# **BTE Publication Summary**

Financial Performance of Government Business Enterprises in the Transport and Communications Portfolio 1977/78 to 1988/89

# **Information Paper**

This paper examines the financial performance of the government business enterprises (GBEs) in the Transport and Communications portfolio: Qantas, Australian Airlines, the Civil Aviation Authority (CAA), the Federal Airports Corporation (FAC), ANL Limited (previously the Australian Shipping Commission), the Australian National Railways Commission (AN), Telecom, Australia Post, OTC (OTC Limited, previously the Overseas Telecommunications Commission) and AUSSAT Pty Limited.







# Financial Performance of GOVERNMENT BUSINESS ENTERPRISES

in the Transport and Communications Portfolio 1977-78 to 1988-89

BUREAU OF TRANSPORT AND COMMUNICATIONS ECONOMICS

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## FOREWORD

This paper presents information on the past financial performance of government business enterprises (GBEs) in the Transport and Communications portfolio, and provides background material on these GBEs, particularly that which is relevant to an assessment of their financial performance. The background material includes the steps which have so far been taken in implementing the reform package for the GBEs announced by the Government in its May 1988 statement.

The paper brings together, in a single convenient source, information on the financial history and performance of all the GBEs in the Transport and Communications portfolio. Given the emphasis in the reform package on the achievement of commercial rates of return, it is of interest to know what past performance has been, and how it compares with that of the private sector. Such information will assist subsequent assessment of the extent of the improvements in performance which flow from the reform package.

This paper was prepared by Beryl Cuthbertson and Neil Kelso, building on earlier work by Colin Cronin. Lori Aroia also assisted. The early stages of the project were supervised by Tony Shaw.

M.R. Cronin Research Manager

Bureau of Transport and Communications Economics Canberra August 1990

# CONTENTS

FOREWORD		Page III
ABSTRACT		xi
SUMMARY		xiii
CHAPTER 1	INTRODUCTION	1
CHAPTER 2	GOVERNMENT BUSINESS ENTERPRISES IN THE TRANSPORT AND COMMUNICATIONS PORTFOLIO Qantas Australian Airlines Civil Aviation Authority Federal Airports Corporation Australian National Line Australian National Railways Telecom Australia Post OTC AUSSAT	3 4 9 9 10 13 15 18 20 22
CHAPTER 3	FINANCIAL PERFORMANCE: CONVENTIONAL ACCOUNTING BASIS, 1977–78 TO 1988–89 Problems in interpreting conventional accounting data The values of GBE assets Capital structure Financial performance data Overview of conventional accounting performance measures	25 26 27 31 35 49
CHAPTER 4	FINANCIAL PERFORMANCE IN REAL TERMS Real rates of return for the Transport and Communications portfolio GBEs	53 54
CHAPTER 5	CONCLUSION	67

v

	MAJOR COMMONWEAL TH COVERNMENT	Page
AFFENDIAT	BUSINESS ENTERPRISES	69
APPENDIX II	FINANCIAL DATA	71
APPENDIX III	MEASURES OF PERFORMANCE: DEFINITION OF	
	TERMS AND DESCRIPTION	95
APPENDIX IV	LIABILITY FOR TAXATION	101
APPENDIX V	FINANCIAL TARGETS OF TRANSPORT AND	
	COMMUNICATIONS GBES BEFORE 1988	105
REFERENCES		107
ABBREVIATION	NS	111

# TABLES

2.1	Commonwealth equity in Qantas	Page 6
2.2	Commonwealth equity in Australian Airlines	8
2.3	Commonwealth equity in ANL	12
2.4	AN funding sources	14
2.5	Telecom funding from Commonwealth sources	17
2.6	Australia Post funding from Commonwealth sources	19
2.7	Commonwealth equity in OTC	22
2.8	Commonwealth equity in AUSSAT	23
3.1	Disaggregated transport GBE fixed assets as a percentage of total assets, 30 June 1989	29
3.2	Disaggregated communications GBE fixed assets as a percentage of total assets, 30 June 1989	30
3.3	GBEs' capital structure as at 30 June 1989, book values	30
3.4	Financial aggregates for transport and communications GBEs, 1988–89	37
3.5	Australian Airlines: effect of different gearing levels on profitability ratios, 1979–80	46
4.1	Real and historical cost rates of return: Telecom	56
4.2	Real and historical cost rates of return: Australia Post	56
4.3	Real and historical cost rates of return : AN	57
4.4	Real and historical cost rates of return: ANL	57

vii

		Page
4.5	Real and historical cost rates of return: Qantas	58
4.6	Real and historical cost rates of return: OTC	58
4.7	Real and historical cost rates of return: TAA/Australian Airlines	59
4.8	GBEs: average real returns and average real rates of return	64
II.1	Qantas (consolidated) financial data, 1977–78 to 1988–89	74
II.2	Australian Airlines (consolidated) financial data, 1977–78 to 1988–89	76
II.3	Civil Aviation Authority financial data, 1988-89	78
11.4	Federal Airports Corporation financial data, 1986-87 to 1988-89	79
11.5	Australian National Line (consolidated) financial data, 1977–78 to 1988–89	80
II.6	Australian National Railways Commission financial data, 1977–78 to 1988–89	82
II.7	Telecom (consolidated) financial data, 1977–78 to 1988–89	84
II.8	Australia Post (consolidated) financial data, 1977–78 to 1988–89	86
II.9	OTC Limited (formerly Overseas Telecommunications Commission) financial data, 1977–78 to 1988–89	88
II.10	AUSSAT financial data, 1981-82 to 1988-89	90
11.11	Reserve Bank all industrial average (private sector) financial data, 1978 to 1986	92
11.12	Ratio of earnings before interest and tax to total assets (stock exchange data), 1977–78 to 1987–88	93
II.13	Private sector financial data, 1984–85 to 1987–88	93
IV.1	Liability for taxation: Qantas and Australian Airlines	101
IV.2	Liability for taxation: CAA and FAC	101
IV.3	Liability for taxation: ANL and AN	102
IV.4	Liability for taxation: Telecom and OTC	102
IV.5	Liability for taxation: Australia Post and AUSSAT	103

# FIGURES

		Page
3.1	Gearing ratio — total debt as a percentage of total assets, transport GBEs	32
3.2	Gearing ratio — total debt as a percentage of total assets, communications GBEs	32
3.3	Interest-bearing debt as a percentage of total assets, transport GBEs	33
3.4	Interest-bearing debt as a percentage of total assets, communications GBEs	33
3.5	EBIT to interest, transport GBEs	34
3.6	EBIT to interest, communications GBEs	34
3.7	EBIT to total assets, transport GBEs	41
3.8	EBIT to total assets, communications GBEs	41
3.9	EBIT to total assets, 3-year moving average	42
3.10	EBT to equity, 3-year moving average	42
3.11	EBT to equity, transport GBEs	44
3.12	EBT to equity, communications GBEs	44
3.13	Profit all sources to equity, transport GBEs	47
3.14	Profit all sources to equity, communications GBEs	47
3.15	EBIT to revenue, transport GBEs	48
3.16	EBIT to revenue, communications GBEs	48
3.17	Dividend to profit all sources, transport GBEs	50

ix

3.18	Dividend to profit all sources, communications GBEs	Page 50
3.19	Dividend to equity, transport GBEs	51
3.20	Dividend to equity, communications GBEs	51
4.1	Real and historical cost rates of return, Telecom	60
4.2	Real and historical cost rates of return, Australia Post	61
4.3	Real and historical cost rates of return, AN	61
4.4	Real and historical cost rates of return, ANL	62
4.5	Real and historical cost rates of return, Qantas	62
4.6	Real and historical cost rates of return, OTC	63
4.7	Real and historical cost rates of return, TAA/Australian Airlines	63

 $(1,2,\ldots,n_{n-1},q_{n-1})$ 

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## ABSTRACT

This paper examines the financial performance of the government business enterprises (GBEs) in the Transport and Communications portfolio: Qantas, Australian Airlines, the Civil Aviation Authority (CAA), the Federal Airports Corporation (FAC), ANL Limited (previously the Australian Shipping Commission), the Australian National Railways Commission (AN), Telecom, Australia Post, OTC (OTC Limited, previously the Overseas Telecommunications Commission) and AUSSAT Pty Limited.

Aspects of the history and development of the GBEs relevant to their financial performance are described, and time series of the major accounting parameters are provided, together with an analysis of the major financial aggregates and ratios. For the most part, the financial performance is reviewed using conventional accounting data from published annual reports. Some estimates of performance in real terms, where allowance is made for the effects of inflation, have also been discussed.

On the basis of both conventional accounting data and data in real terms, but without any allowance for the costs of any community service obligations (CSOs), the financial performance of the GBEs has been, generally speaking, below private sector performance over the period studied. OTC, and latterly Telecom, are exceptions. Initial results for FAC and CAA at least equal those of the private sector. If the costs of CSOs were taken into account for Australia Post, it too could have achieved returns comparable with the private sector average.

### SUMMARY

In May 1988, the then Federal Minister for Transport and Communications introduced reforms designed to improve the financial performance of the government business enterprises (GBEs) within his portfolio.

This paper examines the past financial performance of the GBEs in the Transport and Communications portfolio: Qantas, Australian Airlines, the Civil Aviation Authority (CAA), the Federal Airports Corporation (FAC), ANL Limited (previously the Australian Shipping Commission), the Australian National Railways Commission (AN), Telecom, Australia Post, OTC (OTC Limited, previously the Overseas Telecommunications Commission) and AUSSAT Pty Limited. For the most part, the financial performance is reviewed using conventional accounting data from published annual reports. Available estimates of performance in real terms, where allowance is made for the effects of inflation, are also discussed.

The paper describes those aspects of the history and development of the GBEs which are relevant to their financial performance. Time series of the major accounting parameters are provided, together with an analysis of the major financial aggregates and ratios.

On the basis of conventional accounting data, the financial performance of the GBEs, with the exception of OTC and latterly Telecom, was below average private sector performance over the period 1977–78 to 1988–89. In real terms, all but one of those GBEs for which rate of return estimates were available were, on average, either earning a small positive rate of return or were making losses. The exception was OTC. If the community service obligations of the GBEs were brought to account, as is now done for AN, the measured performance of Telecom and Australia Post would be significantly better. Initial results for FAC and CAA indicated financial performance at least equal to the private sector in their first years of operation.

The reform package for the GBEs is intended to give them the scope to improve their performance by giving them more suitable corporate structures, by removing many bureaucratic impediments to commercial action, and by imposing certain performance and reporting requirements. Where market discipline is inadequate, price capping and other price surveillance measures have been adopted to ensure that the GBEs achieve improved profitability by increases in efficiency rather than by increasing the real prices of their outputs.

## CHAPTER 1 INTRODUCTION

In October 1987 the then Minister for Finance, Senator the Hon. Peter Walsh, released a policy information paper entitled *Policy Guidelines for Commonwealth Statutory Authorities and Government Business Enterprises.* Formulation of these guidelines represented one stage in a wider government program for review and reform of Commonwealth public sector administration. In particular it took into account public response to the government's discussion paper of June 1986 on the same topic, *Statutory Authorities and Government Business Enterprises: A Policy Discussion Paper* (Minister for Finance 1986). The 1987 guidelines constituted a framework designed to provide incentive, enhance efficiency and improve public accountability. Included were a provision for each enterprise to submit a strategic corporate plan, a requirement for the establishment of financial targets for each enterprise, and provision for the removal of controls which overly constrained management.

The 1987 paper was followed by a Ministerial Statement of May 1988 containing a reform package for the transport and communications government business enterprises (GBEs) (Evans 1988). This package applied the general policy guidelines to the transport and communications GBEs. It outlined new corporate and financial structures for most of the GBEs, announced new accountability mechanisms including corporate plans and financial targets, outlined modifications to major strategic controls, and announced the removal of many day-to-day controls.

These new arrangements were designed to ensure that goals and targets would be set and agreed to by the government, that the board and management of the enterprise would be left largely free of government day-to-day controls to achieve those goals, and that board and management would be held accountable for results.

Perhaps the most important aspect of these initiatives was the requirement for GBEs to adopt financial targets designed to improve the efficiency and enhance the monitoring of enterprise operations. The rationale for the financial targets was to improve the performance of GBEs, such that they function at least as well as their private sector counterparts, and earn returns on funds employed equal to those which could be earned by alternative investments. That is to say, they

should earn returns sufficient to justify retention of the assets of the GBEs in their respective businesses (Walsh 1987, 22).

The precise nature of the financial targets for each GBE was not defined in the 1988 Statement: it was announced that the targets would most likely take the form of a rate of return on assets, funds employed or capital, or a ratio of profit to turnover if appropriate, and would be used to supplement other performance indicators considered relevant for a particular enterprise. Details of achievement against established goals were to be included in annual reports (Evans 1988, 7).

Since then, the form of financial target has been established for each of the transport and communications GBEs, although, at the time of writing, actual target levels have not been agreed on in all cases. The form of target varies among GBEs, though a rate of return on total assets or funds employed, as presaged in the Minister's policy statement, would be the most common.

Practical and theoretical issues associated with rate of return reporting have been widely canvassed, but there is not yet general agreement on some issues concerning the portfolio GBEs; for example, how to express GBE income and how to value some assets.

This paper provides factual material on the Commonwealth transport and communications GBEs. It includes a brief history of each GBE, a description of financial performance for the period 1977–78 to 1988–89, and statistics of financial performance. For the most part, the financial performance measures used are in historical cost terms. In this paper 'historical cost' is used interchangeably with 'conventional accounting'. Both refer to book values rather than real or economic values and do not preclude the revaluation of assets in the books. Where real (inflation-adjusted) rates of return are available, these are also discussed.

The problems arising from the use of conventional accounting data for assessing financial performance of the GBEs are reviewed. These result in particular from lack of regular revaluation of assets, and from atypical capital structures in some of the GBES.

The paper is intended to provide background material for the assessment of GBE performance and consideration of appropriate financial target levels for the GBEs.

2

## CHAPTER 2 GOVERNMENT BUSINESS ENTERPRISES IN THE TRANSPORT AND COMMUNICATIONS PORTFOLIO

Government business enterprises (GBEs) have been defined by the Department of Finance as government-owned organisations which function as fully commercial or quasi-commercial enterprises, selling goods and services and deriving a substantial proportion of their revenue from those sales (Minister for Finance 1986). They may be statutory authorities, that is, organisations established by an Act of Parliament to provide services to the community, with functions and powers specified in the legislation, or companies, public or private, with powers defined by the Memorandum and Articles of Association. GBEs, defined in this way, would exclude most statutory authorities, which rely mainly on government funding for their activities. The Department of Finance also distinguishes statutory marketing authorities, which receive finance through levies on growers or from the sale of produce, from GBEs.

Within the Commonwealth sphere there are 20 major GBEs, among more than 250 Commonwealth statutory authorities and companies. Of these 20 major Commonwealth GBEs which are listed in appendix I, ten, namely Qantas, Australian Airlines, Australian National Line (ANL), Australian National Railways (AN), Telecom, OTC, Australia Post, AUSSAT, Civil Aviation Authority (CAA) and the Federal Airports Corporation (FAC), are within the Transport and Communications portfolio. They provide land transport services, domestic and international maritime and aviation transport services, and domestic and international electronic and postal communication services. The Australian Maritime Safety Authority, which is to come into being from 1 January 1991, will also be within the Transport and Communications portfolio.

As at June 1989, these transport and communications GBEs were directly responsible for approximately 39 per cent of Commonwealth employment and 9.4 per cent of total public sector employment; in all they employed about 2 per cent of the Australian workforce. In the 1988-89 financial year, they accounted for 20 per cent of all public sector investment, and 81 per cent of all Commonwealth public sector investment. Their assets in 1989 were valued at over \$28 000 million, and the Commonwealth's investment, through equity and loans in the ten GBEs, was approaching \$13 000 million.

The transport and communications GBEs also provide a significant proportion of Australia's infrastructure requirements, particularly in the area of communications. As the quality and efficiency of this infrastructure is important to our quality of life and economic well-being, the overall performance of these GBEs in particular is significant for Australia as a whole.

The following discussion of the transport and communications GBEs is not intended to be comprehensive. It concentrates on areas relevant to any analysis of their financial performance or efficiency or to a consideration of public sector involvement. The GBEs are discussed briefly in terms of function, market structure, origin, history, size and profitability, and the extent of Commonwealth equity. The size of the GBEs is discussed only in terms of the value of assets and number of employees. Some mention is also made of the performance standards which have been required of them. Profitability receives only broad comment, as this area is covered in detail in chapter 3, and financial statistics can be found in appendix II.

#### QANTAS

Qantas operates an international airline service under the government's single-designation policy. This establishes Qantas as the sole carrier to exercise Australia's international entitlements. It operates on a commercial basis in a market subject to considerable competition.

Qantas was not established under any formal legislation. However it is subject to the Companies (Queensland) Code, and in addition operates under a set of guidelines which the Commonwealth initially issued to the airline's directors in 1984, and which have recently been revised following the May 1988 GBE reform package.

Qantas was originally formed in 1920 with the initial aim of establishing air transport services linking rail depots in Queensland with Darwin. Its international operations began in 1934 when Qantas Empire Airways Ltd (QEA) was formed with Qantas and the British international carrier Imperial Airways each owning 50 per cent.

In 1946, the Australian government acquired the British share of QEA to reduce the unequal share of joint capacity on the Australia–United Kingdom route held by the British. In 1947, the Government acquired the remaining 50 per cent of shares in QEA, which were held by Australian private interests, thus establishing QEA as a fully government-owned airline. The company was renamed Qantas Airways Ltd in 1967.

Qantas was initially drawn into the public sector for a variety of reasons. In the late 1930s and early war years, many countries moved to nationalise air transportation and remove the monopoly control of the shipping companies over airlines, which it was thought could restrict development of international air services. In the case of Qantas, there was also felt to be a need for control over

a service seen as crucial to Australia's national development, which involved the generation of national benefits not taken into account by private firms, particularly defence benefits. There was concern over the ability of the previous owners to finance development, and at the former exploitation of concessions by private airline operators (Caucus 1988; Evatt 1988).

Some of these reasons are no longer relevant. Those which tend to be advanced at present for retaining Qantas in public ownership include: the importance of Qantas as a national symbol, contributing to a positive perception of Australia overseas; contributions to the balance of payments; tourism promotion; involvement with high technology engineering and communication; and responsiveness to Government policies in areas such as foreign affairs (Caucus 1988; Evatt 1988).

In terms of size, Qantas would rank amongst Australia's top listed companies. The book value of its total assets in 1989 was \$4570 million. It ranked 68th in terms of assets among Australia's largest enterprises (public and private) in the Business Review Weekly 1989 list 'The Top 1000'. This list used Qantas's assets as at March 1988: if Qantas assets as at June 1989 had been used, the ranking would have been 38th in the same listing. In terms of turnover Qantas ranked 22nd. In 1989 it employed an Australian-based staff of 15 400.

Commonwealth equity at June 1989 amounted to \$916.5 million, with \$149.4 million of this being provided by the Commonwealth as share capital. Details of equity injections in Qantas are shown in table 2.1. Up to April 1989, the Commonwealth provided Qantas with explicit government guarantees on its aircraft loans through specific legislation. Since 1984 Qantas has been required to seek Loan Council approval for its borrowings. The possibility of exemption from the global limits is, however, being considered in the context of the GBE reforms. Qantas is fully liable for all relevant business taxes.

Prior to the recent reform package, Qantas's financial target, prescribed by Ministerial directive, was 'to make a profit sufficient to pay a prescribed dividend'. The reform package required that a financial target for Qantas be agreed in advance by the Minister with the Qantas board. It is likely to be expressed as an after-tax profit level. The board is required to recommend a dividend, and consult with the Minister. This dividend may be accepted or lowered by a general meeting of shareholders. Corporate plans are to be provided annually and are required to cover a period of three to five years. Assets are to be revalued at least once every five years. In addition, annual reports are to report on performance against targets.

The historical cost data indicate that Qantas incurred losses in four of the 12 years to 1989, in terms of earnings before tax. Profitability in terms of returns to total assets has generally been low compared with average Australian private sector performance (as measured by the Reserve Bank 'all industries' average or the Stock Exchange 'all companies' average: see appendix II for details). The losses incurred by Qantas were associated with a downturn in the international aviation

Item	Equity <sup>a</sup>
Paid up capital as at 31 December	
1934	0.2
1938	1.0
1948	5.0
1949	7.2
1950	8.0
1953	10.0
1955	13.0
1956	14.4
1957	17.4
1958	19.9
1959	27.4
1960	29.4
1961	32.4
1962	35.4
1967	39.4
1972	49.4
1973	64.4
1981	89.4
1983	149.4
Paid up capital as at 30 June 1989	149.4
Reserves and minority interests	761.0
Retained profits	6.1
Total Commonwealth equity as at 30 June 1989	916.5

# TABLE 2.1 COMMONWEALTH EQUITY IN QANTAS (\$ million)

a. Refers to book values.

Sources Qantas (1989); Qantas pers. comm. to Department of Transport and Communications.

market in the early 1980s. Subsequently Qantas's profitability improved substantially.

#### AUSTRALIAN AIRLINES

Australian Airlines Limited, formerly the Australian National Airlines Commission (ANAC) trading as Australian Airlines, was converted from a statutory authority to a public company in April 1988. It provides an interstate air service in competition with Ansett within the two airline policy framework. The two airline policy, which has been in effect since the 1950s, is to be terminated on 30 October 1990. This will result in removal of capacity controls on aircraft, and of controls on fares and entry to trunk routes.

Australian Airlines originated as a result of major concerns that as the dominant existing airline, Australian National Airways (ANA), was 80 per cent owned by UK

shipping companies, Australia could be faced with a private, overseas-owned monopoly. The government decided that interstate airline operations should be conducted by a single entity owned by the Commonwealth. Supporting reasons for Commonwealth control were the encouragement of trade and commerce between the States, development of territories, promotion of airmail carriage and maintenance and development of the Defence Force.

The ANAC was created in 1945 under the *Australian National Airlines Act 1945*, to trade as TAA, with a monopoly over interstate routes. Licences held by the three existing competing airlines were withdrawn. However the monopoly over interstate air operations was declared invalid by a High Court ruling in 1946, and TAA began operations in September 1946 in competition with the existing airlines.

