



New South Wales  
TREASURY

Research & Information Paper

PERFORMANCE OF NSW  
GOVERNMENT BUSINESSES  
1998-99

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## PREFACE

Performance monitoring and measurement are important components of every Government business.

This report is the tenth edition of *The Performance of NSW Government Businesses*. It provides an overview of competition reform and information on the performance of twenty-six

NSW Government businesses.

New South Wales remains the only Australian government that provides a comprehensive annual report of this type.

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## **EXECUTIVE SUMMARY**

Successive NSW Governments have been engaged in implementing comprehensive economic reform for over a decade. Since 1995 the majority of the reform process has taken place under the auspices of National Competition Policy, which has compelled jurisdictions to implement reforms to a common timetable and set of objectives.

The New South Wales Government has played a significant role in implementing National Competition Policy reforms. In turn, National Competition Policy has created a more outward-looking, dynamic and competitive New South Wales economy. The benefits of these changes for New South Wales include:

- lower costs through improved resource allocation and enhanced productivity;
- greater incentives for business to effect innovation in response to consumer preferences;
- increased opportunities for business to compete effectively for international market share;
- the promotion of equity, as competitive disciplines become shared more evenly across society;
- progressive distributional effects as the energy reforms expand to take in the household sector;

- ecologically sustainable development (e.g. cost reflective water pricing);
- greater flexibility of the economy, thereby reducing the extent to which New South Wales is affected by adverse changes in the world trading environment; and
- in the longer term, strengthened State finances resulting from extracting better value from expenditure while boosting revenue through economic growth.

The focus of much of the reform initiatives during 1998-99 has been in the electricity and gas industries. A national (eastern seaboard) wholesale electricity market commenced on 13 December 1998. Since 1 July 1998, retail customers using more than 160MWh of electricity per year have the flexibility to choose their electricity supplier. As of 1 July 1999, businesses with multiple small sites of 100MWh per annum and over have been able to aggregate to choose their supplier. It is envisaged that from 1 January 2001 all electricity customers will be able to choose their supplier.

The early implementation of gas reform in New South Wales has enabled an early start on the transition to full competition. On 12 August 1998, the 150-kilometre pipeline joining the Victorian and New South Wales gas markets came into operation, thereby enabling interstate trade in natural gas between the two states for the first time. This interstate venture was opportune when, in September 1998, the Victorian gas supplies were badly affected by failure at the Longford facility in Victoria. In February 1999, New South Wales became the first state to crossvest access regulation for distribution networks in neighbouring jurisdictions. Furthermore, since 1 October 1999 all customers using over 1 terajoule per annum became eligible to choose their own supplier. From 1 July 2000, all remaining customers will become contestable.

The benefits of National Competition Policy are illustrated by the continually improving performance of the state's Government businesses. Since 1995 the Government Charges Index has fallen by almost ten per cent in real terms.

The productivity of Government businesses involved in the electricity, transport and water sectors has continued to grow with improved labour and capital usage. This has resulted in a weighted improvement in productivity of almost 90 per cent since 1992-93.

Government businesses provide some of the key inputs to New South Wales industry. The improved performance of Government businesses is helping to make New South Wales business more competitive nationally and internationally. With increased globalisation of the economy, this is essential to promote economic growth and employment creation in New South Wales.

National Competition Policy, however, is only one part of the NSW Government's policy aims and its application complements the Government's other reform initiatives.

For example, New South Wales commenced a new Load Based Licensing (LBL) Scheme on 1 July 1999. The Scheme, which represents a major overhaul of the State's environment protection licensing system, will introduce emission load limits into licences and link the licence fees to the total amount of emissions (loads) from each licensed premise (appropriately reflecting the 'polluter pays' principle).

The infrastructure programs of the NSW Government play a key role in the growth and development of the NSW economy by providing the infrastructure required by business and households. The NSW Government has been gradually increasing private sector

infrastructure investment, thereby reducing the state's financial burden and improving the efficiency of infrastructure investment. At the same time the State has supported the infrastructure base by more than maintaining its level of capital works spending. Since 1996-97, NSW Government capital expenditure has increased by 28 per cent in real terms. This real increase in infrastructure spending, furthermore, is only marginally attributable to Olympic spending, as average annual Olympic spending represents less than five per cent of annual NSW Government capital expenditure.

In conclusion, economic reform has strengthened the performance of the New South Wales economy. This has allowed the NSW Government to retire debt whilst increasing service levels and capital investment. [\[back\]](#)

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# 1. OVERVIEW OF COMPETITION REFORM

## RATIONALE FOR COMPETITION REFORM

The main objective of government is to facilitate a high and improving standard of living for its citizens. Improved living standards are characterised by a welfare gain associated with increased real incomes and/or increased leisure time, greater consumer choice, ecologically sustainable development and equity. The policies which achieve this result rely on improving productivity levels. This is because productivity growth is the major determinant of long-term growth in average incomes and material living standards.

Productivity improves when the economy's output of goods and services grows at a faster rate than the rate of increase in the economy's inputs of labour and capital. Improved productivity, therefore, leads to increased income levels without adverse inflationary impacts. Higher labour productivity supports higher wages, while higher capital productivity translates into higher investment returns. Of course, improved living standards are dependent on more than just higher income. But, higher incomes make these other facets of living standards more affordable and therefore more attainable.

Fiscal and monetary macroeconomic management influences the performance of our industries at an aggregate level. Microeconomic policy, however, focuses on increasing productivity at the firm, industry and government business level, typically by improving the way markets function.

As a result of microeconomic reforms introduced in the 1980s and 1990s, Australia's productivity performance has improved substantially in the 1990s. In fact, Australian Bureau of Statistics (ABS) estimates put Australia's productivity growth in this decade at a record peak. Multi-factor productivity (i.e. combined labour and capital productivity) grew at 2.4 per cent a year from 1993-94 to 1997-98, compared with an average of 1.2 per cent a year from 1964-65 to 1993-94. Accordingly, growth in average incomes has been restored to rates achieved in the 1960s and early 1970s.

In 1995, to further enhance productivity growth, Australia's federal and state governments commenced implementation of the National Competition Policy (NCP). NCP represents the joint desire of Australian governments to deliver the benefits of a national approach to competition reform. The NCP program extends competition into areas of the economy which

have been dominated by government monopolies, typically in the provision of infrastructure, or where it has been restricted by legislation (eg. by statutory marketing arrangements). It also extends and strengthens trade practices rules governing the competitive conduct of government business enterprises and unincorporated businesses.

NCP's national approach to reform will assist in standardising the operating environment for business whilst placing pressure on jurisdictions to simultaneously embark on reforms. It will also ensure that state spillovers of reform benefit the whole of Australia.

The rationale for NCP reform is that competition, properly harnessed, can boost economic performance and enhance consumer welfare. The benefits of NCP reform, however, go beyond improved resource allocation, enhanced productive (technical) efficiency and greater incentives to effect innovation in response to consumer preferences. In addition to these economic efficiency considerations, application of NCP also has regard to notions of ecologically sustainable development, social welfare and equity considerations, occupational health and safety, industrial relations, economic and regional development, the interests of consumers and the competitiveness of Australian businesses. Indeed, NCP requires this balancing of economic accountability with social, environmental and regional responsibility through the use of the 'public interest test'.

In this context, it is worth remembering that NCP is not about competition for competition's sake. Nor is it reform for its own sake. Rather it is about pursuing the broader community interest through competition where, and only where, competition will help achieve that objective.

The NCP, furthermore, has an in-built review mechanism. The NCP explicitly requires that a review of the operation and terms of the NCP be undertaken five years from its inception date (April 1995). Accordingly, Council of Australian Governments (COAG) Senior Officials will be developing terms of reference and subsequently conducting a review by May 2000. Some Governments have indicated their misgivings with certain elements of NCP in recent times, and will welcome the opportunity to voice these concerns during the forthcoming review.

## **BENEFITS OF COMPETITION REFORM**

As outlined in the Productivity Commission's report *Microeconomic Reforms and Australian Productivity: Exploring the Links*, Australia is experiencing its ninth year of continuous growth in Gross Domestic Product (GDP). This is the longest economic growth period Australia has experienced since the 1960s. In the past eight years, the economy has grown at a rate averaging 4 per cent per year. Incomes have risen by 2.4 per cent per year faster than prices. The unemployment rate is down to about 7 per cent and is now expected to fall to 6.75 per cent by the June quarter 2000. Furthermore, as the economic boom has been driven by productivity growth, it has not been accompanied by the usual high rate of inflation. The inflation rate has averaged a little over 2 per cent this decade, accompanied by interest rates at around the lowest levels since the early 1970s.

The most important contributing factor to the economy's continuous growth has been the improvement in Australia's rate of growth in productivity. The Productivity Commission attributes most of the improvement in productivity to the delayed but cumulative effect of micro-economic reform. In fact, a large part of the impact of microeconomic reform has come indirectly by increasing the exposure of businesses to greater competition and opening the economy to international developments. Increased competition has provided

incentives for businesses to improve productivity in order to maintain and improve their financial position. Competition has been a central catalyst for many widespread and fundamental changes that have brought better performance. In fact, the Productivity Commission estimates the long-term impact of competition reform will be a level of national output 2.5% higher than without the reforms.

The National Competition Council (NCC), an independent review and advisory body for all Australian governments on NCP issues, has documented evidence of substantial benefits flowing from competition reforms. There have been reductions in business electricity bills of up to 30 per cent, cuts in gas prices of up to 50 per cent, and rail freight reductions of 40 per cent. There has also been a reduction of 15 per cent in the prices of goods and services provided by government businesses, a streamlining of business licensing requirements, savings in water usage to help the environment, better utilisation of the nation's infrastructure and lower fees for professional services.

In some areas however, such as irrigation and country town water, resource use was historically under-priced. Application of NCP has meant, and will probably continue to mean, increases in water prices. This will confer benefits in rationing the use of a scarce commodity and reducing wasteful use, but will also see opposition from many users. Indeed, the Queensland and South Australian Governments have publicly expressed concern at the 1994 COAG Agreement requirement for full cost recovery and its impact on users.

Beyond these developments, the improvement in the productivity and flexibility of the Australian economy has reduced the extent to which it is affected by adverse changes in the world trading environment. This was evidenced by the relative calm in Australia during the economic turmoil in Asia in 1998.

