



**Fremantle Ports**  
**Statement of Corporate Intent**  
**2017/18**

## **Chairman's foreword**

Western Australia's economy has slowed over the past few years and the outlook for 2017/18 is for continued low to moderate growth, completing the transition to production phase in the resources sector. For Fremantle Ports this is expected to translate to a revenue tonnes growth of between 0.2% and 3.0% for key trades including containers, automotive, break bulk and bulk. Fremantle Ports is forecasting a before tax profit of \$53.9 million, which will equate to a rate of return of 10.3% on assets and deliver expected payments to the State Government totalling approximately \$52.7 million.

Fremantle Ports reviewed and reshaped its corporate strategic plan during the 2016/17 financial year. The review was driven by a number of factors including:

- The extensive work led by the Department of Treasury and undertaken by a range of external advisors and Fremantle Ports on a vendor due diligence process in support of the State Government's proposal to sell assets managed by Fremantle Ports by way of a long term lease. While progress to the next phase of the project - transaction execution and organisational transition - requires the passage of legislation, there have been a range of improvements and insights into Fremantle Ports' business that can be implemented to the benefit of the organisation, customers and stakeholders
- A significant shift in the Western Australian economy as many of the State's mining and energy businesses transitioned from a focus on development to production resulting in softening trade growth and demand
- A step change in the economic underpinning of container trade. Since its introduction in the 1950s, containerisation of goods has grown to a stage where over two-thirds of global seaborne trade by value is carried in containers. Apart from a dip during the 2008 / 2009 recession, growth in container trade has been a couple of percentage points above growth in global GDP. In 2015 this trend reversed with container trade growing less than global GDP. A number of factors contributed to this shift: most goods that can be containerised have been; lower growth generally across the global economy; and many multinational firms are increasingly building factories in local markets, rather than shipping parts or components between countries. This trend impacts the level of container trade through Fremantle with a flow on impact on port revenue

As required by legislation, this Statement of Corporate Intent outlines Fremantle Ports' intended key achievements in 2017/18 and the investment strategies required to meet its commercial, trade facilitation, social and environmental responsibilities.

Jim Limerick  
**Chairman**

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## 1 INTRODUCTION

This is the twenty first Statement of Corporate Intent (SCI) prepared by the Fremantle Port Authority, trading as Fremantle Ports, and is submitted under the provisions of the *Port Authorities Act 1999* (the PAA).

The PAA sets out a clear role for port authorities in facilitating trade in a commercially responsible manner, and it establishes clear lines of accountability with the State Government. The PAA requires that each port authority submit a SCI for the Minister for Transport's approval each year by a date determined by the Minister in agreement with the Treasurer. In February 2015, the Minister for Transport fixed the date for submission of both the SCI and Strategic Development Plan as 15 January for the foreseeable future.

This Statement of Corporate Intent outlines Fremantle Ports' intended key achievements in 2017/18 and the investment strategies required to meet its commercial, trade facilitation, social and environmental responsibilities.

### 1.1. Services and Facilities

The Port of Fremantle is the principal general cargo port for Western Australia (WA). It is a sheltered all-weather port covering 383 km<sup>2</sup> of land and water areas. The port operates from two geographic areas - the Inner Harbour at the mouth of the Swan River, and the Outer Harbour in Kwinana.

The Inner Harbour provides facilities for handling container trade, break bulk trade, livestock exports and motor vehicle imports. It also accommodates cruise ships and visiting naval vessels. The container terminals on North Quay are privately operated on land leased from Fremantle Ports. The Inner Harbour also has a number of common user berths used for break bulk trades.

The Outer Harbour is one of Australia's major bulk cargo ports, handling grain, petroleum, liquid petroleum gas, alumina, iron ore, fertilisers, sulphur and other bulk commodities. Fremantle Ports operates the Kwinana Bulk Jetty (KBJ) and the Kwinana Bulk Terminal (KBT) with facilities to handle a range of imports and exports. Alcoa, BP and CBH Group also operate cargo-handling facilities in the Outer Harbour.

Fremantle Ports provides and maintains shipping channels, navigation aids, cargo wharves, road and rail infrastructure, seawalls and other port infrastructure. The Fremantle Passenger Terminal on Victoria Quay is owned and managed by Fremantle Ports. Other services provided by Fremantle Ports include ship scheduling and berth allocation, port communications, pilotage (through a contract with Fremantle Pilots), pilot transport, mooring, security services, emergency response, hazardous cargo services over common user berths, property services, and quarantine and waste disposal services.

Fremantle Ports provides a range of general and specific services at its Outer Harbour facilities of KBT and KBJ including port safety & environment compliance, wharf preparation, stevedoring services, bulk product receipt and dispatch services, undercover and open stockpile storage and product handling.

Services provided in the port by the private sector include container stevedoring, bulk and break bulk stevedoring, towage, line boats, bunkers, ships providers, road and rail transport, shipping agencies, freight forwarding, customs clearance and fumigation services. The two container stevedoring companies, DP World and Patrick, operate under lease agreements with Fremantle Ports.

