

## ATTACHMENT 1

### REFORM OPTIONS AND KEY DIFFERENCES

#### 1. Significant Business Activities

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 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**

### **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 \$318,000 threshold.