## **POPULAR MISCONCEPTIONS OF COMPETITION REFORM**

Nearly five years since its inception, NCP has come to be blamed for many of the ills affecting rural and regional Australia. It is understandable that the community may have difficulty gaining a complete understanding of an area like competition policy.

As outlined in the Productivity Commission's report on *Impact of Competition Policy Reforms on Rural and Regional Australia*, NCP has been perceived by certain elements of the media and the rural community as being responsible for the withdrawal or contracting out of government services, asset sales and privatisation, the demise of local businesses, the closure of bank branches and the major factor behind the population decline in parts of rural Australia.

However, many of the problems being faced by rural Australia are unrelated to NCP. Firstly, NCP does **not** require asset sales and privatisation, compulsory competitive tendering, contracting out of government services, cutting the size of the public sector, reductions in welfare or social services, or the removal of community service obligations. Secondly, there exists a host of economic and social forces, totally unrelated to NCP, which have affected rural and regional Australia (Box 1).

As argued by the Productivity Commission, the net effect of these many influences has varied markedly between regions. The associated adjustment pressures have led to changes in composition of activity within regions, and the movement of resources and people from some regions to others. Competition policy, by seeking to align economic regulation with changed economic circumstances, is an integral part of the process of

managing change.

Several rural and regional communities have been adversely affected. In contrast, other regions have experienced significant growth. Some rural communities are growing strongly, even relative to metropolitan areas. These are the communities where new industries have developed (e.g. wine grapes, canola, cotton, horticulture and tourism) or where more liberal trading arrangements have invigorated traditional industries. Overall, the effect of NCP has been positive for regional Australia. Regions in New South Wales, which have recently grown strongly, include Dubbo, Wagga Wagga, Mudgee, Albury and the Mid-North Coast.

### **Box 1: Economic and social forces affecting rural and regional Australia**

- Australia's increasing integration into the global economy and the lowering of international barriers to trade and capital. This has intensified adjustment pressures in some regions and industries, but has created growth opportunities in others;
- a downward trend in the world prices for agricultural and mineral commodities, which has been reflected in a decline in producers' terms of trade since the mid 1950s;
- a downturn in the economies of some of Australia's major trading partners (eg Japan and some South-East Asian nations);
- technological advances, such as increased mechanisation of farming, agronomic developments, adoption of new mining techniques and improved telecommunications;
- changes in consumer preferences, such as the decline in the demand for wool and increased expenditure on tourism and some horticultural products;
- resource discovery and depletion (eg mine development and closures);
- increased attention to environmental and land use requirements;
- lifestyle changes, such as an increase in internal migration (particularly by the retired) to the coastal regional areas of Queensland and New South Wales. Contrary to popular opinion, the 'urban drift' ended almost 30 years ago. From 1900 to 1970 the proportion of people living in capital cities rose from 35% to 64%. Since 1971, however, that proportion has been stable;
- the emergence of the 'sponge city'. Many inland wheat and sheep farming districts have a growing provincial centre whose growth is the result of people relocating from surrounding towns and farms. Farms are getting larger to exploit economies of scale. Farmers selling their land often move to the provincial centre, so as to retain family and social connections; and
- Federal Government policy changes, such as reduced trade barriers, financial deregulation and industrial relations reform.



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## 2. AGGREGATE PERFORMANCE OF NSW GOVERNMENT BUSINESSES

NSW Government businesses supplying electricity, transport and water account for 80 per cent of all Government business employment. They also contribute approximately 80 per cent of all revenue collected by Government businesses. Improvements in labour productivity in these areas have a relatively large impact on the overall performance of Government businesses.

The following Government businesses comprise the three sectors outlined above:

### Electricity:

1. Generators: Pacific Power, Macquarie Generation and Delta Electricity;
2. Distributors/Retailers: Advance Energy, Australian Inland Energy, EnergyAustralia, Integral Energy, Great Southern Energy and NorthPower;

**Transport:** State Rail Authority, Rail Access Corporation, Rail Services Australia, FreightCorp and State Transit Authority; and

**Water:** Hunter Water Corporation and Sydney Water Corporation.

Figure 1: Labour Productivity for Major NSW Government Businesses

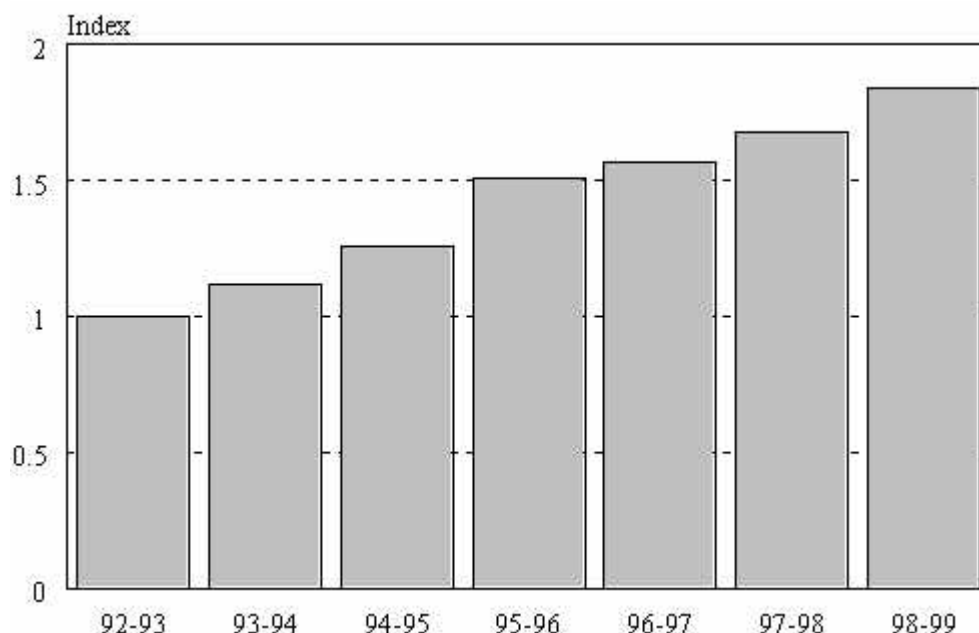


Figure 1 shows that, since 1992-93, NSW Government businesses have significantly improved their labour productivity. This has resulted in a weighted improvement in productivity of 89 per cent.

**Figure 2: Dividend and Tax Equivalent Payments from Non-Budget Sector Enterprises (1998-99 Dollars)**

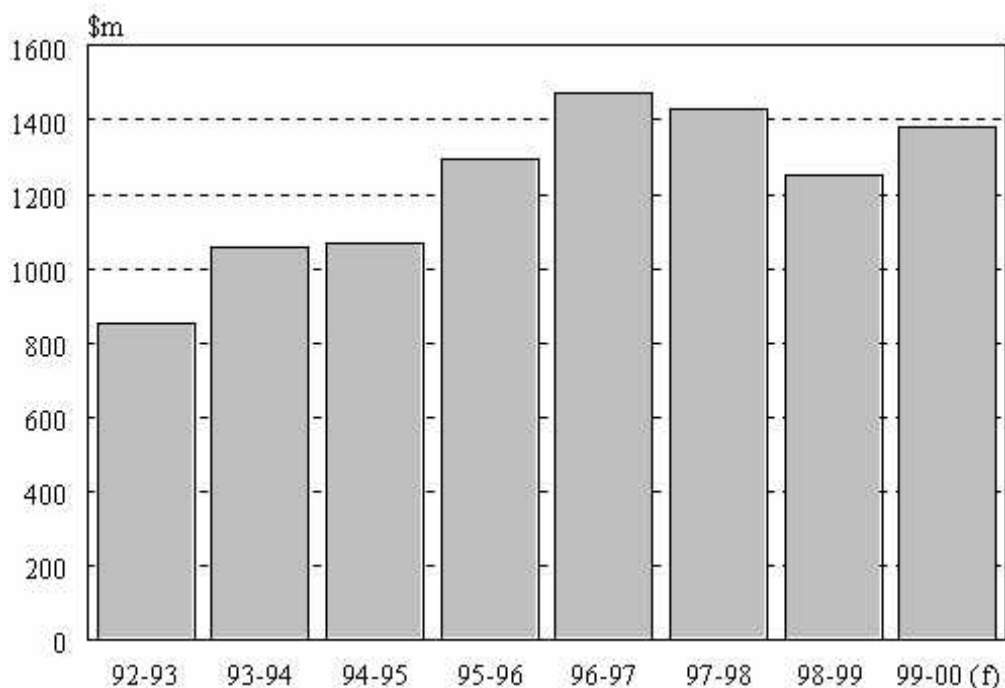


Figure 2 shows that these input cost savings have largely been passed on to consumers (rather than being paid as dividends to Government).

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### ***The Government Charges Index***

The Government Charges Index (GCI) has been reported in the *Performance of NSW Government Businesses* publication since the book's inception in 1990-91. At the time a decision was made to apply a weighting to each of the agencies reported in the index based on their contribution to revenue in 1990-91. Over time, the combined effect of the economic reform process and changing consumption patterns has caused considerable variation in the weights. Further, deregulation in the electricity sector and resultant issues of commercial confidentiality have meant that the State's electricity agencies are unable to provide a forecast for the upcoming year.

Two significant changes have therefore been made to the Index commencing this year. Firstly, the Index has been re-weighted to a base year of 1994-95. The year 1994-95 has been chosen because it is the base year currently applicable to the Australian Bureau of Statistic's (ABS) Consumer Price Index. Consistent with ABS practice, this base year will be re-weighted in five yearly intervals.

Secondly, the forecasts for future years will no longer be provided. These changes will make the Index more relevant as an indicator of the success of the economic reform process in passing lower real costs for government services to consumers.