TAA operated effectively and profitably to the detriment of its major competitor. In consequence, a series of Acts were passed from 1952 on, formalising the two airline policy. These were designed to remove any advantages TAA had by virtue of government ownership, and to regulate competition between TAA and Ansett-ANA through capacity control, controls on type of aircraft purchased, on routes flown and on fares.

The regulations resulted in a deterioration in the profitable operations of TAA. Its market share was reduced due to its exclusion from intrastate operations, government restrictions on aircraft purchases and inadequate access to capital. Also, the airline was subject to heavy demands for dividends.

It has been frequently argued that the duopoly resulting from the two airline policy had adverse effects on consumers. Kirby (1984) estimated that costs were almost 6 per cent higher than in the case of a hypothetical three airline policy with identical service arrangements, including parallel scheduling. Costs were estimated to be some 20 per cent higher than they would have been had the duopoly abandoned parallel scheduling, and operated with departures halved and aircraft size doubled.

Capital injections in 1982–83 and new legislation in 1984 provided some improvement in Australian Airlines' position. Of interest in the current context are the provisions of the 1984 legislation that Australian Airlines should set profit and dividend targets based on commercial criteria, and submit annual three-year rolling corporate plans. The airline was also given the discretionary right to request an increase in capital if commercially justified. As with Qantas, exemption from Loan Council control over Australian Airlines' borrowings is being considered in the context of the government's reform package.

Australian Airlines employed a staff of 10 413 in 1989 and the book value of its assets was \$1637 million. It ranked 109th among Australia's largest enterprises (public and private) in terms of assets. In terms of turnover Australian Airlines ranked 86th (Business Review Weekly 1989).

Commonwealth equity in Australian Airlines amounted to \$268 million at June 1989 (table 2.2). Australian Airlines is required to seek Loan Council approval

ltem	:	Equity <sup>a</sup>
Capital base 1946 (interest-l	bearing Treasury advance)	0.7
Capital injections 1946–58 1959 1960 1961 1983		9.0 2.0 1.0 2.3 115.0
Total		130.0
Reserves		43.4
Retained profits		94.8
Total Commonwealth equity	as at 30 June 1989	268.2

#### TABLE 2.2 COMMONWEALTH EQUITY IN AUSTRALIAN AIRLINES

(\$ million)

a. Refers to book values.

Source Australian Airlines (1989).

for borrowings, and these borrowings are subject, as are those of all GBEs, to a charge for the implicit government guarantee. The airline is subject to all relevant business taxes.

The financial performance controls introduced for Australian Airlines under the reform package are similar to those introduced by the 1984 legislation mentioned above. Specifically these required the board to propose a financial target for the following financial year which could be accepted or varied by the Minister, to consult with the Minister prior to recommending a dividend, and to provide regular corporate plans.

In addition Australian Airlines is now required to conduct regular asset revaluations. Annual reports are to be prepared in accordance with the provisions of the *Companies Act*, and there is no specific requirement, as in the case of most GBEs, to report performance against targets in their annual reports. Australian Airlines' current target takes the form of a level of profit to be achieved, based on projections of traffic levels, revenues and costs.

While Australian Airlines' net operating profits, measured on a historical cost basis, have rarely been negative, for the most part profitability has been low in comparison with average private sector returns. Available data on real rates of return suggest the same conclusion. However, performance in historical cost terms has improved markedly following the capital injection of 1982–83.

#### CIVIL AVIATION AUTHORITY

The Civil Aviation Authority (CAA) is a statutory authority set up under the *Civil Aviation Act 1988* to provide regulatory and safety services to the civil aviation industry. It commenced operations on 1 July 1988 and assumed operational responsibility for air traffic control, flight advisory services, communications, navigation and surveillance systems, and rescue and firefighting at airports. While there is now a more commercial orientation than when previously these functions were performed by the Department, safety remains the prime consideration. Certain safety services will continue to be paid for by the government, rather than charged to the aviation industry; these include the development and implementation of safety standards, monitoring compliance with these standards, maintaining search and rescue capability, and undertaking search and rescue. As well, at the time of writing it appeared that the military will not be required to pay for CAA services.

Assets valued at \$455 million were transferred to the CAA, together with liabilities of \$87.2 million, for a net initial asset value of \$367.8 million, of which \$150 million was treated as a loan, the remaining \$217.8 million being the Commonwealth's equity. Commonwealth equity as at June 1989 totalled \$248.7 million.

The CAA is required to provide three-year financial and corporate plans, to be updated annually. The Minister is empowered to direct a variation in the financial plan (Department of Transport and Communications 1989). The CAA's annual borrowing program is required to be approved by the Loan Council.

As at 30 June 1989, the CAA had assets of \$589.8 million and employed 7118 staff (CAA 1989). In its first year of operations the CAA earned revenue of \$561 million, and an operating profit of \$44.7 million. The Minister accepted the board's recommendation that no dividend be paid for 1988–89 (CAA 1989). The CAA is not liable for income tax, but is subject to fringe benefits tax, sales tax, customs duty and payroll taxes.

#### FEDERAL AIRPORTS CORPORATION

The Federal Airports Corporation (FAC) is a statutory authority, set up under the *Federal Airports Corporation Act 1986* to operate and develop Federal airports and associated facilities and services, and to provide consultancy services to other airport operators within Australia and overseas. It commenced operations on 1 January 1988 and operates 23 federal airports, mainly capital city primary and secondary airports.

Commonwealth equity in the corporation was established at \$648 million and at March 1989 stood at \$717.5 million. In the year to 31 March 1989 the FAC generated revenues of \$248.3 million and earned an operating profit of \$43.7 million. Some 62 per cent of revenue was from property leases and commercial trading, rather than from aeronautical sources (FAC 1989).

In line with the reform package, the FAC has provided a three-year corporate plan to the Minister. The FAC has a financial target of a 7.5 per cent real rate of return on assets, and in the year to 31 March 1989 achieved a rate of over 7 per cent. A dividend of \$12.8 million was paid to the government. The FAC is not required to pay income tax, but is liable for State payroll taxes.

As at 31 March 1989, the FAC had assets with a book value of \$1175 million and employed 1206 staff.

In establishing the initial asset valuation for the FAC, a discounted cash flow model (of the stream of future net income) was adopted, in preference to a commercial valuation of all assets taken over, including airport land. Had the latter method been adopted, a commercial rate of return would have necessitated either subsidy or increased charges.

#### AUSTRALIAN NATIONAL LINE

The Australian National Line has since 1 July 1989 operated as a public company, ANL Limited, wholly owned by the government. Previously ANL had been operated by a statutory authority, the Australian Shipping Commission. ANL is involved in commercial shipping in competition with private shipowners and other transport operators on coastal and international trade routes, in both liner and bulk trades. Foreign competition on the coastal trade has been limited by restrictive conditions applying to overseas vessels. ANL, through a 60 per cent owned subsidiary, National Terminals (Australia) Limited, is also one of Australia's two main container terminal operators. In addition ANL provides comprehensive door-to-door services for domestic and international customers, and operates one of Australia's largest shipping agencies servicing several overseas shipping lines.

ANL was established by Act of Parliament in 1956. (A brief history of ANL is contained in Department of Transport 1986). It was set up to take over the maritime fleet acquired during and after World War II to counter a shortage in Australian shipping. ANL was 'to provide efficient coastal services, operate at a profit, dispose of the old and inefficient vessels acquired during the war and develop an Australian merchant fleet to meet ongoing national needs' (May Statement).

ANL had a precedent in the Australian Commonwealth Line of Steamers (ACLS) which was established in 1916 to maintain shipping services abandoned by private operators as a result of World War I. By the end of the war ACLS had become one of the world's largest lines operating a profitable coastal and international passenger and cargo service. With the return of British shipping in the post-war period ACLS incurred losses; its fleet was progressively sold off until in 1928 the line was completely sold to a British conference line. It had been considered inefficient by the government of the time (Evatt 1988).

It has been argued that the consequences of the sale of ACLS were monopoly exploitation of Australian shippers and importers through high freight rates (Evatt 1988), and a lack of merchant shipping at the outbreak of World War II. As a result the Commonwealth re-entered the shipping area, providing both shipbuilding and shipping services.

These wartime measures were consolidated with the establishment in 1946 of the Australian Shipping Board to operate the government's ships. Subsequent attempts by the Menzies Government to disband the government line were unsuccessful, and influenced by public opinion, the government established the Australian Coastal Shipping Commission in 1956, which operated from 1957 as ANL.

Accompanying legislation, the Australian Coastal Shipping Act 1956, was introduced to standardise government and private shipping. The Commission became responsible for the establishment, maintenance and operation of shipping services for the carriage of passengers, goods and mail within and between Australia and other countries. ANL began international liner services in the late 1960s, and entered the international bulk trades in the latter half of the 1970s.

Amendments to ANL's legislation in 1968 enabled the line to enter into joint ventures with other Australian and overseas shipping companies. It was expected that ANL

- could support Australian trading interests or provide Australian shippers special services not previously catered for by a Conference; and
- would provide a closer insight into the costs and conditions of operating in overseas shipping (Department of Transport 1986).

It has been argued that ANL's operations in the years to the early 1980s were hampered by government directives which reduced profitability, and by lack of government support and government equity (Evatt 1988). However, during the 1980s, the Australian shipping industry has been the subject of a number of government initiatives aimed at increasing the competitiveness, efficiency and reliability of Australian shipping. Government financial assistance has been provided to shipowners purchasing modern ships with significantly reduced crewing levels, and under the latest initiative, to assist in reducing crew sizes on existing ships. ANL has been a major beneficiary of these initiatives. ANL's past performance has also benefited from government policies relating to cabotage, Tasmanian Freight Equalisation, and ship import regulations.

Approximately 4 per cent of the tonnage of Australia's overseas trade is carried by Australian flag ships. ANL is Australia's second largest shipping operator, and the only one which is important in the overseas liner trades. Of its 14 ships, seven provide overseas liner services, one is in the international car carrier trade and two are in overseas bulk trades.

Item	Equity <sup>a</sup>
Capital base 1956	32.9
Capital injections	
1965	3.0
1983	90.0
1985	70.5
Total	196.4
Reserves and minority interests	30.3
Accumulated losses	60.9
Total Commonwealth equity as at 30 June 1989	165.8

# TABLE 2.3 COMMONWEALTH EQUITY IN ANL (\$ million)

a. Refers to book values.

Source Australian Shipping Commission (1989).

In its first complete year of operations in 1958, ANL had assets of \$43 million and employed a staff of 1911. In 1989 the enterprise's assets were \$389 million and 1432 staff were employed.

Commonwealth equity in ANL as at June 1989 was \$165.8 million. Since its establishment in 1956 with a capital base of \$32.9 million, ANL has received government capital injections as shown in table 2.3. Two-thirds of the total injections of \$163.5 million represented conversion of loan capital into equity as part of a capital restructuring program. All borrowing requirements have been subject to Loan Council controls, though these controls are under review as in the case of the other competitive GBEs, Australian Airlines and Qantas. ANL pays all relevant taxes.

ANL's financial guidelines prior to the reform package required it 'to function as a commercial enterprise and make profits sufficient to pay the Commonwealth a reasonable rate of return' (sections 17 and 18 of the *Australian Shipping Commission Act*). The Australian Shipping Commission determined a profit level as a financial target each year.

In line with the 1988 reform package, ANL is also required to submit regular corporate plans, and to work towards an agreed financial target, consult on dividends proposed, revalue assets on a regular basis, and report on performance against targets in its annual report. Under ANL's current plan the company aims to achieve 'improved profitability and an improved return on assets', and to develop funding arrangements 'aimed at avoiding the high gearing difficulties experienced in the early 1980s' (Australian Shipping Commission 1989, 5).

While ANL's profit position has improved since restructuring and capital injections in 1983 and 1985, operating profits, using book values, have been negative in five of the past 12 years, and accumulated losses amount to \$60.9 million. Real rates of return calculated for ANL also indicate a poor profit performance (Senate Select Committee on Statutory Authority Financing 1983).

#### AUSTRALIAN NATIONAL RAILWAYS

The Australian National Railways Commission (AN) was established in 1975 by the *Australian National Railways Act 1975* to take over the former Commonwealth, Tasmanian and South Australian (non-metropolitan lines only) rail systems. However, responsibility for all operations was not assumed until 1 March 1978.

AN operates under the Australian National Railways Commission Act 1983 which replaced the inaugural Commonwealth Railways Act 1917. The Australian National Railways Commission Act 1983 was amended in December 1988 to remove most remaining day-to-day controls by the government on AN's operations, in line with the May 1988 statement.

Commonwealth involvement in the provision of rail services dates from 1917, the direct result of a pre-federation commitment to Western Australia to operate a trans-Australian rail system connecting Western Australia with the eastern States. The Trans Australian Railway was completed in that year and run by the Commonwealth Railways. The aims of the 1975 consolidation were to achieve the benefits of a common management and operational policy, rationalisation of services and practices, and a coordinated capital works modernisation program.

As a result of large deficits incurred in AN's early years, a Parliamentary inquiry was held (Australia, Parliament 1982) which recommended substantial changes in AN's objectives, and changes in the 1917 Act under which AN operated. The House of Representatives Standing Committee emphasised the need for commercial objectives, and the clear separation of commercial activities from activities now referred to generally as community service obligations (CSOs). (The term 'public service obligations' used in the Committee's report covered both CSOs and costs of public ownership, such as AN's having to bear superannuation costs higher than would the private sector.) This led to the new legislation of 1983, which was designed to provide a legal environment conducive to more commercial operations.

AN's operations are now divided into commercial and non-commercial activities. Its commercial operations are concerned with mainland freight, where AN competes with road transport. Its non-commercial operations, mainland passenger services and Tasrail, form part of AN's community service obligations and are separately funded by the government. In these areas AN is unable to compete successfully on a commercial basis with alternative forms of transport. The obligation to continue the services for wider economic and social reasons is the basis for the current community service obligations.

Source	Funding <sup>a</sup>
Capital on establishment 1975	320.5
Additional capital	2.7
Total	323.2
Accumulated losses as at 30 June 1989	147.9
Total Commonwealth equity as at 30 June 1989	175.3
Cumulative revenue, CSOs and interest supplement, 1977–78 to 1988–89	842.0
Commonwealth loans as at 30 June 1989	210.7

#### TABLE 2.4 AN FUNDING SOURCES (\$ million)

Source Australian National Railways (1989).

a. Refers to book values.

Under the Act of 1917, AN had been required to pursue policies designed to ensure a profit. The new Act of 1983 appears to have resulted in improved efficiency and a substantially reduced revenue supplement for AN. In 1988-89 the supplement was \$51 million (\$9 million for commercial operations and \$42 million for CSOs). This compares with a high of \$102 million (\$106 million including interest subsidy) in 1982-83. The 1989–90 supplement was \$60.3 million.

Some details of AN's funding are in table 2.4. Recently the Commonwealth agreed to provide \$18.7 million in interest-free loans for investment in AN's South Australian workshops. AN remains subject to Loan Council controls, but the *Australian National Railways Commission Act 1983* has been amended to allow AN to undertake borrowings, within approved global limits, without reference to the Government. AN has been liable for State payroll taxes from 1 July 1988. A timetable has not yet been agreed for the removal of AN's remaining exemptions from taxes and charges.

AN's financial obligations prior to the reform package required it 'to make profits each year sufficient to pay a reasonable return to the Commonwealth each year as determined by the Minister (Section 57 of the *Australian National Railways Commission Act*) with an interim target to break even on commercial services by 1988-89'.

The reform package has imposed on AN similar financial obligations to those for the other GBEs, requiring submission of a regular corporate plan, commitment to a preset target, and regular asset revaluation. There does not appear to be any specific obligation to report performance against targets in the annual report. AN's financial objectives, revised in line with the reform package, are stated in the 1988-89 *Annual Report* as follows:

- to earn sufficient surplus from operations to sustain the commercial business, to provide for investment needs and to ensure continued long term growth;
- to generate an appropriate return on assets employed; and
- to obtain continuing financial support from government for community service obligations adequate to sustain their long term viability as efficient operations or, where this support is not forthcoming, to phase them out (Australian National Railways 1989, 12–13).

AN commenced operations in 1978 with 13 041 staff (approximately 11 650 excluding staff 'made available' to Adelaide metropolitan operations). AN now employs 6648 staff (excluding 'made availables') and has assets with a book value totalling \$795 million.

#### TELECOM

Set up under the *Telecommunications Act 1975* as the Australian Telecommunications Commission, Telecom has been converted to a corporation (from 1 January 1989), the Australian Telecommunications Corporation.

Telecom was established as a self-financing statutory authority to take over the telecommunications functions of the Postmaster-General's Department. It operated as sole supplier of telecommunications transmission services in Australia with responsibility for regulation and management of the network, and was established largely as an engineering organisation, directed to the task of expanding and modernising the national telephone system (Department of Transport and Communications 1988). The principal policy objective pursued under the Act of 1975 was 'the provision of telephone services throughout Australia on a non-discriminatory, uniform basis at affordable prices'.

Telecom's initial monopoly over all aspects of national telecommunications has recently been subject to considerable challenge. This has resulted from both demand and supply effects of changing technology, from increased demands on the system, particularly from the business community, and from the influence of precedents established overseas where telecommunications networks have been opened to increased competition, Such competition is seen as a means of improving service quality and reducing costs, rather than as a cause of increased costs due to duplication, as was the conventional wisdom.

Telecom's monopoly has already been eroded to a limited extent by outside provision of equipment for attachment to the network, and by alternative dedicated facilities for larger users supplied by AUSSAT post-1984.

Following a governmental inquiry into these issues in 1987–88, new policy objectives for Telecom, and a number of reforms to facilitate these objectives, were announced on 25 May 1988.

The new objectives were:

- to ensure universal access to standard telephone services throughout Australia on an equitable basis and at affordable prices, in recognition of the social importance of these services;
- to maximise the efficiency of the publicly owned telecommunications enterprises — Telecom, OTC, AUSSAT — in meeting their objectives, including fulfilment of specific community service obligations and the generation of appropriate returns on investment;
- to ensure the highest possible levels of accountability and responsiveness to customer and community needs on the part of the telecommunications enterprises;
- to provide the capacity to achieve optimal rates of expansion and modernisation of the telecommunications system, including the introduction of new and diverse services;
- to enable all elements of the Australian telecommunications industry (manufacturing, services, information provision) to participate effectively in the rapidly growing Australian and world telecommunications markets; and
- to promote the development of other sectors of the economy through the commercial provision of a full range of modern telecommunications services at the lowest possible prices.

To assist in achieving these objectives, Telecom has been restructured as a corporation, and has become subject to competition in areas of value-added services and customer services equipment. Its self-regulatory functions have been assigned to an independent monitoring authority, the Australian Telecommunications Authority (AUSTEL). The monopoly over the basic telecommunications network is to remain, however, partly to ensure provision of the CSOs imposed by the enabling legislation. These social objectives are specified in the new legislation relating to Telecom, the *Telecommunications Corporation Act*, which came into force on 1 July 1989.

The telecommunications and postal services of the Commonwealth government resulted initially from constitutional responsibilities. Power over these areas passed from the States to the Commonwealth in 1901. Government control in the first instance, that is, prior to 1901, could have been justified on the grounds of externalities arising from a secure and reliable service, economies of scale, and for income distribution reasons. Currently there exists some debate as to the natural monopoly status of telecommunications suppliers. Evatt (1988) states 'it can be tentatively concluded that the telecommunications industry (both in the main carriers market and in the equipment and services areas) is most likely to be characterised as a natural monopoly'. Irrespective of this, government policy recognises that the 'social and community importance that the telephone system had assumed should not be threatened in any moves towards greater efficiency, deregulation or liberalisation' (Department of Transport and Communications 1988).

Telecom ranked 11th among Australia's largest enterprises (public and private) in the Business Review Weekly list 'The Top 1000' in terms of both assets and turnover. In 1989 it had assets with a book value of \$15741 million and employed an average of 84 104 persons.

Telecom was not provided with equity initially. The difference between the assets and liabilities taken over from the former department was offset by Commonwealth loans. The government's reform package will see conversion of 25 per cent of Commonwealth loans to equity to place Telecom on a more commercial footing. Remaining Commonwealth loans will be replaced gradually by private loans. The level of Commonwealth equity in Telecom was \$3466.2 million in June 1989. Funding from Commonwealth sources is shown in table 2.5.

While Telecom had no dividend commitments from 1975 it was required to cover all operating expenditure from revenue as well as one-half of capital expenditure. Following the conversion of one-quarter of Commonwealth loans to equity, Telecom will be required to pay dividends to the government. A rate of return target for 1989–90 has been set, to be achieved in conjunction with a price cap on basic services, which limits the average increase in their prices to 4 per cent less than the percentage increase in consumer prices (CPI – 4). Though presently subject to the Loan Council, Telecom's large borrowing requirements are to be accommodated by adjustments to Loan Council procedures to allow

(\$ million)	
Source	Funding <sup>a</sup>
Debt owed to government at Telecom's ince	otion 3 894.2
Commonwealth loans issued at market rates 1975-76 1976-77 1977-78 Subtotal Less loan repayments Net loans <sup>a</sup>	392.0 215.0 65.0 4 566.2 214.0 4 352.2
Reserves, retained profits and minority intere	ests 3 477.9 <sup>b</sup>
Accumulated losses	11.7
Total Commonwealth loans and reserves as 30 June 1989	at 7 818.4

TABLE 2.5	TELECOM FUNDING FROM COMMONWEALTH
	SOURCES

a. Refers to book values.

b. Excludes superannuation provisions.

Source | Telecom (1989).

greater flexibility and more certainty for Telecom, via a three-year rolling program of loans. By 1990-91 Telecom will be subject to all relevant taxes.

Financial controls established under the reform package require Telecom to submit regular corporate plans to the Minister, undertake regular asset revaluations, work towards a preset financial target, and achieve profitability levels comparable with those of similar overseas companies. Performance against those targets is to be indicated in annual reports.

Concerning profitability, on a historical cost basis, Telecom's rate of return was below the private sector average prior to 1984, but has approximated the private sector average in recent years (see chapter 3). The Industries Assistance Commission (now the Industry Commission) has made estimates of performance in real terms. These show negative returns for the years 1975–76 to 1981–82, and low rates in all subsequent years with the exception of 1987–88, when 8.0 per cent was achieved (IAC 1989a). Rae Committee estimates of real rates of return were low but positive, averaging 3.8 per cent for the period 1975–76 to 1981–82.

