



National Competition Policy Application of Reforms 2021-2022

Ordinary Meeting 24 June 2021

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National Competition Policy

All tiers of Australian government agreed to increase competition through the more efficient use of resources

1. Applied to local government businesses from 1996
2. The extension of the trade practices laws prohibiting anti-competitive activities
3. The introduction of competitive neutrality so that private businesses could compete on an equal footing with those owned by local government
4. The review and reform of all laws that restrict competition; and
5. Specific reform and price monitoring of the water industry.

How National Competition Policy is applied

1. Policy framework for annual compliance with legislative requirements
2. Business activity identification and reform options
3. Budget process
4. Annual Report
5. QAO Audit
6. Competitive neutrality complaints process

| Obligation | Required Actions | Act | Regulation |
|--|---|----------------|--|
| Review of Current Business Activities & Identification of Potential Business Activities | <ul style="list-style-type: none"> Determine if any new business activities / initiatives have been established Calculate expenditure in accordance with prescribed calculation and compare to threshold levels Confirm if any movement from a business activity to a significant business activity Review going concern status of current activities Review level of expected competition for the business and whether positive financial returns are expected to determine whether reforms are to be applied | Ss 43, 45 & 47 | Ss 18, 19, 20 & 39 |
| Reform Implementation | <ul style="list-style-type: none"> Determine reform option Determine if public benefit assessments are required to be undertaken (including funding implications of undertaking public benefit assessments). Ensure completed by 30 June Review pricing in line with pricing provisions | Ss 44, 46 & 47 | Sections 21 to 30 Ss 31-33 & 36-39 Sch 4 Ss. 1 to 10 |

| Obligation | Required Actions | Act | Regulation |
|---|--|-----------------|--|
| Reporting Public Benefit Assessments (if required) Competitive Neutrality Complaints | <ul style="list-style-type: none"> Report to Council as part of the annual budget process the business activities where competition reforms will be applied for the next financial year, estimated activity statements and fees and charges to apply Report to Council those business activities whereby the code of competitive conduct will be applied Include in annual report list of business activities, activity statements and other required information Report to Council on public benefit assessment and report process Implement public benefit assessment recommended reforms in line with recommended implementation timetable | Ss 45 & 48 | Ss. 34, 35, 43-49, 169, 175, 183 & 184 |
| Compliance | <ul style="list-style-type: none"> Ensure register of activities carried on by business activities is reviewed and updated Prepare business activity budgets based on full cost pricing principles Publish in annual budget and annual financial statements | Section 44 & 47 | Ss. 39 & 56 |

Identification and reform option

| Significant business activity | Business activities | Non business activity |
|--|---|---|
| <ul style="list-style-type: none">• Waste & Resources Management | <ul style="list-style-type: none">• Sunshine Coast Holiday Parks• Quarries | <ul style="list-style-type: none">• Roads• International Broadband Submarine Cable |
| Full Cost Pricing reform | Code of Competitive Conduct reform | No reform |

Budget process

1. Revenue requirements from long term financial plans and full cost pricing models
2. Activity based costing analysis for products and services
3. Overarching price strategy is determined on the level of cost recovery
4. Council informed regarding price strategy for each business activity to achieve full cost recovery
5. Approved pricing strategy and activity based costing outputs used to inform increases in rates and utility charges/fees and charges

How is competitive neutrality achieved

Full cost pricing

In simple terms means that:

1. On average, prices should fully recover all the relevant costs of supplying a product or service; and
2. Total revenue received by the business should equal the sum of:
 - a) Efficient operating expenses and competitive neutrality adjustments
 - b) A return of capital (i.e. depreciation expense)
 - c) A return on capital

Efficient operating expenses and competitive neutrality adjustments

Operating expenses

- Direct costs
 - wages
 - materials
 - consumables
 - superannuation
- Indirect costs
 - finance
 - procurement
 - human resources
 - digital information services
 - management

Competitive neutrality adjustments

- Incorporation of tax equivalents:
 - council rates
 - land tax
 - payroll tax
 - Income taxes on business profits;
- Other advantages and disadvantages of public sector ownership
 - cost of funds advantage
 - land tax
- Community Service Obligation payments
 - non-commercial activities directed by government

Return on capital and WACC

Return on capital

- Essentially, it reflects the actual and opportunity cost of one investment over another
- The cost of the business activity's capital, incorporating the cost of debt and the cost of equity
- Providers of capital command different returns depending on the level of risk exposure.

Weighted average cost of capital

- Incorporates a classical cost of capital formula adjusted for dividend imputation
- Capital Asset Pricing Model facilitates comparability to market returns
- Excludes the effects of financing arrangements
- Enables the calculation of the cash flows based on operational segments of an entity.

Thank you.



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