Fremantle Ports

Statement of Corporate Intent

2020/21

*revised October 2020*
1 AGENCY INFORMATION

1.1. Context

This Statement of Corporate Intent (SCI) prepared by the Fremantle Port Authority, trading as Fremantle Ports, 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 Ports’ approval each year by a date determined by the Minister in agreement with the Treasurer.

Fremantle Ports submitted the first draft of this SCI on 13 December 2019 as required by the Minister for Ports. By correspondence dated 29 July 2020, the Under Treasurer notified Fremantle Ports:

- that the release of State Budget has been delayed to 8 October 2020 due to the COVID-19 pandemic;
- of a requirement to revise the draft SCI and resubmit to the Minister for Ports and Treasurer by 30 October 2020.

As a result, this SCI outlines Fremantle Ports’ targeted outcomes for 2020/21; the investment strategies required to meet its commercial, trade facilitation, social and environmental responsibilities, decisions made during the delayed 2020/21 State Budget process and provides updated financial and strategic information relevant to the impact of the COVID-19 pandemic on Fremantle Ports.

1.1.1. Objectives

The core objectives of Fremantle Ports, as outlined within the PAA, are to:

- Facilitate trade within and through the port and plan for future growth and development of the port.
- Undertake or arrange for activities that will encourage and facilitate the development of trade and commerce generally for the economic benefit of the State through the use of the port and related facilities
- Control business and other activities in the port or in connection with the operation of the port
- Be responsible for the safe and efficient operation of the port
- Be responsible for maintaining port property
- Be responsible for port security
- Protect the environment of the port and minimise the impact of port operations on that environment

1.1.2. Nature and scope of functions

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 several 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, fertilisers, sulphur, spodumene, silica sands, bauxite 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 own and/or operate cargo-handling facilities in the Outer Harbour.
Fremantle Ports provides and maintains a range of port infrastructure, including:

- Shipping channels
- Navigation aids
- Cargo wharves
- Seawalls
- Road and rail infrastructure within the port
- Other port infrastructure, such as the Fremantle Passenger Terminal

Fremantle Ports also provides a range of port services, including:

- 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
- Quarantine and waste disposal services

Fremantle Ports also facilitates the provision of services within the port by a range of private sector suppliers, including:

- Container stevedoring (under lease)
- Towage (non-exclusive license under PAA)
- Shipping agencies
- Ships provedores
- Freight forwarding
- Fumigation services
- Bulk and break bulk stevedoring
- Line boats (licensed under PAA)
- Bunkering (non-exclusive license under PAA)
- Road and rail transport
- Customs clearance

The Port of Fremantle makes a major contribution to the Western Australian economy. Total trade handled through the Inner and Outer Harbour in 2019/20 was valued at over $31.2 billion.

Under the PAA, Fremantle Ports has exclusive control of the Port of Fremantle subject to any direction given by the Minister. 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.

Fremantle Ports' strategic business plan, revised during the 2019/20 financial year, continues to guide and provide focus for the organisation.

The strategic business plan identifies the vision, mission, 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 connecting Western Australia to global markets
Strategic objectives

1. Financial and economic performance: improving our financial performance and economic contribution is a primary goal to deliver to the expectations of our customers, government and the broader community.

2. Customer focus: providing first-rate service to our customers and identifying where we can add value for existing and potential customers. This will strengthen our reputation, grow our business and improve our broader economic contribution.

3. Stakeholder engagement and social licence: taking a proactive approach to stakeholder engagement to ensure strong ongoing support for our operations and plans for future development.

4. Capacity for future trade growth: planning how the port and its land transport connections will cater for future demand will provide certainty for government, our customers and other stakeholders. This will promote investment in the port and ensure we deliver on our financial and customer service goals.

5. A safe, agile and high performing organisation: becoming a high performing organisation is a key step towards achieving our vision, and it is a fundamental enabler to achieving all other goals. As a high performing organisation, we will outperform similar teams and exceed expectations.

