various aspects of an airport's service quality performance and are detailed in Appendix 1.

Generally, quality of service monitoring is aimed towards:

- providing transparency about airport performance;
- discouraging airport operators from providing unsatisfactory standards for services which are associated with significant market power; and
- assisting in the assessment of an airport operator's conduct as part of the review of prices oversight arrangements.

The information requested by the Commission from airport operators is directed towards meeting these objectives.

### **The Commission's approach**

In reporting on the quality of service indicators, the Commission has focused on the standard and availability of facilities and services provided by, or which could be influenced by the airport operator. These facilities and services include airside facilities such as runways, taxiways and aprons; terminal facilities, such as international departure lounges and baggage claim; car parking; and taxi and bus pick up and drop off points. Domestic terminals owned and/or operated by airlines are not included as part of the quality monitoring report.

In constructing this quality monitoring report, the Commission sought information from a number of different sources, including:

- passengers of the airport, through passenger perception surveys conducted by the airport operator;
- airlines, through surveys of airlines conducted by the Commission;
- airport operators, as required under the regulations; and

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<sup>3</sup> For a detailed description see ACCC, *Quality of Service Monitoring Post-Leasing*, February 1997.

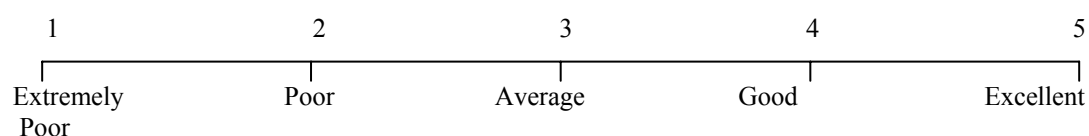
- Australian Customs Service (ACS) and Airservices Australia.

### ***Passenger perception surveys***

The same passenger perception survey has been used to conduct this year's quality monitoring as was used in the previous four years.

The areas covered by the passenger perception survey include passenger check-in, security clearance, government inspection, lounges, washrooms, baggage collection, signage, car parking, and vehicle access for pick-up and drop-off of passengers.

Respondents were asked to rate their level of satisfaction with facilities at Melbourne Airport on a scale from one to five:



Appendix 2 provides an explanation of the indicators covered in the survey. An overview of the results is given in section 1.2 below.

### ***Airline surveys***

In order to gain information on the quality of airside facilities and terminal facilities, the Commission conducted a survey of the airlines that used Melbourne Airport over the 2001/02 period. Responses were received from the following eight airlines: Air New Zealand, Cathay Pacific, Malaysia Airlines, Qantas, Singapore Airlines, United Airlines, Olympic Airlines and China Southern Airlines.

As part of the survey, airlines were asked to rate the availability and standard of particular facilities and services on a non-numerical scale with five possible responses of 'very poor', 'poor', 'satisfactory', 'good' and 'excellent'. For the purposes of averaging, this has been converted to a 5-point scale, similar to that used for passenger survey responses.

Under the availability category, the Commission sought information from airlines regarding the availability of infrastructure and equipment and the occurrence of delays in gaining access to it. Under the standard category, the Commission sought information on the ability of equipment to perform the function intended, the reliability of the equipment and the possibility of it breaking down. A summary of results from the airline survey is presented in Appendix 3.

### ***Airport operators***

APAM was required to provide the Commission with information on the 'static indicators' for Melbourne Airport. These indicators include the number of passengers, the number of aerobridges and the size of aprons. Details of the 'static indicators' for Melbourne Airport are provided in Appendix 4.

### ***Australian Customs Service and Airservices Australia***

The Commission conducted a survey of the ACS to assess certain quality aspects of Melbourne Airport. The ACS was asked to rate the quality of immigration facilities,

baggage processing facilities, and APAM's consultation procedures. Results from this survey are incorporated in section 1.2.

### ***Issues***

In assessing the quality of service at Melbourne Airport, it is important to note that there are a variety of factors outside the immediate control of APAM that may have influenced the quality of service results. The first of these is the staffing of check-in services by airlines, and similarly, staffing of immigration services by Customs, which may have affected the quality results obtained for related services. Secondly, airlines, Airservices Australia and other service providers might have contributed to quality outcomes at Melbourne Airport.

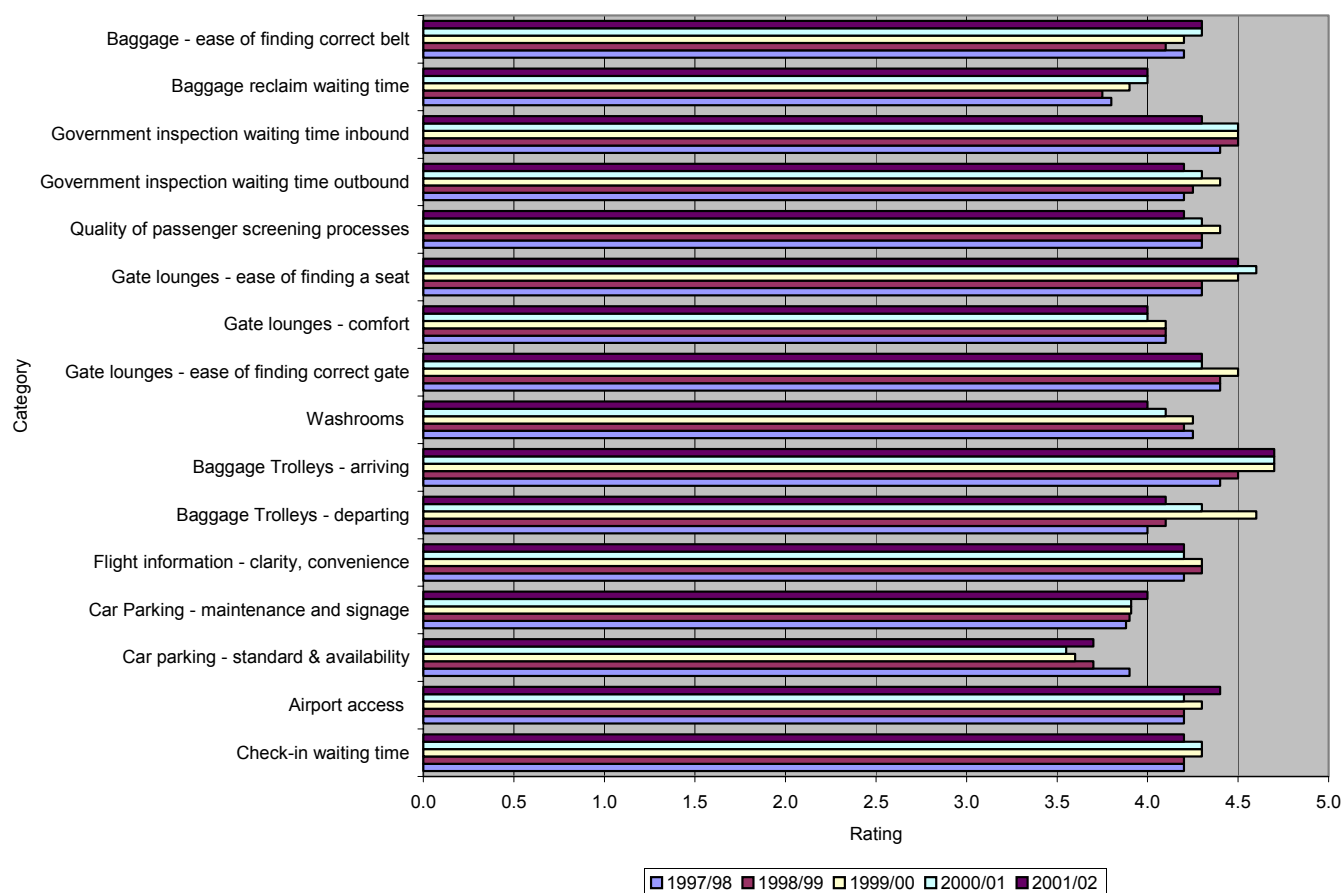
Another point to consider when viewing the results is that it takes time to implement changes and to make improvements in quality monitoring areas. In general, airport operators may not have sufficient time to make improvements in areas where deficiencies have been identified in one year's report, before the next year's monitoring report is completed. For example, there may be a lag between an increase in passenger and flight numbers and an increase in the capacity of terminal infrastructure. Given that investment in terminal infrastructure is 'lumpy', there may be increased crowding in the lead up to new investment which could reflect adversely in the results of some quality of service indicators. Also, improvements in quality may not be made where the costs do not justify the expected benefits.

## **1.2 Quality of service results 2001/02 and review 1997/98-2001/02**

The assessment of overall quality of service at Melbourne Airport is made having regard to the passenger perception survey, the airline survey, a survey of ACS, and the additional comments and data provided by APAM.

Overall, the results for 2001/02 indicate that passengers generally had a high level of satisfaction with the availability and standard of the facilities and services provided at Melbourne Airport. However, there appears to have been a decline in the satisfaction ratings given by airlines.

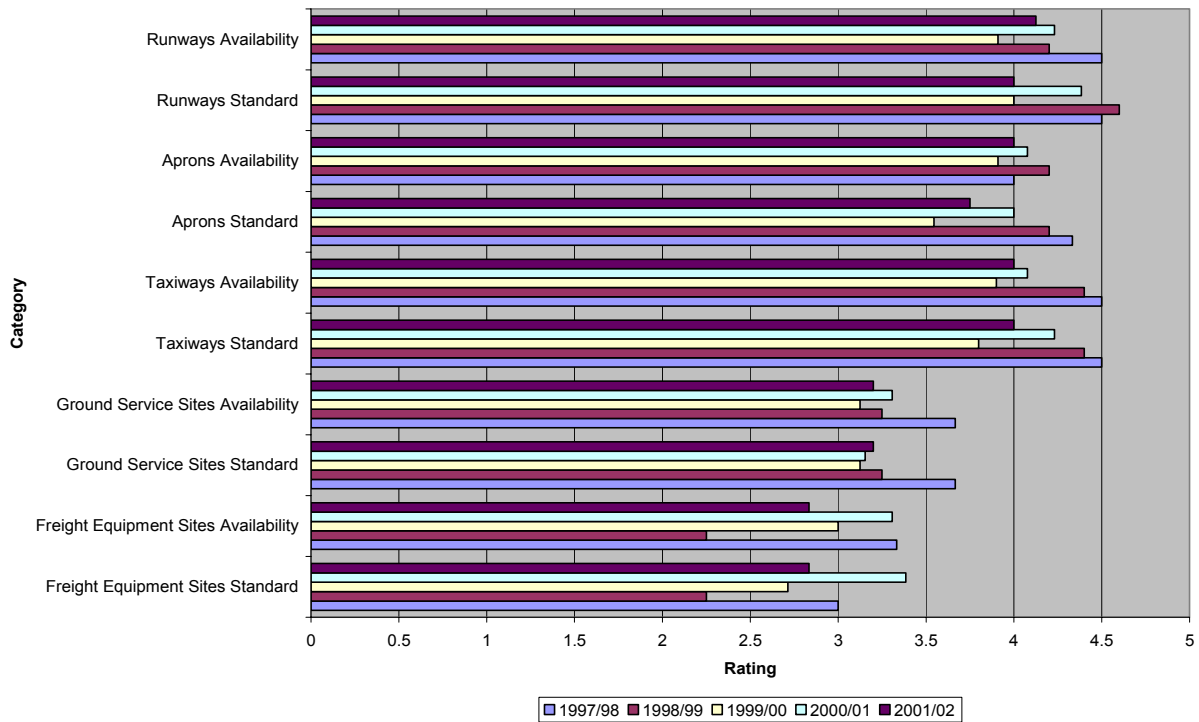
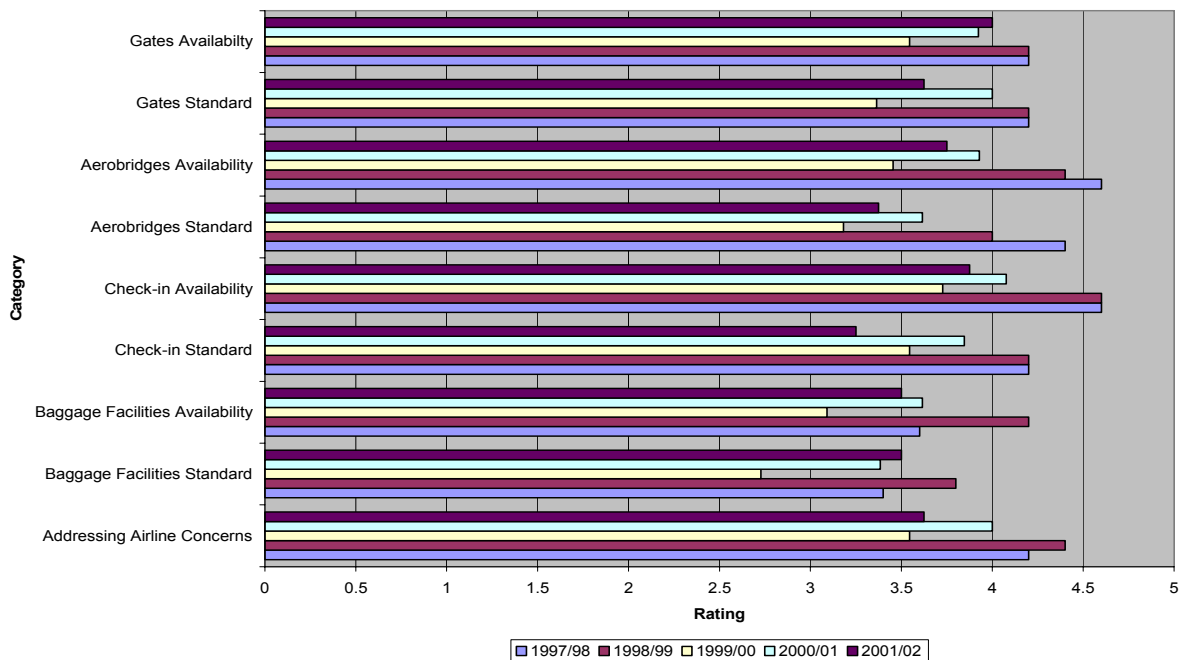
The results of the passenger perception surveys show that for the latest year most facilities and services at the International Terminal were rated 4 or above out of 5 which indicates a high level of passenger satisfaction. Similar results have been obtained over the period of monitoring. A summary of results is presented in Chart 1 below and an explanation of the indicators used is given in Appendix 2.

