



GERALTON PORT AUTHORITY

STATEMENT OF CORPORATE INTENT

March 2005



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STATEMENT OF CORPORATE INTENT MARCH 2005

Purpose Statement

Geraldton Port Authority's purpose is:

'To encourage trade facilitation by being a profitable, cost effective and efficient logistics provider through the use of existing and new infrastructure.'



TRADE FACILITATION – CURRENT SITUATION

In 2004/05, the Geraldton Port Authority commenced consolidating the new opportunities for the Mid West region that the Port Enhancement Project has provided. The upgraded facilities presented the GPA with a new opportunity to facilitate trade in the most profitable, cost effective and efficient manner possible.

The GPA seized on this opportunity, developing a strategic plan to achieve these efficiencies and is further refining the plan with the development of a detailed concept plan identifying all the potential development footprints and their associated methodologies of operation within the port.

Supporting more than \$1 billion of trade in the Mid West, the GPA is a critical link in the economy and lifestyle of the entire region. The Geraldton Port supports the local fishing industry, export of grains, minerals and livestock as well as the import of fuel, fertilizer and minerals. Grain continues to be a strong export commodity and on the back of the record 2003/04 year the 2004/05 year will exceed 2.1M tonnes. However the historic domination of the port trade by the grain exports has been altered by the increasing volumes of Iron Ore with Mount Gibson Iron Pty Limited exporting 1.8M tonnes in its first year of operation.

The PEP was successfully completed in early 2004. The GPA can now load vessels to 11.5 metres at zero tide, a vast improvement over the 8.0 metres previously. With the use of a Dynamic Under Keel Clearance System and on a 1.3m tide, drafts of up to 12.8 metres are now possible through Geraldton Port compared to 9.3 metres previously.

The recommencement of the iron ore trade has become possible with the Port Enhancement Project (PEP) and combined with the larger vessels associated with grain exports, negating the requirements for two port loading, are an example of the tangible benefits to have come from the project.

This growth in trade has brought the rail unloading facilities and the ship loading capacity of the Port to full reliable utilization. The construction by Mount Gibson Iron of a new, specially designed \$6,000,000 storage facility near berth four as well as modifications to the Bulk Handling Facility is the commencement of the ongoing development that will be generated in the port primarily through the additional influx of the Iron Ore exports.

Through all this change and growth, the GPA continues to facilitate the Fishing and Western Rock Lobster industry with an estimated trade value approaching \$400,000,000. As part of this programme, the Geraldton Port Authority operates the Geraldton Fishing Boat Harbour together with land based support to process Cray Fishing and Aquaculture.

The shore-side facilities of the Port are significant with the provision of cargo assembly and storage areas, transport infrastructure and support services. Properties are owned both within and outside the gazetted port with a very large tenancy portfolio. The total replacement value of port infrastructure is approximately \$1 billion.

PORT AUTHORITY FUTURE DIRECTION

The ongoing developments of 2004/05 have enabled the Port to have an optimistic view for the future. This optimism is already proving to be well placed. The GPA has been advised of new projects and tonnages likely to pass through the Port. These products include increases in iron ore (up to or exceeding 10 million tonnes per annum), manganese (0.2 mtpa), lead concentrate (0.2 mtpa) and crude oil exports. Even more new projects are on the horizon.

These exciting new projects create a quantum change to the demands placed upon, and the responses required, from the GPA in the next five years. These changes will include upgrading the GPA's capability in:

- Rail unloading.
- Road access.
- Storage facilities.
- Ship loading.
- Marine services.
- Land availability and usage.
- Personnel numbers and skills.

The GPA will continue to offer all our existing services and trade through our Port will never be compromised as we seek continuous improvement. The inclusion and co-operation of existing users will be vital to this process.

