



REGULATORY REPORT

BRISBANE AIRPORT

1999/00

April 2001

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Summary of Price Cap Compliance, Operating Financial Results and Quality of Service for Phase I and II Airports 1999/00

Price Cap Compliance

The Commission conducted price cap reconciliations for Phase I and Phase II Airports for the 1999/00 period. Table 1 summarises the price cap reconciliations for all of the Phase I and Phase II Airports for 1999/00.

Table 1: Price Cap Compliance Phase I and Phase II Airports 1999/00

<i>Airport</i>	Required reduction/increase	Actual reduction/increase	1999/00 Over/under recovery
Brisbane Airport	-3.93%	-1.32%	2.61% over
Melbourne Airport	-2.402%	-2.361%	0.041% over
Perth Airport	-4.82%	-2.84%	1.98% over
Adelaide Airport	-4.8%	-4.9%	0.1% under
Alice Springs Airport	-2.0%	-3.46%	1.46% under
Canberra Airport	0.28%	0.0%	0.28% under
Coolangatta Airport	-5.8%	-6.509%	0.709% under
Darwin Airport	-2.25%	-3.925%	1.675% under
Hobart Airport	-2.63%	-3.184%	0.554% under
Launceston Airport	-0.670%	-0.868%	0.198% under
Townsville Airport	0.84%	0.2%	0.64% under

For the Phase I Airports, Brisbane Airport has over recovered for the last two financial years. Perth Airport have over recovered its revenues in the last three financial years and it is imperative that it reduces its charges significantly in the next financial year in order to comply with the price cap. Melbourne Airport marginally over recovered in 1999/00, but taken with the net under recovery of the previous two periods has an accumulated under recovery to 1999/00.

For the Phase II Airports, Adelaide refunded the over recovery of 1998/99 by providing a rebate and has a small over recovery in 1999/00. Alice Springs decreased aeronautical charges to bring it in line with the price cap. Canberra Airport did not amend its charges in

1999/00, but provided rebates to users in both 1997/98 and 1998/99 to have a net accumulated under recovery in 1999/00. Coolangatta Airport over recovered its revenues in 1998/99, however, reduced charges in 1999/00 to bring it in line with the price cap. Hobart Airport under recovered in 1999/00 however, taken with the over recovery in 1998/99 are still in a position of accumulated net over recovery in 1999/00. Launceston Airport has under recovered revenue over the past two years. Townsville Airport did not increase charges in 1999/00 by as much as allowed under its cap and have a net accumulated under recovery.

Operating & Financial Performance

All of the Phase I and Phase II airport operators made positive earnings before interest and tax (EBIT) in 1999/00. However, all airports with the exception of Townsville and the Government owned Sydney Airport made losses once interest and lease premiums are taken into account.

Table 2 summarises the operating financial results for the Phase I and Phase II Airports as well as that for Sydney Airport in 1999/00.

Table 2: Summary of selected Financial Results of the Phase I and II Airports as well as Sydney Airport 1999/00.

Airport	EBIT \$million	Interest \$million	Amortisation \$million	Profit / Loss after interest and tax \$million
Brisbane	68.274	69.484	23.324	(112.650)
Melbourne	87.247	107.58	6.907	(20.290)
Perth	29.360	51.758	7.359	(22.398)
Sydney	120.159	57.463	-	42.842
Adelaide	25.435	32.886	2.920	(7.131)
Alice Springs	0.330	3.022	0.086	(2.692)
Canberra	3.720	5.167	-	(2.196)
Coolangatta	3.243	5.252	-	(2.009)
Darwin	0.581	10.711	0.472	(10.130)
Hobart	1.752	1.891	0.332	(0.216)
Launceston	1.153	1.099	0.111	(0.188)
Townsville	1.359	1.029	-	0.117

Quality of service

Quality of service for the three Phase I Airports and Sydney Airport are generally satisfactory. As in 1998-99, Brisbane Airport again achieved high quality service ratings from both airline operators and passengers in 1999/00. Although Perth Airport users and passengers were satisfied, there were marginal declines in the ratings for some facilities as compared to that of 1998/99. Melbourne Airport received lower quality ratings from airlines, in 1999/00 as compared to that of the previous financial year. The airline's quality

assessment of Sydney Airport for 1999/00 is mixed and a comparison of the assessment with that of the previous period 1998/99 is ambiguous.

Passenger surveys indicated good quality standards for both airports in 1999-00. It should be noted that both Melbourne and Sydney Airports were undergoing construction works during the 1999/00 reporting period.

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

Airservices Australia was again unable to provide data on aircraft delays and has advised the Commission, that its systems would not be able deliver the required performance information. Aircraft delay indicators (see table 9) form an integral part of a framework for considering airport quality of service. The lack of information on such measures is a significant deficiency in evaluating airport quality of service.

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 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 regime, 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 Brisbane Airport and is divided into four sections. The first section addresses quality of service at Brisbane Airport and provides a summary of results. The second section provides information on Brisbane Airport's financial accounts. The third section provides details on Brisbane 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.

Brisbane Airport

Brisbane Airport is owned and operated by Brisbane Airport Corporation Limited (BAC), who took over its operation from the Federal Airports Corporation (FAC) in July 1997. BAC's shareholders include Port of Brisbane, Commonwealth Investments Pty Ltd, Schiphol Australia Pty Ltd, Commonwealth Custodial Services Ltd and other financial institutions. BAC paid \$1.397 billion for a 50-year lease of the airport, with an option to extend that lease for a further 49 years.

This is the third regulatory report for Brisbane Airport. The Commission would like to acknowledge the cooperation received from BAC in providing data and responding to queries that assisted in the preparation of this report. However, the Commission notes that BAC did not agree to supply data relating to revenue derived from taxi charges at Brisbane Airport in the 1998/99 and the 1999/2000 periods. This issue is discussed in section 3 of this report.

1 Quality of service monitoring

This section details quality of service at Brisbane Airport. It begins by providing an overview of the Commission's role in quality of service monitoring at Brisbane Airport. Following this is a summary of the 1999/00 quality of service results for Brisbane Airport.

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 Airport operators must provide the Commission with information on a range of indicators listed in the regulations to the Airports Act (the regulations).² These indicators cover various aspects of an airport's quality of service 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 the Commission to assess 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;

¹ For a detailed description see Australian Competition and Consumer Commission, *Quality of service monitoring for airports post-leasing*, February 1997, available on the Commission's website at <<http://www.accc.gov.au>>.

² See Schedule 2, *Airports Regulations 1997* (Cth).

- airlines, through surveys of airlines conducted by the Commission;
- airport operators, as required under the regulations; and
- Australian Customs Service (ACS) and Airservices Australia.

Passenger perception surveys

BAC, in conjunction with a market research firm designed the survey for use in the first year's monitoring report. The Commission provided comment on the proposed survey and also obtained independent advice on the usefulness of the survey in terms of its methodology and sample selection. In response to Commission comments, BAC made changes to the passenger perception survey. The Commission is satisfied with the final passenger perception survey and the methodology used. For comparability of results, the same questions have been used to conduct this year's quality monitoring report. The 1999/00 quality of service survey employs the same indexes as that of the previous financial year and a comparison of the two financial year results is provided.