**Figure 3: Government Charges Index**

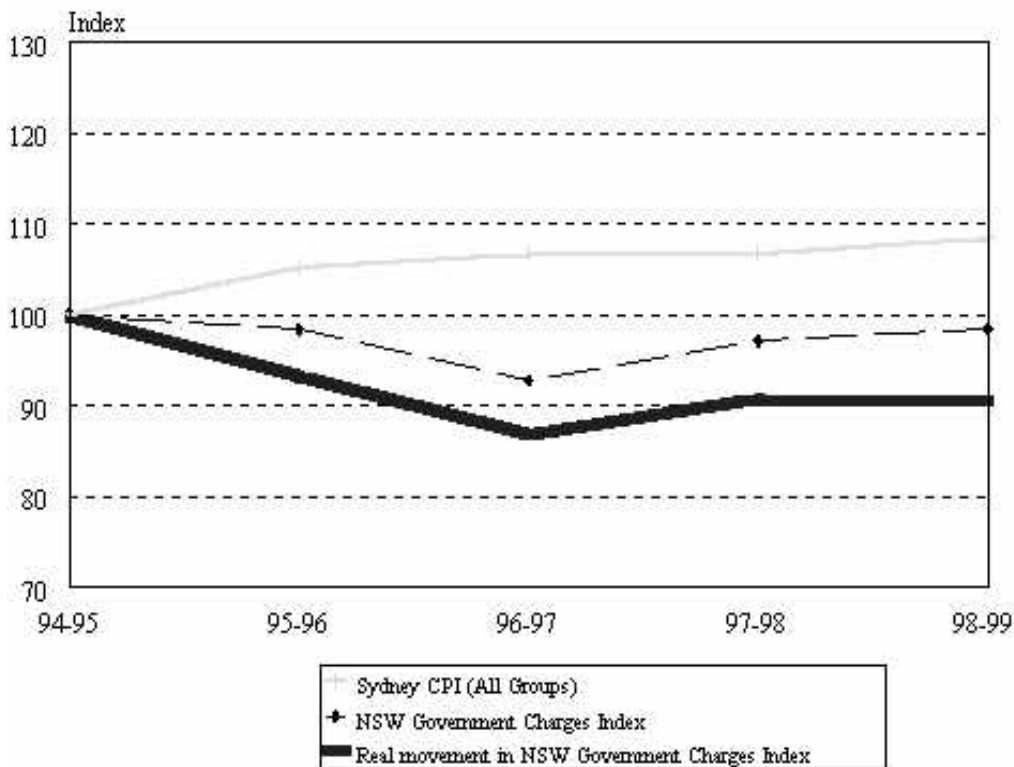


Figure 3 shows that, in real terms, the GCI fell by 0.4 per cent in 1998-99. Since 1995 the GCI has fallen by 9.6 per cent.

This sustainable real fall has come about primarily through economic reform and corporatisation initiatives in government owned utilities such as water, as well as in infrastructure such as freight and ports. By lowering costs to businesses in these areas, real price reductions can be passed on to consumers across the whole spectrum of goods and services.

In respect of electricity charges, the index significantly underestimates the real gains achieved in recent years. This is a result of the fact that the index only represents the tariff paid in the non-contestable portion of the market, and the benefits of reform have so far primarily been gained by larger business customers who are able to negotiate contracts with suppliers in the contestable market.

Table 1 (on the following page) summarises the output, employment and productivity performance of Government businesses in the Electricity, Transport and Water sectors, between the years 1992-93 and 1998-99.

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**Table 1: Employment, Productivity and Output Performance of Government businesses in the Electricity, Transport and Water sectors**

	(1)	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	% Change 1992-93 to 1998-99
<b>Employment</b>									
Electricity Generators	(2)	5,870	5,757	5,595	3,503	3,328	3,019	2,531	-57%
Electricity Distributors		12,752	11,666	11,396	8,746	7,972	7,552	7,417	-42%
Sydney Water Corporation		8,629	7,326	5,965	5,099	4,763	4,629	4,470	-48%
Hunter Water Corporation		934	799	740	715	620	554	545	-42%
State Rail Authority	(3)	10,209	10,015	8,334	8,334	9,370	9,317	8,544	-16%
Freight Corp		10,246	9,110	7,389	6,976	3,525	3,115	2,528	-75%
State Transit Authority		3,897	3,740	3,795	4,101	4,303	4,305	4,369	12%
		52,537	48,413	43,214	37,474	33,881	32,491	30,404	-42%
<b>Index of Output</b>									
Electricity Generators (Gwh)		100	101	104	109	105	107	109	9%
Electricity Distributors (Gwh)		100	102	106	108	109	109	122	22%
Sydney Water Corporation (properties served)		100	101	104	105	106	110	111	11%
Hunter Water Corporation (properties served)		100	102	105	102	103	105	107	7%
State Rail Authority		100	102	109	112	115	116	119	19%
Freight Corp		100	107	102	108	77	87	86	-14%
State Transit Authority (passengers carried)		100	100	96	100	104	104	105	5%
<b>Productivity (Output relative to Employees)</b>									
Electricity Generators		8.8	9.0	9.6	16.1	16.2	18.2	22.2	153%
Electricity Distributors		3.1	3.4	3.6	4.8	5.3	5.6	6.4	110%
Sydney Water Corporation		163.4	195.2	244.8	290.3	314.9	334.8	349.0	114%
Hunter Water Corporation		185.2	221.5	245.9	245.6	287.9	327.8	339.1	83%
State Rail Authority		22.5	23.4	29.9	31.0	28.2	28.6	32.1	42%
Freight Corp		1,472.0	1,777.0	2,074.0	2,335.0	3,302.0	4,194.0	4,754.0	223%
State Transit Authority		52.0	54.4	51.4	49.6	48.8	48.8	48.5	-7%
<b>Weighted Total Output Change (%)</b>	(4)								<b>14%</b>
<b>Total Employment Change (%)</b>									<b>-42%</b>
<b>Weighted Productivity Change (%)</b>	(5)								<b>89%</b>

#### Notes

(1) Employment measured as equivalent full time persons as at 30 June.

(2) TransGrid staff included in 1994-95 employment number.

(3) The years prior to SRA's restructure (1995-96) exclude employees who subsequently were employed by Rail Access Corp. and Rail Services Australia.

(4) Output weighted by the 1992-93 dollar value of output from each agency.

(5) Average productivity of each agency weighted by final year employment.

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## 3. PERFORMANCE MEASUREMENT OF NSW GOVERNMENT BUSINESSES

In competitive markets it is reasonable to assume that increases in underlying profit are consistent with increases in productivity. However, where competition is lacking, profits can be increased through raising output prices and without necessarily improving productivity. As Government-owned businesses may operate in markets where the price mechanism is not relevant or is very weak and the pressures of competition are minimal, analysis of performance is not straightforward. Consequently, an alternative to the price mechanism is needed to indicate performance improvements and guide resource allocation decisions.

Measuring the performance of Government businesses is important for various reasons. Measures of performance may be used:

- to monitor policy implementation outcomes and to promote accountability;

- as a powerful internal management tool, providing managers with an indication of the efficiency of agencies and reasons for this performance;
- to inform on potential productivity improvements and to guide structural change; and
- to assist in resource allocation between competing needs based on performance and need.

The latest performance measurement tool developed by NSW Treasury is Profit Composition Analysis (PCA). PCA decomposes the financial and economic dimensions of a firm's performance by separating a profit change (measured on a Shareholder/Economic Value Added basis) into its respective pricing and productivity components.

Understanding the relationship between changes in productivity, changes in prices and changes in profit levels, can help to inform regulatory decisions regarding prices where a major challenge is striking a balance between passing on productivity improvements to customers in the form of lower prices and to shareholders in the form of higher profits.

Managers can use PCA to:

- evaluate the results of productivity improvement strategies in terms of their impact on profit;
- analyse a pricing strategy by quantifying whether output prices are recovering input prices and contributing to profit; and
- evaluate the commercial impact of economic regulation on a monopoly business.

Public policy makers can use PCA to:

- ascertain a possible abuse of market power; and
- assist the determination of regulated prices for a monopoly business.

A good economic principle is that a monopoly should not earn more than a 'normal' rate of return. Where a monopoly is earning a 'super-normal' rate of return through consistently high price recovery there is evidence of an abuse of market power.

The distribution of productivity gains generated by monopolies is a key issue in determining regulated prices for a monopoly business. Productivity gains can be distributed among consumers (in the form of lower prices), employees (as higher wages) and owners (as higher profits). Where a regulated monopoly is consistently enjoying super-normal profits there are strong policy grounds for policy makers to lower the regulated product price to reduce its profit. Alternatively, if a regulated monopoly is not earning a normal profit *and* its productivity performance is sound, then there is a case for allowing output prices to increase. [\[back\]](#)

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## 4. NATIONAL COMPETITION POLICY

In 1995, the Council of Australian Governments (COAG) embarked on a national approach to economic reform, by signing the National Competition Policy (NCP) agreements. The NCP is the most ambitious and comprehensive program of economic reform in the country's

history. This national approach to reform ensures that the States and the Commonwealth focus on similar reforms at the same time, to maximise the benefits of economic reform across the whole of Australia.

The NCP program was agreed by all Australian governments in response to the *Report by the Independent Committee of Inquiry on National Competition Policy* (the 'Hilmer Report'), to help develop a more dynamic, creative and competitive economy. The program is a balanced mix of economic policy and measures to assure the social needs of the community, including the protection of the environment.

NCP consists of three inter-governmental agreements between the Commonwealth, State and Territory governments:

- the *Conduct Code Agreement* (CCA);
- the *Competition Principles Agreement* (CPA); and
- the *Agreement to Implement National Competition Policy and Related Reforms* (RRA).

Competition, properly harnessed, can deliver benefits to the whole community through encouraging greater allocative efficiency, productivity and innovation. The NCP, however, is not about introducing competition for its own sake. The principle underpinning the NCP is that reform should be introduced where it serves the overall community interest. The NCP, therefore, provides for and encourages the consideration of all relevant matters, including social, environmental, equity and economic issues in determining whether there is a case for retaining restrictions on competition.

Continued implementation of economic reform by the NSW Government under the auspices of NCP is important for a number of reasons. Firstly, implementation of these reforms leads to benefits including increased consumer choice, more efficient allocation of resources and enhanced productivity. Secondly, the effective implementation of reforms, as assessed by the National Competition Council (NCC), ensures the provision of competition payments from the Commonwealth Government.

In the longer term, competition reform should enhance the New South Wales budget position by extracting better value from the expenditure side of the budget whilst also boosting the revenue side through stimulation of economic growth.

Clause 10 of the *Conduct Code Agreement* and clause 15 of the *Competition Principles Agreement* respectively require the Commonwealth, State and Territory Governments to review the operation and terms of each Agreement five years from their inception date (April 1995). Accordingly, COAG Senior Officials will develop terms of reference for a review of the NCP Agreements and will complete a review by May 2000. The Commonwealth will chair the Working Group.

In view of its links with the other Agreements, the *Agreement to Implement the National Competition Policy and Related Reforms* will also be reviewed. The review, furthermore, will have particular regard to the need for and operation of the NCC, including the roles the NCC should undertake and its relationship with COAG.