**Chart 1: Comparison of Passenger Surveys, 1997/98-2001/02**

The airline survey results indicate a slight decline in the ratings of availability and standard of facilities and services at the International Terminal in 2001/02, when compared with the previous year. Average ratings in 2001/02 were generally between 'satisfactory' and 'good'. The higher ratings were for runways, aprons and taxiways, while lower ratings were for ground service sites, freight equipment sites, check-in standard and baggage facilities. According to the airline surveys, over the five years of monitoring the quality of service has generally been maintained although there was a decline in airline satisfaction ratings in both 1999/2000 and 2001/02.

A summary of results is presented in Charts 2a and 2b. More details of the 2001/02 survey are given in Appendix 3.



**Chart 2a: Results of Airline Surveys, Airside Facilities - 1997/98-2001/02****Chart 2b: Results of Airline Surveys, Terminal Facilities - 1997/98-2001/02**

### ***Runways, aprons and taxiways***

The quality of runways, aprons and taxiways at Melbourne Airport was assessed using the results obtained from airline surveys and data provided by Airservices Australia.

#### *2001/02*

The availability of runways was rated as 'satisfactory' to 'excellent' and overall was similar to the previous year.

The standard of runways was rated from 'satisfactory' to 'excellent'. A comment was made that runways are maintained to a high standard and when works are required, every consideration is given to users.

For the first time this year Airservices Australia reported on runway movements for the 0700-1900 and 1700-1900 periods, utilisation and delays at Melbourne Airport. In 2001/02 total average monthly movements at Melbourne Airport were 17,820. In 2000/01 the average per month number of movements between 0700-1000 hrs at Melbourne Airport was 3,284. In 2001/02 the average per month number of movements between 1700-1900 hours was 2,315.

The availability of aprons was rated by airlines as 'satisfactory' to 'excellent'. No comments were received regarding the availability of aprons. Melbourne Airport had 14 international apron positions for aircraft parking at 30 June 2002.

The standard of aprons was generally rated as 'satisfactory' to 'good' with some ratings of 'poor' and 'excellent'. One airline commented that aprons are cleaned and maintained on a regular basis. However, another airline commented that the airport's response to requests for maintenance to aprons with potential foreign object damage was poor.

Airlines rated taxiways 'satisfactory' to 'excellent' both in terms of availability and standard, which represents a slight decrease on last year's results. One airline commented that taxiways are well maintained.

#### *1997/98-2001/02*

Over the period of monitoring, the standard and availability of runways has generally been rated as 'good'. After reaching a peak number of aircraft movements in 2000/01, aircraft movements have fallen to below 1999/00 levels in the last year, with only 157,570 aircraft movements being recorded in 2001/02. Last year's number of movements totalled 187,364.

Aprons have been consistently rated as 'good' and comments were received in the first two years that they received regular and high standard maintenance. A comment was made in 1999/2000, however, that there were problems during the night in getting sweepers to remove foreign objects. This comment was repeated in 2001/02.

Taxiways have also been consistently rated as 'good' with airlines commenting on maintenance being regular. In 1999/2000 a comment was made that with the guidance system used at the airport it was difficult to line up aircraft. APAM has installed new technology in two bays and plans to complete improvements by 2004/05.

Overall, ratings for the availability and standard of runways, aprons and taxiways have been broadly maintained over the period of monitoring since 1997/98.

### ***Gates***

The quality of gates at Melbourne Airport was assessed using information provided by APAM and from the airline surveys.

#### ***2001/02***

The availability of gates at Melbourne Airport was generally rated 'good'. Melbourne Airport had 14 international gates at 30 June 2002.

The standard of gates was generally rated as 'satisfactory', which is a decline on last year's results. While one airline commented that the gates are well maintained, another airline commented that the gate surrounds are not ideal and that the environment is cramped by numerous retail outlets. The airline gave the example of Gates 3 and 5, which it stated are too small for wide bodied aircraft loads. The airline suggests that gate boarding performance has suffered as a result. This view was supported by two other airlines.

APAM however states that it does not believe that retail outlets present a space problem at Gates 3 and 5. APAM states that it provides two types of gate lounges. Gates 1 and 2 are isolated gates while Gates 3 to 16 are made up of a common gate lounge area that services multiple gates.

Since the events of 11 September, 2001, secondary searches at the boarding gates have been required for all flights to the United States, and on occasion to other destinations. This has required the areas around gates being used to be partitioned off so that passengers boarding these flights can be kept in isolation once secondary searches have been undertaken. Most secondary searches have taken place at Gates 3 and 5, and it is this that APAM believes has led to the problems identified by the airlines.

APAM comments that it is not possible to process these flights through Gates 1 and 2 as they do not accommodate 747 aircraft. To alleviate this congestion, APAM states that it avoids scheduling simultaneous departures from gates 3 and 5. APAM has advised the Commission that going forward, as part of a terminal expansion program agreed to with the airlines, APAM will be investigating the development of more dedicated gate lounges.

#### ***1997/98-2001/02***

The availability and standard of gates has been generally rated as 'good', although in 1999/2000, ratings varied from 'poor' to 'excellent'. There was criticism of the method of gate allocation in 1999/2000, even though APAM noted that no changes had been made from previous practice.

The standard of gates has been similarly rated, with scores between 'satisfactory' and 'good'.

### ***Ground service equipment storage sites***

The quality of ground service equipment storage sites at Melbourne Airport was assessed using airline surveys.

2001/02

Ground service equipment storage sites were rated from ‘poor’ to ‘good’ in terms of both availability and standard. One airline has commented that it believes there have been some improvements in freight aprons during the past year, but another commented that Bay Delta 16 at the international terminal is used as an equipment storage site, and that there is a lack of sites to park equipment.

APAM however suggests that airlines themselves are responsible for equipment left on aprons by airline staff. Furthermore, APAM states that issues relating to shortage of equipment parking areas was not raised by airlines during recent discussions about the airport’s 5-year capital program. Nonetheless APAM states that it has made provisions for additional equipment storage capacity in its 5-year capital plan.

1997/98-2001/02

Ground service equipment storage sites have generally been rated from ‘satisfactory’ to ‘good’. Each year airlines have generally commented that there is a lack of space for storing equipment.

### ***Freight equipment storage sites***

The quality of freight equipment storage sites at Melbourne Airport was assessed using airline surveys.

2001/02

Freight equipment storage sites were rated from ‘poor’ to ‘good’ in terms of availability and standard. This was similar to the ratings for the previous year.

A number of airlines commented that the space provided for freight equipment storage is inadequate, a comment which has also been made in previous years. These airlines complain that equipment left on the tarmac makes it very difficult for airlines to park equipment for arrival flights. One airline did however comment that improvements have been noted over the last 12 months.

As with ground service equipment sites, APAM suggests that airlines themselves are responsible for equipment left on aprons by airline staff. Furthermore, APAM states that issues relating to shortage of equipment parking areas was not raised by airlines during recent discussions about the airport’s 5-year capital program. Nonetheless APAM states that it has made provisions for additional equipment storage capacity in its 5-year capital plan.

1997/98-2001/02

Freight equipment storage sites have received ratings ranging from ‘poor’ to ‘excellent’ although in the past four years they have generally been rated ‘poor’ to ‘satisfactory’. A comment made each year has been that there is insufficient space for storage, although in the latest year some airlines have noted that some facilities are modern and improvement works are occurring.

The satisfaction ratings have been somewhat higher in recent years, after low ratings in 1998/99.

### ***Aerobridges***

The quality of aerobridges at Melbourne Airport was assessed using airline surveys and information provided by APAM.

#### ***2001/02***

The availability of aerobridges was rated by airlines as 'good' overall, similar to last year's results. One airline was concerned that there is not enough space at storage site D16.

Melbourne Airport had ten aerobridges for international aircraft at 30 June 2002, the same as at the end of the previous year. For the 2001/02 year, around 99% of passengers used an aerobridge for embarkation or disembarkation, compared to 94% and 93% respectively in 2000/01. The increase in the number of passengers using the aerobridges is due to the cessation of domestic operations through the international terminal.

The standard of aerobridges was generally rated by airlines as 'satisfactory' to 'good'. Comments included that aerobridges often break down, that rubbish is left in aerobridges and that cleaning and heating could be improved. In the past Melbourne Airport has commented that it is airline staff that leave rubbish in the aerobridges.

#### ***1997/98-2001/02***

Melbourne Airport has had ten aerobridges over the entire period of monitoring. The number of international passengers, including transit passengers, was 32% higher in 2001/02 compared to the first year of monitoring.

The facilities were generally rated as 'good' to 'excellent' over the first two years of monitoring and no comments were received from airlines. Airline ratings did decline in 1999/2000 and comments were made that there were a limited number of aerobridges suitable for B737 aircraft and that problems were experienced with air-conditioning, PA announcements and cleanliness. In the last two years the ratings have generally been 'good'.

APAM suggests that in many circumstances, it is the actions of airline staff that lead to problems of cleanliness and malfunctioning. APAM has also commented that plans are currently in hand to increase over time the flexibility of a number of gates that will include additional gates to service 737s.

Overall, ratings of the availability and standard of the facilities have declined slightly over the 5-year period of monitoring.