The areas covered by the passenger perception survey included passenger check-in, security clearance, government inspection, lounges, washrooms, baggage collection, signage, car parking, and vehicle access for pick-ups and drop-offs.

Respondents were asked to rate quality aspects such as reasonableness of waiting times; clarity of information provided, such as airport signage; and the comfort of gate lounges. A summary of results from the passenger perception surveys is presented in Appendix 2.

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 Brisbane Airport over the 1999/00 period. Fifteen surveys were received from the following airlines: Air Caledonie International, Air Nauru, New Zealand, Ansett Australia, Air Pacific Ltd, British Airways, Cathay Pacific Airways, Eva Airways Corporation, Garuda Indonesia, Japan Airlines, Malaysia Airlines, Qantas Airways, Royal Brunei Airlines, Singapore Airlines and Solomon Airlines. The Commission will be including Impulse Airlines and Virgin Blue Airlines in the airline surveys from 2000/01.

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. Appendix 3 provides details of results obtained from the airline surveys.

Airport operators

BAC was required to provide the Commission with information on the 'static indicators' for Brisbane Airport. These indicators included the number of passengers, the number of

aerobridges, and the size of aprons. Details of the 'static indicators' for Brisbane Airport are provided in Appendix 4.

Australian Customs Service (ACS) and Airservices Australia

The Commission conducted a survey of ACS to assess certain quality aspects of Brisbane Airport. ACS was asked to rate the quality of immigration facilities, baggage processing facilities, and BAC's consultation procedures. Results from this survey are incorporated in the 'quality of service results' section below.

Airservices Australia provided the Commission with information regarding the busiest half-hours at Brisbane Airport for the 1999/00 period (see Appendix 4 for details). Airservices Australia, however, could not provide the Commission with data relating to aircraft delays over the period.

Issues

In assessing the quality of service at Brisbane Airport, it is important to note that the quality of service results may have been influenced by factors outside the control of BAC. Firstly, check-in services are operated by airline staff and immigration services are staffed by the ACS, not by staff employed by BAC. Secondly, the conduct of airlines, Airservices Australia and other service providers in carrying out their operations may have contributed to service quality outcomes. Finally, there may not have been sufficient time since the previous publication of quality of service results for airport operators to implement any suggested improvements or to address deficiencies in identified areas. For example, there may be a time lag between increases in passenger and flight numbers and a corresponding increase in the capacity of terminal infrastructure. Thus, increased crowding in the lead up to such new investment could reflect adversely in the results of some quality of service indicators. Also, improvements in quality may not have been made where the costs do not justify the expected benefits.

1.2 Quality of service results 1999/00

The assessment of quality of service at Brisbane Airport is made having regard to the passenger perception surveys, the airline surveys, a survey of ACS, and the additional comments and data provided by BAC. A summary of the passenger perception surveys and airline surveys can be found in Appendices 2 and 3 respectively.

Overall, it appears that airport users, airlines, and passengers were very satisfied with almost all aspects of the facilities and services provided at Brisbane Airport.

In particular, the 99/00 quality of service results appear to be comparable to those obtained in the previous periods.

Runways, aprons and taxiways

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

The standard and availability of runways was rated from 'satisfactory' to 'excellent' by airlines. One comment received indicated that at certain times a second runway would assist, especially in the afternoons. Another airline indicated that there was congestion at one runway due to weather, cross winds and peak times.

Brisbane Airport had eleven international apron positions for aircraft parking at 30 June 2000. Overall, aprons were rated from 'poor' to 'excellent' by airlines. Comments received indicated that the current extensions to the aprons are causing availability problems. One airline commented that the apron at the international terminal was too small, allowing only one aircraft to push back at any time.

Three airlines rated the quality of taxiways at Brisbane Airport as 'excellent', six rated them as 'good' and three rated them as 'satisfactory'. One airline stated that the taxiway between the domestic and international terminals should be completed as it causes congestion.

Airservices Australia provided the Commission with data that showed that the number of movements for Brisbane Airport in each of the busiest half-hours over the 99-00 period was 23 (annual average). Aircraft movements in each of the busiest 60 half-hours was 21 (annual average).

However, Airservices Australia have not provided the Commission data concerning delays to aircraft movements for Brisbane Airport for 1999/00.

In response BAC stated that the current extensions to the apron were not causing availability problems since the Southern Apron Extension works did not commence until the current financial year 2000/01. During the past financial year, 1999/00, BAC had 3 startup or pushback positions available on the apron. With regard to the taxiway, BAC commented that Qantas, Ansett and BARA don't believe this is a current problem.

Gates

The quality of gates at Brisbane Airport was assessed using information obtained from the airline surveys.

The availability and standard of gates at Brisbane Airport was rated from 'satisfactory' to 'good' by airlines. One airline commented that the gates are not very secure, while another stated that it would prefer dual aerobridge operations. Other comments included that there were not enough gates for peak times and noted that there were fuelling restrictions with some satellite gates accommodating A320 or larger aircraft.

In response BAC commented that fuelling restrictions apply to only one gate at the domestic terminal. The gate caters only for DC10s.

Ground service equipment storage sites

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

Ground service equipment storage sites were rated from 'satisfactory' to 'good' by the majority of airlines. One comment received indicated the facilities at Brisbane Airport are

new and well planned. However, one airline commented that there was not enough space to enable fleet flexibility and there was not enough tie down points for cyclone preparations.

Freight equipment storage sites

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

Freight equipment storage sites were rated from 'satisfactory' to 'good' by the majority of airlines. One airline comments that the equipment storage sites need to be expanded to accommodate future growth.

Aerobridges

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

Brisbane Airport had eight aerobridges for international aircraft at 30 June 2000. For the 1999/00 period, 98.6% of all passengers embarking or disembarking used an aerobridge.

Airlines rated the quality of aerobridges at Brisbane Airport from 'satisfactory' to 'good'. One comment received indicated that aerobridges are fixed and cannot be manoeuvred, making aircraft parking difficult. Other comments indicated a concern about lack of staff training in the case of breakdowns, and insufficient aerobridges in relation to parking gates at the international terminal.

In reply, BAC stated that only two of the eight aerobridges are fixed and this does make aircraft parking more difficult. The lack of staff training may refer to that of the new contractor who were brought onto the aerobridge contract during 1999-00.

The Southern Concourse Extension will provide a further 10 aerobridges. Currently there are 12 positions available and BAC has never turned traffic away due to lack of facilities.

Check-in facilities

The quality of check-in facilities at Brisbane Airport was assessed using airline surveys, passenger perception surveys, and information provided by BAC. Brisbane Airport had 54 check-in desks at 30 June 2000.

Airlines rated the availability of check-in desks as 'poor' to 'excellent'. The standard of check-in desks was rated from 'satisfactory' to 'good'. Several airlines commented that it is not commercially acceptable to share check-in desks between them, there are insufficient check-in counters and a lack of queuing space. One airline stated that there was insufficient maintenance of the Visual Display Unit systems, and occasional loss of baggage. Other comments noted that there is congestion when airline schedules overlap, and that the boarding pass and tag printers need replacement. However, one airline stated that BAC responds very well when counters are required.