## **CONDUCT CODE AGREEMENT (CCA)**

National Competition Policy is substantially an extension of the policy established in 1974 with the introduction of the *Trade Practices Act 1974* (TPA). The TPA prohibited anti-competitive behaviour by business enterprises unless they could demonstrate a public benefit in such behaviour continuing. However the TPA had three important limitations - constitutionally imposed:

- it did not cover government businesses;
- it did not cover unincorporated businesses operating within a single State border (e.g. professional partnerships); and
- it did not cover anti-competitive behaviour specifically exempted from the disciplines of the TPA by State exempting legislation.

The Conduct Code Agreement (CCA) removes the anti-competitive exemptions relating to Government businesses and unincorporated businesses by requiring that all Australian governments through enacting legislation apply the Competition Code, a schedule of the TPA. In particular, the Competition Code requires the application of Part IV of the TPA, which relates to restrictive trade practices (the third limitation relating to anti-competitive legislation is set aside by clause 5 of the Competition Principles Agreement).

The NSW Government has complied with the CCA by enacting the *Competition Policy Reform (NSW) Act 1995*, which has applied to all persons, unincorporated associations, corporations and professional and government agencies since 21 July 1996. Since 1 July 1997, Government businesses have also come under this Act.

Jurisdictions may, under s51 of the TPA, exempt new legislation that would usually be subject to Part IV of the TPA. Legislation reliant on section 51(1) of the TPA is, by definition, new legislation that restricts competition. Jurisdictions using this exemption are required to demonstrate that this new legislation satisfies the competition tests in clause 5(5) of the CPA, and must notify the Australian Competition and Consumer Commission (ACCC) within 30 days of the legislation being enacted.

However, the Commonwealth Minister may table regulations under section 51(1C)(f) of the TPA which in effect remove the exemption. In general, the NCC will advise the Minister to approve an exemption if there are net benefits to the community and the objectives of the legislation or regulation can only be achieved by restricting competition.

The NSW Dairy Corporation and the Sydney Organising Committee for the Olympic Games (SOCOG) have been exempted for certain activities since the introduction of the Competition Code. [\[back\]](#)

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## **COMPETITION PRINCIPLES AGREEMENT (CPA)**

The Competition Principles Agreement (CPA) lists six principles applying to Government businesses designed to enhance competition in markets for goods and services. The principles stipulate:

- independent prices surveillance of monopoly and near monopoly activities;
- introduction of competitively neutral pricing by government businesses competing with each other or the private sector;

- structural reform of government businesses by separating regulatory from core operating activities, and for the latter, separating competitive, or potentially competitive activities, from monopoly activities;
- review and, where appropriate, reform of all existing legislation which restricts competition;
- third party access to significant infrastructure facilities; and
- application of the above principles to local government businesses.

The achievements of New South Wales in the application of these principles are summarised below.

### ***Independent Prices Oversight***

The CPA requires signatories to have independent prices oversight of monopoly and near monopoly government business activities. New South Wales implements its prices oversight obligations through the Independent Pricing and Regulatory Tribunal (IPART) established in 1996 as the successor to the Government Pricing Tribunal, which was established in 1992. IPART is empowered to:

- set maximum prices and review pricing of scheduled NSW Government monopoly services including electricity, gas, water and public transport;
- undertake general reviews of industry, pricing or competition issues as required by the Premier; and
- register agreements for access to public infrastructure assets and arbitrate disputes about such agreements.

In 1998-99 IPART undertook the following activities:

#### **1. Price Regulation:**

- public transport fares from 1 August 1999 for CityRail and State Transit Authority Bus and Ferry services;
- prices of water supply, sewerage and drainage services from July 1999 for Wyong Shire Council;
- prices of water supply, sewerage and drainage services from July 1999 for Gosford City Council;
- charges for streetlighting services; and
- bulk water prices for 1998-99 and 1999-2000.

#### **2. Advice to the Government on industry issues:**

- review of rail safety accreditation costs;
- review of fees for development control services - report on miscellaneous fees;
- review of fees for development control services - report on competitive neutrality in pricing;



- review of Sydney Water Corporation's stormwater charges and expenditure; and
- review of the Taxi Cab and Hire Car Industries (Interim Report).

### **3. Access to public utility infrastructure services:**

- review of NSW rail access pricing;
- AGL tariff restructure; and
- determination of conditions of access for third parties to Great Southern Energy's gas distribution network.

### **4. Discussion Papers:**

- review of the operating licences for Sydney Water Corporation and Sydney Catchment Authority;
- regulation of retail prices for franchise electricity customers;
- regulation of electricity network service providers - price control issues and options;
- regulation of electricity network service providers - incentives and principles for regulation;
- efficiency and benchmarking of NSW electricity distributors;
- rolling forward the regulatory asset bases of the electricity and gas industries;
- the rate of return for electricity distribution networks;
- NSW transmission network, service pricing and revenue regulation reviews, statement of process; and
- pricing for electricity networks and retail supply.

### ***Competitive Neutrality***

The principle of competitive neutrality is that a government agency should not have a competitive advantage over competitors or potential competitors in a particular market solely because of government ownership/control of the agency. The objective of this principle is the elimination of resource allocation distortions between public and private businesses.

Government signatories to the Competition Principles Agreement (CPA) are required to ensure their significant businesses adopt:

- a corporatisation model;
- full Commonwealth, State and Territory taxes or tax equivalents;
- debt guarantee fees (which in effect restore the true cost of debt); and
- regulations to which private sector businesses are normally subject.

The above requirements may only be exempted where it can be shown that there is a net public benefit from not implementing competitive neutrality. It should be noted that, while

corporatisation of commercial agencies is a key aspect of the CPA, the CPA *is neutral with respect to the nature and form of ownership of businesses* and does not intend to *promote public or private ownership*.

The principle of competitive neutrality also applies to significant government business units in the General Government (non-commercial) sector. These business units are required to cost and price goods and services in a competitively neutral manner (i.e cost-reflective pricing).

In June 1996, the NSW Government published its *Policy Statement on the Application of Competitive Neutrality*. It requires all Government businesses to implement competitive neutrality principles unless they can show through a benefit-cost analysis that this would impose a net cost on the community.

Whilst, the publishing of a policy statement by June 1996 was a requirement of the CPA, each jurisdiction was free to determine its own timetable for the implementation of competitive neutrality principles. In the NSW case, there was an undertaking to commit its businesses to a competitive neutrality regime from 1 July 1998.

As part of its response to the above obligations, New South Wales is proceeding with a program of corporatisation of its commercial agencies. By corporatising Government businesses, the Government is attempting to replicate, as far as practicable, the conditions operating within a competitive market.

The New South Wales approach is that corporatisation is not necessarily regarded as a path to privatisation. Instead, it is a vehicle for economic reform for the benefit of the community on whose behalf the Government has shareholder responsibilities.

Corporatisation involves the application of the State Owned Corporation (SOC) model and requires application of NSW's Financial Policy Framework. The SOC model is established by the *State Owned Corporations Act (NSW) 1989* and the *State Owned Corporations Amendment Act (NSW) 1995*. These Acts provide a comprehensive framework for the corporatisation of Government businesses as proxy public companies called SOCs.

The *State Owned Corporations (NSW) Act 1989* creates two SOC structures - a company SOC and a statutory SOC structure. Both have a board of directors, share capital and a memorandum and articles of association similar to a public company limited by shares. The full extent of *Corporations Law* applies to company SOCs, whereas statutory SOCs are only required to observe the aspects of the *Law* relating to officers' duties and liabilities.

Currently, New South Wales has twenty Government businesses already corporatised. These Government businesses are all corporatised as statutory SOCs. They operate in various sectors including electricity, finance, gaming and recreation, housing, ports and waterways, transport, water and providing miscellaneous marketing and administration services.

Non-corporatised Government businesses implement competitive neutrality principles through the Financial Policy Framework. The Financial Policy Framework has been guided by the corporatisation principles which mimic the environment faced by a private sector firm in a competitive market. Some forty-nine Government businesses currently fall within this Framework, which implements competitive neutrality through:

- the application of commercially based target rates of return, dividends and capital structures;
- regular performance monitoring;
- the payment of State taxes and Commonwealth tax equivalents;
- the payment of risk related borrowing fees; and
- explicitly funded 'Social Programs' (CSOs).

Later this year the NSW Government will be releasing two policy documents relating to the Government's commitment to the application of competitive neutrality. These policy documents are:

1. *NSW Government Policy Statement on Competitive Neutrality, 2000*; and
2. *NSW Treasury Policy and Guidelines Paper: Guidelines for Pricing of User Charges, 2000*.

The *NSW Government Policy Statement on Competitive Neutrality, 2000* will provide an update to the 1996 Statement in two key areas:

- the formalisation of competitive neutrality complaints mechanisms; and
- the finalisation of guidelines for the costing and pricing of NSW Government business outputs incorporating an 'avoidable cost' approach to pricing decisions. (This section is related to the *NSW Treasury Policy and Guidelines Paper: Guidelines for Pricing of User Charges, 2000*. Accordingly, the two policy documents should be read in conjunction).

The competitive neutrality complaints mechanism is discussed further below.

With respect to the costing and pricing guidelines, the CPA requires all government agencies undertaking significant business activities in markets to act in a competitively neutral way. Consequently, the requirements extend to government agencies outside the Financial Policy Framework, including General Government agencies that undertake significant business activities.

NSW Treasury distributed a Working Paper, *Pricing Principles for User Charges*, to all relevant government agencies in October 1997. The purpose of these principles was to provide guidance on how NSW Government agencies should cost and price goods and services in a competitively neutral way when they compete (or potentially compete) with the private sector.

NSW Treasury held three workshops during May 1998 to inform all relevant agencies of their responsibilities to implement the pricing principles for user charges. At that time, Treasury indicated that it was likely to support a costing methodology based on the 'avoidable cost' approach to pricing.

The *NSW Treasury Policy and Guidelines Paper: Guidelines for Pricing of User Charges, 2000* (which is scheduled for publication later in 2000) is a final version of the 1997 working paper. It endorses 'avoidable cost' pricing. Under this approach, the cost base of the

business unit would consist of all the costs that the agency would not incur (i.e. avoid) if the business unit ceased operations. The difference between a full cost distribution approach and the avoidable cost approach relates to the differences in the allocation of indirect and joint costs, and whether a short or long term perspective is applied.

