



**GEORGE TOWN COUNCIL  
STRATEGY NO.4  
APPLICATION OF THE PRINCIPLE OF  
COMPETITIVE NEUTRALITY**

Adopted	18 <sup>th</sup> May 2011	Minute Ref: 282/11
Amended		
Next Review Date	As required	

**1. TITLE**

Strategy - Application of the principle of Competitive Neutrality

**2. PURPOSE**

The aim of this Strategy is to provide information and guidance to Council and staff in determining whether a service or business activity is a significant business activity for the purpose of competitive neutrality in accordance with the National Competition Policy Agreements.

**3. LEGISLATION**

- Competition Principles Agreement

**4. STRATEGIC PLAN**

*Key Area 1 – Governance*

**Objective**

*Develop a high level of trust, confidence and co-operation between Council and the community.*

**5. STRATEGY STATEMENT**

It is in Council's interest to regularly review its activities to determine if there are any new activities which should be classified, or existing activities which have changed such that they now warrant classification as significant business activities and to which the principle of competitive neutrality should be applied.

**6. OBJECTIVE**

*"The objective of competitive neutrality is the elimination of resource allocation distortions arising out of the public ownership of entities engaged in significant commercial activities so that ultimately all government businesses compete on fair and equal terms with private sector businesses, where this is in the public benefit". [Department of Treasury and Finance Report Significant Business Activities and Local Government in Tasmania – April 2001].*

The staged approach to the implementation of competitive neutrality involves:

- Council identifying all of its service and/or business activities and which of these are significant business activities.
- The application of full cost attribution (including cost reflective pricing) to those significant business activities;



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- The identification of those significant business activities which are potentially suitable for corporatisation;
- Undertaking a public benefit assessment of the corporatisation of those business activities; and
- The corporatisation of those business activities where a public benefit assessment indicates that the benefits outweigh the costs of doing so.

There is no comprehensive definition of a “significant business activity”. Council must firstly determine whether firstly an activity is a business, and secondly whether it is a significant business activity.

The following indicators can be used when making this determination:

- Isolated and one off transactions are not business activities. Business activities must involve repetition and regularity;
- Regulatory or policy functions are not business activities and nor is the imposition of fees and charges associated with performing such functions;
- Taxing and licensing activities are excluded; and
- Services provided and used solely by the council, whether or not under a tied contract arrangement are not subject to the competitive neutrality principles agreed under the Competition Principles Agreement.

***Turnover is not a satisfactory indicator of whether a business is deemed a “significant business activity” as it may not reflect the impact that the business has on other businesses.***

When considering whether a business is a significant business activity, Council needs to determine whether an activity is a business, rather than undertaking regulatory or governance functions. In saying that, if Council is providing a good or service that is free of charge this does not necessarily mean that the provision is not made in the course of a business activity.

In determining whether a service or business activity is a significant business activity, the impact on the activity on the relevant market is an appropriate indicator.

These indicators are suggested when making a determination in regard to a business activity:

- What is the relevant market?



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- What is the size of the relevant market and of Council's activity compared to the whole market?
- What is the competitive impact (including the potential competitive impact) of the business activity in the relevant market? Is the business activity a major player in the overall market? If the business activity is the only local or regional provider of the service to the community, would competitors emerge if tenders were called?

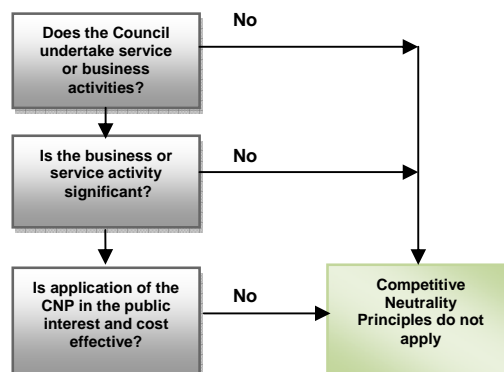
In accordance with the [Department of Treasury and Finance's document Full Cost Attribution Principles for Local Government], "should an activity be identified as a "significant business activity", Council will be required under the full cost attribution model, to identify the full costs of providing a significant business activity

In determining the costs, the following must be considered:

- Wages, workers' compensation, rents, rates, travel expenses, equipment maintenance, capital costs and where appropriate, tax equivalents and other provisions.

In making an assessment as to whether a service or business activity is "significant" Council needs to be able to withstand scrutiny. It is in Council's interest to undertake an objective assessment of the costs and benefits of applying the competitive neutrality principles to significant business activities if there is doubt as to whether it is in the public benefit to apply the principles, in part or full.

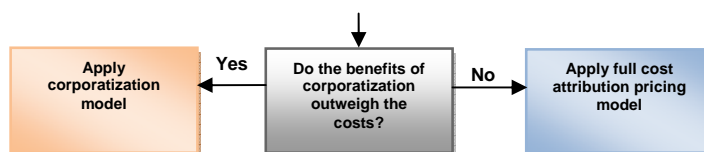
The following chart exhibits the application of the Competitive Neutrality Principles (CNP):





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### 7. REPORTING REQUIREMENTS

Council is required to report on any significant business activities in the annual report. Council is also required to report and advise the Local Government Division of the Premier and Cabinet if its list of significant business activities has been changed to enable an up-to-date comprehensive list of all Local Government significant business activities to be maintained by the Division.

Council must also include in its annual report, a statement of the operating, capital and competitive neutrality costs in respect of each significant business activity undertaken by Council during that financial year together with a statement of the revenue associated with that activity.

Council is also required to provide the following information in its annual report:

- A list of the Council's significant business activities as determined by Council and any determined as such by the Government Prices Oversight Commission (GPOC) following a competitive neutrality complaint;
- The outcome of any public benefit assessments undertaken in relation to the extent to which the competitive neutrality principles should be applied to a significant business activities;
- Any complaints received and the outcome of investigation of those complaints; and
- Any action taken by a Council following a GPOC investigation.

### 8. COMPETITIVE NEUTRALITY COMPLAINTS

Should Council determine that a service or business activity is not a "significant business activity" Council must then be able to support the decision should a complaint be lodged with the Government Prices Oversight Commission. (Draft Policy – Management of Competitive Neutrality Complaints).

#### Related Documents:

Draft Council Policy – Management of Competitive Neutrality Complaints



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**Reference Material**

- *National Competition Policy applying the Principles to Local Government in Tasmania*
  - *Full Cost Attribution Principles for Local Government*
  - *Significant Business Activities and Local Government in Tasmania*
  - *Application of National Competition Policy to Local Government*
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