

NATIONAL
COMPETITION
COUNCIL



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The National Competition Council

The National Competition Council was established on 6 November 1995 by the *Competition Policy Reform Act 1995* following agreement by the Commonwealth, State and Territory governments.

It is a federal statutory authority which functions as an independent advisory body for all governments on the implementation of the National Competition Policy reforms. The Council's aim is to 'improve the well being of all Australians through growth, innovation and rising productivity, and by promoting competition that is in the public interest'.

Information on the National Competition Council, its publications and its current work program can be found on the internet at www.ncc.gov.au or by contacting the Media and Communications Manager on (03) 9285 7474.

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Office of
Council President

29 August 2004

The Honourable Peter Costello MP
Treasurer
Parliament House
Canberra ACT 2600

Dear Treasurer

In accordance with section 290 of the *Trade Practices Act 1974* the National Competition Council is pleased to present you with its ninth annual report, covering the Council's operations for the year 2003-04.

Yours sincerely

David Crawford
Acting President

Doug McTaggart
Councillor

Rod Sims
Councillor

Virginia Hickey
Councillor

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Abbreviations

ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
CoAG	Council of Australian Governments
CPA	Competition Principles Agreement
EAPL	East Australian Pipeline Limited
GDP	Gross Domestic Product
GGT	Goldfields Gas Transmission Pty Ltd
MGI	McKinsey Global Institute
NCC	National Competition Council
NCP	National Competition Policy
NEM	National Electricity Market
OECD	Organisation for Economic Co-operation and Development
PC	Productivity Commission
SES	Senior Executive Service

President's review

Towards the end of 2003, the National Competition Council completed its 2003 assessment of the performance of governments in meeting their National Competition Policy (NCP) obligations. For the first time the Council recommended significant payment penalties for breaches of the NCP by states and territories¹.

The decision to recommend penalties reflected the fact that after eight years, at least two previous 'deadlines' for completing review and reform obligations, competition payments of around \$3.3 billion and specific warning in the 2002 NCP assessment, substantive obligations agreed to by all Australian governments had not been met.

Of the legislation listed as priorities for review and reform,² overall only 55 per cent had been subject to appropriate review and/or reform processes by the end of 2003. Table 1 summarises each government's performance in addressing priority legislation areas.

Many of the competition payment penalties recommended by the Council, and subsequently accepted by the Australian Government Treasurer, were substantial in dollar terms, but relatively small compared with the total payments to states and territories under the NCP. Nevertheless, the use of payment penalties was designed to provide additional incentives for governments to complete legislation reform and other NCP obligations.

It is fair to observe that no state or territory welcomed a competition payment penalty. However, each government had agreed in 1995 to the NCP reform program. Each identified the subjects and timetable for its legislative review and reform work, and committed to complete its reviews and reforms by June 2002. Each commissioned the reviews and made decisions about implementing the review recommendations.

¹ The Australian Government is not subject to payment penalties under the NCP. Its performance in relation to its NCP legislation review and reform obligations is poor, with significant reform obligations being incomplete in areas such as agricultural marketing, broadcasting and communications.

² Recognising the resource demands on governments from completing reviews and implementing reforms, in 2001 the Council identified areas of regulation where testing against the public interest would be likely to offer the greatest potential benefit to the community. This means the Council closely scrutinises around 800 pieces of priority legislation, and monitors review and reform activity in a further 1000 lower priority areas.

Table 1: Priority legislation

Government	Priority legislation addressed by 2003 (per cent)
Victoria	78
Tasmania	77
New South Wales	69
Queensland	61
ACT	59
Northern Territory	47
South Australia	37
Australian Government	33
Western Australia	31
All governments	55

In 2003, where obligations had not been met, competition payment penalties were levied in three forms. Ongoing payment *deductions* were imposed where governments chose not to implement significant reforms, contrary to their commitments. *Specific suspensions* were imposed where significant reforms were incomplete or delayed but were likely to be completed within the coming 12 months; and *pool suspensions* were imposed to recognise a range of less important outstanding reforms that were individually of relatively minor significance but together significantly diminished the reform benefits that might otherwise have accrued. In all cases, governments were offered opportunities to avoid future penalties (in the cases where deductions were recommended) or to regain suspended payments (for specific and pool suspensions).

Faced with penalties, some governments increased their efforts to complete their review and reform programs. While the end result of imposing the competition payment penalties will not be seen until the 2004 NCP assessment is completed, it is clear there has been further reform progress.

On the other hand, and notwithstanding one or sometimes multiple independent reviews finding no public interest in maintaining regulatory privileges, some groups have overcome the incentive for reform that the payments process creates.

Regrettably, the beneficiaries of regulatory privilege often couch their arguments in terms of desirable economic or social objectives. The desirability of objectives such as minimising harm from inappropriate consumption of liquor, reducing the impact of problem gambling, ensuring rural and regional communities have reasonable access to amenities and services such as those provided by country hotels, and ensuring the community has access to prescription pharmaceuticals and other services provided by pharmacies is not in dispute. What is at issue is the link between particular regulations and the achievement of such objectives.

The NCP review process provides for governments to maintain legislative restrictions on competition where those restrictions are shown to be in the public interest and there is no less anticompetitive means of achieving the relevant public interest objective. For effective outcomes, there need to be objective reviews that systematically:

- specify the relevant public interest objectives to be pursued

-
- examine a range of means of achieving that objective, including both regulatory and other means (such as direct subsidies)
 - ensure a regulatory approach that has an impact on competition actually produces a public benefit
 - determine that the adverse consequences of restricting competition do not impose costs that outweigh any benefit.

Governments are able to apply appropriate transitional arrangements where reviews show that this may reduce the costs of reform.

The final 12 months of the 1995 NCP agenda provides an opportunity for jurisdictions to complete outstanding reforms. While some of the remaining reforms may be difficult, the community will benefit from governments meeting their remaining NCP obligations.

Water reform has been a major reform area under the NCP, and states and territories have made considerable progress in addressing complex problems. Although in some respects water reform is occurring more slowly than intended, positive progress has occurred with all governments recognising the need for reform and moving toward a more efficient and sustainable water industry.

Towards the end of the period covered by this annual report, governments agreed, as a part of the new National Water Initiative, that the Council's role in assessing governments' compliance with water reform obligations would cease after the 2004 NCP assessment.

All states and territories have received competition payments for progressing water reform under the NCP. At this stage, the details of the mechanisms for monitoring progress and providing incentives for achieving the National Water Initiative reform goals are still to be developed. Based on the Council's experience, appropriate monitoring mechanisms and incentive arrangements are likely to be critical to improving the way that Australia uses its scarce water resources.

A National Competition Policy: continuing the reform agenda

The Council of Australian Governments (CoAG) agreed to implement the National Competition Policy (NCP) in 1995 and established the National Competition Council to oversee implementation of the NCP program. Three intergovernmental agreements³ establish the program of NCP and the four related reform areas of electricity, gas, water resource policy and road transport. In entering into these agreements, governments committed:

- under the Competition Principles Agreement (CPA):
 - to consider prices oversight arrangements for government businesses with the potential to engage in monopolistic pricing
 - to apply, where appropriate, competitive neutrality principles to government businesses
 - to undertake, where appropriate, structural reform of public monopolies where competition is to be introduced or before they are privatised
 - to review all legislation identified in 1996 as restricting competition and, where appropriate, remove the restrictions
 - to undertake regulatory impact analysis of proposed legislation that would restrict competition
- under the Conduct Code Agreement, to extend the *Trade Practices Act 1974* prohibitions on anticompetitive activities to all businesses
- under the Agreement to Implement the National Competition Policy and Related Reforms (Implementation Agreement):
 - to ensure national standards meet with CoAG endorsed principles for good regulatory practice
 - to achieve (if relevant) effective participation in the fully competitive national electricity market
 - to implement free and fair trading in gas across and within jurisdictions
 - to implement road transport reforms developed by the Australian Transport Council and endorsed by CoAG

³ The Competition Principles Agreement, the Conduct Code Agreement and the Agreement to Implement the National Competition Policy and Related Reforms (the Implementation Agreement) (NCC 1998).

- to implement the CoAG strategic framework for reforming the water industry to better manage water resources, use water more efficiently and improve environmental health.

Much has been achieved, and significant elements — such as the legislation review and reform program — are coming to a conclusion. In accord with the terms of the NCP agreement, governments have commenced a process for reviewing the NCP. This is a two-stage process:

1. The Productivity Commission has been asked to report by early 2005 on:
 - the impact of the NCP and related reforms on the Australian economy and the Australian community, including on significant economic indicators (such as growth and productivity) and distributional outcomes (including for rural and regional Australia), and the NCP's contribution to achieving other policy goals
 - the areas in which removing impediments to efficiency and enhancing competition would significantly benefit the Australian economy (including a possible further legislation review and reform program), and the scope and expected impact of these changes.
2. A review by CoAG before September 2005 — drawing on the Productivity Commission's analysis of the impacts of competition related reforms, and of ways of increasing reform gains — that will give rise to any future NCP-type agreements and consider process and institutional matters.

The presumption in favour of competition

Governments agreed to the NCP on the basis of experience that competition is generally the best way in which to allocate resources and ensure higher living standards. They considered that greater competition would enhance the performance of the economy through improved productivity, more efficient (typically lower) prices, better services and enhanced aggregate employment.

While vigorous competition is the hallmark of economies that deliver high living standards, it is also recognised that unfettered competition will not always serve the public interest. Instances of market failure are well documented. Well-designed regulation, therefore, can promote the interests of the wider community. The case for intervention, however, needs to be made through rational and realistic analysis. Well-intentioned government interventions around the world have sometimes promoted outcomes that detract from community welfare, not only relative to a better considered intervention, but sometimes also in leaving a market failure untreated.

The lessons are twofold. First, a presumption in favour of competition must be the 'default'. Second, regulation that is well meaning but ill conceived, or that serves the interests of only select beneficiaries, represents a cost to the community. While the NCP reforms are based on a pro-competitive presumption, they recognise that competition is a means rather than an end. The NCP aims to serve the public interest, so its reform elements are subject to safeguards to weigh the costs and benefits on a case basis.

The most significant safeguard is the *public interest test*. The obligation to reform anticompetitive regulation arises only when existing restrictions are not demonstrated to

be in the public interest. At the core of the NCP is the guiding principle that regulatory interventions in the operation of a market should serve the broad public interest and that any intervention should minimise restrictions on competition.

The NCP agreements to which all Australian governments committed, require the public interest case for restricting competition via regulation to be demonstrated by robust and independent reviews. If these reviews establish a genuine public interest in regulating to constrain competition, and if that interest cannot be achieved through less anticompetitive means, then regulations may be retained. Even if a public interest case is not established, regulatory reform does not necessarily imply 'deregulation'. Modified regulatory approaches that concentrate on the public interest are often the appropriate outcome.

Given that restrictions on competition typically have been (and continue to be) couched in terms of furthering the community's interests, the NCP places an onus of proof on proponents of such restrictions to subject their claims to analysis. Such public interest assessments need to be based on real world comparisons of the likely range of outcomes with and without regulation. It is inappropriate, for example, to compare an idealised regulatory solution with a market mechanism without recognising the reality of 'regulatory failure' (perhaps due to capture by vested interests) as well as market failure.

There will invariably be winners and losers from change, but the public interest provisions mean NCP reforms are likely to provide a net community benefit. The extent to which this principle translates into practice is a function of the integrity of review processes (and the political will of Parliaments).

How the National Competition Policy has delivered for Australia

Evaluation of the NCP needs to be conducted in a 'whole of program' way and to acknowledge that elements of the NCP are interlinked and/or mutually re-enforcing. The following are examples of such connections:

- There would have been little sense in exposing government businesses to competitive neutrality (CPA clause 3) or structural separation (CPA clause 4) if those businesses remained shielded from the Trade Practices Act (Conduct Code Agreement).
- Structural separation complements, and can be a substitute for, third party access arrangements (part IIIA of the Trade Practices Act and CPA clause 6).
- The separation of water entitlements from land title (the Implementation Agreement) provides an adjustment mechanism — the sale of entitlements to fund a capacity to remain domiciled on the land — for those whose viability might have been adversely affected by legislative reforms that removed unsustainable price support mechanisms (CPA clause 5).
- Achieving a competitive road transport sector (NCP related reform) is not independent of the ability of rail users to access rail track.

- The authorisation of certain practices prohibited by the Trade Practices Act can be sought from the Australian Competition and Consumer Commission (ACCC) on the grounds of net public benefits (the Conduct Code), obviating the need for specific state or territory legislation to sanction such practices (CPA clause 5).

It is also important to be clear about what is (and is not) part of the NCP. Many competition based reforms were introduced before and concurrently with the NCP. Policies such as competitive tendering, industrial relations reform and privatisation derive from the competition paradigm, but are not formally part of the NCP. Using competition to provide for better economic, social and environmental outcomes may be the common objective, but non-NCP reforms are not subject to the NCP's public interest or assessment provisions. Further, it is necessary to disentangle influences and trends affecting regional Australia (such as technological change, urban drift and the decline in farmers' terms of trade) from the impacts of the NCP (PC 1999a).

What does the evidence show?

Australia's recent economic performance over the past decade has been among the best in the world:

- Australia's economy is now in its longest sustained period of growth since the 1960s. Despite global and regional crises, economic growth averaged nearly 4 per cent in the decade to 2001-02.
- Australia's per person gross domestic product (GDP) slipped to 15th in the Organisation for Economic Cooperation and Development (OECD) rankings in 1990, but climbed back to 8th in 2002.
- Australia's productivity growth in the 1990s was stronger and more sustained than ever. This productivity boost equated to an additional \$7000 on average to Australian households.
- Australia's unemployment rate dropped from around 11 per cent in the early 1990s to less than 6 per cent today.
- Australia's inflation rate averaged 2.8 per year during the 1990s, compared with 9 per cent per year in the previous two decades.

The Productivity Commission has reported on these outcomes in its annual reports and research papers (PC 2003). While the data point to Australia reaping the dividends of *something*, causality and attribution are not easy. The literature generally highlights a role only for microeconomic reforms within a framework of stable macroeconomic policy settings.

Competition, productivity and living standards

The view that competition policy could contribute significantly to the outcomes experienced today is evident from the 1993 Hilmer Review, which led to the development of the NCP. The review report stated:

Australia is facing major challenges in reforming its economy to enhance national living standards and opportunities. There is the challenge of improving productivity,

not only in producing more with less and deploying scarce assets wisely, but also in becoming better at making and exploiting new discoveries, whether in technology, resources, fashion or ideas... Australia faces an additional complexity in tackling these challenges, as most reforms require action by up to nine governments. This is particularly true in competition policy, an area central to micro-economic reform which aims at improvements at the front line of the economy. (National Competition Policy Review 1993, p. xv)

A decade on from the Hilmer Review, observations have emerged about the success of microeconomic reforms, including the NCP. In 2001, the OECD recognised that the NCP was helping to realise the benefits anticipated by the Hilmer Review. It concluded that the main driver for Australia's improved productivity was the structural reforms undertaken during the past two decades (OECD 2001, pp. 13–14). Further research has more closely linked countries' productivity performance to pro-competition policies and the OECD has found that excessive product market regulation has a negative impact on productivity.

By 2003, the OECD considered it had enough of an analytical basis to declare:

The implementation of Australia's ambitious and comprehensive National Competition Policy over the past seven years has undoubtedly made a substantial contribution to the recent improvement in labour and multifactor productivity and economic growth. (OECD 2003, pp. 16–17)

Work by the McKinsey Global Institute (MGI) follows that of the OECD. Lewis (2004) draws on the MGI studies, which have evaluated the dynamics of industries in 13 countries since 1990. The work is based on detailed studies at the firm level, from street vendors to automotive plants, with the following key findings:

- Productivity explains virtually all of the differences in GDP per person.
- To understand the productivity of a country's industries, it is important to look beyond macroeconomic policy settings.
- Competition promotes productivity — that is, the primary explanation for differences in countries' productivity performance lies not with labour and capital markets but in the nature of competition in product markets.
- The productivity of a country's largest industries — such as wholesaling, retailing and construction critically determine that country's income level.
- Economic progress is a function of increasing productivity based on undistorted competition — that is, where government policies limit competition, economic growth slows.

Lewis (2004) concludes that it is incumbent on governments to consider competition as the default option and to put consumers ahead of sectional interests. In Australia's case, these findings seem almost incontestable, at least with hindsight. As the Chairman of the Productivity Commission observed in a speech explaining Australia's economic 'miracle' of the 1990s:

... Australian government policy throughout much of the 20th century has almost systematically, if unwittingly, undermined the economy's productive potential by distorting price signals and protecting producers from competition. It is not surprising that those policies took their toll. Equally, it should not be surprising that their

reversal has yielded the benefits that economic theory would anticipate. (Banks 2003, p. 6)

The work of MGI and Lewis (2004) makes similar assessments. Their key contribution is the definitive link that they draw between competition and productivity:

Firms become more productive through innovations. The innovations may be new products and services. They may also be new ways of manufacturing products and delivering services. ... Valuable innovations allow the innovator to charge higher prices, make more profits, invest in more capacity, take market share away from competitors, make even more profits, etc. The process goes on until competitors react by copying the innovation or inventing something equivalent of their own. Profits for all competitors return to normal levels and the industry may very well be stable for a while. However, it is stable at a higher level of productivity. Consumers and workers have achieved a permanent gain. Investors in the original innovator enjoy high returns. However, through competition those returns soon become normal. They remain normal until the next innovation.

Competition is what makes this process work. The more intense and evenly balanced competition is, the faster the process works. The faster the process works, the faster productivity increases. If conditions in the market exclude some potential competitors, then competition is less intense and productivity growth is slower. If conditions in the market favour less productive competitors, then innovators cannot expand and productivity growth is slower. Over and over again, we found markets where more productive innovators were excluded and where less productive firms were favoured.

Even in rich countries this is a problem. In the United Kingdom, France, Germany and Japan, zoning laws and planning regulations prevent global best practice retailers from expanding as fast as they could. Sometimes these restrictions are for valid environmental reasons. Most times, they're not. ...

Most people consider the 'social objectives' motivating zoning laws and small-business subsidies to be 'good'. However, ... these measures distort markets severely and limit productivity growth, and cause unemployment. ... Such market distortions explain most of the difference between the GDP per capita of the United States and other rich countries. (Lewis 2004, pp. 13–14)

The conclusion that competition is *the* key to unleashing productivity growth is gaining acceptance in Australia. While the Productivity Commission considered that formal proof of the factors accounting for Australia's productivity surge may be 'unattainable', it nonetheless had sufficient confidence in its research to describe the impact of the NCP as follows:

This multifaceted reform effort was neither seamlessly implemented nor without adjustment costs. Reforms kicked in at different times, involved a mix of industry-specific and economy-wide measures with varying degrees of gradualism and occasional slippages and backsliding. Nevertheless, the overall thrust was to set in place the mechanism to spur productivity growth by:

- *encouraging greater specialisation and incentives to apply up-to-date technology and know-how through opening the economy to global trade and investment;*
- *creating stronger incentives for businesses to improve efficiency through a focus on cost control, innovation and responsiveness to customer needs by sharpening competition; and*

- *providing greater flexibility for businesses to use managerial, production and distribution processes best suited to their workplaces.* (PC 2003, p. 6)

Although Australia's economic resurgence is striking, the rest of the world is not standing still and Australian productivity levels are below those of other OECD countries.

Why has the National Competition Policy succeeded?

The success of the NCP can be attributed to three key interrelated aspects of Australia's institutional framework:

1. an agenda agreed by all governments that outlines the reform commitments with a practical degree of specificity
2. an independent body responsible for negotiating, monitoring and reporting on reforms
3. the provision of appropriate incentives, including financial payments.

An agreed agenda

The NCP is a product of all Australian governments. Adopted unanimously, it is the most extensive economic reform program in Australia's history. Governments' ownership of the NCP agenda has been a major factor in the program's success, particularly given Australia's brand of fiscal federalism (whereby constitutional powers and responsibilities reside with subcentral governments).

A major strength of the NCP agreements is their reliance on the 'spirit' of reforms and the flexibility afforded to governments in meeting their commitments and to the Council in assessing progress. The agreements extend over many years, yet are flexible enough to cope with changing circumstances and different approaches while remaining sufficiently clear to facilitate an objective assessment. The Council has no doubt that rigid highly prescribed agreements set down in black letter law would have been an inferior model.

An independent assessor

Competition payments alone would not have been sufficient to bring about the observed benefits. An independent body that can clarify reform commitments, focus governments' attention on those commitments and facilitate reform is also important. The Council has a history of working with governments to progress reform. Assessing reform progress using existing agencies rather than an independent body would have risked conflicts of interest with the regulatory policy roles of those agencies.

Each jurisdiction agreed to publish an NCP annual report (outlining its progress in meeting its commitments). This reporting requirement (along with the incentive payments) has helped to maintain reform momentum.

Appropriate incentives

As evident from its NCP assessments, the Council uses the incentives available under the NCP program to encourage governments to complete their reform commitments. While

penalty recommendations are instruments of last resort, using competition payments to leverage reform outcomes in areas of state and territory responsibility has proven highly effective. The involvement of an independent body (at arms length) from the Australian Government to recommend on the release of funds has enhanced this effectiveness.

Reform would have been far slower and less comprehensive without competition payments. These payments (now at around \$800 million per year) may not be large relative to State and Territory budgets, but nonetheless represent a significant source of incremental funds. Apart from the magnitude of the funding, tying performance to financial rewards has enabled governments to eschew pressure from lobby groups by highlighting the cost of failing to meet their NCP commitments. At the officials' level, the use of competition payments has further empowered jurisdictional competition policy units, and the benefits of having strong competition 'watchdogs' should not be underestimated.