CONSOLIDATION & PRIORITISATION

The Geraldton Port Authority has identified and prioritised the following as the major items for our 5 year Strategic Development Plan:

- Review and Develop all GPA's Operating Parameters and Policies
- Increase Volume of Trade through the Port
- Meet the Commercial Expectations in Accordance with Ministerial Direction
- Land Strategy
- Risk Management / Mitigation

FIVE YEAR STRATEGIC DEVELOPMENT PLAN

Objectives and strategies have been identified for each area of the Strategic Development Plan.

1. Review and develop all GPA's Operating Parameters and Policies.

Objectives

- To continue and further develop clear policies in all areas of Governance.
- Provide clear understanding of GPA's objectives with all employees.
- To create an environment of continuous improvement.
- Maintain a Community and Stakeholder consultative process.

Objective	Year 1	Year 2 - 5
To continue and further develop clear policies in all areas of Governance.	Continue to develop best practice Corporate Governance.	Undertake independent compliance audits of GPA's procedures and policies and performance management system.
Provide clear understanding of GPA's objectives with all employees.	Develop and implement an internal communication strategy. Implement a performance management system. Professional development plans. Develop Key Performance Indicator's that benchmark performance and training.	To include continuous improvement and best practice methodologies. Succession planning. Undertake thorough staff training and implementation of systems.
To create an environment of continuous improvement.	Complete a review of GPA's Information Technology support systems. Continually review all GPA operating parameters and organisational structure to facilitate growth. Review GPA's Human Resources policies and employment conditions.	Prepare a business case for ISO/AS accreditation in:- <ul style="list-style-type: none"> • - AS/NZS ISO 9001:2000 Quality Management Systems; • - AS/NZS ISO 14001:1996 Environmental Management Systems; and • - AS/NZS 4360:1999 Risk Management • - AS 4801-2000 Occupational Health and Safety • Submit to the Board for approval and then identify and procure a preferred supplier to develop the systems for the Port.

<p>Maintain a Community and Stakeholder consultative process.</p>	<p>Operate within the Memorandum of Understanding with the City of Geraldton.</p> <p>Improve communications with commercial Port users, the fishing industry and recreational boat users.</p> <p>Maintain GPA communication with all relevant community, commercial and government organisations. eg - Chamber of Commerce, MidWest Development Commission and Area Consultative Committee.</p> <p>Improve GPA's communication with the community by input into industry and community forums, an interactive and relevant website, open days, Port tours and regular contact with local media.</p>	<p>Develop similar relationships with other local governments and community environmental groups.</p>
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2. Increase Volume of Trade through the Port.

Objectives

- To add value and to provide the best possible service to GPA Exporters and Importers.
- To market the GPA to potential Exporters and Importers.
- To maximise productivity and ensure cost efficiency to GPA Exporters and Importers.

Objective	Year 1	Year 2 - 5
<p>To add value and to provide the best possible service to GPA Exporters and Importers.</p>	<p>Remove existing barriers:</p> <ul style="list-style-type: none"> - How we operate; and - Cost structures, etc <ul style="list-style-type: none"> • Extend the range of services GPA provides to its customers 	<ul style="list-style-type: none"> • Ensure the retention of existing customers and provide facility for growth through - - Customer surveys - Communications - Understand customers' requirements - Improved level of service - Benchmarking against other Ports by comparison of their Key Performance indicators; and - Attracting new trade.

To market the GPA to potential Exporters and Importers.	<p>Ensure surplus capacity is available in the following areas:</p> <ul style="list-style-type: none"> - Storage - Loading capacity - Information Technology - Towage - Berth availability; and - Land 	<p>Ensure surplus capacity is available in the following areas:</p> <ul style="list-style-type: none"> - Storage - Loading capacity - Information Technology - Towage - Berth availability; and - Land
To maximise productivity and ensure cost efficiency to GPA Exporters and Importers.	<p>Conduct mapping exercise and gap analysis</p>	<p>Conduct GPA resources and capability analysis</p> <p>Consolidate buying power as a service to customers</p> <p>Develop business plans for supply chain solutions.</p>

3. Meet the Commercial Expectations in Accordance with Ministerial Direction.

Objectives

- To ensure that GPA is performing against approved budgets and forecasts.
- To manage the GPA to achieve the Government and GPA Board's financial objectives.
- To ensure all transactions are prudently managed to comply with Government and Accounting Standards.

