



**GOVERNMENT
PRICES
OVERSIGHT
COMMISSION**

ANNUAL REPORT 2004-05

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Government Prices Oversight Commission
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GOVERNMENT
PRICES
OVERSIGHT
COMMISSION

The Hon. Jim Cox
Minister for Finance
Executive Building
Level 9, 15 Murray Street
HOBART TAS 7000

Dear Mr Cox

I have pleasure in submitting to you the Annual Report of the Government Prices Oversight Commission for the year ended 30 June 2005, in accordance with Section 40 of the *Government Prices Oversight Act 1995*.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A J Reeves'.

Andrew Reeves
COMMISSIONER

26 September 2005

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COMMISSIONER'S REPORT

This report describes the ninth full year of the operation of Tasmania's Government Prices Oversight Commission (the Commission).

The Commission commenced operations on 1 January 1996, under the authority of the *Government Prices Oversight Act 1995* (the GPO Act). Its primary function was to investigate the pricing policies of the major Tasmanian public sector monopolies.¹ The Commissioner's powers to investigate the pricing policies of electricity entities were transferred to the Tasmanian Electricity Regulator (now Tasmanian Energy Regulator) on 1 July 1998.

In 1997, the GPO Act was amended to provide the Commission with powers to investigate National Competition Policy (NCP) competitive neutrality complaints.

As Commissioner of the Government Prices Oversight Commission, I also hold the office of the Regulator under the *Electricity Supply Industry Act 1995* and the Director of Gas under the *Gas Act 2000*. The Commission itself was appointed in June 2001 as the "local regulator" pursuant to the *Gas Pipelines Access (Tasmania) Act 2000*.

Investigations into Pricing Policies

One of the Commission's roles under the GPO Act is to investigate and make recommendations of maximum prices which may be charged by government businesses that are monopoly suppliers of goods and services. The intent of the legislation is to protect the consumer from excessive prices arising from monopoly pricing or from the effects of higher costs due to inefficiency of operations.

During the 2004–05 period, the Commission completed investigations into the pricing policies of Tasmania's three bulk water authorities: the Hobart Regional Water Authority, Cradle Coast Water and the Esk Water Authority.

In relation to the investigation into the pricing policies of the bulk water authorities, the Commission released a draft report in May 2004 which made recommendations for the maximum prices to be charged by each of the three bulk water authorities for the next three-year regulatory period. The final report was released in August 2005.

¹ The *Government Prices Oversight Act 1995* provides for the investigation of the pricing policies of certain government agencies, Government Business Enterprises, local government bodies, statutory authorities and State-owned Companies that are monopoly or near-monopoly providers of goods and services in Tasmania.

Competitive Neutrality Principles Complaints

The Commission received one formal competitive neutrality complaint in 2004–05. The complaint was made against Orthotic Prosthetic Services Tasmania, a unit within the Department of Health and Human Services.

Consultancies

In addition to performing core legislative functions, the Commission, at the request of the Government, is able to undertake consultancy projects. During the year, the Commission conducted its annual assessment, at the request of the Government, of Tasmanian councils' compliance with Tasmania's National Competition Policy water reform obligations as they apply to urban water and wastewater services. The primary focus of each review is to examine whether councils are recovering sufficient revenue from their water and wastewater businesses to recover all costs, but not so much as to provide a rate of return that incorporates monopoly profits.

The 2003–04 review had already determined that with regard to the Urban Water Pricing Guidelines there was substantial compliance. The Minister released the report in April 2005.

In addition to this body of work, the Commission continued its role in the economic and technical regulation of the natural gas industry development in Tasmania. These activities, together with the activities of the Commissioner as the Regulator under the *Electricity Supply Industry Act 1995*, are described in the Annual Report of the Tasmanian Energy Regulator.



Andrew Reeves
COMMISSIONER

THE COMMISSION

The Government Prices Oversight Commission (the Commission) is an independent statutory body. It was established following the commencement of the GPO Act on 1 January 1996. Its role is to investigate the pricing policies of Government Business Enterprises (GBEs), agency activities and local government businesses that are monopoly providers of goods and services in Tasmania.

The establishment of the Commission was part of Tasmania's commitment to the National Competition Policy Agreements that were signed by the Council of Australian Governments (COAG) in April 1995.

The COAG Competition Principles require that the source of prices oversight advice have the following characteristics:

- (a) it should be independent from the Government Business Enterprise whose prices are being assessed;
- (b) its prime objective should be one of efficient resource allocation but with regard to any explicitly identified and defined community service obligations imposed on a business enterprise by the Government or legislature of the jurisdiction that owns the enterprise;
- (c) it should apply to all significant Government Business Enterprises that are monopoly, or near-monopoly, suppliers of goods or services (or both);
- (d) it should permit submissions by interested persons; and
- (e) its pricing recommendations and the reasons for them should be published.

The Commission was set up according to these principles.

The GPO Act was amended in 1997 to provide the Commission with powers to investigate alleged breaches of the National Competition Policy competitive neutrality principles by State and local government business activities.

The Competition Principles Agreement (CPA) requires government businesses to operate within a framework that ensures that they do not enjoy any net competitive advantage simply as a result of their public ownership. This is the concept of competitive neutrality. The competitive neutrality principles (CNPs) are set out in Clause 3 of the CPA. As a general principle, significant State and local government businesses should reflect full Commonwealth and State taxes or tax equivalents, be liable for debt guarantee fees, face the same regulatory framework as their private sector counterparts and earn a commercial return on the capital invested in them. The CPA also requires that there be a mechanism to consider complaints relating to the application of the CPA.

The complaint mechanism applicable to Tasmanian State and local government businesses is contained in the *Government Prices Oversight Regulations 1998*. The Commission does not have the power to investigate complaints in regard to Commonwealth government businesses or private sector businesses.

Objectives of the Commission

The National Competition Policy Agreements define the Commission's principal objectives, being to ensure that prices charged by government businesses promote efficient resource allocation decisions by the business, government and thus the wider economy. These objectives are given effect through the GPO Act.