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

These values are complemented by four defining principles that form the basis of Fremantle Ports’ cultural aspirations:

- Deliver with excellence
- Future focused
- Energetic and optimistic
- Trusted partner
2 MAJOR PLANNED ACTIVITIES FOR 2020/21

COVID-19 pandemic impacts

The impacts of the COVID-19 pandemic and Government responses to it are expected to reduce the gross domestic product of most countries globally, potentially reducing trade volumes for the financial year and beyond. Fremantle Ports has revised trade forecasts accordingly, with non-containerised trade reducing from a forecast growth of 6.7% to a decrease of -0.2% and containerised trade reducing from a forecast growth of 2% to a decrease of -9.9%.

Commonwealth and State assistance has been arranged for affected individuals and businesses. Fremantle Ports has responded to customers and tenants by implementing a targeted COVID-19 relief strategy designed to ensure compliance with statutory requirements and State Government policy balanced with the spirit and principles of the National Cabinet Mandatory Code of Conduct, SME Commercial Leasing Principles During COVID-19. Under the strategy, Fremantle Ports is providing rent relief to eligible tenants including a commitment that no market review, CPI or rental increases will be implemented during the relief period. In the period 1 July to 30 September 2020, Fremantle Ports has waived rent totalling $383,779, and deferred rent (nine months to repay) totalling $169,853. Initially the relief period was to cease on 1 October 2020, however this has been extended to 28 March 2021 with new eligibility criteria. Fremantle Ports is currently assessing the impact this extension will have on rental revenue outcomes for 2020-21.

Under the State Government’s WA Recovery Plan, Fremantle Ports will spend $28.5 million over 2020/21 to 2021/22 to upgrade the KBT’s import and export facilities. This will comprise of three projects: upgrading material handling import infrastructure; concreting the export stockyard area and upgrading power supplies to the terminal.

The Port of Fremantle remains an important node in the “hard border” protecting the State. Fremantle Ports is working with State and Commonwealth agencies and port users to ensure communication protocols and safety procedures are in place to manage interactions between ship and shore crews across all facilities within the Port boundary to mitigate the ongoing risk of COVID-19 transmission.

As a critical infrastructure and service provider, business continuity is essential. Business continuity plans are a key part of Fremantle Ports’ operations, which include key partners such as the pilots, tug operators and stevedores. The plans identify critical processes and detail actions to be taken should key systems or people be unavailable, or if community transmission of COVID-19 occurs within Western Australia.

Westport

Fremantle Ports is actively participating in the Westport process with the aim of assisting it deliver clear and robust outcomes. Parallel to the Westport process, Fremantle Ports will develop a port development plan focussed on inner and outer harbour development over the short to medium term. This is critical for creating clarity and certainty for Fremantle Ports and its customers.

Fremantle Ports will continue participating in the Westport process, including through positive leadership and technical expertise.

Inner Harbour efficiency

Fremantle Ports will continue efforts to ensure the Inner Harbour and associated transport connections can operate as efficiently as possible. This will reduce impacts on road users while also benefitting customers and port users. Key areas of focus will include:

- Ensuring existing port operations remain efficient and meet user needs
- With industry and relevant government agencies, progress initiatives to further improve Inner Harbour landside logistics, through increased rail share, increased truck efficiency, off-peak running and other initiatives.
- Investigating the most efficient way to handle roll on/roll off and other general bulk products, including assessment of the merits and potential economic benefits that could be achieved by moving these trades to the Outer Harbour.

North Quay container terminal leases

During the delayed 2020/21 State Budget process, Fremantle Ports has progressed new leases for the operation of the North Quay container terminals. The new leases provide for investment in the container terminals to meet trade growth over the term of the lease. They will also include provisions to ensure greater certainty over future increases in infrastructure charges which has been a contentious issue in all Australian capital city ports with said charges growing on an unconstrained basis to date. The open-market approach taken by FPA supports an appropriate level of investment in and optimisation of the Inner Harbour in the short to medium-term, to meet the State’s container trade needs in the period before any new facilities are available in the Outer Harbour.

Roll on / Roll off and general cargo trade

Fremantle Ports will continue to work with government and industry to investigate the most appropriate location - including the Outer Harbour - for non-container trades currently handled in the Inner Harbour.