Fremantle Ports has the ability under the PAA to license a range of port activities. Non-exclusive licence agreements for towage services have been in place since June 2001 and will continue over the term of this SCI.

Pilotage services in the port are provided by Fremantle, Kwinana & Cockburn Sound Pilots Pty Ltd (Fremantle Pilots) under a contractual agreement with Fremantle Ports. Pilot transport is provided by Fremantle Ports.

Fremantle Ports cooperates with the Commonwealth Government in facilitating customs, quarantine and maritime safety and security activities in the port area.

The Port of Fremantle makes a major contribution to the Western Australian economy. Total trade handled through the Inner and Outer harbours in 2015/16 was valued at over \$26.1 billion.

## **1.2. Scope of the Business**

Under the PAA, Fremantle Ports has exclusive control of the Port of Fremantle subject to any direction given by the Minister for Transport. It has a duty to act on commercial principles and has the powers to perform its functions under the PAA, including the power to hold, dispose of and develop port land, carry out port works, provide port services, enter into business arrangements, issue licences and charge for its services.

## **1.3. Corporate business plan**

Fremantle Ports' revitalised five year business plan identifies a new vision and mission, refocused strategic objectives and a set of values for the organisation. An overview of these key elements is provided below.

### *Vision*

Australia's best maritime gateway

### *Mission*

Create value by providing safe, reliable, efficient and competitive access to global markets

### *Strategic objectives*

1. Financial and economic performance – Improving Fremantle Ports' financial and economic performance is a primary goal in order to deliver to the expectations of our shareholders, the State and customers. This improvement will be achieved while managing risks at an appropriate level
2. Customer service and stakeholder engagement – Continuing to provide first-rate customer service and maintain strong stakeholder relationships will ensure strong ongoing support, increase our influence and social and political capital. This will result in a greater focus on win-win outcomes and create conditions that support co-investment in the port
3. Business and trade development – Fremantle Ports will become more proactively involved in identifying where we can grow the business and add value for existing and potential customers. This will create increased demand for our facilities and services, strengthen our competitive advantages over other ports, build stronger relationships with customers and capitalise on new trade opportunities
4. Capacity for future trade growth – Certainty for shareholders and customers will be increased by planning how the port will be developed over the long term to cater for future demand. This will promote increased investment in the port, ensure we can continue to deliver against our long term financial and customer service goals, and avoid unnecessary infrastructure investments
5. A safe, agile and high performing organisation – High performing organisations outperform similar teams and exceed expectations, given their composition. Becoming a high performing organisation is a key step towards achieving our vision, and it is a fundamental enabler to achieving all other goals, both now and in the future

## *Values*

Fremantle Ports values its people, its customers, the environment, the community and its business success. The values that apply at Fremantle Ports are:

- Respect and integrity
- Safety and wellbeing
- Responsiveness and delivery
- Continuous improvement and innovation
- Sustainability

## **2 GOALS AND MAJOR PLANNED ACHIEVEMENTS**

Fremantle Ports aims to create value by providing safe, reliable, efficient and competitive access to global markets. Its objectives and major planned achievements for 2017/18 are as follows:

### **2.1. Financial and economic performance**

#### *Our objective*

Improving Fremantle Ports' financial and economic performance is a primary goal in order to deliver to the expectations of our shareholders, the State and customers. This improvement will be achieved while managing risks at an appropriate level.

#### *Outcomes sought*

- An optimised and flexible organisation, with minimised overheads/costs
- Appropriate financial outcomes, in line with those expected by our shareholders
- An approach to capital management, which will support Fremantle Ports' growth into the future
- A clear understanding and focus on the business's key profit and economic value drivers, that is communicated throughout the organisation
- Based on this understanding, improved business outcomes in all trade and service areas

#### **2.1.1. Port pricing**

To ensure the long term financial viability of Fremantle Ports and to achieve a 10.3% rate of return, an average price increase of 2.5% on rates and charges for shipping and cargo has been budgeted in 2017/18. Fremantle Ports' pricing strategies are subject to ongoing review in the context of changing competitive conditions, trade levels and operating results, while also taking into account the need to fund infrastructure projects and provide appropriate returns to government.

Fremantle Ports will undertake, and implement recommendations from, a comprehensive expenditure, pricing and revenue review covering:

- All major expenditure items, with a view to identifying expenditure reduction initiatives. Expenditure will be reviewed in a balanced manner, with consideration given to the value provided by these expenditure items
- A review of pricing and charges to ensure their continued appropriateness and to highlight areas where modifications are necessary

#### **2.1.2. Operating model and port services**

Fremantle Ports' will review its operating model, examining business cases for different operating models for select services and business units. This review will consider a range of services and activities across all facets of our business.

#### **2.1.3. Infrastructure maintenance**

Fremantle Ports ensures its assets meet service delivery requirements and are maintained, operated and utilised appropriately. Asset condition and risk are monitored through the annual state of the assets report, which is part of Fremantle Ports' strategic asset management system, and the rolling maintenance program. This information is then used to identify existing and future maintenance requirements to ensure that asset condition is aligned with the level of service requirements of Fremantle Ports' customers.