Passengers rated the waiting time at check-in as 'good' to 'excellent'.

In response, BAC commented that in peak periods, all rows are checking in at the same time, which forces BAC to put smaller loaded flights on the same row. BAC stated that they never put opposing companies on the same row. In addition BAC are investigating adding six additional check in counters at the other end of the rows to give greater flexibility in flight allocation.

BAC denies that there is insufficient maintenance of the Visual Display Units. BAC has a low rate of problems with inter systems equipment on the check in desks. Airline comments could also relate to the SITA VDU which, belongs to the CUTE Clubs, not BAC.

Government inspection

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

BAC had 26 inbound immigration desks and 20 outbound immigration desks at 30 June 2000.

Passengers surveyed rated the waiting time at Government inspection (inbound) as 'good'. The waiting time at government inspection (outbound) was rated as 'good' to 'excellent'.

ACS rated the adequacy of areas provided for circulation and queuing at immigration (arrivals) as 'poor'. ACS rated the lighting, signage, desks and passenger facilities for immigration (arrivals) at Brisbane Airport as 'satisfactory'.

ACS rated the adequacy of circulation space to avoid congestion, signage, and appropriate provision of desks at departures (immigration) as 'poor'. Comments received indicated that the queuing area in front of the Customs line is quite shallow and does not facilitate the introduction of more efficient queuing systems. The lack of queuing area behind the Customs line at the security screening point causes delays and at times causes processing to halt. The ACS was also concerned with the confusing signage and suggested installing signs at the exit of the arrivals aerobridges indicating the direction of the inwards immigration line. In 1998/99 ACS noted a concern with the availability of public toilet facilities in the reclaim area. This was again noted in the 99/00 survey. ACS also considered the lighting in the queue area prior to the ECP to be of poor quality.

In response to the ACS comments, BAC stated that congestion problems could have been solved with snake queuing in this area as it is working very well. BAC state that the congestion problems is attributable to lack of Customs staff. The main signage in the area is that which belongs to the ACS over the primary line desks.

BAC further commented that they have never noticed more than six ACS counters being manned and that queuing problems is a Customs resource issue rather than one of insufficient space. The ACS currently has 20 under establishment for staffing.

The queuing between the screening point and the outwards primary line will be addressed in future with the provision of a 3rd x ray unit. Finally, BAC denied that there are problems with toilet availability in the reclaim area.

Security

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

Brisbane Airport had three security systems at 30 June 2000.

Passengers rated the quality of passenger screening at Brisbane Airport as 'good' to 'excellent'.

Gate lounges

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

At 30 June 2000, there were 1246 seats provided in the gate lounges at Brisbane Airport.

Passengers rated the availability, comfort, cleanliness and size of gate lounge facilities at Brisbane Airport as 'good' to 'excellent'.

Baggage processing facilities and trolleys

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

At 30 June 2000, Brisbane Airport had a baggage system with a capacity of 6,000 bags per hour for outbound baggage, and 9,000 bags per hour for inbound baggage. This has not altered from the 98/99 period.

The majority of airlines rated baggage-processing facilities from 'satisfactory' to 'good'. Comments indicated that the introduction of checked baggage screening has increased belt stoppages and the inbound arrivals belts cannot cope with peak requirements. Other comments were that the numbers of damaged baggage is too high and there are not enough carousels available.

Passengers surveyed rated the waiting time at the baggage reclaim, the size of the baggage reclaim area, and the information display signs at baggage reclaim as 'good'. The ease of finding baggage trolleys was rated a little higher at 'good' to 'excellent'.

ACS rated the availability of facilities such as space to avoid congestion, provision of passenger privacy and appropriate access and security at baggage inspection (arrivals) as 'poor'. Comments received indicated that lack of public toilets in the baggage reclaim area often resulted in long queues, especially for females. ACS also stated that unacceptable delays occurred during peak periods due to the limited number of entry points available.

In reply, BAC disagreed with the comment that checked baggage screening (CBS) had increased belt stoppages as the CBS systems were not integrated with the baggage system until July 2000. The CBS system has not resulted in increased stoppages in any case.

BAC stated that inward belts not coping with peak demands is complicated by the airlines' use of cans that only open inwards. BAC is not aware of the high numbers of damaged baggage.

In response to the ACS, BAC stated that the number of entry points has been increased with work completed in September 2000. However, the issue has not been satisfactorily resolved due to the insufficient staffing by the ACS.

Flight information displays

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

Passengers rated the quality of this facility as 'good'.

Washrooms

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

Passengers rated the overall standard of washrooms as 'good'.

Car parking and kerbside access

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

Brisbane Airport had 2,390 car parking positions at 30 June 2000. This is 261 more than at the same time last year.

Passengers rated the standard and availability of car parking at Brisbane Airport as 'good'. The waiting time for car parking was rated somewhat higher at just below 'excellent'.

Kerbside access is required to allow passengers to be dropped off and picked up by taxis, busses and other vehicles. Passengers rated the space provided for taxis at Brisbane Airport as 'good'.

Passengers rated the suitability of area for kerbside car pick-ups and drop-offs and the space provided for kerbside car pick-ups and drop-offs as 'good'.

Consultation with airlines

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

The Commission asked airlines to rate and comment on BAC's performance in addressing airline concerns on quality related issues. The responses ranged from 'satisfactory' to 'excellent'. Comments indicated that BAC works closely with the airlines, is pro-active in this respect and that ongoing problems are promptly addressed. However, other comments stated that BAC was not responsive enough in addressing concerns.

ACS rated the overall responsiveness of BAC as 'satisfactory'. Comments from ACS indicated that the operator responds to most issues without delay and cooperation between agencies is quite good.

2 Regulatory accounts reporting

This section reports on Brisbane Airport's financial accounts. An outline of the financial reporting requirements is given first, followed by a summary of figures from the financial accounts for Brisbane Airport for the 1999/00 financial year.

2.1 The Commission's approach

Under Part 7 of the Airports Act, operators of the Phase I airports are required to provide the Commission with annual financial accounts within 90 days after 30 June of that year.³ 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 Airports Act, and the regulations made pursuant to that Act.

The Commission concludes that BAC has prepared its accounts in accordance with these guidelines.

2.2 Brisbane Airport Corporation Limited, regulatory accounts 1999/00

BAC reported on a period of activity from 1 July 1999 to 30 June 2000. Over the entire airport, a loss after tax of \$112.6 million was reported. This result was significantly affected by interest expense of \$69.5 million, and a write-off of borrowing costs of \$75.4 million.

As at 30 June 2000, BAC controlled total assets valued at \$1,547.6 million. Of this total, \$653.4 million comprised a 'lease premium', which represented the cost of acquiring the airport business in excess of the net tangible assets acquired, as calculated by BAC, at 2 July 1997, less amortisation to date.

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

³ Phase I airports refer to Melbourne, Brisbane and Perth Airports.