As an independent regulatory body, the Commission does not have a primary role in policy development. However, the Commission does seek to promote, through its papers and reports, discussion of issues that will inform or impact on policies regarding the operations of the monopoly service providers.

The Commission's strategic and operational activities, roles and responsibilities are determined by the GPO Act.

The Roles of the Commission

Under the GPO Act, the Commission has two key roles:

- ⇒ prices oversight of government monopolies; and
- ⇒ investigation of competitive neutrality complaints.

In addition to performing the key legislative functions, the Commission undertakes consultancy projects at the request of the Government. Consultancies undertaken during 2004-05 included an audit of Tasmanian councils' compliance with Tasmania's NCP water reform obligations as they apply to urban and wastewater services.

Prices Oversight

In providing prices oversight of government monopolies, the Commission is required to investigate prices charged by certain government bodies for monopoly services and to recommend maximum prices to apply for the ensuing three-year period. An investigation is initiated on receipt of the terms of reference issued by the Minister administering the GPO Act, currently the Minister for Finance. The Commission is required to take account of the terms of reference and the specific matters set out in Section 31 of the GPO Act. These matters include:

- ⇒ the cost of supplying or providing the monopoly service;
- ⇒ interstate benchmarks for prices and costs;
- ⇒ the need to protect consumers from the adverse effects of the exercise of monopoly power;
- ⇒ the need for the monopoly provider to be financially viable;
- ⇒ the need for a reasonable return to the State, including the payment of dividends;

- ⇒ the Ministerial Charter of the GBE prepared in accordance with Section 36 of the *Government Business Enterprises Act 1995* (GBE Act)²;
- ⇒ any community service obligations; and
- ⇒ the quality of the supply of the monopoly service.

In essence, the Commission is required to consider and recommend maximum prices based primarily on grounds of economic efficiency. These outcomes do not always accord with the Government's social and economic objectives, and the Government has the opportunity to reflect its policies in the Minister's determination of maximum prices, which is set out in an Order.³

The creation of the Commission was not intended to take away the Government's ability to use prices charged for Government services as instruments of policy, but to bring greater transparency.

The GBE Act provides for the identification and payment of community service obligations (CSOs) where it requires a GBE to undertake a non-commercial activity. Non-commercial activities could include providing services at a concessionary rate to a particular class of customer. The Ministerial Charter may also require a GBE to carry out certain activities required by the Government. Non-commercial activities or community service activities (CSAs) undertaken by a State-owned Company (SOC) are performed under contract with the Government.

There is an expectation by consumers and community interest groups that the Commission will address social and other issues in its investigations. In practice, the Commission meets these expectations by accepting submissions not only on matters that specifically address the terms of reference, but also on related issues. These issues are then raised for the information of the Government in the Commission's reports. The Commission expects that this treatment will assist the Government to make better-informed decisions when maximum prices are prescribed.

To assist it in undertaking its price investigation role, the Commission seeks the expert contributions of persons appointed as Assistant Commissioners and its consultants. It also draws upon the experience of other regulators, similar investigations in other jurisdictions, and informed comment from the community and stakeholders.

² Where the government monopoly is incorporated under Corporations Law, the Commission looks to the Memorandum and Articles of Association. Where the monopoly has been established as a joint authority under the Local Government Act, the Commission looks to the Charter issued by the relevant councils.

³ In the case of a local government monopoly business, the Minister responsible for administering the *Local Government Act 1993* is able to issue a determination under the GPO Act.

Competitive Neutrality

The CPA requires that the State have a complaint mechanism in place to consider complaints relating to the application of the competitive neutrality principles by government businesses. The prescribed process for making and investigating complaints is contained in the *Government Prices Oversight Regulations 1998* (the Regulations).

In February 1999, the Commission issued *National Competition Policy Competitive Neutrality Principles Complaints Mechanism Guidelines* (the Guidelines). The purpose of these Guidelines is to describe:

- ⇒ the processes for the review of complaints from persons about alleged breaches of, and non-compliance with, competitive neutrality principles;
- ⇒ the role of the Commission in relation to the review of complaints;
- ⇒ the procedures to be followed by complainants; and
- ⇒ the internal review process required of government bodies in relation to complaints made against their business activities.

At the completion of an investigation, the Commission is required to forward a copy of the final report containing a summary of findings and recommendations in relation to each matter to the relevant government body, the complainant, the relevant Minister and the Treasurer. The findings of the Commissioner are final.

An outline of the complaints mechanism is provided in Appendix B. The Guidelines and other relevant documents are also available from the Commission or its website, www.gpoc.tas.gov.au.

Composition of the Commission

The Commission, for a scheduled price investigation, consists of the Commissioner and any Assistant Commissioner(s) specifically appointed for a particular investigation. In regard to other matters, the Commission consists of the Commissioner alone.

Since his inaugural appointment on 1 January 1996, Mr Andrew Reeves has subsequently had his tenure extended on three occasions, with the latest appointment on 1 January 2005 taking his current contract through to the end of 2007.