Victoria Quay Waterfront strategy

Fremantle Ports is committed to enhancing the amenity of the Victoria Quay (VQ) Waterfront area, with the objective to create a waterfront destination for the benefit of the community, while also ensuring no adverse impacts on port operations by avoiding incompatible land uses. Fremantle Ports will continue to actively work with the VQ Waterfront Steering Committee to oversee the development of a vision for VQ. Key areas of focus will include:

- Continuing to drive and support the VQ Waterfront Steering Committee, including provision of technical expertise.

- Progressing short term initiatives set out in the Stage 1 report of the Committee such as improving the connections between the Fremantle Overseas Passenger Terminal and the rest of VQ and Fremantle and various activation strategies. During the delayed 2020/21 State Budget process, Fremantle Ports concluded an Expressions of Interest process, appointing Gage Roads Brewing Co as the proponent to redevelop the heritage-listed ‘A’ Shed on VQ.

- Accelerating development of the VQ Waterfront area, subject to funding availability.

Bulk Business strategy

Bulk trade is an important element of trade facilitation for Fremantle Ports. A significant challenge to the development of the bulk business is the condition of bulk handling assets, which includes ageing cargo handling equipment and berths. These assets are constrained in both capacity and capability and require significant ongoing investment. Key investment decisions relating to future bulk trade business assets and infrastructure will be informed by the future development and financial viability of the bulk trade business. Key areas of focus include:

- Continue efforts to secure bulk trade volumes

- Implementation of a cohesive bulk business strategy to support infrastructure investment decisions and the sustainability of the Bulk Business.
Enterprise Resource Planning system

Fremantle Ports is assessing replacement of its financial management system with a contemporary enterprise resource planning system and will also assess the opportunity to replace other legacy systems/applications to further simplify, modernise and standardise the IT environment.

Cultural growth and employee effectiveness

Cultural growth and employee effectiveness is a key part of Fremantle Ports’ Strategic Workforce Plan. Cultural growth is recognised as a key driver of organisational success. This initiative will align, engage and enable employees to achieve Fremantle Ports’ strategic objectives, and ensure that business systems, processes, practices and policies are structured to enable a growth culture and greater business effectiveness. Key areas of focus include:

- Lifting productivity through increased engagement
- Improving the speed and quality of decision-making in the organisation
- Improving the approach to performance management
- Enhancing managers’ leadership skills, in line with updated leadership capability program
3 ACCOUNTABILITY

3.1. Reporting

3.1.1. Information to be reported to the Minister

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

The 2021 annual report will comply with the requirements of the PAA and 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 within this SCI
- Financial statements
- Other information required by legislation or the Minister

Fremantle Ports is obliged to provide financial information to the Department of Treasury under the Government Financial Responsibility Act 2000 (WA). Quarterly financial results are provided via submission in the State Government's Strategic Information Management System for the purpose of whole-of-government reporting.

3.2. Performance measurement

3.2.1. Key performance targets and other measures

The performance measures presented in Table 1 are used to measure the operational performance of Fremantle Ports and the port overall. They are used by Fremantle Ports to monitor service delivery, identify and respond to emerging trends in trade development, measure capability for the future and to ensure business excellence and sustainability.

The indicators are split into two sections, those that are directly under the control of Fremantle Ports in terms of outcomes and those where the outcomes depend on the actions of others but are still relevant to the overall performance of the port.

Fremantle Ports' general and bulk cargo trade in 2019/20 decreased by 4.1% to 9.1 million revenue tonnes mainly due to a decline in new motor vehicle imports. In 2020/21 a decrease of 0.2% is forecast reflecting lower expectations for inner harbour trade. Total container throughput decreased by 0.6% in 2019/20 and is expected to decrease by 9.9% in 2020/21.

The target rail share for 2020/21 is 20%.