The avoidable cost approach is a more efficient way of pricing agency business outputs. Where non-commercial agencies have assets with spare capacity, the avoidable cost method will allow such capacity to be used commercially rather than potentially lie idle. It can therefore lead to a fuller use of resources and provide agencies with greater flexibility when determining prices for business outputs. Overall, it more closely replicates the pricing flexibility of competing private businesses.

### ***Competitive Neutrality Complaints Mechanism***

Under the CPA, New South Wales is obliged to establish a competitive neutrality complaints mechanism. The complaints mechanism is required to investigate any complaint made by an actual or potential competitor of a Government business that perceives that it is being adversely affected or being denied a market opportunity because the Government business enjoys a net competitive advantage resulting solely from its public ownership.

The NSW Government has formalised the establishment of two separate complaints mechanisms covering NSW Government agencies that undertake significant business activities. These complaints mechanisms involve the:

1. State Contracts Control Board (SCCB) which will review complaints concerning tendering; and
2. IPART which will review all other complaints.

The *NSW Government Policy Statement on Competitive Neutrality, 2000* provides details on how the SCCB and IPART complaints mechanisms would function in practice, in particular:

- the scope of complaints;
- how to make a complaint;
- the investigation process; and
- reporting and responses to the findings of an IPART/SCCB investigation.

The Department of Local Government is separately responsible for the review of complaints made against local councils.

### ***Structural Reform of Public Monopolies***

Historically, some government businesses have enjoyed protection from competition, and consequently structures have developed that do not readily respond to market conditions. In these cases if measures to introduce competition are to be successful, structural reform may be needed first.

Structural reform involves separating the non-contestable regulatory or other functions of the monopoly from those commercial activities that can be subject to competition. This process

is conducted prior to introducing competition, and ensures that the government business has no regulatory advantage over rivals and potential entrants.

Structural reform then involves separating the operating activities of the business into monopoly and near monopoly activities on the one side, and contestable or potentially contestable on the other. This avoids the risk of unfair competition via the cross-subsidisation of competitive activities from monopoly activities. Competitive activities then become subject to the disciplines of the market. Monopoly activities are generally subject to price regulation.

The NSW Government has been systematically applying the principles of structural reform to its public monopolies.

For example, over the past four years there have been reforms to the electricity industry in New South Wales. The passage of the *Electricity Supply (NSW) Act 1995* established a single legislative framework for the industry, separated the regulatory and operating sectors of the industry, and further divided the operating sector into its natural monopoly (transmission and distribution) and potentially competitive components (generation and retail), as a precursor to competitive retail electricity supply.

This reform process progressed on 13 December 1998 when New South Wales moved from the State wholesale market operating under the *Electricity Supply (NSW) Act 1995* to the National Electricity Market (NEM) operating under the National Electricity Code.

New South Wales through the Transport Administration Amendment (*Rail Corporatisation and Restructuring*) Act 1996, has separated the operation of rail services from the ownership, provision of access and the maintenance components of the State Rail Authority. Four transport entities now exist:

- State Rail Authority - focused on providing customer services;
- Rail Services Australia - responsible for track maintenance;
- Rail Access Corporation - responsible for managing the rail network and administering access by public and private operators; and
- FreightCorp - responsible for non-passenger freight services.

On 22 June 1998, New South Wales privatised its Totalisator Agency Board (TAB) by way of a public float on the Australian Stock Exchange, where it was registered as TAB Limited. Prior to privatisation the TAB was corporatised on 1 March 1998.

The Murrumbidgee and Colleambally irrigation schemes were corporatised on 1 July 1997. On 12 February 1999, the Government shifted ownership of the Murrumbidgee scheme to local water users. The Government is pursuing a similar model for the Colleambally scheme.

Since 1 January 1997, NSW Lotteries Corporation has operated as a state owned corporation subject to the provisions of the *State Owned Corporations Act 1989* and the *New South Wales Lotteries Corporation Act 1996*. The Minister for Gaming and Racing remains responsible for the regulatory functions associated with licensing and control arrangements in the lotteries market.

The Sydney Market Authority was dissolved under an Act of Parliament from 31 October 1997. The business of the market is now carried out by Sydney Markets Limited (SML), a private company, owned by the stallholders of the former Authority. SML rents the Flemington site from the Crown under a long-term lease.

The State Valuation Office commenced operations on 1 May 1997 following the separation of the regulatory and operational functions that were previously undertaken by the then Valuer-General's Office. The Valuer-General (now within the Department of Information Technology and Management) is responsible for all regulatory functions whilst the State Valuation Office undertakes the operational role. The role of the State Valuation Office is to provide State and Local Government with a property consultancy service to assist in the proper management and utilisation of State and Local Government property.

The NCC concluded in its report on the second tranche assessment of progress with implementing NCP and related reforms that New South Wales had met its commitment to reform monopolies under Clause 4 of the CPA.

### ***Legislative Review and Reform***

This principle requires jurisdictions to review (by the end of year 2000) legislation 'that restricts competition'. The guiding principle is that legislation should not restrict competition unless it can be demonstrated that the benefits to the community as a whole outweigh the costs and that the objectives of the legislation can only be achieved by restricting competition.

The identification of legislation which 'restricts competition' is for each jurisdiction to determine. In June 1996, New South Wales published the *NSW Government Policy Statement on Legislation Review*. This comprehensive program of legislative review, encompasses approximately 200 pieces of legislation identified as restricting or potentially restricting competition.

During 1998, two changes were made to the NSW schedule. Following a query from the NCC, the *Lord Howe Island Act 1953* was added to the NSW schedule. The Act establishes a statutory marketing board for the export and sale of Kentia palm seeds, seedlings and trees and control over the sale of liquor on the island. The review commenced in 1999. Furthermore, with the concurrence of the NCC, the *Biological Control Act 1985* has been removed from the NSW schedule.

New South Wales has scheduled 181 reviews for completion by the year 2001. At 30 November 1999, 70 reviews had been completed, 78 reviews were underway, and 33 were yet to be commenced. In addition, all proposals for new legislation are tested for compliance with competition principles through a formal Cabinet Office process.

Legislative reviews have benefited the State by removing certain anti-competitive practices (particularly those relating to statutory marketing authorities), repealing unnecessary and often outdated legislation, streamlining administrative arrangements (including development approvals), reducing compliance costs and providing for clearer more consistent decision making.

In its second tranche assessment framework, the NCC did not identify any non-compliance issues relating to legislative review and reform, however a number of remaining first tranche matters will require supplementary assessment.

Perhaps the most contentious matter is that which relates to the NSW Government's decision to retain current vesting arrangements for the domestic marketing of rice for five years beyond their expiry in 1999. The NCC was critical of this decision. In their view the NSW Government had not offered adequate justification for its decision to maintain current regulatory arrangements. New South Wales, however, maintained its view that State-based arrangements other than vesting which might retain benefits of single desk export selling (yet achieve deregulation of the domestic market) are unlikely to be feasible.

In February 1999, the Commonwealth Treasurer presented a proposal to NSW for a Commonwealth single desk export arrangement. NSW has now given in-principle agreement to removing domestic restrictions on the basis that the Commonwealth Treasurer's proposal can be shown to protect the current export monopoly. The NSW and Commonwealth Governments are currently working towards implementing this proposal. The NCC will make a supplementary assessment of progress before July 2000.

Another matter, which has received NCC attention, is the review of the *Dairy Industry Act 1979*. Following its review of this Act, NSW extended current restrictions on farm-gate supply and pricing arrangements until 2003. The NCC has expressed concerns with the decision to retain these arrangements and foreshadowed the possibility of a tranche payment penalty.

The Victorian Government will conduct a ballot of Victorian dairy farmers to determine whether they support the removal of state based supply and pricing arrangements. The potential for fresh milk supplies to be sourced from Victoria would make the NSW farm gate arrangements unsustainable in their present form. The Commonwealth Government is currently preparing a national compensation package for dairy farmers that would be granted if all state-based price setting regulation is removed. A Victorian decision to remove state based arrangements, combined with the national compensation package, would render this matter a non-issue by 30 June 2000.

The NCC is also concerned that the legislation to provide for a comprehensive system of water entitlements and trading in New South Wales is not in place. New South Wales is currently undertaking a comprehensive review of water legislation. The NCC will make a supplementary assessment before July 2000 to review whether the legislation has been enacted.

### ***Third Party Rights to Negotiate Access***

Clause 6 of the CPA stipulates that jurisdictions provide third party access to significant infrastructure facilities to enhance upstream and downstream competition to the net benefit of the economy. Duplicating this type of capital investment is usually not in the public interest as more often than not the current infrastructure has the capacity to cater for more customers and service providers. Therefore, it is necessary to remove the monopoly control of the infrastructure from the incumbent and permit access to third parties.

State based access regimes are to apply where:

- it would not be economically feasible to duplicate the facility;
- the facility is of national significance; and
- safe use by a third party can be assured at an economically feasible cost.

The essential features of the NSW Government framework for the establishment of State access regimes, released in August 1995, include the following:

- the NSW third party access regime will apply to infrastructure of less than national significance, but considered of State significance to New South Wales;
- third party requests for access should in the first instance, be resolved by voluntary negotiations between the access seeker and the entity owning or managing the infrastructure, according to Government protocols which ensure compliance with principles set out in Clause 6 of the CPA;
- in all areas where such regimes are established, IPART will handle dispute resolution matters and will advise where necessary on pricing and related access issues; and
- there will be a right of appeal on an IPART decision to a court, but only on matters of law and not on the grounds of disputed economic analysis.

### *Electricity*

Third party access provisions were incorporated in the State Electricity Market Code, which came into effect in May 1996. They applied equally to the high voltage transmission network operated by TransGrid and the various distribution networks in New South Wales. The Code, which governed the operation of the interim State wholesale market, provided for IPART to arbitrate on any disputes arising from third party access negotiations.

On 13 December 1998, New South Wales moved from the State wholesale market operating under the *Electricity Supply Act 1995* to the National Electricity Market (NEM) operating under the National Electricity Code. The NEM is a wholesale market for the supply and purchase of electricity combined with an access regime for use of the transmission networks in New South Wales, Victoria, South Australia and the Australian Capital Territory.

New South Wales' regulatory arrangements for network operations have developed in line with the NEM timetable. In July 1999, New South Wales became the first state to have its transmission pricing regulated by the Australian Competition and Consumer Commission (ACCC) under the National Electricity Code.

