

N12 Other Neutrality Adjustments

Ideal Standard

Council provided evidence that adjustments have been made for advantages and disadvantages of public ownership.

Outline/Summary

Council business activities receive advantages and disadvantages by virtue of being publicly owned. A major thrust of competition reforms is to ensure that council owned business activities do not receive a 'material' benefit or cost because of public ownership. Competitive neutrality adjustments are made to an activity's costs reflecting the estimated difference between the actual operating costs of the business activity compared to an equivalent privately owned business activity.

The Queensland Government debt guarantee fee is a CN adjustment accommodated within the CAPM/WACC estimate used for return on capital. The LGAQ FCP guidelines recommend an adjustment equivalent to 0.2% of the debt value. However, this adjustment is not required if a pre-tax rate of return (see N8) is used. Otherwise it will need to be charged to relevant business activities, ideally using a natural account to control the costs across the Council.

Other advantages of public ownership that could be adjusted include:

- Access to Council ratepayers and customers;
- Cash-flow security arising from the Council non-business activities;
- Special access to Council information;
- Exemption from regulations applied to competitors;
- Lower workers compensation premiums; and
- Tied clients.

Disadvantages of public ownership include:

- Higher levels of employees remuneration including superannuation (currently 12% compared to 8% in 2007/2 and 9% in 2002/3 under the SGC levy);
- More onerous purchasing policy restriction; and
- Retention of surplus employees.

In practice, many of these advantages and disadvantages are immaterial or are difficult to quantify.

Key Steps

1. If not applying a pre-tax rate of return, adjust the budget and accounting procedures for the benefit of the State Government debt guarantee, using automatic journals, using a separate natural account; and
2. Review the significance of any other advantages or disadvantages of public ownership, and adjust by applying automatic journals for any material CN adjustments which can be reasonably quantified.

Further Information

PG 2.5.6, 3.4.7, LGAQ-FCP 9, 10.

QCA Documentation Standard

Budget, Chart of accounts or use of Full Cost Pricing software