



# **REGULATORY REPORT**

## **PERTH AIRPORT**

**1998/99**

**December 1999**

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## **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 II airports. The framework also includes a range of measures designed to complement the price cap and increase transparency of certain aspects of the airport business.

In order to meet the transparency requirements under the regulatory framework, the Commission 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 Perth Airport and is divided into four sections. The first section addresses quality of service at Perth Airport and provides a summary of results. The second section provides information on Perth Airport’s financial accounts. The third section provides details on Perth 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.

### **Perth Airport**

Perth Airport is owned and operated by Westralia Airports Corporation Limited (Westralia), who took over its operation from the Federal Airports Corporation (FAC) on 2 July 1997. A consortium consisting of Airport Group International, Hastings Fund Management and Infratil Australia Ltd owns Westralia. It paid \$639 million for a 50-year lease of the airport, with an option for a further 49-year lease at the end of that period.

This is the second regulatory report for Perth Airport. The Commission would like to acknowledge the cooperation received from Westralia 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 Perth Airport. It begins by providing an overview of the Commission's role in quality of service monitoring at Perth Airport. Following this is a summary of the 1998/99 quality of service results for Perth 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.<sup>1</sup> Under the regulations to the Airports Act, airport operators are required to provide the Commission with information on a range of indicators. These indicators cover various aspects of an airport's service quality performance and are detailed in Appendix 1.

Generally, quality of service monitoring is aimed towards:

- providing transparency about airport performance;
- discouraging airport operators from providing unsatisfactory standards for services which are associated with significant market power; and
- assisting 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.

### **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 included 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;

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<sup>1</sup> For a detailed description see *Quality of service Monitoring Post Leasing*, ACCC February 1997 available on the Commission's web site at [www.accc.gov.au](http://www.accc.gov.au)

- airport operators, as required under the regulations; and
- Australian Customs Service (ACS) and Airservices Australia.

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

Westralia, in conjunction with a market research firm designed the survey for use in the first years monitoring report (1997/98). 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, Westralia made changes to the passenger perception survey. The Commission was satisfied with the final passenger perception survey and the methodology used. For comparability of results, the same passenger perception survey has been used to conduct this year's quality monitoring.

The areas covered by the passenger perception survey are set out in the regulations to the Airports Act. These areas 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 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 survey is presented in Appendix 2.

### ***Airline surveys***

In order to gain information on the quality standard of airside facilities and terminal facilities, the Commission conducted a survey of the airlines that used Perth Airport over the 1998/99 period. Six surveys were received from the following airlines: Air New Zealand, Ansett Australia, British Airways, Qantas, Singapore Airlines, and South African Airways.

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. Results from the airline survey are detailed in Appendix 3.

### ***Airport operators***

Westralia was required to provide the Commission with information on the 'static indicators' for Perth Airport. These indicators included the number of passengers, the number of aerobridges and the size of aprons. Details of the 'static indicators' for Perth 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 Perth Airport. ACS was asked to rate the quality of immigration facilities, baggage processing facilities, and Westralia's consultation procedures. Results from this survey are incorporated in the 'quality of service results' section below.

Airservices Australia provided the Commission with information relating to busiest half-hours at Perth Airport for the 1998/99 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 Perth Airport, it is important to note that there were a variety of factors outside the immediate control of Westralia, which may have influenced the quality of service results obtained. The first of these is the staffing of check-in services by airlines, and similarly, staffing of immigration services by Customs. These aspects 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 Perth 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 1998/99**

The assessment of quality of service results is made having regard to the passenger perception survey, the airline survey, and the additional comments and data provided by Westralia.

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

***Runways, aprons and taxiways***

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

The standard and availability of runways was rated from 'poor' to 'excellent' by airlines. Negative comments from two airlines indicated that there was only one runway to service large aircraft. On the positive side, one airline stated that the

runways were of good quality and well maintained. Westralia commented that Perth Airport provided a runway of length 3444m, which was used by long haul aircraft. Westralia stated that it was not aware of any delays to aircraft wishing to use the runway. Westralia also commented that it was standard practice at all major airports in Australia to provide only one long runway.

Perth Airport had seven international apron positions for aircraft parking at 30 June 1999. Overall, aprons were rated from 'satisfactory' to 'good' by airlines. Comments received indicated that there was occasional congestion in early morning periods. Westralia commented that aircraft scheduling was considered and approved on the basis of the seven aircraft parking positions and terminal processing constraints. It stated that negotiation occurs when aircraft operate to schedule.

Taxiways at Perth Airport were rated as 'good'. Comments from some airlines indicated that there was only one access point to the taxiway from the international apron, which had the potential to cause delays.

### ***Gates***

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

The availability and standard of gates at Perth Airport was rated from 'poor' to 'good'. Comments received indicated that airlines were concerned that there were only five gates to service seven parking bays at the airport. Airlines stated that there was only one lift to service all gates and that it was difficult to gain wheelchair access. Westralia commented that even though only five gates are equipped with aerobridges, the useability statistics indicated that 99.6% of passengers either departed or arrived via an aerobridge.

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

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

Ground service equipment storage sites were rated from 'satisfactory' to 'good' by airlines. Two comments received indicated that lack of dedicated space for specific equipment and vehicles caused problems. Westralia responded by stating that the GSE areas are not used efficiently by the handling companies.

