



## Draft Statement of Corporate Intent 2005/06

## INTRODUCTION

This is the ninth Statement of Corporate Intent prepared by the Fremantle Port Authority, now trading as Fremantle Ports, and is submitted under the provisions of the Port Authorities Act 1999 (the Act).

The Act requires that each Port Authority is to submit an annual Statement of Corporate Intent to the Minister for approval covering port activities over the next financial year. The Statement of Corporate Intent is to be submitted by 31<sup>st</sup> March each year.

### *Vision, Mission and Values*

Fremantle Ports' vision is *"to be creative and dynamic in delivering value to our customers and to Western Australians"*.

Fremantle Ports' mission is *"to add value for our customers and stakeholders by facilitating trade in a commercial and efficient manner while fulfilling our social and environmental responsibilities."*

Fremantle Ports' values are:

- Our people                      Respect, honesty and openness with one another
- Our work ethic                Commitment to achieving high work standards
- Our customers                A dedication to customer service
- Our workplace                A safe and satisfying place to work
- Our community  
  & environment                Care for the community and the environment

### *Services and Facilities*

Fremantle Ports provides services and facilities for shipping at the Inner Harbour at Fremantle and the Outer Harbour at Kwinana. The Inner Harbour handles container trade, break bulk cargo, livestock exports and motor vehicle imports and also accommodates cruise ships and visiting naval vessels. The Outer Harbour handles bulk cargoes including grain, petroleum, alumina, mineral sands, iron ore, coal, fertilisers and sulphur.

The port is a mixture of both Fremantle Ports' and privately operated facilities and services. Fremantle Ports provides and maintains shipping channels, navigation aids, common user cargo wharves and cargo wharves at leased terminals, the Overseas Passenger Terminal, road and rail transport infrastructure within the port area, moles and seawalls and other port infrastructure such as storage sheds, water, power and public amenities.

Three of the jetties in the Outer Harbour are operated by private companies, generally under Special Agreement Acts with the State. They are the Alcoa, BP and CBH facilities. The Kwinana Bulk Jetty and the Kwinana Bulk Terminal are operated by Fremantle Ports.

Services provided directly by Fremantle Ports include ship scheduling and berthing allocations, port communications, mooring (in the Inner Harbour and at some other facilities), some bulk stevedoring, emergency response, hazardous cargo services and quarantine and waste disposal services. Pilotage is provided under a contract arrangement with Fremantle Pilot Company while pilotage transport over water is provided directly by Fremantle Ports.

Services provided by the private sector include container stevedoring, towage, line boats, ships' bunkers and ships' providers. The two container stevedoring companies, P&O and Patrick, operate under long-term leases with Fremantle Ports and their performance is monitored under the terms of the lease agreements.

Fremantle Ports also manages an associated property portfolio in the port area of port related and other businesses of approximately 125 tenanted properties.

Fremantle Ports also cooperates with Commonwealth Government agencies responsible for customs, quarantine and maritime safety activities.

The port of Fremantle makes a major contribution to the Western Australian economy. An economic impact study for Fremantle Ports in 1998/99 showed that port activities at the time generated annual economic output of \$728 million and accounted for 5,792 full time job equivalents, including direct and flow-on effects.<sup>1</sup> This represented 0.8% of State employment. Total trade handled through the Inner Harbour and Outer Harbour is valued at \$15.6 billion per annum.

## **GOALS AND MAJOR PLANNED ACHIEVEMENTS**

Fremantle Ports aims to facilitate trade by being a competitive, responsive and value adding organisation, while fulfilling its environmental and social responsibilities. Its objectives and major planned achievements in 2005/06 are as follows:

### **(I) SERVICES AND FACILITIES**

#### **Our Objective**

☐ *To ensure that port services and facilities are reliable and competitive and meet customer needs.*

#### **Port Planning – Inner Harbour**

Port planning for the Inner Harbour continues to take a long term perspective ensuring that, through adopting the triple bottom line approach to planning and development, the ultimate sustainable capacity of the Inner Harbour can be achieved.