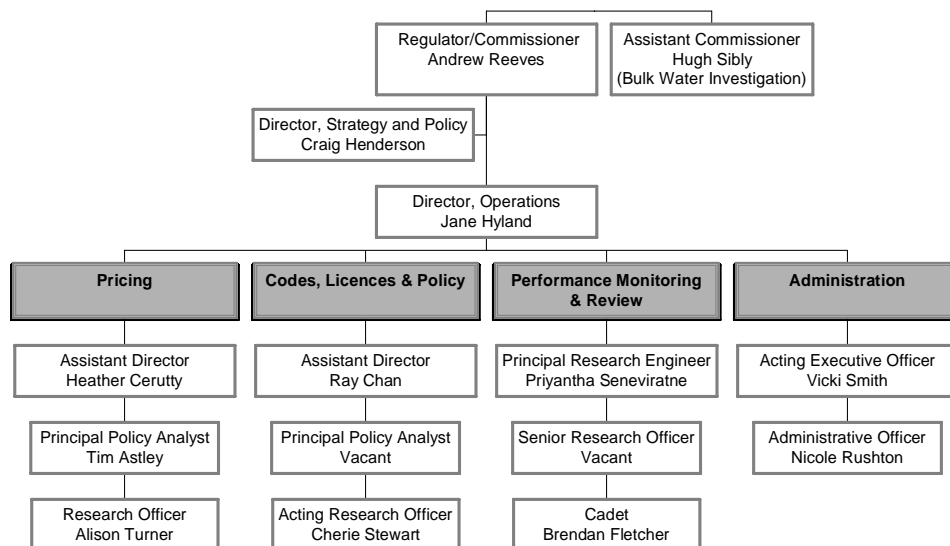
The Commissioner was also appointed as the independent Regulator on 1 July 1998 under the *Electricity Supply Industry Act 1995* (ESI Act) and the Director of Gas under the *Gas Act 2000* on 16 July 2001. In addition, the Commission was appointed as the "local regulator" on 20 June 2001 under the *Gas Pipelines Access (Tasmania) Regulations 2001* pursuant to the *Gas Pipelines Access (Tasmania) Act 2000*. For administrative purposes, the functions of the two Regulators and the Director of Gas are carried out by the Office of the Tasmanian Energy Regulator (formerly the Office of the Tasmanian Electricity Regulator).

In 2004-05, Dr Hugh Sibly continued his work as Assistant Commissioner for the purposes of the investigation of the pricing policies of Tasmania's three bulk water authorities.

While the Commission, Regulator and Director of Gas are separate and discrete statutory entities, in practice there is a common set of core skills required. The office of the Commission is co-located with the Office of the Tasmanian Energy Regulator. Office staff are employees of the Department of Treasury and Finance and the sharing of resources improves efficiency and experience of the two organisations. Under the ESI Act and the Tasmanian Electricity Code, the Regulator is required to prepare a separate annual report. The Annual Report of the Office of the Tasmanian Energy Regulator also provides details of the roles and functions of the “local regulator” for natural gas and the Director of Gas.

The structure of the Office, as shown in Figure 1, comprises three functional units: Pricing; Codes, Licences and Policy; and Performance Monitoring and Review. An administrative unit supports the functional units.

Figure 1: Government Prices Oversight Commission / Office of the Tasmanian Energy Regulator Organisational Chart as at 30 June 2005



The Department of Treasury and Finance provides assistance to the Commission in human resource management, information technology, and financial and accounting services.

Past Investigations

The GPO Act provides for the investigation of the major public sector (State and local government) monopolies in Tasmania at least once in every three years.⁴ The Commission may also be required to investigate any other monopoly service provided by a State or local government body. At the date of publication of this Annual Report, the following investigations had been completed:

- ⇒ Hydro-Electric Commission – 30 August 1996⁵
- ⇒ Metropolitan Transport Trust (MTT) – 28 February 1997
- ⇒ Motor Accidents Insurance Board (MAIB) – 29 August 1997
- ⇒ Hobart Regional Water Authority, North West Regional Water Authority, Esk Water Authority – 23 December 1998
- ⇒ Metro Tasmania Pty Ltd (Metro) (previously MTT)⁶ – 2 June 2000
- ⇒ Motor Accidents Insurance Board (MAIB) – 31 August 2000
- ⇒ Hobart Regional Water Authority, North West Regional Water Authority, Esk Water Authority – 31 July 2001
- ⇒ Metro Tasmania Pty Ltd (Metro) – 30 June 2003
- ⇒ Motor Accidents Insurance Board (MAIB) – 29 August 2003
- ⇒ Hobart Regional Water Authority, North West Regional Water Authority, Esk Water Authority – 14 July 2004

Conduct of Investigations

The procedures for the conduct of major investigations, the requirement for reports and the procedures for setting prices are described in Appendix A.

Public Consultation

Public consultation is an important component of the Commission's work.

Assistant Commissioners are appointed for their expertise on the individual matters under investigation. However, the Commission also draws on business and community knowledge to identify the particular issues in each investigation.

⁴ The *Government Prices Oversight Amendment Act 1998* extended the scope of the Commission to provide for investigations of prices charged by statutory authorities and State-owned Companies, and local government monopoly businesses.

⁵ Responsibility for investigation of the pricing policies of electricity entities in Tasmania (including those of the former Hydro-Electric Commission) was transferred to the Tasmanian Electricity Regulator on 1 July 1998.

⁶ The Government corporatised MTT on 2 February 1998 as part of its transport reform package.

Where it is considered appropriate, the Commission will also release a background or issues paper to encourage initial submissions. After consideration of all initial submissions and the issues raised, the Commission prepares a draft report with the Commission's draft proposals. The draft report becomes the focus for further submissions, which are then taken into account in preparing the final report and recommendations.

While the GPO Act provides for the Commission to convene public hearings, no formal hearings were convened during the 2004-05 year. Rather, the Commission has preferred to meet separately with interested parties. The formality of a public hearing is daunting for some, and the process, while effective in some circumstances for gathering information, gives less opportunity for meaningful exchange than direct consultations with interested parties.

The Commission publishes all public documents and entity submissions on its website, www.gpoc.tas.gov.au.

REPORT ON THE PERFORMANCE OF THE COMMISSION'S FUNCTIONS AND POWERS

Pricing Investigations

Publication of Material

In accordance with the requirements under the GPO Act, the Commission is to make available to the public a copy of any draft report, the final report and all submissions. All or part of a submission can be withheld from public release if a submitter requests that it remain confidential. It is the Commission's policy to publish any issues paper, draft report, final report and all non-confidential submissions on its website.

Investigation into the Pricing Policies of the Bulk Water Authorities

In July 2004, the Commission released its final report on its investigation into the pricing policies of Tasmania's three bulk water authorities. The investigation was conducted in accordance with terms of reference issued by the Minister for Finance in March 2004.

