

Document Control	
Policy Title	<b>2020-21 COMPETITION REFORM POLICY</b>
Doc ID No	<b>CSPOL352</b>
Responsible Directorate	<b>Corporate Services/CFO</b>
Responsible Position	<b>Coordinator - Financial Reporting and Budget</b>
Date Review Due	<b>1 June 2021</b>

Version	Council Meeting Date (Date of Adoption/Review)	Minute Number

## 1. Purpose

Gympie Regional Council (Council) is committed to ongoing compliance with National Competition Policy (NCP) and Council of Australian Governments (COAG) water reform initiatives. This Competition Reform Policy aims to provide a summary of Council's ongoing commitment in meeting its legislative obligations.

## 2. Scope

The *Local Government Act 2009* states that a local government's annual report must contain a list of all of the business activities that the local government conducts each year and must identify those business activities which are significant. The annual report must also state whether competitive neutrality principles apply and if not the reasons for not applying.

Chapter 3, Part 2, Division 2, Section 47 of the *Local Government Act 2009* requires Council to decide each financial year, by resolution, whether or not to apply the code of competitive conduct to a business activity prescribed under regulation.

## 3. Related Legislation

Local Government Act 2009 (the Act)

Local Government Regulation 2012 (the Regulation)

## 4. Related Documents

NIL

## 5. Definitions

NIL

## 6. Policy Statement

### 6.1 Policy for Identifying Business Activities

- Activities of Council will be identified as business activities if they trade in goods and services to clients that could potentially be delivered by a private sector firm for the purposes of earning profits in the absence of Council's involvement. They do not include the non-business, non-profit activities of Council.
- Each year, Council is required to identify those activities that are business activities and determine whether competition reform needs to be applied to assist in removing anti-competitive conduct, encourage greater transparency in the operation of such activities and improve the allocation of Council's limited resources.
- The following activities are identified as business activities in 2020-21:
  - Water Business Unit
  - Waste Management Unit
  - Building Services Unit.
- In 2020-21 Council will comply the Code of Competitive Conduct to its Water Business Unit and Building Services Unit. In 2020-21. As Council's Waste Management Unit does not meet the definition of a significant business activity under the *Local Government Act 2009* and the *Local Government Regulation 2012*, Council will not apply the Code of Competitive Conduct to its

Waste Management Unit as applying the code to this unit would result in unnecessary administrative costs to Council.

- For the Water Business Unit and the Building Services Unit the pricing practices for each business activity will comply with the principles of full cost pricing such that total revenue, inclusive of identified and measured community service obligations and net of any advantages and disadvantages of public ownership, should aim to cover the following cost elements:
- Operational and resource costs
- Administration and overhead costs
- Depreciation
- Tax and debt equivalents
- Return on capital/return on cost.

## 6.2 Competitive Neutrality Complaints Process

The *Local Government Act 2009* requires Council to establish a complaints mechanism to deal with any complaints about whether the activity is being run in accordance with the requirements of the Code.

Council has adopted the process set out in Section 44 of the *Local Government Regulation 2012* which identifies the necessary minimum requirements for the resolution of the competitive neutrality complaints.

## 6.3 Responsibility for Day-to-Day Operation of Business Activities

*Water Business Unit* – Senior Manager, Water Business Unit.

*Waste Management Unit* – Manager, Waste Services.

*Building Services Unit* – Manager, Building and Plumbing Services.

## 6.4 Statement of Activities to Which Competition Reforms Apply

A financial summary of business activities is supplied in the budget and annual report of Council each year.

## 6.5 Management Reporting and Performance Measurement

To comply with the various legislative requirements associated with competition and water reform, this policy will be formally adopted by Council during the budget process each year. In addition, Council will disclose the relevant information on its business activities in the annual report.

A number of financial and non-financial key performance indicators (KPIs) have been established by Council to measure the ongoing performance of each business activity on a regular basis. Where possible, the KPIs are benchmarked against industry standards or past performance to determine whether Council business activities are achieving continuous improvement in the provision of goods and services to customers and the community.

The relevant compliance officer for ensuring ongoing application and monitoring of competition and water reform principles is the Director Corporate Services/Chief Financial Officer.

## 6.6 Dividend Policy

A proportion of net profit is available to be paid to Council as the shareholder of each business activity through the declaration of dividends. Dividends are only declared once the cash flow requirements of each business activity with respect to the repayment of debt, funds required for future expansion and funds required for current or future asset replacement have been met.

## 6.7 Community Service Obligation Policy

Community Service Obligations (CSOs) arise when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, or alternatively, would only provide at higher prices or via some other form of compensation. Pursuant to the requirements of the Local Government Regulation 2012, CSOs are to be funded by the general fund and provided as revenue to the business activity to which they relate.

CSOs may exist due to a number of factors, including:

- Council considers it desirable that certain goods and services be supplied to users at a uniform or affordable price, regardless of the cost of provision
- Where Council provides concessions to disadvantaged customers to meet social welfare objectives
- Where Council provides incentives to industry to promote economic growth

- Where Council requires business activities to abide by environmental, consumer, cultural heritage or similar policies which may not usually apply to similar businesses in a commercial environment.

The process for establishing new CSOs for Council is provided below:

1. Determine the specific policy objective of Council to which the CSO is linked
2. Propose the CSO after undertaking research into its validity and delivery
3. Cost the CSO according to an acceptable method
4. Develop a measure of performance in achieving policy objectives for the CSO
5. Present the CSO to Council for a review of its size and importance
6. Incorporate the CSO into the pricing budget as a revenue item funded by general revenue
7. Ongoing negotiation and review of performance and size of CSO.