Towards a future agenda

The Australian Government has asked the Productivity Commission to 'report on areas offering further opportunities for significant gains to the economy from removing impediments to efficiency and enhancing competition' (PC 2004a). The Government asked the Productivity Commission to address two fundamental issues: the contextual framework for any new reform agenda and the institutional processes that would govern the achievement of that agenda.

It is one matter to nominate future reform areas that might deliver community gains, but another to undertake, sequence and package reforms to achieve an agreed vision. CoAG's rationale in establishing the NCP included its desire to coordinate reforms across nine governments, recognising Australia as a national market. All governments had introduced some pro-competitive reforms before 1995, but implementation was often piecemeal within and across the States and Territories. In adopting the NCP, governments embarked on a nationally coordinated reform program.

The 'value in national coordination' rationale has currency today. It would suggest that a future reform program might focus on remedying problems that arise from Australia's brand of federalism. Perhaps the most obvious candidate is the 'cost shifting–transparency–accountability' problem that hinders much of Australia's service provision. Some of these questions were noted in the Hilmer Review report but excluded from the NCP reform agenda — for example, labour markets and industrial relations; the impact of federal–state financial relations on resource allocation; and the impacts of state assistance to industry on competition and growth.

Another contextual 'vision' could derive from recent Australian research on intergenerational issues, such as the impact of an ageing population on budget funded services, government revenues and retirement incomes policies. Demographics alone provide a compelling case for Australia to continue to improve its productivity. Further, Australia might consider its future agenda from a resource intensity perspective. Such an approach presumably would identify health and education as priorities.

In addition to the contextual vision, there is a need to consider what institutional arrangement is most suited to achieving any new reform program. The Council's

experience is that the independent assessor and NCP payments leverage model is most suitable where:

- new reform areas have interjurisdictional implications
- incentives such as competition payments are to continue
- the reform program is structured as a series of longer term goals that allows different governments to operate at different speeds.

Building on the National Competition Policy agenda

The Council's annual assessment reports (see for example, NCC 2003a, 2003b, 2003c) and legislation review compendium (NCC 2004) indicate a variety of outcomes under the NCP. This variation is consistent with a principles-based program covering nine jurisdictions all with differing innate characteristics and all undertaking reforms at different speeds.

Many areas of the NCP involve open-ended commitments, of which many are substantially met. All governments have appropriate price oversight mechanisms in place and have removed most regulatory functions from public monopolies when introducing competition. They have also applied competitive neutrality principles to their large government businesses and set up bodies to investigate competitive neutrality complaints. These commitments remain relevant as long as governments own significant businesses. In particular, the Council considers that the approach to competitive neutrality needs to be reviewed to determine whether the 1995 commitments should be re-specified.

The importance of the ongoing commitments relating to third party access to the services provided by essential infrastructure facilities is unlikely to diminish. Likewise, the commitments relating to the quality of new legislation (gatekeeping) remain important as long as governments introduce new legislation or modify existing legislation in ways that potentially restrict competition. In particular, the efficacy of a government's gatekeeping should be closely assessed for some time to guard against any return to unjustified restrictions on competition.

The road transport reform agenda includes a mix of 'modules' of which some were subject to assessment under the NCP. While the NCP obligations have substantially been met, there is scope for including the reform modules not assessed under the NCP assessment in a future reform program if there is evidence of delay in meeting reform objectives. More generally, there is scope for considering the establishment of an integrated multi-jurisdictional transport reform agenda.

The legislation review and reform agenda is the only reform area in which governments have not demonstrably achieved the timeframe set by CoAG. The Council considers that this reform program should continue until the original commitment has been met.

Energy reform has progressed reasonably well in terms of the obligations set out in the Implementation Agreement. However, CoAG's objective of a fully competitive national electricity market has not yet been attained and significant deficiencies (not addressed by the current reform program) have been identified. The water reform agenda is ongoing to 2005 although a substantial body of work will not be completed at that time. (Australia

has recently agreed to the National Water Initiative, which complements and extends the water reform program under the NCP.)

Possible areas for a new reform agenda

Examination of the sectoral shares of Australia's GDP in 2002-03 and the degree to which the sectors are exposed to NCP reforms (see table A1), indicate there are three broad groupings that warrant attention in scoping a future reform agenda:

1. revisiting some reform areas under the broader banner of efficiency, given that competition is a confined subset of efficiency
2. expanding reform more broadly in the area of sustainable natural resource management (particularly the scope for market related instrument approaches to environmental management) given that only the NCP water reform program addresses such matters at present
3. applying greater competitive discipline to the nonmarket sector, consistent with the intergenerational and cost-shifting themes identified above.

Table A1: Sector shares of GDP^a and exposure to NCP reforms, 2002-03

<i>Sector</i>	<i>Share of GDP</i>	<i>Exposure to the NCP</i>	<i>Efficiency beyond confines of 'competition'</i>	<i>'Externalities'—environmental and resource sustainability</i>
Agriculture, forestry and fisheries	2.8	Legislation review	No	Very limited
Manufacturing	10.8	Legislation review	No	No
Mining	4.6	Legislation review	No	No
Electricity and gas	10.6	Energy reform; access; legislation review	Yes. Efficiency and resource allocation	No
Water	0.6	Water reform agreement; legislation review	Yes. Efficiency and economic viability	Environmental sustainability. Limited progress on water prices reflecting external costs
Construction	6.3	Legislation review	No	No
Wholesale and retail trade	10.3	Legislation review	No	No
Accommodation, cafes and restaurants	2.1	Legislation review	No	No
Transport and storage	5.0	Legislation review; some road transport reforms; access	Limited through access for rail; partial treatment of road transport reform	No

<i>Sector</i>	<i>Share of GDP</i>	<i>Exposure to the NCP</i>	<i>Efficiency beyond confines of 'competition'</i>	<i>'Externalities'—environmental and resource sustainability</i>
Communications	2.8	Legislation review; access	Limited through telecommunications access regime	No
Finance, insurance and property	17.5	Legislation review	No	No
Education	4.3	Legislation review; CN	No	No
Health and community services	5.8	Legislation review; CN	No	No
Government administration and defence	3.9	No	No	No
Other ^b	21.6
TOTAL	100.0			

^a Industry gross value added at basic prices; chain volume measures adjusted for taxes less subsidies on products.

^b Includes cultural and recreational services, personal and other services, ownership of dwellings, and statistical discrepancy.

Source: ABS 2003, table 10, p. 34.

Efficiency is broader than competition

Given that the terms of reference for the Productivity Commission's review broaden scoping for a future reform agenda beyond competition, it is useful to determine whether that wider remit could be applied to areas already under the NCP. Governments devised their legislation review schedules, for example, on the basis of their initial screening of legislation to identify restrictions on competition, yet some legislation adversely affects efficiency without necessarily restricting competition.⁴ Some restrictions justified on public interest grounds (such as quotas based on sustainability criteria) for example, may involve an allocation method that is less efficient than its alternatives.

In addition, there are questions about the magnitude of compliance and administration costs imposed on parties and taxpayers to support restrictions on competition. These are generally not addressed under the NCP arrangements. If the burden falls equally on participants in the market, then even a manifestly inefficient process does not fall under the NCP legislation review and reform obligation.

The Council considers that a consideration of a future reform agenda could usefully consider whether a broader resource allocation/efficiency perspective (to expand the target from 'competition' to 'efficiency') would offer further gains.

The natural environment

Future reforms could be developed by drawing together and building on programs designed to ensure and maintain sustainable environmental outcomes. Environmental

⁴ For new legislation, appropriate gatekeeping processes should address efficiency issues, including business compliance costs.

degradation represents a drag on future growth, but may not be reflected (or may appear as a gain) in current GDP estimates.

Water reform has already made substantial inroads in this area, and a national salinity and water quality program and the new National Water Initiative have supplemented the NCP water reform program. There are also intergovernmental agreements on tree clearing and biodiversity protection, through the Natural Heritage Trust. Nonetheless, governments are only beginning to tackle these issues, and they are grappling with methods of balancing community, environmental and economic needs. Further policy development and coordination are needed in this area.

The legislation review program and the application of competitive neutrality to forestry, fishing and other resource management questions have resulted in some reform of aspects of these sectors. However, the review and reform of fisheries management legislation, for example, raises informational difficulties akin to those in water reform. In this context, the Council considers that greater flexibility is needed than is possible under the current timelines for legislation review and reform.

More generally, an integrated sustainability package could extend to matters such as land use planning (and clearing) and pollution (including greenhouse gas emissions abatement). Environmental and sustainability matters could benefit from being addressed explicitly by a focus that emphasises national coordination while acknowledging regional variations. Having jurisdictions adopt separate approaches to national externality problems would not appear to represent sensible public policy. It may be feasible to combine these matters into a national resource management reform package.

The nonmarket sector

The nonmarket sector includes the governments' provision of public goods. One potential problem with the sector is that price signalling is not sufficient to ensure an efficient allocation of resources. Many goods and services delivered by the nonmarket sector are likely to be subject to substantially increased demand in the future. There would be benefit in exploring the extent to which reform strategies could improve the efficiency of funding and delivering public goods, and the extent to which the NCP institutional model could be used to address cost shifting, standardisation or performance based targeting of nonmarket goods and services. As shown in table A1, the nonmarket areas represent a significant share of GDP, as well as being a large and growing call on the budget. In terms of specific areas, there is potential benefit in introducing policies to enhance efficiency and deliver better community outcomes in education, childcare, health and community services.

Under the NCP, competitive neutrality has application to government businesses, but not, by definition, to the budget funded sector providing nonmarket services. While competitive neutrality frameworks can be used to drive some efficiency in the provision of health and education, they have limited application outside competitive services. That said, competitive neutrality embodies a range of principles that are equally germane to nonmarket agencies — for example strong corporate governance structures and mechanisms to impose surrogate market disciplines.

The Council considers that there is benefit in addressing the following questions:

- What is the scope to apply efficient valuation and charging structures for goods and services in the absence of price signals? Is there scope to foster competition disciplines? And is this appropriate?
- What is the extent of inefficiency in service provision (including cost shifting)? Can this be addressed by an integrated reform model? What are the expected benefits and costs of a nationally coordinated approach? What are the constraints (political, legal and so on)?

Improving the National Competition Policy processes

Specificity of review processes and reform obligations

The independence of some legislation reviews has been a concern because the NCP does not detail the requirements of the review processes. The Council has, for example, occasionally raised its concerns with some governments about the degree of direct stakeholder representation on reviews. Sometimes, this dialogue has been sufficient to convince governments to convene independent reviews (with stakeholders represented through submissions or reference panels); on other occasions, directly interested parties have been review participants.

Similarly, elements of the NCP would have benefited from greater clarity in the specification of the required reforms. The lack of clarity has permitted a minimalist approach reform in some cases. While the flexibility provided by the NCP agreements is an asset compared with a black letter template approach, the balancing act can be a fine one. To assist the achievement of effective reform outcomes agreements need to be unambiguous and commitments clearly defined.

Transparency

The NCP does not require review reports to be made public. Many reviews have been made publicly available, but some reviews with controversial or ‘unpopular’ outcomes have not been released. This is a major issue where governments argue for restrictions on public interest grounds based on unseen review reports. The benefit of transparency has thus been acknowledged:

A requirement that all reviews be made public would have created an additional discipline on governments to ensure that their review processes were robust and a discipline on reviewers to ensure that their analysis and conclusions could withstand any scrutiny. It would also enhance stakeholder and public confidence that the outcomes were justified by preceding analysis. (Deighton-Smith 2001, p. 37)

The water reform program contains formal public education and consultation requirements that are absent in other areas of reform. Governments are also required to explain the benefits of reforms and to meet consultation obligations (beyond claiming that reforms are being introduced to only avoid ‘unfair’ penalties). The education and consultation model for water reform may be applicable in other sectors.

While the Council has engaged constructively with governments (at the executive and officials levels) in all reform areas, a formal consultative forum would have been useful. The Council has informally met with officials on matters such as legislation review and

competitive neutrality, for example, which has been useful for sharing experiences and better understanding the application of competitive neutrality and the Council's assessment.

Incentives for the Australian Government

The Australian Government is a party to the NCP and also disburses competition payments. While the Council assesses the Australian Government's progress in implementing the NCP program and reports publicly on its performance, the Australian Government does not receive NCP payments. This creates an inconsistency in how jurisdictions are treated when they fail to comply with their commitments. Apart from the opprobrium of being found not to comply, the Australian Government has no incentive to progress reforms. Its relatively poor performance has been noted by states and territories subject to penalty recommendations. There would be value in investigating institutional arrangements that address this issue.

National reviews versus 'piecemeal' jurisdictional reviews

Both national reviews and state and territory based reviews have advantages and disadvantages. Outcomes appear to depend on two main considerations: first, who conducts the national review and, second, the relative costs and benefits of national consistency versus policy competition.

The robustness of a national review process is critical. National reviews that are not independent of the executive arm of government may encourage low level reform effort by setting compromise reform targets that all jurisdictions can reach. This has been the experience of some of the national reviews conducted by Ministerial councils. National reviews, therefore, should be conducted by agencies with a record of robust and independent review processes. This condition is particularly important given that a review report sets the benchmark for the negotiations likely to arise in any coordinated interjurisdictional response to the review's recommendations.

The potential benefits of national reviews are reduced duplication of effort and the scope for greater consistency. These benefits accord with the notion of Australia as a 'single market' in a global environment. Like mutual recognition, consistency in regulation can reduce business compliance costs and reduce search and transaction costs for consumers. The benefits can be stark when set against the possibility that two states may review the same area of regulation and recommend different reforms. If a reform path is rejected by one review but considered compliant by another, the Council faces difficult questions in assessing the reform outcomes.

On the other hand, policy competition can also provide benefits. A standardised national reform model carries a risk of large scale regulatory failure, whereas a competitive model facilitates policy learning.⁵ The Council has encountered areas in which innovative approaches in one jurisdiction have been adopted by other jurisdictions. Often reforms in some jurisdictions have spurred other jurisdictions to move in areas that were seemingly (politically) intractable. The NCP assessment process also encourages slow moving

⁵ Also, regional variations can mean that standardised regulations are inappropriate — for example, building codes for cyclone-prone areas may be unnecessarily prescriptive for regions with more moderate climates.

jurisdictions where they see reforms in other states have delivered benefits without imposing the social costs claimed by the incumbent beneficiaries (for example, the reform of retail trading hours).

Phasing and transitional matters

There is a perception that the impacts of the NCP have been uneven, with the benefits accruing (mostly) to urban centres and the costs being borne (mostly) by rural and regional areas. While such perceptions are unfounded (PC 1999a, 1999b), the removal of some regulatory privileges (for example, the removal of unsustainable agricultural price support mechanisms) can have differential geographic impacts involving winners and losers. This differential raises issues about how best to manage the reform process.

When adjustment costs are likely to be significant, some form of assistance to people or regions may be appropriate. The challenge is to assist people to cope with change without unduly delaying or dissipating the benefits of reform. Change management can involve money payments (such as the dairy levy), planning and consultation before reforms are implemented, the phasing in of reforms and/or efforts to ensure awareness of general safety net measures. Ideally, adjustment assistance should be consistent with efficient outcomes, such as addressing short term transitional costs before they evolve into long term structural problems.

The NCP does not deal with the issue of adjustment assistance, other than noting that a transitional reform program for legislation review can extend beyond 30 June 2002 if demonstrated to be in the public interest. In this context, the Council has generally sought to ensure phasing is based on genuine public interest considerations. The lack of general principles has meant that the NCP implementation process has differed across jurisdictions and not always been well managed.

Explicit recognition of the need for change management would be beneficial in any future reform agreements. However, forms of assistance should not be predetermined because they are best assessed by the relevant state and territory government based on the reform circumstances. State and territory governments are in the best position to assess the impact of change and the incentives and expectations that adjustment assistance in one sector might generate for reform in other areas. Governments may, nonetheless, be able to agree on broad principles to guide the change management.

B1 Access to infrastructure (output 1)

An access regime gives businesses (or individuals or other organisations) a legal avenue through which to share the use of infrastructure services owned by another business. The rationale for access regulation is that the owners of major infrastructure facilities often have substantial market power that they can exploit.

If the business that owns or operates the infrastructure does *not* also have interests in upstream or downstream markets, then the public policy issue is one of dealing with monopoly behaviour. An access regime is one means of restraining prices and maintaining output in these situations; in principle, there are also other means, such as direct monitoring and control of prices and service standards.

More complex problems arise if a business that operates essential infrastructure also has interests in upstream or downstream markets. The business still has incentives to charge monopolistic prices to users of its infrastructure. It may discriminate against its competitors, offering them access only on inferior terms and conditions, or even denying them access.

Part IIIA of the *Trade Practices Act 1974*

Part IIIA of the *Trade Practices Act 1974* (the TPA) establishes principles to facilitate competitive outcomes in markets that rely on natural monopoly infrastructure. It sets out:

- the conditions under which businesses have a right of access to services provided by certain infrastructure facilities
- the roles and responsibilities of the government bodies that administer the access regime.

Part IIIA provides a regulatory framework for access negotiation supported by credible dispute resolution procedures. It sets out three pathways for access to infrastructure services:

1. *Declaration (and arbitration)*. A business that wants access to a particular infrastructure service can apply to have the service ‘declared’. If the service is declared, then the business and the infrastructure operator try to negotiate terms and conditions of access. If they fail to reach agreement, then they determine the terms and conditions through legally binding arbitration.
2. *Certified (effective) regimes*. Where an ‘effective’ access regime already exists, a business seeking access must use that regime. Under part IIIA, following a recommendation from the National Competition Council, the designated Federal Minister can certify an access regime as being effective. The criteria for assessing

whether an access regime is effective focus on whether the regime has an appropriate framework to promote competitive outcomes.

3. *Undertakings*. Infrastructure operators can make a formal undertaking to the Australian Competition and Consumer Commission (ACCC), setting out the terms and conditions on which they will provide access to their services. If accepted, these undertakings are legally binding, so other businesses can use them to gain access.

In December 2002, the Council published a guide to part IIIA to assist parties interested in access issues. The guide comprises three parts (each available on request from the Council or on its website at www.ncc.gov.au). Part A examines the rationale for access and provides an overview of the pathways to access under part IIIA. Parts B and C provide more detailed information on the access pathways in which the Council plays a role — that is, part B covers the declaration pathway, while part C illustrates the Council's approach to the certification of State and Territory access regimes.

Overview of declaration activities

During 2003-04, the Council received two new applications for the declaration of services provided by infrastructure facilities. The first was an application by Services Sydney Pty Ltd for declaration of the transmission and interconnection services provided by Sydney Water's sewage reticulation network in the Sydney metropolitan area. The second was an application by Fortescue Metals Group Ltd for declaration of services provided by the Mount Newman and Goldsworthy railway lines. Other activity during 2003-04 related to an ongoing application by Virgin Blue Airlines Pty Ltd for declaration of certain airside services at Sydney Airport.

These matters are discussed below. Table B1.1 summarises all declaration applications that the Council has received since the enactment of part IIIA.

Fortescue Metals Group Ltd (FMG) application for declaration of services provided by the Mount Newman and Goldsworthy railway lines

On 15 June 2004, the Council received an application under part IIIA from Fortescue Metals Group for declaration of a service described as the use of the facility, being that part of:

- the Mount Newman railway line that runs from a rail siding that will be constructed near Mindy Mindy in the Pilbara to port facilities at Nelson Point in Port Hedland, and is approximately 295 kilometres long
- the Goldsworthy railway line that runs from where it crosses the Mount Newman railway line to port facilities at Finucane Island in Port Hedland, and is approximately 17 kilometres long.

The applicant identified the service provider as BHP Billiton Minerals Pty Ltd, Mitsui-Itouchu Iron Pty Ltd and CI Minerals Australia Pty Ltd trading as joint ventures and BHP Billiton Iron Ore Pty Ltd. The Council has sought further information to identify the appropriate service provider for the purposes of the application for declaration.

Services Sydney Pty Ltd's application for declaration of transportation and interconnection services

On 3 March 2004, the Council received an application under part IIIA from Services Sydney Pty Ltd for a recommendation to declare the following services currently provided by Sydney Water's sewage reticulation network in the Sydney metropolitan area:

- a service for the transmission of sewage via Sydney Water's Sydney sewage reticulation network from the customer collection points to the interconnection points
- a service for the connection of new trunk main sewers owned and operated by Services Sydney to the existing Sydney sewage reticulation network at the interconnection points.

The Council released an issues paper on Services Sydney's application in April 2004. It received a number of submissions in response to the issues paper. At the time of publication of this annual report, the Council was considering the matter. It will make a final recommendation to the Premier of New South Wales, who is the relevant Minister under the Trade Practices Act to determine Services Sydney's application.

Virgin Blue Airlines Pty Ltd's application for declaration of airside services at Sydney Airport

On 1 October 2002, Virgin Blue Airlines Pty Ltd applied for declaration under part IIIA of:

- a service for the use of runways, taxiways, parking aprons and other associated facilities necessary to allow aircraft carrying domestic passengers to:
 - take off and land using the runways at Sydney Airport
 - move between the runways and the passenger terminals at Sydney Airport ('airside service')
- a service for the use of domestic passenger terminals and related facilities for the purposes of processing arriving and departing domestic airline passengers and their baggage at Sydney Airport ('domestic terminal service').