Fremantle Ports' approach to asset management is designed to:

- Develop life cycle management plans for each asset class, which optimise expenditure over the long term to meet our customers' current and future level of service requirements
- Prioritise asset maintenance using a cost:benefit rating system, which ensures maximum return on maintenance investment
- Use data trends compiled in the maintenance program to facilitate decision making with regard to future maintenance and analysis of options to maintain, upgrade, replace or dispose of assets

The total asset maintenance budget for 2017/18 is \$28.4 million and includes work on Fremantle Ports' wharves and jetties, cargo handling equipment, navigation aids, electrical and civil services, buildings, railways and roads.

#### **2.1.4. Capital Management**

Fremantle Ports will review its capital management policy in order to support the objectives and planned achievements of the port and will include:

- Confirmation of the current approach to capital management
- A review of the capital management structure and research on options for alternative structures, which consider and align to the achievement of objectives and goals
- Consideration of the requirements of the *Port Authorities Act 1999* and current Government fiscal policy (including net debt requirements)

### **2.2. Customer service and stakeholder engagement**

#### *Our objective*

Continuing to provide first-rate customer service and maintaining strong stakeholder relationships will ensure strong ongoing support for the operations of the port. This will result in a greater focus on win-win outcomes and create conditions that support co-investment in the port by private sector service providers in the port.

#### *Outcomes sought*

- A clear understanding of what we can do better with respect to customer service, and customer service plans developed and implemented to achieve high levels of customer service across all areas of operation
- Minimised symbolic boundaries between Fremantle Ports and key joint service providers, in order to work more collaboratively and provide a more holistic service offering
- The important relationships with key stakeholders (including the community) are maintained to ensure they continue to support our licence to operate
- Conditions that support co-investment in the port by joint service providers and other key stakeholders are created
- The port, and its associated logistic chains, are resilient to changing social and economic conditions

#### **2.2.1. Customer service improvements**

Fremantle Ports sees its role as leading and facilitating achievement of overall port competitiveness and value for money from a customer perspective. In determining the success of our value add incentives, Fremantle Ports has for a number of years conducted surveys with our major customers and followed up with face to face interviews to understand where improvements are required from a customer perspective.

Over the years, the feedback from customers has enabled Fremantle Ports to address concerns that customers may have and to consider the adoption of improvement suggestions. Improvements in respect to delivering services are central to the success of Fremantle Ports and customers. Fremantle Ports has in place a number of key performance indicators (KPIs) against which targets are set. These include:

- Customer satisfaction with Fremantle Ports' services
- Customer satisfaction with other port services
- Customer satisfaction with value for money

### **2.2.2. Customer needs analysis and service optimisation**

Fremantle Ports will undertake detailed customer needs analysis to deepen understanding of the outcomes sought by customers, and of where Fremantle Ports can have the greatest impact in achieving these outcomes. This analysis will be conducted with a view to:

- Undertaking a detailed value chain analysis to identify 'critical to customer' issues. This will interface closely with supply chain analysis
- Reviewing and optimising existing operations that contribute directly to customer service, reviewing service and asset performance targets, including the potential for aligning Fremantle Ports and customer KPIs at key interfaces
- Identifying potential new customer service initiatives

Fremantle Ports will examine opportunities for improving how business is done in the port and will include further investigation of initiatives such as:

- Working more collaboratively with joint service providers to provide a more holistic service offering
- Development of a port community system
- Improving the website for use by customers

### **2.2.3. Community issues and consultation**

Fremantle Ports places a high value on maintaining a good reputation and relationship with the community, all levels of government and industry stakeholders. Recognising how important this is for the support we need to operate successfully now and into the future, we will continue to implement strategies to build and maintain positive perceptions and relationships.

Fremantle Ports will continue to participate regularly in a number of community and business forums. This includes liaison with local government, community groups and business groups to assist in understanding and monitoring key issues, promote two-way communication and provide an opportunity to promote work being done to increase port efficiency and minimise community impacts.

Fremantle Ports will focus on the following key areas in its community liaison program:

- Increasing community awareness of the key part the port plays in Western Australia's economic performance and in the community
- Facilitating the development of port infrastructure to cater for trade growth by building understanding of the need and the benefits to the State and community
- Developing strategies to achieve improved coordination and efficiency in landside logistics, including the reduction of traffic congestion, increased use of rail for container movements and contributing to issues management such as reducing rail noise impacts on local communities
- Building community capacity through support for youth and education (e.g. the provision of scholarships, workplace traineeship opportunities and increasing community awareness of maritime career opportunities and pathways)

Close monitoring and responsiveness to community feedback and creating opportunities for engagement through special events and support for community events and initiatives will continue to be important elements of Fremantle Ports' reputation management.

Fremantle Ports will continue to implement its well-established program of formal and informal community liaison. As well as the quarterly meetings of its Inner Harbour Community Liaison Group, consultation and communication with community will continue to be an important part of planning and implementing major projects.

