



REGULATORY REPORT

MELBOURNE AIRPORT 2000/01

January 2002

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Summary of Price Cap Compliance, Operating Financial Results and Quality of Service for Phase I and Sydney Airports 2000/01

Price Cap Compliance

The Commission conducted price cap reconciliations for Phase I airports for the 2000/01 period. Sydney Airport is not subject to a price cap. Table 1 summarises the price cap reconciliations for the three Phase I airports for 2000/01.

Table 1: Price Cap Compliance Phase I Airports 2000/01

Airport	CPI-X	Past (Over) /Under Recovery	Required reduction	Actual reduction	Over/(under) recovery
Brisbane Airport	-2.3%	-2.72%	-5.02%	-1.71%	3.31%
Melbourne Airport	-1.8%	-0.04%	-1.84%	-1.51%	0.33%
Perth Airport	-3.3%	-1.98%	-5.28%	-3.35%	1.93%

Brisbane Airport has over recovered for the past three financial years and now has a large revenue over-recovery. It is imperative that it lowers its charges so that by the end of the 2001/02 year it eliminates the over recovery. Perth Airport lowered its charges to meet its CPI-X for the year but still has an over recovery from prior years and must also lower charges in 2001/02 to eliminate its over recovery. Melbourne Airport slightly over recovered for the 2000/01 year but previously had a small under recovery.

Operating & Financial Performance

All the Phase 1 airports and Sydney Airport made positive earnings before interest and tax (EBIT) in 2000/01 but, with the exception of Sydney Airport, made losses after the deduction of interest and amortisation of lease premiums.

Table 2 summarises the operating financial results for the Phase I airports and for Sydney Airport in 2000/01.

Table 2: Summary of selected financial results of the Phase I airports and Sydney Airport 2000/01.

Airport	EBIT \$million	Interest \$million	Amortisation \$million	Profit / Loss after interest and tax \$million
Brisbane	\$69.5	\$73.9	\$6.8	(\$11.2)
Melbourne	\$103.8	\$135.7	\$6.2	(\$9.4)
Perth	\$34.9	\$55.3	\$7.4	(\$20.4)
Sydney	\$131.0	\$79.4	\$0	\$22.8

Quality of service

Quality of service for the three Phase I airports and Sydney Airport are generally quite satisfactory. Brisbane Airport has continued to achieve a high quality of service. Perth International Airport generally achieved satisfactory results although some facilities continue not to be well rated by airlines. Melbourne Airport achieved improved results compared to the previous year and overall its results were quite good and more consistent with the results achieved during the first two years of monitoring. Sydney Airport also achieved improved results that seemed to reflect the completion of new infrastructure at the airport.

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

Introduction

The Australian Competition and Consumer Commission (the Commission) has 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 comprises 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 Phase II airports. The framework also includes a range of measures designed to complement the price cap and increase transparency of certain aspects of the privatised airport business.

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

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.

It should be noted that this report is for information only and does not provide recommendations in relation to the matters covered.

Melbourne Airport

Melbourne Airport is owned and operated by Australia Pacific Airports (Melbourne) Pty Ltd (APAM), who 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, Deutsche Asset Management, BAA plc and Hastings Funds Management 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 fourth 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 2000/01 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.¹ 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 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 were 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

¹ For a detailed description see *Quality of Service Monitoring Post Leasing*, ACCC February 1997

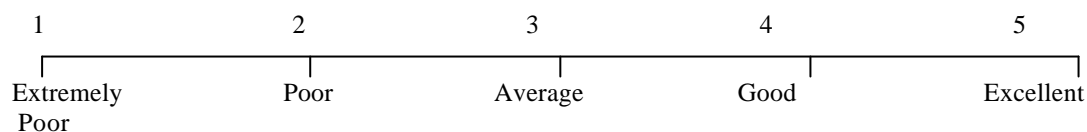
- Australian Customs Service (ACS) and Airservices Australia.

Passenger perception surveys

The same passenger perception survey has been used to conduct this year's quality monitoring as was used for the previous three 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:



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

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 2000/01 period. Fourteen surveys were received from the following airlines: Air Nauru, Air New Zealand, Air Pacific, Ansett Australia, Cathay Pacific, Gulf Air, Lauda Air, Malaysia Airlines, Qantas, Singapore Airlines, United Airlines, Emirates, Air Mauritius and Air New Zealand.

As part of the survey, airlines were requested to rate the availability and standard of particular facilities and services on a five-point scale ranging from 'very poor' to 'excellent'. 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 ACS to assess certain quality aspects of Melbourne Airport. 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 the 'quality of service results' section below.

Airservices Australia was unable to provide data on aircraft movements for the busiest 30 minute and 60 minute periods as it had done for the previous year. The Commission is working with Airservices Australia to develop similar data to what has been provided for Sydney Airport.

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 results is that it takes time to implement changes and to make improvements in quality monitoring areas. In general, airport operators may not have had 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 2000/01 and Review 1997/98-2000/01