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; and
- 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 Brisbane Airport's price cap compliance for the 1999/00 financial year.

3.1 The Commission's role

Certain aeronautical services at leased airports are declared under section 21 of the PS Act for price surveillance. Declaration No. 87 made by the Minister for Financial Services and Regulation, pursuant to the PS Act, declares the services at Phase I airports.⁴ The declaration covers aircraft movement areas (eg. runways, aircraft parking areas) and passenger processing areas (eg. aerobridges, departure lounges).⁵

Declaring services requires the airport operator to notify the Commission of a proposal to increase charges on the services covered by the declaration. It should be noted that 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 minus X' price caps. The 'X' factors are based on expected productivity improvements.⁶ Direction No. 20 sets out details of the price cap formula, the 'X' values and other issues relevant to the Commission's administration of the cap.⁷

3.2 Price cap compliance 1999/00

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

Aeronautical services at Brisbane Airport are subject to a price cap set at CPI less an X factor of 4.5 per cent per annum. The relevant CPI figure used for price cap compliance in the 1999/00 financial year was 1.7 per cent. This meant that BAC was required to lower its average aeronautical charges by 2.8 per cent.

A summary of movements in charges subject to the cap, as well as the maximum charges endorsed by the Commission as at 30 June 2000 is provided below (see Table 3).

⁴ Minister for Financial Services and Regulation, Declaration No. 87, June 2000.

⁵ Copies of all declarations and directions are available on the Commission's website at <http://www.accc.gov.au/airport/fs-air.htm>.

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

⁷ Minister for Financial Services and Regulation, Direction No. 20, October 2000.

Table 4 illustrates aeronautical revenue and price cap compliance for the period ending 30 June 2000.

Table 3: Changes in charges subject to the price cap for the year ending 30 June 2000

Charge	Basis	Charges 30/6/99	Price change	Charges 30/6/00
Landing charges (domestic and international)	Per landing \$/tonne MTOW	\$5.42	1/7/99	\$5.30
Security Charges	Per landing \$/tonne MTOW (aircraft over 20,000 kg)	\$0.72	1/7/99 Pass-through of Government- mandated security costs.	\$0.53
International Terminal charge	Per landing \$/tonne MTOW	\$2.48	1/7/99	\$2.43
General Aviation Landing Charges	Per landing \$/per tonne MTOW	\$5.42 (minimum landing charge \$27.50)	1/7/99	\$5.30 (minimum landing charge \$27.50)
Vehicle Access (Taxis)	Per trip	\$1.00	No change	\$1.00
GA Parking	Per day in General Aviation area	\$11.00	No change	\$11.00

Table 4: Aeronautical revenue and price cap compliance for the year ending 30 June 2000

Description	Number of Units	Base Charge Average Charge 98/99	Revenue 99/00	Average Charge 99/00	Rate Variation	Revenue Share 98/99	Compliance %
Landing Charges:							
- Domestic	2,991,443 tonnes	\$5.50 per 1000kg MTOW	\$16,398,184	\$5.41 ⁸	-1.64	48.68%	-0.80
- International	1,987,112 tonnes	\$5.47 per 1000kg MTOW	\$10,746,707	\$5.41	-1.10	34.17%	-0.37
- General Aviation *	90,662	\$5.51 per 1000kg MTOW	\$549,460	\$5.41 (minimum landing charge \$27.50)	-1.81	1.47%	-0.03
International Terminal Charges	1,987,112	\$2.50 per 1000kg MTOW	\$4,927,263	\$2.48	-0.80	15.63%	-0.13
GA Parking Charges		\$11.18	\$28,698	\$11.23	0.45	0.04%	0.00
Vehicle Access Charge – taxis **		\$1.00 per trip	\$676,654	\$1.00 per trip	0.00		0.00
Actual reduction in charges 99-00							-1.32%
Required reduction to comply with cap ***							-3.93%
Over recovery of revenue 99-00							2.61%
Over recovery of revenue 99-00 (\$)							852,173
Over recovery of revenue 98-99 brought forward (\$)							220,697
Total to be carried forward 1999-00 (over recovery) (\$)							1,072,870

* The average charge is inconsistent with the revenue and unit data due to the incorporation of the minimum landing charge.

** Pro rata allocated amongst other revenue

⁸ The difference in the actual charge of \$5.30 per landing and the average charge of \$5.37 per landing arose due to data provided by Airservices Australia. BACL stated that on “30 June each year, unbilled landings are accrued based on the best available information. During the year Airservices process adjustments which can relate to the previous year and these are billed at the rate applicable at the date of landing. Over or under estimation of accruals can therefore effect the average rate in any year.”

Vehicle access charges

In August 1998, BAC introduced a fee for taxis of \$1 per pick up. Declaration No. 87 requires that increases in charges for ‘aeronautical’ services be notified to the Commission. ‘Aeronautical’ services under that Declaration include, “landside roads, landside lighting, and covered walkways”. The Commission formed the view that the taxi charge introduced by BAC would fall under this definition of an ‘aeronautical’ service.

The Commission informed BAC that it was required to notify the new taxi charges. BAC subsequently notified the Commission of the increase in charges, but also outlined its disagreement with the Commission’s interpretation of the Declaration.

Direction No. 20 states that “new or varied charges on existing services and charges on new or varied services are to be factored into the price cap arrangements if the services are declared”. As such, the Commission considers that revenue derived from taxi charges at Brisbane Airport should be taken into account when considering price cap compliance and any price cap reconciliation statement.

The ACCC also confirm that as such necessary new investment that is related to the provision of taxi services is recoverable under NNI.

With the inclusion of taxi revenue in the cap, it appears Brisbane Airport Corporation did not comply with the cap over the years 1998/99 and 1999/00.

As can be seen from table 4, if taxi charges are included in the price cap, then BAC reduced charges by 1.32 per cent against the required 3.93 per cent reduction⁹ for the 1999/00 period, resulting in an over recovery of charges by 2.61 per cent. In dollar terms the cumulative over recovery of revenue is about \$1.07 million in 1999/00. On an individual year basis, BAC under recovered revenue by \$205,116 in 1997-98. The following year BAC over recovered revenue by \$425,813. Similarly, in 1999/00, BAC over recovered revenue by \$852,173.

The regulatory framework allows for an over recovery of revenue in any given year, provided that the revenue amount is passed back to users within two years. On the basis of

⁹ This figure includes the CPI-X required reduction of 2.8 per cent, plus the percentage of revenue over recovered by BAC in the 1998/99 period of 1.11 per cent.

including taxi charges within the price cap, in order to comply, BAC will need to hand back to users the above revenue over recoveries in addition to further lowering charges in 2000/01.

APS revenue and expenditure reconciliation for year ended 30 June 2000

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. The Department of Transport and Regional Services advised the Commission that such costs comprise amounts charged to the airport by the Australian Protective Service (APS).

BAC supplied the following information, which demonstrated that the increases in security charges to airport users did not seek to recover more than the charges levied by APS during the financial year.

