

**1.0 Policy Purpose**

To ensure the National Competition Policy (NCP) reform initiatives are incorporated within the business operations of the Central Highlands Regional Council (council) and to provide a summary of the ongoing commitment to meet legislative obligations.

**2.0 Policy Statement**

**2.1 Legislative obligations**

Council is committed to the ongoing legislative compliance of its business activities with the NCP principles. This requires applying the competitive neutrality principle to its significant business activities if, in the circumstances, the public benefit (in terms of service quality and cost) outweighs the costs of implementation. This also requires applying the code of competitive conduct to some other business activities.

In this regard, reference is made to sections 39 to 48 of the *Local Government Act 2009* (LG Act) and sections 17 to 41 of the *Local Government Regulation 2012* (LG Regulation).

Section 17 of the LG Regulation provides obligations about reforming a significant business activity in accordance with the competitive neutrality principle. The premise of the competitive neutrality principle is that significant government business activities should not enjoy competitive advantage over their private sector competitors by virtue of public sector ownership.

Section 18 of the LG Regulation provides that the local government must identify and assess each new significant business activity for possible reform and if a decision is made to reform, this must involve:

- (a) applying full cost pricing to the activity; or
- (b) commercialising the activity; or
- (c) corporatising the activity by creating a corporatised business entity to conduct the activity.

To determine if a business activity is a significant business activity, section 19 of the LG Regulation prescribes specific thresholds that a business activity must meet.

Section 19 (2) states that the threshold is 10,000 or more premises being connected to a water service if the business activity is the provision of combined water and sewerage services.

Section 19 (3) states that the threshold is \$9.7m, for the financial year ending immediately before the current financial year, for a business activity that is not the provision of combined water and sewerage services.

Sections 40 and 41 of the LG Regulation also apply to the provision of a significant business activity that is the provision of water and sewerage services, by imposing requirements for achieving efficiency and sustainability in conducting this activity.

Sections 31 to 32 of the LG Regulation refers to the code of competitive conduct as being the application of:

- the competitive neutrality principle
- pricing provisions
- sections 35 and 35 of the LG Regulation about financial reporting

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- sections 36 and 37 of the LG Regulation about the treatment of community service obligations (CSO)

## 2.2 Principles for identifying and reporting council business activities

In accordance with the definition of "business activity" in the LG Act, activities of council will be identified as business activities if they involve trading in goods and services by council and:

- for significant business activities - they are conducted in competition, or potential competition, with the private sector and meet the threshold prescribed under a regulation; or
- for other business activities - they meet the requirements in section 47 of the LG Act for the code of competitive conduct to apply.

For 2023-24 the following activities have been identified as business activities of council for the purpose of the legislative requirements:

- water
- sewerage
- airport
- waste
- saleyards

Each financial year, in accordance with section 19 of the LG Regulation, council identifies which of these business activities are significant business activities and determines whether the competitive neutrality principle needs to be applied to these activities.

The intent of determining whether the competitive neutrality principle should be applied to those activities is the principle that an entity conducting a business activity in competition with the private sector should not enjoy a net advantage over competitors only because the entity is in the public sector.

Competitive advantages that may be enjoyed by council's business activities include:

- exemptions from certain taxes and charges
- regulatory advantage
- no requirement to achieve a commercial rate of return.

The following three business activities are identified as significant business activities in 2023-24 as they meet the thresholds set out in section 19 (2) of the LG Regulation:

- waste
- water
- sewerage

Council is already applying the competitive neutrality principle to the water and sewerage business activities and will continue to do so by way of application of full cost pricing.

The pricing practices for each of these significant business activities will aim to move towards full cost pricing. On achieving full cost pricing, total projected revenues, inclusive of identified and measured community service obligations and net of any competitive advantages and competitive disadvantages (as defined in the LG Regulation), will cover projected total costs, including the following cost elements:

- operational and resource costs
- administration and overhead costs
- depreciation
- tax and debt equivalents
- return on capital/return on cost

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Council has undertaken a pricing review of its water and sewerage businesses and a price path has been implemented that aims to achieve full cost pricing. This price path is reviewed annually as the businesses move towards the application of full cost pricing.

In the identification of the water and sewerage business units as significant business activities, council has also applied the requirements of sections 40 to 41 of the LG Regulation and has implemented a two-part charge for the provision of water services.

The 2022-23 budgeted expenditure for the waste business activity, forecast as part of the 2022-23 budget review 3 process, indicates that the \$9.7m expenditure threshold will be exceeded at 30 June 2023. The 2023-24 budget reflects the business exceeding this threshold and council is now required to review the process to reform the waste business in accordance with Chapter 3, Part 2 of the LG Regulation.