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

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

Freight equipment storage sites were rated from 'very poor' to 'good' by airlines. Comments received indicated that freight equipment was stored some distance from aircraft operating areas. Westralia responded to these comments by stating that the storage of equipment some distance from aircraft operational areas will always be the case when (a) the freight is carried in passenger aircraft, and (b) where dedicated freight aprons are not provided.



### ***Aerobridges***

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

Perth Airport had five aerobridges for international aircraft at 30 June 1999. For this period, over 99 per cent of all passengers embarking or disembarking used an aerobridge.

Airlines rated the quality of aerobridges at Perth Airport from 'poor' to 'good'. Comments received indicated that access to aerobridges was limited. Airlines also commented on the air conditioning of aerobridges, as well as common electrical faults. Westralia responded by stating that aerobridges were equipped with air conditioners, which were activated two hours before the scheduled aircraft departure. The stairwells from the Departures lounge to the aerobridge were not air conditioned.

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

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

Perth Airport had 24 check-in desks at 30 June 1999.

Airlines rated the availability of check-in desks from 'poor' to 'satisfactory'. The standard of check-in desks was rated similarly. Comments received indicated that airlines considered that there were insufficient check-in desks available during peak times. All but one airline commented on this. Some airlines did, however, comment that the introduction of the 'cute os' system at Perth Airport would help to alleviate this problem. Westralia commented that subject to industry agreement on cost recovery, it proposes to install additional upgraded counters in 2001/2002.

About 85% of passengers rated the waiting time at check-in as 'good' to 'excellent'

### ***Government inspection***

The quality of Government inspection at Perth airport was assessed using passenger perception surveys, a survey of ACS, and information provided by Westralia.

Perth Airport had 16 inbound immigration desks and 10 outbound immigration desks at 30 June 1998.

Approximately 90% of passengers rated the waiting time at Government inspection (outbound) as 'good' to 'excellent'. Government inspection waiting time (inbound) was rated similarly, with about 87% of passengers rating the facility as 'good' to 'excellent'.

ACS rated the availability of adequate areas for circulation and queuing at immigration (arrivals) as 'satisfactory'. The standard of this facility was rated as 'good'. ACS also rated the availability of lighting, signage, desks and passenger facilities for immigration (arrivals) at Perth Airport as 'satisfactory'. The standard of these facilities was rated as 'good'. ACS stated that although passenger seating, toilets, and lighting were good, the area for queuing was poor due to the design of the

building. It stated that both the inward and outward immigration halls were too small (in depth) to enable adequate queuing space in peak periods when passenger loadings were high. ACS also commented that the space in the baggage area in peak periods was insufficient.

With regards to immigration/departure facilities, ACS rated the availability of circulation space to avoid congestion, signage, and appropriate provision of desks as 'poor'. The standard of these facilities was rated as 'good'. Comments received indicated that the departures hall is too small in peak periods due to the original design of the building. ACS also commented that the provision of desks (outward immigration modules staffed by customs) could also be increased by two to aid the movement of passengers in peak periods.

### ***Security***

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

Perth Airport had two security systems at 30 June 1999.

About 90% of passengers rated the quality of this facility as 'good' to 'excellent'.

### ***Gate lounges***

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

At 30 June 1999, there were 359 seats provided in the gate lounges at Perth Airport. This was 76 less than at the same time last year.

About 90% of passengers rated the gate lounges at Perth Airport as 'good' to 'excellent'.

### ***Baggage processing facilities and trolleys***

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

At 30 June 1999, Perth Airport had a baggage system with a capacity of 5760 bags per hour for outbound baggage, and 8640 bags per hour for inbound baggage.

About 88% of passengers surveyed rated the quality of baggage services at Perth Airport as 'good' to 'excellent'. The percentage of passengers rating the quality of baggage circulation space as 'good' to 'excellent' was somewhat lower, at about 83%.

About 78% of passengers rated the quality and mobility of baggage trolleys at Perth Airport as 'good' to 'excellent'. About 82% of passengers rated the availability and findability of trolleys as '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 'satisfactory'. The standard of facilities was rated as 'good'. Comments received from ACS indicated that although signage and passenger facilities were good, there was insufficient space in the baggage area during peak times due to limited space. ACS stated that the building was originally designed badly in terms of passenger flow and queuing room.

### ***Flight information displays***

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

About 90% of passengers rated the quality of this facility as 'good' to 'excellent'.

### ***Washrooms***

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

About 90% of passengers rated the overall standard of washrooms at Perth Airport as 'good' to 'excellent'.

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

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

Perth Airport had 853 international car parking positions at 30 June 1999. This was 74 less than at the same time last year.

About 90% of passengers rated the quality of the car parking facilities at Perth Airport as 'good' to 'excellent'.

Kerbside access is required to allow passengers to be dropped off and picked up by taxis, busses and other vehicles. About 90% of passengers rated the quality of airport access at Perth Airport as 'good' to 'excellent'.

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

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

The Commission asked airlines to rate and comment on Westralia's performance in addressing airline concerns on quality related issues. The responses ranged from 'satisfactory' to 'good'. No comments were received.

ACS rated the overall responsiveness of Westralia as 'good'.



