

V/Line, Regulatory Account Keeping Policy

This Account Keeping Policy (AK Policy) is prepared in order to comply with the Account Keeping Rules (AK Rules) set out in the *Victorian Government Gazette*¹..

This AK Policy details how V/Line will report its financial compliance with the AK Rules.

1. V/Line organisational structure

V/Line Pty Ltd (V/Line) is a statutory Rail Corporation under the *Rail Corporations Act* 1996. The Board of Directors of V/Line reports to the Minister for Public Transport.

V/Line has a Franchise Agreement with the Director of Public Transport to operate regional rail and rail replacement coach services throughout Victoria effective until 31 December 2009.

A wholly owned subsidiary company of V/Line, Victorian Rail Heritage Operations Pty Limited (VRHO) operates heritage rail services.

Regional Network & Access (RNA) is the Access Activities Business Unit of V/Line that conducts access activities. RNA is functionally, physically and data separated from all other V/Line Business Units.

1.1 General Ledger

V/Line uses a common chart of accounts. Reporting is along divisional lines, with further separation into business units within each division by cost centre. Financial statements are prepared for each division with financial information being available for each business unit within each division.

For the purposes of the Regulatory Account Keeping Policy, V/Line business units have been split into the Access Activities Business Unit — “RNA”; and all other V/Line Business Units — “V/Line Passenger Services”.

1.2 Internal financial reporting

V/Line operates a divisional structure, with financial controllers in each division responsible for the management accounting, financial accounting and accounts receivables functions to produce a final set of V/Line accounts.

The Corporate Finance and Accounting Functions perform:

- Group wide functions applicable to all divisions (Treasury, Tax and Systems)
- Transactional processing services
- Consolidation, reporting, consistent policy and control.

All business units' general ledger account balances are contained in the Oracle System in a common chart of accounts.

The actual accounting and financial statements for V/Line are conducted on divisional lines. These are consolidated into the V/Line audited financial statements. As such, RNA is able to report its finances accurately as an entity within V/Line and the compliance with the Account Keeping Rules will be conducted by RNA as a business unit.

¹ Victorian Government Gazette, "S38 – Victorian Rail Access Regime – Account Keeping Rules", 04 January 2006, page 1

1.3 Revenue and Invoicing

Revenue and invoicing systems are owned by each of the business units. RNA invoice directly through Oracle Financials.

1.4 Infrastructure Maintenance Financial Recording

The RNA business unit uses specialised project management software called Maximo to manage infrastructure assets. The system is currently being upgraded to allow for fully visibility of work performed and costs incurred by track infrastructure segment.

Following the upgrade Maximo will capture all inventory and labour costs, Oracle payables is used for all other external costs.

The Oracle general ledger and Maximo are configured using project accounting methodology, in order to maintain accurate information of work performed on a specific track/line. Purchase orders are generated through the Maximo system.

2. Cost Allocation Policy

The ESC has set out regulatory requirements for the allocation of costs in the Victorian Rail Access Regime Account Keeping Rules and the Rail Access Pricing Guidelines. In order to satisfy the requirements of these documents costs incurred by V/Line will be captured and allocated according to business unit, activity, service and pricing zone.

2.1 Non-capital related expenditure

This section specifies the Commission's requirements for the allocation of costs in preparing regulatory statements. An overview of the ESC cost allocation structure for operating and maintenance expenditure is as set out in figure 1. The diagram sets out the Commission's allocation requirements, these requirements and their practical application are covered in the following discussion.

Clearly identifiable at each stage of this allocation process should be:

- The nature and amount of direct costs allocated to business units or activities.
- The nature and amount of indirect costs allocated to business units or activities
- A description of the basis upon which indirect costs have been allocated, including a quantification of the allocators applied.

Level 1. Allocating costs between Other Activities and Access Activities business units

The first level of cost allocation is between those business units of V/Line that conduct access activities and those that don't (other). This level of allocation is relatively straight forward as the bulk of access activities have been kept separate in RNA business units. Thus the primary distinction is between RNA as access business units and V/Line non-access related business units.

The costs allocated to the Access Activities Business unit and Other Activities Business units are either direct costs or indirect costs. Direct costs are cost items which are directly attributable to a business unit. Indirect costs are cost items not directly attributable and are shared across both Access and Other Business Units.