Table 5: Reconciliation of APS revenue to APS costs

APS costs 1999/00	\$2,952,291
APS revenues 1999/00	\$2,568,046
Estimated refund given to airlines 1999/00	-
Net under recovery 1999/00	(\$384,245)
Under recovery 1998/99	(\$37,290)
Net under recovery 1999/00	(\$421,535)

Based on the data provided, the Commission is satisfied that BAC complied with the APS provisions of the price cap for the 1999/00 financial year.

4 Monitoring of aeronautically related services.

This section covers the Commission's role in the monitoring of aeronautically related services 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 Brisbane Airport for the 1999/00 financial year.

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

4.1 The Commission's monitoring role

Direction No. 21 directs that aeronautically related services be the subject of formal price monitoring pursuant to section 27A of the PS Act.¹⁰ 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 Direction No. 21. For a more complete outline of the Commission's monitoring role, see the Commission publication titled *Economic Regulation of Airports*.

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 – Brisbane Airport, 1999/00

BAC provided data to the Commission for the year ending 30 June 2000. The data is summarised in Tables 6, 7 and 8 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;

¹⁰ Minister for Financial Services and Regulation, Direction No. 21, October 2000.

- check-in counters and related facilities; and
- public and staff car parks.

Table 6: Monitored services: aero-related costs for the periods ended 30 June 1999 and 30 June 2000

Aero-related services	Costs 98/99	Costs 99/00
AERO-RELATED SERVICES	\$'000	\$'000
Refuelling services	216	156
Aircraft maintenance sites & buildings	166	152
Freight equipment storage sites	0	2
Cargo facility sites & buildings	1,083	1,217
Ground Facilities Fee	298	300
Ground support equipment sites	112	133
Check-in counters and related facilities(1)	321	357
Public car parking	1,631	2,108
Staff car parking	270	329
TOTAL AERO-RELATED COSTS	4,097	4,754

Notes:

1. Costs exclude amortisation of intangibles and interest.
2. At terminals operated by airport-operator companies.

Table 7: Monitored services: aero-related revenue for the periods ended 30 June 1999 and 30 June 2000

Description	Basis of Charge(s)	Revenue 98/99	Revenue 99/00
AERO-RELATED SERVICES		\$'000	\$'000
Refuelling services	\$ per square metre	613	589
Fuel Throughput	\$0.004 per litre	2,351	2,508
Aircraft maintenance sites & buildings	\$ per square metre	1,274	1,306
Freight equipment storage sites	\$ per square metre	0	0
Cargo facility sites & buildings	\$ per square metre	2,644	2,877
Ground Facilities Fee	Various	758	1,000
Ground support equipment sites	\$ per square metre	1,768	1,854
Check-in counters and related facilities(1)	\$26.75 per hour for Check-In Counters & \$18 per hour for Desks	2,273	2,429
Public car parking ¹¹	Staggered Time Parking Rates	11,474	13,641
Staff car parking	Various	1,019	1,156
TOTAL AERO-RELATED REVENUE		24,174	27,360

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 \$92.8 million in 1999/00 (up from \$90.1 million in 1998/99), or approximately 60 per cent of total expenses. 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.

¹¹ Car parking rates are provided in Table 8, on page 24.

Table 8: Car Parking Rates

Short term – international		Short term – domestic		Long term	
Time	Price	Time	Price	Days	Price
				1	\$18.00
30 mins	\$3.00	30 mins	\$3.00	2	\$28.00
1 hour	\$5.00	1 hour	\$5.00	3	\$42.00
1.5 hours	\$6.00	1.5 hours	\$6.00	4	\$56.00
2 hours	\$7.00	2 hours	\$7.00	5	\$56.00
2.5 hours	\$8.00	2.5 hours	\$8.00	6	\$63.00
3 hours	\$8.00	3 hours	\$8.00	7	\$70.00
4 hours	\$9.00	4 hours	\$9.00	8	\$77.00
5 hours	\$10.00	5 hours	\$10.00	9	\$84.00
6 hours	\$11.00	6 hours	\$11.00	10	\$91.00
7 hours	\$12.00	7 hours	\$12.00	11	\$98.00
8 hours	\$13.00	8 hours	\$13.00	12	\$105.00
9 hours	\$14.00	9 hours	\$14.00	13	\$112.00
				14	\$119.00
10 hours	\$14.00	10 hours	\$15.00	15	\$126.00
11 hours	\$14.00	11 hours	\$16.00		
12 hours	\$14.00	12 hours	\$17.00		
13 hours	\$14.00	13 hours	\$18.00		
14 hours – 24 hours	\$14.00	14 hours- 24 hours	\$18.00		

Fuel throughput levy

In June 1998 BAC advised that it would charge a fuel throughput levy effective from 15 July 1998. The charge was proposed at a rate of at 0.4 cents/litre and estimated to raise \$2.0-\$2.5 million per annum.

The proposed charge arises from BAC providing access to land upon which refuelling infrastructure is provided by oil companies for aircraft refuelling. Prior to BAC acquiring the airport lease the FAC introduced provisions into contracts with oil companies allowing the operator of Brisbane Airport to charge a levy based on the volume of fuel throughput.

The Commission released a report on fuel throughput in December 1998.¹² The report provided information on the levies and a detailed assessment of issues relevant to the price increases. The report reached the following conclusions:

- introduction of the fuel throughput levies at Brisbane and Perth Airports would significantly increase the price of refuelling services;
- the price increases were not justified in terms of increases in costs or through offsetting reductions in other charges; and
- there was a strong case that airport operators have market power in the provision of refuelling services.

The report also concluded that, when considered in light of the lack of cost related justification for the levies, or offsetting reduction in charges, there was a strong case that in introducing fuel throughput levies airport operators have taken advantage of market power. It should be noted that BAC did not agree with the Commission's conclusion and recommendations.

In light of the report's conclusions, the Commission has recommended that stricter forms of prices oversight should be considered in relation to aircraft refuelling services.

No changes have been made to the legislation following the recent introduction of new Directions and Declarations by the Minister for Financial Services and Regulation.

¹² Australian Competition and Consumer Commission, *Fuel Throughput Levies – Reports pursuant to the Commission's Monitoring Functions under the Prices Surveillance Act 1983*, December 1998.

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 9 below.

Table 9: Quality of service indicators

Service / Infrastructure	Type of indicator	Source of data
Runways and taxiways	<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
Government inspection	<ul style="list-style-type: none"> Number of desks. 	
Security	<ul style="list-style-type: none"> Number of clearance systems ; Satisfaction with the system. 	Airport operator Passenger perception survey
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

Service / Infrastructure	Type of indicator	Source of data
Baggage trolleys	<ul style="list-style-type: none">• Passenger satisfaction with ability to locate 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 results

BAC commissioned an independent market research company to conduct the passenger perception survey at Brisbane Airport. The survey was conducted over a one week period from 26 May to 1 June and 4 June 2000. Passengers were asked to rate their level of satisfaction with terminal aspects and facilities at Brisbane Airport on a scale from one to five:

1	2	3	4	5	6
Extremely Poor	Poor	Neither Good nor Poor	Good	Excellent	Don't Know*

* Don't Know was recorded where respondents were unable to provide a response (due to either non-usage or a lack of familiarity with the service or facility)

As can be seen from the graph below, all airport services/facilities surveyed achieved 'good' to 'excellent' results for the 1999-00 period. The graph also indicates that the ratings achieved for each indicator in 1999-00 are similar to the ratings achieved for the equivalent indicator in the 1998-99 results.