These figures, based on annual reports, do not include any allowance for Telecom's community service obligations. Had these been allowed for, the rate of return would have been somewhat higher (see chapter 3). Telecom's CSOs were valued for the first time in 1989, and in future financial statements will be explicitly brought to account.

#### AUSTRALIA POST

Australia Post was formally established in 1975 as the Australian Postal Commission by the *Postal Services Act 1975* to take over postal and related service functions of the former Postmaster-General's Department. The Commission was responsible under the Act for the regulation and management of Australia's postal services, which, in effect, gave Australia Post a qualified monopoly on letter mail.

Like Telecom, Australia Post had its origins in a constitutional obligation to provide postal, telegraphic, telephonic and like services from 1901, when State services were transferred to the Commonwealth and administered by the Postmaster General's Department. Reasons for initial Commonwealth involvement outlined for Telecom above apply also to Australia Post.

The 1975 Act required the Commission to perform its functions 'in such a manner as will best meet the social, industrial and commercial needs of the Australian people for postal services and shall, so far as it is, in its opinion, reasonably practicable to do so, make its postal services available throughout Australia for all people who reasonably require those services' (*Postal Services Act 1975*). In practice this has resulted in a CSO to 'provide a universal postal service at a uniform basic rate'. As in the case of Telecom, Australia Post was required by the Act of 1975 to cover operating expenditure and to finance 50 per cent of its capital expenditure requirements. New objectives have been specified in the *Australian Postal Corporation Act 1989*, which converted Australia Post to a corporation with a properly constituted board. The Corporation's 1988–89 *Annual Report* states the major objective as being to earn 'a realistic return on the nation's investment in the postal system'. However, the Corporation retains a major CSO involving the provision of a 'widely accessible' letter service (Australian Postal Corporation 1989, 2).

Australia Post, like Telecom, was established without an equity base, with Commonwealth loans covering the difference between assets and liabilities (table 2.6). Most of its long-term debt has now been repaid. Commonwealth equity in Australia Post, arising principally from revaluation of assets in 1989, currently stands at \$1088.5 million.

The recent reform package requires Australia Post to submit regular corporate plans, work to a preset financial target (expressed in terms of a return on turnover), regularly revalue its assets, pay a dividend, and report on performance against targets in its annual reports.

The reforms also provide for a commercial gearing structure for Australia Post. Borrowings will remain subject to Loan Council controls. Originally set up as a tax-exempt authority, Australia Post will be required to meet full tax liabilities by 1990–91.

Source	Funding <sup>a</sup>	
Debt owed to government at Australia Post's inception	105.2	
Government advances 1975	3.0	
Less repayments	79.8	
Amount outstanding at June 1989	28.4	
General reserve	178.7	
Asset revaluation reserve	909.8	
Total Commonwealth loans and reserves as at 30 June 1989	1 116.9	

TABLE 2.6 AUSTRALIA POST FUNDING FROM COMMONWEALTH SOURCES (\$ million)

a. Refers to book values.

Source Australian Postal Corporation (1989).

19

The profitability of the Corporation, on the basis of historical costs, improved markedly after the losses in 1980–81 and 1981–82, though the 7 to 8 per cent return on assets achieved in 1986–87 and 1987–88 remained below the private sector average of around 10 per cent. In 1988–89, the rate of return on assets fell to under 3 per cent after the revaluation of assets. Available data in real terms suggest very low or negative returns for most of the period, with no evidence of sustained improvement (Senate Select Committee on Statutory Authority Financing 1983; IAC 1989b).

As in the case of Telecom, no amount was imputed in the accounts for the costs of CSOs, and Australia Post's rates of return could have been significantly higher had an imputed value been brought to account. The costs of Australia Post's CSOs are currently being investigated.

Australia Post's monopoly powers have been the subject of recent investigation, and they are by and large to be retained. Some freedom for competitors to carry mail at comparatively high prices has been introduced, however. Pricing remains subject to Prices Surveillance Authority review, and discussions are continuing with Treasury and the Department of Transport and Communications on the extent of Prices Surveillance Authority involvement.

At 1 July 1975, Australia Post employed 35 446 staff and the book value of its assets was \$229 million. In 1989, staff numbers remained at a similar level, at 34 789, while assets had increased to a book value of \$1920 million.

#### OTC

OTC Limited was initially established as the Overseas Telecommunications Commission by the Overseas Telecommunications Act 1946, to operate Australia's external telecommunications systems. Until AUSSAT began operation in 1985, OTC had an undisputed monopoly in this area. Competition from AUSSAT, however, is restricted, and OTC maintains substantial control over external communications. Under the new arrangements for the telecommunications industry, OTC, which has no CSOs, was converted to company status as from 1 April 1989, and became subject to the independent monitoring authority, AUSTEL, as from 1 July 1989.

The Government's involvement in external telecommunications began in 1922 when a 50 per cent interest in Amalgamated Wireless of Australia (AWA) was purchased to pre-empt monopolisation by multinational private companies of an area which, it was considered, should be under government control, but where, it appears, the Commonwealth's ability to provide a competitive service was in doubt (Evatt 1988). AWA operated overseas wireless services in competition with overseas-owned radio and cable services.

Reasons given at the time for government control included the 'safety of lives at sea, the defence of the Commonwealth and the convenience of persons in remote parts of the country' (Evatt 1988). The high priority set on defence and national

autonomy considerations during and following World War II resulted in a consensus that external communications should be government-controlled. This was evidenced by a proposal submitted to the Commonwealth Telecommunications Conference in 1945 to replace the dominance of the Cable and Wireless Company by a group of government-owned companies.

OTC was formed in 1946 as a result, taking over the communications services operated by AWA and the radio-communication assets of the Cable and Wireless Company. That company's cable was not acquired. The Commission became responsible for the establishment, maintenance, operation and development of public communications between Australia and other countries, Australia's external territories, ships at sea, and aircraft operating outside Australia.

The establishment of Telecom and AUSSAT as well as the *Radio Communications Act 1984*, however, affected the clarity of OTC's mandate. The various Acts influenced Telecom, AUSSAT and OTC in many ways, including in particular their respective monopoly powers, and resulted in some confusion concerning their objectives and the extent of competition among them intended by the government. The situation was alleviated by the *Telecommunications Act 1989*, which set out boundaries to the areas reserved for these bodies and delineated the areas open to competition among them. AUSTEL administers these boundaries.

A review of the structural relationships among the three carriers was foreshadowed in the May 1988 reform package. This review has been made more urgent because of concerns over the viability of AUSSAT. The review will canvass a number of options ranging from no change, to possible mergers among the three carriers.

Meanwhile, OTC will continue to be the sole provider of basic network facilities and services for overseas telecommunications, but will be subject to competition in the provision and operation of value-added services. OTC will be subject to greater commercial and external regulatory discipline. Price controls over basic services will be administered by AUSTEL, which will also monitor standards of performance (Department of Transport and Communications 1989).

OTC has been the most profitable of the GBEs with returns to assets and to equity well in excess of private sector averages. Total Commonwealth equity was valued at \$542.2 in March 1989. Capital injections are shown in table 2.7. It is subject to all Commonwealth charges and taxes (income tax since 1971), and has funded much of its investment programs from internal sources.

The financial objectives specified in its enabling legislation required OTC to 'earn sufficient revenue to meet all expenditure chargeable against services and to permit the payment to the Commonwealth of a reasonable return on capital' (section 38A of the *Overseas Telecommunications Act*).

Following the *Telecommunications Act 1989*, OTC will have rate of return targets, to be achieved in conjunction with price caps, to ensure that the maximum

Source OTC (1989).

ltem	Equity <sup>a</sup>
Commonwealth advance 1946	17.5
Capitalised reserves 1971-73 1974-78	17.5 15.0
Capital as at 31 March 1989	50.0
Reserves and minority interests	492.1
Total Commonwealth equity as at 31 March 1989	542.2

# TABLE 2.7 COMMONWEALTH EQUITY IN OTC (\$ million)

possible efficiency gains are achieved and passed on to consumers (Department of Transport and Communications 1989), and will be required to report on performance against targets in its annual report. Corporate plans and regular asset revaluations will be required as for other GBEs. OTC will continue to operate within Loan Council borrowing limits.

In 1989 OTC employed a staff of 2100 and held assets with a book value of \$1144 million.

#### AUSSAT

AUSSAT Pty Ltd was incorporated as a private company in the Australian Capital Territory in November 1981, to own and operate the Australian communications satellite system. It was established to supplement existing telecommunications infrastructure so as to expand the range and availability of telecommunications and broadcasting services, especially those to remote areas. According to AUSSAT's charter, it is to carry on the business of providing Australia with a telecommunications system through the use of satellites and to provide similar services for neighbouring regions. AUSSAT's external operations have been limited to operations within, as opposed to between, other countries. However AUSSAT is to be permitted to provide private network facilities internationally within the limits of its present satellite footprint.

Commercial operations began in 1985. AUSSAT currently has three satellites, and its second generation satellites are to be launched from 1991–92.

Although there had been some private sector interest in operating a broadcasting satellite system, AUSSAT was established as a government-owned company on national interest grounds. While the company's Memorandum and Articles of Association initially required that 49 per cent of company shares be sold to the public, this was precluded by the *Satellites Communications Act 1984* (now renamed the *AUSSAT Act 1984*) which outlined the purpose, objectives and

Item	Equity <sup>a</sup>
Equity capital at inception November 1981	6.0
Capital injections 1982-83 1984-85 1985-86	43.5 41.3 9.2
Total capital (75 per cent Commonwealth 25 per cent Telecom)	100.0
Accumulated losses	78.0
Total Commonwealth equity as at 30 June 1989	22.0

# TABLE 2.8 COMMONWEALTH EQUITY IN AUSSAT (\$ million)

a. Refers to book values.

Source AUSSAT (1989).

constraints under which AUSSAT operates. Since July 1984 the Commonwealth has held 75 per cent and Telecom 25 per cent of AUSSAT's shares. Commonwealth equity in AUSSAT is shown in table 2.8.

AUSSAT's Memorandum and Articles of Association were amended in June 1989 in line with the new telecommunications environment introduced by the *Telecommunications Act 1989.* The Act defines service areas reserved to AUSSAT and the licensing arrangements for non-reserved services. It stipulates that AUSSAT is to have the exclusive right to provide the space segment of Australia's domestic satellite system.

AUSSAT is restricted by Loan Council borrowing controls, and is subject to the full range of government taxes and charges. Its initial financial requirement was to earn a reasonable rate of return on total assets, provide from internal sources a reasonable proportion of capital expenditure to maintain an appropriate debt/equity level and pay a reasonable dividend on paid up base capital' (clause 3, part 11, Memorandum).

The new accountability mechanisms provided in the reform package require AUSSAT to supply regular corporate plans, regularly revalue assets, work towards preset financial targets and report on performance against targets in annual reports.

In 1989 AUSSAT employed a staff of 284 and held assets with a book value of \$537 million. AUSSAT recorded continual losses until 1988–89, when it earned a modest operating profit. AUSSAT's poor profit record and problems with its capital structure (its gearing was 96:4 at 30 June 1989) has led to consideration of merging AUSSAT with one or both of the other telecommunications GBEs. The government in May 1990 decided upon a further capital injection of \$100 million to AUSSAT.

### CHAPTER 3 FINANCIAL PERFORMANCE: CONVENTIONAL ACCOUNTING BASIS, 1977–78 TO 1988–89

The following discussion relates to performance measures based on conventional accounting (book value) data. Data for the government enterprises were derived from published annual reports for the period 1977–78 to 1988–89. For AUSSAT, which began operations in November 1981, the data cover the time period 1982–83 to 1988–89. All data refer to the group rather than the parent company. For the private sector, most of the financial data are derived from the Reserve Bank of Australia's 'all industrial' average, and relate to publicly listed companies and some large private companies. The results are for the years 1978 to 1986. Because the Reserve Bank data are not available beyond 1986, the Stock Exchange 'all companies average' is used to provide a series for earnings before interest and tax (EBIT) to total assets for the period 1977–78 to 1987–88, and for various other parameters for the period 1984–85 to 1987–88. (See appendix II for details of sources of data on the private sector.)

A number of performance measures have been calculated on this basis for the transport and communications GBEs for the 12-year period 1977–78 to 1988–89, and for the private sector for the period 1977–78 to 1987–88, and the results are presented in appendix II. The different performance measures are defined in appendix III.

Some information on financial performance in real terms is available, notably from the report of the Senate Select Committee on Statutory Authority Finance (1983) and from recent calculations by the Industries Assistance Commission, and these 'real' measures are discussed in the next chapter.

The data provided in this and the following chapter serve several purposes. First, an awareness of past trends is an important prerequisite for assessing future performance of the GBEs; second, the data provide some basis for comparing the performance of individual enterprises with those of similar or average private sector firms and possibly, therefore, show the scope for improved performance; and third, past performance data will arguably be a consideration in establishing meaningful targets for the GBEs, particularly in the short term. In addition, analysis of the historical performance data may provide some assistance in deciding which of the various performance measures appear most useful, and in identifying problems inherent in their use. Policy makers may also be able to
gauge, from the volatility of results, the appropriate number of years over which averaging would be required to yield sensible trends.

#### PROBLEMS IN INTERPRETING CONVENTIONAL ACCOUNTING DATA

In interpreting the data and financial results, caution is required. Differences in capital structures, accounting methods, tax treatment and community service obligations result in considerable variations in results among enterprises, and over time for individual enterprises, making comparisons possible only within broad limits.

The capital structures of the GBEs have varied considerably over time and among enterprises. This is further discussed below.

The accounting differences relate to frequency of revaluation of assets, methods of treating write-offs and extraordinary items, treatment of leases, capitalisation of interest, treatment of foreign exchange dealings, depreciation practices, policies regarding provisions for income tax and other liabilities, and a range of others of lesser importance. Many of these would have had only a minor impact on the profitability ratios; others, however, have resulted in large changes in profits and asset values. This was certainly the case with bringing financial leases onto balance sheets under the new accounting standard of 1987, AAS 17 (Australian Society of Accountants 1987), and also, for example, with the cessation of Australian Airlines former practice of capitalising and amortising interest on aircraft loans.

The differences in tax treatment of the ten GBEs are set out in appendix IV.

In addition, the need to satisfy certain community service obligations (CSOs) may have resulted, for some GBEs, in lower returns which do not indicate poorer performance. With the exception of AN, which receives an explicit supplement for its CSOs, the revenue and profit measures in appendix II do not include any adjustments or allowances for CSOs, which in the main are funded by internal cross-subsidisation.

Profitability ratios are particularly susceptible to variations in asset values. Rates of return on total assets are directly affected by the resulting changes in the denominator, while rates of return on equity are indirectly affected through the influence of changing asset values on shareholder equity. (The book value of shareholders' equity is the residual of total assets less the debt of the enterprise.) Hence problems will arise in times of changing price levels or of technological progress, if there are inconsistencies, either across GBEs or within a particular GBE, in revaluing assets in the accounts to reflect more accurately the current values of the assets.

Under conventional accounting practice, the numerator of the profitability ratio is unlikely to be affected by revaluations. Increases in asset values due to revaluations are not included in standard measures of profits, although decrements are included (Australian Society of Accountants 1983).

The varying effects on the level of shareholders' equity, and hence on rates of return on equity, of different asset revaluation practices among the GBEs will be aggravated by any lack of uniformity in their capital structures. Where an enterprise is highly geared, a given change in equity as a result of an asset revaluation will have a much more dramatic effect on the rate of return to equity than in the case of an enterprise with a lower gearing. As capital structure in fact varies significantly among GBEs, the usefulness of rates of return to equity for comparing financial performance among GBEs, or for any one GBE over time, is limited.

Because of the importance of these factors, the nature of the GBE assets and asset revaluation practices, and the capital structures of the GBEs and their effects on profitability, are discussed prior to presenting the financial performance data. The data subsequently presented include financial aggregates which show the relative size of the GBEs, and profitability ratios indicating returns to total assets and to equity. The dividend payment record of the GBEs is also noted. Data on the aggregates and the various ratios are presented in appendix tables II.1 to II.13, and the ratios are graphed for each GBE in figures 3.1 to 3.20.

#### THE VALUES OF GBE ASSETS

Following the 1988 reform package, the GBEs will be required to revalue their assets at least once every five years, in accordance with prevailing commercial practice. In the years for which financial data are presented in this chapter, however, no procedures for regular revaluations existed. For a number of the GBEs there are theoretical problems which would need to be resolved to assign current values to some of their assets. These relate to the choice as between replacement cost, market value, reproduction cost, or use value. As well, there may be practical difficulties: there may be no ready market for specific assets (permanent way, communications plant and cable); market prices may be particularly volatile (ships); and technology may be changing rapidly, rendering replacement costs of long-lived assets difficult to estimate.

#### Asset revaluations by the GBEs

Within the 15 years prior to the reform package, only five of the transport and communications GBEs undertook significant revaluations of their assets, and then only infrequently. Revaluations have been carried out by an independent source or at directors' valuation. The types of assets revalued have varied among the GBEs and revaluations have often related to assets specific to each GBE.

In the private sector, accounting standards require that company accounts give a true and fair view of the state of affairs and of the profit of the company. It has therefore become common practice for assets to be revalued periodically (Australian Society of Accountants 1974). Some companies, for example

Brambles, have tended to revalue every three years. Others, for example, Elders IXL, CRA, CSR and Boral, have revalued their assets annually, at least over certain periods.

Qantas revalued its land and buildings in 1985–86, after the sale of the Qantas International Centre. The revaluation resulted in a 6.8 per cent increase in the value of its remaining land and buildings.

Australian Airlines' revaluations in 1980–81 and 1981–82 (of freehold land) were less than 1 per cent of the value of total assets in each case. These were at directors' valuation.

ANL in 1984–85 revalued the vessels it had placed on the market for sale. The revaluation constituted a 14.3 per cent decline in the value of its vessels. Since decrements in asset values arising from revaluations enter the profit and loss statement, these may constitute an additional problem in comparing performance among enterprises.

OTC in 1980--81 revalued its satellite systems and in 1981-82 all its fixed assets. The first revaluation increased the value of assets by 8 per cent, and the second by 54.9 per cent. Telecom's communications plant was revalued in 1975.

Asset values for the Civil Aviation Authority and the Federal Airports Corporation were determined when these GBEs were established.

The effects of asset revaluations on rates of return can be illustrated by reference to Australia Post, which revalued its assets at the time of its incorporation. At June 1988, Australia Post's assets were valued at \$855.1 million, and at June 1989, \$1920.4 million, \$845.3 million of the increase coming from the revaluation of fixed assets, principally land. The rate of return to total assets in 1988–89 was 2.7 per cent, based on revalued assets, but would have been almost twice as high at 4.8 per cent, if based on the previous asset valuations.

#### Adequacy of asset revaluations

When judging the adequacy of revaluations it is important to consider the composition of the GBE's assets. The type of asset will influence the likely discrepancy between book value and current value, while the consequences of failure to revalue any particular asset will depend on the proportion of total assets which it constitutes.

A breakdown of the fixed assets of the GBEs at 30 June 1989 is shown in tables 3.1 and 3.2, in terms of the percentage the individual items form of the total asset base.

In the case of the airlines, most assets would appear to have identifiable market values. However market values for aircraft may be quite volatile, such that regular revaluations could complicate the interpretation of financial performance. Nevertheless, while the average age of aircraft assets tends to be relatively low

(per cent)						
Assets	Qantas	AA	ANL	AN	CAA	FAC
Buildings	4.1	3.2	2.5	7.4	29.1	23.3
Land	1.7		0.9	0.5	6.3	22.0
Leased assets	18.8	42.3	14.0			
Motor vehicles			••	5.2	2.6	
Plant and equipment	2.9	4.6	16.2 <sup>b</sup>		22.3	46.8
Work in progress				5.4	9.6	
Aircraft and spares	14.1	28.0			5.4	
Vessels			16.0			
Progress payments	14.4					
Rolling stock				16.2		
and facilities				52.9		
Total fixed assets	55.9	78.1	49.5	87.8	75.3	92.1

### TABLE 3.1 DISAGGREGATED TRANSPORT GBE FIXED ASSETS AS A PERCENTAGE OF TOTAL ASSETS, 30 JUNE 1989<sup>a</sup>

a. Book values as shown in table 3.4.

b. Furniture and equipment and plant and cargo gear.

.. Not applicable.

Sources Australian Airlines (1989); Australian National Railways (1989); Australian Shipping Commission (1989); CAA (1989); FAC (1989); Qantas (1989).

(recently between five and ten years), this is still sufficient time for large discrepancies to arise between market values and depreciated historical costs. ANL has similar problems in valuing its major assets, prices of which are subject to the vicissitudes of the international shipping market.

With 53 per cent of assets in permanent way and facilities, where the valuation could vary significantly with different valuation methodologies, AN presents problems for financial analyses based on returns to total assets. In consequence, other financial performance indicators and non-financial indicators of performance are likely to be more important for AN.

A high proportion of Australia Post's assets is constituted by land and buildings, some of which are hard to value because of associated national heritage considerations, or community service obligations surrounding their use.

The dedicated or non-marketable nature of much of Telecom's communications plant, which represents a high proportion of its assets, introduces scope for considerable variation in the values assigned to assets, again creating difficulties in interpreting rates of return. AUSSAT's (leased) satellite systems comprise almost 40 per cent of total assets, and are valued at cost. Realistic values for these satellites, based on earnings potential for example, are likely to be very different.

N ,						
Telecom	отс	Aussat	Australia Post			
9.9	10.0	0.6	20.2			
1.1	8.1		52.1			
0.1		38.9				
			2.8			
7.2 <sup>b</sup>	17.4 <sup>b</sup>	1.2	7.5			
		2.6				
64.6						
	19.4					
		17.2				
	••	2.5				
		8.3				
82.9	54.9	70.4	82.6			
	<i>Telecom</i> 9.9 1.1 0.1 7.2 <sup>b</sup>  64.6     82.9	Telecom OTC   9.9 10.0   1.1 8.1   0.1    7.2 <sup>b</sup> 17.4 <sup>b</sup> 64.6     19.4       82.9 54.9	Telecom OTC Aussat   9.9 10.0 0.6   1.1 8.1 0.1   0.1  38.9   7.2 <sup>b</sup> 17.4 <sup>b</sup> 1.2     2.6   64.6      19.4     2.5      8.3   82.9 54.9 70.4			

#### TABLE 3.2 DISAGGREGATED COMMUNICATIONS GBE FIXED ASSETS AS A PERCENTAGE OF TOTAL ASSETS, 30 JUNE 1989<sup>a</sup>

(per cent)

a. Book values as shown in table 3.4.

b. Plant, furniture and motor vehicles.