Direct costs include:

- Business management
- Train control
- Signalling
- Infrastructure maintenance
- RNA finance related costs

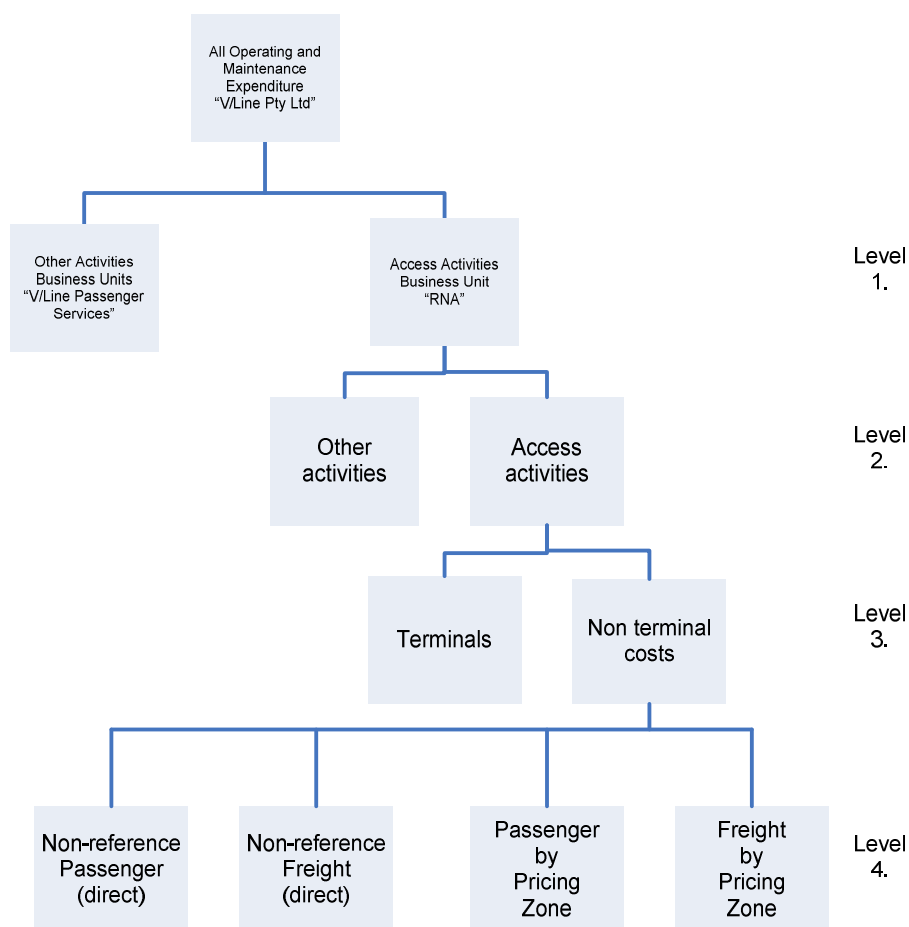
Indirect costs or common costs are allocated on a causal basis. Where a Causal Relationship cannot be established without undue cost and effort, V/Line will separately list all such items. Indirect costs incurred by both Other Activities Business Units and Access Activities Business Units include the following:

- executive or corporate costs
- human resources
- safety and environment costs
- information technology
- other costs

Costs are to be allocated between Other Activities and Access Activities Business Units in the following manner:

- Direct costs incurred by individual business units should be directly attributed to either an Access Activities Business Unit code or an Other Activities Business Unit code
- In the first instance indirect costs should be allocated on the basis of any identifiable causal factors.
- In the absence of identifiable causal factors, indirect costs are to be allocated between the Access and Other business units on the basis of the corresponding proportional share of direct costs.

Figure 1 ESC cost allocation structure



Source: ESC (2005) Victorian Rail Access Regime, Account Keeping Rules.

Level 2 *Allocating costs between other activities and access activities (Declared Rail Transport Services) within an Access Activities Business Unit*

Non access activities performed by the Access Activities Business unit would include: certain government programs, track access for utilities and heritage trains.