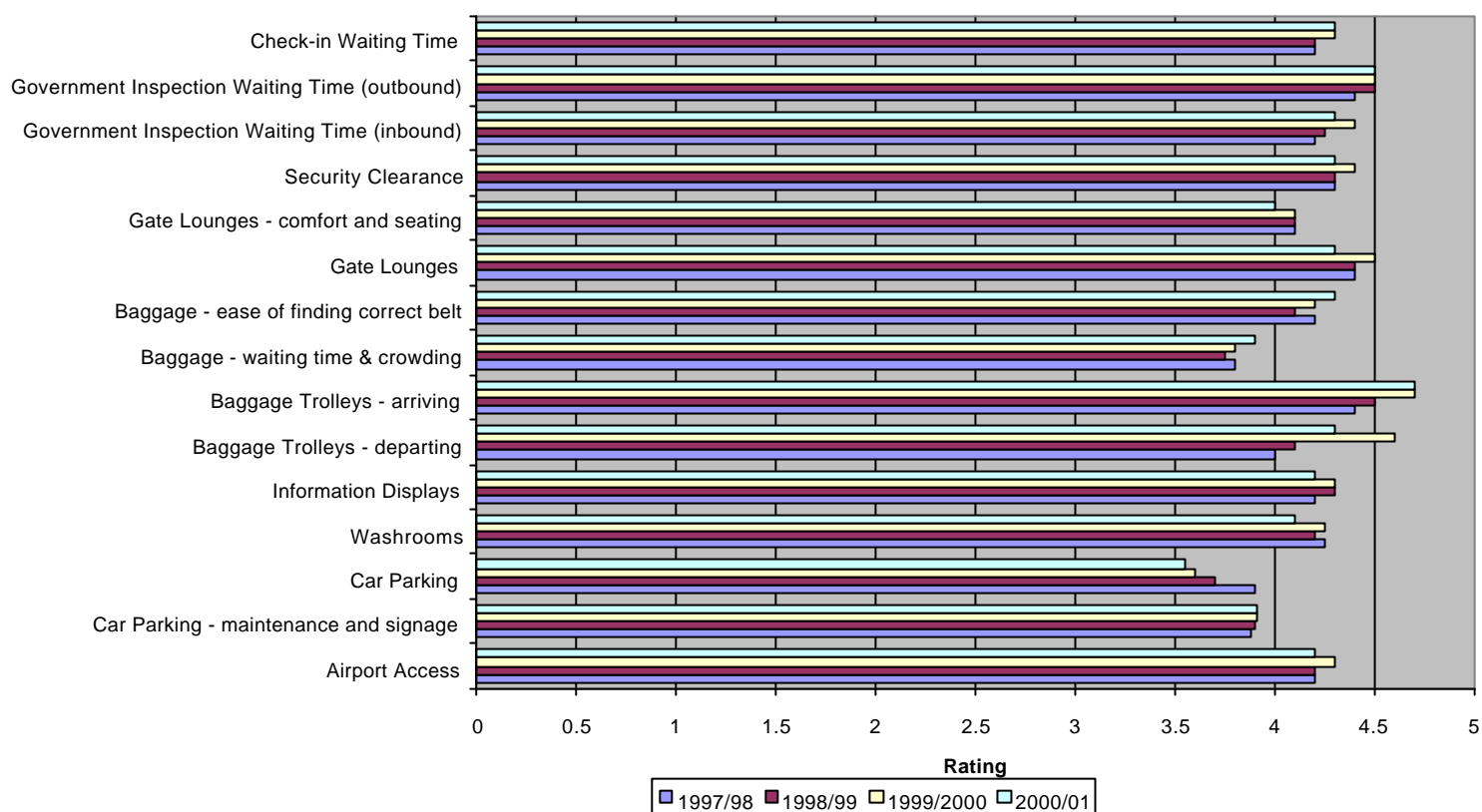
The assessment of overall quality of service at Melbourne Airport is made having regard to the passenger perception survey, the airline survey, a survey of ACS, and the additional comments and data provided by APAM.

Overall, the results for 2000/01 indicate that airport users and passengers were satisfied with the availability and standard of the facilities and services provided at Melbourne Airport.

Over the four years of monitoring from 1997/98 the quality of service has generally been maintained although there was a decline in the 1999/2000 year.

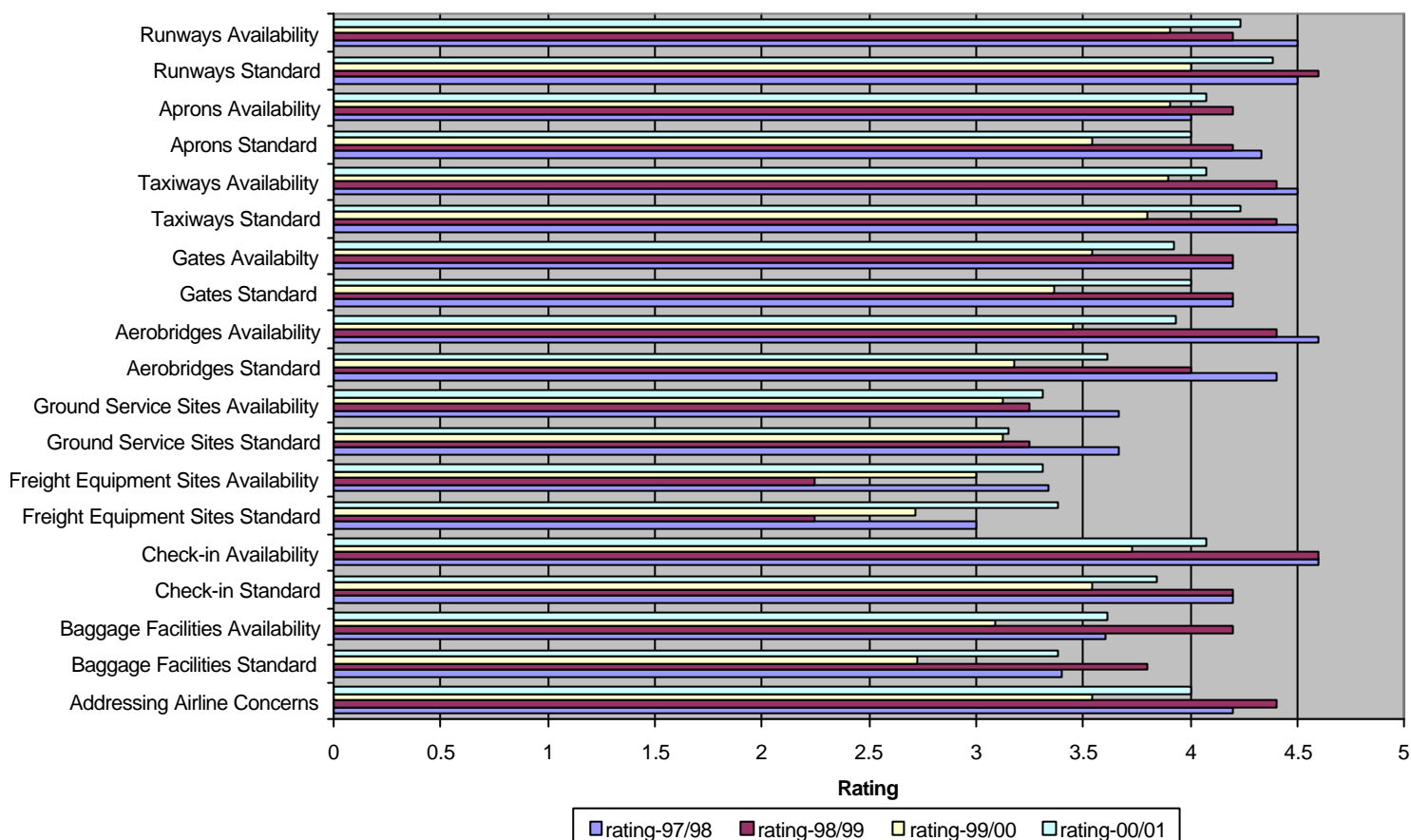
The assessments were made having regard to the surveys conducted and other information provided. An overview of the survey results is given below.