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

Fremantle Ports' forecasts are formed with consideration of financial targets, including profit after tax and rate of return on assets. The rate of return for 2020/21 is forecast as 8.7% on the deprival value of assets, with forecast results reflecting 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 Harbour. Fremantle Ports aims for a satisfaction rating of over 70% for 2020/21.
Table 1 Performance targets

<table>
<thead>
<tr>
<th>Fremantle Ports</th>
<th>2018/19 (actual)</th>
<th>2019/20 (actual)</th>
<th>2020/21 (target)</th>
</tr>
</thead>
</table>

**Service delivery**

Customer satisfaction with:

| Services – Fremantle Ports only (%) | 88   | 86   | >85   |

Performance against agreed contract rates\(^1\)

| KBT ship un/loading performance (%) | 99.62 | 88.2 | 100   |
| Import equipment availability (%)   | 96.25 | 99   | 96    |
| Export equipment availability (%)   | 98.20 | 93.6 | 96    |

**Business sustainability**

| Fatalities/disabling injuries | 0    | 0    | 0     |
| Lost time injury rate\(^2\)    | 6.5  | 6.4  | 0 or 10% reduction |
| After tax profit ($M)          | 49.4 | 46.3 | 38.8  |
| Rate of return on assets\(^3\) (%) | 11.5 | 10.1 | 8.7   |

**Community satisfaction**

| Inner Harbour (%)              | 62   | 64   | >70   |
| Outer Harbour (%)              | 65   | 66   | >70   |

**Notes**

1. Quarterly average over the year
2. Rate based on injuries 'occurring in the year' and 'million hours worked'
3. Return on assets reflects deprec valuation methodology; asset base includes current assets and excludes gifted assets
<table>
<thead>
<tr>
<th>Service delivery</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Crane rates (containers/hr)&lt;sup&gt;1&lt;/sup&gt;</td>
<td>35</td>
<td>34.6</td>
<td>32</td>
</tr>
<tr>
<td>Customer satisfaction with:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services – all (private + Fremantle Ports) (%)</td>
<td>82</td>
<td>90</td>
<td>&gt;85</td>
</tr>
<tr>
<td>Capability for the future</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Berthing delays – unavailability of berths</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inner Harbour - Container vessels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vessels delayed&lt;sup&gt;2&lt;/sup&gt; (% of total)</td>
<td>3.9</td>
<td>&lt;4.1</td>
<td>&lt;12</td>
</tr>
<tr>
<td>Average hours per delay&lt;sup&gt;2&lt;/sup&gt; (hr)</td>
<td>26.5</td>
<td>18.7</td>
<td>&lt;20</td>
</tr>
<tr>
<td>Kwinana Bulk Terminal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vessels delayed&lt;sup&gt;2&lt;/sup&gt; (% of total)</td>
<td>65.2</td>
<td>63.3</td>
<td>&lt;40</td>
</tr>
<tr>
<td>Average hours per delay&lt;sup&gt;2&lt;/sup&gt; (hr)</td>
<td>78.2</td>
<td>71.4</td>
<td>&lt;120</td>
</tr>
<tr>
<td>Kwinana Bulk Jetty</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vessels delayed&lt;sup&gt;2&lt;/sup&gt; (% of total)</td>
<td>47.2</td>
<td>50</td>
<td>&lt;25</td>
</tr>
<tr>
<td>Average hours per delay&lt;sup&gt;2&lt;/sup&gt; (hr)</td>
<td>63.2</td>
<td>98</td>
<td>&lt;50</td>
</tr>
<tr>
<td>Trade and business growth</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade growth</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fremantle Ports non-containerised trade&lt;sup&gt;3&lt;/sup&gt; (%)</td>
<td>-16.7</td>
<td>-4.1</td>
<td>-0.2</td>
</tr>
<tr>
<td>Container trade (%)</td>
<td>2.3</td>
<td>-0.1</td>
<td>-9.9</td>
</tr>
<tr>
<td>Number of ship visits&lt;sup&gt;4&lt;/sup&gt;</td>
<td>1,780</td>
<td>1,632</td>
<td>1,546</td>
</tr>
<tr>
<td>Rail share of container trade (%)</td>
<td>20.0</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

Notes
1. As at Dec quarter 2018
2. Figures include vessels that arrive ahead of schedule
3. Fremantle Ports general and bulk cargo trade - revenue tonnes (includes Inner Harbour, Kwinana Bulk Jetty and Kwinana Bulk Terminal)
4. Includes commercial, non-trading and fishing vessels (excludes naval)
4 FINANCES

4.1. Operating Budget

Fremantle Ports’ operating budget for 2020/21, prepared in accordance with Australian Accounting Standards (AASs), forecasts a net profit after tax of $38.8M. Fremantle Ports will comply with approved capital expenditure limits and requirements regarding associated funding and will endeavour to achieve financial outcomes consistent with forecasts contained in approved financial statements.