Objective	Year 1	Year 2 - 5
To ensure that GPA is performing against approved budgets and forecasts.	<p>Analyse, evaluate and review current expenditures for -</p> <ul style="list-style-type: none"> - Overheads - Fixed costs - Procurement practices - Taxation; and - Monitor and report against approved budgets 	<p>Evaluate methods of refinancing -</p> <ul style="list-style-type: none"> - Operating leases - Sale and leaseback - Treasury finance - Outright purchase - Private sector capital; and - Partnerships / joint ventures, Public / Private Partnerships <p>1. Understand and measure the financial performance of individual aspects of the business.</p> <p>Introduce flexibility to cost base.</p>
<ul style="list-style-type: none"> • To manage the GPA to achieve the Government and GPA Board's financial objectives. 	<ul style="list-style-type: none"> • Analyse, evaluate and review income streams including - - Timely invoicing - Cash collection - Invoicing procedures; and - Monitor and report against approved budgets • Confirm the valuation of 	

	GPA's assets <ul style="list-style-type: none"> • Present strategy / budget / report to achieve 6% target. 	
<ul style="list-style-type: none"> • To ensure all transactions are prudently managed to comply with Government and Accounting Standards. 	<ul style="list-style-type: none"> • Ensure all appropriate audit regimes are in place, both internal and external. 	

4. Land Strategy.

Objectives

- To minimise the environmental impacts of the Port's operations.
- To identify land requirements for the Port's future growth.
- To identify and acquire future port buffer requirements.
- Maximise (align) cargo throughput from leased land.

Objective	Year 1	Year 2 - 5
<ul style="list-style-type: none"> • To minimise the environmental impacts of the Port's operations. 	<ul style="list-style-type: none"> • Forecast likely impacts / incompatibilities between GPA activities and community. 	
<ul style="list-style-type: none"> • To identify land requirements for the Port's future growth. 	<ul style="list-style-type: none"> • Forecast future activities of the GPA and all Port users. • Identify future land needs for activities and buffers. • Develop a strategy that meets GPA's needs, considering - <ul style="list-style-type: none"> - Acquisitions - Zoning with the City of Geraldton, Planning and Infrastructure; and - Existing users • Assess future Port needs and develop a plan to meet these needs. 	
<ul style="list-style-type: none"> • To identify and acquire future port buffer requirements. 	<ul style="list-style-type: none"> • Forecast likely impacts / incompatibilities between GPA activities and community. • Develop a strategy that meets GPA's needs, considering - <ul style="list-style-type: none"> - Acquisitions - Zoning with the City of Geraldton, Planning and Infrastructure; and - Existing users 	
<ul style="list-style-type: none"> • Maximise (align) 	<ul style="list-style-type: none"> • Link land allocation and trade 	

cargo throughput from leased land.	volumes / utilisation. <ul style="list-style-type: none"> • Complete a review of the lease terms and tenure. • Investigate partnership options to develop Port owned land / cargo consolidation. 	
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5. Risk Management / Mitigation.

Objectives

- Review all major risks to the GPA and update Risk Register.
- Develop a strategy and action to manage and mitigate each risk.
- Develop an audit and review regime.
- Develop a Communication Strategy on risk management / mitigation.