The Commission made recommendations in relation to the maximum prices to be charged by the three bulk water authorities for the next regulatory period and the pricing policies in respect to maximum volumetric rates and the allocation of fixed costs to customers. The Commission also reported on the progress made in implementing recommendations from the previous investigation and on initiatives taken for management of demand.

The Minister endorsed the Commission's recommendations on maximum prices and issued a determination in September 2004 setting the maximum volumetric prices and maximum allowable revenues that may be charged by the three authorities for three years to 29 September 2007.

Competitive Neutrality Complaints

The Commission received one formal competitive neutrality complaint in 2004–05. It was made against Orthotic Prosthetic Services Tasmania (OPST), a unit of the Department of Health and Human Services.

The Complainant alleged that OPST had breached the Competitive Neutrality Principles by not applying full cost attribution to the services it provides to the Department of Veterans' Affairs.

The Complainant stated that it had been adversely affected by OPST's alleged act of contravention as it had lost approximately 50 per cent of its clients over a ten-year period due to OPST's pricing, which allegedly did not reflect full cost recovery. The Complainant claimed that it had been "forced to downsize considerably" due to a loss of clients brought about by OPST's pricing.

The Complainant also raised the issue that the Department of Veterans' Affairs had now entered into a contractual agreement with OPST. The Complainant also alleged that doctors now prefer to send patients to OPST as it offers a cheaper rate.

After conducting an investigation into the complaint and consultations with the relevant parties, the Commission found that the complaint was justified. The Commission recommended to the Minister for Health and Human Services that he direct the Manager of OPST to:

- ⇒ review the services and operations of OPST to ensure compliance with the CNPs as required by the Government's *Application of the Competitive Neutrality Principles under National Competition Policy*, June 1996; and
- ⇒ review the pricing of OPST's services for private clients to ensure compliance with subclauses (5)(b) and (6) of the Competition Principles Agreement.

The Complainant was advised of the Commission's finding, and copies of the investigation report were given to the Complainant, the OPST and the relevant Ministers.

Consultancies

Urban Water and Wastewater Cost Recovery Compliance Review

In January 2005, the Commission completed the review on Tasmanian councils' compliance with urban water pricing guidelines.

This review was conducted to assess the extent of compliance by councils in meeting their obligations for cost recovery under the National Competition Principles water industry reform. The guidelines for cost recovery are set out in the *Urban Water and Wastewater Pricing Guidelines*, as revised in January 2003.

The guidelines establish the upper and lower limits for cost recovery. The lower limit is the minimum level for business viability at which all operating costs are met, including a provision for asset refurbishment or replacement, but without allowing a return on capital other than interest costs incurred and dividends paid. The upper limit is the maximum allowable revenue that avoids monopoly rents (ie excessive profits). This allows for an appropriate return on assets, above which any excess returns are considered to be monopoly rents.

The terms of reference for the review also required the Commission to consider a number of other issues including asset valuation, cost of asset consumption, cross-subsidies, Community Service Obligations (CSOs), own-use transfers and, where relevant, the appropriateness of two-part pricing structures.

The review found that:

- ⇒ there was a generally high level of compliance with the guidelines by Tasmanian councils in both water and wastewater cost recovery;
- ⇒ only a small number of councils are reporting CSOs or own-use, and this gives rise to the potential for cross-subsidies;

⇒ the majority of councils using two-part tariffs are structuring them in a way that is consistent with the relevant guidelines in terms of free water allowance, but the volumetric charges of most councils are set well above their volumetric costs.

In January 2005, the Minister released the final report, which is available on the Commission's website.

OFFICE ADMINISTRATION

Application of Government Procurement Policies

The Commission complies with the Treasurer's Instructions in the purchase of goods and services.

Human Resource Management and Policies

Staff of the Commission (excluding the Commissioner, who is employed under the GPO Act) are employees of the Department of Treasury and Finance and are made available to the Commissioner on a full-time basis. Consequently, Office staff are subject to the same human resource management policies and procedures as apply in the Department and which are referred to in the Annual Report of the Department of Treasury and Finance.

Public Interest Disclosures

The Commission is established as a body corporate by Section 9 of the *Government Prices Oversight Act 1995* and is, therefore, a public body for the purposes of the *Public Interest Disclosures Act 2002*. A disclosure of improper conduct or detrimental action by the Commission may be reported to the Ombudsman. Procedures for reporting disclosures of improper conduct by employees of the Department of Treasury and Finance are available on the Department's website, www.treasury.tas.gov.au.

Asset Management and Risk

Major corporate support services for the Office, including the management of assets, are undertaken by the Department of Treasury and Finance. Refer to the Annual Report of the Department of Treasury and Finance for information in this regard.

Pricing Policies

Under Section 23 of the GPO Act, a monopoly provider that is the subject of an investigation is liable for the whole or part of the reasonable expenses incurred by the Commission arising from the conduct and reporting of that investigation. On this basis, the Commission is able to recover from the relevant entity(ies) all reasonable costs, including overheads, associated with the conduct of the investigation.

Payments to Consultants

One payment was made to a consultant during 2004–05.

Consultant	Location	Description	Actual Expenditure (GST inclusive) (\$)
Unitas Company Ltd	TAS	Assistant Commissioner bulk water price investigation	\$5 687

Freedom of Information Act 1991

The *Freedom of Information Act 1991* (FOI Act) applies to the activities of the Government Prices Oversight Commission. However, where the Commission gives directions prohibiting or restricting the publication of information provided to it, the FOI Act will not apply in respect of that information.

During the 2004–05 reporting period, no requests for information were made of the Commission under the FOI Act.

Publications by the Commission during 2004–05

The following publications were released during the 2004–05 financial year:

Publication	Released
Final Report for the 2004 Bulk Water Investigation	August 2004
Government Prices Oversight Commission Annual Report 2003–04	November 2004
Local Government Water and Wastewater Businesses – Full Cost Recovery Compliance Review 2003–04 Report	April 2005

Government Prices Oversight Commission

Certification of Financial Statements

For the period ended 30 June 2005

The accompanying Financial Statements of the Government Prices Oversight Commission have been prepared in compliance with the provisions of the *Government Prices Oversight Act 1995*. The statements are in agreement with the relevant accounts and records so as to present fairly the financial transactions for the period ended 30 June 2005 and the financial position as at 30 June 2005.