### ***Check-in facilities***

The quality of check-in facilities at Melbourne Airport was assessed using airline surveys, passenger perception surveys, and information provided by APAM.

#### ***2001/02***

Airlines rated the availability of desks from 'satisfactory' to 'excellent', the most common rating being 'good'. The ratings appeared similar to the previous year's.

Melbourne Airport had 72 check-in desks in the international terminal at 30 June 2002, the same as at the end of the previous year. Over the year, there was an

increase in the number of international passengers of 1.3%. This is a significant decline on last year's figure of 12.5%, but is likely to be explained by both the events of 11 September 2001 and the demise of Ansett. A further reason given by Melbourne Airport for the decrease in the growth rate of passengers through the international terminal is that Virgin Blue initially used the terminal until its relocation to the Domestic Express Terminal (DET).

As an indication of availability, Melbourne Airport reported that the total number of hours during the year to 30 June 2002 when more than 80% of check-in desks were in use was 2. This is a decline on last year's figure of 15 hours.

Passengers surveyed rated the waiting time at the international terminal check-in facilities as being 'good', a similar result to last year.

Airlines rated the standard of check-in desks from 'poor' to 'excellent', with an average decline on the previous year's findings.

A range of comments were made by airlines. These included that check-in desks are worn out although maintenance and repairs are conducted in a timely manner; that there is limited storage space, and that improvements could be made to the luggage sorting system which separates and directs luggage to the proper handling areas.

Melbourne Airport commented that it believes that where maintenance of check-in desks is required, it is because of damage caused by airline staff.

### *Domestic Express Terminal*

The new Domestic Express Terminal had 12 check-in desks at 30 June 2002. The majority of passengers surveyed rated the waiting time at these facilities as 'good'.

### *1997/98-2001/02*

The number of check-in desks was maintained at 72 over the five years of monitoring while the number of international passengers has increased by 32% over that time.

Check-in facilities were generally rated as 'good' to 'excellent' for both availability and standard for the first two years of monitoring and no adverse comments were received from airlines. There was a wider variation in ratings for 1999/2000 with some 'poor' ratings. Comments were received regarding lack of regular maintenance, which appears to have improved over 2000/01. The last year however has again seen some decline in the airlines' rating of standards.

Overall, ratings of the availability and standard of these facilities have declined over the period of monitoring. However, the Commission notes that Melbourne Airport claims that capacity utilisation modelling has not indicated any further check-in desks being required for at least 5 years at the international terminal. Melbourne Airport has also stated that in negotiating new pricing agreements, check-in desk capacity has not been raised.

### ***Government inspection***

The quality of facilities for Government inspection at Melbourne Airport was assessed using passenger perception surveys, a survey of ACS, and information provided by APAM.

*2001/02*

Passengers surveyed again rated the waiting time at Government inspection, both inbound and outbound, as 'good'.

Melbourne Airport had 26 inbound immigration desks and 18 outbound immigration desks at 30 June 2002, the same as at the end of the previous year.

ACS rated the standard and availability of areas provided for circulation and queuing at immigration (arrivals) as 'satisfactory', and commented that congestion was not considered a serious issue. However ACS is still concerned about the standard of signage, stating that it is very easy for passengers to miss the signs. ACS is also concerned that the primary modules are not OH&S friendly and advises that it has had a new prototype built and installed recently. Melbourne Airport disputes ACS's comments and states that any issues with signage within the queuing area immediately before the primary lines is the responsibility of the ACS. Melbourne Airport also comments that the primary modules mentioned are the responsibility of, and are provided by, the ACS.

The quality and availability of immigration facilities for departing passengers were rated as 'satisfactory', whereas in the previous year these were rated as 'good'. ACS commented that the outwards area has been re-configured recently to incorporate a third x-ray machine. Melbourne Airport comments that security standards are set and enforced by the Department of Transport and Regional Services.

*1997/98-2001/02*

After an increase in the number of inbound immigration desks in 1998/99, the number of desks has been maintained over the past four years. Passenger surveys over the monitoring period have consistently rated the waiting time at Government inspection for departing and arriving passengers as 'good' to 'excellent'.

ACS has provided ratings since 1998/99, the second year of monitoring. Other than this year, it has rated the areas for queuing, circulation and signage for arriving passengers as being 'good', although it has commented in each year that the position of 'inwards' duty free shops adversely affected queuing. This year ACS rated the areas as being 'satisfactory'.

Over the period of monitoring, the Commission considers that the availability and standard of these facilities has been maintained.

***Security***

The quality of security at Melbourne Airport was assessed using passenger perception surveys and information provided by APAM.

*2001/02*

At Melbourne Airport's international terminal the number of x-ray machines has increased from two to three, and three walk-through arches and one active screening point have been maintained. Melbourne Airport reports that the third x-ray machine was installed in late 2001/02 in order to ease congestion at screening points, experienced after 11 September 2001.

Passengers surveyed rated the quality of passenger screening as 'good'. This is similar to last year's results, although there has been a small decrease in average ratings. Melbourne Airport comments that the increase in security measures after 11 September 2001 is the main reason for this result. It may be noted that passengers rate the quality of screening primarily in terms of their own experience with the screening procedure.

#### *Domestic Express Terminal*

The Domestic Express Terminal has 1 x-ray machine. Domestic Express Terminal passengers surveyed rated the quality of screening as 'good'. As with the international terminal, the average rating fell slightly when compared to last year, however Melbourne Airport believes that this is the result of increased security measures following the events of September 2001.

#### *1997/98-2001/02*

The number of security clearance systems at the international terminal was increased from three to six in 1998/99 and remained at this number until 2001/02 when the number increased to seven. Passengers surveyed have consistently rated the quality of passenger screening as 'good' in each year of monitoring.

#### *Gate lounges*

The quality of gate lounges at Melbourne Airport was assessed using passenger perception surveys and information provided by APAM.

#### *2001/02*

Passengers surveyed rated the ease of finding a seat, the crowding in the lounges and the comfort of lounge and seating at the international terminal as being 'good'. These ratings are almost identical to last year's results with only the ease of finding a seat receiving a slightly lower mark than in the previous year.

At 30 June 2002, there were 2,034 seats provided in the gate lounges at the international terminal, 50 more than at the end of the previous year.

#### *Domestic Express Terminal*

Passengers surveyed at the Domestic Express Terminal rated the ease of finding the correct gate, ease of finding a seat, and comfort of lounge and seating as being 'good' to 'excellent'. Crowding in the gate area was rated as 'satisfactory'. With the exception of the ease of finding the correct gate, all other indicators experienced significant declines in their overall ratings, especially ease of finding a seat and crowding in the gate area.

Melbourne Airport comments that the number of Virgin Blue passengers using the DET after Ansett's collapse saw capacity in the terminal reached sooner than expected. However Virgin Blue relocated to the South Terminal in August 2002, alleviating many of the congestion issues experienced at the DET.



*1997/98-2001/02*

Over the period of monitoring, passengers surveyed have rated all aspects of gate lounges in the international terminal as ‘good’ to ‘excellent’ despite a decrease in the number of seats available each year between 1998/99 and 2000/01.

***Baggage processing facilities and trolleys***

The quality of baggage processing facilities and trolleys at Melbourne Airport was assessed through airline surveys, passenger perception surveys, a survey of ACS, and information provided by APAM.

*2001/02*

Airlines rated the availability of the baggage handling system at Melbourne Airport’s international terminal as ‘satisfactory’ to ‘good’. No comments were received regarding the availability of the baggage processing facilities.

At 30 June 2002, Melbourne Airport had a baggage system with a capacity of 3,060 bags per hour for outbound baggage and 2,720 bags per hour for inbound baggage. This was the same as at the end of the previous year. In terms of outward bound bags handled, there was a reported increase of 4% over the previous year.

For the standard of the baggage handling system, airlines generally gave ratings from ‘satisfactory’ to ‘good’. Overall, the ratings were similar to last year’s results. Airlines commented that the baggage facilities did sometimes breakdown and that the baggage carousels were unable to cope with large loads. One airline suggested that overall standards could be improved with more sophisticated software.

Passengers surveyed rated ease of finding the correct reclaim belt, waiting time at baggage reclaim and crowding in the reclaim area as ‘satisfactory’ to ‘good’, which was similar to the previous year.

The ease of finding trolleys was rated as ‘good’ for departing passengers, slightly lower than the previous year, but remained at the high end of the ‘good’ to ‘excellent’ range for arriving passengers. Melbourne Airport reports that trolleys are now less likely to be “floating” around the terminal due to better efficiency of the company in charge of restocking the carousels holding the trolleys. Melbourne Airport claims that this ensures a greater reliability of supply of trolleys at the designated location and reduces cluttering of high density use public areas.

ACS rated the availability of space, signage, position, access, security, and passenger inspection facilities at Melbourne Airport as ‘poor’ and rated the standard as being ‘satisfactory’. Last year ACS rated both availability and standard as being ‘good’.

ACS was unhappy with the general layout of the facility and stated that the baggage reclaim area is frequently very congested and subject to extremely long queues. This has resulted in a large number of complaints. Both ACS and Melbourne Airport attribute this to the introduction of Increased Quarantine Intervention (IQI). ACS advised that all stakeholders have recently agreed to increase the dedicated queuing area, although Melbourne Airport does not envisage straight-line processing. ACS suggests that this could be a significant problem as passenger numbers increase.

Melbourne Airport considers that the design suggested by ACS is not possible within the existing building envelope without significant expenditure. Melbourne Airport

suggests that other solutions exist within the existing building structure but would require ACS as well as other border agencies to agree to changes in the way they conduct operations and utilise space.

### *Domestic Express Terminal*

Passengers rated the ease of finding the correct reclaim belt as 'good' but crowding and waiting time in the reclaim area were rated as 'satisfactory'. These results represent a decline on last year's results.

Ease of finding a trolley was rated as 'good' for both departing and arriving passengers.

### *1997/98-2001/02*

The capacity of the baggage system has been maintained at 2,720 inbound and 3,060 outbound bags per hour over the period of monitoring.

Over the first two years of monitoring, airlines generally rated the system as 'satisfactory' to 'good', although limitations with the software were noted. In 1999/2000 however, some ratings of 'very poor' and 'poor' were given. Comments were made that there was a problem with scanners malfunctioning and that the system needed upgrading. APAM did install new scanners in December 2000 which it anticipated would improve the 'read rate'.

Not including the 2001/02 year, ACS has often commented that the location of the examination area and duty free shop adds to congestion.

Passenger surveys covered waiting time for baggage reclaim, crowding in reclaim areas and ease of finding correct belts. Ratings were 'good' to 'excellent' initially but had declined to 'satisfactory' in the third year of monitoring. The subsequent years have seen the rating for waiting time increase to 'good' although crowding has remained as 'satisfactory' overall. In regard to the findability and quality of trolleys, passengers have consistently rated these 'good' to 'excellent'.

### *Flight information displays*

The quality of flight information displays at Melbourne Airport was assessed using passenger perception surveys.

### *2001/02*

Departing passengers surveyed at the international terminal rated the quality of this facility as 'good'. Departing passengers at the Domestic Express Terminal found the quality to be 'satisfactory'. Both results are very similar to last year's results.

### *1997/98-2001/02*

Departing passengers surveyed at the international terminal have consistently rated the quality as 'good'.

### *Washrooms*

The quality of washrooms at Melbourne Airport was assessed using passenger perception surveys.

### *2001/02*

Passengers surveyed rated the cleanliness of washrooms at the international terminal as 'good'. The DET's facilities however were rated as 'satisfactory', which was a noticeable decline on last year's results. Melbourne Airport states that the number of Virgin Blue passengers using the DET after the collapse of Ansett in 2001/02 saw capacity reached sooner than expected. Virgin Blue has since moved to the South Terminal.

### *1997/98-2001/02*

Passengers surveyed have consistently rated cleanliness of washrooms at the international terminal as 'good'.