Virgin Blue's application for declaration of the domestic terminal service was withdrawn on 6 December 2002 following Virgin Blue and Sydney Airports Corporation Limited's commercial agreement on terminal access.

In June 2003, the Council issued a draft recommendation (for public comment) that the airside service be declared. It considered the submissions received in response to its draft determination and concluded in its final recommendation that it could not be satisfied that criteria (a) and (f) of the declaration criteria (s.44G(1) of the TPA) were met. For criterion (a) to have been met, the Council needed to be satisfied that access to the airside service would promote competition in the relevant passenger or freight domestic air transport markets. There was evidence that Sydney Airport's incentive to exercise market power by increasing prices for the airside service, for example, was tempered by the desire to increase passenger traffic to maximise revenue from retail concessions. A further likely constraint on the exercise of market power was the threat of re-regulation. The Council concluded that the effect of these dual constraints would be unlikely to completely hinder Sydney Airport's ability and incentive to exercise market power. It could not be satisfied,

however, that the impact of such a tempered exercise of market power on competition in the dependent markets would adversely affect competition to a material degree. For this reason, criterion (a) was not satisfied. The Council went on to conclude that criterion (f), which considers whether access would be contrary to the public interest, was not met because the Council could not be satisfied that the costs of access would be less than the resultant competitive benefits.

The final recommendation was forwarded to the Parliamentary Secretary to the Treasurer, being the relevant Minister, in November 2003. On 28 January 2004, the Minister decided not to declare the airside service. Virgin Blue sought an Australian Competition Tribunal review of the Minister's decision. At the time of publication of this annual report a hearing date had been set for October 2004. The Council has the status of an intervener in the proceedings and is required to assist the tribunal as required (s.44K(6) of the TPA).

Overview of certification activities

During 2003-04, the Council received no new applications from State and Territory governments seeking to have their regimes 'certified' as being effective under part IIIA. One matter ongoing at 30 June 2004 related to Queensland's gas access regime. In November 2002, the Council forwarded to the Federal Minister its final recommendation that the Queensland gas access regime not be certified. At the time of publication of this annual report the Minister was considering his decision. The Queensland regime was enacted in May 2000. While not certified, the provisions of the regime (including obligations on pipeline owners) continue to operate.

Table B1.2 summarises all certification applications that the Council has received since the enactment of part IIIA.

Overview of coverage activities under the National Gas Code

Under the National Third Party Access Code for Natural Gas Pipeline Systems (the National Gas Code) the Council considers applications for coverage of a pipeline and revocation of coverage. In assessing both coverage and revocation applications, the Council must consider whether the relevant pipelines meet or continue to meet the coverage criteria in the national gas code. The Council must then make a recommendation to the relevant State, Territory or Federal Minister.

During 2003-04, the Council received no new applications for coverage and two new applications for revocation of coverage. The new applications related to the South West Slopes natural gas distribution network and the Temora natural gas distribution network in New South Wales. Other national gas code work during the year related to the revocation application for the Goldfields gas pipeline in Western Australia and the Moomba-Sydney pipeline.

Table B1.3 summarises the Council's coverage and revocation work since the introduction of the National Gas Code.

Revocation of the South West Slopes natural gas distribution network and the Temora natural gas distribution network

On 4 July 2003, the Council received two applications from Country Energy Gas Pty Ltd to revoke coverage of the South West Slopes natural gas distribution network and the Temora natural gas distribution network. Country Energy Gas Pty Ltd is the owner and operator of the pipelines.

The Council's final recommendations to the New South Wales Minister for Energy and Utilities, were to revoke coverage under the National Gas Code of the South West Slopes and Temora natural gas distribution networks. The Council was not satisfied that all four criteria in s.1.9 of the National Gas Code were met for each network. In particular, it considered that Country Energy did not have the ability or incentive to exercise market power to hinder competition in the downstream markets because the markets are very small and because the business would benefit from promoting increased throughput into the gas sales market. Accordingly, criterion (a), which requires that coverage promote competition in a dependent market, was not satisfied. In addition, there was no evidence that any third party intended to seek access to the South West Slopes or Temora networks or that the costs of continued coverage may outweigh the benefits. Accordingly, the Council concluded that the public benefit criterion, criterion (d), was not satisfied. On 3 October 2003, the Minister revoked coverage of the South West Slopes and Temora gas distribution networks.

Revocation of the Goldfields gas pipeline (Western Australia)

On 27 March 2003, the Council received an application from Goldfields Gas Transmission Pty Ltd (GGT) to revoke coverage of the Goldfields gas pipeline. The pipeline is owned by an unincorporated joint venture comprising Southern Cross Pipelines Australia Pty Ltd, Southern Cross Pipelines Australia Pty Ltd and Duke Energy WA Power Pty Ltd. GGT operates the pipeline for, and on behalf of, each owner.

The pipeline is 1380 kilometres long and transports natural gas from the Dampier–Bunbury Natural Gas Pipeline Compressor Station One at Yarraloola to Kalgoorlie, via the East Pilbara and North East Goldfields regions of Western Australia. The Goldfields gas pipeline is a covered pipeline listed in schedule A of the National Gas Code.

The Council released its final recommendation in November 2003. It recommended not revoking coverage of the pipeline. The pivotal consideration was whether coverage of the pipeline would promote competition in a market other than the one for the pipeline services (that is, in a 'dependent market') (criterion (a) in s.1.9 of the National Gas Code). The Council identified a number of relevant dependent markets and concluded that coverage would promote competition in the upstream gas production and sales market in the Varanus Island hub, and the downstream electricity sales market around Kalgoorlie. Accordingly, criterion (a) was satisfied in respect of these dependent markets.

The Council concluded that GGT had the ability and incentive to exercise market power to adversely affect competition in the dependent markets. In particular, it considered the exercise of market power in terms of the ability and incentive to engage in monopoly pricing. In the upstream gas production market, evidence of a capacity constraint on the Dampier to Bunbury natural gas pipeline, along with evidence that the liquefied natural gas export market is a weak alternative to natural gas, suggested the absence of a constraint on GGT's market power. In the downstream markets, evidence that GGT was

charging tariffs significantly higher than those that the regulator considered appropriate, together with a lack of competitive alternatives, suggested the existence of market power.

The Council concluded that the *Goldfields Gas Pipeline Agreement Act 1994* (WA) was not an effective constraint on the exercise of GGT's market power because it did not establish rights to negotiate access, or provide for independent and transparent regulatory processes to facilitate effective access negotiations or a credible enforcement mechanism. Coverage would constrain the exercise of market power by providing such rights and processes.

The Council concluded that access through coverage would constrain the exercise of GGT's market power in the dependent markets. Further, it concluded that the barriers to entry in the gas production and sales market in the Varanus Island hub and the downstream electricity sales market around Kalgoorlie were not sufficiently high to prevent new entry as a result of coverage.

In July 2004 the Western Australian Minister for Energy decided not to revoke coverage of the Goldfields Gas Pipeline. GGT has sought a review by the Western Australian Gas Review Board of the Minister's decision.

Revocation of the Moomba–Sydney transmission pipeline and the Dalton–Canberra transmission pipeline (New South Wales)

East Australian Pipeline Limited (EAPL) applied for revocation of coverage of the Moomba–Sydney pipeline system in June 2001. In November 2002, the Council recommended to the Federal Minister for Industry, Tourism and Resources that coverage not be revoked. In November 2003, in accordance with s.1.34 of the National Gas Code, the Minister, released his final decision that coverage of the Moomba–Sydney Pipeline mainline was to be:

- revoked for that part of the mainline from the exit flange at the Moomba processing facility to immediately upstream of the off-take point of the Central West pipeline at Marsden, New South Wales
- retained for that part of the mainline from the off-take point of the Central West pipeline at Marsden to the Sydney city gate at Wilton, New South Wales.

In accordance with s.1.34 of the National Gas Code, coverage of the Canberra lateral line was not revoked.

The Minister's decision for part revocation of coverage contrasts with the Council's final recommendation in November 2002 to not revoke coverage of the Moomba–Sydney mainline. (EAPL lodged the application for revocation of coverage of the Moomba–Wilton pipeline and the Dalton–Canberra pipeline in June 2001).

An application for an Australian Competition Tribunal review of the Minister's decision was lodged in December 2003. The matter was discontinued in April 2004 because the applicants successfully sought leave to withdraw from the proceedings. The Minister's decision to revoke coverage for part of the pipeline remains effective.

Table B1.1: Summary of declaration applications to the Council

<i>Applicant</i>	<i>Service</i>	<i>Council recommendation</i>	<i>Minister's decision</i>	<i>Outcome</i>
Australian Union of Students (April 1996)	Payroll deduction service provided by Department of Education, Employment, Training and Youth Affairs	Not to declare (June 1996)	Not to declare (August 1996)	The union applied to the Australian Competition Tribunal for a review of the Minister's decision. The tribunal determined not to declare (July 1997).
Futuris Corporation (August 1996)	Western Australian gas distribution service			The application was withdrawn.
Australian Cargo Terminal Operators (November 1996)	Qantas ramp and cargo terminal services at Melbourne and Sydney international airports (two applications)			The application was withdrawn.
Australian Cargo Terminal Operators (November 1996)	Ansett ramp and cargo terminal services at Melbourne and Sydney international airports (two applications)			The application was withdrawn.
Australian Cargo Terminal Operators (November 1996)	Particular airport services at Sydney International Airport (three applications)	To declare (May 1997)	To declare (July 1997)	The Federal Airports Corporation applied to the Australian Competition Tribunal for a review of the Minister's decision. The tribunal determined to declare the services for five years from 1 March 2000.
Australian Cargo Terminal Operators (November 1996)	Particular airport services at Melbourne International Airport (three applications)	To declare (May 1997)	To declare for twelve months (July 1997)	Services were declared from August 1997 until 9 June 1998, and since have been subject to access provisions of the <i>Airports Act 1996</i> .

(continued)

Table B1.1 continued

<i>Applicant</i>	<i>Service</i>	<i>Council recommendation</i>	<i>Minister's decision</i>	<i>Outcome</i>
Carpentaria Transport (December 1996)	Queensland rail services, including above-rail services	Not to declare (June 1997)	Not to declare (August 1997)	Carpentaria applied to the Australian Competition Tribunal for a review of the Minister's decision. It then withdrew the application for review.
Standardised Container Transport (February 1997)	New South Wales rail track services (Sydney to Broken Hill)	To declare (June 1997)	Deemed not to be declared due to expiry of the 60-day limit (August 1997)	Standardised Container Transport applied to the Australian Competition Tribunal for a review of the Minister's decision. It then withdrew the application for review following successful access negotiations.
New South Wales Minerals Council (April 1997)	New South Wales rail track services in the Hunter Valley	To declare (September 1997)	Deemed not to be declared due to expiry of the 60-day limit (November 1997)	The New South Wales Minerals Council applied to the Australian Competition Tribunal for a review of the Minister's decision. It then withdrew the application for review following the certification of the New South Wales Rail Access Regime.
Standardised Container Transport (July 1997)	(1) Western Australia's rail track services, (2) arriving/ departing services, (3) marshalling/shunting service, (4) marshalling/shunting access, (5) fuelling service (five applications)	To declare the rail track service; not to declare other services (November 1997)	Not to declare any of the five services (January 1998)	Standardised Container Transport applied to the Australian Competition Tribunal for review of the Minister's decision. The application for review was withdrawn following successful access negotiations.
Robe River (August 1998)	Hammersley rail track services			The Federal Court decided that the service was not within part IIIA of the Trade Practices Act (June 1999). The Federal Court decision was appealed. Robe withdrew the application for declaration before the Full Federal Court hearing. The appeal was stayed.

(continued)

Table B1.1 continued

<i>Applicant</i>	<i>Service</i>	<i>Council recommendation</i>	<i>Minister's decision</i>	<i>Outcome</i>
Normandy Power Pty Ltd, NP Kalgoorlie Pty Ltd and Normandy Golden Grove Operations Pty Ltd (Normandy) (January 2001)	Electricity services provided through Western Power's south west electricity networks			Western Power and Normandy settled the broader commercial dispute between them and agreed to discontinue court proceedings seeking to prevent the Council from considering Normandy's application for declaration. Normandy withdrew its application for declaration.
Freight Australia (May 2001)	Rail track services provided through Victoria's intrastate rail network	Not to declare (December 2001)	Not to declare (February 2002)	Freight Australia applied to the Australian Competition Tribunal for a review of the Minister's decision. It then withdrew the application for review. The Victorian Government is reviewing the Victorian rail access regime to consider alternative arrangements that would account for the concerns raised by Freight Australia and other parties.
Portman Iron Ore Limited (August 2001)	Rail track services provided through the Koolyanobbing–Esperance rail track			The application was withdrawn.
AuIron Energy Limited (November 2001)	Rail track services provided through the Wirrida–Taroona rail track	To declare (July 2002)	To declare (September 2002)	In October 2002, APT (operator of the rail track) applied to the Australian Competition Tribunal for a review of the Minister's decision. In March 2003, the tribunal set aside the Minister's decision on the procedural basis that there was no probative material before it that could affirmatively satisfy the matters in s44H(4) of the Trade Practices Act.

(continued)

Table B1.1 continued

<i>Applicant</i>	<i>Service</i>	<i>Council recommendation</i>	<i>Minister's decision</i>	<i>Outcome</i>
Virgin Blue Airlines Pty Ltd (October 2002)	The use of runways, taxiways, parking aprons and other associated facilities necessary to allow aircraft carrying domestic passengers to: (1) take off and land using the runways at Sydney Airport; and (2) move between the runways and the passenger terminals at Sydney Airport (airside service)	Not to declare (November 2003)	Not to declare (January 2004)	Virgin Blue applied to the Australian Competition Tribunal for a review of the Minister's decision. At the time of publication of this annual report, the tribunal matter is ongoing.
Services Sydney Pty Ltd (March 2004)	A service for the transmission of sewage via Sydney Water's Sydney Sewage Reticulation Network from the customer collection points to the interconnection points (transmission services) A service for the connection of new trunk main sewers owned and operated by Services Sydney to the existing Sydney sewage reticulation network at the interconnection points (interconnection service)	Issues paper was released in April 2004. Public submissions closing date was 4 June 2004. At the time of publication of this annual report the matter was being considered.		
Fortescue Metals Group Ltd (June 2004)	A service described as the use of the facility, being that part of the Mount Newman railway line that runs from a rail siding that will be constructed near Mindy Mindy in the Pilbara to port facilities at Nelson Point in Port Hedland, and is approximately 295 kilometres long; and the Goldsworthy railway line that runs from where it crosses the Mount Newman railway line to port facilities at Finucane Island in Port Hedland, and is approximately 17 kilometres long	At the time of publication of this annual report the matter was being considered.		

Table B1.2: Summary of certification applications to the Council

<i>Application</i>	<i>Service</i>	<i>Council recommendation</i>	<i>Minister's decision</i>	<i>Outcome</i>
New South Wales gas distribution networks regime (interim regime, October 1996)	Access to services of relevant gas pipelines	To certify (May 1997)	To certify (August 1997)	Certified (but intended only as an interim regime before the introduction of the National Gas Code)
Victorian commercial shipping channels (December 1996)	Access to commercial shipping channels leading into Melbourne Port	To certify (May 1997)	To certify (August 1997)	Certified for five years
New South Wales rail (June 1997)	Access to rail track services	To certify (April 1999)	To certify (November 1999)	Certified until 31 December 2000
South Australian gas access regime (June 1998)	Access to services of relevant gas pipelines	To certify (September 1998)	To certify (December 1998)	Certified for 15 years
Queensland rail (June 1998)	Access to rail track services			The Queensland Government withdrew the application in February 1999

(continued)

Table B1.2: continued

<i>Application</i>	<i>Service</i>	<i>Council recommendation</i>	<i>Minister's decision</i>	<i>Outcome</i>
Queensland gas access regime (September 1998)	Access to services of relevant gas pipelines	Draft recommendation sent to Minister (February 2001) was not publicly available. The Council withdrew the recommendation to consider new information provided to the Minister. The Council's final recommendation (publicly available) to the Minister was that the regime is not effective (November 2002).	At 30 June 2004, the Minister was considering his decision.	
New South Wales gas access regime (October 1998)	Access to services of relevant gas pipelines	To certify (March 1999)	To certify (March 2001)	Certified for 15 years. Decision had been delayed pending resolution of cross-vesting issues.
Australian Capital Territory gas access regime (January 1999)	Access to services of relevant gas pipelines	To certify (July 2000)	To certify (September 2000)	Certified for 15 years
Western Australian gas access regime (March 1999)	Access to services of relevant gas pipelines	To certify (February 2000)	To certify (May 2000)	Certified for 15 years
Western Australian rail (February 1999)	Access to rail track services			The Western Australian Government withdrew the application.

(continued)

Table B1.2 continued

<i>Application</i>	<i>Service</i>	<i>Council recommendation</i>	<i>Minister's decision</i>	<i>Outcome</i>
Northern Territory/South Australian rail (March 1999)	Access to rail track services from Tarcoola to Darwin	To certify (February 2000)	To certify (March 2000)	Certified until 31 December 2030
Victorian gas access regime (July 1999)	Access to services of covered pipelines	To certify (April 2000)	To certify (March 2001)	Certified for 15 years
Northern Territory electricity access regime (December 1999)	Access to services of electricity distribution networks	To certify (December 2001)	To certify (March 2002)	Certified for 15 years
Northern Territory gas access regime (March 2001)	Access to services of covered pipelines	To certify (June 2001)	To certify (October 2001)	Certified for 15 years
Victorian rail access regime (July 2001)	Access to rail track services			The Victorian Government withdrew the application.
South Australian ports and maritime services access regime (August 2001)	Access to prescribed port and maritime services			The South Australian Government withdrew the application.

Table B1.3: Summary of coverage and revocation applications under the National Gas Code to the Council

<i>Applicant</i>	<i>Pipeline</i>	<i>Decision sought</i>	<i>Council recommendation</i>	<i>Minister's decision/outcome</i>
Southern Cross Pipelines (March 1999)	Goldfields gas transmission pipeline to Keith power station (Western Australia)	Revocation	To revoke coverage (June 1999)	To revoke coverage (July 1999)
Southern Cross Pipelines (March 1999)	Goldfields gas transmission pipeline – Leinster power station (Western Australia)	Revocation	To revoke coverage (June 1999)	To revoke coverage (July 1999)
Southern Cross Pipelines (March 1999)	Kalgoorlie–Kambalda pipeline (Western Australia)	Revocation	Not to revoke coverage (June 1999)	Not to revoke coverage (July 1999)
Southern Cross Pipelines (March 1999)	Goldfields gas transmission pipeline to Kalgoorlie power station (Western Australia)	Revocation	To revoke coverage (June 1999)	To revoke coverage (July 1999)
SAGASCO South East (May 1999)	Tubridgi pipeline (Western Australia)	Revocation	Not to revoke coverage (July 1999)	Not to revoke coverage (August 1999)
Boral Energy Resources (May 1999)	Beharra Springs pipeline (Western Australia)	Revocation	To revoke coverage (July 1999)	To revoke coverage (August 1999)
Robe River Mining Company (June 1999)	Kairatha–Cape Lambert pipeline (Western Australia)	Revocation	To revoke coverage (Sept 1999)	To revoke coverage (September 1999)
Epic Energy SA (December 1999)	South east pipeline system (South Australia)	Revocation	To revoke coverage (March 2000)	To revoke coverage (April 2000)
AGL Energy Sales and Marketing (January 2000)	Eastern gas pipeline (Longford–Sydney)	Coverage	To cover (June 2000)	To cover (October 2000) AGL Energy Sales and Marketing applied to the Australian Competition Tribunal for a review of the Minister's decision. On 4 May 2001, the tribunal handed down its decision not to cover the pipeline.