Not applicable. ..

Sources AUSSAT (1989); Australian Postal Corporation (1989); OTC (1989); Telecom (1989).

#### TABLE 3.3 GBES' CAPITAL STRUCTURE AT 30 JUNE 1989, BOOK VALUES

1\$	million	)
ιΨ		,

GBE	Assets	Equity	Debt	Capital gearing ratio <sup>a</sup>
Qantas	4 569.6	916.5	3 653.1	80:20
Australian Airlines	1 636.9	268.2	1 368.7	84:16
ANL	389.2	165.8	223.4	57:43
AN	794.6	175.3	619.3	78:22
Telecom	15 741.4	3 466.2	12 275.2	78:22
OTC	1 143.5	542.2	601.3	53:47
AUSSAT <sup>b</sup>	537.1	22.0	515.1	96:04
Australia Post	1 920.4	1 088.5	831.9	43:57
FAC	1 174.5	717.5	457.0	39:61
CAA	589.8	248.7	341.1	58:42

a. Total debt to equity.b. The recently announced equity injection of \$100 million will substantially reduce this ratio.

Sources BTCE estimates based on data from 1989 annual reports.

#### CAPITAL STRUCTURE

Capital structure varies considerably among the GBEs, and capital structure ratios can be very different from typical ratios in the private sector. While private sector gearing ratios have increased markedly since the early 1970s, many of the GBEs still have ratios which are high in comparison. There are several reasons for these relatively high gearings in the GBEs, including the ability of low risk enterprises to avail themselves of high levels of debt, the effect of government guarantees, low profitability preventing build-up of equity, failure to revalue assets, and the inability to raise equity capital independently. On the other hand, the requirement for some GBEs to finance development from internal sources has tended to lower ratios. Such differences in capital structure can have important consequences for returns to equity ratios (see table 3.5 and related discussion below).

As indicated earlier, capital structure will be influenced by the effect of any revaluations of assets on equity. In the private sector if asset revaluations are undertaken regularly and based on market prices, the book value of equity will reflect the market valuation of the net worth of the firm. However, where asset revaluations are not undertaken, the residual book value of equity may seriously underestimate its true market value, and result in an overestimate of equity-based rates of return. Table 3.3 displays the capital structure of the various GBEs at the end of June 1989.

Specific measures of capital structure include the capital gearing ratios, debt to equity and interest-bearing debt (IBD) to equity, and the income gearing ratio, earnings before interest and tax (EBIT) to interest. The capital gearing position of the GBEs is graphed in figures 3.1 to 3.4 and their interest cover position is shown in figures 3.5 and 3.6.

These capital structure and interest cover ratios vary considerably among the GBEs. OTC has been characterised by high interest cover, low IBD to equity ratio, and debt to equity ratios equal to or below 65:35. Telecom's ratios have generally been outside private sector averages. The viability of these ratios, however, is affected by the low-risk market in which Telecom operates. Australia Post's position is unusual because on its establishment in 1975 it was not provided with equity capital. It received Commonwealth loans to offset the difference between assets and liabilities, and most of these loans have now been paid off. This has resulted in high interest cover in most years, a low IBD to equity ratio, but a high total debt to equity ratio.

AUSSAT's gearing ratio, in excess of 23:1 at 30 June 1989, was exceptionally high, but will be redressed to some extent by the \$100 million capital injection announced in May 1990. The high ratio has resulted from the continuing losses during AUSSAT's development stages.









Figure 3.4 Interest-bearing debt as a percentage of total assets, communications GBEs







Figure 3.6 EBIT<sup>\*</sup> to interest, communications GBEs

The special conditions applying to AN, whereby losses are offset by Commonwealth revenue supplements, have resulted in viable debt to equity ratios, but negative interest cover.

ANL's position has changed dramatically over the period with fluctuations resulting from relatively high capital injections and volatile profits. Currently the capital structure ratios, debt to equity and IBD including leases to equity, are close to Australian private sector averages. Interest cover has been in the range of 1 to 3 in the period since 1984–85.

For Australian Airlines and Qantas capital structure ratios have tended to be higher than those for comparable airlines or the private sector, and interest cover ratios lower, though the different use of operating and financial leases by airlines in particular makes comparisons difficult.

The appropriate debt to equity and interest cover ratios for an enterprise depend on a number of factors including the nature of its business, its assets and cash flow, and level of risk. In the case of the GBEs, a further factor is whether loans are implicitly guaranteed.

The government's May 1988 reform package for the GBEs included measures to bring about immediate improvements in the capital structure of Telecom and Australia Post, designed to place them on a more commercial basis. The appropriate capital structure for Australian Airlines and Qantas was to be considered by an Australian Labor Party committee inquiring into the airlines' full range of capital raising options. Concurrently, the issue of government guarantees and their effect on capital structure is being explored along with the question of whether some GBEs should be exempted from Loan Council controls.

#### FINANCIAL PERFORMANCE DATA

The financial data presented below include various financial aggregates, profitability ratios, and dividend ratios. Data on all aggregates and the various ratios are presented in appendix tables II.1 to II.13, and the ratios are graphed for each GBE in figures 3.7 to 3.20.

#### Financial aggregates

The aggregates in the tables in appendix II include the book values of assets, equity, paid-up capital, revenue, expenses, various profit measures and dividends.

The tables show movements in these aggregate values over the 12-year period 1977–78 to 1988–89. They thus indicate the size of each of the GBEs, most importantly in terms of total assets, turnover and total profits, and provide the basic data for calculations of performance measures such as profit margins or rates of return. An obvious difficulty with aggregate measures is the extent to

which they are distorted over time by inflation. Table 3.4 shows the major financial aggregates for the GBEs in rank order of total assets.

#### Book value of total assets

The figures in table 3.4 include asset revaluations carried out by a number of the GBEs in response to the requirements of the 1988 reform package. As indicated earlier, prior to the reform package, the GBEs valued assets at historical cost or on the basis of periodic revaluations.

Telecom is by far the largest of the GBEs in terms of the book value of total assets (\$15 741 million in 1988–89), followed by Qantas with \$4570 million, almost one-third the size, Australia Post with \$1920 million and Australian Airlines somewhat more than one-third the size of Qantas at \$1637 million. The remainder have assets within the range \$389 million to \$1175 million. By comparison, in 1978, ANL and AN ranked behind Qantas in third and fourth position.

#### Turnover

The ranking on the basis of turnover is the same as that on assets for the largest four enterprises. The Federal Airports Corporation has a relatively low turnover to assets ratio, while in ANL, turnover is proportionally high relative to assets.

#### Profits

Profit before tax (EBT) in 1988–89 was highest for Telecom, followed by OTC, Qantas, Australian Airlines, Australia Post, Civil Aviation Authority, Federal Airports Corporation, ANL and AUSSAT. AN recorded a loss. In summary, for 1988–89, nine out of ten GBEs recorded positive operating profits; however six of the nine were basically monopolies and the others, the airlines and ANL, were partially protected from competition.

Looking at pre-tax profits over the 12-year period, the story is similar to that for 1988–89. Telecom has been consistently profitable, with increasing profits, on average, over the period. Moreover, these profit figures do not include any allowance for Telecom's CSOs, estimated variously, at between \$120 million to \$270 million by the BTCE and \$508 million to \$800 million for 1987–88 by Telecom (BTCE 1989). OTC's record has also been one of consistent and generally increasing profitability.

Australia Post sustained losses in two years. Australia Post's profits fluctuated considerably in the earlier years of the period, but since 1982-83 have increased to around \$50 million. Again, these figures do not include any allowance for Australia Post's considerable CSOs.

Qantas has been profitable on the whole, but sustained losses in four of the 12 years, during a downturn in the international aviation market. Profits have fluctuated considerably over the period covered, but have improved substantially in the latter years. Australian Airlines sustained losses in two years, and low profits in the earlier years. However, Australian Airlines' performance has

GBE	Book value of total assets	Turnover	Profit before tax <sup>a</sup>
<u> </u>			
Telecom	15 741	7 977	973
Qantas	4 570	3 266	226
Australia Post	1 920	1 812	46
Australian Airlines	1 637	1 263	108
Federal Airports Corporation	1 175	248	44
отс	1 144	1 280	295
AN	795	331	(90)
Civil Aviation Authority	590	561	`45 <sup>`</sup>
AUSSAT	537	143	3
ANL	389	577	3

#### TABLE 3.4 FINANCIAL AGGREGATES FOR TRANSPORT AND COMMUNICATIONS GBES, 1988-89 (\$ million)

a. Profit figures exclude CSOs.

Source Annual reports.

improved significantly since 1984. Profits for Qantas and Australian Airlines have been affected by substantial equity injections, in 1982–83 for Australian Airlines, and 1983–84 for Qantas.

ANL has, overall, been unprofitable, making losses in four out of the 12 years despite considerable equity injections during the 1980s. AN has made operating losses (before CSO supplements and revenue subsidies) over the whole period. AUSSAT has been unprofitable in all years except 1988–89.

#### Dividends

Dividends over the period have been paid regularly only by OTC, and these dividends have constituted 55 per cent of OTC's total operating profit for the period. The average of the payout ratios for OTC for the period was 69 per cent of operating profits.

Qantas has paid dividends in seven of the 12 years, as, virtually, has Australian Airlines, and ANL in four of the last five years, following its reorganisation. During their first full year of operations, the Federal Airports Corporation paid a dividend, the Civil Aviation Authority did not.

No payments have been made by Telecom or Australia Post, as neither had shareholder equity as such during this period, all government capital having been provided in the form of loans. The profits of Telecom and Australia Post have been retained as reserves. AN and AUSSAT have paid no dividends at all.

#### Profitability measures

More relevant than absolute data for the purpose of assessing GBE performance are the relative results shown by the various rates of return (that is, the returns relative to some base). The most important ratios for this purpose are:

- rate of return on assets EBIT to total assets; and
- rate of return on equity EBT to equity.

Others, such as EBT to total assets, operating profit to equity, and profit all sources to equity have been calculated from the aggregate data and are shown in appendix II. However, while they may have value in specific instances, they tend to be less useful for the present purpose in that they move in a fairly similar manner to the selected ratios, as in the case of EBT to total assets and EBIT to total assets, but present less meaningful results. For example, if the ratio of EBT to total assets is used, different interest rates on borrowings could influence the result. If the ratio of profit all sources to equity is used, different tax treatment and the frequency or magnitude of extraordinary items may affect the result.

#### EBIT to total assets

This ratio has the potential to provide the best indication of the enterprise's efficiency in using its assets. In particular, it is not affected by gearing levels. The EBIT to total assets ratio also avoids complications associated with different tax treatment of different firms.

However, EBIT to total assets may be positive while pre-tax profit (EBT) is negative, as, for example, in the case of Australian Airlines in 1981–82. Discussion of the EBIT to total assets ratio may therefore need to be supplemented by reference to the interest rate or opportunity cost of capital to avoid misinterpretation of results. For this reason a performance measure which looks at returns after all costs including interest payments might seem preferable. Improved performance would involve higher positive profits after non-equity capital costs. Such a ratio, however, would not provide as good an indication of management performance, as interest costs and hence profits after interest are partly outside the control of management. Other problems with an EBT to equity ratio are discussed in the next section.

A further problem in adopting an EBIT to total assets ratio for measuring performance arises with assets financed by non-interest-bearing debt, for example, trade credit, which may be used in different degrees by different firms. While EBIT to total assets may still yield an acceptable measure of efficiency of resource use, if the profitability ratios are to be used to make judgments about returns available to cover interest and equity costs, EBIT to interest-bearing debt plus equity might be considered as a useful alternative. Moreover, should an element of interest for trade credit be incorporated in the price of goods, EBIT would be reduced and profitability measured on this basis would be lower than where interest-bearing loans substitute for trade credit. The importance of this

problem depends on the extent to which firms used as benchmarks vary in the use of trade debtors and trade creditors.

#### EBIT to total assets ratios for the GBEs

The ratios of EBIT to total assets are graphed in figures 3.7 and 3.8 for the transport GBEs and the communications GBEs respectively, together with comparable ratios for the private sector, for the period 1977–78 to 1988–89.

The two salient features of the GBEs' results for this rate of return are that OTC has far outperformed the others, and that, apart from Telecom in recent years, the others have performed poorly compared with the private sector average. In fact the others, almost without exception, have had rates of return below the private sector average, which has been between 9 and 11.6 per cent over the nine-year period 1977–78 to 1985–86, based on Reserve Bank data, and between 8.6 and 12.7 per cent in the period 1977–78 to 1987–88 based on Stock Exchange data.

OTC's rate of return was 27.2 per cent in 1988-89, and varied between 10.9 and 29.7 per cent over the 12-year period.

Telecom ranks next after OTC, with rates of return which have been comparatively stable and increasing over the period to levels now above the private sector average. Telecom's returns increased from 6.9 per cent in 1977–78 to 13.5 per cent in 1988–89. As opposed to OTC, Telecom was exempt from most indirect taxes during this period. On the other hand, Telecom's returns would have been higher if the cost of its CSOs had been taken into account. If the BTCE estimate of \$240 million for Telecom's CSOs were to be added to EBIT, then the effect on Telecom's EBIT to total assets ratio would be an increase of the order of 1.8 percentage points in 1987–88. Inclusion of CSOs would have brought Telecom's average performance over the period studied close to the private sector average.

Of the remaining GBEs, the ratio for Australia Post showed evidence of sustained improvement from 1981–82 to 1987–88, though returns remained somewhat below the private sector average. Australia Post's assets, however, more than doubled when revalued with its incorporation, and despite higher revenues, the EBIT to total assets ratio fell to 2.7 per cent for the 1988–89 financial year. Australia Post's estimate of the cost of its CSOs and costs of public ownership combined was \$200 million for 1986–87 (Australian Postal Commission *Annual Report* 1987). Adding \$200 million to the 1988–89 returns, after assets had been revalued, would have increased the rate of return from 2.7 per cent to 13.1 per cent. Even if the costs of these obligations were only half the above amount, Australia Post's rate of return would still have increased to almost 8 per cent.

The EBIT to total assets ratios for Qantas and ANL have been volatile and there is no clear indication of any trend. The ratio for Qantas has varied between -5.3

per cent (1982–83) and 19.9 per cent (1984–85). In 1988–89 Qantas achieved a return of 6.8 per cent. ANL's ratio has varied between –10.0 per cent (1983–84) and 12.3 per cent (1985–86). It was 3.0 per cent in 1988–89.

Australian Airlines has shown better results since the capital injection in 1982–83. In 1988–89 Australian Airlines's EBIT to total assets ratio was 9.8 per cent. The Civil Aviation Authority and the Federal Airports Corporation achieved rates of return of 10.4 and 7.6 per cent respectively in their first full year of operation.

As well as being affected by revaluation of assets, such as occurred with Australia Post, the EBIT to total assets ratio can be distorted when substantial asset sales occur. This is illustrated in the case of Qantas (figure 3.7), where profit on aircraft sales was responsible for large fluctuations in 1984–85. Asset sales, and profit on asset sales (arising from undervaluation of earning assets), can affect an EBIT to assets ratio in a number of ways which in the year of sale can have quite dramatic effects. Similar problems arise from different accounting treatment of operating and financial leases.

To some extent this difficulty may be alleviated by consideration of moving averages as well as or instead of single-year rates. However, as figures 3.9 and 3.10 illustrate, averaging over a relatively short period of three years may in fact be more misleading, in that exceptional changes are smoothed out to suggest a continuing pattern, whereas a single-year result makes it abundantly clear that something extraordinary has occurred. The effect of averaging on the graph for OTC reduces the magnitude of the swings but does not change the picture relative to the private sector average. In the case of Qantas however, performance appears to be better, judged against the private sector average, than is the case without averaging. Caution would therefore be needed when averaging is used for GBEs where extraordinary items are prone to influence EBIT.

This point made above on the need for a reference point in using an EBIT to total assets ratio is linked with the argument that rate of return targets should be a relative concept; that what is important is target achievement relative to private sector average or similar private sector achievements. It is apposite, therefore, to look at the performance results of the GBEs in the light of movement in private sector average results. While all results are relevant, particular reference will be made to the EBIT to total assets ratio.

The most prominent movement in the EBIT to total assets ratio in the Reserve Bank's all industrial average (private sector) was the decline from 1980–81 to 1982–83 caused by the economic recession. The movement is mirrored in the performance of Australian Airlines, and appears to have influenced the ANL trend, but is less significant in explaining movements in the Qantas ratio. Of the communications GBEs, Telecom and Australia Post do not seem to have been affected. Australia Post's losses in 1980–81 and 1981–82 were due largely to strike action and wage increases. OTC, on the other hand, suffered a considerable drop in revenue in this period.







Figure 3.8 EBIT\* to total assets, communications GBEs



a. No allowance for the costs of any CSOs.





Figure 3.10 EBT\* to equity, 3-year moving average

This suggests that in choosing the private sector or comparable industries to serve as a benchmark for GBE performance, it is necessary to be aware of whether and to what extent factors such as business cycles affect both the GBE and the private sector or reference point industries in a similar manner.

#### Rate of return on equity

EBT (earnings before tax) to equity provides a measure of the enterprise's profitability in using shareholders' funds, that is, paid-up capital and retained earnings. On the basis of this measure the shareholders can determine whether it is worth retaining, selling or acquiring equity. Operating profit to equity, profit all sources to equity, and dividend to equity also provide useful measures in monitoring aspects of an enterprise's performance from the shareholders' viewpoint.

While returns to shareholders (dividends and the retained earnings which increase shareholder equity) are perhaps best measured by profit all sources (profit after tax and including extraordinaries) as a percentage of total equity, this measure would be of limited value for comparisons among enterprises, since GBEs have experienced different tax arrangements in the past. Hence EBT to equity, which uses pre-tax earnings, provides a reasonably common base for comparison of all government enterprises, including those which pay no income tax, and the private sector.

The EBT to equity ratios for eight GBEs and the private sector are graphed in figures 3.11 and 3.12.

OTC again is the only GBE consistently above the private sector average. The private sector average has for the most part been around 16 to 18 per cent, except for the recession in 1982 and 1983 when it declined to 12.4 per cent. The range has been 12.4 to 18.5 per cent.

Telecom was again below the private sector average for the period to 1987, but exceeded it in the following two years. Telecom's ratio has varied between 0.5 and 31.2 per cent in the period to 1988-89.

Australia Post's rate of return to equity followed the same trend as the EBIT to total assets ratio but was highly variable, and illustrates the effect that independent changes in equity can have on the ratio. In 1985–86 Australia Post, in response to a recommendation by the Australian Government Actuary, converted a portion of its equity to provisions for long service leave and compensation, causing a dramatic change in the EBT to equity ratio from 20 to 104 per cent. This clearly indicates there would be problems in relying on this ratio as a major performance indicator.

For Qantas, Australian Airlines, and ANL, the ratio has been very volatile compared with the EBIT to total assets ratio. In contrast to the EBIT to total assets ratio, each company's EBT to equity ratio has varied above and below the private sector average, albeit more often below than above. In the case of ANL, the ratio







44

completely lost meaning for the 1983-84 year when equity was negative as a result of a change in the method of accounting for leases.

For AUSSAT, the EBT to equity ratio was negative until 1988–89, while for AN the ratio has always been negative. The Civil Aviation Authority achieved a result for 1988–89 of 18.0 per cent, again comparable with private sector average performance; the Federal Airports Corporation was considerably below average, at 6.1 per cent.

Comparison of the EBIT to total assets ratio and the EBT to equity ratio for the GBEs with their respective private sector averages reveals that there is much greater variation from the private sector in the case of the EBT to equity ratio. It is evident that part of the explanation lies in the different capital structures. Different interest rates on debt as between firms could also have caused the ratios to change, even if debt to equity ratios were equal, but could obviously have had a greater impact where gearing differed as well.

For gearing to be influential, of course, it is necessary for the average interest rate on all debt to be different from the rate of return (EBIT) on total assets. Any variation between interest paid and the rate of return on total assets will give rise to very large (positive or negative) rates of return on equity when gearing is high. For example, two firms with equal EBIT to total assets ratios of 20 per cent, an interest rate of 15 per cent, and gearing ratios of 80:20 and 50:50, would have EBT to equity ratios of 40 per cent and 25 per cent respectively, if all debt were interest-bearing.

Similarly, different proportions of non-interest-bearing debt to total debt will create variations in the returns to equity.

The effect of different gearing ratios and different proportions of current liabilities does detract from the usefulness of returns to equity ratios for comparisons of firms where large differences exist in the gearing ratios. Consequently, the EBT to equity ratio is perhaps less useful for intra-public sector and public versus private sector comparisons, given substantial variations in gearing ratios, and the effects of government guarantees on interest rates.

Taking the case of Australian Airlines, the very high debt to equity ratio of 89:11 in 1979-80, compared with the private sector average of 53:47, resulted, as shown in table 3.5, in a ratio of EBIT to total assets below the private sector average, but a ratio of EBT to equity of 50 per cent, far in excess of the 18 per cent of the private sector. Had Australian Airlines had the same gearing ratio as the private sector, its EBT to equity ratio would have been around 14 per cent.

While the proportion of non-interest-bearing debt to total debt is even higher in the private sector than for Australian Airlines, nevertheless it has a large impact on the result. Had interest been payable on, say, three-quarters rather than half the debt of Australian Airlines, as was the case, the EBT to equity ratio would have been 24 rather than 50 per cent.

TABLE 3.5	AUSTRALIAN AIRLINES: EFFECT OF DIFFERENT
	GEARING LEVELS ON PROFITABILITY RATIOS,
	1979-80

(per cent)

Rate of return	Australian Airlines	Private sector average
EBIT to total assets	8.5	11.0
EBT to equity	50.2	18.3

EBIT Earnings before interest and tax. EBT Earnings before tax.

Source BTCE estimates.

On the other hand, OTC and Telecom, which have maintained a capital structure not unlike the private sector's, have both profitability ratios showing a similar pattern in comparison with the relevant private sector ratios.

The large variations in capital structure among GBEs, the effects of differing interest rates (both over time and among enterprises), the possibility of negative equity, of proportionately large changes in equity, and the effects of non-interest-bearing debt in particular, render the EBT to equity ratio a less satisfactory indicator of overall performance than EBIT to total assets.

