

BUSINESS ACTIVITY IDENTIFICATION

1. Current Statutory Requirements

The following issues continue to be relevant under legislation for councils when applying National Competition Policy to business activities:

1. Annual identification of business activities (including significant business activities) via a review of expenditure against the relevant thresholds released by the Minister for Local Government. Refer to the flowchart in section 3 below for the process for business activity identification (i.e. for Type 1, Type 2, Type 3 and Non-Type 3).
2. Undertake Public Benefit Assessments for newly identified Type 1 and Type 2 (financially) significant business activities and apply appropriate competitive neutrality and structural reforms. Type 1 and 2 businesses do not include road construction and maintenance and library services, but may include water and sewerage services, cleansing services, off-street parking, and cultural, sporting and recreational facilities. The only difference between Type 1 and Type 2 assessments is that corporatisation must be considered as a reform option in addition to commercialisation and full cost pricing for Type 1 assessments, whereas it is optional for Type 2 assessments.
3. Continue to apply competitive neutrality and structural reforms to Type 1 and Type 2 (financially) significant business activities.
4. The mandatory application of the Code of Competitive Conduct to roads business activities and building certification business activities categorised as Non-Type 3 business activities, irrespective of the level of expenditure of the activities.
5. The voluntary recognition of business activities deemed to be in competition with, or potentially in competition with, the private sector, categorised as Type 3 (competitive) business activities, and the resulting application of a code of competitive conduct to those identified activities. Such activities may be identified if they feature more than \$300,000 in annual expenditure (including operating costs, administration/overhead costs, cost of resources and depreciation charges). Type 3 activities do not include library services.
6. The application of competitive neutrality principles (including full cost pricing) to significant business activities, Type 3 and Non-Type 3 businesses. Full cost pricing in simple terms means that, on average, prices should fully recover all the relevant costs of supplying a product or service and total revenue received by the business should equal the sum of:
 - a. Efficient operating expenses;
 - b. A return of capital (i.e. depreciation expense); and
 - c. A return on capital (i.e. cost of debt plus return on equity invested in the business).

Full cost pricing is achieved if the total expected revenue from all sources, including subsidies and customer service obligations, is sufficient to meet expected total costs as defined above. The revenue requirement for:

- a. significant business activities must cover the projected total costs of conducting the activity each financial year.
- b. code of competitive conduct business activities must cover the projected total costs of conducting the activity over a period of up to five years.