The most significant planning issues for the Inner Harbour are the need for efficient road and rail transport linkages to the port to cater for future growth in trade in a sustainable manner; urban encroachment near the port and its transport linkages; the potential need to cater for larger, deeper draft ships in the Inner Harbour and its access channels; and the intensification of use of the West End of Victoria Quay.

Fremantle Ports finalised the Inner Harbour Port Development Plan in 2000. The Plan is a strategic document setting the framework for future port development over the next 30 years and the various elements of the plan are being progressively implemented.

#### **Inner Harbour Transport Linkages**

Planned improvements to transport linkages to the Inner Harbour are based on the State Government's Six Step Solution arising from the 2002 Freight Network Review

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<sup>1</sup> These estimates do not include the total economic benefits of exports and imports or other industries in the port area not directly involved with the transportation of cargo.

Construction of the new North Quay rail loop, rail terminal and associated works have commenced and are expected to be completed in October 2005. This project is essential to achieve the Freight Network Review target of 30 % of the container trade on rail within ten years. Over the two years to June 2004, the rail share of containers railed to and from the Port has increased from 2% to 7% which is in accordance with planned targets.

Access to the new terminal will be dual gauge, enabling direct connection to regional areas serviced by the narrow gauge network. The identification and evaluation of regional freight tasks that can be undertaken by rail will become a major focus for future work.

A study was commenced in 2004 to examine arrangements that would improve the transport, handling and storage of containers moving to and from the Inner Harbour. This work is expected to be completed in early 2005/06.

The Six Step Solution recognises the vital role that road transport will continue to play in servicing the Inner Harbour. A number of initiatives are being pursued to achieve more efficient and effective road transport operations to the port, including improvements to the Vehicle Booking System, investigations into the scope for developing inland container parks, evaluation of potential road depot operations, and the use electronic technology to facilitate coordinated truck movements. A Local Impacts Committee has been formed to develop a strategy for managing traffic on major roads servicing the Port.

### **Inner Harbour Dredging**

Following the announced proposal to deepen the Port of Melbourne, and in response to concerns expressed regarding the need to deepen the Inner Harbour at Fremantle, Fremantle Ports has commenced an assessment of a capital dredging requirements at Fremantle to accommodate larger container vessels introduced into the Australian trade following the Melbourne initiative. A number of studies have been commissioned, including marine modeling work and the determination of the business aspects of the proposal. The studies will be progressed in 2005, with dredging works scheduled to commence, if approved, in 2006/07.

There is a continuing global trend towards replacing older vessels with new larger capacity vessels. The average size of container vessels calling at Fremantle has increased by 68% since 1992/93. This trend is expected to continue over the longer term. The larger sized vessels have enabled the average number of TEUs exchanged per vessel visit to increase significantly - the rate at present is nearly three times the rate in 1992/93.

### **Fremantle Waterfront Master Plan**

Fremantle Ports continues to implement the key elements of the Fremantle Waterfront Masterplan at the western end of Victoria Quay. The Masterplan is consistent with the operational requirements of an efficient working port.

Detailed public consultation for the proposed development of a multi-level office and retail development between the Railway Station and the Harbour is scheduled to commence in mid 2005, as part of the approvals process. Commercial terms have been agreed to with a private developer for the lease of this area. Fremantle Ports will work closely with the developer to ensure that all necessary approvals are obtained. To facilitate the project, Fremantle Ports will provide building services to the boundary of the site and construct a new 'at grade' crossing from Phillimore Street into the Commercial Precinct.

### **Port Planning – Outer Harbour**

Further port development is needed in the Outer Harbour to handle growth in the bulk commodity trades as well as container and break bulk trades beyond the capacity of the

Fremantle Inner Harbour. Planning takes a long term perspective and the triple bottom line approach is applied to both planning and project development.

Significant port planning issues for the Fremantle Ports' Outer Harbour are as follows:

- ❑ planning for the provision of container and general cargo facilities in the Outer Harbour to handle trade beyond the capacity of the Fremantle Inner Harbour;
- ❑ determination of future land requirements for port related uses in the Kwinana area and the Hope Valley Wattleup redevelopment area;
- ❑ the further development of facilities and infrastructure at the Kwinana Bulk Terminal to cater for HIs melt requirements and other customers;
- ❑ ensuring that long term key road and rail freight access requirements are provided for in planning schemes; and
- ❑ the further development of the Kwinana Bulk Jetty to meet new trade demands.