(continued)

Table B1.3 continued

<i>Applicant</i>	<i>Pipeline</i>	<i>Decision sought</i>	<i>Council recommendation</i>	<i>Minister's decision/outcome</i>
Eastern Australian Pipeline Limited (now Australian Pipeline Trust) (April 2000)	Moomba–Sydney pipeline system (Moomba–Wilton trunk line)	Revocation	Not to revoke coverage (September 2000)	Not to revoke coverage (October 2000)
Eastern Australian Pipeline Limited (now Australian Pipeline Trust) (April 2000)	Young–Culcairn lateral line (New South Wales)	Revocation	Not to revoke coverage (September 2000)	Not to revoke coverage (October 2000)
Eastern Australian Pipeline Limited (now Australian Pipeline Trust) (April 2000)	Dalton–Canberra lateral line (New South Wales and the ACT)	Revocation	Not to revoke coverage (September 2000)	Not to revoke coverage (October 2000)
Envestra (April 2000)	Palm Valley–Alice Springs pipeline (Northern Territory)	Revocation	To revoke coverage (July 2000)	To revoke coverage (July 2000)
Envestra (April 2000)	Alice Springs distribution system (Northern Territory)	Revocation	To revoke coverage (July 2000)	To revoke coverage (July 2000)
Dalby Town Council (August 2000)	Dalby distribution network (Queensland)	Revocation	To revoke coverage (October 2000)	To revoke coverage (November 2000)
Peabody Moura Mining Pty Ltd (August 2000)	Peabody–Mitsui gas pipeline (Queensland)	Revocation	To revoke coverage (October 2000)	To revoke coverage (November 2000)
Oil Company of Australia (August 2000)	Kincora–Wallumbilla pipeline (Queensland)	Revocation	To revoke coverage (October 2000)	To revoke coverage (November 2000)
Oil Company of Australia (August 2000)	Dawson Valley pipeline (Queensland)	Revocation	To revoke coverage (October 2000)	To revoke coverage (November 2000)
Envestra Ltd (May 2001)	Mildura pipeline (South Australia and Victoria)	Revocation	To revoke coverage (August 2001)	To revoke coverage (September 2001)
Envestra Ltd (May 2001)	Riverland pipeline (South Australia)	Revocation	To revoke coverage (August 2001)	To revoke coverage (September 2001)

(continued)

Table B1.3 continued

<i>Applicant</i>	<i>Pipeline</i>	<i>Decision sought</i>	<i>Council recommendation</i>	<i>Minister's decision/outcome</i>
Eastern Australian Pipeline Limited (now Australian Pipeline Trust) (June 2001)	Moomba-Sydney pipeline system (Moomba-Wilton trunk line)	Revocation	Not to revoke coverage (November 2002)	To revoke coverage for that part of the mainline from the exit flange at the Moomba processing facility to immediately upstream of the off-take point of the Central West pipeline at Marsden, New South Wales; to retain coverage for that part of the mainline from the off-take point of the Central West pipeline at Marsden to the Sydney city gate at Wilton, New South Wales (November 2003)
Eastern Australian Pipeline Limited (now Australian Pipeline Trust) (June 2001)	Dalton-Canberra lateral line (New South Wales and the ACT)	Revocation	Not to revoke coverage (November 2002)	Not to revoke coverage (November 2003)
CMS Gas Transmission Australia (October 2001)	Parmelia pipeline (Western Australia)	Revocation	To revoke coverage (February 2002)	To revoke coverage (March 2002)
Roma Town Council (February 2002)	Roma distribution system (Queensland)	Revocation	To revoke coverage (April 2002)	To revoke coverage (May 2002)
Envestra Ltd (September 2002)	Mildura distribution system (Victoria)	Revocation	To revoke coverage (December 2002)	To revoke coverage (December 2002)
NT Gas Distribution Pty Ltd (January 2003)	City Gate-Berrimah pipeline (Northern Territory)	Revocation	To revoke coverage (April 2003)	To revoke coverage (May 2003)
Goldfields Gas Transmission Pty Ltd (March 2003)	Goldfields gas pipeline (Western Australia)	Revocation	Not to revoke coverage (November 2003)	Not to revoke coverage (July 2004)
Country Energy Gas Pty Ltd (July 2003)	South West Slopes natural gas distribution network	Revocation	To revoke coverage (September 2003)	To revoke coverage (October 2003)
Country Energy Gas Pty Ltd (July 2003)	Temora natural gas distribution network	Revocation	To revoke coverage (September 2003)	To revoke coverage (October 2003)

B2 Assessing governments' progress with implementing the National Competition Policy (output 1)

The 1995 National Competition Policy (NCP) agreements set out reform obligations for governments and provide for the Australian Government to make payments to States and Territories that satisfactorily address those obligations. The National Competition Council assesses governments' implementation progress and makes recommendations to the Australian Government Treasurer on whether this progress is sufficient for States and Territories to receive NCP payments.

The NCP agreements provided for three progress assessments (before July 1997, July 1999 and July 2001). In November 2000, the Council of Australian Governments (CoAG) decided that the Council should, following the 2001 assessment, annually assess of governments' compliance with the NCP and related reform obligations. The NCP and the Council's role in assessing the implementation of reform are scheduled to be reviewed by 2005.

The 2003 NCP assessment revealed that much has been accomplished via the NCP and related reform program. Many sectors of the economy — including water management, the energy sector, government utilities, agricultural marketing, the professions and occupations, finance, retail trading and licensing — have undergone extensive pro-competitive change. The water reform program, by ensuring governments allocate water across all uses (including stressed rivers and wetlands), is also producing significant environmental benefits.

Energy

Electricity

The cornerstone of reforms under the electricity agreements was a commitment to establish a fully competitive national electricity market. CoAG communiqués set out specific reform commitments intended to achieve this original vision. The reform commitments included:

- implementing necessary structural changes to allow for the operation of a competitive national electricity market
- allowing customers to choose the supplier (including generators, retailers and traders) with which they will trade

- establishing an interstate transmission network and non-discriminatory access to the interconnected transmission and distribution network
- ensuring there are no discriminatory legislative or regulatory barriers to entry by new participants in generation or retail supply, and to interstate and/or intrastate trade
- implementing cost-reflective pricing for transmission services with greater scope for averaging for distribution network services, and ensuring the transparency and interjurisdictional consistency of network pricing and access charges
- facilitating interjurisdictional merit-order dispatch of generation and the interstate sourcing of generation where cost-effective.

Important reforms were implemented that established the foundation of the national electricity market (NEM), which commenced operation in December 1998. An interconnected electricity grid incorporates New South Wales, Victoria, Queensland, South Australia and the ACT. Tasmania expects to join the NEM in May 2005 and to participate fully once the Basslink interconnect with Victoria is commissioned in November 2005. A third party access regime has been implemented for the transmission and distribution networks as part of the National Electricity Code.

The reform program is not complete, with the original CoAG vision of a fully competitive NEM yet to be realised. Both the CoAG Energy Markets Review (2002) (known as the Parer Review) and other CoAG reports have identified significant deficiencies in the operation of the national electricity market relating to the industry's governance arrangements, market structure, transmission and interconnection, financial contract markets and demand-side participation concerns.

The Ministerial Council on Energy agreed with the Parer Review's findings that energy market reform had progressed substantially in Australia and that significant benefits have arisen from that reform. It also concurred with the Parer Review that substantial policy issues remain to be resolved if the full benefits of market reform are to be realised. It considered that a second phase of market reform is required to capture those benefits. This phase would involve a coordinated response from governments. The Ministerial Council on Energy thus initiated a further program of reform covering key areas of governance, economic regulation, network planning and operation, and user participation. This program included the establishment of the Australian Energy Market Commission and the Australian Energy Regulator.

Many of the deficiencies sought to be addressed through the Ministerial Council on Energy's reform program relate to existing NCP reform commitments. The Council will continue to assess governments' effectiveness in addressing the identified market deficiencies both through the coordinated Ministerial Council on Energy reform process and through other channels.

In addition, the Council's 2004 assessment considered a number of NCP commitments that pre-dated the Parer Review and the Ministerial Council on Energy reform process:

- the Electricity Tariff Equalisation Fund in New South Wales
- full retail contestability and the Benchmark Pricing Agreement in Queensland
- legislation review and reform in the Northern Territory and the ACT

- inconsistent intra-NEM approval arrangements in South Australia
- entry into the NEM in Tasmania.

Other NEM-wide issues considered by the Council in the 2004 assessment were (1) jurisdictions' progress in meeting commitments relating to derogations from the National Electricity Code and (2) measures to maximise the potential for competition in electricity retail markets.

The Council also considered the progress of Western Australia in implementing its electricity reform program. The reform program was developed in response to Western Australia's obligations under clause 4 of the CPA for the structural reform of public monopolies. The key elements of the Government's reform program, which adopt the recommendations of the independent Electricity Reform Task Force, are:

- the vertical disaggregation of the incumbent electricity supplier, Western Power and the adoption of measures to mitigate its market power
- the establishment of a bilateral contracts market with an associated residual trading market
- the implementation of retail contestability
- the development of an electricity access code.

Gas

The CoAG gas agreements aim to achieve a national gas market with more competitive supply arrangements. CoAG recognised that a well-developed and competitive gas industry is vital to Australia's economic and environmental future. The central NCP gas commitments are (1) to remove legislative and regulatory barriers to free trade in gas within and between State and Territory borders, and (2) to provide third party access to gas pipelines. The CoAG gas reforms also encompass uniform national pipeline construction standards; greater commercialisation of publicly owned gas utilities; the removal of restrictions on uses of natural gas (for example, for electricity generation); and efforts to ensure that gas franchise arrangements are consistent with competition in gas markets and third party access.

The CoAG reforms for free and fair trade in gas are nearing completion. All States and Territories have implemented the National Third Party Access Code for Natural Gas Pipelines Systems (the National Gas Code). In most States and Territories, all gas customers (including households) are now free to contract with a supplier of choice.¹ Governments have also removed most remaining legislative and regulatory barriers to trade, removed most exclusive franchise arrangements and dismantled the monopoly utilities that once dominated the gas industry.

The Parer Review found that reform has promoted the gas industry's development. In particular, it considered that the removal of restrictions on interstate trade in gas, the

¹ In Queensland, only customers using more than 100 terajoules of gas per year can choose their gas supplier. In other States and Territories, all gas customers have a choice.

provision of access to pipelines and the removal of exclusive franchises have encouraged exploration for, and the development of, new gas reserves and the construction of new pipelines (CoAG Energy Market Review 2002, pp. 189–90).

While governments have substantially completed their implementation of the CoAG gas reforms, some work remains to be done. The Council considered the following matters in the 2004 NCP assessment:

- enactment and certification of the national gas access regime
- implementation of full retail contestability
- review and reform of gas legislation
- implementation of the national gas quality standard

Productivity Commission Review of the National Gas Access Regime

The Council participated in the Productivity Commission's review of the national gas access regime by making submissions in September 2003 and March 2004. It considered that some rebalancing of the regime would reduce the regulatory burden on stakeholders and improve administrative efficiency. The inquiry report, which was released in August 2004, recommends a number of changes, some of which are relevant to the Council's role as coverage advisory body (PC 2004b). These include:

- the insertion of an overarching objective, focusing on economic efficiency and effective competition
- modifications to the coverage criteria for consistency with the declaration criteria in part III of the TPA
- a provision for light-handed monitoring, supported by binding dispute resolution, as an alternative to regulation via an access arrangement with reference tariffs
- restricting the material an appeal body may consider in reviewing a coverage decision to that which went before the primary decision maker
- provision for the Minister to give a binding ruling of no coverage for a period of 15 years, following a Council recommendation.

These recommendations are consistent with the Council's submissions to the inquiry. The Ministerial Council on Energy will develop governments' response to the recommendations.

Water

Ten years ago, CoAG agreed to a water resource policy and strategic reform framework. It included the strategic water reform framework in the 1995 NCP agreements as one of the four 'related' reforms and asked the Council to oversee governments' progress with reform

implementation. Including water reform within the NCP and attaching competition payments to

CoAG's objectives in the 1994 reform program were to improve the efficiency of Australia's water supply and wastewater industry, and to address natural resource degradation caused by water use. CoAG also considered it important to improve community understanding of issues relating to water use and the need for change. The 2004 National Water Initiative complements and extends the 1994 reform framework (CoAG 2004).²

The NCP water reform obligations are broad ranging, covering natural resource management, water and wastewater pricing, more rigorous approaches to future investment, the separation of water entitlements from land title, trading in entitlements, institutional reform and improved public consultation. Specifically, governments committed to:

- price water and wastewater services so businesses achieve full cost recovery, with prices set on a consumption basis where cost-effective
- create clearly specified water entitlements separate from land title
- recognise the environment as a user of water by allocating water for use by the environment
- encourage intrastate and interstate trading in water entitlements
- implement market based and regulatory measures to improve water quality
- integrate natural resource management and catchment management processes
- implement a range of institutional reforms, including separating the roles of service provision, standards setting and regulation, and ensuring better commercial performance by water businesses
- employ rigorous economic and environmental appraisal processes before new investment in rural water schemes
- conduct public education and consultation programs, and ensure stakeholder involvement in significant change issues.

CoAG originally set a timeframe of five to seven years for implementing the 1994 reform program, envisaging that the program would be implemented by 2001. In 1999, it extended the timetable for implementing reform to 2005.³ In particular, governments were to substantially implement allocation and water trading arrangements for river systems and groundwater resources by 2005, having determined arrangements for stressed and

² The governments of Western Australia and Tasmania did not sign the Intergovernmental Agreement on a National Water Initiative.

³ CoAG extended the reform timetable following the tripartite meeting on water held in January 1999 by representatives of the National Competition Council, the High Level Steering Group on Water — augmented by representatives from the Agriculture and Resource Management Council of Australia and New Zealand and the Australian and New Zealand Environment and Conservation Council — and the Committee on Regulatory Reform.

overallocated river systems by 2001. CoAG asked the Council to continue its assessments of governments' implementation performance beyond 2001 and established annual assessments against particular reform priorities from 2003 to 2005:⁴

- The 2003 NCP assessment considered urban water pricing and cost recovery, institutional reforms, intrastate water trading, integrated catchment management and water quality arrangements.
- The 2004 NCP assessment has considered rural water pricing and cost recovery, interstate water trading and progress with environmental allocations. It has also considered matters that the Council found in the 2003 NCP assessment to not have been fully implemented.
- The 2005 NCP assessment will cover each government's implementation of the full 1994 water reform program.

CoAG required that each assessment consider whether governments have shown that all new rural water schemes are economically viable and ecologically sustainable, and whether they have conducted appropriate public education and consultation.

CoAG extended the 1994 reform program to incorporate groundwater and storm/waste water (known as the 1996 framework),⁵ although it excluded elements relating to the pricing of groundwater and storm/wastewater from NCP compliance assessment and recommendations on competition payments. The obligation to establish water plans that address CoAG's objectives for ecological and resource security outcomes for groundwater sources remained relevant for NCP compliance and competition payments.

In August 2003, CoAG decided to refresh the 1994 water reform agenda. Its objectives were to increase the productivity and efficiency of water use, sustain rural and urban communities and ensure the health of river and groundwater systems. CoAG considered that investment in new, more efficient production systems was being hampered by uncertainty about the long term access to water in some areas. It recognised that fully functioning water markets could help to ensure investment is properly targeted and water is used for higher value and more efficient purposes. CoAG also expressed concern about the pace of securing adequate environmental flows and adaptive management arrangements to ensure ecosystem health in Australia's river systems (CoAG 2003). In addition, the Australian Government and the governments of New South Wales, Victoria, South Australia and the ACT agreed to provide new funding of \$500 million over five years to address water overallocation in the Murray–Darling Basin.

The National Water Initiative, agreed on 25 June 2004 between the Australian Government and the governments of New South Wales, Victoria, Queensland, South Australia, the ACT and the Northern Territory, confirmed the signatory governments' commitment to the 1994 water reform program. It encompassed all elements of the 1994

⁴ The Council conducted NCP assessments of water reform implementation in 1999 and 2001 before CoAG's decision that there should be annual assessments. The 2002 NCP water reform assessment considered governments' progress in the areas that the 2001 NCP water reform assessment found were not sufficiently advanced. The Council has also conducted supplementary assessments on issues in particular jurisdictions.

⁵ Letter from the Prime Minister to Heads of Government, 10 February 1997.

program and, in addition, recognised that post-1994 developments, variation in jurisdictions' reform progress, and expansions in knowledge provided an opportunity to enhance the reform agenda. Accordingly, the signatory governments expect that full implementation of the National Water Initiative will achieve:

- clear and nationally compatible characteristics for secure water access entitlements
- transparent, statutory based water planning
- statutory provision for environmental and other public benefit outcomes, and improved environmental management practices
- the return of all currently overallocated or overused systems to environmentally sustainable levels of extraction
- the progressive removal of barriers to trade in water, and the meeting of other requirements to facilitate the broadening and deepening of the water market, aiming for an open trading market
- a clear assignment of the risk arising from future changes in the availability of water for consumption
- water accounting to meet the information needs of different water systems in terms of planning, monitoring, trading, environmental management and on-farm management
- policy settings that facilitate water use efficiency and innovation in urban and rural areas
- responses to future adjustment issues that may have an impact on water users and communities
- recognition of the connectivity between surface and groundwater resources, with connected systems managed as a single resource.

The signatory governments agreed on reform outcomes and committed to specific policy actions. Accordingly, the National Water Initiative outcomes and actions cover:

- water access entitlements and water planning frameworks
- water markets and trading
- best practice water pricing
- the integrated management of water for environmental and other public benefit outcomes
- water resource accounting
- urban water reform
- knowledge and capacity building
- community partnerships and adjustment.

The National Water Initiative specifies more closely the water reform obligations and amends some compliance timeframes. There are several significant milestones for 2005, including:

- the development of jurisdictional plans for implementing the National Water Initiative
- the substantial completion of plans for addressing existing overallocation in river systems and groundwater sources in accord with commitments under the NCP
- the reduction of barriers to water trading and the investigation of ways in which to facilitate trading
- further progress in applying best practice pricing
- the application of efficient arrangements for the integrated management of environmental water
- the benchmarking of jurisdictional water accounting systems as a first step to a national water account (including environmental accounting)
- urban water reforms to better manage demand and achieve innovation in water use.

Under the National Water Initiative, the scheduled 2005 NCP assessment will be undertaken by a new body — the National Water Commission — which governments created to advise on national water issues and assist with reform implementation.

The 1994 water reform agreement implemented under the NCP, now reinforced and extended by the National Water Initiative, established for the first time a comprehensive reform agenda and a mechanism for achieving coordinated change across all jurisdictions. The Council recently completed the 2003 NCP assessment of governments' progress in implementing the 1994 water reform progress — its Council's fourth water assessment.

The 2003 assessment and the Council's work in progress for the 2004 assessment reveal that all governments now recognise the importance of effective and efficient water management, and that each is making progress towards this objective. As shown in table B2.1, jurisdictions (including the Murray–Darling Basin Commission member jurisdictions) are at different stages of implementation. Notably, the 1994 urban pricing reforms are practically complete and elements of the rural reform program are well underway. Substantial work remains, however, particularly to implement compatible systems of water access entitlements and appropriate environmental allocations, and to establish effective water trading arrangements.

The National Water Initiative's extended timeframes for reform implementation acknowledge the work remaining and suggest, to an extent, that the 1994 reforms and the work required to implement them are more involved than originally envisaged. Although several implementation challenges remain, virtually none of the 1994 reforms had been implemented when the NCP commenced only nine years ago. The regular progress assessments and access to competition payments under the NCP have provided important encouragement to governments to implement CoAG's vision of a sustainable and viable water industry. The intergovernmental agreement on the National Water Initiative, while moving water reform forwards, will require governments to remain disciplined to achieve CoAG's water industry goals.

Table B2.1: Status of jurisdictions' progress in implementing water reform components of the NCP (30 June 2004)

<i>Reform</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>MDBC</i>
Pricing									
Urban^a									
Full cost recovery ^b	✓s	✓	✓s	☐	☐	✓s	✓	✓	na
Two-part tariff	✓s	✓	✓s	✓	✓	✓	✓	✓	na
Cross subsidies removed, others made transparent	✓	✓	✓	✓	✓	☐	✓	✓	na
Rural water^c									
Full cost recovery	☐	☐	✓s	☐	na	✓	na	na	☐
Two-part tariff	✓	✓	✓	☐	na	✓	na	na	✓
Cross subsidies removed, others made transparent	☐	☐	✓	☐	☐	✓	na	na	☐
Investment appraisal (new rural schemes)	✓	✓	✓	✓	✓	✓	✓	✓	na
Entitlements and trading									
Legislation separating water entitlements from land title	✓	✓	✓	✓	✓	✓	✓	✓	na
Licences converted / allocations defined	✓s	✓s	✓s	✓	✓s	✓s	✓	✓	na
Trading in water entitlements	☐	☐	☐	☐	☐	✓s	☐	☐	na
Environment^d									
Environmental allocations									
Stressed and over-allocated rivers ^e	☐	☐	na	na	na	Na	na	na	☐
Other systems of surface/groundwater	☐	☐	☐	☐	✓s	x	✓	☐	na
Water quality management	✓s	✓s	☐	☐	✓s	✓s	☐	✓s	na
Land care practices (high value rivers)	✓	✓	✓	✓	✓	✓	✓	✓	na
Ecological appraisal (new rural schemes)	✓	✓	✓	✓	✓	✓	✓	✓	na
Institutional reform									
Separate roles	✓	✓	✓	✓	✓	✓	✓	✓	✓
Holistic approach to resource management	✓	✓	✓	✓	✓	✓	✓	✓	✓
Integrated catchment management approach	✓s	✓s	✓s	☐	✓s	✓s	✓s	✓s	✓
Commercial business focus	✓	✓	✓	✓	✓	✓	✓	✓	✓
Performance comparisons	✓	✓	✓	✓	✓	✓	✓	✓	na
Irrigation scheme devolution of management	✓	✓	✓	✓s	✓s	✓s	na	na	na
Community consultation									
	✓	✓	✓	✓	✓	✓	✓	✓	✓

Note: The summary in the table is a only broad indication of progress. It does not purport to provide a complete picture of the details of reform implementation or of each government's compliance with the NCP water reform obligations.

^a Urban reforms include water and wastewater.

^b Full cost recovery requires governments to set prices so water and wastewater businesses earn sufficient revenue to ensure their ongoing commercial viability (the lower bound) but avoid monopoly returns (the upper bound). The lower bound of full cost recovery requires water businesses to recover, at least, operational, maintenance and administrative costs, externalities, taxes or tax equivalent regimes (not including income tax), the interest cost on debt, dividends (if any) and provision for future asset refurbishment/replacement. The upper bound comprises operational, maintenance and administrative costs, externalities, taxes or tax equivalent regimes, provision for the cost of asset consumption, and the cost of capital (calculated using a weighted average cost of capital).

^c Rural water pricing obligations apply to government owned irrigation schemes, government owned bulk water suppliers, and commercial users (licensing charges for the extraction of surface water and groundwater using their own infrastructure). This table does not report progress in relation to licensing charges.

^d Jurisdictions established implementation programs in 1999 identifying river systems and groundwater resources (including stressed and overallocated river systems) for which they would complete programs to allocate water (including allocations to the environment) by 2005.