## **2 Regulatory accounts reporting**

This section reports on Perth Airport's financial accounts. First an outline of the financial reporting requirements is given, followed by a summary of figures from the financial accounts of Perth Airport for the 1998/99 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.<sup>2</sup> 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.

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

### **2.2 Perth Airport Corporation, regulatory accounts 1998/99**

Westralia reported on a period of activity from the 1 July 1998 to 30 June 1999. Over the entire airport, a loss after tax of \$27.5 million was reported. This result was significantly affected by interest expense which, at \$50.3 million, represented 55 per cent of total expenses.

As at 30 June 1999, Westralia controlled total assets valued at \$675.5 million. Of this total, \$421.9 million (approximately 62%) comprised a 'lease premium', which represented the cost of acquiring the airport business in excess of the net tangible assets acquired.

Westralia'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.

Westralia used an Activity Based Costing (ABC) system to determine the disaggregation of costs and fixed assets between aeronautical and non-aeronautical services.

Some examples of the allocation methods used in Westralia's ABC system included:

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<sup>2</sup> Phase I airports refer to Melbourne, Brisbane and Perth airports.

- the allocation of salaries and related on-costs was conducted at the individual employee level, based on interviews with the employee's immediate supervisor;
- depreciation expenses were derived from the cost allocation of the underlying assets. Where possible, assets were allocated to final activities, which were linked to the services that were most influenced by the level of output from that activity;
- maintenance of a non-specific nature to, for instance, the terminal structure was initially allocated to the terminal building activity and is subsequently re-allocated to final activities on the basis of the respective areas occupied by each of these activities within the terminal;
- overheads associated with employees (such as staff training and motor vehicle costs) were allocated consistently with the associated staff costs.

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

### **3 Prices Surveillance and Price Cap Compliance**

This section details Perth Airport's price cap compliance over the 1998/99 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 83 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).<sup>3</sup>

Declaration requires airport operators to notify the Commission of a proposal to increase charges on 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.<sup>4</sup> The X factor for Perth Airport is 5.5 per cent and has been set for five years from 1 July 1997. The Treasurer's Direction number 13 sets out details of the price cap formula, the X values and other issues relevant to the Commission's administration of the cap.<sup>5</sup>

#### **3.2 Price Cap Compliance 1998/99**

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 Perth Airport are subject to a price cap set at CPI less an X factor of 5.5 per cent per annum. The relevant CPI figure used to assess price cap compliance in the 1998/99 period was 1.5 per cent, meaning that Westralia was required to lower its average aeronautical charges by 4.0 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 1999 is provided below (see Table 1).

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<sup>3</sup> A copy of declaration 83 is available on the Commission's website, under airports.

<sup>4</sup> For a detailed explanation of the arrangements see Australian Competition and Consumer Commission, "Administration of Airport Price Cap Arrangements", January 1997

<sup>5</sup> A copy of direction 13 is available on the Commissions website, under airports

**Table 1: Changes in charges subject to price cap for year ended 30 June 1999**

<b>Charge</b>	<b>Basis</b>	<b>Charges 30/6/98</b>	<b>Price adjusted / charge introduced</b>	<b>Charges 30/6/99</b>
Landing charges (domestic and international)	Per landing \$/tonne MTOW	\$5.33	Not included in this charge is the 'pass through' new investment charge of \$0.98 per tonne.	\$5.27
Australian Protective Service	Per landing \$/tonne MTOW (aircraft over 20,000 kg)	\$0.86	Pass-through of Government-mandated security costs.	\$0.97 then lowered to \$0.86
International Terminal charge	Per landing \$/tonne MTOW	\$2.60		\$2.60
Parking	Per day in General Aviation area	\$10.00		\$10.00
Vehicle Access Charges	Taxis unbooked	\$0	Taxis unbooked (1 January 1999)	\$1
	Taxis pre-booked,	\$0	Taxis pre-booked (1 January 1999)	\$2

Westralia adjusted most of its aeronautical charges on 1 January 1998 by two times CPI-X. This meant that if Westralia did not introduce any new charges it would not need to make adjustments to existing charges to comply with the price cap for the 1998/99 period. However, Westralia introduced a vehicle access charge for taxis, which the Commission considers to be included in the price cap. A discussion of Westralia's price cap compliance in light of these new charges is discussed below.

To assist the Commission in assessing price cap compliance at Perth Airport, Westralia provided disaggregated revenue data for most aeronautical services for the 1998/99 financial year. The information provided also detailed the units of revenue (eg. tonnes landed) for each category of revenue. A summary of price cap compliance at Perth airport is provided in Table 2, below.



**Table 2: Aeronautical revenue and price cap compliance for the period ended 30 June 1998**

Description	Number of Units	Base Charge (Price per unit)	Revenue 98/99	Average Charge *	Rate Variation	Revenue Share 97/98	Compliance %
<b>Landing Charges:</b> - Domestic and International	2,560,638 tonnes	\$5.54 per 1000kg MTOW	13,694,484	\$5.35	-3.4	81.73%	-2.78
<b>International Terminal Charges</b>	1,111,802 tonnes	\$2.70 per 1000kg MTOW	2,921,953	\$2.63	-2.6	17.34%	-0.45
<b>Aircraft Waste</b>	26,183	\$4.72 Per landing	127,636	\$4.87	3.1	0.83%	0.025
<b>Vehicle access charges – taxis</b>	180325		180,325	\$1	See below	See below	See below
<b>Parking Charges</b>	655	\$10.63 per aircraft	6,718	\$10.25	-3.5	0.094%	-0.003
Over recovery of revenue 97/98							0.25%
CPI-X required reduction 98/99							-4.0%
Required reduction in charges 98/99							-4.25%
<b>Actual reduction in charges 98/99</b>							<b>-3.2%</b>
<b>Over recovery of revenue</b>							<b>1.05%</b>

\* Note: includes an allocation of vehicle access charges for taxis. Revenue from taxis has been allocated to charges on a % revenue share basis.