The results of the Passenger Perception Surveys show that for the latest year most facilities and services were rated 4 or above out of 5 which indicate a good 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, 1997/98-2000/01

The airline survey results indicate that airlines were more satisfied with the availability and standard of facilities and services in 2000/01 than in the previous year when ratings generally declined from the two preceding years. The latest results are more consistent with those obtained in the first two years of monitoring. A summary of results is presented in Chart 2. More details of the 2000/01 survey are given in Appendix 3.

Chart 2: Results of Airline Surveys, 1997/98-2000/01



Runways, aprons and taxiways

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

2000/01

The availability of runways was rated as 'satisfactory' to 'excellent' and overall were similar to the previous year despite an increase in reported aircraft movements of 13%. There were no comments received regarding runway availability whereas in the previous year a comment concerned increased holding patterns.

The standard of runways was rated from 'satisfactory' to 'excellent'. A comment was that runways are maintained to a high standard and when works are required every consideration is given to users. One airline commented that runway 27 is not suitable for international departures although Melbourne Airport noted that the cost of lengthening the runway would be very high and probably not supported by airlines.

The availability of aprons was rated by airlines '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 2001.

The standard of aprons was generally rated as 'good' with some ratings of 'satisfactory' and 'good'. One airline commented that aprons are maintained to a high standard.

Airlines rated taxiways 'satisfactory' to 'good' for both availability and standard. One airline commented that taxiways are maintained to a high standard and another that resurfacing is done when required and that the airport operator informs users well in advance of these works.

1997/98-2000/01

Over the period of monitoring since 1997/98 the standard and availability of runways has generally been rated as 'good'. The number of aircraft movements was 22% higher in 2000/01 compared to 1997/98. The only negative comments were received in 1999/2000 relating to an increased requirement for aircraft to go into holding patterns due to new entrants (more aircraft) and runways being too short in bad weather.

Aprons have been consistently rated as 'good' and comments were received in the first two years that there was 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, although this comment was not made again for 2000/01.

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, the Commission considers that the availability and standard of runways, aprons and taxiways has been 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.

2000/01

The availability of gates at Melbourne Airport was generally rated from 'good' to 'excellent' and compared to the previous year there were fewer low ratings. One comment pertaining to availability was that sometimes aircraft need to be towed to a more remote location to accommodate other aircraft arrivals. Melbourne Airport commented that this is a normal part of airport operations and that it would be uneconomic to always have gates available regardless of the time an aircraft may be parked.

Melbourne Airport had 14 international gates at 30 June 2001, one less than at the end of the previous year. During the previous year an international gate was used for domestic operations and at this gate it was possible to park two smaller domestic aircraft. With the opening of the new domestic terminal, this gate was returned to international operations catering for one aircraft.

The standard of gates was also generally rated as 'good' to 'excellent'. A comment however, was that there is a limited number of gates/aerobridges for B737 aircraft and that some gates used for B737 aircraft pose a higher than normal risk of damage to aircraft during docking/undocking procedure.

1997/98-2000/01

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 allocation of gates in 1999/2000, even though APAM noted that no changes had been made from previous practice.

The standard of gates has been similarly rated, although in 1999/2000 ratings were over the 'satisfactory' to 'good' range.

Overall, the Commission considers that the availability and standard of gates has been maintained over the monitoring period since 1997/98.

Ground service equipment storage sites

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

2000/01

Ground service equipment storage sites were rated from 'poor' to 'good' in terms of availability and standard. Comments received from airlines indicate that it is generally considered that equipment is in poor condition and is poorly maintained and that there are insufficient sites. Similar comments were made for the previous year. Melbourne Airport comments that the quality and maintenance of this equipment is the responsibility of the ground handling contractors. One airline however considered that the facilities are sufficient.

1997/98-2000/01

Ground service equipment storage sites have been generally rated from 'satisfactory' to 'good'. Each year airlines have generally commented that there is a lack of space, although APAM is not aware of specific concerns and states it would be prepared to consider any proposals from airlines.

Overall, the Commission considers that the availability and standard of these facilities has been maintained but, while concerns have been raised, APAM has not made improvements.

Freight equipment storage sites

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

2000/01

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.

Comments from airlines were that the space provided is inadequate, a comment which was made in the previous year. Comments were also made, however, that for at least

some airlines, facilities are modern and that works were occurring to make improvements.

1997/98-2000/01

Freight Equipment storage sites have received ratings between 'poor' and 'excellent' although in the past three years they have generally been rated 'poor' to 'satisfactory'. A comment received each year has been that there is insufficient space, although in the latest year some airlines have noted that some facilities are modern and improvement works are occurring.

Overall, the Commission considers that, while the facilities have not been highly rated, some improvement has occurred over the latest year.

Aerobridges

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

2000/01

The availability of aerobridges was rated by airlines as 'good' and overall this was an improvement on the previous year despite an increase in the number of international passengers, including transit passengers, of 14%. One airline commented that there were no problems with availability.

Melbourne Airport had ten aerobridges for international aircraft at 30 June 2001, the same as at the end of the previous year. For the 2000/01 year, around 94% of passengers used an aerobridge for embarkation or disembarkation, compared to over 99% in 1999/00. The decrease in the percentage of passengers using an aerobridge is due to the temporary use of the international terminal by Impulse and Virgin Blue for domestic passengers from July 2000 to December 2000.