#### **2.2.4. Maritime Security**

Fremantle Ports is an approved Issuing Body under the Maritime Transport and Offshore Facilities Security Regulations 2003 (Cth) for the purpose of receiving, processing and printing the Maritime Security Identification Cards (MSIC). Fremantle Ports will continue to deliver efficient and effective security outcomes consistent with the Maritime Transport and Offshore Facilities Security Act 2003 (Cth) and Regulations and the International Ship and Port Facility Security Code. Security measures are set according to requirements under national 'alert' levels set by the Commonwealth Government.

#### **2.3. Business and trade development**

##### *Our objective*

Fremantle Ports will become more proactively involved in identifying where we can grow the business and add value for existing and potential customers. This will create increased demand for our facilities and services, strengthen our competitive advantages over other ports, build stronger relationships with customers and capitalise on new trade opportunities.

##### *Outcomes sought*

- Business development and market intelligence is a core competency of Fremantle Ports
- Business development opportunities are investigated and implemented
- New business development opportunities are identified through enhanced understanding of the movement of relevant commodities (both existing and potential trades), as well as current and future customers' potential developments
- Introduction of new, or strengthening existing initiatives to secure attractive trades

##### **2.3.1. Trade forecasts**

The 2017/18 budget is based on forecast growth of 3% in the container trade, 0.8% in Inner Harbour break bulk and bulk trades, and 0.1% in the Outer Harbour bulk trade.

##### **2.3.2. Strategic marketing and business development**

Fremantle Ports will develop and implement a strategic marketing and business development plan that will broadly define our approach to business development and the capabilities and resources that will be required to implement this approach. In 2017/18, Fremantle Ports will focus on a range of trades to underpin business development into the future.

###### **a) Container trade business development**

The two container terminals in Fremantle Ports are operated by DP World and Patrick under leases with Fremantle Ports. These leases were due to expire in mid 2017. Fremantle Ports' strategy is to extend both leases by 2 years and to commence a market process to put in place new leases once there is greater certainty regarding the proposed port divestment and future port development.

## **b) Bulk (dry and liquid) trade business development**

Fremantle Ports will implement a range of initiatives focussed on growing the bulk trade including:

- Identifying opportunities for new bulk trades that could be facilitated by Fremantle Ports
- Identifying opportunities to strengthen our competitive advantages and compete more effectively with regional WA ports to attract new and existing bulk trades to Fremantle

## **c) Cruise shipping business development**

Fremantle Ports will focus on increased engagement with organisations such as Tourism WA, the City of Fremantle and the Fremantle Chamber of Commerce to attract tourists and grow cruise ship calls to Fremantle.

## **2.4. Capacity for future trade growth**

### *Our objective*

Certainty for shareholders and customers will be increased by planning how the port will be developed over the long term to cater for future demand. This will promote increased investment in the port, ensure we can continue to deliver against our long term financial and customer service goals, and avoid unnecessary infrastructure investments.

### *Outcomes sought*

- A 30 to 50 year master plan for the port (including associated investment plan) with endorsement from key stakeholders and regulators
- Short-term opportunities to develop new facilities and/or optimise the capacity of existing assets/facilities are implemented without compromising longer term plans

### **2.4.1. Port of Fremantle Master Plan**

Fremantle Ports will commence in 2017/18 the development of a 30 - 50 year Master Plan, including a supporting investment and delivery plan. This plan will include:

- Documenting Fremantle Ports' position on the overall capacity of the Inner Harbour, the likely time horizon within which this will be reached, and the available options for Fremantle Ports' Inner Harbour trade once capacity is reached
- Identification of developments, new facilities and infrastructure that need to be developed over the next 30 to 50 years. This will include developments to maximise the capacity of the Inner and Outer Harbour facilities to accommodate growth, and new infrastructure that is required once existing facilities reach capacity. Issues likely to impact on capacity will include marine side (such as increasing ship size and length, wharf configuration, terminal efficiency) and land side (transport linkages and capacity outside the port gate, land availability to support efficient logistics operations)
- Eventual approval/endorsement of the master plan from key stakeholders and regulators including the Western Australian Planning Commission, relevant local government authorities and Department of Transport
- A set of key investment horizons for Fremantle Ports, clearly describing what needs to be built/developed, triggers for these developments and estimated timeframes for when these triggers will be reached
- Investment planning which demonstrates how the master plan will be funded through an optimal combination of shareholder, customer and government investment

### **2.4.2. Planning and transport linkages**

Planning within and outside the port boundary is critical to ensuring the Port of Fremantle remains viable, productive and continues to contribute to the State's economy.