#### ***Car parking and kerbside access***

The quality of car parking and kerbside access at Melbourne Airport was assessed using passenger perception surveys and information provided by APAM.

### *2001/02*

Passengers using the short-term car parking facilities at Melbourne Airport rated the facilities in terms of maintenance and ease of finding a car parking space as 'good'. Road signs and signs within the car park were rated as 'satisfactory' to 'good'. All results were similar to last year.

Passengers using the long-term car parking facilities at Melbourne Airport rated the maintenance of the car parking area as 'good' and the ease of finding a space, road signs directing to the car park, and the signs within the car park as being 'satisfactory' to 'good'. Again, all results were similar to last year's.

Melbourne Airport had 8,067 long and short-term car parking positions at 30 June 2002, virtually the same as at the end of the previous period. Melbourne Airport commented that the loss of Ansett saw the average throughput in the short-term car park decrease by 10.1% in 2001/02.

Kerbside access is required to allow passengers to be dropped off and picked up by taxis, buses and other vehicles. International terminal passengers rated this facility at Melbourne Airport as 'good'.

Passengers at the DET however rated kerbside access as being 'satisfactory' to 'good', a decline on last year's results. APAM notes that the increase in the number of Virgin Blue passengers at the DET following the collapse of Ansett in 2001/02, saw capacity at the DET reached sooner than expected. As Virgin has now moved to the South Terminal, many of the congestion issues should now be alleviated.

### *1997/98-2001/02*

Passenger ratings have been consistently 'good' over the period of monitoring.

#### ***Consultation with airlines***

The quality of APAM's consultation procedures was assessed through airline surveys and a survey of ACS.

*2001/02*

The Commission asked airlines to rate and comment on APAM's performance in addressing airline concerns on quality related issues. Airline responses ranged from 'poor' to 'excellent', a slight decline on last year's results.

Some airlines commented that they find APAM provides open communication channels. However, other airlines complained that APAM provides insufficient consultation, and is slow to respond to airlines' requests.

ACS rated APAM's responsiveness to concerns as 'satisfactory' as opposed to 'good' for the previous year. ACS stated that its relationship with APAM is mixed, and that it is frustrated by Melbourne Airport's unwillingness to extend the baggage hall and provide funding for the purchase and installation of outwards security speed stiles.

*1997/98-2001/02*

Over the period of monitoring airlines have rated APAM's responsiveness to concerns as 'poor' through to 'excellent' with the average rating being 'satisfactory' to 'good'. Whilst an average rating of 'good' was given in the first two years of monitoring, as well as in 2000/01, the average rating in both 1999/00 and 2001/02 was only 'satisfactory'. Comments were made that too much emphasis was placed on retailing, although there have also been comments that concerns are addressed in a timely manner and with good communication. APAM has commented that of the eight airlines to reply to the survey, only one deals with the airport directly, the others using the Board of Airline Representatives Association (BARA). Melbourne Airport comments that the survey results may include some issues that have not been raised by the airlines through BARA.

ACS initially rated APAM's responsiveness as 'good' but in the following year gave a 'poor' rating after complaining about Melbourne Airport's lack of consultation with regards to retail services. Subsequent years have seen ratings of 'good' and 'satisfactory'.

## **2. Regulatory accounts reporting**

This section reports on Melbourne Airport's financial accounts. First an outline of the financial reporting requirements is given, followed by the financial accounts of Melbourne Airport for the 2001/02 financial year.

### **2.1 The Commission's approach**

The operators of the core-regulated airports are required under Part 7 of the Airport Regulations made under the Airports Act to provide the Commission with annual financial accounts no later than 90 days after 30 June of that year. The accounts include a Profit and Loss Statement, Balance Sheet and a Statement of Cash Flows. In addition, other supporting information, such as statements on accounting policies and cost disaggregations between aeronautical and non-aeronautical costs are required.

All information provided to the Commission must be audited. To authenticate this, a director's responsibility statement must be signed by at least two directors stating that the accounting statements and supporting schedules are presented 'fairly' and in accordance with the published guidelines<sup>4</sup>, the Airports Act, and the regulations made pursuant to that Act.

APAM lodged its audited regulatory accounts with the Commission within the required 90 days following the end of the financial year. The Commission concluded that APAM had prepared its accounts in accordance with the guidelines.

### **2.2 Melbourne Airport regulatory accounts 2001/02**

APAM reported on a period of activity from 1 July 2001 to 30 June 2002. Over the entire airport, a loss after tax of \$1.8 million was reported. This result was significantly affected by interest expense, which totalled \$94.7 million.

As at 30 June 2002, APAM controlled total assets valued at \$1,364.6 million. Of this total, APAM valued its aeronautical assets at \$433.6 million and its non-aeronautical assets at \$903.9 million.

APAM's independent auditors attested to the appropriateness of its systems and records which enabled it to comply with the requirement to separate accounting information between aeronautical and non-aeronautical activities.

Some of the more prominent account items and 'drivers' were as follows:

- Depreciation was allocated on the basis of the function of the relevant asset;
- Services and utilities (eg. electricity) were allocated by historical metered usage;
- Australian Protective Services were allocated on a landed tonne basis;

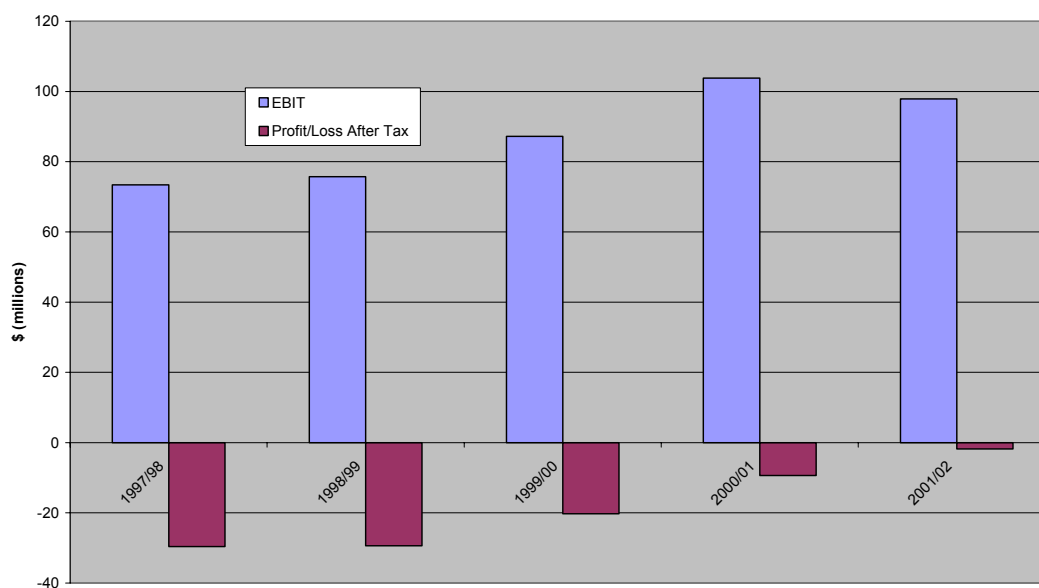
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<sup>4</sup> ACCC, *Regulatory Information Requirements under Part 7 of the Airports Act 1996 and Sections 21 and 27A of the Prices Surveillance Act 1983: Guideline –Version No.2, September 1998.*

- Other expenses were allocated by square metres for functions within the terminal, landed tonnes and by a staff function.

Chart 3 provides information on Melbourne Airport's operating and after tax profitability for the period of reporting. As can be seen below, after steadily increasing over the first four years of monitoring, earnings before interest and tax (EBIT) decreased in 2001/02. Nonetheless, the loss after interest and tax was lower in 2001/02 than in 2000/01, continuing the steady improvement of the earlier years.

**Chart 3: EBIT & Profit, 1997/98 to 2001/02**



A summary of the regulatory accounts is attached at Appendix 5.

### 3. Price cap compliance

This section details Melbourne Airport's price cap compliance for the 2001/02 financial year.

#### 3.1 The Commission's role – price cap

Up until 30 June 2002, certain aeronautical services at Melbourne Airport were declared under section 21 of the PS Act for price surveillance. Declaration 87 made by the Treasurer pursuant to the PS Act declared the services at Phase I airports. The declaration covered aircraft movement areas (eg. runways, aircraft parking areas) and passenger processing areas (eg. aerobridges, departure lounges).<sup>5</sup>

Declaration required an airport operator to notify the Commission of a proposal to increase charges for the services covered by the declaration. The legislative framework did not give the Commission the discretion to object to proposed price increases that fall within the parameters set by the price cap.

At all privatised 'core regulated' airports, declared services were subject to CPI-X price caps. The X factors were based on expected productivity improvements.<sup>6</sup> The X factor for Melbourne Airport was 4.0 per cent per annum and was set for five years from 1 July 1997. The Treasurer's Direction Number 24 sets out details of the price cap formula, the X values and other issues relevant to the Commission's administration of the cap.<sup>7</sup>

#### 3.2 Price cap compliance 2001/02

Price cap compliance is calculated on a revenue weighted average price basis. According to this approach, increases in average charges over the year are weighted by that component's proportion of revenue for the previous period.

Aeronautical services at Melbourne Airport were subject to a price cap set at CPI less an X factor of 4.0 per cent per annum. The relevant CPI figure used to assess price cap compliance for the 2001/02 period was 2.8 per cent, meaning that Melbourne Airport was required to lower its average aeronautical charges in nominal terms by 1.2 per cent. In addition Melbourne Airport had an over recovery from previous years of 0.2<sup>8</sup> per cent so that to comply it would need to lower charges by 1.4 per cent.

Using data provided by APAM, the Commission assessed whether Melbourne Airport complied with the price cap over the year ending 30 June 2002. A summary of movements in charges subject to the cap is provided below (see Table 3). Details of price notifications are available from a public register maintained by the Commission pursuant to section 23 of the PS Act.

<sup>5</sup> A copy of declaration 87 is available on the Commission's website, under Airports.

<sup>6</sup> For a detailed explanation of the arrangements see Australian Competition and Consumer Commission, "*Administration of Airport Price Cap Arrangements*", January 1997.

<sup>7</sup> A copy of Direction 24 is available on the Commission's website, under Airports.

<sup>8</sup> Minor adjustments have been made to previous year figures so that the carry over in Table 4 may not exactly match the carryover published in previous years' regulatory reports.

**Table 3: Changes in charges subject to price cap for year ended 30 June 2002**

Charge	Basis	Charges 30/6/01 (incl. GST)	Charges 30/6/02 (incl. GST)
Landing charges (domestic and international)	Per landing \$/tonne MTOW	\$5.72	\$6.43
International Terminal charge	Per landing \$/tonne MTOW	\$4.18	\$3.71
RPT below minimum fixed wing	\$ per landing	\$28.55	\$28.55
GA Itinerants fixed wing	\$ per landing	\$109.95	\$109.95
GA Itinerants rotary wing	\$ per landing	\$54.95	\$54.95
Parking	\$ per day	\$54.95	\$54.95

Note: The final charges include a one-off increase and necessary new investment component which is excluded from the price cap calculations.

*Direction No 24 – One-off price increase due to suspension of services by Ansett*

After the suspension of services by Ansett Airlines in October 2001 the Government directed the Commission to allow a price increase for the following airports - Brisbane, Melbourne and Perth. Direction 24 specified that the price increase was to be based on a percentage of each airport's starting point prices<sup>9</sup>. The starting points for the price cap arrangements are the Federal Airports Corporation prices introduced on 1 January 1997.

Direction No 24 allowed Melbourne Airport to increase its charges by 6.2% of starting point prices for aeronautical services regulated by the price cap. Melbourne Airport notified the Commission on 2 November 2001 of its intention to restructure its charges to incorporate the one-off increase. The restructure consisted of an increase in the landing charge and a decrease in the terminal charge such that total charges to international users were unchanged. The Commission did not object to Melbourne Airport's application which resulted in an increase in the Landing Charge of \$0.65 per tonne maximum takeoff weight (GST inclusive) and a reduction in the International Terminal Charge by the same amount.