The standard of aerobridges was generally rated by airlines as 'satisfactory' to 'good'. Comments included that aerobridges are not suitable for transiting aircraft, that rubbish is left in aerobridges and cleaning could be improved and that dual aerobridges should be considered in future expansion. Melbourne Airport has commented that it is airline staff that leave rubbish in the aerobridges.

1997/98-2000/01

Melbourne Airport has had ten aerobridges over the period of monitoring. The number of international passengers, including transit passengers, was 32% higher in 2000/01 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 latest year the ratings improved.

Overall, the Commission considers that the availability and standard of the facilities has been maintained over the 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.

2000/01

Airlines rated the availability of desks from 'satisfactory' to 'excellent' and generally as 'good'. The ratings appeared slightly higher than for the previous year.

Melbourne Airport had 72 check in desks-in the international terminal at 30 June 2001, the same as at the end of the previous year. Over the year, there was an increase in the number of international passengers of 12.5%.

As an indication of availability, Melbourne Airport reported that over 80% of desks were open for only 0.2% of hours when check-in desks were operational. Passengers surveyed rated the waiting time at check-in as 'good', the same as in the previous year despite the increase in passenger numbers.

Airlines rated the standard of check-in desks from 'satisfactory' to 'excellent' but generally as 'good'. Overall, the ratings were similar to the previous year.

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.

Domestic Express Terminal

The new Domestic Express Terminal had 12 check-in desks at 30 June. Passengers surveyed generally rated the waiting time at these facilities as 'excellent'.

1997/98-2000/01

The number of check-in desks was maintained at 72 over the four years of monitoring while the number of international passengers has increased by 31%.

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 the latest year.

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

Government inspection

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

2000/01

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

ACS rated the adequacy of areas provided for circulation and queuing at immigration (arrivals) as 'good', although it did comment that at peak times there was congestion. ACS also again rated the standard of signage, lighting, desks and passenger facilities for immigration (arrivals) at Melbourne Airport as 'good', although it commented that signage for transit passengers could be improved.

Melbourne Airport had 26 inbound immigration desks and 18 outbound immigration desks at 30 June 2001, the same as at the end of the previous year.

The quality of immigration facilities for departing passengers was rated as 'good', whereas in the previous year this was rated as 'poor'. ACS commented that a new supervisor's room, search room and passenger waiting area has been completed. A new security barrier has also been built.

1997/98-2000/01

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

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

For departing passengers ACS considers that the location of the passenger screening point could be better placed closer to the doors to the hall.

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.

2000/01

The international terminal at Melbourne Airport has two x-ray machines and three walk through arches.

Passengers rated the quality of passenger screening as 'good'.

For the Domestic Express Terminal passengers rated the quality of screening as 'excellent'.

1997/98-2000/01

The number of security clearance systems was increased from three to six in 1998/99 and has remained at this number. Passengers 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.

2000/01

Passengers rated as 'good' the ease of finding a seat and crowding in the lounges. These indicators were slightly higher and slightly lower respectively than the ratings given for the previous year despite a decrease in the number of seats and increase in the number of international passengers. One airline did comment, however, that there were in its view too many retail outlets surrounding many gates.

At 30 June 2001, there were 1,984 seats provided in the gate lounges at the international terminal at Melbourne Airport, 188 less than at the end of the previous year. This further reduction in seats after a reduction over the previous year was due to the introduction of new retail outlets. Over the same period, international passenger numbers increased by 12.5%.

The comfort of gate lounges and of seating was again rated as 'good'.

For the new Domestic Express Terminal, passengers surveyed rated as 'excellent' the ease of finding a seat and the correct gate and as 'good' crowding in the gate area and the comfort of lounges and seating.

1997/98-2000/01

Over the period of monitoring, passengers have rated all aspects of gate lounges surveyed as 'good' to 'excellent' despite a decrease in the number of seats available in each year since 1998/99. The Commission considers however, that the availability and standard of facilities has been maintained.

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.

2000/01

International Terminal

Airlines rated the availability of the baggage handling system at Melbourne Airport as 'satisfactory' to 'good'. No comments were received regarding the availability of the baggage processing facilities.

At 30 June 2001, 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 bags handled, there was an increase reported of 17% over the previous year.

For the standard of the baggage handling system, airlines generally gave ratings from 'satisfactory' to 'good'. Overall, the ratings were higher than for the previous year despite the increase in baggage handled.

Airlines commented however, that there have been disruptions to the power supply which interrupt the system leading to luggage being left behind. They also commented that the system is old and is only just coping with the requirements imposed by baggage screening.

Passengers rated ease of finding the correct reclaim belt, waiting time at baggage reclaim and crowding in the reclaim area as 'good', which was similar or slightly higher than in the previous year.

The ease of finding trolleys was rated as 'good' for departing passengers, slightly lower than the previous year, but remained as 'excellent' for arriving passengers.

ACS rated the adequacy of space, signage, position, access, security, and passenger inspection facilities at Melbourne Airport as 'good' for both availability and standard. It did comment, however, that the location of the examination hall leads to congestion and that space is a concern. Privacy for passengers being examined was considered good.

Domestic Express Terminal

Passengers rated the ease of finding the correct reclaim belt and waiting time as 'excellent' and 'good' respectively but crowding in the reclaim area was rated as 'satisfactory'. Ease of finding a trolley was rated as 'excellent' for both departing and arriving passengers.

1997/98-2000/01

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 were 'very poor' and 'poor'. 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'.

The ACS has commented each year 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. In regard to the findability and quality of trolleys, passengers have consistently rated these 'good' to 'excellent'.

Overall, the Commission considers that the availability and standard of the baggage handling system has been maintained over the period of monitoring.

Flight information displays

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

2000/01

Departing passengers rated the quality of this facility as 'good'.

1997/98-2000/01

Departing passengers have consistently rated the quality as ‘good’.

Washrooms

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

2000/01

Passengers rated the cleanliness of washrooms as ‘good’.

1997/98-2000/01

Passengers have consistently rated cleanliness of washrooms 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.