Profit all sources to equity ratios for most of the GBEs follow a similar pattern to the EBT to equity ratios. They are graphed in figures 3.13 and 3.14, together with comparative data for the private sector.

#### EBIT to revenue

EBIT to revenue ratios, theoretically, do not allow for comparisons among enterprises (for example, OTC's performance in terms of EBIT to revenue is generally below that of Telecom), and should have limited use in assessing performance over time for a particular enterprise. The level of the ratio will depend on whether the enterprise is capital-, labour- or materials-intensive, and will be affected by its objectives, for example, whether it is a sales or profit maximiser. As discussed in appendix III, the ratio may decline when profits rise.

It is of interest therefore to observe that, apart from the OTC situation relative to Telecom, the EBIT to revenue ratios for all GBEs follow similar paths to their EBIT to total assets ratios, and their relative performance is the same using either ratio. Figures 3.15 and 3.16 show EBIT to revenue ratios for the GBEs, and the private sector for comparison.

#### **Dividend ratios**

While various ratios exist to describe dividend payments these are of little value as performance indicators, being measures of distributed profits only, and hence an indication of corporate policy on distribution of dividends or in the case of the







Figure 3.14 Profit all sources" to equity, communications GBEs







Figure 3.16 EBIT\* to revenue, communications GBEs

GBEs, of government directives. An example is the ratio of dividends to profit all sources which defines the percentage of total earnings (for the respective year) which were available for distribution and were allocated as a dividend. Ratios of dividends to profit all sources are presented in figures 3.17 and 3.18, and dividends to equity ratios in figures 3.19 and 3.20.

Four GBEs have paid dividends: Qantas, Australian Airlines, ANL, and OTC. Telecom and Australia Post have until recently, had no share capital. As indicated in figures 3.17 and 3.18, in the private sector the average proportion of profit all sources paid as dividend has varied between about 40 and 60 per cent.

OTC's ratio of dividends to profit all sources has been almost always above the private sector average, varying between 41 and 97 per cent between 1977–78 and 1988–89, with an average of 67 per cent. Dividend to equity ratios varied between about 7 per cent and 30 per cent, averaging some 14.7 per cent over the period.

The Qantas record of paying dividends has been below average and inconsistent, with none in five out of 12 years. Its arithmetic average ratio for the 12-year period was around 20 per cent of post-tax profit from all sources. As a proportion of shareholder funds dividends amounted to an average of only 1.9 per cent over the period 1977–78 to 1985–86, compared with a private sector average of 4.8 per cent. Over the 12 years the average dividend by Qantas was 2.5 per cent, and in the seven years in which dividends were paid, dividends averaged 4.3 per cent of shareholders' funds.

Australian Airlines paid dividends in nine of 12 years, but in two of these, dividends were token only. However, in most of the other seven years high proportions of profits were paid out. Dividend to equity ratios have been low, averaging around 5.5 per cent.

ANL has paid dividends only since 1985, in four of these five years. The dividend to equity ratio for most of the period has been around 5 per cent, but fell to around 1 per cent in 1988–89.

The indication from the four GBEs is that, although dividend performance is not of necessity associated with profit performance, dividend ratios have in fact tended to reflect profit performance.

# OVERVIEW OF CONVENTIONAL ACCOUNTING PERFORMANCE MEASURES

The comparisons made in this chapter among GBEs, and with the private sector, have relied on measures of financial performance based on conventional accounting data. Conclusions about the performance of GBEs are therefore limited by the deficiencies of such data, particularly in regard to asset valuation. Moreover, the differing operating environments, market structures, corporate goals, CSOs, accounting differences and access to equity capital will affect the











Figure 3.19 Dividend to equity, transport, GBEs



Figure 3.20 Dividend to equity, communications GBEs

performance of the GBEs relative to the private sector, relative to each other, and over time for a particular GBE.

CSOs in particular, if quantified and brought to account in the financial statements, may affect the assessment of the adequacy of the rates of return achieved by those GBEs with significant obligations. While AN already incorporates its CSO-related revenue supplements in its operating income, no allowance in the accounts has yet been made for Telecom, for which various estimates of the cost of CSOs have been made, or Australia Post, for which CSOs have yet to be quantified.

The following conclusions on the value of various measures of performance are drawn from the discussion in this chapter:

- In assessing performance over time of a GBE, both the EBIT to total assets and EBIT to equity ratios may prove useful.
- The two ratios tend to move in the same direction, but:
  - the EBIT to total assets ratio is distorted by asset sales and the extent of asset revaluations
  - the EBT to equity ratio has fluctuated considerably as a result of proportionately large changes in equity, and the widely divergent capital structures of the GBEs.
- This renders the EBT to equity ratio of little value for comparison among GBEs or with the private sector, unless capital structures are comparable.
- The larger fluctuations in the EBT to equity ratio can draw attention to unusual circumstances, however, and highlight the importance of interest payments, as in the case of Telecom in 1985 and 1988 (see appendix table II.7).
- In making comparisons with the private sector, it is necessary to determine whether the GBEs are subject to similar cyclical influences.

An assessment of the overall performance of the GBEs is contained in chapter 5, following the review of their performance in real terms in chapter 4.

#### CHAPTER 4 FINANCIAL PERFORMANCE IN REAL TERMS

Changes in price levels and in technology mean that conventional accounting, based on historical costs, will not represent the true value to the enterprise of its assets and liabilities, or its net income. The income statement will be distorted because depreciation is based on the historical cost of the asset, because inventories are brought to account on a 'first in, first out' basis, and because values for monetary working capital are affected by inflation. On the balance sheet, the assets will usually be undervalued, because annual revaluations are not mandatory. In consequence, rates of return may be overstated, possibly by a large amount. They will not correctly reflect economic performance or the efficiency with which resources are used. The distortion is worst where there are long asset lives and heavy capitalisation, as in the case of many GBEs.

Attempts have been made to provide a better indication of an enterprise's financial performance, relying on a more precise definition of income and a better assessment of asset values. The true income of an enterprise can be defined in the Schanz–Haig–Simons tradition (Musgrave 1983) or after Hicks (1939), as the surplus which can be distributed without reducing the net worth of the enterprise, or, what can be distributed while maintaining its capital intact. Depending on the interpretation of capital maintenance, however, different measures of income are possible.

Income may be calculated as the surplus remaining to the enterprise or to equity holders after maintaining the operating capacity of the enterprise (the current cost accounting approach). Alternatively, income may be defined as the surplus remaining after maintaining the real wealth of the enterprise or the purchasing power of the shareholders' interest (the relative price level accounting approach). These measures of income require adjustments to depreciation based on the current values of assets and adjustment for the effect of price changes on stocks and working capital, and in the case of relative price level accounting, for the effect of real holding gains or losses on operating assets. In either case returns to equity holders will require adjustment for real holding gains on debt.

These various forms of inflation adjustment have the potential to provide a better indication of economic performance for both owners and management. Their usefulness, however, will depend on whether realistic asset values can be established for the capital base and for depreciation estimates, and on whether the user has a clear understanding of the particular method of accounting for price changes which has been adopted.

# REAL RATES OF RETURN FOR THE TRANSPORT AND COMMUNICATIONS PORTFOLIO GBES

Some estimates are available of 'real' rates of return achieved by certain GBEs in the Transport and Communications portfolio, notably those made by the Rae Committee in 1983 (covering ANL, Telecom, Qantas, and TAA, now Australian Airlines, Australia Post, AN and OTC), and those produced recently by the Industry Commission (previously the Industries Assistance Commission) covering Telecom, Australia Post, ANL and Qantas (Industry Commission 1990), and by the Industries Assistance Commission for AN (pers. comm.). References in the text to the Industry Commission should be taken as including the Industries Assistance Commission should be taken as including the Industries Assistance Commission should be taken as including the Industries Assistance Commission should be taken as including the Industries Assistance Commission should be taken as including the Industries Assistance Commission unless otherwise stated. Xavier and Graham (1987) also report estimates in real terms for Telecom and Australia Post for 1985–86, and for OTC for the year ended 31 March 1987.

The Rae Committee figures, although partly for an earlier period than that covered in chapter 3, allow comparison with the later Industry Commission estimates in the period of overlap. Neither series of estimates fully adjusts all accounting parameters for inflation, and in this sense the results do not truly reflect real rates of return. For example, neither inventories nor working capital were adjusted for inflation, leading to an overstatement of income.

The Rae Committee used a model developed by the Institute of Applied Economic and Social Research (IAESR) for estimating real rates of return. Initially, this involved adjusting the value of fixed assets to a current cost basis, using a combination of market values and replacement costs (the latter by applying a perpetual inventory method, from a base year in which assets had been revalued).

Replacement cost depreciation was then estimated by applying depreciation rates to the current asset values. The depreciation rates were either based on assumed asset lives or derived implicitly from the balance sheet using the proportion of book value depreciation expense to the total book value of fixed assets. Income after replacement cost depreciation was then related to the current value of total assets to yield estimates of 'real rates of return' on total assets. (The BTCE, using data from the Rae Committee report and the annual reports for the GBEs, has not been able to duplicate the rates of return on total assets reported by the Rae Committee.)

'Real rates of return' on equity were also calculated. Net interest paid was offset against the purchasing power gains on net nominal liabilities in determining the 'true' income of the owners. Equity was calculated as the value of depreciated fixed assets at current values minus net monetary liabilities.

The Industry Commission estimated 'real rates of return' on fixed capital employed (owned capital stock in the case of Qantas). A perpetual inventory

method was used to calculate a series for the nominal (current) value of capital stock from a base year value of assets, generally the same base year data as used by the Rae Committee. Current cost depreciation was calculated by applying selected depreciation rates to the current values of the various classes of capital. The rate of return on capital employed was then calculated by deducting depreciation from gross returns (total income less interest income and less revenue from asset sales, minus total expenses excluding interest and excluding book depreciation charge) and dividing by the current value of capital. Other things being equal, it would be expected that a (positive) rate of return on fixed assets would be higher than a rate of return on total assets.

The results of the two series of rate of return calculations for Telecom, Australia Post, AN, ANL and Qantas are shown in tables 4.1 to 4.5, together with the historical cost rates (from appendix II) for comparison. Tables 4.6 and 4.7 shows the earlier Rae Committee real rate of return estimates for OTC and TAA (Australian Airlines) together with the historical cost rates of return. The rates of return for Telecom and Australia Post are in all cases understated, because no value is imputed for meeting CSOs. If, for example, the 1987–88 rate of return for Telecom estimated by the Industry Commission were adjusted for CSOs, the estimated real rate of return would increase from 8 to almost 10 per cent, on the basis of BTCE estimates (BTCE 1989).

Similarly, Australia Post's rate of return would be significantly increased if the value of CSOs were included. If the figure of \$200 million referred to in chapter 3 were adopted, this would increase the estimated real rate of return on fixed assets for 1987–88 from 1.2 per cent (Industry Commission estimate) to around 13 per cent. A CSO figure of \$100 million would correspond to an 8 per cent rate of return. There is good correspondence also for ANL except for 1978–79, where it would appear that the Rae Committee estimate is incorrect because of an error in the revenue figure used in their calculations for 1978–79.

Where the two series of rates of return overlap, there is good correspondence between them for Qantas, AN and Australia Post. The estimates of real rates of return for Australia Post in 1985–86 in Xavier and Graham (1987) are somewhat higher, at 1.6 to 3.1 per cent, than the estimate of the Industry Commission for that year, which was -0.1 per cent.

However, the Rae and Industry Commission series of rates of return for Telecom are very different. For all except the last year of the period of overlap (1975–76 to 1981–82) the Commission estimated negative returns and the Rae Committee estimated positive returns.

These differences between the Rae Committee and Industry Commission series for Telecom appear to be due principally to the much higher depreciation calculated by the Commission. Differences in the estimates of the capital base also are responsible for some of the differences in the estimated rates of return. The Rae Committee's figure for the capital stock at the beginning of 1975–76 appears to have omitted the almost \$2 billion of fixed assets which were not

Year ended 30 June	Rae Committee real rate of return on		IC real rate of return on	Historical
	Equity	Total assets	fixed assets	to total assets
1976	42.6	4.6	1.0	
1977	23.0	4.3	-1.1	
1978	12.3	4.0	1.3	6.9
1979	7.8	3.7	-1.3	6.8
1980	9.1	3.5	-1.1	6.9
1981	7.2	3.3	-0.4	7.0
1982	6.5	2.9	1.0	7.9
1983			2.8	7.6
1984			2.5	10.5
1985			4.2	7.9
1986			5.1	10.8
1987			3.8	10.2
1988			7.7	13.4

# TABLE 4.1 REAL AND HISTORICAL COST RATES OF RETURN: TELECOM<sup>a</sup> (per cent)

a. No allowance for the costs of community service obligations. EBIT Earnings before interest and tax.

Sources Senate Select Committee on Statutory Authority Financing (1983); Industry Commission (1990); Telecom (1989).

Year ended 30 June	Rae Committee real rate of return on		IC real rate of return on	Historical cost FBIT	
	Equity	Total assets	fixed assets	to total assets	
1976	28.1	12.9	10.5		
1977	17.3	8.1	6.9		
1978	2.7	-0.6	0.3	2.7	
1979	9.9	4.4	4.4	8.5	
1980	1.6	0.4	0.9	4.2	
1981	-6.9	-4.8	-3.5	-2.9	
1982	-7.5	-2.9	-1.8	-4.4	
1983			-0.7	3.3	
1984			0.8	6.4	
1985			0.9	6.0	
1986			-0.1	6.2	
1987			1.9	8.7	
1988			1.2	7.2	

## TABLE 4.2 REAL AND HISTORICAL COST RATES OF RETURN: AUSTRALIA POST<sup>a</sup> (per cent)

a. No allowance for the cost of community service obligations.

EBIT Earnings before interest and tax.

Sources Senate Select Committee on Statutory Authority Financing (1983); Australian Postal Corporation (1989); Industry Commission (1990).

Historical cost EBIT to total assets	IAC real rate	Rae Committee real rate of return on		Vearended
	fixed assets	Total assets	Equity	30 June
-19.8		-14.3	-17.7	1978
-14.8	-11.1	-12.5	-17.4	1979
-12.0	9.1	-10.3	-12.2	1980
-10.9	8.9	-9.2	-10.4	1981
-12.0	8.7	-9.4	-10.5	1982
-18.1	-13.5			1983
-17.2	-12.2			1984
-9.6	9.8			1985
-6.3	8.5			1986
-7.0	8.3			1987
8.2				1988

### TABLE 4.3 REAL AND HISTORICAL COST RATES OF RETURN: AN<sup>a</sup> (per cent)

a. AN includes government community service obligation supplements in operating revenue and this is reflected in the real rates of return calculated by the Industries Assistance Commission from 1986. Rae Committee and historical cost series do not include any allowances or supplements for community service obligations.

EBIT Earnings before interest and tax.

Sources Senate Select Committee on Statutory Authority Financing (1983); Australian National Railways (1989); Industries Assistance Commission (pers. comm.).

Year ended <sup>.</sup> 30 June	Rae Committee real rate of return on		IC real rate	Historical Ost FBIT
	Equity	Total assets	fixed assets	to total assets
1971	-1.0	0.7		
1972	4.3	0.0		
1973	8.4	3.7		
1974	12.9	2.2		
1975	41.6	10.7		
1976	-0.8	-5.2	-2.7	
1977	8.8	2.3	2.5	
1978	8.2	1.8	1.5	7.2
1979			1.5	6.1
1980	0.4	-0.1	0.5	3.8
1981	3.0	0.5	-0.1	7.6
1982	0.1	-0.2	-0.4	6.8
1983			-4.6	-1.6
1984			0.5	-10.0
1985			5.1	9.9
1986			3.1	12.3
1987			-0.6	3.6
1988			-9.3	8.0

### TABLE 4.4 REAL AND HISTORICAL COST RATES OF RETURN: ANL (per cent)

EBIT Earnings before interest and tax.

Sources Senate Select Committee on Statutory Authority Financing (1983); Industry Commission (1990); Australian Shipping Commission (1989).

Year ended 31 March	Ra real ra	e Committee te of return on	IC real rate of	Historical cost EBIT	
	Equity	Total assets	capital stock	to total assets	
1973	1.2	0.6			
1974	12.8	3.0			
1975	8.6	0.1	1.1		
1976	-0.9	-3.2	-2.8		
1977	0.9	1.4	1.5		
1978	6.8	1.7	1.9	5.8	
1979	8.4	2.4	2.8	6.9	
1980	1.1	-1.4	-0.8	1.0	
1981	-7.7	-5.3	3.4	-0.5	
1982			-2.0	2.8	
1983			-4.9	-5.3	
1984			3.0	9.6	
1985			2.0	19.9	
1986	:		1.0	3.2	
1987			4.2	7.4	
1988			6.8	10.2	

## TABLE 4.5 REAL AND HISTORICAL COST RATES OF RETURN: QANTAS (per cent)

EBT Earnings before interest and tax.

Sources Senate Select Committee on Statutory Authority Financing (1983); Industry Commission (1990); Qantas (1989).

(por comy					
Year ended 31 March	Rae Committee real rate of return on		Historical cost FBIT		
	Equity	Total assets	to total assets		
1971	16.9	16.2			
1972	21.6	20.4			
1973	12.7	10.3			
1974	20.4	15.6			
1975	20.4	12.8			
1976	8.3	5.2			
1977	5.3	5.0			
1978	5.1	4.3	19.8		
1979	8.8	4.8	23.3		
1980	18.4	11.7	29.7		
1981	23.8	14.2	25.7		
1982	24.4	14.2	14.4		
1983			10.9		
1984			14.1		
1985			16.2		
1986			15.8		
1987			16.7		
1988			23.1		
1000			20.1		

## TABLE 4.6 REAL AND HISTORICAL COST RATES OF RETURN: OTC (per cent)

EBIT Earnings before interest and tax.

Sources Senate Select Committee on Statutory Authority Financing (1983); OTC (1989).

(per com)				
Year ended 30 June	Rae Committee real rate of return on		Historical cost EBIT	
	Equity	Total assets	to total assets	
1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988	7.3 6.2 8.4 8.7 7.7 3.7 4.3 6.5 1.3 -0.9 1.1	3.4 3.0 4.9 3.9 2.9 1.4 2.0 3.3 0.1 -1.2 -1.7	3.1 2.9 8.4 4.5 3.3 2.3 5.4 8.8 8.9 7.9 8.0	

## TABLE 4.7 REAL AND HISTORICAL COST RATES OF RETURN: TAA/AUSTRALIAN AIRLINES<sup>a</sup>

(nor cont)

EBIT Earnings before interest and tax.

Sources Senate Select Committee on Statutory Authority Financing (1983); Australian Airlines (1989).

revalued. In the case of the depreciation differences, in the base year 1975–76 the Industry Commission estimated current cost depreciation of \$761 million for Telecom, while the Rae Committee's estimate was only \$326 million. The effect was to reduce real EBIT from \$380 million profit (Rae Committee estimate) to a loss of \$57 million (Industry Commission).

The Industry Commission assumed a 10-year life for all classes of Telecom's fixed assets in their depreciation estimates. The depreciation rate applied was approximately 15 per cent declining balance (the equivalent in present worth terms of a 10-year straight line rate with zero residual at a 15 per cent discount rate). Information supplied to the BTCE by Telecom suggests that the Industry Commission rate probably overstates true depreciation. The lower rate adopted by the Rae Committee (which averaged about 7.5 per cent of the estimated current net value of the capital stock) suggests an average life for Telecom's fixed assets of around 22 years.

Had the Rae Committee's depreciation rate been adopted by the Industry Commission, the Commission's estimates of Telecom's rates of return would have been similar to those of the Rae Committee, and would have yielded the same average return of 3.8 per cent over the period of overlap. The BTCE

estimates that, if the Rae Committee's average depreciation rate had been applied, the average real rate of return for the period 1975–76 to 1987–88 would have been around 5 per cent, rather than the 1.6 per cent reported in table 4.8 below.

The differences between historical cost, Rae Committee real rates and Industry Commission real rates of return for Telecom, Australia Post, AN, ANL and Qantas are shown in figures 4.1 to 4.5. These figures show that in most years the real rates of return for Qantas, ANL, Telecom and Australia Post were much lower than their historical cost rates, and often negative when the historical cost rates were positive. For AN, where all rates of return were negative, the historical cost rates were lower, for the most part, than the real rates. However, in all cases the trends over time are similar.

The Industry Commission real rate of return series shows Telecom on an improving trend towards quite a high level: 7.7 per cent real is approaching the private sector historical cost average for EBIT to total assets, and is in excess of the Department of Finance's (1987) estimate for real rates of return for the corporate sector as a whole.

Australia Post showed an improving trend from the negative rates of the early 1980s, but to a lower level than Telecom. AN's real rate of return has been



a. To total assets except IC to fixed assets. No allowance for the costs of any CSOs.

Figure 4.1 Real and historical cost rates of return\*, Telecom



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Figure 4.2 Real and historical cost rates of return\*, Australia Post



Figure 4.3 Real and historical cost rates of return\*, AN






Figure 4.5 Real and historical cost rates of return\*, Qantas







Figure 4.7 Real and historical cost rates of return<sup>4</sup>, TAA/Australian Airlines

#### BTCE Information Paper 35

between -8.3 per cent and -14.3 per cent since it began operating, but there appears to have been an improving trend since the early 1980s. ANL's performance was uneven, as was that of Qantas, in this earlier period.

Figures 4.6 and 4.7 show Rae Committee estimates for OTC and TAA, with historical cost rates for comparison. Again the real rates are generally below the historical cost rates, but, except for TAA, appear to display a similar trend for the period of overlap. OTC performed strongly, with real rates of return on assets consistently positive and as high as 20 per cent. After a decline in the late 1970s to a low of about 4 per cent real, OTC's rate increased in the early 1980s to a high approaching 15 per cent real. TAA's real rates were for the most part low and positive, but declined to small negative figures in the latter part of the period to 1980–81.