Further details regarding the restructure can be found in the Commission's *Final Decision*, November 2001, which is available on the ACCC's website at <http://www.accc.gov.au>.

For the purposes of calculating compliance with the price cap, the Commission has adjusted each of these charges.

<sup>9</sup> Direction No 24 pursuant to the *Prices Surveillance Act 1983* is available on the ACCC's website at <http://www.accc.gov.au> under Airports.



**Table 4: Aeronautical revenue and price cap compliance for the period ended 30 June 2002**

Description	Number of Units	Base Charge (Price per unit)	Revenue \$49,303,363	Average Charge (\$)	Rate Variation (% change)	Revenue Share 00/01	Compliance (%)
<b>Landing Charges:</b>							
- Domestic and International	7,662,831	\$5.24 MTOW	\$40,160,000	\$5.27 <sup>3</sup>	0.46%	80.53%	0.37%
RPT – below minimum fixed wing	354	\$25.95 per landing	\$9,000	\$25.42	-2.03%	0.02%	0.00%
RPT – below minimum rotary wing	14	\$13.00 per landing	\$363	\$25.93	99.45%	0.00%	0.00%
GA – below minimum fixed wing	530	\$99.95 per landing	\$53,000	\$100.00	0.05%	0.08%	0.00%
GA – below minimum rotary wing	302	\$49.85 per landing	\$15,000	\$49.67	-0.36 %	0.01%	0.00%
<b>International Terminal Charges</b>	2,686,700	\$3.79 per 1000 kg MTOW	\$9,061,000	\$3.35 <sup>3</sup>	-11.59 %	19.37%	-2.24%
<b>Parking Charges</b>	105	\$49.85 per day	\$5,000	\$47.62	-4.67 %	0.00%	0.00%
<b>Actual reduction in charges 01/02</b>							<b>-1.87%</b>
<b>Reduction required to comply with cap</b>							
CPI-X, 2.8-4.0							-1.20%
Past over recovery							0.23%
<b>Required compliance</b>							<b>-1.43%</b>
<b>Under recovery % (2001/02)</b>							<b>0.44%</b>
<b>Under-recovery of revenue (2001/02)</b>							(\$217,107)
<b>Over-recovery brought forward (2000/01)</b>							\$16,119
<b>Total revenue under-recovery (end 2001/02)</b>							<b>(\$200,988)</b>

Note: 1) Revenues and charges are exclusive of GST.

2) Revisions have been made to previous year's calculations. This has decreased the amount of the over recovery that has been carried forward from previous years.

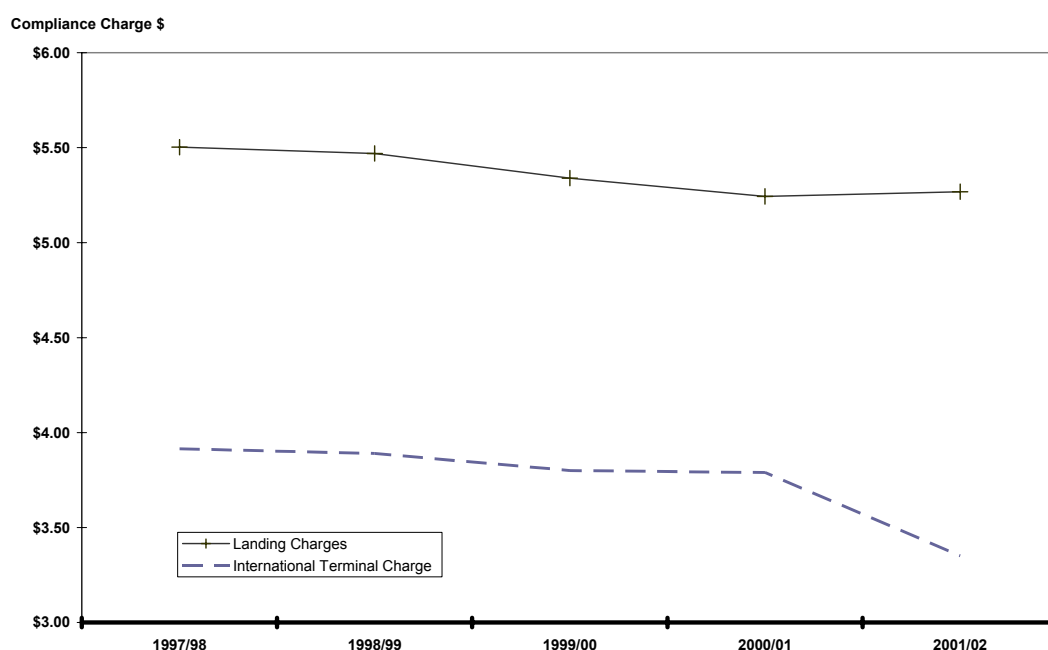
3) The Domestic and International Charges have been adjusted to take account of the one-off increase.

Based on the above reconciliation, Melbourne Airport reduced charges for the 2001/02 period by -1.9%, against a required reduction of 1.4% to comply with the cap. Taken with the over-recovery of revenue carried forward from 2000/01 of \$16,119, this has led to a total under-recovery of \$200,988 over the 5 years to the end of 2001/02.

### 3.3 Price Cap Compliance 1997/98-2001/02

The price cap arrangements that applied to aeronautical services at Melbourne Airport concluded at the end of 2001/02. The price cap regime was a CPI-X regime that provided the flexibility for Phase I Airports to decrease their charges over the five year period. A summary showing the reduction of the two main charges (landing and international terminal)<sup>10</sup> in each year for the period is shown in Chart 4 below.

**Chart 4 – Melbourne Price Cap Compliance Charges 1997/98-2001/02**



Note: Revenue and prices included in this chart are adjusted actual charges, as used for calculating price cap compliance.

In 1997/98 the landing charge at Melbourne Airport was \$5.50<sup>11</sup>. In 2001/02 the charge had decreased to \$5.27. The greatest year on year decrease in landing charges during the period occurred in 1999/00 when the landing charge decreased from \$5.47 at the end of 1998/99 to \$5.34 in 1999/00 - a decrease of 2.38%.

<sup>10</sup> The international terminal and landing charges make up a large proportion of total revenue collected by Melbourne Airport. In 2001/02 these charges provided APAM with 99.83% of its price cap revenue for the year. (The landing charge accounted for 81.45% and the international terminal charge accounted for 18.38% of price cap revenue.)

<sup>11</sup> Excluding Necessary New Investment and one-off increase price increase.

The international terminal charge levied by Melbourne Airport in 1997/98 was \$3.92. In 2001/02 the charge had decreased to \$3.35. The greatest year on year decrease in the terminal charge was in the last financial year of the regulatory regime as it decreased from \$3.79 in 2000/01 to \$3.35 in 2001/02 - a decrease of 11.6%. The decline in the international terminal charge last year resulted from the restructuring of charges by Melbourne Airport, as charges were rebalanced to allow for the one-off increase after the collapse of Ansett.

The reduction in the international terminal charge in 2001/02 led to a total under recovery for the year which contributed to Melbourne Airport's total under recovery for the period 1997/98 to 2001/02.

### 3.4 Revenues and expenditures for security functions for 2001/02

The price cap regime allows airport operators to 'pass-through' to users 100 per cent of the costs related to Government mandated airport security requirements, without those increases affecting compliance with the price cap. Under Direction 24 pursuant to Section 20 of the PS Act, the Commission is directed to allow the airport operator to charge sufficient to recover the direct costs of providing mandated security requirements. Any over recovery, or under recovery, of the costs incurred in providing these security functions in a particular year is factored into future charges.

The requirements cover Australian Protective Services, Checked Baggage Screening and Passenger Screening. The sections below show the costs and revenues over the year in the provision of these requirements.

#### *Australian Protective Services*

From 1 July 2001 to 30 November 2001 the charge levied by Melbourne Airport on behalf of Australian Protective Services was \$0.53 per tonne (incl. GST). On 1 October 2002 this charge was increased to \$0.77 per tonne (incl. GST) and was decreased to \$0.72 per tonne (incl. GST) on 1 January 2002. The charge was again decreased on 1 April 2002 to \$0.35.

Based on the data provided by Melbourne Airport - summarised in Table 5 below - the Commission is satisfied that Melbourne Airport complied in the 2001/02 financial year. The carried forward total was approximately \$109,000 which was the total carryover from 2000/01.

**Table 5: Reconciliation of APS revenue to APS costs (\$ '000)**

APS income	\$4,077
APS direct expense	\$4,146
Under recovery 2001/02	\$69
Carried forward over recovery 2000/01	\$109
<b>Total under recovery (end) 2001/02</b>	<b>\$40</b>

Note: Revenue and costs are exclusive of GST

***Checked Baggage Screening***

Checked Baggage Screening was commenced pursuant to a Government Direction in June 2000. As of 1 July 2001 the charge levied by Melbourne Airport for checked baggage screening was \$1.54 (incl. GST). On 1 October this charge was increased to \$1.81 (incl. GST) and decreased to \$1.53 (incl. GST) on 1 January 2002. The charge was again decreased to \$1.33 (incl. GST) on 1 April 2002. Table 6 below shows that Melbourne Airport under-recovered costs for the year by \$108,000.

**Table 6: Reconciliation of Checked Baggage Screening revenue and costs (\$'000)**

CBS income	\$2,674
CBS operating expense	(\$1,674)
CBS capital expenses	(\$1,108)
<i>Subtotal Expenses</i>	(\$2,782)
Under recovery 2001/02	(\$108)
Carried forward over recovery 2000/01	\$84
<b>Total under recovery (end) 2001/02</b>	<b>(\$24)</b>

Based on the data provided, the Commission is satisfied that Melbourne Airport complied with the provisions of the direction for the 2001/02 financial year.

***Passenger Screening******International***

As of 1 July 2001 Melbourne Airport's charge for International Passenger Screening was \$0.86 (incl. GST) per international passenger. In April 2002 Melbourne Airport changed its charges for International Passenger Screening to \$1.58 (incl. GST) per international departing passenger. Table 7 below shows that Melbourne Airport under-recovered costs for International Passenger Screening over the year by \$119,000 after previously over-recovering by \$114,000.

**Table 7: Reconciliation of International Passenger Screening revenue and costs (\$'000)**

Pax Screening income	\$2,015
Pax Screening operating expenses	(\$2,041)
Pax Screening capital expenses	(\$93)
<i>Sub Total Expenses</i>	(\$2,143)
Under recovery 2001/02	(\$119)
Carried forward over recovery 2000/01	\$114
<b>Total under recovery (end) 2001/02</b>	<b>(\$5)</b>

*Domestic*

As of 1 July 2001 Melbourne Airport's charge for Domestic Passenger Screening was \$0.75 (incl. GST) per domestic passenger. In April 2002 Melbourne Airport changed its charges for Domestic Passenger Screening to \$0.46 (incl. GST) per domestic departing passenger. Table 8 below shows that Melbourne Airport under-recovered costs for Domestic Passenger Screening over the year by \$13,000 after previously over-recovering by \$4,000.

**Table 8: Reconciliation of Domestic Passenger Screening revenue and costs (\$'000)**

Pax Screening income	\$634
Pax Screening operating expenses	(\$647)
Pax Screening capital expenses	(\$0)
<i>Sub Total Expenses</i>	(\$647)
Under recovery 2001/02	(\$13)
Carried forward over recovery 2000/01	(\$4)
<b>Total under recovery (end) 2001/02</b>	<b>(\$17)</b>

Based on the data provided, the Commission is satisfied that Melbourne Airport complied with the provisions of the direction for the 2001/02 financial year.