2000/01

Passengers using the car parking facilities at Melbourne Airport rated the facilities in terms of ease of entry and ease of finding a car parking space as ‘good’. Car parking maintenance and signage was rated similarly.

Melbourne Airport had 8,066 car parking positions at 30 June 2001, an increase of 1,117 from the end of the previous period (1999/2000). Spaces were increased in both the short term and the long-term car parks and a new “Business Car Park” with 177 spaces became available.

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

1997/98-2000/01

Passenger ratings have been consistently ‘good’ over the period of monitoring. Overall, the Commission considers that the quality of car parking and kerbside access facilities have been maintained or improved over the four years of monitoring.

Consultation with airlines

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

2000/01

The Commission asked airlines to rate and comment on APAM’s performance in addressing airline concerns on quality related issues. The responses ranged from ‘satisfactory’ to ‘excellent’.

Comments from airlines included that APAM management was good, that excellent relations exist and that forums exist for airlines to raise issues.

ACS rated APAM's responsiveness to concerns as 'good' as against 'poor' for the previous year.

1997/98-2000/01

Over the period of monitoring airlines have rated APAM's responsiveness to concerns as 'poor' through to 'excellent'. Overall slightly lower ratings were received in 1999/2000. 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.

ACS initially rated APAM's responsiveness as 'good' but in the following year gave a 'poor' rating. It referred to changes impacting on its operations without any consultation or advice, particularly in regard to retailing.

Overall, the Commission considers that APAM has rated well in terms of addressing airline concerns.

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 2000/01 financial year.

2.1 The Commission's approach

The operators of the Phase 1 airports are required under Part 7 of the Airports Act to provide the Commission with annual financial accounts within 90 days after 30 June of that year. The accounts include a Profit and Loss Statement and 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 guidelines, the Airport 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 2000/01

APAM reported on a period of activity from 1 July 2000 to 30 June 2001. Over the entire airport, a loss after tax of \$9.4 million was reported. This result was significantly affected by interest expense, which totalled \$135.7 million.

As at 30 June 2001, APAM controlled total assets valued at \$1,373.9 million. Of this total, APAM valued its aeronautical assets at \$422.2 million and its non-aeronautical assets at \$919.4 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;
- Other expenses were allocated by square metres for functions within the terminal, landed tonnes and by a staff function.

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 2000/01 financial year.

3.1 The Commission's role – price cap

Certain aeronautical services at leased airports are declared under section 21 of the PS Act for price surveillance. Declaration 87 made by the Treasurer pursuant to the PS Act declares the services at Phase I airports. The Declaration covers aircraft movement areas (eg. runways, aircraft parking areas) and passenger processing areas (eg. aerobridges, departure lounges).²

Declaration requires an airport operator to notify the Commission of a proposal to increase charges for the services covered by the declaration. The legislative framework does 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 are subject to CPI-X price caps. The X factors are based on expected productivity improvements.³ The X factor for Melbourne Airport is 4.0 per cent and has been 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.⁴

3.2 Price cap compliance 2000/01

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 are 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 2000/01 period was 2.2 per cent, meaning that APAM was required to lower its average aeronautical charges in nominal terms by 1.8 per cent. In addition Melbourne Airport had an over recovery from previous years of 0.04 per cent so that to be in compliance it would need to lower charges by 1.84 per cent.

Using data provided by APAM, the Commission assessed whether Melbourne Airport complied with the price cap over the year ending 30 June 2001. 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.

² A copy of declaration 87 is available on the Commission's website, under airports.

³ For a detailed explanation of the arrangements see Australian Competition and Consumer Commission, "Administration of Airport Price Cap Arrangements", January 1997.

⁴ A copy of direction 24 is available on the Commission's website, under airports.

Table 3: Changes in charges subject to price cap for year ended 30 June 2001

Charge	Basis	Charges 30/6/00	Charges 30/6/01 (incl. GST)
Landing charges (domestic and international)	Per landing \$/tonne MTOW	\$5.34	\$5.72
International Terminal charge	Per landing \$/tonne MTOW	\$3.80	\$4.18
RPT below minimum fixed wing	\$ per landing	\$26.00	\$28.55
GA Itinerants fixed wing	\$ per landing	\$100.00	\$109.95
GA Itinerants rotary wing	\$ per landing	\$50.00	\$54.95
Parking	\$ per day	\$50.00	\$54.95

To demonstrate compliance with the price cap, APAM provided disaggregated revenue data for aeronautical services for the 2000/01 financial year. In order to calculate compliance the effects of adjustments to prices on 1 July 2000 to take account of The New Tax System (TNTS) were excluded. This involved taking revenue on an exclusive of the Goods and Services Tax (GST) basis and also the deduction of savings that were assumed to arise from TNTS. APAM also gave the units of revenue (eg. tonnes landed) for each category of revenue. A summary of the data is given in Table 4 below.

Table 4: Aeronautical revenue and price cap compliance for the period ended 30 June 2001

Description	Number of Units	Base Charge (Price per unit)	Revenue 00/01 \$54,087,943	Average Charge 00/01	Rate Variation (% change)	Revenue Share 99/00	Compliance %
Landing Charges:							
- Domestic and International	8,306,083	\$5.34 per 1000kg MTOW	\$43,555,438	\$5.244*	-1.80%	81.16%	-1.46%
RPT – below minimum fixed wing	364	\$26.00 per landing	\$9,457	\$25.95	-0.19%	0.04%	0.00%
RPT – below minimum rotary wing	23	\$13.00 per landing	\$299	\$13	0.00%	0.00%	0.00%
GA – below minimum fixed wing	432	\$100.00 per landing	\$43,178	\$99.95	-0.05%	0.12%	0.00%
GA – below minimum rotary wing	106	\$50.00 per landing	\$5,284	\$49.85	-0.30%	0.01%	0.00%
International Terminal Charges	2,763,664	\$3.80 per 1000kg MTOW	\$10,474,287	\$3.79	-0.26%	18.67%	-0.05%
Parking Charges	0	\$50 per day	\$100	\$49.95	-0.1%	0.00%	0.00%
Actual reduction in charges 00/01							-1.51%
Reduction required to comply with cap							-1.80%
CPI-X, 2.2-4.0							-0.04%
Past over recovery, 0.04%							-1.84%
Over-recovery of revenue							0.33%
Total Revenue Under-recovery 99/00							\$9,281
Over-recovery of revenue 00/01							\$177,760
Total Revenue Over-recovery 00/01 (end)							\$168,479

Note: Revenues and charges are exclusive of GST

- * When GST was added to the landing charge on 1 July 2000, APAM first applied a reduction in the landing charge of \$0.14 from \$5.34 to \$5.20. This comprised \$0.096 for price cap compliance and \$0.044 to pass through savings under TSTS. The latter is not part of APAM's price cap compliance and the \$5.244 represents \$5.34 less \$0.096.

