

ATTACHMENT 2

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:

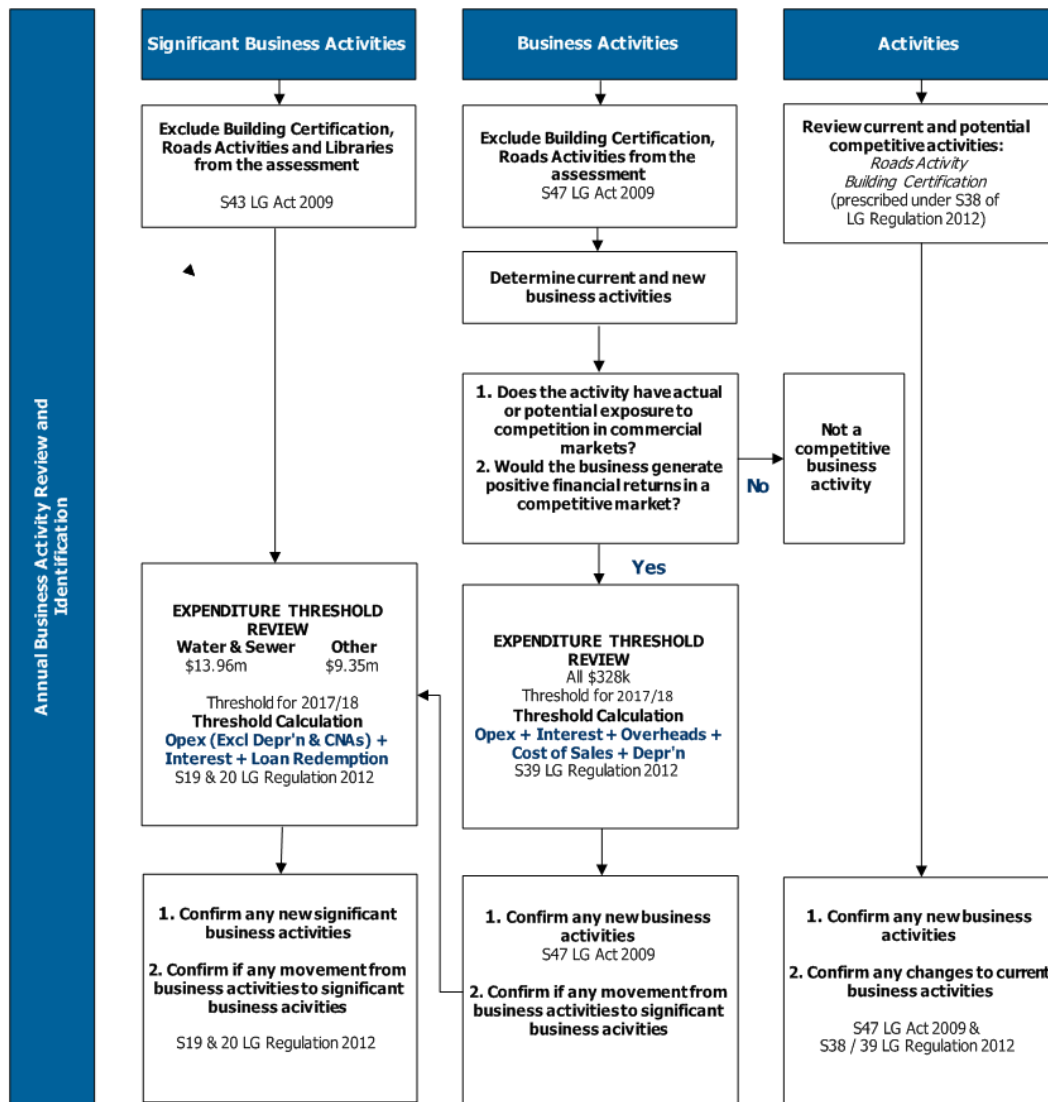
1. Annual identification of business activities (including significant business activities) via a review of expenditure against the relevant thresholds. Refer to the flowchart in section 3 below for the process for business activity identification.
2. Undertake Public Benefit Assessments for newly identified (financially) significant business activities and apply appropriate competitive neutrality and structural reforms. Financially significant business activities 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.
3. Councils are now responsible for formulating and carrying out their own benefit assessment process under section 46 of the Local Government Act 2009. The process was formerly prescribed by regulation to the extent of requiring it to comply with the 'Local Government Competitive Neutrality Public Benefit Assessment Guidelines 1997', made by the Department.
4. Continue to apply competitive neutrality and structural reforms to (financially) significant business activities.
5. The mandatory application of the Code of Competitive Conduct to roads business activities and building certification business activities, irrespective of the level of expenditure of the activities.
6. The voluntary recognition of business activities deemed to be in competition with, or potentially in competition with, the private sector, and the resulting application of a code of competitive conduct to those identified activities. Such activities may be identified if they feature more than \$328,000 in annual expenditure (including operating costs, administration/overhead costs, cost of resources and depreciation charges). Competitive activities do not include library services.
7. The application of competitive neutrality principles (including full cost pricing) to significant business activities and other activities. 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.
8. 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 2015-2016.
9. Meet minimum reporting guidelines for business activities.