## **4. Monitoring of aeronautically related services.**

This section covers the Commission's role in the monitoring of aeronautically related services that are outside the price cap arrangements. This section begins with an outline of the Commission's approach to monitoring and is followed by a report on the activities of Melbourne Airport for the 2001/02 financial year.

The Commission also reports on the operational statistics of Melbourne Airport. Details of these statistics can be found at Appendix 6.

### **4.1 The Commission's monitoring role**

In May 1998, the Treasurer directed that aeronautically related services be the subject of formal price monitoring pursuant to section 27A of the PS Act. The monitoring covers the costs, revenues and profits of an airport. The rationale for monitoring is that airport operators may exert significant market power in relation to the monitored services at individual airports. As such, the Government considered that these services should be monitored for misuse of any market power the airport operator may have in setting prices.

Aeronautically related services include aircraft refuelling, aircraft maintenance sites and buildings, freight facilities, and car parking. A full list of aeronautically related services is given in the Treasurer's Direction Number 25, available on the Commission's web site. For a more complete outline of the Commission's monitoring role, see the Commission publication titled *Regulatory Information Requirements under Part 7 of the Airports Act 1996 and Sections 21 and 27A of the Prices Surveillance Act 1983: Guideline –Version No.2, September 1998*.

Under section 27B of the PS Act, the Commission is required to report annually to the Treasurer on its formal prices monitoring activities. The Commission is also required to make its reports publicly available.

In exercising its role, the Commission may investigate particular pricing issues where users have raised concerns and it appears that the airport operator may have taken advantage of its market power. To date this has included the proposed imposition of fuel throughput levies at Brisbane and Perth airports.

### **4.2 Price monitoring – Melbourne Airport 2001/02**

The purpose of monitoring is to identify changes in aeronautically related costs and revenues over time for services that are associated with significant market power. Such differences may point to the use of market power by the airport operator in setting prices.

APAM provided data to the Commission for the year ending 30 June 2002. The data is summarised in Tables 8, 9 and 10 below, and includes revenues and costs for services related to:

- aircraft refuelling;
- aircraft maintenance sites and buildings;

- freight equipment storage sites;
- freight facility sites and buildings;
- ground support equipment sites;
- check-in counters and related facilities; and
- public and staff car parks.

**Table 8: Aero related costs for 2000/01 and 2001/02**

Description	Aero Related Costs 00/01 \$'000	Aero Related Costs 01/02 \$'000
<b>AERO RELATED SERVICES</b>		
Refuelling services	N/A	N/A
Aircraft maintenance sites & buildings	1,488	1,871
Freight equipment storage sites	32	19
Cargo facility sites & buildings	1,850	1,975
Ground support equipment sites	119	N/A
Check-in counters and related services	1,351	1,075
Public car parking	7,166	7,596
<b>TOTAL AERO RELATED COSTS</b>	<b>12,006</b>	<b>12,536</b>

**Table 9: Aero related Revenue for 2000/01 and 2001/02**

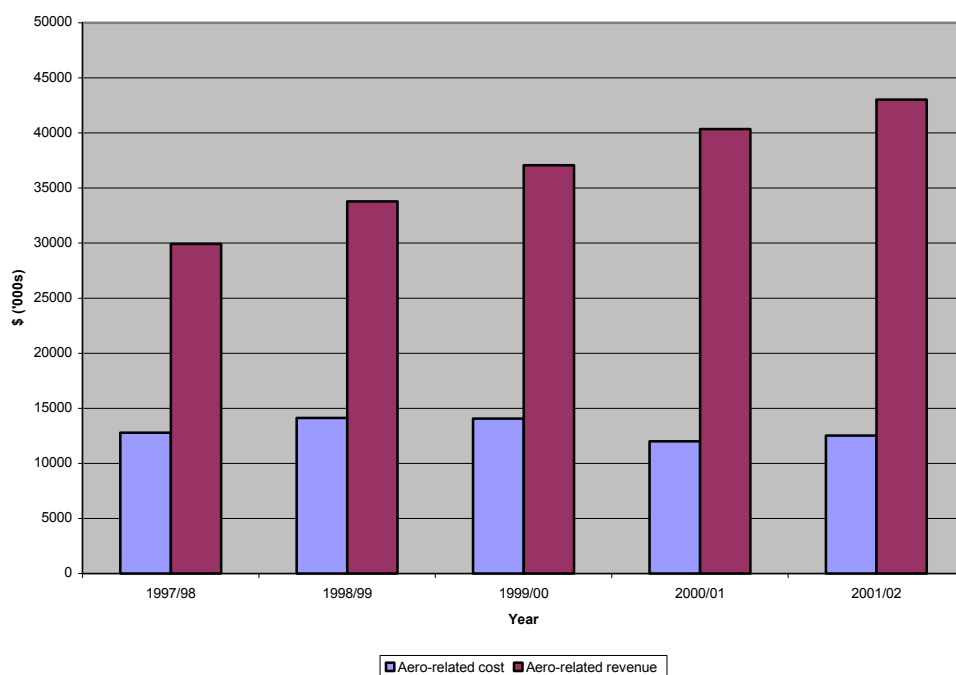
Description	Basis of Charge(s)	Revenue 00/01 \$'000	Revenue 01/02 \$'000
<b>AERO RELATED SERVICES</b>			
Refuelling services	-	N/A	N/A
Aircraft maintenance sites & buildings	m <sup>2</sup>	3,547	4,192
Freight equipment storage sites	m <sup>2</sup>	153	102
Cargo facility sites & buildings	m <sup>2</sup>	3,650	4,070
Ground support equipment sites	-	N/A	N/A
Check-in counters and related services	Agreement with airlines	2,840	3,332
Public car parking	Time	30,161	31,321
<b>TOTAL AERO RELATED REVENUE</b>		<b>40,351</b>	<b>43,017</b>

While both costs and revenues from aeronautically related services increased in 2001/02, growth in revenue was greater than the increase in costs.

While the above tables indicate that revenues exceeded costs, it is important to note that the costs did not include amortisation of intangible assets or interest. These were significant, amounting to \$101 million in 2001/02 for the whole corporation. The Commission asked that these items be excluded for the purposes of the monitoring reports because (a) their allocation to services would have involved a degree of subjectivity, and (b) there would be risk of circularity if an allocation of the cost of the lease premium were included. However, the Commission acknowledges that an allocation that recognises a cost of capital would be appropriate in any detailed analysis.

Chart 4 highlights aero-related costs and revenues over the period of monitoring. As can be seen from the chart, whilst aero-related revenues have steadily increased over the monitoring period, aero-related costs have fluctuated.



**Chart 4: Aero-related costs and revenues, 1997/98 to 2001/02**

Tables 10 and 11 provide information on both short-term and long-term parking prices over the period of monitoring. Chart 5 presents a graphical portrait of changes to short term parking prices over the period of monitoring. The last year has seen an increase in most parking fees, the increase to prices in the 12-24 hour period most obvious.

**Table 10: Short-term Car Parking Rates**

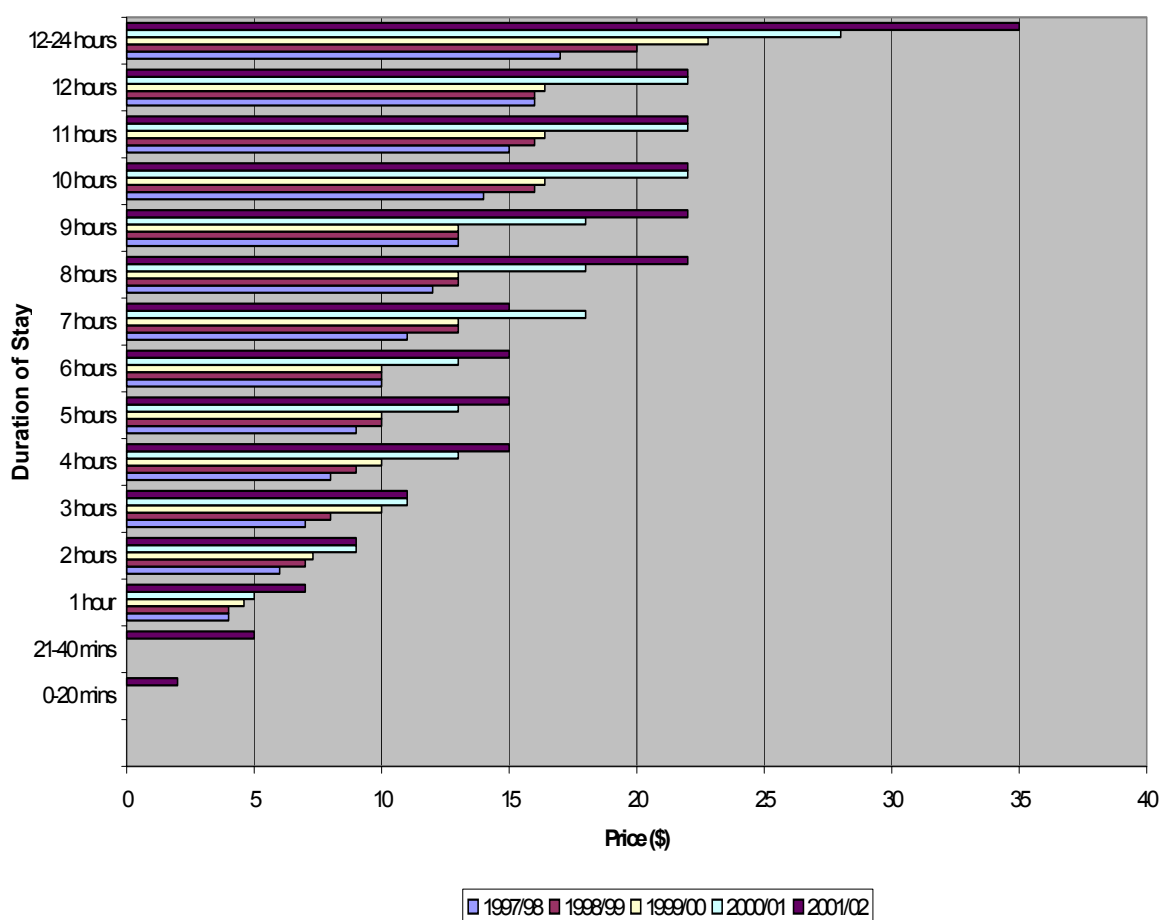
Short Term Parking	1997/98	1998/99	1999/00	2000/01	2001/02
0-20 mins					\$ 2.00
21-40 mins					\$ 5.00
1 hour	\$ 4.00	\$ 4.00	\$ 4.60	\$ 5.00	\$ 7.00
2 hours	\$ 6.00	\$ 7.00	\$ 7.30	\$ 9.00	\$ 9.00
3 hours	\$ 7.00	\$ 8.00	\$ 10.00	\$ 11.00	\$ 11.00
4 hours	\$ 8.00	\$ 9.00	\$ 10.00	\$ 13.00	\$ 15.00
5 hours	\$ 9.00	\$ 10.00	\$ 10.00	\$ 13.00	\$ 15.00
6 hours	\$ 10.00	\$ 10.00	\$ 10.00	\$ 13.00	\$ 15.00
7 hours	\$ 11.00	\$ 13.00	\$ 13.00	\$ 18.00	\$ 15.00
8 hours	\$ 12.00	\$ 13.00	\$ 13.00	\$ 18.00	\$ 22.00
9 hours	\$ 13.00	\$ 13.00	\$ 13.00	\$ 18.00	\$ 22.00
10 hours	\$ 14.00	\$ 16.00	\$ 16.40	\$ 22.00	\$ 22.00
11 hours	\$ 15.00	\$ 16.00	\$ 16.40	\$ 22.00	\$ 22.00
12 hours	\$ 16.00	\$ 16.00	\$ 16.40	\$ 22.00	\$ 22.00
12-24 hours	\$ 17.00	\$ 20.00	\$ 22.80	\$ 28.00	\$ 35.00

Note: The GST was introduced in 2000/01 the Car Parking rates in 2000/01 and 2001/02 are GST inclusive.