### *Rail*

In August 1996, the Government gazetted the New South Wales third-party access regime for all rail services in New South Wales, along with associated amendments to the *Transport Administration Act 1988*. The Regime was submitted to the NCC for certification as an effective access regime. In April 1998, the NCC issued its draft recommendation on the regime for public comment, and in November 1998 issued a circular stating that if New South Wales gazetted a regime in the terms set out in the circular, the NCC would send its final recommendation to the Commonwealth Treasurer for his decision. In February 1999 New South Wales gazetted an amended regime which was provided to the NCC for final assessment. The NCC subsequently certified the access regime in November 1999.

The NSW rail access regime covers the Rail Access Corporation's rail network. This arrangement is well in advance of any requirements at the national level. Third party access provisions permit new rail operators to enter the market and compete with public operators.

### *Gas*



New South Wales has taken a leading role in contributing to free trade in gas in Australia. In August 1996, the NSW Government gazetted the NSW Third Party Access Code for gas distribution infrastructure, along with associated regulations under the *Gas Supply Act 1996*. These measures implemented the NSW Gas Pricing and Access Regime. The Commonwealth Treasurer certified the interim NSW access regime in 1997 as an 'effective' regime under Section 44M of the *Trade Practices Act 1974*. The NSW regime was the first of any State to be certified.

New South Wales was also instrumental in establishing the National Third Party Access Code (as part of the *Gas Pipelines Access (NSW) Act 1998*), which commenced in August 1998 replacing the interim 1996 regime. The National Code is in accordance with the Intergovernmental Agreement, the *Natural Gas Pipeline Access Agreement*, which was signed by COAG on 7 November 1997.

The NSW Government submitted its Access Regime (as embodied in the *Gas Pipelines Access (NSW) Act 1998*) to the National Competition Council (NCC) in October 1998 for recommendation as an 'effective' regime. The NCC was expected to make a recommendation for certification to the Commonwealth Treasurer in mid 1999. However, as a result of particular aspects of the Federal Court's powers in relation to access regimes being brought into question, this process has been delayed. Consequently, certain amendments have been made to the regime with a view to certification in the year 2000.

The early implementation of gas reform in New South Wales has enabled an early start on the transition to full competition. To ensure a smooth transition to a competitive gas market, third-party access rights for customers have been phased in gradually since mid 1996. On 1 July 1998, all customers using more than 10 terajoules per annum became eligible to choose their own supplier. On 25 February 1999, the NSW Minister for Energy announced that customers using over 1 terajoule per annum would become contestable from 1 October 1999 and all remaining customers, including residential customers, would be contestable from 1 July 2000.

### ***Application of the Competition Principles Agreement to Local Government***

New South Wales has made significant progress in applying the competition principles to local government, especially in developing guidelines for implementation. The NSW Government published its *Policy Statement on the Application of National Competition Policy to Local Government* in June 1996. The Policy Statement, prepared in consultation with local government, details the Government's approach to the application of the Agreement to Local Government and makes a series of commitments with respect to the ongoing implementation of competition reforms.

In 1997-98, the NSW Department of Local Government issued various guidelines to local councils on competitive neutrality, including:

- *Pricing and Costing for Council Businesses: A Guide to Competitive Neutrality* (July 1997). This publication includes a timetable for applying competitive neutrality to significant business activities; and
- *Guidelines on the Management of Competitive Neutrality Complaints* (November 1997). These guidelines assist councils to develop a complaints management system for competitive neutrality issues.

The Government also conducted workshops across New South Wales and continues to provide assistance, via the Department of Local Government, to councils in applying NCP principles.

Under these guidelines for Category 1 (turnover of \$2 million and over per annum) local government business activities Councils are required to:

- implement separate internal reporting for the business activity as of July 1997;
- apply full cost attribution from July 1998; and
- make subsidies an explicit transaction from July 1998.

For Category 2 (turnover of less than \$2 million per annum) local government business activities Councils have had to:

- do an accounting separation for internal reporting for the activity since July 1997;
- adopt full cost attribution, where practicable, since July 1998; and
- make subsidies an explicit transaction since July 1998. [\[back\]](#)

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## **AGREEMENT TO IMPLEMENT THE NATIONAL COMPETITION POLICY AND RELATED REFORMS (RRA)**

The *Agreement to implement the National Competition Policy and Related Reforms* (RRA) includes specific industry reforms, which have been subject to separate agreements. These reforms are crucial to securing the full benefits of national economic reform and were accordingly brought into the NCP package.

The RRA also sets out the conditions under which the Commonwealth Government will provide financial assistance to the States, subject to their being no major deterioration in Australia's economic circumstances.

Commonwealth assistance is provided by way of:

- maintaining the real per capita guarantee of the Financial Assistance Grants pool on a rolling basis; and
- making \$4.2 billion (1994-95 dollars) of Competition Policy Payments over nine years to the States and Territories in three tranches, allocated on a quarterly per capita basis and in a way that is independent of the Commonwealth Grants Commission process.

Based on the NCC assessment of New South Wales compliance, New South Wales is eligible to receive a maximum \$1.4 billion (1994-95 dollars) in Competition Policy payments (which represents around 34 per cent of total Competition Policy payments). Four payments a year are made in three tranches, commencing in 1997-98, 1999-2000 and 2001-02. Payment of each tranche requires implementation of pre-determined reform commitments.

On 29 July 1999, the Commonwealth Treasurer wrote to the Treasurer indicating that New South Wales had fully met its obligations to date under the *Agreement to Implement the National Competition Policy and Related Reforms*. The Commonwealth Treasurer's

decision was an endorsement of the National Competition Council's (NCC) second tranche assessment of NSW Government compliance with the requirements of NCP. The NCC's overview assessment of NSW's progress in implementing NCP reforms was overwhelmingly positive. As such, the NCC had recommended that New South Wales should receive its full entitlement to the NCP second tranche payments.

The second tranche assessment covers the two-year period up to 30 June 2001. For New South Wales, second tranche payments are worth about \$148 million in 1999-2000 and \$150 million in 2000-01. Compliance with NCP requirements also ensures that New South Wales receives payment of the per capita growth component in the Financial Assistance Grant, worth about \$61 million in 1999-2000. [\[back\]](#)

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## RELATED REFORMS

Jurisdictions are required to implement specific industry reforms in the electricity, gas, water and road transport sectors, if they are to qualify for competition payments.

### *Electricity*

The Related Reforms Agreement requires that each participating jurisdiction implement electricity reforms specified in the relevant Council of Australian Governments (COAG) agreements with the aim of establishing a competitive National Electricity Market (NEM) by 1 July 1999. Secondly, the Electricity Agreements on the structure of the electricity industry commit jurisdictions, prior to their participation in the NEM, to have:

- structurally separated generation from transmission; and
- ring-fenced the retail and distribution businesses.

Furthermore, clause 4 of the CPA requires that prior to the introduction of competition, responsibilities for industry regulation are removed from the public monopoly and a review of structural and competitive arrangements in the industry are conducted.

Fulfilment of the second tranche NCP commitments requires participating jurisdictions (New South Wales, Victoria, South Australia and the Australian Capital Territory) to complete the transition to a fully competitive NEM, by 1 July 1999.

With respect to satisfying second tranche reform commitments, New South Wales has successfully implemented the required reforms. In fact, New South Wales has been at the forefront of moves to establish a fully competitive NEM. Since 4 May 1997, New South Wales, Victoria and the Australian Capital Territory operated an interim national market in advance of the fully competitive NEM. In addition, New South Wales has been operating a competitive market for trade in wholesale electricity since May 1996.

The NSW Government embarked on their electricity reform commitments by initially restructuring the NSW electricity industry into its regulatory and operating components, with generation, transmission, distribution and retail comprising the operating components. The operating components were further separated into their natural monopoly (transmission and distribution) and contestable components (generation and retail).

The passage of the *Electricity Supply (NSW) Act 1995* established a single legislative framework for the industry, provided for regulated monopoly transmission and distribution

networks, regulated the wholesale electricity market and fostered competitive retail electricity supply. New South Wales adopted the National Electricity Law through the *Electricity Supply (NSW) Act 1995*.

On 13 December 1998, New South Wales moved from the State wholesale market operating under the *Electricity Supply (NSW) Act 1995* to the NEM operating under the National Electricity Code. The other jurisdictions involved with the commencement of the NEM are Victoria, South Australia and the Australian Capital Territory.

Now that the NEM is operational, New South Wales and other jurisdictions have undertaken a review of the liability and related governance arrangements of the NEM institutions (NEMMCO and NECA). New South Wales is also participating actively in the NECA review of transmission and distribution pricing in the National Electricity Code.

In addition, New South Wales has continued to pursue electricity interconnection with Queensland. NorthPower has begun the development of DirectLink, an interconnection to link the Tweed Valley (QLD) to the NSW electricity grid. NorthPower expects the project to be completed by January 2000 and will enable the export of NSW electricity to Queensland. The QLD-NSW Interconnector (QNI), to be built by TransGrid (NSW) and Powerlink (QLD) is in the process of receiving planning approval in NSW. TransGrid and Powerlink propose to complete the interconnector by 2001.

Consistent with a competitive NEM, New South Wales is progressively allowing customers to choose their electricity supplier. From October 1996, customers who use in excess of 40 gigawatt hours (GWh) per year have been contestable. Since April 1997 users of 4 GWh of electricity per year have been able to choose their electricity supplier. Three months later this was extended to customers using more than 750 megawatt hours (MWh) (these businesses are generally considered to be energy intensive). Since July 1998 customers using more than 160 MWh of electricity per year have been selecting their electricity supplier. As of July 1999, businesses with multiple small sites of 100MWh per annum and over have been able to aggregate to become contestable. Small customers below 160MWh per annum will become contestable over a period commencing from 1 January 2001.

## **Gas**

The second tranche NCP obligation in gas is that (relevant) jurisdictions fully implement free and fair trading in gas, between and within the States, including the phasing out of transitional arrangements in accord with a schedule to be agreed between the jurisdictions. In line with the COAG principles on free and fair trade in gas, the NCC's second tranche assessment considers jurisdictions' performance against the following obligations:

- effective implementation of the National Gas Pipelines Access Code, including satisfactory progress in phasing out transitional arrangements;
- removal of all legislative and regulatory barriers to free and fair trade in gas; and
- structural reform of gas utilities.