### Vehicle access charges

In late August 1998, the Commission became aware that Westralia proposed to introduce a fee for taxis of \$1 per pick up (unbooked) and \$2 per pick up (pre-booked). Pricing Declaration 83 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 Westralia would fall under this definition of an ‘aeronautical’ service.

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

The Treasurer’s Direction number 13 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 considered that revenue derived from taxi charges at Perth Airport should be included in the price cap and any price cap reconciliation statement.

Westralia supplied revenue data for taxis, but stated that it did not agree with the Commission's assessment that the charges were in the price cap. Westralia stated that without resiling from its view and reserving all rights it may have in relation to this issue, it would provide the Commission with the requested information in the interests of cooperation.

On the basis of the above reconciliation (including taxi revenue), Westralia reduced charges by 3.2% instead of the required 4.25% reduction. This amounted to an over recovery of revenue of 1.05%, or approximately \$169,000. The regulatory framework allows for the over recovery of revenue in any given year, provided that the revenue amount is passed back to users within two years. In order to comply with the framework, Westralia should pass back the over recovery to users.

### **APS revenue and expenditure reconciliation for year ended 30 June 1999**

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 has advised the Commission that such costs comprise amounts charged to the airport by the Australian Protective Service (APS). In future, Government mandated security requirements met by the airport operators and other service providers would also qualify for the cost 'pass-through' arrangements.

During the year, Westralia notified the Commission of a change to security charges. The change related to an increase to recover the Australian Protective Service costs of \$0.11 to \$0.97 due to the imposition of competitive neutrality on the APS. Westralia subsequently reduced this to \$0.86 as a result of the Productivity Commission's review of Competitive Neutrality.

Based on the data provided, the Commission is satisfied that Westralia complied with the APS provisions of the price cap for the 1998/99 financial year.

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

This section covers the Commission's role in the monitoring of aeronautically related services which 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 Perth Airport for the 1998/99 financial year.

### **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 no. 14, available on the Commission's web site. 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.

These issues, as they have applied to the airport for 1998/99, are reported on and discussed below.

### **4.2 Price monitoring –Perth Airport, 1998/99**

Westralia provided the Commission with data for the year ending 30 June 1999. The data is summarised in tables 4 and 5 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 4: Monitored services: Aero-related costs for the period ended 30 June 1999**

Revenue	Aero-related services 97/98	Aero-related services 98/99
	\$'000	\$'000
<b>AERO-RELATED SERVICES</b>		
Refuelling services:	205	238
Fuel Throughput		3
Aircraft maintenance sites & buildings	846	1,275
Cargo facility sites & buildings	251	296
Ground support equipment sites	81	143
Check-in counters and related facilities(1)	107	126
Public car parking	1,439	1,684
Staff car parking	60	62
<b>TOTAL AERO-RELATED COSTS</b>	<b>2,988</b>	<b>3,832</b>

Table 5: Monitored services: Aero-related revenue for the period ended 30 June 1999

Description	Basis of Charge(s)	Revenue 97/98	Revenue 98/99
<b>AERO-RELATED SERVICES</b>		<b>\$'000</b>	<b>\$'000</b>
Refuelling services	\$ per square metre	311	316
Fuel throughput	litres		57
Aircraft maintenance sites & buildings	\$ per square metre	1,281	1,350
Cargo facility sites & buildings	\$ per square metre	380	325
Ground support equipment sites	\$ per square metre	122	115
Check-in counters and related facilities	Number of counters	352	467
Public car parking <sup>6</sup>	Number of cars	6,947	7,583
Staff car parking	Number of licensed bays	521	524
<b>TOTAL AERO-RELATED REVENUE</b>		<b>9,915</b>	<b>10,741</b>

Note: The cost of land has not been included in the cost of aeronautical related revenue.

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 \$59.9 million in 1998/99, or 65 per cent of total costs. 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.

<sup>6</sup> First 5 minutes free, 5 minutes to 35 minutes \$3, 35 minutes to 1 hour \$4, 1 hour to 2 hours \$5, 2 hours to 3 hours \$6, 3 hours to 4 hours \$7, 4 hours to 5 hours \$8, 5 hours to 6 hours \$9, over 6 hours \$12.

The charge for the first three days is \$12 per day and then A\$6 per day from day four onwards.

### **Fuel throughput levy**

In 1998 Westralia advised that it would charge a fuel throughput levy at a rate of 0.5 cents/litre.

The charge arose from Westralia providing access to land upon which refuelling infrastructure is provided by oil companies for aircraft refuelling. In the past, rent and licence fees were charged for this service. Prior to Westralia acquiring the airport lease the FAC introduced provisions into contracts with oil companies allowing the airport operator to also charge a levy based on the volume of fuel.