Table 4.8 shows average real returns (or real profits) before interest and taxes, and average rates of return for the GBEs over the periods covered by the Rae Committee and Industry Commission series. The table shows that, based on the Commission's estimates, Qantas, Telecom and Australia Post have earned, over the period studied, small positive rates of return on average. ANL's average was -0.3 per cent, while AN's average was -10 per cent (based on Industry Commission estimates, with CSO supplements included in operating income). Based on the earlier Rae Committee estimates, TAA achieved a 2.1 per cent

GBE	Period	Average real return (\$ million per annum)	Average real rate of return on assets (per cent)
Industries Assistance Com	mission		· · · · · · · · · · · · · · · · · · ·
estimates (to fixed assets)			
Telecom	197576 to 198788	213	1.6
Australia Post	1975–76 to 1987–88	8.6	1.7
AN	1975–76 to 1987–88	-71.9	-10.0
Qantas	1974–75 to 1987–88	10.6	0.6
ANL	1975–76 to 1987–88	-1.2	-0.3
Rae Committee estimates	(to total assets)		
Telecom	1975–76 to 1981–82	404.0	3.8
Australia Post	1975–76 to 1981–82	5.7	2.5
AN	1977-78 to 1981-82	-79.4	-11.1
ANL	1970-71 to 1981-82 except 19	978–79 3.6	1.5
Qantas	1972-73 to 1980-82	-4.3	-0.7
OTC	1970–71 to 1981–82	17.0	11.2
TAA/Australian Airlines	1970–71 to 1980–81	4.6	2.1

TABLE 4.8 GBES: AVERAGE REAL RETURNS AND AVERAGE REAL RATES OF RETURN

Sources BTCE estimates based on Rae Committee and Industry Commission calculations. No allowance for the costs of any community service obligations except for AN from 1985–86. average rate of return (1970–71 to 1980–81). OTC was highly profitable with an average real rate of return of over 11 per cent in the period 1970–71 to 1981–82. Xavier and Graham (1987) report estimates in real terms of 13 per cent or slightly more for OTC in the year ended 31 March 1987.

On the basis of these two series of estimates, therefore, OTC is the only GBE which, ignoring CSOs, appears to have covered the opportunity cost of its capital on average over the period studied. As noted earlier, Telecom's rate of return would have averaged around 5 per cent real had the lower Rae Committee depreciation rate been used in the Industry Commission calculations.

Again it is emphasised that, with the exception of AN, which includes its CSO-related supplements from the Commonwealth as part of its operating income, the incomes of the GBEs contain no adjustment or allowance for the costs of CSOs. The rates of return for Telecom and Australia Post are therefore in all cases understated. As noted previously, the costs of Telecom's CSOs, estimated by the BTCE at some \$240 million for 1987–88 (BTCE 1989), will be brought to account from the 1990–91 financial year, and the cost of CSOs for Australia Post are currently under review.

If, for example, the 1987–88 rate of return for Telecom estimated by the Industry Commission were adjusted for CSOs on the basis of BTCE estimates (BTCE 1989), the estimated real rate of return would have increased from 8 to almost 10 per cent. Similarly, Australia Post's estimated real rate of return on fixed assets for 1987–88 would increase from 1.2 per cent (Industry Commission estimate) to around 8 per cent, if the figure of \$100 million referred to earlier were adopted, or to around 14 per cent real if the \$200 million cost of CSOs and costs of public ownership were used.

The effect on the average rates of return in table 4.8 would depend on the cost of CSOs relative to total assets for each year of the period studied. If it is assumed that the effects of CSOs over the period would be similar to those of 1987–88, then Australia Post's average real rate of return would have approximated the private sector average if the \$100 million figure were used, and would be higher if the \$200 million figure were adopted. For Telecom also, using either the Rae Committee estimate or the BTCE calculations based on the Industry Commission capital stock figures, the average real rate of return of around 7 per cent inclusive of CSOs would have been close to the private sector average. Adding CSOs to the Industry Commission's estimates would, however, still indicate an average rate of return below that of the private sector.

It should be noted that estimates of the real rates of return achieved by the private sector in Australia over various periods vary considerably. Xavier and Graham (1987) cite 1984 estimates by the Centre for Management Research and Development for the average realised private sector rate of -1.3 per cent over the period 1973–82, while Johnston, Parkinson and McCray (1984) estimated the rate to have been 12.9 per cent (price level adjusted income) in the period 1966–67 to 1980–81. Other estimates falling between these extremes include

### BTCE Information Paper 35

those of the Department of Finance (1987) which estimated 7.4 per cent for the period 1967–68 to 1985–86, and 5.9 per cent for the period 1976–77 to 1986–87, the Australian Graduate School of Management (1983) figure of approximately 6 per cent over 1966–67 to 1982–83, and the Institute of Applied Economic and Social Research (1982) estimate of 12 per cent for 1969–70 to 1977–78.

# CHAPTER 5 CONCLUSION

The examination of the financial performance of the GBEs both in historical cost terms in chapter 3 and in real terms in chapter 4 leads to similar conclusions about the past performance of the GBEs relative to the average performance of the Australian private sector. In making comparisons with the Australian private sector it should be recognised that the performance of some GBEs will be directly affected by international, as well as domestic, market conditions.

OTC performed well above the private sector average over the period reviewed. In recent years Telecom's performance has compared favourably with that of the private sector, and if CSOs were brought to account, this would also have been the case, on average, over the period reviewed. This conclusion would not, however, be supported by the Industries Assistance Commission real rate of return data for Telecom which are based on an average 10-year life for assets. (Explicit allowance for CSOs in calculating rates of return for Telecom would have increased the rate of return by around 1.8 percentage points in 1987–88, based on the BTCE estimate of \$240 million for that year.)

Australia Post also would probably have achieved returns comparable with the average of the private sector if the value of CSOs were brought to account, given their likely magnitude. Without them, Australia Post's rates of return have been well below average private sector rates.

The Civil Aviation Authority and the Federal Airports Corporation have shown results at least equal to those of the private sector in their initial reports. The remaining five GBEs have not matched the average performance of the Australian private sector.

On the basis of the conventional accounting data, all GBEs, except for AN, are earning positive operating profits. (AUSSAT earned its first operating profit in 1988–89.) The EBIT (earnings before interest and tax) to total assets ratio suggests improved performance in the latter years of the period for Australian Airlines, Telecom, and possibly AN. This ratio also indicates improved performance by Australia Post from 1983 to 1988. Australia Post's 1988–89 ratio is not comparable due to the extensive revaluation of its assets in that year. Although generally higher in the latter years of the period covered, no clear trend is apparent in the EBIT to total assets ratio for Qantas. Similarly, no clear trend is apparent for ANL's profitability ratios.

#### BTCE Information Paper 35

Estimates of real rates of return for several of the GBEs for varying periods were available from the Rae Committee (for periods up to 1981–82) and the Industries Assistance Commission (for the period 1975–76 to 1987–88). These indicated that, community service obligations aside, all but one of the GBEs reported on had, on average, either earned a small positive real rate of return or made losses in real terms for the years examined. OTC, the exception, performed strongly over the whole period 1970–71 to 1981–82, with an average 11.2 per cent real rate of return (Senate Select Committee on Statutory Authority Financing 1983). Historical cost data, corroborated by estimates of real rates of return for the year ended 31 March 1987 (Xavier and Graham 1987), would suggest that a high real rate of return has been maintained since then.

Financial performance, however, is only one measure, albeit an important one, of the overall performance, or efficiency, of these enterprises. Consideration of the reasons for the establishment and continued existence of the GBEs in the public sector (see chapter 2) reveals that there have been multiple objectives for the GBEs, and some of these influence their financial results. Indeed it has been argued widely that financial performance should not constitute a general criterion for judging performance, since, given the potential for market failure, and the potential for the GBEs to function as an income-redistributive mechanism, a preferable basis would be, for example, contribution to social welfare (Aitchison 1985; Abelson 1989). The high rate of return achieved by OTC, for example, can be argued to result, at least in part, from market power and from not more rapidly passing forward to consumers, through lower prices, the benefits from new technology. In this case, existing financial returns would need to be compared with a situation where consumers benefited from lower prices, taking into account the extent to which such benefits accrued to residents as opposed to overseas users of OTC services.

It follows that if standard measures of financial performance are to be used to assess enterprise performance, continuing efforts should be made to improve them, so that they reflect more closely contributions to social welfare. This will involve ongoing attempts to overcome the measurement problems associated with asset valuation and determination of community service obligations, in order to ensure that asset values reflect the social opportunity cost of the assets, and that the true cost of community service obligations is imputed to revenue. Addressing questions of quality of service, and the problems posed by the existence of externalities and market power may be more difficult. In these situations it will be necessary to exercise prudence in drawing conclusions about economic welfare from rates of return or similar financial measures.

# APPENDIX I MAJOR COMMONWEALTH GOVERNMENT BUSINESS ENTERPRISES

ANL Limited AUSSAT Ptv Limited Australian Airlines Limited Australian Industry Development Corporation Australian Maritime Safety Authority Australian National Railways Commission Australian Postal Corporation (Australia Post) Australian Telecommunications Corporation (Telecom) **Civil Aviation Authority** Commonwealth Banking Corporation Commonwealth Serum Laboratories Commission Export Finance and Insurance Corporation Federal Airports Corporation Health Insurance Commission Housing Loans Insurance Corporation OTC Limited **Pipeline Authority Qantas Airways Limited** Snowy Mountains Engineering Corporation Snowy Mountains Hydro-electric Authority

# APPENDIX II FINANCIAL DATA

This appendix contains data on the financial performance of the ten government business enterprises (GBEs) within the Transport and Communications portfolio as at June 1989, and, for purposes of comparison, similar data for companies in the private sector. The data provide a historical account, over the 12-year period 1977–78 to 1988–89, of the financial position of the GBEs, and their capital structure, profitability and returns to shareholders.

For the private sector, data were compiled from two sources. The first source was a series of 'all industry' surveys conducted by the Reserve Bank of Australia. The companies surveyed were a 'constant group' of 700 to 800 publicly listed companies, large unlisted companies and major proprietary companies operating in Australia. The results exclude the primary sector, finance and mining. Data were aggregated from company accounts balancing at various dates during a calendar year. These private sector data include the performance indicators mentioned above. This source was not available after 1986.

Data from the second source, Stock Exchange Research Pty Ltd, were used to extend to later years the comparison of rates of return achieved by the GBEs with those in the private sector. An annual series of ratios of EBIT to total assets was derived from stock exchange data, in particular, the Stock Exchange Financial and Profitability Study series (for example, Stock Exchange 1989). The Study typically incorporates data on 350 to 400 major listed companies from all sectors except exploration. The data therefore are drawn from a wider industry coverage, but from fewer companies, than the Reserve Bank's 'all industrial average'. Some adjustments to the published accounts which were made by the Reserve Bank are also made to the Stock Exchange series. The ratios of EBIT to total assets are based on assets at year end, and asset revaluations are averaged over several years. The rates of return are nominal, and for ratios of EBIT to total assets are weighted by size (as in the case of the Reserve Bank data) to give an average for all companies. The data contain adjustments to financial accounting data designed to improve comparability of published accounts through application of a standardised accounting system. The main adjustment would appear to be from averaging of asset revaluations over the periods between such revaluations.

On the whole, the rates of return estimated by Stock Exchange Research Pty Ltd are somewhat higher than those of the Reserve Bank up till 1981, but somewhat

lower than those of the Reserve Bank from 1983 to 1986. However these rates are affected by changes in the group of companies surveyed.

To extend other measures of financial performance by the private sector beyond the 1986 cut-off in the Reserve Bank series, data were obtained from Stock Exchange Research Pty Ltd for the period 1984–85 to 1987-88. These included data:

- for earnings on shareholders' funds (after tax) and effective tax rates, from which BTCE made the estimates of the ratio of EBT to equity;
- EBIT per sales dollar, used to extend the Reserve Bank series on ratio of EBIT to revenue;
- shareholders' interest, used to extend the series on ratio of debt to equity;
- the ratio of (financial) debt to equity, used to extend the series on the ratio of IBD to equity;
- payout ratio, used to extend the series on the ratio of dividend to profit from all sources; and
- interest cover.

Appendix II

· · · · · · · · · · · · · · · · · · ·						Ye	ar ended 3	1 March		· · · ·			
Indicator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988 <sup>a</sup>	1988 <sup>b</sup>	<b>1</b> 989 <sup>c</sup>
Financial items (\$	million)												
Assets	659.6	717.9	882.7	809.2	839.1	818.9	887.1	1 177.0	1 655.3	2 128.9	2 774.7 <sup>d</sup>	na 4	4 569.6
Equity	114.0	115.9	96.1	78.7	167.2	132.9	244.5	372.3 <sup>e</sup>	442.2	485.9	662.5	592. <b>8</b>	916.5
Paid-up capital	64.4	64.4	64.4	64.4	89.4	89.4	149.4	149.4	149.4	149.4	149.4	149.4	149.4
Revenue	669.2	770.4	953.9	1 067.1	1 168.1	1 340.0	1 435.1	1 641.2	2 011.9	2 562.5	3 870.5	3 084.7	3 266.1 <sup>f</sup>
EBIT	38.5	49.5	9.1	-4.0	23.8	-43.0	85.2	234.1	52.5	157.6	336.1 <sup>g</sup>	269.8 <sup>h</sup>	312.5
EBT	19.5	24.4	-17.9	-32.6	-5.8	-70.0	59.8	211.8	27.9	114.7	272.3	218.8	226.3
Operating profit	10.8	5.7	15.5	-17.4	1.6	-71.7	58.5	148.0	23.1	63.8	172.8	131.3	176.8
Profit all sources	7.5	1.9	-19.8	-17.4	63.5	34.3	58.5	147.9	3.8	63.8	211.2	131.3	176.8
Dividend	6.4	0.0	0.0	0.0	0.0	0.0	6.9	20.2	14.9	20.2	30.0	24.0	40.8
Capital structure													
Debt/equity Interest-bearing	83:17	84:16	89:11	90:10	80:20	84:16	72:28	68:32	73:27	77:23	76:24	na	80:20
debt/equity Interest-bearing	73:27	73:27	80:20	82:18	65:35	68:32	50:50	33:67	53:47	58:42	44:56	na	58:42
debt plus financia and operating	al												
leases/equity <sup>i</sup>	74:26 <sup>h</sup>	74:26 <sup>h</sup>	81:19 <sup>h</sup>	87:13 <sup>h</sup>	78:22 <sup>h</sup>	83:17	71:29	69:31	76:24	81:19	78:22	na	80:20
EBIT/interest <sup>i</sup>	2.0	2.0	0.3	-0.1	0.8	-1.6	3.4	10.5	2.1	3.7	5.3	5.3 <sup>h</sup>	3.7
Current assets/													
current liabilitiesk	0.8	0.6	0.7	0.4	0.6	0.5	0.6	1.1	0.8	1.2	1.1	na	1.2

TABLE II.1 QANTAS (CONSOLIDATED) FINANCIAL DATA, 1977-78 TO 1988-89

74

Patrician		· · · · · · · · · · · · · · · · · · ·											
	Year ended 31 March												. <u></u>
- Indicator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988 <sup>a</sup>	1988 <sup>b</sup>	1989 <sup>c</sup>
Profitability (per ce	nt)												
EBIT/total assts	5.8	6.9	1.0	-0.5	2.8	-5.3	9.6	19.9	3.2	7.4	12.1	10.2 <sup>1</sup>	6.8
EBT/total assets	3.0	3.4	-2.0	-4.0	-0.7	-8.5	6.7	18.0	1.7	5.4	9.8	8.3 <sup>l</sup>	5.0
EBT/equity	17.1	21.1	-18.6	-41.4	3.5	52.7	24.5	56.9	6.3	23.6	41.1	36.9	24.7
Operating profit/													
equity	9.5	4.9	16.1	-22.1	1.0	-54.0	23.9	39.8	5.2	13.1	26.1	22.1	19.3
Profit all													
sources/equity	6.6	1.6	~20.6	-22.1	38.0	25.8	23.9	39.8	0.9	13.1	31.9	22.1	19.3
EBIT/revenue	5.7	6.4	1.0	-0.4	2.0	-3.2	5.9	14.3	2.6	6.2	8.7	8.7	9.6
Dividend ratios (pe	er cent)												
Dividend/operating													
profit	59.3	0.0	0.0	0.0	0.0	0.0	11.8	13.6	64.5	31.7	17.4	18.3	23.1
Dividend/profit all													
sources	85.3	0.0	0.0	0.0	0.0	0.0	11.8	13.7	392.1	31.7	14.2	18.3	23.1
Dividend/equity	5.6	0.0	0.0	0.0	0.0	0.0	2.8	5.4	3.4	4.2	4.5	4.0	4.5

#### TABLE II.1 (Cont.) QANTAS (CONSOLIDATED) FINANCIAL DATA, 1977--78 TO 1988--89

a. 15 months to 30 June 1988.
b. 12 months to 31 March 1988.
c. 12 months to 30 June 1989.
d. 'Leased assets' on balance sheet for the first time.
e. \$110 million transferred from relained profits to create fleet replacement reserve.
f. Change in basis of calculating revenue and expenditure in 1989, see 1989 ten-year review (Qantas 1989) for continuous series.
g. Interest on finance leases is included for 1988 as finance leases are capitalised.

Estimate. Б.

İ.

Operating leases include interest and principal components. The number of times interest payments are covered by EBIT. The number of times current liabilities are covered by current assets. Assets for March 1988 have been estimated on a pro rata basis. k.

1.

na Not available.

Source Qantas (1989).

TABLE II.2 AUSTRALIAN AIRLINES (CONSOLIDATED) FINANCIAL DATA, 1977-78 TO 1988-89

	Year ended 30 June											
Indicator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Financial items (\$ million)									-			
Assets	193.9	241.4	269.9	386.5	526.1	639.5	577.8	627.4	751.5	1 338.6 <sup>a</sup>	1 546.2	1 636.9
Equity	27.0	28.4	29.1	31.7	32.1	136.2	106.5	136.6	174.1	189.3	217.6	268.2
Paid-up capital	15.0	15.0	15.0	15.0	15.0	130.0	130.0	130.0	130.0	130.0	130.0	130.0
Revenueb	272.2	315.6	378.6	442.0	515.8	551.8	641.4	758.2	870.8	947.7	1 107.1	1 262.8
EBIT <sup>©</sup>	6.1	6.9	22.6	17.3	17.1	14.5	31.1	54.9	67.1	106.2 <sup>d</sup>	124.6 <sup>d</sup>	159.7
ЕВТ	3.7	4.5	14.6	3.6	-3.4	-9.9	3.8	28.7	37.7	42.7	66.6	108.5
Operating profit	3.2	7.6	8.8	3.2	-3.4	-9.9	3.8	28.5	37.6	43.1	36.7	66.1
Profit all sources	2.9	7.4	2.9	2.5	-0.5	-10.9	3.9	30.0	37.8	24.9	46.8	70.4
Dividend	2.3	6.0	2.3	2.3	0.0	0.0	0.0	0.1	0.1	13.3	15.0	19.8
Capital structure												
Debt/equity Interest-bearing	86:14	88:12	89:11	92:8	94:6	79:21	82:18	78:22	77:23	86:14	86:14	84:16
debt/equity Interest-bearing debt	77:23	81:19	80:20	87:13	92:8	72:28	73:27	67:33	66:34	75:25	72:28	68:32
operating leases/	52	D0				52	80.20	76:04	76.04	81.10	82.18	81.10
EBIT/interact <sup>f</sup>	25	11a 20	11a 20	12	0.0	11a 0.6	00.20	70.24	70.24	17	02.10	21
Current assets/	2.5	2.9	2.0	1.5	0.8	0.0	1.1	2.1	2.0	1.7	2.1	0.1
current liabilities <sup>g</sup>	0.9	0.5	0.6	0.7	0.4	0.8	0.8	0.9	0.4	0.7	0.5	0.4

	Year ended 30 June												
Indicator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	
Profitability (per cent)													
EBIT/total assets	3.1	2.9	8.4	4.5	3.3	2.3	5.4	8.8	8.9	7.9	8.0	9.8	
EBT/total assets	1.9	1.9	5.4	0.9	~0.6	-1.5	0.7	4.6	5.0	3.2	4.3	6.6	
EBT/equity	13.7	15.8	50.2	11.4	-10.6	-7.3	3.6	21.0	21.7	22.6	30.6	40.5	
Operating profit/													
equity	11.9	26.8	30.2	10.1	-10.6	-7.3	3.6	20.9	21.6	22.8	16.9	24.6	
Profit all													
sources/equity	10.7	26.1	10.0	7. <del>9</del>	-1.6	8.0	3.6	22.0	21.7	13.2	21.5	26.2	
EBIT/revenue	2.2	2.2	6.0	3.9	3.3	2.6	4.8	7.2	7.7	11.2	11.3	12.6	
Returns to shareholders	(per cent)												
Dividend/operating													
profit	71.9	78.9	26.1	71.9	0.0	0.0	0.0	0.0	0.0	30.9	40.9	30.0	
Dividend/profit all													
sources	79.3	81.1	79.3	92.0	0.0	0.0	0.0	0.0	0.0	53.4	32.1	28.1	
Dividend/equity	8.5	21.1	7.9	7.3	0.0	0.0	0.0	0.0	0.0	7.0	6.9	7.4	

TABLE II.2 (Cont.) AUSTRALIAN AIRLINES (CONSOLIDATED) FINANCIAL DATA, 1977-78 TO 1988-89

a.

b.

'Leased assets' on balance sheet for the first time. Reduces charge to profit by \$11.4 million in 1986–87. Figures in annual reports to 1987 for revenue and expenses excluded abnormals. Comparable figures for 1988 and 1989 are not shown. Revenue here includes sales revenue, interest revenue and 'other revenue'. From 1978 to 1980, EBIT does not include amortised interest on aircraft loans, which was not shown in the published accounts. This component is included for 1981, 1982 and 1983. From 1984, interest on aircraft purchases was no longer capitalised. For effects see page 22 of 1983–84 Annual C. Report.

Interest on financial leases included as financial leases are capitalised from 1987. Interest includes only net finance charges on leases, since balance sheet reflects net situation of borrowing to finance leased assets. d.

Operating leases include interest and principal components.
 The number of times interest payments are covered by EBIT.
 The number of times current liabilities are covered by current assets.

na Not available.

Sources TAA (1985); Australian Airlines (1989).