As well as satisfying its second tranche commitments in gas, New South Wales has been the lead State in introducing competition reform to the gas sector. Due to the slow progress nationally in developing a national third party access regime for gas pipelines and the potential benefits to New South Wales consumers from this reform, New South Wales introduced an interim access regime in 1996, based on an early version of the National

Code. This access regime made New South Wales the first state in Australia to give retailers and customers 'third party access' to the gas distribution networks.

As a result of the development of the NSW access regime ahead of other States, New South Wales has been at the forefront of competition reform implementation in the gas sector. The Independent Pricing and Regulatory Tribunal (IPART) undertook the first determination of an access undertaking for a distribution network in July 1997. AGL supplies 97% of the NSW market and its access undertaking provides access to the gas system for third parties at agreed Reference Tariffs or at negotiated prices.

The AGL access undertaking set a price path which IPART forecast would achieve annual energy cost savings for the State's larger industrial and commercial customers of \$60 million by 1999-2000. The access undertaking covers the period to 30 June 1999. IPART is currently undertaking the consultation process required for consideration of AGL's next proposed access arrangement under the national access regime.

In April 1998, Great Southern Energy Gas Networks (GSN) lodged a proposed access arrangement with IPART for the Wagga Wagga gas distribution system. A draft decision was released in September and, following a public consultation process, the final decision was released in March 1999. Despite some initial concerns and possibility of an appeal to the Australian Competition Tribunal, GSN has now accepted and implemented the decision.

In seeking to balance the interests of gas consumers and the owners, IPART mandated a \$6 million downward adjustment to the capital base and restricted the allowed real pre tax rate of return to 7.75% of the asset base. This should produce cost savings of 20% for contract customers, smaller savings for industrial/commercial customers and, as a result of the tariff restructure, and slight price rises for small business/residential users.

New South Wales has continued to pursue market reform at the national level because of the benefits to New South Wales of removing regulatory barriers in other states to free and fair trade in natural gas across borders. This work culminated in an Intergovernmental agreement, the *Natural Gas Pipeline Access Agreement*, which was signed by COAG on 7 November 1997. In 1998, NSW legislation was prepared to give effect to New South Wales's commitments under the agreement. The *Gas Pipelines Access (NSW) Act 1998* applies the national Gas Pipelines Access Law and the national Gas Pipelines Access Code in New South Wales.

Applying a national, uniform regulatory framework for third party access to the State's natural gas pipelines is expected to deliver the following benefits:

- future security of natural gas supplies for New South Wales through the development of new infrastructure to create an interconnected pipeline grid, which will allow gas to be freely traded in a national market across state borders;
- wider choice of suppliers and services for customers;
- lower energy costs for industry and businesses, leading to improved competitiveness and better employment opportunities; and
- substantial greenhouse benefits from the increased use of natural gas over other fossil fuels for electricity generation and energy consumption.

New South Wales has negotiated with neighbouring jurisdictions for the crossvesting of

access regulation for distribution networks in Queanbeyan and Yarrowlumla to the Australian Capital Territory, and for the crossvesting of networks in Corowa and Howlong to Victoria. The crossvesting agreements were finalised in February and March 1999 respectively, following the process established under the Gas Pipelines Access Law. New South Wales was the first State to crossvest access regulation of networks to other jurisdictions.

The implementation of competitive reforms in the New South Wales gas sector is already bearing fruit. The early establishment of third party access rights to the distribution networks has given industry the confidence to come forward with proposals for new pipeline infrastructure. The \$50 million, 150-kilometre pipeline linking Wagga Wagga to Barnawatha, near Wodonga, came into operation on 12 August 1998, joining the Victorian and New South Wales gas markets, thereby enabling interstate trade in natural gas between the two States for the first time.

The reforms have also led to the Eastern Gas Pipeline proposal which represents a major new source of gas on which new retailers can base their entry into the New South Wales market. In December 1998, Duke Energy International announced its intention to begin construction in July 1999 of the \$450 million, 800-kilometre pipeline to bring Bass Strait natural gas from Longford to Horsely Park in western Sydney. First deliveries are expected by September 2000. Initial capacity of the pipeline will be 60 petajoules of gas per annum, with the potential to increase to around 100 petajoules of gas per annum. The current New South Wales market gas consumption is around 110 petajoules per annum. The two cross-border pipelines will provide for:

- increased competition between gas producers;
- increased trade between interstate gas markets;
- improved security of supply between the two states; and
- enhanced development of a national gas market.

## ***Water***

Water reform is the main focus of the second tranche NCP obligations commencing 1999-2000. The reform objectives are based on the February 1994 COAG Strategic Framework for Water Reform. An important component is reform based on the principles of linking charges to consumption, full cost recovery and the reduction or elimination of cross-subsidies. Where subsidies remain, they must be made transparent. Apart from pricing, the framework involves the clarification of property rights, the allocation of water, institutional reform and public consultation and participation.

The reforms have required water tariffs to be restructured and cross-subsidies removed in large areas of the State and greatly reduced in others. Any potential impact on water users is being offset by cost reductions through more efficient, customer driven service provision.

As far as rural water is concerned, there is a requirement under the Framework to generate the financial resources to maintain supply systems and through a system of tradeable entitlements to allow water to flow to higher value uses bearing in mind social, physical and environmental constraints.

The NCC is of the view that, on the whole, New South Wales has met the major reform commitments for the purposes of the second tranche. New South Wales was assessed

against progress on reforms in the following areas:

- cost reform and pricing;
- institutional reform;
- allocations and trading; and
- environment and water quality.

With respect to allocations and trading, however, the NCC is not satisfied that New South Wales has entirely met this reform commitment. The NCC will therefore undertake a supplementary assessment on 30 June 2000 to assess whether legislation to effect water allocation and trading reform commitments has been passed by the NSW Parliament.

### *Major Urban Authorities*

The COAG Water Reform Framework stipulates that jurisdictions are required to implement consumption based pricing. This involves the application of two part tariffs comprising a fixed cost of access component and a volumetric cost component. Both Sydney Water Corporation (SWC) and Hunter Water Corporation (HWC) have implemented effective two part tariff regimes.

Furthermore, jurisdictions are required to remove cross-subsidies, with any remaining cross-subsidies made transparent (published). HWC has complied by eliminating all property value-based tariffs. Water and sewerage charges for residential and non-residential customers are now on an acceptable cost-reflective tariff basis.

SWC will shortly achieve this objective. The removal of property value-based charges as the primary source of SWC's revenue has had a considerable impact on the reduction of cross-subsidies. It is intended that all of SWC's property value based charges will be eliminated by the year 2002.

### *Bulk Water Charging*

Rural New South Wales consumes roughly 80 per cent of the State's water. Until 1994-95, users on regulated streams paid water charges that covered up to 70 per cent of the costs of 'running the river'. Since 1995 bulk water pricing has been in IPART's domain. The latest bulk water report was released by IPART in July 1998 and the prices set out in it will apply from 1 July 1998 until 30 June 2000. The 2 year price path is intended to provide stakeholders with greater certainty at a time when the Department of Land and Water Conservation (DLWC) is separating its resource manager and operator functions.

There still remains a gap between revenues from rural water charges and full cost recovery in a number of regions. IPART's latest determination proposes that prices should increase to reduce the revenue deficiency. IPART has capped the increase in prices to roughly 20 per cent per annum for 1999-00. Where a region reaches full cost recovery prior to 2000, prices will not rise any further.

In order to link prices more explicitly with consumption, IPART has introduced a region-specific two-part tariff for regulated rivers. Revenue from regulated rivers will increase by up to 15 per cent in 1999-00, while prices for unregulated rivers have been restructured to make them fairer. Revenues from unregulated rivers will increase 8 per cent in 1999-00.

This latest IPART determination is designed to set targets for full cost recovery by region by the year 2001 as required under the COAG agreement. Where this cannot be achieved a clear statement of the remaining cost gap to achieve full cost recovery will be published.

### ***Road Transport***

In 1991 the Commonwealth and States entered the Heavy Vehicles Intergovernmental Agreement in order to develop consistent road transport law. The National Road Transport Commission (NRTC) was established to manage the reform process. In 1992 the reform process was expanded by the Light Vehicles Intergovernmental Agreement. In 1995, the NRTC reform process was brought within the ambit of NCP.

In December 1998, the relevant Ministerial Council, the Australian Transport Council (ATC) developed a 19-point road transport reform package. Recently, governments endorsed this reform package which includes a nationally consistent regulatory framework for heavy vehicle registration, driver licensing, heavy vehicle mass and loading restrictions, commercial driver fatigue management and the national exchange of vehicle and driver information.

The NCC considers each government's implementation of this reform package as part of the second tranche assessment.

As at 1 March 1999, New South Wales had implemented all of the reform projects contained in the ATC proposed framework for the second tranche of competition payments. In most cases, New South Wales implemented the reforms ahead of the target dates and prior to other jurisdictions. In fact, Victoria is currently the only other jurisdiction with complete implementation of all of the reforms. [\[back\]](#)

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## **5. OTHER MICRO-ECONOMIC REFORMS**

### ***Implementation of Financial System Inquiry (FSI) Reforms***

Following the preparation and submission of a whole-of-Government response to the Financial System Inquiry Report, the NSW Government conveyed its 'in principle' support in January, 1998 for the transfer to the Commonwealth of its current prudential regulatory responsibilities in relation to building societies, credit unions and friendly societies.

In early 1998 a Commonwealth/State Working Party was established to develop a framework of legislative and administrative reforms for consideration by all jurisdictions and allow final decisions to be made on proceeding with implementation of the transfer. NSW Treasury provided substantial policy input to this process and represented the NSW Government on the Commonwealth/State Working Party in conjunction with The Cabinet Office and FINCOM.

In its deliberations, the Working Party agreed that a Framework Agreement should be developed to enable 'in principle' endorsement of the key legislative and administrative (including staff transfer) proposals by around July, 1998. Finalisation of the Framework Agreement was delayed by the Federal Election and as a consequence endorsement of the States and Territories was not achieved until early 1999.



During this process the Commonwealth (and FINCOM in New South Wales) consulted with the peak industry bodies representing building societies, credit unions and friendly societies on the options and proposed approach for the transfer of prudential supervision responsibilities to the Commonwealth. The NSW Government did not endorse the Framework Agreement until it was satisfied that the proposed transfer mechanisms were fully supported by these groups.