Small differences in amounts may appear in financial tables throughout this document due to rounding.

Table 2 Operating budgets

<table>
<thead>
<tr>
<th></th>
<th>2019/20 actual ($M)</th>
<th>2020/21 target ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>217.9</td>
<td>222.8</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>151.7</td>
<td>167.2</td>
</tr>
<tr>
<td>Operating profit before income tax</td>
<td>66.2</td>
<td>55.6</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>19.9</td>
<td>16.8</td>
</tr>
<tr>
<td>Operating profit after tax</td>
<td>46.3</td>
<td>38.8</td>
</tr>
<tr>
<td><em>Dividend based on prior year profit</em></td>
<td>12.8</td>
<td>57.2</td>
</tr>
</tbody>
</table>

*An interim dividend for the year ended 30 June 2020 was not required to be declared by the Board.

4.2. Asset Investment Program

Fremantle Ports’ asset investment program for 2020/21 includes expenditure of $95.5M on capital projects. Major planned expenditure includes:

- Land acquisitions North Quay;
- Kwinana Bulk Terminal infrastructure and equipment replacement and upgrade;
- Kwinana Bulk Terminal clinker import circuit system; and
- Replace floating plant.

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

4.3. Borrowings

The 2020/21 budget reflects a closing borrowing balance of $206.5M. This represents a net increase of $37.2M in comparison to 2019/20, contributing to Asset Investment Program funding. Borrowings are managed to ensure sufficient cash resources are maintained for working capital requirements.

4.4. Accounting

Financial forecasts are consistent with the recognition and measurement requirements of AASs (including Australian Accounting Interpretations) adopted by the AAS Board and comply with the financial reporting provisions of the PAA.

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Forecasts have been prepared on an accrual accounting basis and in accordance with the historical cost convention. They should be interpreted in conjunction with accounting policies set out in Fremantle Ports’ 2019 Annual Report.

4.5. Pricing

To ensure the long-term financial viability of Fremantle Ports and to achieve an 8.7% rate of return, an average price increase of 2% on rates and charges for shipping and cargo has been budgeted from 1 October in 2020/21.

4.6. Payments to Government

Fremantle Ports contributes to the State Government through income tax equivalents, local government rate equivalents, emergency services levy, dividends, land tax, payroll tax and stamp duty as forecast in the table below.

<table>
<thead>
<tr>
<th>Table 3</th>
<th>Forecast contributions to Government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019/20 actual ($M)</td>
</tr>
<tr>
<td>Dividends</td>
<td>12.8</td>
</tr>
<tr>
<td>Income Tax Equivalent (Expense)</td>
<td>19.9</td>
</tr>
<tr>
<td>Payroll Tax</td>
<td>2.5</td>
</tr>
<tr>
<td>Land Tax</td>
<td>7.2</td>
</tr>
<tr>
<td>Local Government Rate Equivalent</td>
<td>0.7</td>
</tr>
<tr>
<td>Emergency Services Levy</td>
<td>0.2</td>
</tr>
<tr>
<td>Stamp Duty</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>43.3</td>
</tr>
</tbody>
</table>

4.7. Dividend Policy

Dividends are paid in accordance with State Government policy which obliges Fremantle Ports to pay dividends to the State on profits derived after tax and significant items. Dividends have been budgeted in accordance with AASs and the State Government’s dividend requirements. Consistent with Section 84 of the PAA whereby the Minister may provide written notice to the board of a port authority that an interim dividend is to be paid, since 2014/15 Fremantle Ports has made provision for the payment of interim dividends.

4.8. Community Service Obligations

Fremantle Ports has no current Community Service Obligations in place.