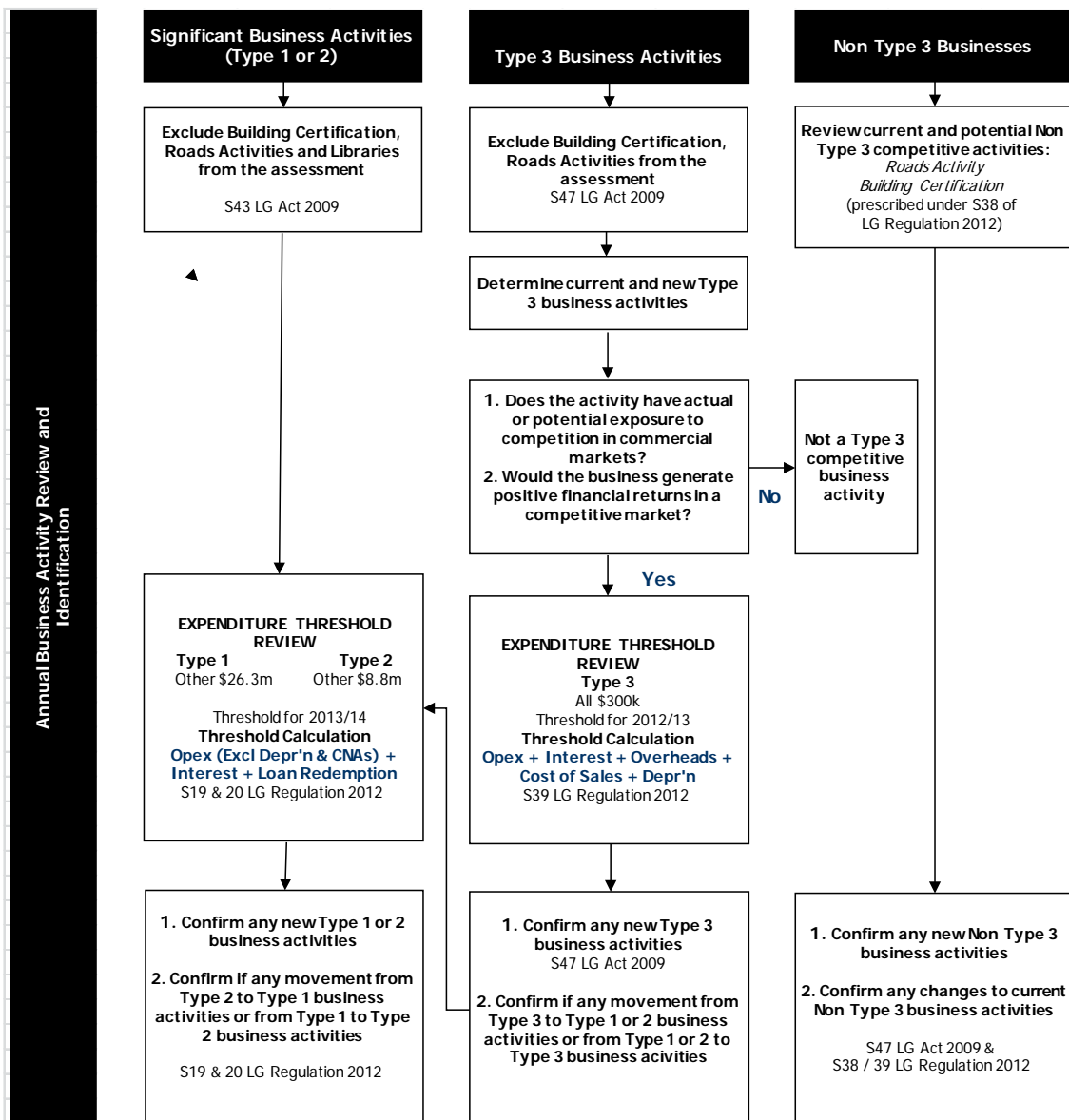
Refer to **Attachment 3** for business activity full cost pricing performance for 2011-2012.

7. Meet minimum reporting guidelines for business activities.
8. The implementation of a competitive neutrality complaints process for all identified business activities.
9. The adoption of two-part water tariffs where cost effective, and the disclosure of community service obligations and cross subsidies in service provision.

2. Annual Review and Identification of Business Activities

In accordance with Chapter 3 of the *Local Government Act 2009*, and Chapter 3 and 4 of the *Local Government Regulation 2012*, Council is required each year to identify any new 'financially significant' Type 1 and 2 business activities, and also to identify its Type 3 business activities. Council must also resolve whether to apply the Code of Competitive Conduct to its identified Type 3 business activities and the reason for non-application of the Code if relevant.

To simplify the review and identification process, the following flowchart has been developed:



Note

Opex = Operating Costs, Dep'n = Depreciation, CNA = Competitive Neutrality Adjustments

Generally changes to the status of a business activity may arise due to the following:

1. Annual expenditure threshold levels advised by the Minister are reached or not (generally impacting on significant business activities); and
2. New business activities are established as a result in a change in Council's structure or as a result of the establishment of new business ventures.

Once the process of reviewing current business activities and identifying potential new 'financially significant', Type 3 and Non-Type 3 business activities has been completed, it is necessary to apply the appropriate reforms to ensure legislative compliance.

2. SCRC Existing Business Activity Threshold Analysis 2013-2014

	Threshold (\$'000)	Waste and Resources Management (\$'000)	Sunshine Coast Airport (\$'000)	Sunshine Coast Holiday Parks (\$'000)	Quarries (\$'000)
Expenditure for Threshold Test Comparison		\$44,872	\$8,519	\$6,228	\$7,169
Type 1 Threshold - Other	\$26,300	Type 1			
Type 2 Threshold - Other	\$8,800				
Type 3 Threshold	\$300		Type 3	Type 3	Type 3

Source: 2011-2012 Audited Financial Statements.

Road Works

Council road works activities are predominantly non-competitive activities focused on internal construction and maintenance rather than external tendering for contract works. Road maintenance and construction activities are undertaken by a combination of day labour force and contract services.

Council does not actively submit competitive tenders for works on state controlled roads or other roads in neighbouring Council areas. Council undertakes contract works for Main Roads, but contract rates are determined by mutual agreement and not an open tender.

Accordingly, road works has not been identified as a business activity of Council.