Objective	Year 1	Year 2 - 5
<ul style="list-style-type: none"> • Review all major risks to the GPA and update Risk Register. 	<ul style="list-style-type: none"> • Workshop to identify all current risks to the port. 	
<ul style="list-style-type: none"> • Develop a strategy and action to manage and mitigate each risk. 	<ul style="list-style-type: none"> • Identify all serious risks and determine mitigating strategy for each. 	<ul style="list-style-type: none"> • Update Emergency Plan and plan for the Port Audit EMP annually.
<ul style="list-style-type: none"> • Develop an audit and review regime. 	<ul style="list-style-type: none"> • Annually audit the risk management process and review appropriateness of each strategy. 	
<ul style="list-style-type: none"> • Develop a Communication Strategy on risk management / mitigation. 	<ul style="list-style-type: none"> • Ensure the risk management procedures are communicated to all concerned. • Communication procedures to be provided for specific areas as necessary. • Regular risk management meeting of senior management and other designated persons. 	

OPERATING REVENUE AND EXPENDITURE

The Geraldton Port Authority 2005/2006 financial year Statement of Corporate Intent has been prepared based on the following assumptions:

TONNAGES

Tonnage estimates will continue to be based on conservative predictions with support from direct customer enquiries for commercial in confidence assessments.

A base total of 6.1155 million tonnes being higher than the revised estimate for the current 2004/05 period of 5.3896 million tonnes.

The budget period also reflects a 1.855 million tonne grain export which is below the 2004/2005 season's harvest of 2.140 million tonnes.

REVENUE

Total revenue for the budget year is expected to be \$24,441,000 which is an increase of \$2,010,000 compared to the forecast for the 2004/05 year of \$22,431,000.

The major areas of revenue variation include:

- Reduced Commercial Shipping Harbour revenue due to expectations of lower harvest volumes from the rural sector than in past record years.
- Increased Commercial Shipping Harbour revenue due to the expectations of higher Iron Ore shipments totalling 3 million tonnes for the year.
- Continuation of the Port Enhancement Charge.

EXPENDITURE

Total Expenditure for the budget year is expected to be \$22,256,000, which is an increase of \$2,231,000 compared to the forecast for the 2004/05 year of \$20,025,000.

Each working expense item has been assessed to determine the level of increase or decrease required. This assessment took into account the history of each item and developments to be undertaken during this budget period.

Major areas of expenditure include the following:-

- Interest Charges – Port Enhancement Project Interest
- Depreciation - Is reflective of the total depreciation allowance recovered for Port assets under the historical cost / assessment of effective useful life method and includes a charge for the Port Enhancement Project.

HALF YEARLY RESULTS

	Dec 2004	Dec 2005
Total Revenue	12,740	12,220
Total Expenditure	11,186	11,128
Operating Profit before Tax and Abnormals	1,554	1,092
Tax	361	328
Operating profit after Tax and Abnormals	1,193	765
Closing Retained Earnings	13,249	13,669

CAPITAL EXPENDITURE AND BORROWING REQUIREMENTS

The GPA has approved capital works investment totalling \$2,634,000 for the 2005/2006 financial year. Any borrowings will be first subject to commercial evaluation. Of this amount, \$1,300,000 is proposed to be financed through external borrowings with the remaining \$1,334,000 from internal funding.

All funding decisions have been based on the premise that, other than storage facilities, the GPA will own all infrastructure in line with its stated objective of providing a “total supply line solution” and will recoup a return based on current Government policy from users.

It is anticipated that the external funds required will be sourced from Western Australian Treasury Corporation (WATC).

Business Case development on other capacity expanding projects are continuing and will be considered in the mid year review.

MAJOR PLANNED IMPROVEMENTS

Major planned improvements for 2005/06 include:

- Eastern breakwater infill and rail track construction
The Southern Transport Corridor will benefit the Port in terms of train size/capacity through the construction of an extended rail spur on the Eastern breakwater. The total contribution to the project by the GPA was \$2.6M over 2 years. The final \$1,300,000 is the 2005/06 contribution payable towards the project by the GPA.

MINOR PROJECTS:

- Minor Project Reserve (Treasury Approved)
A reserve of \$1,334,000 covering minor projects with a value less than \$500,000.