Survey Results 98/99 and 99/00

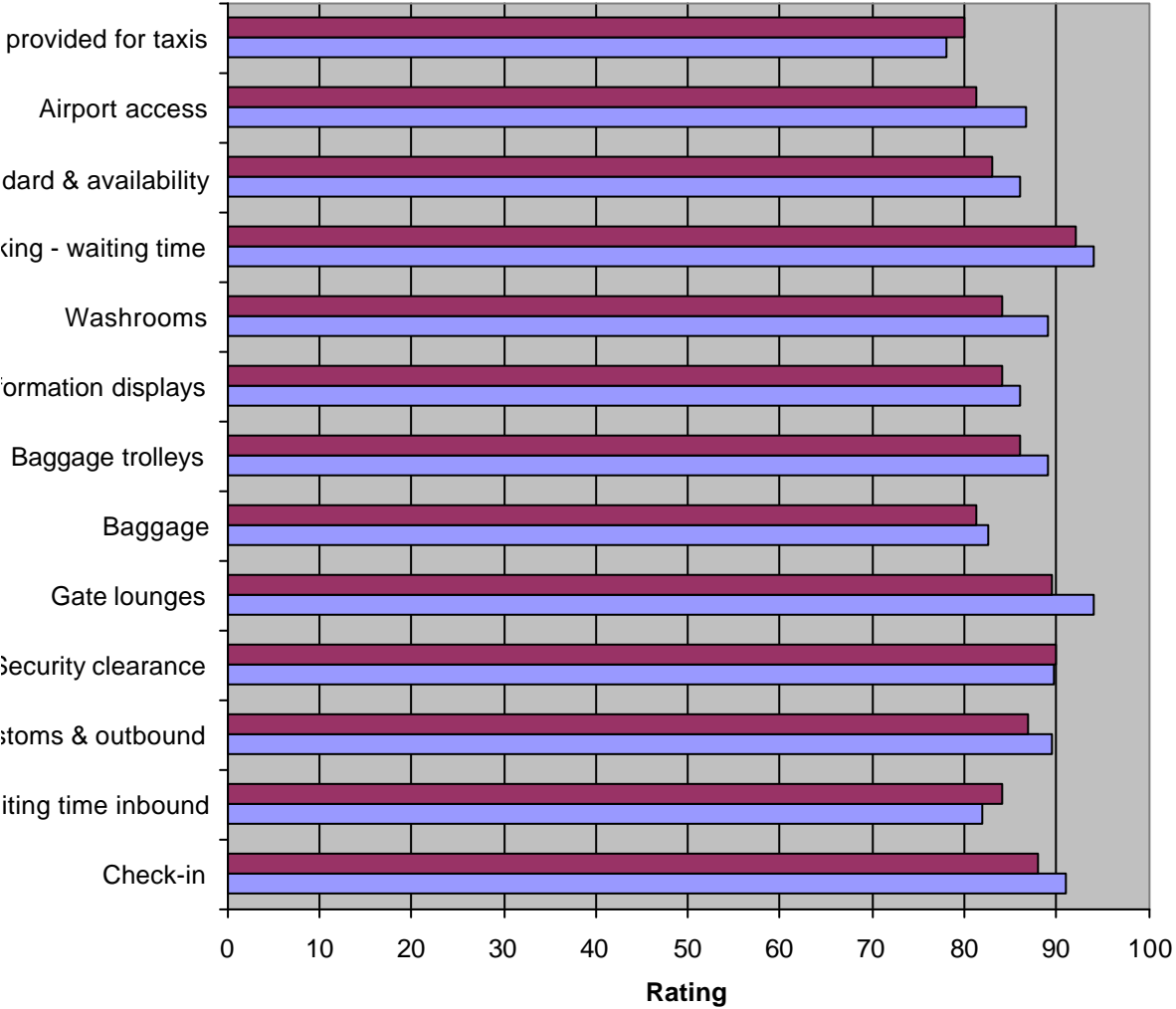


Table 10: Indicator Summary

- The **airport access** rating refers to passenger satisfaction with the: suitability of the area allocated for kerbside car pick-ups and drop-offs; the space provided for kerbside car pick-ups and drop-offs; the suitability of area for taxi pick-ups and drop-offs; the suitability of area for bus pick-ups and drop-offs; and the space provided for bus pick-ups and drop-offs.
- The **washroom** rating indicates passenger satisfaction with the overall standard of toilets and washroom facilities at the terminal.
- The **car parking** rating indicates passenger satisfaction with: the waiting time to get in the car park; the overall standard of car parking; and the availability of parking spaces at the airport.
- The **information display** rating indicates the level of satisfaction associated with the terminal's flight information display and signs.
- The **baggage trolleys** rating indicates the ease of finding baggage trolleys.
- The **baggage** rating refers to passenger satisfaction with: the waiting time at the baggage reclaim carousel; the size of the baggage reclaim area for the number of passengers using it; and the information display signs at the baggage reclaim.
- The **gate lounge** rating indicates passenger satisfaction with: the availability of seating in the departure lounge; the comfort of seating in the departure lounge; the cleanliness of seating in the departure lounge; and the size of the departure lounge for the number of people using it.
- **Government inspection** waiting time refers to passenger satisfaction with: the waiting time in the inbound immigration queues; the waiting time in customs; and the waiting time in the outbound immigration queue.
- The **security clearance** measure refers to the perceived quality of passenger research at the baggage x-ray area. Check in waiting time refers to the waiting time of the respondent in the check-in queue.

Appendix 3: Airline survey results

The Commission received surveys from fifteen airlines that used Brisbane Airport over the 1999-00 year. These airlines were Air Caledonie International, Air Nauru, New Zealand, Air Pacific Ltd, Ansett Australia, British Airways, Cathay Pacific Airways, Eva Airways Corporation, Garuda Indonesia, Japan Airlines, Malaysia Airlines, Qantas Airways, Royal Brunei Airlines, Singapore Airlines and Solomon 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.

A summary of the ratings provided by the airlines is given in the Table 11, below. This indicates that ratings were generally 'satisfactory' to 'good'.

Table 11: Responses from airline survey

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

Appendix 4: Static indicators at 30 June 1999 and 30 June 2000

Table 12: Static Indicators

Indicators provided by the airport operator	At 30 June 1999	At 30 June 2000
Number of (international) aircraft parking bays	11	11
Number of aerobridges	8	8
Percentage of passengers (embarking) using an aerobridge	98.3%	98.6%
Percentage of passengers (disembarking) using an aerobridge	98.5%	98.6%
Number of check-in desks	54	54
Number of baggage inspection desks	19	19
Number of inbound immigration desks	26	26
Number of outbound immigration desks	20	20
Number of security clearance systems	3	3
Number of seats in gate lounges	1,246	1,246
Capacity of outbound baggage handling equipment (bags per hour)	6000	6,000
Capacity of inbound baggage reclaim system (bags per hour)	9000	9,000
Throughput of the car park per year	1,745,402	1,779,470

Provided by Airservices Australia

- Aircraft movements in busiest 30 half hours: Annual average 24
- Aircraft movements in busiest 60 half hours: Annual average 23

Appendix 5: Brisbane Airport regulatory accounts (summary)

Profit and Loss account for the period ended 30 June 2000¹³

¹³ 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.