A Steering Committee which has been established to oversee planning for the expansion of container facilities in the Outer Harbour has been assessing preferred development options in consultation with the community and stakeholders. The current stage is a strategic assessment of four options and the subsequent stage is anticipated to involve seeking the necessary statutory approvals to the preferred option. The target is to complete the Outer Harbour Port Development Plan by the end of 2007.

### **Maritime Security**

With the proclamation of the Commonwealth's Maritime Transport Security Act 2003, and the global implementation of the International Ship and Port Facility Security Code (ISPS) on 1 July 2004, Fremantle Ports has increased its focus on the provision of high quality security services to its customers. A new security control centre is to be completed in early 2005, including an upgraded camera surveillance system and a control point for the remotely controlled security gates. Perimeter fencing around the port is being progressively upgraded to meet accepted security standards and new patrol security procedures are being implemented. Fremantle Ports is working with national authorities on the development and implementation of a national Maritime Security Identification Card.

On 1 July 2004, international marine safety conventions required all ocean-going vessels to carry Automatic Identification System (AIS) radio transponders. This equipment is designed to improve the traffic information available for the control of vessels and marine operations. Further investment is planned to integrate AIS technology with radar and electronic charting capabilities.

## **(II) TRADE AND BUSINESS FACILITATION**

### ***Our Objective***

- ❑ We will work with customers to facilitate trade and business opportunities.

### **Trade Forecasts**

Fremantle Port has continued to experience trade growth over recent years with total trade volumes increasing by 30% and container trade by 175% between 1993/94 and 2003/04.

Industry forecasts suggest that total trade volumes in the port should continue to increase in 2005/06 with the increase in trade from new HIs melt project in the Outer Harbour and further growth in the container trade and other general trades.

## **Port Pricing**

Fremantle Ports has targeted a 6.1% Rate of Return for 2005/06, in accordance with the requirements of the Port Authorities' Financial Policy. Pending a review of the cost impact due to the implementation of the additional security measures necessary under international agreements, general port prices have not been increased in recognition of the present rationalisation process in international shipping and pricing trends in other Australian capital city ports. However, it is anticipated that a pricing adjustment will be introduced to recover the costs for security once these costs are known.

Aside from the likely pricing adjustment for security, this will be the tenth year in succession, since 1993/94, where scheduled prices have not been increased for the year to ensure competitiveness. The end result is a reduction in prices in real terms of 43% between 1993/94 and 2005/06. The reductions in charges over the years have been made possible by trade growth and continuing efficiency improvements, and they help to improve Fremantle Ports' competitiveness with other capital city ports.

## **Port Infrastructure and Development**

In the Outer Harbour, there are several important projects planned or underway to facilitate major trade development initiatives. These include the acquisition of additional infrastructure for the HIs melt project and other customers at the Kwinana Bulk Terminal, the re-commissioning of Kwinana Bulk Berth No.1 and dredging to accommodate larger Panamax vessels. Some expenditure will also be required on environment improvement initiatives. New facilities are also planned for the Kwinana Bulk Jetty, but this has been scheduled for future years.

In the Inner Harbour, relocation of the freight rail line along Victoria Quay has been completed and construction of a new re-aligned road along Victoria Quay is scheduled to be completed in 2004/05. The re-alignment of the road has provided public vehicle access to the Fremantle Waterfront area at all times and increased the area of land available for port operations. The changes should also provide improved security at common user areas and this will be monitored during the year.

A Steering Committee will continue to oversee the development of an implementation plan for the remainder of the waterfront area. It is planned that development of the Fremantle Waterfront will continue to be carried out in a staged manner, involving private and public sector investment.

Following a Request for Proposals process for the future use of berths 11 and 12 on North Quay, Mediterranean Shipping Company (MSC) was selected as the preferred proponent for the possible future development of the berths as a dedicated container terminal, subject to a number of conditions precedent being met. The process involved consultation with users of the berths and other major stakeholders for the development of other available options.