PROPOSED PRICING ARRANGEMENTS

The GPA has recommended a 2.2% rise in existing Port charges effective from 01st July 2005

COMMERCIAL SHIPPING HARBOUR

The actual impact and affect of these charge increases on port customers has been determined.

Tariff Rates (GST Exclusive)	2004/05	2005/06
Shipper Charge (General) (per tonne)	\$ 0.8909	\$ 0.9105
Shipper Charge (agreed high volume take or pay) (First 2 Million Tonnes) (per tonne)	\$ 0.5000	\$ 0.5000
Shipper Charge (agreed high volume take or pay) (2 - 2.5 Million Tonnes) (per tonne)	\$ 0.4000	\$ 0.4000
Shipper Charge (agreed high volume take or pay) (2.5 - 3.0 Million Tonnes) (per tonne)	\$ 0.3000	\$ 0.3000
Shipper Charge (agreed high volume take or pay) (3.0 - 3.5 Million Tonnes) (per tonne)	\$ 0.2000	\$ 0.2000
Shipper Charge (agreed high volume take or pay) (3.5 Million Tonnes +) (per tonne)	\$ 0.1000	\$ 0.1000
Moorings (General) (per GRT)	\$ 0.0750	\$ 0.0767
Moorings (agreed high volume take or pay) (per GRT)	\$ 0.0700	\$ 0.0700
Shift Ship Charge (General) (per GRT)	\$ 0.0750	\$ 0.0767
Shift Ship Charge (agreed high volume take or pay) (per GRT)	\$ 0.0700	\$ 0.0700
Berth Hire (General) (per Hour)	\$ 160.0000	\$ 163.5200
Berth Hire (agreed high volume take or pay) (per Hour)	\$ 150.0000	\$ 150.0000
Ship Charge (General) (per GRT)	\$ 0.9455	\$ 0.9663
Ship Charge (agreed high volume take or pay) (per GRT)	\$ 0.8000	\$ 0.8000
Port Enhancement Charge (PEP) (General) (per tonne)	\$ 2.0000	\$ 2.0440
Port Enhancement Charge (PEP) (agreed high volume take or pay) (per tonne)	\$ 1.5000	\$ 1.5000
Fuel Pipeline Charge (per tonne)	\$ 0.3000	\$ 0.3066
Port Security Charge (per GRT)	\$ -	\$ 0.0600
Wharf Clean (Sweeper) (per Hour)	\$ 86.0000	\$ 87.8920
Weighbridge Hire (per shift)	\$ 100.0000	\$ 102.2000
Stands, Steps (per shift)	\$ 100.0000	\$ 102.2000
Stands, Steps, Race (per shift)	\$ 150.0000	\$ 153.3000
Hopper Wash Water (per hopper)	\$ 6.9000	\$ 7.0518
Water Wharf Wash (set fee)	\$ 38.6000	\$ 39.4492
Electricity (per three phase plug per shift)	\$ 15.0000	\$ 15.3300
Forklift Hire (per Hour)	\$ 105.0000	\$ 107.3100
Water (per kilo litre)	\$ 1.7300	\$ 1.7681
Pilotage Surveys (per Hour)	\$ 250.0000	\$ 255.5000
Pilotage Launch Hire (per Hour)	\$ 587.0000	\$ 599.9140
Pilotage Detention (per Hour)	\$ 540.0000	\$ 551.8800

The Port is currently reviewing all its charges with the potential introduction of utilities charges which will include costs associated with power distribution, provision of sewerage services and water. Customers will be consulted before the implementation of any of these charges or changes to the existing charges.

FISHING BOAT HARBOUR

In line with one of our key objectives of achieving 6% rate of return, the Fishing Boat Harbour needs to be measured as a stand alone business unit. Customer tenants will need to be charged for utilities (at cost) and those charges will incorporate costs associated with distribution and provision of plant.