Description	Audited financial statements	Aero services	Non-Aero services
<i>Description</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Revenue			
Aeronautical revenue	35,962	35,962	
Non-Aeronautical revenue	93,569	2,249	91,320
Total Revenue	129,531	38,211	91,320
Expenditure			
Salaries and wages	8,741	6,523	2,218
Depreciation	22,777	14,983	7,794
Services and utilities	8,481	2,053	6,428
Property maintenance	5,615	3,973	1,642
Australian Protective Service costs	4,346	4,346	0
Other costs	11,297	6,138	5,159
Total Expenditure	61,257	38,016	23,241
Operating Profit/(Loss) Before Abnormals and Tax	68,274	195	68,079
Interest Expense	69,484	24,362	45,122
Amortisation – Borrowing Costs & Lease Premium	23,324	5,793	17,571
Profit / (Loss) Before Abnormals and Tax	(24,534)	(29,960)	5,426
Abnormal Item - Depreciation	9,256	9,256	0
Abnormal Item – Leasehold Land Amortisation	1,653	303	1,350
Abnormal Item- Write-Off of Borrowing Costs	75,409	26,438	48,971
Abnormal Item – Amortisation of Lease Premium	1,798	0	1,798
Loss Before Tax	(112,650)	(65,957)	(46,693)
Loss after Tax	(112,650)	(65,957)	(46,693)
Loss after tax and dividends	(112,650)	(65,957)	(46,693)

* Note: costs do not include amortisation of intangible assets or interest

Profit and Loss account for the period ended 30 June 1999¹⁴

Description	Audited financial statements	Aero services	Non-Aero services
<i>Description</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Revenue			
Aeronautical revenue		35,476	
Non-Aeronautical revenue		1,581	86,460
Total Revenue	123,517	37,057	86,460
Expenditure			
Salaries and wages	7,913	6,006	1,907
Depreciation	18,832	12,995	5,837
Services and utilities	6,799	1,993	4,806
Property maintenance	5,195	3,837	1,358
Australian Protective Service costs	3,012	3,012	0
Other costs	10,912	6,251	4,661
Total Expenditure	52,663	34,094	18,569
Operating Profit/(Loss)	70,854	2,963	67,891
<i>Abnormal items</i>	704	550	154
Earnings Before Interest and Tax (EBIT)	70,150	2,413	67,737
Interest Expense	75,646		
Amortisation	14,442		
Loss Before Tax	(19,938)		
Tax charge	0		
Loss after Tax	(19,938)		
Dividends paid	0		
Loss after tax and dividends	(19,938)		

* Note: costs do not include amortisation of intangible assets or interest

¹⁴ 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 for the period ending 30 June 2000

Description	Audited financial statements	Aero services	Non-Aero services
	\$'000	\$'000	\$'000
CURRENT ASSETS			
Cash	23,550		
Receivables	3,979	4,068	(89)
Inventories	439	426	13
Accrued revenue	1,667	151	1,516
Other	155	52	103
Total current assets	29,790		
NON-CURRENT ASSETS			
Lease Premium	653,375	0	653,375
Leasehold Land	186,267	34,111	152,156
Property, plant and equipment	665,250	493,511	171,739
Other – Borrowing Costs	12,906	4,525	8,381
Total non-current assets	1,517,798	532,147	985,651
TOTAL ASSETS	1,547,588		
CURRENT LIABILITIES			
Creditors	12,187		
Other	2,142		
Provisions	1,893	1,423	470
Total current liabilities	16,222		
NON-CURRENT LIABILITIES			
Bank Loan	934,600		
Shareholder Loans	280,500		
Convertible Notes	10,000		
Provisions	134	101	33
Other	5,600		
Total non-current liabilities	1,230,834		
TOTAL LIABILITIES	1,247,056		
NET ASSETS/(LIABILITIES)	300,532		
SHAREHOLDER'S EQUITY			
Share capital	281,095		
Reserves	163,858		
Accumulated profits/(losses)	(144,421)		
TOTAL SHAREHOLDER'S EQUITY	300,532		
Accumulated losses at the start of the year	(31,771)		
Movements:			
Loss for the year	(112,650)		
Accumulated losses at the end of the year	(144,421)		

Balance sheet for the period ended 30 June 1999

Description	Audited financial statements	Aero services	Non-Aero services
	\$'000	\$'000	\$'000
CURRENT ASSETS			
Cash	45,296		
Receivables	7,120	3,876	3,244
Inventories	451	136	315
Accrued revenue	41	115	(74)
Other	706	466	240
Total current assets	53,614	4,593	3,725
NON-CURRENT ASSETS			
Lease Premium	928,968		
Leasehold Land	53,158	43,236	9,922
Property, plant and equipment	385,374	248,188	137,186
Other – Borrowing Costs	24,342		
Total non-current assets	1,391,842	290,952	147,580
TOTAL ASSETS	1,445,456		
CURRENT LIABILITIES			
Creditors	9,420		
Other	6,667		
Provisions	1,632	1,239	393
Total current liabilities	17,719		
NON-CURRENT LIABILITIES			
Bank Loan	931,400		
Shareholder Loans	255,000		
Convertible Notes	10,000		
Provisions	165		
Other	7,044		
Total non-current liabilities	1,203,609		
TOTAL LIABILITIES	1,221,328		
NET ASSETS/(LIABILITIES)	224,128		
SHAREHOLDER'S EQUITY			
Share capital	255,899		
Reserves	0		
Accumulated profits/(losses)	(31,771)		
TOTAL SHAREHOLDER'S EQUITY	244,128		
Accumulated losses at the start of the year	(11,833)		
Movements:			
Loss for the year	(19,938)		
Accumulated losses at the end of the year	(31,771)		

Cash flow statements for the periods ending June 1999 and June 2000

Description	Audited financial statements 1998-99	Audited financial statements 1999-00
	\$'000	\$'000
	37,940	45,296
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Inflows:</i>		
Receipts from customers	120,886	121,856
Interest received	2,207	2,671
<i>Outflows:</i>		
Payments to suppliers and employees	(33,983)	(37,339)
Interest paid	(75,427)	(69,849)
Net cash flows provided by operating activities	13,683	17,339
CASH FLOWS FROM INVESTING ACTIVITIES		
<i>Inflows:</i>		
Proceeds from sale of property, plant and equipment	429	194
<i>Outflows:</i>		
Payments for property, plant and equipment	(9,856)	(12,682)
Other	(100)	
Net cash flows used in investing activities	(9,527)	(12,488)
CASH FLOWS FROM FINANCING ACTIVITIES		
<i>Inflows:</i>		
Proceeds from borrowings	3,200	-
Proceeds from share issue	-	25,500
Proceeds from bank loans/bonds	-	823,200
Shareholder loans	-	25,500
<i>Outflows:</i>		
Share issue costs	-	(304)
Bank loans repayment	-	(820,000)
Borrowing costs	-	(80,493)
Net cash flows provided by financing activities	3,200	(26,597)
Net increase in cash held	7,356	(21,746)
Cash at end of reporting year	45,296	23, 550

Brisbane Airport Corporation regulatory accounts

Significant accounting policies

The significant policies, which have been adopted in the preparation of the Regulatory Accounting Statements, are:

(A) Basis of preparation

This special purpose financial report has been prepared in accordance with the requirements of the Regulatory Information Requirements Under Part 7 of the Airports Act and Sections 21 and 27A of the PS Act - Guideline Version No.2 - September 1998.