In May 1999, New South Wales passed the necessary legislative changes to enable the transfer. The other State and Territories also passed the necessary legislation to permit the transfer of regulatory responsibilities to the Commonwealth on 1 July, 1999.

### ***Infrastructure***

The infrastructure programs of the NSW Government play a key role in the growth and development of the New South Wales economy by providing the basic infrastructure required by the business sector and households. State Governments dominate public infrastructure, owning about two-thirds, and are responsible for providing the bulk of infrastructure services, including:

- transport and communications;
- housing and community services;
- health and education; and
- energy services.

The provision and management of infrastructure assets have traditionally rested with governments, however the significance of private sector investment is gradually increasing. In most cases, private sector involvement reduces the financial burden for government and improves the efficiency of infrastructure investment and operation through:

- equitable sharing of risks between the private sector and government;
- a market-based approach to investment decisions;
- cost reflective pricing;
- greater response to consumer preferences; and
- a commercial culture with strong pressures for efficiency gains.

Much of the increased private sector involvement in New South Wales has involved Build, Own, Operate and Transfer (BOOT) type arrangements. BOOT type arrangements are schemes where the private sector builds, owns, operates and then transfers the infrastructure to the public sector usually after 20 to 30 years. They are a form of structured financing with many complex contractual relations based on equitable risk sharing. In New South Wales they have been used to provide transport, electricity, water and sewerage infrastructure. A BOOT project usually involves the interaction of the following parties:

- the Government, through an agency such as the Roads and Traffic Authority;
- the ownership vehicle comprising a concession company and a trust;

- debt financiers, usually a major trading bank; and
- equity investors in shares in a concession company and units in a trust (in the case of the M2 Motorway).

The private sector ownership vehicle usually obtains its revenue stream directly through charges to the users of those facilities. The main examples are the toll road contracts. The private sector in these cases has come to assume the full market risk as well as all the construction and operational risks. Generally the toll road company is issued with a franchise to levy tolls on traffic using the road for a period of about 30 years. The normal commercial default conditions apply to these contracts. That is, there is no Government obligation to step in if the company encounters financial difficulties.

As has been the case for 15 years or more, the Government has continued to work with the private sector to assist in the provision of infrastructure. In 1995 the Government issued *Guidelines for Private Sector Participation in the Provision of Public Infrastructure*. The broad policy in this regard is that:

- private sector involvement in the provision of infrastructure must show a net public benefit;
- privately financed infrastructure will be subject to competitive bidding;
- risks and returns must be appropriately shared between the Government and the private sector;
- preference will be given to projects which are financially free-standing without any Government capital contributions; and
- the extent of any Government financial support for the project needs to be clearly defined.

Under the *Public Authorities (Financial Arrangements) Act 1987 (PAFA)* the Treasurer has responsibility for approving agencies entering into joint financing arrangements. NSW Treasury advises the Treasurer on the joint financing obligations proposed by the sponsoring agency and agrees the terms and conditions for contract negotiations.

New South Wales had contracted \$5.3 billion of BOOT schemes up to 30 June 1999, in 22 large projects. In 1998-99 only one privately financed public infrastructure contract was signed. It was for a 580-space multi-storey car park at the St George Hospital campus of the South Eastern Sydney Area Health Service. The contract was signed in April 1999 and the contract period was for 25 years. There was no Government contribution to the funding, therefore, the total cost of the project (\$11.5 million) was borne by the private sector.

### ***Introduction of Load Based Licensing***

A new Load Based Licensing (LBL) Scheme commenced on 1 July 1999. The new scheme represents a major overhaul of the State's environment protection licensing system that controls emissions from New South Wales's 3,500 largest potentially polluting activities. The scheme will introduce emission load limits into licences and will link the licence fees to the total amount of emissions (loads) from each licensed premise. The smaller the load, the lower the fee (appropriately reflecting the 'polluter pays' principle).

All licensees have been asked to pay a licence administration fee, and a first group of licensees across selected industry sectors will progressively become liable to pay pollution load fees, phased in over 4 years. Licence administration fees have been set to partially recover the Government's licence administration costs. The purpose of the pollution load fees is to provide rewards and incentives for licensees to reduce polluting discharges. The load fee varies to reflect loads and types of pollutants discharged, and conditions in different receiving environments.

During the development of the LBL Scheme there was substantial consultation with all industry sectors affected. Following release of the Regulatory Impact Statement (RIS), further industry submissions were invited. Some of these submissions expressed concerns about various technical details and about the potential financial impacts of the scheme.

The Government closely examined the industry feedback to the RIS, and in light of some of the above concerns a range of adjustments were made to the scheme, including:

- an initial year of estimating loads with no load fees payable, meaning that no load fees will be payable before September 2001;
- larger rebates of up to 100 percent for licencees who commit to 3-year load reduction agreements, allowing them to use their funds for environmental improvement instead of paying fees; and
- provision of refunds of administration fees where the actual activity level is significantly less than licensed capacity.

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## 6. PERFORMANCE OF NSW GOVERNMENT BUSINESSES

1998-99

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### **6 Performance of NSW Government Businesses**

[Advance Energy](#)

[Australian Inland Energy](#)

[Delta Electricity](#)

[EnergyAustralia](#)

[FreightCorp](#)

[Great Southern Energy](#)

[Department of Housing](#)

[Hunter Water Corporation](#)

[Integral Energy](#)

[Land Titles Office](#)

[Macquarie Generation](#)

[Newcastle Port Corporation](#)

[NorthPower](#)

[NSW Lotteries](#)

[Pacific Power](#)

[Port Kembla Port Corporation](#)

[Department of Public Works and Services](#)

[Rail Access Corporation](#)

[Rail Services Authority](#)

[State Forests](#)

[State Rail Authority](#)

[State Transit Authority](#)

[Sydney Ports Corporation](#)

[Sydney Water Corporation](#)

[TransGrid](#)

[Waste Service NSW](#)

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## **APPENDIX**

### **GLOSSARY**

The performance of each organisation is measured by a number of unique indicators, as well as more generic indicators, which are defined below.

All dollar amounts have been converted to 1998-99 prices, using the Sydney year-average Consumer Price Index, apart from the current and forecast year estimates, which are in 30 June 1999 dollars (consistent with the approach in previous publications). Removing the impact of inflation assists analysis of the underlying trends in the indicators.

## **EFFICIENCY INDICATORS**

### ***Employment:***

Effective Full Time Staff, derived by adding full-time staff to the full-time equivalent of any part-time staff.

### ***Output per Employee:***

Where appropriate, physical output divided by employment. In other cases, real revenue per employee is reported. Annual changes in this indicator are one measure of efficient utilisation of labour resources in the enterprise.

### ***Staff hours lost to industrial disputes:***

Reported as an aggregate number of hours lost to industrial dispute or as an average figure per employee.

## **CUSTOMER SERVICE INDICATORS**

### ***Market share:***

An indicator of the agency's performance within its industry. This indicator is not relevant for all agencies. Shifts in market share are indicative of competitive strategies within the agency and of external changes, including market deregulation, to the operating environment.

### ***Real price index:***

A single index constructed for each agency to identify how customer charges have moved in relation to the Sydney Consumer Price Index. The index commences at 100 in 1988-89.

An increase in the index reflects a real increase in charges; an unchanged figure indicates that the movement in charges equals the change in the CPI; while an index trending downward means real decrease in charges to consumers.

The 1994-95 Performance Book saw the introduction of a new method of reporting on the Real Price Index. For those agencies appearing both in the Government Charges Index (GCI) and the Performance Book, a series constructed from the movement in charges reported in the GCI is used.

This approach ensures consistency between the GCI and the data reported by agencies in the rest of the Performance Book.

A consequence of this approach however, is that forecasts of the Real Price Index are not available for the last three years of forecasts.

The Government Charges Index does not contain separate price movements for each of the electricity agencies. Therefore, the indexes supplied by the various electricity agencies are utilised.

## **FINANCIAL INDICATORS**

### ***Asset sales:***

Total revenue from the extraordinary sale of enterprise assets in the financial year. Where asset sales are used to renew asset stock in the enterprise the overall rate of return on assets may be lifted. Proceeds from asset sales may also be used to retire external debt.

### ***Contribution to government:***

Contributions of the agency to the Consolidated Fund. Ideally, enterprises pay to the NSW Government the equivalent of corporate tax, plus a dividend, equal to a reasonable rate of return on capital (less earnings retained to meet endorsed enterprise objectives). The amounts are separately identified, where appropriate.

### ***Debt to equity ratio:***

Gross external debt as a percentage of equity. A declining ratio is generally desirable when interest rates are high or uncertain. A lower ratio indicates a higher rate of internal funding and less vulnerability to adverse interest rate movements.

### ***Gross external debt:***

The gross amount owed to parties external to the agency, including that amount repayable to the Government of New South Wales.

Trends in external debt are an indicator of longer term enterprise performance and future financial viability. A priority of the present NSW Government is the reduction of external debt.

### ***Operating cost:***

Operating expenditure including depreciation but excluding interest expenses.

### ***Operating result:***

Unless otherwise stated, an above-the-line pre-tax profit. It consists of operating income (including investment income but excluding extraordinary items such as asset sales) less operating expenses (including interest but excluding corporate taxes and dividends).

### ***Pre tax return on net assets:***

Earnings before interest and tax and after abnormals (EBIT) as a percentage of average total net assets (equity).

**Return on (total) assets:**

Operating result before interest and tax as a percentage of total revalued assets. In some cases, historic cost valuations have been used (as footnoted). Return on assets is a fundamental indicator of performance in Government enterprises and enables economic comparisons between industries and sectors.

**Return on equity:**

Operating result before tax but after interest, as a percentage of equity. Equity is defined as total assets less total liabilities. Although an imperfect indicator for non-corporatised Government enterprises, return on equity measures the rate of return on public capital invested in an agency.

**Return on operating (core) assets:**

Operating EBIT from core assets plus Government funded Social Programs, as a percentage of operating assets. This indicator measures the performance of the operating asset base.

**Social programs:**

The value of NSW Government payments to the enterprise in return for meeting the provision of Social Programs. It is intended that all Social Programs be fully identified and financed in transfers between the State and the agency.

The elimination of implicit concessions assists in creating a level playing field for the agency in its industry and allows the agency to provide services in a commercial environment.

**Times interest earned:**

Earnings before interest and tax (EBIT) divided by the total interest expense measures gearing in the income stream, that is, the ability of the enterprise to meet its interest charges from its earnings. [\[back\]](#)

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