**Table 11: Long-term Car Parking Rates**

Long Term Parking (days)	1997/98	1998/99	1999/00	2000/01	2001/02
1	\$ 14.00	\$ 14.00	\$ 14.00	\$ 15.00	\$ 17.00
2	\$ 14.00	\$ 14.00	\$ 14.00	\$ 20.00	\$ 22.00
3	\$ 21.00	\$ 21.00	\$ 21.00	\$ 26.00	\$ 28.00
4	\$ 28.00	\$ 28.00	\$ 28.00	\$ 34.00	\$ 36.00
5	\$ 35.00	\$ 35.00	\$ 35.00	\$ 42.00	\$ 44.00
6	\$ 42.00	\$ 42.00	\$ 42.00	\$ 50.00	\$ 52.00
7	\$ 42.00	\$ 42.00	\$ 42.00	\$ 50.00	\$ 52.00
8				\$ 58.00	\$ 60.00
9				\$ 66.00	\$ 68.00
10				\$ 74.00	\$ 76.00
11				\$ 82.00	\$ 84.00
12				\$ 90.00	\$ 92.00
13				\$ 98.00	\$ 100.00
14				\$ 98.00	\$ 100.00
15				\$ 106.00	\$ 108.00

Note: The GST was introduced in 2000/01 the Car Parking rates in 2000/01 and 2001/02 are GST inclusive.

**Chart 5: Changes in Short Term Parking Prices over the period 1997/98 to 2001/02**

## Appendix 1: Outline of quality of service indicators

The regulations to the Airports Act specify performance indicators to be used in quality of service monitoring. These cover a range of services and infrastructure for which the airport operator has some or complete influence over. An outline of the indicators and the source of data for each is given in Table 12 below.

**Table 12: Quality of service indicators**

Service / Infrastructure	Type of indicator	Source of data
Runways, aprons, taxiway system	<ul style="list-style-type: none"> <li>Average aircraft movements in 30/60 busiest half hours per month;</li> <li>Various delay indicators;</li> <li>Various indicators of adequacy of facilities.</li> </ul>	Airservices Australia Airservices Australia Airlines and Airservices Australia questionnaire
Gates	<ul style="list-style-type: none"> <li>Number of aircraft parking bays;</li> <li>Satisfaction with the standard and availability of facilities.</li> </ul>	Airport operator Survey of airlines
Ground service equipment	<ul style="list-style-type: none"> <li>Satisfaction with the standard and availability of facilities.</li> </ul>	Survey of airlines
Freight facilities	<ul style="list-style-type: none"> <li>Satisfaction with the standard and availability of facilities.</li> </ul>	Survey of airlines
Aerobridges	<ul style="list-style-type: none"> <li>Number of aerobridges;</li> <li>Number and percentage of passengers using aerobridges for boarding and disembarkation;</li> <li>Satisfaction with the standard and availability of facilities.</li> </ul>	Airport operator Airport operator Survey of airlines
Check-in	<ul style="list-style-type: none"> <li>Number of desks;</li> <li>Number of hours when more than 80 per cent of check-in desks are open;</li> <li>Satisfaction with the standard and availability of facilities;</li> <li>Satisfaction with waiting time.</li> </ul>	Airport operator Survey of airlines Passenger perception survey Passenger perception survey
Government inspection	<ul style="list-style-type: none"> <li>Number of desks.</li> </ul>	Airport operator
Security	<ul style="list-style-type: none"> <li>Number of clearance systems;</li> <li>Satisfaction with the system.</li> </ul>	Airport operator Passenger perception survey

<b>Service / Infrastructure</b>	<b>Type of indicator</b>	<b>Source of data</b>
Gate lounges	<ul style="list-style-type: none"> <li>• Number of seats in gate lounges;</li> <li>• Satisfaction regarding quality and availability of seating and crowding.</li> </ul>	Airport operator  Passenger perception survey
Baggage trolleys	<ul style="list-style-type: none"> <li>• Passenger satisfaction with findability of trolleys.</li> </ul>	Passenger perception survey
Flight information display and signs	<ul style="list-style-type: none"> <li>• Passenger satisfaction with the system.</li> </ul>	Passenger perception survey
Washrooms	<ul style="list-style-type: none"> <li>• Passenger satisfaction with the standard of facilities.</li> </ul>	Passenger perception survey
Car parking	<ul style="list-style-type: none"> <li>• Number of car parking spaces;</li> <li>• Throughput of the car park;</li> <li>• Passenger satisfaction with standard of facilities and availability of spaces and time taken to get into car park.</li> </ul>	Airport operator  Airport operator  Passenger perception survey
Kerbside access	<ul style="list-style-type: none"> <li>• Passenger satisfaction with space and waiting time for taxis.</li> </ul>	Passenger perception survey

## Appendix 2: Passenger perception survey indicators

Descriptions of each indicator and the service aspects surveyed are given below in the 'Indicator summary' table.

A number of facility and service ratings are grouped together and an average rating is provided in the chart on page 6.

**Table 13: Indicator summary**

- *Check in waiting time* refers to passenger satisfaction with the waiting time during check-in for departing passengers.
- *Government inspection waiting time (inbound)* refers to passenger satisfaction with the waiting time at customs/immigration for arriving passengers.
- *Government inspection waiting time (outbound)* refers to passenger satisfaction with waiting time at passport control for departing passengers.
- *Security clearance* refers to the waiting time and perceived quality of the screening procedure.
- The *gate lounge* measure refers to the crowding at the gate lounges, and the ease of finding a seat in the gate lounge.
- The *gate lounge – comfort and seating* measure refers to passenger satisfaction with this aspect of the service.
- The *baggage – ease of finding correct belt* refers to passenger satisfaction with this facility.
- *Baggage – crowding and waiting time* refers to passenger satisfaction with the waiting time for baggage and the congestion of the baggage reclaim.
- *Baggage trolley - arriving* refers to arriving passenger perceptions of the ease of finding a trolley.
- *Baggage trolley – departing* refers to the satisfaction of departing passengers in finding a trolley.
- The *information display* measure covers passenger satisfaction with the flight information system for departing passengers.
- The *washroom* measure covers the cleanliness of washrooms for both arriving and departing passengers.
- *Car parking* covers the ease of access to and availability of spaces in the car park, including both the long-term and short term car parks.
- *Car parking maintenance and signs* refers to passenger satisfaction with the signs directing passengers to the car park and signs within the car park, as well as maintenance of the car park facilities.

- *Airport access* refers to passenger satisfaction with the ease of being dropped off at the kerbside. Only departing passengers were surveyed.

## Appendix 3: Airline survey results

Responses were received from the following eight airlines: Air New Zealand, Cathay Pacific, Malaysia Airlines, Qantas, Singapore Airlines, United Airlines, Olympic Airlines and China Southern Airlines.

Ratings were given with regard to both the 'availability' and 'standard' of facilities. Under 'availability', the Commission sought from airlines an assessment of the absence of delays in being able to use infrastructure and equipment. Under 'standard', the Commission sought an assessment of the capability of equipment to perform the functions intended, its reliability, and the possibility of breakdown.

Overall, the results of the airline surveys showed a slight decline in the ratings across many of the facilities provided at Melbourne Airport. A summary of the ratings provided by the airlines for 2001/02 is given in the table below. Ratings were mostly 'satisfactory' to 'good'.

**Table 14: Responses from airline surveys**

Facility	Very Poor	Poor	Satisfactory	Good	Excellent
Runways Availability	0	0	1	5	2
Runways Standard	0	0	2	4	2
Aprons Availability	0	0	2	4	2
Aprons Standard	0	1	2	3	2
Taxiways Availability	0	0	2	4	2
Taxiways Standard	0	0	2	4	2
Gates Availability	0	0	1	6	1
Gates Standard	0	0	4	3	1
Aerobridges Availability	0	1	2	3	2
Aerobridges Standard	0	2	2	3	1
Ground Service Sites Availability	0	1	2	2	0
Ground Service Sites Standard	0	1	2	2	0
Freight Equipment Sites Availability	0	3	1	2	0
Freight Equipment Sites Standard	0	3	1	2	0
Check-in Availability	0	0	2	5	1
Check-in Standard	0	2	3	2	1
Baggage Facilities Availability	0	0	4	4	0
Baggage Facilities Standard	0	0	4	4	0
Addressing Airline Concerns	0	1	2	4	1





## Appendix 4: Static indicators at 30 June, 1998-2002

Indicators provided by the airport operator	1998	1999	2000	2001	2002
Number of (international) aircraft parking bays	14	14	15	14	14
Number of aerobridges	10	10	10	10	10
Percentage of passengers (embarking) using an aerobridge	99.9%	99.9%	99.3%	94.1%	99.4%
Percentage of passengers (disembarking) using an aerobridge	99.9%	99.9%	99.4%	93.4%	99.3%
Number of check-in desks managed by APAM (International terminal)	72	72	72	72	72
Number of international passengers per check-in desk	35,600	37,859	41,512	46,715	47,315
Number of baggage inspection desks	16	16	16	16	16
Number of inbound immigration desks	18	26	26	26	26
Number of outbound immigration desks	18	18	18	18	18
Number of security clearance systems	3	6	6	6	7
Number of seats in gate lounges	2,289	2,363	2,172	1,984	2,034
Number of international passengers per seat in gate lounges	1,120	1,154	1,376	1,695	1,675
Capacity of outbound baggage handling equipment (bags per hour)	3,060	3,060	3,060	3,060	3,060
Capacity of inbound baggage reclaim system (bags per hour)	N/a	2,720	2,720	2,720	2,720
Number of car park spaces - Long term	3,439	3,439	4,189	4,789	4,789
- Short term	2,729	2,763	2,760	3,100	3,100
Throughput of the car park per day - Long term	n/a	679	731	831	896
- Short term	n/a	6,775	6,996	7,248	6,514

## Appendix 5: Melbourne Airport regulatory accounts (summary)

### Statement of Financial Performance - year ended 30 June 2002<sup>12</sup>

Description	Audited financial statements	Aero services	Non-Aero services
	\$ '000	\$ '000	\$ '000
<b>Revenue</b>			
Aeronautical revenue	65,689	65,689	
Non-Aeronautical revenue	130,920		130,920
Grazing and tenant revenue	149		
Interest income	170		
<b>Total Revenue</b>	<b>196,928</b>	<b>65,689</b>	<b>130,920</b>
<b>Expenditure</b>			
Salaries and wages	16,820	11,028	5,792
Depreciation	29,013	16,631	12,382
Amortisation	6,248		6,248
Services and utilities	20,006	9,857	10,149
Property maintenance	5,433	3,530	1,903
Maintenance add backs	-	(149)	
Government mandated security costs	4,146	4,146	
Other costs	17,335	12,389	4,946
<b>Total Expenditure</b>	<b>99,001</b>	<b>57,432</b>	<b>41,420</b>
<b>Operating Profit/(Loss)</b>	<b>97,927</b>	<b>8,257</b>	<b>89,500</b>
<i>Abnormal items</i>			
<b>Earnings Before Interest and Tax (EBIT)</b>	<b>97,927</b>		
Interest Expense	94,727		
<b>Earnings Before Tax</b>	<b>3,200</b>		
Tax benefit attributable to loss	(4,961)		
<b>Profit/(Loss) after Tax</b>	<b>(1,761)</b>		
Dividends Paid	-		
<b>Retained Earnings</b>	<b>(1,761)</b>		

<sup>12</sup> The Commission does not require an allocation of costs related to amortisation or interest expense because any allocation between aeronautical and non-aeronautical services is likely to be arbitrary.