^e Jurisdictions were to demonstrate substantial progress in implementing their allocation programs by 2001, where progress includes at least allocations in all river systems that have been overallocated or are deemed to be stressed.

✓ Implemented ✓s Substantially implemented ? Implementing × Little or no progress **na** Not applicable

Sources: National Competition Council; various jurisdictions' 2004 NCP annual reports.

Road transport

The road transport reform program reflects governments' desire to harmonise the inconsistent rules governing road transport across the states and territories. The program comprises 31 reform areas of which CoAG endorsed 19 (relating to factors such as driver licensing, truck and bus driving hours, and safe carriage and restraint of loads) for the 1999 NCP assessment. CoAG subsequently included a further six reforms (including vehicle design and Australia-wide road rules) for the 2001 NCP assessment.

The road transport reform commitments are almost complete, although the Australian Government and the ACT are still to complete heavy vehicle registration reforms, and Western Australia has outstanding driver licensing reforms. Some other reforms lie outside the NCP assessment framework.

Legislation review and reform

In 1996, governments identified around 1800 pieces of legislation as containing competition restrictions that should be reviewed and, where warranted, reformed. Of these, the Council considers that around 800 of these laws are as priority areas — that is, areas in which restrictions have the greatest impact on competition.

Governments agreed to a 30 June 2002 deadline for completing this program. However, owing to the timing of its assessments, the Council provided a further year's extension and notified all governments that the program had to be completed for the 2003 NCP assessment. All governments subsequently failed to complete their review and reform activity by the 2003 assessment, so the Council recommended competition payment penalties.

In aggregate terms, by late 2003, around 70 per cent of governments' nominated legislation had been reviewed and, where appropriate, reformed. For priority legislation, the rate of compliance was substantially lower, at around 56 per cent. This rate compares with around 20 per cent in 2001 and nearly 40 per cent in 2002. The penalties imposed in

2003 appear to be having a significant 'incentive' effect. Since the 2003 assessment, progress against outstanding reform commitments has substantially improved.

Primary industries

When governments established their legislation review programs, they identified statutory marketing arrangements for many agricultural products as containing numerous restrictions on competition. Exposing these arrangements to robust review processes has led to significant reforms — for example, all governments repealed price and supply controls on drinking milk; Queensland ended its export marketing monopoly for barley; Victoria deregulated its barley marketing arrangements, and a recent NCP review of such arrangements in South Australia also recommended liberalisation; Western Australia is reforming grain marketing; Queensland and Tasmania removed supply and marketing restrictions on eggs; Western Australia and South Australia removed entry and pricing restrictions in bulk handling; and several jurisdictions have replaced centralised price fixing for poultry growing services.. Outstanding commitments remain in grains, rice, poultry, eggs, potatoes and fisheries.

Governments are also considering the benefits and costs of legislative restrictions in other primary areas, including agricultural and veterinary chemicals, food standards, bulk handling and storage, mining, fishing and forestry. Moreover, the application of competitive neutrality principles to state forestry enterprises has an important role in encouraging sustainable forestry practices.

Professions and occupations

More than 50 professions and occupations have been the subject of legislation review and, in some cases, reform. Nearly all governments have met their CPA obligations in general professions (such as commercial agents, driving instructors, motor vehicle dealers, pawnbrokers, second-hand dealers, real estate agents and hawkers). Some incomplete review and reform activity is incomplete in the health and legal professions. This situation is improving slowly: several jurisdictions (particularly Queensland, the ACT and the Northern Territory) completed important reforms of their health legislation in 2003-04.

Transport (including taxis and hire cars)

Governments have made substantial progress in the review and reform of their transport legislation, except for regulations impinging on the operations of taxis and hire cars. There has been pro-competitive reform cognisant of community objectives in the areas of tow trucks, the transportation of dangerous goods, rail safety, ports and air transport. Conversely, most governments still closely control entry to the taxi industry despite independent reviews finding that the extent of anti-competitive restrictions imposes substantial costs on the wider community (for example, queuing costs and 'no shows' in peak periods). The release of new taxi licences typically involves administrative discretion resulting in only a small number of new licences. In some taxi markets, the new plates must be bought at prevailing market prices that reflect scarcity rents, so the taxi plates can trade for hundreds of thousands of dollars. Many states and territories also actively impede the hire car sector from competing with taxis by barring hire cars from responding to street hails and mandating higher fares.

Victoria introduced reforms in 2002 that involve the annual release of significant numbers of new taxi licences over 12 years, and Tasmania and Western Australia made progress in 2003-04 in releasing significant numbers of new plates. Some other jurisdictions have found it difficult to juggle the objectives of improving services to the community without undermining the value of taxi licences held by incumbents in the industry.

Retail trading

In the retail sector, significant restrictions on competition remain in two key areas: retail trading hours and the sale of liquor.

All governments except for Western Australia have substantially liberalised their retail trading hours legislation in response to major social changes, such as the rise in female labour force participation and a corresponding rise in two income households. Where legislation has not provided unwarranted barriers to innovation, retailers have responded by offering extended trading hours to 'time poor' consumers.

The reform of liquor laws that restrict competition beyond the social objective of harm minimisation has proved far more difficult. The NCP is entirely consistent with governments' legitimate concerns to minimise harm from alcohol consumption. Laws relating to community standards (for example, setting minimum age requirements and preventing liquor being sold to intoxicated persons) do not raise NCP compliance issues. However, regulations that prevent responsible sellers from entering the industry,, that discriminate between sellers of similar products and services, and that impose arbitrary restrictions on sellers' behaviour do little to achieve harm minimisation objectives.

The legislation review and reform program does not inhibit governments from meeting social objectives. Victoria, Tasmania and the ACT, for example, have different approaches to dealing with liquor licensing applications, but all focus on the social, community and health implications of the application, rather than on the competitive impact on existing licensees. In these cases, a 'public interest' test is consistent with NCP principles.

For the 2004 NCP assessment, the Council has considered the progress of jurisdictions that have not met their NCP obligations in this area. It has assessed, for example, the passage of legislation in New South Wales that replaces the needs test for new liquor licences with alternative arrangements.

Fair trading and consumer protection

All governments have met their NCP obligations in their fair trading Acts, and governments have mostly completed their review and reform of other miscellaneous fair trading legislation relating to areas such as retirement villages and funeral funds. States and territories will make consistent changes to their consumer credit legislation and trade measurement following the resolution of issues arising from national reviews.

Social regulation

Most governments have completed reviews of their education legislation. The reviews generally found that competition restrictions relating to educational content and standards, and student safety and welfare are in the public interest. Similarly, child care

legislation is typically concerned with the licensing of businesses, and health and safety requirements. Most states and territories have met their NCP obligations in this area.

Gambling legislation seeks to minimise harm to individuals and ensure the probity of the gambling products and operators through exclusivity arrangements, licensing provisions, rules of conduct and rules governing activities. Sometimes, gambling regulation appears to focus more on protecting government revenue or industry incumbents. These legislative provisions can restrict competition and, in some cases, only indirectly address harm minimisation and consumer protection objectives. Gambling regulation is an area in which it can be difficult to achieve a mix of policy instruments that are in the public interest without adversely constraining competition. Nevertheless, governments have made significant progress in the review and reform of regulations governing casinos, TABs, racing and betting, lotteries and gaming machines.

Communications infrastructure

The communications sector covers telecommunications, broadcasting, radiocommunications and postal services — all areas for which the Australian Government has legislative responsibility. There have been only limited reforms to date.

- Following a review, the Australian Government retained a telecommunications-specific regulatory regime. The Government has sought to encourage more investment in telecommunications by providing investors with greater certainty about prices and terms and conditions. It also now requires Telstra to prepare separate accounts for its wholesale and retail operations, to increase transparency.
- The Australian Government has authorised limited datacasting trials and announced that reviews will be conducted in 2004 and 2005 on (among other things) whether free-to-air television broadcasters should be allowed to provide additional programming; whether the requirement for simulcasting analogue and digital signals should be amended or repealed; matters relating to the potential end of the moratorium on the issue of new free-to-air broadcasting licences; and the efficient allocation of spectrum for digital television.
- In radiocommunications, the Australian Government has accepted review recommendations that will enhance the role of the market in managing the radiofrequency spectrum.
- New postal legislation expands the powers of the Australian Competition and Consumer Commission to inquire into disputes about bulk mail interconnection arrangements, introduces accounting transparency for Australia Post, and legitimises businesses that provide mail collection, sorting and delivery services.

Planning, construction and development

Planning legislation regulates the use and development of land to achieve broad social, economic and environmental objectives. Building regulations are concerned with health, safety and amenity. Such regulation provides clear benefits but can also increase building costs and have anticompetitive effects. For these reasons, all governments nominated planning, construction and development legislation for review and reform under NCP principles. There has been solid progress in this area.

During 2003-04, states and territories continued to make good progress in completing their review and reform of legislation relating to building service providers, including architects, surveyors, valuers, electricians, plumbers and gasfitters. New South Wales, Victoria, Tasmania, the ACT and the Northern Territory amended their architects legislation consistent with the outcomes of a national review. Victoria, Queensland, Western Australia and South Australia completed the review and reform of their surveyors' legislation. Western Australia and South Australia also completed the reform of their valuers legislation, and the ACT passed reforming legislation relating to builders, electricians and plumbers.

Gatekeeping arrangements for new legislation

In addition to review and reform of existing legislation, the CPA requires that jurisdictions not introduce new legislation that restricts competition unless:

- the benefits of the restriction to the community as a whole outweigh the costs, and
- the objectives of the legislation can only be achieved by restricting competition.

These requirements extend to both primary and subordinate legislation.

In encouraging compliance with CPA requirements for new legislation, the Council does not seek to impose itself as an additional layer to assess the quality of new legislation. Rather, the primary focus of the Council is to monitor the adequacy of jurisdictional gatekeeping arrangements for new legislation. This focus assists jurisdictions to 'lock-in' the benefits of legislation review and reform to date, rather than having them eroded over time by new legislation.

Reform of government businesses

Australian governments continue to reform their businesses in accordance with NCP obligations relating to prices oversight and the structural reform of public monopolies. They have established independent bodies to scrutinise the pricing practices of their monopoly businesses, and they have removed regulatory functions and natural monopoly elements from the potentially competitive elements of public monopolies before introducing competition or privatising the monopolies.

In all states and territories, major government business enterprises have been corporatised and other significant businesses have been exposed to competitive neutrality principles. Some governments have gradually increased the range of agencies that are required to apply competitive neutrality — for example, Queensland has extended coverage to its TAFE institutes, Western Australia requires universities to adopt competitive neutrality for their commercial operations, Victoria has reviewed local governments' compliance with competitive neutrality, and Tasmania recently revised its local government policy statement.

Governments are free to determine their own agendas for implementing competitive neutrality, so there is a divergence of approaches. For example, in one state, competitive neutrality applies automatically to government businesses unless a case is made that the costs of its application would exceed the benefits. Another state does not expose

sectors/businesses to competitive neutrality until they have been subject to a 'coverage review'; consequently, investigation of competitive neutrality complaints cannot even commence until such a coverage review has concluded. Governments' complaints mechanisms are operating satisfactorily but there is scope for improvement. In some jurisdictions, Ministers decide whether complaints should be heard, and this arrangement can create adverse perceptions about the independence of the complaints process.

B3 Communications (output 2)

The National Competition Council dedicated considerable resources to communications during 2003-04 with a focus on consultation and the provision of information on National Competition Policy (NCP) and the Council's work.. Three main activity categories contribute to the Council's communication output: consultation and speeches; website development and an electronic newsletter; and publications.

Consultation and speeches

The secretariat and members of the Council met with representatives of the Australian, state, territory and local governments, community groups and the private sector during the year. These meetings covered a wide range of matters relevant to the Council's role in facilitating the application of competition policy.

The Council also released issues papers and draft recommendations on applications for declaration under part IIIA of the *Trade Practices Act 1974* and applications for revocation of coverage under the National Third Party Gas Access Code for Natural Gas Pipeline Systems (box B3.1). It received submissions responding to its issues papers and draft recommendations. The Council posts all nonconfidential submissions on its website (www.ncc.gov.au) so interested parties can consider and comment on the views of others.

In December 2003 the Council released a framework for the 2004 NCP assessment of governments' progress with water reform. The framework was intended as a guide to governments and water industry stakeholders on the water reform matters that the Council would consider in the 2004 NCP assessment. It received 15 submissions from stakeholders responding to the assessment framework, which the Council considered in the 2004 NCP assessment. All submissions (apart from one that comprises technical information relating to a particular matter) have been placed on the Council's website.

Box B3.1: Issues papers and draft recommendations released by the Council in 2003-04

Draft recommendations

Application for revocation of coverage of the Goldfields gas pipeline under the National Gas Access Regime: draft recommendation September 2003

Application for revocation of the South West Slopes natural gas distribution network and the Temora natural gas distribution network under the national gas access regime: draft recommendation August 2003

Issues papers

Application by Services Sydney for declaration of sewage transmission and interconnection services provided by Sydney Water: issues paper April 2004

Application for revocation of the South West Slopes natural gas distribution network and the Temora natural gas distribution network under the national gas access regime: issues paper July 2003

Councillors and Council staff made seven speeches in 2003-04 (box B3.2). The speeches covered water reform, energy reform and the application of competition policy in the rural sector. A key goal for the Council is to improve understanding of the reform agenda and facilitate the discussion of NCP issues.

Box B3.2: Speeches by Councillors and Council staff in 2003-04

John Feil, Executive Director, 'Competition update: urban water', presented to the Urban Water Reform National Conference, October 2003.

Michelle Groves, Director, 'Energy reform – marking the scorecard', presented to the Energy Supply Association of Australia, November 2003.

Wendy Craik, President, 'NCP and the impact it has had on agriculture in relation to exports and rural communities', presented to the Western Australian Farmers' Federation, March 2004.

Wendy Craik, President, 'Water reform', presentation to the Riverland Group Berri, April 2004.

Wendy Craik, President, 'National Competition Policy', presented to the Australian Rural Leadership Alumni, May 2004.

Wendy Craik, President, 'National Competition Council, Rural activity and the National Rural Advisory Council', presented to Charles Sturt University, May 2004.

John Feil, Executive Director, 'Have the States really progressed on reforms?', presented to the National Water Conference, June 2004.

Website development and electronic newsletter

The Council continued in 2003-04 to develop and improve its website (www.ncc.gov.au). It used the site to enhance community understanding of NCP by enabling greater access to information and accommodating the needs of a wider audience. Most Council publications, nonconfidential submissions to the Council and key speeches are available on the website.

The Council also produced an electronic newsletter (eNews) that provides news and updates to interested parties. The number of subscribers to the newsletter increased from 698 in June 2003 to 976 in June 2004.

Publications

The Council's publications in 2003-04 included its annual report, reports on its assessment work, its recommendations on applications under part IIIA of the Trade Practices Act and under the National Gas Code, and discussion papers and other documents to assist community understanding of NCP issues. Most of these publications are available on the Council's website or in hard copy from the Council. Box B3.3 lists the publications produced in 2003-04.

Box B3.3: Council publications in 2003-04

Assessment documents

Assessment of governments' progress in implementing the National Competition Policy and related reforms. Volume one: assessment August 2003

Assessment of governments' progress in implementing the National Competition Policy and related reforms. Volume two: legislation review and reform August 2003

Assessment of governments' progress in implementing the National Competition Policy and related reforms. Volume three: water reform August 2003

Victoria: allocation of water to the environment June 2004

Recommendations

Application for revocation of the South West Slopes natural gas distribution network and the Temora natural gas distribution network under the national gas access regime: final recommendation September 2003

Application for revocation of coverage of the Goldfields gas pipeline under the national gas access regime: draft recommendation November 2003

Application by Virgin Blue for declaration of airside services at Sydney Airport: final recommendation November 2003

Other documents

2004 National Competition Policy assessment framework for water reform December 2003

Annual report 2002-03, September 2003

C1 Corporate governance and organisation

The National Competition Council is an independent advisory body for all Australian governments involved in implementing the National Competition Policy (NCP). The Australian Government funds the Council and its secretariat through Budget appropriations.

Corporate governance

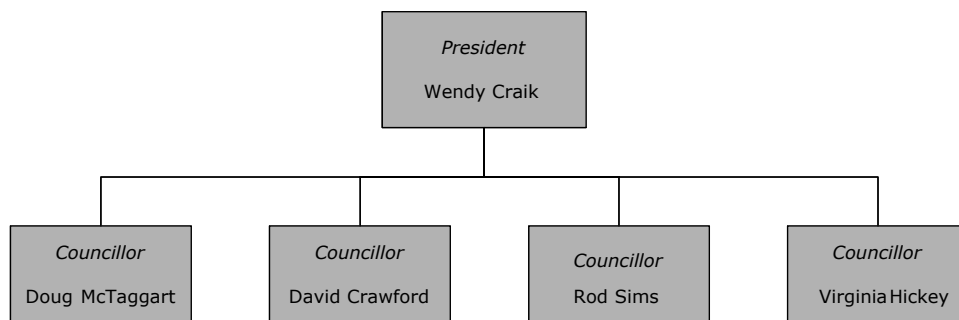
The Council's corporate governance framework is designed to establish accountability and create decision-making processes that effectively and efficiently manage the Council's resources and allocate those resources to NCP priorities. The Council reviewed its corporate governance framework during 2003-04. The Council is responsible for its activities consistent with the requirements of the *Trade Practices Act 1974*, the intergovernmental agreements on NCP and related reforms, and any subsequent amendments to those agreements. Part IIA of the Trade Practices Act specifies the processes for appointing councillors, conducting Council meetings and disclosing interests by councillors.

Each year, the outcome and outputs of the Council are agreed with the Department of Finance and Administration and reported in the portfolio Budget Papers. The Council's corporate plan specifies activities that contribute to the outcome and outputs. Its annual report details the achievements of the Council over the financial year and how they have contributed to the Council's objectives.

Like any agency funded by the Australian Government, the Council has embraced all of the management, accountability, financial and employment reforms applicable to government agencies.

The Council

The Council comprised five part-time councillors (including a president) at 30 June 2004 (figure C1.1): Wendy Craik (President), Doug McTaggart, David Crawford, Rod Sims and Virginia Hickey. Robert Fitzgerald was a member of the Council until November 2003. Rod Sims and Virginia Hickey were appointed to the Council in December 2003.

Figure C1.1: National Competition Council organisation chart, 30 June 2004

The councillors (appointed for three-year terms) have been drawn from across Australia and different industry sectors to provide a range of skills and experience (box C1.1). In 2003-04 they considered, reviewed and approved all of the National Competition Council's recommendations and major publications before release. The secretariat also briefed the councillors on governance issues at the monthly Council meetings. The Council considered performance against its budget at these meetings.

Box C1.1: Councillor profiles

Dr Wendy Craik

Dr Craik has been a councillor with the National Competition Council since November 2000 and is chair of the Australian Fisheries Management Authority, council member of the Australian Institute of Marine Science, board member of the Foundation for Rural and Regional Renewal, and chair of the National Rural Advisory Council.

Dr Craik's previous appointments include: part-time consultant with ACIL Tasman, executive director of the National Farmers Federation (1995–2000); chief executive officer of Earth Sanctuaries Limited; executive officer of the Great Barrier Reef Marine Park Authority; and member of the Australian Landcare Council, the CSIRO Land and Water Sector Advisory Committee, the Australian Information Economy Advisory Council and the board of the Institute of Land and Food Resources, Melbourne University.

Dr Craik holds a Bachelor of Science (Honours) from the Australian National University, a PhD in Zoology from the University of British Columbia and a Graduate Diploma of Management from the Capricornia Institute of Advanced Education.

Dr Doug McTaggart

Dr Doug McTaggart has been a councillor with the National Competition Council since December 2000. He is also currently chief executive officer of the Queensland Investment Corporation and chair of the Investment and Financial Services Association (IFSA), and a council member of the Queensland University of Technology (QUT).

Dr McTaggart has held various positions as an academic economist, most recently professor of economics and associate dean at Bond University. He was previously the under treasurer of the Queensland Department of Treasury. He has been president of the Economic Society, Australia and a member of the Australian Accounting Standards Board.

Dr McTaggart holds a Bachelor of Economics (Honours) from the Australian National University, and a Masters Degree and PhD from the University of Chicago.

Mr David Crawford

Mr David Crawford has been a councillor with the National Competition Council since February 1999. He is also currently chair of Westralia Airports Corporation Pty Ltd and Export Grains Centre Ltd and a director of a number of companies. He is chair of the Board of Advisors of Curtin University Graduate School of Business and is a management committee member of both educational and service organisations.

Mr Crawford was previously the corporate affairs director of Wesfarmers Limited, managing director of Western Collieries Ltd, chief operating officer of Ranger Minerals NL and managing director of Abosso Goldfields Limited. He has also been a member and/or chair of a number of government and nongovernment committees in the agriculture and mining industries.

Mr Crawford has a Bachelor of Economics (Honours) from the University of Queensland and a Master of Arts (Political Science) from the University of Toronto. He is also a Fellow of the Australian Institute of Company Directors.

Mr Rod Sims

Mr Rod Sims has been a councillor with the National Competition Council since December 2003. He is also a director of Port Jackson Partners Limited, which he joined in 1994.

Mr Sims previously worked for the Australian Government for over eight years including as the deputy secretary in the Department of Prime Minister and Cabinet. During this period he also occupied the position of deputy secretary responsible for transport in the Department of Transport and Communications.

