

REFORM OPTIONS AND KEY DIFFERENCES

1. Significant Business Activities (Type 1 and Type 2)

Competition reforms may be applied to significant business activities via Full Cost Pricing, Commercialisation or Corporatisation.

Full Cost Pricing

- Reform option applied via public benefit assessment process.
- Retention of the business activity within Council's current organisational structure.
- Setting prices in accordance with commercial full cost recovery principles, including recovery of:
 - Efficient operating expenses;
 - A return of capital (i.e. depreciation expense); and
 - A return on capital (i.e. cost of debt plus return on equity invested in the business).
- Full cost pricing reform implies the application of competitive neutrality principles.

Commercialised Business Unit

- Reform option applied via public benefit assessment process.
- Creation of a commercialised business unit (not a separate legal entity) to manage the business.
- Setting prices in accordance with commercial full cost recovery principles, including recovery of:
 - Efficient operating expenses;
 - A return of capital (i.e. depreciation expense); and
 - A return on capital (i.e. cost of debt plus return on equity invested in the business).
- Increased managerial autonomy for day-to-day operations.
- Greater ability to source inputs from outside of Council.
- Own business and operating plan.
- More commercial orientation than full cost pricing.
- Additional reporting obligations such as annual tax equivalent returns, annual performance plan and separate reporting of performance in Council's annual report.
- Commercialisation requires the application of competitive neutrality principles.

Corporatisation

The *Local Government and Other Legislation Amendment Act 2012* and associated changes under the *Local Government Regulation 2012* removed the power for a local government to corporatise a significant business under the *Local Government Act 2009*. As a result, the

corporatisation processes within the *Corporations Act 2001 (Cwlth)* will apply to local governments seeking to establish corporations.

- Reform option applied via public benefit assessment process and corporatisation.
- Creation of separate legal entity to manage the business.
- Subject to National Competition Policy through the *Competition and Consumer Act 2010 (Cwlth)*.

2. Business Activities (Type 3 and Non-Type 3)

Code of Competitive Conduct

- Reform option applied via annual Council resolution.
- Retention of the business activity within Council's current organisational structure.
- Setting prices in accordance with commercial full cost recovery principles, including recovery of:
 - Efficient operating expenses;
 - A return of capital (i.e. depreciation expense); and
 - A return on capital (i.e. cost of debt plus return on equity invested in the business).
- Code of competitive conduct implies the application of competitive neutrality principles.
- Automatic application of the code of competitive conduct to building certification and competitive roads activities.

3. No Reforms Elected to Be Applied

Cost Recovery Pricing Principles

- Retention of the activity within Council's current organisational structure.
- Setting prices to reflect the cost of providing non-competitive services including recovery of:
 - Efficient operating expenses; and
 - A return of capital (i.e. depreciation expense).
- Excludes the application of competitive neutrality principles to non- competitive services.
- Note: application of the code of competitive conduct must be applied if the activity engages in competitive services and is above the Type 3 threshold.