Indicator	Year ended 30 June 1989
Financial items (\$ million)	
Assets	589.8
Equity	248.7
Paid-up capital	217.8
Revenue	561.0
Expenses	516.3
	01.1
ED I Operating profit	44.7
Profit all courses	44.7
Dividend	0.0
	0.0
Capital structure	
Debt/equity	58:42
Interest-bearing debt/equity	47:53
IBD plus financial and	
operating leases/equity <sup>a</sup>	55:45
EBIT/interest <sup>D</sup>	3.7
Current assets/current liabilities <sup>c</sup>	1.0
Profitability (per cent)	10.4
EBI I/IOTAI ASSETS	10.4
EB I /total assets	7.6
EB I /equity	18.0
Operating profit/equity	18.0
Profit all sources/equity	12.4
EBIT/levenue	10.9
Returns to shareholders (per cent)	
Dividend/operating profit	0.0
Dividend/profit all sources	0.0
Dividend/equity	0.0

#### TABLE II.3 CIVIL AVIATION AUTHORITY FINANCIAL DATA, 1988-89

a. Operating leases include interest and principal components.b. The number of times interest payments are covered by EBIT.c. The number of times current liabilities are covered by current assets.

Note CAA began trading on 1 July 1988.

Source CAA (1989).

	Year ende	d 31 March
Indicator	1988	1989
Financial items (\$ million)		
Assets	1 126.5	1 174.5
Equity	649.2	717.5
Paid-up capital	648.0	648.0
Revenue	52.8	248.3
Expenses	51.0	204.6
EBIT	13.8	89.8
EBT	1.8	43.7
Operating profit	1.8	43.7
Profit all sources	1.8	43.7
Dividend	0.0	12.8
Capital structure		
Debt/equity	42:58	39:61
Interest-bearing		
debt/equity	38:62	36:64
IBD plus financial and		
operating leases/equity <sup>a</sup>	38:62	36:64
EBIT/interest <sup>D</sup>	1.2	1.9
Current assets/current		
liabilities <sup>c</sup>	0.7	1.8
Profitability (per cent)		
EBIT/total assets	1.2 <sup>d</sup>	7.6
EBT/total assets	0.2 <sup>d</sup>	3.7
EBT/equity	0.3 <sup>d</sup>	6.1
Operating profit/equity	0.3 <sup>d</sup>	6.1
Profit all sources/equity	0.3 <sup>d</sup>	6.1
EBIT/revenue	26.1	36.2
Returns to shareholders (per ce	nt)	
Dividend/operating profit	0.0	29.3
Dividend/profit all sources	0.0	29.3
Dividend/equity	0.0	1.8
• •		

#### TABLE II.4 FEDERAL AIRPORTS CORPORATION FINANCIAL DATA, 1987-88 TO 1988-89

a. Operating leases include interest and principal components.b. The number of times interest payments are covered by EBIT.c. The number of times current liabilities are covered by current assets.

d. Results are for three months only.

Note FAC began trading on 1 January 1988.

Source FAC (1989).

	Year ended 30 June												
Indicator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	
Financial items (\$ million	1)		-			-			·			-	
Assets	496.7	506.2	482.7	367.6	368.1	346.2	403.6 <sup>a</sup>	448.2	375.3	361.3	339.7	389.2	
Equity	31.2	26.5	18.5	25.5	28.1	91.9	–3.7 <sup>b</sup>	85.9	94.9	134.4	131.2	165.8	
Paid-up capital	35.9	35.9	35.9	35.9	35.9	125.9	125.9	196.4	196.4	196.4	196.4	196.4	
Revenue	321.0	373.8	423.1	464.7	502.8	509.1	569.6	601.3	564. <b>3</b>	531.7	530. <b>3</b>	576.8	
EBIT	36.0	30.7	18.3	28.1	24.9	5.5	40.3 <sup>c</sup>	44.3	46.2	13.1	27.3	11.6	
EBT	5.7	-4.7	8.0	7.1	2.5	-25.3	-67.7	18.8	<b>27.0</b>	0.6	17.7	3.1	
Operating profit	5.7	-4.7	-8.0	7.1	2.5	25.3	-67.8	18.8	19.0	-0.9	8.6	2.8	
Profit all sources	5.7	-4.7	-8.0	7.1	2.5	-26.2	-67.8	19.1	··· 19:0	39.5	3.8	6.0	
Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0 <sup>d</sup>	5.0	.00	7.0	1.7	
Capital structure		-											
Debt/equity	94:6	95:5	96:4	93:7	92:8	74:26	101:-1	81:19	75:25	63:37	61:39	57:43	
Interest-bearing debt/equity	93:7	94:6	95:5	90:10	89:11	62:38	103:–3	31:69	14:86	10:90	12:88	7:93	
Interest-bearing debt plus financial and operating leases/													
equity <sup>e</sup>	па	па	na	na	na	na	101:1	89:11	85:15	76:24	.74:26	69:31	
EBIT/interest <sup>f</sup> Current assets/	1.2	0.9	0.7	1.3	1.1	0.3	-1.5	1.7	2.4	1.0	2.8	1.4	
current liabilities <sup>g</sup>	0.5	0.7	0.7	0.4	0.8	0.8	0.6	1.0	0.9	0.9	1.0	0.9	

TABLE II.5 AUSTRALIAN NATIONAL LINE (CONSOLIDATED) FINANCIAL DATA, 1977-78 TO 1988-89

80

	Year ended 30 June												
Indicator	1978	197 <del>9</del>	1980	<b>19</b> 81	1982	1983	1984	1985	1986	1987	1988	1989	
Profitability (per cent)													
EBIT/total assets	7.2	6.1	3.8	7.6	6.8	-1.6	-10.0	9.9	12.3	3.6	8.0	3.0	
EBT/total assets	1.1	-0.9	-1.7	1.9	0.7	-7.3	-16.8	4.2	7.2	0.2	5.2	0.8	
EBT/equity	18.3	-17.7	-43.2	27.8	8.9	27.5		21.9	28.5	0.4	13.5	1.9	
Operating profit/													
equity	18.3	-17.7	-43.2	27.8	8. <del>9</del>	-27.5		21.9	20.0	-0.7	6.6	1.7	
Profit all													
sources/equity	18.3	-17.7	-43.2	27.8	8.9	-28.5		22.2	20.0	29.4	2.9	3.6	
EBIT/revenue	11.2	8.2	4.3	6.0	5.0	-1.1	-7.1	7.4	8.2	2.5	5.1	2.0	
Returns to shareholders	(per cent)												
Dividend/operating													
profit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.6	26.3	0.0	81.4	60.7	
Dividend/profit all													
sources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.2	26.3	0.0	184.2	28.3	
Dividend/equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.8	5.3	0.0	5.3	1.0	

#### TABLE II.5 (Cont.) AUSTRALIAN NATIONAL LINE (CONSOLIDATED) FINANCIAL DATA, 1977-78 TO 1988-89

a. 'Leased assets' on balance sheet for first time.
b. Method of accounting for leases changed in 1983–84.
c. Interest on financial leases is included from 1984 when financial leases were capitalised.
d. This dividend was paid during 1986, but not provided for during 1985.
e. Operating leases include interest and principal components.
f. The number of times interest payments (including interest on financial leases from 1984) are covered by EBIT.
g. The number of times current liabilities are covered by current assets.

.. Not applicable. na Not available.

Source Australian Shipping Commission (1989).

	Year ended 30 June													
Indicator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989		
-inancial items (\$ million)								<u> </u>	• • • • •					
Assets	427.1	461.4	503.7	534.1	578.3	608.0	634.4	663.0	654.6	667.1	715.8	794.6		
Equity	291.7	290.7	284.0	267.4	259.9	242.9	214.1	222.0	233.9	231.9	209.6	175.3		
Paid-up capital	320.5	320.5	320.5	320.5	320.5	320.5	323.2	323.2	323.2	323.2	323.2	323.2		
Revenue <sup>a</sup>	122.0	131.8	158.0	181.4	195.3	193.9	227.1	252.5	283.3	283.3	306.5	331.2		
Expenses	195.8	204.7	222.8	244.0	268.0	300.4	325.2	330.1	352.7	352.0	358.4	381.7		
EBİT	84.4	-68.3	-60.6	-58.5	-69.2	-110.1	-108.8	-63.4	-41.3	-47.0	-58.5	-65.5		
EBT	-88.2	-72.4	-64.8	-62.7	-73.6	-121.1	-124.4	-83.9	-61.0	-66.6	78.9	- <del>-9</del> 0.2		
Operating profit	-88.2	72.4	-64.8	-62.7	-73.6	-121.1	-124.4	-83.9	61.0	-66.6	-78.9	<u>-90.2</u>		
Profit all sources	88.2	-72.4	-64.8	-72.6	-75.7	-119.3	-120.5	-80.0	-60.7	67.1	-77.5	-85.4		
Commonwealth subsidy														
o meet operating loss	64.1	63.7	58.1	56.0	68.2	102.4	89.0	87.9	23.6	20.2	12.1	8:9		
nterest subsidy	-4.7	7.6			2.2	3.6								
CSO supplement	na	na	па	na	na	па	na	na	48.9 <sup>b</sup>	44.9	43.2	42.1		
EBIT including CSO														
supplement	na	na	па	па	na	na	па	na	7.6 <sup>b</sup>	-2.1	15.3	-23.4		
Profit all sources														
ncluding CSOS	па	na	па	na	na	na	па	na	-11.8 <sup>b</sup>	22.2	-34.3	-43.3		
Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
		-												

TABLE II.6 AUSTRALIAN NATIONAL RAILWAYS COMMISSION FINANCIAL DATA, 1977-78 TO 1988-89

82

	Year ended 30 June												
Indicator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	
Capital structure													
Debt/equity	32:68	37:63	44:56	50:50	55:45	60:40	66:34	67:33	64:36	65:35	71:2 <del>9</del>	78:22	
Interest-bearing													
debt/equity <sup>c</sup>	24:76	30:70	37:63	43:57	48:52	53:47	58:42	56:44	55:45	55:45	61:39	69:31	
EBIT including													
CSOs/interest <sup>d</sup>	na	na	na	na	na	na	na	па	0.39 <sup>b</sup>	-0.11	-0.75	-0.94	
Current assets/													
current liabilities <sup>e</sup>	1.3	3.0	2.5	1.6	1.4	2.3	2.6	1.3	0.9	0.9	0.6	0.7	
Profitability (per cent)													
EBIT/total assets	-19.8	14.8	12.0	-10.9	-12.0	-18.1	17.2	9.6	-6.3	-7.0	8.2	-8.2	
EBIT including CSOs/													
total assets	na	na	na	na	na	na	na	na	1.2 <sup>b</sup>	0.3	-2.1	-2.9	
EBT/equity	30.2	-24.9	22.8	-23.4	-28.3	49.9	-58.1	37.8	-26.1	-28.7	-37.6	51.5	
EBIT/revenue	-69.2	51.8	-38.4	-32.2	-35.4	-56.8	-47.9	25.1	-14.6	-16.6	-19.1	-19.8	
EBIT including CSOs/													
revenue	na	na	na	na	na	na	na	na	2.7 <sup>b</sup>	0.7	-4.9	-7.1	

#### TABLE II.6 (Cont.) AUSTRALIAN NATIONAL RAILWAYS COMMISSION FINANCIAL DATA, 1977–78 TO 1988–89

Revenue excludes community service obligations and commercial supplements. Data on community service obligations is from 1986–87 accounts. Includes loans which are interest-free until the Treasurer determines otherwise. The number of times interest payments are covered by EBIT. The number of times current liabilities are covered by current assets. a.

b.

C.

d.

e.

na Not available.

Notes 1. AN recorded no profits or returns to shareholders for the 12-year period.

- 2. Data on amortisation of capitalised interest are not available in published accounts.
- 3. Inclusion of operating leases with interest-bearing debt does not affect the value of the capital structure ratios.
- 4. Community service obligation supplement separately identified from 1986.

Source Australian National Railways (1989).

	Year ended 30 June												
Indicator	1978	1979	1980	1981		1983	1984	1985	1986	1987	1988	1989	
Financial items (\$ million)													
Assets	7 237.0	7 796.0	8 429.5	9 148.4	10 047.1	10 987.1	10 505.9	11 570.0	12 937.7	14 466.0	14 543.7	15 741.4	
Equity <sup>a</sup>	1 789.2	1 979.8	2 191.3	2 423.8	2 698.9	2 879.5	1 984.3	2 354.2	2 818.9	3 262.2	2 483.9	<b>3</b> 466.2	
Paid-up capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Revenue	1 856.5	2 044.4	2 280.8	2 609.4	3 084.4	3 635.8	4 220.7	4 764.9	5 471.7	6 057.4	7 199.5	7 976.B	
Expenses	1 671.6	1 853.9	2 069.3	2 376.9	2 809.3	3 373.2	3 911.9	4 379.7	5 007. <b>1</b>	5 614,1	6 423.3	7 003.7	
EBIT	502. <b>2</b>	528.6	578.7	640.6	793.3	836.8	1 103.5	911.1	1 392.1	1 471.1	1 942.4	2 130.2	
EBT	184.9	190.5	211.5	232.5	275.1	180.6	241.6	12.2 <sup>b</sup>	464.6	443.3	776.2	973.1	
Operating profit	184.9	190.5	211.5	232.5	275.1	180.6	241.6	12.2 <sup>b</sup>	464.6	443.3	776.6	973.1	
Profit all sources	184.9	190.5	211.5	232.5	275.1	180.6	895.2 <sup>c</sup>	369.9 <sup>d</sup>	464.6	443.3	-805.6 <sup>c</sup>	974.2	
Dividend		•										• ••	
Capital structure							-	-				-	
Debt/equity Interest-bearing	75:25	75:25	74:26	74:26	73:27	74:26	81:19	80:20	78:22	77:23	83:17	78:22	
debt/equity <sup>e</sup> Interest-bearing debt plus financial	74:26	73:27	72:28	71:29	71:29	71:29	79:21	76:24	74:26	73:27	79:21	73:27	
	52	<b>n</b> 2	<b>D</b> 2	na	na	na	70.21	76.24	75.25	74.26	80.20	74.26	
EBIT/interest <sup>g</sup>	16	16	16	16	15	13	13.21	10	1 5	1 /	17	1.8	
	1.0	1.0	0.1	1.0	1.5	1.0	1.5	1.0	1.5	1.4	1.7	1.0	
current liabilities <sup>h</sup>	1.8	1.7	1.9	1.5	. 1.5	1.2	0.8	0.8	0.7	0.5	0.7	1.0	

	Year ended 30 June											
Indicator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Profitability (per cent)												
EBIT/total assets	6.9	6.8	6.9	7.0	7.9	7.6	10.5	7.9 <sup>b</sup>	10.8	10.2	13.4 <sup>c</sup>	13.5
EBT/total assets	2.6	2.4	2.5	2.5	2.7	1,6	2.3	0.1 <sup>b</sup>	3.6	3.1	$5.3^{\circ}$	6.2
EBT/equity	10.3	9,6	9.7	9.6	10.2	6.3	12.2	$0.5^{b}$	16.5	13.6	31.2	28.1
Operating profit/												
equity	10.3	9.6	9.7	9.6	10.2	6.3	12.2	$0.5^{b}$	16.5	13.6	31.3	28.1
Profit all												
sources/equity	10.3	9.6	9.7	9.6	10.2	6.3	-45.1 <sup>c</sup>	15.7	16.5	13.6	32.4 <sup>c</sup>	28.1
EBIT/revenue	27.1	25.9	25.4	24.6	25.7	23.0	26.1	19.1	25.4	24.3	27.0	26.7

#### TABLE II.7 (Cont.) TELECOM (CONSOLIDATED) FINANCIAL DATA, 1977-78 TO 1988-89

a. Telecom's equity refers to reserves only in the balance sheet.
b. A change in Telecom's accounting policy to provide for workers' compensation liabilities.
c. Assets revalued downwards under changed accounting policy.
d. Reduction in superannuation liability.
e. Interest-bearing debt includes the superannuation provision on which interest is paid.
f. Operating leases include principal and interest components.
g. The number of times interest payments are covered by EBIT. Interest payments include only those which were expensed, not total payments.
h. The number of times current liabilities are covered by current assets.

.. Not applicable. na Not available.

Note Financial leases capitalised from 1988.

Source Telecom (1989).

1989	BTCE Informat
1 920.4	ion S
1 088.5	ס
0.0	ap
1 811.8	er
1 765.6	35
51.5	
46.2	

TABLE II.8 AUSTRALIA POST (CONSOLIDATED) FINANCIAL DATA, 1977-78 TO 1988-89

		Year ended 30 June											
Indicator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	
Financial items (\$ million)						_							
Assets	299.4	314.4	345.4	361.2	362.0	396.1	471.5	512.0	599.5	716.9	855.1	1 920.4	
Equity <sup>a</sup>	62.6	85.2	96.9	84.2	64.9	73.7	97.9	122.4	29.7	61.6	116.8	1 088.5	
Paid-up capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Revenue	578.7	646.5	690.2	782.1	887.4	991.0	1 095.8	1 211.3	1 325.4	1 505.1	1 656.6	1 811.8	
Expenses	576.7	623.9	678.5	794.8	886.6	990.6	1 071.6	1 186.8	1 294.5	1 450.2	1 600.9	1 765.6	
EBIT	8.2	26.7	14.5	-10.6	-16.1	13.0	30.1	30.7	37.1	62.1	61.7	51.5	
EBT	2.1	22.6	. 11.7	-12.7	-19.2	8.8	24.2	24.5	30. <del>9</del>	54.9	55.7	46.2	
Operating profit	2.1	22.6	11.7	-12.7	-19.2	8.8	24.2	24.5	30.9	54.9	55.3	46.0	
Profit all sources	2.1	22.6	11.7	-12.7	-19.2	8.8	24.2	24.5	30.9	54.9	55.3	61.8	
Dividend													
Capital structure	·*.			1									
Debt/equity	79:21	73:27	72:28	77:23	82:18	81:19	79:21	76:24	95:5	91:9	86:14	43:57	
Interest-bearing													
debt/equity	55:45	39:61	29:71	32:68	38:62	38:62	32:68	28:72	63:37	44:56	24:76	4:96	
Interest-bearing debt													
plus financial													
and operating													
leases/equity <sup>b</sup>	na	na	па	па	na	па	па	па	na	60:40	43:57	12:88	
EBIT/interest <sup>c</sup>	1.3	6.5	5.0	-5.0	-5.2	3.1	5.1	5.0	6.0	8.6	10.3	9.7	
Current assets/													
current liabilities <sup>d</sup>	1.4	1.4	1.2	1.0	0.9	0.8	0.9	1.0	0.8	0.8	0.8	0.8	

	Year ended 30 June											
Indicator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Profitability (per cent)												
EBIT/total assets	2.7	8.5	4.2	2.9	-4.4	3.3	6.4	6.0	6.2	8.7	7.2	2.7
EBT/total assets	0.7	7.2	3.4	-3.5	5.3	2.2	5.1	4.8	5.2	7.7	6.5	2.4
EBT/equity	3.4	26.5	12.1	15.1	-29.6	11.9	24.7	20.0	104.0	89.1	47.7	4.2
Operating profit/												
equity	3.4	26.5	12.1	-15.1	-29.6	11.9	24.7	20.0	104.0	89.1	47.3	4.2
Profit all												
sources/equity	3.4	26.5	12.1	15.1	-29.6	11.9	24.7	20.0	104.0	89.1	47.3	5.7
EBIT/revenue	1.4	4.1	2.1	-1.4	-1.8	1.3	2.7	2.5	2.8	4.1	3.7	2.8

TABLE II.8 (Cont.) AUSTRALIA POST (CONSOLIDATED) FINANCIAL DATA, 1977-78 TO 1988-89

Australia Post's equity refers to reserves only in the balance sheet. In 1989 substantial revaluation of fixed assets occured. Operating leases include principal and interest components, The number of times interest payments are covered by EBIT. The number of times current liabilities are covered by current assets. а.

b.

C.

d.

na Not available.

Not applicable. ...

Note Australia Post retained all profits over the 12-year period.

Source Australia Postal Commission (1989).

	Year ended 31 March											
Indicator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Financial items (\$ million)												
Assets	135.6	142.9	171.5	195.0	308.0	411.5	510.5	653.0	764.2	885.5	916.8 <sup>a</sup>	1 143.5
Equity	82.7	75.3	82.2	98.4	176.2	184.4	198.9	238.6	265.2	307.2	365.8	542.2
Capital	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Net funds provided by the												
Commonwealth (cumulative)	7.5	-0.5	0.5	-0.5	0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Revenue	121.1	143.2	176.3	212.4	260.5	300.1	546.8 <sup>b</sup>	657.3	836.3	1 004.9	1 167.2	1 280.0
Expenses	97.6	109.0	130.2	162.0	212.8	257.3	482.9 <sup>b</sup>	564.3	735.5	880.2	976.8	985.2
EBIT	26.8	33.3	51.0	50.2	44.2	44.7	72.1	105.7	121.1	147.6	211.8	311.5
EBT	26.8	33.3	51.0	50.2	43.7	42.1	63.9	93.0	100.9	124.7	190.4	294.8
Operating profit	13.5	18.0	28.9	27.4	20.0	18.8	30.3	48.1	58.5	79.7	100.8	184.9
Profit all sources	13.8	18.1	31.5	30.0	19.9	16.3	30.3	48.2	55.6	80.1	103.6	188.7
Dividend	12.5	17.5	25.0	20.0	19.0	12.5	18.4	19.9	29.8	39.8	46.0	84.0
Capital structure												
Debt/equity	39:61	47:53	52:48	50:50	43:57	55:45	61:39	63:37	65:35	65:35	60:40	53:47
debt/equity Interest-bearing debt plus financial	0:100	2:98	2:98	2:98	6:94	35:65	45:55	48:52	47:53	47:53	39:61	24:76
and operating leases/equity <sup>c</sup>	2.98	20.80	18.82	16.84	20·80	41.50	49·51	52.48	18.52	17-53	40.60	25.75
EBIT/interest <sup>d</sup> Current assets/					88.4	17.2	8.8	8.2	40.02	-47.33 6.4	9.9	18.6
current liabilities <sup>e</sup>	1.0	0.7	0.7	0.6	0.6	0.5	0.5	0.5	2.3	0.5	0.6	0.9

TABLE II.9 OTC LIMITED (FORMERLY OVERSEAS TELECOMMUNICATIONS COMMISSION) FINANCIAL DATA, 1977-78 TO 1988-89

		Year ended 31 March											
Indicator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	
Profitability (per cent)													
EBIT/total assets	19.8	23.3	29.7	25.7	14.4	10.9	14.1	16.2	15.8	16.7	23.1	27.2	
EBT/total assets	19.8	23.3	29.7	25.7	14.2	10.2	12.5	14.2	13.2	14.1	20.8	25.8	
EBT/equity	32.4	44.2	62.0	51.0	24.8	22.8	32.1	39.0	38.0	40.6	52. <b>1</b>	54.4	
Operating profit/													
equity	16.3	23.9	35.2	27.8	11.4	10.2	15.2	20.2	22.1	25.9	27.6	34.1	
Profit all													
sources/equity	16.7	24.0	38.3	30.5	11.3	8.8	15.2	20.2	21.0	26.1	28.3	34.8	
EBIT/revenue	22.1	23.3	28.9	23.6	17.0	14.9	13.2 <sup>b</sup>	16.1	14.5	14.7	18.1	24.3	
Returns to shareholders	(per cent)												
Dividend/operating													
profit	92.6	97.2	86.5	73.0	95.0	66.5	60.7	41.4	50.9	49.9	45.6	45.4	
Dividend/profit all													
sources	90.6	96.7	79.4	66.7	95.5	76.7	60.7	41.3	53.6	49.7	44.4	44.5	
Dividend/equity	15.1	23.2	30.4	20.3	10.8	6.8	9.3	8.3	11.2	13.0	12.6	15.5	

TABLE II.9 (Cont.) OTC LIMITED (FORMERLY OVERSEAS TELECOMMUNICATIONS COMMISSION) FINANCIAL DATA, 1977–78 TO 1988–89

a. Revised to \$952.7m in 1988–89 accounts.
b. Change in accounting policy from 1984: overseas network costs expensed and revenue shown gross of these costs. Revenue and costs increase by the same amount, for example, \$498.9 million in 1987–88. This charge substantially affects the EBIT to revenue ratio.
c. Operating leases include principal and interest components.
d. The number of times interest payments are covered by EBIT.
e. The number of times current liabilities are covered by current assets.
... Not applicable.