The selection of MSC for the potential future development of berths 11 and 12 is subject to a net public benefit test and is conditional on MSC satisfying Fremantle Ports that the required level of service and efficiency cannot be achieved from the use of existing facilities at other existing container terminals and that the needs of other existing users of berths 11 and 12 can be met from alternative facilities.

It is expected that a decision on this initiative will be known in early 2005/06. Any future proposal to proceed with the development of a third container terminal would be subject to approval. Should the container terminal concept not proceed, the continued use of berths 11 and 12 as a common user facility is planned.

## **Customer Service Plan**

Fremantle Ports has a formal Customer Liaison Program with the objective of ensuring that customer needs are understood and customer satisfaction is maintained. Fremantle Ports will continue to work with customers to develop competitive responses to new opportunities.

A survey of shipping agents and lines in 2004 showed high satisfaction rates with 96% of customers indicating that they were either satisfied or very satisfied with services and facilities provided by Fremantle Ports and 78% for services and facilities provided by the private sector. It is planned to again carry out the survey in 2005/06 with the aim of maintaining high levels of satisfaction ratings.

## **(III) BUSINESS IMPROVEMENT AND SUSTAINABILITY**

### ***Our Objective***

- ☐ *To continue to improve our capability to provide value for our customers and provide for long term business sustainability.*

### **Sustainability**

Fremantle Ports' sustainability goal is to meet the needs of present and future customers and to be valued by the community for contributions to the economy, social communities and the environment. Sustainability principles have been developed based on the use of best practice systems to add value for customers and stakeholders and to protect people and the environment.

Work will continue in the development of a Triple Bottom Line reporting framework to measure business results taking into account environmental and social performance in addition to financial outcomes.

### **Triple Certification**

Fremantle Ports' Environmental Management System has been certified to meet the rigorous international environmental standard ISO 14001 and is subject to annual surveillance audits by a certification body to ensure it continues to deliver the required environmental outcomes and improvements.

The 3-yearly re-certification of the Environmental Management System was undertaken in March 2004. It was extended to cover the Kwinana Bulk Terminal and was the first integrated certification process undertaken by Fremantle Ports, whereby the safety, environment and quality management systems for the whole business were audited against their respective standards, AS4801, ISO14001 and ISO9001. Certification was achieved against all three Standards for all of Fremantle Ports' operations. Regular surveillance audits are planned to ensure the systems are maintained and remain effective.

### **Community Consultation**

Fremantle Ports' will continue to systematically implement its community and stakeholder liaison program. The program has been developed in recognition of the importance of proactive consultation and reflects the organisation's commitment to the principles of sustainability. It aims to ensure there is good understanding of and support for Fremantle Ports' current and future needs, and that community and stakeholder expectations are well understood and taken into account in decision making.

Specific consultation on the proposed new rail loop for North Quay and the proposed Outer Harbour container port facility to handle the overflow trade once the Inner Harbour reaches capacity will continue in 2005/06. Fremantle Ports' community sponsorship program, which supports the organisation's corporate goals and values, will also be continued in 2005/06 as part of increasing awareness of the Fremantle Ports' contributions to the economy, the community and the environment.

### **Business Excellence Australia**

Fremantle Ports has adopted the Business Excellence Australia framework as its overarching strategy for innovation and continuous improvement. In April 2003 Fremantle Ports achieved Bronze level Award recognition in the Australian Business Excellence Framework and will progress continuous improvements to achieve further assessment in 2005/06. The adoption of the framework for business improvement has resulted in significant improvements in the performance of the organisation.

### **Information Technology**

Fremantle Ports has a technology infrastructure that supports the integration of business processes to achieve its strategic goals. Corporate information systems primarily provide information required to support administrative, operational and business processes such as shipping movement control, processing of cargo and port charges, financial management, human resource management, procurement, contract administration, revenue generation and other management, decision-support and business functions. Fremantle Ports policy is to implement and maintain technology infrastructure within the organisation to achieve standardisation and integration.