At the date of signing I am not aware of any circumstances that would render the particulars included in the Financial Statements misleading or inaccurate.



Andrew Reeves
COMMISSIONER

15 August 2005

Independent Audit Report



INDEPENDENT AUDIT REPORT

To the Members of the Parliament of Tasmania

GOVERNMENT PRICES OVERSIGHT COMMISSION

Financial Report for the Year Ended 30 June 2005

Scope

The financial report and the Commissioner's responsibilities

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial statements, and the statement from Commissioner of the Government Prices Oversight Commission for the year ended 30 June 2005.

The Commissioner is responsible for the preparation and true and fair presentation of the financial report. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

I conducted an independent audit in order to express an opinion to the members of the Parliament of Tasmania. My audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

I performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Government Prices Oversight Commission's financial position, and of its performance as represented by the results of its operations and cash flows.

I formed my audit opinion on the basis of these procedures, which included:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Commissioner.

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

The Audit Opinion expressed in this report has been formed on the above basis.

Independence

In conducting my audit, I have met applicable independence requirements of Australian professional ethical pronouncements.

Audit Opinion

In my opinion the financial report of the Government Prices Oversight Commission:

- a) Presents fairly the financial position of the Government Prices Oversight Commission as at 30 June 2005, and the results of its operations and its cash flows for the year then ended; and
- b) Is in accordance with applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

TASMANIAN AUDIT OFFICE



G R Morffew
ASSISTANT DIRECTOR
Delegate of the AUDITOR-GENERAL

HOBART
22 September 2005

Statement of Financial Performance for the year ended 30 June 2005

	Note	2005 \$'000	2004 \$'000
REVENUE FROM ORDINARY ACTIVITIES			
Recurrent Appropriations	1.3(a)	95	365
User Charges	1.3(b)	39	138
TOTAL REVENUE FROM ORDINARY ACTIVITIES		134	503
EXPENSES FROM ORDINARY ACTIVITIES			
Employee Entitlements	1.4(a)	38	191
Maintenance and Property Services		4	16
Communications		2	3
Travel and Transport		2	8
Consultants		5	4
Information Technology		3	12
Advertising and Promotion		....	4
Other Supplies and Consumables		9	19
TOTAL EXPENSES FROM ORDINARY ACTIVITIES		63	257
NET OPERATING SURPLUS (DEFICIT) FROM ORDINARY ACTIVITIES		71	246
EQUITY INTERESTS			
Net Surplus (Deficit) attributable to the State		71	246
Transfers to the Consolidated Fund		(39)	(243)
Total changes in equity other than those resulting from transactions with the Tasmanian State Government in its capacity as owner	3.1	32	3

The above Statement of Financial Performance should be read in conjunction with the accompanying notes.

Statement of Financial Position as at 30 June 2005

	Note	2005 \$'000	2004 \$'000
ASSETS			
CURRENT ASSETS			
Receivables	1.5(b)	....	....
TOTAL CURRENT ASSETS		....	....
TOTAL ASSETS		....	....
LIABILITIES			
CURRENT LIABILITIES			
Bank Overdraft		1	10
Payables	1.6(a), 2.1	1	2
Employee Entitlements	1.6(b), 2.2	5	15
TOTAL CURRENT LIABILITIES		7	27
NON-CURRENT LIABILITIES			
Employee Entitlements	1.6(b), 2.2	11	23
TOTAL NON-CURRENT LIABILITIES		11	23
TOTAL LIABILITIES		18	50
NET ASSETS (LIABILITIES)		(18)	(50)
EQUITY			
Accumulated Surplus (Deficit)		(18)	(50)
TOTAL EQUITY		(18)	(50)

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Cash Flows for the year ended 30 June 2005

	Note	2005 \$'000 Inflows (Outflows)	2004 \$'000 Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH INFLOWS			
Recurrent Appropriations		95	365
User Charges		39	243
TOTAL CASH INFLOWS		134	608
CASH OUTFLOWS			
Employee Entitlements		(60)	(192)
Transfers to Consolidated Fund		(39)	(243)
Other Cash Payments		(26)	(65)
TOTAL CASH OUTFLOWS		(125)	(500)
NET CASH FROM (USED BY) OPERATING ACTIVITIES	4.2	9	108
Net Increase (Decrease) in Cash Held		9	108
Cash at the Beginning of the Reporting Period		(10)	(118)
CASH AT THE END OF THE REPORTING PERIOD	4.1	(1)	(10)

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to and forming part of the Financial Statements for the year ended 30 June 2005

Note 1: Summary of significant accounting policies

The following summary explains the significant accounting policies that have been adopted in the preparation of this general purpose financial report. Unless otherwise stated, the accounting policies are consistent with those applied in the previous year.

1.1 Basis of Accounting

The Financial Statements have been prepared in accordance with the *Government Prices Oversight Act 1995* and Ministerial Directives under section 40(3) of that Act.

In 2004-05 the transactions of the Commission were funded through Special Deposits and Trust Fund Account T654 *Government Prices Oversight Commission/Energy Regulator Account*.

1.2 Adoption of Australian Equivalents to International Financial Reporting Standards

The Department has reviewed potential differences in accounting policies that will arise from adopting Australian Equivalents to International Financial Reporting Standards (AEIFRS). No material differences have been identified. Consequently no material financial impact is anticipated as at the date of preparing the 2004-05 financial report

1.3 Revenue

Revenues are recognised in the Statement of Financial Performance when it is probable that the inflow or other enhancement or saving in outflows of future economic benefits has occurred and can be measured reliably.

a) Recurrent Appropriations

Appropriations, whether recurrent or capital are recognised as revenues in the period in which the Commission gains control of the appropriated funds. Control arises in the period of appropriation.

b) User Charges

Amounts earned in exchange for the provision of goods and services are recognised when the good or service is provided.

c) Other Revenue

Revenue from miscellaneous sources is recognised when they are earned and controlled by the Commission and can be deployed for the achievement of its objectives.