10. The implementation of a competitive neutrality complaints process for all identified business activities.
11. The disclosure of community service obligations and cross subsidies in service provision.

2. Annual Review and Identification of Business Activities

In accordance with the *Local Government Act 2009* and regulations, Council is required each year to identify any new 'financially significant' business activities, and also to identify its competitive business activities. Council must also resolve whether to apply the Code of Competitive Conduct to its identified 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:



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

1. 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.
2. Existing businesses are divested.
3. Annual expenditure threshold levels are reached or not (generally impacting on significant business activities); and

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

2. Business Activity Threshold Analysis

Threshold analysis is based on the 2015-2016 audited financial statements data.

	Threshold	Waste and Resources Management	Sunshine Coast Airport	Sunshine Coast Holiday Parks	Quarries
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Expenditure for Threshold Test		\$38,366	\$8,481	\$4,246	\$8,694
Significant Business Activity Code of Competitive Conduct (BA)	\$9,350 \$325	SBA	BA	BA	BA

Source: 2015-2016 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 minor works for Main Roads based on negotiated shared cost arrangements.

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

Sunshine Coast Airport

Sunshine Coast Airport has been a business activity of Council subject to the Code of Competitive Conduct reforms.

Council is facilitating the airport expansion project, which includes construction of a new runway, apron expansion and related infrastructure. The Federal Government has committed a \$181 million loan which will assist Council with the expansion.

A company has been established to operate the Sunshine Coast Airport business. Shares in the business will be sold to Council's commercial partner Palisade Investment Partners. Palisade will be responsible for operating, investing and developing the airport and will oversee future negotiations

with airlines to expand both domestic and international routes available from the Sunshine Coast. The airport will continue to be owned by Sunshine Coast Council, with Palisade operating the asset under a 99-year lease.

Palisade will make lease payments totalling \$82 million of which \$67 million would be paid when they took control of the airport's management, staff and non-land assets, expected to be by September 2017.

Palisade has agreed to a further amount of \$290 million to be paid for the construction of the new runway in 2022. Council will retain a financial interest in the operation of the Sunshine Coast Airport by way of an annual rental payment of 5% of gross revenue.

The airport expansion project will contribute \$4.1 billion to the Sunshine Coast economy between 2020 and 2040 and result in 3500 fewer dwellings being affected by noise when it is operational by December 2020.

Palisade is a privately owned separate legal entity. Accordingly, the Sunshine Coast Airport has been identified as a business activity of Council for the first part of the 2017-2018 financial year prior to the transfer to the new entity. After the transfer Sunshine Coast Airport will no longer be a business activity of Council.

Sunshine Coast Solar Farm

The Local Government Act requires previous financial year expenditure to be used in business activity threshold analysis. Sunshine Coast Solar Farm will be assessed as a business activity following the first year of operation. Accordingly, the Sunshine Coast Solar Farm has not been identified as a business activity of Council for 2017-2018.