The Commission released a report on fuel throughput levies in December 1998. 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 a 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. Westralia 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.

The Government is considering the report.

## 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 6 below.

**Table 6: Quality of service indicators**

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

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

## Appendix 2: Passenger perception survey results

Westralia commissioned an independent market research company to conduct the passenger perception survey at Perth Airport. The survey was conducted over a one week period from 26 May to 30 May and also 2 June and 3 June 1999.

Passengers were asked to rate their level of satisfaction with Terminal aspects and facilities at Perth Airport on a scale from one to seven:



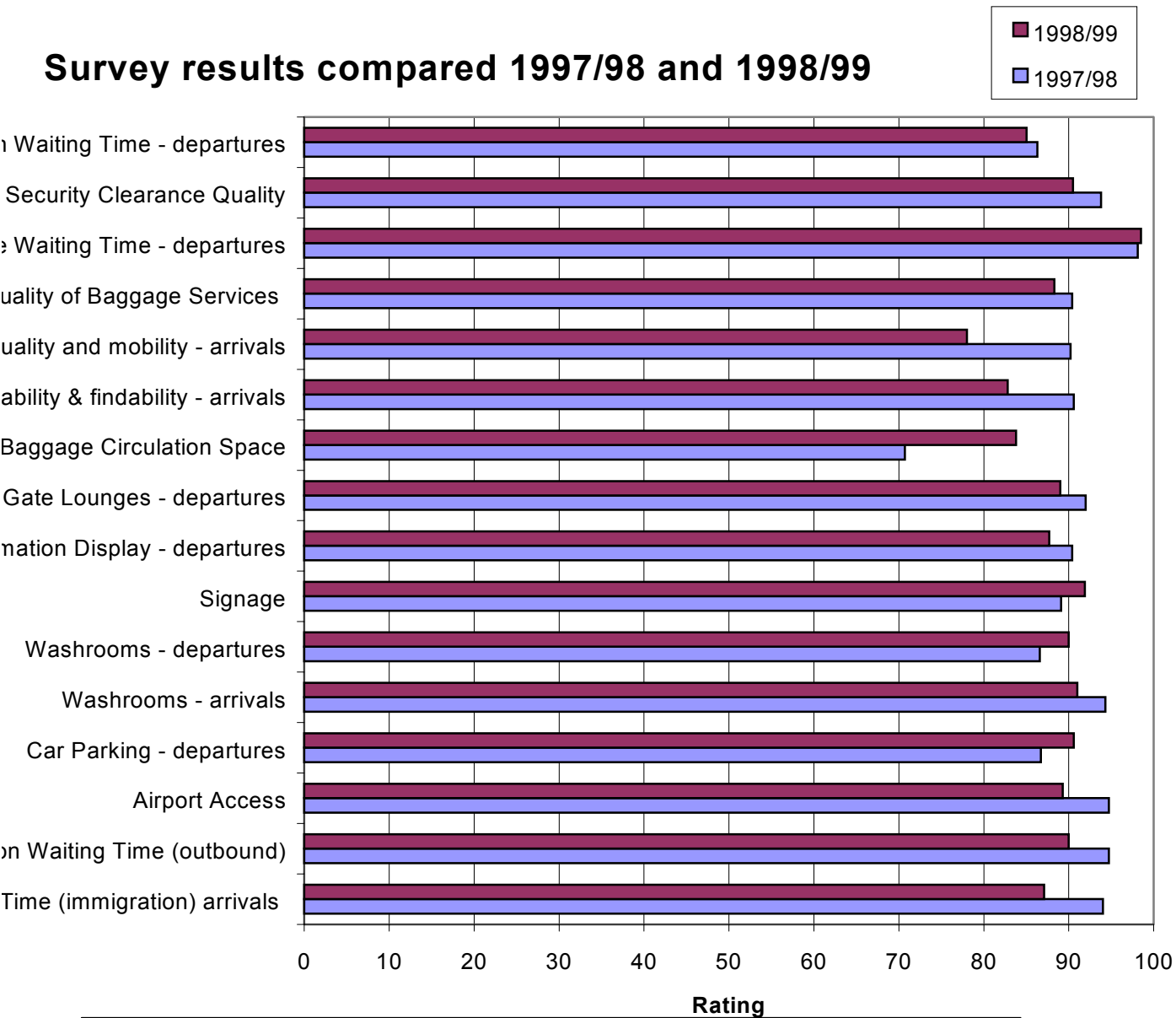
The survey covered check-in, government inspection, security, gate lounges, baggage handling and collection, information display, washrooms, and car parking.

Descriptions of each indicator and the service aspects surveyed are given below in the 'Indicator Summary' table. For ease of compilation and interpretation, a number of facilities and service ratings have been grouped together and an average rating is provided in the graph. In all instances, the average score is representative of the individual service/facility ratings that make up the group.

The graph below depicts the percentage of passengers rating the quality of the service/facility at five (good) or above. A rating of five is equivalent to 'good', a rating of six is equivalent to 'very good', and a rating of seven is 'excellent'. As can be seen from the graph below, a high percentage of passengers surveyed rated the quality of the services/facilities as 'good' to 'excellent'. The graph also indicates that the ratings achieved for each indicator in 1998/99 are similar to the ratings achieved for the equivalent indicator in the 1997/98 results.