Based on the above reconciliation, Melbourne Airport reduced charges for the 2000/01 period by 1.51%, against a required reduction of 1.84% to comply with the cap. Taken with the under-recovery of revenue carried forward from 1999/00 of \$9,281, this has led to a total over-recovery of \$168,479 at the end of the 2000/01 year.

Revenues and expenditures for security functions for year ended 30 June 2001

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

APAM supplied the following information, which demonstrates that the increased security charges to airport users did not recover more than the charges levied by Australian Protective Services (APS) during the financial year.

APAM commenced the year with a charge for APS of \$0.21 per tonne. The charge was increased to take account of the New Tax System from 1 July 2000 and set at \$0.43 per tonne (incl. GST), or \$0.39 (excl. GST).

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

APS income	\$3,171
APS direct expense	(\$3,003)
<i>Sub Total (over recovery)</i>	\$168
Carried forward balance 1999/2000 (under recovery)	(\$59)
Carried forward total (over recovery)	\$109

Note: Revenue and costs are exclusive of GST

Based on the data provided, the Commission is satisfied that APAM complied with the provisions of the direction for the 2000/01 financial year.

Checked Baggage Screening

Checked Baggage Screening was commenced pursuant to a Government Direction in June 2000 with a charge of \$1.65 per departing international passenger. The

Commission did not object to a charge of \$1.81 (incl. GST), or \$1.645 (excl. GST) from 1 July with the introduction of the New Tax System.

To avoid going into significant over recovery, APAM lowered the charge during the year so that the average amount charged per passenger was \$1.52 (incl. GST). Table 6 below shows that APAM over-recovered costs for the year by \$84,000.

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

CBS income	\$2,724
CBS operating expense	(\$1,622)
CBS capital expenses	(\$1,018)
<i>Sub Total Expenses</i>	(\$2,640)
Over recovery 2000/01	\$84
Carried forward balance 1999/2000	(\$0)
Carried forward total (over recovery)	\$84

Based on the data provided, the Commission is satisfied that APAM complied with the provisions of the direction for the 2000/01 financial year.

Passenger Screening

APAM over-recovered costs for Passenger Screening over the year by \$76,000. This was in addition to the over recovery carried forward from the previous year of \$38,000. A summary is given in Table 7 below.

BAC set a charge for Passenger Screening of \$0.86 (incl. GST) per (international departing) passenger over the year. The average amount collected per passenger for the year was \$0.82 (excl. GST).

Table 7 below shows the revenues and costs for the year.

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

Pax Screening income	\$1,389
Pax Screening operating expenses	(\$1,220)
Pax Screening capital expenses	(\$93)
<i>Sub Total Expenses</i>	(\$1,313)
Over Recovery 2000/01	\$76
Carried forward over recovery 1999/2000	\$38
Carried forward total	\$114

Based on the data provided, the Commission is satisfied that APAM complied with the provisions of the direction for the 2000/01 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 2000/01 financial year.

The Commission also reports on the operational statistics of Melbourne Airport. Details of these statistics can be found in 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 "*Aviation*", May 2000.

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, 2000/01

The purpose of monitoring is to identify changes in aeronautical 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. The movement over time of costs and revenues will be of particular interest to the Commission.

APAM provided data to the Commission for the year ending 30 June 2001. 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: Monitored services: Aero-related costs for the period ended 30 June 2001

Description	Aero Related Costs 99/00	Aero-Related Costs 99/00
	\$'000	\$'000
AERO-RELATED SERVICES		
Refuelling services	N/A	N/A
Aircraft maintenance sites & buildings	1,847	1,488
Freight equipment storage sites	18	32
Cargo facility sites & buildings	1,404	1,850
Ground support equipment sites	116	119
Check-in counters and related facilities(1)	1,440	1,351
Public car parking	9,255	7,166
TOTAL AERO-RELATED COSTS	14,080	12,006

Notes:

1. Costs exclude amortisation of intangibles and interest.

Table 9: Monitored services: Aero-related revenue for the period ended 30 June 2001

Description	Basis of Charge(s)	Revenue 99/00	Revenue 00/01
		\$'000	\$'000
AERO-RELATED SERVICES			
Refuelling services		N/A	N/A
Aircraft maintenance sites & buildings	\$ per square metre	3,576	3,547
Freight equipment storage sites	\$ per square metre	101	153
Cargo facility sites & buildings	\$ per square metre	2,588	3,650
Ground support equipment sites		N/A	N/A
Check-in counters and related facilities	Agreement with airlines	2,560	2,840
Public car parking/staff car parks	Time Parking Rates	28,225	30,161
TOTAL AERO-RELATED REVENUE		37,050	40,351

Table 10: Car Parking Rates

Hours	Short Term 30/6/00	Short Term 30/6/01
1	\$4.60	\$5.00
2	\$7.30	\$9.00
3	\$10.00	\$11.00
4	\$10.00	\$13.00
5	\$10.00	\$13.00
6	\$10.00	\$13.00
7	\$13.00	\$18.00
8	\$13.00	\$18.00
9	\$13.00	\$18.00
10	\$16.40	\$22.00
11	\$16.40	\$22.00
12	\$16.40	\$22.00
12-24	\$22.80	\$28.00

Days	Long Term 30/6/00	Long Term 30/6/01
1	\$14.00	\$15.00
2	\$14.00	\$20.00
3	\$21.00	\$26.00
4	\$28.00	\$34.00
5	\$35.00	\$42.00
6	\$42.00	\$50.00
7	\$42.00	\$50.00
8		\$58.00
9		\$66.00
10		\$74.00
11		\$82.00
12		\$90.00
13		\$98.00
14		\$98.00
15		\$106.00

While revenues tended to exceed costs, it is important to note that the costs did not include amortisation of intangible assets or interest. These were significant, amounting to \$142 million in 2000/01. 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.

