Department of Finance

Response to Question on Notice

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Commonwealth Financial Statements - Auditor-General's report No 24 (2017-18)
Wednesday 22 August 2018

GENERAL COMMENTS
Nil

SPECIFIC QUESTIONS ON NOTICE

Question 1 (Hansard Proof, Page 8)

Mr Hill: So if you could take on notice, perhaps with the ARTC example, the Department of Finance's view. And it would be helpful if we didn't get one of those questions back where you say, 'That's not our department; go talk to the department—that's not helpful. If you could get the information, given you have been a part of the discussion, on what were your projections or the portfolio department's projections for the ARTC's cash flows, return, value, all the financial metrics without the inland rail project? And what were the projections with the inland rail project?

RESPONSE

The Australian Rail Track Corporation's (ARTC) 2015 Business Case addendum found that, on a stand-alone basis, Inland Rail generates a benefit cost ratio of 2.81 at a 4 per cent discount rate and 1.08 at a 7 per cent discount rate. The Business Case found that Inland Rail would be cash flow positive from commencement of operations, with access revenues to cover ongoing operations and maintenance, but not to repay the up-front capital costs over the medium term. A key finding of the Business Case was that an investment in Inland Rail has a positive net economic benefit over the project's 100 year asset life; however, the scale and scope of Inland Rail, combined with the long investment return period, means that the private sector was unlikely to invest in the project on a stand-alone basis.

ARTC's 2016-17 and 2017-18 Statements of Corporate Intent reflect the Company's actual and forecast financial metrics without the Inland Rail project as follows:

Financial Metrics	2014-15 Actual	2015-16 Actual	2016-17 Forecast
Operating Revenue ($m)	773.6	772.6	735.1
EBITDAI ($m)	433.5	410.4	365.4
Net Assets ($m)	3606.9	3490.4	3546.1
Return on Capital Employed	6.3%	6.3%	4.8%

In 2016-17, the Department of Finance engaged Macquarie Capital to undertake detailed analysis of Inland Rail, including analysis of the project's delivery by ARTC with Commonwealth equity funding. Macquarie Capital's analysis identified that the Commonwealth's total return on equity in ARTC over the life of the project would be approximately 6 per cent. Sensitivity analysis by Macquarie Capital included consideration of the final capital costs, the lease arrangements with each state government and the financial performance of ARTC more broadly. This analysis found there is significant scope for variance to these factors while maintaining a rate of return above the long-term inflation rate necessary for the Commonwealth's contribution to be classified as equity.

The Government expects that the returns from the shareholding, dividends and the enterprise value of the Company, inclusive of the Inland Rail project, will all drive a positive return for the Commonwealth. The Commonwealth's equity contributions to ARTC, noting commercial sensitivities, will be reported through ARTC's Annual Reports.