Improvements to the Inner Harbour's land transport linkages reflect the need to respond to both economic and community considerations. Fremantle Ports' strategic response to these pressures focusses on the matters outlined below:

- Transport corridors - the absence of well-planned transport corridors and urban encroachment on existing corridors threatens the ability of the Inner Harbour to operate efficiently and to reach its optimum capacity. Fremantle Ports will continue to work with a range of parties to ensure current and future road and rail corridors are identified and protected; reduce identified impacts of transport operations on the community; and demonstrate that adverse impacts of transport are being managed to best practice standards or as far as reasonably practicable
- Transport infrastructure - port landside and transport corridor infrastructure, with sufficient capacity and standards to effectively meet the future transport task, is critical to Fremantle Ports' future. The main focus of the work in this area is to identify and work with the appropriate authorities to develop required infrastructure along service corridors and inland centres; and work with organisations at state and national levels to identify the best means for promoting industry efficiency through integration of information technology systems and eventual development of a next generation Port Community System (PCS) for Australia
- Road transport - as the dominant mode of transport servicing the port, its productivity is critical to trade efficiency and impacts on the road system. Advances have been made in this crucial industry sector through the Truck Productivity Strategy and these will continue in 2017/18
- Rail transport - a greater role for rail transport would relieve pressure on the road system and provide greater choice for importers and exporters. A number of initiatives are required for rail to win a larger market share and take pressure off the road system, including providing greater certainty about the future of rail services at the Inner Harbour; identifying and implementing measures to improve rail operating efficiency; and identifying new markets suited to rail transport. We will work with relevant government and industry bodies to develop and progress these initiatives

### **2.4.3. Victoria Quay waterfront development**

The West End of Victoria Quay is an important public, historical and cultural space, linking the port with the port city. Building on the foundations of the Fremantle Waterfront Masterplan, Fremantle Ports will develop and implement its vision of how the Victoria Quay Waterfront area can best be developed and revitalised in alignment with the expectations of the State Government, other key stakeholders and the community, but not conflicting with the operation of the port and its future expansion.

## **2.5. A safe, agile and high performing organisation**

### *Our objective*

High performing organisations outperform similar teams and exceed expectations, given their composition. Becoming a high performing organisation is a key step towards achieving our vision, and it is a fundamental enabler to achieving all other goals, both now and in the future.

### *Outcome sought*

- Fremantle Ports' culture and focus on safety and wellbeing for people who work within the port is maintained and enhanced
- The organisational structure required to deliver Fremantle Ports' refocused corporate strategy is implemented, with the right people in the right roles
- The people and structure are supported with the right tools, systems and working environment
- A culture of accountability, trust and self-direction where goal-focussed teams deliver projects on time and on budget
- A shared sense of purpose throughout the business that aligns and concentrates focus and priorities with the business goals, ensuring that employees are doing meaningful work
- Fremantle Ports' environmental management and quality systems are maintained in line with best practice, and in compliance with Fremantle Ports' existing ISO accreditations

#### **2.5.1. People**

Fremantle Ports continues to focus on sustained business effectiveness through the development, application and monitoring of professional, technical and behavioural aptitudes and continues to strive for high performance in individuals, teams and overall as an organisation. Opportunities to embed this focus and create linkages and collaboration across all areas of our business are created through workplace projects.

The key drivers for the 'Our People Plan' initiatives continue to be centred on building personal and business resilience, doing the right thing, developing people plus succession mapping.

Future negotiations and planning of wage increases and associated conditions will be progressed taking into account the guidelines contained in the Western Australian Government Public Sector Wages Policy Statement 2016, or any subsequent update.

Fremantle Ports will ensure the business has an organisational structure and personnel to deliver Fremantle Ports' mission and vision - one that is compatible with the functions, activities, and business initiatives. This will involve:

- Development of an appropriate workforce plan that articulates the functional structure and aligns with the business initiatives
- Initiatives to develop a more agile organisation with the ability to move people around the organisation to where they are most needed at any point in time (e.g. increasing the number of cross divisional goals and projects). This will also include a focus on performance - both enabling enhanced performance and managing unsatisfactory performance
- Creation of an enhanced database of employee qualifications, skills, competencies, and experiential learning that can be utilised to draw the most effective and experienced teams together in supporting the above cross divisional goals and projects
- Actively attracting talent and achieving optimal levels of diversity in Fremantle Ports' workforce, with different skills, thinking types, career and cultural backgrounds. This will ensure that the right skills mix is available to meet the varying challenges of the organisation, while offering creative problem solving

#### **2.5.2. Optimisation and improvement**

Fremantle Ports is committed to ensuring business sustainability through excellent performance throughout the organisation, innovation and business improvement. We recognise that excellence in managing our occupational health and safety, environmental and quality responsibilities is essential to our business success, and we strive to meet these responsibilities through our management systems.

### **a) Safety management**

Fremantle Ports first achieved certification to the ASNZS 4801 standard in 2004 and is committed to maintaining this. In addition, the organisation has its own 'Safety for Life' program, which provides a holistic approach to safety management underpinned by five key areas - leadership, safety behaviours, critical risk standards, safety management systems and safety competencies.

Current and planned priorities under the Safety for Life strategy include continued improvements for contractor safety, identification and adoption of mitigation strategies for fatality potential events, continued consultation with stakeholders, safety leadership and enterprise wide risk assessments.

### **b) Environmental management**

Fremantle Ports' approach to environmental management is set out in its environmental management system (EMS), which identifies environmental risks within the port area and the controls that are required to protect the environment. This ISO 14001 certified EMS is a key tool used for managing environmental risks and driving continual improvement in environmental performance. Regular surveillance audits are undertaken to ensure the EMS's continued effectiveness ensuring certification is maintained.