1.4 Expenses

Expenses are recognised in the Statement of Financial Performance when it is probable that the consumption or loss of future economic benefits resulting in a reduction in assets and/or an increase in liabilities has occurred and the consumption or loss of future economic benefits can be measured reliably.

a) Employee Entitlements

Employee entitlements include entitlements to salaries and wages, annual leave, sick leave, long service leave, superannuation and any post-employment benefits.

b) Other Expenses From Ordinary Activities

Expenses from ordinary activities are recognised when it is probable that the consumption or loss of future economic benefits resulting in a reduction in assets and/or an increase in liabilities has occurred and the consumption or loss of future economic benefits can be measured reliably.

1.5 Assets

Assets are recognised in the Statement of Financial Position when it is probable that the future economic benefits embodied in the asset will eventuate and the asset possesses a cost or other value that can be measured reliably.

a) Cash on Hand and Deposit Accounts

Cash means notes, coins, any deposits held at call with a bank or financial institution, as well as funds held in the Special Deposits and Trust Fund.

b) Receivables

Receivables are recognised at the amounts receivable as they are due for settlement. Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable, are written off. A provision for doubtful debts is raised where some doubts exist as to collection.

c) Property, Plant and Equipment

(i) Asset recognition threshold

The asset capitalisation threshold adopted by the Commission is \$5 000 exclusive of GST. Assets valued at less than \$5 000 are charged to the Statement of Financial Performance in the year of purchase (other than where they form part of a group of similar items which are significant in total).

(ii) Revaluations

The Commission has adopted a revaluation threshold of \$50 000.

Non-current assets measured at fair value are revalued with sufficient regularity to ensure the carrying amount of each asset does not differ materially from fair value at reporting date. Independent valuations are obtained at least every five years.

Assets are grouped on the basis of having a similar nature or function in the operations of the Commission.

1.6 Liabilities

Liabilities are recognised in the Statement of Financial Position when it is probable that the future sacrifice of economic benefits will be required and the amount of the liability can be measured reliably.

a) Payables

Payables, including accruals not yet billed, are recognised when the Commission becomes obliged to make future payments as a result of a purchase of assets or services. Payables are recognised when goods have been delivered and/or services rendered even though invoices may not have been received.

b) Employee Entitlements

Liabilities for wages and salaries and annual leave are recognised, and are measured at nominal amounts using expected remuneration rates that will be paid when the obligation is settled.

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

c) Superannuation

No superannuation liability is recognised for the accruing superannuation benefits of Commission employees. This liability is held centrally and recognised within the Finance-General Division of the Department of Treasury and Finance.

During the reporting period, the Commission paid 11 percent of salary in respect of members of the Retirement Benefits Fund (RBF) defined benefit scheme into the Superannuation Provision Account (SPA) within the Special Deposits and Trust Fund. In addition to this payment, the Commission also paid into the SPA a "gap" payment (currently at the rate of two per cent of salary) in respect of each permanent employee appointed after 15 May 1999, notwithstanding that these employees are not members of the RBF defined benefit scheme.

For all employees who were not members of the RBF defined benefit scheme, the Commission paid employer superannuation contributions at the prescribed Superannuation Guarantee contribution rate into each respective employee's nominated complying superannuation fund.

1.7 Taxation

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

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST component is recognised as part of the cost of acquisition of the asset or as part of the expense.

1.8 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

1.9 Rounding

All figures presented have been rounded to the nearest thousand dollars.

Note 2: Liabilities

2.1 Payables

	2005 \$'000	2004 \$'000
Creditors (inclusive of GST)	1	2
	1	2

2.2 Employee Entitlements

	2005 \$'000	2004 \$'000
Annual Leave	4	12
Long Service Leave	12	26
TOTAL	16	38
Current	5	15
Non-Current	11	23
TOTAL	16	38

Note 3: Equity and Movements in Equity

3.1 Equity

Equity represents the residual interest in the net assets of the Commission. The Government holds the equity interest in the Commission on behalf of the community.

	2005 \$'000	2004 \$'000
BALANCE AS AT 1 JULY	(50)	(53)
Net Surplus (Deficit)	32	(3)
BALANCE AS AT 30 JUNE	(18)	(50)

Note 4: Cash Flow Reconciliation

4.1 Reconciliation of Cash per Statement of Financial Position to Statement of Cash Flows

	2005 \$'000	2004 \$'000
Cash at year end per Statement of Cash Flows	(1)	(10)
	<u>(1)</u>	<u>(10)</u>

4.2 Reconciliation of Operating result to Net Cash provided by Operating Activities

	2005 \$'000	2004 \$'000
NET OPERATING SURPLUS/(DEFICIT) FROM ORDINARY ACTIVITIES AFTER TRANSFERS TO GOVERNMENT	32	3
Increase/(Decrease) in Employee Entitlements	(22)	1
Increase/(Decrease) in Payables	(1)	1
Increase/(Decrease) in Tax Liability	....	(11)
(Increase)/Decrease in Receivables	....	(116)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>9</u>	<u>(108)</u>

Note 5: Average Staffing Levels

	2005 Number	2004 Number
The average staffing levels for the Commission and Regulator during the year were:	12.25	14.7

(Please note that the offices of the Tasmanian Energy Regulator and Government Prices Oversight Commission are combined for staffing purposes).

Note 6: Financial Instruments

6.1 Terms, Conditions and Accounting Policies

Financial Instrument	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms & conditions affecting the amount, timing and certainty of cash flows)
Financial Assets	Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash	Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	
Receivables for User Charges	These receivables are recognised at the nominal amounts due, less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	Credit terms are generally 30 days.
Financial Liabilities	Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Payables	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having being invoiced).	Settlement is usually made within 30 days.