Source OTC (1989).

Year ende	ed 30 June			
1985	1986	1987	1988	1989
406.1 <sup>a</sup>	483.7	504.7	486.0	537.1
72. 1	38.8	59.2	43. <del>9</del>	22.0
90.8	100.0	100.0	100.0	100.0
0.5	28.6	73.7	104.1	142.6
-7.9 · ·	-14.6	7.2	25.9	-47.2
-9.2	-42.6	-35.0	-10.2	3.2
-9.2	-42.6	-17.8	-5.3	2.3
-9.2	-42.6	-17.8	-17.2	-21.9
0.0	0.0	0.0	0.0	0.0
82:18	92:8	88:12	91:9	96:4
80:20	91:9	87:13	90:10	95:

89:11

0.2

0.9

92:8

0.7

1.6

96:4

1.1

0.8

#### TABLE II.10 AUSSAT FINANCIAL DATA, 1981-82 TO 1988-89

1982

15.0

5.5

6.0

0.0

-0.5

-0.5

-0.5

-0.5

0.0

63:37

0:100

2:98

..

0.1

1983

129.2

45.9

49.5

0.1

-2.6

-3.1

-3.1

-3.1

0.0

65:35

61:39

61:39

-5.2

3.2

1984

218.7

40.1

49.5

-5.3

-5.9

-5.9

-5.9

0.0

82:18

81:19

81:19

-8.8

1.5

83:17

-6.1

0.2

92:8

-0.5

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Indicator

Assets

Equity

Revenue

EBIT -

Dividend

equity<sup>c</sup>

EBT

Paid-up capital

Operating profit<sup>b</sup>

Profit all sources<sup>b</sup>

Capital structure Debt/equity

Interest-bearing debt/equity

IBD plus financial and operating leases/

EBIT/interest<sup>d</sup>

Current assets/ current liabilities<sup>e</sup>

Financial items (\$ million)

BTCE Information Paper 35

#### TABLE II.10 (Cont.) AUSSAT FINANCIAL DATA, 1981-82 TO 1988-89

	Year ended 30 June										
Indicator	1982	1983	1984	1985	1986	1987	1988	1989			
Profitability (per cent)											
EBIT/total assets	-3.3	-2.0	-2.4	1.9	3.0	1.4	<b>5.3</b>	8.8			
EBT/total assets	-3.3	-2.4	-2.7	-2.3	-8.8	6.9	-2.1	0.6			
EBT/equity	-9.1	6.8	-14.7	-12.8	109.8	59.1	23.2	<b>14</b> .5			
Operating profit <sup>b</sup> /											
equity	<b>⊸9.1</b>	-6.8	-14.7	12.8	-109.8	-30.1	12.1	10.5			
Profit all											
sources/equity <sup>b</sup>	-9.1	-6.8	-14.7	12.8	-109.8	-30.1	-39.2	-99.4			
EBIT/revenue		-2 600	5 300	<b>-1</b> 580	-51.0	9.8	24.9	33.1			

а.

Leased assets on balance sheet for first time. Tax effect accounting began in 1987. Income tax benefit of \$38.2 million was attributed to years up to and including 1986. Operating leases include interest and principal components. The number of times interest payments are covered by EBIT. The number of times current liabilities are covered by current assets. Not applicable. b.

C.

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Note AUSSAT commenced operations in November 1981.

Source AUSSAT (1989).

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1985	1986
56:44	58:42
38:62	42:58
3.2	3.0
10.8	10.9
7.4	7.3
16.6	17.5
9.6	10.5
10.0	10.4
53.3	47.9
51.2	48.4
5.1	5.0
	56:44 38:62 3.2 10.8 7.4 16.6 9.6 10.0 53.3 53.3 . 51.2 5.1

#### RESERVE BANK ALL INDUSTRIAL AVERAGE (PRIVATE SECTOR) FINANCIAL DATA, 1978 TO 1986<sup>a</sup> TABLE II.11

Data were aggregated from company accounts balancing at various dates during a calender year. The number of times interest payments are covered by EBIT. a. b.

Note Some differences in the treatment of extraordinary and abnormal items in striking profit figures may render these ratios not strictly comparable with the GBE calculations.

Sources Reserve Bank of Australia (1984, 1986, 1988); BTCE estimates. The Reserve Bank data comprise several series which vary according to the composition of the sample group. Where the series overlap, the data have been averaged.

#### TABLE II.12 RATIO OF EARNINGS BEFORE INTEREST AND TAX TO TOTAL ASSETS (STOCK EXCHANGE DATA), 1977–78 TO 1987–88

(per cent)

Year ending 30 June	EBIT to total assets
1978	11.2
1979	11.8
1980	12.7
1981	11.6
1982	9.6
1983	8.9
1984	8.6
1985	9.7
1986	10.1
1987	9.9
1988	9.7

Sources Stock Exchange (1980, 1982, 1985, 1987, pers. comm., 1989); BTCE estimates. The Stock Exchange data are comprised of overlapping series which vary according to the composition of the sample group. Where series overlap, the data have been averaged.

#### TABLE II.13 PRIVATE SECTOR FINANCIAL DATA, 1984-85 TO 1987-88

	Year ended 30 June								
Indicator	1985	1986	1987	1988					
Debt to equity Financial debt to	52:48	55:45	56:44	59:41					
equity <sup>a</sup>	39:61	47:53	45:55	50:50					
Interest cover Earnings on shareholders' funds	3.10	2.96	2.72	2.52					
after tax (per cent) Effective tax rate	9.60	10.66	9.67	9.60					
(per cent) EBIT per sales	40.72	38.37	37.49	42.21					
dollar (per cent) Pay-out ratio (per	10.84	12.28	12.73	12.94					
cent) <sup>b</sup>	48.16	48.22	49.03	61.72					

a. Interest bearing debt to 'ordinary equity' net of intangibles.

b. Ordinary dividend to operating profit.

Source Stock Exchange, pers. comm. (1989).

# APPENDIX III MEASURES OF PERFORMANCE: DEFINITION OF TERMS AND DESCRIPTION

### DEFINITIONS

EBIT	Earnings before interest (including interest on capitalised financial leases) and tax, including abnormals, excluding extraordinaries
EBT	Earnings after interest (including interest on capitalised financial leases), before tax, including abnormals, excluding extraordinaries
Operating profit	EBT less tax
Profit all sources	Profit after tax and extraordinaries (operating profit after extraordinaries)
Pay-out ratio	Ratio of dividend to operating profit
Equity	Book value of total assets less total current and non-current liabilities
Debt to equity ratio	Ratio of total assets less equity to equity. This ratio is readily comparable with stock exchange data on shareholders' interest, defined as the ratio of total equity to total assets. The financial sector is excluded from the Stock Exchange's calculation of shareholders' interest, in contrast to its debt to equity calculation.
Interest-bearing debt (IBD) to equity ratio	Ratio of IBD (excluding all leases) to all equity plus IBD. This differs from the Stock Exchange debt to equity ratio which is equal to the ratio of financial debt (equals interest- bearing debt) to 'ordinary equity' net of intangibles.
IBD + FL + OL to equity ratio	Ratio of interest-bearing debt plus financial and operating leases to equity. This ratio includes the principal component of financial leases and the principal and interest component of operating leases.

### BTCE Information Paper 35

In calculating ratios in this paper, assets are valued at end of year values. Figures for financial aggregates and ratios are derived from consolidated accounts of the GBEs rather than the parent companies.

### DESCRIPTION OF MEASURES OF PERFORMANCE

The performance of an enterprise might be assessed by reference to one or more of the following:

- rates of return;
- financial aggregates (for example, profits, costs and shareholder funds); growth rates of financial aggregates;
- levels of self-financing;
- . turnover ratios (for example, profit margins);
- measures of financial productivity (for example, sales per employee);
- liquidity ratios (for example, current assets to current liabilities);
- capital gearing ratios (for example, debt to equity);
- income gearing ratios (for example, interest cover);
- non-financial indicators (for example, partial or total factor productivity, output and quality of service standards).

### Rates of return

Rates of return are the most common general indicators of enterprise performance, and include rates of return on total assets, on fixed assets and on equity. The returns may be measured in a number of ways, inclusive or net of interest, tax, retained earnings, and extraordinary or abnormal items. Also, rates of return may be based on historical costs or may be real rates incorporating adjustments to allow for inflation. The respective advantages and disadvantages of these various measures of rate of return are discussed in the text of the paper.

#### Rate of return on assets

Frequently used ratios include:

- EBIT to total assets;
- EBIT to fixed assets.

#### Rate of return on equity

Frequently used ratios include:

- EBT to equity;
- operating profit to equity;
- profit all sources to equity;
- dividend to equity.

Returns on equity have particular relevance for financial institutions, where capital funds employed are not invested in fixed assets in the same sense as in other enterprises, but lent out.

## Rate of return on new investment (target discount rate)

While financial targets based on returns to existing assets may be employed to assess the current performance of an enterprise, and to encourage it to use its assets more efficiently, efficiency gains can also be sought through the use of target rates of return or target discount rates for future investments, such that these investments provide returns at least equal to the opportunity cost of the capital employed. Such target discount rates would, in contrast to rates of return on existing assets which are influenced by the profitability of past investments, tend to be the same for all GBEs, risk aside.

## Financial aggregates

Governments have often monitored the performance of GBEs having regard to various financial aggregates, particularly the level of profits (or losses), or indeed costs. Such aggregates may be compared over time or expressed as growth rates. Financial aggregates represent an easily understood means of monitoring performance, but unless referred to assets or output, for example, they are likely to be misleading indicators of performance. They may, however, provide a useful supplement to other measures of performance; for example, they may discourage steps designed to boost an enterprise's rate of return through reduction of its asset base. In the case of monopolistic GBEs, cost movements, valued in real terms, may be especially useful.

Financial aggregates, used as indicators of performance, may relate to turnover, costs, revenue or sales, various profit measures such as EBIT, EBT, operating profit, profit all sources, and dividends.

Targets based on financial aggregates have been applied in the United Kingdom in the cases of the National Coal Board and the National Bus Company.

## Level of self-financing

This type of measure has most relevance when capital rationing operates (for example, GBEs remain within Loan Council global limits). It is not, however, an indicator of efficiency in so far as investment needs may be limited, or in so far as it results from excessive prices. A target rate of self-financing can cause distortions in pricing and investment. For example, a high rate may be the equivalent of an indirect tax on current consumers (forcing them to pay for future investment). Nevertheless, this form of target has often been included in the targets set for GBEs prior to the recent reforms (see appendix V).

## Turnover ratios

Ratios concerning turnover may provide useful insights into the efficiency of operations of an enterprise. They include, for example, ratios such as EBIT to revenue, profit (either before or after tax) to revenue and cost of sales to revenue. Such ratios may have value for indicating performance in enterprises which are highly labour-intensive, or where asset valuation presents intractable problems.

#### BTCE Information Paper 35

However, turnover ratios can be misleading. For example, total profit may remain constant or increase (and rate of return on total assets may be constant or rising) while the profit to sales ratio declines. Conversely, the profit to sales ratio may rise, while total profit declines.

Another role for these ratios would appear to be to provide an indicator of short-term movements in costs and revenues as output changes, and hence of the profitability of such changes. As such they would serve more as an aid to management than a measure of financial performance.

#### Measures of financial productivity

These relate financial aggregates to inputs, most commonly expressing profits or revenue earned per unit of input, usually per employee. As in the case of turnover ratios they may be useful where production is labour-intensive, or assets difficult to value, rendering usual rate of return measures less useful.

### Liquidity ratios

A number of measures exist to indicate an enterprise's capacity to meet its immediate debt obligations. These measures include the current ratio (current assets to current liabilities) and the liquidity ratio (cash, marketable securities and receivables to current liabilities). An improvement in the liquidity ratio may mean that the enterprise is allowing cash to remain idle, indicating poor management, while from a creditor's perspective this may be viewed as advantageous. Judgment is therefore needed in interpreting these ratios.

#### Non-financial measures of performance

Financial measures of performance by themselves do not necessarily indicate that an enterprise's management is performing to the appropriate standard in using the firm's assets efficiently. In situations where an enterprise has a degree of market power, financial targets may be achieved by means such as price increases. The use of non-financial indicators may assist in these circumstances. Selection of non-financial indicators would need to be made on a case by case basis having regard to the individual characteristics of the enterprise. The following indicators may be suitable:

- physical output measures (for example, aircraft hours, tonne-kilometres, tonnes consigned, service connections);
- partial productivity measures (for example, output per employee in using indicators of partial productivity it must be recognised that change in output is thereby attributed to only one factor and that there may be comparability problems, arising for example from the practice of contracting out;
- total factor productivity, arguably the best indicator of enterprise performance over time — this can provide an important supplementary source of information on performance, particularly where an enterprise has market power, or the ability to vary its asset base to influence rate of return;

- market share position;
- quality of service measures (for example, delay times, complaints);
- industrial relations measures (for example, industrial disputation, staff turnover).

### Capital structure ratios

While not strictly speaking indicators of performance, capital structure ratios permit assessment of an enterprise's viability in terms of its ability to cover interest payments on borrowings, to raise equity capital, and to weather difficult economic conditions.

These ratios include capital gearing ratios and income gearing ratios.

### Capital gearing

The capital gearing ratios include:

- total debt to total asset ratio (shareholder's interest), and debt to equity ratio, which show, respectively, the proportion of total funds contributed by the enterprise's creditors and the proportions contributed by creditors and owners; and
- interest-bearing debt to equity ratio, which measures how an enterprise has chosen to finance its operations, either by use of financial debt or by shareholders' equity — the higher the ratio the less is the protection afforded to lenders and the more difficult and expensive it might be to borrow.

Capital gearing ratios may also be presented inclusive of financial, and even operating leases, providing an indication of the possible full extent of interest-bearing commitments.

### Income gearing

Lenders and shareholders make extensive use of the ratio of EBIT to interest payments (income gearing) to assess the ability of an enterprise to meet its annual fixed financial charges. The higher the ratio the more creditworthy is the organisation likely to be and the lower its borrowing rate.

The actual capital structure which is commercially desirable will vary over time and among enterprises. Indeed, a very low debt to equity ratio may not be efficient from the shareholders' viewpoint as its risk characteristics may be such that it is able to use low-cost debt to maximise returns.

Where public enterprises borrow on the basis of an explicit or implicit government guarantee, they will generally be able to maintain a higher gearing level than would otherwise be the case, as lenders will be prepared to make funds available at lower rates.
## APPENDIX IV LIABILITY FOR TAXATION

# TABLE IV.1 LIABILITY FOR TAXATION: QANTAS AND AUSTRALIAN AIRLINES

Tax	Qantas	Australian Airlines
Commonwealth		
Income tax	Yes	Yes
Sales tax	Yes	Yes
Excise and customs duty	Yes	Yes
Fringe benefits tax	Yes	Yes
State		
Payroll tax	Yes	Yes
Other	Yes	Yes
Local government rates and charges	Yes	Yes

Sources Annual reports; pers. comm.

#### TABLE IV.2 LIABILITY FOR TAXATION: CAA AND FAC

Tax	CAA	FAC
Commonwealth		
Income tax	No	No
Sales tax	Yes	No
Excise and customs duty	Yes	Yes
Fringe benefits tax	Yes	Yes
State		
Payroll tax Other	Yes Motor reg., stamp duty some States	From July 1988 Motor reg., no stamp duty most States
Local government rates and charges	Ex gratia payments in lieu	Ex gratia payments in lieu

Sources Annual reports; pers. comm.

### BTCE Information Paper 35

Tax	ANL	AN
Commonwealth		
Income tax	Yes	No decision
Sales tax	Yes	No decision
Excise and customs duty	Yes	From July 1989
Fringe benefits tax	Yes	Yes
State		
Payroll tax	Yes	From July 1988
Other	Yes	No
Local government rates		
and charges	Yes	Ex gratia payments in lieu (domestic residential property only)

#### TABLE IV.3 LIABILITY FOR TAXATION: ANL AND AN

Sources Annual reports; pers. comm.

#### TABLE IV.4 LIABILITY FOR TAXATION: TELECOM AND OTC

Telecom	OTC
From July 1990	Yes
From May 1987	Yes
From July 1989	Yes
Yes	Yes
· · ·	
From July 1988	Yes
From July 1989	From July 1989 (land tax from 1950s)
From July 1989 <sup>a</sup>	From July 1989 <sup>a</sup>
	Telecom From July 1990 From May 1987 From July 1989 Yes From July 1988 From July 1989

a. Previously had made ex-gratia payments in lieu.

Sources Annual reports; pers. comm.

Tax	Australia Post	AUSSAT
Commonwealth	···· · · · · · · · · · · · · · · · · ·	······
Income tax	From July 1990	Yes
Sales tax	From June 1986	Yes
Excise and customs duty	From May 1987	Yes
Fringe benefits tax	Yes	Yes
State		
Payroll tax	From July 1988	Yes
Other	From July 1989	Yes
Local government rates	_	
and charges	From July 1989 <sup>a</sup>	Yes

# TABLE IV.5 LIABILITY FOR TAXATION: AUSTRALIA POST AND AUSSAT

a. Previously had made ex gratia payments in lieu.

Sources Annual reports; pers. comm.

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## APPENDIX V FINANCIAL TARGETS OF TRANSPORT AND COMMUNICATIONS GBES BEFORE 1988

The financial targets of GBEs in the Transport and Communications portfolio before the Minister's statement of 25 May 1988 were, in brief, as follows:

- *Qantas* to make a profit sufficient to pay a prescribed dividend (Ministerial directive).
- Australian Airlines the board is to propose a financial target for the company for the following financial year which the Minister may accept or formally vary (Guidelines and Directives para. 9).
- Australian National Line to function as a commercial enterprise and make profits sufficient to pay the Commonwealth a reasonable rate of return (sections 17 and 18 of the Australian Shipping Commission Act 1956).
- Australian National to make profits each year sufficient to pay a reasonable return to the Commonwealth each year as determined by the Minister (section 57 of the Australian National Railways Commission Act 1983) with an interim target to break even on commercial services by 1988-89.
- *Telecom* to meet all expenditure chargeable to revenue and meet at least 50 per cent of capital expenditure each year from internal sources (section 73 of the *Telecommunication Act* 1975).
- Australia Post to meet all expenditure chargeable to revenue and meet at least 50 per cent of capital expenditure each year from internal sources (section 76 of the Postal Services Act 1975).
- OTC Limited to earn sufficient revenue to meet all expenditure chargeable against services and to permit the payment to the Commonwealth of a reasonable return on capital (section 38A of the Overseas Telecommunication Act 1946).
- AUSSAT to earn a reasonable rate of return on total assets, and provide from internal sources a reasonable proportion of capital expenditure to maintain an appropriate debt to equity level and pay a reasonable dividend on paid-up base capital (clause 3, Part 11 of the Memorandum).
- CAA not applicable: commenced trading 1 July 1988.
- *FAC* to produce an adequate return on airport investment and to improve revenue from non-aviation activities while taking account of other objectives.
- AMSA not applicable: to commence operations January 1991.

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### Abbreviations

AAS	Australian Accounting Standard
AGSM	Australian Graduate School of Management
AN	Australian National Railways Commission
CAA	Civil Aviation Authority
FAC	Federal Airports Corporation
IAC	Industries Assistance Commission
IAESR	Institute of Applied Economic and Social Research
OTC	OTC Limited — formerly Overseas Telecommunications
	Commission (Australia)
TAA	Trans Australia Airlines
Telecom	Australian Telecommunications Corporation formerly
	Australian Telecommunications Commission

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# ABBREVIATIONS

AA	Australian Airlines Limited
ACLS	Australian Commonwealth Line of Steamers
AGSM	Australian Graduate School of Management
AMSA	Australian Maritime Safety Authority
ANA	Australian National Airlines
ANAC	Australian National Airline Commission
ANL	Australian National Line
AN	Australian National Railways
AUSTEL	Australian Telecommunications Authority
AWA	Amalgamated Wireless Australia
BTCE	Bureau of Transport and Communications Economics
CAA	Civil Aviation Authority
CCA	Current cost accounting
CPO	Costs of public ownership
CSO	Community service obligation
EBIT	Earnings before interest and tax
EBT	Earnings before tax
FAC	Federal Airports Corporation
GBE	Government business enterprise
IAC	Industries Assistance Commission
IAESR	Institute of Applied Economic and Social Research
IBD	Interest-bearing debt
IC	Industry Commission
OTC	OTC Limited — formerly Overseas Telecommunications
	Commission (Australia)
PSA	Prices Surveillance Authority
QEA	Qantas Empire Airways
ROR	Rate of return
RPLA	Relative price level accounting
TAA	Trans Australia Airlines (now Australian Airlines)
Telecom	Australian Telecommunications Corporation — formerly
UK	United Kingdom