### **c) Risk management**

Fremantle Ports has a risk management culture where formal risk management is applied through the application of a risk policy and framework in accordance with the AS/NZS ISO 31000 standard.

A corporate risk register is in place where all risks across the organisation are identified, prioritised and managed, with action plans developed on an ongoing basis to address highest priority risks in a systematic way.

Fremantle Ports has successfully applied formal risk management to operations as well as to new projects and activities including the import and export of hazardous cargoes, and environmental, safety and other business risks. Risk management will continue to be incorporated in a formal way in key decision making processes, including major project proposals and approvals.

### **d) Business improvement and excellence**

Fremantle Ports continues to apply the Australian Business Excellence Framework as part of its normal business practices. Current and planned priorities include:

- Ongoing application of our Safety, Environmental and Quality Management Systems and ongoing re-certification and accreditation to the respective international standards for these
- Review and continued improvement of our most important processes
- Ongoing value chain analysis with key strategic customers
- Review, updating and consolidation of our systems procedures
- Simplification of business practices

### **2.5.3. ICT strategy**

Fremantle Ports will design and establish ICT (information communications technology) systems that are fit for purpose and facilitate growth. This includes:

- Maintaining an optimum organisation structure for Fremantle Ports' ICT functions and ensuring appropriate skilled personnel
- Maintaining a flexible and fit for purpose enterprise architecture that allows the business to grow and become technologically mature
- Implementation of the organisational and ICT environment design. This will be done in a strategic manner, identifying constraining ICT systems, and implementing elements of the overall strategy that have the highest return on investment and contribute most towards building a high performing organisation

### 3 OPERATING BUDGET

Fremantle Ports' operating budget for 2017/18, which has been prepared in accordance with the Australian Accounting Standards (AASBs), forecasts an after tax profit of \$37.4M. This budget does not include or assume any potential impacts from the Fremantle Ports sale process. Fremantle Ports will comply with approved requirements regarding capital expenditure limits and associated funding, and endeavour to achieve financial outcomes that are consistent with forecasts contained in approved financial statements.

**Table 1 Operating budgets for 2017/18 and 2016/17**

	2017/18 (\$M)	2016/17 (\$M)
Total revenue	219.2	213.7
Total expenditure	165.3	162.1
<b>Operating profit before income tax</b>	<b>53.9</b>	<b>51.6</b>
Income tax expense	16.5	15.8
<b>Operating profit after tax</b>	<b>37.4</b>	<b>35.8</b>
Dividend based on prior year profit	24.0	29.8

#### 3.1. Capital works program

Fremantle Ports' capital works program for 2017/18 includes expenditure of \$67.5M on approved capital projects. Major expenditure includes:

- Land Acquisitions North Quay
- KBT Bulk Handling Equipment
- NQ Berth - Heavy Duty Pad
- Replace Floating Plant

Fremantle Ports expects to finance its capital works program through a combination of internal funding and additional borrowings. These funding arrangements comply with approved net debt limits.

#### 3.2. Dividend policy

In accordance with State Government policy, Fremantle Ports is required to pay dividends to the State on profits derived after tax and significant items. Dividends have been budgeted consistent with the recognition and measurement requirements of AASBs and the State Government's dividend requirements.

#### 3.3. Rate of return

The Government's Financial Policy for Port Authorities includes requirements relating to Rate of Return targeting and reporting. A summary of this policy is that port authorities are required to adopt the Deprival Methodology for valuing non-current assets for the purposes of targeting and performance reporting. Gifted assets are to be excluded from the asset base.

### **3.4. Financial and accounting policies**

Fremantle Ports' budgeted financial statements have been prepared consistent with the recognition and measurement requirements of AASBs (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board, and comply with the financial reporting provisions of the PAA.

The financial statements have been prepared on an accrual accounting basis and in accordance with the historical cost convention.

### **3.5. Information to be reported to the Minister for Transport**

Fremantle Ports is obliged to provide financial information to the Department of Treasury under the *Government Financial Responsibility Act 2000 (WA)*.

Fremantle Ports will provide the Minister for Transport with the information necessary to allow an adequate assessment of Fremantle Ports' performance during the year. This will include annual and quarterly reports, including financial information and comments on performance as considered appropriate.

The 2017/18 annual report will comply with the requirements of the PAA 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 targets contained identified within this SCI
- Financial statements
- Other information required by the legislation or the Minister to be included in the annual report

### **3.6. Provision of financial information**

Relevant annual and half yearly information will be provided to enable the Department of Treasury to meet its budgetary responsibilities. Quarterly financial results are provided via submission in the State Government's Strategic Information Management System for the purpose of whole-of-government reporting.

## 4 KEY PERFORMANCE TARGETS

The performance targets shown in Table 2 are used by Fremantle Ports to monitor service delivery, to identify and respond to emerging trends in trade development, measure our capability for the future, monitor the financial performance of our operations and ensure business excellence and sustainability.