(a) Credit Risk Exposure

Credit risk represents the loss that would be recognised if counter parties failed to perform as contracted.

The credit risk on financial assets of the Commission, recognised on the Statement of Financial Position, is the carrying amount, net of any provision for doubtful debts.

The credit risk is minimised due to a majority of the transactions taking place with State and Australian Government entities.

(b) Interest Rate Exposure

As at 30 June 2005, there is no interest rate exposure as all financial instruments are non-interest bearing.

The exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out below.

	Fixed Interest Maturing In:					Total
	Floating Interest Rate	1 Year or Less	Over 1 Year to 5 Years	More than 5 Years	Non-Interest Bearing	
2005	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000

Financial Assets

Cash on Hand and Deposit Accounts	....	....	....	....	....	....
Receivables	....	....	....	....	....	....
Total Financial Assets	....	....	....	....	....	....

Financial Liabilities

Bank Overdraft	....	....	....	....	1	1
Payables	....	....	....	....	1	1
Total Financial Liabilities	....	....	....	....	2	2

Weighted Average Interest Rate *Not applicable*

	Fixed Interest Maturing In:					Total
	Floating Interest Rate	1 Year or Less	Over 1 Year to 5 Years	More than 5 Years	Non-Interest Bearing	
2004	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000

Financial Assets

Total Financial Assets
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Financial Liabilities

Bank Overdraft	10	10
Payables	2	2
Total Financial Liabilities	12	12

Weighted Average Interest Rate *Not applicable*

6.2 Net Fair Values of Financial Assets and Liabilities

Valuation Approach

The carrying amounts of cash on hand and deposit accounts, accounts receivable and accounts payable approximate net fair value.

	2005		2004	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Total Financial Assets	....	....	....	....
Financial Liabilities				
Bank Overdraft	1	1	10	10
Payables	1	1	2	2
Total Financial Liabilities	2	2	12	12

APPENDIX A

Government Prices Oversight Commission: Summary of Procedures

This appendix summarises the Commission's investigation procedures and the procedures for the setting of prices following an investigation.

Conduct of Investigations

The Notice

An investigation is initiated by the Minister administering the Government Prices Oversight Act (now the Minister for Finance) with the agreement of the Portfolio Minister (the Minister with responsibility for the "monopoly provider"). Upon receiving the requirement to conduct an investigation, the Commission is required to give notice to the monopoly provider and in Tasmanian daily newspapers.

Such a notice must include the terms of reference and must specify the purpose of the investigation, how submissions may be made to the Commission, and the matters that the Commission would like submissions to address.

Matters to be Considered

In addition to issues specifically mentioned in the Terms of Reference, Section 31 of the Act requires the Commission to consider certain matters. These include:

- ⇒ the cost of providing the monopoly service;
- ⇒ interstate or international benchmarks for prices, costs, revenues and return on assets;
- ⇒ the need to protect consumers from any adverse exercise of monopoly power;
- ⇒ any community service obligations of the monopoly provider;
- ⇒ the need for efficiency in the provision of the monopoly service and for the monopoly provider to be financially viable; and
- ⇒ the impact on pricing policies of any borrowing, capital, dividend and tax equivalent obligations of the monopoly provider, including obligations to renew or increase assets.

The Investigation Process

In conducting an investigation, the Commission may receive written and oral submissions, consult with any person, hold hearings and seminars, and conduct workshops.

Preliminary notice of any hearing must be advertised in the Tasmanian daily newspapers. The hearing is to be held in public unless the Commission considers that

for reasons of public interest, or because the evidence to be presented is likely to be confidential or commercially sensitive, the hearing should be held in private.

Freedom of Information Act

The *Freedom of Information Act 1991* (FOI Act) applies to the activities of the Government Prices Oversight Commission. However, where the Commission gives directions prohibiting or restricting the publication of information provided to it, the FOI Act will not apply in respect of that information.

Section 29 Requests

The Commission may require any person, normally a Government agency or GBE, to supply information by a request under Section 29(1) of the Government Prices Oversight Act. This information may be in oral or written form. Section 30(2) of the Act enables the Commission to give directions prohibiting or restricting the publication of all or part of this information.

As noted above, where the Commission gives such a direction under Section 30(2), the FOI Act will not apply in respect of that information, nor to records relating to the production of such information.

If information is provided in response to a Section 29 requirement and the provider of the information requests that the Commission give a direction under Section 30(2) to prohibit or restrict the publication of that information, the Commission will not make that information available to any person without prior consultation with the provider.

Reports and Recommendations

Draft Report

The Commission may prepare a draft report when required by the terms of reference, or by the Minister and Portfolio Minister, or by its own decision. If a draft report is made public, any person may make submissions. The Commission is required to take these submissions into consideration before making a final report.

Final Report

The Commission must prepare a final report containing a recommendation in relation to the appropriate maximum prices chargeable by the monopoly provider for the monopoly service during the three years after completion of the report.

Section 4 of the Act sets out the form in which maximum prices may be expressed. These include:

- ⇒ maximum prices or the maximum rate of increase or the minimum rate of decrease in maximum prices;
- ⇒ average prices or average rates of increase or decrease in such average prices;
- ⇒ pricing policies or principles; and

- ⇒ by reference to a general price index, the cost of production, revenue, a rate of return on assets, or any other factor.

The Portfolio Minister must lay a copy of the Commission's final report before each House of Parliament within 20 sitting days of receiving the report. Copies are to be available for purchase by members of the public.

Price-setting

Where the monopoly provider sets its prices by statutory rule, or has been declared a "prescribed monopoly provider", then the process for price-setting includes Parliamentary oversight as described below:

- ⇒ Within 60 days of receiving the final report, the Portfolio Minister is required to consult with each Minister of the Crown and the monopoly provider in relation to the recommendations of the Commission. The Portfolio Minister must either accept the Commission's recommendations in relation to the maximum prices, or take some alternative decision about those maximum prices.
- ⇒ The Portfolio Minister must then make an order (which is disallowable in Parliament) that gives effect to that decision.
- ⇒ The Act further requires that the monopoly provider must, during the 60 days between when the order is made and when it takes effect, re-determine its prices, tariffs or charges so that new arrangements are in place to conform with the order from the day it commences.
- ⇒ In re-setting its prices and in varying those prices at any time during the next three years, the monopoly provider must obtain a certificate from the Commission to the effect that the proposed prices are within the maximum prices that have been established by the order.