As with level 1 allocations the primary distinction made between costs is direct and indirect costs. Cost should be allocated in the following manner:

- Costs directly attributable to an activity should be directly coded to either an access-activities or an other-activity code.
- In the first instance indirect costs should be allocated on the basis of any identifiable causal factors.
- In the absence of identifiable causal factors, indirect costs are to be allocated between the Access and Other Activities on the basis of the corresponding proportional share of direct costs.

Level 3 *Allocating costs between access terminal activities and other access activities*

Currently, V/Line does not have any declared terminal services, however, as with level 1 and 2 allocations the underlying principles are.

- Costs directly attributable to an activity should be directly coded to either terminal or non-terminal services.
- In the first instance indirect costs should be allocated on the basis of any identifiable causal factors.
- In the absence of identifiable causal factors, indirect costs are to be allocated between terminal and non-terminal services on the basis of the corresponding proportional share of direct costs.

Level 4 *Allocating costs between freight and passenger services within access activities (excluding terminal)*

The principles for the allocation of costs between freight and passenger trains can be summarised as follows.

Costs that are directly attributable to rail lines are allocated between: the Regional Fast Rail (RFR) lines; the other passenger lines; and the freight-only lines. Allocate the costs directly attributable to rail lines as follows:

- All of the costs associated with the Portland-Maroon lines are to be allocated to freight;
- All of the costs associated with the other freight-only lines are to be allocated to freight;
- For shared passenger and freight lines:
 - the costs that would be avoided if freight services did not operate on those lines are to be allocated to freight — the avoidable costs associated with freight services for the RFR Network and Other Passenger Network are 0.0% of costs.
 - the costs that would be avoided if passenger services did not operate on those lines are to be allocated to passenger — the avoidable costs for passenger services on the RFR Network are 29% of costs directly attributable to these lines. For the Other Passenger Network the avoidable cost is 47% of costs directly attributable to these lines.²

² The avoidable cost percentages are those adopted by the ESC in the Pacific National Access Arrangement made by the Commission in June 2006.

- the remaining costs are to be allocated to passenger and to freight in proportion to the respective usage by traffic of the relevant rail line based on train kms.

Indirect costs should be allocated to rail lines on the basis of train kilometres. In the absence of separate train kilometre statistics indirect costs will be allocated to rail lines by share of direct costs. Indirect costs are then allocated to passenger and freight, based on train kms. These allocations are given in the following table.

Table 1. Indirect cost allocation

	2006-07	2007-08	2008-09
RFR			
Passenger	95.6%	95.5%	95.5%
Freight	4.4%	4.5%	4.5%
Other Passenger			
Passenger	81.5%	81.3%	81.1%
Freight	18.5%	18.7%	18.9%

Source: ESC (2006) Pacific National Access Arrangements.

- The Commission requires costs should be further allocated on the basis of zones consistent with the zones in the Access Arrangement (being the Portland and Network zones). The 'Network' Zone – is decomposed into freight and passenger but not aggregated.
- The Commission also requires costs to be allocated between reference and non-reference services. Direct costs should be directly attributed to either the reference or non-reference service.

2.2. Capital expenditure and depreciation

The regulatory accounts require the allocation of new capital expenditure (including accumulated new capital expenditure) and related regulatory depreciation to Access activities and Other Activities. New capital expenditure is defined as capital expenditure undertaken since 30 April 1999.

Capital expenditure should be allocated between activities on the following basis:

- All capital expenditures directly attributable to services should be allocated to those services.
- Indirect expenditures should be allocated on the basis of the proportional share of direct costs.

Regulatory depreciation is allocated to activities on the basis of the prior allocation of capital expenditure. Depreciation is specific to particular capital works, in that it is based on the life of the associated asset. The assignment of capital expenditure to specific activities will dictate the allocation of the corresponding regulatory depreciation to activity type.

The ESC requires the regulatory accounts to include a statement regarding the existing regulatory asset base (RAB). In the June 2006 Pacific National Access Arrangement, the ESC approved an opening RAB for 2006-07 of \$5.082 million.³ This initial RAB should be rolled-forward in subsequent years by adding new capital expenditure and subtracting depreciation.

³ ESC (2006) Pacific National Access Arrangements, page 30

3. Cost allocation statement

The principles and rules underlying the allocation of costs (as discussed in section 2) form the basis for the cost allocation statement and other supporting financial reports which are contained in the regulatory account keeping policy financial reports.