From 1988 to 1990, Mr Sims was the economic adviser to the Prime Minister; prior to that role, he worked for nine years overseas as an economic advisor to governments. Currently, Mr Sims is also chair of Inglewood Farms. From 1996 to 2003, he was chair of the Rail Access Corporation and later chair of the Rail Infrastructure Corporation. Mr Sims was appointed by the Australian Government as a member of the panel conducting a review of Australia's energy policy for the Council of Australian Governments in 2002.

Mr Sims holds a Bachelor of Commerce (Honours) from the University of Melbourne and a Master of Economics from the Australian National University.

Ms Virginia Hickey

Ms Virginia Hickey has been a councillor with the National Competition Council since December 2003. She is also principal of Luma Corporate Governance Consulting, a director of the Medical Defence Association of South Australia/Medical Insurance Australia Pty Ltd, a commissioner of the National Road Transport Commission and a councillor of the Australian Institute of Company Directors (SA & NT Division). She is also chair of the Audit Committee at the University of South Australia.

Ms Hickey was formerly a partner of Finlaysons Lawyers in Adelaide, with particular expertise in corporate governance, accountants' liability and general commercial litigation, as well as actions under the Corporations Law and the Trade Practices Act.

Ms Hickey has a Bachelor of Arts from Monash University and a Bachelor of Laws from University of Melbourne and she is a graduate of the Company Directors Course (AICD).

Council meetings

Table C1.1 lists the meetings of the Council during 2003-04. While the Council generally meets on a monthly basis, its workload sometimes requires more frequent meetings. During 2003-04, the Council met on 12 occasions. It held the meetings in Melbourne and used teleconference facilities to ensure the maximum number of councillors possible was involved in the discussions.

Table C1.1: National Competition Council meetings, 2003-04

29 July 2003	11 November 2003	25 May 2003
12 August 2003	25 November 2003	29 June 2004
26 August 2003	24 February 2004	
9 September 2003	23 March 2004	
28 October 2003	11 May 2004	

Dr Craik and Mr Crawford attended all 12 meetings. Dr McTaggart attended nine and Mr Fitzgerald seven. Mr Sims and Ms Hickey each attended five meetings.

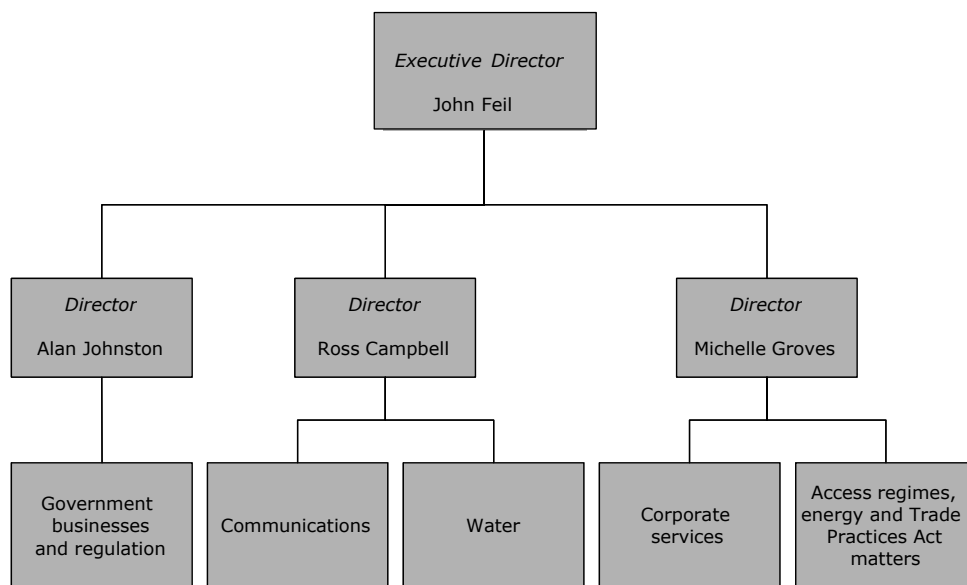
Audit committee

The role of the Council's audit committee is to improve the organisation's financial reporting by overseeing the financial reporting processes, audit functions, risk management and internal controls. The audit committee met twice in 2003-04, on 2 September 2003 and 25 May 2004.

The Council's audit and risk management policies were reviewed in 2003-04. Following this review, the audit committee structure was changed to provide that two councillors (not the President) form the committee, with one of these councillors acting as chair. The Council thanks the previous chair, Mr Kevin Courtney, for his assistance in the past.

The secretariat

The Council is supported by a secretariat (figure C1.2) located in Melbourne. In 2003-04, the secretariat provided advice and analysis at the Council's direction on matters related to the implementation of the NCP. It represented the Council in dealings with officials from Australian, state and territory governments and other parties with interests in NCP matters.

Figure C1.2: National Competition Council secretariat organisation chart, 30 June 2004

The executive director, supported by the rest of the executive team, has responsibility for the day-to-day management of the secretariat. The executive team includes the executive director and the three directors. In 2003-03, it met weekly and was responsible for managing policy and expenditure decisions. Minutes of the executive meetings were circulated to all staff and the Council president.

The executive team reviewed several policies and procedures during 2003-04, including delegations and accounts processing. The Council's policy and procedures manuals were made available to all staff. These documents encompass issues such as the Australian Public Service values and what is expected of Australian Government employees.

Internal and external scrutiny

Mechanisms for internal and external scrutiny include: formal reviews of the NCP, NCP issues and the role of the Council; legal mechanisms for reviewing Council decisions; and the Council's processes for engaging with stakeholders.

Formal reviews

The main reviews of NCP issues conducted or commenced during 2003-04 were the Productivity Commission Review of the National Gas Access Code and the Productivity Commission Review of National Competition Policy arrangements. In addition, through the National Water Initiative the Council of Australian Government (CoAG) further developed the NCP water reform program.

The Productivity Commission completed its inquiry into the National Gas Code and provided its final report to the Australian Government in June 2004.

For its inquiry into NCP arrangements, the terms of reference ask the Productivity Commission to assess the initial and ongoing impacts of NCP and related reforms undertaken and to report on areas offering further opportunities for significant gains to the economy from removing impediments to efficiency and enhancing competition. The Commission is to provide its final report in January 2005.

The National Water Initiative — agreed on 25 June 2004 by the Australian Government and the governments of New South Wales, Victoria, Queensland, South Australia, the ACT and the Northern Territory — confirmed signatory governments' commitment to the 1994 water reform program. It encompassed all elements of the 1994 program but recognised that developments since 1994, variation in jurisdictions' progress and expansions in knowledge provide an opportunity to enhance the reform agenda.

The National Water Initiative specifies governments' reform commitments in greater detail and amends the timeframe for implementing some reforms, particularly concerning water trading beyond the 2005 end date for the 1994 program. Under the initiative, the scheduled 2005 NCP assessment will be undertaken by a new body — the National Water Commission — which governments created to advise on national water issues and assist with reform implementation.

During 2003-04, the Australian Government Ombudsman made no comments on the Council and no decisions by the administrative tribunals involved the Council. The Council's financial statements and procedures were subject to audit by the Auditor-General. Governments will review the terms and operation of the Conduct Code Agreement, the Competition Principles Agreement and the Agreement to Implement the National Competition Policy and Related Reforms before September 2005, along with the Council's assessment role.

Legal mechanisms for reviewing Council decisions

Under both part IIIA of the Trade Practices Act and the National Gas Code, the Australian Competition Tribunal reviews coverage decisions by the designated federal Minister or state Premier. The Minister's or Premier's decisions are made in response to a recommendation by the Council. Two such matters were before the Australian Competition Tribunal in 2003-04:

1. Virgin Blue Airlines Pty Ltd applied for declaration of certain airside services provided at Sydney Airport. In January 2004, the Minister accepted the Council's recommendation not to declare the service. Virgin Blue sought an Australian Competition Tribunal review of the Minister's decision. The hearing has been set for October 2004. The Council has the status of an intervener in the proceedings and is required to assist the tribunal as required.
2. East Australian Pipeline Limited applied for revocation of coverage of the Moomba — Sydney pipeline system in June 2001. In November 2002, the Council recommended to the Minister that coverage of the pipeline system be retained. In November 2003, the Minister released his final decision to retain coverage of only part of the system. An application for an Australian Competition Tribunal review of the Minister's decision

was lodged in December 2003. The matter was discontinued in April 2004 because the applicants successfully sought leave to withdraw from the proceedings.

The Council is also subject to external scrutiny through its published recommendations to all governments on matters relating to access determinations and competition reforms, and through its other external publications.

The Council's engagement with stakeholders

During 2003-04, the Council secretariat was involved in several intergovernmental committees dealing with competition issues, including the Competitive Neutrality Roundtable Committee and the Regulators Forum. Secretariat staff also frequently met with stakeholders to discuss NCP issues. Staff presented conference papers on issues related to their work program and produce publications (including staff discussion papers), which are available on the Council's website (www.ncc.gov.au). Chapter B3 on communications details the Council's processes for providing information and engaging with stakeholders, including its publications, conference papers and processes for requesting submissions from interested parties.

Overview of staffing developments

At 30 June 2004, staff comprised of an executive director, three directors, nine research/policy officers, 2.2 administrative staff and a communications manager. There were 16.2 secretariat staff at 30 June 2004. The majority of secretariat staff were employed under the *Public Service Act 1999*. At 30 June 2004, all permanent staff and one ongoing staff member were employed under Australian workplace agreements with another two staff employed on contracts. Superannuation was the only non-salary benefit provided to staff. The executive director position was at the SES2 level and the three director positions were at the SES1 level. Tables C1.2 and C1.3 contain information on staff profiles.

Table C1.2: Staff profile, 30 June 2004

<i>Level</i>	<i>Salary range (\$'000)</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
Senior Executive Service, band 2	Up to 160		1	1
Senior Executive Service, band 1	135-140	1	2	3
Executive levels 1-2	68-118	4	6	10
Administrative Service Officer, grades 5-6	49-68	2	1	3
Total		7	10	17

Table C1.3: Staff by employment status, 30 June 2004

<i>Level</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
Full-time permanent (ongoing)	4	6	10
Full-time temporary	1	2	3
Part-time staff	2	2	4
Total	7	10	16

Consultants

The Council used the services of consultants in 2003-04 when efficient and cost-effective to do so. Table C1.4 lists the number and value of consultancies engaged. Some projects are ongoing, so the total cost will not be paid until 2004-05.

Table C1.4: Summary of consultants engaged, 2003-04

<i>Purpose</i>	<i>Contract amount (\$)</i>
Legal advice	67,000
Economic advice	225,000
Communications and corporate services	17,000
Total	309,000

C2 Functions

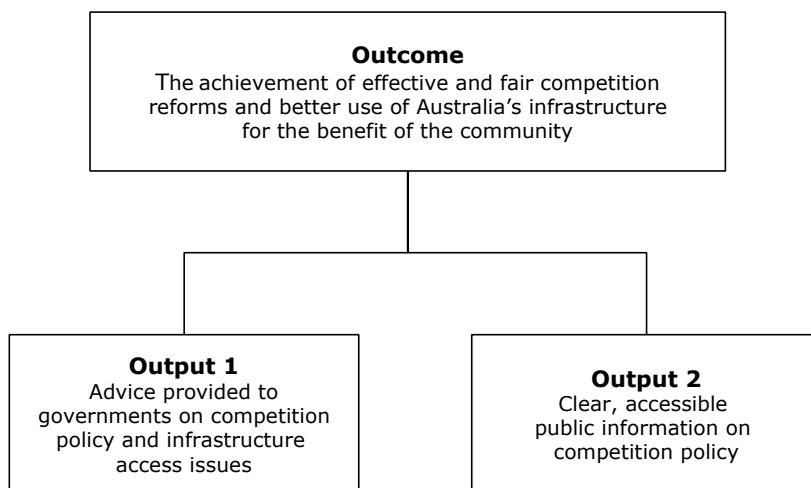
Agency overview

The role of the National Competition Council is to oversee and assist the implementation of the National Competition Policy (NCP) and related reforms outlined in frameworks developed and agreed on by all Australian governments. The Council's responsibilities include assisting public awareness of competition reform agendas, recommending on the design and coverage of infrastructure access regimes under part IIIA of the *Trade Practices Act 1974* and assessing whether states and territories have made satisfactory progress towards NCP reform.

The Council's vision is that it will help deliver Australia's competition policy and program of related reforms by providing objective and constructive advice to governments, thus achieving outcomes that benefit the community as a whole. One of the Council's goals is to build community awareness and understanding of, and support for, Australia's NCP — this approach encourages increased competition where it will result in greater economic growth, reduced unemployment, better social outcomes and the better use of resources for all Australians. The above vision is embodied in the Council's mission: 'To improve the wellbeing of all Australians through growth, innovation and rising productivity, by promoting competition that is in the public interest'.

Agreed outcome and outputs

Figure C2.1 represents the Council's planned outcome and outputs, as developed through the Budget process. The planned outcome relates to the high-level Australian Government outcome of 'well functioning markets', which is part of the overall government outcome of 'strong, sustainable economic growth and the improved wellbeing of Australians'.

Figure C2.1: National Competition Council's planned outcome and contributing outputs

The Council's two outputs are discussed in detail in part B of this annual report. Performance against the Council's outcome is discussed in chapter A.

Activities

The Council has statutory responsibilities under both the Trade Practices Act and the *Prices Surveillance Act 1983* to make recommendations to relevant governments on:

- the design and coverage of infrastructure access regimes
- whether state and territory government businesses should be subject to prices surveillance by the Australian Competition and Consumer Commission.

Apart from these statutory responsibilities, the three NCP agreements establish the following roles for the Council:

- advising on the progress made against the competition policy agreements
- providing other advice on competition policy as agreed on by a majority of the stakeholder governments
- advising to the Australian Government when it is considering overriding state or territory exceptions from the Trade Practices Act.

The Council has an implied function of supporting NCP processes and appropriate reform, as reflected in the Council's mission statement and goals (box C2.1). Of these activities, the design and coverage of infrastructure access regimes and the provision of advice on governments' progress in implementing NCP reforms (including discussions with state and territory governments in formulating that advice) use most of the Council's resources. Another significant area of activity is the building of community awareness of NCP reforms. The Council delivers its functions and responsibilities through its work program areas (box C2.1).

Box C2.1: National Competition Council's mission statement, goals and work program**Mission statement**

To improve the wellbeing of all Australians through growth, innovation and rising productivity, by promoting competition that is in the public interest

Goals

- To facilitate timely implementation of effective and fair competition reforms by governments
- To promote better use of Australia's resources
- To build community awareness and understanding of, and support for, Australia's NCP
- To ensure the Council is a dynamic organisation, capable of providing a safe, healthy and professional work environment for its staff and developing their full potential

Work program

- Facilitation and assessment of governments' progress in implementing NCP and related reforms
- Provision of recommendations to governments on access to infrastructure
- Ongoing improvement of the Council's operational standards in leadership, strategic direction, information systems, support services, resource allocation and staff development
- Building of community awareness and understanding of, and support for, the NCP

C3 Management

Staff development and management

Training

Excluding the salary costs of National Competition Council staff undertaking training, approximately \$41,000 was devoted to staff training and development in 2003-04.

All secretariat staff were offered in-house training on stress management and Freedom of Information requirements. In addition, various staff participated in training for skill and professional development, including improved writing skills and occupational health and safety. Secretariat staff attended numerous conferences on issues associated with competition policy and its implementation. Two officers received assistance to undertake further tertiary education.

Industrial democracy

The Council's industrial democracy plan was the basis of its industrial democracy practices during the year. The Council's executive director has formal responsibility for the implementation of industrial democracy principles and practices.

Consultative mechanisms

The secretariat executive, which includes the executive director and the three directors, met weekly in 2003-04. Minutes of this meeting were circulated to all staff, who also met weekly to review the work priorities and discuss other management issues and the secretariat's work program.

These staff meetings were the principal means of informing secretariat staff of management decisions and inviting staff consideration of issues facing the organisation. Proposed changes to research priorities, staffing arrangements, accommodation, office policies, occupational health and safety, information technology issues and training were discussed at these regular meetings. Work teams also met during the year to discuss work priorities and progress.

Occupational health and safety

During 2003-04, the Council undertook the following major initiatives to ensure the health and safety of its staff and contractors:

- An occupational health and safety staff representative was re-appointed for two years.

- A deputy occupation health and safety staff representative was appointed for two years.
- The occupation health and safety staff representative attended Senior First Aid (Level 2) training which is the requirement for first aid officers in government departments.
- An ergonomic review of workstations was offered to staff.
- Sunscreen blinds were installed to prevent and control problems due to the reflection on computer screens.
- Staff were offered a session on stress management.
- Emergency procedure instructions were developed and displayed.
- Building management prepared an asbestos management plan for the premises.
- Building management forwarded regular reports on testing of cooling towers for legionella and other bacteria.
- Staff were offered flu vaccination.
- Annual screen based eye sight testing was offered to staff.
- Staff were offered confidential health assessments.
- A new contract for the Employee Assistance Program was negotiated.

The Council received no accident/incident reports during 2003-04. Further, no notices were lodged and no directions were given to the Council under ss30, 45, 46 or 47 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991* during the year.

Outsourcing (corporate services)

During 2003-04, the Council outsourced or market tested the following corporate services functions:

- accounting and finance
- editing and printing of Council publications
- payroll and human resource management
- website maintenance
- library services and information
- database maintenance
- document storage
- supply and maintenance of plants

-
- property management
 - internal office maintenance.

Finance and accounting

The Australian Competition and Consumer Commission (ACCC) is contracted to provide all financial services to the Council. The ACCC processed the Council's accounts during 2003-04 using the Finance One accounting software. As an Australian Government body, the Council is required by the Department of Finance and Administration to reconcile its GST components on a monthly basis.

Contracts and purchasing

During 2003-04, the Council renegotiated contracts for library services, information technology, air travel and personnel and accounting services. The Council's purchasing was consistent with the Australian Government Treasury policy and the Australian Government procurement guidelines. The key elements of these guidelines are value for money, efficiency and effectiveness, accountability and transparency, ethics and industry development.

Equity matters

Social justice

Within its work program, the Council addresses social justice issues in two main contexts. First, in conducting its functions related to the national access regime, the Council must consider public interest issues. Matters that the Council may consider include:

- policies concerning occupational health and safety, industrial relations, access to justice and other government services, and equity in the treatment of different persons
- economic and regional development, including employment and investment growth
- the interests of consumers generally or a class of consumers.

Second, in assessing jurisdictions' progress in implementing the NCP reforms, the Council must consider the extent to which governments have undertaken reform processes. The NCP agreements allow governments to account for all of the costs and benefits of reform options, including social, environmental and economic considerations. The agreements recognise that social justice considerations can warrant restrictions on competition, although the Council also calls for an examination of whether governments can meet social justice objectives in ways that do not restrict competition. At the same time, the NCP agreements recognise that many restrictions, by benefiting specific groups at a cost to the broader community, promote neither social justice nor economic efficiency.

Application of the Commonwealth disability strategy

The Commonwealth disability strategy recognises that many Commonwealth programs, services and facilities have an impact on the lives of people with disabilities. The strategy is about enabling the full participation of people with disabilities. It obliges Australian Government organisations to remove barriers that prevent people with disabilities from having access to these programs, services and facilities.

The Council's recommendations affect all Australians because they have a positive economic benefit. As noted, the Council's mission is to improve the wellbeing of all Australians through growth, innovation and rising productivity, by promoting competition that is in the public interest. Individual NCP recommendations affect the broad community, so the impact on sections of the community is not necessarily specific. Furthermore, the design of the Council's policies does not discriminate against any group within the community. The Council thus met the performance criterion for 2003-04, because its policies did not isolate people in the community with disabilities.

Similarly, the Council's recruitment policy does not discriminate on the basis of race, disability, colour, sex or religion. Recruitment information is available in electronic and hard copy formats. Further, the Council developed its workplace (including office facilities and workstations) with the aim of reducing barriers to access by people with disabilities.

Council reports are available in hard copy and electronically. On request, they can be supplied in MS Word format to facilitate the use of computer programs designed to assist people with a visual impairment.

Workplace diversity

The Council continued to apply its *Workplace diversity plan* in 2003-04. All recruitment conducted during the year included a selection criterion relating to an understanding of the principles and practical effects of workplace diversity policies. Selection panels included at least one male and one female, and were recorded by a professional scribe. At 30 June 2004, secretariat staff identified themselves as members of an equal employment opportunity group as set out in (table C3.1).

Table C3.1: Staff by equal employment opportunity (EEO) group, 30 June 2003

<i>Level</i>	<i>Female</i>	<i>NESB 1^a</i>	<i>NESB 2^b</i>	<i>A&TSI^c</i>	<i>Persons with disabilities</i>
Senior Executive Service	1		1		
Senior Officer Executive, levels 1-2	4		1		
Administrative Service Officer, grades 1-6	2		2		
Total	7	0	4	0	0

a Non-English speaking background — first generation

b Non-English speaking background — second generation

c Aboriginals and Torres Strait Islanders

No workplace harassment was reported during 2003-04.

Other matters

Ecologically sustainable development

The Council addresses ecologically sustainable development issues in two contexts. First, in making recommendations under the national access regime and the National Gas Code, the Council is required to consider the public interest. The Council regards the scope of this consideration as including government legislation and policies on ecologically sustainable development.

Second, in assessing jurisdiction's progress in implementing NCP reforms, the Council must consider whether governments have met their NCP commitments. For the Council's assessment of whether restrictions on competition are in the public interest, the NCP agreements recognise that ecologically sustainable development is a relevant consideration.