Shipping services that are monitored include pilotage, towage and mooring. Delays due to the unavailability of these services are infrequent, with the target being less than one percent of vessels affected. Crane rates at the container stevedores are also monitored to ensure that they remain nationally and internationally competitive.

Berthing delays due to berth congestion are also monitored for container vessels and bulk vessels at KBT and KBJ. Most 'delays' are due to vessels arriving ahead of their nominated schedule, but ship waiting times are expected to remain within target ranges.

Fremantle Ports will continue to carry out customer surveys to monitor levels of customer satisfaction for services provided by Fremantle Ports and the private sector.

Fremantle Ports' general and bulk cargo trade in 2016/17 is expected to decrease by -2.7% (approximately 0.32 million revenue tonnes) to 11.5 million revenue tonnes with a more modest increase in 2017/18 of 0.3%. Total container throughput for 2017/18 is forecast to increase by 3.0%.

The long term aspirational target for rail share of container trade is 30%. The rail share in 2015/16 was approximately 14.5% representing over 100,000 TEU on rail, and the target for 2017/18 is 16%. Continuing State Government assistance will be required to increase this over time, including the provision of financial support to improve competitiveness of rail.

Safety targets include zero serious injuries resulting in fatalities or disabling injuries, and an annual reduction of 10% in the lost time injury frequency rate, consistent with State Government policy.

Financial targets include profit after tax and rate of return on assets as provided for in the budget, with the rate of return for 2017/18 being 10.3% on the deprival value of assets, with provisions for payments to the State Government in the form of dividends, income tax equivalents, land tax, local government rate equivalents and other state taxes and levies.

Community satisfaction surveys will also continue to be carried out in the Inner and Outer harbours. Fremantle Ports continues to aim for a satisfaction rating of over 70% for 2017/18.

**Table 2 Performance targets**

	2015/16 (actual)	2016/17 (target)	2017/18 (target)
<b>Service delivery</b>			
Crane rates (containers/hr) <sup>6</sup>	34.3	28	28
Customer satisfaction with:			
Services – all (private + Fremantle Ports) (%)	100	>80	>80
Services – Fremantle Ports only (%)	100	>80	>80
Performance against agreed contract rates			
KBT ship un/loading performance (%)	109.2	100	100
Import equipment availability (%)	97.5	96	96
Export equipment availability (%)	98.8	96	96
<b>Capability for the future</b>			
Berthing delays – unavailability of berths			
<i>Inner Harbour - Container vessels</i>			
Vessels delayed <sup>1</sup> (% of total)	2.5	<12	<12
Average hours per delay <sup>1</sup> (hr)	25.2	<20	<20
<i>Kwinana Bulk Terminal</i>			
Vessels delayed <sup>1</sup> (% of total)	82.5	<40	<40
Average hours per delay <sup>1</sup> (hr)	93.6	<120	<120
<i>Kwinana Bulk Jetty</i>			
Vessels delayed <sup>1</sup> (% of total)	33.8	<25	<25
Average hours per delay <sup>1</sup> (hr)	67.9	<50	<50
<b>Trade and business growth</b>			
Trade growth			
Fremantle Ports non-containerised trade <sup>2</sup> (%)	1.8	-2.7	0.3
Container trade (%)	- 3.8	2	3
Number of ship visits <sup>3</sup>	2,021	1,981	1,947
Rail share of container trade (%)	14.5	15	16
<b>Business sustainability</b>			
Fatalities/disabling injuries	0	0	0
Reduction in LTIFR <sup>4</sup> on previous year (%)	53.3	10	10
After tax profit (\$M)	52.3	35.8	37.4
Rate of return on assets <sup>5</sup>	14	10.7	10.3
Community satisfaction			
Inner Harbour (%)	69	>70	>70
Outer Harbour (%)	71	>70	>70

## Notes

1. Figures include vessels that arrive ahead of schedule
2. Fremantle Ports general & bulk cargo trade - revenue tonnes (Includes Inner Harbour, Kwinana Bulk Jetty & Kwinana Bulk Terminal)
3. Includes commercial, non-trading and fishing vessels (excludes naval)
4. Lost time injury frequency rate
5. Using deprivation valuation methodology
6. Actual December 2015 quarter. Source: Waterline, Bureau of Infrastructure, Transport and Regional Economics

## **ADDENDUM**

As part of the 2017-18 State Budget, Government approved a range of efficiency measures applying to Port Authorities as Government Trading Enterprises (GTEs) including net debt reduction targets and increased dividend payout ratios from 65% to 75% of Net Profit After Tax from 2016-17 (payable in 2017-18).

As requested by the Treasurer, Fremantle Ports has reflected the financial impacts of these measures in the updated Financial Statements attached to these documents.