V/Line will record a cost allocation statement that includes:

- 1) a detailed explanation of how cost have been allocated
 - a) between Access Activities business units and Other business units
 - b) for the Access Activities Business Unit between
 - i) declared rail transport services
 - ii) other services provided by the Access Unit
 - c) with respect to declared rail transport services
 - i) declared rail transport services (other than terminal)
 - ii) terminal services
 - d) with respect to declared rail transport services (other than terminal)
 - i) between those services provided within each pricing zone of the rail network
 - ii) between services provided in connection with freight services and passenger services
 - e) costs directly attributable to non-reference services that are passenger services and freight services
- 2) in relation to the Access Activities Business Unit:
 - a) the sum of all new capital expenditure post 30 April 1999
 - b) accumulated depreciation on new capital expenditure
 - c) written down book value of accumulated new capital expenditure
 - d) basis for the allocation of new capital expenditure and, accumulated depreciation and written down book value.

4. Maintenance, capital works, depreciation, and other operating costs

V/Line will record by line segment of the network all maintenance costs that can be directly coded to a line segment in the following cost categories:

- a. routine maintenance, including routine track maintenance;
- b. major periodic maintenance and renewal, including in relation to track;
- c. maintenance of signalling and communications equipment;
- d. maintenance of structures, buildings, facilities and terminals;
- e. other maintenance; and
- f. total expenditure on maintenance
- g. network operations (such as, train control and safeworking activities)

V/Line will also reconcile the expenditures reported above with those reported in the financial statements and cost allocation statement. Included in the reconciliation will be:

- reconciliation with total operating expenditure to operating activities
- reconciliation with total operating and maintenance expenditure of the access activities.

V/Line will record capital works that can be directly coded to RFR, Other Passenger, Freight Only and Portland Maroona networks. The same applies to depreciation costs in respect of all 'from 1 July 2007' capital works. These costs will be reconciled with the financial statements and costs allocation statement.

Recording maintenance, capital works and depreciation costs against each line segment will permit subsequent aggregation of cost categories by network, since each network has separate line segments.

For costs that cannot be directly attributed to a line segment, V/Line will allocate costs of:

- a. all maintenance not allocated by line segment;
- b. all capital works not allocated by line segment;
- c. all depreciation not allocated by line segment; and
- d. all operating costs (other than maintenance and depreciation)

5. Prices and Revenue

RNA will record revenues, prices charged and the quantities by billing units for each reference service provided by RNA. A summary of revenues from access activities and other RNA activities will be provided in the AK Policy Financial Reports.

Information provided to the Commission will include:

- prices charged for reference services
- Quantities provided in relation to reference services
- The price and quantity of services in relation to each user of the rail network
- Details of any contracts, agreements, arrangements or understandings under which V/Line provides declared services.

RNA will provide information on the source of revenues derived from access activities to the ESC, as specific in Section 2.5 (c) of the AK Rules, no later than four calendar months after the end of the financial year.

6. Audit and Certification

RNA will prepare and submit annual accounts to the ESC in the format of the AK Policy Financial Reports within four months of the close of the relevant financial year. V/Line will use these financial reports for the compilation of its financial states which are independently audited and submitted to the Australian Securities and Investments Commission.

RNA Financial Reports provided to the ESC are to comply with the auditing and certification requirements are detailed in Section 2.7 of the AK Rules.

Schedule A

Directors' Declaration

A director's responsibility statement means a statement signed and dated by the Chief Executive Officer and a Non-Executive Director of an access provider which states whether, in the opinion of the CEO and Director, the statements prepared in accordance with sections 2.2, 2.3 and 2.4 of the AK Rules and provided to the Commission are true and fair, and have been prepared in accordance with applicable and appropriate accounting principles and policies, and have been prepared in accordance with the AK Rules.

Schedule B

List of Regulatory Account Keeping Policy Financial Reports

The account keeping policy financial report templates as required by the Account Keeping Rules are as follows:

1. Profit and Loss Statement
2. Statement of Financial Position
3. Details of Capital Expenditure and Asset Disposals made during the relevant financial year
4. Details of related Party Transactions
5. Details of contributions towards capital and maintenance expenses received from any government agency or from users
6. Cost allocation Statement
7. Maintenance and Capital works statement
8. Prices and Revenue Statement
9. Internal Transfer Terms Statement