The water agreements contain explicit environmental obligations. Governments have agreed to: allocate water for environmental purposes; show that investments in new rural water infrastructure are ecologically sustainable; ensure trading arrangements (particularly cross-border trading) have appropriate ecological safeguards; and implement integrated resource management arrangements and policies to improve water quality. Other reforms also reinforce this focus on sustainability: (1) relating price directly to water use provides a better incentive for water conservation; (2) the structural separation requirements ensure the businesses providing water and wastewater services do not also have responsibility for regulation, including environmental regulation; and (3) the requirement that governments undertake public education and consultation programs on water reform helps the implementation of reform by improving people's understanding of the need for change. Full implementation of the water reform program will have significant environmental benefits.

Freedom of information

The Council received one request for documents under the *Freedom of Information Act 1982* during 2003-04 in a request from the Pharmacy Guild of Australia.

Categories of documents held by the Council

The secretariat holds three classes of document. First, it holds representations to the Council's president, executive director and staff (usually correspondence covering aspects of government microeconomic policy and administration). Second, it holds files relevant to the Council's operations (including correspondence, analysis and policy advice prepared by secretariat officers). Four main categories of file are relevant to the Council's operations:

1. Council views on the progress of Commonwealth, state and territory governments in implementing the NCP reforms
2. Council recommendations on applications for access declarations and the certification of access regimes. The designated Ministers are required to publish their decisions on these applications. The Council makes its recommendations and reasons publicly

available after the designated Minister has published a decision. In the case of a declaration application, if the designated Minister does not make a decision, then the Council will publish its recommendation 60 days after providing it to the Minister.

3. Council recommendations on coverage under the National Gas Code, which are made public when sent to the relevant Minister.
4. material relating to other work assigned to the Council (for example, the review of the *Australian Postal Corporation Act 1989* and the review of ss51(2) and 51(3) of the *Trade Practices Act 1974*).

Third, the Council holds documents on internal office administration, such as documents relating to the personal details of staff and to the organisation and operation of the Council. These documents include personal records, organisation and staffing records, financial and expenditure records, and internal operating documentation such as office procedures and instructions.

Documents open to public access subject to a fee or available free of charge on request

The following categories of document are publicly available:

- the Council's annual reports to Parliament
- speeches by Council and secretariat staff
- the Council's discussion papers and guides on specific competition policy issues
- the Council's corporate plan
- issues papers developed by the Council and applications received for declaration or certification, or under the National Gas Code
- submissions by interested parties on access declaration or certification applications, applications under the National Gas Code and other reviews and matters considered in the annual assessments of governments' compliance with the NCP and related reforms (where the information is not commercial-in-confidence)
- the Council's recommendations on declaration, certification and National Gas Code applications
- the Council's assessments of and recommendations to the Treasurer on state and territory progress in implementing NCP
- community information papers and media releases
- issues papers, draft reports and final reports on other reviews referred to the Council.

These documents are usually available in both hard copy and electronic form. The Council places as much material as possible on its website (www.ncc.gov.au). Documents, publications and speeches can be obtained directly from the Council.

Facilities for access to Council documents

Applicants seeking access under the Freedom of Information Act to documents in the possession of the Council should apply in writing to:

Director (Freedom of Information Request)
National Competition Council
GPO Box 250B
Melbourne VIC 3001
Attention: Freedom of Information Coordinator

An application fee of \$30 must accompany requests. Unless an application fee is received or an explicit waiver is given, the request will not be processed. Telephone enquiries should be directed to the Freedom of Information Coordinator (telephone 03 9285 7474) between 9.00 am and 5.00 pm, Monday to Friday.

The Director (Freedom of Information Request) is authorised under s23 of the Act to grant or refuse requests for access to documents. In accordance with s54, an applicant may apply to the executive director within 28 days of receiving notification of a decision under the Act, seeking an internal review of a decision to refuse a request. The application should be accompanied by a \$40 application review fee, as provided for in the Act.

If access under the Act is granted, then the Council will provide copies of documents after receiving payment of all applicable charges. Alternatively, applicants may arrange to inspect documents at the National Competition Council office, Level 9, 128 Exhibition Street, Melbourne, between 9.00 am and 5.00 pm, Monday to Friday.

Annual reporting requirements and aids to access

Information contained in this annual report is provided in accordance with:

- s74 of the Occupational Health and Safety (Commonwealth Employment) Act
- s50AA of the *Audit Act 1901*
- the *Public Service Act 1999*
- s8 of the Freedom of Information Act
- s29(O) of the Trade Practices Act
- the guidelines issued by the Department of the Prime Minister and Cabinet.

A compliance index is provided at the end of this section.

For inquiries or comments concerning this report or any other Council publications, please contact:

Executive Director
National Competition Council
GPO Box 250B
Melbourne VIC 3001
Telephone (03) 9285 7474
Facsimile (03) 9285 7477.

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C4 Financial statements

Financial statements

for the year ended June 2004



INDEPENDENT AUDIT REPORT

To the Treasurer

Scope

The financial statements comprise:

- Statement by the Council President and Principal Accounting Officer;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Commitments and Contingencies;
- Notes to and forming part of the Financial Statements

of the National Competition Council for the year ended 30 June 2004.

The National Competition Council's President and Principal Accounting Officer are responsible for the preparation and true and fair presentation of the financial statements in accordance with the Finance Minister's Orders. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit approach

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Financial*

Management and Accountability Act 1997, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the National Competition Council's financial position, and of its performance as represented by the statements of financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Council President and Principal Accounting Officer.

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate Australian professional ethical pronouncements.

Audit Opinion

In my opinion, the financial statements:

- (i) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* and applicable Accounting Standards; and
- (ii) give a true and fair view, of the matters required by applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the Finance Minister's Orders, of the financial position of National Competition Council's as at 30 June 2004, and of its performance and cash flows for the year then ended.

Australian National Audit Office



Mashelle Parrett
Executive Director

Delegate of the Auditor-General

Canberra
26 August 2004

National Competition Council

Level 9, 128 Exhibition Street Melbourne 3000 Australia
GPO Box 2508 Melbourne 3001 Australia
Telephone 03 9285 7474 Facsimile 03 9285 7477
Website: www.ncc.gov.au



**NATIONAL COMPETITION COUNCIL
STATEMENT BY THE COUNCIL PRESIDENT AND
PRINCIPAL ACCOUNTING OFFICER**

In our opinion, the attached financial statements for the year ended 30 June 2004 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders under the *Financial Management and Accountability Act 1997*.

David Crawford
Acting President

Dated: 26 AUG 2004

John Feil
Executive Director

Dated: 26 AUG 2004

NATIONAL COMPETITION COUNCIL
STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2004

	Notes	2004 \$	2003 \$
Revenues from ordinary activities			
Revenues from Government	4(a)	3,866,000	3,604,000
Interest	4(b)	-	8,085
Other	4(d)	854	191,857
<i>Revenues from ordinary activities</i>		<u>3,866,854</u>	<u>3,803,942</u>
Expenses from ordinary activities (excluding borrowing costs expense)			
Employees	5(a)	2,297,995	1,849,017
Suppliers	5(b)	1,487,644	1,541,788
Depreciation and amortisation	5(c)	63,006	57,047
Value of assets sold	4(c)	13,528	-
<i>Expenses from ordinary activities</i>		<u>3,862,173</u>	<u>3,447,852</u>
Net surplus		<u>4,681</u>	<u>356,090</u>
Net credit to asset revaluation reserve		-	-
Total revenues, expenses and valuation adjustments recognised directly in equity		<u>4,681</u>	<u>356,090</u>
Total changes in equity other than those resulting from transactions with the Australian Government as owner		<u>4,681</u>	<u>356,090</u>

The above statement should be read in conjunction with the accompanying notes.

NATIONAL COMPETITION COUNCIL
STATEMENT OF FINANCIAL POSITION
as at 30 June 2004

	Notes	2004 \$	2003 \$
ASSETS			
Financial assets			
Cash	6(a)	560,514	449,902
Receivables	6(b)	<u>39,678</u>	<u>79,632</u>
Total financial assets		<u>600,192</u>	<u>529,534</u>
Non-financial assets			
Land and buildings	7(a),(c)	107,271	129,297
Infrastructure, plant and equipment	7(b),(c)	57,636	87,903
Other	7(d)	<u>13,852</u>	<u>5,612</u>
Total non-financial assets		<u>178,759</u>	<u>222,812</u>
TOTAL ASSETS		<u>778,951</u>	<u>752,346</u>
LIABILITIES			
Provisions			
Employees	8(a)	<u>457,621</u>	415,612
Total provisions		<u>457,621</u>	<u>415,612</u>
Payables			
Suppliers	9(a)	<u>172,266</u>	192,351
Total payables		<u>172,266</u>	<u>192,351</u>
TOTAL LIABILITIES		<u>629,887</u>	<u>607,963</u>
NET ASSETS		<u>149,064</u>	<u>144,383</u>
EQUITY			
Retained surpluses		<u>149,064</u>	144,383
TOTAL EQUITY	10(a)	<u>149,064</u>	<u>144,383</u>
Current assets		614,044	529,534
Non-current assets		164,907	222,812
Current liabilities		253,110	234,155
Non-current liabilities		376,777	373,808

The above statement should be read in conjunction with the accompanying notes.

NATIONAL COMPETITION COUNCIL
STATEMENT OF CASH FLOWS
for the year ended 30 June 2004

	Notes	2004 \$	2003 \$
OPERATING ACTIVITIES			
Cash received			
Appropriations		3,847,000	3,604,000
Goods and services ¹		18,859	154,515
Interest		-	8,085
GST received from Australian Taxation Office (ATO) ¹		<u>158,502</u>	<u>-</u>
Total cash received		<u>4,024,361</u>	<u>3,766,600</u>
Cash used			
Employees		2,205,418	2,077,153
Suppliers		<u>1,684,090</u>	<u>1,504,959</u>
Total cash used		<u>3,889,508</u>	<u>3,582,112</u>
Net cash from operating activities	11	<u>134,853</u>	<u>184,488</u>
INVESTING ACTIVITIES			
Cash used			
Purchase of property, plant and equipment		<u>24,241</u>	<u>129,161</u>
Total cash used		<u>24,241</u>	<u>129,161</u>
Net cash (used by) investing activities		<u>(24,241)</u>	<u>(129,161)</u>
FINANCING ACTIVITIES			
Cash used			
Return on capital		-	16,000
Total cash used		<u>-</u>	<u>16,000</u>
Net cash (used by) financing activities		<u>-</u>	<u>(16,000)</u>
Net increase in cash held		110,612	39,327
Cash at the beginning of the reporting period		<u>449,902</u>	<u>410,575</u>
Cash at the end of the reporting period	6(a)	<u>560,514</u>	<u>449,902</u>

1 Goods and services for 2002-03 includes an amount for GST received from ATO. For 2003-04, this latter item is disclosed separately.

The above statement should be read in conjunction with the accompanying notes.

NATIONAL COMPETITION COUNCIL
SCHEDULE OF COMMITMENTS
as at 30 June 2004

	2004	2003
	\$	\$
BY TYPE		
Other Commitments		
Operating leases ¹	<u>227,230</u>	231,647
<i>Total other commitments</i>	<u>227,230</u>	<u>231,647</u>
Commitments receivable	<u>20,657</u>	21,059
<i>Net commitments</i>	<u><u>206,573</u></u>	<u><u>210,588</u></u>
BY MATURITY		
Operating lease commitments		
One year or less	120,832	115,823
From one to five years	106,398	115,824
<i>Total operating lease commitments by maturity</i>	<u><u>227,230</u></u>	<u><u>231,647</u></u>
Commitments receivable	<u>20,657</u>	21,059
<i>Net commitments</i>	<u><u>206,573</u></u>	<u><u>210,588</u></u>

NB: All commitments are GST inclusive where relevant.

1 Operating leases included are effectively non-cancellable and comprise:

<i>Nature of lease</i>	<i>General description of leasing arrangement</i>
Leases for office accommodation	The lease has been taken out for a two year term ending on 9 May 2005. The Council has a further two one year options available to it. The first of these options is exercisable in November 2004 and will at this stage be exercised by the Council. There is no annual increase in accordance with movements in the Consumer Price Index.

The above schedule should be read in conjunction with the accompanying notes.

NATIONAL COMPETITION COUNCIL
SCHEDULE OF CONTINGENCIES
as at 30 June 2004

	2004	2003
	\$	\$
Contingent liabilities		
Other ¹	28,040	-
Total Contingent liabilities	<u>28,040</u>	<u>-</u>
Contingent assets		
Other ¹	1,158	-
Total Contingent assets	<u>1,158</u>	<u>-</u>

1 The Council has received a request for payment of invoices issued between 1999 and 2001 that are supposedly unpaid. Investigations to date have not been able to verify that the invoices are unpaid. The Council intends to dispute the invoices.

The above schedule should be read in conjunction with the accompanying notes.

**NATIONAL COMPETITION COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

for the year ended 30 June 2004

Note

- 1 Summary of Significant Accounting Policies
- 2 Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-2006
- 3 Events Occurring after Reporting Date
- 4 Operating Revenues
- 5 Operating Expenses
- 6 Financial Assets
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Note 1 Summary of Significant Accounting Policies

1.1 Objectives of the National Competition Council

The National Competition Council (the 'Council') was established on 6 November 1995 by the *Competition Policy Reform Act 1995* following agreement by the Commonwealth, State and Territory governments. The Council is an independent advisory body for all governments on implementation of the national competition policy reforms.

The role of the Council is to oversight and assist the implementation of National Competition Policy and related reforms outlined in frameworks developed and agreed by all Australian Governments. Its responsibilities also include assisting public awareness of governments' competition reform agendas, recommending on the design and coverage of infrastructure access regimes under Part IIIA of the Trade Practices Act 1974, and assessing whether the Commonwealth, States and Territories have made satisfactory progress towards their commitments to competition policy reform.

The Council's outcome is the achievement of effective and fair competition reforms and better use of Australia's infrastructure for the benefit of the community.

Council activities contributing toward this outcome are classified as Departmental. Departmental activities involve the use of assets, liabilities, revenues and expenses controlled or incurred by the Council in its own right.

The Council's outcome is separated into two output groups as follows:

Output Group 1

Advice provided to governments on competition policy and infrastructure access issues.

Output Group 2

Clear, accessible public information on competition policy.

1.2 Basis of Accounting

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (or FMOs, being the *Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after 30 June 2004)*);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and
- Consensus Views of the Urgent Issues Group.

The Council's Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets, which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets, that are unrecognised, are reported in the Schedule of Commitments and the Schedule of Contingencies.

Revenues and expenses are recognised in the Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

1.3 Changes in accounting policy

The accounting policies used in the preparation of these financial statements are consistent with those used in 2002-03.

Property plant and equipment assets are being revalued progressively as explained in Note 1.12. Future revaluations are to be undertaken at fair value. Revaluation increments and decrements in each year of transition to fair value that would otherwise be accounted for as revenue or expense are to be taken directly to accumulated results in accordance with transitional provisions of AASB 1041 *Revaluation of Non-current Assets*.

In 2002-03, the Finance Minister's Orders introduced an impairment test for non-current assets which were carried at cost and not subject to AAS10 *Recoverable Amount of Non-current Assets*. No impairment write-downs were booked at 30 June 2003.

In 2003-04, the impairment test provisions of the FMOs have been extended to cover non-current assets carried at deprival values. There were no indications of impairment for these assets.

1.4 Revenue

Revenues from Government

Amounts appropriated for Departmental output appropriations for the year (less any savings and reductions) are recognised as revenue, except for certain amounts which relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Savings are amounts offered up in Portfolio Additional Estimates Statements. Reductions are amounts by which appropriations have been legally reduced by the Finance Minister under Appropriation Act No.3 of 2003-04.

Resources Received Free of Charge

Services received free of charge are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as revenue at their fair value when the asset qualifies for recognition, unless received from another government agency as a consequence of a restructuring of administrative arrangements.

Other Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts or other agreements to provide services. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for goods and services are recognised at the nominal amounts due less any provision for bad or doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collectability of the debt is judged to be less rather than more likely.

Interest revenue is no longer received by the Council following the Government's decision to abolish the Australian Banking Incentive Scheme (ABIS) from 1 July 2003.

Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

1.5 Transactions with the Government as Owner

Equity injections

Amounts appropriated which are designated as 'equity injections' for a year (less any savings offered up in Portfolio Additional Estimates Statements) are recognised directly in Contributed Equity in that year.

Restructuring of Administrative Arrangements

Net assets received from or relinquished to another Commonwealth agency or authority under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

1.6 Employee benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries (including non-monetary benefits), annual leave, sick leave are measured at their nominal amounts. Other employee benefits expected to be settled within 12 months of the reporting date are also measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the Council is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including the Council's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The non-current portion of the provision for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees as at 30 June 2004. The estimate of present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Superannuation

Staff of the Council are members of the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. The liability for their superannuation benefits is recognised in the financial statements of the Commonwealth and is settled by the Commonwealth in due course.

The Council makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the Council's employees. Employer contributions in relation to the two schemes amounting to \$238,371 in 2003-04 (\$169,273 in 2002-03) have been expended in these financial statements.

Employer Superannuation Productivity Benefit contributions totalled \$31,685 in 2003-04 (\$32,485 in 2002-03).

No liability for superannuation has been recognised as at 30 June 2004 for outstanding contributions for the final fortnight of the year, as the fortnight ended on 30 June 2004.

1.7 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the beginning of the lease term and a liability recognised at the same time and for the same amount. The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets. The net present value of future net outlays in respect of surplus space under non-cancellable lease agreements is expensed in the period in which the space becomes surplus.

Lease incentives taking the form of "free" leasehold improvements and rent holidays are recognised as liabilities. These liabilities are reduced by allocating lease payments between rental expense and reduction of the liability.

1.8 Borrowing costs

All borrowing costs are expensed as incurred except to the extent that they are directly attributable to qualifying assets, in which case they are capitalised. The amount capitalised in a reporting period does not exceed the amount of costs incurred in that period.

The Council did not have any qualifying assets for which funds were borrowed during the 2003-04 financial year.

1.9 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

1.10 Other Financial instruments

Accounting policies for financial instruments are stated at Note 16.

Contingent Liabilities and Contingent Assets

Contingent Liabilities (assets) are not recognised in the Statement of Financial Position but are discussed in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability (asset), or represent an existing liability (asset) in respect of which settlement is not probable or the amount cannot be reliably measured. Remote contingencies are part of this disclosure. Where settlement becomes probable, a liability (asset) is recognised. A liability (asset) is recognised when its existence is confirmed by a future event, settlement becomes probable or reliable measurement becomes possible.

1.11 Acquisition of assets

Assets are recorded at cost of acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor agency's accounts immediately prior to the restructuring.

1.12 Property, Infrastructure, Plant and Equipment (PP&E)

Asset Recognition Threshold

Purchases of property, infrastructure, plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than \$2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Revaluations

Basis and frequency

The Council has elected to revalue its assets over a five year period as permitted by Australian Accounting Standard AAS29 *Financial Reporting by Government Departments* (paragraph 15.5). To date, no revaluations have been undertaken, however, as the cycle finishes on 30 June 2005 the revaluations will occur during that year.

These revaluations are to be undertaken at fair value as required by Australian Accounting Standard AASB 1041 *Revaluation of Non-Current Assets*. Under fair value, assets which are surplus to requirements will be measured at their net realisable value.

Depreciation and Amortisation

Depreciable infrastructure, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the Council using, in all cases, the straight line method of depreciation. Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation/amortisation rates (useful lives) and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the useful lives in the table below. These rates apply to each item in that class except where the useful life of the item has been reassessed following revaluation.

Asset Class	2004	2003
	Total useful life	Total useful life
Fitout	Lease term	Lease term
Plant and equipment	3 to 7 years	4 to 9 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 5(c).

1.13 Impairment of Non-Current Assets

Non-current assets carried at up to date fair value at the reporting date are not subject to impairment testing.

Non-current assets carried at cost and held to generate net cash inflows are required to have their recoverable amounts tested at the reporting date. The test compares the carrying amounts against the net present value of future net cash inflows. The Council has no assets within this category.

The non-current assets carried at cost, which are not held to generate net cash inflows, have been assessed for indications of impairment. Where indications of impairment exist, the carrying amount of the asset is compared to the higher of its net selling price and depreciated replacement cost and is written down to that value if greater. No assets were identified as impaired as at 30 June 2004.

1.14 Inventories

The Council provides the bulk of its publications free of charge which means the publications do not have a realisable value. As a result of this Council expenses the cost of publications as incurred.

1.15 Taxation

The Council is exempt from all forms of taxation except fringe benefits tax and the goods and services tax (GST).

Revenues, expenses and assets are recognised net of GST:

- except where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- except for receivables and payables.

1.16 Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date. Associated currency gains and losses are not material.

1.17 Insurance

The Council has insured for risks through the Government's insurable risk managed fund, called "Comcover". Workers compensation is insured through the Government's Comcare Australia.

Note 2 Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-2006

The Australian Accounting Standards Board has issued replacement Australian Accounting Standards to apply from 2005-06. The new standards are the AASB Equivalents to International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board. The new standards cannot be adopted early. The standards being replaced are to be withdrawn with effect from 2005-06, but continue to apply in the meantime.

The purpose of issuing AASB Equivalents to IFRSs is to enable Australian entities reporting under the *Corporations Act 2001* to be able to more readily access overseas capital markets by preparing their financial reports according to accounting standards more widely used overseas.