Annual pen rentals have been reviewed to determine the proper market value for use of these facilities. Based on the information gathered to date, it is expected a nominal increase will apply to keep the Geraldton facility within the benchmark standard. All charges to the Fishing Boat Harbour will increase by 2.2% as of the 1st July 2005.

PROPOSED DIVIDEND PROVISIONS

Provision has been made in the budget for payment of a \$765,000 nominal dividend to Treasury. The nominal dividend has been calculated at 50% of residual profits and in accordance with State Government policy.

ACCOUNTING POLICIES

The following accounting policies will be adopted in the preparation of the financial statements.

- i) The financial statements will be prepared in accordance with Schedule 5 of the Port Authorities Act 1999, or as amended from time to time, and the Accounting Standards which apply to listed companies pursuant to the Corporations Law.
- ii) Subject to the valuations conducted for taxation purposes, the financial statements will be drawn up on the basis of historical cost principles.
- iii) The accrual basis of accounting is being applied.

INFORMATIONAL REQUIREMENTS

The Geraldton Port Authority is committed to supplying detailed financial and operating performance information to the Minister for Planning and Infrastructure.

The annual report to be provided will include Chairman's Report on Operations, Financial Statements, Performance Indicators and Trading Results in terms of the Port Authorities Act 1999.

The Half-Yearly report provided will include Financial Statements (in accordance with Accounting Standard AASB 1029) and a report on major variations and planned improvements.

COMMUNITY SERVICE OBLIGATIONS

- **Southern Transport Corridor**

The GPA is committed to contributing \$1,300,000 over the 2005/06 year as part of the total \$2,600,000 contribution to the Southern Transport Corridor for extensions to the rail facility within the Port and extending onto the Eastern Breakwater.

- **Completion of the Geraldton Yacht Club facilities**

As a part of the Port Enhancement program the GPA has assisted with the provision of pens and associated works in the Batavia Marina.

- **Sand replenishment program of northern beaches.**

The GPA has a Memorandum of Understanding with the City of Geraldton which includes assistance with sand replenishment of the northern beaches.

The Authority currently receives no Community Service Obligation (CSO) reimbursements from the Government.

ISSUES IMPACTING ON PORT'S FINANCIAL POSITION

The major influence affecting the likelihood of Geraldton Port Authority achieving its intended budget is its dependence on trade volumes. The Mid West Port is heavily reliant on primary industry for its major source of trade. A drought or significant downturn (as has recently occurred during the 2000/2001, 2001/02 and 2002/03 seasons) either in cropping or mining activity will have a detrimental affect on Port finances.

Any further shortfalls in current tonnage volumes will have a deteriorating impact on port cash flow balances. Trade volume throughput forecasts will therefore be closely and continuously monitored to ensure that the Authority's cash reserves are maintained at an appropriate level.

Shortfalls in anticipated future tonnages will have an impact on both capital expenditure requirements as well as income streams. It will therefore be imperative to maintain close liaison with our customers during this next phase of anticipated growth.

PERFORMANCE TARGETS

The introduction of the Port Authorities Act in August 1999 provided an opportunity for the Minister to determine a financial target for the Port to pursue during the following year. A revised rate of return policy has also been introduced by Government.

Consequently, the forecast Rate of Return has been calculated using the Deprival Valuation Methodology of assessing Port assets. As highlighted in previous text, the Geraldton Port Authority is anticipating achieving an 7.9% return on such assets for targeting purposes.

Other port performance targets for 2004/05 are as follows:-

Performance Targets

<u>FINANCIAL RATIOS</u>		
	2004/05	2005/06
Liquidity Ratio		
Current Ratio	2.34	2.57
Cash Management Ratio		
Free Cash Ratio	179.7%	197.5%
Debt Management Ratios		
Debt to Equity	5.59	5.33
Interest Cover	1.35	1.29
Profitability Ratios		
Return on Shareholders' Equity (post-Tax)	3.4%	3.3%
Return on Assets at Deprival Value	6.2%	6.5%