This special purpose financial report has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

Accounting policies have been consistently applied and are consistent with those of the previous year.

Revenue is recognised on an accruals basis.

(B) Taxation

Income tax

The Company adopts the liability method of tax effect accounting.

Income tax expense is calculated on net profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the balance sheet as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits related to tax losses are not brought to account unless realisation is virtually certain. The tax effect of capital losses is not recorded unless realisation is virtually certain.

(C) Receivables

Trade debtors

Trade debtors are generally settled within 30 days and are carried at amounts due. The collectibility of debts is assessed at balance date and specific provision is made for any doubtful debts. A general provision for doubtful accounts is also maintained.

(D) Inventories

Inventories comprise spares for equipment utilised in the operation of the airport and are carried at the lower of cost and net realisable value.

(E) Borrowing costs

Costs incurred in establishing borrowing facilities and renegotiated interest rate swap agreements are deferred and amortised on a straight-line basis over the anticipated term of the applicable borrowings.

Borrowing costs are expensed unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is that incurred in relation to that borrowing, net of any interest earned on

those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

(F) Non-current assets

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value.

Leasehold land and buildings are independently valued every three years.

(G) Acquisition of right to operate Brisbane Airport

On 2nd July 1997, the Company acquired the right to operate Brisbane Airport for a period of 50 years with a 49 year option.

Lease premium

The lease premium is the amount paid for the right to operate Brisbane Airport and is carried at cost. As the Directors intend to renew the lease after the initial 50 year period, for a further 49 year period, the lease premium is amortised over 99 years. Refer to Note 3.

The lease premium is amortised on a straight line basis.

(H) Leasehold land

Leasehold land is recorded at cost and is amortised on a straight line basis over the expected term of the lease, being 99 years.

Leasehold land has been recorded in the current year at independent valuation (in the year prior at cost). Refer to Note 3. An estimate of anticipated costs to remediate identified contaminated sites has been deducted from the carrying value of the Leasehold land. Leasehold land is amortised on a straight line basis over the expected term of the lease, being 99 years.

(I) Property, plant and equipment

Acquisition

Property, plant and equipment is recorded at cost and depreciated as outlined below.

The cost of property, plant and equipment constructed by the Company including capital works in progress at balance date, includes the cost of labour, materials, consultants and all other directly associated expenditure.

Depreciation

Items of property, plant and equipment, including buildings are depreciated using the straight line method over their estimated useful lives.

The depreciation rates used for each class of asset are as follows:

Runways, Taxiways and Aprons	2.5%
Roads and Car Parks	2.5%
Buildings	2.5%

Plant and Equipment

5% to 40%

Assets are depreciated from the date of acquisition or, in respect of assets constructed by the Company, when completed and ready for use.

The useful lives of Property, plant and equipment are reviewed annually.

Revaluations

Leasehold land and Buildings are independently valued every three years.

Any increase in the value of a class of revalued assets is recognised directly in the Asset revaluation reserve unless it offsets a previous decrease in value, which had been recognised in the profit and loss statement. Any decrease in value relating to a class of revalued assets is offset in the first instance against any prior increments recognised for that respective class of revalued assets, or where no increments exist it is recognised in the profit and loss statement.

A provision for capital gains tax is only recorded at the time of revaluation when it is known that the asset will eventually be sold. The provision, when required, is made against the Asset revaluation reserve.

Disposal of revalued assets

The gain or loss on disposal of revalued assets is calculated as the difference between the carrying amount of the asset at the time of disposal, and the proceeds on disposal and is included in the results in the year of disposal.

(J) Accounts payable

Liabilities are recognised for amounts to be paid in the future for goods or services received at balance date, whether or not billed to the Company. Trade accounts payable are normally settled within 30 days from the end of the month in which the invoice is received, unless prior contractual arrangements have been entered into.

(K) Borrowings

Borrowings are carried at their principal amount. Interest expense is accrued at the contracted rate and included in "Creditors".

(L) Derivatives

Interest Rate Swaps

The Company is potentially exposed to changes in interest rates from its activities although it uses interest rate swaps to hedge these risks. Derivative financial instruments are not held for speculative purposes.

Interest payments and receipts under interest rate swap contracts are recognised on an accruals basis and included in interest expense during the year.

(M) Employee entitlements

Annual leave

Provisions for employee entitlements to annual leave represent the amount which the Company has a present obligation to pay resulting from employees' services provided up to the balance date. The provisions have been calculated at undiscounted amounts based on current wage and salary rates and include related on-costs.

Long service leave

The liability for employees' entitlements to long service leave represents the present value of the estimated future cash outflows by the employer resulting from employees' services provided up to the balance date.

Liabilities for employee entitlements which are not expected to be settled within twelve months are discounted using the rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the Company's experience with staff departures. Related on-costs have also been included in the liability.

Superannuation fund

The Company contributes to a combined defined benefit /defined contribution superannuation plan. Contributions are charged as an expense in the period in which they are incurred.

(N) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to, the ATO are classified as operating cash flows.

(O) Unearned revenue

Revenue received in advance is recorded as a liability in the balance sheet and brought to account as income in the profit and loss over the period in which the benefit will be derived.

Appendix 6: Brisbane Airport operational statistics

	1998/99	1999/00
Description	Number	Number
PASSENGERS		
Domestic passengers	7,730,099	8,133,185
International passengers (excluding transit)	2,536,627	2,609,009
International transit passengers	279,181	253,347
Domestic on-carriage	166,922	205,854
TOTAL PASSENGERS	10,712,829	11,201,395
AIRCRAFT MOVEMENTS		
Regular Public Transport aircraft movements	131,316	130,714
General Aviation aircraft movements	27,444	30,050
TOTAL AIRCRAFT MOVEMENTS	158,760	160,764
TOTAL TONNES LANDED	5,020,245	5,069,217
AVERAGE STAFF EQUIVALENTS		
- Aeronautical services	88	89
- Non-aeronautical services	28	29
TOTAL AVERAGE STAFF EQUIVALENTS	116	118
AREA (HECTARES)		
- Aeronautical services	2195.10	2,195.10
- Non-aeronautical services	504.90	504.90
TOTAL AREA (HECTARES)	2700.00	2700.00