ADDENDUM 1

**FREMANTLE PORTS AUTHORITY**  
**APPROVED FINANCIAL PARAMETERS**  
**2017/18**

	<b>\$'000</b>
Total Revenue	219,197
Total Expenses	162,874
Profit/(Loss) Before Tax	56,323
Notional Income Tax	17,212
Profit/(Loss) After Tax	39,111
Dividends	48,831
<hr/>	
Asset Investment Program	86,726

*To the extent that the financial parameters within the 2017/18 SCI contain unapproved capital expenditure, net debt and net flows to/from government, Government approval will be obtained prior to any commitments and/or actions being undertaken which will affect approved parameters. Government approval will also be sought prior to commencing new projects not included within the State Government's approved financial parameters.*

## ADDENDUM 2

### Asset Investment Program

	Estimated Total Cost \$'000	Estimated Expenditure to 30-6-17 \$'000	2016-17 Estimated Expenditure \$'000	2017-18 Budget Estimate \$'000
<b>WORKS IN PROGRESS</b>				
Fremantle Waterfront Project				
Commercial Precinct Access and Services .....	4,279	1,329	-	-
Inner Harbour -				
Deepening of the Inner Harbour Stage 1 .....	107,655	97,415	-	-
Overseas Passenger Terminal .....	5,400	1,234	-	1,266
Replacement of Trucks .....	634	284	-	-
Shore Tension Mooring System .....	4,650	4,225	315	425
Underwater Rock Mound .....	2,800	531	531	2,269
North Quay -				
Berth Upgrades - Western Stage .....	79,213	69,522	-	-
Environmental Improvement Program .....	3,840	2,890	100	450
Outer Harbour -				
Kwinana Bulk Jetty -				
Fire Fighting Foam System .....	4,433	933	590	3,500
Replace/Upgrade Transformer and Switchgear .....	4,000	200	200	3,800
Kwinana Bulk Terminal				
Civil and Mechanical Assets Upgrade .....	4,573	2,235	-	2,338
Dust Control and Roadworks .....	2,386	1,386	-	1,000
Infrastructure, Equipment Replacement and Upgrade .....	39,514	9,914	1,000	6,000
Upgrade Rail Infrastructure and Replacement of Other Plant .....	601	301	100	300
Plant and Equipment -				
Replace Specialised Plant .....	385	285	-	100
Replacement of Navigational Aids .....	5,427	1,767	350	700
Rous Head -				
Seawall Construction and Rous Head Extension - Stage 2 .....	52,025	50,919	182	1,106
Victoria Quay -				
Fremantle Waterfront Implementation Plan .....	16,226	3,953	-	-
<b>COMPLETED WORKS</b>				
Fremantle Port - Inner and Outer Harbour				
Fremantle Ports - Upgrade of Electrical Metering System - Stage 2 .....	1,423	1,423	425	-
Minor Works -				
2016-17 Program .....	3,000	3,000	3,000	-
North Quay -				
Upgrade of High Voltage Substations Rous SW1, 8, 9,11A, 11 and 12 .....	4,930	4,930	10	-
Plant and Equipment -				
Mobile Truck Mounted Capstans .....	450	450	250	-
Victoria Quay -				
Berth E - Upgrade Fendering .....	11,499	11,499	666	-
<b>NEW WORKS</b>				
Fremantle Port - Inner and Outer Harbour				
Security Upgrades Stage 2 .....	5,850	-	-	1,950
Water Minimisation (Environmental) .....	3,900	-	-	-
Inner Harbour -				
Access to Versacold Site .....	2,000	-	-	-
Provision of Alternative Vehicular Access .....	1,000	-	-	-
Replacement of Mechanical Plant .....	490	-	-	490
Minor Works -				
2017-18 Program .....	3,000	-	-	3,000
2018-19 Program .....	3,000	-	-	-
Miscellaneous Minor Works - 2019-20 Program .....	5,000	-	-	-
Miscellaneous Minor Works - 2020-21 Program .....	5,000	-	-	-
North Quay -				
Berth - Heavy Duty Pad .....	7,900	-	-	7,900
Emergency Warning and Intercommunication system (EWIS) .....	1,500	-	-	1,500
Land Acquisitions .....	25,400	-	-	20,400
Outer Harbour -				
Kwinana Bulk Jetty -				
Bulk Handling Plant and Equipment .....	14,000	-	-	2,000
Export-Import Infrastructure .....	39,480	-	-	5,232
Kwinana Bulk Terminal				
Bulk Handling Equipment .....	12,000	-	-	12,000
Replacement of Front End Loaders .....	1,500	-	-	1,500
Plant and Equipment -				

	Estimated Total Cost \$'000	Estimated Expenditure to 30-6-17 \$'000	2016-17 Estimated Expenditure \$'000	2017-18 Budget Estimate \$'000
Replace Floating Plant.....	15,000	-	-	7,500
Victoria Quay - Motor Vehicle Decking.....	15,900	-	-	-
Replacement Workshop and Firestation.....	2,372	-	-	-
<b>Total Cost of Asset Investment Program .....</b>	<b>523,635</b>	<b>270,625</b>	<b>7,719</b>	<b>86,726</b>
<b>FUNDED BY</b>				
Borrowings.....			4,000	29,000
Internal Funds and Balances.....			3,669	57,676
Other .....			50	50
<b>Total Funding .....</b>			<b>7,719</b>	<b>86,726</b>