## Survey results compared 1997/98 and 1998/99



**Table 7: Indicator summary**

- *Check in waiting time* refers to the passenger's satisfaction with the waiting time during check-in. Only departing passengers were surveyed.
- *Government inspection waiting time (inbound)* refers to the satisfaction with waiting time during the government inspection process at immigration for arriving passengers.
- *Government inspection waiting time (outbound)* refers to the level of satisfaction associated with the waiting time at customs for departing passengers.
- *Security clearance waiting time* refers to passenger satisfaction with the waiting time at security.
- *Security clearance quality* refers to the adequacy of security clearance in making a passenger feel safe for travelling.
- *Gate lounge* refers to an average figure which combines the survey results obtained for the following scale categories: the availability of seating; the amount of circulation; and the amount of seating space in the departure lounge. Departing passengers were surveyed.
- *Quality of baggage services* refers to the waiting time for baggage and passenger satisfaction with baggage information display for arriving passengers.
- *Baggage circulation space* covers the space around the particular carousel that carried baggage.
- *Baggage trolleys availability and findability* deals with the passenger satisfaction with this service.
- *Baggage trolley quality and mobility* section refers to the passenger satisfaction with this service.
- *Information display* refers to passenger satisfaction with availability of signage and the clarity and usefulness of directional and general information signs at the airport. Only departing passengers were surveyed.
- *Signage* refers to passenger satisfaction with directional and general information signs. Only arriving passengers were surveyed.
- *Washrooms arrivals* refers to the satisfaction of arriving passengers with the overall standard of facilities. Only those using the facility were included in the survey results.
- *Washrooms departures* refers to the satisfaction of departing passengers with the overall standard of facilities. Only those using the facility were included in the survey results.
- *Car parking* refers to the satisfaction of facilities and availability of car parking for departing passengers.
- *Airport access* refers to the satisfaction of passengers with the amount of congestion in the front terminal when being dropped off and the satisfaction with the amount of kerbside space available. An average of the two ratings is provided.

## Appendix 3: Airline survey results

The Commission received surveys from six airlines that used Perth Airport over the 1998/99 period. These airlines were Air New Zealand, Ansett Australia, British Airways, Qantas, Singapore Airlines, and South African Airways. 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 and its reliability.

**Table 8: Responses from airline surveys**

Facility	Aspect	Very Poor	Poor	Satisfactory	Good	Excellent
Runways	Availability		1	1	3	1
	Standard			2	3	1
Aprons	Availability			2	4	
	Standard			2	4	
Taxiways	Availability				6	
	Standard				6	
Gates	Availability		2	1	3	
	Standard			4	2	
Aerobridges	Availability		2	3		
	Standard		2	2	2	
Ground service equipment storage	Availability			2	4	
	Standard			2	4	
Freight equipment storage sites	Availability	1	3		2	
	Standard		3	1	1	
Check in facilities	Availability		5	1		
	Standard		1	5		
Baggage processing facilities	Availability			5		
	Standard		2	3		
Addressing airline concerns			1	2	1	

\* Not all airlines responded to all questions.



## Appendix 4: Static indicators

Indicators provided by the airport operator	At 30 June 1999
Number of (international) aircraft parking bays at 30 June 1998	7
Number of aerobridges at 30 June 1998	5
Percentage of passengers (embarking) using an aerobridge	99.6%
Percentage of passengers (disembarking) using an aerobridge	99.6%
Number of check-in desks – managed by Westralia	24
Number of baggage inspection desks	20
Number of inbound immigration desks	16
Number of outbound immigration desks	10
Number of security clearance systems	2
Number of seats in gate lounges	359
Capacity of outbound baggage handling equipment (bags per hour)	5760
Capacity of inbound baggage reclaim system (bags per hour)	8640
Throughput of the car park per year	4,545,624
Number of car parking spaces (international)	853

### Provided by Airservices Australia

- Aircraft movements in busiest 30 half hours: Annual average 17
- Aircraft movements in busiest 60 half hours: Annual average 16



## Appendix 5: Perth Airport regulatory accounts (Summary)

### Profit and Loss Account for the Period Ended 30 June 1999<sup>7</sup>

Description	Audited financial statements	Aero services	Non-Aero services
<i>Description</i>	\$	\$	\$
<b>Revenue</b>			
Aeronautical revenue	18,818,944	18,818,944	
Non-Aeronautical revenue	46,485,480		46,485,480
<b>Total Revenue</b>	<b>65,304,424</b>	<b>18,818,944</b>	<b>46,485,480</b>
<b>Expenditure</b>			
Salaries and wages	6,213,315	4,534,275	1,679,040
Depreciation	8,038,874	5,706,137	2,332,737
Services and utilities	7,966,708	1,601,364	6,365,344
Australian Protective Service costs	2,183,479	2,183,479	0
Other costs	5,465,717	2,650,167	2,815,550
<b>Total Expenditure</b>	<b>31,831,084</b>	<b>18,239,243</b>	<b>13,591,841</b>
<b>Operating Profit/(Loss)</b>	<b>33,473,340</b>	<b>579,701</b>	<b>32,893,639</b>
<i>Abnormal items</i>			
Adjustment to depreciation	(861,540)	(861,540)	
Redundancy expense	(541,038)	(421,291)	(119,747)
Adjustment to amortisation	236,462		
<b>Earnings Before Interest and Tax (EBIT)</b>	<b>32,307,224</b>	<b>(703,130)</b>	<b>32,773,892</b>
Interest Expense	(50,323,182)		
Amortisation	(9,567,172)		
<b>Loss Before Tax</b>	<b>(27,583,130)</b>		
Tax charge	0		
<b>Loss after Tax</b>	<b>(27,583,130)</b>		
Dividends paid	0		
<b>Loss after tax and dividends</b>	<b>(27,583,130)</b>		
<b>Opening Accumulated loss</b>	<b>(26,927,550)</b>		
<b>Closing Accumulated loss</b>	<b>(54,510,680)</b>		