**Statement of Financial Performance - year ended 30 June 2001<sup>13</sup>**

Description	Audited financial statements	Aero services	Non-Aero services
	\$ '000	\$ '000	\$ '000
<b>Revenue</b>			
Aeronautical revenue	62,992	62,992	
Non-Aeronautical revenue	127,516		127,516
Grazing and tenant revenue	132		
Interest income	133		
<b>Total Revenue</b>	<b>190,773</b>	<b>62,992</b>	<b>127,516</b>
<b>Expenditure</b>			
Salaries and wages	15,062	10,380	4,682
Depreciation	28,257	15,789	12,468
Amortisation	6,248		
Services and utilities	18,031	8,327	9,704
Property maintenance	4,892	3,360	1,532
Maintenance add backs		(132)	
Government mandated security costs	3,003	3,003	
Other costs	11,492	5,587	5,905
<b>Total Expenditure</b>	<b>86,985</b>	<b>46,314</b>	<b>40,539</b>
<b>Operating Profit/(Loss)</b>	<b>103,788</b>	<b>16,678</b>	<b>86,977</b>
<i>Abnormal items</i>	-		
<b>Earnings Before Interest and Tax (EBIT)</b>	<b>103,788</b>	<b>16,678</b>	<b>86,977</b>
Interest Expense	135,672		
<b>Profit/(Loss) Before Tax</b>	<b>(31,884)</b>		
Tax benefit attributable to loss	22,454		
<b>Profit/(Loss) after Tax</b>	<b>(9,430)</b>		
Dividends Paid	-		
<b>Retained Earnings</b>	<b>(9,430)</b>		

<sup>13</sup> The Commission does not require an allocation of costs related to amortisation or interest expense because any allocation between aeronautical and non-aeronautical services is likely to be arbitrary.

**Statement of Financial Position as at 30 June 2002**

Description	Audited financial statements	Aero services	Non-Aero services
	\$'000	\$'000	\$'000
<b>CURRENT ASSETS</b>			
Cash	1,083		
Receivables	11,599	6,257	5,342
Inventories	702	606	96
Other	111	65	46
<b>Total current assets</b>	<b>13,495</b>	<b>6,928</b>	<b>5,484</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	724,775	426,707	298,068
Intangibles	600,325		600,325
Other	26,024		
<b>Total non-current assets</b>	<b>1,351,124</b>	<b>426,707</b>	<b>898,393</b>
<b>TOTAL ASSETS</b>	<b>1,364,619</b>	<b>433,635</b>	<b>903,877</b>
<b>CURRENT LIABILITIES</b>			
Creditors	29,135		
Provisions	3,336	2,281	1,055
<b>Total current liabilities</b>	<b>31,471</b>		
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	1,314,894		
Deferred tax liabilities	8,486	4,996	3,490
Provisions	261	178	83
<b>Total non-current liabilities</b>	<b>1,323,641</b>		
<b>TOTAL LIABILITIES</b>	<b>1,355,112</b>		
<b>NET ASSETS/(LIABILITIES)</b>	<b>9,507</b>		
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	100,000		
Accumulated profits/(losses)	(90,493)		
<b>TOTAL SHAREHOLDER'S EQUITY</b>	<b>9,507</b>		
Accumulated profit/(loss) at start of year	(88,732)		
Profit/(loss) for the year	(1,761)		
Accumulated profit/(loss) at end of year	<b>(90,493)</b>		

**Statement of Financial Position as at 30 June 2001**

Description	Audited financial statements	Aero services	Non-Aero services
	\$'000	\$'000	\$'000
<b>CURRENT ASSETS</b>			
Cash	2,281		
Receivables	13,747	6,326	7,421
Inventories	745	677	68
Other	105	54	51
<b>Total current assets</b>	<b>16,878</b>	<b>7,057</b>	<b>7,540</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	718,618	415,125	303,493
Intangibles	608,408		608,408
Other	30,032		
<b>Total non-current assets</b>	<b>1,357,058</b>	<b>415,125</b>	<b>911,901</b>
<b>TOTAL ASSETS</b>	<b>1,373,936</b>	<b>422,182</b>	<b>919,441</b>
<b>CURRENT LIABILITIES</b>			
Creditors	27,718		
Provisions	3,795	2,619	1,176
<b>Total current liabilities</b>	<b>31,513</b>		
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	1,323,418		
Provisions	7,737	4,492	3,245
<b>Total non-current liabilities</b>	<b>1,331,155</b>		
<b>TOTAL LIABILITIES</b>	<b>1,362,668</b>		
<b>NET ASSETS/(LIABILITIES)</b>	<b>11,268</b>		
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	100,000		
Accumulated profits/(losses)	(88,732)		
<b>TOTAL SHAREHOLDER'S EQUITY</b>	<b>11,268</b>		
Accumulated profit/(loss) at start of year	(79,302)		
Profit/(loss) for the year	(9,430)		
Accumulated profit/(loss) at end of year	<b>(88,732)</b>		

**Statement of cash flows for the years ended 30 June 2001 and 2002**

<b>Description</b>	<b>Audited Financial Accounts 2001 ‘000</b>	<b>Audited Financial Accounts 2002 ‘000</b>
<b>Cash flows provided from (applied to) operating activities</b>		
Receipts from customers	202,450	214,430
Payments to suppliers and employees	(53,153)	(64,985)
Interest and bill discounts received	133	170
Interest and other costs of finance paid	(134,909)	(90,479)
Goods and Services Tax remitted	(10,195)	(5,818)
<b><i>Net cash provided from operating activities</i></b>	<b>4,326</b>	<b>52,318</b>
<b>Cash flows from investing activities</b>		
Payment for property, plant and equipment	(28,361)	(44,926)
Proceeds from sale of property, plant and equipment	139	121
<b><i>Net cash provided from (applied to) investing activities</i></b>	<b>(28,222)</b>	<b>(44,805)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	1,142,396	91,000
Other	1,620	(187)
Loan funds repaid to entities in wholly owned group	-	(13,524)
Repayment of borrowings	(1,115,180)	(86,000)
<b><i>Net cash provided from (applied to) financing activities</i></b>	<b>28,836</b>	<b>(8,711)</b>
Net increase/(decrease) in cash held	<b>4,940</b>	<b>(1,198)</b>
Cash at the beginning of the financial year	(2,659)	(2,281)
Cash at the end of the financial year	<b>2,281</b>	<b>1,083</b>

## **Australia Pacific Airports (Melbourne) Regulatory Accounts**

### **Notes on Summary of Accounts**

#### **Financial Reporting Framework**

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, applicable Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The financial report has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

#### **Going Concern**

The financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Directors believe that the company is a going concern based on future positive operating cash flows and financing facilities available. Should the company be required to realise its assets and extinguish its liabilities other than in the normal course of trading, such assets may realise amounts different from those stated in the financial report.

#### **Significant Accounting Policies**

Accounting policies are selected and applied in a manner which ensures that the resultant financial information satisfies the concepts of relevance and reliability thereby ensuring that the substance of the underlying transactions and other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

##### **(a) Depreciation**

Depreciation is provided on property, including buildings, plant and equipment, roads, runways and other infrastructure. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The following estimated useful lives are used in the calculation of depreciation:

- Buildings 10-40 years
- Roads, Runways and Other Infrastructure 13-80 years
- Plant and Equipment 3-10 years

##### **(b) Leased Land and Lease Premium Amortisation**

Land leased as part of the airport acquisition has been valued at acquisition at

fair value and the cost of acquisition of the airport business in excess of net tangible assets has been capitalised as lease premium.

The leased land and lease premium are amortised on a straight line basis over the period of the lease, which is 99 years.

**(c) Acquisition of Assets**

Assets acquired are recorded at the cost of acquisition being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

**(d) Capitalisation of Interest**

Interest costs directly attributable to assets under construction are capitalised as part of the costs of those assets up to the date of completion of each asset.

**(e) Derivative Financial Instruments**

The company enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps, forward interest rate contracts and interest rate options. Further details of derivative financial instruments are disclosed in Note 26 to the financial statements, which can be obtained from Sydney Airport.

Gains and losses on forward interest rate contracts are deferred and amortised over the period of the underlying borrowing.

Gains and losses on interest rate risk contracts are included in the determination of interest expense.

**(f) Inventories**

Inventories are valued at the lower of cost and net realisable value.

**(g) Receivables**

Trade receivables are recorded at amounts due less any provision for doubtful debts.

**(h) Recoverable Amount of Non-Current Assets**

Non-current assets are written down to recoverable amount where the carrying value of any non-current assets exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have been discounted to their present value.

**(i) Payables**

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.



**(j) Interest Bearing Liabilities**

Bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accruals basis. Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowing.

**(k) Income Tax**

Tax effect accounting principles have been adopted whereby income tax expense has been calculated on pre-tax accounting profits after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in provision for deferred income tax and future income tax benefit, as applicable.

The future income tax benefit relating to income tax losses has been recognised as an asset in the financial statements, as the Directors are “virtually certain” that these losses will be recovered.

**(l) Employee Entitlements**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, other leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provision made in respect of wages and salaries, annual leave, long service leave, sick leave, and other employee entitlements expected to be settled within 12 months, are measured at their nominal values.

Provisions made in respect of other employee entitlements which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to the reporting date.

**(m) Revenue Recognition**

*Aeronautical Revenue*

Revenue from landing fees and terminal charges is recognised on an accruals basis when the service is provided.

*Retail Revenue*

Revenue from retail customers is recognised on an accruals basis when the service or goods are provided.

*Property Revenue*

Revenue from the rental of property and buildings throughout the airport is recognised on an accruals basis in accordance with terms of relevant lease

agreements.

*Outgoings, Security and Other Income*

Revenue received from recharging of Outgoings, Security and Sundry Other Income is recognised on an accruals basis when the service or goods are provided.

**(n) Reversionary Assets**

Any assets that have reverted back to the company have been recognised as an asset by a transfer of value from lease premium. The value of the transfer was the value of that asset at the date of acquisition of the airport.

**(o) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

## Appendix 6: Operational statistics

### Operational statistics for the years ended 30 June, 1998-2001

Description	1997/98	1998/99	1999/00	2000/01	2001/02
<b>PASSENGERS</b>					
Domestic Passengers	11,331,637	11,568,545	12,266,238	13,442,022	12,705,588
International Passengers (excluding transit)	2,563,164	2,725,843	2,988,855	3,363,491	3,406,687
International Transit Passengers	229,225	213,351	238,145	318,904	265,959
Domestic On-Carriage	77,314	75,607	77,536	120,504	106,539
<b>TOTAL PASSENGERS</b>	<b>14,201,340</b>	<b>14,583,346</b>	<b>15,570,774</b>	<b>17,244,921</b>	<b>16,484,773</b>
<b>AIRCRAFT MOVEMENTS</b>					
Regular Public Transport Aircraft Movements	143,994	154,332	163,118	185,030	155,682
General Aviation Aircraft Movements	10,136	2,470	1,558	2,334	1,888
<b>TOTAL AIRCRAFT MOVEMENTS</b>	<b>154,130</b>	<b>156,802</b>	<b>164,676</b>	<b>187,364</b>	<b>157,570</b>
<b>TOTAL TONNES LANDED</b>	<b>7,174,299</b>	<b>7,262,427</b>	<b>7,775,976</b>	<b>8,324,969</b>	<b>7,679,935</b>
<b>AVERAGE STAFF EQUIVALENTS</b>					
Aeronautical Services	142	131	137	134	122
Non-Aeronautical Services	48	56	51	58	53
<b>TOTAL AVERAGE STAFF EQUIVALENTS</b>	<b>190</b>	<b>187</b>	<b>188</b>	<b>192</b>	<b>175</b>
<b>AREA (HECTARES)</b>					
Aeronautical Services	1,742.76	1,742.76	1,742.76	1,742.76	1,753.97
Non-Aeronautical Services	624.54	624.54	624.54	624.54	624.54
<b>TOTAL AREA (HECTARES)</b>	<b>2,367.30</b>	<b>2,367.30</b>	<b>2,367.30</b>	<b>2,367.30</b>	<b>2,378.51</b>