The 2022-23 annual report will need to disclose the waste business as a new significant business activity and undertake a public benefit assessment (PBA) during 2023-24. The legislation requires council to conduct the PBA to determine the appropriate business structure that would best apply the competitive neutrality principle to the waste business. This is the same process that council undertook when recognising the water and sewerage businesses as significant business activities and adopting full cost pricing as opposed to establishing a commercial business unit.

For 2023-24, in accordance with section 47(7) of the LG Act and section 39 of the LG Regulation, council has decided to apply the code of competitive conduct to the other identified business activities that do not meet the threshold for significant business activities as determined by section 19 (3) of the LG Regulation:

- airport
- saleyards

In applying the code of competitive conduct to these business activities council will take into consideration the advantages and disadvantages of public ownership when making decisions about pricing, the financial return the business will achieve and identification of CSO as per section 2.3 below.

### 2.3 Community Service Obligations (CSO)

As defined in section 24 of the LG Regulation, a CSO is an obligation that council imposes on a business entity to do something that is not in the commercial interests of the business entity to do. A CSO is to be funded by the general fund and provided as revenue to the business activity to which it relates.

The following CSO has been applied to the airport business activity for the 2023-24 financial year:

CSO Description	Costing Method	CSO Amount 2023/24	Council Corporate Plan Outcome	Key Performance Indicator (KPI)	KPI 2023/24
<b>Aerodrome Operations - Rural</b>					
Public provision of airstrip facilities in Springsure, Rolleston, Capella, Dingo and Duinga.	Provision of community airstrip facilities to the general public in outlying smaller communities.	\$427,800	Provide airstrip facilities to maintain accessible community services and facilities that meet the needs of our diverse communities and offer value for money for all stakeholders.	Compliance with regulations is ensured through technical inspections. Cost per capita (population 27,836*).	\$15.37

\* 2021 Census Data - Australian Bureau of Statistics

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## 2.4 Activity Statements

The following estimated activity statements are provided for council's business activities over a three-year period from 2023-24 to 2025-26.

<b>Airport</b>			
	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>
	<b>Budget</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Revenue for services provided to Council			
Revenue for services provided to external clients	10,457	10,786	11,124
Community Service Obligations	428	445	458
<b>Total revenue</b>	<b>10,885</b>	<b>11,231</b>	<b>11,582</b>
Less expenditure	8,263	8,485	8,652
<b>Surplus/(deficit)</b>	<b>2,622</b>	<b>2,746</b>	<b>2,930</b>

<b>Saleyards</b>			
	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>
	<b>Budget</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Revenue for services provided to Council			
Revenue for services provided to external clients	1,678	1,731	1,785
Community Service Obligations	-	-	-
<b>Total revenue</b>	<b>1,678</b>	<b>1,731</b>	<b>1,785</b>
Less expenditure	1,779	1,851	1,911
<b>Surplus/(deficit)</b>	<b>(101)</b>	<b>(120)</b>	<b>(126)</b>

<b>Waste</b>			
	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>
	<b>Budget</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Revenue for services provided to Council	104	109	112
Revenue for services provided to external clients	10,773	11,280	11,811
Community Service Obligations	-	-	-
<b>Total revenue</b>	<b>10,877</b>	<b>11,389</b>	<b>11,923</b>
Less expenditure	10,503	10,919	11,257
<b>Surplus/(deficit)</b>	<b>374</b>	<b>470</b>	<b>666</b>

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Sewerage			
	2023-24	2024-25	2025-26
	Budget	Forecast	Forecast
	\$000	\$000	\$000
Revenue for services provided to Council	414	431	443
Revenue for services provided to external clients	10,743	11,387	12,069
Community Service Obligations	-	-	-
Total revenue	11,157	11,818	12,512
Less expenditure	10,174	10,431	10,698
<b>Surplus/(deficit)</b>	<b>983</b>	<b>1,387</b>	<b>1,814</b>

Water			
	2023-24	2024-25	2025-26
	Budget	Forecast	Forecast
	\$000	\$000	\$000
Revenue for services provided to Council	1,176	1,223	1,260
Revenue for services provided to external clients	21,422	23,442	25,764
Community Service Obligations	-	-	-
Total revenue	22,598	24,665	27,024
Less expenditure	30,242	31,260	32,500
<b>Surplus/(deficit)</b>	<b>(7,644)</b>	<b>(6,595)</b>	<b>(5,476)</b>

### 3.0 Definitions

<b>Council</b>	refers to Central Highlands Regional Council.
<b>LG Act</b>	shall mean the <i>Local Government Act 2009</i> .
<b>LG Regulation</b>	shall mean the Local Government Regulation 2012.

<b>Strategic Link</b>	<i>Local Government Act 2009</i> <i>Local Government Regulation 2012</i>
<b>Category</b>	Finance
<b>Lead Business Unit</b>	CFO Office
<b>Public Consultation</b>	<b>No.</b>
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<b>Related Documents</b>	Revenue Policy Revenue Statement

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