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

<sup>7</sup> The Commission does not require an allocation of costs related to amortisation or interest expense because any allocation between aeronautical and non-aeronautical services is likely to be arbitrary.

**Balance sheet for the period ended 30 June 1999**

Description	Audited financial statements	Aero services	Non-Aero services
	\$	\$	\$
<b>CURRENT ASSETS</b>			
Cash	6,981,451		
Receivables	4,498,785	1,682,212	2,816,573
Inventories	68,139	0	68,139
Accrued revenue	1,197,704	124,345	1,073,359
Other	3,628,074	1,534,088	2,093,986
<b>Total current assets</b>	<b>16,374,153</b>	<b>3,340,645</b>	<b>6,052,057</b>
<b>NON-CURRENT ASSETS</b>			
Lease Franchise Fee	421,919,881		
Property, plant and equipment	201,259,549	96,540,360	104,719,193
Expenditure carried forward	31,956,339		
Other	3,972,750	2,216,850	1,755,900
<b>Total non-current assets</b>	<b>659,108,750</b>	<b>98,757,210</b>	<b>104,475,093</b>
<b>TOTAL ASSETS</b>	<b>675,482,672</b>		
<b>CURRENT LIABILITIES</b>			
Creditors	12,820,862		
Borrowings	59		
Provisions	1,484,913	1,083,641	401,272
<b>Total current liabilities</b>	<b>14,305,834</b>		
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	571,020,478		
Provisions	102,266	74,630	27,636
<b>Total non-current liabilities</b>	<b>571,122,744</b>		
<b>TOTAL LIABILITIES</b>	<b>585,428,578</b>		
<b>NET ASSETS/(LIABILITIES)</b>	<b>90,054,094</b>		
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	2,550		
Reserves	253,349		
Accumulated profits/(losses)	(11,833)		
<b>TOTAL SHAREHOLDER'S EQUITY</b>	<b>244,066</b>		



## Summary of significant accounting policies

This special purpose financial report has been prepared in accordance with the Regulatory Information Requirements under Part 7 of the Airports Act, Section 21 and 27A of the PS Act, Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the Corporations Law. It is prepared in accordance with the historical cost convention.

Westralia was incorporated in January 1997 and remained dormant until the acquisition of the Perth Airport lease on 2 July 1997.

### (a) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the profit and loss account is matched with the accounting profit after allowing for permanent differences. The future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

### (b) Foreign currency translation

#### (i) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date, amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are brought to account in determining the profit and loss for the year.

#### (ii) Specific commitments

Hedging is undertaken to avoid possible exposure to financial effects of movements in exchange rates. Gains or losses on hedging transactions, intended to hedge monetary items, are brought to account in the year in which the exchange rates change. Gains or costs arising at the time of entering into such hedging transactions are brought to account in the profit and loss account over the lives of the hedges. Any receivable or payable at balance date is netted against foreign currency borrowing's as the timing of closing out hedge transactions matches the term to maturity of related borrowing's and it is intended that they will be settled on a simultaneous basis.

### (c) Receivables

All trade debtors are recognised as the amount receivable as they are due for settlement no more than 30 days from the date of recognition.

Recoverability of trade debtors is reviewed on an ongoing basis. Debts, which are known to be unrecoverable, are written off. A general provision for doubtful debts is raised together with a specific provision for debts where recoverability is deemed to be doubtful.

### (d) Inventories have been stated at the lower of cost and net realisable value.

### (e) Acquisition of assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition. Where shares are issued on acquisition, the value of the shares is determined by reference to the fair value of the assets acquired, including goodwill and other intangible assets where applicable.

The lease franchise fee, arising from the acquisition of the Perth Airport lease, is brought to account on the basis described in note 1 (i)(i).

**(f) Recoverable amounts**

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount the asset is revalued to its recoverable amount. To the extent that a revaluation decrement reverses a revaluation increment previously credited to, and still included in the balance of, the asset revaluation reserve, the decrement is debited directly to that reserve. Otherwise the decrement is recognised as an expense in the profit and loss account.

The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values using a market determined, risk adjusted discount rate.

**(g) Land and buildings and infrastructure, plant and equipment**

*(i) Cost and valuation*

The basis of valuation of operational land is at replacement cost on an existing use basis. Basis of valuation of investment property is using fair market value. The valuation was carried out at 2 July 1997 by Mr PJ Logan FAPI and Mr JK McNamara LFAPI.

The Directors do not consider that there has been a significant movement in this valuation to balance date.

*(ii) Depreciation and amortisation*

Infrastructure, plant and equipment (including infrastructure assets under lease) have been depreciated using the straight-line method based upon the estimated useful life of the assets to the WAC.