In all other cases, the Act simply requires that after receiving a final report the Portfolio Minister, after consulting with each Minister of the Crown and the monopoly provider, must determine the maximum prices to be charged by the monopoly provider during the next three years and take such action as is necessary to ensure that those maximum prices are met.

APPENDIX B

Government Prices Oversight Commission: Complaints Mechanism

The Competition Principles Agreement requires that the State have in place a complaint mechanism to consider complaints relating to the application of the Competitive Neutrality Principles.⁷

The Government decided that the Commission would be responsible for overseeing the complaints mechanism within Tasmania in addition to its existing function of oversight of the prices charged by public sector businesses that are monopoly, or near-monopoly, suppliers of goods or services.

The Commission was empowered to administer the complaints mechanism by the inclusion of this function under Section 10 of the *Government Prices Oversight Act 1995* and by procedures set out in the *Government Prices Oversight Regulations 1998*.

Under the Regulations, the Commission will:

- ⇒ only consider complaints by “a person who believes that a Government body has contravened any of the principles and is adversely affected by that supposed contravention”⁸; and
- ⇒ only formally consider complaints after the person “has discussed that supposed contravention with the Government body”⁹ against which the complaint is made.

On the completion of an investigation into an alleged breach, the Commission is to report on its findings to the Treasurer and the Portfolio Minister, and make its recommendations public in an annual report.

Where a complaint is lodged concerning a government business activity which, in accordance with the relevant Application Statement, is not subject to the competitive neutrality principles, the Commission will consider whether the person has been adversely affected by the failure to apply the competitive neutrality principles to that business activity.

The process that governs the review of complaints concerning the application of the competitive neutrality principles can be divided into three stages:

Stage 1 – Identification and Lodgement of a Complaint: by the body or person adversely affected by the alleged non-compliance with the competitive neutrality

⁷ The National Competition Policy competitive neutrality principles as set out in Clause 3 of the Competition Principles Agreement.

⁸ See Clause 4 of the *Government Prices Oversight Regulations 1998*.

⁹ See Clause 4 of the *Government Prices Oversight Regulations 1998*.

principles. Prior to formal lodgement the complainant is required to discuss the complaint with the relevant government body.

Stage 2 – Investigation of the Complaint: by the Commissioner. As part of the investigation, the government body that is the subject of the complaint is required to provide the Commission with a statement of facts in response to each of the alleged breaches of the CNPs. The Commission is also able to seek additional material from the complainant and from the body subject to the complaint and from any other relevant body.

Stage 3 – Reporting on the Review Outcomes: to the Minister responsible for the government business (in the case of a local government body, to the Minister for Local Government) and the Minister responsible for administering NCP. The report may contain recommendations in relation to the application of the CNPs by the government body that was the subject of the complaint, and/or in relation to the Application Statement itself. Where the Commission has made a recommendation in relation to the application of CNPs, the relevant government body and Responsible Minister are required to advise the Commission of action being taken as a result of the Commission's findings and recommendations. Where the Commission has made a recommendation in relation to the Application Statement, the Treasurer is required to advise the Commission of action that he/she intends to take in relation to the recommendation.

Under Regulation 18, the Commission in its Annual Report must include:

- ⇒ particulars of any contravention of the CNPs admitted by a government body in response to a complaint or determined by the Commission; and
- ⇒ include particulars of action taken by a government body as a result of such an admission or determination of a contravention of the CNPs.

The Commission may also include any other matters it considers appropriate to include or other matters that the Minister requires to be included.

To assist government bodies and potential complainants to understand the complaint mechanism process, the Commission released the *Competitive Neutrality Principles Mechanism under National Competition Policy Guidelines* in early 1999. A copy of this document is available on the Commission's website. In addition, the Commission's staff meet with potential complainants to discuss the process and requirements under the Regulations.

APPENDIX C

Glossary of Terms

Term	Meaning within the Context of this Report
ACCC	Australian Competition and Consumer Commission
Application Statements	<i>Application of the Competitive Neutrality Principles under National Competition Policy and Application of the National Competition Policy to Local Government</i> , both issued June 1996
CNPs	Competitive Neutrality Principles as defined in Clause 3 of the Competition Principles Agreement and the Application Statements
COAG	Council of Australian Governments
Commission	The Government Prices Oversight Commission unless otherwise specified
CPA	Competition Principles Agreement
CSA	Community Service Activity – a non-commercial activity undertaken by a State-owned corporation under contract with the State Government
CSO	Community Service Obligations (as defined in the GBE Act)
ESI Act	<i>Electricity Supply Industry Act 1995</i>
FCA	Full Cost Attribution (as defined in the <i>Guidelines for Implementing Full Cost Attribution Principles</i> separately issued to Tasmanian Government agencies and Local Government in 1997)
FOI Act	<i>Freedom of Information Act 1991</i>
GBE	Government Business Enterprise, being a wholly owned Government business subject to the GBE Act
GBE Act	<i>Government Business Enterprises Act 1995</i>
GST	The Australian Government's Goods and Services Tax
GPO Act	<i>Government Prices Oversight Act 1995</i>
GPOC	Government Prices Oversight Commission
LRMC	Long Run Marginal Cost
MAIB	Motor Accidents Insurance Board
Metro	Metro Tasmania Pty Ltd (established in February 1998)
MTT	Metropolitan Transport Trust (prior to 1998)
NCP	National Competition Policy
OPST	Orthotic Prosthetic Services Tasmania
OTTER	Office of the Tasmanian Energy Regulator
SOC	State-owned Company
The Regulations	<i>Government Prices Oversight Regulations 1998</i>