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 11 below.

Table 11: Quality of service indicators

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

Service / Infrastructure	Type of indicator	Source of data
Gate lounges	<ul style="list-style-type: none"> • Number of seats in gate lounges; • Satisfaction regarding quality and availability of seating and crowding. 	Airport operator Passenger perception survey
Baggage trolleys	<ul style="list-style-type: none"> • Passenger satisfaction with findability of trolleys. 	Passenger perception survey
Flight information display and signs	<ul style="list-style-type: none"> • Passenger satisfaction with the system. 	Passenger perception survey
Washrooms	<ul style="list-style-type: none"> • Passenger satisfaction with the standard of facilities. 	Passenger perception survey
Car parking	<ul style="list-style-type: none"> • Number of car parking spaces; • Throughput of the car park; • Passenger satisfaction with standard of facilities and availability of spaces and time taken to get into car park. 	Airport operator Airport operator Passenger perception survey
Kerbside access	<ul style="list-style-type: none"> • Passenger satisfaction with space and waiting time for taxis. 	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 5. In all instances, the average score, indicated on the above graph, is representative of the individual service/facility ratings that make up the group.

Table 12: Indicator summary

- | |
|---|
| <ul style="list-style-type: none"> • <i>Check in waiting time</i> refers to passenger satisfaction with the waiting time during check-in for departing passengers. • <i>Government inspection waiting time (inbound)</i> refers to passenger satisfaction with the waiting time at customs/immigration for departing passengers for arriving passengers. • <i>Government inspection waiting time (outbound)</i> refers to the passenger satisfaction with waiting time at passport control for departing passengers. • <i>Security clearance</i> refers to the perceived quality of the security system. • The <i>gate lounge</i> measure refers to an average figure combining the crowding at the gate lounges, the ease of finding a seat in the gate lounge and ease of finding a seat. • The <i>gate lounge – comfort and seating</i> measure refers to passenger satisfaction with this aspect of the service. • The <i>baggage – ease of finding correct belt</i> refers to passenger satisfaction with this facility. • <i>Baggage – crowding and waiting time</i> refers to passenger satisfaction with the waiting time for baggage and the congestion of the baggage reclaim. • <i>Baggage trolley - arriving</i> refers to arriving passenger perceptions of the ease of finding a trolley. • <i>Baggage trolley – departing</i> refers to the satisfaction of departing passengers in finding a trolley. • The <i>information display</i> measure covers passenger satisfaction with the flight information system for departing passengers. • The <i>washroom</i> measure covers the cleanliness of washrooms for both arriving and departing passengers. • <i>Car parking</i> covers to the ease of access 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

The Commission received surveys from 14 airlines that used Melbourne Airport over the 2000/01 year. These airlines were Ansett Australia, Qantas, Cathay Pacific, United Airlines, Gulf Air, Air Vanuatu, Air Nauru, British Airways, Singapore Airlines, Olympic Airways, Emirates, Air Mauritius, Air New Zealand and Malaysia 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 improvement in the ratings across many of the facilities provided at Melbourne Airport. A summary of the ratings provided by the airlines is given in the table below. Ratings were generally 'satisfactory' to 'good'.

Table 12: Responses from airline surveys

Facility	Aspect	Very Poor	Poor	Satisfactory	Good	Excellent
Runways	Availability			2	5	6
	Standard			3	2	8
Aprons	Availability			3	6	4
	Standard			2	9	2
Taxiways	Availability			3	6	4
	Standard			2	6	5
Gates	Availability		1	1	9	2
	Standard		1		11	2
Aerobridges	Availability		1	1	10	2
	Standard		1	3	9	
Ground service equipment storage	Availability		4	2	6	1
	Standard		4	4	4	1
Freight equipment storage	Availability		2	5	6	
	Standard		1	7	4	1
Check in facilities	Availability			2	8	3
	Standard			3	9	1
Baggage processing	Availability			6	6	1
	Standard		1	7	4	1
Airline concerns				3	7	3

Appendix 4: Static indicators at 30 June, 1998-2001

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

Appendix 5: Melbourne Airport regulatory accounts (summary)

Profit and loss account for the year ended 30 June 2001⁵

Description	Audited financial statements	Aero services	Non-Aero services
<i>Description</i>	<i>\$ '000</i>	<i>\$</i>	<i>\$</i>
Revenue			
Aeronautical revenue	62,992	62,992	
Non-Aeronautical revenue	127,516		127,516
Grazing and tenant revenue	132		
Interest Income	133		
Total Revenue	190,773	62,992	127,516
Expenditure			
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)	
Australian Protective Service costs	3,003	3,003	
Other costs	11,492	5,587	5,905
Total Expenditure	86,985	46,314	40,539
Operating Profit/(Loss)	103,788	16,678	86,977
<i>Abnormal items</i>	-		
Earnings Before Interest and Tax (EBIT)	103,788	16,678	86,977
Interest Expense	135,672		
Loss Before Tax	(31,884)		
Tax benefit attributable to loss	22,454		
Loss after Tax	(9,430)		
Dividends Paid	-		
Retained Earnings	(9,430)		

⁵ 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.