It is expected that the Finance Minister will continue to require compliance with the Accounting Standards issued by the AASB, including the AASB Equivalents to IFRSs, in his Orders for the Preparation of Agency financial statements for 2005-06 and beyond.

The AASB Equivalents contain certain additional provisions which will apply to not-for-profit entities, including Australian Government agencies. Some of these provisions are in conflict with the IFRSs and therefore the Council will only be able to assert compliance with the AASB equivalents to the IFRSs.

For-profit entities complying fully with the AASB Equivalents will be able to make an explicit and unreserved statement of compliance with IFRSs as well as with the AASB Equivalents.

Existing AASB standards that have no IFRS equivalent will continue to apply, including in particular AAS 29 *Financial Reporting by Government Departments*.

Accounting Standard AASB 1047 *Disclosing the impact of Adopting Australian Equivalents to IFRSs* requires that the financial statements for 2003-04 disclose:

- An explanation of how the transition to the AASB Equivalents is being managed; and
- A narrative of the key differences in accounting policies arising from the transition.

The purpose of this Note is to make these disclosures.

Management of transition to the AASB Equivalents to IFRSs

The Council has taken the following steps for the preparation towards the implementation of the AASB Equivalents:

- The Council's Audit Committee will oversight the transition to and implementation of the AASB Equivalents to IFRSs. The Chief Finance Officer is formally responsible for the project and is required to regularly report on implementation progress. The Australian Competition and Consumer Commission (ACCC) is contracted to provide the Council with accounting services and will be responsible for implementation of the AASB Equivalents to IFRSs in respect of the Council's accounts. The ACCC has advised the Council of the ACCC's plan for the adoption of IFRSs. The ACCC's plan requires the following steps to be undertaken and sets deadlines for their achievement:

- Form views on required changes between current AASB standards and the AASB Equivalents to IFRSs based on information releases from the Department of Finance and the Australian National Audit Office (ANAO) progressively to and beyond June 2004.
- Prepare a detailed impact statement of AASB Equivalents to IFRSs by the end of September 2004.
- Prepare a transitional balance sheet as at 1 July 2004 under AASB Equivalents by end of October 2004.
- Undertake major review of preparedness by end of November 2004 for review by the Council's Audit Committee and ANAO.
- Ongoing training of staff since November 2003 by attendance at information sessions and through reviews of correspondence issued on the matter.

The Council has accepted this as an appropriate plan for the implementation of the AASB Equivalents to IFRSs for the Council. The ACCC will report on an ongoing basis to the Council's Chief Finance Officer and Audit Committee on the implementation of the plan.

Major changes in accounting policy

Changes in accounting policies under AASB Equivalents are applied retrospectively i.e. as if the new policy has always applied. This rule means that a balance sheet prepared under the AASB Equivalents must be made as at 1 July 2004, except as permitted in particular circumstances by AASB 1 First-time adoption of Australian Equivalents to International Financial Reporting Standards. This will enable the 2005-06 financial statements to report comparatives under the AASB Equivalents also.

Changes to major accounting policies are discussed in the following paragraphs.

Property Plant and Equipment

It is expected that the FMOs will require property plant and equipment assets carried at valuation in 2003-04 to be measured at up-to-date fair value from 2005-06. This differs from the accounting policies in place for these assets which, up to and including 2003-04, have been revalued progressively over a five year cycle. This cycle currently include assets at cost (for purchases since the commencement of the cycle) and at deprival value (which differ from the fair value to the extent that they have been measured at depreciated replacement cost when a relevant market selling price is available).

However it is important to note that the Finance Minister requires these assets to be measured at up-to-date fair values as at 30 June 2005. Further, the transitional provisions in AASB 1 will mean that the values at which assets are carried as at 30 June 2004 under existing standards will stand in the transitional balance sheet as at 1 July 2004.

Borrowing costs related to qualifying assets are currently capitalised. It is understood that the FMOs for 2005-06 will elect to expense all borrowing costs under the new AASB Equivalent standard. Accordingly, borrowing costs capitalised as at 1 July 2004 will be derecognised. The Council did not have any qualifying assets for which funds were borrowed during 2003-04.

Impairment of Non-Current Assets

The Council's policy on impairment of non-current assets is at note 1.13.

Under the new AASB Equivalent Standard, these assets will be subject to assessment for impairment, and if there are any indications of impairment, measurement of any impairment. (Impairment measurement must also be done, irrespective of any indications of impairment, for intangible assets not yet available for use). The impairment test is that the carrying amount of an asset must not exceed the greater of (a) its fair value less costs to sell and (b) its value in use. 'Value in use' is the net present value of net cash flows for for-profit assets of the Council (of which there are currently none) and depreciated replacement costs for other assets which would be replaced if the Council were deprived of them.

The most significant changes are that assets carried at up-to-date fair value may be required to be written down if costs to sell are significant.

Note 3 Events Occurring after Reporting Date

There are no events that have occurred after balance date which affect the amounts brought to account in the financial statements for the year ended 30 June 2004.

	2004 \$	2003 \$
Note 4 Operating Revenues		
4(a) Revenues from Government		
Appropriations for outputs	3,847,000	3,585,000
Resources received free of charge	19,000	19,000
Total revenues from government	3,866,000	3,604,000
4(b) Interest Revenue		
Interest on deposits	-	8,085
Total interest	-	8,085
4(c) Net Loss from Sale of Assets		
Buildings (leasehold improvements):		
Write-offs	(4,294)	-
Net loss on disposal of buildings (leasehold improvements)	(4,294)	-
Infrastructure, plant and equipment:		
Write-offs	(9,234)	-
Net loss on disposal of infrastructure, plant and equipment	(9,234)	-
TOTAL value of assets disposed	(13,528)	-
TOTAL net loss from disposal of assets	(13,528)	-
4(d) Other		
Comcare reimbursements ¹	-	44,929
Court costs reimbursed	-	100,000
Revocation applications	-	37,500
Other revenue	854	9,428
Total other revenues	854	191,857

¹ Reimbursements received during 2003-04 of \$20,019 have been offset against "Wages and Salary" in Note 5(a).

Note 5 Operating Expenses

5(a) Employee Expenses		
Wages and Salary	1,721,335	1,450,134
Superannuation	270,056	201,758
Leave and other entitlements	190,659	95,309
Separation and redundancies	21,573	-
Other employee expenses	83,550	28,826
Total employee benefits expense	2,287,173	1,776,027
Workers compensation premiums ¹	10,822	72,990
Total employee expenses	2,297,995	1,849,017

¹ Workers compensation premiums shown for 2002-03 included an amount of \$63,866 being for general insurance. In 2003-04, general insurance of \$92,991 is included in Note 5(b) as part of "Services from related entities".

5(b) Suppliers Expenses

Goods from related entities	5,894	-
Goods from external entities	34,290	565,457
Services from related entities	273,561	-
Services from external entities	1,048,576	844,181
	1,362,321	1,409,638
Operating lease rentals*	125,323	132,150
Total supplier expenses	1,487,644	1,541,788

* These comprise minimum lease payments only.

	2004	2003
	\$	\$
5(c) Depreciation and Amortisation		
<i>(i) Depreciation</i>		
Infrastructure, plant and equipment	<u>26,874</u>	<u>38,892</u>
<i>Total Depreciation</i>	<u>26,874</u>	<u>38,892</u>
<i>(ii) Amortisation</i>		
Leasehold improvements	<u>36,132</u>	<u>18,155</u>
<i>Total Amortisation</i>	<u>36,132</u>	<u>18,155</u>
<i>Total depreciation and amortisation</i>	<u><u>63,006</u></u>	<u><u>57,047</u></u>

The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable asset are as follows:

Leasehold improvements	36,132	18,155
Plant and equipment	<u>26,874</u>	<u>38,892</u>
<i>Total depreciation and amortisation</i>	<u><u>63,006</u></u>	<u><u>57,047</u></u>

No depreciation or amortisation was allocated to the carrying amounts of other assets.

Note 6 Financial Assets

6(a) Cash

Cash at bank and on hand	<u>560,514</u>	<u>449,902</u>
<i>Total</i>	<u><u>560,514</u></u>	<u><u>449,902</u></u>

Under banking arrangements in place up to 1 July 2003, interest was earned on monies held in the Council's bank accounts. No interest was received from 1 July 2003, following the abolishment of the Agency Banking Incentive Scheme (ABIS).

6(b) Receivables

Comcare receivable	-	21,845
Revocation applications	-	15,000
Other	<u>-</u>	<u>273</u>
	-	37,118
GST receivable from the ATO	<u>39,678</u>	<u>42,514</u>
<i>Total receivables (gross)</i>	<u><u>39,678</u></u>	<u><u>79,632</u></u>

All receivables are current assets.

Receivables (gross) are aged as follows:

Not overdue	<u>-</u>	<u>-</u>
Overdue by:		
Less than 30 days	39,678	-
30 to 60 days	-	57,787
60 to 90 days	-	-
More than 90 days	<u>-</u>	<u>21,845</u>
	<u>39,678</u>	<u>79,632</u>
<i>Total receivables (gross)</i>	<u><u>39,678</u></u>	<u><u>79,632</u></u>

	2004 \$	2003 \$
Note 7 Non-Financial Assets		
7(a) Land and Buildings		
<i>Leasehold improvements</i>		
At cost	143,939	248,461
Less: Accumulated amortisation	<u>(36,668)</u>	<u>(119,164)</u>
	<u>107,271</u>	<u>129,297</u>
<i>Total leasehold improvements</i>	<u>107,271</u>	<u>129,297</u>
Total Land and Buildings (non-current)	<u>107,271</u>	<u>129,297</u>

7(b) Infrastructure, Plant and Equipment		
<i>Infrastructure, plant and equipment</i>		
At cost	227,287	335,516
Less: Accumulated depreciation	<u>(169,651)</u>	<u>(247,613)</u>
	<u>57,636</u>	<u>87,903</u>
<i>Total infrastructure, plant and equipment (not under finance lease)</i>	<u>57,636</u>	<u>87,903</u>
<i>Total Infrastructure, Plant and Equipment (non-current)</i>	<u>57,636</u>	<u>87,903</u>

7(c) Analysis of Property, Plant, and Equipment**Table A – Reconciliation of the opening and closing balances of property, plant and equipment**

Item	Leasehold improvements \$	Infrastructure plant and equipment \$	TOTAL \$
As at 1 July 2003			
Gross book value	248,461	335,516	583,977
Accumulated depreciation/amortisation	(119,164)	(247,613)	(366,777)
<i>Net book value</i>	129,297	87,903	217,200
Additions			
by purchase	18,400	5,841	24,241
Depreciation/amortisation expense	(36,132)	(26,874)	(63,006)
Disposals	(4,294)	(9,234)	(13,528)
As at 30 June 2004			
Gross book value	143,939	227,287	371,226
Accumulated depreciation/amortisation	(36,668)	(169,651)	(206,319)
<i>Net book value</i>	107,271	57,636	164,907

7(d) Other Non-Financial Assets

Prepayments	<u>13,852</u>	<u>5,612</u>
<i>Total other non-financial assets</i>	<u>13,852</u>	<u>5,612</u>
Other non-financial assets are represented by:		
Current	13,852	-
Non-current	-	5,612
<i>Total other non-financial assets</i>	<u>13,852</u>	<u>5,612</u>

	2004	2003
	\$	\$
Note 8 Provisions		
8(a) Employee Provisions		
Salaries and wages	-	41,804
Leave	457,621	373,808
<i>Aggregate employee benefit liability and related on-costs</i>	<u>457,621</u>	<u>415,612</u>

Employee benefit liability and related on-costs are represented by:

Current	80,844	41,804
Non-current	376,777	373,808
<i>Aggregate employee benefit liability and related on-costs</i>	<u>457,621</u>	<u>415,612</u>

Note 9 Payables

9(a) Supplier Payables		
Trade creditors and accruals	172,266	192,351
<i>Total supplier payables</i>	<u>172,266</u>	<u>192,351</u>

All supplier payables are current liabilities.

Note 10 Equity**10(a) Analysis of Equity**

Item	Accumulated Results		TOTAL EQUITY	
	2004 \$	2003 \$	2004 \$	2003 \$
Opening balance as at 1 July	144,383	(195,707)	144,383	(195,707)
Net surplus	4,681	356,090	4,681	356,090
Return on capital	-	(16,000)	-	(16,000)
Closing balance as at 30 June	149,064	144,383	149,064	144,383

	2004	2003
	\$	\$
Note 11 Cash Flow Reconciliation		
Reconciliation of cash per Statement of Financial Position to Statement of Cash Flows		
Cash at year end per Statement of Cash Flows	560,514	449,902
Statement of Financial Position items comprising above cash: 'Financial Asset - Cash'	560,514	449,902
Reconciliation of net surplus to net cash from operating activities:		
Net surplus	4,681	356,090
Depreciation / amortisation	63,006	57,047
Loss on disposal of assets	13,528	-
(Increase) / decrease in net receivables	39,954	(37,342)
(Increase) / decrease in prepayments	(8,240)	13,031
Increase / (decrease) in employee provisions	42,009	(228,136)
Increase / (decrease) in supplier payables	(20,085)	23,798
<i>Net cash from operating activities</i>	<u>134,853</u>	<u>184,488</u>

Note 12 Executive Remuneration

The number of executives who received or were due to receive total remuneration¹ of \$100,000 or more:

	2004 Number	2003 Number
\$100,000 to \$109,999	-	1
\$110,000 to \$119,999	-	1
\$140,000 to \$149,999	-	1
\$150,000 to \$159,999	-	1
\$160,000 to \$169,999	2	-
\$180,000 to \$189,999	1	-
\$200,000 to \$209,999	1	-

The aggregate amount of total remuneration of executives shown above. \$716,600 \$515,000

The aggregate amount of separation payments during the year to executives shown above. - -

1 Total remuneration includes salary and wages, accrued leave, performance pay, superannuation entitlements, motor vehicles and other fringe benefits and fringe benefits tax.

Note 13 Councillors Remuneration

The Councillors during the year were:

President: Wendy Craik (commenced 1 July 2003, was Councillor to 30 June 2003)

Councillors: David Crawford
 Robert Fitzgerald (ceased 30 November 2003)
 Virginia Hickey (commenced 18 December 2003)
 Doug McTaggart
 Rodney Sims (commenced 18 December 2003)

The number of Councillors who received or were due to receive remuneration are shown in the following bands:

	2004 Number	2003 Number
\$10,000 to \$19,999	3	-
\$20,000 to \$29,999	-	4
\$30,000 to \$39,999	2	-
\$80,000 to \$89,999	1	-
\$120,000 to \$129,999	-	1

The aggregate amount of total remuneration of Councillors shown above. \$193,302 \$224,438

Note 14 Remuneration of Auditors

	2004 \$	2003 \$
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Financial statement audit services are provided free of charge to the Council by the Australian National Audit Office (ANAO).

The fair value of the services provided was:

<u>19,000</u>	<u>19,000</u>
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No other services were provided by the Auditor-General.

Note 15 Average Staffing Levels

	2004	2003
	Number	Number
The average staffing levels for the Council during the year were:	<u>20.7</u>	<u>19.0</u>

Note 16 Financial Instruments

16(a) Terms, conditions and accounting policies

Financial Instrument	Notes	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of Underlying Instrument (including significant terms & conditions affecting the amount, timing and certainty of cash flows)
FINANCIAL ASSETS		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash at bank	6(a)	Deposits are recognised at their nominal amounts.	Operational banking arrangements are managed by the Westpac Bank. Interest revenue is no longer received by the Council on its bank accounts following the Government's decision to abolish the Agency Banking Incentive Scheme (ABIS) from 1 July 2003.
Receivables	6(b)	These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	All receivables on 30 day terms (2002-03: 30 days).
FINANCIAL LIABILITIES		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Trade creditors and accruals	9(a)	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	Trade creditors are normally settled on 30 day terms.

16(b) Interest rate risk

Financial Instrument	Notes	Non-Interest Bearing Rate		Total		Weighted Average Effective Interest Rate	
		2004 \$	2003 \$	2004 \$	2003 \$	2004 \$	2003 \$
Financial Assets							
Cash at bank	6(a)	560,514	449,902	560,514	449,902	n/a	n/a
Receivables	6(b)	39,678	79,632	39,678	79,632	n/a	n/a
Total Financial Assets		600,192	529,534	600,192	529,534		
Total Assets				778,951	752,346		
Financial Liabilities							
Trade creditors	9(a)	172,266	192,351	172,266	192,351	n/a	n/a
Total Financial Liabilities		172,266	192,351	172,266	192,351		
Total Liabilities				629,887	607,963		

16(c) Net fair values of financial assets and liabilities

	Notes	2004		2003	
		Total Carrying Amount \$	Aggregate Net Fair Value \$	Total Carrying Amount \$	Aggregate Net Fair Value \$
Departmental Financial Assets					
Cash at bank	6(a)	560,514	560,514	449,902	449,902
Receivables	6(b)	39,678	39,678	79,632	79,632
Total Financial Assets		600,192	600,192	529,534	529,534
Departmental Financial Liabilities					
Trade creditors	9(a)	172,266	172,266	192,351	192,351
Total Financial Liabilities		172,266	172,266	192,351	192,351

Financial assets

The net fair values of cash and non-interest bearing monetary financial assets approximate their carrying amounts.

Financial liabilities

The net fair values for trade creditors are approximated by their carrying amounts.

16(d) Credit Risk Exposures

The Council's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

The Council has no significant exposures to any concentrations of credit risk.

All figures for credit risk referred to do not take into account the value of any collateral or other security.

Note 17 Appropriations**17(a) Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (Appropriations) from Acts 1 and 3 – Departmental Outputs**

	2004 \$	2003 \$
Balance carried forward from previous year	492,416	436,865
Appropriation Act (No.1) 2003-2004 - basic appropriation	3,818,000	3,604,000
Appropriation Act (No.3) 2003-2004 - basic appropriation	29,000	-
Appropriations to take account of recoverable GST (FMAA s30A)	155,666	173,768
Annotations to 'net appropriations' (FMAA s31)	18,859	162,600
Available for payments	4,513,941	4,377,233
Payments made	(3,913,749)	(3,884,817)
Balance carried to next year	600,192	492,416
<i>Represented by:</i>		
Cash	560,514	449,902
Add: Other receivable - Net GST receivable from ATO	39,678	42,514
Total	600,192	492,416

17(b) Special Accounts**Services for other Governments & Non-Agency Bodies**

Legal authority: Financial Management and Accountability Act, 1997, s20

Purpose: for expenditure in connection with services performed on behalf of other Governments and bodies that are not agencies under the *Financial Management and Accountability Act 1997*.

	2004 \$	2003 \$
Balance carried forward from previous year	-	-
Other receipts	41,865	39,084
Available for payments	41,865	39,084
Payments made	(41,865)	(39,084)
<i>Balance carried forward to next year</i>	-	-

Other Trust Monies

The Council has an Other Trust Monies Account. This account was established under section 20 of the *Financial Management and Accountability Act 1997*. For the years ended 30 June 2003 and 2004, the account had a nil balance and there were no transactions debited or credited to the account.

The purpose of the account is for the receipt of monies temporarily held on trust or otherwise for the benefit of a person other than the Australian Government.

Note 18 Specific Payment Disclosures

No Acts of Grace payments were made during the reporting period (2003: No payments made).

No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997* (2003: No waivers made).

No ex-gratia payments were made during the reporting period (2003: No payments made).

No payments were made under the 'Defective Administration Scheme' during the reporting period (2003: No payments made).

No payments were made under s73 of the *Public Service Act 1999* during the reporting period (2003: No payments made).

Note 19 Reporting of Outcomes

The Council attributes its outcome between its two output groups on the basis of identifiable actual costs. The \$0.2 million attributed to the output group - clear, accessible public information on competition policy - primarily covers direct costs of these activities. Expenditure on this output group is small in total and as a proportion of the Council's total costs. The Council has concluded that it is not cost effective to allocate overheads to this output group. This basis of attribution is consistent with that used in the 2003-04 budget.

19(a) – Net Cost of Outcome Delivery

	Outcome 1		Total	
	2004 \$	2003 \$	2004 \$	2003 \$
Departmental expenses	3,862,173	3,447,852	3,862,173	3,447,852
<i>Total expenses</i>	3,862,173	3,447,852	3,862,173	3,447,852
<i>Other external revenues</i>				
Departmental				
Interest on cash deposits	-	8,085	-	8,085
Other	854	191,857	854	191,857
<i>Total Departmental</i>	854	199,942	854	199,942
<i>Total other external revenues</i>	854	199,942	854	199,942
<i>Net cost/(contribution) of outcome</i>	3,861,319	3,247,910	3,861,319	3,247,910

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget outcome.

Note 19(b) - Major Classes of Departmental Revenues and Expenses by Output Groups and Outputs

Outcome 1	Output Group 1		Output Group 2		Total	
	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$
Departmental expenses						
Employees	2,198,290	1,770,008	99,705	79,009	2,297,995	1,849,017
Suppliers	1,455,502	1,491,630	32,142	50,158	1,487,644	1,541,788
Depreciation & amortisation	63,006	57,047	-	-	63,006	57,047
Other	13,528	-	-	-	13,528	-
<i>Total departmental expenses</i>	3,730,326	3,318,685	131,847	129,167	3,862,173	3,447,852
Funded by:						
Revenue from government	3,666,000	3,404,000	200,000	200,000	3,866,000	3,604,000
Other non-taxation revenues	854	199,942	-	-	854	199,942
<i>Total departmental revenues</i>	3,666,854	3,603,942	200,000	200,000	3,866,854	3,803,942

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget outcome.

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