Depreciation and amortisation rates used are as follows:

Operational Land	1.01%
Investment Land	0.00%
Plant and Equipment	15.00%
Buildings	6.25%
Fixed Plant and Equipment	10-15%
Runway's, Taxiway's and Apron's	1.00-6.67%
Other Infrastructure	10-20%

*(iii) Leasehold improvements*

Leasehold improvements have been amortised over the shorter of the unexpired period of the lease and estimated useful life of the improvements.

*(iv) Major repairs and maintenance*

Major asset maintenance costs incurred on runways, taxiways and aprons are capitalised and are written off over the period between major asset maintenance projects. This recognises that the benefit is to future periods and also apportions the cost over the period of the related benefit.

*(v) Non-current assets under construction*

The cost of non-current assets constructed by the company includes the cost of all materials used in construction and consultancy and professional fees associated with the project.

*(vi) Revaluations of non-current assets*

Land, buildings and fixed plant and equipment are revalued at three yearly intervals. Potential capital gains tax is not taken into account in determining revaluation amounts unless there is an intention to sell the assets concerned.

**(h) Lease franchise fee and expenditure carried forward**

*(i) Lease franchise fee*

The franchise paid on acquisition of the Perth Airport lease, which represents the difference between the Perth Airport purchase price and the fair value of the net tangible assets acquired, will be amortised on a straight line basis over the life of the lease, 99 years.

*(ii) Capitalised bid costs*

The costs incurred in relation to the Perth Airport bid and acquisition have been capitalised and will be amortised on a straight-line basis over the life of the lease, 99 years.

*(iii) Capitalised finance costs & capitalised US note issue finance costs*

All fees and costs incurred in establishing the funding facilities for the acquisition of the Perth Airport lease have been capitalised and will be amortised on a straight line basis over 5 years.

*(iv) Capitalised masterplan costs*

All fees and costs incurred in the development of the masterplan have been capitalised and will be amortised on a straight-line basis over 5 years.

*(v) Capitalised terminal consolidation costs*

All fees and costs incurred in the feasibility analysis conducted to determine the economics of relocating the domestic terminals have been capitalised. These costs are being carried forward until a decision is made to proceed with the project. If the project does not proceed, these costs will be expensed.

**(i) Trade and other creditors**

These amounts represent liabilities for goods and services provided to the company prior to the reporting date and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(j) Borrowing costs**

Borrowing costs are recognised as expenses in the period in which they are incurred, except as noted in note (h)(iii) and (h)(iv). Borrowing costs include:

- interest on bank overdraft and long term borrowing's
- interest on short and long term subordinate debt
- interest on bonds payable (including capitalised interest component)
- ancillary costs incurred in connection with the ongoing conduct of borrowing's.

**(k) Derivative financial instruments**

The company has entered into interest rate and currency swap agreements. These derivative financial instruments are not recognised in the financial statements on inception.

The net amount receivable or payable under interest rate swap agreements is brought to account when due and payable under the terms of each contract. The amount recognised is accounted for as an adjustment to interest expense during the period.

The accounting policy for currency swaps is detailed in note 1 (b)(ii).

**(l) Maintenance and repairs**

Maintenance, repair costs and minor renewals, excluding maintenance on runways, taxiways and aprons, are charged as expenses as incurred.

Maintenance on runways, taxiways and aprons is treated in accordance with note (g)(iv).

**(m) Employee entitlements**

Provision has been made for long service leave and annual leave payable to employees on the basis of statutory and contractual requirements. Vested entitlements are classified as current liabilities. Contributions made to superannuation funds are charged against profits.

A liability for long service leave is recognised based on employees' current pay rates and associated on costs in respect of services provided by employees up to the reporting date. When assessing the adequacy of the provision, consideration is given to the present value of these payments after assessing expected future wage and salary levels, experience of employee departure and period of service.

**(n) Year 2000 software modification costs**

Costs relating to the modification of computer software compatibility are charged as expenses as incurred.

**(o) Cash**

For the purposes of the statement of cashflows, cash includes deposits at call, which are readily convertible to cash on hand and are subject to an insignificant risk of change in value, net of outstanding bank overdrafts.

## Appendix 6: Perth Airport operational statistics

### Operational statistics for the period ended 30 June 1999

Description	Number
<b>PASSENGERS</b>	
Domestic passengers	3,264,459
International passengers (excluding transit)	1,539,550
International transit passengers	125,946
Domestic on-carriage	39,363
<b>TOTAL PASSENGERS</b>	<b>4,969,318</b>
 <b>AIRCRAFT MOVEMENTS</b>	
Regular Public Transport aircraft movements	61,046
General Aviation aircraft movements	37,434
<b>TOTAL AIRCRAFT MOVEMENTS</b>	<b>98,480</b>
 <b>TOTAL TONNES LANDED</b>	<b>2,560,638</b>
 <b>AVERAGE STAFF EQUIVALENTS</b>	
- Aeronautical services	69
- Non-aeronautical services	25
<b>TOTAL AVERAGE STAFF EQUIVALENTS</b>	<b>94</b>
 <b>AREA (HECTARES)</b>	
- Aeronautical services	1,280
- Non-aeronautical services	825
<b>TOTAL AREA (HECTARES)</b>	<b>2,105</b>