Profit and loss account for the year ended 30 June 2000⁶

Description	Audited financial statements \$000	Aero services \$000	Non-Aero services \$000
<i>Description</i>	1999/00	1999/00	1999/00
Revenue			
Aeronautical revenue	55,160	55,160	
Non-Aeronautical revenue	111,823		111,823
Grazing and tenant revenue	109		
Interest Income	148		
Total Revenue	167,240	55,160	111,823
Expenditure			
Salaries and wages	14,634	9,787	4,847
Depreciation	26,309	14,465	11,844
Amortisation	6,907	---	6,907
Services and utilities	14,756	5,783	8,973
Property maintenance	4,573	3,000	1,573
Maintenance add backs	---	(109)	---
Australian Protective Service costs	2,830	2,830	---
Other costs	9,984	3,521	6,463
Total Expenditure	79,993	39,277	40,607
Operating Profit/(Loss)	87,247	15,883	71,216
<i>Abnormal items</i>	-		
Earnings Before Interest and Tax (EBIT)	87,247	15,883	71,216
Interest Expense	107,580		
Loss Before Tax	(20,333)		
Tax benefit attributable to loss	43		
Loss after Tax	(20,290)		
Dividends Paid	---		
Retained Earnings	(20,290)		

⁶ 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.

Balance sheet as at 30 June 2001

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

Balance sheet as at 30 June 2000

Description	Audited financial statements \$'000	Aero services	Non-Aero services \$'000
	1999/00	1999/00	1999/00
CURRENT ASSETS			
Cash	165		
Receivables	10,771	4,642	6,129
Inventories	668	521	147
Accrued revenue	80	54	26
Other			
Total current assets	11,684	5,217	6,302
NON-CURRENT ASSETS			
Property, plant and equipment	723,487	429,009	294,478
Intangibles	599,420		599,420
Total non-current assets	1,332,907	429,009	893,898
TOTAL ASSETS	1,334,591	434,226	900,200
CURRENT LIABILITIES			
Creditors	12,200		
Borrowings	20,231		
Provisions	3,619	2,425	1,194
Total current liabilities	36,050		
NON-CURRENT LIABILITIES			
Borrowings	1,277,573		
Provisions	270	181	89
Total non-current liabilities	1,277,843		
TOTAL LIABILITIES	1,313,893		
	20,698		
SHAREHOLDER'S EQUITY			
Share capital	100,000		
Accumulated profits/(losses)	(79,302)		
TOTAL SHAREHOLDER'S EQUITY	20,698		
Accumulated profit/loss at start of year	(59,012)		
Profit/loss for the year	(20,290)		
Accumulated profit/loss at end of year	(79,302)		

Statement of cash flows for the year ended 30 June 2001

Description	Audited Financial Accounts 2000 ‘000	Audited Financial Accounts 2001 ‘000
Cash flows from operating activities		
Receipts from customers	164,749	202,450
Payments to suppliers and employees	(45,164)	(53,153)
Interest and bill discounts received	147	133
Interest and other costs of finance paid	(95,873)	(134,909)
Goods and Services Tax remitted	-	(10,195)
<i>Net cash provided by operating activities</i>	23,859	4,326
Cash flows from investing activities		
Payment for property, plant and equipment	(16,488)	(28,361)
Proceeds from sale of property, plant and equipment	113	139
<i>Net cash used in investing activities</i>	(16,375)	(28,222)
Cash flows from financing activities		
Proceeds from borrowings	103,000	1,142,396
Other	-	1,620
Loan funds repaid to entities in wholly owned group	(1,996)	-
Repayment of borrowings	(111,000)	(1,115,180)
<i>Net cash (used in)/provided by financing activities</i>	(9,996)	28,836
Net increase/(decrease) in cash held	(2,512)	4,940
Cash at the beginning of the financial year	(147)	(2,659)
Cash at the end of the financial year	(2,659)	2,281

Australia Pacific Airports (Melbourne) Regulatory Accounts

Summary of accounting policies

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) Lease 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 Leased 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 Borrowing Costs*

Borrowing 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 and forward interest rate contracts.

Interest Rate Contracts

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

Interest Rate Swaps

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

During the year the Company repaid all acquisition debt, and entered into new borrowings. As a result of these transactions, certain interest rate swaps were terminated early resulting in payments totalling \$35,783,000 to various financial institutions. These costs have been expensed during the year.

(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 not been discounted to their present value.

(i) *Accounts Payable*

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 accrual basis. Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowing.

(k) *Comparative Figures*

The Company has adopted the presentation and disclosure requirements of Accounting Standards AASB 1018 "Statement of Financial Performance", AASB 1034 "Financial Report Presentation and Disclosure" and AASB 1040 "Statement of Financial Position" for the first time in the preparation of this financial report. In accordance with the requirements of these new/revised Standards, comparative

amounts have been reclassified in order to comply with the new presentation format. The reclassification of comparative amounts has not resulted in a change to the aggregate amounts of current assets, non-current assets, current liabilities or equity, or the net profit/loss of the company as reported in the prior year financial report.

(l) 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 not been recognised as an asset in the financial statements, as the Directors are not "virtually certain" that these losses will be recovered.

(m) 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.

(n) Revenue Recognition

Aeronautical Revenue

Revenue from Landing fees 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 the terms of the 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.

(o) Revisionary Assets

I. 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.

(p) 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 recoverables 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
PASSENGERS				
Domestic Passengers	11,331,637	11,568,545	12,266,238	13,442,022
International Passengers (excluding transit)	2,563,164	2,725,843	2,988,855	3,363,491
International Transit Passengers	229,225	213,351	238,145	318,904
Domestic On-Carriage	77,314	75,607	77,536	120,504
TOTAL PASSENGERS	14,201,340	14,583,346	15,570,774	17,244,921
AIRCRAFT MOVEMENTS				
Regular Public Transport Aircraft Movements	143,994	154,332	163,118	185,030
General Aviation Aircraft Movements	10,136	2,470	1,558	2,334
TOTAL AIRCRAFT MOVEMENTS	154,130	156,802	164,676	187,364
TOTAL TONNES LANDED	7,174,299	7,262,427	7,775,976	8,324,969
AVERAGE STAFF EQUIVALENTS				
Aeronautical Services	142	131	137	134
Non-Aeronautical Services	48	56	51	58
TOTAL AVERAGE STAFF EQUIVALENTS	190	187	188	192
AREA (HECTARES)				
Aeronautical Services	1,742.76	1,742.76	1,742.76	1,742.76
Non-Aeronautical Services	624.54	624.54	624.54	624.54
TOTAL AREA (HECTARES)	2,367.30	2,367.30	2,367.30	2,367.30