### **Knowledge Management**

Fremantle Ports developed a formal knowledge management strategy in 2004 which articulates a clear link between the management of knowledge and organisational strategy and sets clear directions and priorities for future knowledge management activities aimed at improving business performance by leveraging intellectual capital. The implementation of the Knowledge Management Strategy fits well with the ethos of organisational learning, evidenced based decision-making and continuous improvement.

### **Employee Development**

Fremantle Ports will continue to provide a coordinated approach to employee development strategies and arrangements to ensure that staff understand and have the appropriate skills and motivation to contribute to achievement of organisational objectives. Plans for 2005/06 provide for further development of skills in line with assessed needs.



## OPERATING BUDGET FORECASTS

Fremantle Ports' Operating Budget for 2005/06 shows an after tax profit of \$7.3 million.

### *OPERATING BUDGETS 2004/05 and 2005/06*

	<b>2005/06</b>	<b>2004/05</b>
	<b>\$M</b>	<b>\$M</b>
Total Revenue	86.0	79.3
Total Expenditure	74.9	68.6
Operating Profit before Income Tax	<b>11.1</b>	<b>10.7</b>
Income Tax Expense	3.8	3.8
<b>Operating Profit after Tax</b>	<b>7.3</b>	<b>6.9</b>
Provision for Ordinary Dividend	3.6	3.4
Provision for Government Efficiency Dividend	0	0.5

Shipping and cargo volumes, on which 2005/06 revenue estimates are determined, are derived based on consultation with major customers.

## CAPITAL WORKS PROGRAM

Fremantle Ports' Capital Works Program for 2005/06 provides for expenditure of \$43.7 million. Major expenditure includes:

- North Quay Rail Terminal & NQ Rail Loop;
- Infrastructure for Hismelt stage 2 and other bulk users;
- Dredging Berths 10, 11 & 12;
- North Quay Berth Upgrades;
- Commercial Precinct Access and Services;
- Berth H Upgrade.

Of the \$43.7 million capital expenditure planned for 2005/06, \$8.2 million (19%) is planned to be financed through internal funds, \$28.9 million (66%) through borrowings, \$1 million (2%) by third parties with the balance (13%) to be financed via equity injection, \$5.4 million of which is related to the Federal Grant for the North Quay Rail Terminal and North Quay Rail Loop project. These funding arrangements comply with approved Net Debt limits.

## DIVIDEND POLICY

Fremantle Ports is obliged to pay dividends to the State Government on profits derived after tax and significant items, in accordance with the Port Authorities' Financial Policy and the Operating Budget for 2005/06 accommodates these requirements.

## RATE OF RETURN

The Port Authorities Financial Policy includes requirements relating to Rate of Return targeting and reporting. Under this Policy port authorities are required to adopt the deprival methodology for valuing non-current assets for the purposes of setting financial performance

targets. Gifted assets are to be excluded from the asset base for targeting and reporting purposes and a long-term average target range of between 5% and 8% on total assets has been specified by government.

The Policy seeks to meet trade facilitation objectives while also ensuring that port authorities act on sound commercial principles and long term sustainability.

In accordance with this Policy, a targeted rate of return of 6.1% has been adopted in the budget for 2005/06.

## **FINANCIAL AND ACCOUNTING POLICIES**

The budgets and financial statements have been prepared on the basis of accrual accounting in accordance with the historical cost convention, except for property and plant and equipment which has been recorded at deemed cost based on prior period revaluations.

The financial statements constitute a general purpose financial report which has been prepared in accordance with Accounting Standards and Urgent Issues Group Consensus Views as prescribed under Schedule 5 of the Port Authorities Act 1999.

## **INFORMATION TO BE REPORTED TO THE MINISTER**

Fremantle Ports will provide the Minister for Planning and Infrastructure with the information necessary to allow adequate assessment of Fremantle Ports' performance during the year. This will include an Annual Report, half-yearly budget forecasts and a half-yearly report including financial information and comments on performance as considered relevant.

The Annual Report for 2005/06 will comply with the requirements of the Port Authorities Act 1999 and will include the following information:

- ❑ a report on the major operations and activities of Fremantle Ports during the year;
- ❑ a review and assessment of performance against the Statement of Corporate Intent targets;
- ❑ financial statements; and
- ❑ other information required by the legislation to be included in the Annual Report such as the particulars of any direction given by the Minister.