Full details of existing CSOs, including their description, arrangements for measuring effectiveness, agreed funding levels, costing and payment arrangements are reconfirmed between the manager of the business activity and Council each year. As part of this process, the performance of the CSO in achieving policy objectives is reported to Council and the size of the CSO reviewed where appropriate.

## Community Service Obligations for Gympie Regional Council's Nominated Business Activities

CSO Description	Costing Method	Council Policy Objective
<b>Water Business Unit</b>		
Council services	Revenue foregone from water and sewerage services provided at council facilities, and not charged	Community focused facilities and services
Second Pedestal Subsidy for Churches	Revenue foregone from sewerage charges provided to Church groups	Community focused facilities and services

No CSOs currently exist for Building Services Unit.

### 6.8 Policy for Determining Internal Service Charges

Full cost pricing requires the recognition of indirect operating costs through the evaluation of each business activity's use of Council's administrative and other internal service functions.

Selected overhead activities are recovered via direct charges, with the remaining overhead costs distributed to end users via an overhead allocation process. The allocation model used employs cost drivers as the basis for determining each business activity's relative share of the full costs of each overhead activity (incorporating a return on capital on any assets employed).

Following the allocation of internal service costs to business activities, preliminary internal service charges are determined. Discussions are then undertaken between internal service providers and business managers on a regular basis to clarify the costs of each internal service and to ensure that appropriate methods of cost allocation are employed. Additional feedback on corporate overheads from business managers is encouraged outside of these formal discussions.

Performance indicators may be sought by Council to assist in benchmarking internal service costs and levels of satisfaction to ensure continuous improvement in efficiency and the cost allocation process.

## 6.9 Tax Equivalent and Competitive Neutrality Adjustment Policy

To ensure that competitive neutrality exists in the determination of the full cost of Council's business activities, all taxes and charges not paid due to public ownership are identified and included in each business activity's cost base prior to pricing decisions being made. Imputed income tax equivalents are determined in accordance with the application of the relevant company tax rate to the net profit of each business activity. Other material tax equivalents incorporated in the full cost base for each business activity include payroll tax equivalents, land tax equivalents and general rate equivalents.

Even after taking into account tax equivalents, other competitive neutrality adjustments are made to remove certain other competitive advantages and disadvantages arising from public ownership, including the following labour cost adjustments:

- Payroll tax equivalents paid which would not normally be payable (i.e. the labour costs would not meet the relevant thresholds) if each business activity operated separately from the local government
- Additional superannuation paid to local government employees
- Additional sick leave bonus paid to local government employees
- Additional long service leave paid to local government employees
- Additional worker's compensation premiums paid by either local government/business.

## 6.10 Return of Capital Policy

For all business activities, prices are set to reflect the full funding of depreciation based on assets valued at depreciated value (i.e. incorporation of a return of capital component in pricing determinations). For those business activities which are not directly responsible for assets, the overhead charges applied or hire/lease rates are inclusive of depreciation based on assets valued at deprival value.

Commercial business activities seek a return on investment to reflect the return that could have been earned by alternative uses of funds and/or to reflect the cost of capital employed. In applying the Code of Competitive Conduct, an appropriate commercial return is identified and included in the pricing budget for each of council's business activities.

For businesses with significant assets, the rate of return on capital is determined in accordance with the Weighted Average Cost of Capital (WACC) invested in physical assets. For businesses with minimal assets, a return on working capital is proxied by a return on expenditure target.

The rate of return on capital is then applied to the Depreciated, Optimised Replacement Cost of assets (DORC), such that the value of assets for pricing purposes reflects the current working condition of assets utilised, the removal of redundant assets, adjustments for excess capacity, and takes into account the greater efficiency of newer assets. In addition to asset optimisation, the proportion of contributed assets and assets constructed with grants and subsidies are also removed from the asset base prior to the determination of the return on capital requirement. The return on capital requirement takes into account the revaluation impact on assets by incorporating anticipated capital growth into the total receipts for each business when assessing whether it is recovering full cost.

The table below summarises the rate of return on capital, optimisation adjustments and contributed asset proportion applicable to each business activity. While council seeks to set prices in accordance with the full cost of providing goods and services, it also has regard to market factors and cycles when setting prices and determining the appropriateness of the achieved commercial return.

## Summary of Return on Capital Components for Council's Business Activities

Activity	Target Rate of Return	Optimisation Adjustments	Contributed Asset Proportion
Water Business Unit	3.55% (pre-tax WACC)	Nil	25%
Building Services Unit	10.00% (return on expenditure)	Nil	0%

### 6.11 Two-Part Water Tariffs

Universal metering for water supply exists in Gympie Regional Council, except for council services. An effective two-part water tariff exists for water supply, with consumption charges applied to all usage.

Council is committed to ensuring that its two-part water tariffs are structured in a manner consistent with meeting its demand management objectives. Council charges for water consumption every six months.

## 7. Review Trigger

This policy will be reviewed when any of the following occur:

1. The related legislation/documents are amended or replaced.
2. Other circumstances as determined from time to time by a resolution of Council.
3. As initiated by the Chief Executive Officer or Executive Team.
4. Periodic Review – Yearly review as part of Council annual budget process.

## 8. Appendices

Nil