## **PROVISION OF FINANCIAL INFORMATION**

Relevant annual information will be provided to enable Treasury to meet its budgetary responsibilities. Such information will include forecasts of dividend and tax equivalent payments plus financial information for the budget year and the subsequent four out-years.

Quarterly financial information required for whole of government reporting under the Treasury Information Management System will also be provided.

## **KEY PERFORMANCE TARGETS**

The performance targets shown in Table 1 are used by Fremantle Ports to monitor the performance of port services and facilities, to identify and respond to emerging trends in trade development and to monitor the financial performance of its own operations.

The performance targets for Port operations include zero controllable delays for incoming vessels. Controllable delays are defined as delays that could be avoided eg unavailability of services.

Fremantle Ports' prices will have fallen by 43% in real terms between 1993/94 and 2005/06. Future prices will need to be reviewed against the impact of additional costs for the ports' new security measures.

Fremantle Ports will also continue to carry out customer surveys to monitor levels of customer satisfaction for services provided by Fremantle Ports and by the private sector. Recent surveys have shown a customer satisfaction rate of 96% for Fremantle Ports and 78% for the private sector. Customer satisfaction levels are expected to remain within or above the target range of 80-90%.

Community satisfaction surveys will also be carried out to monitor levels of community satisfaction with Fremantle Ports. Surveys carried out in 2004 showed that 83% of respondents in the Inner Harbour (69% in 2003) and 77% in the Outer Harbour (64% in 2003) were either quite satisfied or very satisfied with the performance of Fremantle Ports overall.

Fremantle Ports has budgeted for a 6.1% rate of return on assets, with provisions for payments to the State Government in the form of dividends, income tax equivalent payments, land tax and local government rate equivalent payments.

Table 1. **PERFORMANCE TARGETS**

<b>Performance Targets /Forecasts</b>	<b>2005/06 Budget / target</b>	<b>2004/05 Budget / target</b>	<b>2003/04 Actual</b>
<b>□ SERVICES AND FACILITIES</b>			
Controllable Delays – Incoming Vessels ( <i>Target – zero delays</i> ) <sup>1</sup>			
Inner Harbour	0.0	0.0	0.0
Outer Harbour	0.0	0.0	0.0
Crane Rates - <i>containers per net crane hour</i>	28	29	27
Fremantle Ports' Real Price Index <sup>2</sup> (1993/1994 = 100)	57	58	61
Customer Satisfaction with Fremantle Ports' services (%)	80-90	80-90	96
Customer Satisfaction with other Port services (%)	80-90	80-90	78
<b>□ TRADE FACILITATION</b>			
Total Port Trade (million mass tonnes)	28.5	27.9	25.9
Container Trade - TEUs (number)	501,400	473,800	465,982
- market share <sup>3</sup> (%)	11	11	11
Number of Ship Visits <sup>4</sup>	1,687	1,710	1618
<b>□ IMPROVEMENT AND SUSTAINABILITY</b>			
Profit after tax and abnormal items (\$M)	7.3	6.9	11.5
Rate of return on assets <sup>5</sup> (%)	6.1	6.0	7.3
Community Satisfaction - Inner Harbour (%)	80	80	83
- Outer Harbour (%)	80	80	77

1 "Controllable" delays (incoming vessels) are defined as delays that could be avoided under normal circumstances. These may include delays due to the unavailability of labour or services. Delays that are "uncontrollable" are not included (these are delays due to adverse weather conditions, berths or channels being occupied by other vessels, anchoring on request, waiting for cargo to arrive, etc).

2 Weighted average price index deflated by CPI. The average price equals the total of prices for individual Fremantle Ports services weighted by their contribution to total revenue, excluding bulk cargo handling charges negotiated under commercial agreements. Actual outcomes will depend on the nature and scope of pricing adjustments provided in future years

3 Number of containers through Fremantle as a percentage of Australian capital city ports (excluding Hobart). Empty containers are included.

4 Includes commercial, non-trading, fishing and foreign naval support vessels. Naval vessels of war are excluded.

5 Financial target based on rate of return on assets valued at deprival valuation methodology.